Lessons from the Global Fund’s Reform

Todd Summers

On January 23, 2011, the Associated Press (AP) released an article titled “Fraud Plagues Global Health Fund.”1 Picked up by news agencies across the globe, it extrapolated from reports of the inspector general of the Global Fund to Fight AIDS, Tuberculosis, and Malaria (Global Fund) in 2010 to imply endemic corruption across the Global Fund system. Even though widely discredited, the article nevertheless set off a firestorm2 that is just now being fully extinguished. It provoked an existential crisis. The response the article precipitated was swift and dramatic, and thankfully resulted in a stronger and better run Global Fund. While some of the circumstances are specific to the Global Fund and its mode of governance, there are important lessons here for other international organizations, including the World Health Organization, itself facing considerable criticism and deliberations over its internal reform and special governance challenges, following its bungled response to the 2014 Ebola crisis in three West African nations.

Background

The sensationalized AP article was the spark, but the Global Fund was already a tinderbox. Even before the AP article came out, there were nagging concerns about senior management, funding to China and other large middle-income countries, mission drift, and efficiency of spending. The United States, for example, had called for “comprehensive reform” as part of its $4 billion/3-year pledge at the Global Fund’s replenishment in September 2010 (a call repeated with its most

---


“In the current environment of economic uncertainty, budget austerity, heightened pressure for results and technological innovation, ‘holding on to the Global Fund Model’ means being prepared to make significant changes.... The Global Fund must be much more assertive about where and how its money is deployed; it should take a more global look at the disease burden and better determine who needs the money most. At the same time, adaptations to the Global Fund’s business model are required to offer flexibility to customize responses to different risks and opportunities in the field. Finally, adopting a unique model does not mean the Global Fund’s Secretariat cannot make use of international best practices for human resources, financial regulations and other standard organizational procedures, so that the institution can be as efficient as possible.”

—High-Level Panel Report


—Report of the High-Level Panel, Sep 2011

recent pledge made in 2013).³ ⁴ Anxieties in the midst of a global economic crisis and an ever-present anti-aid political energy, made worse by unemployment and deficits across the donor community, emboldened other donors as well. At the same time, the Global Fund found itself battling its own inspector general, who had been hired hastily after his predecessor was dismissed (who had also been hired hastily thanks mostly to immense political pressure from the United States,⁵ the Global Fund’s largest donor). It was a perfect storm. The global economic situation necessarily led to lower official development assistance (ODA),⁶ and donors took advantage of the situation to shake things up at the Global Fund. Many knew the claims of widespread corruption were overblown, but they definitely exploited them to push significant reforms.

The Board’s first effort to regain control was an attempt at self-correction that had already started before the press storm hit. In December 2010, the Board, urged on by representatives of its biggest donors, decided to undertake significant reform in the Global Fund’s operations and thus constituted a group of its members, the Comprehensive Reform Working Group, to oversee an exhaustive review that generated a “Consolidated Transformation Plan”⁷ aimed at reform and improvement across a broad set of issues including fiduciary controls, business model, governance, and value for money. While the plan was

adopted by the Board in May 2011, the concurrent public attention and backlash from the AP article made an internal process insufficient to douse the flames. Thus, the Board commissioned a panel of external actors (the High-Level Review Panel on Fiduciary Controls and Oversight Mechanisms, or HLP), whose areas of expertise were more around banking, business, and politics, with only a few with a background in international health and development.

The HLP issued its report in September 2011, and its exhaustive recommendations were nearly fully adopted by the Board at a special meeting that same month. In retrospect, the Board left itself little choice. Members of the HLP had traveled to Geneva to present their report to the Board, which it had already committed to publish rather than treat it in a more confidential—and perhaps political—way. Indeed, the HLP had insisted that it would report directly to the public and not just to the Board. This meant that the Global Fund, with a longstanding commitment to transparency, was obliged to have the report out and on the website the moment it came out—with no filtering or messaging.

The HLP report, “Turning the Page from Emergency to Sustainability,” covered a wide range of issues and offered recommendations that went into far more detail than some expected: the names and terms of reference of new Board committees, the mechanisms used for grant making, and the operations of the Global Fund’s secretariat and its Local Fund agents and auditors.

