



An independent watchdog of the Global Fund, and publisher of *Global Fund Observer*

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**Submission to the UK House of Commons  
International Development Committee  
for Its Evidence Session on the Global Fund to  
Fight AIDS, Tuberculosis and Malaria**

by  
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## Preface

Aidspan ([www.aidspan.org](http://www.aidspan.org)) is an international NGO based in Nairobi, Kenya. Its mission is to reinforce the effectiveness of the Global Fund. Aidspan performs this mission by serving as an independent watchdog of the Fund, and by providing services that can benefit all countries wishing to obtain and make effective use of Global Fund financing.

This report is one of many Aidspan guides and reports available at [www.aidspan.org](http://www.aidspan.org). Aidspan also publishes the *Global Fund Observer (GFO)* newsletter, an independent email-based source of news, analysis and commentary about the Global Fund. To receive *GFO* at no charge, send an email to [receive-gfo-newsletter@aidspan.org](mailto:receive-gfo-newsletter@aidspan.org). The subject line and text area can be left blank.

Aidspan and the Global Fund maintain a positive working relationship, but have no formal connection. Aidspan does not allow its strategic, programmatic or editorial decision-making to be influenced by the Global Fund or by relationships with actual or potential funders. Furthermore, the Global Fund and Aidspan's funders bear no responsibility for the contents of any Aidspan publication.

### ***Acknowledgements, permissions, feedback***

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*Note: For details regarding the objectives and agenda for the session, see the Appendix at the end of this report.*

## **1. Background regarding the Global Fund**

In April 2001, Kofi Annan declared that there should be a "war chest" of \$7-10 billion per year to finance the fight against AIDS. He proposed that much of this should be raised, and then disbursed, by a "Global Fund."

Within less than a year, the *Global Fund to Fight AIDS, Tuberculosis and Malaria* ([www.theglobalfund.org](http://www.theglobalfund.org)) went from concept to reality. The Global Fund opened its doors in January 2002 with the stated objective of dramatically increasing funding for the fight against three of the world's most devastating diseases.

The Global Fund provides about 20% of all international financing for AIDS, about 65% for tuberculosis and almost 60% for malaria. The Fund has approved over \$22 billion in grants in 150 countries, and it estimates that programmes that it supports have saved over 8.6 million lives.

From the beginning, the Global Fund has had an astonishing range of supporters, from AIDS activists to US Republican Senators. This is largely because the Global Fund operates differently from traditional forms of foreign assistance: It uses a model that emphasizes control over grants by recipients, and it uses a business-like approach. The Global Fund's board includes not just donor governments, but also developing country governments, the private sector, foundations, non-governmental organisations (NGOs), and people living with the three diseases. The programmes to be funded are designed and run by the recipient countries, usually without the Global Fund telling them what it believes is in their best interest. Grant approvals are based purely on feasibility and technical merit, with no consideration given to ideological factors. With some grants, significant portions of the money are passed through to grass-roots NGOs. Overhead costs are kept to a minimum, with the Global Fund having no offices apart from the head office in Geneva. And the grants are "results-based," meaning that if the results promised by recipients are not delivered, the grant may be terminated and the money diverted to more effective programmes.

This no-nonsense, no-frills approach was aptly summarized by Richard Feachem, the Global Fund's first Executive Director, in six words: "Raise it. Spend it. Prove it." However, the sequence is really "Spend it. Prove it. Raise it." The Fund has to spend its money effectively. Then it has to prove that the expenditure had led to good results. Then it has to point to those results to persuade donors to give more.

## **2. Background regarding Aidspan**

I am the founder and Executive Director of Aidspan ([www.aidspan.org](http://www.aidspan.org)), an NGO which serves as an independent watchdog of the Global Fund. Aidspan has existed almost as long as has the Global Fund, and was set up in the belief that an organisation with as much money and power as the Global Fund needs ongoing scrutiny of its practices and results. I have had observer status at Global Fund board meetings since 2004; I have known most of the Fund's senior managers and many of its board members; and I have visited many Global Fund-financed projects in the field. Aidspan's activities include publishing *Global Fund Observer (GFO)*, a free email-based newsletter which has nearly 10,000 subscribers. Aidspan has a dozen staff and is based in Kenya.

