

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

Issue 164: 11 November 2011. (For formatted web, Word and PDF versions of this and other issues, see [www.aidspace.org/gfo](http://www.aidspace.org/gfo).)

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## CONTENTS

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*Editor's note: This issue of GFO contains two articles on the audit report on grants in Nigeria that was released by the Global Fund's Office of the Inspector General (OIG) on 31 October 2011. See [GFO Issue 163](#) for an overview of all 12 OIG reports released that day. Future issues of GFO will report in more detail on the remaining individual OIG reports, including one on an OIG investigation (rather than an audit) conducted in Nigeria.*

### [1. NEWS: OIG Releases Audit Report on 15 Grants in Nigeria](#)

In its audit report on grants in Nigeria, released on 31 October 2011, the Global Fund's Office of the Inspector General identified \$7 million in what it called "losses." The OIG also identified weaknesses in financial management, sub-recipient management and procurement.

### [2. NEWS: Nigeria PRs, CCM Provide Comments on OIG Audit Report](#)

In this article, the Nigeria CCM and the PRs for which the OIG identified losses comment on the audit findings. The PRs dispute some or all of the OIG's determinations concerning losses.

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## **1. NEWS: OIG Releases Audit Report on 15 Grants in Nigeria**

*"Losses" of \$7 million identified by OIG*

**PRs contest many of the "losses"**

*Editor's note: By their very nature, audits tend to focus on what is not working well, and to devote much less space to what is working satisfactorily. This summary of the OIG audit in Nigeria reflects that "bias."*

On 31 October 2011, the Global Fund's Office of the Inspector General (OIG) released the final report of an audit on 15 grants in Nigeria from Rounds 1–8, administered by six different principal recipients (PRs). The six PRs were:

- **Yakubu Gowan Centre for National Unity and International Cooperation (YGC)** – four grants: HIV, Round 1; malaria, Rounds 2, 4, 8
- **National Action Committee on AIDS in Nigeria (NACA)** – four grants: HIV, Rounds 1 (two grants) and 5; HSS, Round 8
- **Society for Family Health (SFH)** – three grants: HIV, Round 5; malaria Rounds 4, 8
- **National Malaria Control Programme (NMCP)** – one grant: malaria, Round 8
- **Association for Reproductive and Family Health (ARFH)** – two grants: HIV, Round 5; TB, Round 5
- **Christian Health Association of Nigeria (CHAN)** – one grant: TB, Round 5

Of the six PRs, two – NACA and the NMCP – were governmental.

The time period covered by the audit was 2003 to 2009. The value of all 15 grants was \$682 million, of which \$465 million had been disbursed at the time of the audit. It is not clear whether the OIG examined all \$465 million.

The OIG identified what it called “losses” totalling \$7.0 million that it said should be repaid to the Global Fund by three of the PRs: YGC, NACA and CHAN. All three PRs contested many of the OIG’s findings concerning losses.

The audit report identified a number of weaknesses, primarily in financial management, procurement and sub-recipient (SR) management, and advanced 53 recommendations to address the weaknesses.

This article provides a summary of the OIG’s comments on the performance of each of the PRs, and on the oversight provided by the CCM, the LFAs and the Global Fund Secretariat. In the article that follows this one, GFO provides comments from the PRs and the CCM (as well as from the Secretariat) on the audit findings and recommendations.

### **Yakubu Gowan Centre**

The four grants administered by YGC had a total value of \$172 million, of which \$145 million had been disbursed at the time of the audit.

In its audit report, the OIG said that YGC’s capacity in the areas of governance, financial management, sub-recipient management and procurement was inadequate to safeguard the Global Fund’s resources. The OIG identified losses of \$3.7 million in the grants managed by YGC, made up of \$0.3 million in ineligible expenditures and \$3.4 million in unsupported expenditures. The OIG defines “ineligible” expenditures as costs not in line with the budget and work plan approved by the Global Fund; and it defines “unsupported” expenditures as those lacking adequate supporting documents to provide evidence that the activity took place and that the expenditure was in line with programme activities.

