Turning the Page from Emergency to Sustainability

The Final Report of the High-Level Independent Review Panel on
Fiduciary Controls and Oversight Mechanisms of the
Global Fund to Fight AIDS, Tuberculosis and Malaria.

September 19, 2011

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Letter from the Co-Chairs
of the High-Level, Independent Panel

The Board of the Global Fund appointed us as a High-Level, Independent Panel with a mandate to assess the organization's fiduciary controls and offer recommendations for how the institution could provide appropriate assurance to all its stakeholders. We understood our task as the following:

- Give the Board insight into and knowledge of the character and dimension of fiduciary problems within the organization's grant portfolio;
- Offer concrete suggestions to solve systematic problems in grant selection and oversight, including any flaws in the Global Fund's business model;
- Provide advice on how to mitigate risk without being risk-averse; and
- Contribute to the concurrent strategy-development and reform processes led by the Global Fund's Board and Secretariat.

Through extensive review of published and unpublished documentation, hundreds of in-person and telephone interviews and more than a dozen field trips, we believe we have gained the necessary experience and perspective to fulfill that charge. The insights gained on these trips greatly influenced our final report. Following the flow of the Global Fund's financing down to the lowest level; meeting with organizations with which the Fund collaborates in-country; and interviewing personnel from the Principal Recipients (PRs), sub-recipients, Country Coordinating Mechanisms (CCMs), Local Fund Agents (LFAs), National Auditors, external auditors and Ministers allowed us to ground-truth our ideas and recommendations. Furthermore, the testimony of people whose lives the Fund has saved or improved was a powerful reminder of the immense value of the institution of the Global Fund, and of the trust the Board placed in us to help make it even better and more effective.

The report we present here contains our best judgments as to the strengths and weaknesses of the Global Fund today, and a set of practical recommendations for making real improvements, as well as for reinforcing the positive changes currently under way. We have studied a number of recent reviews and reports on the Global Fund, and readers will find similarities between some of our recommendations and those of others. Every suggestion is something that we believe, from our independent viewpoint, will improve the financial and programmatic oversight and risk-management of the institution. We have organized our recommendations by priority, and we have offered our sense of which of these suggestions should be implemented over the short-, medium- and long-terms, and by whom.

As required by the Board, we completed our work in fewer than six months, but we are confident that we have identified the most important challenges to the effectiveness and strength of the Global Fund. We are confident that the implementation of our recommendations, together with the actions taken already by management and the Board, will protect the Global Fund's resources, provide assurance to donors of the viability and effectiveness of the organization, and position it to sustain its important role in a rapidly evolving international economic environment. When adopted by the Fund's Board, our recommendations should be incorporated into the Plan for Comprehensive Reform, and should serve as building blocks for the Strategy the Board will draft by the end of 2011.

We have not undertaken a cost-analysis of our recommendations, either individually or as a group, but we recognize they will have budgetary implications. While additional resources might be necessary for the implementation of the steps recommended in this report, we wish to express our opinion that the Global Fund should endeavor to use recoveries and internal reallocation from within current operational expenses to cover such costs.

We wish to express our satisfaction with and gratitude for the efforts of the dedicated group of staff from the Global Fund who provided logistical support to this project. We also wish to thank the dozens of people, including staff from the Global Fund, leaders of non-profit groups, current and former members of the Technical Review Panel, and headquarters personnel from the LFA who made time for face-to-face and telephone interviews with us and our staff. We appreciate their candor, ideas and patience.

We would especially like to acknowledge the efforts of so many to enable us to spend time in the field. In most cases, a Fund Portfolio Manager (FPM) and members of the Executive Secretariat of a CCM arranged the schedule for us, made crucial contacts and reservations, wrote background memoranda and accompanied us on our trips, all of which are burdens above and beyond their normal duties. The compressed timelines of our schedule made these trips even more challenging to arrange.

In addition, we are grateful for the hospitality of national Governments (especially Ministries of Health), non-profit organizations, development partners, and people living with and affected by the disease, all of whom welcomed visits by us and our staff on relatively short notice, even on weekends. We thank all those who opened their offices, hospitals, clinics, homes and communities to us.

Finally, we extend our deep appreciation to the members of the Support Team who have worked so diligently on our behalf for the duration of this project.

Introduction

The Global Fund in the New Economic Reality

NOBLE PURPOSE AND POSITIVE RESULTS

"The difference in my country between before the Global Fund and after is like the distance from the Earth to the Moon."

— Principal Recipient

The Global Fund to Fight AIDS, Tuberculosis and Malaria is the largest and most important of what some observers have called "The New Multilaterals": programs established since the year 2000 with inclusive governance structures, and intended to advance specific goals in the Millennium Declaration by pooling donor funding for investments at the country level. The Global Fund has led a significant evolutionary step forward in all of development assistance by financing performance-based, inclusive, country-focused, public-private projects that are subject to independent technical review.

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. The Panel is encouraged by indications the reforms the Global Fund and its partners have undertaken are responses to the imperatives of increased accountability and risk-differentiation. Significant areas of the Global Fund's practices require improvement, but the Panel has not identified a problem that cannot be fixed. The Panel also recognizes that 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

We see key areas that need significant improvement, but nothing that cannot be fixed by appropriate reform.

On behalf of its donors and beneficiaries, with the help of hundreds of partners from all over the globe, the Global Fund has contributed to the achievement of important and sometimes unprecedented results over the past decade. Despairing and nearly hopeless ten years ago, with resources from the Global Fund, affected countries and communities are now engaged in fighting the spread of and ameliorating the suffering from the three diseases:

- Interventions for the prevention, diagnosis and treatment of the three diseases have improved dramatically in impact and cost-effectiveness, in part because of the economies of scale established by the Global Fund;
- Sixteen of the 21 countries most affected by HIV, all of which have substantial investments from the Global Fund, have seen a significant reduction in prevalence among young people;
- The purchase and distribution of anti-retroviral therapy through Global Fund grants has saved millions of lives, and more than half of the patients who are on these life-saving medications are women;
- Global Fund financing has paid for the training and retraining of hundreds of thousands of health workers around the world;
- The distribution of nearly 200 million insecticide-treated bed nets paid for by the Global Fund has prevented innumerable cases of malaria;
- Programs supported by the Global Fund have led to a large reduction in the death rate for patients with tuberculosis (TB) in many nations;

"Ten years ago, we were facing an enemy we didn't know well, in an emergency, and it is 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's Board

- Millions know their HIV status and can protect themselves and their loved ones because of counseling and testing paid for by the Global Fund;
- Systems of community- and home-based care are stronger and more extensive because of financial support from the Global Fund;
- Some countries have increased their domestic budgets for health;
- The Global Fund's grants have helped make sure hospitals and clinics across the world now have access to test kits, equipment, diagnostics and drugs; and
- Research into the three diseases is vibrant, and to a greater extent based on formal and informal shared platforms and field sites like hospitals and clinics, many of them financed by the Global Fund.

The influence of the Global Fund's investments and its innovative model for doing business has extended well beyond the battle against the three diseases. The organization has played a central role in providing additional financial support to the health sector in general in the developing world, especially in extending and accelerating the coverage of essential care. 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.

The Global Fund is also accelerating social change in many nations. Grants have helped reduce dramatically the stigma against those affected by HIV. Programs are making encouraging inroads to reduce risky behaviors. After ten years of effort, religious, cultural and social values are gradually but surely evolving in directions that avoid the spread of the disease.

Nevertheless, a series of challenges will influence how the Global Fund conducts its business in the upcoming years. Moving quickly, the Transitional Working Group that drafted the founding *Framework Document* for the Global Fund did not always anticipate how its ideas would work in practice, nor could the negotiators foresee the changes coming in the world of global health. 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.

The Tensions Inherent to the Global Fund

Every organization must recognize the assumptions and defaults its founders embedded in its structure at the beginning, and in the case of the Global Fund, the potential contradictions:

- Between the corporate objective to maintain a light touch by the organization and the operational realities that arise from the need to work in capacity-constrained, often fragile environments;
- Between a focus on implementation through country-led mechanisms and the need to achieve appropriate disbursement rates and high-impact results in a prudent, efficient and transparent manner;
- Between the effective implementation of performance-based funding and the continuity of care;
- Between maintaining a lean and well-coordinated headquarters staff and challenges in implementation that might require a field presence;
- Between focusing on three diseases and working in the context of weak local health and social institutions;
- Between the guiding principle of the additionality of Global Fund resources and the decreasing funds that are coming from other sources, including national budgets, in some places, which increases the burden on the Fund;
- Between a "zero –tolerance" policy for misappropriation of funds and a reluctance to classify recipients by risk or define an overall "risk appetite" for the grant portfolio; and
- Between differing interpretation or visions of the Global Fund's mandate, especially regarding whether it is a development organization or a financing institution.

FROM EMERGENCY TO SUSTAINABILITY

The Global Fund was born in an atmosphere of crisis, and responded to an emergency. HIV/AIDS was spreading across our planet in a way that caused many to worry about the future of entire continents. The culture of the organization became "treatment at any cost." There is still intense need around the world, but the Global Fund is now more mature, and its culture must shift from emergency response to sustainability and heightened fiduciary responsibility.

The Panel wishes to recognize that the Global Fund's Board, Executive Director and Inspector General have begun to lead this change. This report will point out many indications of their progress. The Panel's recommendations build upon and are consistent with that of the Comprehensive Reform Working Group, and this document has taken as guidance the Plan for Comprehensive Reform endorsed by the Global Fund's Board at its meeting in May 2011.

Nevertheless, 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

Ten years ago, donor Governments competed with each other to demonstrate their compassion in the face of an accelerating emergency caused by HIV/AIDS, tuberculosis (TB) and malaria in the developing world. A meeting of international leaders could not take place without new commitments in financing, both to bilateral programs and to the Global Fund. 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, as Governments turn their focus inward in response to domestic concerns, including unemployment and debt-reduction. 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." The economic problems are too severe, and as Governments pull back on their expenditures across the board, foreign assistance will share in the retrenchment.

"We need to stabilize the platform"

— Fund Portfolio Manager

Of necessity, the Global Fund is entering an era of consolidation, not expansion. During six months of work, 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.

In this climate, the revelations in early 2011 of corruption in some of the Global Fund's grants provided critics further justification to question giving to the organization in tough times. Maintaining the confidence of the donors is one of the most important tasks of the Global Fund's leadership, and the status quo in terms of structure and approach will not suffice.

Accountability

An increased emphasis on results places the onus much more on international organizations to refine their methodologies for tracking results as a critical measure of performance. Imprecise or erroneous data numbers or problems with attribution will have a further, negative effect on the Global Fund's ability to reassure donors the contributions they make to the institution are worthwhile.

A simultaneous trend is a reduced tolerance for the repetitive or overlapping missions of different development organizations, each of which should prove the uniqueness of their brands. Escalating annual budgets once made it possible for donor Governments to give money to different institutions that were working in similar areas without appropriate concern for potential duplication. This casual treatment is no longer available, and the Global Fund must compete much more openly for the attention of donors by demonstrating it is investing for impact and safeguarding its resources.

In addition, 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.

This recent heightened sense of accountability has brought intense attention to the Global Fund. Over the course of the last six months, the Panel has witnessed, both at the headquarters level and in the field, the mismatch between the ill-defined rules of the first years of a massive expansion by a start-up organization and the accountability system of a more mature institution that has begun to examine in detail programs begun almost a decade ago. The systems of fiduciary control the founders of the Global Fund thought would be sufficient have not worked as well as intended. The Global Fund's Board, donors and recipients must recognize a mutual culpability, born of noble intent: since they chose to focus on rapid programming and scale-up rather than governance or oversight during the early years, the Global Fund had inadequate accountability mechanisms, standards and expectations-- a situation that is no longer acceptable today. During the last 18 to 24 months, 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 turn the page on the past to focus on setting clear expectations and rules for recipients that reflect the need for more-stringent tracking of finances and performance.

Reviewing older cases might not be as productive as devoting energy to examining the large and increasingly complex grants of recent years. There is wisdom in targeting the Global Fund's oversight to higher-risk, higher-dollar-value grants, especially from the larger, more-recent Rounds: Phase-One awards for the first seven Rounds averaged US$800 million each, while the 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

The Global Fund must also adapt to fundamental shifts in technology and scientific understanding of the three diseases. 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. Safe and efficient protocols for male circumcision should allow for hundreds of thousands of adult men to improve their chances of protecting themselves and their partners. 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. Finally, 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. The Global Fund as a whole will need to account for all of these trends, and more, in its conduct and planning over the next few years.

CHANGE OR WITHER

Events of the last two years have shown the limitations of the Global Fund's approach to its portfolio:

- The organization made very few strategic and operational decisions on the basis of risk;
- The Global Fund's "layers of assurance" provided a false sense of security;

"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

- The implementation and management capacity in a number of recipient countries is uneven;
- Oversight was inadequate to detect and prevent fraud; and
- An insufficiently rigorous scrutiny of budgets in proposals allows for padding, easily exploited post-approval;

In the current environment of economic uncertainty, budget austerity, heightened pressure for results and technological innovation, "holding on to the Global Fund Model" means being prepared to make significant changes. To be effective, the Global Fund should be more targeted. 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. At the same time, adaptations to the Global Fund's business model are required to offer flexibility to customize responses to different risks and opportunities in the field. Finally, adopting a unique model does not mean the Global Fund's Secretariat cannot make use of international best practices for human resources, financial regulations and other standard organizational procedures, so that the institution can be as efficient as possible.

The Fund is a vital part of what makes health care work in many countries; its failure would bring tragic, cataclysmic consequences.

The Panel recognizes that, unlike banks or other financial institutions, the Global Fund cannot avoid risks by simply denying funding; lives are at risk, and the very purpose of the organization is to save them. Because the Global Fund works in environments that are inherently risky, the challenge for the institution then is not to avoid risks, but how to develop appropriate mitigation strategies to identify, assess and manage them. The Panel does not agree with the fatalistic and paternalistic view that "If you do business in these countries, you expect [corruption and diversion] to happen" as a natural consequence of development assistance. 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, with appropriate and active oversight from staff and partners.

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.

After a decade, the Global Fund's mission can no longer be emergency response. Instead, the organization must pursue sustainable programs. This change in focus will require a new mentality for the Global Fund, its recipients and partners about how the organization does business. The Panel recognizes that a tension will always exist between performance and oversight and the speed necessary to address the great challenges posed by AIDS, tuberculosis and malaria, even as the Global Fund shifts from the emergency phase to an era of sustainability. 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

The Global Fund must readjust its relationship with its recipients. The Panel has heard the mantra of "country ownership" invoked to explain and justify almost every aspect of the Global Fund's business model and decision the institution makes. Yet 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.

For the Global Fund, in its most important definition "country ownership" means multi-sectoral partnerships, the CCMs, submit grant proposals that make sense for the local epidemiological and social context. It means these CCMs nominate PRs, and oversee the implementation of awarded grants. Above all, what sets the Global Fund's sense of "country ownership" apart from the way other international organizations use the term is an emphasis on the participation of all stakeholders as equal partners in decision-making. There is a presumption in Global Fund programs that an extensive degree of local control will engender a commensurate acceptance of responsibility and accountability for expenditure and results, and, in particular, for managing financial and performance risks.

> ***"'Country Ownership' has been taken too far—on a limited set of essential things, you have to be proscriptive."***
>
> — Local Fund Agent

In reality, 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.

The Panel also has seen that national disease-control programs (HIV/AIDS, tuberculosis and malaria) within Ministries of Health, typical PRs of Global Fund grants, 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.) This idea of "ownership" can bring conflict between attitudes about "our money" and the expectations of the Global Fund for transparency and accountability.

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.

> ***"What the Global Fund has helped achieve in the Ministry of Health is unprecedented in Government here."***
>
> — Principal Recipient

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." Contact between Geneva and the implementers on the ground can be sporadic. 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, until a crisis (such as an application for Phase-Two renewal or a procurement of drugs gone awry) induces them to call Geneva for help.

> ***True partnership means not always saying "yes."***

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.

> ***"Trust cannot be separated from controls."*** — Principal Recipient

Results of the Panel's Analysis

of the Layers of Assurance of the Global Fund System

1.1 LAYER #1: THE PRINCIPAL RECIPIENTS (PRs)

Examples of Weaknesses in Grant-Management Analyzed in the Panel's Representative Sample

- 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.

In the approved Terms of Reference (TORs) for the Panel, the Global Fund's Board requested an assessment of the financial and managerial internal-control mechanisms of the PRs. Because the Board recognized that reviewing every one of the hundreds of PRs the Fund has financed from Rounds One to Nine would not have been possible in the time the Board allotted to the task[1], the TORs asked the Panel to "assess the risk of fraud and misappropriation in the current Global Fund portfolio, and assess the systems and controls in place which seek to provide the assurance that Global Fund monies reach beneficiaries and are used for their intended purposes, by examining a representative sample of grants in countries in different risk categories and drawing conclusions and making recommendations from such an analysis, as appropriate."

To this end, the Panel's staff spent several weeks in April and May 2011 in designing and refining a methodology to choose such a representative sample-- one that would categorize by both risk and disease burden the more than 130 countries and territories that have implemented or are implementing grants from the Global Fund. The Panel recognizes the matrix it has created for this purpose is an imperfect triage exercise, but believes it discriminates sufficiently to stratify recipient countries in the service of creating a matrix from which to derive a sub-set for in-depth analysis. The Global Fund Secretariat does not yet use such a tool to guide its work, nor for the allocation of its resources, although the new Director of Country Programs has expressed his intention to create a model to do just that. Two of the Local Fund Agents (LFAs; in this case, PwC and the Swiss Tropical and Public Health Institute) have independently produced models to rank by risk the countries in which they work, and the Office of the Inspector General (OIG) has developed a matrix that is similar in a number of aspects to the one used by the Panel.

The complete matrix the Panel used to categorize the countries that have received grants from the Global Fund appears as Annexes A and B to this report, and a spreadsheet of all of the data behind the matrix is posted separately on the Global Fund's website. (Readers will note the Panel has presented two versions of its matrix, one of which uses the Ibrahim Index[2] as a factor for countries on the African continent.) Annex C contains an explanation of the elements and the formulae of the matrix.

The Panel's starting point for this review was to identify the major weaknesses for each PR in the countries in the representative sample, as indicated by the pre-signature LFA assessments and the Conditions Precedent in the grant agreements, and to track them over time through the documents that describe implementation. The analysis focused on four areas: Financial Management; Management of Sub-Recipients (SRs); Monitoring and Evaluation (M&E); and Procurement,

1 The Panel did not include grants from Round Ten in its analysis, since few of them have signed agreements.

2 Developed by the Mo Ibrahim Foundation, the Ibrahim Index (www.moibrahimfoundation.org/en/section/the-ibrahim-index) brings together quantitative and qualitative data to assess governance in nations on the African continent.

Construction and Supply-Chain Management. For the purposes of the Panel's work, "weaknesses" are those problems at the country level already recognized by the Global Fund as risks to the good performance of grants, as well as "red flags" of potential fraud or misappropriation.[3]

Annex D explains the full methodology the Panel employed to analyze the grant documentation, Annex E contains charts of the data from the Panel's analysis, and summaries of the 40 country reviews appear in Annex F.

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 that have important implications for how the Global Fund manages its portfolio:

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

At the aggregate level, 30 percent of problems became apparent at the pre-assessment stage, 14 percent appeared in the negotiations over the initial grant agreement, 48 percent in updates during implementation, five percent in the discussions over Phase-Two agreements, and one percent in finalizing agreements for the Rolling Continuation Channel (RCC). 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. Interviews with implementers and Global Fund staff also indicate that 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, and is also associated with lower performance against targets.

Almost every grant has had at least one financial-management problem:

Financial-management issues comprise the majority of those weaknesses identified during the Panel's review, and almost every grant examined had at least one financial-management problem flagged in its history. Program-management and accounting systems (36 percent) were the largest areas of risk within the financial category. The Panel's analysis indicates that weak controls on income, currency-exchange, and inter-grant borrowing are not as pervasive as suggested, despite the public attention they have received lately. Within the sub-categories in financial management, a very clear pattern emerged: for the vast majority of cases, problems were identified during the course of grant implementation. However, the exception, staffing and salaries, is instructive. The Global Fund has put significant efforts into closely monitoring staffing expenses and salary top-ups, and into making sure PRs report them consistently and appropriately. As such, grant negotiations have consistently uncovered many of the salary-related weaknesses during LFA pre-assessments, a pattern strongly reflected in the data. While salaries might be easier to track than other grant expenditures, the example proves the point that, with more-targeted effort in the pre-assessment phase and negotiation process, the Global Fund could identify more risks earlier.

3 The Panel used a combination of the elements areas identified as priorities in the various reports of the OIG and those laid out in a document produced in early 2011 by the Global Fund Secretariat to guide the work of the LFAs, entitled, "Assessment of Country and PR Risks."

The Global Fund system of assurance needs to exercise greater oversight of how PRs choose and handle their SRs:

Weaknesses in the management of SRs comprise only 10 percent of the overall problems identified during the Panel's review, which appears to be an under-representation. This low percentage is likely the result of the reality that the 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. The Panel's analysis and observations from field visits concur with the findings of the OIG and current Global Fund policy and procedure documents that this lack of rigor represents a significant risk to the Fund's portfolio.

A better capacity-assessment carried out prior to grant signature could ensure PRs undertake M&E activities with sufficient quality to ensure good data:

The Global Fund does not uncover the vast majority of M&E gaps with its PRs until the implementation process begins, since the difficulties have to do with how data-collection systems actually work. The number of M&E challenges with the grants reflects both the risk poor data pose to the Global Fund, as well as the more-recent pro-active efforts the organization has been making to find and address such problems.

The procurement, storage and distribution of pharmaceuticals represent significant vulnerabilities for the Global Fund's portfolio:

The Panel's review points to major hurdles for the organization in this area, including consistent weaknesses in the forecasting and quantification of the pharmaceutical products and medical supplies needed to implement programs in-country. Since 2010, the Secretariat has launched more-intensive efforts to solve some of these problems, by developing a reporting system on the price and quality of drugs paid for by the Global Fund, setting comparative benchmarks for prices of pharmaceuticals and medical supplies, and more carefully attempting to validate forecasts when signing grants and Phase-Two renewals.

The nature of grant documentation at the Secretariat puts the Global Fund's institutional memory at risk of erasure:

For a largely taxpayer-funded financing institution of the Global Fund's size, complexity and level of responsibility to its donors, maintaining complete and easily accessible records on the grant portfolio is absolutely vital. During the course of the Panel's review, it became clear that current practices at the Secretariat do not fully meet this need. To start, the Secretariat has no centralized, "official" archive[4]. This dispersal of memory has resulted in an **ad-hoc** *approach to record-keeping that requires significant time and effort to maintain. It also means the Secretariat has no standards for which documents to keep, or for what format in which to maintain files. Furthermore, in many cases, individual staff members store documents on the*

4 Most FPMs now store documents related to the grants under their watch by using an Internet-based system, Sharepoint, but without standardized rules for naming or organizing the files. For an example of the kind of documentation that challenged the Panel's reviewers and makes following the history of grants difficult for FPMs, see Annex H.

hard drives of their desktop computers, which exposes the Global Fund to a significant risk of loss or corruption of data. According to the Panel's interviews, 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.[5]

Grant-management decisions are often opaque, and can undermine the Global Fund's ability to conduct internal quality-assurance checks:

It became clear to the Panel during this review that two, parallel grant-management systems continue to operate at the Global Fund Secretariat: the formal and the informal. The standard grant documentation, such as disbursement requests, disbursement decision-making forms (DDMFs), grant agreements, etc., reflects the formal process. Yet 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.[6]

What about Countries in the Panel's Representative Sample That Have Received Visits from the OIG?

The OIG report on grants in Malawi identified significant procurement problems, particularly in the areas of management, forecasting, supply-tracking, information systems, and staff capacity. Many of these issues appeared previously in grant documentation at the Global Fund, and had been flagged for follow up.

In Tanzania, the OIG report identified serious weaknesses in financial controls, particularly regarding data-collection, bank reconciliation, budgeting, and supporting documentation for expenditures. At the time of the report, in June 2009, the Global Fund's grant documentation had previously identified financial-management weaknesses that date back to the LFA's pre-signature assessment of the PRs.

5 The problems of the retention, usability and inconsistency of Global Fund documents is particularly acute for the first few rounds of grants, a phenomenon the U.S. Government Accountability Office (GAO) noted as early as 2005: GAO, "The Global Fund to Fight AIDS, TB and Malaria is Responding to Challenges, but Needs Better Information and Documentation for Performance-based Funding," GAO, Washington, D.C., June 2005.

6 The GAO flagged these practices as problematic in reports issued in 2005 and 2007: *Ibid*. and GAO, "The Global Fund to Fight AIDS, TB and Malaria Has Improved Its Documentation of Funding Decisions, but Needs Standardized Oversight Expectations and Assessments," GAO, Washington, D.C., May 2007.

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, such as bed nets.[1] This is the largest category of spending in the organization's portfolio, and 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. No institution pays for more of the crucial drugs and tools used to prevent and cure malaria, save people from tuberculosis and control HIV. As the report and working papers of the Comprehensive Reform Working Group (CRWG) point out, the Global Fund plays a dominate role in the marketplace for a number of key products, since the organization:

- Acts as the single-largest source of financing for the procurement of artimesinin-based combination therapy (ACT) against malaria;[2]
- Ranks among the top two purchasers of anti-retroviral medicines, along with the President's Emergency Plan for AIDS Relief of the United States;
- Pays for 76 percent of all the long-lasting, insecticide-treated bed nets distributed around the world;[3] and
- Covers between 40 and 50 percent of the orders placed through the Global Drug Facility for medicine to treat multi-drug-resistant tuberculosis;[4]

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. The Panel agrees with the OIG and outside observers like the CRWG that these are the investments most-vulnerable to the diversion of funds and/or goods, and they represent an area in which the Global Fund can achieve significant efficiencies to do more with available budgets. The documentary record shows 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, and 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:

One of the most important factors in improving access to treatment is ensuring a regular and reliable supply of medicines, and reliable data for the forecasting the needs of patients is essential for that purpose. The Panel heard repeatedly on its field visits of the challenges of predicting with certainty the amount of medicine or health needed in a given country each year so as to place orders with confidence and in sufficient time. While calculating aggregate estimates of demand at the global level is an understandably inexact exercise, quantifying the number of patients who need drugs or families who need bed nets on an annual basis in most countries should be much easier. Several factors appear to lie at the root of the problem: managerial chaos, rudimentary methods of tracking patients and their consumption of medicine, and a lack of baseline data on the number of people infected/eligible for treatment in the first place. The Global Fund should be investing more, and more systematically, to solve these basic capacity gaps, as the expiries and shortages that result are major barriers to the implementation of its grants; even false alarms about stock-outs are very damaging to the reputation of the Global Fund programs. 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.

1. The Global Fund's website, 16 September 2011.
2. Justin M Cohen, *et.al.,* "Predicting Global Fund Grant Disbursements for Procurement of Artemisinin-Based Combination Therapies," *Malaria Journal* 2008, 7:200. This analysis estimates the Global Fund is responsible for approximately 70–78 percent of all ACT procurement by public-sector institutions.
3. Comprehensive Reform Working Group of the Global Fund Board, "Value for Money" working paper, 14 April 2011, p. 14.
4. *Ibid.*

Tendering and Bidding Processes:

Over the past years, delays in the procurement of medicines and health commodities have crippled the progress of Global Fund grants in every region, often because of internal bottlenecks in Ministries of Health. In addition, 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. Though the Panel understands and shares the long-term goal of helping to strengthen in-country systems, 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's Board introduced the concept of Voluntary Pool Procurement (VPP) in 2007, and the Secretariat has steered a number of grants into bulk-purchasing schemes since then, with generally good results. The large risks posed by incompetent procurement have convinced the Panel that the Global Fund should make the VPP and other external purchasing channels the default for all grants, except if implementers can certify local institutions can meet and perform to international standards. One note of caution: no matter who does the buying, the Global Fund's procurement policies should not prioritize purchasing on price alone, and should place more value on quality and the reliability of supply offered by vendors.

Storage and Distribution:

"What you see with the Central Medical Stores is the head of the hippopotamus."

—Non-Governmental Partner

The Panel has seen for itself the precarious conditions under which drugs and health supplies are stored once they reach the country level in many places around the world. Warehouses, including those managed by Government-owned Central Medical Stores (CMS), tend to not be well-managed, climate-controlled or secure. Stock-reconciliation, inventory- management and training are recurring weaknesses. The handling of drugs at the Provincial and District levels is often not adequate, either, and many local officials can have difficulty accounting properly for drugs purchased by the Global Fund because they do not segregate them from those purchased out of local budgets. With such poor control of inventories, stock-outs at the facility level are sometimes artificial, as drugs remain at the CMS but do not get out to the right patients at the right time. The Global Fund's contracts with the LFAs have not always included verifications of the conditions under which PRs and SRs warehouse and distribute pharmaceuticals, nor did the LFA personnel involved in reviewing the supply chain always have the requisite experience. Since 2010, however, Pharmaceutical Country Profiles complied by LFA staff with enhanced skills are helping the Global Fund gather a more comprehensive and detailed picture on what is happening with the handling of valuable assets on the ground.

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 out-sourcing 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:

Given the scale of the Global Fund's investments in drugs, bed nets and other medical supplies, the possibility of theft should be a major concern for the organization. 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 Inspector General has publicly suggested that preliminary investigations show the losses from this criminal activity could amount to "well in excess of US$ 1 million in value."[5] Independent researchers have found that drugs purchased under the Global Fund's Affordable Medicines Facility—Malaria (AMFm) and intended for use only in certain African countries have appeared at informal

5. The theft appears to involve syndicates that transport stolen anti-malarial drugs from East African countries to West Africa for sale. Office of the Inspector General, Global Fund to Fight AIDS, Tuberculosis and Malaria, "Progress Report from November 2010 to March 2011," Global Fund, Geneva, May 2011, p. 13.
6. Richard Tren, et.al., "The Global Fund's Malaria Medicine Subsidy," Africa Fighting Malaria Policy Paper, September 2011.

sales points in a neighboring nation.[6] Because the Terms of Reference for the LFAs in most places have not included spot checks of local markets to assess whether drugs purchased by the Global Fund (especially through the AMFm) are ending up on the black market, the Global Fund has sometimes suffered from a blind spot on theft.

The apparent growth of a parallel market for medicines purchased by the Global Fund, along with recent decisions by the Secretariat to stop using CMS or equivalent institutions in several countries, has heightened sensitivities around the vulnerability leakage poses to the grant portfolio. Between June and October 2011, Secretariat has instructed the LFAs to undertake more in-depth assessments of the danger of drug thefts, and is now analyzing self-evaluations it requested of PRs in 20 countries judged to be of particular risk for theft and diversion.

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.[7] In the case of the AMFm, the organization should expand its work with Interpol, previously focused on East Africa, to monitor shipments of anti-malaria drugs in West Africa, and to use the LFAs to check on purchasers and to conduct unannounced visits to markets. 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:

The ultimate aim of any improvements in the purchase and distribution of drugs and other medical products is to assure the safety of the people the Global Fund serves. Loss or degradation caused by inappropriate conditions during storage and transport can mean patients receive medicine that is expired or rendered ineffective. Uneven compliance with the Global Fund's quality-assurance policies in the past has raised the risk of the delivery of counterfeit or substandard pharmaceutical products. In addition, very few implementers track in a systematic way whether patients on drug regimens supplied by the Global Fund are experiencing side-effects or reactions.

Since 2008, the Global Fund Secretariat has increased its monitoring of compliance with the organization's revised Quality-Assurance Policy, including through arranging its own quality-control testing for certain categories of medicine. Also, data from proposals in Round Ten do indicate a welcome increase in the number of applications that describe pharmacovigilance activities in progress, or in the planning stage.

Nevertheless, 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, and that can track adverse events among patients and other post-marketing product defects. Information from this surveillance, which should take advantage of already-existing channels wherever possible, should help FPMs to work with partners to adjust their advice to countries, and should allow the Secretariat to make changes to its VPP purchases when necessary.

7. The leadership of the Global Fund deserves congratulations for convening a high-level international meeting on the issue of theft and diversion in Geneva in February 2011; a follow-up will take place in Addis Ababa, Ethiopia, in December 2011.

The Special Case of the United Nations Development Programme (UNDP)

The Global Fund has two systems for managing its grants: one for the 87 percent of the portfolio that is in the hands of Government Ministries and non-governmental organizations, and one for the 13 percent for which a United Nations agency is the PR, predominantly 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.

Global Fund programs overseen by UNDP operate under a different grant agreement and separate terms and conditions than do those under the management of any other PR. Under an accord signed by the Executive Director of the Global Fund and the Administrator of UNDP in 2003, when UNDP acts as a PR, it has the right to "administer [the grants] using its regulations, rules and procedures."[1] In essence, when the Secretariat signs a grant with UNDP, the Global Fund waives many of the fiduciary tools it has to work with other PRs. Article 7b of the Standard Terms and Conditions of Global Fund grants with UNDP specifies that UNDP "shall have financial audits conducted of Program expenditures in accordance with its internal and external auditing practices."[2] This clause means that, because of the so-called "Single-Audit Principle," under the United Nations (UN) Legal Framework,[3] only the UN Board of Auditors and the UN Joint Inspection Unit (or another body mandated by the UN General Assembly) may perform an external review, audit, inspection or investigation of a Global Fund grant managed by UNDP. Unlike every other PR, contractually obligated to have an external auditor, submit to review by the Local Fund Agents, and to provide all requested information to the OIG in the case of an audit or investigation, UNDP uses its own Office of Audit and Investigations (OAI) to perform these oversight functions.

As many PRs do, UNDP often creates a network of SRs to carry out the activities of the grant it receives from the Global Fund. UNDP tends to manage these SRs in three ways, according to the assessed risk level of the local organization:

- Direct Payment, in which UNDP only transfer funds to an SR after the presentation of invoices to reimburse expenses undertaken[4]; under this arrangement, UNDP Country Offices usually pay vendors and perform procurements on behalf of the SR;
- Advance Payment, in which UNDP does make direct, up-front payments to an SR to implement activities; in this case, the SR does its own procurement, and pays vendors itself;
- Hybrid management, in which UNDP advances an SR some amount of money for programmatic activities, but maintains control over procurement and the payment of some types of vendors.

In addition, UNDP has recently adopted a policy to require its Country Offices that are procuring some kinds of pharmaceuticals and medical products for Global Fund grants to use worldwide purchasing arrangements concluded through UNDP headquarters in New York and managed by the UNDP office in Copenhagen. These channels include contracts negotiated with multi-national drug companies for global price discounts.

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. UNDP's goal should be to develop enough capacity to hand over the management of the Global Fund

1. Standard Terms and Conditions of the Grant Agreement between the Global Fund and UNDP, Article 2.
2. Standard Terms and Conditions of the Grant Agreement Between the Global Fund and UNDP, Article 7b.
3. *"The United Nations Board of Auditors and the appointed External Auditors of the specialized agencies and of the International Atomic Energy Agency retain the exclusive right to carry out external audit of the accounts and statements of the United Nations Organizations. If special reviews are required, governing bodies should request the appointed External Auditor to carry out specific examinations and to issue separate reports to them on the results."*
4. The OIG has expressed concerns about the scrutiny of these invoices by UNDP offices in several countries.

grants to local institutions as soon as possible. In fact, 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.

Nevertheless, the Panel believes the parameters of the current relationship between UNDP and the Global Fund have implications for the oversight of grants today in three important areas:

Audits:

Under the "Single-Audit Principle," only UNDP/OAI may audit the Country Offices of UNDP and the funds the organization expends directly through those offices in the management of Global Fund grants. UNDP/OAI has developed a risk-assessment specifically for this work, and devotes three auditors (based in Bratislava, Dakar, and Johannesburg) to its Global Fund portfolio, who can draw on support from UNDP headquarters and several Regional Audit Centres. On an annual basis, UNDP/OAI then creates an audit plan for the UNDP Country Offices that are acting as PRs, and, in addition, performs audits every year on the grants in countries that fall under the Global Fund's Additional Safeguards Policy. UNDP/OAI undertakes its work in conformance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors (IIA) and adopted by the Representatives of Internal Audit Services of the United Nations Organizations, Multilateral Financial Institutions and Associated International Organizations (RIAS).

Until recently, the Global Fund, including the Secretariat, the OIG and the LFAs, did not have the ability to read UNDP/OAI audit reports. UNDP would only share the two- or three-page summaries of these documents. The Inspector General has declared on a number of occasions that this restriction did not allow him to give the Global Fund full assurance regarding the grants managed by UNDP. In July 2011, however, the UNDP Executive Board allowed the Global Fund to have so-called "Member State" access to UNDP/OAI opinions on Global Fund grants. In practical terms, this change means that designated representatives of the Global Fund may travel to New York to read these reports, *in camera*, and take notes on their content, but may not quote from or reproduce them.

The Global Fund does have more access to the records of the SRs for grants managed by UNDP, especially those under the advance-payment arrangements. SRs that receive transfers of funds from UNDP are subject to oversight by the LFAs and the OIG, including for data-verification exercises and spot checks. The situation is more complicated for those SRs under UNDP's direct-payment or hybrid systems, and the Global Fund often has had to settle for general information on the financial flows that involved these organizations, rather than the details of transactions.

The Panel is not in a position to judge whether the new arrangement conceded by the UNDP Executive Board is satisfactory, but urges both UNDP and the Global Fund to purse enhanced cooperation for the next year. Considering the current pace of the OIG's work, the reality is that the Global Fund cannot conduct audits in all countries in its portfolio over the next few years, and must find a way to rely on the opinion of qualified auditors, such as those from UN organizations, in a number of places. As a first step, UNDP should establish a secure, electronic portal to allow designated Global Fund staff to review UNDP/OAI audit reports from Geneva. Second, UNDP/OAI and the Global Fund's OIG should increase the practice of auditing Global Fund activities in parallel in the same country, preferably by arranging for concurrent, coordinated field work. (In these exercises, UNDP/OAI audits the UNDP Country Office in its role as PR, and the OIG audits SRs and any other PRs).

Investigations:

UNDP asserts it has a "zero-tolerance" policy with regard to fraud and corruption. To implement this posture, UNDP/OAI has the charge of investigating allegations of fraud, and also conducts proactive investigations in programmatic areas that are highly susceptible to corruption.

UNDP claims the "Single-Audit Principle" also applies to investigations, and does not permit the OIG to have access to documentation relating to the direct management by UNDP Country Offices of Global Fund grants, including SRs under direct-payment arrangements.[5] In addition, UNDP asserts its staff members enjoy privileges and immunities in the exercise of their duties that can protect them from outside investigation (unless the organization waives them). UNDP has cooperated

5. This issue is a subject of disagreement between UNDP and the OIG, and the Panel does not take a view on it.

with the OIG on several investigations, but the relationship could benefit from more definition.

In this area the Panel urges UNDP/OAI and the OIG to develop and sign a detailed Memorandum of Agreement that would spell out how the two institutions can cooperate and share information to the fullest extent possible during the course of investigations. Of particular importance in such an understanding will be points such as:

- The conduct of joint investigations;
- The exchange of confidential information, including regarding witnesses;
- The sharing of documents obtained from third parties; and
- Access to UNDP's internal documents for the purposes of building a case.

The Panel believes a solution ought to be possible to allow UNDP/OAI and the OIG parties to pursue alleged corruption together to safeguard the investments of both organizations, and in a way that privileges and immunities do not interfere with the cooperation.

Routine Monitoring:

The Global Fund can have access now to reports on all Global Fund-related transactions from the UNDP's ATLAS system, as well as all financial reports and supporting documentation related to non-UN SRs and sub-SRs. Furthermore, cooperation between LFAs and UNDP Country Offices has been generally productive, if unofficial. The guidance passed down from UNDP headquarters in September of 2010 regarding interactions with the LFAs has had a chilling effect these relationships, however. Establishing a formal agreement on the conditions for the exchange of information between UNDP and the Global Fund, including the LFAs, to allow for ongoing, routine monitoring might prove the most important way to build confidence in the long run about the assurance UNDP provides on the grants for which it acts as PR. A precedent for this kind of arrangement already exists: Under the terms of the Financial and Administrative Framework Agreement (FAFA) between the UN System and the European Commission (EC), the European Anti-Fraud Office (OLAF) may examine five transactions (selected by random sampling) with supporting documents made with funding given to UNDP by the EC, and a further five transactions in case errors are discovered. The UN has determined such targeted inquiries do not cross the threshold into an audit, so the "Single-Audit Principle" does not apply. The Panel believes the Global Fund must seek the same agreement with UNDP as the EC has concluded under the FAFA, and implement it through a work plan that targets those countries and programmatic areas that both institutions view as the most risky.

1.2 LAYER #2: THE COUNTRY COORDINATING MECHANISMS (CCMs)

"Oversight in real time by the CCM sends a message to the society at large, a lesson to the country, to the SRs, to the partners. When we no longer have money from the Global Fund, I think the CCM will survive as a model of good governance here."

— Chair of a CCM

The CCM is one of the most-treasured, and yet most-criticized, aspects of the Global Fund's model. People interviewed by the Panel and its Support Team for this report presented disparate views on the viability of the CCM concept, and the Panel met with CCMs that range from highly functional to moribund.

There is no question 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 ability to "galvanize everyone"[7] and bring Government, charitable groups, the private sector, donors, UN agencies, and affected populations to the same table in the service of a common cause has changed the nature of public discourse in many countries. 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.

"We do understand the governance issues are paramount, and that we are not there; our democracy is only 17 years old, and [the Global Fund CCM] is part of the democratization process."

— Principal Recipient

The CCMs usually represent the only chance to bring together non-traditional decision-makers in the health sector (civil society, communities). 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. The Panel has concluded a unique and invaluable outcome of the Global Fund's system in many places has been a boost to democratization and good governance.

But, like democracy itself, the CCM can be an inelegant and imperfect instrument. Charged ten years ago with being the "focus of program accountability," the CCMs have labored under expectations that were probably always impossible to achieve, and for which they do not have commensurate and necessary authority. Some of the weaknesses in the CCMs' ability to play a serious role as trustees are thus systemic. Since the beginning of the Global Fund, the possibility of self-dealing among members of CCMs has been a concern as an obvious impediment to the ability of CCMs to serve in a meaningful oversight role. As the Global Fund Secretariat recognized in a 2008 thematic review

"The Fund will work with a country coordination and partnership mechanism that should include broad representation from Governments, civil society, multilateral and bilateral agencies and the private sector...It should preferably be an already existing body. If no appropriate coordinating body exists, a new mechanism will need to be established.... The Country Coordinating Mechanism will be the focus of program accountability."

— Framework Document of the Global Fund

7 Interview with the Vice Chairman of a CCM.

CCMs with Chair and Vice Chair from Government
Lao People's Democratic Republic
Uganda
Montenegro
Tajikistan
Ukraine
Multi-Country Americas (OECS)
Bangladesh
Multi-Country Africa (RMCC)
São Tomé and Príncipe

"By default, therefore, it was assumed that systems would be put in place to mitigate potential misuse of power and funds."

— Global Fund Implementer Series, Country Coordinating Mechanisms: Conflict of Interest, November 2008

of conflict-of-interest within CCMs, the Board chose to give precious little direction to what in-country partnerships should look like: "CCMs were left to define their own governance principles, demonstrate transparency and efficiency in resource use and ensure that funds would be used as intended to serve communities. By default, therefore, it was assumed that systems would be put in place to mitigate potential misuse of power and funds."[8] Few CCMs could or did.

Dominance of the CCMs by Government Ministries that were also PRs was a recurring, problematic pattern. The last published review to examine the composition of all the CCMs for patterns that could offer insufficient protection against conflict-of-interest took place in 2005, after Round 4. At the time, the Global Fund found Government officials chaired every CCM, with the exception of those in the Russian Federation, the Democratic Republic of Congo, and Nigeria; 60 percent of the Chairs were from Ministries of Health, which happened to be PRs also. Government representatives held 75 percent of Vice-Chair slots as well.[9]

The membership of CCMs in some countries has also been skewed towards organizations that are receiving financing from Global Fund grants, a situation that has led to accusations of less-than-transparent decision-making about which groups gain access to resources. After receiving applications for Round 10, in 2010, the Screening Review Panel that determines whether CCMs meet the eligibility criteria established by the Global Fund's Board pointed to "considerable challenges" in two areas: conflict-of-interest in the process of nominating PRs and the capacity of non-governmental constituencies to organize transparent methods to select their representatives.[10]

As proxy indicators for good governance, the Panel checked the current membership lists of all the CCMs against two criteria: whether PRs hold the Chair and Vice-Chair slots, and what percentage of CCM members come from organizations that receive financing from Global Fund grants. The review covered 132 total CCMs (116 countries and 16 multi-country projects) in all eight regions in which the Global Fund has investments. Annex I contains the detailed analysis of the CCMs, broken down region by region.

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. South Africa is the only country found to have both Chair and Vice Chair that represent organizations that are 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 to 25 percent, although three multi-country CCMs only have recipients as members. Until May 2011, the Global Fund's conflict-of-interest policy applied only to managing a situation in which the Chair and Vice Chair of a CCM came from the same entity. Now, every CCM must have a written policy to guide the conduct of any implementer of a Global Fund grant that also sits on a CCM.

8 Global Fund Implementer Series, "Country Coordinating Mechanisms: Conflict of Interest," Global Fund to Fight AIDS, Tuberculosis, and Malaria, Geneva, November 2008, p. 6.

9 "Secretariat Analysis of CCMs at Rounds 1-4," Global Fund to Fight, AIDS, Tuberculosis and Malaria, Geneva, 2005.

10 The Screening Panel reviews every CCM application for six minimum requirements, one of which is having a documented, transparent process for nominating PRs. In Round Nine, applications from Equatorial Guinea, the Kyrgyz Republic and Mauritania did not advance because their sponsoring CCMs did not meet several of the standards, including for the selection of PRs. In Round Ten, proposals from Albania, Belarus, Bhutan and Bolivia were ineligible because the CCMs in those countries did not meet the requirements regarding the choice of PRs. "Report of the Round 10 Screening Review Panel," Global Fund to Fight, AIDS, Tuberculosis and Malaria, Geneva, October 2010.

