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Global Fund Observer

NEWSLETTER

Issue 286: 28 April 2016

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6. NEWS and ANALYSIS: Global Fund wrestles with concerns about grant performance and risks in the Nigeria portfolio

Although the topic was not on the official agenda of the Board meeting in Abidjan on 26-27 April, there was considerable discussion about performance and risk in the Nigeria portfolio of grants. A report on an audit of Nigeria grants by the Office of the Inspector General is expected to be released shortly.

7. NEWS: Revised eligibility policy adopted

There is very little that is new in the "new" Eligibility Policy adopted by the Board. The Eligibility Policy" replaces the current Eligibility and Counterpart Financing Policy.

8. NEWS: Board approves new policy on sustainability, transition, and co-financing

Responding to concerns that planning for transitioning away from Global Fund support has been inadequate, the Board has adopted a new policy on sustainability, transition and co-financing.

9. NEWS: Policy on working in challenging operating environments adopted

Challenging operating environments account for a third of the global disease burden for HIV, TB, and malaria, and a third of Global Fund investments. The Board has adopted a policy to cover how the Fund will work in these environments. The Secretariat will develop an operational framework to implement the policy.

10. NEWS: On KPIs, four 2015 performance targets were missed

The Global Fund has failed to meeting four 2015 key performance indicator targets and will likely miss its 2016 target on health systems strengthening. However, the other eight KPIs show strong performance. Attention is shifting to the proposed new KPI framework which will be presented to the Board shortly.

ARTICLES:

1. NEWS: Main decisions made at Board meeting

David Garmaise 28 April 2016

On 26-27 April 2016, the Global Fund Board held its 35th meeting in Abidjan, Côte d'Ivoire. GFO was present, with observer status. The main decisions made at the meeting, in chronological order, were as follows. *(For precise wording of what the Board agreed, see the decision points document which should be available shortly at www.theglobalfund.org/en/board/meetings/35. Background documentation will also, in time, be posted by the Global Fund at the same location.)*

New Strategy. The Board approved "The Global Fund Strategy 2017-2022: Investing to End Epidemics." Further details are provided in a separate article in this issue. [See Decision Point 4.]

2015 Annual Financial Report. The Board approved the 2015 Annual Financial Report, which includes the 2015 Consolidated Financial Statements audited by Ernst & Young, SA. The Board also approved the 2015 Statutory Financial Statements, also audited by Ernst & Young, SA. [See Decision Points 5 and 6.]

Eligibility Policy. The Board approved a revised Eligibility Policy. Further details are provided in a separate article in this issue. [See Decision Point 7.]

Sustainability, transition and co-financing. The Board approved a Sustainability, Transition and Co-Financing Policy. Further details are provided in a separate article in this issue. [See Decision Point 8.]

Challenging Operating Environments. The Board approved a Challenging Operating Environments Policy. Further details are provided in a separate article in this issue. [See Decision Point 9.]

Allocation methodology. The Board approved a methodology for the 2017-2019 allocations. The Board tasked its Strategy Committee with approving at its June 2016 meeting the method by which the Secretariat will apply and report on the qualitative adjustments that are part of the methodology. The Board also tasked the Secretariat with presenting the initiatives that could be funded as catalytic investments to the Strategy Committee for the committee's meeting in June 2016. Further details are provided in a separate article in this issue. [See Decision Point 10.]

Response to the OIG 2015 annual opinion. The Board requested that the Secretariat present a detailed action plan to advance risk management and internal controls, with measureable and time-bound targets; and report on progress to the Board in June 2016. There is a separate article in this issue on the OIG 2015 annual opinion. [See Decision Point 3.]

Partner's Constituency. The Board approved the addition of the Partnership for Maternal, Newborn & Child Health (PMNCH) to the membership of the Partner's Constituency on the Board. The PMNCH is a partnership of 730 organizations working on sexual, reproductive, maternal, newborn, adolescent, and child health. Current members of the Partner's Constituency are the STOP TB Partnership, Roll Back Malaria, and UNITAID. The Partner's Constituency is a non-voting seat. [See Decision Point 11.]

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2. NEWS: Board approves allocations methodology for 2017-2019

Changes from previous methodology are not significant

David Garmaise 28 April 2016

The Board has approved a methodology for determining the allocations for 2017-2019. The methodology does not differ significantly from the one used for the 2014-2016 allocations. The main differences are as follows:

- There will be no country bands (or country groups of any kind) used.
- No specific sum of money has been set aside for incentive funding or for regional proposals (though there will be funding available for both as part of a new pot of money for "catalytic investments").
- The qualitative adjustment for minimum required level will be replaced by a simplified system.
- A simplified system will be used to identify initiatives to be placed on the Unfunded Quality Demand register.

As it did in 2014-2016, The Global Fund will determine the amount available for allocation to countries based on how much money was raised in the Fifth Replenishment minus the funds required to cover the Fund's operating costs. As before, an amount of money ($800 million) will be reserved for special initiatives, except that this time they are being called "catalytic investments." All remaining funds will be used for allocations to countries.

Catalytic investments

The catalytic investments will serve three purposes: (1) to provide a form of incentive ("beyond allocation") funding; (2) to fund multi-country approaches; and (3) to fund strategic initiatives.

The beyond allocation funding will be used to push countries to "prioritize and direct country allocations towards key epidemiological and context-specific challenges to addressing the three diseases and build resilient and sustainable systems for health." The Global Fund says that the approaches used to respond to these priorities should be driven bottom-up by countries rather than dictated by the Global Fund. But is also says that the priorities will be determined through consultations with relevant technical and community partners "to ensure funding is prioritized according to critical strategic needs and that applications are not burdensome to countries." One aim of these funds will be to promote programming for key and vulnerable populations.

The idea is that any above allocation funds used for this purpose would have to be matched by funding from the country's allocation.

Some of the $800 million will be used to target key, strategic multi-country priorities deemed critical to meet the aims of the 2017-2022 Strategy and in line with global disease priorities. The Global Fund will identify a limited number of priority approaches prior to the 2017-2019 allocation period, and applications will be actively sought to meet these aims. Examples of initiatives that could be funded include cross-border and regional programs for key and vulnerable populations; activities addressing human rights barriers to services; harm reduction; and activities addressing malaria drug resistance and elimination.

