



Independent observer
of the Global Fund

Global Fund Deserves Credit for Implementing Major Reforms, but Challenges Remain

By David Garmaise and Kate Macintyre

Two-and-a-half years have elapsed since the Associated Press story about fraudulent activities among a small number of recipients of Global Fund grants ignited headlines in the media and undermined the confidence of some donors, some of whom withheld their contributions to the Fund. The headlines exaggerated the extent of the fraud (see [GFO commentary](#)), but the uproar nevertheless underscored the need for the Fund to make some fundamental changes to the way it operates.

And it has.

In this article, we discuss the major reforms and examine their impact. We focus on the following areas: the reorganisation of the Secretariat; the new funding model; governance; risk management; revenue forecasting and the replenishment; financial management systems; grant renewals; grant implementation; impact; and partnership. In the process, we touch on some “cross-cutting” themes, such as human rights; the inclusion of civil society and most-at-risk populations (MARPs); and communications. Finally, we discuss some unresolved issues.

MAJOR REFORMS

In the period since the Associated Press story, the Global Fund established a panel of experts to assess where improvements were required (see GFO articles [here](#), [here](#) and [here](#)) and implemented a series of reforms. While it is too early to assess the full impact of some of the reforms, it is clear that the Global Fund of today is a tighter, more responsive and more activist organisation. The confidence of donors

appears to have been restored. Comments from people who observe the Fund have been generally positive.

Secretariat reorganisation

Soon after he took up his post as General Manager in February 2012, Gabriel Jaramillo undertook an extensive restructuring of the Secretariat. The idea of moving more resources into grant management – where three out of every four Secretariat employees now resides – was a sound one. Each of the 20 high-impact countries has a dedicated fund portfolio manager (FPM), supported by a country team. The country team consists of two full-time programme officers, a finance officer, a monitoring officer, a procurement officer and a legal officer. Country team members work together in the same unit.

As a result, the performance of the FPMs and the country teams has been enhanced. This is apparent externally – for example, in the participation of the FPMs and the country teams in the country dialogues; and internally – for example, in the input the FPM and the country teams have been providing into the deliberations of the Grant Approvals Committee (GAC) on funding recommendations.

The reorganisation process, which involved a number of dismissals and many transfers, appears to have been handled competently, though it is impossible to go through this kind of exercise without some people getting hurt – which is what happened in this case.

Several high-level positions were filled, including the Executive Director (Mark Dybul), the Inspector General (Martin O'Malley), the Director of Communications (Seth Faison), the Chief Procurement Officer (Christopher Game), the Chief Risk Officer (Cees Klumper) and the Treasurer (Sylvie Billion). The last three positions were newly created.

It is too early to assess the full impact of the reorganisation. Some challenges remain. Mr Jaramillo has identified two of them: (1) insufficient resources may have been allocated to grant management in the non-high-impact countries; and (2) considerable work is required to ensure that promotions in the Secretariat are based on merit, and that this is seen to be the case by employees. In addition, many civil society organisations remain concerned about the decision to disband the civil society team in the Secretariat.

The transition in the top job from Mr Jaramillo to Mr Dybul appears to have gone very smoothly.

New funding model

The new funding model (NFM) is the most ambitious of the reforms. To some extent, it remains a “work in progress,” but there have already been notable achievements.

Applications process

The centrepiece of the NFM is the new, iterative approach to the applications process. This includes the country dialogue, where all stakeholders have an opportunity to feed into the development of the proposal (concept note); and the concept note development process itself, which involves a lot of back and forth between (a) the country and (b) the Secretariat and the Technical Review Panel. The country dialogue and the concept note development processes are intertwined.

It is already apparent from the experience of the three countries that have gone through these processes that they are a significant improvement over the process used for the rounds-based system (see GFO articles [here](#) and [here](#)). Civil society organisations are much more involved in the applications process than before; and representatives of MARPs are also involved, sometimes for the first time. In some instances, the Secretariat pushed hard for this to happen. It is also apparent that the Secretariat actively promoted the inclusion of human rights interventions and activities targeting MARPs in the concept notes.

(These are themes that the Global Fund has also been promoting at a corporate level.)

Under the rounds-based system, less than 50% of proposals were approved. Under the new iterative system, the failure rate should be reduced to zero, or close to zero. This is a major accomplishment.

During the transition phase, the country dialogue and the concept note development processes are happening in different ways in different countries. This will probably remain true even after the NFM is fully rolled-out. It is necessary to have this flexibility. However, the Global Fund will need to establish some minimum standards, and will need to define the roles and responsibilities of the various stakeholders in the process.

It is too early to assess the full impact of the new applications process. Perhaps by late-2014, by which time a group of standard applicants will have gone through the process, a full analysis will be possible.

Allocations methodology

The methodology for allocating available funds to individual countries (and other applicants) is very complicated; much work remains to be done before the full rollout (see GFO articles [here](#) and [here](#)). It was much simpler under the rounds-based system because there really wasn't any allocations process; the Global Fund simply invited applications and basically said: "We think we have enough money to fund all technically sound proposals."