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.

Through observations and interviews gleaned during more than a dozen field visits, the Panel also found a number of challenges to the capacity of the CCMs to act consistently and reliably to manage risk and maintain fiduciary and programmatic oversight for the Global Fund's grants:

- The CCMs are informal fora of stakeholders, with little accountability for the decisions taken. While the Global Fund's Framework Document states a CCM "should preferably be an already-existing body," in practice almost all came into being as a consequence of applying for, and then receiving, resources from Global Fund grants. The CCMs typically have no legal status: they are not usually incorporated, and their staff members are employed formally by other organizations. In addition, the CCMs are not a contractual party to the financial arrangements with the Global Fund— CCM representatives acknowledge the grant agreements, but do not sign them.
- While they can bring vibrancy to the dialogue around the three diseases at the country level, the majority of CCMs perform their oversight more on paper than in reality. The small CCM Secretariats do receive funding from the Global Fund, but many rely on donations and loaned staff from partners. 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.

"Country Ownership" and the CCMs

The Panel recommends the Global Fund Board should prepare and adopt a re-defined statement on country ownership at its November 2011 meeting. The statement should cover how CCMs should exercise their responsibility for accountability, particularly by ensuring all stakeholders must be able to participate meaningfully and on an equal basis in decision-making. This means, *inter alia*:

- Documents must be written and meetings conducted in a language/languages understood by all; and translation/interpretation provided where this is not possible;
- Meetings must be held at times and in places convenient to all stakeholders;
- All stakeholders must have equal and timely access to the information they need to make decisions; and
- In reaching decisions, all stakeholders' views must be heard, noted and accorded appropriate status.

Decision-making covers, *inter alia*:

- Identifying and reaching agreement on the problems caused by the three diseases;
- Specifying the level and type of assistance needed from the Global Fund to address those problems;
- Approving grant applications submitted to the Global Fund;
- Selecting the criteria for appointing PRs, assessing the merits of applicant organizations against these, and selecting the most suitable organization;
- Determining the most effective arrangements for overseeing the performance and results of PRs and SRs, participating in such oversight arrangements (including site visits), and determining and taking any remedial action required where performance and achievements are deemed unsatisfactory;
- Approving the content of periodic progress reports submitted to the Global Fund Secretariat; and
- Participating in in-country meetings with Global Fund staff.

- Most of the Global Fund's requirements for CCMs are voluntary, and it can be easy to game the system. 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.

The Panel believes a re-shaping of the expectations of "country ownership" could help remedy these flaws to a great extent.

1.3 LAYER #3: THE TECHNICAL REVIEW PANEL (PRP) AND THE GRANT-APPLICATION PROCESS

The current process to apply for financing from the Global Fund consists of two steps. In the first instance, during each funding opportunity, called a "Round," individual CCMs prepare proposals, which an independent team of experts, the TRP, then assesses. After an intense period of review, the TRP makes its recommendations to the Board, with proposals ranked by technical merit; the Board has adopted a prioritization policy to follow if it does not have enough money to approve all the applications recommended by the TRP.

If the Global Fund's Board accepts the TRP's suggested package of grants (which it historically has done *en bloc*, without amending or debating individual applications), it provides each proposal with a two-year funding ceiling. Some applications require further clarification by the TRP, for which a period of up to four months is permitted[11] . In parallel with this dialogue, the Secretariat then begins to negotiate the grant agreement with the PRs nominated by each CCM, for which the Global Fund's rules allow a maximum period of 12 months (although the Board may approve up to a three months' extension in extraordinary circumstances).

The Panel has several concerns about the grant-application process, which might not be allowing the Global Fund to make the soundest possible judgments about the riskiness and value-for-money of the proposals it finances:

1.3.1 The "Free-for-all" Phenomenon

"We reward countries that do well with money they don't need, and we cut off poor performers."

— Former Senior Official in the Global Fund Secretariat

Because, outside of two exceptions, the Global Fund's Board sets no upper limit for the dollar-value of individual proposals in each Round,[12] 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.[13] 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.

11 The four-month period begins when the TRP receives an applicant's responses to the requested clarifications.

12 As of 2010, grants in the so-called "targeted pool" aimed at most-at-risk populations may only request US$ 5 million for Phase One and US$12.5 million for the full five years of a grant. In addition, proposals from upper-middle-income countries, as a group, may only receive a cumulative 10 percent of the funding available in any Round; this group of CCMs had never breached this ceiling until Round Ten.

13 The National Strategy Applications (NSAs) were meant to reduce this tendency, by forcing applicants to draw up budgets that detail out the contributions of other donors and the national Treasury to the fight against each disease; the proposals are only supposed to ask the Global Fund to fill in the identified gaps, programming not financed by another source. The Board has approved too few NSAs for the Panel to assess their impact at this point.

"The Global Fund grant process was supposed to be performance-based, but, in many cases, has devolved into people trying to divide up the spoils."

— Bilateral Partner in the Field

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." For a number of years, the Global Fund did not enforce a requirement that CCMs choose the PRs (and, sometimes, SRs) they nominate in applications through a transparent system.[14] NGOs that are not part of CCMs at times have complained they are excluded from the chance to have their proposals considered for inclusion in final applications.

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. For instance, applicants in Round Eleven will present consolidated disease and health-systems-strengthening (HSS) proposals for the first time, and must show minimum and increasing counterpart financing to match their grants. In addition, the Global Fund and the Global Alliance for Vaccines and Immunization have published a common application form for HHS projects, available for submission to either institution.

1.3.2 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. UN agencies and partnerships like Roll Back Malaria and Stop TB have also developed networks of experts who have held training sessions for CCMs on how to craft applications, and have helped to draft them as well. 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.

The Panel recognizes the Global Fund has taken steps in the last year to address the problem of the complexity of its application form. After almost a year of consultations, the Secretariat has shrunk the number of pages in the proposal form and guideline documents by more than half, a positive step towards simplifying the process.

1.3.3 Insufficient Focus on Finances and Risk

The TRP's review criteria have not always taken sufficient account of financial and value-for-money aspects,[15] or the wider country context, including the risk environment. While the budget can be an important factor in an application's score, it is not weighted. During Rounds Nine and Ten, LFA experts have provided the TRP with an Independent Budget Analysis (IBA) of proposals that exceeded US$40 million. According to TRP members interviewed by the Panel's Support Team, the

14 See footnote 10 for more recent developments to screen out proposals from CCMs that cannot prove they select PRs in an open and transparent process.

15 Although value-for-money appears as one of the TRP's approval criteria, the definition of the term is superficial: "Show that interventions represent good value for money (which can be defined as using the most cost-effective interventions, as appropriate, to achieve the desired results)." TRP Assessment Criteria, Annex A.

"The proposals are no longer the countries'; they become the consultants'"

— CCM Chair

"In the past, excellent consultants produce technically sound proposals not recognizing the health system context and the capacities that exist in country, and without direct participation of country program management authorities. The effects are that Funds are disbursed but no solid direction from the country's program to implement. The countries do not understand the proposal implementation and the reality on the ground cannot accommodate the implementation of the proposed strategies. In a situation like this, 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

quality of these financial assessments was inconsistent. The TRP would like to see an IBA done for all grant applications, with much greater rigor, by financial experts who know each country and can judge each line item, a step the Secretariat has indicated will take place for Round Eleven. If the IBA were consistent in quality and reviewed all expenditure lines in applications, the TRP could spend more time ensuring the alignment between the proposed activities and the budget. To that end, the Fund Secretariat should work with the LFAs and in-country partners to gather information on salary scales, reasonable local costs, including the cost of delivery.

As well as missing a full financial assessment, the pre-approval review also lacks an in-depth analysis of the wider country context in which the grant will be implemented. 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.[16]

1.3.4 The Sequence of the Application and Approval Processes

Proposals are unconstrained at the time of application, but many vital details-- what exactly the grant will deliver, the identity and capacity of the in-country implementers, and the risks surrounding implementation-- are only determined during grant negotiation, after the Board has approved a notional sum of money for a specific program. (In addition, successful applicants all perceive the budget ceiling the Board gives them as an entitlement, not the starting point for reductions, as is the reality.) In the Panel's view, this process puts the cart before the horse.

Furthermore, allowing for the TRP clarification period,[17] the length of time between the approval of a proposal by the Global Fund's Board and the signature of a grant agreement can stretch to almost 18 months. Taking the time needed to prepare an application, a two-month TRP-assessment process and potential delays with the first disbursement of money into a PR's account as well, 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, and even the imperatives that framed the original proposal, could have changed. The Panel understands and agrees with the frustrations of implementers that this process takes too long. What is more, 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.

16 For example, the TRP does not have access to the assessments of PRs done previously by LFAs, and while the Secretariat will inform the TRP of which grants are suspended or under audit or investigation by the OIG, the TRP would like more detailed information about what the OIG might be finding out about the institutions involved, since they could be asking for more money. TRP members also would like to cross reference the Grant Scorecards with other sources of information from partners like the WHO, The Joint UN Programme on HIV/AIDS (UNAIDS), STOP TB, Roll Back Malaria and bilateral donors.

17 The *LFA Manual* states that grant negotiation aims to: i) Identify implementation risks and agree measures to address them; ii) Agree on implementation plans and an associated budget, and ensure minimum capacities are in place for efficient implementation; iii) Agree program targets and reporting mechanisms; iv) Ensure programs adhere to the Global Fund Board's decisions, policies and guidelines; v) Identify and address the weaknesses or capacity constraints of the PR or sub-recipients, based in part on the assessment of the LFA; vi) Address TRP concerns on the proposal.

The Legal Status of the Global Fund—An Operational Risk Around the World

Incorporated as a Swiss foundation in January of 2002, the Global Fund, from its birth, did not have the same legal status as UN organizations, as designed by its founders. By virtue of the Administrative Services Agreement (ASA) with the WHO, which extended from 2002 to the end of 2009, the personnel of the Global Fund enjoyed many of the privileges and immunities of UN staff, but the institution itself did not have the protections of UN agencies.

During this period, the United States and Switzerland used their own internal legal processes to confer upon the Global Fund the status of an international organization. Through these declarations, the headquarters of the institution, in Geneva, and the corpus of the Trust Fund, managed by the World Bank in Washington, D.C., are protected, and the employees of the Global Fund have tax privileges and limited diplomatic immunities in those two countries. More recently, Ethiopia, Ghana, Moldova, Montenegro, Rwanda and Swaziland have taken similar steps to designate the Global Fund as an international organization.

In the rest of the world, however, the Global Fund must function as a regular non-governmental organization. The lack of definite legal status for the organization in most of the countries in which it invests and works poses certain risks, including the following:

- The Global Fund is potentially vulnerable to civil or criminal litigation, including lawsuits that might be politically motivated;
- Drugs, bed nets and other supplies imported for programs financed by the Global Fund are often subject to customs duties;
- Despite clauses to the contrary in the standard terms and conditions of the grant agreement, Global Fund non-governmental PRs often must pay taxes;
- Global Fund staff have little protection against possible harassment in hostile environments; and
- The recovery of diverted or inappropriately spent grant funds can be complicated.

The Panel recognizes that the legal staff at the Secretariat is working to convince Governments of the need to concede the status of an international organization to the Global Fund, but, given the large sums of money at stake, the Global Fund should make the conclusion of more such agreements a higher priority. At a minimum, nations that sit on the Global Fund's Board should expedite their domestic processes to grant the organization privileges and immunities, and the Executive Director and Chair and Vice Chair of the Board should include appealing for enhanced legal status as a routine part of their diplomatic outreach. The Global Fund should also consider making the concession of international-organization status a factor in the negotiation of the grant agreements that follow awards made in Round Eleven.

1.4 LAYER #4: THE GLOBAL FUND'S BOARD

Membership of the Global Fund's Board

Voting Members

Canada/ Germany/ Switzerland
Communities
Developed NGOs
Developing NGOs
Eastern and Southern Africa
Eastern Europe and Central Asia
Eastern Mediterranean
European Commission (plus Belgium, Finland and Portugal)
France
Italy/Spain
Japan
Latin America and the Caribbean
Point Seven (Denmark, Ireland, the Netherlands, Norway and Sweden)
Private Foundations
Private Sector
South East Asia
United Kingdom/Australia
United States
West and Central Africa
Western Pacific

Non-Voting Members

Technical partners
UNAIDS
WHO
World Bank

There is a need to increase risk awareness per country, per PR and per grant.

The Global Fund's Board is responsible for setting the organization's strategic direction, its policies, and the budgets for the Secretariat, the OIG and the TRP. In addition, the Board decides on the eligibility criteria for funding, launches calls for proposals and approves grants. Reflecting the Global Fund's unique partnership approach, the Board is composed of 20 voting members who represent donors, recipient countries, NGOs and disease-affected communities. *Ex officio*, non-voting members include multilateral partners, the UNAIDS, the WHO and the World Bank. Members are appointed on the basis of the constituency they represent, rather than their technical or professional knowledge or experience. The Board is non-resident, meets twice a year, and is served by several permanent and *ad hoc* Committees that gather three or four times a year.

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 from Development or Foreign Ministries, who usually have international HIV/AIDS as their primary portfolio and can devote significant amounts of time to multilateral governance and policy activities;

- The implementing bloc typically chooses Ministers of Health as their representatives (one of the legacies of the decision made by the Transitional Working Group to divide recipient Governments along the same lines as the WHO Regions, with an extra seat for sub-Saharan Africa.) Many of these Ministers are too busy to engage deeply in Global Fund business, and usually lack dedicated staff to support them. The seats held by the implementers each have different schemes for rotating which Government holds the Board seat every two years, although one constituency has not changed its representation in nine years; and

- Only the three civil-society delegations have truly open and transparent selection processes, which involve public nominations and voting.

These inconsistencies make it difficult to ensure the voices of all constituencies are heard. Biennial turn-over of leadership, political instability in some countries, and spotty communication have left the Government-based implementing constituencies with little institutional memory and a muted presence on the Global Fund's Board. This vacuum has made it difficult to gauge the views among recipient Governments on the current state of the Global Fund, a challenge for the legitimacy and reputation of the organization. The civil-society groups on the Board have maintained a much more stable and disciplined membership over the years.

When the discussions turn to money, the presence of recipients (especially the politically appointed) can alter the Board's decisions. Having representatives who openly lobby for their region or group to get what it regards as its "fair share" of the pie has inhibited any meaningful discussion of whether the Global Fund needs to re-balance its portfolio or set different priorities for grant-giving in the new international environment. A clear demonstration of this phenomenon was the years-long debate over re-setting eligibility criteria, which became ensnared in regional politics during multiple meetings of the Board and its Committees. The Panel views even that decision as a flawed compromise, and believes 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.[18] That said, the Panel understands that recent regional consultations in preparation for the development of the Global Fund's new, five-year roadmap have revealed a new willingness by Board Members to adopt a more strategic approach.

The Panel considers that, while the membership arrangements ensure all partners ostensibly have an equal say, they are often not conducive to the timely and focused debate of strategic issues, nor to swift, professionally informed decision-making:

- <u>The Board's time spent on strategy is limited, which affects its ability to play a leadership role</u>. For example, the Board never steps back to review the Global Fund's entire portfolio of grants from a strategic perspective;

- <u>The Board often spends time on selective micro-managing and agenda-driven matters</u>. Persistent tinkering by the Board has contributed to the growth of non-core activities not described or conceived in the Framework Document, which has led to the current imbalanced staffing ratio within the Global Fund Secretariat, described in Section 1.5;

- <u>The Board could make much better use of its Committees</u>, whose mandates overlap, membership is inconsistent, and capacity is weak. The Policy and Strategy Committee (PSC) is a "committee of the whole" meant to handle controversial issues before they reach the Board, but many constituencies simply re-litigate the very same issues at the Board level. Because of this, the Board does not have adequate assurances or safeguards for its own agenda. The Finance and Audit Committee is not optimally effective, because of its lack of technical expertise and failure to respond adequately to, and follow up on, OIG reports;

- <u>The presence on the Board of almost all the major donors to the Global Fund has not always meant predictable flows of financing to the institution.</u> As evidenced by the shrinking projections of the amount of money available for Round Eleven, the lack of steady, multi-year funding streams is a strategic vulnerability for the organization.

- <u>The Board needs to do a more-skillful job of managing the Executive Director and the Inspector General</u>.

18 That is, by potentially imposing restrictions beyond the current cumulative ten-percent ceiling in any Round for applications from CCMs in upper-middle-income countries.

The current Board is not structured to provide efficient, timely governance to this vital institution. At the beginning of this process, many on the Panel would have recommended a complete restructuring of the Board and its processes. With time, however, the Panel has recognized the value of the engagement and debate the Fund's Board can provide, if functioning optimally, and has concluded the way for the Board to fulfill its promise is to reform and re-purpose its Committees.

Key Strategic Challenges for the Global Fund's Board:

Risk-Management. The Board should be focused on identifying and assessing the risks – financial, reputational and programmatic - to the Global Fund's investments, and determining how best to manage these.

Results. The Global Fund's reputation and its ability to raise funds rests to a major extent on the validity of the claims it makes about the results it achieves. The Board should be constantly and rigorously monitoring the results of its programs, and assuring itself, its donors and the global audience they are accurate and verifiable;

Efficiency and Cost-Effectiveness. Over the next few years, when the prospects for additional funding are so limited, the Global Fund, like every other institution, will have to find ways of doing more with fewer resources. The Board should be leading this effort;

Medical and Technological Advances. Continuing medical and technological advances, as well as climatic and other changes, are likely to trigger changes in disease treatments and requirements for Global Fund assistance. The Board must remain alert to such developments, and be ready to lead in formulating the policy response to them;

Partnership. The Global Fund is suffering from inadequate information-sharing and technical cooperation, both at the working level in-country, and inter-institutionally. The Board should lead efforts to shift the Fund's relationships with multilateral and bilateral partners into a higher gear;

Representation. The Global Fund message is sometimes muted in recipient countries, because it does not appear to have the same degree of access to the top political players as that enjoyed by other multilateral and some bilateral organizations. The Board – individually and collectively – should be playing a leading role in forging relationships with key political stakeholders.

1.5 LAYER #5: THE GLOBAL FUND SECRETARIAT

Since its creation in 2002, the Global Fund has grown from an initial startup to a large international financing institution with over 600 staff members. The initial vision for the Global Fund Secretariat was that of a small, agile headquarters in Geneva, without any field presence. As the organization has grown, both in terms of funds and number of employees, and as it has gained experience, the original "light-touch" approach has had to give way to an increased concern for accountability on the part of the Board and Secretariat.

The Panel has seen for itself that 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. Many development organizations with portfolios much smaller than that managed by the Global Fund have larger headcounts. The question for the Panel is not whether asking the existing staff as currently configured to squeeze more into their days will solve the problems with fiduciary oversight; 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.

Insiders and outside observers worry openly about the organization's corporate culture, or perhaps more accurately, about the lack of a unified corporate culture: it is said that attitudes differ, "depending on which geological strata you belong to."[19] The idealism of those who were part of the Global Fund's founding years remains palpable, particularly (but by no means exclusively) among FPMs. They relish being able to exercise their skill and professional judgment in making grants to countries in dire need, and being rewarded by seeing tangible results on the ground. They remember when originality was encouraged, "not punished," and when they regarded themselves as "enterprising young professionals; a collective of dedicated people entitled to an equal say, whatever their position."[20] But the founding members view the Secretariat with some concern as it becomes, in their view, more "reactive, blame conscious, risk-averse and hierarchical,"[21] and is slow to deal with under-performers.

Most staff at the Secretariat recognize the early "frontier spirit" must inevitably give way to a different corporate culture as the organization grows and matures. They argue for a corporate personality "that provides a platform for the Global Fund's long-term aims and operational practices"[22]; but many say that there has been no systematic attempt to define such a culture. Meanwhile, 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." They believe that their contribution is undervalued, and their experience in other institutions is rather disdained. As a result, the organization has no clear, shared vision of its mission and objectives within the rank-and-file.

19 Interview with staff at the Global Fund Secretariat.

20 *Ibid.*

21 Interview with staff at the Global Fund Secretariat.

22 *Ibid.*

The confusion about the identity of the Fund Secretariat is reflected in a confused corporate structure. Various units have duplicative responsibilities (i.e., the Monitoring and Evaluation Unit [M&E] vs. the Performance Impact and Effectiveness Unit), whole sections exist that even senior officials perceive as redundant (Knowledge-Management Unit), and staff has "mushroomed" after some Board decisions (civil-society and private-sector divisions). These units have operated over time as independent fiefdoms that tended to compete, rather than collaborate, with each other. Operating in silos, staff had no sense of mutual accountability for the joint work of the organization. Moreover, a culture of "clientitis" has set in some quarters: employees of the Fund, such as civil-society officers, lobby to influence decisions on grant funding. As a result, the Secretariat has come close to losing its focus on its core business-– grant management.

The so-called "Q1 Review" commissioned by the Executive Director in mid-2011 estimated that 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. According to Q1, 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). As illustrated in the chart on this page, the Secretariat employs only 45 FPMs– less than eight percent of the total staff of the Secretariat.

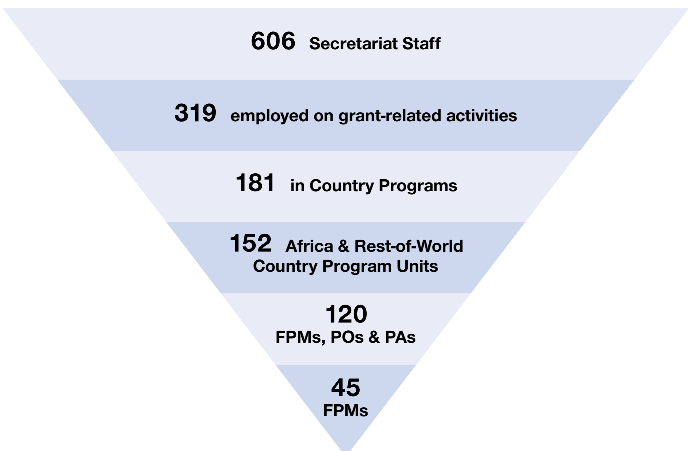
The Panel agrees with the Q1 Review's recommendation that the current ratio between priority grant-related and other activities need a radical shift: first to 60:40, and then to 70:30, at least. This would require an initial increase of 45 staff for grant-related activities, followed by a further 60. Top management at the Global Fund Secretariat has accepted the Q1 recommendation, and an internal exercise is currently underway to identify positions to re-allocate, with the aim of achieving the first step by March 2012, and the second by June 2013. The Panel welcomes the energy and determination with which the Executive Director is approaching the task, but believes that re-balancing the Secretariat will present a number of challenges.

1.5.1 Optimizing the Fund Portfolio Managers

"The sense in the early days was that we were in an emergency, the money would always keep flowing, and we could do no wrong."

— Senior Official in the Global Fund Secretariat

The FPMs are the linchpins of the grant-management system. They face outwards to recipient countries to support and oversee the implementation of Global Fund grants, and they face inwards to assure the organization those grants are being administered in accordance with the Fund's policies and regulations, and are delivering the promised results. The Global Fund's effectiveness thus



The Global Fund Secretariat has come close to losing its focus on its core business– grant management.

depends on the performance of the FPMs, and the Program Officers (POs) and Program Assistants (PAs) who support them. In addition to looking at their workload, the Panel has therefore also examined how FPMs exercise their role, and has concluded 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.

1.5.1.a Allocation and Rotation

In the Panel's view, the FPMs are over-burdened. At present, each FPM is responsible, on average, for 2.6 countries. Taking FPMs, POs and PAs together – what might be termed the Global Fund's "front-line" - 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.

Rebalancing staff ratios to reflect grant-related priority activities should be based on the risk and complexity of the recipient countries, and the consequent level of effort – numbers and skills – required of the Secretariat. At present, Team Leaders within the Country Programs Cluster decide on the allocation of FPMs to countries. A table that shows the current assignment of FPMs and POs/PAs to countries is at Annex J to this report.

Only two countries, Nigeria and Kazakhstan, have a full FPM assigned to them, while 72—more than half of all recipient countries—have less than 50 percent of an FPM. Taking FPMs and POs/PAs together, 35 countries benefit from the equivalent of a full-time Country Programs staff member, but 28 countries have less than half a full-time equivalent, including 10 categorized by the Panel as high-burden and high- or extreme-risk. The allocation is supposedly based on the risk and complexity of individual countries, but the Panel is not aware of whether or how this is objectively assessed, case-by-case. Some allocations appear puzzling. For example, Cape Verde (categorized by the Panel as lower-risk/low-burden) appears to justify half an FPM, (a full one with PO/PA support factored in), whereas the Russian Federation (categorized by the Panel as extreme-risk/high-burden) has only 0.25 of an FPM (0.58 when including PO/PA support).

Recognizing that some countries present extremely challenging environments in which to operate for protracted periods, 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.

On the other hand, for reasons of objectivity as well as career development, FPM portfolios do need periodic refreshment, and the need for systematic rotation also applies to POs and, to a lesser extent, PAs. Too-frequent changes of FPMs have a "knock-on effect" on the performance of the grants, however. The Panel observes that the Latin America and Caribbean Regional Team has developed planned rotation arrangements, and would like to see a more systematic approach institutionalized throughout the Country Programs Cluster.

A well-designed career path and better training will be needed as well, to ensure FPMs, POs and PAs progress from more-straightforward to more-challenging portfolios as they gain experience. 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. The system should also include adequate handover arrangements (e.g., a knowledge-management system that provides an up-to-date picture of the country context, as well as complete grant documentation, and a historical overview of Global Fund and other donor programs).

More widely, the Country Team approach (discussed below) has resulted in designated resources - finance, procurement, M&E – for some 60 countries, but the Panel is not aware of any systematic process for ensuring that Secretariat staff resources overall are deployed in accordance with demand, or risk levels.

All this suggests not only that the Secretariat cannot achieve re-balancing simply by transferring existing staff to priority grant-related activities from other areas of work, but also that matching needed experience with future tasks is likely to require a comprehensive re-assessment and upgrading of the organization's skills base.

1.5.1.b 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. At present, financial authority is delegated as set out in the table at right. The FPMs and Team Leaders must sign on all disbursement requests, which are also subject to review by the Finance Unit for due diligence (completeness of documentation and availability of committed funds).

1.5.1.c Focus and Consistency

The renewed emphasis on financial management and improved fiduciary control has tended to introduce ever-more-elaborate procedures, but has not fundamentally changed the way FPMs do their business. In the current risk-averse climate, FPMs are reluctant to adjust the scope of the procedural reviews. It is not clear that all of the information provided is materially relevant in every case, or how much value is added, in terms of improved risk-assessment or validation of results.[23]

Current Financial-Authority levels

Position	Delegated authority
FPM	None
Team Leader	US$ 0 – 3 million
Unit Director	US$ 3 – 6 million
Country Programs Director	Above US$ 6 million

23 For example, the requirement for LFAs to review PRs' training plans, and then for FPMs then to review the LFAs' findings, is time-consuming, and tells the Global Fund little about whether the training is effective and provides value-for-money.

The Panel's country visits confirmed that contact with FPMs can be somewhat infrequent, and FPMs say they currently spend an average of around 25 percent of their time in-country. The Secretariat has had a "culture of five-day travel,"[24] in which FPMs flew into their countries for a business week four or five times a year, held offices meetings in the capital, and ventured out into the field to see service-delivery sites or talk to beneficiaries less-often than would be ideal. Many times, this travel did not have Terms of Reference or defined objectives, post-visit reports were not required, and decisions made in-country were not recorded. This is insufficient to develop practical program-management experience and an adequate understanding of the local context in the countries in their portfolios. As a result, FPMs can be perceived as taking a theoretical rather than a practical approach to issues that arise.

The FPMs' approach to working with in-country players varies widely, as does their definition of risk and their interpretation of the Global Fund's policies. Inconsistent approaches between FPMs can be a challenge for their counterparts, as well as for the LFAs. It is the role of the Team Leader to ensure consistency by reinforcing standards and resolving discrepancies but, though an operational risk-management framework is currently under development, until recently FPMs have not had the benefit of standard operating instructions to guide them in making decisions and handling relationships in-country. Formal training for FPMs, POs and PAs is also a new (and still limited) phenomenon; because of frequent turnover and the lack of written manuals and standard operating procedures, local LFA personnel and CCM members have served as the de facto trainers of the Global Fund's staff. The Panel's recommendations around empowering the FPMs will depend upon a rigorous, continuing training program to bring them up to speed and build their skills over time, as well as a clear assessments of their performance.

In most cases, "LFAs transition FPMs [as they change assignments], not the other way round."

—Senior Leader at an LFA

The Panel is encouraged by the Secretariat's push in the last year to formalize guidance for the Country Programs staff and establish standardized modules of training for the key aspects of grant-management. As quickly as possible, the Global Fund needs to fill the gaps that exist in the Operational Policy Notes, and make many of the newly available training courses mandatory, rather than voluntary, as part of a set curriculum for FPMs, POs and PAs.[25]

1.5.1.d Communications and Information-Sharing

The commitment of FPMs to their country portfolios is impressive, but the Panel came away from its field visits concerned the number of grants, the complexity of the grant management process, the volume of information they are required to review and process could be crowding out the FPMs' ability to view their portfolios objectively and comprehensively. 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 FPMs, because of their immediate interface with countries, take on a lot of workload "generated" by other teams in the Secretariat, who then limit themselves at monitoring the progress made, and do not always pro-actively engage with countries/FPMs to provide the needed support.

24 Interview with staff at the Global Fund Secretariat

25 New hires at the Global Fund now undergo a three-day Induction Program, and incoming Country Programs staff must participate in another four days of specific training in grant-management. (The Secretariat indicates an on-line module will replace the Induction Course by the beginning of 2012.) Participants in the first two waves of Country Team Approach also attended special, three-day trainings. Voluntary courses on particular aspects of overseeing grants have been available on Tuesdays at the Secretariat since May of 2011.

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. Without country presence, many observed, it is difficult to reduce risk and improve performance. Yet, others countered, one of the benefits from not being in the country is that the Global Fund can take tough decisions and implement performance-based funding. Furthermore, the OIG's audits and investigations that identified misuse of funds and fraud in a number of countries have called into question whether the Global Fund should continue to rely on the LFA model as an on-the-ground oversight mechanism.

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. As one donor said, "Geographical vicinity does not immediately bring better decision-making." Before starting on with a country presence, the Global Fund should first challenge itself internally to better define the roles of and relationship between the PRs, the LFAs and the FPMs. In particular, re-engineering the job of the FPM offers the benefits of more time in country at a far smaller cost. The Panel believes 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.

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. The Panel has observed a heavy reliance on e-mail (even for communicating with people who sit a few feet away at the Secretariat), which might not be the most-efficient way for teams to hear, understand and resolve problems with CCMs, PRs and partners in the field.

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 (bits and pieces appear in diverse places), 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. In the Panel's view, 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, especially those that are providing funding for related fields such as health-systems strengthening and the management of pharmaceutical supply chains. The aim should be to forge mutual agreement on the best approach to addressing risk, and thus strengthening the country's response to the three diseases. FPMs should also be exchanging information with their colleagues within the Country Programs Cluster and the Secretariat more widely.

The Panel recognizes that the Secretariat has begun to address the need to improve the systematic exchange of knowledge with in-country partners as outlined in its "Recommendations to Enhance In-Country Communications between the Secretariat, LFAs, PRs, CCMs and Other Partners," and that these are now being translated into Standard Operating Procedures. In this context, the Panel also commends the pilot scheme in Nigeria to share risk analyses with CCMs and PR partners, and to develop joint country action plans that respond to the main risks.

That said, the "Recommendations" document essentially lists a sequence of periodic actions by the FPMs to keep in-country players informed. 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. The Panel suggests that the actions in the "Recommendations" document are necessary, but not sufficient to bring about the step-change that is needed in the relationships between FPMs and their counterparts in-country. Communication should be two-way, and FPMs should listen and learn as much as imparting information.

1.5.1.e 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,

What Can the Data from the Panel's Representative Sample Tell Us about the Effectiveness of the Country Team Approach?

Unfortunately, it is too early for the data to indicate whether or not the Country Team Approach will enhance the Global Fund Secretariat's ability to follow up on grant weaknesses. The 11 countries in the Panel's representative sample that are currently managed under the new structure have not shown any difference in follow-up since the new approach was instituted, but it is far too soon to draw firm conclusions.

because of the "stigma" of sending out tough messages that could lead to a slowdown in the flow of funds. The winning strategy became to advocate for the PRs.[26]

The Secretariat's leaders now recognize they need to recalibrate these yardsticks to reflect the quality and effectiveness of program delivery and other factors. Since early 2011, managers and their direct reports have used a performance-evaluation system called Dialogue to agree on annual objectives, reviewed twice a year, that can take into account the quality of disbursements, not just their speed and volume, as well as factors such as partnerships, collaborations, and stock-outs at the country level. These changes are too new to assess, but striking the right balance between disbursement and quality is something that other organizations, such as the Millennium Challenge Corporation in the United States and the Bill and Melinda Gates Foundation have also had to tackle, and the Panel suggests that by learning from them, the Global Fund should be able to move ahead quickly to introduce improved KPIs. (The lack of KPIs capable of measuring FPMs performance in the round is compounded by the lack of robust career-management and promotion procedures.)

1.5.1.f The Country-Team Approach (CTA)

A lack of mutual trust and synergies within the Secretariat teams that were working on grant management, and the limited alignment of objectives and approaches, led to the creation of a number of checklists, paperwork and signatures, which did not solve the inherent problem of a lack of a consolidated approach to the portfolio. In addition, the Global Fund had a tendency to be hands-off, and the decision-making process was one of trial-and-error, without clear guidelines.

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. This replaces the previous system whereby the FPM had to obtain "sign off" one after the other from those responsible for technical compliance, particularly finance, and procurement. (It also should cut down on the phenomenon of the Secretariat's generating multiple, uncoordinated sets of comments on documents, and then separately transmitting them back to PRs, who have no way of adjudicating between them.) Essentially, CTA introduces matrix management, with the aim of fostering among those responsible for technical support a sense of joint ownership and responsibility for Global Fund business, as well as more-timely decision-making. The aim is to anticipate and mitigate problems to ensure a higher level of quality in grant design and implementation early on ("quality at entry"), to avoid problems and delays downstream. This shifts the role of technical officers in the Secretariat from compliance-checking to a more proactive and supportive stance.

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 number is due to rise to 46 over the next eight months. Using the Panel's risk analysis, 60 percent (18 of 30) countries in the extreme-risk/high-burden category are covered by a Country Team, along with 34 percent (15 of 45) countries in the high-risk/high-burden category.

26 Senior executives at the Global Fund point to the cross-Secretariat Phase-Two Panel and the collective nature of the new Country Team Approach as checks and balances to this phenomenon.

With a few exceptions, there is broad support in principle for the CTA within the Secretariat. FPMs, in particular, welcome having decisions made all at one time, rather than in a cascade. They also think it is useful to build in M&E considerations from the earliest stage of the grant process, and for Finance Officers to be part of the annual planning process, by scoping LFAs and contributing to measures to strengthen procedures at the PR and SR levels.

The CTA has allowed the LFA's technical experts to communicate directly with the technical experts at the Global Fund, and to convey information that an FPM might not have understood (or might have misinterpreted). By design, the CTA should improve informed decision-making on grant performance and assist with risk-mitigation through clear channels of communication. However, in practice, the responsibility and authority for decision-making in the Country Team is not certain. In addition, the Country Teams do not always include the LFAs in a consistent way.

The CTA will not add to better risk-management if it is merely a more-thorough review of paperwork, and some steps appear necessary to improve the effectiveness of the approach:

- Responsibility for Decision-Making. Where the responsibility and authority for decision-making resides within CTAs needs clarification. At a senior level within the Country Programs Cluster, the view is the FPMs should be the ultimate decision-makers, since they are accountable for overall management of the grant. But others say, "Consensus decision-making should mean everyone accepts responsibility for delivering their part of the agreement."[27]

- Resources. CTA meetings should not be "talking shops,"[28] which add to FPMs' workloads, but should promote crisp decision-making. Also, the time and effort invested in Country Teams must avoid delaying the business of grants in non-CTA countries.

- Organizational Implications. The role of Team Leaders within the new approach needs more certainty. Also, the quality-assurance function (wherever it sits in the Secretariat) should aggregate best practice in critical areas of the grant-oversight work where each FPM or Regional Team spends time inventing the wheel over and over again because of the lack of a central depositary of useful and needed resources to address risks or weaknesses most frequently encountered across the portfolio (i.e., sample Terms of Reference for fiduciary agents, procurement reviews, reviews of SR expenditures, external audits, key staff of implementers, minimum staffing for PRs, etc.).

Furthermore, the implementation of the CTA might not go far enough if the objectives and reporting lines of the Country Team members are not aligned. As it makes its full transition into the CTA, the Secretariat might have to assign the finance, procurement and M&E specialists, along with staff from other support units such as the CCM Team, LFA-Management Team, Grant-Renewals Team, Quality-Assurance and Support Services Unit, Performance Team, and others, to the Regional Teams themselves. This way, these professionals will not be limited to performing "compliance checks," but will provide actual professional advice, expertise and problem-solving skills throughout the life-cycle of the grants while engaging much more closely and coherently with implementers.

- KPIs. All CTA members do not have KPIs in common yet, which would act as an incentive to share responsibility for the outcomes CTAs are intended to produce.

27 Interview with Fund Secretariat staff.

28 *Ibid.*

1.5.2 Tools for the Management of Human Resources (HR)

Only in the last two years has the Global Fund Secretariat begun to develop its own HR-management system, following the organization's migration out of the Administrative Services Agreement with the WHO in 2009. The Board approved an HR Policy Framework in January 2009, and subsidiary regulations drafted afterwards now form the Global Fund's *Employee Handbook*.

The Global Fund needs to overcome challenges in its HR approach if it is to implement a reorientation of the Secretariat toward better management of the portfolio. Merit-based promotion and career management are just beginning in the organization, and few incentives exist for good performance.[29] A more nimble process for moving and re-training employees would also be an important step forward. The high turn-over of management staff and the common use of interim leaders at times has undermined the effectiveness of the EMT and the oversight of the grant portfolio, and the leadership of the Global Fund should prioritize filling senior-level vacancies.

Thoughtful senior managers within the Secretariat are already developing ideas about what is needed, including that performance-management arrangements should include 360º feedback, and that the new risk-management arrangements integrate with an improved personnel-evaluation process, to provide incentives and rewards for working in high-risk portfolio areas. In short, 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, both financially and programmatically, and all Cluster Directors should be assessed on their contribution to this effort.

1.5.3 The Executive Management Team (EMT)

The Panel is concerned by its discovery of 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. Its members should be responsible, collectively, for fleshing out and implementing the policies approved by the Board, and for corporate management of the organization: its performance and the stewardship of its resources. In particular, the EMT should exercise energetic, responsible and sustained corporate leadership of the managerial and operational reforms that will necessarily preoccupy the Global Fund over the next five or more years.

The "Q1 Review" concluded the EMT was not acting as an effective corporate leadership or decision-making forum, particularly on strategic issues. "Q1" also commented on a widespread tendency to bypass line managers and appeal decisions by Cluster or Unit Directors to the Office of the Executive Director. In the Panel's view, the responsibility for leading and shaping the EMT to take up its proper role rests squarely with the Executive Director and Deputy Executive Director (D/ED), in their respective roles as EMT Chair and Vice-Chair.

29 According to the Secretariat, 504 employees eligible to participate in a pay-for-performance reward model received cash awards in 2010, and 25 percent of the entire staff experienced some type of upward mobility through competitive-selection or job-evaluation processes in 2009 and 2010.

THE COUNTRY TEAM APPROACH

"It's time-consuming to consult and achieve consensus, but it's good to work with a team "inside the tent." Too often in the past, others simply criticized what FPMs were doing."

— Fund Portfolio Manager

Better leadership from the EMT, with oversight and direction from the Board, is crucial if the organization is to operate effectively over the next decade. The Panel notes and concurs with the steps underway to implement the recommendations of the "Q1 Review" in respect of top management and the EMT, including time-limiting and, where possible, closing down the myriad working groups and task forces; rationalizing the Office of the Executive Director; and clarifying the respective roles of the ED, D/ED, Cluster Directors, Unit Directors and Team Leaders. In particular, the EMT needs to mold the implementation of the recommendations of this report and other, ongoing staff changes into one, combined, coherent restructuring, rather than a little at a time.[30]

1.5.1.i Managing Reform

The Global Fund is an organization in transition-- a process that has been painful at times. Nevertheless, the number of ongoing reform and improvement initiatives indicates that the organization is ready and willing to continue making change.

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. Yet, with so many initiatives, the risk is undertaking actions in a piecemeal fashion, which could obscure priorities. In the circumstances, 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.

30 Just in 2011, separate processes have been taking place to implement the Country Team Approach; restructure the management of the Country Programs Cluster; carry out the recommendations of the Q1 Review; re-vamp the management of the Strategy, Policy and Evaluation Unit; re-tool the Corporate Services Cluster; and split the West and Central Africa portfolio team.

Attribution of Results—A Need for Continuous Improvement as the Global Fund's Financial Contributions Evolve

The Global Fund has rightly received praise for the effect its investments have had around the world, and the numbers the institution publishes are often repeated in press articles, academic papers and policy documents. Getting those data right is important to the ongoing monitoring of the success of its programs, and to the reputation of the organization. Key to the Global Fund's credibility is how the institution measures performance against targets and describes the results of its grants, particularly the manner in which it determines how much of the progress in a given area in each country to attribute to its financing.

The Global Fund's Board has emphasized its grant-giving should have the general goal of bringing interventions to scale at the national level, which has meant the organization has focused on tracking results at the national level and its contribution to those numbers.[1] At the same time, the Board has also committed the Global Fund to performance-based funding, the integrity of which depends on linking financial inputs to results reported. The task of the Secretariat is to design a system of gathering and reporting data that works for both of these principles: one that builds on national systems while also measuring with greater precision the return on the Global Fund's investments in terms of the performance of the grants, and also shows correct attribution and additionality. The bottom line is the organization should refine its measurement of the achievements of the programs it supports by including financial contributions, to avoid claiming results for which it is not paying.

Data-quality audits conducted by the Global Fund in 40 countries around the world have shown a mix of under- and over-reporting from PRs. As an institution with a varied portfolio of investments in more than 130 countries and territories around the world, the Global Fund faces several important challenges in collecting and describing the data from its grants:

- As Global Fund grants do not have a standardized start date, each one has its own, unique reporting cycle. As a result, reporting periods do not always align up across grants, and analysis in real time (even quarterly or biannual) is difficult;
- PRs do not always submit reports in a timely manner, which can lead to underestimates;
- As the Global Fund's own audits have shown, the quality of data reported can be poor and its accuracy sometimes questionable;[2]
- The codification in budgets of specific categories of intervention, or so-called "Service-Delivery Area," in grant proposals and grant agreements, and in subsequent expenditure reports, is not uniform;[3] The data systems of many PRs do not consistently track interventions such as the prevention of mother-to-child transmission (PMTCT) or harm-reduction, and PRs themselves decide what expenditures to allocate to different Service-Delivery Areas, which can undermine the consistency of financial reporting across grants;
- In certain circumstances, for projections against important targets, the Global Fund accepts results reported on a nationwide basis that are not necessarily connected to Global Fund financing; sometimes called "untied indicators," these numbers, which typically correspond to national targets, do not account for the proportion of funds contributed by the Global Fund to a given intervention in a country.

The Global Fund has made great strides in improving the granularity and accuracy of the programmatic data it collects, and is moving away from measuring inputs to tracking the health impact of its grants. Nevertheless, more-precise attribution of the Global Fund's contribution to the fight against the three diseases, country by country, is possible, especially with better financial data. Results attributable to the Global Fund in each nation should be linked to an estimate of the Global Fund's financial contribution to the fight against each disease in that country. Such combining

1. "The Global Fund also recognizes the inherent difficulties in making attributions of specific disease impact to specific donor investments. Rather, the Fund will contribute with strategic information sharing and other forms of collaboration to joint partner efforts to monitor and evaluate progress towards sustainable country level disease impact in its totality." *Monitoring and Evaluation Strategy*, Global Fund to Fight AIDS, Tuberculosis and Malaria, Geneva, 2003, p. 11 (GF/B6/11).
2. The number of grants that have their data reviewed for quality is increasing, which is a measure of the Global Fund's investment in addressing the challenge of inconsistent reporting.
3. At the present time, the Grants-Management System records the total financial commitment made in a grant agreement, along with the total budget planned for each period (quarter or semester), and the amount disbursed for each period. The Enhanced Financial-Reporting System tracks budgets and expenditures by some program or Service-Delivery Areas , but not all, and does not completely record cost categories (personnel, drugs, equipment).

of financial and programmatic data will be important for reaffirming the confidence of donors and the wider public in the effectiveness of the organization's grants.

The Global Fund should increasingly adjust its results by financial contribution, country by country, disease by disease, intervention by intervention. By making several important and fundamental changes in how it asks for and aggregates data reported from its recipients, the Global Fund can present its invaluable contributions on more sound statistical footing. The organization has already implemented a sophisticated methodology for assessing its contribution to the number of persons who are receiving anti-retroviral therapy (ART),[4] and has since 2009 implemented with technical partners (WHO) and key partnerships (UNAIDS, Roll Back Malaria, and STOP TB) a program of data-harmonization, impact surveys and modeling studies to more estimate more precisely the impact of its investments in malaria and tuberculosis (TB). Building on this recent work which began in 2009, as with ART, insecticide-treated bed nets and treatment for TB, the Global Fund should use the same methodology with its other major programmatic indicators, applying the same few, common-sense filters to all of its programmatic data before determining its share of responsibility for an intervention against one of the three diseases in any country, specifically to move from estimating contribution to measuring attribution more accurately:

1. Remove double-counting in instances in which more than one grant for the same disease in the same country reports national results;
2. Standardize results into cumulative annual reports;[5]
3. Invest more in comparing results reported to the Global Fund with those transmitted by the same national entity to organizations such as the UNAIDS and the STOP TB and Roll Back Malaria partnerships;
4. Exclude any national results from countries in which the Global Fund did not make a disbursement for a grant against a given disease for the period measured;[6]
5. If tracking the Global Fund's share of a given intervention, exclude results from countries in which the Global Fund did not make disbursements specifically for that intervention during the period measured;
6. Filter results to exclude obvious errors, such as numbers that appear out of proportion to estimates made by international organizations and the published academic literature; and, finally,
7. Adjust the data for the Global Fund's financial contribution to the given area of work or disease.