The \$0.3 million in expenditures deemed ineligible relate to a contract between YGC and CHAN-Medi-Pharm under the Malaria Round 4 grant to distribute health products from the state medical stores to health facilities. The OIG said that Medi-Pharm was paid for deliveries at commercial rates, and that Medi-Pharm was also registered as an SR with all of its operational costs met by YGC. The OIG said that Medi-Pharm did not reduce its delivery rates to reflect the fact that its operational costs had been met by YGC. The OIG concluded that the grant was overcharged by \$256,722.

Expenditures that the OIG deemed unsupported included \$659,905 in management fees. According to the OIG, YGC drew this amount from the grant bank accounts and categorised it as “management fees,” but declined to provide the OIG with (a) transaction lists against which the amounts could be verified; (b) cash books or ledgers; (c) bank statements; or (d) support documents.

In addition, the OIG said, there were no supporting documents (i.e., no payment vouchers, invoices, receipts, etc.) for one set of expenditures amounting to over \$2.0 million. The OIG said that YGC had poor record-keeping management and lacked a proper archiving system for key Rounds 1, 2 and 4 documents.

Further, the OIG said, YGC should refund the Global Fund for portions of funds that it transferred to two SRs: the NMCP – in the amount of \$337,816; and the Civil Society Consultative Group on HIV/AIDS in Nigeria (CiSHAN) – in the amount of \$302,617. With

respect to the NMCP, the OIG said that the funds were recorded as disbursed by YGC, but not received at the NMCP; and that management at the NMCP did not acknowledge receipt of these monies. In the case of CiSHAN, the OIG said that CiSHAN did not have documentation to support expenditures for the amounts involved.

YGC challenged all of the OIG's findings concerning losses (see next article).

The OIG noted some irregular transactions that remained unexplained at the close of the audit. These involved transfers of funds to various third party foreign bank accounts totalling \$15.8 million. The OIG conducted a separate investigation concerning this finding. GFO will write about this investigation in a future issue.

The OIG also noted that:

- YGC's financial management system could not capture, process and report all programme transactions;
- YGC's financial statements were prepared by its external auditors, contrary to best practice; and
- YGC's internal audit system lacked the capacity to fulfil its mandate.

With respect to SR management, the OIG said that YGC had failed to assess SRs on its capacity to implement grants, and that this resulted in the selection of SRs that lacked the requisite capacity. The OIG also said that YGC failed to sign grant agreements with the SRs detailing programme budgets, work plans and targets.

### **National Action Committee on AIDS**

The four grants administered by NACA had a total value of \$186 million, of which \$113 million had been disbursed at the time of the audit.

The OIG said that NACA had capacity gaps in terms of skills and numbers in its key functional areas. The OIG identified losses of \$763,087 in the grants managed by NACA, made up of \$72,241 in ineligible expenditures and \$690,846 in unsupported expenditures. The expenditures deemed ineligible by the OIG related to the use of Round 5 funds to pay for the preparation of grant proposals for Rounds 8 and 9.

Most of the expenditures in the unsupported category concerned advances that were not accounted for. The OIG said NACA expensed all advances upon payment and did not maintain a ledger to track advances. (NACA responded to this finding; see next article.)

The OIG noted that NACA's audits were often carried out late, and that management did not address the recommendations that arose from the audits.

With respect to financial management, the OIG said that NACA lacked an accounting system that could separate the transactions by grant; that NACA purchased an accounting system which was not fully installed at the time of the audit (almost six years later); and that transactions were recorded in both this system and in Microsoft Excel. This dual system, the OIG said, was not only inefficient and prone to error, but also could not produce reports.

With respect to SR management, the OIG said that NACA lacked a manual to guide SR management and that this resulted in significant internal control weaknesses.

## **Society for Family Health (SFH)**

The three grants administered by the SFH had a total value of \$132 million, of which \$87 million had been disbursed at the time of the audit. The OIG did not identify any losses in the SFH grants that needed to be repaid.

The OIG said that the SFH had the requisite capacity, experience and structures in place to effectively implement Global Fund grant activities. However, the OIG said, there were instances where internal controls were over-ridden, which resulted in some very small losses to the programme. The OIG recommended that SFH strengthen the control environment within which grants are implemented in order to further safeguard grant resources.