With demand clearly outstripping supply, and with the new applications process expected to produce a near-zero failure rate, obviously a new allocation methodology was required. The Global Fund says that the methodology is bound to be complicated to ensure that it is fair; that it keeps the portfolio global; that the Fund gets the impact it believes it needs; and that applicants are encouraged to provide a "full expression" of their needs.

Perhaps that is true. But as long as the methodology remains very complicated, and difficult for people to understand, applicants may not see it as "fair," and may perceive that criteria are being applied and decisions are being made in the dark.

Aidspan is concerned that with only about six months to go to the full rollout of the NFM, there is still no clarity on some very big items, such as how the incentive funding stream will work, how countries will be allocated to bands, and how unfunded quality demand will be handled.

It is much too early to assess the impact of the new allocations methodology. By mid-2014, we may be able to do so.

Communications

The Global Fund has not done a very good job of communicating information on the new funding model. Aidspan has heard over and over again from people in the field that they are not being kept informed. (See [GFO commentary](#).) When we approached the Secretariat about this, it said that it had been focusing on consultations with its partners, including representatives of civil society organisations. Consultations are not a substitute for a good communications plan.

Governance reform

Even before the High-Level Panel issued its report in 2011, the Global Fund Board started a process of governance reform. But it still hasn't finished it.

The first phase of the reform involved changes to the structure and roles of the Board and its committees.

The idea behind the changes was that the Board and its committees should concentrate on big-picture issues and should avoid micro-managing the work of the Secretariat. Some decision-making authority was devolved from the Board to its committees, and some was devolved to the Secretariat.

The Board is spending less time micro-managing; decisions at Board meetings have slowed to a trickle. And at the last Board meeting in Sri Lanka in June, Board members did indeed spend some time discussing big-picture issues (without taking any decisions related to these issues).

Meanwhile, the Board committees are making a lot more decisions these days on matters that do not need to be referred back to the Board. There seems to be more action at the committee meetings than at the Board meetings. The Strategy, Investment and Impact Committee has been consumed with the task of working out the details of the allocation methodology for the NFM for well over a year.

Recently, Mr Jaramillo was critical of the way the Board and its committees operate, especially the committees. He said that the committees should not try to define every parameter of the Secretariat's operations. Rather, he said, they should be talking about how to win the war against HIV, TB and malaria "faster and cheaper." Mr Jaramillo added that committee meetings that lasted several days are not meetings, they are conferences.

Not all Board constituencies are represented on each committee. This was done on purpose, on the basis that (a) the deliberations of the committees feed into discussions by the full Board; and (b) if every Board constituency were represented, the committees would be just like Board committees-of-the-whole. However, given that the committees are now making decisions on their own authority, this rationale no longer makes sense. Committee decisions are being made without representation from all constituencies.

Obviously, more thought needs to be given to the structure and operations of Board committees.

When he was Board Chair, Simon Bland tried to implement a second phase of governance reform, but he had trouble whipping up the necessary enthusiasm from other Board members, particularly with all that was happening around the NFM. The second phase was supposed to enhance the engagement of implementing countries in discussions and decisions of the Board and its committees. It was supposed to address problems such as the large number of countries represented in each implementing country Board delegation; high turnover of Board members and alternates, which has implications for levels of knowledge retained by the delegations; and processes to select Board members and alternates that are often unclear and undocumented.

The best that can be said about the governance reforms is that they are a work in progress. There are indications that the new Board Chair and Vice-Chair want to take up two of the issues mentioned above: (1) implementing country engagement and (2) committee membership and roles.

Risk management

Risk management is one of the major areas of reform, which makes sense given that the uproar in 2011 was caused by allegations of fraud in the implementation of Global Fund grants. It is clear from the progress reports provided by the General Manager and the Executive Director that significant new measures were introduced to reduce risk, not only at the grant level but also at the corporate level.

Until recently, we were not provided with many details on the new measures. However, a report prepared by Chief Risk Officer Cees Klumper, posted on the Global Fund's website in May, provided an overview of the Fund's new approach to managing risk and described specific measures to reduce the risk of fraud (see GFO articles [here](#) and [here](#)).

In addition, the Global Fund has prepared a Risk Management Framework (which has not been made

public). The Board plans to organise an evaluation of the implementation of the Framework every three years. Thus, it is too early to assess the full impact of the new risk management approach.

In April 2013, the Secretariat provided the Finance and Operational Performance Committee (FOPC) with an update on the implementation of the Risk Management Framework. Unfortunately, the document is labelled “for internal use only,” so Aidspan cannot report on it. We understand the need for documents to remain confidential until they are discussed by committees or the full Board. But, surely, three months after the FOPC meeting, the Secretariat could release the update publicly or at least issue a communiqué providing a summary of the update.

Revenue forecasting and replenishment

The Global Fund has improved its revenue forecasting, which was clearly weak in 2011 when Round 11 had to be cancelled after it had already been launched. The new forecasts are more thorough and more reliable. The Secretariat and the FOPC have contributed to this improvement.

