

GLOBAL FUND OBSERVER (GFO), an independent newsletter about the Global Fund provided by Aidspan to over 8,000 subscribers in 170 countries.

Issue 158: 20 September 2011. (For formatted web, Word and PDF versions of this and other issues, see www.aidspan.org/gfo.)

+++++

CONTENTS

+++++

Editor's Note: This is the longest issue of GFO that we have ever published. Almost the entire issue is devoted to summarising a remarkable 149-page report on the Global Fund that has just been released by a High Level Panel. Article 1 summarises the recommendations; Article 2 summarises the panel's underlying opinions. Articles 3, 4 and 5 provide extensive excerpts from the report. Article 6 is on a different topic.

[1. NEWS: High Level Panel Releases Report Recommending Major Changes to the Global Fund](#)

A High Level Panel led by former President Mogae of Botswana and former US Secretary of Health and Human Services Michael Leavitt has recommended in its report, released yesterday, that the Global Fund make some major changes in its structure and working methods.

[2. NEWS: High Level Panel Expresses Strong Opinions On Many Global Fund Issues](#)

The High Level Panel wrote a report that is full of strong, clear and blunt opinions. Some highlights are provided.

[3. EXCERPTS: Excerpts From the High Level Panel's Introductory Overview on "The Global Fund in the New Economic Reality"](#)

Excerpts are provided from the introductory overview of the Panel's report.

[4. EXCERPTS: Selections From the High Level Panel's Detailed Comments](#)

Excerpts are provided from the Panel's detailed comments.

[5. EXCERPTS: Excerpts From the High Level Panel's Recommendations](#)

Excerpts are provided from the Panel's recommendations.

[6. REVIEW: Aidspan Reviews an Academic Study on the Effect of Investment in Malaria Control on Child Mortality](#)

A new publication from Aidspan reviews a published academic study on the impact of Global Fund grants for malaria prevention. The study indicates that the cost per child life saved through using bednets and conducting indoor residual spraying is much higher in countries suffering from a low malaria burden than in high-burden countries.

+++++

1. NEWS: High Level Panel Releases Report Recommending Major Changes to the Global Fund

A High Level Panel led by former President Mogae of Botswana and former US Secretary of Health and Human Services Michael Leavitt has recommended in its report, released yesterday, that the Global Fund make some major changes in its structure and working methods. The Panel was established six months ago by the Board of the Global Fund after widespread media publicity about corruption among some grant implementers.

The Panel was given a broad remit to look into the Global Fund's problems and what should be done about them. Much is riding on the report; several donors have delayed making, or implementing, their funding commitments for 2011 and later until they see how the Panel reports and how the Fund responds.

"The panel's report provides a great opportunity to sharpen the focus of the Global Fund and make it fit for the future," said Simon Bland, Chair of the Global Fund's Board. "We commissioned the panel to give us an honest, hard look at the institution from the outside, and that is exactly what we have got." Bland added that the Fund is "totally committed" to making necessary changes.

Among the changes recommended by the Panel are:

- (a) **Board to specify maximum available funding for each type of country.** Before proposals are submitted, the Board should each year determine, based on a "risk-stratification matrix," how much funding it wishes to allocate to each country grouping (based on factors like risk, capacity, burden and funding available from other sources) and/or each programme category and/or each type of intervention. This determination by the board would lead, in effect, to a maximum possible value for each proposal from each country; but that maximum could vary widely from one country to another. (For further details, see Article 5, Recommendations 2 and 4, below.)
- (b) **Two-stage grant application process.** The Global Fund should introduce a two-stage grant application process. Each applicant CCM would first submit a relatively brief concept paper, which the Technical Review Panel (TRP), drawing upon the Secretariat and outside experts as necessary, might then recommend to the Secretariat for "approval in principle," subject to a TRP-specified budget ceiling. When this approval in principle had been received, the relevant PR could, if necessary, then receive relatively modest amounts of "project preparation funds" to help with the building of basic accountability, fiduciary and operations systems. Once such funding (if any) had been put to good use, CCMs whose concept paper had been approved in principle could prepare a fully-fledged grant proposal. Unlike the present situation regarding proposals, this stage would involve active cooperation between the CCM and the Secretariat, with the two parties working together to create a proposal that was in line with the Board-approved concept paper and with sound public-health practice and that had the greatest possible chance of approval. The TRP, in consultation with the Secretariat, would then recommend to the Board whether the proposal should be approved, and what the ceilings should be for various budget items. The Board would make the final approval. (See Article 5, Recommendation 4, below.)
- (c) **OIG to focus on recent years:** The Office of the Inspector General (OIG) should primarily focus, in its audits and investigations, on Round Six (2007) and later – though it must not ignore "significant" wrongful acts that occurred prior to then. (See Article 5, Recommendation 1, below.)
- (d) **OIG publication of reports:** The OIG should continue to publish its reports on its audits; it should be selective in what it makes public from its investigations; and, in

line with international best practice, it should not publish its audits of internal business practices within the Secretariat. (See Article 5, Recommendation 1, below.)

- (e) **Procurement:** The Fund should insist on pooled procurement, and on the outsourcing of drug storage and delivery, except where the Fund certifies that one or more local institutions are available to perform these tasks according to appropriate standards. (See Article 5, Recommendation 2, below.)
- (f) **The Board:** The Board should focus on high-level issues. It should replace its existing committees with an Audit Committee, an Investment Committee, and a Finance Committee. The Audit Committee should oversee the work of the OIG; a majority of the committee's members should not be board members or members of board constituencies; and one of these independent members should serve as the committee's chair. (See Article 5, Recommendation 3, below.)
- (g) **Staffing:** The overall ratio of Country Program staff (Fund Portfolio Managers (FPMs) and others) to other staff within the Secretariat should increase. The most-experienced FPMs should work on the most difficult and most risky countries. FPMs should be empowered to make far more decisions than at present. The Fund should continue not to have offices in implementing countries, but FPMs should spend a higher proportion of their time visiting the countries whose grants they oversee. (See Article 5, Recommendation 5, below.)
- (h) **EMT:** The Secretariat's Executive Management Team (EMT), which reports direct to the Executive Director, should be reinforced, should be given clear terms of reference, and should be the body that makes major decisions on grant-making. (See Article 5, Recommendation 5, below.)
- (i) **Results:** The Global Fund should "get serious about results." It should focus on outcomes, not inputs. To assist with M&E, it should mandate and underwrite simple (such as mobile phone-based) data-tracking and -management systems in the field. (See Article 5, Recommendation 6, below.)

The Global Fund's Board will hold a special meeting on 26 September to consider the findings of the Panel and to prepare an action plan. Then at its regular meeting in November, the Board will consider larger changes to the Fund's governance structure, strategy and work processes.

The Panel's seven members come from Botswana, USA, Egypt, Colombia, Germany, Australia and France. The Panel has a support team of ten, none of whom work for the Global Fund. In the course of its work, the Panel reviewed very large numbers of documents (particularly regarding a "representative sample" of 40 countries that it examined in depth), conducted hundreds of interviews, and travelled to 13 countries.

The High Level Panel's 149-page report, "Turning the Page from Emergency to Sustainability," is available at www.theglobalfund.org/en/highlevelpanel.

+++++

2. NEWS: High Level Panel Expresses Strong Opinions On Many Global Fund Issues

The High Level Panel wrote a report that is full of strong, clear and blunt opinions. Some detailed excerpts are provided in Articles 3, 4 and 5 below. Some highlights from those excerpts are provided here:

- Significant areas of the Global Fund's practices require improvement, but the Panel has not identified a problem that cannot be fixed.

- The Global Fund is a vital part of what makes health care function in many countries – its failure would bring tragic, cataclysmic consequences.
- The Global Fund is now more mature, and its culture must shift from emergency response to sustainability and heightened fiduciary responsibility.
- The Panel believes [that] economic distress among donor nations and [other factors] imperil the sustainability of the Global Fund more than the organization has acknowledged.
- CCMs in some countries asked for and received more money than they could deploy efficiently, which distorted health budgets and created incentives for recipient Governments to shift their own national resources away from the three diseases.
- Austerity among the donors makes the Global Fund more vulnerable now than at any time in its history. The halcyon days of ever-increasing budgets for global health are over.
- The Global Fund's Board will have substantially less to devote to new grants in Round 11 than the estimate of \$1.5 billion published in May 2011. The Panel finds this situation a cause for deep concern.
- [The Global Fund must] change or wither.
- An insufficiently rigorous scrutiny of budgets in proposals allows for padding, easily exploited post-approval.
- The challenge is not to avoid risks, but how to develop appropriate mitigation strategies to identify, assess and manage them.
- While "country ownership" is a founding principle highlighted in the Framework Document, there does not appear to be a shared perception about what the term means in practice.
- All too often, CCMs only pay lip service to inclusive decision-making, and do not exercise genuine or meaningful oversight of grants in action.
- The Panel has found a number of senior Government officials who seem to regard the programs underwritten by the Global Fund as someone else's responsibility. The conveniently faceless "Global Fund" takes the blame for every setback – stock-outs, delays, red tape – when local actors might actually be at fault.
- The Global Fund needs to exercise greater oversight of how PRs choose and handle their SRs.
- The procurement, storage and distribution of pharmaceuticals represent significant vulnerabilities.
- The procurement and management of pharmaceuticals and medical products poses larger risks to the Global Fund's finances, operations and reputation than any other activity in its business model.
- The manipulation of tendering and bidding for contracts to furnish drugs, bed nets and supplies, whether for political or economic reasons, is a font of corruption.
- Stock-outs at the facility level are sometimes artificial, as drugs remain at the Central Medical Stores but do not get out to the right patients at the right time.
- The Global Fund has sometimes suffered from a blind spot on theft.
- While the Panel might not have advised the Global Fund to accept the provisions of the agreement with UNDP eight years ago, it does not recommend re-negotiating the arrangement now.
- The Panel met with CCMs that range from highly functional to moribund.