This last point will also help the Global Fund to track the additionality of its resources in a more precise way. In many countries, the Panel heard anecdotal evidence of how great a proportion of the funding against a given disease the Global Fund's grants represented, but hard numbers were hard to find because of weaknesses in the reporting of financing data in countries. The proportion of funds from the Global Fund to a national program should be recorded in each grant agreement and tracked thereafter, to enable the Global Fund to claim an appropriate proportion of the results.

In addition to applying this type of methodology to all the indicators for which the organization makes claims of attribution, the Global Fund should continue to encourage its implementers to invest substantially in data systems and surveys at the country level to help more accurately record impact. While the recommended share of grant budgets for such data-collection and verification is five to ten percent, many PRs do not meet that target, as the average investment in monitoring-and-evaluation systems accounted for 5.3 percent of the US$ 13 billlion invested by the Global Fund up to the end of 2010.[7]

4. The thresholds the Global Fund uses for making determinations about its share of ART data in a country are as follows:
   - The Global Fund must support an essential element of ART on a national scale (drug provision, laboratory and testing facilities, etc.);
   - Grants must be performing adequately (not rated B2 or C);
   - Reporting from the PR(s) must not have any significant data-quality issues;
   - The Global Fund must have distributed over US$ 50 million to the country for HIV programs in the past three years; and
   - The Global Fund's total disbursement for HIV programs in 2009 had to be at least 33 percent of total reported domestic public expenditure on HIV, based on estimates derived from the National AIDS Spending Assessment (NASA) reported to UNAIDS.
5. Most PRs collect and collate these data monthly, so they should be able to report them on a calendar-year cycle.
6. One could make the assumption that a disbursement in the last three months before the beginning of a particular year was likely have been partially spent in that year; similarly, one should exclude disbursements made in the last quarter, since they likely will not be spent until after the new year.
7. In fact, the Panel heard anecdotes during field visits that such expenditures are among the first to be eliminated when the Global Fund asks for "efficiency gains" in grant budgets.

1.6 LAYER #6: THE LOCAL FUND AGENTS (LFAs)

Current Reform Workstreams at the Global Fund

Comprehensive Reform Working Group Action Plan;

Elaboration and implementation of the *2011-2016 Strategy*;

Implementation of the "Q1 Review";

The Board's Governance-Improvement Program;

Continuing implementation of the New Grant Architecture;

Further development of the Country Team Approach;

Development of a Risk-Management Framework;

Continuing improvements in finance and information technology;

HR-reform program;

Implementation of the recommendations of the OIG; and

Implementation of the recommendations of the *Five-Year Evaluation* undertaken by the Technical Evaluation Reference Group.

The Global Fund invests significant money in the LFA model as part of its risk-assurance framework: in 2010 and 2011, the LFA budget represented approximately 25 percent of the organization's total operating budget,[31] but less than two percent of what the Global Fund will disburse to grants this year. From the Panel's comparative analysis, this percentage spent on LFAs is within the range of what other donors spend on external accountability mechanisms. In a resource-constrained environment, coupled with an increased demand for LFA services targeted to detect risks in grant management, the Global Fund will need to address inefficiencies in the allocation of resources to, contracting mechanisms for, and capacity and scope of work of the LFAs.

Nine organizations provide LFA services to the Global Fund today[32]: six audit and consulting companies, which are PricewaterhouseCoopers (PwC), KPMG, Deloitte, Grant Thornton, Cardno Emerging Markets, Finconsult, and Crown Agents; a non-profit institute, the Swiss Tropical and Public Health Institute (Swiss TPH); and a UN organization, the United Nations Office of Project Services (UNOPS). The firms deploy a total of 132 in-country teams on Global Fund-related business.

1.6.1 The Panel's Approach to Reviewing the LFAs

From April to June 2011, the Panel and its Support Team conducted initial meetings with several of the LFAs, hosted by the Fund Secretariat in Geneva. The Support Team and Panel Members then met with all nine LFAs separately, including members of the LFA Central Coordinating Teams (CCT) at the headquarters level, as well as with the Global Fund's Regional Team Leaders and the staff at the Secretariat who have responsibility for managing the LFA system. Finally, the Members of the Panel and its Support Team met with in-country LFA teams and other stakeholders in thirteen countries.

When the Panel began its work, each LFA was represented at least once in the Panel's representative sample of 40 countries selected from the risk-burden matrix attached to this report. However, with the re-tendering of work in several countries during the period of the Panel's review, one LFA no longer appears in the Panel's sample. Given that PwC holds the largest number of contracts for LFA services (68 countries, or 50 percent of the current total), it has the largest number of countries in the sample (18, or 45 percent).

The distribution of the LFAs in the Panel's representative sample is Annex K to this Interim Report.

1.6.2 The Role of the LFAs

Changing requirements for the LFAs over the years has contributed to a lack of clear expectations for their role. In the early years of the Fund's operations, the LFAs focused almost exclusively on the financial management of grants. With the global re-tender in 2008 that put all the LFA contracts out to bid, the winning firms had to expand their capacity to monitoring programmatic health aspects, as well as M&E and procurement and supply-chain management. Based on the result

31 15th Meeting of the Finance and Audit Committee, Global Fund to Fight AIDS, Tuberculosis, and Malaria, 19-21 October 2010, (GF/FAC15/06).

32 Before the 2008 re-tender, there were six LFAs.

The work done by LFAs on behalf of the Global Fund in many countries could be much better tailored to the specific risks associated with the grants.

of recent OIG audits and investigations, 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.

For most of the last ten years, the Secretariat has tended to treat the LFAs as contractors, and not as partners in helping to fight the three diseases. The LFAs' activity on behalf of the Global Fund has tended to be commoditized, paper-based exercises. FPMs sometimes have even viewed the LFAs as an obstacle in the grant-management process, and have excluded them from communication with the PRs. The Panel is pleases that making more-strategic use of LFA resources is one of the themes of the Global Fund's reform agenda, and features prominently in the Secretariat's action plan entitled, "Improving the Effectiveness of LFAs." The Global Fund needs to employ the capabilities of the LFAs more efficiently, and include them in a strategic dialogue regarding the institution's accountability and risk-management framework, of which they are a key pillar.

1.6.3 The LFAs and Risk-Management

The Secretariat might not be implementing changes systematically or quickly enough to alter the focus of the LFAs and target resources to the riskiest parts of the grant portfolio.

As the OIG has pointed out, 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.[33] While the LFAs do identify risks and financial irregularities as part of their normal work,[34] it is not clear where fiduciary oversight fits in the long list of deliverables the Secretariat requests the LFAs to submit. 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.

Since 2010, the Secretariat and the OIG has provided more-explicit guidance on risk to help focus the LFAs in the field.[35] The Panel recognizes that, in the past 18 months, the Global Fund has initiated a number of actions to strengthen the LFAs, as part of the Agenda for a *More Efficient and Effective Global Fund*, and to ensure the LFAs are adopting a more rigorous and systematic approach to identifying and stopping fraud.

While the Panel has confirmed through interviews with all nine LFAs that these measures are under way, the Secretariat might not be implementing them systematically or quickly enough to alter the focus of the LFAs and target resources to the riskiest parts of the grant portfolio. In part, this is because the organization has not stratified its portfolio by risk, and does not have an operational risk-management framework in place. The Panel has also seen that the performance of the LFAs is still uneven.

33 "Report on Lessons Learned From the OIG's Country Audits," Audit Report No. GF-OIG-11-001, Office of the Inspector General, Global Fund to Fight AIDS, Tuberulosis, and Malaria, Geneva, 15 March 2011; and, "Improving the Effectiveness of Local Fund Agents," LFA Management Team, Global Fund to Fight AIDS, Tuberulosis, and Malaria, Geneva, 31 January 2011.

34 In each country, the LFA Team is supposed to do the following: i) Assess the management capacity and fiduciary controls of the entities that will implement the programs financed by the Global Fund; ii) Verify financial flows, expenditures, data quality and programmatic progress, as part of the examination of each Progress Updates/Disbursement Request (PU/DR), and also bring management problems at the PRs to the attention of the FPMs ; iii) Review past performance and future plans when a grant is considered for renewal; and, iv) undertake additional verification and assessment work throughout the grant life-cycle tailored to the risks in the programs, implementing entities and country contexts. As part of reviewing PU/DRs, the LFAs recommend changes to the amounts requested for release by the Global Fund (and sometimes suggest not disbursing at all).

35 Including by revising the expectations for the LFAs' review of PU/DRs to require greater attention to risk and the financial-management performance and procurement and supply-chain track record of PRs.

Recent Changes to the Work of the LFAs

- Adjusting the LFAs' Scope-of-Work to meet evolving information- and risk-management requirements, including in relation to fraud;
- Making LFA teams more robust;
- Creating process for rigorous and systematic performance-management of the LFAs;
- Improving in-country communications between the Secretariat, PRs, CCMs, LFAs and other partners;
- Leveraging the LFAs' expertise in enhancing Global Fund policies and processes; and
- Ensuring value-for-money in LFA services.
- Updating the LFAs' Terms of Reference, reporting templates and to heighten a focus on fraud risks and actual fraud;
- Requiring the LFAs to conduct annual Country and PR Risk Assessments;
- Requesting the LFAs to perform more in-depth monitoring of high-risk activities prone to fraud;
- Making the LFAs members of the Country Teams;
- Monitoring training events and expenses;
- Updating the *LFA Manual* to place a greater focus on risk; and
- Organizing training events, in collaboration with the OIG, for LFA experts to review best practices in identifying fraud.

In the current risk-adverse climate, FPMs say they are reluctant to adjust the scope of the LFAs' procedural reviews. In the past year, however, the Secretariat's budget data show FPMs are requesting additional LFA verification work targeted to high-risk activities, such as SR assessments, procurement reviews and evaluations of training plans. Yet, FPMs are not all using the new Country and PR Risk-Assessments systematically to guide their work and that of the LFAs.

1.6.4 Organization and Skills of the LFAS

The size and quality of the LFA team should be tailored to the risk environment in a particular country, and LFAs should allocate their most experienced and best staff to the most difficult countries. However, since the Global Fund has not based its resource allocation to the LFAs upon a stratification of countries' risk environment, the LFA team structures and contracts are not matched to the portfolio in any systematic way. [36]

Re-tendering for LFA services in 2008 did force the LFAs to restructure themselves to respond to the increasing need for multidisciplinary teams. The Panel has found the LFAs continue to experience challenges in identifying, contracting and retaining qualified staff. In particular, conflicting interpretations within the Secretariat of the requirements for PSM and M&E experts have hindered the LFAs' ability to contract and retain specialists. The Secretariat's technical teams tend to have a rigid set of expectations (in terms of academic degree required and numbers of years of experience) that do not necessarily apply to the needs in a country, and LFA experts previously approved by FPMs have later been determined unqualified. For a graphic representation of the typical organization structure of an LFA, please see Annex L.

1.6.5 LFA Resources Matched to the Panel's Country Risk-Burden Matrix

In addition to the qualitative analysis of the tailoring of the LFA's work, the Panel conducted a quantitative analysis to determine to what extent the resources allocated to the LFAs match the risk and complexity of the grant portfolio. The Global Fund Secretariat's LFA budget for 2011 is approximately US$72.7 million (excluding budgets for Data-Quality Audits - DQA), made up of the budgets of the Regional Teams within the Secretariat for LFA services in 2011, which total US$71 million, plus an additional US$1.7 million of other associated costs, such as training, the monitoring of Paris-Declaration commitments, etc.). Projected expenditures on LFAs in 2011, based on actual purchase orders created to date, total US$51.7 million, a number that will increase over the rest of the year.

In 2010, the total LFA budget, including DQAs, was US$68 million, while the 2010 total LFA expenditure was US$54.3 million (excluding DQAs). This total includes approximately US$3 million of outstanding receipts, as well as other costs for additional work requested that is still under negotiation.

36 As an example, the OIG found the growth in dollar-value and complexity of the grants in Zambia and the Philippines did not bring an equivalent strengthening of the skills and size of the LFA teams to provide the requisite oversight: Office of the Inspector General, "Report on Lessons Learned for the Office of the Inspector General's Country Audits," Audit Report No. GF-OIG-11-001, Global Fund to Fight AIDS, Tuberculosis, and Malaria, Geneva, 2009.

Inefficiencies in the LFA Contracts

- Negotiating and approving additional LFA budgets takes too long;
- Entering a new/or revised purchase order into the system is slow;
- The Secretariat's poor information-technology system limits automation in the procurement process; and
- The high volume of purchase orders is overwhelming for the Secretariat's Corporate Procurement Team, FPMs and LFAs to manage.

"The LFA is treated as a commodity to help Country Programs tick the box to get the money out the door."

— Senior Official at the Global Fund Secretariat

The LFA expenditure data for 2010 and projected expenditures for 2011 appear plotted against the Panel's country risk-burden matrix in the graphs in Annex M. Out of a sample of 40 countries, the 2010 LFA expenditure for the majority of the countries (45 percent) is between US$400,000 and US$650,000 across the spectrum of risk and disease burden, and only about 20 percent of countries the Panel has identified as high-risk/high-burden or extreme-risk/extreme-burden received significantly more resources.[37]

The projected LFA expenditures for 2011 appears to reflect a greater trend to tailor LFA services according to risk, given that additional resources are devoted to several of the Panel's high-risk/high-burden countries (Bangladesh, China, Kenya, Malawi, and Senegal) and extreme-risk/extreme-burden countries (Chad and Cambodia), as compared to 2010 expenditures.

The Panel's conclusion that a mismatch still exists between the vulnerabilities in the Global Fund's portfolio and its allocation of LFA resources, is not a new or original.[38]

1.6.6 The LFAs' Contracts

Prior to the 2008 re-tender, the LFAs' contracts with the Global Fund were blanket work orders with a ceiling amount under which they performed standard services. The LFAs' work was less-complex and lower-volume than it is today, since there were fewer grants and PRs.

As a result of the re-tender, the contracts became more service-oriented, and the Global Fund introduced cost-controls and transparency by using an average-cost model for standard services and a task-based approach. Thirteen LFAs won Indefinite-Quantity Contracts (IQCs) over a four-year period (2009-2012) that pre-qualified each firm to perform services in a given region. The pre-qualified LFAs in a particular region then bid against each other, and 11 won work orders for a particular country or multi-country account. (The Secretariat later removed two LFAs for poor performance in 2009, which left the current roster of nine.) Under these work orders, the Global Fund Secretariat then contracts for LFA services per country and grant by task, and issues a separate purchase order for each discrete assignment (e.g., Phase-Two assessments, PR assessments, Progress Update and Disbursement Requests.)

While the IQC mechanism provides certain efficiencies, since the Secretariat can remove a poor-performing LFA quickly and re-tender the work among the other pre-qualified LFAs that hold contracts, the task-based approach to contracting services is onerous. The task-based contracting mechanism could be impeding the ability to strengthen the LFA teams to provide adequate oversight, because it does not provide the FPMs flexibility to gain access to the right level and quality of resources when needed at a country level. Also, the concept of pay-for-performance in the LFA contracts is currently almost non-existent.[39]

37 Thirty countries in the Panel's representative sample are in the high-risk/high-burden and extreme-risk/extreme-burden categorie,s and, out of that number, eight have received US$800,00 or more in LFA services.

38 The GAO pointed out the same weakness five years ago: "The absence of a model to assess grant risk has limited the Global Fund's ability to methodically identify poorly performing grants and use available resources to increase oversight as needed. According to a senior manager from an LFA with one of the largest grant portfolios, because the Global Fund has not assessed grants as high, medium, or low risk, LFA oversight has not differed substantially by grant risk level and LFA oversight resources have not been used to optimal effect. For example, although some grants may require more oversight because of potential misuse of grant money or limited recipient capacity, LFA task orders and fees are generally no different for potentially problematic grants than for grants with few expected problems. Similarly, the frequency of LFA visits to project sites for monitoring and data verification has not been based on a systematic estimate of risk." "The Global Fund to Fight AIDS, TB and Malaria Has Improved Its Documentation of Funding Decisions, but Needs Standardized Oversight Expectations and Assessments," GAO, Washington, D.C., May 2007.

39 Another criticism of IQCs is that they can be counter-competitive: they do not allow for much of a competitive challenge outside the group, and the arrangement can invite collusion.

Re-Tendering in the People's Republic of China: A New Model for LFA Contracts?

Under this model, the FPM and LFA will agree to a plan and timetable for the delivery of specific work, tailored to the risk environment. Where an LFA has performed well or the scope of work will not change significantly, most likely the FPMs will renegotiate contracts with the existing LFAs. In areas where an LFA covers several countries, the Secretariat might issue a contract on a regional basis, to leverage shared technical expertise and language skills and help address the issue of surge capacity in countries where the firm might not have full-time staff. The Secretariat will focus on renegotiating the LFA contracts in the 10 to 20 countries with the greatest risk that constitute the majority of the overall grant portfolio.

As a pilot, the Global Fund has begun the re-tendering process for LFA services in China by issuing a Request for Proposals (RFP) that takes a country-based approach. In addition to revising the overall contractual structure, the Global Fund is also asking for a different composition of the LFA team. Because of the higher levels of risk and complexity of the grants in China, the Global Fund will require a dedicated core project team of 13 full-time staff in country, as well as a part-time, fly-in PSM expert and additional consultants for peak-activity periods. The previous LFA country team had only five full-time staff.

Generating purchase orders is a cumbersome, expensive process within the Secretariat, which results in less time for the FPM and the LFA to focus on quality or risk-related issues on a particular grant, and the fixed-fee structure can be a disincentive for the LFAs to pursue more work. As a result, the LFAs might only invoice for 60-80 percent of the services listed in their work orders.[40] Furthermore, the delay in the entering of purchase orders and receipts makes it difficult to get a clear picture of the difference between the approved budget and actual spending during the year, which does not allow LFAs to shift resources where needed.

Furthermore, authority within the Secretariat for establishing the work order, purchase orders, and handling invoices is not clear. The LFAs must first hammer out their budget numbers individually with the FPMs, but then the responsibility shifts to the Finance Unit and the Corporate Procurement Team for finalizing the budgets and issuing purchase orders; renegotiation is common at this stage. High turnover among business staff at the Secretariat does not make this process any easier.

Within the Global Fund Secretariat, the LFA-Management Team and Corporate Procurement Unit recognize the constraints and inefficiencies the task-based approach to contracting with the LFAs has caused, and they are taking steps to change both the contract mechanism and the procurement process.

1.6.7 The LFAs' Scope of Work and Consistency of Approach

The lack of consistency across FPMs is a common criticism among LFAs; the lack of standardized approaches and guidance has meant the LFAs' Scope of Work has varied greatly across Regional Teams at the Global Fund Secretariat. In large part, an LFA's performance is reflective of the effectiveness of its relationship with its FPM. Some FPMs invest time in a detailed discussion with their LFAs to better identify risks and tailor their work accordingly; most do not. Some LFAs have learned to be proactive in raising with their FPMs the need to restructure their contracts to allow them to take an integrated approach to grant oversight.

Others on both sides of this equation are more passive. FPMs told the Panel's Support Team in interviews that they hesitate to eliminate any aspect of the standard package of LFA services, even if they do not find some elements useful, for fear of running afoul of a subsequent audit. In these cases, customizing what the LFA does only adds to the workload, rather than rationalizing it.

Systematically investing more time upfront in a process, across the portfolio, to adjust the LFAs' services to identified risks, would eliminate much of the administrative wheel-spinning around the procurement and contracting process, and allow the FPMs and LFAs to focus on achieving results.

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, which has been encouraged to see in its field visits. 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, but the Secretariat needs to formalize and standardize these new expectations across the Global Fund's entire portfolio.

40 Through 30 June 2011, LFAs have already completed a high volume of work for which they have not yet billed: out of US$24 million in LFA services performed, the firms have invoiced only approximately $4.5 million, because the purchase orders have not yet been created or the receipts are still outstanding. There are additional estimated US$2.3 million of CCT services budgeted through mid-year for which purchase orders are not yet in the Global Fund's system.

1.6.8 Assessing the LFAs' Performance

The performance of the LFAs has been uneven for a number of years.[41] 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.

The LFAs themselves recognize the importance of quality and consistency, and have begun to put into place quality-management systems and standardized procedures across countries. Nevertheless, the Secretariat should place more effort into providing training and fora for all LFAs, including to share challenges, lessons-learned and best practices.

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

An area of weakness identified by the Panel across the board is a breakdown in the level of communication between the various elements in the Global Fund system. More frequent, transparent and structured communication is critical to the provision of effective grant oversight and manage operational and reputational risk. 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.

"For many sub-recipients (SRs), the Local Fund Agent (LFA) is like God: We believe in Him, we know He exists, but we have never touched Him."

— CCM Chair

The Panel acknowledges that the Secretariat has addressed the need to improve systematic exchange of knowledge with in-country partners as outlined in its "Recommendations to Enhance In-Country Communications between the Secretariat, LFAs, PR, CCMs and Other Partners," with the goal of providing more-specific guidance in the field. 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 that reflect the need to further strengthen in-country communications and those between the Secretariat and the LFAs, all of which are resolvable with changes in day-to-day business practices:

- <u>The LFAs' designed independence often turns into isolation.</u> LFAs can be reluctant to talk to implementers and partners on the ground on a routine basis, and *vice versa*, because of the perception that the firms are supposed to keep their distance to preserve their objectivity. Sharing more information, and seeking out others with knowledge of the PRs (especially those other donors who might be investing in the same organizations) should not compromise the LFAs' capacity for impartial judgment, but only enhance it. At the same time, the LFAs cannot substitute for the FPM's responsibility to exchange knowledge systematically with other in-country players, and these regular interactions should be part of a team effort.

41 The GAO criticized the Global Fund five years ago for not having a coherent system of evaluating its "eyes and ears": "The Global Fund to Fight AIDS, TB and Malaria Has Improved Its Documentation of Funding Decisions, but Needs Standardized Oversight Expectations and Assessments," GAO, Washington, D.C., May 2007.

- PRs and CCMs do not always have access they need to the information the LFA provides to the Secretariat. The Panel understands the importance of maintaining the confidentiality of some of the data or opinions the LFAs transmit, but the failure to use Management Letters as a matter of course to transmit key decisions regarding grant milestones made at the Secretariat (such as is standard practice for the Latin America and Caribbean Team) means that 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 during regular debriefs with the PRs. Even though the Global Fund's protocols call for consistent interaction between the LFAs and CCMs,[42] this communication depends far too much on individuals' attitudes and the signals the LFAs receive from their FPMs. 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. The Global Fund misses out on valuable intelligence and perspective when its "eyes and ears" have no real interaction with other professionals who review the PRs of Global Fund grants. (The Panel recognizes the LFAs receive the written reports of the local auditors of PRs, but indications are many of the firms would be more candid and direct about potential problems in face-to-face meetings.) National Auditors, meanwhile, are as familiar with the internal workings of Government agencies as anyone in-country, because they interact with and assess them on a regular basis.

- Better Coordination Is Needed When LFAs Spot Indications of Fraud. Since March 2010, the Global Fund has required the LFAs to inform the OIG and the Secretariat of any fraud "red flags" of fraud in grants that arise during verification work, and the volume of referrals from LFAs has increased "exponentially" over the past 18 months.[43] The follow-up to such information between the Secretariat and the OIG could be better organized and tracked, however.

- The only recourse the LFAs have to voice concerns to the Global Fund is through the LFA Management Team at the Secretariat. While the LFA Management Team does a good job of disseminating information from Geneva to the LFAs, and in serving as an ombudsman for the LFAs with Country Programs and the Corporate Procurement Unit, 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. Not having a strategic dialogue with the LFAs is a lost opportunity for the Global Fund to learn from "first-hand sources," many of whom have been working on Fund-related business for longer than most FPMs. The Global Fund needs to do more to capture this in-country knowledge and expertise.

42 "Recommendations to Enhance In-Country Communications between the Secretariat, LFAs, PRs, CCMs and Other Partners," The Global Fund to Fight AIDS, Tuberculosis and Malaria, 11 May, 2010,.

43 "Progress Report for November 2010 to March 2011," Office of the Inspector General, Global Fund to Fight AIDS, Tuberculosis and Malaria, Geneva, May 2011, p. 3.

1.7 LAYER #7: EXTERNAL AUDITORS

"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, such as National Auditors or Audit Courts; and the
- Global Fund OIG.

As envisioned in the Global Fund's Framework Document,[44] every PR must have regular, independent external audits performed; this requirement is part of the standard grant agreement. The Terms of Reference for those auditors has limited their role to the review of financial statements and internal controls, and they do not provide information regarding the operations and performance of the grants.

The quality of external auditors varies from country to country, and from contract to contract. In interviews with the Panel and its staff at the headquarters level and in the field, LFAs were very critical of the external auditors for poor performance. On the other hand, Members of the Panel and its Support Team also heard auditors complain the LFAs and FPMs do not read the local audit reports carefully enough, and that they do not pay attention to their warning flags and recommendations. The Panel found that most LFAs never meet with the external auditors of the grants under their responsibility.

1.7.1 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, much of which closely tracks previous findings of the OIG:

- Audit of SRs: 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. Each PR, therefore, determines the scope and extent of audit for disbursements to its SRs. An audit of consolidated financial statements might provide a more comprehensive opinion.

- Audit Objectives and Opinion: The stated objective for external audits in the Global Fund's policy is "to provide reasonable assurance that disbursed funds were used for the intended purpose in accordance with the grant agreement, the approved budget and the performance framework."[45] This results in a very high-level opinion that is of limited use for program management. The policy does not explicitly require an auditor to verify and provide assurance on a series of important issues highlighted in the text box on the previous page.

44 "Any party handling GFATM funds would need to agree to be subject to independent audits, and to accept serious consequences, should the audits reveal financial malfeasance," *Framework Document of the Global Fund to Fight AIDS, Tuberculosis and Malaria,* 2001, p. 20.

45 "Review of Principal Recipient Audit Arrangements," Audit Report No. TGF-OIG-089-003, Office of the Inspector General, Global Fund to Fight AIDS, Tuberculosis and Malaria, Geneva, 3 September 2009.

Elements Not Consistently Covered by the External Audits of PRs

- The use of funds in accordance with the grant's work plan and budget. (This would require the auditor to identify any ineligible expenditure);
- The use of funds for the purpose intended. (This would require the auditor to verify the existence and veracity of an appropriate level of documentation to substantiate the purpose for which funds were spent);
- Compliance with the financial conditions of grant agreement;
- Effective, efficient and economical use of resources;
- Reliability of reporting by SRs;
- Verification of the existence of and safeguarding of assets, including the physical examination of major assets, inventories and other fixed assets (such as drugs, bed nets, vehicles and computers); and
- Compliance with applicable legislation.

- Income and Expenditure Statements: The current audit Terms of Reference require audit of income and expenditure statements, yet those statements are not broken down by SDA (or activity type). In consequence, the LFAs and the Secretariat cannot relate the resultant audited statements with a grant's work plan, budget, or Expanded Financial Report (EFR), which calls into question how useful the documents are for analytical purposes. Furthermore, the Global Fund does not issue guidance as to which methodology PRs must use; many employ cash-basis accounting, which is more subject to manipulation than accrual-basis accounting.
- Audits of International NGOs: In cases in which a local affiliate of an international NGOs is a recipient (PRs or SRs) of grant funds, some monies flow to the group's worldwide headquarters. These funds usually cover the procurement of commodities and technical assistance. An audit undertaken by a local entity in the field will not cover the funds disbursed to the parent organization, so the Global Fund has no assurance as to their use.

1.7.2 The Plethora of Audits

As listed in the text box on the previous page, Global Fund PRs undergo as many as six different audits or financial reviews during most years. The Panel's field visits revealed a consistent lack of coordination among auditors, and almost no communication regarding the findings and accountability for follow-up to address the issues raised in the various reports. It was difficult for the Panel to determine how much of this work is duplicative. In addition, the Global Fund does not use key information from the audits for decision-making in the grant-management process. The Panel believes the elements of the Global Fund accountability system (LFAs, external auditors, OIG) must talk to one another more, and need to establish have consistent interactions with other organizations that are auditing or reviewing the PRs for other clients.

1.8 LAYER #8: RISK-MANAGEMENT AND THE OFFICE OF THE INSPECTOR GENERAL (OIG)

"Every dollar lost to illicit acts is a dollar taken from those most in need, the World's poor."

— The Independent Panel Review of the World Bank Group Department of Institutional Integrity

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. The Board and staff prioritized launching programs quickly, establishing in-country partnerships and expediting grant payments. 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. Driven in part by donor interest, the OIG's reports, and the growth in the volume and complexity of the Fund's portfolio, 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.

1.8.1 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 Register[46] and Board-approved mitigation strategies. The Panel sees this area as covering long-term strategic issues for the Global Fund such as the influence of economic conditions on donor budgets, the appearance of new technologies/medicines to detect and treat the three diseases, and the reputational problems caused by revelations of corruption in grants.

The Global Fund Board approved a Corporate Risk Register in November 2009, without much discussion. Subsequently, the Board agreed to nine, corporate-level risks, and assigned them to the Committees for further study. In April 2010, the Board reviewed a document that reflected the input from the Committees on mitigation approaches and identified actions the Secretariat committed to complete in the next few months. This Risk-Management Framework was never discussed with the donors or other stakeholders. The Board also did not define a corporate risk appetite or acceptable risk-tolerance levels.

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. The leadership of the Secretariat never distributed any communication to staff regarding the approved Framework, nor provided tools or training to explain and implement the concepts and mitigation strategies. 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, in the absence of a real Corporate Risk Register and associated strategies, the organization (especially senior executives and the Board) spends considerable resources on fire-fighting and crisis-management. The Secretariat does not discuss corporate risks in a structured way, and the Board does not hold management accountable for this.

46 A corporate risk register identifies, records and describes risks in their comparative importance to an enterprise. The document is supposed to assist management in understanding the risks that face the organization, the extent of those risks and the tools available to control and reduce those risks.

1.8.2 OPERATIONAL RISK MANAGEMENT

"Where large sums of money are given to a country, it is important to have a genuine partnership, not just, 'here's the money, just go'"

— Field Staff from an International Humanitarian Organization

"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. This concept also covers all transactional risks. 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, and therefore cannot match funding levels or the allocation of its own staffing to a risk-based strategy.[47] The best managers have not been matched with the highest-risk, most-complicated countries.

The Panel has found the Secretariat has not been proactively monitoring emerging risks to a sufficient degree, especially at the country level; the organization has established no mechanism to do any systematic environmental scanning by country to identify threats. 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.

The Panel's assessment is the establishment of appropriate operational risk-management at the Global Fund Secretariat is more fragile, vulnerable and largely personality-driven than it should be. Supervisors have tended to sign off on disbursement requests based on their assumption whether the person submitting the deliverable is competent or not. No one has brought together the various checks and balances applied during the lifetime of grants to allow coherent analysis of individual projects, or of the portfolio as a whole. That, until recently, the OIG had uncovered most of the "red flags" of misappropriation through retrospective audits and investigations suggests the gaps in financial oversight provided by the many levels of "review" in the Secretariat.[48]

The lack of attention to risk-management has resulted in a disconnect between the objectives of individual projects (and the KPIs of individual FPMs) and the strategic objectives of the organization. Project managers have been concerned about saving the lives affected by their own grants and disbursing funds as quickly as possible, and, as a consequence, often have been willing to ignore the risks that PRs and SRs would incur expenses without prudence and probity. 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.

The Panel is pleased that, in recent months, the Global Fund has begun a number of initiatives to strengthen operational risk-management in the grants program. 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 Secretariat has carried out a review of the causes of some of the weaknesses in grant-management highlighted by the OIG, and has begun issuing new policies to strengthen the role and performance of the LFAs and CCMs, as well as Operation Policy Notes to emphasize better country assessments and improve safeguards against the theft and diversion of pharmaceutical products reported by the OIG. Staff at the Secretariat are also working on developing a more systematic approach to maximizing the performance and oversight of the SRs. The Panel notes, however, that these actions are still in their infancy, and it is too early to assess their impact.

47 The judgment the GAO made in 2007 about how the Global Fund handles risks to its portfolio still applies today: "The absence of a risk-assessment model limits its ability to respond methodically to poorly performing grants and use available resources to increase oversight as needed." *Ibid.*, p. 20.

48 In several cases (such as Ukraine, Uganda and Mozambique), the Secretariat has itself taken action after LFAs, external auditors or partners have raised concerns about possible fraud.

1.8.3 The Panel's Approach to Assessing the OIG

Institutions Covered in the Panel's Review

- The U.S. Export-Import Bank (EXIM);
- The Bill and Melinda Gates Foundation (BMGF);
- The Global Alliance for Vaccines and Immunization (GAVI);
- The *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ);
- The United Nations Development Programme (UNDP);
- The United States Agency for International Development (USAID);
- The United States Government Accountability Office (GAO); and
- The World Bank (WB).

At the behest of the Board, the Panel's examination of the OIG included a close look at audit (internal and external), investigation, and programmatic-evaluation functions, along with publication policies, in a comparator group of multi-lateral, global institutions that make or oversee investments in health or health-related fields in many of the same countries as the Global Fund. For this analysis, the Panel chose eight institutions, listed below.[49]

It is also worth noting that not one of the eight organizations reviewed is structured, or performs its work, the same as another. A full description of the similarities and difference of approach to fiduciary oversight by these institutions appears as Annex N to this report.

1.8.4 The Panel's Analysis of the OIG

As noted above, anti-corruption measures were not a priority of the Transitional Working Group that negotiated the creation of the Global Fund , nor of the Board that immediately followed the incorporation of the institution. The Framework Document does not mention the word "corruption," and the founders of the Global Fund assumed the requirement for independent audits would be sufficient to prevent, deter and detect the misappropriation of grant monies.[50] (LFAs were an innovation created in 2002, after the Board began to understand some of the challenges of running a worldwide portfolio with a small core staff based in Geneva.) 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. Expectations and requirements for the financial-management, record-keeping, and accounting by PRs were hazy and inconsistently applied or explained; there was little enforcement, and the institution ran on a presumption that all its recipients understood and would follow "international standards" for accountability.

Only in April 2004, after revelations emerged of the diversion of funds in Ukraine (the first suspension of a grant in the history of the Global Fund), did the organization begin to understand the risks it faced with a "light touch." Even so, resistance among important parts of the Secretariat, including the Executive Director at the time, meant the Global Fund did not apply the lessons learned in the Ukraine case to the rest of the portfolio, and the pressure to disburse funds rapidly overwhelmed efforts to scrutinize recipients more carefully or manage financial risks more fully. No one made fiduciary probity or risk-management their responsibility. Nevertheless, over the course of 2004 and the first half of 2005, the Board engaged in a serious conversation about how to ensure accountability for its investments, a debate that eventually coalesced around the idea of an Inspectorate General that would have both audit and investigatory responsibilities.

The OIG has been the only risk-mitigation strategy within the Global Fund that has worked as designed.

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. With rigor and thoroughness, the OIG has shown that the Global Fund takes the integrity of its portfolio seriously. 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 reports of the OIG have become crucial to the Global Fund's approach to its

49 Because the Board explicitly modeled the mandate and structure of the OIG on Inspectorates General in the U.S. Federal Government and the GAO, the Panel's set of comparators is purposely weighted towards institutions from the United States.

50 "Any party handling GFATM funds would need to agree to be subject to independent audits, and to accept serious consequences, should the audits reveal financial malfeasance," *Framework Document of the Global Fund to Fight AIDS, Tuberculosis and Malaria,* 2001, p. 20.

grants, and outside stakeholders rely on them to assess the performance of the institution. As a consequence, these reports can have a significant impact on the reputation of the organization, including in unintended, negative ways.

The Secretariat has depended heavily on the OIG to detect and report on instances of mismanagement, fraud and abuse. In the Panel's view, the OIG has proven to be a very effective, impartial mechanism to detect and report on risks and management's stewardship of them. Several PRs, SRs and LFAs acknowledged to the Panel the value of what they had derived from the OIG's reports, and said that, by implementing the OIG's recommendations, the performance of their grants had improved. 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 Panel has appreciated the messages the Executive Director has been sending publicly and to Global Fund staff in recent months on the need to proceed with following through on the findings of the OIG's reports.

1.8.5 The Independence of the OIG

The Panel has found the Global Fund as an enterprise lacks a common understanding of what the term "independent" means in the context of the OIG. In reality, the OIG's mandate has many of the characteristics of an external auditor, but also performs an internal-audit function. To help provide clarity to the analysis and recommendations below, the Panel views the independence of the OIG in the following way:

- The OIG reports directly to the Global Fund's Board, which approves the OIG's mandate, work plans and resource requirements.
- Yet the OIG is not independent from the Global Fund's Board. The Inspector General is one of the Board's two direct hires (the other is the Executive Director); the OIG is a servant of the Board, and, by extension, any Committee appointed by the Board to oversee it.
- The OIG's responsibility is to report its observations and relevant recommendations to the Board; the Secretariat is responsible to report on the remedial actions it proposes to deal with the points made in the OIG's reports. The Board is then responsible for considering, and, if it thinks appropriate, approving the two, and for the public dissemination of the information, in accordance with its policies.
- The OIG must consult with all of the Global Fund's relevant stakeholders, but, after full discussion with the Board or designated Board Committee, has the final say on what to audit, when to audit and on the contents of its reports, and, from that standpoint, has independence.
- In administrative matters, the OIG is subject to the same financial, travel, HR, asset-management and other rules (including pay and classification) as the Secretariat. Care must be taken in the application of the administrative rules to ensure they do not, even inadvertently, threaten the OIG's independence.

1.8.6 The Relationship Between the OIG and the Secretariat

"Up until 18 months ago, we were neither by organization nor temperament prepared to take the OIG's recommendations seriously."

— Senior Official in the Global Fund Secretariat

In many ways, the experience of the first five years of the OIG at the Global Fund echoes the situation found at the World Bank Group in 2007 by the Independent Panel Review of the Bank's Department of Institutional Integrity, the so-called "Volcker Report." 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, in the Panel's view. As the OIG has embarked upon a more extensive program of work in the last two years, its findings have exposed major flaws in the assurance system of the organization. A failure by senior management at the Secretariat to heed the OIG's recommendations in a timely manner complicated the relationships with management, including the FPMs and the leaders of the Country Programs Unit, who were protective of their grant portfolios. A perception took hold within the OIG that it was being ignored as a matter of policy. The OIG became more cautious and less-open with operational staff, and the distance between the OIG and the Secretariat has been greater than that necessary to keep investigations confidential. 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.

The Panel's interviews made obvious that the OIG is not well-integrated into the culture of the Global Fund. FPMs have expressed a desire to have more opportunities for joint planning with their OIG counterparts. 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.

To avoid undermining the significant progress the Global Fund has made in the past 18 months in detecting and confronting the threat of corruption in its grants, improving its consciousness of risk and re-calibrating the financial and programmatic oversight of its portfolio, the Panel believes 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.

Internal/External Audit and Programmatic Evaluation at Other Institutions

Internal Audit: All but one of the institutions surveyed have an internal-audit unit that adheres to International Audit Standards and Guidelines. The lone exception is the Bill and Melinda Gates Foundation, which relies on external contract auditors (KMPG) for the oversight of its grant portfolio.

These internal-audit units do not perform investigations. For example, the Internal Audit Division at the World Bank refers cases to the Department of Institutional Integrity, which has a separate management and reporting line.

External Audit: Half of the organizations interviewed retain outside firms to do audits of themselves and/or the programs they fund, and half do not.

Independent Programmatic Evaluation: There are two leading approaches among the comparator group of institutions: either "strong guiding principles" for management's internal evaluations (similar to the EXIM Bank), or a fully free-standing, independent unit that reports to the Board (World Bank). The rest of the organizations do not see a need in their structure to have a dedicated evaluation unit, internal or independent. Of the 120 global programs in which the World Bank is involved, only one (the Global Environment Facility) has an independent evaluation unit that reports to a Board of Directors.

The Panel's interviews revealed that, both inside and outside the Global Fund, a series of stumbling blocks must be overcome to establish a sound and productive relationship between the OIG and Secretariat that serves the overall mission of the Global Fund:

- The belief that each entity works toward opposing goals: An impression has grown up among Secretariat staff that the OIG acts as if its mandate has no boundaries. Conversely, the OIG believes the Secretariat tries to minimize and sanitize unnecessarily the conclusions of audits and investigations.

- The Scope-of-Work of the OIG: Disagreements exist over whether the OIG is interpreting its mandate and mission statement "to assure that funds have been used wisely" too broadly, especially in the area of programmatic evaluation, where OIG auditors might be seen to be second-guessing the Secretariat.

- The process of publishing OIG reports: The Secretariat believes it does not have enough time to undertake a meaningful review of draft reports, and that its concerns and comments carry little weight. Furthermore, while committed to transparency, Board members express disquiet they only have three days in which to see a report before its publication on the Internet, which seems like "rubber-stamping."[51]

The Panel acknowledges that some sincerely cooperative relations exist between employees of the OIG and the Secretariat, but proposes the following principles for a general reconciliation process:

- The OIG acts on behalf of the Board, is independent of management and therefore must continue to have the independence to craft reports that reflect its unvarnished, professional findings, free from political or other interference;

- Nevertheless, the OIG and the Fund's management are two wings of the same organization, and they need to work in coordination, to ensure the attainment of the Global Fund's corporate objectives;

- The Fund's management must recognize its obligation to respond promptly to, and act appropriately upon, the recommendations of the OIG.

1.8.7 The Scope-of-Work of the OIG

Because of its American genealogy, the OIG encompasses functions that comparator institutions spread over multiple divisions. For example, the World Bank has five different units to accomplish the tasks in the OIG's purview. Recent external assessments, including those carried out by the European Commission and the German Federal Audit Court (*Bundesrechnungshof*), have raised questions about the OIG's mandate on two particular points: programmatic evaluation and internal audit.

51 To be fair, the three-day rule is a policy the Board itself adopted.

1.8.7.a Programmatic Evaluation

In the last few years, the volume of the OIG work approved by the Board has increased significantly. The office's annual plan from 2010 called for some 20 country audits and mentioned over 100 open investigations. This workload has meant the OIG has only partially carried out the program-evaluation mandate in its Charter, and has mixed programmatic and financial analysis in its work.

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. It is not clear the OIG always has had at its disposal the public-health and program-management talent necessary to produce top-flight analyses. However, the Panel has found more-recent OIG audits of the Global Fund's country programs, such as that on grants in the Dominican Republic, stronger in their programmatic-evaluation components.

The Technical Evaluation Reference Group (TERG), a part-time college of experts who produce periodic reviews at the request of the Board and the Executive Director, including the Five-Year Evaluation in 2007, is as close as the Global Fund gets to having an outside evaluation capacity at the moment.

1.8.7.b Internal Audit

Outside observers, particularly from Europe, agree with the assessment of the German Federal Audit Court (*Bundesrechnungshof*) that the IG's "role is a quite unusual mix of internal and external auditing."[52] 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. As the *Bundesrechnungshof* pointed out, the direct reporting line of the OIG to the Board also reinforces that impression.

Yet, the OIG <u>is</u> 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. Like the Internal Audit Division of the World Bank, the OIG produces cross-cutting reviews of business processes. Since 2007, the OIG has published five such reports, on the following topics:

- The Secretariat's account at Credit Suisse;
- Suspension/termination processes for Global Fund grants;
- The phasing out of the Administrative Services Agreement with the WHO;
- Tendering for Local Fund Agents;
- Grant Procurement and Supply-Chain Management; and
- Grant-Application Processes;[53]

52 "Independent External Assessment Report on the Performance of the Global Fund Inspector General," *Bundesrechnungshof*, Bonn, October 2010, p.6.

53 The Panel understands a further document on the Human-Resource Unit of the Secretariat was under way at the time of the drafting of this report.

These documents share many of the characteristics of assessments produced by traditional internal auditors: they 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. The Executive Director does not have a team currently that offers advice on potential weaknesses in the structure and performance of his business units.

The *Bundesrechnungshof* and the European Commission have argued a separate internal-audit division at the Global Fund would allow the leadership of the Secretariat to spot and correct operational problems in Geneva earlier.

1.8.8 Approach of the OIG and its Reports

1.8.8.a 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, and the OIG's findings are critical to maintaining the credibility of the Global Fund with its donors.

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. The OIG's allocation of resources to investigations has undoubtedly reduced the resources allocated to audits, which has limited the office's ability to complete the number of audits in its work plans. 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

Two of the reasons for the lengthy audits have been the focus of the OIG on broad-scope reviews and the very high level of assurance it has sought to provide. Comparator institutions, such as USAID, give their auditors a target timeline of no longer than 180 days for an audit, with the possibility of extension in unusual circumstances.

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. While recognizing the limitations of such an approach, the Panel sees great value in having the OIG provide advice in close to real time, in a way that can help guide risk-assessments of the broader portfolio by the Secretariat and the Board. The Diagnostic Reviews could provide an early-warning system for potential problems, and will aid the Secretariat and the OIG in developing a more-sophisticated country risk matrix.

The Definition of "Loss"

Global Fund OIG inspection reports currently provide a "loss" figure derived from three categories: "Fraud," "Unsupported Expenditures" and "Ineligible Expenditures."

Losses and recoverable amounts are two different things. Linking these two concepts into one category causes a great deal of unease, both within the Secretariat and among the Global Fund's partners. As the OIG writes in its report on the Mauritania case: "Non-provision of supporting documents for direct expenditures is tantamount, from the OIG's perspective, to not being able to prove their very existence."

First, in many cases the OIG is requesting documents from seven and eight years ago, when the expectations and standards around accountability for Global Fund grants were not clear. It is possible that a lack of supporting documentation might be indicative of fraud, but it may also be simply be a case of mismanagement.

Due process requires a separation of roles between investigators, who report allegations of fraud; prosecutors, who determine if sufficient evidence exists to file charges; and courts, which alone have the authority to determine if fraud has actually occurred.

See Annex O for a discussion on developing a methodology to describe and report losses in the Global Fund's portfolio as a whole.