The Global Fund says that some of the current strategic initiatives may continue to receive funding. This could include the Emergency Fund and Community, Rights and Gender activities.

At its June 2016 meeting, the Strategy Committee will recommend to the Board a package of initiatives that could be funded as catalytic investments. Once the package is approved, the Strategy Committee will have the flexibility to move funding among the various initiatives.

(GFO has learned that of the $800 million for catalytic funding, $300 million will be set aside for multi-country proposals, regional proposals and special initiatives. This would leave $500 million for beyond allocation funding.)

Determining the country allocations

Once the amount of money available for country allocations is known, the allocations model will be applied. As before, the funds will first be divided into three envelopes, one for each disease, as per the global disease split. The Board already decided that the split for 2017-2019 will be the same as the split used for the 2014-2016 allocations: HIV 50%; malaria 32%; and TB 18%.

Once the global amounts for each disease are known, the income/burden formula is applied to determine how much each country should notionally receive for each disease. (The technical parameters to be used for the disease/burden formula were approved by the Strategy, Investment and Impact Committee in March 2016. The parameters are listed in an annex to the Board paper on the allocation methodology.)

Then, as was the case for the 2014-2016 allocations, a series of qualitative adjustments will be applied.

For the 2014-2016 allocations, one particular qualitative adjustment – the minimum required level (MRL) – caused a lot of problems, the main one being that some high burden countries ended up with an allocation that was significantly lower than what the income/burden formula said they should receive. In these countries, three years' worth of funding had to be stretched to four.

For 2017-2019, the MRL will be replaced by an approach that uses up to $800 million to "even out" the imbalances created by the MRL. (Note: This is not the same $800 million that has been set aside for catalytic investments. It is easy to get confused.) The Global Fund said that this approach is expected to result in components whose previous funding levels were below what the income/burden formula said they should receive being scaled up by at least 50% towards the initial formula-calculated amounts.

If the funds set aside aside for this rebalancing are insufficient, the Secretariat will have the flexibility to re-direct money from the $800 million for catalytic investments.

The other qualitative adjustments that will be applied have not been determined yet. They may include major sources of external financing; willingness to pay; past program performance and absorptive capacity; risk; minimum funding levels; and increasing rates of new infections in lower prevalence countries. They may also include an adjustment for populations disproportionately affected by HIV and TB, and in low endemicity malaria settings. This last factor is new; it was not one of the adjustments used in the 2014-2016 allocations.

The Board has agreed to adopt a qualitative adjustment process that is more transparent, accountable and flexible than what was used for the 2014-2016 allocations. The process will work as follows:

- Prior to each allocation period, the Strategy Committee will approve the list of qualitative factors and the process for applying them;
- the Strategy Committee will oversee the adjustment process carried out by the Secretariat; and
- country components whose allocations changed by greater than 15% and greater than $5 million through qualitative adjustments will be reported by the Strategy Committee to the Board.

For the 2017-2019 allocation period, the Strategy Committee will review and approve the list of qualitative factors and the process for applying them at its June 2016 meeting.

Unfunded quality demand

For 2017-2019, a simplified process will be used to identify unfunded quality demand. Applicants will no longer be asked to prepare allocation and above-allocation portions of their concept notes. Instead, costed national strategic plans and/or programmatic and financial gap tables in the concept notes will serve as the basis for estimating beyond-allocation need. During development of the funding request, a limited set of key additional, prioritized and costed needs will be identified for programming, should resources become available. These needs will be reviewed and registered at the time of initial submission of a funding request and maintained on a register to attract additional resources, and to facilitate reprogramming of savings or efficiencies during the grant lifecycle.

Reaction

In a letter to the Global Fund Board and Secretariat, Dr Bart Janssens, Director Operations for Médecins Sans Frontières, expressed concern that the changes to the allocations methodology will move the Fund even closer towards a formula-driven allocation increasingly based on disease burden and a country’s economic classification. While this model can be expected to significantly increase funding in a few countries with the highest disease burden, Janssens said, "its consequences for a large number of countries with lower prevalence and/or concentrated epidemics remain unclear and unpredictable…. People living with HIV and TB in these contexts face the risk of significant reductions of the resources needed for an accelerated disease response."

MSF expands on its concerns in a new publication, *Out of Focus: How millions of people in West and Central Africa are being left out of the Global HIV response*.

"Allocation Methodology 2017-2019," Board Document GF-B35-05, should be available shortly at www.theglobalfund.org/en/board/meetings/35. A copy of the MSF letter is on file with the author.

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3. NEWS: Board adopts new Strategy for 2017-2022: "Investing to End Epidemics"

Increased emphasis on health systems, human rights and gender equality

David Garmaise 27 April 2016

The Global Fund Board has approved a strategy to guide the organization for the next six years.

"The Global Fund Strategy 2017-2022: Investing to End Epidemics" – is built around four strategic objectives, as follows:

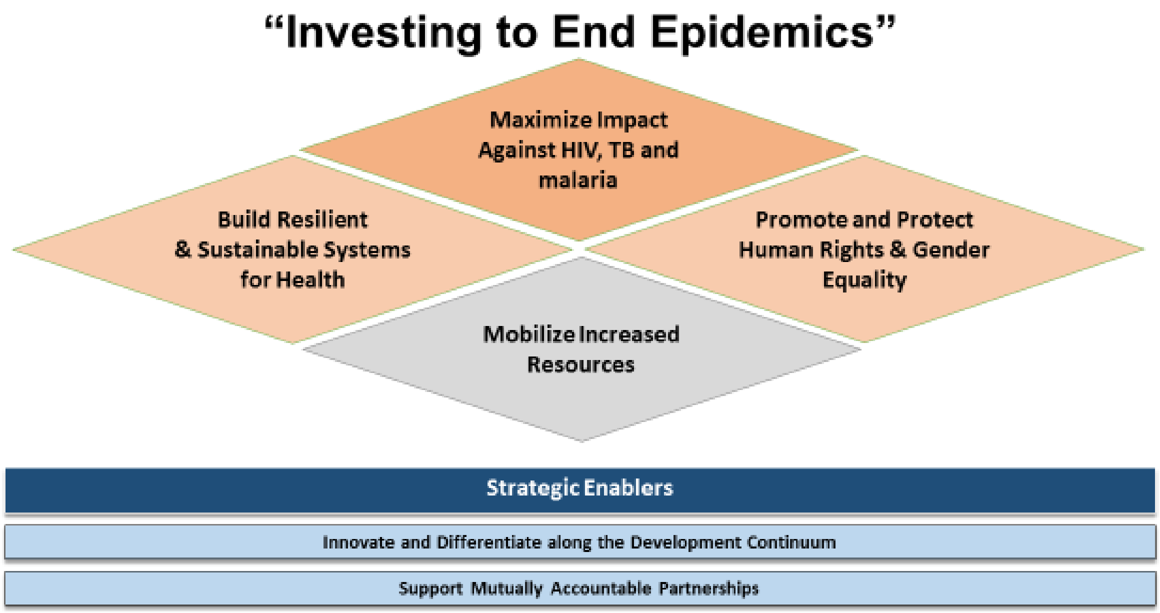
1. maximize impact against HIV, TB and malaria;
2. build resilient and sustainable systems for health;
3. promote and protect human rights and gender equality; and
4. mobilize increased resources.