- [With CCMs], the Global Fund has made ordinary and expected what was unthinkable in dozens of nations ten years ago.
- Like democracy itself, the CCM can be an inelegant and imperfect instrument.
- CCMs in large countries tend to put forward enormous proposals, which, if approved, can crowd out smaller, but perhaps needier, applicants.
- In many places, the decision-making over what goes into a Global Fund application is closed, and Governments and insiders on the CCMs tend to dominate and "divide up the pie".
- Successful applicants all perceive the budget ceiling the Board gives them as an entitlement, not the starting point for reductions, as is the reality.
- The Government-based implementing constituencies [on the Global Fund Board have] little institutional memory and a muted presence.
- The Board should reconsider the eligibility of large, quickly-growing and powerful economies, such as the People's Republic of China, India, Brazil, Russia and Mexico.
- The current ratio between priority grant-related [Secretariat staff] and [Staff involved in] other activities need a radical shift [from the current 50:50]: first to 60:40, and then to 70:30, at least.
- Fund Portfolio Managers (FPMs) currently have no delegated financial powers, so they must refer upwards every adjustment with a financial implication, sometimes through several layers of management, with consequent delays to business.
- Because of frequent turnover and the lack of written manuals and standard operating procedures, local LFA personnel and CCM members have [sometimes] served as the de facto trainers of the Global Fund's staff.
- The FPMs are drowning in data, much of it of questionable value.
- The Panel is concerned by an erosion of confidence in the EMT throughout the Global Fund. The responsibility for leading and shaping the EMT to take up its proper role rests squarely with the Executive Director and Deputy Executive Director.
- LFAs are now moving beyond just being the "eyes and ears" of the Secretariat, to acting more and more like the "nose," as they must sniff out fraud risks and actual fraud.
- The LFAs spend most of their time in completing templates and answering questions that are not materially relevant.
- *Quote:* "For many sub-recipients, the LFA is like God: We believe in Him, we know He exists, but we have never touched Him." – A *CCM Chair*
- From the beginning, the senior management at the Secretariat did not favor the creation of the OIG, and lobbied Members of the Board against the idea.
- Some friction between an OIG and management is natural, and probably unavoidable and healthy; but the degree to which the relationships have deteriorated at the Global Fund is a cause for concern.
- Many of the [OIG] audits have taken between nine months and one year, from initial preparation through field work to drafting and release. The Panel considers this too long.
- The Panel was surprised by the negative reaction, in country after country, to the way the OIG's teams who visited those places conducted themselves in the course of audits and investigations.

+++++

3. EXCERPTS: Excerpts From the High Level Panel's Introductory Overview on "*The Global Fund in the New Economic Reality*"

Noble Purpose and Positive Results

The Global Fund to Fight AIDS, Tuberculosis and Malaria is the largest and most important of what some observers have called "The New Multilaterals"...

The work we have done, especially during our field visits, has reinforced for us a belief and appreciation of the noble purpose of the Global Fund, and of the importance of ensuring its success... Significant areas of the Global Fund's practices require improvement, but the Panel has not identified a problem that cannot be fixed... The goal of the oversight mechanisms of the Fund should be to encourage, reward and provide incentives for implementers at country level to design, adopt and operate their programs more effectively.

The Failure of the Global Fund Would be a Global Health Catastrophe

Quote: "Ten years ago, we were facing an enemy we didn't know well, in an emergency, and it's natural we created redundancies. What we need now is not an emergency response, but a sustainable response for a generation." – *Member of the Global Fund Board*

Ministries of Health are moving away from an exclusive, physician-centric approach, to now building partnerships with civil society and at the community level. Governments are changing the way they deliver health care, and in many places are more accountable for the quality of those services, because of the focus in Global Fund grants on concrete results. The Global Fund is a vital part of what makes health care function in many countries – its failure would bring tragic, cataclysmic consequences...

Faced with the choice, at its inception, to manage itself as a private-sector entity or as a multilateral organization, the Global Fund found a space between the World Health Organization (WHO) and other multilaterals. A deep attachment to "The Global Fund Model" exists within the organization and among stakeholders, but recent events and the realities of operating in intrinsically risky environments have prompted some soul-searching about whether and how the model can survive in the current climate...

From Emergency to Sustainability

The Global Fund is now more mature, and its culture must shift from emergency response to sustainability and heightened fiduciary responsibility...

The Panel believes a combination of economic distress among donor nations and the OIG reports that prompted the creation of this review imperil the sustainability of the Global Fund more than the organization has acknowledged. A new economic reality, new technologies, and new epidemiological patterns compel the Fund to adjust, and it must reform itself to remain relevant. Three large trends will force the Fund to change: austerity, accountability and innovation...

Austerity: An unprecedented outpouring of resources allowed the Global Fund and other initiatives to launch a rapid series of measures, including the mass expansion of anti-retroviral therapy and bed-net coverage, on a scale earlier dismissed as nearly impossible. Yet, CCMs in some countries asked for and received more money than they could deploy efficiently, which distorted health budgets and created incentives for recipient Governments to shift their own national resources away from the three diseases.

The economic crisis that is still gripping the major industrial economies has brought that era to a close. Austerity among the donors makes the Global Fund more vulnerable now than at any time in its history. The halcyon days of ever-increasing budgets for global health are over...The Global Fund can no longer count on appealing to key political figures in large donor countries to increase their nations' contributions as a matter of pride or in the name of "solidarity"...

Of necessity, the Global Fund is entering an era of consolidation, not expansion... The Panel has seen a high degree of vulnerability, and accelerating deterioration, in the Global Fund's financial outlook for the next three years. As a result, based on current estimates from the Secretariat, the Global Fund's Board will have substantially less to devote to new grants in Round 11 than the estimate of \$1.5 billion published in May 2011. The Panel finds this situation a cause for deep concern; the Board should re-evaluate Round Eleven, and take serious measures, immediately, to account for the new financial reality...

Maintaining the confidence of the donors is one of the most important tasks of the Global Fund's leadership...

Accountability: Imprecise or erroneous data numbers...will have a further, negative effect on the Global Fund's ability to reassure donors...

The Global Fund must compete much more openly for the attention of donors by demonstrating it is investing for impact and safeguarding its resources... Strengthened civil-society organizations in recipient countries are much more active than before. Patients and beneficiaries around the world have a much greater knowledge of what they should be getting from assistance programs, and a much greater capacity to make their views known when they believe they are being short-changed...

The Global Fund's Board, donors and recipients must recognize a mutual culpability, born of noble intent... The Global Fund had inadequate accountability mechanisms... – a situation that is no longer acceptable today... The Global Fund's Board and Secretariat have begun to address these weaknesses, but they need to deploy resources to do so in a more-sophisticated way, and...to focus on setting clear expectations and rules for recipients that reflect the need for more-stringent tracking of finances and performance...

Phase-Two continuation of grants for the last three Rounds, which are coming due now and over the next year, total \$2.3 billion. These Phase-Two decisions, which are dependent on performance, pose a huge exposure for the Fund, and deserve careful scrutiny.

Innovation: New diagnostic tools for malaria and tuberculosis could eliminate much of the mistaken identification of patients' illnesses and the consequent waste of resources as programs pay to treat people for diseases they do not have... Evidence that suggests a tremendous preventative effect in treating all HIV-positive people with anti-retroviral therapies early in the course of their disease portends a re-thinking of AIDS strategies overall... The widespread availability of mobile phones makes possible the reporting of data from far-flung sites, in real time, which raises the stakes and expectations for confirming measurable results...

Change or Wither

Quote: "Maybe the money was too free and easy before; now that the austerity is coming, maybe people will have to work together better." – *CCM Member*

Events of the last two years have shown the limitations of the Global Fund's approach to its portfolio... An insufficiently rigorous scrutiny of budgets in proposals allows for padding, easily exploited post-approval...

"Holding on to the Global Fund Model" means being prepared to make significant changes... A one-size-fits-all approach to approving and managing grants is no longer appropriate nor effective. 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...

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... The challenge for the institution then is not to avoid risks, but how to develop appropriate mitigation strategies to identify, assess and manage them. ...The Global Fund experience has shown that responsible actors in recipient countries, even very poor ones, can manage money effectively by employing good governance and management...

