

A REPORT OF THE CSIS  
GLOBAL HEALTH POLICY CENTER

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*Authors*

J. Stephen Morrison  
Todd Summers

February 2012



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YEARS

| CHARTING  
OUR FUTURE

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Cover photo: Paolo Pellegrin; Magnum Photos. Mali, 2008—Kassi Keita, 3, had been sick for 18 months before being diagnosed as HIV positive. His mother, Mariam Dembélé, 31, is also being treated for AIDS.

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# RIGHTING THE GLOBAL FUND

*J. Stephen Morrison and Todd Summers<sup>1</sup>*

## 2011: Innocence Lost

Over the course of 2011, the Geneva-based Global Fund to Fight AIDS, Tuberculosis, and Malaria experienced unprecedented adversity. Media accounts and internal reports drew attention to instances of corruption involving grantees: \$34 million of probable fraud in four African countries triggered a suspension of assistance by Germany and two other European donors. External reviews detailed the Fund's deficient managerial practices, weak oversight of investments, and ineffectual board governance. An alarming, \$2-billion-plus financial shortfall, revealed suddenly at year's end, reflected a worsening global economy, overly optimistic forecasting by the Fund secretariat, and flagging donor trust and confidence in the Fund itself. Suddenly, the Fund faced painful existential questions: might it soon actually fail to meet the baseline needs of the millions of people whose lives were dependent on it? Or would it be able to regain its footing and return as a dynamic, expansive funding instrument focused on three of the world's most deadly epidemics?

The travails of 2011 marked a sharp departure from the Fund's heady ascent since launching in 2002. Within a few short years of its creation, the Fund was rapidly given responsibility for managing \$21.7 billion in pledged resources across three diseases in over 140 countries. By 2011, it had disbursed over \$15 billion. In that exciting initial phase, the Fund acquired a reputation as an innovative new financing instrument—country led, demand driven, (sometimes) quick to act, and committed to high levels of transparency.

In 2010, we saw the first ominous signs of a changed trajectory as the international pledging conference held in October 2010 fell significantly short. The Fund sought \$20 billion in pledges over three years (2011–2013) to maintain its trajectory of expansion, while indicating a minimum of \$13 billion was needed just to sustain existing commitments. Surprisingly, only \$11.5 billion was ultimately pledged. In 2011, even more dramatic challenges brought the Fund back to earth.

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<sup>1</sup> J. Stephen Morrison is senior vice president and director of the Global Health Policy Center at the Center for Strategic and International Studies in Washington, DC. Todd Summers is an independent consultant on global health and currently serves as chair of the Strategy, Investment, and Impact Committee of the Global Fund Board of Directors.

Paradoxically, the Fund's crisis arrived at a moment of heightened optimism in which the opportunities for progress are as high as the stakes. In his December 1, 2011, World AIDS Day speech, President Barack Obama spoke about "the real possibility of an AIDS-free generation" and committed the United States to achieving "a new target of helping 6 million people get treatment by the end of 2013," a big step up from the previous goal of 4 million.<sup>2</sup> This declaration builds on significant progress in expanding treatment, care, and prevention in poor countries living with a high burden of HIV/AIDS and exciting new scientific evidence that validates what some have been arguing for years: treating people living with HIV can substantially reduce their risk of passing the virus on to others.

For the first time since HIV was identified 30 years ago, scientists are willing to speak of an end in sight. Dr. Anthony Fauci, longtime leader of AIDS research at the National Institutes of Health, said in a recent interview: "We now have within our armamentarium the tools that, if implemented and adhered to properly, can turn around the dynamics of the global HIV pandemic."<sup>3</sup>

There is similar hope for malaria and tuberculosis (TB). The World Health Organization (WHO) reports that malaria mortality rates have fallen by more than 25 percent globally and by 33 percent in the WHO Africa Region since 2000. Similarly, WHO estimates that TB deaths have declined 40 percent over the past two decades. Much of this progress can be credibly attributed to the Fund, which accounts for more than two-thirds of donor assistance for malaria and tuberculosis and about one-quarter for HIV/AIDS.