## **National Malaria Control Programme**

The one grant administered by the NMCP had a total value of \$102 million, of which \$69 million had been disbursed at the time of the audit. The OIG did not identify any losses with respect to this grant.

The OIG said that the NMCP capacity and control environment was inadequate to safeguard Global Fund resources in the areas of governance, financial management and procurement. Specifically, the OIG said that the financial management structures within the programme management unit did not have sufficient checks and balances; that the NMCP did not comply with some conditions stipulated in the grant agreement; and that the NMCP also did not meet all the conditions related to disbursements which were meant to address capacity gaps identified by the LFA in its assessment of the NMCP.

The OIG said that it noted several instances where documentation provided in support of expenditures was not authentic.

The OIG noted several weaknesses with respect to the NMCP's procurement services, including that the processes were not transparent; that the OIG was unable to locate some suppliers at their registered offices; and that some transactions resulted in the purchases at prices at higher than prevailing rates.

## **Association for Reproductive and Family Health**

The two grants administered by the ARFH had a total value of \$66 million, of which \$27 million had been disbursed at the time of the audit. The OIG did not identify any losses in the ARFH grants.

The OIG said that the ARFH had the requisite capacity, experience and structures in place to effectively implement Global Fund grants. However, the OIG said, the ARFH needs to strengthen its control environment, particularly with regard to SR management, in order to safeguard grant resources.

The OIG noted some irregular transactions, where ARFH withdrew large sums of cash from its U.S. dollar account. The equivalent local currency was returned in instalments some time later – sometimes as much as a month later. In the view of the OIG, this exposed programme funds to the risk of loss, especially since there was no documentation to support the rate at which the funds were converted. The OIG said that it was not provided with an explanation for this unusual practice.

## **Christian Health Association of Nigeria**

CHAN was PR for the first phase of a Round 5 TB grant. The CCM nominated a different PR for Phase 2 due to, in the words of the OIG, "poor performance." During Phase 1, which ran

between 1 January 2007 and 30 June 2009, the Global Fund disbursed \$23.9 million against a budget of \$25.7 million.

In its audit report, the OIG identified losses of \$2.5 million in the portion of the grant managed by CHAN, made up of \$0.8 million in ineligible expenditures and \$1.7 million in unsupported expenditures.

The ineligible expenses consisted of \$395,668 in salaries for staff that were not involved in the programme funded by the grant; and \$444,919 in expenditures for “project support costs.” With respect to the latter, the OIG said that CHAN management decline to provide it with (a) transaction lists against which the amounts could be verified; (b) cash books or ledgers; (c) bank statements; or (d) support documents.

About two-thirds of what the OIG labelled “unsupported” expenditures consisted of disbursements to SRs where, the OIG said, the SRs did not submit proper documentation to account for the funds. The OIG said that these expenditures were not supported by payment vouchers or relevant third party support documents. The OIG said that accountability for funds disbursed to one particular SR is the subject of an on-going investigation.

CHAN contested some parts of the losses identified by the OIG (see next article).

The OIG said that the audit revealed evidence of management over-ride of controls, including instances when management approved transactions that contravened the grant agreement. In addition, the OIG said, CHAN’s procurement and logistics management was weak and resulted in transactions that did not represent value for money. For example, CHAN procured equipment worth \$522,412 for setting up six zonal MDR-TB laboratories, but the equipment was not installed in five of the laboratories because the laboratory architecture was not appropriate.

## **Oversight**

**CCM.** The OIG said that although the CCM undertook some oversight activities – i.e., site visits – these activities did not result in any actions to strengthen grant performance.

**LFA.** The audit report said that following an LFA retender process in 2008, PricewaterhouseCoopers (PwC) replaced KPMG as Nigeria’s LFA. The OIG said that, although required by the LFA guidelines to do so, KPMG failed to undertake data quality audits, draw attention to the absence of annual financial audits of grant recipients, flag incomplete financial records of some PRs, or identify financial irregularities and inappropriate indicators and targets. The OIG said that in-country partners reported an improvement in the interaction with the LFA after the appointment of PwC. The OIG noted what it termed “commendable good practice” in the LFA services delivered by PwC in Nigeria, including having customised software for reviews, identifying some critical performance issues, and recognising fraud risk as a grant-related risk. However, the OIG said it was concerned about the fact that PwC did not identify many of the more recent shortcomings identified by the OIG.