Each strategic objective is comprised of between four and seven operational objectives. For example, the strategic objective on health systems includes operational objectives such as strengthening community responses and systems; strengthening health data systems; and strengthening financial management and oversight.

And the strategic objective on human rights and gender equality includes operational objectives such as introducing and scaling up programs that remove human rights barriers to accessing services; and supporting the meaningful engagement of key and vulnerable populations and networks in Global Fund–related processes.

The Global Fund Board undertook an extensive consultations process to help it come up with the new Strategy. This included three regional partnership forums and an online platform. In addition, the Technical Evaluation Reference Group commissioned a review of the current strategy as well as thematic reviews in areas such as health systems, challenging operating environments, and market shaping.

The new Strategy is a high-level document. It will be operationalized through detailed strategy implementation plans. These will be developed by the Secretariat and submitted to the Strategy Committee for review.



Source: The Global Fund Strategy 2017-2022

The four strategic objectives are underpinned by what The Global Fund calls "strategic enablers" – i.e. (a) innovating and differentiating along the development continuum; and (b) supporting mutually accountable partnerships.

Concerning differentiation, the Strategy calls for the The Global Fund to tailor its approach to the disease burden and income level of a country, and also to take into account other factors, including: epidemiologic and other socio-political contextual dimensions; financing gaps; fiscal space; absorptive capacity; risk; and where and how the Global Fund (with partners) can have the most catalytic impact.

Differentiation also means that The Global Fund will evolve the way it operates to respond more effectively to the diverse range of contexts where its grants are implemented.

Partnership has always been a cornerstone of The Global Fund's approach. The new Strategy will build on that model to achieve impact at country-level. This includes, for example, engaging with technical partners to provide support to national strategy planning processes; and with the private sector to foster innovative approaches. The Strategy says that civil society and community groups will continue to be instrumental (a) as advocates for increased funding for the Global Fund, for health, and for the three diseases, to hold their governments accountable; and (b) to deliver of high quality services for hard to reach populations.

The new Strategy includes a vision statement – "A world free of the burden of AIDS, tuberculosis and malaria with better health for all." It also includes a mission statement – "To attract, leverage, and invest additional resources to end the epidemics of HIV, tuberculosis, and malaria to support attainment of the Sustainable Development Goals."

The Strategy also includes a section on goals and targets aligned to the global plans of the Fund's main partners. Targets and indicators for this section of the Strategy are currently under development with the partners.

Finally, achievement of the strategic goals and targets will be measured through key performance indicators. A new KPI framework will be proposed to the Board shortly.

> ***Editor's note:*** *GFO is preparing separate articles on each of the four strategic objectives. The first of these articles is included in this issue of GFO. The other three articles will appear in upcoming issues.*

The Global Fund Strategy 2017-2022: Investing to End Epidemics, Board Document GF-B35/02, should be available shortly at www.theglobalfund.org/en/board/meetings/35.

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4. NEWS: New Strategy has a dual focus on high burden/low income countries and vulnerable populations

David Garmaise 27 April 2016

"Innovative approaches to meet diverse country needs are essential to accelerate the end of the epidemic." This is the catch phrase The Global Fund uses to describe the first objective in its new Strategy: Maximize impact against HIV, TB, and malaria.

The Board adopted a Strategy for 2017-2022 at its meeting in Abidjan on 26-27 April. (See separate article in this issue.)

There are five operational objectives under the first strategic objective, as follows:

1. Scale-up evidence-based interventions with a focus on the highest burden countries with the lowest economic capacity, and on key and vulnerable populations disproportionately affected by the three diseases.
2. Evolve the allocation model and processes for greater impact, including innovative approaches differentiated to country needs.
3. Support grant implementation success based on impact, effectiveness, risk analysis, and value-for-money.
4. Improve effectiveness in challenging operating environments through innovation, increased flexibility, and partnerships.
5. Support sustainable responses for epidemic control and successful transitions.

This article briefly summarizes each operational objective.

Scale up evidence-based interventions

The Global Fund will focus on where there is the greatest need and, therefore, the greatest potential for impact. To do this, the Fund will invest most of its resources where the burden of disease is highest and where countries have the least economic capacity to support health programs.

At the same time, the Strategy says, the Fund will target key and vulnerable populations that are disproportionately affected by the three diseases. To this end, the Fund will invest in (among other things) data systems for these populations; strengthening community systems; and addressing human rights policy and barriers.

The investment in community systems is designed to allow communities to do increased advocacy, monitor grant implementation, and deliver services.

Importantly, the Strategy adds that by working with countries to do effective and early thinking around sustaining programs, "The Global Fund will strive to ensure that essential programs targeting key and vulnerable populations are maintained even after a country transitions from support."

Evolve the allocation model

The Global Fund believes that the allocation methodology introduced for 2014-2016 has generally been successful in getting resources to where they are needed and in increasing the impact of the Fund's grants. The Strategy calls for some refinements to simplify the methodology and allow for greater flexibility in applying it. (See GFO article in this issue on the allocation methodology adopted by the Board.)

Support grant implementation

The Strategy says that The Global Fund will adopt a differentiated approach both at country level and within the Secretariat designed to mitigate risk while at the same time increasing impact, effectiveness, and value-for-money.