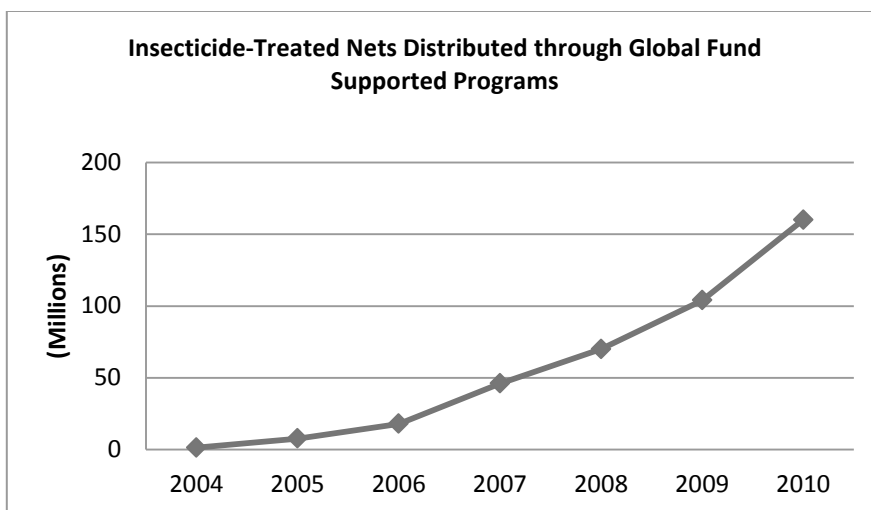
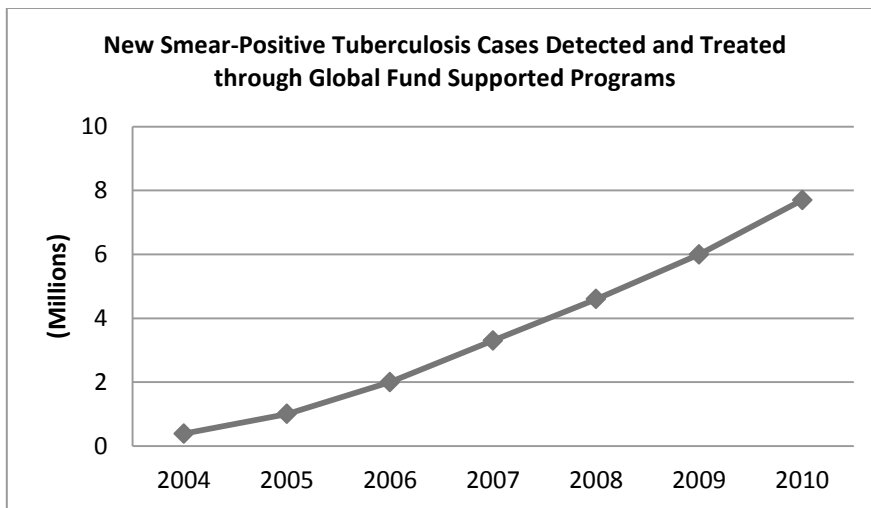
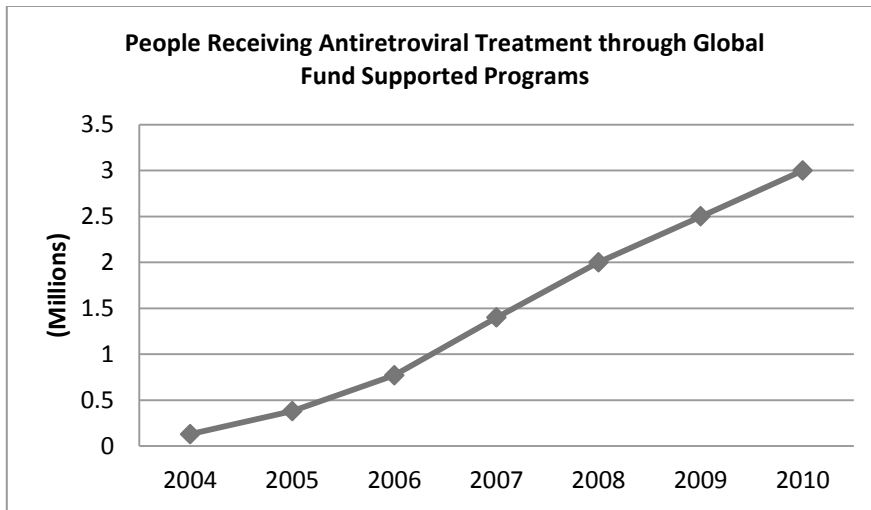
Late January 2012 witnessed a dramatic sequence of developments intended to reset the picture surrounding the Fund, restabilize its financing, and begin the process of restoring confidence and trust both among donors and the countries implementing programs with Fund support.

The January 24 resignation of Executive Director Michel Kazatchkine, effective mid-March, was followed immediately by the announcement that Colombian businessman Gabriel Jaramillo would join the Fund as an interim general manager for the next year. A new, permanent executive will likely come on board in early 2013. These two actions were immediately followed by the Bill & Melinda Gates Foundation announcing a \$750-million long-term promissory note to the Fund, citing continued confidence. At the same time, the Japanese government renewed its three-year commitment of \$800 million to the Fund, suspended following the March 11, 2011, earthquake, tsunami, and nuclear reactor disasters, and the Saudi government pledged an additional \$25 million. In the FY 2013 budget released on February 13, 2012, the Obama administration

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<sup>2</sup> Barack Obama, "Remarks by the President on World AIDS Day," The White House, December 1, 2011, <http://www.whitehouse.gov/photos-and-video/video/2011/12/01/president-obama-world-aids-day#transcript>.

<sup>3</sup> TREAT Asia, "Anthony Fauci, M.D.—New Momentum for AIDS Research," October 2011, [http://wheresthecure.amfar.org/Articles/Around\\_The\\_World/TreatAsia/2011/The\\_TREAT\\_Asia\\_Report\\_In\\_terview\\_\\_Anthony\\_Fauci,\\_M\\_D\\_-\\_New\\_Momentum\\_for\\_AIDS\\_Research/](http://wheresthecure.amfar.org/Articles/Around_The_World/TreatAsia/2011/The_TREAT_Asia_Report_In_terview__Anthony_Fauci,_M_D_-_New_Momentum_for_AIDS_Research/).



Source: The Global Fund, *Making a Difference: Global Fund Results Report 2011* (Geneva: The Global Fund, 2011), pp. 12–13.

announced it will increase its support to the Fund in the current 2012 fiscal year from just over \$1 billion to \$1.3 billion through a transfer of \$300 million from the U.S. bilateral programs under the President's Emergency Plan for AIDS Relief (PEPFAR). It further requested \$1.65 billion for FY 2013, which begins October 1, 2012.<sup>4</sup>

## Climbing Back

With the 2011 pressures mounting, the Fund's leadership embraced several fundamental reforms in 2011. These create a fragile but promising foundation for recovery in 2012 and beyond.

At its November 2011 meeting in Accra, Ghana, the Global Fund Board of Directors held lengthy, fractious debates over the Fund's future. The board ultimately approved a sweeping plan for reform, building on policies developed over the course of 2011 through an internal Comprehensive Reform Working Group and an external High-Level Independent Review Panel. In the short term, the Fund will adopt a new model for risk management, with a special focus on tightened oversight of procurement and supply chains: these account for 40 percent of the Fund's disbursements and are particularly vulnerable to fraud and diversion. It also agreed to bring in an interim general manager, responding to longstanding concerns over internal management.

