



Independent observer
of the Global Fund

THE MOST IMPORTANT AND DIFFICULT GLOBAL FUND BOARD MEETING EVER

Snapshot from 2002: The Global Fund's Framework Document describes the Fund as "simplified," "rapid," "innovative" and "efficient." The goal is to raise billions of dollars and then disburse it rapidly to implementers, telling them, in effect, "OK, get on with the job."

Fast forward to 2011: The Fund's bureaucracy is far from "simplified" and "efficient." The Fund's image has been tarnished by findings of corruption among grant implementers. And the Fund's donors have become alarmed by significant weaknesses in Global Fund systems and among senior Global Fund management – and, of course, have been suffering from their own economic problems. The net result is that some donor pledges have been cut and the delivery of others has been delayed. Money is tight. Round 11 is in danger of being cancelled.

This morning, the Global Fund starts the most important and difficult Board meeting it has ever held. The only options for action involve causing pain. And the "no action" option will merely compound the problems.

There are five problems that the board needs to deal with. Some must without question be tackled at this meeting. Others could be deferred; but the sooner they are tackled, the better.

The first problem is that some donor countries have cancelled or delayed their disbursements to the

Global Fund, partly because of their own economic problems, but also because of the corruption that the Fund's Office of the Inspector General (OIG) has identified and that the Fund's transparency policy has caused to become public. The situation is dire. Donors used to honour 100% of their pledges to the Fund. In 2010 this went down to below 80%. This year, the figure is lower still. The "confirmed pledges" that donors had said they would deliver during 2011 through 2013 have gone down from \$9.7 billion to \$8.2 billion, as a result of about \$1 billion having been "un-confirmed" and about \$0.5 billion now projected to arrive after 2013.

As a result, estimated funds available for Round 11 have declined from \$1.6 billion (in May 2011), to \$0.8 billion (in September), to negative \$0.6 billion today. Yes, negative. This means that the current prediction is that there will be no money to pay for Round 11, and possibly not enough to pay for some as-yet unsigned Round 10 grants.

The second problem is that two admirable components of the Global Fund model – an OIG that is determined to root out corruption, and a world-class transparency policy – have produced, when combined, some unanticipated consequences. The OIG discovered fraud among certain grant implementers; the Global Fund posted the findings at its website rather than hiding them in a safe; the press went wild; donors worried about how their taxpayers would feel about funding grants for corrupt implementers; donor pledges were reduced or delayed; and Global Fund growth suddenly stalled.

The third problem is that the OIG got carried away, chasing down not only corruption, but also anything else that could be defined as "loss," and then demanding that the loss be returned to the Fund. These "loss" determinations included, for instance, that a principal recipient (PR) in Swaziland must return over \$1 million to the Global Fund because the PR, when asked to document how the money was used, could only produce photocopies of invoices rather than originals. Quick, all of you – raise your hands if you have ever been guilty of this "crime." I have.

Thus far, the OIG has identified \$17 million in fraud across all grants that it has audited and investigated. But it has identified almost three times as much – \$48 million – in other forms of "loss" that must be refunded, including that \$1 million in Swaziland.

This has been bad enough for the PRs who are required to return the money – money which they often no longer have because it was long ago passed to sub-recipients who were responsible for the loss. But, again, there has been an unanticipated consequence. PRs are now nervous to pass money to sub-recipients (SRs), and SRs are nervous to spend the money when they receive it, for fear that some determination of loss will be made, possibly years in the future. This paranoia has led, if not to paralysis, at least to a slowing down and disruption of grant implementation. This represents a huge cost for the people that the grants are supposed to benefit.

The impact of this second problem upon the entire Global Fund system, from Geneva headquarters to sub-sub-recipients, is roughly what the impact would be upon your family or mine if government officials,

anxious to ensure that we don't mistreat our children or engage in tax-evasion, placed video cameras in every room of our homes, and issued press releases from time to time based on the worst things that those cameras revealed. Not many families would survive the tensions that this would engender.

The Fund has rightly recognised, after a very difficult year, that it must identify, mitigate and manage risk. But it hasn't done enough thinking about the way in which its risk management policies are, at least at present, slowing down the delivery of services and thus the saving of lives.

The fourth problem is that John Parsons, the Inspector General, head of the OIG, has shown, on a number of occasions over a prolonged period of time, a remarkable ability to shoot himself – and therefore the Fund – in the foot. As discussed in Article 4, below, UNDP, the largest implementer of Global Fund grants, is now essentially refusing to work with him; and many other PRs have also expressed serious criticisms. (See the GFO Commentary “[Auditing the Auditor](#),” and subsequent letters to the editor [here](#) and [here](#).) The Global Fund Board, to whom John Parsons reports, will discuss this evening the year-end evaluation of his work performance that it has just completed.

The fifth problem is that the Fund has some serious management weaknesses at the senior level. This has led to some unpleasant in-fighting, with allegations floating around that range from the worrying to the ridiculous. A year ago, the Board renewed the employment contract of Michel Kazatchkine, the Executive Director, giving him a final three-year term (following his initial term of four years). But, as with the Inspector General, the Board specified that Kazatchkine must undergo an annual evaluation. The first such evaluation has just been completed, and the findings will be discussed by the Board this evening. (Both this evaluation and that of John Parsons were “360 degree reviews” conducted by external professionals under the guidance of the Chair and Vice-Chair. Structured feedback was obtained from dozens of people in each case.)

So: The Fund's growth has stalled. Over the past ten years, Global Fund financing has contributed to the saving of 7.7 million lives. Every one percent increase or reduction in funding or effectiveness will lead to multiple further lives saved or not saved. The Board's decisions today and tomorrow will be crucial; they will ultimately determine the up or down curve in money, effectiveness and lives.

Bernard Rivers (bernard.rivers@aidspan.org) is Executive Director of Aidspan and Editor of GFO.

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