The Strategy explains that at country level this may mean that the Fund "invests through sub-national grants in large federal states, adopts a pay-for-performance scheme in some contexts, or provides direct funding in support of a national strategy in others." A differentiated policy on co-financing will ensure that the programmatic elements supported by the Global Fund change as a country moves closer to transition. And for countries approaching transition, the goal will be to get countries to invest more into often neglected programs such as prevention interventions for key and vulnerable populations. (See GFO article in this issue on the policy on sustainability, transition and co-financing adopted by the Board.)

Improve effectiveness in challenging operational environments

The Global Fund aims to ensure greater flexibility and a quicker response to meet the needs of people in challenging operating environments, including refugees and internally displaced people. In COEs affected by chronic instability, the plan is to use Global Fund investments to increase access to services, and also to strengthen community and health systems. (See GFO article in this issue on the policy on COEs adopted by the Board.)

Support sustainable responses

The Strategy calls for The Global Fund to support countries to sustain disease programs and move towards universal health coverage. The Fund will work with countries to, among other things, increase domestic resource mobilization, strengthen health and community systems, and remove policy and legal barriers to services.

The Global Fund Strategy 2017-2022: Investing to End Epidemics, Board Document GF-B35/02, should be available shortly at www.theglobalfund.org/en/board/meetings/35.

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5. NEWS: The Global Fund shows slow but steady progress in organizational maturity: OIG

Audits and investigations in 2015 reveal that many issues remain

Board wants to see quicker action on managing risks and strengthening internal controls

David Garmaise 26 April 2016

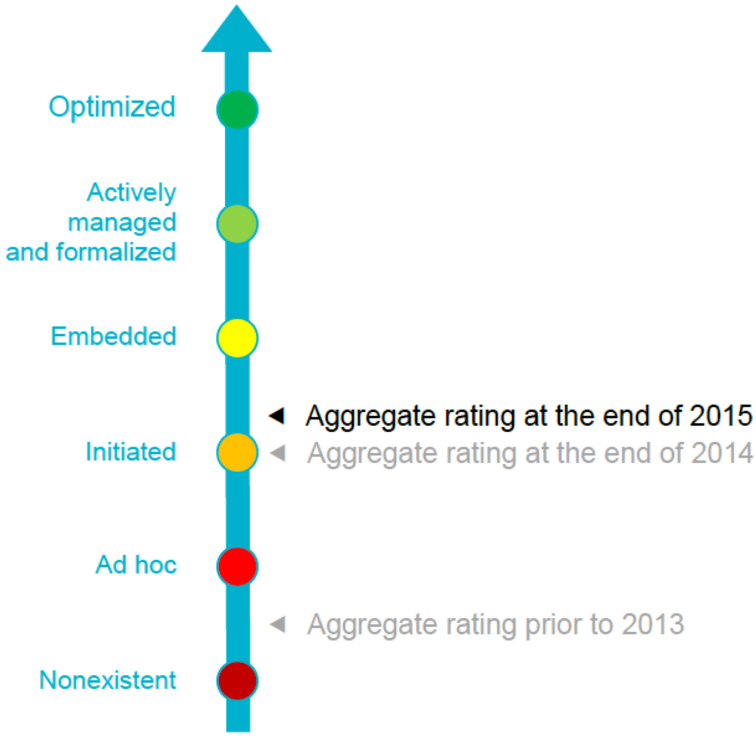
The Office of the Inspector General says that its analysis shows that The Global Fund has demonstrated a steady and progressive improvement in organizational maturity over time, and that the work done in 2015 confirms that positive trajectory.

This information is contained in a paper prepared for the Board meeting in Abidjan on 26-27 April in which the OIG provides its annual “opinion” on governance, risk management and internal controls of The Global Fund.

The maturity scale that the OIG uses is rather technical. At the end of 2014, the OIG deemed that the Global Fund had progressed to an “initiated” level on the maturity scale. In 2015, the OIG said, the organization gradually progressed towards the “embedded” level of maturity (see Figure). Definitions of the maturity categories can be found in an annex to the OIG’s paper.

What makes the paper particularly interesting to read is that in it the OIG identifies the major issues that have emerged from the audits and investigations that it conducted in 2015. This article provides a summary of these issues.

Figure: Global Fund organizational maturity



Partnerships and country ownership

The OIG said that the founding principles of the Global Fund – partnership, country ownership, results-based funding, and transparency – remain as valid today as they were when the fund was established 15 years ago. “Yet, as the Global Fund has grown from a relatively small organization to a multi-billion-dollar institution, it is time for the organization to seriously challenge how well it lives up to each of these core principles.”

The OIG said that its country audits continue to highlight the limits of the partnership model: There have been many instances when weak partner engagement and poor coordination of interventions has limited, or in some cases even undermined, the effectiveness of programs. “Likewise, in the name of the principle of country ownership,” the OIG said, “the Global Fund has sometimes failed to hold accountable recipients of its funds, often resulting in poor implementation, at best, or outright diversion of resources, at worst, as highlighted in many of our audits and investigations.”

The OIG said that its audits in Pakistan, Tanzania, Nigeria, Sudan, and Kenya highlighted partnerships that have not functioned optimally. For example, in Tanzania, the OIG uncovered instances where the Global Fund, government implementers and partners were not aligned on matters such as funding responses to the three diseases, responding to storage and distribution challenges, and coordinating supervision and training activities.

The OIG said that country ownership is the notion that each country defines its own priorities, based on consultation with an empowered group of stakeholders, and owns the implementation of its programs. “However, our audits and investigations regularly highlight the inherent tension between fulfilling the spirit of that concept and, in return, holding grant implementers accountable," the OIG said.

For example, the OIG said, several audits in 2015 have highlighted a high rate of persistent issues unaddressed by implementers, with significant programmatic implications, despite continued commitment of substantial resources by the Fund. "The legitimate concern about maintaining program continuity and minimizing the risk of treatment disruptions may have led, in some cases, to a perception that the Global Fund had few options but to continue funding despite persistent and material weaknesses," the OIG explained.

Strategy planning and fundraising

The OIG said that The Global Fund has made significant improvements in its strategy planning process (see GFO article) and has maintained a strong ability to raise funds. Nevertheless, it said, "significant gaps remain in the maturity of processes to monitor the implementation of the strategy and in the ownership and accountability for the related results." High-level strategic goals are not yet consistently translated into solid operational plans, the OIG said. "The Global Fund currently has a weak framework of key performance indicators that does not allow for meaningful measurement of progress in strategic areas nor does it foster accountability for results. Weaknesses also exist in the oversight and monitoring of key operational initiatives, often leading to implementation delays or near failures."