In addition, in one of the few harmonious sessions of the Accra meeting, the Fund adopted a new five-year strategy<sup>5</sup>—implementing a much more proactive approach to the vetting, management, and oversight of grants; embracing more aggressive use of technical data; and working more systematically to enhance sustainability by promoting more political and financial support by countries seeking Fund support. In this new model, the Fund's portfolio managers will be empowered to play a more assertive role both with implementing countries and with the partners whose technical support is essential. The Fund is to concentrate on improving the performance of Fund investments in core “high-impact” countries where the burden of HIV, tuberculosis, and malaria—and Fund commitments—are highest.

By the end of the Accra meeting, the mood had darkened. In an unprecedented move, the board's final decision of the meeting was to cancel a funding round for new grants originally planned for 2012, in view of financial projections showing a potential \$600 million cash deficit. The board instead created a stop-gap bridging mechanism available only to sustain existing grants and avoid interruptions in vital ongoing health services.

The same decision also eliminated eligibility to Fund resources for a number of G-20 countries—most notably China, which now has to forgo as much as \$750 million in previously approved assistance. That decision followed months of mounting controversy in Washington and other

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<sup>4</sup> Office of Management and Budget, “Fiscal Year 2013 Budget of the U.S. Government,” February 2012, <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/budget.pdf>.

<sup>5</sup> The Global Fund, *The Global Fund Strategy 2012-2016: Investing for Impact* (Geneva: The Global Fund, November 2011), “Attachment 3—Background Information on the Goals and Targets for the Global Fund Strategy 2012–2016,” <http://www.theglobalfund.org/en/about/strategy/>.



donor capitals over the wisdom of committing Fund resources to large-economy countries at the high end of middle-income status. Thankfully, Chinese leaders quickly announced that they would continue Fund-supported programs. It is not yet clear whether other countries that also saw an end to Fund eligibility—including Mexico and Indonesia—have the same ability or willingness to replace Fund resources.

With no funding for new grants foreseen until early 2014, some advocates argue for an emergency pledging conference prior to the international AIDS conference scheduled for July 2012 in Washington, D.C. Others counsel patience and realism, arguing that before making another major new ask of donors, the Fund should give priority to generating substantial concrete proof that reforms are taking hold and the Fund's operations have restabilized, and prepare for the moment in early 2013 when a new permanent executive and senior management team will be in place. A third option is to use ad hoc opportunities over the course of 2012 for donors to recommit to the Fund or announce increases, linked to incremental tangible improvements.

In the present era of austerity, these fundamental changes are vital to restabilize the Fund's management and practices and to rebuild confidence and trust among donors, whose foreign assistance budgets remain under heightened scrutiny and stress, and among implementing countries, who have grown weary of increasing bureaucracy and unpredictability of financing. Regrettably, the noise and confusion surrounding the Fund in late 2011 obscured its new strategy and the significant health impacts achieved already through \$15 billion of Fund investments. Moreover, at least \$8 billion has been secured for funding renewals scheduled over the next three years, prompting Fund board chair Simon Bland to argue that "...rumors of the Global Fund to Fight AIDS, Tuberculosis and Malaria's demise are greatly exaggerated."

As the Fund's ambitious new reform agenda comes into force in 2012 and beyond, its successes and enduring strengths should become more visible. The environment for debate should improve over how to mobilize additional reliable resources to meet expanding needs and sustain the Fund's dynamism.

## Moving Forward

Aside from the major challenge of ensuring adequate funding from donors, there are five critical areas where the Global Fund will need to concentrate its repair efforts this year.

### Grant Oversight

The Fund was originally designed to be a simple financing instrument, with its Geneva-based staff forwarding donor contributions to countries to help finance technically sound projects. The United States and other donors—especially those with bilateral in-country capacity to manage foreign assistance—strongly preferred that the Fund avoid providing technical support or otherwise actively support the development of funding proposals; thus the Fund took a more passive role, with Fund staff all consigned to its Geneva headquarters.

At the country level, the Fund relies on country coordinating mechanisms (CCMs) to develop proposals and oversee implementation. However, as unincorporated committees composed of governmental and nongovernmental implementers and advocates, technical experts, donors, and representatives of affected communities, they struggle to meet expectations. Independent monitoring of grant implementation, including financial management, is done by local fund agents (LFAs), usually national affiliates of international accountancies contracted by the Fund to be its “eyes and ears” on the ground.

While this approach allowed for rapid progress in getting resources out to countries, broadening participation, and scaling up programs, it also left the Fund structurally vulnerable to corruption. In countries with the greatest challenges, CCMs have been captive of powerful interests and are poorly equipped to fulfill their oversight responsibilities. These same countries have weak LFAs that have missed ineligible or undocumented use of funds, or worse, direct fraud that, when brought to light, have harmed the Fund’s reputation.

In retrospect, it has become clear that more should have been done earlier, especially in countries where Fund grantees (called principal recipients) are weak or vulnerable to corruption. Beginning in 2003, the U.S. Government Accountability Office (GAO) issued testimony and reports highlighting weaknesses in grant oversight.<sup>6</sup> A follow-up 2007 GAO report identified serious concerns in LFAs’ monitoring and reporting work and their oversight by the Fund secretariat.<sup>7</sup> In 2010 and 2011, the Fund’s Office of Inspector General (OIG) brought grant oversight weaknesses to light through its independent reviews, audits, and investigations of Fund grants and operations, all of which were made public, reflecting the Fund’s longstanding commitment to transparency (as well as being required by U.S. law as a condition of funding).

A January 2011 Associated Press article,<sup>8</sup> citing OIG findings of misappropriation of Fund grant proceeds in four African countries, ignited considerable international press attention, which in turn triggered decisions by several donor governments to review and, in several important cases, suspend their contributions, in the face of mounting pressures from their own national legislatures, media, and opinion leaders. The sudden and dramatic reaction by previously stalwart donors to a flurry of negative press coverage was yet another sign that the Fund had fallen from grace.