In the end, the Global Fund itself cannot be the guarantor of accountable results; the recipient countries, especially their Governments, must be. The model will not work if the only outcome of a reform process is simply strengthening the headquarters operations in Geneva. The Fund should set its own eventual phasing-down as its primary long-term goal, through reducing morbidity and mortality from the three diseases and promoting maximum self-sufficiency on the ground, as the programs become self-sustaining and the recipient countries assume an incremental share of the financial and operational burden...

This report analyzes the past and current state of the elements of the Global Fund system, and suggests ways the Board and Secretariat can adapt the organization to the new realities it faces...

Moving Toward Real Country Ownership

While "country ownership" is a founding principle highlighted in the Framework Document, there does not appear to be a shared perception – inside or outside the Global Fund – about what the term means in practice...

Many recipient Governments appear to regard Global Fund-financed programs as little different from those of other donors. They frequently hire external experts to prepare template-driven grant proposals for the Global Fund that the CCMs then "rubber-stamp." All too often, CCMs only pay lip service to inclusive decision-making, and do not exercise genuine or meaningful oversight of grants in action.

The Panel has found a number of Ministers of Health and senior Government officials who seem to regard the programs underwritten by the Global Fund as someone else's responsibility. In situations in which the political leadership and civil society do not know and embrace the grants, the generic and conveniently faceless "Global Fund" takes the blame for every setback in the three diseases – stock-outs, delays, red tape – when local actors might actually be at fault...

National disease-control programs... within Ministries of Health... can operate as semi-autonomous fiefdoms disconnected from each other and their parent organizations, to the extent that people on the ground commonly refer to them and their employees as "the Global Fund." (The frequent use by staff at PRs of the Global Fund's logo on business cards and vehicles does not help to dispel this perception.)...

In nations where political and civil leadership really make the Global Fund grants their own, however, the change is impressive. Governments treat the financial flows from the Global

Fund as if they were local tax monies; they report them on budget, and National Auditors review them and the performance of the grant programs as a regular part of their work. Parliaments hold Ministers accountable for what they do with Global Fund monies. Accounts and progress against indicators are published transparently. Local faith-based and secular organizations send volunteers to monitor compliance and check on the quality of the delivery of services at sites managed by sub-recipients. CCMs create subcommittees to solve technical issues and exercise real oversight responsibilities. In short, in these places the Global Fund has fostered good governance.

Within the Fund Secretariat, meanwhile, the constantly reinforced, but hazily defined, ideology of "country ownership" has bred a culture of passivity in grant management. Many FPMs appear reluctant to extend themselves proactively to anticipate or help solve problems, or broker the provision of technical assistance, for fear of crossing a line into "micromanagement."... The almost complete deference to CCMs and PRs in places with low capacity can mean that local implementers wander through the life of their grants with little guidance from the Global Fund, performing poorly...

In the Panel's view, true partnership means not always saying "yes." A commitment to "country ownership" does not mean relaxing one's vigilance against leakage, corruption, mismanagement and a lack of capacity to absorb. It does not mean writing a blank check without communication, follow-up or accountability. And it does not mean applying such a hands-off approach that grantees struggle with implementation when a proactive approach could help relieve bottlenecks. "Country ownership" needs to look different from place to place, depending on the ability and willingness to accept and exercise responsibility for Global Fund programs, and the Panel will suggest a way to redefine the concept for the future.

The full text of the introductory section of the High Level Panel's report, from which the above excerpts were taken, is available [here](#).

+++++

4. EXCERPTS: Selections From the High Level Panel's Detailed Comments

The High Level Panel studied eight "layers" of the Global Fund system:

- Layer 1: The Principal Recipients
- Layer 2: The Country Coordinating Mechanisms
- Layer 3: The TRP and the Grant-Application Process
- Layer 4: The Global Fund's Board
- Layer 5: The Global Fund Secretariat
- Layer 6: The Local Fund Agents
- Layer 7: The External Auditors
- Layer 8: Risk-Management and the Office of the Inspector General

Excerpts from the Panel's comments about each are as follows.

LAYER 1: THE PRINCIPAL RECIPIENTS (Full text available [here](#).)

Examples of Weaknesses in Grant-Management...:

- Overspending or lack of respect of budget lines;
- Lack of suitable accounting software and procedures;
- Excessive use of cash payments;
- Ineligible or non-grant related expenditures;
- Absence of supporting documentation for expenditures;

- Inter-grant borrowing;
- Problems with external audits, including selection and quality;
- Poor forecasting, delays in procurement, stock-outs;
- Inadequate storage and distribution of pharmaceuticals;
- Lack of transparent procedures to select SRs;
- Inadequate monitoring of SRs; and
- Data-quality problems.

Findings of the Review of the Representative sample

After reviewing thousands of documents from hundreds of grants in 40 countries, the Panel has identified several patterns...:

- The Global Fund does not identify most weaknesses in its PRs until the grants have started:

The emergence of such a large percentage of challenges after signature suggests the review process of applications by the Technical Review Panel (TRP) and nominated PRs by the LFAs could be more effective... The late identification of weaknesses leads to calls to the Secretariat from PRs for urgent support to prevent the suspension of disbursements just before deadlines for milestones set out in the grant agreement...

- Almost every grant has had at least one financial-management problem:
- The Global Fund system of assurance needs to exercise greater oversight of how PRs choose and handle their SRs:

LFAs have only been under contract to review the internal management standards of PRs, and in many places their oversight does not extend yet to SRs. ... This lack of rigor represents a significant risk to the Fund's portfolio.

- The procurement, storage and distribution of pharmaceuticals represent significant vulnerabilities
- The nature of grant documentation at the Secretariat puts the Global Fund's institutional memory at risk of erasure

Maintaining complete and easily accessible records on the grant portfolio is absolutely vital. ... current practices at the Secretariat do not fully meet this need. the Secretariat has no centralized, "official" archive... The Secretariat has no standards for which documents to keep, or for what format in which to maintain files... Turnover in personnel at the Secretariat routinely causes files to be misplaced or lost, and Fund Portfolio Managers (FPMs) face a serious challenge in learning the history of the grants under their purview.

- Grant-management decisions are often opaque

Much (if not most) of the day to-day grant-management process takes place informally, outside of the formal documentation process, and should be more systematically tracked and archived.

The Procurement and Distribution of Pharmaceuticals and Medical Supplies: The Biggest Risk to the Global Fund's Portfolio?

The Global Fund itself estimates that over 40 percent of its total investment in grant-making goes into the purchase of medicines and other health products... This... amounts into the hundreds of millions of dollars each year.

The sheer size of the Global Fund's aggregate procurement of medicines and health supplies allows it to shape worldwide markets... Given this enormous scope, the Panel

believes the procurement and management of pharmaceuticals and medical products poses larger risks to the Global Fund's finances, operations and reputation than any other activity in its business model... Fourteen of the 40 countries in the Panel's representative sample experiences serious challenges with the purchasing and distribution of drugs and other medical supplies,... The Panel has summarized this problem into four areas: Inadequate forecasting, poor procurement processes, theft and diversion from the in-country supply chain, and quality and safety.

- Forecasting

The Secretariat should accelerate the trend of requiring PRs to develop electronic systems for inventory management and tracking patients, and should expand on-site data verifications by the LFAs on stocks of drugs, number of patients reported and consumption prior to procurements. The Panel sees great promise in mobile-phone technologies for these purposes, and urges the development of standardized protocols.

- Tendering and Bidding Processes

The manipulation of tendering and bidding for contracts to furnish drugs, bed nets and supplies, whether for political or economic reasons, is a font of corruption documented by the OIG... The purchase of drugs or medical equipment is not an inherently governmental function; the principle of "country ownership" should not allow bureaucratic slow-downs to put lives at risk if external entities can do the job faster, and at a better price... The Global Fund should make the VPP [Voluntary Pooled Procurement] and other external purchasing channels the default for all grants, except if implementers can certify local institutions can meet and perform to international standards.

- Storage and Distribution

Stock-outs at the facility level are sometimes artificial, as drugs remain at the CMS [Central Medical Stores] but do not get out to the right patients at the right time...

The Panel believes enhanced quality-control of the facilities used by the recipients of Global Fund grants to store and distribute drugs and medical supplies is crucial. As with procurement, the Global Fund should require the outsourcing of the supply-chain as the norm for its grants in the short term, with the exception of implementers that can certify local institutions can meet and comply with international standards. In the long-term, the Global Fund should support the certification of organizations, whether public or private, that can safely and securely handle the management of pharmaceuticals and health products in a cost-effective and sustainable way.

- Theft and Diversion

The OIG is currently investigating 17 cases of drug theft in 13 countries in Africa, and has indicated to the Panel the problem has also appeared in South East Asia...

The Global Fund has sometimes suffered from a blind spot on theft...

The Panel therefore welcomes and encourages recent efforts by the Global Fund to cooperate with other donors, technical agencies, law-enforcement organizations and implementers to combat the traffic in stolen medicine, but urges even-greater vigilance...

Joint work between the Global Fund and the President's Malaria Initiative of the United States to conduct detailed studies of the problem in Mozambique, Benin and Zambia is also an excellent model for future cooperation.