In November 2011, DFID committed to provide Aidspace with £1.3 million spread over the subsequent four years. This funding will cover about 22% of our budget during that period.

Aidspace does not allow its strategic, programmatic or editorial decision-making to be influenced by the Global Fund or by relationships with actual or potential funders. Thus, neither the Global Fund nor DFID was consulted regarding the contents of this testimony.

In brief, Aidspace's attitude is that the Global Fund is a unique and crucial institution, and we want nothing more than for it to be successful and effective. And we admire donors such as the UK that are willing to "put their money in the Global Fund pot" without requiring that their money is earmarked for particular countries or projects.

Over the years, the Global Fund has performed quite well. But any institution can improve its impact by 10%, or 5%, or surely 1%. It is those possible improvements that we look for.

### **3. 2011, the Global Fund's worst year**

The Global Fund recently celebrated its tenth anniversary. The year 2011, which ended with the Fund's Board forcing the Executive Director to resign, was the Fund's most difficult to date.

The stage was set for the Global Fund's problem-filled 2011 when the Fund said in late 2010 that it needed \$13-20 billion to meet anticipated demand for 2011–2013 (up from the \$9.3 billion it received during 2008–2010), but donors pledged only \$11.7 billion.

Then in January 2011 the Associated Press published an article entitled "Fraud Plagues Global Health Fund," based on public reports from the Global Fund's Office of the Inspector General (OIG). The story took off like wildfire. Alarmed, some of the Global Fund's donors held back on delivering their promised contributions pending clear action by the Fund to deal with fraud.

The OIG's findings on fraud, although much less significant than was suggested by the AP, were obviously important and required action. But the OIG made little distinction between outright fraud and multiple lesser crimes (such as grant recipients documenting their expenditure using photocopies rather than originals). These and other instances of OIG rigidity led to a very difficult relationship between the OIG and Secretariat.

Somewhat shell-shocked by the media and donor response, the already risk-averse Global Fund further tightened its procedures, leading for a while to a slow-down in disbursements. Even when implementers received their disbursements, they were sometimes nervous about spending the money for fear that they would inadvertently violate some Global Fund rule.

Meanwhile, the Fund set up a High Level Panel to review how the Fund identifies and manages risk in its grant-making. The Panel issued a report in September that was daunting in terms of the number of things it said need fixing.

The downhill trajectory continued when the Global Fund, having launched "Round 11" (its eleventh round of grant-making) in August 2011, cancelled it three months later because of inadequate funding.

Then came a final nose-dive when the Global Fund Board, after reviewing the events of the prior year and conducting an in-depth assessment of the managerial performance of the Fund's then Executive Director (ED), concluded that he had to go. After the ED ignored strong suggestions that he resign, the Board resolved to appoint a General Manager to

whom all top management would report, leaving behind a role for the ED that was “to be determined.” For two months, the Global Fund floundered almost leaderless. Of the seven members of the Executive Management Team that ran the Secretariat, only three were present and productively engaged during this period.

In the midst of all of this, a French magazine published allegations that the Global Fund had inappropriately made payments to an ally of Carla Bruni-Sarkozy, wife of the President of France, to support Ms Bruni-Sarkozy’s volunteer work as an ambassador for the Global Fund. The Fund defended these payments vigorously, saying no rules had been broken.

Finally, on 24 January 2012, the ED announced his intention to resign. On the same day, the Fund announced that the new position of General Manager would be filled by Gabriel Jaramillo, a former banker who specialises in management and turn-rounds and who had served on the High Level Panel.

#### **4. What needs to change**

The Global Fund performs vital work affecting millions of lives. The Fund cannot afford to have a second year like 2011, and might be permanently damaged if it did. Here are six areas in which, in my view, changes need to be implemented.

##### *(a) The Global Fund must install first-class management*

The recently-departed Executive Director’s managerial misjudgements started several years ago, when his approach led to several highly-capable department heads leaving the Fund, and when some of the new department heads he recruited were disappointingly weak. This led, over time, to serious reductions in morale and effectiveness lower down in the organisation.