Fortunately, the United States did not panic or overreact, though it did come under increased pressure from lawmakers to take deliberate action. The Obama administration became very active

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<sup>6</sup> U.S. Government Accountability Office (GAO), “Global Fund to Fight AIDS, TB and Malaria Has Advanced in Key Areas, but Difficult Challenges Remain,” Report to the Honorable Jim Kolbe Chairman, Subcommittee on Foreign Operations, Export Financing, and Related Programs, Committee on Appropriations, House of Representatives, May 2003, <http://www.gao.gov/assets/240/238179.pdf>.

<sup>7</sup> GAO, “Global Fund to Fight AIDS, TB and Malaria Has Improved Its Documentation of Funding Decisions but Needs Standardized Oversight Expectations and Assessments,” Report to Congressional Committees, May 2007, <http://www.gao.gov/new.items/d07627.pdf>.

<sup>8</sup> John Heilprin, “Fraud Plagues Global Health Fund,” Associated Press, January 23, 2011.

in establishing and leading an internal Comprehensive Reform Working Group, populated by board representatives. Shortly thereafter, the United States aggressively backed establishment of an external High-Level Independent Review Panel on Fiduciary Controls and Oversight Mechanism, cochaired by former U.S. health and human services secretary Michael Leavitt and former Botswana president Festus Mogae.

The Reform Working Group and the High-Level Panel each spent considerable time in 2011 analyzing the Fund and developing concrete recommendations for board consideration. The Reform Working Group presented its report at a May 2011 board meeting, and the High-Level Panel delivered its findings in September. Demonstrating a commitment to reform, the board adopted each group's recommendations virtually in their entirety and instructed the Fund secretariat to combine them into a Consolidated Transformation Plan, which was subsequently tabled and approved at the tumultuous December board meeting in Accra.

Under these reforms, grant oversight will be overhauled, primarily through the secretariat developing a risk-management model that estimates and tracks closely those countries most vulnerable to diversion and abuse, especially in procurement and supply chains. Portfolio managers in Geneva are to spend more time in countries and be more authoritative in exercising their expanded monitoring responsibilities; contracts with LFAs are being expanded to allow for far more aggressive oversight, especially to detect fraud and misuse; and the United States and other donor countries with on-the-ground capacities will be expected to lend a stronger, more consistent hand in supporting implementation and evaluating progress.

Putting the Consolidated Transformation Plan into action and demonstrating concrete proof of effective implementation are urgent and complicated imperatives. The Fund is attempting to rebalance fundamentally its approach: to do a better job of reducing and managing risk, while at the same time preserving its innovative identity, resisting bureaucratization, and most importantly, maintaining its capacity to deliver a rapid, continuous flow of resources to benefit individuals and communities in poor countries where HIV, TB, and malaria are grave challenges.

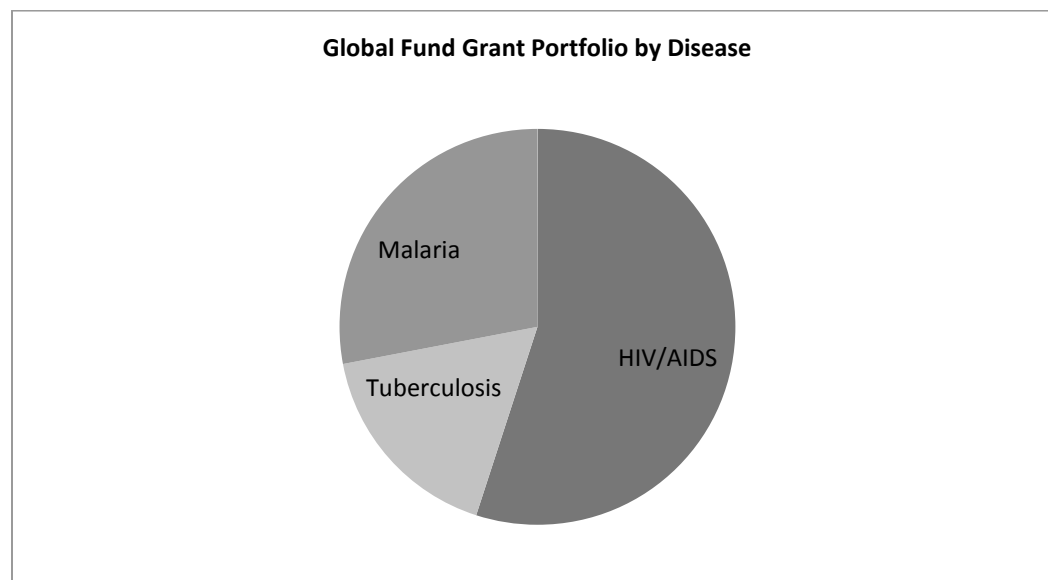
As the High-Level Panel noted in its September 2011 report, “unlike banks or other financial institutions, the Global Fund cannot avoid risks by simply denying funding; lives are at risk, and the very purpose of the organization is to save them. Because the Global Fund works in environments that are inherently risky, the challenge for the institution then is not to avoid risks, but how to develop appropriate mitigation strategies to identify, assess and manage them.”<sup>9</sup> In the course of 2012 and beyond, the Fund's board will be called on to more clearly define acceptable levels of risk and better formulate how the secretariat is to calibrate its oversight commensurate with the threat of misuse of funds as well as of interruptions to life-sustaining programs.

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<sup>9</sup> The Global Fund, *Turning the Page from Emergency to Sustainability: The Final Report of the High-Level Independent Review Panel on Fiduciary Controls and Oversight Mechanisms* (Geneva: The Global Fund, September 2011), <http://www.theglobalfund.org/en/highlevelpanel/report/>.