- Quality and Safety

Loss or degradation caused by inappropriate conditions during storage and transport can mean patients receive medicine that is expired or rendered ineffective...

The Panel sees a need for the organization to require PRs to invest more of grant budgets, systematically, in pharmacovigilance programs that monitor the quality, usage and efficacy of the drugs it buys...

The Special Case of the UNDP

As of September 2011, UNDP is managing 64 active grants on behalf of the Global Fund in 26 countries, in the amount of US\$ 1.04 billion. In many cases, these are difficult places to work, and the CCM has proposed UNDP as a PR because few (or even no) local organizations have the requisite infrastructure to handle the finances; in other instances, the Global Fund itself has asked UNDP to step in as a stop-gap PR after the suspension or termination of a grant with another implementer. UNDP takes a seven-percent fee from each grant for its service as PR...

When the Secretariat signs a grant with UNDP, the Global Fund waives many of the fiduciary tools it has to work with other PRs...

While the Panel might not have advised the Global Fund to accept the provisions of the agreement with UNDP eight years ago, it does not recommend re-negotiating the arrangement now. The Global Fund should consider UNDP a transitory and temporary PR in almost all cases, and should hold the organization accountable for developing an exit strategy with concrete timelines... The Global Fund should develop a performance indicator to endorse this goal, and measure the transition of UNDP (or any other non-national implementer) against the number of countries exited, plus the infrastructure left behind and the capacities of national entities developed during the course of the grants...

The Panel... urges both UNDP and the Global Fund to pursue enhanced cooperation for the next year.

LAYER 2: THE COUNTRY COORDINATING MECHANISMS (Full text available [here.](#))

The CCM is one of the most-treasured, and yet most-criticized, aspects of the Global Fund's model... The Panel met with CCMs that range from highly functional to moribund...

The singular achievement of the CCM idea has been to provide a platform for various sectors to work together, in many cases for the first time in any structured way... The Global Fund has made ordinary and expected what was unthinkable in dozens of nations ten years ago, as in the following examples:

- HIV-positive people meet regularly and openly with Ministers and Presidents and appear in the media;
- Governments must account for spending that previously would have been off-the-books, including by submitting to monitoring through unannounced visits;
- Faith-based organizations coordinate the delivery of health care with State-operated institutions;
- NGOs bid for funds in transparent tenders;

- Donors engage recipients on their terms; and
- Ordinary citizens stand to represent their peers in competitive elections...

Often, the governance model of a CCM breaks the traditional dynamics of power in certain countries where the State, politics and economy are run by the same cliques...

But, like democracy itself, the CCM can be an inelegant and imperfect instrument... Since the beginning of the Global Fund, the possibility of self-dealing among members of CCMs has been... an obvious impediment to the ability of CCMs to serve in a meaningful oversight role...

Dominance of the CCMs by Government Ministries that were also PRs was a recurring, problematic pattern...

The Panel's examination of the CCMs found two important improvements in the management of potential conflict-of-interest on CCMs:

- CCMs have diversified their leadership considerably since 2005. Thirty one CCMs (23 percent) have Chairs and/or Vice Chairs that are also representatives of PRs... Nine CCMs (seven percent) have representatives of Governments as Chair and Vice Chair.
- In no case do funding recipients make up the majority of a single-country CCM. The share of PRs/SRs/SSRs on CCMs tends to be in the range of 15 of 25 percent,

The majority of CCMs perform their oversight more on paper than in reality... CCM members all have other jobs, and quite often do not have time to read and analyze the enormous amount of information included in reports from the PRs and LFAs. In some places, the converse is true: CCMs do not receive any meaningful reports at all. Civil-society members and development partners are much more diligent in attending than the Government representatives. Many CCMs do not preserve funding in their grants to do site visits and other physical verification of implementation.

CCMs in some places are vehicles created only to access financing from the Global Fund, whose procedures and membership are made up to satisfy the letter, but not the spirit, of the rules. In many countries, NGOs have been an afterthought in the planning and development of proposals, and have received documents for endorsement only at the eleventh hour before submission to Geneva.

Characteristics of CCMs That Work:

The Panel has observed that the best CCMs share a series of characteristics and behaviors that increase their chances of acting as true stewards of the Global Fund's resources at the local level:

- The Government has decided it does not need to control or dominate the CCM, and encourages leadership by civil-society groups;
- The CCM has shrunk its size to a manageable number of members (typically less than 20);
- An Executive Committee exercises delegated authority;
- An Oversight Committee follows the implementation of the grants closely, including through reviewing reports from the PRs and LFA, conducting site visits and unannounced spot checks and using a dashboard" tool to track progress against indicators;

- Technical Committees consider solutions to operational problems, and supervise the preparation of disbursement requests and new applications;
- Members stand for free and open elections within their constituencies, and seats rotate on a regular basis;
- Written manuals and by-laws govern the functioning of the CCM and its committees and regulate conflict-of-interest;
- The CCM has established linkages, and often has inter-locking membership, with other coordination bodies in the health sector in the country (such as donor roundtables, United Nations Theme Groups, or the steering committees for Sector-Wide Approaches); and
- Partners use the CCM process to make decisions with their own money to complement the Global Fund's investments.

LAYER 3: THE TRP AND THE GRANT-APPLICATION PROCESS (Full text available [here.](#))

The Panel has several concerns about the grant-application process...

The "Free-for-all" Phenomenon

Because... the Global Fund's Board sets no upper limit for the dollar-value of individual proposals in each Round, and because the Rounds do not always occur on a predictable schedule, CCMs have every incentive to seek as much money as possible, whether they truly need it or not. Budgets can be padded (and frequently are), and CCMs often ask the Global Fund to pay for everything, without accounting sufficiently for what other donors or the national Government will be contributing to each category of activity. CCMs in large countries tend to put forward enormous proposals, which, if approved, can crowd out smaller, but perhaps needier, applicants. Around the world, the lure of new money means that a number of CCMs have focused more on repeated applications and less on the performance of previous grants. During the proposal-development phase, a struggle sometimes erupts at the country level over which interventions and organizations to include. The founders of the Global Fund envisioned that open and competitive processes would solicit proposals from a myriad of worthy local organizations, from which the CCM would then choose a coherent set to match with activities Governments would suggest. Such a methodology is the exception, not the rule. In many places, the decision-making over what goes into a Global Fund application is closed, and Governments and insiders on the CCMs tend to dominate and "divide up the pie"...

The Panel applauds the steps the Global Fund has taken in preparation for Round Eleven to link its application process to those of other institutions, and to hold CCMs more accountable for demonstrating the money they request is an addition, not a substitution, to in-country budgets...

The Complexity of the Application

Writing a Global Fund proposal has been so time-consuming and complicated that specialized expertise is required. Applications have routinely run into the hundreds of pages. An entire industry of outside consultants-for-hire has emerged in the last decade to service this need in each Round. What matters is not that the professional grant-writers understand the country context or the nuances of implementing a program in a given place, but that they know what the TRP is looking for, and can write to those specifications... When it comes time to implement an approved grant, many PRs have struggled to perform, because the proposal written by their consultants for an ideal world had little to do with the real challenges and limited capacity on the ground...

Insufficient Focus on Finances and Risk

Although many organizations which CCMs are likely to nominate as PRs (and SRs) are already managing Global Fund money, the process does not adequately address the implementation capacity and past track-record of these groups...

The Sequence of the Application and Approval Processes

Quote: "In [certain situations], funds are used in a way that is best described as mismanagement, and then prone to corruption. Corruption takes place because no one understands how these funds should be monitored, and how to take responsibility." —TRP Member

Proposals are unconstrained at the time of application, but many vital details... are only determined during grant negotiation, after the Board has approved a notional sum of money for a specific program... Successful applicants all perceive the budget ceiling the Board gives them as an entitlement, not the starting point for reductions, as is the reality... This process puts the cart before the horse...

The entire period from submission of a proposal to the beginning of implementation could be two years or more, during which time circumstances on the ground... could have changed... This process takes too long... The Panel views the potential mismatch between conditions when the CCM puts an application on paper and the conditions that prevail at the time of first disbursement to be a major operational and financial risk for the Global Fund.

To address all of these challenges inherent in the current grant-application model, the Panel suggests the creation of a new, two-stage approval process, with different procedures for different countries, undergirded by a risk-burden matrix and linked to a strategic resource-allocation decision from the Global Fund's Board.

LAYER 4: THE GLOBAL FUND'S BOARD (Full text available [here.](#))

Transparency and consistency regarding the appointment processes for the various Board constituencies has been a challenge since the founding of the Global Fund. Each grouping adopts a different approach:

- Donor constituencies tend to send mid-level officials... who... can devote significant amounts of time to multilateral governance and policy activities;
- The implementing bloc typically chooses Ministers of Health as their representatives... Many of these Ministers are too busy to engage deeply in Global Fund business, and usually lack dedicated staff to support them...
- Only the three civil-society delegations have truly open and transparent selection processes...

The Government-based implementing constituencies [have] little institutional memory and a muted presence on the Global Fund's Board... The civil-society groups on the Board have maintained a much more stable and disciplined membership over the years.

