



## **SECTION A - INTRODUCTION TO THE GLOBAL FUND**

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## **A. INTRODUCTION TO THE GLOBAL FUND**

### **A1 Background**

The Global Fund is a 21<sup>st</sup>-century financing vehicle which brings together all stakeholders involved in the fight against AIDS, tuberculosis and malaria for effective investment. A new approach to public health financing, it is based on shared responsibility among all partners so that people on the ground can be empowered to take responsibility for solving their problems. The Global Fund strives to be highly transparent and fully accountable in everything it does.

The Global Fund was the brainchild of former UN Secretary-General Kofi Annan, who sought to create what he called a “war chest” to fight AIDS, TB and malaria were added because together these three diseases are the greatest barrier to socioeconomic development. Leaders of the G8 acknowledged the need for resources in their 2000 meeting in Okinawa, Japan, and approved the creation of the Global Fund to Fight AIDS, Tuberculosis and Malaria at their 2001 meeting in Genoa. The Global Fund was established as a private Swiss foundation and the Secretariat opened its doors in January 2002.

The Global Fund was conceived as a financing institution – in other words, it supports countries in their fight against the three diseases by providing funding, but the Global Fund neither implements nor manages programs on the ground. The Global Fund supports country-driven programs of prevention, treatment and care; it does not provide funding for medical research.

The work of the Global Fund is structured around three core principles. The first, country ownership, reflects the belief that countries can and should be responsible for meeting their challenges head on, given necessary support and appropriate tools. Thus each country determines its own needs and priorities, and is also responsible for implementing its response to the three diseases.

Performance-based funding is the second core principle underpinning the work of the Global Fund. Countries are awarded initial funding on the basis of well-thought-out proposals, but continuing funding is dependent upon demonstrated results against agreed-upon targets.

The third core principle, partnership, is perhaps the most important. In the Global Fund context, partnership means that everyone involved in the fight against the three diseases must be involved in the decision-making process. This includes not only the government, but also the private sector, academics, bilateral and multilateral partners, faith-based organizations, nongovernmental organizations, and, in particular, the communities living with and affected by the diseases.

### **A2 The Funding Process**

In 2014, the Global Fund fundamentally changed the way countries ask for – and receive – financing. This is known as the “new funding model”. The purpose of the new funding model is to ensure maximum impact through strategic investment, focusing efforts on countries with the greatest disease burden and least ability to pay. Detailed information on the new funding model and all of its components is available on the Global Fund website; this is intended only as a brief overview.

The first step in the funding process is the allocation of funding. The Global Fund Board approves the total amount of funding that can be allocated to countries for the period 2014-2016 (known as the “allocation period”). Each country receives an allocation of funding which is comprised of a set amount for each disease component for which they are eligible. Countries are encouraged to submit requests for funding which are a

complete expression of demand, even if that would require a financial investment greater than the amount of their allocation. The Board has set aside a special pool of “incentive” funding which can be used for high-quality funding requests which exceed the country allocation.

Funding requests which exceed their allocation and the amount of incentive funding available or which are not eligible for incentive funding are put on a register known as “unfunded quality demand” which is eligible for funding should additional resources become available either from the Global Fund or from other donors.

One of the key features of the new funding model is that, rather than having to submit a funding request by a predetermined deadline, countries can choose to apply at any of the nine review “windows” in the 2014-2016 timeframe. Countries can also choose to submit proposals for each disease component and/or health systems strengthening at separate times.

Another change under the new funding model is that countries now submit a simplified request known as a “concept note”. The concept note is expected to be based on a robust national strategic plan or investment case, and after a fully inclusive consultative process referred to as the “country dialogue”.

The concept note is submitted to the Global Fund by the Country Coordinating Mechanism, a national, multistakeholder body which brings together representatives of all sectors to set national priorities, request funding, and oversee the implementation of the grants. However, in order to develop the concept note, the Country Coordinating Mechanism is required to carry out a national, inclusive dialogue particularly reaching out to those groups and networks who are not always part of Country Coordinating Mechanism functioning, in particular representatives of vulnerable populations and networks of key organizations.

The Secretariat will work closely with countries in the development of concept notes, ensuring that proposed interventions are aligned with best practice for effective investment. The concept note will then be reviewed by the Technical Review Panel, an independent panel of experts, who will take into consideration such factors as country context and epidemiological situation when determining whether or not the concept note should be recommended for funding.