A Consolidated Transformation Plan pulled internal and external reforms together into one package, which was fully agreed to by the Board at a tumultuous meeting in Accra, Ghana, in November 2011—the same meeting at which the Board adopted a new five-year strategy that called for radical shifts in its approach to grant making, and canceled pending funding Round 11 based on reports that the organization was hundreds of millions of dollars in deficit (the numbers were subsequently revised up and down, making things even more uncertain). It also marked the beginning of the end for its second executive director, Michel Kazatchkine, who was later replaced with an interim general manager. While widely liked and respected (as well having served as chair of the first Technical Review Panel, a Board member and Board vice chair), he nevertheless was brought down in large part because of donors’ uncertainty of the organization’s finances, and a belief by some that the fuzzy accounting evidenced a deliberate

---

12 Global Fund, Global Fund Board Decision Point GF/B25/DP6, approved November 2011.
strategy to put the organization into debt to force donors to give more. Countries were also getting tired of increasing bureaucracy and risk aversion. Kazatchkine also was perhaps too loyal to some of his managers, keeping them on even when it was clear that substantial senior-level changes were overdue. In turn, Kazatchkine found the Board’s imposition of a general manager with overlapping duties to be untenable.

El Año de Jaramillo

Gabriel Jaramillo, a Columbian banker with experience in Colombia, Mexico, Brazil, and the United States and a member of the High-Level Panel, began his term as a new general manager reporting directly to the chair of the Global Fund Board, Simon Bland, who had been empowered by the Board to hire him. That same day, the Global Fund announced Kazatchkine’s resignation. A new uncertain era had begun.

Jaramillo came in with a no-nonsense, reformer’s zeal, emboldened by the Board’s endorsement of the High-Level Panel recommendations that he had helped author. He brought in other Panel members, and a phalanx of consultants, spending millions for outside advice.

Jaramillo had three general mandates: correct deficiencies in senior management, install a more cohesive team to run the organization, and shift the culture of the Global Fund from risk aversion and bureaucracy to a more proactive and engaged investment approach. With a Board-mandated maximum one-year term, he set to work quickly, and heads began to roll. Several senior managers left, were removed, or were eased out with generous severance packages. Others soon followed, with Jaramillo and a team of lawyers and human resource experts cleaving through the Global Fund’s personnel policies (historically adopted to mimic WHO’s, which had originally employed all Global Fund staff). The Board has never received a full accounting of the costs, but severance packages for some reportedly went into hundreds of thousands of dollars. Among those who survived the culling, which went way beyond senior managers, many had to apply just to retain their own jobs or were offered “take it now or leave it” separation packages in lieu of competing; some found that their positions were no longer there as Jaramillo pushed through a big shift of positions into the grant management division (and out of various other teams he deemed a lower priority). It was highly emotional, and many people were quite angry about either their own circumstances or those of colleagues.


Many of the changes were long needed and refreshing, especially for an organization that had taken on too many of the stereotyped characteristics of an ossified UN institution; yet what was left behind was a senior management “team” that didn’t work particularly well together and a demoralized staff traumatized by protracted stress, criticism, and uncertainty. It was hardly the vibrant, change-hungry staff envisioned originally for the Fund. Indeed, the slow drift toward risk aversion and bureaucracy had left many of the more vibrant grant managers disaffected, with many leaving. Said one, “We never envisioned working for an ossified UN institution, and that is exactly what it had become.”

In addition to the personnel changes, Jaramillo also worked to reform the Global Fund's grant-making approach, guided by the “Investing for Impact” strategy agreed to in November 2011 and his Panel’s similar recommendations. The rounds-based system was replaced with a new allocation approach that provides “shares” of available Global Fund resources based on a combination of country income (GNI per capita) and disease burden. This shift has been widely acclaimed as a vitally important improvement over the competitive rounds system under which some countries did really well while others did not, irrespective of need. Among the many changes was a shift in expectations for the role of the Global Fund’s grant managers, from risk avoiders to impact investors, a change that will likely take years to accomplish fully; this reorientation to its core mission (financing high-impact, disease control programs) has energized many, especially grant managers and partner countries.