**Secretariat.** The OIG said that between early 2003 and the end of 2008, established guidelines and controls in the operational manual were not followed, and that this contributed to the weaknesses in the control environment within which grants were being implemented. The OIG said that in 2009, the West and Central Africa team at the Secretariat undertook a review of risks that were affecting grants in Nigeria, and that this resulted in risk mitigation measures being implemented for each of the PRs. The OIG said that the Secretariat should be commended for these efforts.

The OIG audit report on Nigeria, and all of the other OIG reports released on 31 October 2011, are available on the Global Fund website [here](#).

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## 2. NEWS: Nigeria PRs, CCM Provide Comments on OIG Audit Report

*Global Fund Secretariat also provides feedback*

### **Yakubu Gowan Centre to be replaced as PR**

The audit report on 15 grants in Nigeria, prepared by the Global Fund's Office of the Inspector General (OIG), identified losses that it said should be repaid to the Global Fund with respect to three PRs: the Yakubu Gowan Centre, the National Action Committee on AIDS, and the Christian Health Association of Nigeria (see previous article). In this article, we report on the response of these PRs and the Nigeria CCM to some of the OIG's findings. We also report on feedback from the Global Fund Secretariat. In some instances, we summarise the responses from the OIG to comments made by the PRs.

(Unless otherwise indicated, the comments shown below from the CCM, PRs and Secretariat were included in the audit report.)

#### **Principal recipients**

*Yakubu Gowan Centre (YGC)*

YGC said that it challenged "without reservation" the OIG's finding with respect to \$3.7 million in ineligible and unsupported expenditures, and that this finding was "baseless and without foundation."

Concerning one portion of this amount – the \$659,905 in management fees, which the OIG said were unsupported – YGC made the following comment:

"This amount was clearly discussed during negotiations between top management of both parties. It was agreed that the amount could be deployed for general administration of the project and was paid on [a] quarterly basis. It amounts to renegeing on the agreement for YGC to be asked to pay back this amount because it failed to account for same."

The CCM commented as follows:

"The sum of \$659,905 was deployed by YGC as management fees in line with grant implementation conditionalities, although documentations on the expenditures concerning management fees are yet to made available to CCM. Therefore, in tune with country fiduciary procedure, unretired expenditures should be refunded. However, [the] CCM strongly advises that YGC and TGF could interact further to re-address the situation. Failure in this direction may necessitate the engagement of the Country recovery system."

In response, the OIG said that the grant agreement between the Global Fund and YGC states that, "the principal recipient shall maintain accounting books, records, documents and other evidence adequate to show, without limitation, all costs incurred by the PR under the Agreement." The OIG said that, in this instance, YGC had failed to do so, and that the OIG therefore "cannot give assurance of the accuracy, and appropriate use of these amounts."

With respect to the claim by the OIG that YGC over-charged for deliveries of health products by CHAN-Medi-Pharm, YGC said that these payments were in accordance with the contract and were reviewed and approved by the LFA. YGC said that it was never told that the contract with Medi-Pharm had any shortcomings until the OIG came. "It is thus unfair that YGC should be asked to refund [this] money," YGC said. "If the supposed shortcomings on this contract had been pointed out to us earlier, the contract would have been revised or nullified."

In response, the OIG said that its finding points to a double payment – i.e., contracting Medi-Pharm as a supplier paid at a commercial rates, and then also charging the grant with the supplier's office and staff costs.

With respect to a finding by the OIG that \$337,816 was recorded in the YGC books as paid to an SR, the National Malaria Control Programme (NMCP), but never received by NMCP, YGC said that the necessary documentation was provided as proof that these amounts were paid to the NMCP accountant and staff and to state Roll Back Malaria officials through various banks. YGC said that funds were disbursed on an activities basis, and that this was acceptable practice in Nigeria.