Both of the Executive Directors that the Global Fund has hired over its first decade were charismatic leaders; but neither had much interest or natural skill in the art of management. The Global Fund is not an entrepreneurial start-up or a university department or a think tank. It is a vast meat-grinder that disburses \$3 billion annually, employing 600 staff and working its way through an administrative budget of \$370 million. It needs to be led by managerial heavy-hitters.

Current state of play: Since the start of February, the Global Fund has been led by Gabriel Jaramillo. He certainly hit the ground running. He has removed some members of top management; he has informed 140 of the 667 staff that their jobs have been eliminated; and he has created 82 new jobs in the area of grant management. There have been some complaints about how some aspects of this were handled, but that is hardly surprising. By definition, it’s too soon to know what the net effect will be. But the decision-making has been both firm and speedy.

##### *(b) The Global Fund must become less bureaucratic*

The Global Fund needs to turn away not only from its pre-2011 attitude (which was, at least in the earlier years, “here’s lots of money – get on with it”) but also from its OIG- inspired 2011 attitude (which was “don’t forget to submit all those workshop sign-up sheets”). The OIG’s job is to identify fraud and, where possible, to eliminate it; in other words, it is to minimise risk. Mr Jaramillo’s job is to maximise the number of lives saved as the result of the Global Fund’s grants. This requires, among many other things, risk-management; but that is not the same as risk-minimisation. Thus, there is an inevitable tension between the OIG’s role and the General Manager’s role.

Putting this a different way, the Global Fund needs to shift from being a “cashier demanding receipts” to being “an investor demanding results”. The cashier/receipt mentality, triggered primarily by the work of the OIG, has led to excessive bureaucracy and minimal trust. The investor/results mentality can lead to greater trust and more impact. But of course, excessive trust can be abused; there must be verification.

Furthermore, a strong case can be made that what should be verified is the number of people with improved health, not bean-counter items like the number of people attending workshops.

If the Fund can succeed in making these shifts, it can become less bureaucratic, and there’s even a chance that it could achieve the long-lost vision that it promoted in 2002 – “simplified, rapid, innovative and efficient.”

Current state of play: It’s too soon to know whether the Global Fund will succeed.

(c) *The Global Fund must explain itself more clearly*

The requirements that developing countries have to follow when applying for or implementing Global Fund grants are very complex. This is to a large extent inevitable; you can’t expect just a two-page application form if you’re applying for tens or hundreds of millions of dollars.

But the fact remains that the Global Fund does a terrible job of explaining itself to the world. Why is it that “*The Beginner’s Guide to the Global Fund*” (which is available in a 50-page version and in 8-page and 2-page summary versions) was written and published by my own organisation, Aidspace, rather than by the Global Fund? Why is it that nearly 10,000 people have to subscribe to our newsletter *Global Fund Observer (GFO)* in order to learn about developments that the Global Fund has not explained, or has explained in a confusing manner?

Even the Fund’s press releases have at times been confusing. When the Global Fund had to cancel Round 11, the Fund’s press release did not mention the words “cancel” or “Round 11”. Just as bad, the Fund did not make it clear that over the previous year, donors had not reduced or cancelled their pledges to the Fund, as was widely believed. The primary cause of the abrupt reversal regarding Round 11 was the Fund’s fear that donors might reduce or cancel their pledges, either because of donor concerns about Global Fund problems, or because of the economic difficulties that many donors were experiencing. The Fund therefore introduced a more conservative forecasting methodology, which led it to estimate that it could only be sure of about \$10 billion in income during 2011–2013, rather than the approximately \$11.5 billion that it had originally projected. A significant factor here was that the Fund was not sure that the US would contribute the full \$4 billion over three years that the US had announced in 2010. (In fact, it’s now looking increasingly likely that the full \$4 billion will be provided by the US.) The reduction in the Global Fund’s revenue forecast from \$11.5 billion to \$10 billion over three years may not sound large; but it had a drastic impact, because the \$1.5 billion reduction was almost exactly equal to the anticipated cost of Round 11. And the Board had long since determined – rightly – that new grants (such as would have been provided under Round 11) have to be assigned a lower priority than keeping existing grants going. At the time of the cancellation of Round 11, the Global Fund knew that the costs during 2011-2013 of continuing and renewing its existing grants came to about \$10 billion. Which left no certain money for Round 11.