Grant management processes

The Secretariat has undertaken a series of important initiatives designed to improve its core grant management processes, the OIG said. These initiatives include Accelerated Integration Management, Implementation Through Partnerships, and Differentiation for Impact. If successfully implemented, they have the potential to significantly impact how the Global Fund manages its core grant-making business and the effectiveness of its programs.

Until these initiatives are successfully implemented, the OIG said, its reviews will continue to highlight significant grant management issues across the portfolio.

While the Global Fund has made positive strides in improving the procurement of drugs and other commodities, the OIG said, grant implementation is still challenged by systemic weaknesses in supply chain management as highlighted again this year in OIG's reviews of high impact portfolios such as Nigeria, Ghana, and Tanzania. "These weaknesses have important programmatic implications, such as persistent occurrence of stock outs, expiration of drugs, or leakage of commodities."

The OIG said that ongoing gaps in data quality, both at the Secretariat and country levels, and a limited monitoring and evaluation framework, continue to constrain The Global Fund's ability to consistently and reliably measure the impact of grants. This challenge is further compounded in difficult operating environments, the OIG said. In addition, there are challenges related to the adequacy of existing implementation arrangements in federal environments where they has been significant devolution of health systems at the state level.

Finally, the OIG said, "while The Global Fund has fully recognized that long-term success is unlikely in its fight against the three diseases without a parallel strengthening of health systems and thoughtful strategies to support sustainability after countries transition out, the organization is still in the early stages of tackling these complex issues."

Risk management

In the view of the OIG, risk management is still at an early stage of maturity and there is a lot of work ahead to embed risk management in day-to-day business activities. A risk management framework exists, the OIG said, but it is not yet effectively used to guide the organization in achieving its goals.

The OIG said that the various risk management tools and processes are currently fragmented and need to be streamlined. The Secretariat is addressing this through its Risk and Assurance initiative. The OIG said that progress on this initiative has been slow during 2015 and completion of the related pilots has been significantly delayed. The OIG believes that the root causes of these delays are related to problems with clarity of the vision, stakeholder buy-in and accountability, project management, and executive sponsorship.

Other issues previously identified

In its annual opinion, the OIG identified four areas where issues had been identified previously and where problems continue to occur: due diligence; grant oversight; grant differentiation; and combined assurance.

Due diligence. Recent OIG investigations in Timor Leste and India identified non-competitive tenders and improper procurement practices by Global Fund sub-recipients. The OIG attributed these problems to a lack of due diligence by the implementers. The OIG said that although the Capacity Assessment tool is useful, it is only performed for principal recipients and does not cover all sub-recipients, suppliers, or individuals. "When due diligence is expected to be performed by PRs on other implementers or suppliers, adequate oversight is necessary to ensure the effectiveness of their due diligence procedures," the OIG said.

Grant Oversight. The OIG's 2014 annual opinion highlighted a need to pay greater attention to post-disbursement oversight and monitoring of the activities of grantees, especially financial management at the sub-recipient level and below. The OIG said that some progress has been made in 2015. Scrutiny over grant in-country cash balances has increased. The number of fiscal agents has also increased in order to assist implementers in managing their fiduciary risks. However, the OIG said, portfolio-wide progress in this area will be limited until the risk and assurance project is properly implemented. "OIG audits in Nigeria, Uganda, Pakistan, Tanzania, and South Sudan point to significant gaps in financial oversight that remain due to a fragmented approach to financial assurance."

According to the OIG, oversight continues to be weak at the country coordinating mechanism level. (See GFO article on the OIG's audit of CCMs.)

Grant differentiation. In its 2014 Opinion, the OIG said that the Global Fund has taken significant steps in differentiating its approach to managing grants. But this is still a work in progress. The OIG said that recent audits, in particular in Indonesia, Ghana, South Sudan, and Honduras, have identified the ongoing risks of a non-differentiated approach.

Combined assurance. According to the OIG, audit work in Ghana, South Sudan, and Indonesia has continued to find weaknesses in assurance. "Global Fund assurance initiatives in 2015 have been limited in their effectiveness and, with the exception of the work in the finance division that is still ongoing, are still not tailored to the country context."

Response of the Secretariat

The Secretariat did not take issue with the OIG's rating or findings in a section of the OIG's paper devoted to the response of the Secretariat. The Secretariat said that "in 2015, a strong foundation was laid for improved management for improved management processes."

Board reaction

The Board registered a response of its own to the OIG's 2015 opinion. The Board said that "while in-country partnerships are in place and significant initiatives and measures have been implemented to improve programmatic, fiduciary and risk-management processes, immediate and heightened efforts are needed to accelerate progress and advance risk management systems and processes."

Accordingly, the Board tasked the Secretariat with developing a detailed action plan to advance risk management and internal controls, with measureable and time-bound targets. It asked the Secretariat to report by June 2016 on progress in the implementation of the action plan.

With respect to the differentiation initiative, the Board tasked the Secretariat with reviewing the business model in high-risk countries. It asked the Secretariat to present possible options to the Board's standing committees at their second meetings in 2016. The options will then be discussed by the Board.

The Office of the Inspector General Annual Opinion 2015 on Governance, Risk Management and Internal Controls of the Global Fund, Board Document GF-B35-11, should be available shortly at www.theglobalfund.org/en/board/meetings/35.

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6. NEWS and ANALYSIS: Global Fund wrestles with concerns about grant performance and risks in the Nigeria portfolio

Disbursements for HIV and malaria grants temporarily suspended

David Garmaise 28 April 2016

As happens at many Board meetings, a topic that was not on the official agenda was prominent in corridor discussions. Last meeting it was the allocations methodology. This meeting it was concerns about the performance of grants to Nigeria.

The Office of the Inspector General recently completed an audit on HIV, TB, and malaria grants to Nigeria. A copy of the report was circulated to Board members in last March. Many members requested additional information and further clarification about the audit. Thus, the report has not yet been made public.

However, based on sources within Nigeria, we can report that disbursements for the HIV and malaria grants were suspended a couple of weeks ago, and The Global Fund sent a letter to the President of Nigeria so advising him.

