



Independent observer
of the Global Fund

THE GLOBAL FUND AT TEN YEARS: NOT A HAPPY BIRTHDAY

Last week, the Global Fund celebrated its tenth anniversary. These past 12 months, which ended with the Board persuading the Executive Director to resign, have been the Fund's most difficult to date, so the anniversary celebrations were rather muted. Whether the Fund's eleventh year will be more successful depends on how well the Fund learns from what went wrong during 2011.

The annus horribilis

The stage was set for the Global Fund's problem-filled 2011 when the Fund said in October 2010 that it needed well over \$13 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 on 23 January 2011, the Associated Press published an [article](#) entitled "Fraud Plagues Global Health Fund," based on public reports from the 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 were obviously important and required action. But the OIG made little distinction between outright fraud and multiple lesser crimes such as documenting expenditure using photocopies rather than originals. These and other instances of OIG rigidity seriously impaired relations between the OIG and Secretariat. (See various GFO articles, including [here](#) and [here](#).)

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 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 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 past year and conducting an in-depth assessment of the managerial performance of Michel Kazatchkine, the Fund's Executive Director (ED), informally concluded that Dr Kazatchkine had to go. After Dr Kazatchkine 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 runs 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, Dr Kazatchkine [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 recently-retired banker who had served on the High Level Panel.

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. It recently launched a "Consolidated Transformation Plan." But some components of that plan point in the wrong direction, and others do not go far enough. Here are five additional changes that need to be implemented.

The Global Fund Board must be made leaner and more effective.

The Global Fund needs a significantly 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 issues such as are reviewed below – that hardly ever gets discussed. The Board is only rarely a source of strength. It needs to become one, on a permanent basis.

The Global Fund must be more candid when it speaks publicly.

When the Global Fund had to cancel Round 11, the Fund's press release did not actually say that this was what had happened. Just as bad, the Fund did not make it clear that over the previous year, donors had not been reducing or cancelling their pledges to the Fund. The primary causes of the abrupt reversal regarding Round 11 were, first, that the Fund had belatedly recognised that its forecasts of available funds for 2011-2013 must be reduced from \$11-12 billion to about \$10 billion in order to take into account uncertainty, particularly regarding whether and when the US pledge would be fully paid; and, secondly, that because nearly all of the remaining \$10 billion was needed to keep existing grants going, there was insufficient money left to cover the anticipated \$1.5 billion cost of new Round 11 grants. (See [GFO article](#).) This lack of clarity caused much confusion within the Global Fund community.

More recently, the Fund issued another press release that was not so much confusing as misleading. When the Fund [announced](#) on 26 January 2012 that the Gates Foundation will give it \$750 million over the period 2011-2016, with most of this money being provided as early within that time period as the Fund needs, the press release implied that this was all "new money." But \$500 million of that \$750 million had already been [announced](#) in October 2010, and ever since then had been included in the Fund's revenue forecasts. Thus, the Gates Foundation's contribution does not mean that the Fund now has \$750 million more to work with than it did when it cancelled Round 11.

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 .

The Global Fund must recognise that if it is to turn its vision into reality, it must install first-class management.

The ED'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.

But the Board, too, made at least one major managerial misjudgement. At the December 2010 board meeting in Addis Ababa, the Board had to decide whether to renew Dr Kazatchkine's contract as ED. He was coming to the end of his first four-year term, and subject to Board approval, was eligible for a final three-year term. The Global Fund's formal procedures clearly stated at that time that the Board should "normally" invite the incumbent ED to compete against other candidates for the position. However, the Board chose not to follow its own guidance; instead, it renewed the contract without opening it up to competition, even though many board members had already expressed serious concerns regarding the

ED's managerial performance. The Board had the right to decide as it did, but the decision was not wise, and the Fund has since paid the price for it.

In fact, both of the Executive Directors that the Global Fund has hired over its first decade were charismatic leaders who had little 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.

The Global Fund must become less bureaucratic.

As [one observer](#) has aptly said, 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, leads to excessive bureaucracy and minimal trust. The investor/results mentality leads to greater trust and more impact. Of course, excessive trust can be abused; there must be verification. But 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 bed nets distributed and the number of people attending workshops. If the Fund can succeed in making this shift, it might eventually be able to return to the long-lost vision that it promoted in 2002 – “simplified, rapid, innovative and efficient.”

Looking forward

So where now? The Board has [asked](#) Gabriel 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 ED is launched and completed. If Mr Jaramillo can quickly determine which Global Fund activities are led by competent managers, and then focus his energy on other areas, he should be able to get the currently somewhat dysfunctional Secretariat rapidly up to speed.

But Mr Jaramillo's arrival will involve a huge culture clash. He is a smooth US-educated banker who is accustomed to the certainties and the relatively formal hierarchies of the corporate world. The Global Fund Secretariat represents a very different and rather NGO-like environment, accustomed to managing grants rather than investments, with opinions being articulated in a somewhat informal manner, and with some decisions delayed until everyone involved agrees. Mr Jaramillo and the staff both need to understand where each other is coming from, and to give each other credit for their expertise. The one thing that can't be allowed to happen is for decisions to be frozen for several months while Mr Jaramillo evaluates the situation and attempts to develop a master plan. The ship has to keep sailing, adjusting course as necessary, even if the ride is a little erratic.

“There is nothing broken that can't be fixed, but there's a lot of fixing to do,” Mr. Jaramillo said in an [interview](#) with the Wall Street Journal. He added that the Fund's launching of Round 11 and then cancelling it when it had second thoughts about its forecasts should never have happened. “Uncertainty is a reality,” he said. “You have to project the most likely scenario and the most horrible scenario. That's what we do in business every day.”

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 ED, 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.

Finally, a postscript. I've known, admired and liked [Michel Kazatchkine](#) for nine years. He is a brilliant and dedicated man who has spent the past 25 years fighting AIDS as a leading physician, researcher, policy maker, diplomat and advocate. I wish him the very best in whatever he turns to next.

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