Next, the concept note will be submitted to the Grant Approvals Committee to set the budget ceiling, including incentive funding. This is a committee comprised of senior Global Fund management and technical partners. If the Grant Approvals Committee agrees with the concept note, countries will move to the grant-making stage. Here, countries work closely with the Global Fund Secretariat to develop a detailed budget, agree on interventions and performance indicators, and implementation arrangements, ensuring that funds can be disbursed as soon as Board approval has been obtained. It is at this stage that the final amount of funding is determined. Local Fund Agents will play a critical role in the grant-making stage.

Once the grant-making has been completed, the grant agreement and associated documents will be presented to the Grant Approvals Committee, who will endorse the documents and submit them to the Board for approval. Grants presented to the Board are thus disbursement-ready. It is anticipated that the time between launching of the concept note process and final approval/first disbursement will be greatly reduced under the new funding model.

### A3 Core Elements of the Global Fund Model

The Global Fund is a partnership, relying on the expertise and contribution of all sectors in order to ensure that funds reach the men, women and children it is intended to serve. The following is a brief description of the core elements of the Global Fund model, and the table on the following page provides more detail on the responsibilities of each.

**Country Coordinating Mechanism** – a national, multistakeholder body including representatives of all sectors involved in the fight against the diseases. It has two primary responsibilities: submitting funding requests on behalf of the country to the Global Fund, and ensuring oversight of the implementation of the grants.

**Principal Recipient**/sub-recipients – the Principal Recipient accepts financial and programmatic responsibility for the implementation of the grant. It may carry out its own programs and activities, but may also further disburse funds to other organizations known as “sub-recipients”.

**Local Fund Agents** – independent firms selected for each country. Local Fund Agents serve as the “eyes and ears on the ground” for the Global Fund.

**Partners** – technical agencies who share their expertise and knowledge with the Secretariat and with countries to ensure successful implementation of programs.

**Global Fund Secretariat** – responsible for the day-to-day work of implementing funding decisions and grant management.

**Technical Review Panel** – an independent body of experts in various fields who review and evaluate requests for funding.

**Board** – the governance body of the Global Fund, it sets the strategy for the organization and approves all requests for funding.

**Trustee** – the World Bank serves as the trustee for all Global Fund monies, disbursing funds to countries upon instruction from the Secretariat.

**Office of the Inspector General** – an independent body, the Office of the Inspector General is tasked with auditing country programs and investigating any allegations of fraud or abuse.