## Management

Day-to-day operations of the Fund are the responsibility of the nearly 650 staff members who form the secretariat in Geneva. Up until now, they were divided into five clusters, each with a director who reports to the executive director and his or her deputy. Together, these directors comprised the Executive Management Team (EMT), charged with managing an operational budget of \$360 million (for 2012) and annual grant disbursements that have reached about \$3 billion.



Source: The Global Fund, *The Global Fund Annual Report 2010* (Geneva: The Global Fund, May 2011), p. 71, <http://www.theglobalfund.org/en/library/publications/annualreports/>.

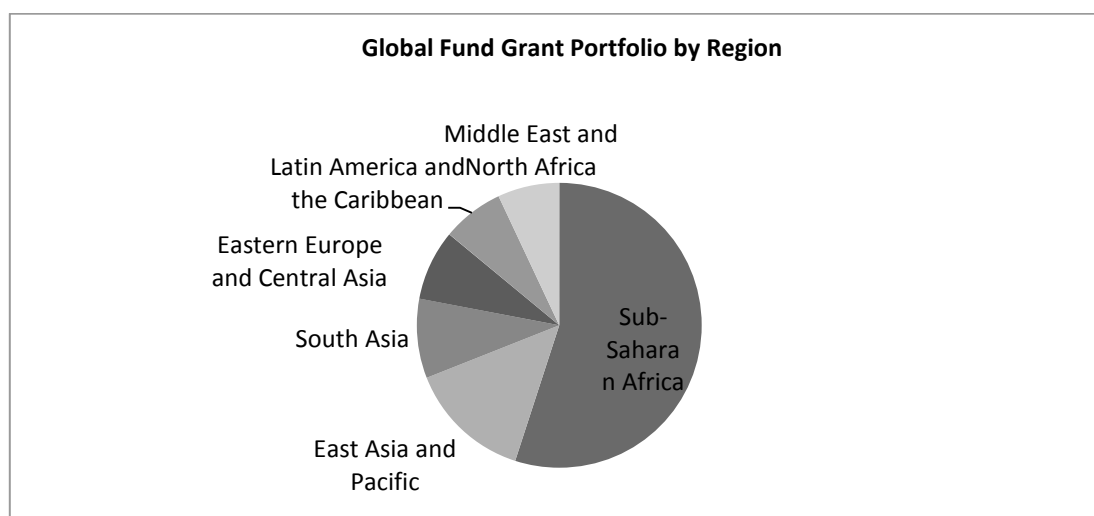
In its start-up years, the secretariat did an impressive job of building the Fund from the ground up. In more recent years, there have been increasing signs of weak management, flagging morale, disarray among line staff, serious risk aversion, and critical personnel gaps. An external review commissioned in 2011 by the Fund's secretariat reported tensions and misunderstandings across clusters, deep concerns over how staff and budget are allocated, discontent over inadequate skills and competencies of senior staff, and fragmentation of key functions, especially policy and strategy.

This review, along with other internal and external analyses, were provided to the Fund board at its December meeting in Accra and helped inform several hours of off-the-record executive sessions. Much of what was discussed remains under seal, but it was announced after the meeting that the board had agreed "to appoint a General Manager to work alongside the Executive Director," with the expectation that a more extensive managerial overhaul would follow in 2012.

On January 24, 2012, executive director Michel Kazatchkine, a French physician widely respected for his groundbreaking work in the early days of HIV/AIDS, announced he would leave the

organization by March 16. That same day it was announced that Gabriel Jaramillo would serve for the next year as general manager, effective February 1.

In his first days, Jaramillo signaled his intent to restructure the secretariat, placing an increasing emphasis on grant management, board and donor relations, and accelerated implementation of the new strategy. A major challenge will be rebuilding depleted senior management ranks. He is expected to institute more rigorous corporate decisionmaking, shift the Fund farther away from its roots as a UN-affiliated body, and better exploit legal authorities available to it as a private Swiss foundation. In aggregate, these changes are intended to create a much improved management platform for the next permanent chief executive.



Source: The Global Fund, *The Global Fund Annual Report 2010*, p. 71.

## Governance

The Fund's board is composed of 20 voting and 6 nonvoting members (including the executive director), with donors accounting for half of the voting members. The United States, France, and Japan hold their own board seats, while other donors share. Implementing countries, organized along WHO regional lines, as well as representatives of affected communities and nongovernmental organizations, account for the other half of voting members. A formal recorded vote must receive a supermajority from both halves in order to pass, although most decisions are made by consensus. There are several specialized board committees, working groups, and advisory boards, each of which has its own leadership approved by the board.

The board's structure is designed to be highly inclusive so as to broaden its legitimacy and support consensus decisionmaking. Structurally, however, this design can inhibit the board's ability to reach strategic decisions in a timely fashion, especially those relating to eligibility or prioritization of funding. It has also made it difficult for the board to prioritize allocating resources to countries and populations with the most acute and demonstrable needs. As the High-Level Panel reported, "...while the membership arrangements ensure all partners ostensibly have an equal say, they are

often not conducive to the timely and focused debate of strategic issues, nor to swift, professionally informed decision-making.”

Since the Fund’s inception, the board has undertaken to assess and strengthen its own performance. Each successive board chair has made a mark. Former U.S. secretary of health and human services Tommy Thompson introduced useful operating rules for meetings, affectionately referred to as “Tommy’s Rules of Order.” Dr. Carol Jacobs, chair of the National HIV/AIDS Commission in Barbados, emphasized the need for the board to engage in periodic introspection and systematic learning. And Ethiopian health minister Tedros Ghebreyesus increased board discussion on the impact and performance of Fund investments beyond the three diseases, especially critical gaps in maternal and child health.

The current board chair, Simon Bland, of the UK Department for International Development (DfID), and vice chair Mphu Ramatlapeng, who serves as minister of health and social welfare in Lesotho, have spurred a more formalized governance reform effort. Significantly, they created in late 2011 three committees intended to have greater authority in driving decisions and empowered to enlist outside experts. These are Strategy, Investment, and Impact; Finance and Operations; and Audit and Ethics (which includes four independent members and an independent chair).