The OIG responded that YGC did not provide records or a cashbook extract for amounts that were "reportedly" transferred to NMCP. Only vouchers were presented to the OIG. Whenever the vouchers could be traced to the YGC cashbook and bank statements, the OIG said, it considered the transactions to be valid. However, the OIG said, that still left a balance of \$337,816 that could not be accounted for. The OIG said that YGC was provided with the outcome of its review in writing and the relevant documents were signed off by the YGC Chief Accountant.

YGC also commented on a finding by the OIG regarding \$302,617 transferred by YGC to another SR, the Civil Society Consultative Group on HIV/AIDS in Nigeria (CiSHAN). In the audit report, the OIG had said that CiSHAN did not have documentation supporting expenditures for this amount. YGC said that it could not directly produce these documents because the related activities were carried out by the SR (CiSHAN). YGC said that "it is therefore unfair to ask YGC for a refund of the amounts [involved]."

The OIG responded that YGC, as the PR, was provided with the outcome of the OIG review of CiSHAN records; that the outcome was detailed transaction by transaction; and that this therefore provided sufficient basis for YGC to interact with CiSHAN to follow up on recovery of these funds.

Finally, with respect to the OIG's finding that expenditures of \$2.0 million lacked adequate support documentation, YGC said that documents to support these amounts were provided by the YGC's Chief Accountant in accordance with accepted accounting practices in Nigeria. "However," YGC said, "the OIG team chose not to accept the supporting documents presented without valid reason."

The OIG responded that YGC had more than 16 months to present the necessary support documents for the OIG to review. The OIG said that in September 2011, the OIG reviewed original support documents that were presented in response to the draft report. The OIG found that (a) some of the support documents were fabricated from transactions that had previously been reviewed and cleared during the audit; and (b) supporting documents could still not be presented for many of the expenses charged to the grants. The OIG said that YGC management has been provided with a transaction-by-transaction listing of expenditures that remain unsupported.

*National Action Committee on AIDS (NACA)*

In the audit report, the OIG identified \$690,846 in unsupported expenses. Most of this amount concerned advances that the OIG said were not accounted for. NACA responded as follows:

“The ‘unsupported expenditures’ of \$679,000 are made up of payments to third parties for activities under the GF grant. Most of the payments were made under the GF Round 1 grant (2004–2007). NACA has identified all the organizations and individuals who received the payments and who carried out the activities. Some of the affected individuals and organizations have recently submitted reports/receipts and supporting documents for the amounts they collected. These supporting documents are available for OIG’s review. For the organizations and individuals that are yet to submit their reports/receipts and other supporting documents, NACA has engaged legal services to compel these individuals and organizations to retire the expenses or refund same to Global Fund.

“In addition, NACA is writing a formal letter to the Minister of Health to solicit his assistance in compelling all affected individuals and organizations within the Ministry of Health and its associated departments, teaching hospitals, and medical centres to submit their reports/retirements without further delay. We expect all the documents to be duly collected from the affected individuals/organizations within the next 4 months. After which time, the supporting documents will be presented to the OIG for review and clearance.”

The CCM commented in a similar vein, and added: “Please note that additional supporting documents covering the sum of \$200,000 has been received by NACA and therefore [should] be discounted from the sum to be refunded.”

The OIG responded that the additional supporting documents that it had received were composed primarily of photocopies; and that, where original documents were attached, “they had inconsistencies that cast doubt on their authenticity.”

*Christian Health Association of Nigeria (CHAN)*

In its audit report, the OIG identified losses of \$2.5 million. In its comments, CHAN accepted responsibility for some parts of this amount, but contested other parts. For example, with respect to unsupported disbursements to SRs, CHAN said that one of the SRs had objected to the amount attributed to it and “would like further justifications as to why some of their documents were rejected by the OIG team.”

CHAN objected to the OIG’s finding that \$449,919 in project support costs constituted an ineligible expenditure. CHAN said that project support cost of 1.7% were duly approved in the budget and the project documents signed before the project commenced. CHAN said,

“The amount of \$444,919 was used as part of systems strengthening to be able to perform GF activities optimally through trainings, governance meetings and other expenses which were detailed... Since there was no clear guideline at the beginning of the project to provide a work plan and budget on the use of support costs, the PR used its discretion to apply the funds where necessary.”