In November 2012, Dr. Mark Dybul, former head of the U.S. President’s Emergency Plan for AIDS Relief (PEPFAR) program, was hired by the Board to replace Kazatchkine. Upon taking office in January 2013, Dybul had to jump immediately into fundraising mode, with the Global Fund's donors engaged in a three-year funding replenishment. His connections to Washington, D.C., were enormously helpful, with the United States hosting the pledging conference and engaging many senior politicians from both parties. It was an impressive return to good graces for the Global Fund, but despite all of the positive energy the replenishment results were lackluster. While asking for $15 billion over three years, pledges totaled less than $12 billion. Many donors cited the pace and extent of the Global Fund’s reforms as crucial to their ability to sustain support, but the global economic doldrums had not gone away and so many were only able (or willing) to provide pledges of level funding. The United States provided a significant increase, which was critical in attracting support from Europe (though the United States has since scaled back because of a legal requirement that its contributions cannot exceed more than one-third of total contributions). Dybul’s arrival also helped restore morale among staff, though the senior management team still struggles with uneven responsibilities, capabilities, and camaraderie.

---

Lessons

While some of the circumstances for these tumultuous changes are unique to the period or to the Global Fund, there are lessons of value to reform discussions for the World Health Organization, notwithstanding the obvious caveat that the WHO is governed by sovereign member states, through an elaborate set of constitutional rules. The Global Fund’s experience in managing its way through crisis and recovery offers five major conclusions.

1. **Strategic Leadership Is Essential:** Many of the tensions that culminated in the crisis of January 2011, sparked by the errant AP article, were longstanding and had been officially ignored even while they were often the subject of hallway discussions and email debate. Senior management should have been in a position to identify many of these challenges and work with the governing board to find peaceful resolutions before they reached crisis level. So, too, the Global Fund Board spent hours wordsmithing various decision points while failing to take on larger, looming concerns about management and finances (indeed, Kazatchkine’s term was extended with a largely positive review from the Board only months before he was effectively pushed out\(^\text{21}\)). It remained unclear who should truly “lead” here, the executive or the Board. Most important is that someone steps up to lead before the crisis hits, and so it often comes down to the individuals involved as much as to institutional rules. The absence of effective leadership capable of swift and strategic action almost brought the Global Fund down, and those that would have suffered the most from that demise, the millions whose lives literally depend on it, would never have known why. The failure of leadership certainly caused pain. Funding flows slowed significantly in this period, with risk aversion taking precedence over sustaining life-saving programs. The cancelation of Round 11 caused huge doubts by partner countries on whether they could rely on the Global Fund to support their programs, inevitably leading some to curtail plans for expanding and accelerating their efforts.

2. **Reform Was Necessary but Not Sufficient:** After all of the positive reactions and warm welcoming to the new five-year strategy, the New Funding Model, governance reforms, and Dybul, the biggest and most important vote of endorsement—through ample funding commitments—did not materialize, a signal of the continuing lack of resolve, trust, and confidence among donors. The last three-year replenishment was touted as a big success, but in reality it wasn’t. Undoubtedly, had the reforms not occurred, and in ways largely supported by the donor Board members, the results would likely have been far worse, but organizations undergoing deep structural reforms should not necessarily expect that this will translate into big funding increases.

3. **External Validation Is Critical:** While the internal reform efforts led by the Comprehensive Reform Working Group were extensive and (mostly) laudable, they failed

to address the crisis in confidence of critical external players. Especially for the donors, this led to the establishment of the High-Level Panel, and subsequently to having little choice but to endorse its recommendations. Most were very good and needed, but the capitulation by the Board (agreeing in advance to release its findings to the public) and its manipulation by the HLP (threatening to complain publicly if its recommendations were not fully adopted) weren’t. So there is tremendous value in bringing in outsiders with gravitas and capacity as their sanction can carry significant weight with constituencies that have otherwise lost confidence even while it’s also important for the internal governance mechanism to own the reform process and its outcomes as ultimately it needs to take back ownership once the dust has settled.

4. **Good Governance Matters:** In the end, despite shortcoming, the Global Fund’s Board stepped up to demand change, agreed to adopt major changes, and implemented them rapidly and effectively. Few institutions of the Global Fund’s size and international responsibility have reformed so much so quickly. The Board’s independent, nonvoting chair, Simon Bland, spent countless hours managing the general manager, negotiating separation agreements with Board-managed positions, assuaging donors, addressing legal threats, and tending to various personalities among the Global Fund’s many constituencies. (Based in Geneva, he was able to commit more time than would have been reasonable to expect, but his constant attention ensured that the Board remained engaged.) Board and committee members led or attended countless meetings of various committees and working groups. Staff stepped forward, resurrecting a sense of mission and seizing on the new funding model as an opportunity to get back to the focus on supporting countries. Governance of the Global Fund is always a bit messy; bringing disparate voices together and reaching agreement together is sometimes painful but it’s also necessary because the Board’s constituencies represent the very same stakeholders needed to make the Global Fund work: the countries, the advocates, the people being served, the donors. Jaramillo and those used to private-sector processes often struggled with sometimes tedious and obtuse Board discussions, it’s critical to see governance not as just about getting a yes/no decision. At least for the Global Fund, formal agreement by its Board is just step one; when Board members go home, they have to translate decisions into actions for the Global Fund to succeed. Perhaps adding some independent Board members and better Board training, standard practice with many governing boards, might help overcome a board’s natural reticence to confront the toughest issues rather than being forced into action by crisis.