The Board should reconsider the eligibility of large, quickly-growing and powerful economies, such as the People's Republic of China, India, Brazil, Russia and Mexico...

The Panel considers that...:

- The Board's time spent on strategy is limited... The Board never steps back to review the Global Fund's entire portfolio of grants from a strategic perspective.

- The Board often spends time on selective micro-managing and agenda-driven matters...
- The Board could make much better use of its Committees...
- The Board needs to do a more-skillful job of managing the Executive Director and the Inspector General...

LAYER 5: THE GLOBAL FUND SECRETARIAT (Full text available [here.](#))

The Global Fund has grown from an initial startup to a large international financing institution with over 600 staff members... The original "light-touch" approach has had to give way to an increased concern for accountability...

Many people at the Secretariat work extremely hard over long hours under a great deal of pressure and external scrutiny, with passion, determination and commitment... The question is, can the Secretariat, without appreciably increasing its head count, become more efficient, structure itself better, and, ultimately, work smarter to handle risk better and anticipate problems with grants before they occur? The Panel believes the answer to that question is yes...

The founding members view the Secretariat with some concern as it becomes, in their view, more "reactive, blame conscious, risk-averse and hierarchical," and is slow to deal with under-performers...

Some of those who joined more recently (including some in senior positions) say they feel excluded from the longer-serving group, and are "kept out of the loop when the real decisions are taken"... The organization has no clear, shared vision of its mission and objectives within the rank-and-file...

The Global Fund Secretariat operates with, at best, a 50:50 split in resources between priority grant-making and other activities, compared with staff ratios of between 70:30 and 80:20 for the main multilateral development-financing banks... Of the total of 606 Secretariat staff, 319 are directly or indirectly employed on grant-making activities. Of these, 181 are in the Country Programs Cluster, of whom 120 are FPMs, Program Officers (POs) and Program Assistants (PAs)...

The current ratio between priority grant-related and other activities need a radical shift: first to 60:40, and then to 70:30, at least... Rebalancing the Secretariat will present a number of challenges.

Optimizing the Fund Portfolio Managers

The FPMs are the linchpins of the grant-management system...

A major shift of emphasis needs to take place: from the current somewhat process-heavy grant-management model to one in which FPMs are empowered to operate as active problem-solvers, anticipating and helping to resolve bottlenecks, rather than reacting to crises.

The Panel believes this transformation is possible with changes in five main areas, outlined below.

- Allocation and Rotation

The FPMs are over-burdened... Each recipient country is served, on average, by 1.31 staff. The Panel considers this level of effort inadequate to maintain a detailed

knowledge and understanding of the in-country context, and to establish and sustain relationships with the key players on whom the Global Fund relies to implement its programs...

The Panel nevertheless notes with concern the frequency with which FPMs are sometimes rotated. For example, while the LFA in East Timor (PwC) has had the same Team Leader for the past eight years, the Global Fund's programs in that country have seen six FPMs during the same period. Afghanistan, a country the Panel regards as lower-risk but high-burden, and which presents serious logistical and operational challenges to any donor, has had four FPMs in the past year...

The most seasoned staff should work on the riskiest portfolios. Equally, experienced FPMs should sometimes rotate to other regions and countries to spread good practice...

- Decision-Making

FPMs currently have no delegated financial powers, so they must refer upwards every adjustment with a financial implication, sometimes through several layers of management, with consequent delays to business...

- Focus and Consistency

Many times, [FPM] travel did not have Terms of Reference or defined objectives, post-visit reports were not required, and decisions made in-country were not recorded.

Because of frequent turnover and the lack of written manuals and standard operating procedures, local LFA personnel and CCM members have [sometimes] served as the de facto trainers of the Global Fund's staff...

- Communications and Information-Sharing

The commitment of FPMs to their country portfolios is impressive, but... the FPMs are drowning in data, much of it of questionable value. Just as important, this phenomenon erodes the time and attention that FPMs are able to devote to building relationships and interacting directly with in-country partners...

The Global Fund does not appear to have a culture in which employees make routine use of tele- or video-conferences to conduct their business with outsiders...

A mostly hands-off approach to grant management and a personality-dependent set of largely unwritten rules also means that the information and guidance documents that do come from the Global Fund Secretariat are fragmented..., discursive (with little sense of what the key points are) and staccato. Some regional teams, such as the one for Latin America and the Caribbean, employ a highly structured way of interacting with CCMs and recipients in the field, including by sending Management Letters to spell out clearly what corrective actions they need to take, with specific deadlines. Other teams are more idiosyncratic.

The Global Fund acknowledges that it does not make the best use of the vast store of knowledge, evidence and insights available from the wide range of people and institutions with whom it interacts... FPMs' pivotal position inevitably gives them a leading information-sharing role. They should be systematically exchanging knowledge with in-country players, not only CCMs, LFAs and PRs, but also with UN agencies, the World Bank, the regional development banks, and bilateral donors...

FPMs should also be exchanging information with their colleagues within the... Secretariat more widely...

One is left with the impression that "communications" is something of a one-way street, more about transmitting information than having a dialogue of equals. ...Communication should be two-way, and FPMs should listen and learn as much as imparting information.

- Performance-Assessment

The Global Fund Secretariat has assessed the FPMs' performance through key performance indicators (KPIs) that are largely about the speed and volume of grant disbursement. With these incentives stacked in favor of moving money as quickly as possible, few within the organization have wanted to delay or deny a grant. Handling a troubled case has not always been popular, because of the "stigma" of sending out tough messages that could lead to a slowdown in the flow of funds...

The Secretariat's leaders now recognize they need to recalibrate these yardsticks to reflect the quality and effectiveness of program delivery and other factors...

The Country-Team Approach (CTA)

The CTA seeks to solve these problems by bringing together all those responsible for the different aspects of grant management so they can take action jointly, in real time, rather than sequentially...

Country Teams are composed of the FPM, and a named Finance, Procurement and M&E Officer. The CTA currently covers Thirty-three countries, considered by the Secretariat to constitute the most-complex and highest-risk...

The Question of "Country Presence"

In dozens of consultations with Secretariat staff, the Board, the OIG, LFAs, PRs, CCMs, external auditors, National Audit Institutions, and bilateral and multilateral donors, the Panel and its Support Team posed the question of whether the Global Fund needs to break with its tradition and establish a permanent country presence.

Most people the Panel interviewed asserted the Global Fund Secretariat should "get closer" to the implementing countries...

The Panel has debated this issue, and considered the significant ramifications of replacing or pairing the LFAs with Secretariat staff...

Stationing Secretariat personnel in offices around the world will not resolve the issues the Global Fund faces that require it to fundamentally change the way it does business ... The Global Fund should first challenge itself internally to better define the roles of and relationship between the PRs, the LFAs and the FPMs. ...the Global Fund should first challenge itself internally to better define the roles of and relationship between the PRs, the LFAs and the FPMs... The FPMs and other Global Fund staff should make significant use of video-conferencing in communications with in-country stakeholders, as meetings held by video provide a personal touch without travel costs.

Tools for the Management of Human Resources (HR)

The Global Fund needs to overcome challenges in its HR approach... Merit-based promotion and career management are just beginning in the organization, and few incentives exist for good performance.

The Secretariat needs to link the performance-management of its staff closely to the core task of enhancing the quality of delivery in the Global Fund's grants..

The Executive Management Team (EMT)

The Panel is concerned by... an erosion of confidence in the EMT throughout the Global Fund. The EMT should be, and be seen to be, the Secretariat's prime executive decision making body.

The responsibility for leading and shaping the EMT to take up its proper role rests squarely with the Executive Director and Deputy Executive Director, in their respective roles as EMT Chair and Vice-Chair...

Managing Reform

The Global Fund is an organization in transition...

Within the Global Fund Secretariat, the Reform Steering Committee, composed of all Cluster Directors under the leadership of the Deputy Executive Director, manages the reform process... It will be important for the Board and the Secretariat to coordinate all the initiatives into a single agenda, for which the Board takes responsibility, and over which it exercises sustained and constructive leadership. This does not mean micro-managing the activities, but rather ensuring that it gives the Secretariat the resources and strategic direction needed to ensure successful implementation.

LAYER 6: THE LOCAL FUND AGENTS (Full text available [here](#).)

The Role of the LFAs

LFAs are now moving beyond just being the "eyes and ears" of the Secretariat, to acting more and more like the "nose," as they must sniff out fraud risks and actual fraud. In addition, even though the LFAs explicitly do not have the authority to speak or act on behalf of the Global Fund, some within the Secretariat believe they should also serve as the "mouth" of the organization on the ground. The LFAs themselves see their role as being independent review bodies to ensure the overall effectiveness of the Global Fund's grants...

The LFAs and Risk-Management

The work done by the LFAs on behalf of the Global Fund in many countries is not sufficiently tailored to the specific risks associated with the grants... The LFAs spend most of their time in completing templates and answering questions that are not materially relevant; the LFAs' Scope-of-Work and tools are too prescriptive, and both need more flexibility and simplification...

Organization and Skills of the LFAS

LFAs should allocate their most experienced and best staff to the most difficult countries...