This past year, Bland and Ramatlapeng have had to manage the worsening crisis surrounding the Fund, expedite decisions on the Consolidated Transformation Plan and new strategy at the November board meeting in Accra, respond to the resignation of Kazatchkine, and oversee the recruitment of Jaramillo. In this difficult phase, board leadership has been exemplary, and the board has stuck to some tough decisions even while becoming more overtly polarized and political.

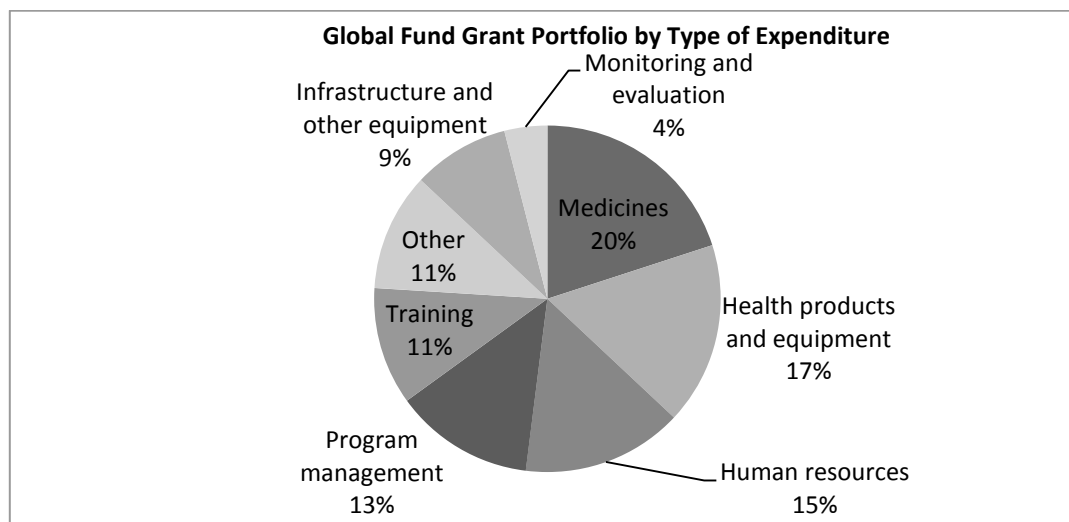
Much remains to be done to strengthen the quality and authority of the board’s participation and preserve its delicate cohesion. Ten years and 25 meetings later, many original board members have resigned. While routine turnover can help renew the board’s energy, the loss of institutional memory and the erosion of the Fund’s founding esprit de corps are serious concerns that hopefully will be addressed in the ongoing governance reform work led by Bland and Ramatlapeng. It has been a struggle to guarantee consistent high-level board participation by representatives with considerable policy authority, strategic vision, and gravitas. Bringing the board back together and focusing its energies on critical reforms will be essential to rebuild trust, camaraderie, and enthusiasm.

## **Program Inefficiencies**

While reform discussions have centered on misuse of grant funds, including spending outside agreed budget items, lack of documentation, and at times outright theft of money or commodities, there has also been much interest in the Fund getting better “value for money” for its grants, both by purchasing commodities and services at more competitive rates and by ensuring that the interventions it supports are optimally targeted.

Understanding and improving the Fund’s purchasing efficiency has been a long-term effort and an important one since almost 40 percent of committed funds go to purchase life-saving

pharmaceuticals, diagnostics, bed nets, and other health commodities. While the Fund’s total buying power is large, it is diffused into many different grants spread across the globe.



Source: The Global Fund, *The Global Fund Annual Report 2010*, p. 71.

In its first five-year strategy, the board agreed to increase its impact on “market dynamics” and to that end set up a Market Dynamics Committee, which documented that Fund grantees were often paying wildly different prices for the same product. In response, the committee created a targeted initiative on antiretroviral drugs to treat AIDS that was adopted by the board in May 2011. Under the recently approved governance changes, a new Market Dynamics Advisory Group is to be established, charged with bringing in more outside expertise and overseeing implementation of the market-shaping strategy. The United States can build on existing close coordination between that committee and PEPFAR’s pooled procurement Supply Chain Management System, as well as the President’s Malaria Initiative’s procurement mechanism, in order to help the Fund get maximum value on the health products and services it finances.

The Fund is also being called on to work with the United States and other partners with in-country technical and operational capacity to ensure that resources are targeted to effective interventions that fit each country’s unique epidemiology and are delivered to those most at risk at the time needed. Just as it is important to ensure that high-quality and long-lasting insecticide-treated bed nets are purchased at competitive prices, so too it is essential to ensure they reach children before—not after—the rainy season. Increasing efficiency is not just about procurement; it is also about spending wisely to maximize the health impact of the funding deployed.

The Fund’s new five-year strategy details the steps needed to “invest for impact.” This will require executive leadership, management focus, as well as a stronger technical and analytic approach to ensure grant funds go toward truly well-targeted strategies that deploy the most effective interventions in the right combination to fit each country’s unique epidemiology.

Since many of the highest-need countries where the Fund is financing programs are also served by its bilateral programs on HIV and malaria, the United States is in a strong position to help. The challenge is to better join arms with the Fund to ensure—even insist—that precious resources go to programs that deploy the right tools at the right price, to the right people, and at the right time, and that the governments of these countries step up their financial and political support to ensure the programs are successful and sustained.