5. **Hiring (and Firing) Matters:** The Global Fund’s processes for hiring and reviewing staff have been unstable, inconsistent, and often un-transparent. For the two positions it manages directly, the Global Fund’s Board has had a poor track record: two executive directors have left in less than ideal circumstances, even after ostensibly favorable reviews, and two inspectors general were hired and then dismissed, again in contentious circumstances. Backroom political factors influenced hiring and reviews more than qualifications and performance. Clear, articulated performance metrics and review procedures were lacking. The result was a lot of unnecessary anguish and tension.
Likewise, while revising HR policies is often necessary to build a performance-based institution, the Board didn’t pay enough attention to the impact on staff, especially those it hoped to retain. Because the Global Fund started with all of its staff working under an administrative services agreement with the WHO, when it left it tried to replicate as many of the HR policies as it could in order to retain staff. That left the Global Fund with policies that may have been more restrictive than necessary but that were highly valued by employees. The Board didn’t perhaps fully appreciate the longer-term implications of these changes or those resulting from offering severance options that often attracted the best and brightest out the door, the opposite of what was desired. Had there not been such pressure for urgent action, perhaps the Board could have considered and “sold” to the staff a more affirming policy that identifies and rewards performance while intolerant of mediocrity. For that to happen, an important step for the Global Fund to consider is replacing the International Labor Organization’s “tribunal” appeal mechanism, available to aggrieved staff (and which historically biases toward employees), with a more typical arbitration arrangement that balances employee rights with institutional needs—especially when success is measured in lives saved. The Global Fund is still working on this—the last HR director has left, so we’ll see where Dybul goes with a replacement. For the Board, its next major hiring (in addition to its own leadership) will be when Dybul’s term ends in early 2017. It has improved its recruitment practices immensely (including for two strong inspectors general), so there’s reason for optimism that the next leadership transition will bring in another strong leader.

Change at the Global Fund has been essential and laudatory, but comes with a high price. While the outcomes are largely positive, some of the financial and human pain that it took to get through it all may have been unnecessary. Waiting for crises to generate action always makes it hard to take the time to do things right. Even with all of its laudatory reforms, the Global Fund is not entirely out of the woods. Skepticism of foreign aid remains high. Donors are increasingly difficult to motivate, even when presented with historic opportunities to achieve sustained, substantial impacts on three deadly epidemics. Countries still seem only partly in the game, with coinvestments among many far below what is reasonable, and political commitment needed to increase funding or make needed policy changes all too often missing. The system always seems to want to slip backwards, so yesterday’s reforms still require attention today.

Perhaps the biggest test for the Global Fund will come during its next five-year strategy and three-year replenishment. Will the Global Fund’s Board take bold action? Maybe announce it is going to close in 15 years? Will donors come to the 2016 replenishment with the kind of funding the Global Fund really needs, instead of focusing on restricted access and eligibility? Will countries step up, transitioning away from dependence on the Global Fund to real country-owned programs and strategies? Time will tell. For now, the Global Fund is at least headed in the right direction.

---

right direction, external confidence and trust are rising, and, most importantly, there is continued proof that the Fund is achieving progress in fighting the three diseases.

Acknowledgments

This report is made possible by the generous support of the Bill & Melinda Gates Foundation.

Todd Summers is a senior adviser with the CSIS Global Health Policy Center in Washington, D.C. He previously served with the ONE Campaign, the Bill & Melinda Gates Foundation, and the Clinton administration as deputy director of the White House Office of National AIDS Policy.

The report is produced by the Center for Strategic and International Studies (CSIS), a private, tax-exempt institution focusing on international public policy issues. Its research is nonpartisan and nonproprietary. CSIS does not take specific policy positions. Accordingly, all views, positions, and conclusions expressed in this publication should be understood to be solely those of the author(s).

© 2015 by the Center for Strategic and International Studies. All rights reserved.