Concerns about the Nigeria grants are not new. As recently as last December, The Global Fund approved $510 million in funding for five TB/HIV grants, including $310 million in new funding. We reported on this in GFO here. In our article, we said that

> "Longstanding weaknesses in the areas of financial, supply-chain, non-health product procurement and grant management have led to fraud and misappropriation of grant funds in the past. Nevertheless, the Fund decided that because of the size of the country, its high disease burden, and the importance of the Nigeria grants in the overall portfolio – Nigeria received the largest allocation of any country ($1.1 billion) – not to approve the grants, in the words of the Grant Approvals Committee, is 'not a preferred option at this stage if the Global Fund is to fulfill its mission.'"

In our article, we quoted the GAC as saying that "interim findings from another audit currently being conducted on Nigeria's grants by the OIG have identified additional weaknesses and concerns. The OIG is also investigating allegations of fraud and misappropriation of grant funds by a government sub-recipient."

The funding award came with with conditions and gave the Secretariat the flexibility to redistribute funds among the four principal recipients involved.

Historically, grants to Nigeria have faced substantial systematic and operational risks and challenges. Key risks identified by the Secretariat included the following:

- grants not achieving targets, including for key indicators such as antiretroviral therapy and TB diagnosis;

- fiduciary risks, including government PRs struggling to oversee countrywide disease responses;
- insufficient capacity to ensure that basic health services are in line with guidance and national standards;
- inadequate monitoring and evaluation, poor data quality, and poor quality of electronic health information systems; and
- systematic weaknesses and risks in procurement and supply chain management systems.

Again citing the GAC, GFO reported that measures already taken in 2015 to respond to the OIG's initial findings include the installation of a fiscal agent to ensure that program funds are spent in strict compliance with Global Fund policies and in line with work plans and budgets; and initiatives to build the financial capacity of the PRs. Additional measures to be implemented in the near future include adjusting the implementation arrangements of supply chain management for the government PRs; and increasing the role of the local fund agent. The Secretariat is also considering fully outsourcing of non-health procurement management.

Finally, we cited the GAC as saying that the federal government will need to be persuaded to take action to ensure that its grants are more effectively managed. "Recognizing that a standard approach to risk mitigation will not be adequate for Nigeria, the Secretariat and OIG will work with the government and development partners to develop a strategic risk management framework tailored to Nigeria's particular needs. The framework will include laying out a roadmap and milestones for the medium and long term."

Tunde Akpeji, our correspondent in Nigeria, contributed to the reporting.

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7. NEWS: Revised eligibility policy adopted

Three-year GNI per capita average to be used to determine income level

David Garmaise 28 April 2016

Under the new Eligibility Policy adopted by the Board at its meeting in Abidjan on 26-27 April, a three-year GNI per capita average will be used to determine income level classification for eligibility purposes (replacing the single year per capita numbers that have been used up to now).

The Eligibility Policy is used to determine which components are eligible to receive an allocation from The Global Fund. It is based on both income level and disease burden.

The Global Fund said that this change will have minimal effect on country eligibility but will serve to moderate the rate of transition into and out of Global Fund eligibility for countries who experience significant annual fluctuations in their GNI per capita.

(Many people have voiced concern about using GNI per capita as the economic indicator, both for the Eligibility Policy and the allocation formula, because it is considered to be a blunt instrument. The Global Fund is participating in an Equitable Access Initiative with other global organizations to develop alternate ways to classify countries for aid purposes. More information on the EAI is available here.)

The other changes to the Eligibility Policy are minor, designed mainly to update terminology and clarify language.

The new Eligibility Policy replaces the current Eligibility and Counterpart Financing Policy. The co-financing portion has been moved to the new policy on sustainability, transition and co-financing (see GFO article) along with the focus of application requirements.

The Eligibility Policy contains a matrix which defines the five disease burden categories: low, moderate, high, severe, and extreme. The matrix may be amended from time to time.

The new policy retains the NGO rule, under which upper-middle-income countries not listed on the OECD's Development Assistance Committee list of official development assistance recipients are eligible to receive an allocation for HIV if they have a reported disease burden of "high," "severe," or "extreme," and if they meet certain conditions. Grants approved under the NGO rule are managed by NGOs.

The new policy also retains the provision that components currently being funded are eligible to receive an additional allocation for the period immediately following their change in eligibility. In these cases, the Secretariat determines the amount of funding and the funding period.

The Global Fund Eligibility Policy, Board Document GF-B35-06, should be available shortly at www.theglobalfund.org/en/board/meetings/35.

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8. NEWS: Board approves new policy on sustainability, transition, and co-financing

Strategy on transition has been eagerly awaited

Gemma Oberth 28 April 2016

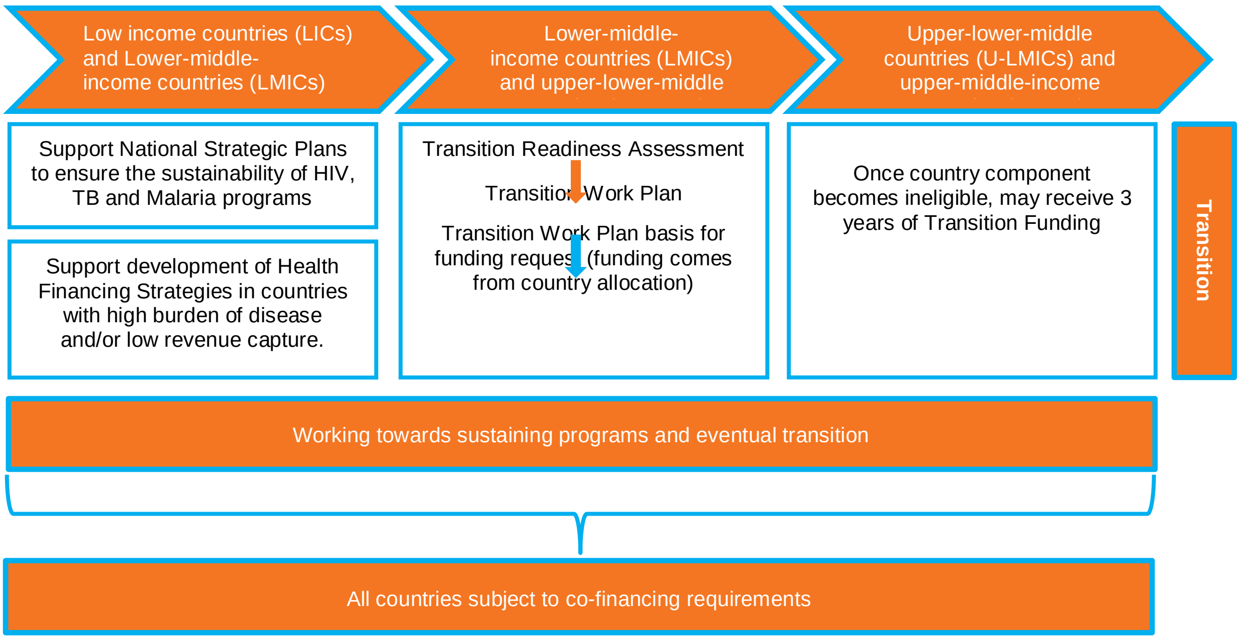
The Global Fund's new strategy for the period 2017-2022 has a strong focus on the sustainability of investments. This includes supporting countries that are transitioning from Global Fund support to domestic reliance for their disease programs.