## Core Elements of the Global Fund Model

	Who is it?	What does it do?		Who is it?	What does it do?
<b>Country Coordinating Mechanism</b>	A country-level partnership of stakeholders from nongovernmental organizations, multilateral and bilateral agencies, the public and private sectors, academic institutions and people living with or affected by the three diseases.	<ul style="list-style-type: none"> <li>Develops funding applications for Global Fund financing based on country needs and financing gaps, and submits these to the Global Fund.</li> <li>Nominates the Principal Recipient(s) to implement Global Fund grants.</li> <li>Is responsible for oversight of Principal Recipient performance in program implementation.</li> </ul>	<b>Secretariat</b>	Responsible for day-to-day operations of the Global Fund, including resource mobilization, overseeing grant implementation, providing support to the Board and reporting on Global Fund activities.	<ul style="list-style-type: none"> <li>Negotiates a grant agreement with the Principal Recipient, incorporating agreed indicators and targets.</li> <li>Contracts with Local Fund Agents.</li> <li>Assesses periodic performance and decides on disbursement amounts.</li> </ul>
<b>Principal Recipient</b>	The recipient of the grant from the Global Fund, responsible for program implementation. Signs a grant agreement with the Global Fund setting out the terms and conditions, indicators and targets and the approved budget. May be any type of organization.	<ul style="list-style-type: none"> <li>Negotiates and signs the grant agreement.</li> <li>Receives and manages grant funds.</li> <li>Contracts with, oversees and reports on the work of any sub-recipients.</li> <li>Submits periodic progress reports and requests for further disbursements for the next period of implementation.</li> </ul>	<b>Technical Review Panel</b>	Independent and impartial panel of international experts in health and development.	<ul style="list-style-type: none"> <li>Reviews funding applications for technical merit, assesses proposed interventions to ensure they reflect current knowledge and best practice.</li> <li>Recommends Concept Notes for funding to the Board.</li> <li>Reviews requests entailing material reprogramming of the original proposal.</li> </ul>
<b>Sub-recipient</b>	Selected by the Principal Recipient to assist in grant implementation	<ul style="list-style-type: none"> <li>Implements activities of the grant, based on a contractual arrangement with the Principal Recipient that largely obligates the sub-recipient to comply with the obligations contained in the grant agreement between Global Fund and the Principal Recipient.</li> <li>Provides the Principal Recipient with periodic progress updates.</li> <li>May contract with sub-sub-recipients to implement grant activities.</li> </ul>	<b>Board</b>	Consists of representatives of donor and recipient governments, nongovernmental organizations, private sector and affected communities. Key international development partners participate as non-voting members.	<ul style="list-style-type: none"> <li>Responsible for overall governance of Global Fund, guides development of core business model.</li> <li>Approves or rejects funding applications based on Technical Review Panel and Secretariat review.</li> </ul>
<b>Local Fund Agent</b>	Entity contracted by the Global Fund for a particular country to undertake an objective examination and provide independent professional advice and information relating to grants and recipients in the country.	<ul style="list-style-type: none"> <li>Assesses Principal Recipient capacity during grant negotiation.</li> <li>Undertakes verification activities during implementation, assesses grant performance and makes recommendations to the Global Fund.</li> <li>Plays key role in identifying risks to grant implementation, including risk of fraud.</li> </ul>	<b>Office of the Inspector General</b>	Independent unit of the Global Fund reporting to the Board	<ul style="list-style-type: none"> <li>Provides independent and objective assurance over design and effectiveness of controls to manage key risks.</li> <li>Undertakes audits, inspections, consultancy work, investigations and counter-fraud activities.</li> </ul>
<b>Partners</b>	Technical partners at the global and local levels with which the Global Fund works to improve implementation of programs.	<ul style="list-style-type: none"> <li>Various activities, including providing capacity building and technical assistance to grant recipients.</li> </ul>	<b>Trustee</b>	World Bank	<ul style="list-style-type: none"> <li>As Trustee for the Global Fund, holds contributions made to the Global Fund.</li> <li>Disburses grant funds to recipients upon instruction from the Global Fund.</li> </ul>

## A4 What is Performance-based Funding?

In order to promote accountability and transparency and to provide incentives for recipients to use funds efficiently and effectively, the Global Fund links funding to the achievement of clear and measurable results. Indicators and targets to which funding decisions are linked are proposed by the countries receiving the funding (and approved by the Global Fund), thereby ensuring that they are appropriate to different contexts and program realities. Performance-based funding at the Global Fund provides a platform for grants to demonstrate that they can convert financing into results, enabling further funds to be committed to the programs achieving results and impact in fighting AIDS, TB and malaria.

The Global Fund's system for performance-based funding was developed to:

- i. Link funding to the achievement of targets and country-owned objectives;
- ii. Ensure that money is spent on delivering services for the intended beneficiaries;
- iii. Provide incentives to encourage recipients to focus on programmatic results and timely implementation;
- iv. Encourage learning to strengthen capacities and improve program implementation;
- v. Invest in measurement systems and promote the use of evidence for decision-making;
- vi. Free up committed resources from non-performing grants for re-allocation to programs where results can be achieved and lead to impact in the fight against HIV and AIDS, TB and malaria.

Performance-based funding is an integral part of every phase of the grant life cycle, from initial country application development, to grant negotiation and signing, to regular oversight of implementation and disbursement decision-making, through to the renewal of the grant.

The Global Fund's system of performance assessment for annual funding decisions is primarily based on achievement of results against targets for an agreed set of coverage/output indicators; it also takes into account how well the grant is managed. Programs supported by the Global Fund are required to report on a number of indicators related to modules and interventions supported by the grant. (Note: grants signed under the new funding model include a standardized menu of modules and interventions and related indicators, which allows the Global Fund to better align and standardize data across its portfolio of grants).

The indicators are selected from the Global Fund core list of indicators including coverage/output indicators (e.g. percentage of people receiving services) as well as impact indicators (e.g. decreased morbidity and mortality) and outcome indicators (e.g. changed behavior) with baselines and targets. Outcome and impact data are particularly important to the Global Fund. An overall assessment of trends in impact, outcome and coverage indicators is conducted every 1-3 years. It includes findings and recommendations from program reviews/evaluations and is used for funding allocation every three years. Review of available impact data every year helps to identify areas of reprogramming and course correction during grant implementation.