LFAs continue to experience challenges in identifying, contracting and retaining qualified staff...

The LFAs' Scope of Work and Consistency of Approach

A final obvious flaw the Panel has found in the scope-of-work of the LFAs is the exclusion of SRs. Until recently, the Secretariat instructed the LFAs to focus exclusively on the PRs, and the assumption in the grant agreement is that PRs are responsible for overseeing the financial and programmatic performance of the organizations to which they pass funds. Revelations over the past two years by the OIG of major problems with accountability at the SR level has led to a change in attitude... FPMs are now working with the LFAs to change their workplans to include more site visits, data-verification exercises and document reviews at the SR level...

Assessing the LFAs' Performance

The performance of the LFAs has been uneven for a number of years. The good news is that the advent of the Performance-Evaluation and Feedback System in 2009 has made the Global Fund Secretariat much more likely to fire an LFA for incompetence. In the last two years, the Secretariat has re-tendered LFA work in 18 countries out of 132, or approximately 14 percent of the entire portfolio...

Communication Between The LFAs and Other Elements in the Global Fund System

Quote: "For many sub-recipients, the LFA is like God: We believe in Him, we know He exists, but we have never touched Him." – A *CCM Chair*

As the Global Fund's only permanent in-country presence, the LFAs must be at the center of the network of information-sharing between the FPMs, the CCMs, the external auditors of the grants, National Auditors and other partners...

Yet, the Panel found in its interviews and country visits that communications with and between the LFAs and the other elements of the Global Fund's levels of assurance remains sporadic, idiosyncratic, and of variable quality and effectiveness.

The Panel has identified the following gaps:

- The LFAs' designed independence often turns into isolation...
- PRs and CCMs do not always have access they need to the information the LFA provides to the Secretariat... CCMs and PRs often receive inadequate and murky information about how to better manage their grants.
- Other than attending scheduled CCM meetings as observers, the LFAs do not communicate systematically with CCMs... Many CCMs would like to be more involved in the oversight of implementation, and would like more information directly from the LFAs; they lose time in making improvements because the flow of information goes to Geneva first.
- The LFAs rarely talk to the external or internal auditors of the Global Fund's grants, nor to National Auditors...
- Better coordination is needed when LFAs spot indications of fraud...
- The only recourse the LFAs have to voice concerns to the Global Fund is through the LFA Management Team at the Secretariat... The firms have no avenue through which to raise big-picture problems with the Global Fund.
- The Global Fund has never invited the LFAs to present their findings, views and recommendations regarding the risks in each country portfolio to the Executive

Management Team, or the Board... The Global Fund needs to do more to capture this in-country knowledge and expertise.

LAYER 7: THE EXTERNAL AUDITORS (Full text available [here.](#))

In interviews with the Panel... LFAs were very critical of the external auditors for poor performance... Most LFAs never meet with the external auditors of the grants under their responsibility.

"Audit Fatigue"

On its field visits, the Panel was struck by the excess of apparently uncoordinated audits and financial reviews of the Global Fund's grants, which do not appear to add up to greater assurance. In many instances, PRs are subject to as many as six layers of audit/review, many of which cover similar ground, but on different schedules, by institutions that do not communicate with each other:

- Internal-Audit Units;
- External Auditors Required by the Global Fund;
- External Auditors Required by Other Donors;
- Global Fund LFA;
- Government Auditors...;
- Global Fund OIG.

Scope of the External Audits

The Panel's interviews and field visits found serious limitations with what the Global Fund requires of the external auditors of PRs... The external auditors of the PRs do not cover a significant portion of grant expenditure, because the implementation takes place at the SR, District or lower levels. The Global Fund's current policy only mandates that PRs present an SR Audit Plan, but offers no guidance as to what the plan should contain...

LAYER 8: RISK-MANAGEMENT AND THE OIG (Full text available [here.](#))

Unlike other financial institutions, for most of its history the Global Fund did not adequately consider risk as a factor in its business model. The history of the Global Fund shows a lack of engagement by the Board and Secretariat in formal risk-management... A commitment to establishing a "light touch" by the Secretariat in the service of the philosophy of "country ownership" took precedence over establishing good governance arrangements.

The Panel is pleased to see a change in attitude... The last 18 months have seen increased acceptance by the Global Fund's Board and Secretariat of the need for a more-formal approach to managing risks, especially at the operational level.

Corporate Risk-Management

"Corporate risk-management" relates to handling threats to the achievement of the Global Fund's mission and institutional objectives, supported by a Corporate Risk Register⁴⁶ and Board-approved mitigation strategies...

The Panel views both the Global Fund's Corporate Risk Register and Risk-Management Framework as paper exercises that have had little impact on decision-making or day-to-day operations. Few of the actions the Board discussed have ever taken place... Interviews with Secretariat staff and implementing partners in the field have revealed they are not even aware of the existence of either document.

Without a clear idea of the global threats to the organization,... the organization (especially senior executives and the Board) spends considerable resources on fire-fighting and crisis-management...

Operational Risk-Management

"Operational risk-management" relates to program implementation, program impact, data collection and verification, the reporting of results, the allocation of resources and use of funds, efficiency and cost-effectiveness... The Panel sees this area as covering the myriad of threats to the integrity of the Global Fund's grants in the field.

The Secretariat has not classified or segregated its grant portfolio based upon risk... The best managers have not been matched with the highest-risk, most-complicated countries...

There is a general belief within the Secretariat that this is a PR responsibility, even though OIG reports clearly show recipients are not fulfilling this role...

Supervisors have tended to sign off on disbursement requests based on their assumption whether the person submitting the deliverable is competent or not...

The FPMs have not always been aware or concerned with the overall danger that hundreds of thousands of lives are at risk if donors withhold contributions to the Global Fund because of fraud in a handful of grants...

In a very encouraging development, the new Director of Country Programs has formed a team, supported by external experts, to develop a matrix to segment the countries in the Global Fund's portfolio by risk...

The Panel's Analysis of the OIG

In the early years, the institution never developed, nor did the Board discuss, a strategy for dealing with corruption, abuse or mismanagement in its grant-making... The institution ran on a presumption that all its recipients understood and would follow "international standards" for accountability...

Established in July 2005 at the behest of the donors, the OIG has been the only risk-mitigation strategy within the Global Fund that has worked as designed. The Panel has enormous respect for the positive impact the OIG's work has had on securing the organization's investments... The willingness of the Fund's Board to publish the OIG's findings, openly and transparently, sets it apart from any other bilateral development agency or multilateral financial institution...

The OIG has proven to be a very effective, impartial mechanism to detect and report on risks and management's stewardship of them... The uneven response by the Global Fund's Board and Secretariat to implement the OIG's recommendations in a timely manner, however, has negated the possibility of spreading more of these benefits across the portfolio...

The Relationship Between the OIG and the Secretariat

From the beginning, the senior management at the Secretariat did not favor the creation of the OIG, and lobbied Members of the Board against the idea. Tensions emerged almost immediately between the newly appointed Inspector General and the Global Fund's staff, a dynamic that has continued to this day, even though the personalities involved have changed.

Some friction between an OIG and management is natural, and probably unavoidable and healthy, since no one loves a watchdog; but the degree to which the relationships have deteriorated at the Global Fund is a cause for concern... A failure by senior management at the Secretariat to heed the OIG's recommendations in a timely manner complicated the relationships with management... A perception took hold within the OIG that it was being ignored as a matter of policy... FPMs have described becoming wary of making decisions that an OIG audit could call into question. Trust between the two sides eroded to a dangerous point, and disagreements flared openly, including in front of the Global Fund's Board...

Some wish the Inspector General and his team would acknowledge that many staff members at the Secretariat are as committed to anti-corruption efforts and good governance as OIG staff. Nevertheless, the Panel has found unwillingness among some in the Secretariat, including among senior figures, to accept fully the mandate and role of the OIG as a crucial part of the Global Fund's structure...

The Executive Director and the Inspector General must strengthen their contacts and communication. The two leaders must send a clear message to all staff that they are working in a collaborative and harmonious manner to achieve the organization's core objectives. Building genuine trust between the Secretariat and the OIG is urgent and essential, and both parties have to work to solve the recent problems...

The Scope-of-Work of the OIG

The World Bank has five different units to accomplish the tasks in the OIG's purview. Recent external assessments... have raised questions about the OIG's mandate on two particular points: programmatic evaluation and internal audit.

Programmatic Evaluation

Evaluation and audit are different fields that each require specific skill sets. In reviewing the OIG's audit reports, the Panel agrees with criticisms that, at times, the quality of the program evaluation in the documents has been uneven...

Internal Audit

Outside observers, particularly from Europe, agree... that the IG's "role is a quite unusual mix of internal and external auditing." Americans, on the other hand, find the structure and purview of the OIG much more familiar and usual.

The vast majority of the OIG's work, audits and investigations of grants in the field, is akin to that of an external auditor...

Yet, the OIG is also the Global Fund's internal auditor, because the office has the oversight of the Global Fund Secretariat in its Charter, both for the purpose of audit and investigations... The OIG produces cross-cutting reviews of business processes. Since 2007, the OIG has published five such reports...