"It is a question of attitude, approach, diplomacy, communication, how he delivers his messages"

— Principal Recipient

As for the OIG's investigations, the Panel understands the imperatives of following leads to their conclusion, and commends the OIG's staff for the forensic diligence that has allowed for the complete reconstruction of documentary evidence to prove the existence of schemes to defraud the Global Fund. The Inspector General believes his office must present substantial detail in his reports to reflect the thoroughness of his work. This detail allows the Global Fund to pursue recoveries, and allows in-country authorities to use the findings to improve procedures and to prosecute those who might have used the Global Fund's resources improperly. The Panel realizes delays in the release of investigative reports often stem from factors beyond the OIG's control, including refusals and delays in co-operation; the Panel also understands the OIG's commitment to respect its due-process obligations to allow the Secretariat, audited institutions and CCMs time to comment on draft reports. While the Panel finds merit in this approach, 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 finds the experience of using a Fiscal Agent in Djibouti has shown some promise as a way to maintain a flow of funding even while a PR is under investigation.

As for the publication of the investigative reports of the OIG, 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 wording should reflect the dispassionate manner in which it carries out its work, and the facts should speak for themselves. Much of what the OIG has found in the field is compelling enough not to need editorializing.

1.8.8.b The Conduct of the OIG's Field Teams

The Panel recognizes that no one likes to be audited or investigated, and that some who might be guilty of improper action will criticize auditors to deflect attention from themselves. Yet, the Panel was surprised by the negative reaction, in country after country, to the way the OIG's teams who visited those places (most of whom were contractors) 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. That those who underwent audits have had to wait for up to a year for the results of those inquiries exacerbates the problem. The Panel's view is that the OIG has to recognize that the Global Fund's implementation partners, many of whom are either Governments or volunteers, come from diverse cultural backgrounds. The OIG can achieve better results with more sensitivity and diplomacy. It needs to improve its approach to field work, including better management and training of contract staff.

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. This should be a model for the OIG to follow elsewhere.

Recommendations

Outline of the Panel's Recommendations

1. TURN THE PAGE FROM EMERGENCY TO SUSTAINABLE RESPONSE

1.1 No Amnesty for Fraud, but Focus Oversight on More-Recent Rounds of Grants
1.2 Strengthen the Relationship between the Secretariat and the Inspector General

2. DECLARE A DOCTRINE OF RISK AND MANAGE TO IT

2.1 Adopt a New Risk-Management Framework
2.2 Redefine "Country Ownership"
2.3 Apply the Risk-Management Framework to the Existing Portfolio

3. STRENGTHEN INTERNAL GOVERNANCE

3.1 Focus the Global Fund's Board on Management, Strategy and Risk-Management
3.2 Re-purpose the Committees
- 3.2.1 Investment Committee
- 3.2.2 Audit Committee
- 3.2.3 Finance Committee

3.3 Create an Executive Staff to Support the Global Fund's Board

4. STREAMLINE THE GRANT-APPROVAL PROCESS

4.1 Institute a Two-Stage Grant Process
4.2 Apply Risk-Differentiated Grant Processes and Requirements

5. EMPOWER MIDDLE-MANAGEMENT'S DECISION-MAKING

5.1 Establish a Chief Risk Officer
5.2 Align the Staffing Pattern to Bolster Grant-Management
5.3 Empower the Fund Portfolio Managers
5.4 Streamline and Expand the Country Teams
5.5 Reinforce the Executive Management Team
5.6 Leverage the Investment in the Local Fund Agents
5.7 Define and Clarify the Role and Responsibilities of External Auditors

6. GET SERIOUS ABOUT RESULTS

6.1 Measure Outcomes, Not Inputs
6.2 Focus on Quality and Value, Rather than Quantity
6.3 Consolidate the Reform Agenda

Recommendation #1

Turn the Page from Emergency to Sustainable Response

The controversy surrounding the audit and investigative reports released by the Office of the Inspector General (OIG) in the last six months has, in large measure, diverted the attention of the Global Fund's Board and management. More audits will be forthcoming in the near future, and will reveal problems similar to those detailed in OIG reports published this year; many relate to the first Rounds of grant-making. While the Global Fund can never tolerate dishonesty, and sub-standard performance is always disappointing, it is important to view certain aspects of these reports in their historical context. 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. Nevertheless, as emphasized elsewhere in this report, the overall investment of the Global Fund has produced worldwide good.

Both donors and recipients contributed to the world-changing impact of this investment and the imperfections that have now become evident in the process. The later years of grant-making will show deficiencies, but records should be more comprehensive and readily available, expectations and guidance have been more precise and the experience of previous audit examinations and investigations will now guide more-targeted assessment of financial controls and better management of risk.

While the institution should pursue indications of fraud from any period of time with rigor and determination, the Panel believes the Global Fund's Board, Secretariat and OIG should agree to a "Turning of the Page," a reconciliation strategy, faithful to the founding principles of the Fund, which would involve the following elements:

1.1 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. While the institution should pursue fraud from any period of time, it is the High Level Panel's view that the Global Fund's Board, Secretariat and OIG should agree to a "Turning of the Page," a reconciliation strategy, faithful to the founding principles of the Fund, that would involve the following elements:

i. **The Fund must not ignore wrongful acts that are significant, no matter how long ago they might have occurred,** that exploited the initial situation, or betrayed trust, and must continue to pursue cases with evidence of fraud, abuse and self-dealing to the greatest extent possible;

ii. **The Global Fund needs to create a set of clear, simple and practical basic standards in the rules of fiduciary documentation and ethical behavior.** Once these are approved by the Board, the Global Fund should develop a mandatory, web-based (wherever feasible) training program for Principal Recipients (PRs), sub-recipients (SRs), Country Coordinating Mechanisms (CCMs), Local Fund Agents (LFAs) and Global Fund staff.

1.2 STRENGTHEN THE RELATIONSHIP BETWEEN THE SECRETARIAT AND THE INSPECTOR GENERAL

The Panel has found plentiful evidence that the relationship between the Executive Director and the Inspector General has become an impediment to the efficient operation of the Global Fund. The Panel understands some of this tension was born of ambiguities in the original structure of the institution, and has offered recommendations to resolve the structural frictions. Once the Global Fund has adopted these changes, regular and clear communication between the OIG and the Global Fund Secretariat, at both the management and working levels, will be a necessity. 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 Panel recommends that the Global Fund should reaffirm its commitment to integrity and transparency and take the following steps:

i. **Recognize the obligation of the Global Fund's Board and management to respond promptly to, and act appropriately upon, the recommendations of the OIG, as considered and adopted by the Audit Committee** (See Recommendation 3.2.2 for the description of the Audit Committee);

ii. **Establish protocols and methods of work between the Global Fund Secretariat and the OIG,** including to allow the former to receive timely advice, briefings, and copies of reports directly from the OIG, without this being seen as impairment of the OIG's independence;

iii. **Focus the 2012 operational plan proposed by the OIG on more recent transactions and emerging risks,** and ensure its resources are commensurate with the work plan reviewed by the Audit Committee and approved by the Global Fund's Board;

iv. **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,** in line with international best practice;

   b. **The Global Fund should maintain its current posture of publishing all audit reports on its grant portfolio;** and

   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; in particular, the Global Fund should take care to make appropriate redactions in public disclosures of information that could complicate efforts to recover assets or monies lost to malfeasance, or could prejudice the prosecution of those involved in schemes to defraud the institution and the implementers of its grants;

v. **Improve the scope of the OIG's audits and the tone and size of its reports,** including by creating written products differentiated by need and audience, such as:

   a. **Segmenting financial and programmatic audit findings, and establishing clear prioritization among recommendations;**

b. **Sending Management Letters to PRs and the Global Fund Secretariat to flag major, emerging issues and offer recommended solutions even before audits are finished;**

c. **Shortening the length of the elapsed time from the beginning of an audit engagement to the release of the subsequent report;**

d. **Expanding the use of Diagnostic Reviews,** especially in countries the Panel has classified as extreme-risk/extreme-burden.

e. **Redefining the reporting of "loss" in the OIG's reports** to make clear distinctions between losses that result from theft/fraud on the one hand, and recoverable amounts because of undocumented or ineligible expenditures on the other;

f. **Allowing sufficient time for the Global Fund's Board to study the OIG's reports and management responses by refining the timelines and Board-review process for publishing those reports;** The Panel is of the opinion that, in line with international best practice, the Global Fund should not normally publish audits of internal business processes within the Secretariat;

vi. **Disclose as part of the OIG's reports all disagreements with management, and incorporate as part of the reports comments from the Global Fund's Board and Secretariat and any audited entities,** so readers may see the discussion, analysis and conclusions;

vii. **Present to the Global Fund's Board, at regular intervals, reports on follow-up to the OIG's recommendations,** prepared by the Secretariat and validated by the OIG;

viii. **Provide full briefings for the Audit Committee and the Global Fund's Board** to make it fully aware of the extent of the audit and investigation activity of the grants program by the OIG and external auditors, and assurances that instances of duplication and overlap are being minimized;

ix. **Redefine the relationship with the United Nations Development Programme (UNDP) to permit greater accountability to and access by the Global Fund,** including by taking the following steps:

a. Urging UNDP to establish a secure, electronic portal to allow designated Global Fund staff to review UNDP audit reports from Geneva;

b. Developing and signing a detailed Memorandum of Agreement on investigations; and

c. Negotiating an agreement with UNDP for access to documents of its Country Offices for the ongoing, routine monitoring of grants, equal in its terms as that between UNDP and the European Commission;

x. **Mandate a review by the Global Fund's Legal Counsel of all requests from the OIG in the conduct of internal investigations for e-mails, agendas and other records in the possession of employees of the Global Fund that could also contain personal or other extraneous information,** so that OIG investigators have access only to relevant information.

Recommendation #2

Define a Doctrine of Risk and Manage to it

The Global Fund's mission and portfolio inherently come with different levels and types of risk, and the institution should cater to risky environments sensibly. The existence of risk does not excuse the organization from serving needy populations, but compels it to define, acknowledge, manage and mitigate that risk. As noted above, the Panel believes the Global Fund must embrace the idea that its grant-making must be based on a commensurate commitment to oversight and risk, by tailoring its grant-approval and grant-management systems, country-by-country, to approve, disburse and monitor the use of funds as efficiently and securely as possible. Properly constructed, this approach will not slow down grants, but should actually improve their impact, and give assurance that the Global Fund's money is well-spent, giving maximum benefit to those in need. The Global Fund's Board needs to establish an overall doctrine of risk based on the following elements:

2.1 ADOPT A NEW RISK-MANAGEMENT FRAMEWORK

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

   a. **Corporate risk-management,** which covers all risks relating to the achievement of the Global Fund's mission and corporate objectives, addressed by mitigation strategies developed by the Secretariat and the OIG and presented to the Global Fund's Board;

   b. **Operational risk-management,** which covers risks related to program management, program impact, collection of data, reporting of results, resource allocation, misuse of funds, efficiency and cost-effectiveness; the responsibility for these areas lies with the Secretariat, assisted by the OIG.

ii. **Next, the Panel recommends the Global Fund should establish clear definitions of the categories of risk it faces, and discuss them with the donors and implementers in the spirit of pro-active transparency:**

   a. **Strategic Risk** - the risk related to doing the right things the right way;

   b. **Operational Risk** - fraud and other losses related to execution, including procurement;

   c. **Reputational Risk** – the risk of losing the trust of donors, recipients, stakeholders and the wider public;

   d. **Compliance Risk** - abiding by laws and regulations in over 150 countries and territories; and

   e. **Counterparty Risk** - losses from not recouping claims on sovereign entities and other PRs.

2.2 REDEFINE "COUNTRY OWNERSHIP" IN THE CONTEXT OF THE GLOBAL FUND'S RISK-MANAGEMENT FRAMEWORK

The Panel believes the way the Global fund applies its philosophy of "country ownership" often results in a passive approach to grant-management. This practice confuses PRs, and leaves the grant portfolio vulnerable. While applicants should retain the ability to submit a case related to their own priorities, and the flexibility to adapt grants to local circumstances, the Global Fund must become more assertive about its investments. A grant from the Global Fund is not an unalienable right, and recipients must earn "country ownership."

The Global Fund's movement toward National Strategy Applications is a welcome development. This approach requires that local partnerships take account of what Government, civil society and development partners are doing in health when they ask the Global Fund for money. This leads to plans that are coherent and integrated. Improving the effectiveness of CCMs will help, but it is also essential to define more explicitly what "country ownership" means in the Global Fund context.

Once the Global Fund has redefined "country ownership," training must follow to assure the uniform and practical application of the concept throughout the organization, and among recipient countries and partners.

2.3 APPLY THE RISK-MANAGEMENT FRAMEWORK TO THE EXISTING PORTFOLIO

The Panel recommends that, having established a clear definition of the threats to the organization, the Global Fund must then view its existing portfolio through that lens. Changing the current one-size-fits-all approach to one based on levels of risk must be implemented rigorously. In adopting a more pro-active role for the Global Fund Secretariat in overseeing its grants, the Global Fund should recognize that the costs of risk-management must be commensurate with the benefits, and take the following steps:

i. **Categorize recipient countries into groupings by risk, capacity and burden through a formal matrix approved by the Investment Committee of the Global Fund's Board.** (See Recommendation 3.2.1 for the description of the Investment Committee.) The Panel has offered a suggestion in this report of one such matrix. The Global Fund might usefully adopt a version of the Panel's methodology as an interim matrix, but the Panel is confident the Global Fund can quickly create a more-sophisticated version, which should include in its formula elements for which the Panel was not able to obtain data, including the percentage of financing in the grants in each country that flows to sub-recipients and the percentage of overall spending in each one of the three diseases the Global Fund's grants represent at country level;

ii. **Apply differentiated safeguards to the different categories of countries, including for the management of SRs.**

iii. **Focus investigative and audit resources in the areas of highest risk.** The Panel observes common themes in the OIG's reports and in external audits. The Global Fund should focus more of its risk-management efforts on the parts of its portfolio that are most vulnerable to misappropriation.

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

a. **Insist on pooled procurement as the norm,** except where the Fund certifies a local institution according to Fund standards;

b. **Mandate the outsourcing of drug storage and delivery as the norm,** except where the Fund certifies a local institution according to international standards;

c. **Limit the allowable payment for the purchase of drugs or bed nets to a reference price;**

d. **Intensify work on mitigating other identified risks,** such as the purchase of capital goods (vehicles, computers, durable medical equipment), cash payments, salary supplements and training activities, including by modifying the Terms of Reference and scope-of-work of the LFAs and the external auditors of PRs.

iv. **The Panel recommends the Investment Committee should review the organization's Corporate Risk Register[1] annually, and receive quarterly reports from management on the application of the Register to the Global Fund's day-to-day business.**

1 A corporate risk register identifies, records and describes risks in their comparative importance to an enterprise. The document is supposed to assist management in understanding the risks that face the organization, the extent of those risks and the tools available to control and reduce those risks.

Recommendation #3

Strengthen Internal Governance

3.1 FOCUS THE BOARD ON MANAGEMENT, STRATEGY AND RISK-MANAGEMENT

The Panel notes and welcomes the 12-month work program initiated by the recently retired Board Chair to improve the Board's effectiveness, so as to bring about changes to its strategy, structure and behavior, including by re-defining and articulating the Board's oversight role, as well as its requirements of the Secretariat and the OIG.

The Panel recommends the following:

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.

3.2 RE-PURPOSE THE COMMITTEES

The Panel recommends that the Global Fund collapse its current Committees into three: an Audit Committee, and Investment Committee, and a Finance Committee:

3.2.1 Investment Committee

- Replaces the Strategy and Policy and Portfolio Committees, which are abolished;
- 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; the Chief Risk Officer also attends as the lead staff person from the Secretariat. (See Recommendation 5.1 for the description of the Chief Risk Officer.);
- Reviews the status of the implementation of grants in the current portfolio, including budget execution and results, and reports to the Board;
- 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, and recommends them to the Board;

- Approves terminations of grants;
- Delegates authority to the Executive Management Team to approve project-preparation funding up to a certain threshold against Concept Papers recommended by the Technical Review Panel;
- Has the authority to initiate re-programming or re-allocation between existing and future grants, and to make a proposal to the Board on the same basis as the yearly portfolio allocation;
- Reviews risk-mitigation strategies employed by the Secretariat; and
- Vets and appoints the Members of the Technical Review Panel.

3.2.2 Audit Committee

- Seven Members, the majority of whom are independent of the constituencies on, and not members of, the Global Fund's Board. These independent Members must meet minimum qualifications in terms of experience in serving on similar audit committees or equivalent financial expertise. One of the independent Members will act as Chair. The three Members of the Committee who are also Members of the Global Fund's Board will include the Chair or Vice Chair of the Board; they will establish the prerequisite qualifications for independent Members of the Committee, vet candidates for the seats allocated to independent Members and make recommendations to the full Board, which must ratify the nominees for independent Members of the Committee;
- Supported on an as-needed basis by a small staff of outside experts/consultants;
- Oversees the Office of the Inspector General (OIG); reviews the OIG's budget and, in consultation with the IG, the OIG's annual work plan, audit guidelines, processes and procedures, and makes recommendations to the Board; evaluates the performance of the IG;
- Ensures the OIG continues to have the independence to carry out audits and investigations to their conclusions, protected from political interference;
- Reviews draft OIG reports, Secretariat responses and action plans, decides which recommendations to be implemented, and monitors the implementation of those recommendations;
- Recommends the Global Fund's External Auditors, and reviews the annual Financial Statements and audit opinions;
- Approves a set of minimum standards for the scope-of-work for external auditors of PRs;
- Approves pre-qualified pools of external auditors, on a regional basis; permit exceptions, on a case-by-case basis;
- Meets at least quarterly, and at least once a year, in camera, with the OIG and the External Auditors;

- Ensures the timely disclosure to the Board of summaries of all audits and reviews of internal Global Fund business processes carried out by the OIG under its internal-audit mandate, and the delivery to the Secretariat of the detailed management letters that arise from those audits and reviews;

- Ensures the public disclosure, within appropriate time frames, of all other audit and review reports prepared by the OIG, along with the accompanying management responses and any other comments once deemed complete by the Board, and proposes to the Board policies and strategies on communications around the reports, in support of the Global Fund's objectives of openness and transparency;

- Ensures the public disclosure, after the appropriate redaction of information of a sensitive nature (information that, if disclosed, could harm recoveries or prosecution), of investigative reports prepared by the OIG, along with the accompanying management responses and any other comments once deemed complete by the Board, and proposes to the Board policies and strategies on communications around the reports, in support of the Global Fund's objectives of openness and transparency;

- Approves any proposed Memoranda of Understanding or agreements between the Global Fund on audit, investigation, and program-evaluation matters with external entities;

- Annually reviews its mandate, method of operation and results and reports thereon to the Board.

3.2.3 Finance Committee

- Nine Board Members, led by the Chair or Vice Chair of the Board (whichever is from a implementers' constituency);

- Reviews and makes recommendations to the Board on the annual budget and staffing plan for the Global Fund Secretariat;

- Reviews the ongoing execution of the Global Fund's annual operational budget, and makes recommendations to the Board;

- Reviews multi-year budget and cash-flow projections prepared by the Secretariat and the Trustee;

- Receives the quarterly reports of the Trustee;

- Approves Asset and Liability strategies to minimize exchange losses and preserve the capital value of the Trust Fund and grants;

- Reviews on an on-going basis and pursues opportunities to gain productivity and efficiency in all stages involved in the interventions financed by the Global Fund (value-for-money);

- Leads the Board's efforts in resource-mobilization, including current donors, new donors and innovative financing;

- Reviews the Global Fund's application processes, including the proposal forms.

3.3 CREATE AN EXECUTIVE STAFF TO SUPPORT THE GLOBAL FUND'S BOARD

The Panel considers that, in addition to these improvements, the Board requires more executive support, to help ensure strategic issues stay on the agenda. The Panel recommends the establishment of an executive staff to the Board (ESB), composed of a small team of full-time professional employees, located in the Chair's office and reporting to him or her. The ESB would assume responsibility for Board-relations functions.

Noting that the Global Fund Board is non-resident, and that attendees at Board meetings change fairly frequently, the Panel also recommends the publication of a simple, practical handbook to guide Board members on their role, and on how the Global Fund Board should conduct its business. The preparation of such a handbook should be one of the ESB's first tasks.

The duties of the ESB should be as follows:

a. **Serving both the Board and its Committees, by developing meeting agendas, performing quality-control on papers submitted for meetings, taking meeting minutes, and following up on decisions; and**

b. **Acting as the main channel of communication between the Board and its Committees and the Fund Secretariat.**

Recommendation #4

Institute a New Grant-Approval Process

The Panel has noted the recommendations for improving the grant application process contained in the OIG's April 2010 report, but believes the Global Fund should take additional steps. In its interviews, 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. A revised process will alert the Board earlier to potential risks and allow PRs to receive Global Fund financing to fix weaknesses in oversight and management before expanding service-delivery. A principal goal of this change is to build risk-mitigation strategies into Fund grants at inception, and throughout their life span. 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.

4.1 INSTITUTE A TWO-STAGE GRANT PROCESS

4.1.1 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: main activities, outcomes and impact; risk environment; epidemiology; profile of potential PRs; key implementation features; main capacity-building needs; overall costs (including capacity-building and oversight); and a high-level, but broad-based, risk analysis. 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 of the technical aspects of the concept, and employ other experts to review the financial aspects of the concept, both 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, subject to such conditions or limitations as it might deem appropriate to impose, 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.

4.1.2 Stage II: Full Grant Proposal

- Following the approval of a Concept Paper and the successful implementation of the project-preparation funding, most applicant CCMs, with the technical assistance of multilateral and bilateral partners, if required, could prepare a fully-fledged grant proposal, including a detailed risk-assessment, and 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, in consultation with the relevant LFA, Country Team(s) and the Chief Risk Officer, 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. Independent Budget Analyses of the concept papers should focus on the following issues:
    - Costing of drugs, medical equipment and services (a line item often over-budgeted with inflated costs);
    - Exchange rates;
    - Salary scales and alignment with national human-resource policies;
    - Travel expenses;
    - Vehicles (to avoid duplication if a national program is receiving several sources of funding)
    - Training costs (usually a major source of abuse in budgeting); and
    - Insuring budgets are not purposely padded to compensate for possible budget cuts by the TRP.
- 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.

4.2 APPLY RISK-DIFFERENTIATED GRANT PROCESSES AND REQUIREMENTS

i. **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.**

To make this new model work, the distribution of management and oversight resources at the Global Fund Secretariat, including the budget of the LFAs, must be based upon a proper risk-assessment and correspond to the matrix's groupings of countries. The Panel recommends the following steps to achieve that goal:

5.1 ESTABLISH A CHIEF RISK OFFICER

While risk-management is a collective responsibility, the institution needs a senior official as a champion to infuse a culture of risk-management and embed the doctrine of risk described above throughout the institution, with the full backing of the Executive Director.

The Panel recommends the Global Fund establish the position of Chief Risk Officer within the Secretariat as a direct report to the Executive Director and his/her advisor on risk matters. This person will require a small technical staff to support him or her on all matters related to risk.

The duties of the Chief Risk Officer would be as follows:

- Participates as a member of the EMT;
- Serves as staff director for the Investment Committee,
- Provides overall vision, leadership and direction for corporate risk management;
- Ensures all risk-management efforts are coordinated and compatible;
- Maintains the Corporate Risk Register and implements mitigation strategies approved by the Global Fund's Board;
- Maintains and modifies, as necessary, the Fund's risk-stratification matrix, and advises on linking resources to areas of high-risk;
- Participates in meetings of the highest-priority Country Teams and the Phase-Two Panel;
- Serves as the focal point for researching best practices and disseminating information to the Investment Committee and the Global Fund's staff;
- Provides ongoing advice to management and staff on emerging risks;
- Develops monitoring reports for use by the Investment Committee, management and the Global Fund's staff;
- Acts as chief liaison to the OIG, and has the responsibility for ensuring follow-up to and implementation of the OIG's recommendations

5.2 ALIGN THE STAFFING PATTERN TO BOLSTER GRANT-MANAGEMENT

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

i. **The overall ratio of Country Program staff to other units within the Secretariat must increase.** The need to increase the number of FPMs, Program Officers (POs) and Program Assistants (PAs) and risk officers is an essential element in both enhancing in-country grant performance and improving risk-appreciation and mitigation;

ii. **The Secretariat should allocate staff resources, in terms of numbers and skills, according to the risk-stratification matrix approved by the Board, by taking account of the size of the grants, and the risk-level of the environment in which they are implemented. The most-experienced FPMs should work on the most difficult and riskiest countries, and should have the greatest amount of support from integrated Country Teams; and**

iii. **The Secretariat must re-engineer its human-resources processes to provide more rapid and flexible avenues for training, re-training, promoting and assigning its workers.**

5.3 EMPOWER THE FUND PORTFOLIO MANAGERS (FPMS)

The FPMs are strategically positioned to have an impact on the performance of the Global Fund's portfolio. The way they work and are organized can diminish risk and increase the effectiveness of the grants in-country. To make successful the implementation of the new risk-management framework proposed by the Panel, the Secretariat must empower FPMs to become active problem-solvers that anticipate and help resolve bottle-necks. The Panel recommends the following actions:

i. **The Panel suggests FPMs, with advice from LFAs, should determine at the outset of a grant the priorities for risk-management and grant oversight.** This up-stream planning would help to guide the direction and focus of the necessary assessment work, and would allow for adjustments on a case-by-case basis, as needed.

ii. **The Panel recommends that, within agreed, country-specific parameters, FPMs should be empowered to make procedural adjustments to reflect the Global Fund's risk and grant management priorities.** At present, FPMs have no delegated financial powers, so that any procedural adjustment with a financial implication would have to be referred upwards, sometimes through several layers of management, with consequent delays to business.

iii. **The Panel recommends FPMs should have the authority to make financial adjustments to grants after signature,** up to threshold limits determined by the Investment Committee, on a portfolio-by-portfolio basis.

iv. **In the absence of a permanent country presence, the Panel recommends 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,** so as to sharpen the Global Fund's oversight of financial flows and program delivery, and to increase the likelihood of the early detection of mismanagement and fraud. The more effective use of tele- and video-conferencing would make this new work pattern more manageable.

v. The Panel recommends the Secretariat should consult with the LFAs and other in-country players while it develops plans to upgrade the skills of FPMs. In view of the central importance of the FPM cadre, the Panel additionally recommends the priority development of promotion procedures for FPMs, POs and PAs.

vi. The Panel also recommends the development of standard operating procedures to require and enable FPMs to engage in more frequent, direct and structured interaction, communication and information-sharing with and between key stakeholders in-country; and in scheduled, interdisciplinary calls. The Panel recommends that the Standard Operating Procedures currently being prepared should contain practical measures to establish genuine two-way communications between FPMs and their in-country counterparts. The Panel further recommends that FPMs should be held accountable for effective communication through Key Performance Indicators (KPIs).

vii. The Panel recommends a standard term for FPMs, POs and PAs. A well-designed rotation scheme will be needed, which also ensures that FPMs, POs and PAs progress from straightforward to more challenging portfolios as they gain experience, and that countries do not experience rapid turn-over in their grant-management staff. The most seasoned people should be assigned to the riskiest portfolios. Equally, experienced FPMs should from time to time be rotated to other regions and countries where they can instill good practice. The system should also include adequate handover arrangements (e.g. a knowledge-management system that provides an up-to-date picture of the country context, as well as complete grant documentation, and an historical overview of Global Fund and other donor programs.)

viii. The Panel also recommends that the Global Fund invest to upgrade its video-conferencing capabilities, and train and encourage its employees to use them as a tool to communicate with PRs, CCMs and in-country stakeholders more systematically.

ix. Finally, the Panel recommends that 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.

5.4 STREAMLINE AND EXPAND THE COUNTRY TEAMS

The Panel supports the expansion of the Country-Team approach, but suggests the Secretariat should create specific Terms of Reference for the Country Teams:

i. Empower the FPMs to be the final decision-maker on the Country Teams, within the delegated authorities and thresholds;

ii. Make the FPMs the single point-of-contact with stakeholders in-country;

iii. Align the KPIs of Country-Team members;

iv. Systematize the inclusion of the Local Fund Agents (LFAs) in country-team discussions/ interactions;

v. **Institute regularly scheduled, structured reviews of issues and case studies that arise from the Global Fund's portfolio** (on the model of "Grand Rounds" in hospitals). Led by the Chief Risk Officer, these interdisciplinary sessions should involve staff from the various Units inside the Global Fund.

5.5 REINFORCE THE EXECUTIVE MANAGEMENT TEAM (EMT)

The Panel recommends the Global Fund must reinforce the EMT as the Secretariat's prime executive decision-making body, with clear responsibilities and structured assignments.

The Panel recommends the Executive Director draw up new Terms of Reference (TORs) for the EMT, supported by practical guidelines, to reflect its enhanced role and functions as the Secretariat's prime executive decision-making body.

i. **The TORs should cover issues such as the following:**

- **Membership, and the members' individual and collective responsibilities;**
- **Matters to be submitted to the EMT for decision, direction or scrutiny,** and the process of submission;
- **The frequency of meetings, attendance at meetings, and a generic agenda;**
- **The decision-making process;**
- **Record-keeping and the confidentiality of EMT proceedings; and**
- **The promulgation and follow-up of EMT decisions.**

ii. **The Panel further recommends that, like the Board, the EMT should have a properly functioning executive staff, to ensure meetings are efficiently set up and managed, submissions are quality-controlled, decisions are followed up, and business** generally is handled in an efficient and timely manner. The executive staff should be small, but must be served by suitably skilled staff, whose first task should be to develop draft TORs and the EMT guidelines for early discussion and adoption by EMT members.

iii. **The Panel recommends that 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) delegated to the Secretariat under specific authority from the Investment Committee, and that should make recommendations to the Board regarding grant-related decisions the Board has reserved for itself (Phase-Two renewals, cancellations).**

5.6 LEVERAGE THE INVESTMENT IN THE LOCAL FUND AGENTS (LFAS)

The Panel believes the Global Fund must use the LFAs as partners, and not just contractors, and should take the following steps to maximize its investments in its on-the-ground oversight:

i. **Allocate LFA resources according to the risk-stratification matrix approved by the Board;**

ii. **Shift the LFA contracts from a task-based to a country-based approach, customized to countries or regions;**

iii. **Have the LFAs assess the reasonableness of the budgets of the grant Concept Papers and participate in the TRP's review;**

iv. **Prioritize paying the LFAs to provide real value–added input by conducting verification work in the field at the level of service delivery, especially of sub-recipients;**

v. **Tailor to the country context the human-resource requirements for the LFAs in terms of staffing levels and level of expertise;**

vi. **Formalize channels for and expectations of communications between the LFAs and other elements in the Global Fund system,** including the internal and external auditors of PRs, National Audit Institutions, CCMs, PRs and partners;

vii. **Include in the contracts for both LFAs and external auditors of PRs that they must meet with each other and share information;**

viii. **Reduce overlap between external auditors, LFAs and National Audit Institutions; and**

ix. **Implement systematic sharing of lessons learned and regional experiences across LFAs.**

5.7 DEFINE AND CLARIFY THE ROLE AND RESPONSIBILITY OF EXTERNAL AUDITORS

Having seen both the value the external auditors can provide and the many missed opportunities because of inadequate communication between them and the rest of the Global Fund's layers of assurance, the Panel recommends the following actions to clarify and take better advantage of the investment in the auditing of PRs:

i. **Have the Audit Committee approve a set of minimum standards for the scope-of-work for external auditors of PRs;**

ii. **Have the Audit Committee approve pre-qualified pools of external auditors,** on a regional basis; the Audit Committee could permit exceptions, on a case-by-case basis; and

iii. **Develop protocols to exchange information between the Global Fund and National Audit Institutions.**

Recommendation #6

“Get Serious About Results”

6.1. MEASURE OUTCOMES, NOT INPUTS

The Panel has found that the culture of the Global Fund has become one driven by the measurement of documentation, and not by health impact. To the degree crucial data does need to be catalogued, we found serious problems: the Secretariat examines too many documents, makes too many informal decisions, does not identify the highest-value documents, and lacks a secure and centralized repository for documents related to decision-making. **The Panel therefore recommends the following actions for the Global Fund to invest in high-quality data:**

- **i. Require and pay for baseline data surveys of the incidence and prevalence of the three diseases at the country level ;**
- **ii. Mandate and underwrite simple (such as cellphone-based) data-tracking and -management systems in the field;**
- **iii. Expand data-quality audits and verifications by the LFAs and/or technical agencies;**
- **iv. Implement more-rigorous pharmacovigilence of drugs purchased with Global Fund resources, both at national and international levels, to ensure compliance with the organization’s Quality-Assurance policy and track side-effects;**
- **v. Coordinate much more closely with other donors on data, including joint analyses to attribute results more precisely, and avoid double-counting;**
- **vi. Implement an electronic solution for maintaining, archiving and retrieving records related to grant-management;**
- **vii. Require the archiving of communications that contain grant-management decisions.**

6.2 FOCUS ON QUALITY AND VALUE, RATHER THAN QUANTITY

To complement the Global Fund’s new emphasis on risk-assessment and -management, the organization should also shift the way it measures itself so as to focus on quality, not just outputs. **The Panel offers the following recommendations in this area:**

- **i. Re-write the corporate KPIs to place a premium on impact, not just disbursement of funds;**
- **ii. Align objectives in grants to measure quality, consistency and sustainability of services delivered, not just coverage: hold PRs accountable against measurable results previously agreed through clearly defined long-term roadmaps for each disease, and provide incentives for good performance; and**
- **iii. Collect and disseminate promising practices in a systematic way.**

6.3 CONSOLIDATE THE REFORM AGENDA

As the Global Fund considers this report, the Panel believes the Global Fund should integrate these ideas into ongoing reform efforts to create one, common roadmap that donors and implementers can use to hold the organization accountable, and recommends the following:

i. **Coordinate the work streams from the Comprehensive Working Group, More Effective and Efficient Global Fund, High-Level Panel and strategy-development process into a single, revised Consolidated Reform Plan, for which the Board should take responsibility and over which the Board should exercise leadership and oversight;**

ii. **Consolidate responsibility for the implementation of all reform efforts, including the recommendations made by the High-Level Panel, into a single entity at the level of the Secretariat, and develop a master plan for all these reforms;**

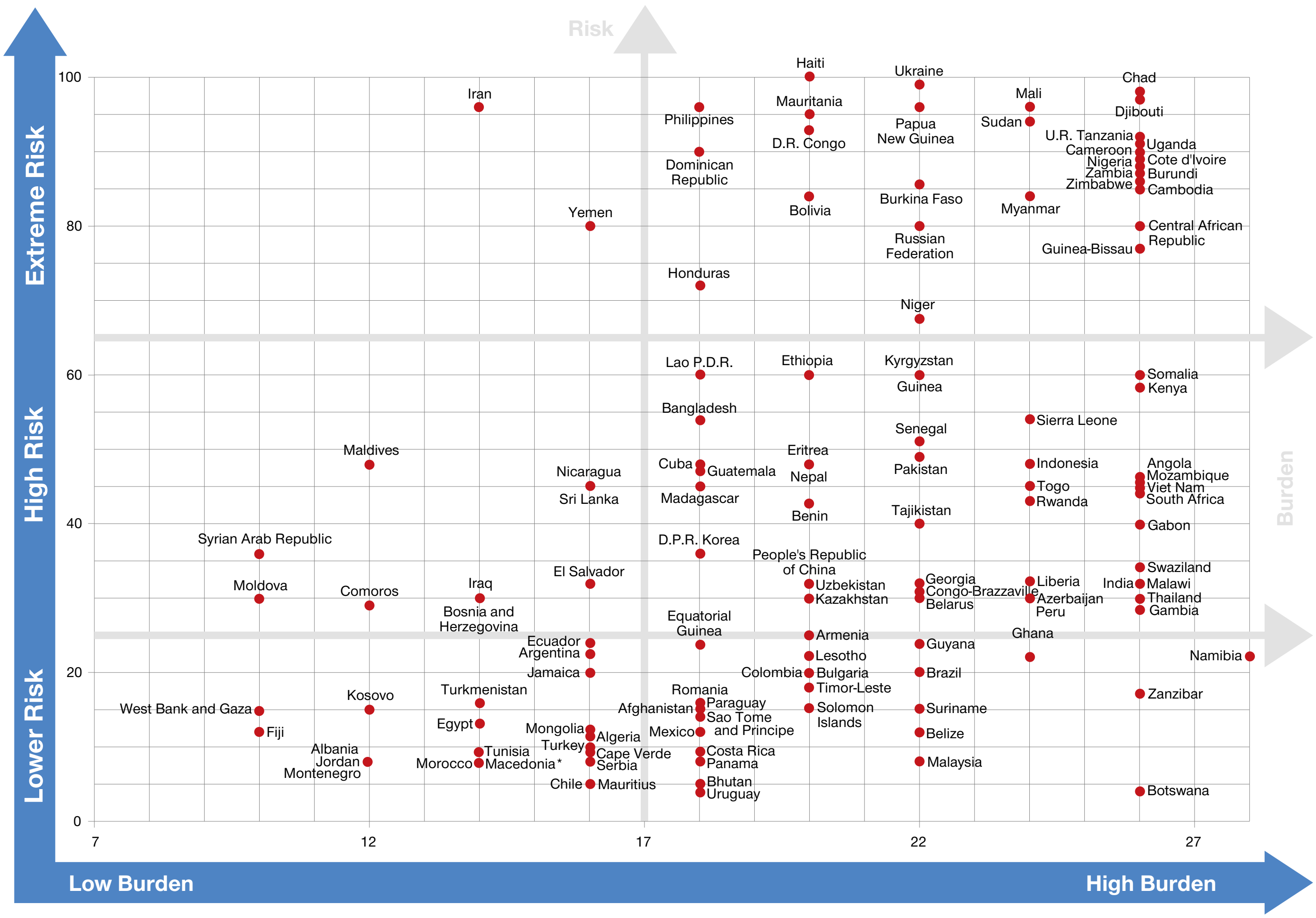
iii. **Assign clear responsibilities and timelines/deadlines for action;**

iv. **Undertake a thorough external review of the implementation of the reforms in twelve months' time.**

Annex A

Scatter-plot of the Risk-Burden Matrix

SCATTER-PLOT OF THE RISK-BURDEN MATRIX USED BY THE HIGH-LEVEL, INDEPENDENT PANEL TO CHOOSE A REPRESENTATIVE SAMPLES OF COUNTRIES THAT HAVE RECEIVED GRANTS FROM THE GLOBAL FUND

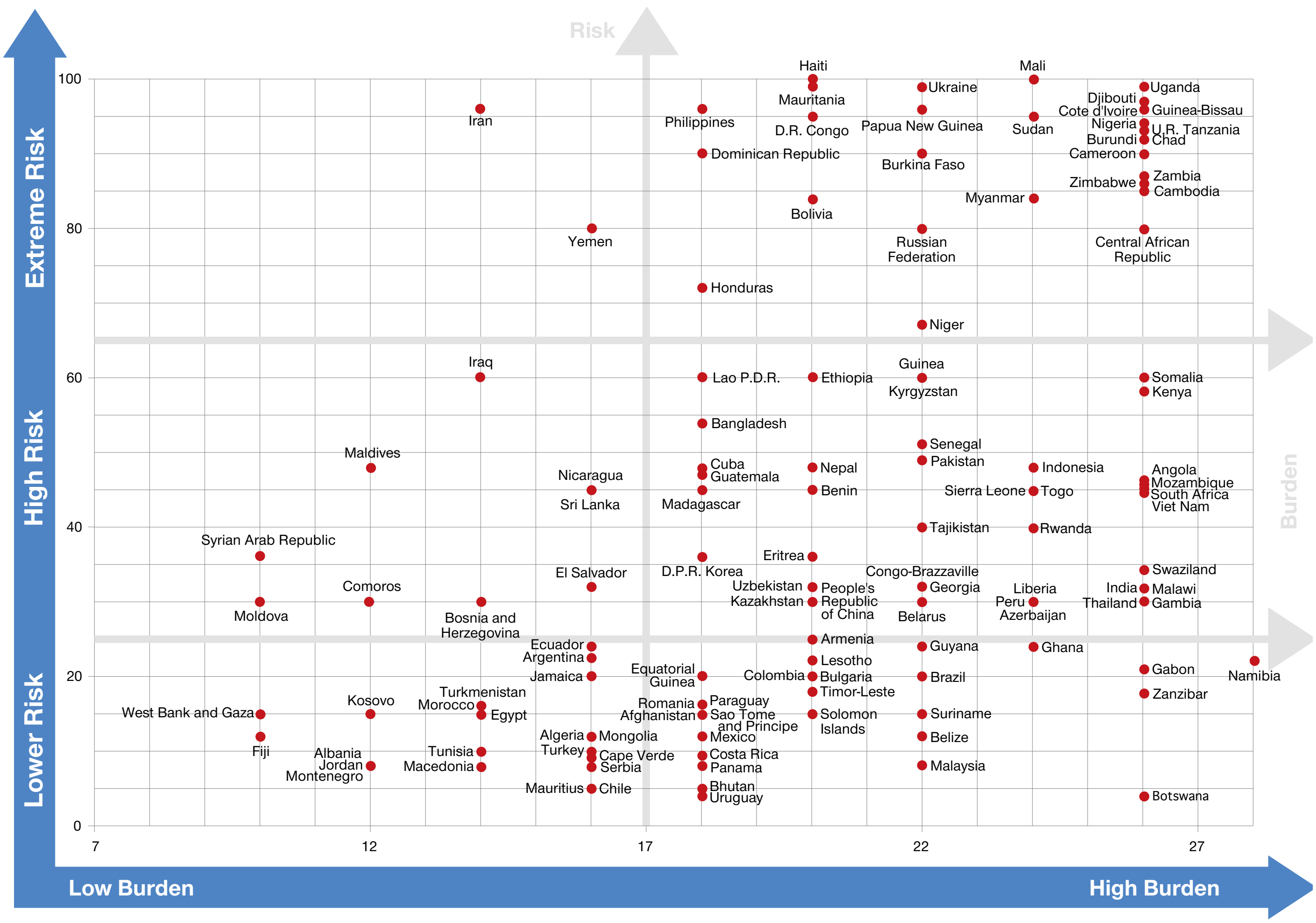


DATA FROM THE RISK-BURDEN MATRIX USED BY THE HIGH-LEVEL, INDEPENDENT PANEL TO CHOOSE A REPRESENTATIVE SAMPLES OF COUNTRIES THAT HAVE RECEIVED GRANTS FROM THE GLOBAL FUND

Country	Total Burden Score	Risk Aggregate Score
Afghanistan	18	15
Albania	12	8
Algeria	16	11.4
Angola	26	46.2
Argentina	16	22.5
Armenia	20	25
Azerbaijan	24	30
Bangladesh	18	54
Belarus	22	30
Belize	22	12
Benin	20	42.75
Bhutan	18	5
Bolivia	20	84
Bosnia and Herzegovina	14	30
Botswana	26	4
Brazil	22	20
Bulgaria	20	20
Burkina Faso	22	85.5
Burundi	26	87
Cambodia	26	85
Cameroon	26	90
Cape Verde	16	9.25
Central African Republic	26	80
Chad	26	98
Chile	16	5
Colombia	20	20
Comoros	12	29
Congo-Brazzaville	22	30.8
Costa Rica	18	9.4
Cote d'Ivoire	26	89
Cuba	18	48
D.P.R. Korea	18	36
D.R. Congo	20	93
Djibouti	26	97
Dominican Republic	18	90
Ecuador	16	24
Egypt	14	13.25
El Salvador	16	32
Equatorial Guinea	18	24
Eritrea	20	48
Ethiopia	20	60
Fiji	10	12
Gabon	26	40
Gambia	26	28.5
Georgia	22	32
Ghana	24	22.2
Guatemala	18	47
Guinea	22	60
Guinea-Bissau	26	77
Guyana	22	24
Haiti	20	100
Honduras	18	72
India	26	32
Indonesia	24	48
Iran	14	96
Iraq	14	30
Jamaica	16	20
Jordan	12	8
Kazakhstan	20	30
Kenya	26	58.4
Kosovo	12	15
Kyrgyzstan	22	60
Lao P.D.R.	18	60
Lesotho	20	22.2
Liberia	24	32.25
Macedonia	14	8
Madagascar	18	45
Malawi	26	32
Malaysia	22	8
Maldives	12	48
Mali	24	96
Mauritania	20	95
Mauritius	16	5
Mexico	18	12
Moldova	10	30
Mongolia	16	12
Montenegro	12	8
Morocco	14	8
Mozambique	26	45.6
Myanmar	24	84
Namibia	28	22.2
Nepal	20	48
Nicaragua	16	45
Niger	22	67.5
Nigeria	26	88
Pakistan	22	49
Panama	18	8
Papua New Guinea	22	96
Paraguay	18	16
People's Republic of China	20	32
Peru	24	30
Philippines	18	96
Romania	18	16
Russian Federation	22	80
Rwanda	24	43
Sao Tome and Principe	18	14.25
Senegal	22	51
Serbia	16	8
Sierra Leone	24	54
Solomon Islands	20	15
Somalia	26	60
South Africa	26	44.4
Sri Lanka	16	45
Sudan	24	94
Suriname	22	15
Swaziland	26	34.2
Syrian Arab Republic	10	36
Tajikistan	22	40
Thailand	26	30
Timor-Leste	20	18
Togo	24	45
Tunisia	14	9.25
Turkey	16	10
Turkmenistan	14	16
U.R. Tanzania	26	92
Uganda	26	91
Ukraine	22	99
Uruguay	18	4
Uzbekistan	20	32
Viet Nam	26	45
West Bank and Gaza	10	15
Yemen	16	80
Zambia	26	87
Zanzibar	26	17.1
Zimbabwe	26	86

*Former Yugoslav Republic

SCATTER-PLOT OF THE RISK-BURDEN MATRIX — WITHOUT IBRAHIM — USED BY THE HIGH-LEVEL, INDEPENDENT PANEL TO CHOOSE A REPRESENTATIVE SAMPLES OF COUNTRIES THAT HAVE RECEIVED GRANTS FROM THE GLOBAL FUND



DATA FROM THE RISK-BURDEN MATRIX — WITHOUT IBRAHIM — USED BY THE HIGH-LEVEL, INDEPENDENT PANEL TO CHOOSE A REPRESENTATIVE SAMPLES OF COUNTRIES THAT HAVE RECEIVED GRANTS FROM THE GLOBAL FUND

Country	Total Burden Score	Risk Aggregate Score
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Bhutan	18	5
Bolivia	20	84
Bosnia and Herzegovina	14	30
Botswana	26	4
Brazil	22	20
Bulgaria	20	20
Burkina Faso	22	90
Burundi	26	92
Cambodia	26	85
Cameroon	26	90
Cape Verde	16	9.25
Central African Republic	26	80
Chad	26	92
Chile	16	5
Colombia	20	20
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Costa Rica	18	9.4
Cote d'Ivoire	26	96
Cuba	18	48
D.P.R. Korea	18	36
D.R. Congo	20	95
Djibouti	26	97
Dominican Republic	18	90
Ecuador	16	24
Egypt	14	15
El Salvador	16	32
Equatorial Guinea	18	20
Eritrea	20	36
Ethiopia	20	60
Fiji	10	12
Gabon	26	21

*Former Yugoslav Republic

Country	Total Burden Score	Risk Aggregate Score
Gambia	26	30
Georgia	22	32
Ghana	24	24
Guatemala	18	47
Guinea	22	60
Guinea-Bissau	26	96
Guyana	22	24
Haiti	20	100
Honduras	18	72
India	26	32
Indonesia	24	48
Iran	14	96
Iraq	14	60
Jamaica	16	20
Jordan	12	8
Kazakhstan	20	30
Kenya	26	58.4
Kosovo	12	15
Kyrgyzstan	22	60
Lao P.D.R.	18	60
Lesotho	20	22.2
Liberia	24	30
Macedonia*	14	8
Madagascar	18	45
Malawi	26	32
Malaysia	22	8
Maldives	12	48
Mali	24	100
Mauritania	20	99
Mauritius	16	5
Mexico	18	12
Moldova	10	30
Mongolia	16	12
Montenegro	12	8
Morocco	14	16
Mozambique	26	45.6
Myanmar	24	84
Namibia	28	22.2
Nepal	20	48
Nicaragua	16	45
Niger	22	67.2
Nigeria	26	94
Pakistan	22	49
Panama	18	8
Papua New Guinea	22	96

Country	Total Burden Score	Risk Aggregate Score
Paraguay	18	16
People's Republic of China	20	32
Peru	24	30
Philippines	18	96
Romania	18	16
Russian Federation	22	80
Rwanda	24	40
Sao Tome and Principe	18	15
Senegal	22	51
Serbia	16	8
Sierra Leone	24	45
Solomon Islands	20	15
Somalia	26	60
South Africa	26	44.4
Sri Lanka	16	45
Sudan	24	95
Suriname	22	15
Swaziland	26	34.2
Syrian Arab Republic	10	36
Tajikistan	22	40
Thailand	26	30
Timor-Leste	20	18
Togo	24	45
Tunisia	14	10
Turkey	16	10
Turkmenistan	14	16
U.R. Tanzania	26	93
Uganda	26	99
Ukraine	22	99
Uruguay	18	4
Uzbekistan	20	32
Viet Nam	26	45
West Bank and Gaza	10	15
Yemen	16	80
Zambia	26	87
Zanzibar	26	18
Zimbabwe	26	86

Annex C

Explanation of the Formulae Used in the Risk-Burden Matrix

Explanation of the Formulae Used in the Risk-Burden Matrix Used by the High-Level, Independent Panel to Choose a Representative Samples of Countries That Have Received Grants from the Global Fund

RISK FORMULA: *The Panel has included six elements in its calculation of risk:*

1. Total Financing Received from the Global Fund *(as measured by the ceilings of Board-approved grants)*

The Panel agrees with the model developed by the Office of the Inspector General (OIG) that the aggregate amount of funding under management in a given country is a major factor for risk, since large grants are inherently more complicated to administer than small ones, and the opportunities for diversion or theft (as well as the chances such misappropriation can go unnoticed) increase as the Fund invests more money in a given place. The Panel has broken Global Fund financing into quartiles:

1. **First:** US$ 0-40 million;
2. **Second:** US$ 41-100 million;
3. **Third:** US$ 101- 400 million; and
4. **Fourth:** US$ 400 million +

2. Aggregated Transparency Rating

The Panel further agrees with the OIG that internationally accepted rankings of good governance can be a helpful indicator of the overall riskiness of doing business, including humanitarian work, in a given country. Therefore, another common element among the risk matrices created by the Panel and the OIG is the rating system of Transparency International. To recognize the work of President Mogae in helping to create a slightly different assessment of good governance for African countries, one that is gaining acceptance and credibility on the continent because it also measures investments in social sectors like health and education, in one version of the matrix the Panel added the Ibrahim Foundation Index to its formula for 52 nations. (Careful readers will note the Ibrahim Index scores some countries higher than Transparency International.)