Yes, this is modestly complicated. But an organisation that handles many billions of dollars ought to be willing and able to explain such matters clearly. The fact that the Fund did not do so left much confusion within the Global Fund community.

Current state of play: The Global Fund is looking for a new Communications Director. Maybe that will lead to better press releases. But I've seen no evidence that the Fund plans to improve the clarity and effectiveness of its broader communications with the thousands of people who are involved in applying for and implementing its grants.

*(d) The Global Fund must determine whether its grants are more susceptible to fraud than are those of other international donors*

The January 2011 AP story that started the Global Fund's terrible year was based on fraud identified by the OIG (and reported at the Fund's website) in just four small countries out of the 150 that receive Global Fund grants. Yet the story had the unproven headline "Fraud Plagues Global Health Fund."

What the Global Fund should have done – and it's not too late – is to commission an independent group of experts to estimate, based on the available data, how extensive fraud is across the entire Global Fund grant portfolio. The question is not is there fraud?; it is how persistent is fraud? And the follow-up question is: how does the Fund's fraud problem compare with that of other multilateral and bilateral funding agencies?

Of course, that second question will be very hard to answer, because no international funding agency – not the World Bank, not DFID, not USAID, not anybody – is as transparent as the Global Fund is about the fraud it unearths. Indeed, I sometimes think – perhaps unfairly – that some agencies would prefer not to know, let alone to publish, which of their grants have led to some leakages through fraud.

*(e) The Board of the Global Fund must be made leaner and more effective*

The Global Fund needs a smaller board made up only of members who are competitively chosen, who spend some years in the role, who fully prepare for and attend all board and relevant committee meetings, who become accustomed to working with each other, and who each accept personal accountability for the results. This is how it is done in the corporate world, and it usually works. If this requires some board members to be paid, that option should be considered.

At present, some board members who represent multiple countries are chosen by those countries based on each country's position in the alphabet. These board members, and certain others, are often insufficiently informed and engaged. This has led to a board that focuses on a mix of putting out fires (which is clearly necessary) and micro-managing the Secretariat (which is not). There is a huge middle area – involving thinking proactively about areas of risk and of potential improvement – that hardly ever gets discussed. The Board is only rarely a source of strength. It needs to become one on a permanent basis.

Current state of play: Over the last few months, the Global Fund has redesigned its board committee structure. And its Audit and Ethics Committee now has a majority of its members who are independent of all board delegations. These are encouraging developments. But I've seen no sign yet of plans to reduce the size of the board, to increase the calibre of its membership, or to improve the quality of its discourse.

*(f) The Global Fund must re-examine certain aspects of its transparency policy*

Two admirable components of the Global Fund model – an OIG that is determined to root out fraud, 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 as most aid agencies do; the press went wild; Global Fund donors worried about how their taxpayers would feel about funding grants for corrupt implementers; donor pledges were put on hold; and Global Fund growth stalled. This cycle will repeat itself unless the Board is able to devise a policy that permits the Fund to better manage the repercussions of transparency without sacrificing the underlying principle.

Current state of play: By the end of 2011, the OIG was supposed to have completed at least 48 country-level audits. But thus far, it has only published reports on 20 of these. It has published no reports during the past six months. I imagine that this is not just the result of over-work; it is the result of trying to work out how to have audit and investigation reports that are transparent but that don't lead to firestorms.

## **5. Two lingering concerns**

I have a concern that under Mr Jaramillo, with his corporate numbers-oriented background, the Global Fund may start insisting that each of its grants demonstrates measurable impact, rapid results, high value for money and low risk. At first, that sounds eminently sensible. But if such an approach is implemented, the Global Fund will change significantly. The Fund will have to reduce its grants for health systems strengthening (because the payback from such investments in terms of lives saved is indirect and delayed and therefore hard to measure). It will have to reduce its grants to countries with weak data systems (because those countries can't compile reliable data proving the lives saved). It will have to reduce its grants to countries with weak governance (because the risk of "grant leakages" will be too great). And it will have to reduce its grants to countries with low total burden of disease (because the Fund's overhead per life saved in such countries will be higher than in high-impact countries).