These documents... evaluate current practice and underlying policy in a given area of the Secretariat's work, consider whether that process poses risks for the Global Fund, point out areas for improvement and make specific recommendations to management.

One key difference, however, between the OIG and the internal-audit functions of comparator institutions is that the office releases its reports on the Secretariat to the public, rather than only circulating them "inside the house" as tools for the improvement of management...

Preparing the OIG's Reports

All stakeholders, including the Secretariat, recognize the rigor and quality of the OIG's financial audits and investigations. The depth of work involved in cases such as Mali and Mauritania is remarkable...

Nevertheless, a recurring source of complaint in the field and at the Secretariat is how long it takes the OIG to draft, review, and publish its reports... Many of the audits have taken between nine months and one year, from initial preparation through field work to drafting and release. The Panel considers this too long...

The Panel strongly supports the OIG's intention to roll out a series of Diagnostic Reviews during 2011 and 2012, shorter exercises aimed at drilling down into areas of particular risk in the Global Fund's grants in a country. Field work for these reports will take only a few weeks, and the schedule for writing and releasing them is much more compressed than for the OIG's traditional audits...

The long delays in some of the investigations over the past two years have paralyzed multiple grant programs. The Secretariat and the OIG must find methods to allow for the cessation of funding to activities that appear to have been compromised, while allowing other aspects of a grant to continue, perhaps under different management...

The Panel questions whether the reports that go to the Board and the public need to contain all of the detailed information the OIG has uncovered in each case. The Panel also finds that some of the audit and investigative reports contain language that is unusually (and, at times, unnecessarily) harsh and provocative...

The Conduct of the OIG's Field Teams

The Panel was surprised by the negative reaction, in country after country, to the way the OIG's teams who visited those places... conducted themselves in the course of audits and investigations. The point came up so strongly and frequently that the panel believes it merits inclusion in this report. PRs, CCMs and SRs claimed that they had originally welcomed the audit process as an opportunity to take advantage of a fresh, outside look at how well they were managing their programs and how they could eliminate any weaknesses. But, in the view of many of the implementers, this goodwill was squandered because of the aggressive attitude and antagonism of the OIG's teams...The OIG can achieve better results with more sensitivity and diplomacy...

The Panel is heartened that observers have noted the recent OIG audits in Namibia, Bangladesh, South Africa, Kazakhstan, and Burundi showed a change in approach: the OIG was more proactive, explained its work well to the country stakeholders, and left its recommendations in writing after the audit...

+++++

5. EXCERPTS: Excerpts From the High Level Panel's Recommendations

The High Level Panel made six broad recommendations:

1. Turn the Page from Emergency to Sustainable Response
2. Define a Doctrine of Risk and Manage to it
3. Strengthen Internal Governance
4. Institute a New Grant-Approval Process

5. Empower Middle-Management's Decision-Making
6. Get Serious About Results

Excerpts from what the Panel said about each are as follows.

RECOMMENDATION 1: TURN THE PAGE FROM EMERGENCY TO SUSTAINABLE RESPONSE (Full text available [here](#).)

The early years of the Global Fund's life were a period during which the institution went from a standing start to deploying resources quickly in dozens of countries at the same time, in response to an evident worldwide emergency. Donors and recipients felt the urgency. Goals and expectations were unclear, and oversight mechanisms imperfect...

No Amnesty for Fraud, but Focus Oversight on More-Recent Rounds of Grants

The Global Fund's oversight mechanisms should look to the future, focused on Rounds Six (2007) and afterwards... The Global Fund's Board, Secretariat and OIG should agree to a... reconciliation strategy... that would involve the following elements:

- The Fund must not ignore wrongful acts that are significant, no matter how long ago they might have occurred...
- The Global Fund needs to create a set of clear, simple and practical basic standards... Once these are approved by the Board, the Global Fund should develop a mandatory... training program for PRs, SRs, CCMs, LFAs and Global Fund staff.

Strengthen the Relationship Between the Secretariat and the Inspector General

The OIG, the Secretariat and the Global Fund's Board must transform the nature and culture of their relationship into a partnership whose objective is the continued efficient functioning of the organization and the attainment of positive results. Should the unacceptable relationship between the Inspector General and the Executive Director persist, the Global Fund's Board must deal with this problem as a management issue of urgent priority...

The Global Fund should:

- Recognize the obligation of the Global Fund's Board and management to respond promptly to, and act appropriately upon, the recommendations of the OIG...
- Establish protocols and methods of work between the Global Fund Secretariat and the OIG...
- Focus the 2012 operational plan proposed by the OIG on more recent transactions...
- Adopt distinct policies for the release of the different categories of OIG reports, as follows:
 - a. The Global Fund normally should not publish audits of internal business practices within the Secretariat...
 - b. The Global Fund should maintain its current posture of publishing all audit reports on its grant portfolio;
 - c. The Global Fund should continue to publish reports that result from investigations, but should create separate versions of such reports for the Board and Secretariat, law-enforcement officials and the general public...

RECOMMENDATION 2: DEFINE A DOCTRINE OF RISK AND MANAGE TO IT (Full text available [here](#).)

Adopt a New Risk-Management Framework

The Panel recommends the Global Fund develop a new Risk-Management Framework, in two levels:

- Corporate risk-management...
- Operational risk-management...

Redefine “Country Ownership”...

A grant from the Global Fund is not an unalienable right, and recipients must earn “country ownership”...

Apply the Risk-Management Framework to the Existing Portfolio

- Categorize recipient countries into groupings by risk, capacity and burden through a formal matrix...
- Apply differentiated safeguards to the different categories of countries, including for the management of SRs...
- Focus inspection and audit resources in the areas of highest risk...

The Panel calls attention to the procurement, storage, distribution and delivery of pharmaceuticals health commodities as the single-biggest category of vulnerability...:

- Insist on pooled procurement as the norm, except where the Fund certifies a local institution according to Fund standards;
- Mandate the outsourcing of drug storage and delivery as the norm, except where the Fund certifies a local institution according to international standards...

RECOMMENDATION 3: STRENGTHEN INTERNAL GOVERNANCE (Full text available [here](#).)

Focus the Board on Management, Strategy and Risk-Management...

The Board should make more time on its agenda to focus on its core roles of policy-setting, evaluating management, strategy and risk-management and the essential element of improved financial control and fiduciary oversight.

Re-purpose the Committees...

The Global Fund [should] collapse its current Committees into three: an Audit Committee, and Investment Committee, and a Finance Committee:

Investment Committee

- Replaces the Strategy and Policy [*This should be Policy and Strategy – Editor*] and Portfolio Committees
- Nine Board Members, led by the Chair or Vice Chair of the Board (whichever is from a donor constituency); three seats for donors responsible for more than eight percent of total contributions, two seats for other donors, four seats for implementers/civil society; plus the incumbent Chair of the TRP as a non-voting Member...
- Reviews the status of the implementation of grants...
- Approves a risk-stratification matrix of the countries/territories in which the Global Fund makes grants
- Based on that risk-stratification, in the first quarter of every year makes a proposal for allocating funding according to categories of programs and/or countries and/or

interventions; the Board may only accept the proposal, without amendment, or remand it back to the Committee for re-consideration

- Determines the thresholds for delegating the power to Fund Portfolio Managers to make modifications and reallocations within grants...
- Approves terminations of grants
- Delegates authority to the Executive Management Team to approve project-preparation funding up to a certain threshold...
- Has the authority to initiate re-programming or re-allocation between existing and future grants...

Audit Committee

- Seven Members, the majority of whom are independent of the constituencies on, and not members of, the Global Fund's Board... One of the independent Members will act as Chair...
- Oversees the Office of the Inspector General (OIG)...
- Reviews draft OIG reports...
- Approves a set of minimum standards for the scope-of-work for external auditors of PRs...
- Ensures the public disclosure, after the appropriate redaction of information of a sensitive nature... of investigative reports prepared by the OIG...

Finance Committee

- Nine Board Members...
- Reviews and makes recommendations to the Board on the annual budget and staffing plan for the Global Fund Secretariat...
- Leads the Board's efforts in resource-mobilization...
- Reviews the Global Fund's application processes...

RECOMMENDATION 4: INSTITUTE A NEW GRANT-APPROVAL PROCESS (Full text available [here](#).)

The Panel found that seventy-nine percent of current and former members of the TRP consulted support moving to a multi-stage award model.

The Panel recommends the modification of the current TRP review and the grant-negotiation processes with a new, more streamlined, two-stage award process... Applications would only be permitted according to the allocation of funding by categories of programs and/or countries and/or interventions as approved by the Investment Committee.

Institute a Two-Stage Grant Process

Stage I: Grant Concept Paper

- Based on the previously approved risk-stratification matrix, in the first quarter of every year the Global Fund's Board would establish an allocation of funding according to categories of programs and/or countries and/or interventions.
- The applicant CCMs in each category would prepare a broad-brush Concept Paper... This would be much simpler for CCMs to produce than the present application, and should therefore encourage more genuinely home-grown proposals, rather than those drafted by external consultants.