The CCM commented in a similar vein. In response, the OIG said that it sought to review books of account and documents for expenditure classified as project support costs. However, the OIG said, because no documents were provided, “no assurance could be provided by the OIG over the use of these amounts.”

When we were preparing this article, a spokesperson for CHAN told GFO that CHAN objected to the OIG characterising CHAN's performance in Phase 1 of its Round 5 TB grant as "poor." Research by GFO showed that during the first year, the grant received three B2 ratings from the Global Fund and one B1 rating. During the second year, it received three B1 ratings.

The spokesperson denied that CHAN had declined to provide support documents, as alleged by the OIG. He said that CHAN was making efforts to overcome the security challenges of getting the support documents from Jos, Nigeria (where CHAN has its offices) to Abuja when the OIG suddenly told CHAN that its team was leaving the country. The spokesperson said, "To our disappointment, they left much earlier than the time CCM had given us." The spokesperson said that CHAN had exchanged mails with the OIG on the security issues.

*Editor's note: There has indeed been much unrest in Jos, centred around clashes between Christians and Muslims, as attested by numerous reports in the media.*

## **CCM**

The audit report contained a letter dated 25 October 2011 from Mohammed Bukar, the CCM Chair, which said that most of the recommendations in the report have been implemented or are in the process of being implemented. Bukar said the recovery of ineligible and unsupported expenditures "will be fully addressed."

Bukar said that the CCM has improved its oversight of the Nigeria grants. He said that the CCM now conducts quarterly site visits to assess achievement against targets, and that this complements its quarterly reviews of the PU/DR reports and related reports. Bukar added that in March 2011 all PRs and SRs developed a risk management plan covering four key areas: programme management, financial controls, procurement and M&E. Bukar noted that the CCM will complete its own risk management plan by the end of 2011.

## **Global Fund Secretariat**

The audit report also included a letter dated 18 October 2011 from Mark Eldon-Edington, Director of Country Programs at the Global Fund Secretariat, which said that the Secretariat will start the process of recovering the losses identified in the audit report. Edington said that the Secretariat will negotiate reimbursement terms with each PR "to ensure both timely recovery and minimal disruption to the Global Fund programs." He added, that the amounts contested by the CCM and the PRs will be reviewed by the OIG and the Global Fund (in consultation with the LFA, as required) to determine the final amount to reimbursed.

With respect to the Round 8 malaria grant administered by YGC, Edington said that based on the draft OIG audit report issued on 25 May 2011, the Global Fund, CCM Nigeria and YGC had agreed on the transfer of the grant to a new PR. Edington said that on 13 October 2011 CCM Nigeria decided that the grant would be taken over by two existing PRs, NMCP and the Society for Family Health (SFH), for the remaining period of Phase 1; and that a new (and different) PR would be selected via a transparent and competitive process for Phase 2.

Edington said that YGC was cooperating with the Secretariat to bring about an orderly close of its grant by 30 November 2011; and that discussions were underway with NMCP and SFH with a view to completing arrangements for the transfer within the same time frame.

The letter from Edington also contained a summary of the challenges and risks identified in the audit report, along with comments from, and actions taken by, the Secretariat.

## Response to OIG recommendations

The audit report also contained an annex labelled “Global Fund Secretariat’s Comment to Country Action Plan.” The annex listed all 53 recommendations from the audit. For each recommendation, the annex showed (a) the response from the entity to whom the recommendation was directed (e.g., PR, Secretariat, CCM); (b) the responsible official or entity; (c) a completion date for actions listed in the response; and (d) comments from the Secretariat. There did not appear to be any contentious items in this annex.

*The OIG audit report on Nigeria, and all of the other OIG reports released on 31 October 2011, are available on the Global Fund website [here](#). GFO contacted the three PRs for which the OIG identified losses and asked them if they would like to comment on a draft of this article. We received comments from CHAN, which we incorporated into the article. We received a response from NACA stating that the draft article adequately summarised its views. We did not receive a response from YGC.*

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END OF NEWSLETTER  
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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 Editor of GFO (see contact information below).**

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