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OIG Investigation in Cambodia Prompts Suspension of Two Top LLIN Suppliers Over \$410,712 in Kickbacks

Two suppliers responsible for nearly 50% of all long-lasting insecticide-treated nets (LLINs) purchased by the Global Fund on behalf of malaria projects worldwide have been suspended following an investigation in Cambodia into widespread fraud and kickbacks paid to government officials.

The report on the investigation, the first report released under new Inspector General Martin O'Malley, was the result of a two years of investigative work by his predecessors. The report recommended that Vestergaard Frandsen and Sumitomo Chemical Singapore be sanctioned. Acting on a recommendation of the Sanctions Panel, the Global Fund Secretariat took the decision to suspend both companies from further tendering pending review.

The two suppliers were found to have paid kickbacks worth \$410,712 to two Cambodian officials working at the National Centre for Parasitology, Entomology and Malaria Control (CNM): at the time, the principal recipient of malaria grants worth \$11.8 million from 2006-2011. Cambodia has received some \$331 million in grants since 2003 for its fight against AIDS, TB and malaria.

In emails responding to GFO's requests for comments, both companies said they had reviewed operations in the region and taken action. Sumitomo's spokesperson said "Sumitomo Chemical Singapore takes a serious stand against employee misconduct of any kind and has taken appropriate remedial measures."

Vestergaard's spokeswoman Meryl Rader said: "Vestergaard has reviewed the report of the investigation... into certain business transactions that occurred out of Vestergaard Frandsen India from 2007 – 2011.

"The matter under investigation by the Global Fund related to improper activities by two employees in Vestergaard Frandsen India. This was not known or approved by our management in Switzerland. Nonetheless, Vestergaard is ultimately responsible for the company and actions in any of its subsidiaries. We have implemented corrective actions that include improved controls and procedures in all our operations. We're committed to operating under the highest ethical and business practices. Vestergaard will cooperate fully with the Global Fund on this matter as we have done to date."

Additionally, among two sub-recipients of Fund grants, two staff positions at an entity called MEDiCAM were improperly charged to the Fund in 2009 and a procurement officer manipulated procurements at the National Centre for HIV/AIDS, Dermatology and STD Control (NCHADS), according to the 216-page report released by the OIG. Those manipulations were worth an additional \$20,000.

Cambodia contracts for nets for the two suppliers were themselves valued at \$10.7 million for Sumitomo and \$7.1 million for Vestergaard over the five-year period. Overall, around 50% of all nets supplied through Global Fund-funded projects in 2012 and 2013 were the purview of the two multinationals; in 2011, that figure was 80%.

Out of a total \$17.8 million in contracts under the CNM, the OIG only found evidence of wrongdoing amongst contracts worth \$11.8 million. Also the investigation found that all nets procured through the grants were provided as intended through the programmes.

In what Global Fund Executive Director Mark Dybul called the Fund's full commitment to "pursuing fraud and taking action when we find it," the CNM has also been replaced as the PR. Fiduciary and procurement agents have been appointed to work with NCHADS, and it is anticipated that under the new funding model (NFM) that fiduciary controls for higher-risk sub-recipients will be strengthened.

Since September 2013, where Cambodia had previously been responsible for its own procurement through a direct procurement mechanism, UNICEF, has, following a Fund request, begun procuring all health products paid for by Global Fund grants.

The challenges in Cambodia reflect a need within the Fund to strengthen its procurement process to avoid the potential for abuse of an open tendering system. Prior to 2013, within procurement for LLINs alone, there were more than 220 specifications reflecting country- or supplier-specific requirements that carried with them the allure and possibility of improper procurement and graft.

As it begins to implement its NFM, the Fund will be moving to a new framework for procurement of health commodities, which could eventually cover all countries receiving Global Fund money. In 2012, sourcing and procurement together were valued at \$2 billion of the \$3 billion in disbursements by the Fund.

Already 83% of products in 55 high-risk countries are being supplied under a pooled procurement process ([see GFO commentary](#)) organised by the Secretariat and distributed based on needs identified at the country level.

LLINs are among the primary commodities to be covered by this new framework; as [reported](#) in GFO on 6 November, seven manufacturers have signed contracts for the largest-ever bulk purchase of LLINs, generating a projected savings of \$140 million over two years and making possible the purchase of 190 million nets by the end of 2014.

A plan to recover the misused funds is already under way. Aidspace understands that recoveries are being sought from the responsible recipient entities. Any sanctions against the companies will be recommended by the Sanctions Panel, which operates separately from the recoveries process. There is no firm timetable for the recoveries, however.

The high-profile investigation was initiated in 2011 and it comes at a critical moment for the Global Fund as it heads into its Fourth replenishment conference in December, at which it is seeking \$15 billion for the 2014-2016 cycle.

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