- The TRP would then undertake a rapid, but informed, assessment... taking into account past performance, the risk environment, and the prospects for value-for-money for the investment. During this stage, the TRP would consult with the relevant LFA, Country Team(s) and the Chief Risk Officer.
- The TRP would recommend the best proposals to the Executive Management Team of the Global Fund Secretariat for approval in principle... and would set a budget-ceiling figure for the eventual grant.
- On the basis of the Concept Papers, PRs in higher-risk countries with limited capacity could receive smaller tranches of project-preparation funds initially, to build basic accountability, fiduciary and operations systems. Only after successful implementation of these would they receive more money for expanded service delivery.
- Equally, PRs in less-risky countries with adequate institutional infrastructure and systems, as well as a record of strong performance in their management of previous Global Fund grants, could have their Concept Papers forwarded by the EMT to the Investment Committee and then to the full Board to receive more capital up-front.

Stage II: Full Grant Proposal

- Following the approval of a Concept Paper and the successful implementation of the project preparation funding, most applicant CCMs... could prepare a fully-fledged grant proposal, including... a capacity-assessment of the proposed PRs and main SRs. The proposal would cover all those matters currently dealt with during grant negotiations. The relevant FPM would provide advice and guidance during the preparation of the proposal. The interaction would not be a negotiation, as at present, but rather a collaboration, in which both parties—recipient CCM and Global Fund Secretariat – would be under an obligation to ensure the final proposal is in line with the Board approved concept and sound public-health practice.
- The TRP would review the full grant proposal... and then report in writing to the Investment Committee, to draw attention to any concerns, and to recommend the imposition of any conditions deemed appropriate. The TRP would also confirm the total amount of the budget for each grant and, within it, ceilings for the main items of expenditure...
- Board Members would then approve the package forwarded from the Investment Committee, after which the Secretariat would process the proposed grant for signature and payment.

Apply Risk-Differentiated Grant Processes and Requirements

The Panel further recommends treating the categories of countries in the Fund's risk matrix differently in the new grant-application process, such that PRs would be eligible for funding under different conditions, and in different amounts.

RECOMMENDATION 5: EMPOWER MIDDLE-MANAGEMENT'S DECISION-MAKING (Full text available [here](#).)

Establish a Chief Risk Officer...

Align The Staffing Pattern to Bolster Grant-Management

The Global Fund must reorient the Secretariat to return its focus to its most important work: grant-management:

- The overall ratio of Country Program staff to other units within the Secretariat must increase...
- The most-experienced FPMs should work on the most difficult and riskiest countries...
- The Secretariat must re-engineer its human-resources processes...

Empower the Fund Portfolio Managers (FPMs)

- FPMs, with advice from LFAs, should determine at the outset of a grant the priorities for risk-management and grant oversight...
- FPMs should be empowered to make procedural adjustments to reflect the Global Fund's risk and grant management priorities...
- FPMs should have the authority to make financial adjustments to grants after signature...
- FPMs, POs and PAs should collectively spend 40 to 50 percent of their overall time in-country and another 20 percent of their time interacting from Geneva with key stakeholders in the countries within their portfolios...
- The Secretariat must re-calibrate the KPIs for the program staff away from rewarding them just for funds disbursed and towards success-and outcome KPIs based on achievements in a given portfolio; do not penalize staff for making difficult decisions that could slow down disbursements.

Reinforce the Executive Management Team (EMT)

The Global Fund must reinforce the EMT as the Secretariat's prime executive decision-making body...

The Panel recommends the Executive Director draw up new Terms of Reference (TORs) for the EMT...

The EMT should be the body that should make major decisions on grant-making (approval of grant Concept Papers, major modifications to grants, suspensions of grants)...

Leverage the Investment in the Local Fund Agents (LFA s)

The Global Fund must use the LFAs as partners, and not just contractors.

Define and clarify the role and responsibility of External Auditors...

RECOMMENDATION 6: "GET SERIOUS ABOUT RESULTS" (Full text available [here.](#))

Measure outcomes, not Inputs

- Require and pay for baseline data surveys of the incidence and prevalence of the three diseases at the country level;
- Mandate and underwrite simple (such as cellphone-based) data-tracking and -management systems in the field;
- Coordinate much more closely with other donors on data, including joint analyses to attribute results more precisely, and avoid double-counting...

Focus on Quality and Value, rather than Quantity...

+++++

6. REVIEW: Aidsplan Reviews an Academic Study on the Effect of Investment in Malaria Control on Child Mortality

A new publication from Aidsplan, by Dr David McCoy, reviews a published academic study on the impact of Global Fund grants for malaria prevention. The study indicates that the cost per child life saved through using bednets and conducting indoor residual spraying is much higher in "low-burden" countries (where malaria causes less than 10% of all under-five child deaths) than in high-burden countries.

The aim of the study, which was conducted by Yoko Akachi and Rifat Atun of the Global Fund, was to examine the relationship between a set of inputs, outputs and outcomes related to malaria control and child health in 34 sub-Saharan African countries between 2002 and 2008.

The *inputs* were disbursements of official development assistance (ODA), including Global Fund grants, for malaria control. The *outputs* consisted of insecticide-treated bed nets (ITNs) and indoor residual spraying (IRS). (The actual treatment of malaria was not analysed because of the lack of data, changes in recommended treatment over time and limited levels of treatment during the period studied). The *outcomes* were mortality rates, and the number of lives saved from malaria, among children under five years old. Data on other variables that affect child health outcomes were also analysed.

Using regression analysis and computer-based modelling, the study was able to show, across 34 countries, a relationship between, on the one hand, increased ODA disbursements for malaria control and increased ITN/IRS coverage and, on the other hand, decreased child mortality.

McCoy's review explains the study's methodology and summarises its findings. McCoy notes that the findings suggest that the cost per life saved of expanding ITN/IRS coverage in low burden countries may be about six times higher than the cost in high burden countries. He also says that the findings suggest that increases in the coverage of routine immunisations or increases in access to clean water would save more child lives than would similar percentage increases in ITN/IRS coverage. (However, this does not automatically mean that increasing immunisation coverage or access to clean water is more cost-effective than expanding ITN/IRS coverage.)

However, according to McCoy, while the Global Fund is "leading the way in assessing the value and impact of external development assistance for health," studying the impact of external ODA on health impact is difficult and constrained by a number of data-related and methodological challenges that need greater appreciation.

For example, McCoy argues that while analysing aggregated data from multiple countries has "some uses in providing a broad and single overview of the relationship between inputs, outputs and outcomes," countries and programmes vary to such a degree that "there can be no universal pattern in the relationship between inputs, outputs and outcomes." In this case, McCoy suggests that it is important to accept this variation and instead to "study the reasons *why* there is variation." This would emphasise less the quantitative and statistical relationships between inputs, outputs and outcomes; and instead provide a better qualitative understanding of the relationship between inputs, outputs and outcomes in a particular country.

"Aidspan Review of a Study by Y. Akachi and R. Atun on the Effect of Investment in Malaria Control on Child Mortality" is available on the Aidspan website [here](#).

++++++
END OF NEWSLETTER
++++++

This is an issue of the *GLOBAL FUND OBSERVER (GFO)* Newsletter.

We welcome suggestions for topics we could cover in GFO. If you have a suggestion, please send it to the GFO Editor (see contact information below).

Author: Articles 1, 2 and 6 in this issue were written by Bernard Rivers (bernard.rivers@aidspan.org).

GFO is an independent source of news, analysis and commentary about the Global Fund to Fight AIDS, TB and Malaria (www.theglobalfund.org). *GFO* is emailed to over 8,000 subscribers in 170 countries at least twelve times per year.

GFO is a free service of Aidspan (www.aidspan.org), a Kenya-based NGO that serves as an independent watchdog of the Global Fund, and that provides services that can benefit all countries wishing to obtain and make effective use of Global Fund financing. Aidspan finances its work primarily through grants from foundations.

Aidspan does not accept Global Fund money, perform paid consulting work, or charge for any of its products. The Board and staff of the Fund have no influence on, and bear no responsibility for, the content of *GFO* or of any other Aidspan publication.

GFO is currently provided in English only. It is hoped to provide it later in additional languages.

GFO Editor and Aidspan Executive Director: Bernard Rivers (bernard.rivers@aidspan.org, +254-20-418-0149)

Reproduction of articles in the Newsletter is permitted if the following is stated: "Reproduced from the *Global Fund Observer* Newsletter (www.aidspan.org/gfo), a service of Aidspan."

Are you a newcomer to Global Fund issues? See Aidspan's "A Beginner's Guide to the Global Fund – 2nd Edition" at www.aidspan.org/guides.

To stop receiving *GFO*, send an email to stop-gfo-newsletter@aidspan.org. Subject line and text can be left blank.

To receive *GFO* (if you haven't already subscribed), send an email to receive-gfo-newsletter@aidspan.org. Subject line and text can be left blank. (You will receive one to two issues per month.)

For *GFO* background information and previous issues, see www.aidspan.org/gfo.

For information on all approved proposals submitted to the Global Fund, see www.aidspan.org/grants.

People interested in writing articles for *GFO* are invited to email the editor, above.

Copyright (c) 2011 Aidspan. All rights reserved.