I also have a concern that the Global Fund will shift towards an "allocative model", in which it determines in advance a maximum amount of money to give to each country, based on the burden of disease in that country and the amount of funding available in that country from other sources, including the country's own government. Again, at first that sounds eminently sensible, and certainly it should be given serious consideration. But such an approach would, again, lead the Global Fund to change significantly. The Fund's traditional model has involved a "bottom up" approach, in which each country decides its priorities and how to achieve them programmatically, and then makes a case to the Global Fund for what areas need support. If the Global Fund goes for an allocative model, there is a risk that the Fund could become more of a "top down" organisation which decides not only how much money it wants to give to each country, but what kinds of projects it wants that money to finance. This is much closer to the traditional bilateral aid model; but it is not the traditional Global Fund model.

## **6. Looking forward**

So where now? The Board has asked Mr Jaramillo to serve not only as General Manager for up to a year, but also as the Global Fund's interim leader until a global search for a new Executive Director is launched and completed. Mr Jaramillo's current task is to get the currently somewhat dysfunctional and traumatised Secretariat rapidly up to speed.

There's a real chance that the difficulties of the past year will end up being seen as the darkness before the dawn. If the Global Fund can push out its Executive Director, hopefully it is also willing to make other important though less dramatic changes. The Fund could take inspiration from the GAVI Alliance (formerly, the Global Alliance for Vaccines and Immunisation). In mid-2010, GAVI went through a major management overhaul, which included the departure of its CEO and the appointment of a new one six months later. Then GAVI announced in early 2011 that it had suspended grants to four countries because of suspected fraud. Yet in mid-2011, donors committed 15% more funding than GAVI had asked for. It can happen.

## Appendix

From [here](#):

### **New Inquiry: Global Fund to Fight AIDS, Tuberculosis and Malaria**

The International Development Committee has announced it will hold a one-off evidence session on Tuesday 17 April at 2.00pm on the Global Fund to Fight AIDS, Tuberculosis and Malaria.

The Committee will question the Secretary of State for International Development the Rt Hon Andrew Mitchell MP, senior Global Fund officials, and interest groups, on:

- the current funding situation of the Global Fund and DFID's contribution to the Fund;
- the prospects for DFID achieving its development objectives if current funding shortfalls at the Fund are not addressed;
- the impact on people in developing countries from the delay in funding of new grants;
- the UK's role in influencing other international donors; and
- reforms undertaken by the Global Fund to its management and business model, and improve risk management.

From [here](#):

The International Development Committee will question key figures on the 17 April, including the Secretary of State for International Development and the General Manager of the Global Fund, about the current situation.

### **Witnesses**

Tuesday 17 April 2012, Committee Room 5, Palace of Westminster

At 2.10pm:

#### **The Global Fund to fight AIDS, Tuberculosis and Malaria**

- Gabriel Jaramillo, General Manager
- Richard Manning, Chair of Mid-Term Replenishment Review

At 2.45pm:

#### **Roll Back Malaria Partnership**

- Alan Court, Chair of the Resource Mobilisation Committee

#### **UK Consortium on AIDS and International Development**

- Mike Podmore, Chair

#### **Aidspan**

- Bernard Rivers, Executive Director

#### **UK Coalition to Stop TB**

- Aaron Oxley, Executive Director, Results UK

At 3.30pm:

**Department for International Development**

- Rt Hon Andrew Mitchell MP, Secretary of State

**Purpose of the Session**

The Global Fund to Fight AIDS, Tuberculosis and Malaria is an international financing institution created to increase resources to address three of the world's most devastating diseases. To date, it has saved over 7.7 million lives in 150 countries over the last 10 years. The UK has contributed almost £1bn to the Global Fund since its inception in 2002, 8% of total contributions. In the past year, however, forecast donor contributions have reduced or been delayed, partly as a result of negative reports of fraud and mismanagement in Global Fund programmes. The UK currently has the Chair of the Global Fund and may increase its funding, subject to reforms undertaken by the Global Fund. The Committee will question key figures, including the Secretary of State for International Development and the General Manager of the Global Fund, about the current situation.