The Panel therefore has determined its Aggregated Transparency Ranking by the following formula in one matrix:

(2010 Transparency International ranking) **X** (5) **+**
(2010 Ibrahim Index score--for African countries) **/** (6)

And the Panel has determined its Aggregate Transparency Ranking by the following formula in the other:

(2010 Transparency International ranking) **X** (5) **/** (6)

3. Recent National Elections

Experience shows that national-level elections, even when fair and democratic, can serve as occasions in some countries for individuals to misappropriate money, including foreign assistance, for partisan or wrongful purposes (or to politicize service-delivery programs, such as to favor one ethnic or regional group over others). As a result, the Panel has included whether such balloting has taken place in 2010 or 2011, or will be occurring later in 2011, as a risk factor for Global Fund grants.

4. Additional Safeguards Policy (ASP)

Since the ASP is the only standardized, public way the Global Fund's Board and Secretariat acknowledge serious risk to grants and match resources accordingly, the Panel has weighted the application of the policy heavily in its matrix. This part of the formula therefore ensures that almost every country in which the Global Fund has applied the ASP appears in the Panel's highest-risk category.

5. Evidence of Money Misappropriated from Global Fund Grants

In the Panel's view, it is self-evident that those countries in which clear indications of fraud and abuse in the Fund's portfolio have taken place should rise higher on any scale of risk. This aspect of the formula accordingly scores those countries in which the OIG has found misappropriation of Fund monies in the Panel's categories of greatest risk.

6. Previous Suspensions and Terminations of Grants, or Changes in PR

Finally, one might reasonably ask whether the Panel matrix should take into account how Global Fund grants are actually performing. Since analysis of the integrity and credibility of the Global Fund's data-reporting system is necessarily a part of any review of the fiduciary controls and risk-management of the institution, the Panel decided not to use grant-performance ratings as a factor in determining risk, given those ratings are based upon the very data its report is judging. The Panel therefore believes that, for its purposes now, a better indicator than performance ratings to measure the risk to current and future Global Fund grants in a country is whether the CCM has ever had a grant suspended or terminated, and whether the Fund Secretariat has ever forced a change in PR. (The Panel acknowledges that, in any risk-stratification eventually used by the Fund Secretariat and OIG, CCMs should be able to earn their way out of the application of an element such as this over time, based on a period of demonstrated good management and achievement of outcomes.)

The following thus represents the formula the Panel has used to determine the Total Risk-Adjusted Score for each country or territory that has received Global Fund grants:

(Global Fund financing, as measured by the ceilings of Board-approved grants*) **X** (Aggregated Transparency Rating, or ATR**) **X** (1.25, if national elections held in 2010 or 2011) **X** (3, if Additional Safeguards Policy is in place) **X** (3, if money misappropriated from Global Fund grants) **X** (1.5,2.0, 2.5, 3.0 or 3.5, depending on the number of incidents related to previous grants) = **Total Risk-Adjusted Score**

Let us use Argentina as an example:

Argentina: (Global Fund financing score: 2) **X** (Aggregated Transparency Rating: 6) **X** (Elections: 1.25) **X** (One incident related to previous grants: 1.5) = **22.5**

[Note that Argentina is not under the Additional Safeguards Policy, and has not experienced any misappropriations, so these two elements do not factor into the score.]

BURDEN FORMULA

The Panel believes classifying countries only by risk would miss the compounding challenges poverty and AIDS, tuberculosis and malaria together represent, and has included four elements in its calculation of burden:

1. Human Development Index (HDI)

To take advantage of a more nuanced reflection of the capacity of a country than just *per-capita* income, the Panel has chosen the HDI, produced by the United Nations, as its proxy for poverty. The Panel believes including a factor regarding overall level of development is important, since the ranking of countries in a risk analysis must take into account the institutional, infrastructural , financial and human-capital assets a nation has to bring to bear on fighting AIDS, tuberculosis and malaria. The Human Development Index Score is already broken into quartiles, and the Panel has assigned those quartiles the ratings of 2, 4, 6 and 8.

2. Burden of Disease

The Panel adopted the methodology for quantifying the burden of the three diseases that the Global Fund's Board endorsed at its Twenty-Third Meeting, in May 2011, as part of the new Eligibility and Prioritization Policy. This classification of disease burden appears as Annex XX to this Interim Report. The Panel has broken the Global Fund's malaria, AIDS and tuberculosis rankings into quartiles rated 2, 4, 6 and 8.

The following thus represents the formula the Panel has used to determine the Total Burden Score for each country or territory that has received Global Fund grants:

(2010 Human Development Index ranking) + (Global Fund Malaria score) +
(Global Fund AIDS score) + (Global Fund Tuberculosis score) = **Burden Score**

Let us use Argentina again as an example:

Argentina: (HD: 6) + (Global Fund Malaria Score: 2) +
(Global Fund AIDS Score: 6) + (Global Fund Tuberculosis Score: 2) = **16**

Annex D

Coding Categories and Guidelines

In conducting the document analysis, reviewers did not make their own determination regarding the existence of the types of weaknesses identified below. Rather, they used the keywords/key terms listed below to assist in determining which category a weakness identified in the documents fell into. For example, under code FMS, BRS the reviewers did not make their own judgment on whether the budget is unrealistic, but simply identified if the LFA, FPM, etc., had noted such in the document.

REQUIRED FOLLOWUP ITEMS

Develop or agree new plan/policy
Implement existing plan/policy
Hire new staff
Employ External staff
Complete capacitybuilding
Complete implementation of an agreed programmatic target
Complete an assessment satisfactory to the Global Fund
Complete a reprogramming

FINANCIAL-MANAGEMENT SYSTEMS *(CODE FMS)*

Budgeting and Budget Monitoring (Code FMS, BRS)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Current budget is unrealistic; lack of variance analysis; evidence of over-spending or lack of respect for budget lines for individual activities and cost categories; lack of reviews of spending patterns; non-authorized budget re-allocations or no agreed procedures with Fund Portfolio Manager/Country Team for budget re-allocation; Principal Recipient is heavily dependent on Global Fund grant for staffing and operating expenses*

Accounting System and Procedures (Code FMS, ASP)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Lack of suitable accounting software (e.g., use of Excel-based accounting); lack of or inadequate accounting manual and procedures; poor accounting records; inconsistencies between accounting system and Progress Updates/Disbursement Requests; high volume of cash transactions; excessive use of cash payments; lack of sufficient segregation of duties in relation to cash transactions and controls; lack of appropriate security for cash; rent, utilities, fuel, insurance costs, telephones, etc., indiscriminately charged to Global Fund grants, even if they are already being paid for by Government and/or other donors; apportionment of shared costs, including staff, charged to Global Fund is inappropriate; lack of travel policies; staff travelling in business class; travel paid for by Global Fund grant monies to events not related to the Global Fund grants; costs charged under overheads not eligible; Principal Recipient budgets lump-sum amounts without transparently disclosing what they contain; direct costs included; delays in payment for regular activities, including salaries; non-payment of service providers*

Flow-of-funds (Code FMS, FOF)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: Ineligible or non-grant-related expenditures*; frequent illiquidity; payment for goods/services that were not delivered; payment from the Global Fund grant budget for salary/travel/services not related to the Global Fund grant; significant and unjustified advance payments to suppliers; significant outstanding advances/pre-payments to staff or suppliers; lack of procedures for determining eligibility criteria for paying* per diems*; indiscriminate use of cash payments for* per diems*;* per diems *paid too high (e.g., in comparison to Government rates for Government/state entities)),* per-diem *rates for Global Fund grants higher than organization's normal rates or rates used by peer organizations;* per diems *paid to individuals unrelated to Global Fund grants, excessive* per diems *generated through non-essential hosting of events at external locations.*

Record-/Document-Management (Code FMS, RDM)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Absence of supporting documentation related to expenditures, procurement and supply-management (e.g., tender documentation, evidence of receipt of goods missing, etc.); inadequate document-management system (manual/computerised) and archiving arrangements*

Controls on Income Received (Code FMS, COI)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Weak controls on income from social marketing; income not correctly recorded to the Global Fund grant; evidence of profit generation by charging costs to Global Fund grants that do not exist (e.g., meeting-room fees for fully owned offices); no transparent reporting on interest earned*

Currency Exchange (Code FMS, CE)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Improper management (lack of dollar/euro account for dollar-/euro-based purchases); evidence of currency speculation through multiple transfers of funds from dollar/euro to local currency and back again without justification; inappropriate application of exchange rates for reporting of income, expenditure and balances*

Tax Environment (Code FMS, TE)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Tax exemption on Global Fund monies and goods not sought or obtained; requests for tax refunds not completed promptly or followed up; tax refunds not correctly recorded to the Global Fund grants.*

Inter-Grant Borrowing (Code FMS, IB)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Evidence of unauthorized transfer of funds across grants; evidence of borrowing of Global Fund monies for other programs or purposes*

Internal and External Audits (Code FMS, A)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Lack of internal-audit function; internal-audit function lacks capacity; internal audit is not independent of management; external-audit arrangements are not in compliance with guidelines; external auditors hired without transparent, competitive process; no Terms of Reference for external audit; poor-quality audits or audits rejected for lack of credibility; external audits not completed on time; lack of follow-up on audit recommendations; lack of appropriate external audit arrangements for sub-recipients*

Treasury System and Bank-Management (Code FMS, B)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *No segregated bank account for Global Fund monies; excessive number of bank accounts that hold Global Fund monies; bank accounts opened in the name of an entity/individual not related to the Principal Recipient and/or Global Fund grant; lack of regular bank reconciliations; lack of review of bank reconciliations; use of bank interest; lack of proper authorization for disbursements and payments, double signatures on cheques and transfers, use of account-payee cheques; Principal Recipient "invests/moves" Global Fund grant funds to earn interest; Principal Recipient holds funds in bank account, and delays disbursements/payments to earn extra interest;*

Management of Physical Assets (Code FMS, MPA)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Lack of system to ensure adequate safeguards to protect grant assets from loss, fraud, waste and abuse; lack of periodic physical inventories of fixed assets and stocks; grant assets used for personal use (e.g,. vehicles); lack of suitable fixed-assets register; fixed-assets register not maintained or reconciled to accounting records*

Staffing and Salaries (Code FMS, SS)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *No staff-forecasting system in place; no/weak capacity-development plan; no/weak performance-evaluation system; high turnover of staff; delays in recruiting staff; lack of motivation among staff; lack of written human-resources policies, including those that determine salary levels; no transparent, written process for applying top-ups and retention schemes; salaries paid under Global Fund grants are considerably higher than for comparable positions in other national or United Nations organizations in the country, or the organization's own salary scale applied to projects not paid for by the Global Fund; salaries paid to staff not related to the Global Fund grant; salaries are not paid in line with contracts; lack of evidence that individuals who receive payment actually exist or are working on the program; over-dependence on Global Fund grant to fund staff in the Principal Recipient(s);*

Management of Programs (Code FMS, PM)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *No/weak work plan in place; weak linkages between program units; no/little coordination with other donors and donor-funded activities; no/weak mechanism in place to review progress against grant targets;*

PROCUREMENT, CONSTRUCTION AND SUPPLY-MANAGEMENT *(CODE PSCM)*

Forecasting and Quantification of Pharmaceutical and Other Medical Products (Code PSCM, FQPM)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Frequent stock-outs; delays in procurement; emergency procurements; inadequate forecasting and qualification that leads to emergency procurement of drugs and/or stock-outs, etc.*

Tender and Bidding Processes (Code PSCM, PC)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Delays in procurement that often result in stock-outs; bogus vendors; inadequate competition, especially for recurrent, small-scale procurements; prices higher than market rates; conflict-of-interests between suppliers and staff of Principal Recipient(s); weak capacity of Principal Recipient(s) to manage the procurement process effectively; non-payment of service providers; service disruptions/stock-outs as a result of non-payment by the PR(s)*

Non-Pharmaceutical Procurement (Code PSCM, NPM)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Delays in procurement; over-purchasing or over-payment; excessive number of trainings and/or number of participants; excessive numbers of vehicles; types of vehicles procured with Global Fund grant funds inappropriate; vehicles, computers and other capital equipment not used for their intended purpose; fuel allowance related to vehicles not consistent with log-book entries; log book not maintained properly or reviewed regularly; lack of agreed plan for engaging consultants; lack of transparent process for determining level of consultants' fees; lack of transparent selection process of consultants and no evaluation of effectiveness of the consultancies*

Quality-Assurance (Code PSCM, QA)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Lack of qualified laboratory (e.g., accepted for collaboration with the World Health Organization [WHO] pre-qualification project accredited in accordance with ISO17025 and/or accepted by a stringent authority), procurement of drugs not WHO-pre-qualified*

Receipt and Storage (Code PSCM, RS)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Unsecure storage and warehouse facilities; occurrence of pilferage, loss, waste; lack of proper inventory-management; inadequate storage conditions (e.g., temperature); undocumented receipt of products/services, stock-outs at the warehouse level from wastage/loss*

Distribution (Code PSCM, D)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Lack of agreed distribution plans; major delays in distribution; unsecure distribution chain that leads to unaccounted loss of drugs/health products*

Counterfeit Drugs and Substitution (Code PSCM, CD)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Evidence of counterfeit drugs used in Global Fund grant programs; occurrence of substitution within Global Fund grant programs*

MANAGEMENT OF SUB-RECIPIENTS *(CODE MSR)*

Selection of Sub-Recipients (Code MSR, SSR)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Lack of transparent process to select sub-recipients; managers at sub-recipients related to staff of Principal Recipient(s) or other indications of conflict-of-interest*

Legal arrangements with Sub-Recipients (Code MSR, LSR)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Lack of valid contract between Principal Recipient(s) and sub-recipients, including work plan, reporting lines and timelines, and funding arrangements*

Capacity of Sub-Recipients (Code MSR, CSR)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *High-profile sub-recipients manage a large portion of grant funds; sub-recipients have known capacity gaps; key sub-recipients have a poor track record of managing donor funds; inability to adequately account for grant funds; lack of controls and procedures to prevent fraud; lack of human capacity to manage programs*

Financial Monitoring of Sub-Recipients (Code MSR, FMSR)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Lack of financial monitoring and reporting plan between Principal Recipient(s) and sub-recipients; lack of adequate monitoring of expenditures of sub-recipients, inadequate reporting of expenditures and disbursement requests by sub-recipients; sub-recipients budget lump-sum amounts without transparently disclosing what they contain; direct costs included*

Program Monitoring of Sub-Recipients (Code MSR, PMSR)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Principal Recipient(s) has/have no or little knowledge of programmatic capacities at the sub-recipient level; no/few spot checks/supervisory visits to sub-recipients; lack of monitoring and reporting plan between Principal Recipient(s) and sub-recipients; no follow-up on program issues at the sub-recipient level; lack of agreed training plan; excessive number of trainings and number of participants; duplication with other training programs (donor, Government funding); poor effectiveness of training*

Number/Size of Sub-Recipients and Sub-Sub-Recipients (Code MSR, NSSR)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Key sub-recipients manage a high volume of funds (>$100,000); sub-recipients manage complex and/or high-risk activities (e.g., high level of cash transactions)*

MONITORING AND EVALUATION (M&E) *(CODE ME)*

M&E Framework (Code ME, MEF)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *Lack of national M&E plan for a given disease, with clear strategies, activities and earmarked resources*

Robustness of M&E System: Data-Collection, Reporting, Data-Management and Quality (Code ME, MEDQ)

Root cause: *People, Process, Systems/tools, Structure*

Keywords/Key terms for categorization: *M&E system does not allow regular, reliable and quality reporting of results and evaluations of quality of grant activities; lack of accuracy and quality control of data; On-Site Data-Verification visits uncovered major issues with data-collection, -quality and -reporting; lack of adherence to treatment protocols*

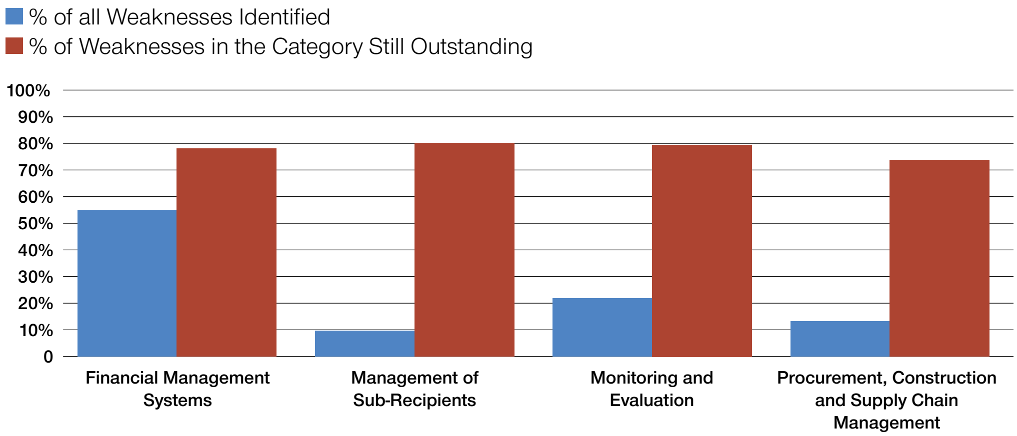
Annex E
Data Charts

OVERALL DATA

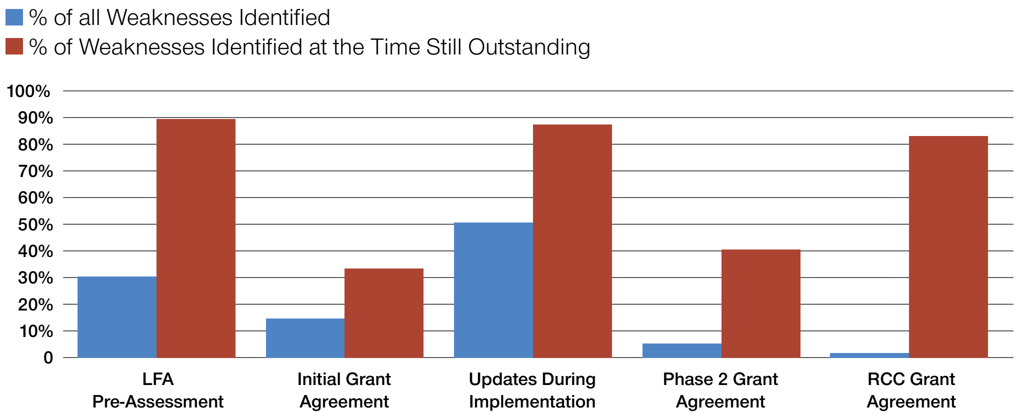
For the purposes of this review, a "weakness" of one of an explicit list of operational or management concerns detailed in Annex XX. The Panel's Support Team developed the list specifically for the analysis, based on previous work conducted by the Global Fund, the U.S. General Accounting Office, and other partners. The list includes specific vulnerabilities that previous reviews have indicated made an impact on both program performance and appropriate oversight; the list does not include in-depth technical issues (such as methodological details of monitoring and evaluation), but rather focuses on the effective functioning of basic grant-management and oversight functions, with a particular emphasis on financial oversight .

In reviewing the documentation, the Panel's Support Team deemed a weakness as "outstanding" or "unresolved" if a grant document identified it as requiring attention, but subsequent grant documents or management letters did not explicitly note the problem as solved. The Panel must note that, because of the working methods of much of the Global Fund Secretariat, not every weakness listed as "outstanding" is actually so. If a Fund Portfolio Manager took care of a concern through e-mail or in-person meetings, in the vast majority of cases the formal grant documents still show the vulnerability as unaddressed.

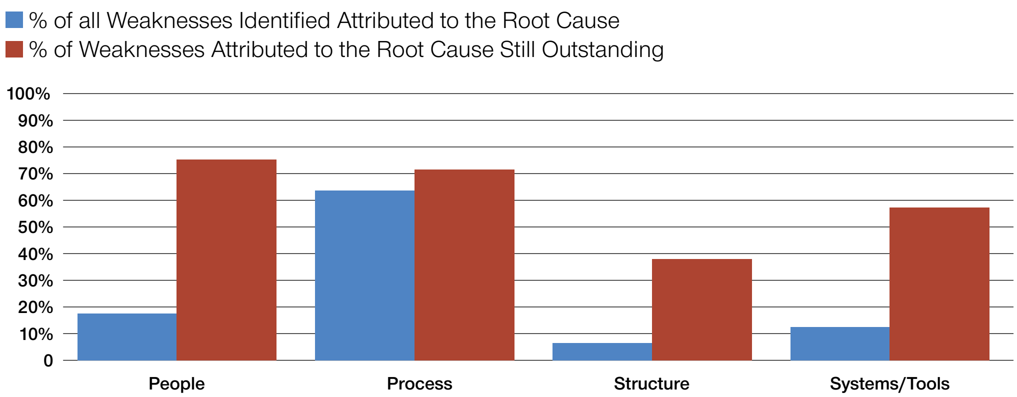
Percentage of Weaknesses Identified and Outstanding by Category



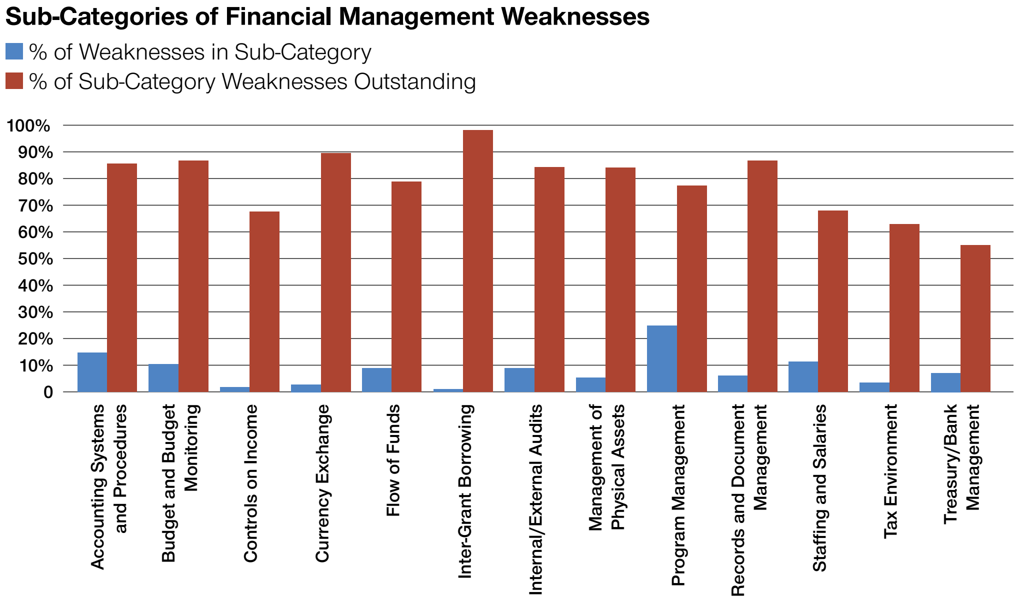
Percent of Weaknesses Identified and Outstanding, by Time of Identification

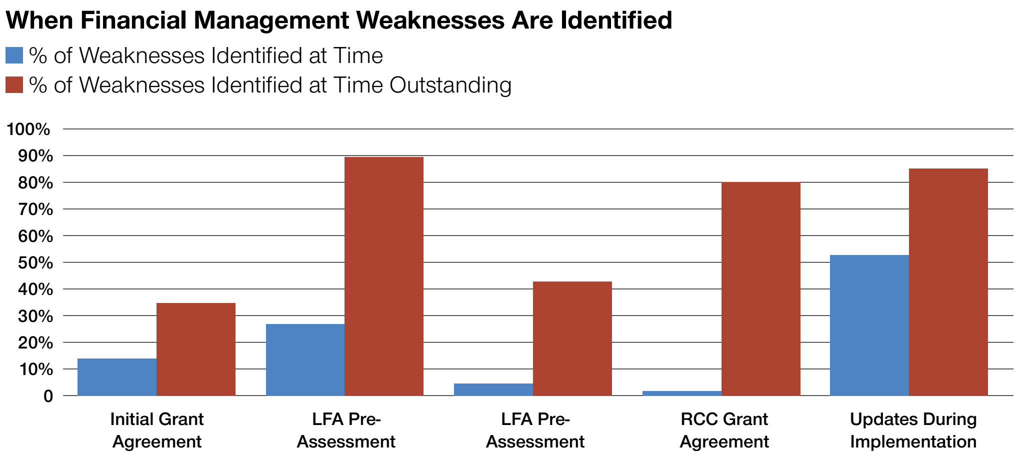


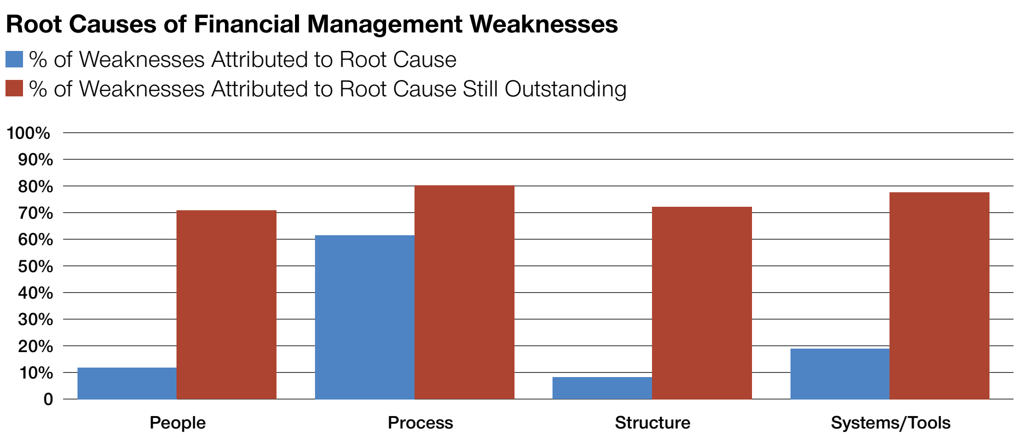
Root Causes of Weaknesses



FINANCIAL MANAGEMENT

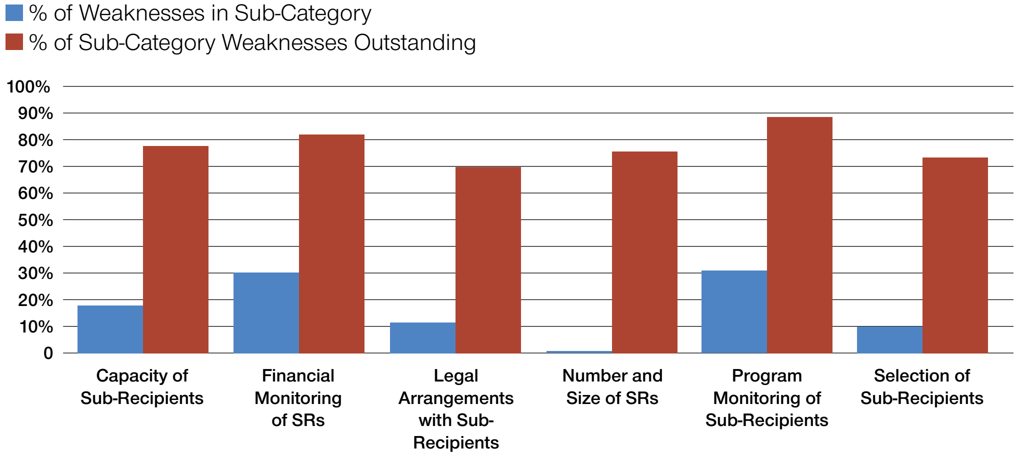




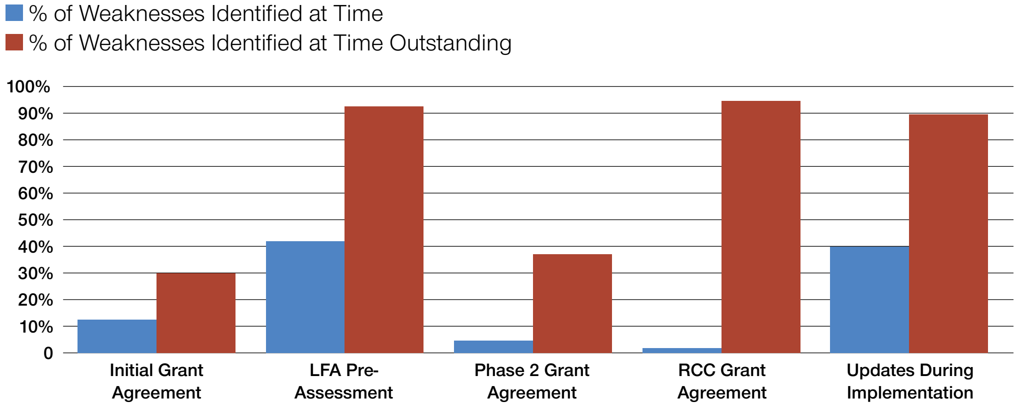


MANAGEMENT OF SUB-RECIPIENTS

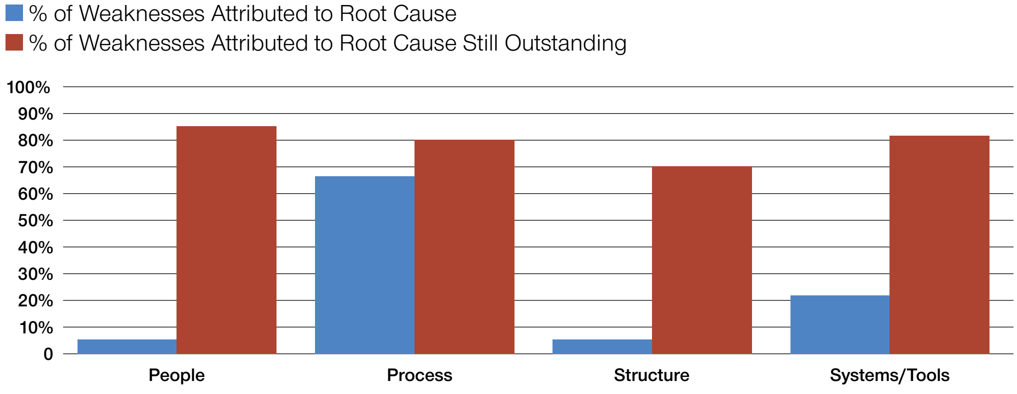
Sub-Categories of Weaknesses in the Management of Sub-Recipients



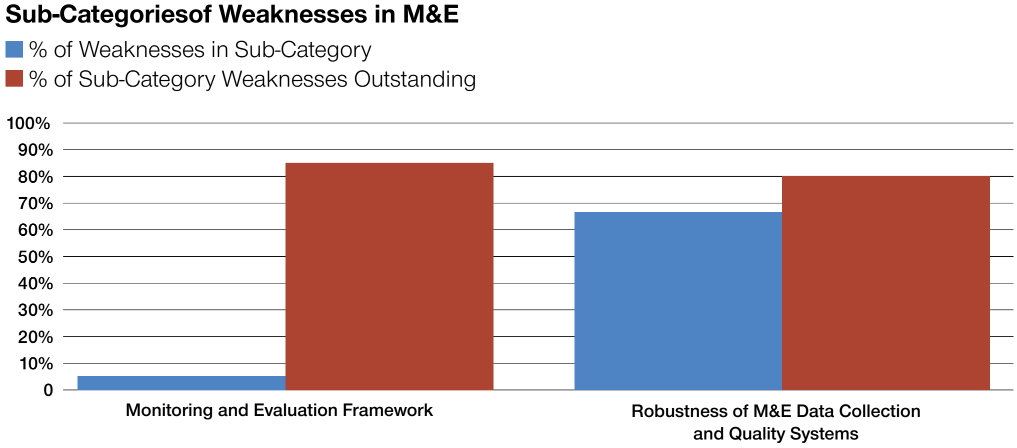
When Weaknesses in the Management of Sub-Recipients Are Identified

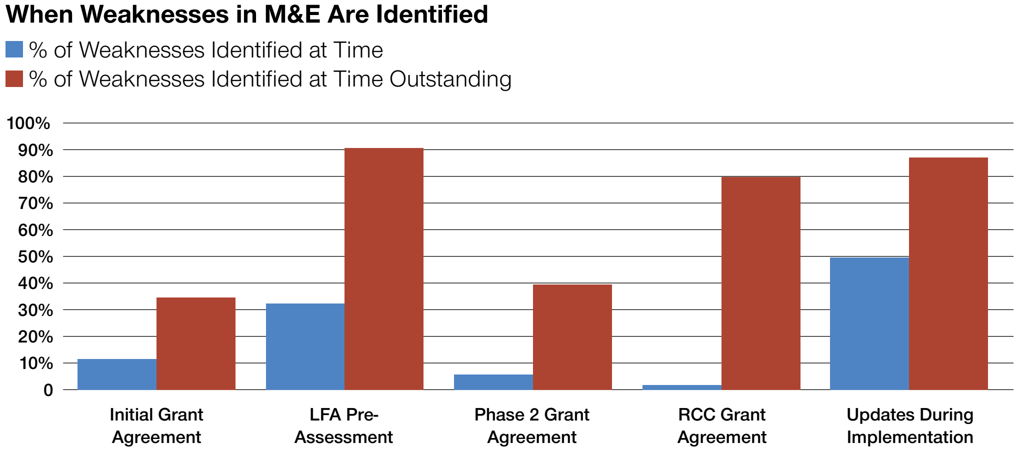


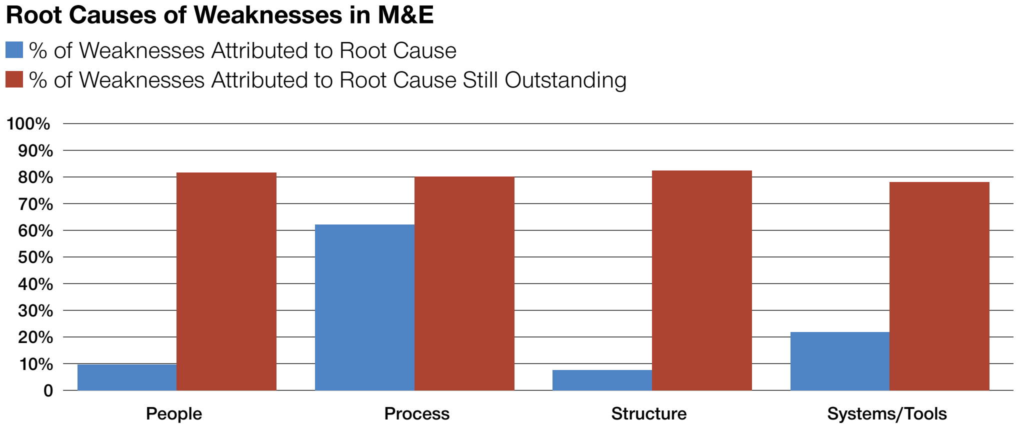
Root Causes of Weaknesses in the Management of Sub-Recipients



MONITORING AND EVALUATION

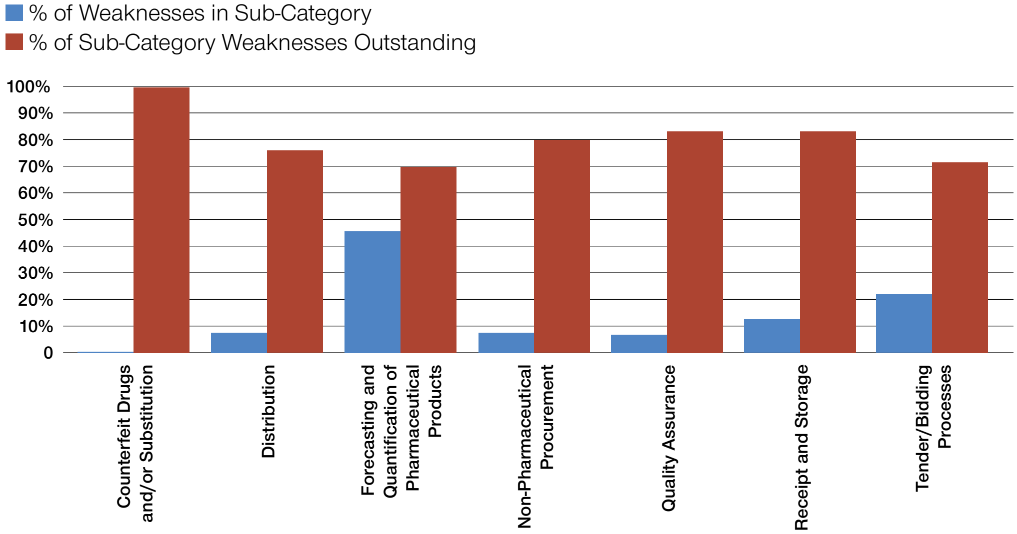




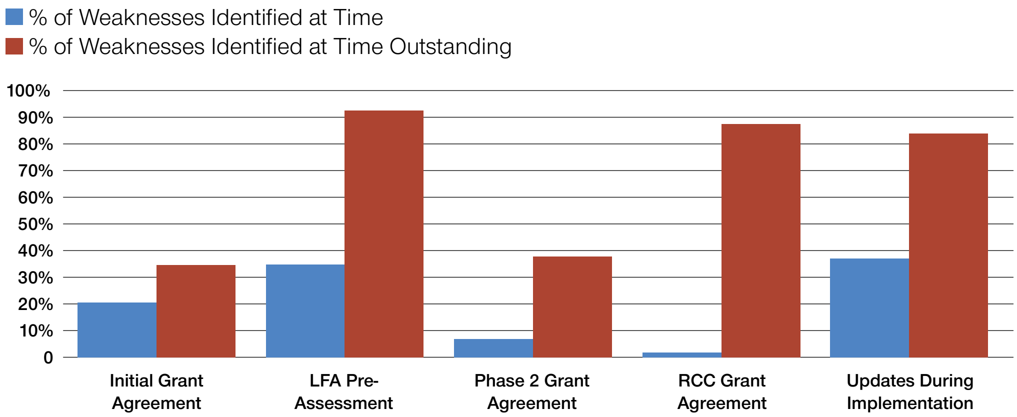


PROCUREMENT, CONSTRUCTION AND SUPPLY-CHAIN MANAGEMENT (PCSCM)

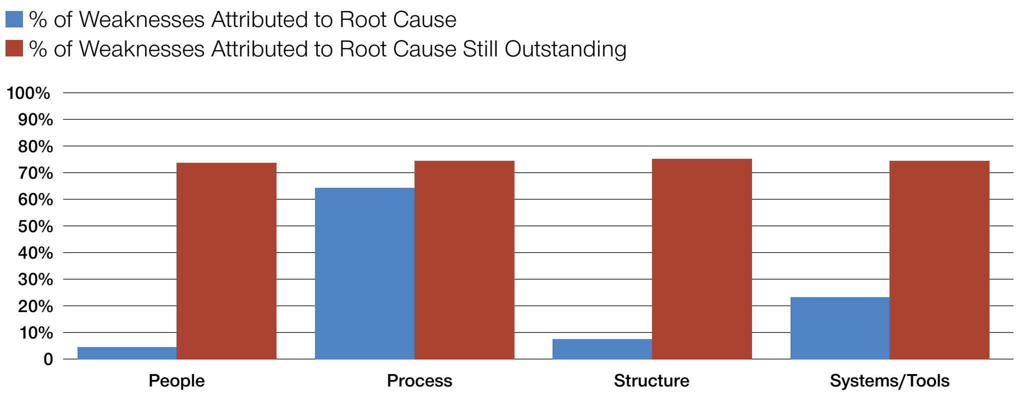
Sub-Categories of Weaknesses in PCSCM



When Weaknesses in PCSCM Are Identified



Root Causes of Weaknesses in PCSCM



Annex F

Summaries of the Country Reviews

AFGHANISTAN

Afghanistan's Global Fund portfolio consists of 10 grants, six of which are currently active. Recipients are the Ministry of Health, as well as GTZ, HealthNet TPO, and the Bangladesh Rural Advancement Committee, Afghanistan (BRAC). The latest rating for all current grants is a grade of either B1 or A2.

The Panel's review showed that over half of the weaknesses in the grant documentation for Afghanistan were in financial management, the vast majority identified during the implementation process. Furthermore, the root causes were primarily attributable to failures to follow established processes, rather than to structural or personnel problems. A relatively small minority of weaknesses fell into the category of management of sub-recipients (SRs), but this is likely an underestimation, because of the difficulties in traveling to SR locations to conduct on-site verification.

As an active conflict zone, Afghanistan represents a unique implementation environment for the Global Fund, and, as such, should be viewed somewhat separately from the rest of the portfolio. Insecurity magnifies many of the difficulties faced in other low-capacity settings. In this context, it is unsurprising PRs and SRs in Afghanistan have difficulty in adhering to previously agreed procedures and practices, a pattern identified by the review.

ALGERIA

Algeria's Global Fund portfolio consisted of one Round Three HIV/AIDS grant to the Ministry of Health, which has concluded. The grant earned a rating of B1 as of the last performance update.

Based on the documents covered by Panel's review, financial-management weaknesses represented the largest hindrance to implementation, though problems in the management of SRs also appeared in a number of instances. As with other countries analyzed, most weaknesses emerged in updates during the implementation of the grant, though the Phase-Two agreement also (somewhat unusually) contained a number.

Algeria's Global Fund portfolio is now closed, but implementation was generally acceptable over the course of the one grant, reflected in the lower-than-average number of weaknesses identified by the Panel's review.