## **Financial Forecasting and Donor Reliability**

First and foremost, the Fund is a financing vehicle that enhances and saves the lives of poor, underserved populations; as such, it remains vitally dependent on donor contributions. Up through 2009, the Fund received substantial and mounting donor support. Now, however, the Fund is operating in an era of austerity, with U.S., European, and Japanese budgets—the source of most Fund financing—under tremendous downward pressure. The Gates announcement of a \$750 million promissory note, the Japanese government’s renewed commitment to fulfill its earlier commitments, and the Obama administration’s February budget announcements are each promising recent steps. Nonetheless, much hard work remains to restore even modest budgetary growth in the coming years. Amid this climate of scarcity and uncertainty, the Fund faces tough decisions in apportioning limited and perhaps even shrinking resources to address needs that continue to expand. Even as it makes the case for more, the Fund must figure out how to manage with less.

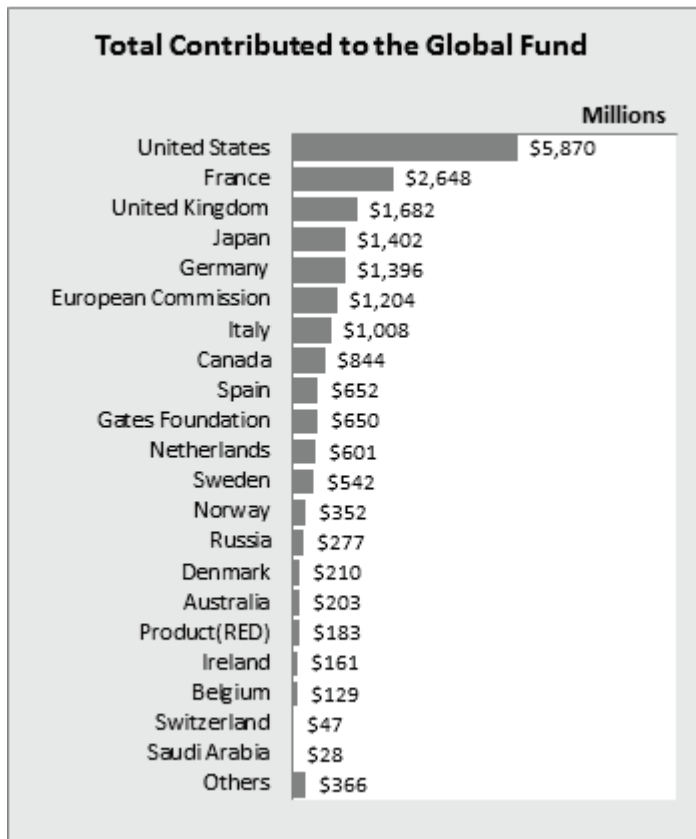
The Fund’s board and secretariat were slow to digest this new reality and anticipate the consequences. At its November 2011 meeting in Accra, many on the board were stunned to receive a dramatically different financial forecast than had been given just a few months back when it had agreed to launch funding round 11. Rather than \$1.5 billion of uncommitted assets available for new grants, a new “risk-adjusted” forecast indicated a potential negative \$600 million.

These adjustments included losses from currency fluctuations, increases in operating costs, decreases in investment revenue, and most importantly, a more sober expectation of what donors would be likely not just to promise but actually to deliver.

In that regard, upholding the U.S. pledge of \$4 billion over 2012–2014 will be a challenge, although the Obama administration remains on track. For 2012, the Fund received level funding of \$1.05 billion from the Congress—a notable outcome considering that \$300 million from the budget of the Department of Health and Human Services was eliminated late in the process and had to be restored through reductions in other foreign aid accounts. In its just released budget, the administration requests \$1.65 billion for fiscal year 2013 and intends to transfer \$300 million in FY 2012 money to the Fund from the PEPFAR account to bring its current contribution to \$1.3 billion.

This was both a strong statement of administration support for the Fund and a source of controversy: while responding favorably to the increase to the Fund, advocates jumped on significant reductions in PEPFAR and other global health accounts that, even with the Fund





Source: The Global Fund, "Donor Governments,"  
<http://www.theglobalfund.org/en/donors/>.

increase, show a net decline of over \$300 million. Republican congressional supporters of PEPFAR also cried foul, leading Ambassador Eric Goosby, U.S. global AIDS coordinator, to argue in a State Department blog post that the cuts will not endanger PEPFAR's ability to meet or exceed the targets recently boosted by President Obama. Instead, he asserts that cost reductions, other efficiencies, increased funding from affected countries, and better focus will offset the funding reductions. This debate will continue over how the United States is to best allocate its increasingly scarce resources between direct investments and investments in the Fund. In his blog, Goosby noted the de facto increasing marriage between U.S. bilateral investments and the Fund: "Our Global Fund investment is critical to the ability of our bilateral PEPFAR program to reach its goals. These two U.S.-supported efforts on global AIDS are now truly interdependent and collaborative."<sup>10</sup>

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<sup>10</sup> Eric Goosby, "President's Budget Request Reflects Strong Commitment on Global AIDS," *DipNote*, February 13, 2012, <http://blogs.state.gov/index.php?/mobile/display/4720>.

Most European donors face similar if not worse budget and political pressures. France, the Fund's second-largest donor and a stalwart ally, has come under increasing internal pressure to channel more international aid money bilaterally and to a narrower band of Francophone countries. Germany, facing similar pressure to fund aid programs bilaterally, experienced confrontations within its coalition government that delayed contributions to the Fund, though funding was fully resumed in November 2011.

The United Kingdom remains a strong supporter of the Fund; despite withering domestic criticism, Prime Minister David Cameron has maintained his commitment to fulfilling global health and development promises. There have, however, been protracted delays in firming up the UK pledge for 2011–2013. There may be a significant increase in 2012: an exhaustive 2011 internal review of many international aid programs supported by the United Kingdom gave high marks to the Fund's performance.

## U.S. Policy in 2012

No donor has engaged more intently with the Global Fund than its largest single donor, the United States. Since the Fund's launch, the United States has committed over \$7 billion to the Fund, fully a third of its total resources. And across the Bush and Obama administrations, U.S. policy has consistently emphasized that the Fund remains a vital funding instrument for saving and enhancing lives and that its success is linked to overall U.S. goals for global health. The Bush team typically acquiesced to increased funding by Congress, whereas the Obama administration has more actively promoted increases to the Fund.