For the Fourth Replenishment, now underway, the Global Fund has a more solid message and a more refined strategy compared to the Third Replenishment, which had disappointing results. Even between the mid-term replenishment meeting in November 2012 and the “pre-replenishment” meeting in April 2013, improvements were visible. At the April meeting, the Global Fund was more thoughtful, more punchy and more forceful.

The Global Fund has made a solid effort to estimate total demand. It released its estimate in a report prepared for the pre-replenishment meeting and did a good job of justifying the estimates at the meeting. Civil society organisations welcomed the report, even though they believe that some of the assumptions made by the Fund – particularly concerning increased levels of domestic financing – were overly optimistic.

Donors at the pre-replenishment meeting were impressed by how clearly the Global Fund – making the best use of its key technical partners, UNAIDS, the World Health Organization, Roll Back Malaria and STOP TB – explained the dynamics of the three diseases and the fact that we are at an “historic moment” in the fight against the diseases.

The Global Fund has done a good job of increasing its visibility in implementing countries, and demonstrating the impact of programmes supported by the Fund, through a series of news releases built around the signing of grant agreements and high-level visits to implementing countries.

Whether this will translate into the Fund reaching or coming close to its goal of \$15 billion for the Fourth Replenishment remains to be seen. There are a lot of factors at play, most of them beyond the control of the Global Fund.

Financial systems

By its own admission, the Global Fund has not moved swiftly enough to correct the deficiencies in its financial management, accounting and reporting systems. Former General Manager Gabriel Jaramillo acknowledged this in his last report to the Board ([see GFO article](#)); and GFO recently reported on problems with individual grant data ([see article](#)). However, the Secretariat is in the process of implementing a comprehensive Finance Step-Up project, which will hopefully fix the problems.

Grant renewals

The Global Fund Secretariat has improved the process of reviewing requests for continued funding. The changes started under the old Grant Renewals Panel and continued under the new GAC. The inclusion of technical partners in a non-voting capacity on the GAC was a smart move. There is now more interaction

among the committee, the Secretariat and the applicants, similar to what happens under the new iterative process for the NFM.

In addition, the Secretariat is now providing Board delegations with considerably more information than it did previously on the performance of each grant and on the GAC's assessment of the request for continued funding. In the interests of transparency, we'd like to see the Global Fund post on its website the same information it provides to Board delegations (after the Board makes its decisions, of course).

Grant implementation

The Global Fund says that changes have been made to grant implementation processes, but the Fund has not provided a summary of the changes. One example we are aware of is the decision to move to a system of annual disbursement decisions for many grants.

The Global Fund has said that it needs to simplify grant implementation processes and requirements. However, by its own admission, it has not made significant progress on this front.

Impact

The Global Fund has developed a much stronger focus on achieving impact with its investments. It is looking beyond the output indicators it relied on so heavily in the past, and is developing stronger measures of coverage, outcomes and impact. The Fund is supporting, and participating in, national programme reviews. Impact profiles are being developed for each country applying through the NFM. Here, again, the reforms are ongoing.

Partnership

A commitment to working with partners has been a key feature of the Global Fund from the outset. There were times in the past when the commitment was viewed as more theoretical than real. However, the Global Fund has now taken significant steps to consult partners and involve them more in the work of the Fund. For example, as mentioned above, technical partners are included on the GAC. Technical partners are also included on the three disease committees that were established as part of the reorganisation of the Secretariat.

During the early implementation of the new funding model, the Secretariat has undertaken extensive consultations with all partners, including civil society. Also, in the country dialogues that have taken place so far, technical partners, civil society organisations and representatives of key populations have played a big part.

SOME UNRESOLVED ISSUES

Funding for middle-income countries

One of the reasons behind the push for a new funding model and, more specifically, for the use of an allocation formula was that many people believed (a) that under the rounds-based system, a growing percentage of funds was going to middle-income countries at the expense of low-income countries; and (b) that governments of middle-income countries should be shouldering a greater share of the burden.

This became a contentious issue, with some Board members and many civil society organisations arguing that people living with, and affected by, the diseases in middle-income countries would be neglected or, at least, disadvantaged. People have argued that in three regions in particular – Latin America and the Caribbean, Eastern Europe and Central Asia, and Middle East and North Africa – most-affected populations will lose out under the new system.

The Global Fund has said repeatedly that under the NFM, middle-income countries with epidemics concentrated in MARPS will still be able to apply for funding. But we don't know what their share of the funding will be. So, almost two years after this debate began, we still don't how this is going to play out.

Country ownership

“Country ownership” has been a core principle of the Global Fund since it started. But how the principle has been applied has evolved over the years, and may well evolve at a faster pace under the NFM. In 2011, the High-Level Panel recommended that the Global Fund Board adopt a new statement on “country ownership.” A project to do just that was included in the Consolidated Transformation Plan. But nothing has happened. (See [GFO analysis](#)).

CONCLUSION

The Global Fund has made the changes that were needed to restore donor confidence. In a replenishment year, this is obviously critically important. However, many reforms are still being implemented and will need to be watched closely. The next year or two promises to be just as exciting as the last few.

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