ANGOLA

The United Nations Development Programme (UNDP) has implemented most of Angola's Global Fund portfolio over time, though the grants have started to shift to the Ministry of Health in Rounds Seven and Nine. Of the five grants Angola has received, three are still active, and the only one rated has received a grade of B2.

Slightly under half of the weaknesses identified in Angola by the Panel's review were in the area of financial management, though procurement, construction and supply-chain management also comprised a significant portion. Roughly equal percentages of weaknesses appeared in the LFA's pre-assessment as during implementation, which is somewhat unusual. Unlike other countries, the root cause of the majority of weaknesses in Angola concerned problems with systems and tools.

The Panel's review supports anecdotal evidence from partners that systemic weaknesses in the UNDP office in Angola have hindered progress with the grants. This is particularly apparent in the planning around how to cover those patients who are currently on anti-retroviral treatment when the Round Four grant ends. Problems with forecasting and budgeting have made this transition difficult, and partners have received requests for urgent assistance from the Global Fund and the Angolan Government as a result.

BANGLADESH

Bangladesh has received 15 Global Fund grants, eight of which are still in progress. The finances have mostly flowed through the Ministry of Finance, but have also gone to the Bangladesh Rural Advancement Committee, the Ministry of Health, and the International Center for Diarrheal Disease Research in Dhaka. Grants have received ratings between B2 and A2.

The Panel's review of the documentation for the Global Fund's grants in Bangladesh identified that weaknesses with financial management are the vast majority of problems that are hindering implementation. The initial grant agreements flagged the largest number, which indicates the grant-negotiation process was critical in uncovering problems. It also indicates the weaknesses were so significant that they required legally binding Conditions Precedent. Furthermore, the root cause of weaknesses was primarily process-related, though problems with systems and tools also figured prominently.

The Global Fund's Bangladeshi portfolio is large and complex, with multiple PRs and many SRs. The Panel's review identified that problems with regular reporting and data-collection were serious hindrances to the submission of timely disbursement requests. The example of Bangladesh shows the difficulty of ensuring appropriate processes are in place across such a large number of grants.

BOLIVIA

The Global Fund's Bolivian portfolio contains 10 grants, of which two are still in progress. Those that have received ratings have earned grades between B2 and A2, with the exception of one Round Three malaria grant, which received a C. The portfolio uses three PRs, though UNDP has received the bulk of the funding.

The preponderance of weaknesses identified in the grant documentation was in financial management, in the sub-categories of program-management, records-management, and accounting systems. While a significant portion of these weaknesses appeared in the LFA pre-assessment phase, the bulk did not emerge until implementation of the grants, and had process-related root causes. This indicates that appropriate policies were in place at the PRs, but staff were not implementing them appropriately, which led to lapses in oversight and controls.

The operating environment in Bolivia is complex, and the Global Fund's grants have faced significant challenges, as evidenced by the C grant rating. UNDP has struggled to ensure appropriate management controls are in place at SRs to monitor staff's adherence to reporting schedules and guidelines. As a result, disbursements have experienced significant delays.

BRAZIL

Brazil has received four grants, all of which have received ratings of B1 or B2. The PRs are four different local organizations: *Fundação Ataulpho de Paiva*, *Fundação para o Desenvolvimento Científico e Tecnológico em Saúde*, and *Fundação Faculdade de Medicina da Fundação de Medicina Tropical do Amazonas*.

The Panel's review uncovered a lower-than-average rate of weaknesses in the Global Fund's Brazilian portfolio, and the majority fell into the category of financial management. Of these, problems with accounting systems were the most prevalent, primarily discovered during the implementation phase, although a number also appeared in the LFA's initial assessment. The root cause of the weaknesses was process-related in the vast majority of cases.

Brazil is a high-capacity country, but the conclusion that process-centered issues were the toughest to discover and resolve in this country is instructive for the whole portfolio. While the grants have performed reasonably overall, many of the weaknesses identified remain unresolved in the documentation.

BURUNDI

Burundi's Global Fund portfolio consists of 10 grants, six of which are still active. Those that have received ratings earned grades between B2 and A2. The grants have gone to five different recipients, including an international non-governmental organization (NGO), Government Ministries and a research institution.

Financial management and monitoring and evaluation (M&E) were the largest areas of weakness identified in the documentation by the Panel's review of the Global Fund's grants in Burundi. Within the financial-management area, the most prevalent sub-categories of weakness were program-management and staffing/salaries. Slightly less than half of all problems emerged during the LFA's pre-assessment, while approximately half appeared during the implementation of the grants, and attributed to failures to follow processes appropriately.

The relatively large number of PRs (in comparison to the number of grants) in Burundi has led to uneven performance. Where some of the grants have performed at an "A2" level with remarkably few weaknesses identified, others have implemented much more slowly and struggled to address process-related problems. Slowdowns have occurred because of staffing difficulties, as well as oversight and coordination challenges at the PRs.

CAMBODIA

PRs in Cambodia have received 16 grants from the Global Fund, six of which are still active. For the most part, the grants have received ratings between A1 and B2, with the exception of a single C-rated grant. Five different PRs have signed agreements, and a distinguishing characteristic of the Global Fund's Cambodian portfolio is that grant applications have been mainly project-based, rather than strategy-oriented.

The vast majority of weaknesses identified in Cambodia by the Panel's review had to do with to financial management, especially process-related issues discovered during implementation. It is worth noting, however, that a significant number of problems also emerged during the grant-negotiation phase. Given that the Cambodian model for Global Fund grants uses a large number of SRs, it is notable the documents did not identify a significant number of problems in managing those organizations.

The plethora of SRs in Cambodia has created a complex environment in which policies and procedures must accommodate many organizations with different operating structures and mandates, which complicates oversight enormously. Furthermore, many SRs are merely different operating divisions of the same Government Ministry, which leads to questions about the independence of the monitoring that has taken place; identifying and correcting process-related problems has proven to be difficult and time-consuming.

CAMEROON

Cameroon has received nine grants from the Global Fund, six of which are still in progress; when they have received ratings, they have earned a grade of B1. Two PRs have signed agreements: the Ministry of Public Health and Plan International.

While financial management was the predominant area of weakness identified by the Panel's review of the grants in Cameroon, M&E and procurement were also significant problems. The vast majority of all challenges did not appear until implementation had already begun.

Cameroon currently has a sizeable (over $100 million) Round 10 grant under negotiation, so addressing the weaknesses in reporting and data-collection that have slowed disbursements previously will be critical to ensuring that the Global Fund's investment is successful.

CAPE VERDE

Cape Verde has received two grants from the Global Fund– one to the Coordination Committee to Fight AIDS, and one to the Cape Verde NGO Platform. They are both ongoing, and have earned ratings of B2.

As a first-time recipient, Cape Verde had a number of weaknesses identified at the pre-assessment phase and during the negotiation of the grant agreements. Financial management and M&E were the most common problems, especially the M&E framework. This is not unexpected, given that many of the M&E systems required for a Global Fund grant would might not have been in place otherwise.

Cape Verde has a very small portfolio, and is early in implementation, so drawing any firm conclusions on the basis of the Panel's review would be difficult.

CHAD

The Global Fund has awarded eight grants to recipients in Chad, six of which are ongoing. Local organizations manage six programs, and UNDP has two. Three of the grants have earned C ratings, while the others grade at either B1 or B2.

Unlike other countries, the majority of weaknesses in Chad appeared during the LFA pre-assessment process, although many remain outstanding in the documentation. The largest area of weakness identified was in financial- and program-management.

Given the overall underperformance identified by the Panel's review, the PRs in Chad are in significant need of capacity-building. Furthermore, the documents likely underestimate the true rate of problems with SRs.

PEOPLE'S REPUBLIC OF CHINA

The grant portfolio in mainland China is one of the largest managed by the Global Fund: 14 grants, including two agreements for a single stream of funding. The grants have attracted significant public attention recently, particularly regarding problems with the monitoring of the enormous number of SRs. The PR for all of the programs has been the China Center for Disease Control and Prevention, part of the Ministry of Health, which earned ratings between B1 and A1 on all grants graded.

Over half of the weaknesses identified in the Panel's review of the Global Fund grants in China were in financial management. Given the size of the portfolio, the management of SRs is also critically important to effective implementation, but the review indicated that less than a tenth of identified weaknesses were in this area. Furthermore, the majority of all weaknesses did not appear until after the grants had started, and most remain outstanding according to the formal documentation.

Given recent events with the Global Fund's grants in China, it has become clear managing such a large and diverse program is incredibly difficult, especially when looking at the SR level. The PR has literally thousands of SRs for various activities, and the Panel's review indicates the monitoring and oversight of these organizations is not happening with the frequency and intensity its should. Furthermore, that so many of the weaknesses remain outstanding indicates the informal management approach used by the Secretariat might not be appropriate for this environment, especially because of the politically sensitivity.

DEMOCRATIC REPUBLIC OF THE CONGO (DRC)

The Global Fund's portfolio in the DRC consists of 12 grants, eight of which are still active. UNDP has eight, and NGOs the rest. Three of the UNDP grants and one to Population Services International (PSI) have earned C ratings, and the others grades of either B1 or A2.

Given the low performance of some of the grants, it is unsurprising the Panel's review documented a significant number of weaknesses in all four areas of analysis. While the largest was financial management, M&E and procurement also showed serious problems. The largest tranche of weaknesses emerged in the LFA pre-assessment process, and the vast majority of all weaknesses had to do with to process-related issues.

When the Global Fund's Office of the Inspector General (OIG) completed its audit of grants in the DRC in 2010, many of the flaws it found had previously appeared in grant documentation, but remained unresolved. This was particularly the case in the financial management and the oversight of SRs, a concern given the difficult operating environment in the DRC. Furthermore, based on trends seen throughout the Panel's review, the documentation likely underestimates the vulnerabilities in these areas.

DJIBOUTI

The Global Fund's portfolio in Djibouti consists of four grants to the Executive Secretary to Fight AIDS, TB and Malaria, a Government agency attached to the Office of the Prime Minister. Three are still active: one has earned a C rating, while the others have grades of B2 or incomplete.

Both the Panel's review and the OIG's audit identified significant problems with the financial-management and M&E systems of the PR in Djibouti. According to the grant documentation, the weaknesses were primarily in accounting systems and program-management, and most were related to failures to follow agreed policies and procedures. Furthermore, many of the flaws identified in the OIG report had previously appeared in other assessments, but remained unaddressed in the formal documentation at the time of the audit. The Panel's review further indicates that, of the problems identified at the LFA pre-assessment stage, all remained outstanding in the record.

The problems that took place with the Global Fund's grants in Djibouti should not have been a surprise, since the documentary record flagged key weaknesses in the same areas from the very start. While the vulnerabilities the LFA flagged in the pre-assessment almost certainly were topics of discussion during the grant-negotiation process, that no formal record exists of the commitments made by the PR to address them would have made it very difficult to enforce their continued application over the life of the grant.

DOMINICAN REPUBLIC

The Dominican Republic's Global Fund portfolio consists of eight grants, six of which are still active. A variety of local NGOs, as well as Government bodies, have served as PRs. The portfolio has earned ratings of either B1 or A2.

The Panel's review identified a number of weaknesses across all four areas in the Dominican Republic, but the two largest were financial management and M&E. At the aggregate level, most weaknesses appeared during the course of implementation, and only a small minority at any other stage. Given that the preponderance of problems had to do with the failure to follow processes, such a distribution is predictable, though it raises questions as to how the Global Fund and PRs can effectively address challenges before they arise.

It is notable that, while the documentary record flags some problems with procurement issues, information as presented by partners before and during the Panel's field visit suggests the difficulties have been more serious. Challenges have include delays in procurement that required partners to step in with emergency goods to prevent stock-outs.

EL SALVADOR

El Salvador's Global Fund portfolio consists of eight grants, six of which are still ongoing. The Ministry of Health and UNDP have been the recipients, and have earned ratings of either B1 or A2.

The grant documentation for El Salvador indicates that, as with other countries the Panel reviewed, financial management is a concern. The vast majority of these weaknesses related to process failings, in particular in program-management and oversight. In addition, procurement was also problematic, and problems with the forecasting and quantification systems led to delays in implementation.

The Panel's review shows that, while the Global Fund's grants in El Salvador have generally performed well, weaknesses in programmatic oversight and coordination, in combination with delays in procurement, have undermined achievement. Many of these challenges had to do with UNDP's special structures and processes, in particular its policy of insisting on purchasing drugs through global agreements managed by UNDP headquarters.

ETHIOPIA

Ethiopia has received 11 grants from the Global Fund, implemented primarily (although not entirely) through the Ministry of Health. The grants have received ratings between B2 and A1, and four are either closed or in closure.

Of the weaknesses identified through the Panels' review of the Global Fund's Ethiopian portfolio, over half were in financial management. Of these, the management of records and documents proved to be the most problematic, followed by accounting systems and the monitoring of the flow-of-funds. Generally, difficulties did not appear until implementation had begun. Procurement-related problems also stood out in the Panel's review, which is consistent with anecdotal information from partners, especially concerning the forecasting and quantification of pharmaceuticals. Some of these required urgent purchases, both by the Global Fund and partners.

Ethiopia has quite a large portfolio, and a variety of sources have documented weaknesses in the Ministry of Health's management and coordination of SRs. Nevertheless, the number of problems in identified in the grant documentation is quite low, which indicates either the information is not reaching the PR, or is not reaching the Global Fund.

GAMBIA

The Global Fund has awarded 10 grants to recipients in The Gambia, six of which are still implementing. The lead PR has been the Ministry of Health, and the grants have earned ratings between B1 and B2; the one exception is an A1-rated Round Three malaria grant that is now closed.

Unlike with other countries reviewed by the Panel, the majority of weaknesses identified in The Gambia were in M&E. Of these, the majority had to do with difficulties in collecting data and assuring its quality. In most instances, the correct policies and procedures were in place, but implementers did not conform to the planned activities. The LFA also found a significant number of financial-management vulnerabilities at the pre-assessment stage. Unfortunately, the follow-up resolution rate for all of the categories was remarkably low, and a significant number remain outstanding in the documentation.

GHANA

The Global Fund's portfolio in Ghana consists of 12 grants across all three diseases, awarded to five different recipients, including the Ministry of Health, the Ghana AIDS Commission, and AngloGold. The grants have earned ratings between B2 and A1 when they have received a grade.

The most prevalent area of weakness identified by the Panel in the grant documents is financial management, and program-management and budget-monitoring were the most-identified specific vulnerabilities. A significant number of challenges with the oversight of SRs also appeared, typically related to the program/financial monitoring of the organizations. These weaknesses raise concerns, given the amount of implementation that takes place in Ghana at the SR level.

Ghana's Global Fund portfolio has generally performed well, but the documents indicate the resolution of certain problems could increase the efficiency and effectiveness of the funding allocated. In a specific example, while delays in procurement might not lead directly to malfeasance, delays in providing community health workers with motorcycles to conduct follow-up visits can certainly retard the progress of the program.

INDIA

India has successfully applied for 22 grants from the Global Fund, of which seven are still open. The largest recipient has been the Ministry of Finance, but nine PRs have implemented programs. When rated, the grants have earned grades that ranged between B1 and A1, with the exception of the Round Nine HIV grant to Emmanuel Hospital Association, which has received a C rating.

The Panel's review found more weaknesses in the Indian documentation than in that for any other country. The two most-prevalent areas were financial management and M&E. All of the categories of financial-management had significant numbers of specific vulnerabilities, with the exception of inter-grant borrowing. Within M&E, the principal problems related to the reporting and collection of data.

Difficulties with procurement and managing also figured prominently in the documentation. The primary weakness in the PRs' management of SRs was in the monitoring of activities to ensure adherence to work plans, while the most prevalent problem with procurement was in the forecasting and quantification for pharmaceuticals.

All of these weaknesses were much more likely to emerge in the course of implementation than at any other stage of the grant lifecycle.

The Panel's review of the documentation for the Global Fund's grants in India points to the difficulty of managing so many PRs engaged in disparate activities, who must, in turn, manage a constellation of SRs. The weaknesses identified clearly highlight the complexities of setting up reporting structures streamlined enough to allow low-capacity SRs to meet the Global Fund's expectations, while still allowing for a reasonable degree of assurance they ate undertaking the correct activities for an appropriate amount of money. The Panel's analysis clearly indicates each of the PRs in India has, to a certain extent, set up parallel and unconnected systems, which has led to such a problematic reporting of data.

INDONESIA

Indonesia has received 17 grants from the Global Fund, and seven of them are still in progress. While more of the grants have gone to the Ministry of Health than to any other PR, five other organizations are implementing programs, all in a complex operating environment. The grants have mostly earned ratings of either A1 or A2.

The Panel's review of the Global Fund's Indonesian grants showed financial-management weaknesses appeared more often than all the other categories combined. The most-serious problems were in accounting systems and procedures, followed by program-management. Furthermore, the financial monitoring of SRs was also a vulnerability. In both these areas, the challenges predominantly emerged during the course of implementation.

The findings of the OIG's report on Indonesia fully support the pattern established in previous grant documentation: the plethora of PRs and SRs led to a situation in which the accounting systems and procedures could not cope with the massive influx of funds. Because of this, expenditures were not always documented, and funds were not always used appropriately. The procedures and processes required to manage such a complex program effectively require significant time and capacity-building to develop.

IRAN

Iran's Global Fund portfolio consists of four grants, three of which are still in implementation. The PR for all of them has been UNDP, and the grants come under the Additional Safeguards Policy: no cash transfers are allowed, so SRs submit invoices for all activities prior to receiving payment.

The primary area of weakness identified in the Panel's review of the grant documents was financial management, and within that category, the management of physical assets was the most prevalent vulnerability. Procurement, M&E, and the oversight of SRs were also prominent problems as well. As with other countries examined by the Panel, most of these weaknesses did not appear until the implementation stage, and have to do with failures to follow procedures. It is worth noting, however, that the lack of appropriate systems and tools also caused difficulties.

The weaknesses noted in the documentation are particularly concerning in a country managed under the no-cash-transfer policy. Under this approach, SRs must procure goods or provide services with their own money, then provide the PR with documentation proving they have done so. Only at this point can the PR disburse to the SRs. In many cases, the PR will also attempt to pay suppliers directly, rather than reimburse the SRs. In such a system, tracking the physical assets procured with grant funds is central to providing the assurance required. Furthermore, the vulnerabilities identified in the management of SRs in Iran call into question the ability of UNDP to appropriately monitor these organizations, especially when they are Government bodies.

KENYA

The Global Fund's portfolio in Kenya consists of 12 grants, five of which are still active, including with single streams of funding. Five different organizations have served as PRs, but the lead has been the Ministry of Finance. The grants have earned ratings between B2 and A2, where they have received a grade.

The overwhelming majority of weaknesses in the Kenya portfolio appeared either in the LFA's pre-assessment or after the programs started, and almost all of them vulnerabilities remain outstanding in the documentation. Unlike in many other countries analyzed by the Panel, the documentary record for Kenya indicate that process, systems and tools, and structural causes are roughly equally responsible for delays in the implementation of the grants. The most prevalent category of vulnerability was financial management, which represented slightly over half of all weaknesses identified, and included difficulties with program-management, treasury-/bank-management, the monitoring of budgets, and the tracking of flow-of-funds. The combination of these factors reflects the challenge of getting programs up and running in such a complicated environment.

Based on the data reviewed and on other external sources of information, including from the OIG, the problems in the management and oversight of Global Fund grants in Kenya have to do with cross-cutting systemic issues, rather than any one, specific root cause. This has resulted in delays in reporting, procurement, and program implementation.

KYRGYZ REPUBLIC

Five Global Fund grants are still active in the Kyrgyz Republic, out of nine awarded since 2002. Five different PRs have received money, including UNDP, the National AIDS Center, and the State Sanitary Epidemiological Department. When rated, the programs have earned grades between A1 and B1.

Weaknesses in the Kyrgyzstan portfolio primarily appeared during the implementation phase, although the LFA's pre-assessment also identified a significant number of problems. Financial management was the most prevalent vulnerability, including challenges with accounting systems, staffing and salaries, and program-management. M&E also emerged as a weakness, roughly evenly split between flaws in the M&E framework and in the collection and quality of data.

MALAWI

Malawi has received eight grants from the Global Fund; seven are still active, including one for Health-Systems Strengthening (HSS). The PRs have been the Ministry of Health and the National AIDS Commission, and the programs have received ratings of either B1 or B2, with the exception of the Round Seven HIV grant, graded A1.

The Panel's review of the Global Fund's portfolio in Malawi identified procurement and financial management as the most critical issues, with most of the weaknesses traceable to inadequate systems and tools. Within the procurement area, delays and improprieties within the tender and bidding process led to several near-stockout situations. Within the financial-management category, the largest vulnerability identified was program management. Most problems became apparent during program implementation, although the LFA did flag a significant number of weaknesses during its pre-assessment.

The information from the Panel's review fully supports the work of the OIG and anecdotal evidence from the visit of the Panel's Support Team to Malawi. While the raw number of program-management challenges in the documentation was higher than the number of procurement problems, procurement had the largest negative impact on the performance of the grants. Delays in purchasing pharmaceuticals and other health commodities, as well as leakage from the Central Medical Stores, required partners to step in with emergency procurements to prevent stock-outs. Furthermore, even when procurements by the PRs took place in a timely fashion, irregularities in the processes gave the appearance of potential improprieties.

MONGOLIA

The Mongolian Ministry of Health has received nine grants from the Global Fund, including three agreements for single streams of funding. Four of these nine grants remain active. Where the programs have received a rating, they have earned grades of either A1 or A2.

Of the weaknesses identified in the Panel's review, the vast majority fell into M&E and financial management. Within the financial-management category, the most commonly identified problems were in accounting systems and audit policies/procedures. In M&E, the vulnerabilities were primarily related to data-collection and quality-control. For all categories of weakness, most concerns appeared during the implementation of the grants and could be attributed to process failings.

MOZAMBIQUE

The three PRs in Mozambique (Ministry of Health, National AIDS Council, and World Vision) have received 12 grants from the Global Fund, six of which are still in implementation. The grants have received ratings between A2 and B2.

The Panel's review of the grant documentation indicates vulnerabilities in financial management were more numerous than those from all other areas combined. Furthermore, the problems were primarily related to weak systems and tools, unlike the case in many other countries the Panel studied; these systemic issues appeared more during implementation than in the LFA's pre-assessment. Of the financial-management sub-categories, accounting systems, budget-monitoring, flow-of-funds, the management of records and documents, staffing and salaries, and bank-management all represented a significant number of challenges. The area of procurement and supply-chain management contained the next-highest number of weaknesses, predominantly in the tender and bidding processes, which led to significant delays.

NAMIBIA

The sole PR in Namibia, the Ministry of Health, has received six grants from the Global Fund, five of which are still active. When rated, the grants have earned scores of either B1 or B2.

The two areas of weakness identified most often in the Panel's review of the Global Fund's portfolio in Namibia were financial management and M&E. The most-common in financial management was staffing and salaries, which comprised roughly a quarter of all vulnerabilities flagged in the category. Within M&E, the biggest challenge was the robustness of data-collection.

As with other countries in the Panel's survey, the majority of all problems in Namibia appeared during implementation, and could be traced to process causes. The Global Fund's grant portfolio in Namibia has generally performed at an acceptable level, but faces significant challenges in ensuring the long-term sustainability of staff positions supported by the grant, as reflected in the high number of concerns in the documents around staffing and salary.

PAPUA NEW GUINEA (PNG)

The Global Fund's portfolio in PNG consists of six grants, four of which are currently active. The national Department of Health has been the recipient of most of the grants, although the Global Fund has recently taken those programs away from the Government. PSI and the Rotary Club of Port Moresby have also served as PRs. When rated, the grants have placed in either the B1 or B2 categories, with the exception of the one to PSI, which earned a grade of A1.

The Panel's review of the Global Fund's grants in PNG determined that financial-management issues were the most prevalent problem recorded in the documentation, and budget-monitoring, accounting systems, staffing and salaries, program-management, and records-management all represented a significant number of difficulties. The root causes of these weaknesses were primarily process-related, though structural causes also figured in the challenges. As with other countries in the Panel's analysis, the vast majority of vulnerabilities did not appear until the implementation stage. The follow-up rate for all categories of weakness was quite low, according to the formal paper trail.

As other reviews have indicated, including by the OIG, the financial systems in Papua New Guinea are quite weak, especially within the Department of Health. The Panel's analysis clearly shows that a number of aspects of the Government's financial-management and oversight systems do not provide the appropriate level of assurance that funds are tracked and used for their intended purpose.

THE PHILIPPINES

The Philippines has received 11 grants from the Global Fund, three of which are active. Various organizations have served as PRs, including the Tropical Disease Foundation, Pilipinas Shell Foundation, and the Ministry of Health. When the grants have received ratings, they earned grades between B1 and A1.

The Panel's review documented significant weaknesses in both financial management and procurement, which reflect the findings of other external examinations of the Global Fund's Philippines portfolio, including that of the OIG. Particularly problematic sub-categories included accounting systems, flow-of-funds, the management of records and documents, staffing and salaries, and program-management. Within the procurement area, the most prevalent sub-categories of vulnerabilities were the forecasting and quantification of pharmaceutical products, and tender/bidding processes. All of these challenges were much more likely to emerge during implementation than during the LFA pre-assessment. This pattern is somewhat concerning, given that the identified root cause of the vast majority of weaknesses was systems and tools, ostensibly easier to detect before grants start.

As previous assessments have shown, the Global Fund's Filipino portfolio has suffered from serious financial-management lapses that resulted in funds spent on ineligible activities and purposes. Furthermore, when funds went to procurements, many of the processes followed did not meet acceptable standards. As a result, the implementation of programs lagged, and significant remedial actions were required.

RWANDA

Rwanda's Global Fund portfolio consists of 12 grants, three of which are still active. The PR for all has been the Ministry of Health, which passes money to a large number of sub-recipients. The grants have earned ratings between A1 and B1.

The Panel's review of the Global Fund's grant in Rwanda identified financial management and M&E as the most-common problems in the documentary record. Within the financial-management area, budget monitoring, staffing and salaries, flow-of-funds, and program-management were the most-prevalent issues. The M&E weaknesses were primarily in the area of ensuring the accurate and timely collection and reporting of data. Furthermore, while the number of procurement difficulties was not high overall, challenges in the forecasting and quantification of pharmaceuticals appear repeatedly. As with other countries reviewed by the Panel, the majority of weaknesses emerged during implementation, and the root causes can primarily be traced to process failings.

The problems flagged in the Panel's examination of the grant documents match closely to those identified in the OIG's audit report on Rwanda. The capacity of the PR to monitor sub-recipients was a key area of weakness, as were the budget-monitoring and staffing areas. Furthermore, the quantification of pharmaceuticals to procure proved a major challenge, and partners occasionally had to step in with support on an urgent basis. Nevertheless, the Rwanda grant portfolio has achieved remarkable success.

SENEGAL

Senegal has received 11 grants from the Global Fund, five of which are still in implementation. The PRs have been the Ministry of Health, the *Alliance Nationale Contre le SIDA*, and the *Conseil National de Lutte Contre le SIDA*. The grants have earned ratings between B2 and A1.

Problems with financial management and M&E were more prevalent in the grant documentation, with accounting systems, budget-monitoring, flow-of-funds, audits, staffing and salaries, program-management, and data-collection systems being the specific vulnerabilities that appeared the most. In addition, the forecasting of pharmaceuticals to procure emerged as a challenge a number of times. Most of these weaknesses can be attributed to process causes, and, while the bulk appeared in the LFA's pre-assessment, the vast majority remain outstanding.

SERBIA AND MONTENEGRO

The Serbian Global Fund portfolio consists of seven grants, five of which are currently active. They have earned ratings between B2 and A1, and the PRs have included the Economics Institute in Belgrade, the Ministry of Health, the Red Cross, and the Youth of JAZAS.

More financial-management weaknesses appeared in the Panel's review of the history of Global Fund grants in Serbia than all the other categories combined. The most significant sub-categories within financial management were budget-monitoring, program-management, record-management, staffing and salaries, and treasury-/bank-management. The overwhelming majority of these weaknesses appeared in the LFA pre-assessment, and the root causes were roughly split between systems/tools and process.

SRI LANKA

The Global Fund has awarded 14 grants to recipients in Sri Lanka, seven of which are currently in implementation. The PRs have been the Ministry of Health, *Lanka Jatika Sarvodaya Shramadana Sangamaya*, and Tropical and Environmental Disease and Health Associates. When rated, the grants have fallen in either the B2 or B1 categories.

The Panel found the grant documentation identified financial management as the most prevalent category of weakness in the Global Fund's grants in Sri Lanka, though a significant number of procurement problems were also evident. Within the financial-management area, the sub-categories with the most vulnerabilities were accounting systems, budget-monitoring, flow-of-funds, audits, program-management, the management of records and documents, staffing and salaries, and treasury-/bank-management. The procurement flaws most appeared in tender and bidding processes, though forecasting was also problematic in some cases. The bulk of difficulties emerged in the course of implementation, traced to either systemic weaknesses or process failings.

TAJIKISTAN

Recipients in Tajikistan have received nine grants from the Global Fund, four of which are active. UNDP and Project HOPE have served as the PRs, and the grants have earned ratings between B1 and A1.

Based on the Panel's review of the Global Fund's portfolio in Tajikistan, financial-management weaknesses were the most-prevalent challenges, although a significant number of M&E vulnerabilities were also apparent in the documents. Program-management and treasury-/bank-management were the two most significant areas of difficulty in financial management, while the data-collection systems were also as a source of concern. The bulk of weaknesses emerged during implementation, and could be attributed to process-related root causes.

TANZANIA

The Global Fund's portfolio in Tanzania consists of 15 grants, eight of which are in progress. The PRs have been the Ministries of Finance and Health, PACT Tanzania, and the African Medical and Research Foundation.

The Panel's review of the documents related to the Global Fund's investments in Tanzania identified financial-management weaknesses most often, though M&E and procurement problems also appeared in a number of instances. The most-common vulnerabilities within the financial management area were accounting systems, the monitoring of flow-of-funds, records-management, and bank-management. The primary procurement challenge was the forecasting and quantification of pharmaceutical products, which led to near-stock-outs. Two-thirds of the weaknesses appeared in the course of implementation, and the vast majority could be attributed to process-related causes.

THAILAND

Thailand's Global Fund portfolio consists of 13 grants, eight of which are currently in implementation. They have earned ratings between B1 and A1. The Ministry of Health has been PR for most of the programs, but the *Raks Thai* Foundation, and PSI have also served as PR.

The Panel's review found that the grant documentation identified a significant number of weaknesses, primarily in the areas of financial management, M&E and procurement. Within the financial-management area, the largest number of problems appeared with accounting systems and procedures. The M&E vulnerabilities were principally in the data-collection and quality-control systems. The overwhelming majority of procurement challenges had to do with the forecasting of pharmaceutical products, which delayed the implementation of key activities. More difficulties emerged during implementation than at all other times combined, and process-related issues caused the vast majority.

UGANDA

Of the eight Global Fund grants in Uganda, four are currently active. The PR for all of them has been the Ministry of Finance, and the grants have not performed well; all save one have earned a grade of B2, except for a Round Two malaria grant that rated a C.

Given the low performance ratings, the number of weaknesses identified in the Panel's review of the grant documentation related to the Global Fund's grants in Uganda appeared quite low overall. The two largest areas of problems were financial-management systems, M&E, and procurement. The primary vulnerability in procurement was in the forecasting and quantification of pharmaceutical products, which necessitated urgent support from partners. The key financial-management sub-categories of weakness were program-management, budget-monitoring and flow-of-funds.

UZBEKISTAN

Uzbekistan has received six grants from the Global Fund, three of which are still open. The PRs have been the National AIDS Center, UNDP, the Republican Center for Directly Observed Therapy for Tuberculosis (DOTS), and the Republican Center of State Sanitary-Epidemiological Surveillance. The grants have earned ratings between B1 and A1.

Within the documentation the Panel reviewed for the Global Fund's grants in Uzbekistan, financial-management weaknesses were most prevalent. Of the financial-management weakness sub-categories, the bulk of vulnerabilities were in accounting systems, program-management, and staffing/salaries. The root cause of the vast majority of weaknesses could be traced to process-related issues, and were identified during implementation. It is notable that the management of the SRs did not appear as a significant problem in the documentary record, despite anecdotal evidence that this is an area of concern.

YEMEN

The Global Fund's portfolio in Yemen consists of seven grants, three of which are currently ongoing. The recipients have been the Ministry of Health, the National AIDS Program, the National Population Council, and UNDP. The grants have all earned either B1 or B2 ratings.

Financial-management problems appeared most often in the grant documentation reviewed by the Panel, with accounting systems, staffing and salaries, program-management and bank-management the most-common specific vulnerabilities. The forecasting and quantification of pharmaceuticals was a challenge in a number of instances, as were weaknesses in the tender/bidding process. The root cause of most difficulties could be traced to process-related issues, though weaknesses in personnel were also behind a significant number. Approximately two-thirds of all problems emerged during implementation, and over half remain outstanding.

Annex G

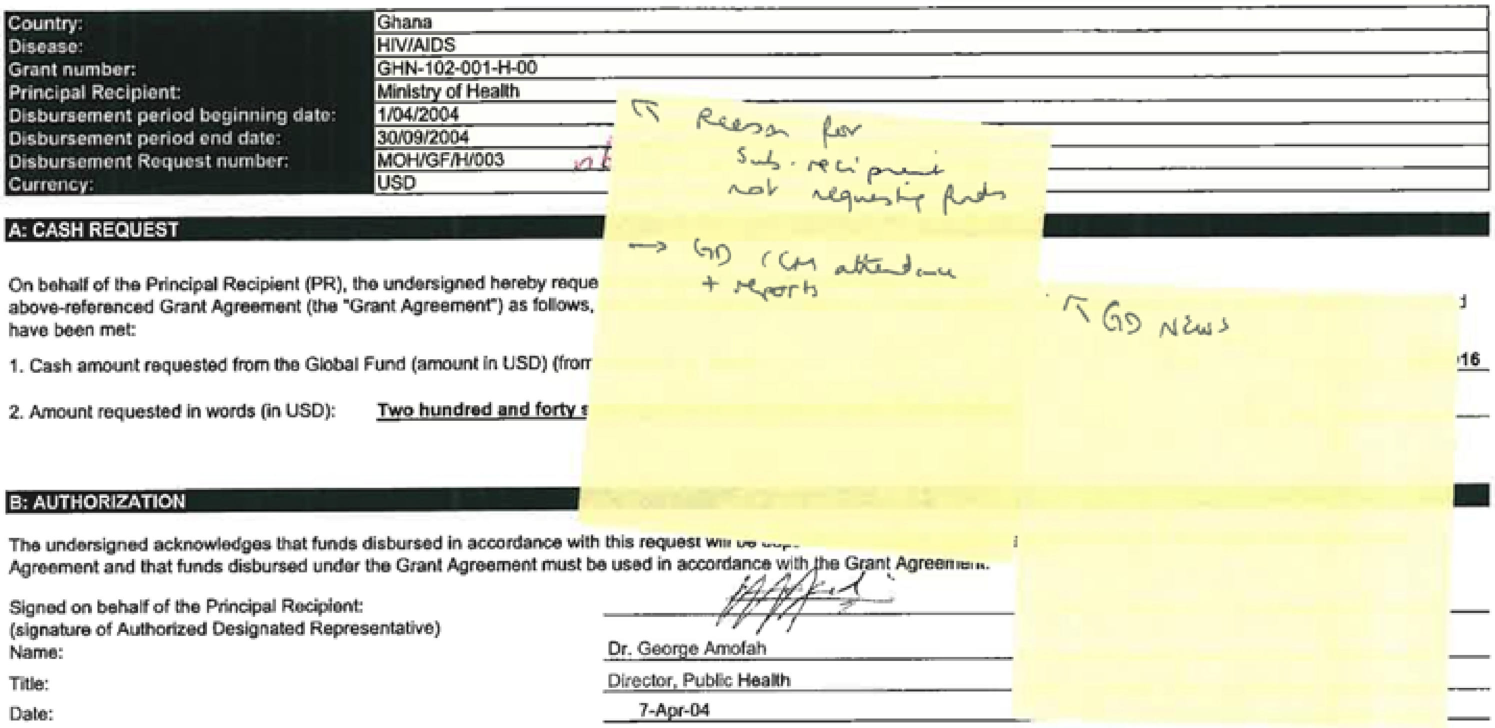
Detailed Characteristics of the Representative Sample of Countries

DETAILED CHARACTERISTICS OF THE REPRESENTATIVE SAMPLE OF COUNTRIES THAT HAVE RECEIVED GRANTS FROM THE GLOBAL FUND

Country	Region	LFA	NGO PR	Private-Sector PR	United Nations PR	NSA	SWAp	HSS	ASP	CTA	OIG
Afghanistan	S. W. Asia	KPMG	■								
Algeria	MENA	KPMG									
Bangladesh	S.W. Asia	UNOPS	■								■
Bolivia	LAC	STI	■		■						
Brazil	LAC	Deloitte	■								
Burundi	E. Africa	PWC	■								■
Cambodia	E. Asia	STI						■		■	■
Cameroon	W. Africa	PWC	■							■	■
Cape Verde	W. Africa	PWC	■								
Chad	MENA										
People's Republic of China	E. Asia	UNOPS				■				■	
Democratic Republic of Congo	E. Africa	PWC	■		■			■		■	■
Djibouti	MENA	STI							■		■
Dominican Republic	LAC	PWC	■								■
El Salvador	LAC	STI			■						
Ethiopia	E. Africa	UNOPS				■		■		■	■
The Gambia	W. Africa	STI	■								
Ghana	W. Africa	PWC	■	■							■
India	S.W. Asia	World Bank	■	■							■
Indonesia	E. Asia	PWC	■	■							■
Iran	S.W. Asia	PWC			■						
Kenya	E. Africa	PWC	■								■
Kyrgyz Republic	E. Europe	CA	■		■						■
Malawi	S. Africa	EMG				■	■			■	■
Mongolia	E. Asia	EMG									
Mozambique	S. Africa	EMG	■				■			■	
Namibia	S. Africa	PWC	■								■
Papua New Guinea	E. Asia	EMG	■	■			■				■
The Philippines	E. Asia	PWC	■	■							■
Rwanda	E. Africa	PWC				■		■		■	■
Senegal	W. Africa	H-C	■								
Serbia	E. Europe	UNOPS	■								
Sri Lanka	S.W. Asia	PWC	■								■
Tajikistan	E. Europe	FIN			■						
Tanzania	E. Africa	PWC	■							■	■
Thailand	E. Asia	KPMG	■								
Uganda	E. Africa	PWC								■	
Uzbekistan	E. Europe	MSCI			■					■	■
Yemen	MENA	KPMG			■						

Annex H

Example of Poor Document Quality



Country:	Ghana
Disease:	HIV/AIDS
Grant number:	GHN-102-001-H-00
Principal Recipient:	Ministry of Health
Disbursement period beginning date:	1/04/2004
Disbursement period end date:	30/09/2004
Disbursement Request number:	MOH/GF/H/003
Currency:	USD

A: CASH REQUEST

On behalf of the Principal Recipient (PR), the undersigned hereby reque
above-referenced Grant Agreement (the "Grant Agreement") as follows,
have been met:

1. Cash amount requested from the Global Fund (amount in USD) (from ... 16

2. Amount requested in words (in USD): **Two hundred and forty s**

B: AUTHORIZATION

The undersigned acknowledges that funds disbursed in accordance with this request will be ...
Agreement and that funds disbursed under the Grant Agreement must be used in accordance with the Grant Agreement.

Signed on behalf of the Principal Recipient:
(signature of Authorized Designated Representative)

Name: Dr. George Amofah

Title: Director, Public Health

Date: 7-Apr-04

Reason for Sub-recipient not requesting funds

GD CCM attendance + reports

GD News

Annex I

Analysis of the Membership of Country Coordinating Mechanism (CCMs)

OVERVIEW

A total of 144 Country Coordinating Mechanisms (128 countries and 16 multi-country projects) have submitted successful applications to the Global Fund over the past nine years. The Panel has excluded 12 projects from the analysis for various reasons:

- Seven projects have no active grants, and thus no active CCMs;[1]
- One country and one territory do not have CCMs (West Bank/Gaza and Somalia);
- Three projects are missing information on PRs (PRs), because the Round Ten grants remain unsigned;[2]
- The Global Fund did not provide information on whether sub-recipients (SRs) are members of the CCMs in Kenya and Iran.

Of the remaining 132 CCMs, 95 percent contain members that are also PRs, SRs or sub-SRs (SSRs).[3] Thirty one CCMs (23 percent) have Chairs and/or Vice Chairs that are also representatives of PR organizations. South Africa is the only country found to have both the Chair and Vice Chair from PRs. Nine CCMs (seven percent) have members from the same sector as Chair and Vice Chair. See Tables 1 and 2 for details.

1 Croatia, Estonia, Turkey, Costa Rica, Algeria, Lutheran World Foundation and Multicountry Africa (SADC).

2 Uruguay, Multicountry Americas (REDTRASEX), and MENARHA.

3 The exceptions are Solomon Islands, the Kyrgyz Republic, Mexico, Multicountry Americas (Andean), Multicountry Americas (COPRECOS), Multicountry Americas (REDCA+) and Multicountry Americas (OECS).

REGIONAL FINDINGS

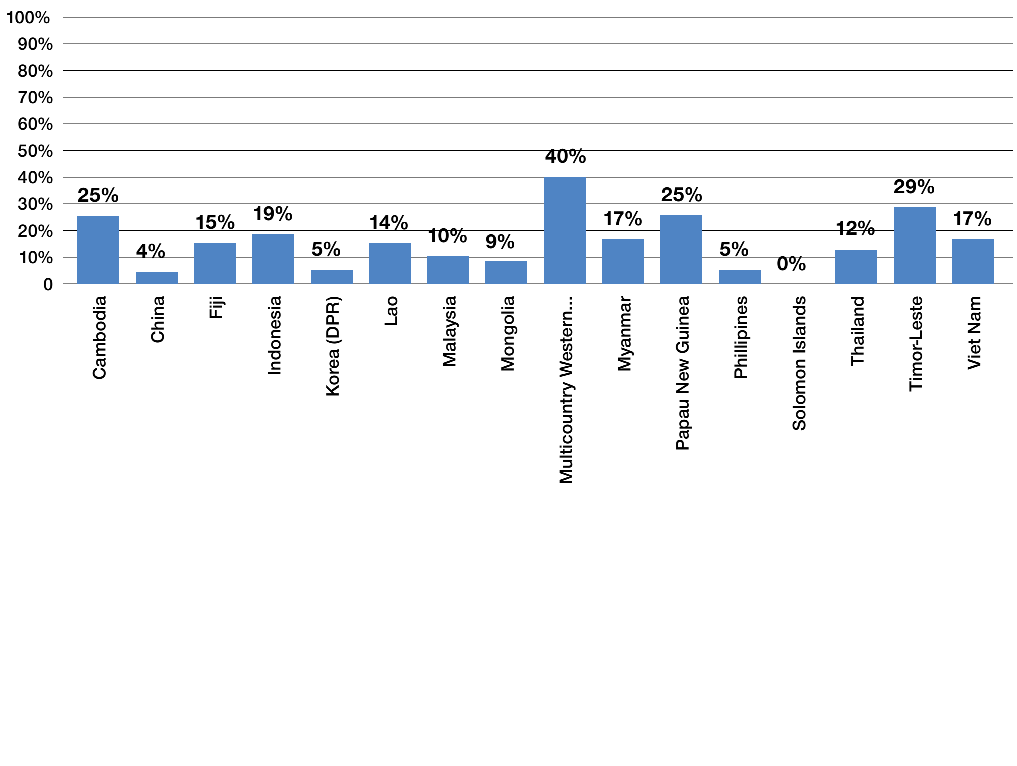
1. East Asia and the Pacific

The Global Fund's region of East Asia and the Pacific contains 15 countries and three multi-country projects.[4] The number of members on CCMs ranges from 15 in the Solomon Islands to 30 in Malaysia. The average size of the CCM for the region is 24 members. All countries have different sectors represented as Chair and Vice-Chair, with the exception of the Lao Peoples Democratic Republic, which has Government officials in both roles. Three countries (Indonesia, Philippines, Thailand) have a Chair who represents an organization that is also a PR; likewise, three others (Fiji, Papua New Guinea, Timor-Leste) have a Vice-Chair from a PR.

In this region, 56 percent of countries have only one PR. The Government is the only PR in 38 percent of the countries. The percentage of CCM members from PRs, SRs or SSRs ranges from four percent in the People's Republic of China to 40 percent in the Multi-Country Western Pacific project. The average percentage of CCM members that represent a PR, SR or SSR is 15 percent. See Figure 1 for more detail.

Figure 1

Perdentage of CCM Members from PRs, SRs and/or SSRs
East Asia and the Pacific



4 Two multi-country projects were excluded from the analysis because they are Round 10 grants and the CCM/PR information is not yet available.

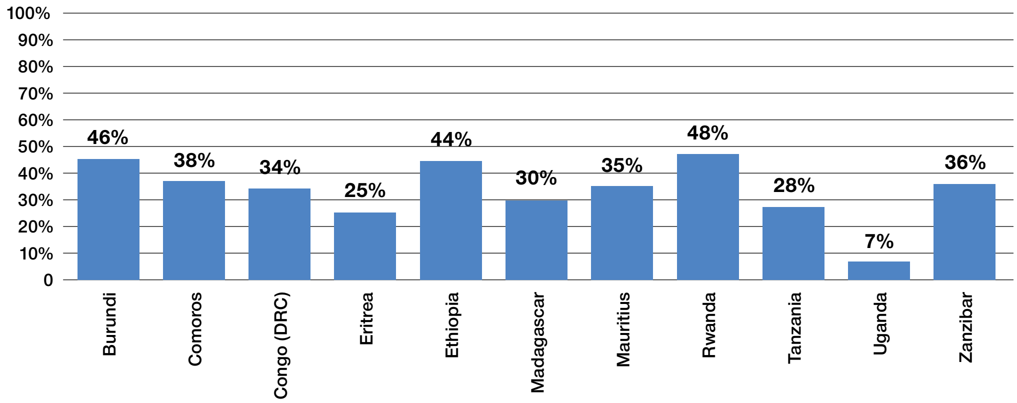
2. Eastern Africa and the Indian Ocean

Twelve countries make up the Global Fund's Eastern Africa and Indian Ocean region. The number of members on CCMs ranges from 15 in the Kenya to 38 in the Democratic Republic of the Congo. The average size of a CCM in the region is 23 members. All countries have different sectors represented as Chair and Vice-Chair, with the exception of Uganda, which has Government officials in both roles. Ethiopia and Mauritius have a Chair from a PR. No Vice-Chairs represent an organization that is also a PR.