In addition to looking at performance indicators, performance-based funding decisions look at data quality, program management including the three functional areas Monitoring&Evaluation, Procurement and Supply Management and Financial management, financial performance (expenditure rates and cash balance) and external factors such as changes in the external environment (e.g. civil unrest, natural disasters). Additionally, they take into account major risks in the areas of quality of data and services, and program effectiveness (i.e. equity, value for money, aid effectiveness) and progress on mitigation measures.

The Global Fund uses a system of performance assessment throughout the grant life cycle to inform its various performance-based funding decisions such as:

- Whether to sign a grant agreement with a nominated Principal Recipient (capacity assessments);

- Whether and how much to disburse to a Principal Recipient for the next period of implementation;
- Whether a Principal Recipient who is implementing a Global Fund grant needs to make changes to its programmatic reporting systems to improve the quality of the data it is reporting;

Methods for each of these assessments are explored in detail in each substantive section dealing with the Local Fund Agent services to which they relate.

## A5 Risk Management

The Global Fund operates in an inherently high-risk environment. Since its inception, the organization has put mechanisms in place to identify and mitigate risk, which have been incorporated into a formal Risk Management Framework. The Local Fund Agent has been and remains an important component of this.

The purpose of risk management at the Global Fund is to help the organization achieve its objectives, to fight the three diseases and save lives. The Global Fund’s Risk Management Framework describes a comprehensive and systematic approach to managing risk, which recognizes that “all Global Fund stakeholders have a role to play in managing risk”<sup>1</sup>.

The framework sets out the Global Fund’s Risk Management Policy. This policy defines the Global Fund’s risk tolerance and sets out the principles that guide the Global Fund’s decisions throughout the risk management cycle. It recognizes that risk management can only be as good as the quality of data and accuracy of information on which risk assessments and decisions are based. The framework also defines a seven-step **risk management process**, which sets out the methods by which decisions on risk are made as part of the overall business management of the organization.

The framework is implemented through a number of corporate measures, including an Accountability Framework and a Corporate Risk Register. The **Corporate Risk Register** records and provides a basis for monitoring and accounting for risk. The **Accountability Framework** encompasses all of the structures, systems and controls for managing risk at all levels. It comprises both organizational and portfolio structures and controls. Its purpose is to ensure that there are sufficient checks in the organization’s policies and processes to support informed, transparent and accountable decision-making. Elements of the Accountability Framework include:

- Clarity on the roles and responsibilities of assurance providers, including LFAs;
- Whistle-blowing system;
- Clear internal rules on how misconduct allegations will be dealt with, whether at the Global Fund or in country.

The Global Fund defines risk as “any threat that could impede the achievement of the Global Fund’s core corporate objectives”<sup>2</sup>, which are the means by which the Global Fund intends to attain its mission. **Strategic level risks** include fiduciary risks relating to the safeguarding and management of available resources. **Operational risks** comprise risks relating to the Global Fund’s organizational operations, and those relating to its country/portfolio operations. The former include ineffectiveness of internal controls and systems, ineffective oversight and risk management practices and ineffective or poorly documented decision-making processes. The latter include ineffectiveness of due diligence and oversight mechanisms and controls, capacity weaknesses, etc. This list highlights the LFA’s key role in risk management within the Global Fund, as a crucial part of its ‘Trust But Verify’ philosophy.

<sup>1</sup> Risk Management Framework page 3

<sup>2</sup> Risk Management Framework section 1.5

Where a risk has been realized, the Global Fund will take strong and immediate action to protect its assets and ensure that funds are directed as intended. Priority is given to finding a solution to ensure that essential services are maintained and to minimize the impact on the country's health systems. The Global Fund works with the country and partners to find solutions and strives to ensure that support for communities and people in need is not abandoned.

Risk management is based on six layers of assurance, as follows:

**1. Principal Recipient's internal control mechanisms**

The Principal Recipients are responsible for delivering programmatic results with the funding provided. They have ultimate accountability for the use of grant funds and have an obligation to operate internal control systems to ensure that funds are efficiently and effectively directed to achieving programmatic results and reaching people in need and to ensure that programmatic and financial data are accurate and complete.

**2. Independent in-country verification and oversight mechanism (Local Fund Agents)**

One of the key components of risk management in the grant architecture is the role of the Local Fund Agent. Based on the risk assessment and the Local Fund Agent's ongoing vigilance concerning risk of fraud, the work of the Local Fund Agent is tailored to the specific circumstances of the grant.