In recent years, there has been a growing chorus calling on the Global Fund to develop a clear sustainability and transitions policy. The need for this policy is based on mounting evidence that transitions are not adequately planned for. Transitions are often hard to anticipate and hastily implemented. For example, the Fund's withdrawal out of China in 2013 has been said to have been earlier-than-expected, leading to challenges in securing funding mechanisms for civil society (see "The Global Fund's China Legacy"). In addition, Thailand's decision to transition over just a two-year period in 2015-2016 has been viewed by some as too swift to ensure proper handover (see GFO article).

As a result, transitions can threaten the continuity and coverage of vital health services. This threat is especially acute for key populations, as services for criminalized and marginalized groups are often not eagerly absorbed by governments. For instance, in 2007 when Russia's income status meant it was ineligible for further Global Fund money for HIV, the country witnessed a massive scale-down of harm reduction services as the Global Fund left and the government refused to continue supporting these vital programs. There were reports of a surging HIV epidemic among drug users during this time. A similar HIV outbreak among drug users in Romania in 2011 has been linked with the significant decline in harm reduction services following the Global Fund's exit.

Responding to these concerns, The Global Fund has developed a sustainability, transition, and co-financing policy. This policy was approved by the Board at the 35th Board Meeting on 26-27 April 2016 in Abidjan, Côte d'Ivoire. See Figure for a high-level overview of the new policy.

Figure: The Global Fund's new sustainability, transition and co-financing policy



The sustainability, transition, and co-financing policy is based on four key principles:

- **Differentiation** – the policy and associated processes should be tailored as much as possible to a country's income level, epidemiological context, disease burden, human rights and gender contexts, and other context-specific factors.
- **Alignment** - requirements related to sustainability and transition should be linked with existing national systems and/or processes.
- **Predictability** - countries should have as much advance notice and time as possible to adequately plan for transition, including accessing resources for the process.
- **Flexibility** – countries and the Global Fund should have the leeway to adapt certain elements of this policy to better suit a particular country and/or regional context.

A central premise of the Fund's new policy is that all countries should be doing sustainability planning in an ongoing manner, regardless of their income status or disease burden. In other words, the policy encourages countries to be planning for future sustainability challenges, including transition, long before they must do without Global Fund support. Previously, countries would typically only begin sustainability planning after learning they would no longer be eligible to receive funds, or if they were specifically requested to do so by a country team.

With the new policy, The Global Fund will invest in and support countries to institutionalize sustainability planning in their national health strategies, national strategic plans for the three diseases and health financing plans. The aim is to promote early and ongoing sustainability planning at country level so that Global Fund programs can increasingly be implemented through existing country systems.

The policy will also introduce transition workplans, which can be used as the basis for funding requests in countries that are preparing for transition. This approach will be paired with support to countries to assess their readiness to transition, both programmatically and financially.

The Fund will also provide direct transition funding once a country becomes ineligible (see article in this issue on the Fund's new eligibility policy). Transition funding will be made available for up to one three-year allocation period.

In order to incentivize countries to increase their domestic funding ahead of a transition, the policy also contains new co-financing requirements (previously called counterpart financing) to ensure that countries are assuming responsibility for interventions for key and vulnerable populations as they move closer to transitioning. (GFO expects to provide more information on the co-financing portion of the policy in a future issue.)

There are other elements of the new sustainability policy which aim to encourage greater prioritization of key populations within the context of transition. Going forward, all eligible upper-middle-income countries must focus 100% of their funding request on interventions that maintain or scale-up evidence-based interventions for key and vulnerable populations.

Previously, UMICs were required to demonstrate that 100% of their funding requests would cover underserved and most-at-risk populations and/or highest-impact interventions.

While many aspects of this new policy are welcomed by stakeholders, there are still some uncertainties. The policy calls for "timely notification of potential transition," but is unclear how and when countries will be notified.

Further, there are potential pitfalls with the policy's approach to only providing transition funding once a country becomes ineligible, and only for three years. While the policy's central message is that sustainability and transition planning should be done by all countries regardless of where they are in the development continuum, it is not clear how countries will put systems in place ahead of transition if funding is not available early on to do so. Specific transition funding is likely needed before a country becomes ineligible, to ensure greater transition preparedness. According to a recent paper on transitions published jointly by APMGlobal Health and Aidspan, good practice models suggest that responsibly managed transitions should take at least five years, and points out that some of the more successful handovers have taken over eight years.

According to Ivan Varentsov, Global Fund Advocacy Adviser at the Eurasian Harm Reduction Network, the new policy does not provide enough clarity on the key areas where transition is needed. He noted that previous consultations on the issue from the Eastern Europe and Central Asia region identified four critical areas for transition: finance, policy, program, and governance. Others have said transitions need to be considered across six tenets (see GFO article). "Clear definition of such areas will indicate priorities where the Global Fund will invest its transition funding, and where countries will need to focus their responses," Varentsov said.

In a letter to the Global Fund Board and Secretariat, Dr Bart Janssens, Director Operations for Médecins Sans Frontières, the sustainability, transition and co-financing policy relies excessively on country-income classification to limit the scope of interventions that can be funded. "This restricts implementation based on context-specific and inclusive assessments of needs," he said.