Twenty-five percent of countries in the region have only one PR, and the Government is the only PR in 33 percent of them. The percentage of CCM members from PRs, SRs or SSRs ranges from seven percent in Uganda to 48 percent in Rwanda.[5] The average for the region is 31 percent. See Figure 2 for more detail.

Figure 2

Perdentage of CCM Members from PRs, SRs and/or SSRs
Eastern Africa and the Indian Ocean



5 The Global Fund did not provide information for Kenya's SRs and SSRs.

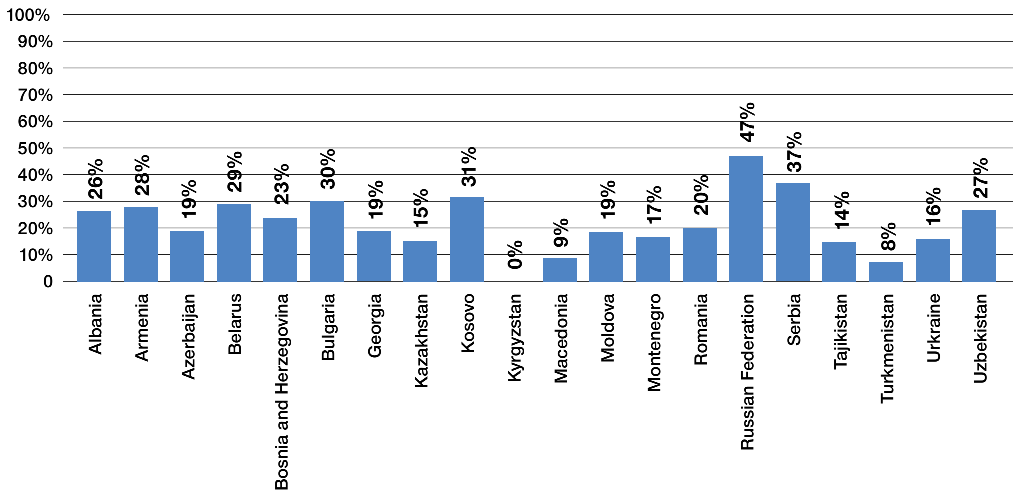
3. EASTERN EUROPE AND CENTRAL ASIA

The Global Fund's Eastern Europe and Central Asia region contains 20 countries. The number of members on a CCM ranges from 23 in Albania to 37 in Bulgaria, and the average size of a CCM in the region is 29 members. All countries have different sectors represented as Chair and Vice-Chair, except Montenegro, Tajikistan and Ukraine, all of which have Government officials in both roles. Twenty-five percent of countries (Albania, Armenia, Azerbaijan, Kazakhstan and Kosovo) have a Chair from a PR. Two countries (Bulgaria and Serbia) have a Vice-Chair who represents an organization that is also a PR.

In the region, 40 percent of countries have only one PR, and Government entities are the only PR(s) in 30 percent. The percentage of CCM members from PRs, SRs or SSRs ranges from zero percent in the Kyrgyz Republic to 47 percent in Russia. See Figure 3 for details.

Figure 3

Perdentage of CCM Members from PRs, SRs and/or SSRs
Eastern Europe and Central Asia



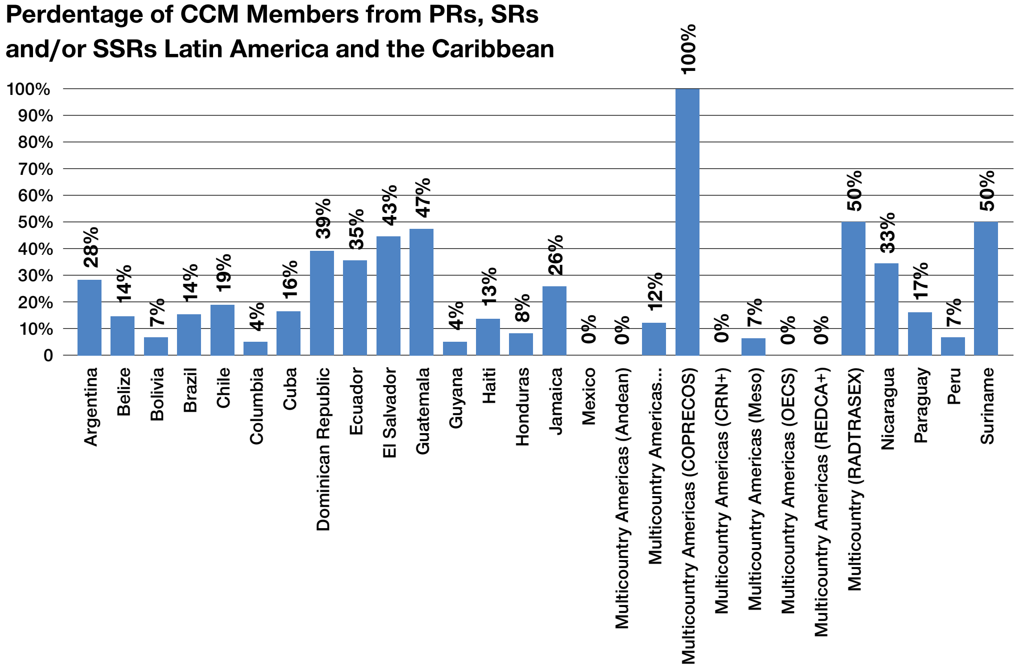
4. LATIN AMERICA AND THE CARIBBEAN

The Global Fund's region of Latin America and the Caribbean has 23 countries and eight multi-country projects.[6] The number of members on a CCM ranges from one for the Multi-Country Americas (REDCA) and Multi-Country Americas (CRN+) to 39 in Jamaica. The average size of a CCM size in the region is 17 members. All countries/projects have different sectors represented as Chair and Vice-Chair, with the exception of Multi-Country Americas (OECS), which has representatives of non-governmental organizations (NGOs) in both roles. The Dominican Republic, Guyana, Honduras, Jamaica, Multi-Country (REDTRASEX) and Peru have a Chair from a PR. The Multicountry (REDTRASEX) project has the only Vice-Chair in the region who comes from a PR.

Forty-three percent of projects in this region have only one PR, and the Government is the only PR in two countries. The percentage of CCM members from PRs, SRs or SSRs ranges from zero percent in Mexico and Multi-Country Americas (Andean) to 100 percent in Multi-Country Americas (COPRECOS). See Figure 4 for details.

Figure 4

Perdentage of CCM Members from PRs, SRs and/or SSRs Latin America and the Caribbean



6 Three countries were excluded from the analysis because of a lack of information. Costa Rica currently has no active grants. Uruguay and Panama are in the process of signing their grants from Round Ten, and the CCM has not confirmed the SRs.

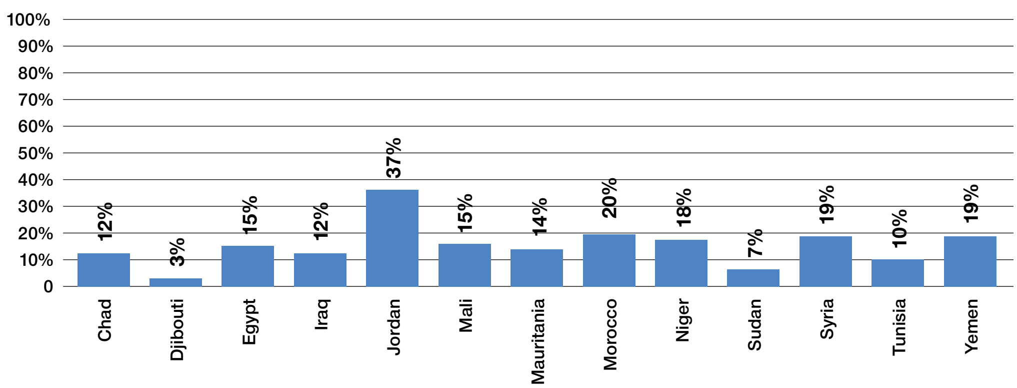
5. THE MIDDLE EAST AND NORTH AFRICA

Sixteen countries and one multi-country project make up the Global Fund's region of the Middle East and North Africa. The number of CCM members ranges from 21 in Syria and Yemen to 49 in Tunisia. The average size of a CCM in the region is 28 members. All projects have different sectors represented as Chair and Vice-Chair. Jordan and Yemen have a Chair from a PR, while Egypt has a Vice-Chair who represents an organization that is also a PR.

In the region, 38 percent of countries have only one PR, and the Government is the only PR(s) in 23 percent of the countries. The percentage of CCM members from PRs, SRs or SSRs ranges from three percent in Djibouti to 37 percent in Jordan. See Figure 5 for details.

Figure 5

Perdentage of CCM Members from PRs, SRs and/or SSRs
The Middle East and North Africa



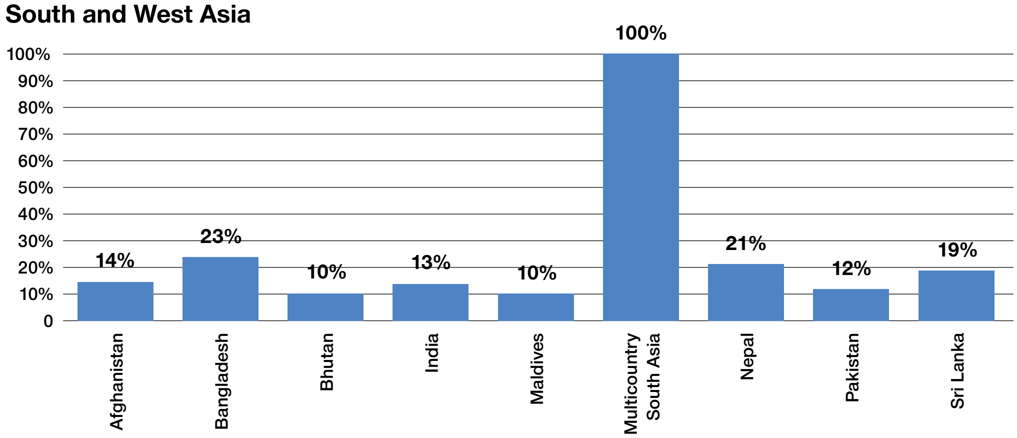
6. SOUTH AND WEST ASIA

The Global Fund's South and West Asia region contains nine countries and one multi-country project. The number of CCM members ranges from one for the Multi-Country South Asia project to 39 in India. The average size of a CCM size in the region is 24 members. All countries/projects have different sectors represented as Chair and Vice-Chair, with the exception of Bangladesh, which has Government officials in both roles. Afghanistan, Bangladesh, Nepal, Pakistan and Sri Lanka have a chair from a PR. No Vice-Chairs represent an organization that is also a PR.

Forty percent of countries/projects have only one PR, and the Government is the only PR in Bhutan. The percentage of CCM members from PRs, SRs or SSRs ranges from 10 percent in Bhutan to 100 percent in Multi-Country South Asia.[7] See Figure 6 for details.

Figure 6

Perdentage of CCM Members from PRs, SRs and/or SSRs
South and West Asia



7 The Global Fund did not provide information for Iran's SRs and SSRs.

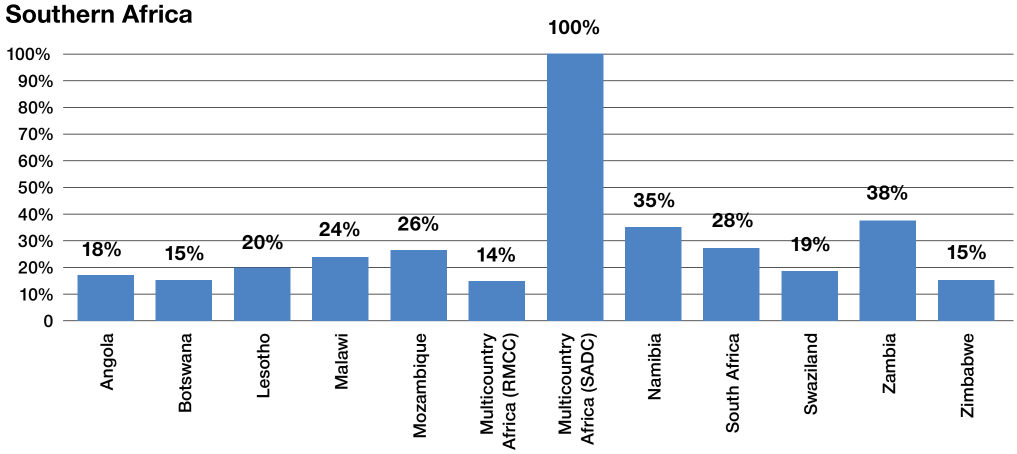
7. SOUTHERN AFRICA

Ten countries and two multi-country projects make up the Global Fund's Southern Africa region. The number of CCM members ranges from one for Multi-Country Africa (SADC) to 28 in Angola. The average size of a CCM in the region is 20 members. All countries/projects have people from different sectors as Chair and Vice-Chair, with the exception of Multi-Country Africa (RMCC), which has KAP representatives in both roles. Mozambique, South Africa, and Zimbabwe have a Chair from a PR. South Africa's Vice-Chair represents an organization that is also a PR.

Thirty-three percent of the countries/projects have only one PR, and the Government is the only PR in one country - Botswana. The percentage of CCM members from PRs, SRs or SSRs ranges from 14 percent in Multi-Country Africa (RMCC) to 100 percent in Multi-Country Africa (SADC). See Figure 7 for details.

Figure 7

Perdentage of CCM Members from PRs, SRs and/or SSRs
Southern Africa



8. WEST AND CENTRAL AFRICA

The Global Fund's West and Central Africa region has 19 countries and one multi-country project. The number of CCM members ranges from one for Multi-Country Africa to 52 in Burkina Faso. The average size of a CCM in the region is 31 members. All countries/projects have people from different sectors Chair and Vice-Chair, with the exception of São Tomé and Príncipe, which has Government officials in both roles. One project (Multicountry Africa -WACP) has a chair from a PR. Three countries/projects have a Vice-Chair who represents an organization that is also a PR.

Fifteen percent of countries/projects have only one PR, and the Government is the only PR in Guinea and Sénégal. The percentage of CCM members from PRs, SRs or SSRs range from three percent in São Tomé and Príncipe to 48 percent in Ghana. See Figure 8 for details.

Figure 8

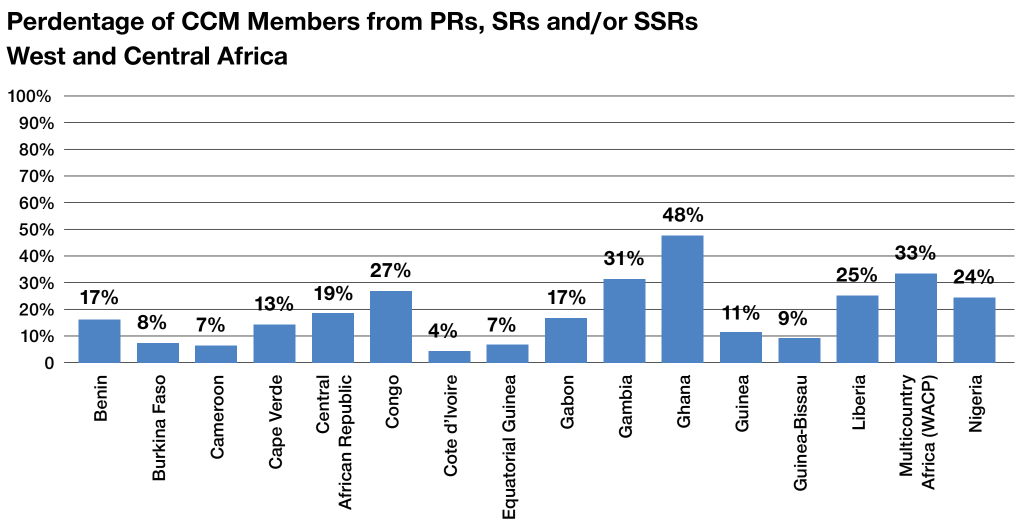


Table 1

CCMs in Which the Chair and/or Vice-Chair Also Represent PRs	Region
Indonesia	East Asia and the Pacific
Philippines	East Asia and the Pacific
Thailand	East Asia and the Pacific
Fiji	East Asia and the Pacific
Papua New Guinea	East Asia and the Pacific
Timor-Leste	East Asia and the Pacific
Ethiopia	Eastern Africa and the Indian Ocean
Mauritius	Eastern Africa and the Indian Ocean
Albania	Eastern Europe and Central Asia
Armenia	Eastern Europe and Central Asia
Azerbaijan	Eastern Europe and Central Asia
Kazakhstan	Eastern Europe and Central Asia
Kosovo	Eastern Europe and Central Asia
Dominican Republic	Latin America and the Caribbean
Guyana	Latin America and the Caribbean
Honduras	Latin America and the Caribbean
Jamaica	Latin America and the Caribbean
Jordan	The Middle East and North Africa
Yemen	The Middle East and North Africa
Egypt	The Middle East and North Africa
Afghanistan	South and West Asia
Bangladesh	South and West Asia
Nepal	South and West Asia
Pakistan	South and West Asia
Sri Lanka	South and West Asia
Mozambique	Southern Africa
South Africa*	Southern Africa
Zimbabwe	Southern Africa
Cape Verde	West and Central Africa
Liberia	West and Central Africa

Table 2

Countries with Chair and Vice Chair from the Same Sector	Region
Lao People's Democratic Republic	East Asia and the Pacific
Uganda	East Africa and the Indian Ocean
Montenegro	Eastern Europe and Central Asia
Tajikistan	Eastern Europe and Central Asia
Ukraine	Eastern Europe and Central Asia
Multicountry Americas (OECS)	Latin America and the Caribbean
Bangladesh	South and West Asia
Multicountry Africa (RMCC)	Southern Africa
São Tomé and Príncipe	West and Central Africa

"COUNTRY OWNERSHIP" AND THE COUNTRY COORDINATING MECHANISMS (CCMs)

The Panel recommends that the Global Fund Board should prepare and adopt a re-defined statement on country ownership at its November 2011 meeting. The statement should cover how CCMs should exercise their responsibility for accountability, particularly by ensuring all stakeholders must be able to participate meaningfully and on an equal basis in decision-making. This means, inter alia:

- Documents must be written and meetings conducted in a language/languages understood by all; and translation/interpretation provided where this is not possible;
- Meetings must be held at times and in places convenient to all stakeholders;
- All stakeholders must have equal and timely access to the information they need to make decisions; and
- In reaching decisions, all stakeholders' views must be heard, noted and accorded appropriate status.

Decision-making covers, inter alia:

- Identifying and reaching agreement on the problems caused by the three diseases;
- Specifying the level and type of assistance needed from the Global Fund to address those problems;
- Approving grant applications submitted to the Global Fund;
- Selecting the criteria for appointing Principal Recipients (PRs), assessing the merits of applicant organizations against these, and selecting the most suitable organization;
- Determining the most effective arrangements for overseeing the performance and results of PRs and sub-recipients, participating in such oversight arrangements (including site visits), and determining and taking any remedial action required where performance and achievements are deemed unsatisfactory;
- Approving the content of periodic progress reports submitted to the Global Fund Secretariat; and
- Participating in in-country meetings with Global Fund staff.

Annex J

Country Programs Assigned Staff

EXTREME-RISK / HIGH-BURDEN

COUNTRY	Covered by Country Team Approach	Full-time equivalent per country *Countries with total of 1+FTE highlighted*			Average FPM/PO FTE per country within risk/ burden category		
		FPM	PO	TOTAL	TOTAL	FPM	PO/PA
Bolivia		0.14	0.20	0.34			
Burkino Faso		0.50	0.33	0.83			
Burundi		0.50	0.50	1.00			
Cambodia	*	0.33	0.33	0.66			
Cameroon	*	**0.50**	**0.50**	**1.00**			
Central African republic	*	**0.50**	**0.50**	**1.00**			
Chad		0.33	0.33	0.66			
Cote d'Ivoire	*	**0.50**	**0.50**	**1.00**			
Djibouti	*	0.33	0.50	0.83			
Dominican Republic		0.14	0.50	0.64			
DR Congo	*	**0.50**	**0.50**	**1.00**			
Guinea-Bissau		**0.50**	**0.50**	**1.00**			
Haiti	*	0.20	0.25	0.45			
Honduras		0.33	0.50	0.83			
Mali	*	0.33	0.50	0.83			
Mauritania	*	0.33	0.25	0.58			
Myanmar	*	**0.50**	**1.00**	**1.50**			
N Sudan		0.25	0.25	0.50			
Niger		0.33	0.50	0.83			
Nigeria	*	**1.00**	**1.00**	**2.00**			
Papua New Guinea	*	0.50	0.25	0.75			
Philippines		**0.50**	**0.50**	**1.00**			
Russian federation		0.25	0.33	0.58			
S Sudan	*	0.33	0.50	0.83			
Tanzania	*	0.50	0.33	0.83			
Uganda	*	**0.50**	**0.50**	**1.00**			
Ukraine	*	0.25	0.50	0.75			
Zambia	*	**0.50**	**1.00**	**1.50**			
Zimbabwe	*	0.33	0.33	0.66			
TOTAL: 30 countries	**18 (60%)**	**11.70**	**13.68**	**25.38**	**0.85**	**0.39**	**0.46**

HIGH-RISK / HIGH-BURDEN

COUNTRY	Covered by Country Team Approach	Full-time equivalent per country *Countries with total of 1+FTE highlighted*			Average FPM/PO FTE per country within risk/ burden category		
		FPM	PO	TOTAL	TOTAL	FPM	PO/PA
Lao PDR		0.25	0.33	0.58			
Bangladesh		0.50	0.33	0.83			
Cuba		0.14	0.25	0.39			
Guatemala	*	0.33	0.50	0.83			
Madagascar		**0.50**	**0.50**	**1.00**			
DPR Korea	*	0.33	0.50	0.83			
Equatorial Guinea		0.33	0.33	0.66			
Ethiopia	*	0.50	0.33	0.83			
Eritrea		0.50	0.33	0.83			
Guinea Conakry							
Nepal	*	**0.50**	**0.50**	**1.00**			
Benin		**0.50**	**0.50**	**1.00**			
People's Republic of China	*	**0.50**	**0.50**	**1.00**			
Uzbekistan	*	0.25	0.25	0.50			
Kazakhstan		**1.00**	**0.25**	**1.25**			
Armenia		0.25	0.25	0.50			
Kyrgystan		0.25	0.25	0.50			
Senegal		**0.50**	**0.50**	**1.00**			
Pakistan	*	**0.50**	**0.50**	**1.00**			
Tajikistan		0.25	0.25	0.50			
Georgia	*	0.25	0.25	0.50			
Belarus		0.33	0.25	0.58			
Guyana		0.33	0.25	0.58			
Congo-Brazzaville		**0.50**	**0.50**	**1.00**			
Sierra Leone		**0.50**	**0.50**	**1.00**			
Indonesia		0.33	0.50	0.83			
Togo		**0.50**	**0.50**	**1.00**			
Rwanda	*	**0.50**	**0.50**	**1.00**			
Liberia		**0.50**	**0.50**	**1.00**			
Peru		0.25	0.50	0.75			
Azerbaijan		0.25	0.25	0.50			
Lesotho		**0.50**	**0.50**	**1.00**			
Ghana		**0.50**	**0.50**	**1.00**			
Somalia		0.33	0.25	0.58			
Kenya	*	**0.50**	**0.50**	**1.00**			
Angola	*	0.33	0.33	0.66			

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HIGH-RISK / HIGH-BURDEN *(continued)*

COUNTRY	Covered by Country Team Approach	Full-time equivalent per country *Countries with total of 1+FTE highlighted*			Average FPM/PO FTE per country within risk/ burden category		
		FPM	PO	TOTAL	TOTAL	FPM	PO/PA
Mozambique	*	0.33	0.33	0.66			
South Africa		**0.50**	**1.00**	**1.50**			
Viet Nam		0.33	0.50	0.83			
Gabon		0.33	0.33	0.66			
Swaziland		**0.50**	**1.00**	**1.50**			
Malawi	*	**0.33**	**1.00**	**1.33**			
India	*	**0.50**	**1.00**	**1.50**			
Thailand		0.33	0.50	0.83			
Gambia		0.33	0.33	0.66			
Namibia	*	**0.50**	**1.00**	**1.50**			
TOTAL: 45 countries	**15 CTA (33%)**	**18.26**	**20.72**	**38.98**	**0.87**	**0.41**	**0.46**

LOW-RISK / HIGH-BURDEN

COUNTRY	Covered by Country Team Approach	Full-time equivalent per country *Countries with total of 1+FTE highlighted*			Average FPM/PO FTE per country within risk/ burden category		
		FPM	PO	TOTAL	TOTAL	FPM	PO/PA
Afghanistan		0.33	0.33	0.66			
Colombia		0.33	0.50	0.83			
Paraguay		0.14	0.33	0.47			
Sao Tome & Principe		**0.50**	**0.50**	**1.00**			
Mexico		0.25	0.50	0.75			
Panama		0.14	0.25	0.39			
Bhutan		0.33	0.33	0.66			
Uruguay*		0.14	0.33	0.47			
Bulgaria		0.25	0.25	0.50			
Timor-Leste		0.25	0.33	0.58			
Solomon Islands		0.20	0.25	0.45			
Brazil		0.25	0.25	0.50			
Suriname		0.14	0.33	0.47			
Belize		0.20	0.25	0.45			
Malaysia		**0.25**	**1.00**	**1.25**			
Zanzibar		0.50	0.33	0.83			
TOTAL: 17 countries	**0 CTA**	**4.20**	**6.06**	**10.26**	**0.79**	**0.38**	**0.41**

* Uruguay: first proposal (HIV) approved in R10, not yet signed

EXTREME-RISK / LOW-BURDEN

COUNTRY	Covered by Country Team Approach	Full-time equivalent per country *Countries with total of 1+FTE highlighted*			Average FPM/PO FTE per country within risk/ burden category		
		FPM	PO	TOTAL	TOTAL	FPM	PO/PA
Iran		**0.50**	**0.50**	**1.00**			
Yemen		0.25	0.33	0.58			
TOTAL: 2 countries	**0 CTA**	**0.75**	**0.83**	**1.58**	**0.79**	**0.38**	**0.42**

HIGH-RISK / LOW-BURDEN

COUNTRY	Covered by Country Team Approach	Full-time equivalent per country *Countries with total of 1+FTE highlighted*			Average FPM/PO FTE per country within risk/ burden category		
		FPM	PO	TOTAL	TOTAL	FPM	PO/PA
Bosnia Herzegovina		0.25	0.25	0.50			
Comoros		0.50	0.33	0.83			
Ecuador		0.33	0.25	0.58			
El Salvador		0.33	0.50	0.83			
Iraq		0.25	0.33	0.58			
Maldives		0.33	0.33	0.66			
Moldova		0.25	0.25	0.50			
Nicaragua		0.14	0.20	0.34			
Sri Lanka		**0.50**	**0.50**	**1.00**			
Syrian Arab republic		0.50	0.25	0.75			
TOTAL: 10 countries	**0 CTA**	**3.38**	**3.19**	**6.57**	**0.66**	**0.34**	**0.21**

LOWER-RISK / LOW-BURDEN

COUNTRY	Covered by Country Team Approach	Full-time equivalent per country *Countries with total of 1+FTE highlighted*			Average FPM/PO FTE per country within risk/ burden category		
		FPM	PO	TOTAL	TOTAL	FPM	PO/PA
Albania		0.33	0.25	0.58			
Argentina		0.14	0.20	0.34			
Cape Verde		**0.50**	**0.50**	**1.00**			
Chile		0.14	0.20	0.34			
Egypt		0.50	0.25	0.75			
Fiji							
FYR Macedonia		0.25	0.25	0.50			
Jamaica		0.20	0.25	0.45			

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LOWER-RISK / LOW-BURDEN *(Continued)*

COUNTRY	Covered by Country Team Approach	Full-time equivalent per country *Countries with total of 1+FTE highlighted*			Average FPM/PO FTE per country within risk/ burden category		
		FPM	PO	TOTAL	TOTAL	FPM	PO/PA
Jordan		0.33	0.25	0.58			
Kosovo		0.25	0.25	0.50			
Mauritius		0.50	0.33	0.83			
Mongolia		0.50	0.33	0.83			
Montenegro		0.25	0.25	0.50			
Morocco		0.50	0.33	0.83			
Romania							
Serbia		0.33	0.25	0.58			
Tunisia		0.50	0.25	0.75			
Turkey		0.25	0.33	0.58			
Turkmenistan		0.25	0.25	0.50			
West Bank & Gaza		0.25	0.33	0.58			
TOTAL: 19 countries	**0**	**5.97**	**5.05**	**11.02**	**0.58**	**0.31**	**0.27**

TOTAL OF ALL COUNTRIES

COUNTRY	Covered by Country Team Approach	Full-time equivalent per country *Countries with total of 1+FTE highlighted*			Average FPM/PO FTE per country within risk/ burden category		
		FPM	PO	TOTAL	TOTAL	FPM	PO/PA
GRAND TOTAL: 123 countries	**33**	**44.26**	**49.53**	**93.79**	**1.31**	**0.34**	**0.40**

24 ADDITIONAL COUNTRIES PARTICIPATING IN MULTI-COUNTRY GRANTS

Antinua & Barbuda
Bahamas
Bahrain
Barbados
Cook Islands
Costa Rica
Dominica
Grenada
Kiribatu
Lebanon
Libya
Marshall Islands Rep.
Micronesia Fed. States of
Montserrat
Nauru
Niue
Oman
Palau
Samoa
St Kitts & Nevis
St Lucia
St Vincent & Grenadines
Tonga
Tuvalu & Vanuatu

TOTAL OF COUNTRIES BENEFITTING FROM GLOBAL FUND GRANTS: 147

Annex K
Distribution of Local Fund Agents

DISTRIBUTION OF LOCAL FUND AGENTS IN THE COUNTRY RISK-BURDEN MATRIX OF THE HIGH-LEVEL, INDEPENDENT PANEL

When the Panel began its work, each LFA was represented at least once in the representative sample of 40 countries selected from the Panel's risk-burden matrix. However, given the re-tendering of contracts in several countries during the period of the Panel's review, one LFA is no longer represented in the Panel's sample. Given that PricewaterhouseCoopers (PwC) holds the largest number of contracts for LFA services (68 countries, or 50 percent of the current total), the firm also has the largest number of countries in the sample (18, or 45 percent).

LFA	N° countries/LFA	N° countries/LFA in Panel's sample
Cardno EM	6	2
Crown Agents	3	1
Deloitte & Touche	2	0
Finconsult	1	1
Grant Thornton	4	3
KPMG	17	4
PwC	68	18
Swiss TPH	20	7
UNOPS	14	4
Total	135	40

COMPARISON OF LOCAL FUND AGENT (LFA) EXPENDITURES ON VERIFICATION OF IMPLEMENTATION FOR 2010 AND 2011

One indicator to track whether Fund Portfolio Managers (FPMs) are requesting the LFAs to perform additional work targeted to known risks is the "Miscellaneous Other Verification of Implementation (VOI)" budgets, which capture all tasks outside the standard LFA scope of work. Looking at the data through this prism, only the Panel's lower-risk, low-burden countries have seen a real increase in the funding allocated for other verification exercises outside of standard services, with the exception of a few countries, such as Kenya. The graph below plots the LFA expenditure data for Miscellaneous VOI for 2010 and the projected spending in this category for 2011 against the Panel's country risk-burden matrix.

Country Risk-Burden Category	Average LFA Misc. Other VOI expenditure for 2010	Average LFA Misc. Other VOI projected expenditures for 2011	Average # of grants in 2011	Average # of PRs in 2011	Percentage increase of 2011 projected expenditure over 2010 expenditure
Lower-Risk, Low-Burden	$45,578	$55,756	6.33	2.33	increase of 22%
Lower-Risk, High-Burden	$42,071	$24,527	9.25	4.25	decrease of 42%
High-Risk, Low-Burden	$21,540	$21,010	11.50	2.50	decrease of 2%
High-Risk, High-Burden	$80,512	$80,550	13.20	4.40	< 1% increase
Extreme-Risk, Low Burden	$67,180	$66,330	4.00	3.00	decrease of 1%
Extreme-Risk, Extreme Burden	$94,455	$64,886	9.92	3.77	decrease of 31%

Note: The expenditures reflect Purchase Orders (PO) entered into the Global Fund System (GFS). The data are somewhat flawed for 2011, because they do not capture additional budget expenditures approved by Country Programs staff at the Global Fund Secretariat but not yet entered into the GFS as new POs. An additional budget increase of US$2-4 million is expected by the Country Program Unit for high-risk countries; this amount is still under negotiation, and does not appear in the "Miscellaneous Other VOI" budget category, either.

PRINCIPAL RECIPIENT (PR) AND COUNTRY RISK ASSESSMENTS PERFORMED BY THE LOCAL FUND AGENTS (LFAS)—THE EXAMPLE OF KENYA

Kenya: LFA Risk Assessment Results in an Increased Focus on Key Risks, Value-Added Services, and a Better Allocation of Resources to Identified Risks.

In Kenya, the Country and PR Risk Assessment led directly to a more sophisticated tailoring of LFA services based on key risks. The LFA, PwC, is now engaged more in reviewing the sub-recipients in the field and informing the FPM of any allegations of fraud noted during spot audits.

- The LFAs submitted cost proposals for 2011 services in November 2010, prior to when PwC conducted the Country and PR Risk Assessment, in December 2010.
- PwC's risk profile for Kenya identified the key potential problems and proposed responses for challenges in country context, governance and oversight, program-management capacity, capacity to manage SRs, financial-management systems, procurement and supply-chain management, and M&E.
- PwC and the FPM reviewed the proposed actions to address the risks, and agreed on the need for greater oversight at the sub-recipient level and of procurement and supply-chain management.
- PwC submitted an additional cost proposal with a response to the identified risks that included the following:

    1. Spot audits of a representative sample per quarter of sub-recipients, community-service organizations and District facilities, spread across the grants, which will include the review of expenditures and results as well as checks on physical assets;
    2. Procurement reviews for all grants, given that 90 percent of the funding goes to buy things; and
    3. Reviews of training plans.

- Given the greater focus on high-risk areas in 2011, the LFA budget for Kenya has increased from approximately US$900,000 in 2010 to US$1.4 million in 2011. Spot audits of sub-recipients now represent approximately 25 percent of the total budget. The LFA will also be conducting physical-asset checks on the distribution of five million bed nets between July and December 2011.
- The LFA did communicate with each PR the increased scope of work that came about as a result of the new, risk-based approach. The goal will be for the LFA and FPM/Country Team to work in collaboration with the PRs, CCM and other partners in Kenya to address the key risks the LFA will be more closely monitoring.

Annex L

The Internal Organization of the Local Fund Agents (LFAs)

Central Coordinating Team (CCT)

Responsibilities include:

- Quality assurance for services and staff including training for in-country teams;
- Contract management with Global Fund and subcontractors with in-country offices and specialists;
- Technical assistance to regional and incountry team as needed.

Regional team

- Regional hubs; LFAs with multiple countries select a regional hub in a particular country
- Regional staff provide: technical assistance for in-country teams as neded and in response to surge capacity needs; quality assurance of services delivered by the in-country teams, but usually that responsibility resides with the CCT.

In-country team

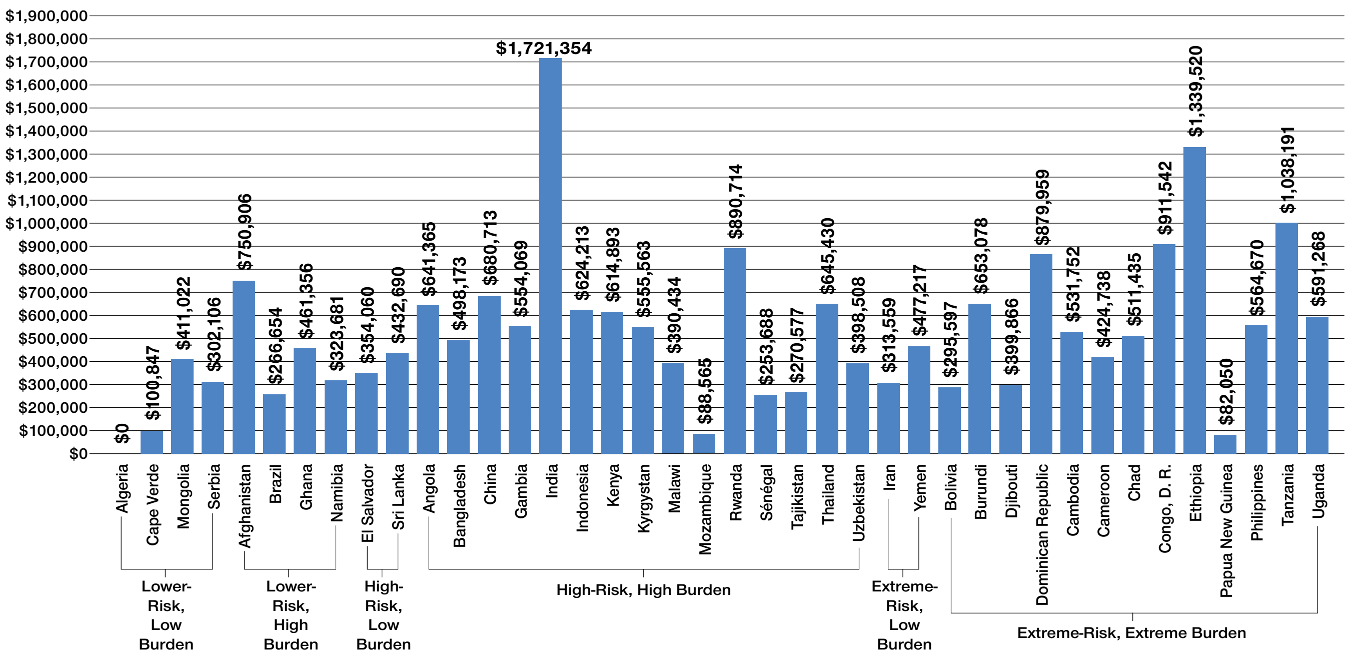
- The core technical team is comprised of: the team leader, a finance professional, a PSM expert, a public health professional and a M&E expert.
- Staffing levels vary: mix of full and part-time staff between 2-5 with a team leader at 100%; PSM and M&E experts are often fly-in
- Project-based approach: some LFAs hire full-time staff dedicated 100% to Global Fund with the exception of countries with small grant portfolios.
- No country presence: Due to lack of independence in a few small countries, LFAs have a fly-in team.

Annex M

LFA Resources Matched to the Country Risk-Burden Matrix of the High-Level, Independent Panel

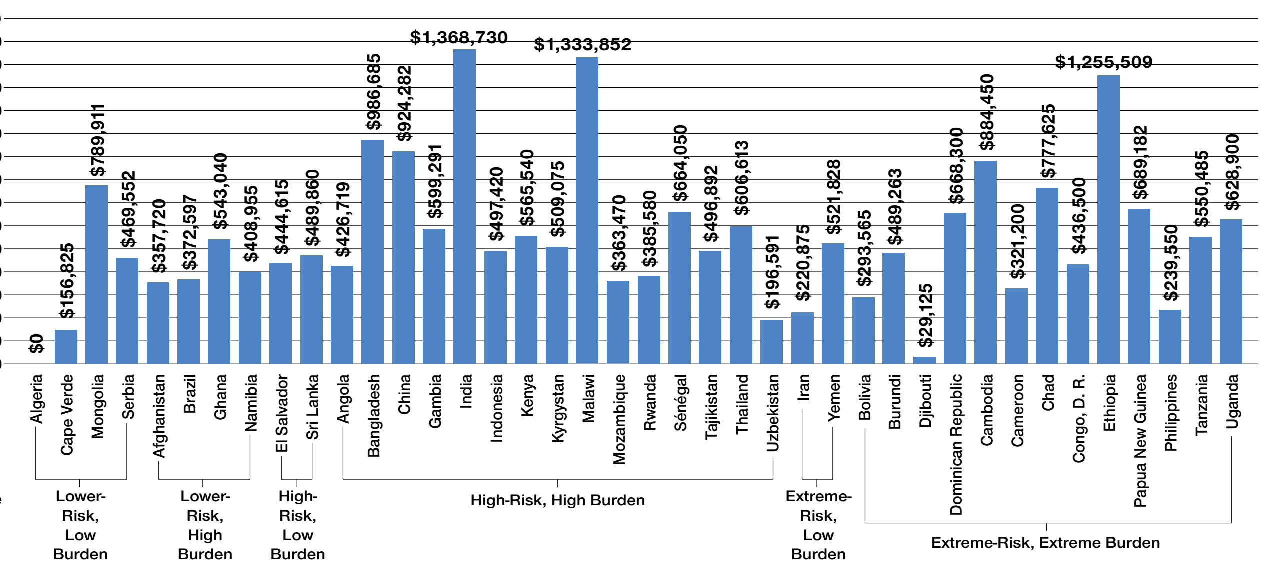
The expenditures in this chart reflect Purchase Orders (PO) entered into the Global Fund System (GFS). The data are somewhat flawed for 2011, because they do not capture additional budget expenditures in the amount of approximately US$11 million approved by Country Programs staff at the Global Fund Secretariat but not yet entered into the GFS as new POs.

LFA Budget Expenditure 2010: $54,433,458*



*Total 2010 budget includes: outstanding receipts for 2010 yet to be received totaling$1,922,777 and other costs still under negotiation estimated at $1,000,000.
**Algeria has had no active grants since 2008.

Regional Teams Budget for LFA Services 2011: $71,030,212
Purchase Orders Created to date for 2011: $51,766,932*



* Algeria has had no active grants since 2008.

Annex N

Comparative Review of the Office of the Inspector General (OIG)

The observations contained in this Annex come from interviews with and organizational documents from eight institutions:

- The US Export-Import Bank (EXIM);
- The Bill and Melinda Gates Foundation (BMGF);
- The Global Alliance on Vaccines and Immunizations (GAVI);
- Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ);
- The United Nations Development Programme (UNDP);
- The United States Agency for International Development (USAID);
- The United States Government Accountability Office (GAO); and
- The World Bank (WB).

The eight organizations form a select group of multi-lateral, global, grant-making institutions that focus on one, or all three, of the diseases that comprise the agenda of the Global Fund's portfolio (HIV/AIDS, Tuberculosis and Malaria). This Annex addresses how these institutions are organized in seven areas:

- Internal Audit;
- Investigation and Prosecution;
- Reporting Lines;
- External Audit;
- Publication Policy, and
- Independent Evaluation.

Of the eight, only the EXIM Bank and USAID have an Inspectorate General (IG) that combines most of the above functions into one office. The remaining seven on the list split the responsibilities of the Global Fund's OIG into various divisions.

INTERNAL AUDIT

For the purposes of this comparison, Internal Audit means an ongoing appraisal of the financial health of an organization's operations and systems by its own staff, including risk-management, reporting, and control practices.

All the other institutions have an internal-audit feature that matches the definition above and adheres to International Audit Standards and Guidelines. The lone exception is the Bill and Melinda Gates Foundation, which relies on externally contracted auditors for its oversight, contracted by the office of its Chief Financial Officer (CFO).

INVESTIGATION AND PROSECUTION

Investigation is the division that launches the formal and systematic examination, or research, pertaining to deviations from the established expectations, rules, and regulations of an organization.

All of the organizations surveyed have a "zero-tolerance" policy for fraud, waste, and abuse. Most of the institutions have an investigative feature that matches the definition above, but they vary in their expertise and operating procedures. Only the Bill and Melinda Gates Foundation does not. Internal auditors at the seven other organizations employ a clear hand-off to a separate investigations unit when they uncover indications of fraud or irregularities.

It is worth noting how the Gates Foundation deals with investigations of misappropriation of funds. The Foundation defines "loss" as any money used in a way not specified in the grant agreement, and encompasses both unsupported expenditures and theft. When the Foundation identifies suspicions of fraud, it typically suspends payments and approaches the grantee for restitution; the organization very seldom pursues prosecution.

Investigations done by the U.S. Government agencies follow guidelines set down by the U.S. Attorney General . The investigative functions gather facts and present them to a prosecutorial body, most likely the U.S. Department of Justice (DOJ). The German GIZ utilizes its governmental resources also. Both the U.S. Government agencies and GIZ have a wealth of resources in locations around the world: GIZ in six Regional Centers, and the U.S. organizations at Embassies across the globe.

The WB, GAVI, and UNDP pursue investigations aggressively, but under the auspices of the host countries. GAVI is a good illustration of this strategy, as it will partner with a recipient country to investigate, but does not prosecute any case of its own accord.

The Global Fund's OIG is the only organization surveyed that, by itself, will audit, investigate, and then build a case ready-made for prosecution.

EXTERNAL AUDIT

Half of the organizations surveyed retain an outside firm to do audits:

- GIZ uses an alternating external-audit regimen to keep its programs alert and to discourage complacency with its own ranks. The institution changes firms every five to six years, so as to take advantage of institutional memory;
- As mentioned above, the Gates Foundation hires external audit as its main source of fiduciary oversight;
- The U.S. Government agencies use external firms for self-evaluation; and
- UNDP, WB, and GAVI all will employ external auditors to shore up a "special situation" or to supplement their internal staffing.