In 2011, U.S. officials led reform efforts in Geneva and worked assiduously in Washington, D.C., to sustain bipartisan congressional support for funding. Ambassador Goosby has been at the forefront of this campaign. A guiding premise has been that the United States and others cannot afford for the Fund to fail.

Goosby both directs PEPFAR and represents the United States on the Fund's board. He and his team have advanced "tough love" in Geneva, insisting that the Fund fix key areas of weakness. At the same time, he and colleagues have aggressively defended the Fund's impressive achievements to State Department and White House officials, as well as to both chambers of the U.S. Congress. They have argued that the Fund's success is tied inextricably to that of PEPFAR and to fulfilling the president's recent commitment to increase from 4 million to 6 million the number of persons getting life-sustaining medication from U.S.-financed programs.

Similarly, they have demonstrated that the Fund is integral to ensuring continued progress in controlling malaria and TB in poor countries where the United States has also made substantial bilateral investments.

# How the United States Can Help

In 2012, there are five priorities that should guide the U.S. government's approach to the Fund.

## Fund Management

The United States should ensure that General Manager Jaramillo has full authority to carry forward reforms in 2012 and put in place a strong new senior management team that can work in a more effective structure and be ready to support the next executive director. This will be crucial to rebuild international trust and confidence, ensure that the Fund's portfolio managers remain in place in sufficient number and quality, and accelerate implementation of the Fund's new risk- and grant-management strategies.

Finding the right person to replace Kazatchkine as the next executive director is a critical challenge. Board debate on the ideal characteristics and selection process will begin shortly, and it will be important that the United States ensures that an open, transparent process that leads to a well-qualified candidate to take the Fund through its next phase.

## Operational Integration

Coordination among Fund-supported programs, bilateral U.S. operations, and UN technical partners heavily financed by the United States need strengthening. The oversight, performance, and technical quality of Fund-supported programs will all improve if there is far stronger technical support from UNICEF, UNDP, UNAIDS and WHO, and if U.S. local knowledge and capacity are leveraged more systematically to inform procurement, supply chain, and other critical choices that will bring about the most cost-effective and transparent investments. This must all be done by strengthening local capacity to manage and finance these programs, the only pathway toward long-term sustainability.

The United States has a strong field presence and technical and managerial capacities in all of the countries where the Fund has its greatest investments and where the burden of HIV, TB, and malaria is most concentrated. Systematic operational integration between the United States and the Fund can significantly compensate for the Fund's inherent limitations on the ground.

## Diplomacy

High-level U.S. diplomacy with other donors will be essential to reaffirm the Fund's global significance and to create a durable international consensus, with a special focus on relations with France, on supporting the interim general manager, and on implementing the new strategy.

Other key diplomatic goals should include rebuilding traditional G-8 donor support to meet existing and future financial pledges; enlisting greater investments and political ownership by recipient countries in Fund-supported projects; and broadening international knowledge and support of the Fund, including among emerging powers.

The United States has promising opportunities to press on each of these in 2012, including the May G-8 Summit in Chicago; the June G-20 Summit in Mexico; and the July global AIDS conference in Washington.

The United States should use its good offices to encourage consistent high-level participation across the Fund board's membership, as a means of strengthening the board's strategic approach.

## **Congress**

The administration should deliver two consistent messages to Congress: first, it is in the U.S. national interest to live up to the U.S. commitment of \$4 billion over three years, which will be a beacon that guides other donors; and second, to achieve that end it is critical to safeguard bipartisan support of the Fund, which has been an essential feature of U.S. leadership since 2002.

At the end of 2011, congressional appropriators from both sides of the aisle stood by annual U.S. contributions of just over \$1 billion. Continued White House engagement with Capitol Hill will be needed to maintain enthusiasm, make the case that the reform agenda is advancing effectively and visibly in 2012, and reach the U.S. appropriations needed to fulfill the \$4-billion pledge.

## **Integration of Science, Data, and Innovation**

Finally, as the global leader in supporting research and innovation across HIV/AIDS, TB, and malaria, the United States should link advances in drugs, diagnostics, vaccines, and interventions more closely to the work of the Fund, especially to expedite the introduction of new technologies at the community level. The United States can also step up its support for operational research that will help determine how to prevent and treat the three diseases with the most effective, efficient, and sustainable interventions—and then to ensure that the results of this research are quickly reflected in program design. Too often, proven interventions wait years before being put to use at scale, and those delays cost lives and money.

## **A Tough Road Ahead**

Even under the best of scenarios, 2012 will be a tough year for the Global Fund. In the midst of a protracted global recession, the euro zone crisis, and continued U.S. debt and deficit debates, donor budgets will remain tight and uncertain. External scrutiny of the Fund will remain intense, and any additional managerial snafus, reports of diversions, or funding shortfalls could be crippling.

Internally, the organization will have a strong interim general manager who can be expected to make significant changes in the organization and start repairing a broken senior management team, even while pressing forward with a comprehensive reform agenda and a new strategy that will require fundamental changes in its work with countries and partners. Many of these fundamental reforms will take longer than a year to be fully realized.

These formidable challenges notwithstanding, a clear path forward exists, and it promises a much stronger organization with greater capacity to enhance and save lives. If successful, the Fund

leadership should be able to show the benefits of an intensified focus on performance in those 8 to 10 countries where there are the greatest needs and the heaviest Fund investments. The challenge for the United States and other Fund champions around the world will be to support the reforms, energize the new strategy, and rekindle the spirit and hope that brought the Fund to life a decade ago. Righting the Fund is essential and possible, if there is sufficient political will, patience, and realism. Its mission remains vital, and for that reason, there is no option but to make it succeed.







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