**3. Annual external independent audit of Global Fund grant program financial statements**

The Global Fund requires annual audits of its PRs and sub-recipients, to provide an external level of assurance as to the appropriate use of grant funds. These audits are carried out by independent auditors, with the audit plans, auditor selection and audit reports being subject to review by the Global Fund.

**4. Global Fund monitoring of grant implementation**

The Global Fund is structured to provide effective oversight of Global Fund-financed programs, with the Principal Recipient and the Local Fund Agent having as their focal point the Fund Portfolio Manager. The Fund Portfolio Manager is supported in this role by experts drawn from the fields of procurement, monitoring and evaluation, finance and legal. The Global Fund follows a defined structure for review and decision-making to ensure independence and impartiality in decisions relating to grant management, including imposing additional safeguards where risks are deemed to be high.

**5. Work of the Office of the Inspector General, including audits and investigations**

The Office of the Inspector General has an important role to play in providing assurance and advice on risk management. The scope of work of the Inspector General encompasses all aspects of the Global Fund's activities, including those carried out on its behalf by recipients, partners and suppliers. Activities of the office include audits, inspections, investigations and counter-fraud activities. The Inspector General executes a number of scheduled audits every year in addition to investigations based on information about possible wrongdoing.

**6. Oversight provided by governance bodies – the Board and its committees**

As noted above, the Board oversees the work of the Global Fund, receives reports from the Inspector General and provides strategic direction on risk management. Its committees engage at a deeper level in the operational details of the Global Fund's work.

Two other key actors in managing risks in Global Fund grants are:

**Country Coordinating Mechanisms**



The Country Coordinating Mechanisms perform an important oversight function with respect to the Principal Recipient's performance. Their role in risk management is to ensure effective and strategic implementation of programs by anticipating and proactively identifying implementation challenges. When weaknesses in performance or controls systems are detected, the Country Coordinating Mechanism has a role to play in stimulating and coordinating remedial action amongst partners on the ground. The Country Coordinating Mechanism can consider reprogramming of funds or change of Principal Recipient(s) in the most difficult cases.

### Partners

Partners play a key role in risk management by providing essential technical assistance to implementers and serving as an important source of information and feedback to the Global Fund.

Within these layers, Global Fund policies ensure that strong risk management and fraud prevention procedures are enacted in every step of the grant lifecycle. The risk mitigation measures will be tailored to the particular country and program risk profile. This includes the option of the Executive Director to invoke an Additional Safeguards Policy for countries where governance factors are considered to pose particular risks and the existing systems to ensure the accountable use of Global Fund financing reveal conditions that suggest that Global Fund monies could be placed in jeopardy.<sup>3</sup>

## A6 Measuring Impact of Global Fund-supported Programs

Measuring and maximizing impact of Global Fund-supported programs is among the key priorities of the Global Fund strategy and new funding model.

- **At the stage of funding allocation**, past impact of the Global Fund-supported programs is incentivized by determining the release of up to 15% of the allocated amount per disease.
- **During grant implementation**, the assessment of impact will be conducted on an annual basis and insufficient health impact could trigger re-programming.
- **At corporate level**, impact is the first key performance indicator and is defined as the number of lives saved and infections averted through Global Fund-supported programs.
- **At country level**, impact is defined as progress of the disease control programs in reducing mortality and morbidity of the three diseases to meet the relevant Millenium Development Goals (MDGs)/national and international goals and targets supported, by reaching effective level of coverage in key interventions and/or improvement in outcome of key interventions including those focusing on risk behaviors.
- Maximizing impact by strategic investment in high impact interventions targeting the right populations and improving impact measurement by filling data gaps through strengthening routine surveillance and vital registration systems as well as conducting timely surveys is among the **key priorities of the new funding model**.

<sup>3</sup> Please refer to section F for more details on the Additional Safeguards Policy.

## Reference Documents

Key Governance and core documents are available on the Global Fund website

(<http://www.theglobalfund.org/en/documents/governance>), including:

- The Framework Document of the Global Fund to Fight AIDS, Tuberculosis and Malaria
- By-laws
- Governance Handbook
- The Global Fund Strategy 2012-2016: Investing for Impact

Global Fund publications are available on the Global Fund website

(<http://www.theglobalfund.org/en/publications/>), including:

- Annual reports
- Progress reports
- Regional overviews and impact stories