REPORTING LINES

Each of the eight organizations surveyed has a different reporting structure for its accountability mechanisms:

- The small size of the Gates Foundation provides the clearest structure for reporting: The CFO reports to the Chief Executive Office (CEO), and the CEO reports to a three-person Board;
- GAVI's structure begins with a Transparency Accountability Policy (TAP) and the creation of a TAP Team. The Director of Internal Audit reports to the CEO and the Board, which has the mandate to appoint and terminate the Director upon the recommendation of the Audit and Finance Committee;
- USAID and EXIM start from the premise that the IG is under the general supervision of the President or Administrator of the institution, while the U.S. Congress tends to believe the IG reports to it. The IG is a Senate-confirmed Presidential Appointee with an undetermined term of service, and unlimited access.
- At GIZ, the Management Board, the Shareholder Board, and the Supervisory Board make up the three statutory organs of the organization, which takes on *GmbH* form (private, limited-liability company). The reporting line for forensic audit and fraud investigation is from the Commission Audit Unit Director to the Managing Directors, six of which and a Chairman make up the GIZ Management Board. The GIZ Supervisory Board currently consists of 16 members: eight shareholder representatives and eight workforce representatives. The Sole Shareholder of GIZ is the Federal Republic of Germany, represented within Germany by the Federal Ministry for Economic Cooperation and Development (BMZ) and the Federal Ministry of Finance (BMF);
- The World Bank divides the functions covered by the Global Fund's OIG into 5 divisions, each with different reporting lines:
    - Internal Audit reports to the President of the Bank;
    - The Vice President for Integrity also reports to the President;
    - The Independent Evaluation Group reports to the Bank's Board;
    - The Inspection Panel (three members) reports to the Bank's Board;
    - The Ethics Office reports to the President.
- At UNDP, the Office of Audit and Investigation reports to the Administrator;
- The GAO is an independent, nonpartisan agency that works for the U.S. Congress, and does its work at the request of Congressional Committees or Subcommittees or by mandates included in public laws or Committee reports. It can also undertake research under its own authority. The President appoints the head of GAO, the Comptroller General of the United States, a 15-year term, subject to confirmation by the U.S. Senate. GAO reports go to the Comptroller's Office, and then to the requesting client in Congress.

PUBLICATION POLICY

The U.S. Government agencies have publication policies that most resemble that of the OIG at the Global Fund:

- The OIG at the US EXIM Bank utilizes a "three-day" protocol of sharing draft reports with management before publication on the Bank's website, although, with a longer vetting process; Managers at the Bank have 30 days to prepare a response to the report, as well as any Disagreement Note;
- When the GAO has produced a near-final draft, it writes a "Statement of Facts," and, based upon this document holds an "exit conference" with officials at the audited agency or agencies, to update information and correct inaccuracies. A negotiated comment period follows, not to exceed 30 days (without other approval). The final report goes to Congress, the Comptroller General, and the audited entity or entities. One key difference between the GAO and OIGs in the U.S. Executive Branch is that Congressional requesters of GAO reports may hold them up to 30 days after delivery before releasing them to the public; he GAO does not control the release of these reports during this period of restriction. Requesters may choose to release a report in various ways, for example, by holding a press conference, delivering it to the House or Senate press galleries or to selected media, or using it as the basis for Congressional hearings. Once reports are publicly released, the GAO tries to post the full-text files on its web site;
- USAID posts performance audits on its website, but does not publish financial audits. In either case, a management response and comments from the audited institution are appended to the report.

The development institutions studied have much different standards and policies for publication:

- GAVI has not historically disclosed internal reports and the results of investigations, but has recently changed its policy. The organization does share internal-audit reviews with its Board and partners, and, in March 2011, publicized the findings of its investigation into fraud in its cash-support programs in West Africa.
- UNDP has a standard of three to six months to generate a final report after an audit or investigation. Progress on the implementation of approved reports is expected with in 30 days. Exit notes from the management of the UNDP Country Office concerned are attached to the final report, after a comment period and reconciliation process. UNDP does not publish audits or investigation reports.
- The World Bank finalized its "Access to Information Policy" on July 1, 2010. The Bank is against releasing individual reports to the public, but summarizes them at the thematic level in Quality Reports, Semi-Annual Reports, and Annual Reports.
- GIZ approaches reporting in a very internal fashion, and does not make reports public. German confidentiality law does not allow for publication, because of the personnel information that is often included. Internal-audit reports go to the head of the relevant GIZ office overseas, and to the Chairman of the Management Board and the Managing Director for Finance in Germany.
- As a private foundation, the Gates Foundation can choose to keep its processes internal. The organization does not publish its audits.

INDEPENDENT EVALUATION

All but two of the institutions surveyed do not see a need in their structure to have an independent evaluation unit.

The two other approaches to independent evaluation are "strong guiding principles," in the case of the EXIM Bank, or a free-standing, independent unit, as with the World Bank:

- The EXIM IG is focused on identifying best practices for evaluation enhancement, as opposed to Audit. Evaluation enhancement is a much quicker process done with an industry expert and basic assessments that focus on trends.
- The Independent Evaluation Group (IEG) at the WB produces reports for the Bank's Board. IEG has two types of products: self-evaluations and reports on programs that have already had an evaluation, to provide a second opinion. The IEG reviews 100 percent of the Implementation Completion Reports (ICR) written after the closure of every World Bank project, and does an in-depth study of 20 percent.

Annex O

Determining a Denominator Against Which to Describe Losses in the Global Fund's Portfolio

GLOBAL FUND RISK-ASSESSMENT

September 1, 2011

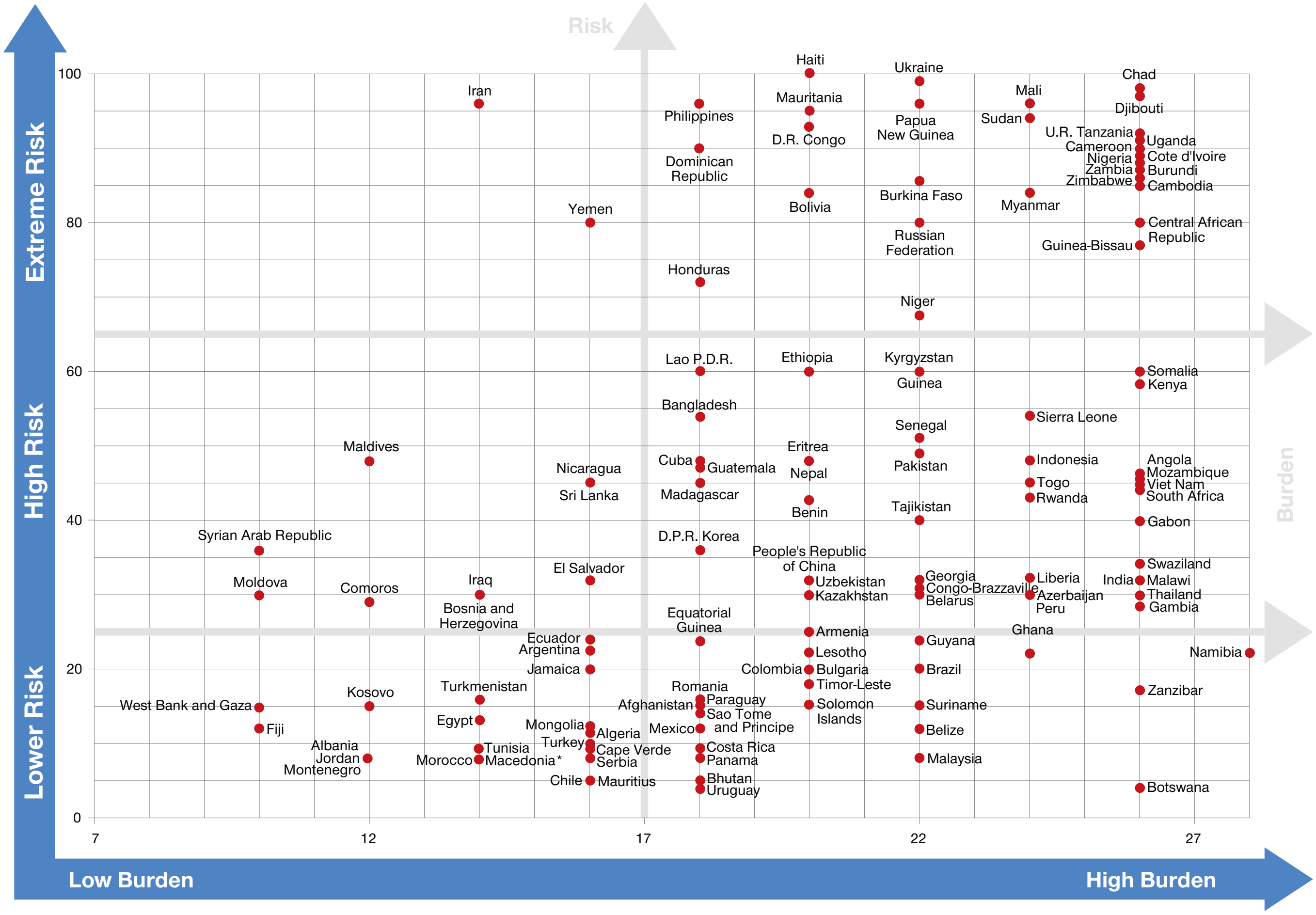
Introduction

At the request of the staff of the High-Level Panel, we have been engaged in an analysis to determine: a) an opinion as to whether or not sufficient information is now available to determine a loss or fraud percentage that could be applied to the Global Fund's portfolio as a whole and b) If not, to describe an effective methodology to quantitatively assess the risk-level of a country loss percentage, within an error range. The goal is to generate a statistical risk-model that can predict a projected loss range for any country that has received funds from the Global Fund.

For the purpose of our review, we have examined data for 18 countries. Some of these countries have completed audits and others are in various stage of completion and include estimates only. Global Fund auditors visited each of these countries and determined how much of the funding was not used in accordance with Global Fund direction and policy.

Our understanding is that auditors selected a portion of the total disbursed amount and followed the money. Auditors determined if funds were used for unsupported expenditures, ineligible expenditures, or fraud. The amount of funding determined to have not fallen into one of these three categories is deemed to have met its intended mandate. By calculating the total amount of money that failed to reach its target against the audited amount, a dollar erosion percentage could be calculated for each of the 18 countries. The goal in obtaining such a percentage is to use it in assessing a risk-factor for other countries that have not yet received an audit. As is discussed later, the percentage obtained is not yet reliable for this purpose.

The High Level Panel has presented a risk metric which is a starting point. This model quantified each country's risk by using various metrics. These metrics included the total amount of Global Fund financing approved, a Transparency International rating, Ibrahim Index score (for applicable countries), national election data, additional safeguards policies, misappropriated global fund money, grants historically suspended, a tuberculosis score, an AIDS score, a malaria score, and a Human Development Index score. All of these metrics were eventually factored into two separate composite scores that were intended to identify the risk nature of the nation being examined. These two scores were called the "Risk Aggregate Score" and the "Total Burden Score." The chart below maps the composite scores, with the risk score on the y-axis and the burden score on the x-axis. This risk model was expected to provide a directional assessment on the degree of risk posed by a country that received the funding.



It is acknowledged that a statistical analysis at this point is not valid, because the sample selection and size were not ascertained for the purpose of producing a valid statistical analysis. **Publishing or quoting statistics that infer a reliable statistic for The Global Fund as a whole would be improper at this time.**

We conclude that the results from audits already done and those in process contain results that can be useful for the future, but to get to the point of having useable statistical data will require substantial additional work. Consequently, we concentrated on the Path Forward.

The Path Forward

The objective in designing a risk-model is to quantitatively predict a risk factor for countries that have not yet received an audit. We recommend developing a linear model that will regress statistically significant explanatory variables (i.e., poverty rates, Government corruption, Government effectiveness, economic indicators, etc.) against data produced from audited countries.

We have observed two existing complications with the development of such a risk-model:

1) There are an insufficient number of observations. We currently have limited (18) observations from countries that have had an actual audit. This quantity of observations might provide a directional analysis, but it is insufficient to build a statistically significant model. We would recommend increasing the sample size to improve the quality of the assessments that the model will ultimately produce.

2) There is a lack of sampling evidence. The 18 countries selected for audit were not selected randomly. Thus, the data is skewed in favor of perceived higher risk.

It is natural to propose a linear model that describes risk as a linear function of certain explanatory variables. However, in general, it is not a good idea to intervene in the analysis and build *ad hoc* relationships into the model as was done for the Aggregated Transparency Ranking and Total Risk-Adjusted Score in the existing risk-model. One can expect better results in a model if they were to include the variables separately as explanatory variables.

Nevertheless, select variables in the existing risk model show sufficient statistical significance and could be useful in a final model. These variables are the Transparency International corruption ranking, the presence of an Additional Safeguards Policy, and historic grant performance by country. These variables alone are insufficient to build a strong model creating cause for the inclusion of other variables.

We have some reservations about the use of logistic variables altogether. These are explanatory variables that take the values 0 or 1 in the present setting. As a general rule of thumb, one should always try to not have too many logistical variables, as they tend to make the analysis less precise.

As an experiment, we selected 17 different alternate variables from the World Bank, *The Wall Street Journal*, and the United Nations to identify other factors that bore a level of statistical significance. Using these variables, we constructed over 25 different models to find an appropriate combination of variables. Most of these models were unusable due to data irrelevancy or redundancy. However, some of the variables, such as economic and corruption indicators, showed strong promise of being useful in a final risk-model.

In general, a linear model with a large number of explanatory variables is preferred. Associated to each variable is an unknown coefficient that needs to be estimated using the sample. Clearly, we have little chance of efficient estimation if the number of explanatory variables is close to the sample size (which it currently is). One remedy is to increase the sample size. Other measures should be taken as well. In particular, we would strongly advise applying a model verification scheme such as "factor analysis." In this way, we can hope to identify a smaller number of important explanatory variables that are derived from various linear combinations of the many existing ones.

We recommend a four-step process for developing a statistically significant risk model:

1) Assess an additional 17 countries, randomly selected. This should provide a more sufficient quantity of observations (35) from which to develop a model. Simply stated, the most usable number for the analysis is a percentage of funding unaccounted for (segregated in terms of unsupported expenditures, ineligible expenditures, and fraud) as a ratio of inspected funding.

2) Identify other funds of a similar nature (funds of commensurate dollar amounts given to the Governments, preferably for the purpose of relieving health epidemics) and glean relevant information regarding fraud and abuse. This could greatly benefit variable selection in the factor analysis process.

3) Identify other indices or metrics that focus on economic freedom, economic prosperity, Government effectiveness, Government corruption, and income distribution to identify causal relationships in a risk model. We would then recommend using a collection of these variables and identify linear relationships leveraging the factor analysis process. Ideally, the risk model should have a total of three to five final explanatory variables.

4) Build a tool that enables the user to insert identified variables (used to construct the risk-model) to produce estimated results for other countries.

We appreciate the opportunity to engage in this analysis for the Global Fund and look forward to answering any questions you may have regarding our recommendations.

Dr. Davar Khoshnevisan

David Smith

Annex P

Schedule of Country Visits by Members and Staff of the High-Level Panel

Month	Destination	Panel Member
April 2011	Geneva	Staff
May 2011	Geneva	Hauser, Jaramillo, Leavitt, Mogae, O'Keefe and staff
	Djibouti	Staff
	Malawi	Staff
June 2011	Geneva	El-Bakri, Hauser, Rubinowicz and staff
	Kenya	Jaramillo and staff
	Kyrgyz Republic	Hauser and staff
	Tajikistan	Hauser and staff
	Ghana	Jaramillo, Leavitt and staff
	The Gambia	Jaramillo, Leavitt and staff
	Senegal	Jaramillo, Leavitt and staff
July 2011	Sri Lanka	Rubinowicz and staff
	Indonesia	Jaramillo, O'Keefe, Rubinowicz and staff
	Papua New Guinea	O'Keefe and staff
	Thailand	O'Keefe
	Geneva	Staff
August 2011	Dominican Republic	Jaramillo, Leavitt and staff
	El Salvador	Leavitt and staff

BIOGRAPHIES OF THE MEMBERS OF THE HIGH-LEVEL, INDEPENDENT PANEL AND ITS SUPPORT TEAM

The Honorable Michael O. Leavitt, Co-Chair of the Panel, is the founder and Chairman of Leavitt Partners, LLC, where he advises clients in the health-care and food-safety sectors. In previous roles, Governor Leavitt served in the Cabinet of U.S. President George W. Bush as the Secretary of Health and Human Services (2005-2009) and Administrator of the Environmental Protection Agency (2003-2005). In 1993, he first won election as Governor of Utah, and served three terms (1993-2003). Governor Leavitt is a seasoned diplomat: he led U.S. delegations to more than 50 countries, and has conducted international negotiations on matters related to health, the environment and trade. At the conclusion of his service, the Chinese Government awarded him the China Public Health Award – the first time this honor had ever been given to an official of a foreign Government.

Governor Leavitt grew up in Cedar City, Utah, where his upbringing was rooted in the values of the American West, with its emphasis on hard work and common sense. He earned a bachelor's degree in business while working in the insurance industry. In 1984, he became Chief Executive of The Leavitt Group, a family business that is now the second-largest, privately held insurance brokerage in the United States. He and his wife, Jackie, have been married nearly 37 years. They have five children and eight grandchildren. The Leavitts live in Salt Lake City, Utah.

His Excellency Festus Mogae, Co-Chair of the Panel, served as President of the Republic of Botswana from 1998 to 2008. President Mogae's outstanding leadership has ensured Botswana's continued stability and prosperity in the face of an HIV/AIDS pandemic that threatened the future of his country and people. Botswana is also considered a leader in Southern African politics, and earns praise for the stable example its sets for its neighbors.

President Mogae was born in 1939, at Serowe, in the Central District of Botswana. He studied economics at the universities of Oxford and Sussex, in the United Kingdom, and started his career in 1968 as a public planning officer. He was Permanent Secretary of the Ministry of Finance and Development Planning of Botswana from 1975 to 1976. He served in Washington, D.C., as Alternate Director and then Executive Director for Anglophone Africa at the International Monetary Fund from 1976 to 1980. He was Governor of the Bank of Botswana from 1980 to 1981, and from 1982 to 1989 he was Permanent Secretary to the President, Secretary to the Cabinet and Supervisor of Elections. Mr. Mogae joined politics in 1989, and was appointed Minister of Finance and Development Planning; he became Vice President of Botswana in 1992.

President Mogae was the winner of the 2008 Ibrahim Prize for Achievement in African Leadership. Established to recognize and celebrate excellence in African leadership, the Ibrahim Prize is the largest annually awarded prize in the world. French President Nicolas Sarkozy also awarded Mogae the Grand Cross of the Légion d'honneur in 2008 for his "exemplary leadership" in making Botswana a model of democracy and good governance.

Ms. Zeinab Bashir El Bakri, Member of the Panel, is currently Director of the Delivery Unit in the Office of His Highness the Prime Minister of Kuwait. Most recently, she served from July 2006 to January 2010 as Vice President for Sector Operations (OSVP) at the African Development Bank (AfDB), which is the primary development-finance institution on the African continent. Ms. El Bakri was responsible for overseeing several departments within Sector Operations, including Agriculture and Agro-Industry; Human Development; and Governance, Economic and Financial Reforms. A main emphasis of her work was to direct income to fight poverty on the continent. The Extractive-Industries Transparency Initiative (EITI) was a key element of her leadership, in addition to the development of the Bank's Governance Strategy.

Ms. El Bakri gained her Bachelor's Degree in Sociology and Master's Degree in Sociology and Anthropology from the American University in Cairo, Egypt. She completed a Ph.D. in Sociology at the University of Hull, in the United Kingdom, in 1981. She joined the AfDB in 1991 as Senior Coordinator for Women in Development, and also served as Vice President for North, South and East Operations; Director of Social Development; Division Manager for Human Resources; and North Region Principal. Prior her service at the AfDB, she worked as Manager of the Women in Development Program and Senior Lecturer at the University of Khartoum, Sudan; as a consultant for several United Nations agencies and international non-governmental organizations; and as a Research Assistant at the American University in Cairo, Egypt.

Mr. Gabriel Jaramillo, Member of the Panel, is Chairman Emeritus of the Board of Sovereign Bank in the United States, and a Special Advisor to the Office of the Special Envoy for Malaria of the United Nations Secretary-General, to which he lends his expertise to the push to provide and fund key interventions to malaria-endemic nations, with the goal of ending all deaths from malaria by 2015.

Mr. Jaramillo has over 34 years of experience in the financial sector. He began his managerial career as Head of Chilean Operations for Marine Midland Bank, from 1979 to 1983. He worked for Citibank from 1975 to 1979, and again from 1983 to 1994, where he had, at different times, the responsibilities as Chief Executive Officer (CEO) for Colombia and Mexico, and for commercial activities in various Latin American countries. In 1996, he joined Grupo Santander as Managing Director, and from 1997 to 1999 served as President of Banco Santander Brasil. Mr. Jaramillo later became President of Banco Santander Brasil, and a member of the bank's Board of Directors. In 2008, he became Advisor to the Chairman of Grupo Santander, and joined the Board of Directors of Sovereign. In 2009, Mr. Jaramillo assumed the responsibilities of President and CEO of Sovereign Bank and Santander Holdings USA, Inc., a position he left in early 2011.

Mr. Jaramillo is married, and has two daughters. He was born in Bogotá, Colombia, and graduated from California State University, Fresno, with a Bachelor's degree in Marketing and a Master's degree in Business Administration, in 1975.

The Honorable Norbert Hauser, Member of the Panel, recently retired as Vice President of the Federal Court of Auditors (Bundesrechnungshof) in Germany, a role to which he was appointed in 2002. He has served as the External Auditor for the International Atomic Energy Agency (IAEA) in Vienna (since 2004) and the Organization for the Prohibition of Chemical Weapons (OPCW) in The Hague (since 2009), and is the incumbent Chairman of the Panel of External Auditors of the United Nations (since 2008).

His professional history includes 22 years as an independent lawyer (1998-2002), during which time he spent a term as a Member of the German Bundestag (1998-2002). He also served as the District Mayor (1973-1998) and District Councilor (1979-1994) of the Borough of Bonn-Bad Godesberg, and as a member of the City Council of Bonn (1975-1999). Mr. Hauser completed his legal studies in 1969, in Bonn and Freiburg, and sat for his first and second state exams in 1976 and 1979, respectively. He was born in Olpe, Germany, in 1946.

The Honorable Barry O'Keefe, Member of the Panel, served as a Justice for the Supreme Court of New South Wales (NSW), Australia, a post from which he retired in March 2004. After his judicial service, he joined the firm Clayton Utz as a Consultant, where he specializes in commercial and construction law and probity matters.

Justice O'Keefe graduated with Honors in Law from the University of Sydney, in Australia. He was admitted to the NSW Bar in 1957, and appointed a Queen's Counsel in 1974. He was appointed Chief Judge of the Commercial Division of the Supreme Court of NSW in 1993, and thereafter served as an additional Judge of Appeal, a Member of the Court of Criminal Appeal and a Judge of the Common Law Division of the Supreme Court. He was the Commissioner of the Independent Commission Against Corruption in NSW from 1994 to 1999.

Mr. O'Keefe was President of the NSW Bar Association in 1990 and 1991, President of the National Trust in Australia from 1991 until 2006, President of the Local Government Association of New South Wales from 1986 to 1988 and was the longest-serving Mayor of Mosman. In 2000, he became Chairman of Interpol's International Group of Experts on Corruption, an office he still holds. He has also been Chairman of the International Anti-Corruption Conference since 2003.

He was awarded an Order of Australia in 1989 and a Centenary Medal in 2001, and was appointed a Freeman of the City of London in 1991. The University of Notre Dame (Australia) appointed Mr. O'Keefe as an adjunct professor in 2006. Mr. O'Keefe also chairs the Law Advisory Board of the Notre Dame School of Law, in Sydney.

Mr. Claude Rubinowicz, Member of the Panel, is currently the Chief Executive of the Agence du patrimoine immatériel de l'État (APIE) (Agency for Public Intangibles of France) where he has served since its creation in May 2007. He is also Inspector General of Finance in the French Ministry of Economy, Finance and Industry.

Mr. Rubinowicz is an alumnus of the École Normale Supérieure and the École Nationale d'Administration, in Paris. He obtained his Ph.D. in Physics from the University of Paris, and pursued his studies under a fellowship from the Department of Physics of Princeton University, in the United States.

Between 1984 and 1989, he worked as Senior Advisor and Special Assistant to the French Minister of Economy, Finance and Budget, where he initiated and implemented the de-regulation of the French financial markets. From 1989 to 1995, he served as Senior Executive Vice President in charge of corporate finance worldwide for Crédit Lyonnais, where he was also a member of the Executive Committee. In 1995, he joined Fixage, a French actuarial-consulting firm, as a partner, before establishing his own companies, Finafix in 1997 and Finafix USA, Inc., in 2000, specialized in financial strategy. He also acted during this time as a consultant to the World Bank. In 2004, he became Inspector General of Finance in the French Ministry of Economy, Finance and Industry. In 2006, he was a member of the Commission on the Intangible Economy in France, responsible for intellectual-property issues. He has been an adjunct professor at the Institut d'Études Politiques de Paris.

SUPPORT TEAM TO THE HIGH-LEVEL, INDEPENDENT PANEL

Mr. Richard O Butcher II, Project Manager for the Comparative Analysis of the Global Fund's Office of Inspector General, is the Special Assistant to the Director of the U.S. Department of Defense (DoD) Military Health System (MHS) Cyberinfrastructure Services (MCiS) Organization. He is one of a four-member "Red Team" in charge of a 62-person group that provides program-management support to DoD/MHS/MCiS, which manages the communications and computing infrastructure for the U.S. Military's health services. Mr. Butcher also currently serves as Vice President for Sport, Government and International Relations at the Atlanta DITC: The Legacy Institution of the 1996 Olympic Games. He is former Chief of Staff and Health Advisor for Congresswoman Diane E. Watson of California.

Ms. Wendy R. Dougherty, Project Manager for the Analysis of the Local Fund Agents, is an independent management consultant in philanthropy and international development. Ms. Dougherty has over 15 years of experience in working for the World Bank, the U.S. Agency for International Development, and KPMG in the design, management, and evaluation of humanitarian programs in 20 countries across four continents. In her previous role as a consultant with KPMG's Global Grants Program, she provided advice to private foundations, Fortune-500 companies and non-profit corporations to monitor complex, multi-million-dollar grants, as well as to design their grant-making programs.

Ms. Diana Goldsworthy, CBE, Project Manager for the Analysis of the Global Fund's Board and Secretariat, works with developing and post-conflict Governments to establish accountable and effective public-administration and governance systems and institutions. She was formerly a civil servant in the Cabinet Office of the United Kingdom, responsible for designing and implementing reforms to improve management and service-delivery in Government through Executive Agencies, Citizen's Charters and other initiatives.

Dr. Marc-Daniel Gutekunst, Project Manager for the Analysis of the Technical Review Panel and the Global Fund's Grant-Approval Process, is an epidemiologist who worked for the Centers for Disease Control and Prevention (CDC) within the U.S. Department of Health and Human Services, and for 11 years he served on the faculty of Emory University, in Atlanta, Georgia. Since 1992, he has been the Chief Executive Officer of Afrique Santé & Environnement, LLC (ASE), an Atlanta-based international consulting firm focused on global health, environmental issues, and sports development. For the past nine years, Dr. Gutekunst and Ambassador Andrew Young have co-chaired the Atlanta DITC: The Legacy Institution of the Atlanta 1996 Olympic Games.

Mr. Charles E. Johnson, Co-Leader of the Support Team, currently serves as the Chief Operating Officer at Leavitt Partners, LLC. Most recently, Mr. Johnson served as Assistant Secretary and Chief Financial Officer at the U.S. Department of Health and Human Services, where he was responsible for managing budgets and overseeing policy for grants-management and information technology. He spent his career as a Certified Public Accountant, and was a member of management and the Board of Directors of one of the "Big Four" accounting firms in the United States. He also served as the President of the Huntsman Cancer Foundation, and has held senior roles in state government and education.

Ms. Jennifer D. Marsh, Project Manager for the Analysis of the Country Coordinating Mechanisms, is a global health and development professional who specializes in program research, monitoring and evaluation. She has previously worked in various capacities with the World Health Organization, CARE USA and the United States Institute of Peace.

Mr. Thomas Merrill, Project Manager for the Panel's Country Risk-Burden Matrix, is a Strategic Analyst at Leavitt Partners, LLC. His background is in political science, with an emphasis in international relations, and he currently focuses his research on the shifting landscape of the health-care industry in the United States as influenced by recent legislation.

Mr. Shahid Minto, M.A., LL.B., C.A., Project Manager for the Analysis of the Office of the Inspector General, works on a part-time basis as an advisor on public-sector oversight, and specializes in the areas of audit, procurement, risk-management, and international assistance. He is a Member of the Board of two international non-governmental organizations, CARE Canada and Development in Literacy, and is a part-time member of the faculty of the Caribbean Procurement Institute and the Public-Procurement Program at the Osgood Law School in Toronto, Canada. Mr. Minto is an Associate with the Global Organization of Parliamentarians Against Corruption, and a frequent speaker at conferences on procurement fraud and risk-management in the international arena. Prior to retiring in 2010, he served in the Canadian public service for 33 years, including appointments as Assistant Auditor General, Chief Risk Officer and Canada's first Procurement Ombudsman.

Mr. Matthew Robinson, Project Manager for the Analysis of the Principal Recipients, is a health-diplomacy and policy specialist. He has previously served as Advisor for Multilateral Diplomacy in the Office of the U.S. Global AIDS Coordinator at the U.S. State Department, and as Program Analyst for Global Fund issues in the Office of HIV/AIDS at the U.S. Agency for International Development.

Dr. William R. Steiger, Co-Leader for the Support Team, is a Special Advisor at Leavitt Partners, LLC. Previously, Dr. Steiger spent eight years as the Special Assistant to the Secretary for International Affairs and the Director of the Office of Global Health Affairs at the U.S. Department of Health and Human Services. He represented the United States as Member and Alternate Member of the Global Fund's Board of Directors during that time.

Annex R

Duties of the Proposed Committees of the Board

Investment Committee	Audit Committee	Finance and Resource-Mobilization Committee
Replaces the Strategy and Policy and Portfolio Committees, which are abolished; 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; the Chief Risk Officer also attends as the lead staff person from the Secretariat. *(See Recommendation 5.1 for the description of the Chief Risk Officer.)*; Reviews the status of the implementation of grants in the current portfolio, including budget execution and results, and reports to the Board; 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, and recommends them to the Board; Approves terminations of grants; Delegates authority to the Executive Management Team to approve project-preparation funding up to a certain threshold against Concept Papers recommended by the Technical Review Panel; Has the authority to initiate re-programming or re-allocation between existing and future grants, and to make a proposal to the Board on the same basis as the yearly portfolio allocation; Reviews risk-mitigation strategies employed by the Secretariat; and Vets and appoints the Members of the Technical Review Panel.	Seven Members, the majority of whom are independent of the constituencies on, and not members of, the Global Fund's Board. These independent Members must meet minimum qualifications in terms of experience in serving on similar audit committees or equivalent financial expertise. One of the independent Members will act as Chair. The three Members of the Committee who are also Members of the Global Fund's Board will include the Chair or Vice Chair of the Board; they will establish the prerequisite qualifications for independent Members of the Committee, vet candidates for the seats allocated to independent Members and make recommendations to the full Board, which must ratify the nominees for independent Members of the Committee; Supported on an as-needed basis by a small staff of outside experts/consultants; Oversees the Office of the Inspector General (OIG); reviews the OIG's budget and, in consultation with the IG, the OIG's annual work plan, audit guidelines, processes and procedures, and makes recommendations to the Board; evaluates the performance of the IG; Ensures the OIG continues to have the independence to carry out audits and investigations to their conclusions, protected from political interference; Reviews draft OIG reports, Secretariat responses and action plans, decides which recommendations to be implemented, and monitors the implementation of those recommendations; Recommends the Global Fund's External Auditors, and reviews the annual Financial Statements and audit opinions; Approves a set of minimum standards for the scope-of-work for external auditors of PRs; Approves pre-qualified pools of external auditors, on a regional basis; permit exceptions, on a case-by-case basis; Meets at least quarterly, and at least once a year, *in camera*, with the OIG and the External Auditors; Ensures the timely disclosure to the Board of summaries of all audits and reviews of internal Global Fund business processes carried out by the OIG under its internal-audit mandate, and the delivery to the Secretariat of the detailed management letters that arise from those audits and reviews; Ensures the public disclosure, within appropriate time frames, of all other audit and review reports prepared by the OIG, along with the accompanying management responses and any other comment once deemed complete by the Board, and proposes to the Board policies and strategies on communications around the reports, in support of the Global Fund's objectives of openness and transparency; Ensures the public disclosure, after the appropriate redaction of information of a sensitive nature (information that, if disclosed, could harm recoveries or prosecution), of investigative reports prepared by the OIG, along with the accompanying response management responses and any other comment once deemed complete by the Board, and proposes to the Board policies and strategies on communications around the reports, in support of the Global Fund's objectives of openness and transparency; Approves any proposed Memoranda of Understanding or agreements between the Global Fund on audit, investigation, and program-evaluation matters with external entities; Annually reviews its mandate, method of operation and results and reports thereon to the Board.	Nine Board Members, led by the Chair or Vice Chair of the Board (whichever is from a implementers' constituency); Reviews and makes recommendations to the Board on the annual budget and staffing plan for the Global Fund Secretariat; Reviews the ongoing execution of the Global Fund's annual operational budget, and makes recommendations to the Board; Reviews multi-year budget and cash-flow projections prepared by the Secretariat and the Trustee; Receives the quarterly reports of the Trustee; Approves Asset and Liability strategies to minimize exchange losses and preserve the capital value of the Trust Fund and grants; Reviews on an on-going basis and pursues opportunities to gain productivity and efficiency in all stages involved in the interventions financed by the Global Fund (value-for-money); Leads the Board's efforts in resource-mobilization, including current donors, new donors and innovative financing; Reviews the Global Fund's application processes, including the proposal forms.

Annex S

The High-Level, Independent Panel's Recommendations, with Responsibilities, Resource Implications, Dependencies and Implementation Points

Once the Board has approved the Panel's recommendations, the Secretariat and the Office of the Inspector General (OIG) should prepare, and the Board should approve, a listing of the recommendations in the Panel's report with timeframes and accountability for implementation assigned to each one. In this document, the Panel has included a selected list of some of its major recommendations and a format for timing and accountability as a guideline.

RECOMMENDATION #1: Turn the Page from Emergency to Sustainable Response

	GOAL	Timeframe for Completion	Responsibility	Resource Implications	Dependencies	Implementation Points
1	**Create a set of clear, simple and practical basic standards in the rules of fiduciary documentation and ethical behavior**	6 months	The Secretariat and OIG	None	Will need to consult the operational risk-management framework	The Board's Audit Committee should review the standards before sending them to the full Board for approval.
2	**Develop a mandatory, web-based (wherever feasible) training program in fiduciary documentation and ethical behavior**	6 months	The Secretariat and the OIG	Costs for creating, translating and posting the program	Will need to consult the operational risk-management framework	The program should cover Principal Recipients, sub-Recipients, Country Coordinating Mechanisms, Local Fund Agents and Global Fund staff
3	**Establish protocols and methods of work between the Global Fund Secretariat and the OIG**	3 months	The Secretariat's Executive Management Team and the OIG	None	None	The Board's Audit Committee should review the implementation of the protocols after six months.
4	**Adopt distinct policies for the release of the different categories of OIG reports (internal audits of business processes at the Secretariat, country-program audits and investigations)**	3 months	The Board	None		The Board's Audit Committee should review the implementation of the policies after six months.
5	**Improve the scope of the OIG's audits and the tone and size of its reports, including by creating written products differentiated by need and audience**	Immediately	The OIG	None		The changes should begin with as-of-yet-unreleased 2010 audit and investigative reports.
6	**Disclose as part of the OIG's reports all disagreements with management, and incorporate as part of the reports comments from the Global Fund's Board and Secretariat**	Immediately	The OIG	None		The changes should begin with as-of-yet-unreleased 2010 audit and investigative reports.
7	**Present to the Global Fund's Board, at regular intervals, reports on follow-up to the OIG's recommendations, prepared by the Secretariat and validated by the OIG**	3 months	The Secretariat and the OIG	None		The first such report should take place in November 2011.
8	**Provide full briefings for the Audit Committee and the Global Fund's Board to make them fully aware of the extent of the audit and investigation activity of the grants program by the OIG and external auditors**	3 months	The OIG	None		The first such report should take place in November 2011.
9	**Redefine the relationship with the United Nations Development Programme (UNDP) to permit greater accountability to and access by the Global Fund**	3 months	The OIG and the Board	None		Negotiations on a Memorandum of Agreement (MOA) on investigations and access to transactional documents for ongoing monitoring should begin immediately; the Audit Committee should review the MOA before sending it to the full Board for approval at its meeting in November 2011.

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RECOMMENDATION #1 *(Continued)*

	GOAL	Timeframe for Completion	Responsibility	Resource Implications	Dependencies	Implementation Points
10	**Mandate a review by the Global Fund's Legal Counsel of all requests from the OIG in the conduct of internal investigations for e-mails, agendas and other records in the possession of employees of the Global Fund**	Immediately	The Board	None		

RECOMMENDATION #2: Define a Doctrine of Risk and Manage To It

	GOAL	Timeframe for Completion	Responsibility	Resource Implications	Dependencies	Implementation Points
1	**Develop a new Risk-Management Framework**	6 months	The Secretariat, the OIG and the Board	None		The Board's Audit Committee should review the Framework before sending it to the full Board for approval.
2	**Establish clear definitions of the categories of risk the organization faces**	6 months	The Secretariat and the OIG	None		The Board's Audit Committee should review the definitions before sending them to the full Board for approval.
3	**Prepare a re-defined statement on "Country Ownership" for adoption by the Board**	3 months	The Board and the Secretariat	None	Concurrence of recipient-country constituencies	The Heads of the Country Programs and Partnerships Clusters should prepare the text; the EMT should endorse the statement and submit it to the Board for approval at its November 2011 meeting
4	**Categorize recipient countries into groupings by risk, capacity and burden through a formal matrix**	3 months	The Secretariat the OIG and the Board	None		The Board's Investment Committee should review the matrix before sending it to the full Board for approval, on an up-or-down vote, at its meeting in November 2011.
5	**Apply differentiated safeguards to the different categories of countries, including for the management of sub-recipients**	3 months	The Secretariat	None		The change should begin as soon as possible.
6	**Focus investigation and audit resources in the area of highest risk**	3 months	The OIG	None		The changes should begin with 2011 audit and investigative reports.
7	**Insist on pooled procurement as the norm, except where the Fund certifies a local institution**	Immediately	The Secretariat	None		The policy should take effect for all outstanding Phase-Two renewals , and should apply to grants approved in Round Eleven.
8	**Mandate the outsourcing of drug storage and delivery as the norm, except where the Fund certifies a local institution**	Immediately	The Secretariat	None		The policy should take effect for all outstanding Phase-Two renewals, and should apply to grants approved in Round Eleven.
9	**Limit the allowable payment for the purchase of drugs or bed nets to a reference price**	3 months	The Secretariat	None		The policy should take effect for all outstanding Phase-Two renewals, and should apply to grants approved in Round Eleven.
10	**Intensify work on mitigating other identified risks, including by modifying the Terms of Reference and scope-of-work of the LFAs and the external auditors of PRs**	3 months	The Secretariat and the OIG	Could require additional time for the LFAs and external auditors		
11	**Review the Global Fund's Corporate Risk Register annually, and receive quarterly reports from management on the application to the Global Fund's day-to-day business**	3 months, then annually thereafter	The Investment Committee of the Board and the full Board	None		The first review should take place at the Board's meeting in November

RECOMMENDATION #3: Strengthen Internal Governance

	GOAL	Timeframe for Completion	Responsibility	Resource Implications	Dependencies	Implementation Points
1	**Make more time on the Board's 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**	3 months	The Board	None		
2	**Re-purpose the Board's Committees**	Immediately	The Board	Independent Members of the Audit Committee will have to be compensated		The Board should choose the membership of the Investment and Finance Committees at its September meeting, as well as the Board representatives for the Audit Committee, and should launch the search for the independent Members of the Audit Committee, so all three Committees would be ready to meet by November 2011.
3	**Create an Executive Staff to support the Board**	6 months	The Secretariat and the Board	Should be resource-neutral, by using up to 4 professional and administrative positions from the current Board Relations Unit.	Speed with which suitable candidates can be identified and appointed	The Chair's Office should draw up mission, Terms of Reference for endorsement at Board's November 2011 meeting, and should also create staff profiles. The competition to fill the positions should be open to internal and external candidates; positions should be filled by January 2012. The competition should be held in parallel with the competition for EMT executive staff.
4	**Prepare and publish a simple, practical handbook to guide Board members on their roles, and on how the Global Fund Board conduct its business**	6 months	Executive staff to the Board	Publication costs	None	First draft should be completed and circulated for consultation in early 2012. The final draft should go to the Board for approval at its Spring 2012 meeting, and be published immediately thereafter.

RECOMMENDATION #4: Institute a New Grant-Approval Process

	GOAL	Timeframe for Completion	Responsibility	Resource Implications	Dependencies	Implementation Points
1	**Institute a two-stage grant process**	12 months	The Board, the Secretariat, the OIG and the Technical Review Panel (TRP)	Costs for the TRP process could increase because of the need for additional time from Local Fund Agents (LFAS) and external consultants	Securing the agreement and cooperation of key constituencies	The Board should include the two-stage grant process in its new *Strategy*. The Executive Management Team, in consultation with the TRP, should prepare a proposal for submission to the first meeting of the Investment Committee. The Secretariat should prepare and issue new grant-application guidelines in early 2012. The first tranche of concept proposals should be submitted for approval at the Board's meeting in the Fall of 2012.
2	**Apply risk-differentiated grant processes and requirements**	12 months	The Board, the Secretariat, the OIG and the TRP			New disbursement arrangements should be part of the new grant-application guidelines.

RECOMMENDATION #5: Empower Middle-Management's Decision-Making

	GOAL	Timeframe for Completion	Responsibility	Resource Implications	Dependencies	Implementation Points
1	**Establish a Chief Risk Officer**	3 months	The EMT within the Secretariat	Should be resource-neutral	Speed with which suitable candidate can be identified and appointed	The EMT should draw up mission and Terms of Reference for endorsement at Board's November 2011 meeting, and should also create staff profiles. The competition to fill the positions should be open to internal and external candidates; positions should be filled by January 2012.
2	**Align the staffing pattern of the Secretariat to bolster grant-management**	6 months	The EMT within the Secretariat	Could require additional funds	Adequate human-resource-management capacity	The EMT should approve a three-month implementation program (skill profiles, level-of-effort formula, transfer/appointments/exit processes, etc.) by the end of October 2011, which should incorporate follow-up work to the "Q1 Review" to date. Implementation should be complete by March 2012.
3	**Empower the Fund Portfolio Managers (FPMs)**	3 months	The Board, along with the EMT and Country Programs Cluster within the Secretariat	External expertise may be required; possible additional travel costs	Satisfactory methodology for establishing parameters; Adequate human-resource-management capacity; FPMs' spending less time on paper-processing; revised corporate KPIs	The Country Programs Cluster should develop parameters for the Board's Investment Committee to approve.
4	**Streamline and expand the Country Teams**	3 months	The Secretariat	Additional technical resources could be required in the Monitoring and Evaluation (M&E), Procurement and Supply-Chain Management (PSM) and Finance Units.	Adoption of a country risk-burden matrix by the Board; will require coordination between the Country Programs Cluster, Finance Unit, M&E Unit, PSM Unit and People and Organization-Development Team; LFAs must be informed of regular scheduled country-team communications and meetings	Determine the priority countries to include in Wave 3 based on the country risk-burden matrix. Determine resource requirements for roll-out to Wave 3 countries. Work with the Finance Team and Human Resources Unit to seek additional budget and/or technical resources. If technical resources are available within the Global Fund to reallocate for the CTA, then Wave 3 could roll out in the short-term; if additional technical resources need to be identified externally, Wave 3 will take more time. The Country Programs Cluster and the LFA Management Team need to inform LFAs of the revised protocols and regular scheduled country-team communications.
5	**Reinforce the Executive Management Team**	3 months (6 months for preparation of guidelines)	Executive Director	Should be resource-neutral, by using 2 professional and administrative positions from the current Board Relations Unit	Concurrence and cooperation of EMT members; increased executive support for the EMT; Speed with which suitable candidates for EMT staff can be identified and appointed	The Office of the Executive Director (OED) should draw up the Terms of Reference, informed by comparative practice; once appointed, the EMT staff should draft guidelines. The OED should create up staff profiles. The competition to fill positions should be open to internal and external candidates, and the positions should be filled by January 2012. The hiring should take place in parallel with the competition for the executive staff to the Board.
6	**Leverage the investment in the LFAs**	3 months	Country Programs Unit and the LFA Management Team	None	LFAs must be informed of regular scheduled country-team communications.	
7	**Define and clarify the role and responsibility of the external auditors**	6 months	The Board's Audit Committee and the Secretariat	None	Will need to consult the operational risk-management framework	The Board's Audit Committee should approve revised Terms of Reference (TOR) at its first meeting. The LFA Management Team, along with the Country Programs Cluster, should work with the Audit Committee to ensure the revised TOR for the external auditors and the requirements of the LFAs are harmonized. The Country Programs Cluster should enhance communications protocols to ensure the Country Team/FPMs share Global Fund documents with the external auditors. The LFA Management Team should be involved as well, to develop new protocols for the LFAs to issue management letters to the PRs or other formal communication to share directly with the external auditors.

RECOMMENDATION #6: "Get Serious About Results"

	GOAL	Timeframe for Completion	Responsibility	Resource Implications	Dependencies	Implementation Points
1	**Measure outcomes, not inputs**	3 to 12 months	The Secretariat	Could require additional time from LFAs; most costs should be absorbed within grants		The policies should take effect for all outstanding Phase-Two renewals, and should apply to grants approved in Round Eleven.
2	**Focus on quality and value, rather than quantity**	3 to 12 months	The Board and Secretariat	None		The policies should take effect for all outstanding Phase-Two renewals, and should apply to grants approved in Round Eleven.
3	**Consolidate the reform agenda**	3 months	Board	None	Concurrence and cooperation of EMT members	The OED should prepare an integrated action plan.