The Global Fund Sustainability, Transition and Co-Financing Policy, Board Document GF-B35-04, should be available shortly at www.theglobalfund.org/en/board/meetings/35. A copy of the MSF letter is on file with the author.

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9. NEWS: Policy on working in challenging operating environments adopted

Secretariat will develop an operational framework to implement the policy

David Garmaise 28 April 2016

It might surprise you to learn that challenging operating environments account for a third of the global disease burden for HIV, TB, and malaria, and a third of Global Fund investments. (For malaria alone, the proportion is 50%.) This makes COEs particularly critical to the Fund's mission and objectives.

At its meeting in Abidjan on 26-27 April, the Board adopted a policy on COEs.

The Global Fund defines COEs as countries or parts of countries or regions characterized by weak governance, poor access to health services, and man-made or natural crises. The policy classifies COEs based on countries with the highest external risk index (ERI) level in the Global Fund portfolio and allows for ad hoc classification to enable rapid responses to emergency situations. Classification as a COE is the first step towards potentially accessing the approaches and flexibilities described in the policy.

(The ERI is a composite index developed by the Secretariat. It is derived by compiling data from 10 authoritative published indices highlighting economic, governance, operational, and political risks in a country. The ERI is updated on an annual basis.)

The policy states that when operating in COEs, The Global Fund aims to increase coverage of HIV, TB and malaria preventive and therapeutic services, to reach key and vulnerable populations, and to save lives. It also aims to build resilience through stronger community and health systems, and to address gender-related and human rights barriers to services. During emergencies, the scope of Global Fund investments may be more limited, aiming to provide continuity of treatment and essential services for people affected by the three diseases, as well as to prevent and contain outbreaks.

Global Fund financing in a COE is generally provided through that country's allocation. The relevant grants may be reprogrammed to respond to the crisis. During emergencies, the country allocation may be complemented by financing from the Emergency Fund.

In emergencies where there is significant cross border displacement, funds may be drawn from the allocations of more than one country.

The Secretariat will develop an operational framework to implement the new policy. As well, country teams operating in COEs will be strengthened to ensure they possess adequate experience and expertise in COEs. Finally, a COE Support Team will be established in the Secretariat to provide guidance to the country teams operating in COEs. In addition to ensuring a coordinated approach across COEs, the support team will document best practices and share learning experiences, monitor and report key risks, build partnerships at global level and facilitate partnerships at country level.

Certain flexibilities will be available to The Global Fund when it operates in COEs. This could include extending the length of existing grants; accepting applications under a non-CCM approach; waiving some requirements during the application process; adjusting targets, activities and budgets; and using third parties to manage the supply chain.

The policy affirms that national and global partnerships play a central role in COE situations. The policy states that linkages with health, logistics, protection, gender-based violence, and other clusters and sectors will be strengthened to improve coordination and foster integrated approaches during emergencies. Clusters consist of humanitarian organizations, both U.N. and non-U.N., working in specific areas, such as providing water and delivering health services.

When feasible, the Global Fund will support civil society organizations and communities to implement programs. It will also work towards greater involvement of private sector providers, particularly in settings where public health services are primarily provided by the informal sector.

The Challenging Operating Environments Policy, Board Document GF-B35-03, should be available shortly at www.theglobalfund.org/en/board/meetings/35.

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10. NEWS: On KPIs, four 2015 performance targets were missed

Eight of the 13 KPIs show strong performance

Mary Lloyd 28 April 2016

The Global Fund has failed to meet its 2015 targets on access to funding, value for money, resource mobilization, and human rights protection. The Fund is also unlikely to meet its 2016 target for health systems strengthening.

This information was contained in a paper on the results of the Fund's key performance indicator targets presented to the Board at its meting in Abidjan on 26-27 April.

Other measures of the organization's performance are showing strong performance. For example, the Fund has already met and exceeded its 2016 target of having more than seven million people alive on antiretroviral therapy. As well, current data suggests that 95% of all service delivery targets will be achieved.

The results are not surprising; they had been predicted in previous updates.

The following information is about the KPIs whose targets have not been or will not be met.

KPI 7: Access to funding. This KPI measures time from concept note submission to first disbursement. The target for notes submitted in 2014 was to have disbursements made within

10 months for 75% of grants. For 2015, the target was to have disbursements made within eight months for 75% of grants. In 2015, only 55% of grants met the target.

KPI 10: Value for money. The Board has been told this KPI, which measures The Fund's ability to make savings by leveraging its purchasing power, is below expectations and that improvements are needed in procurement forecasts. The 2015 target was to reduce spending by 8% per year for 2013-2015, However, only a 5.3% reduction was achieved.

KPI 12: Human rights protection. The Global Fund says it aspires to have all human rights complaints made against its supported programs identified through risk assessment tools. It also wants to see them all resolved through Secretariat procedures. Instead of year-on-year improvements towards a 100% success rate, in each of the past three years, only 30% of complaints have been resolve in the way the Fund expects.

KPI 13: Resource mobilization. This KPI measures the value of pledges to The Global Fund as a percentage of the replenishment target. It also monitors actual contributions as a percentage of the forecast contributions. The Board has been warned there is a risk that not all expected contributions will turn up by the end of the current replenishment period. At the end of 2015, 83% of The Fund's target had been pledged, and 75% of pledged contribution had become actual contributions. Underperformance in this area is said to be a result of donors delaying contributions promised for 2015 until 2016.

KPI 5: Health systems strengthening. The Fund seeks to improve service availability in the countries where it operates, and has been gathering data which it has attempted to use to calculate a service availability and readiness score. Its target was to see 60% of countries' scores show an improvement of at least five percentage points from 2014 to 2016. Only one country has been able to provide enough data to calculate a score, however, and that score only recorded a four percentage point increase. What's more, that country is said to have started from a baseline that was higher than other countries surveyed. Survey results for nine other countries were supposed to have been collected by the end of 2015. Just one of those would have provided the repeat score needed to make the calculation, but it was not completed.

> ***Editor's note****: The Board will soon be asked to approve a new KPI framework to replace the one currently being used, so the 2015 results need to be viewed in this context.*

The Corporate Key Performance Indicators: 2015 End of Year Results, Board Document GF-B35-22, should be available shortly at www.theglobalfund.org/en/board/meetings/35.

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