



Independent observer  
of the Global Fund

## SIGNIFICANT IMPROVEMENT REQUIRED IN GRANT MANAGEMENT IN HIGH-RISK COUNTRIES: OIG

Measures taken by the Global Fund to manage grants in high-risk environments are inadequate. This is the central conclusion of an audit performed by the Office of the Inspector General (OIG) in 2016. A [report](#) on the audit was released on 23 January 2017.

[Global Fund Grant Management in High Risk Environments \[Audit Report\]](#)

In this article, we provide a summary of the audit findings. We plan to do a separate article on the actions the Secretariat has agreed to take in response to the findings.

### Background

The Fund has classified 47 countries as high-risk or very high-risk, based on a risk classification known as the External Risk Index (ERI). The ERI is an aggregate of 10 indices developed by other organizations that capture political, economic, governance and operations factors that contribute to external risk. In April 2016, the Fund identified 24 of these 47 countries as “challenging operating environments (COEs).” These environments have high ERI and are characterized by weak governance and man-made or natural crises.

Since the inception of its new funding model, the Global Fund has signed grants amounting to \$5.7 billion with the 47 countries; since September 2016, it has disbursed \$2.6 billion to these countries. Due to the unique risks and capacity challenges in these countries, 61% of grants are managed by U.N. agencies and NGOs.

One of the tools that the Global Fund uses to manage grants in high-risk environments is the Additional Safeguard Policy (ASP). The policy is designed to be temporary and is used when the Fund determines

additional measures are required to ensure the security of Fund financing. Typically, under the ASP, the Secretariat selects who will implement the grants (in consultation with the country coordinating mechanism) and institutes tighter controls on the flow of funds. The latter often includes implementing a “zero cash” policy. Under this policy, sub-recipients do not receive grant funding in advance; instead, disbursement is made (a) on a reimbursement basis against submission of appropriate invoices and other supporting documentation; or (b) directly to the suppliers by the principal recipients (PRs).

Other tools include the use of fiscal agents and procurement agents. Fiscal agents have been put in place in 23 countries supported by the Global Fund, of which 15 are high-risk and very high-risk countries. The Global Fund may appoint a fiscal agent to act as an enhanced control function within the implementers to oversee and verify expenditures of grant funds through a pre-expenditure review and sign-off process. They are also appointed to build the financial management capacity of the principal or sub-recipients. Procurement agents manage the implementer’s procurement activities.

Other initiatives have been developed by the Secretariat to respond to unique risks in six countries in the Middle East (the Middle East Regional Initiative). These countries face constantly evolving needs, limited capacity and severe constraints in providing essential services due to conflicts. The initiative seeks to streamline the implementation arrangements in these countries through the use of a single international PR that manages the grants centrally but with satellite offices in the respective countries.

### The audit findings

The OIG audit focused on two aspects of grant management in high-risk countries: (1) whether existing measures are adequately designed to ensure impact; and (2) whether existing measures are effectively implemented.

While the OIG found deficiencies in both areas, it acknowledged the impact the Global Fund has had in these difficult environments. In its web summary of the audit, the OIG said that “programs financed by the Global Fund have made some headway. HIV incidence in 13 high risk countries decreased by at least 50% from 2000 to 2015. Similarly, TB incidence in seven high risk countries went down by at least 50% between 2000 and 2015. Finally, malaria-related deaths also decreased by at least 50% in 14 high-risk countries during this period.”

### Design of existing measures

The OIG said that although existing tools and initiatives in high-risk countries have had some positive impact, there are limitations in the ability of the Secretariat to actively identify and assess emerging threats.

With respect to the identification and classification of risks, the OIG said that there are inadequate early warning mechanisms to identify and monitor risk levels of grants to allow for a timely response; and that this results in delays and a reactive approach in addressing risks. According to the OIG, some PRs have a set of indicators that enable the collection and assessment of emerging risks, but it remains unclear how the Secretariat leverages this information for decision-making.

In addition, the OIG found that while country teams are flexible in managing grants in high-risk countries, the absence of a defined risk appetite and minimum verifications required for grants in these environments have affected the ability of the teams to take measured risks. For instance, decisions on how much supporting documentation is required to distribute bed nets in conflict-affected areas often delay the implementation of such activities.

The audit also found that emergency preparedness has not been consistently incorporated in grant management in high-risk environments. As a result, country teams often have to plan a response from scratch during emergencies. At the time of the audit, only three COE countries had developed emergency

response plans.

In the opinion of the OIG, these design gaps are due to the absence of an overarching framework to support grant management in high risk environments. The OIG noted that the Secretariat is working on an operational policy note to guide country teams on managing grants in challenging operating environments.

The OIG concluded that the design effectiveness of current processes and measures for grant management in high-risk environments “needs significant improvement.”

### Implementation and monitoring

The audit found that the measures being employed to manage grants in high-risk environments have not always addressed the risks they were intended to address. For example, the OIG said that there were gaps in the quality of assurance services provided by fiscal agents: External audit reports for 14 grants in seven high-risk countries were “qualified” due to ineligible and unsupported transactions, even though fiscal agents had already been in place for at least 12 months. (In this context, a qualified opinion means that the information provided to the auditors was either limited in scope or the organization being audited has not maintained acceptable accounting principles, or both.)

Although there has been progress on financial risk mitigation, the OIG said, supply chain and programmatic mitigations have not shown equivalent progress and are not effectively addressed in 10 countries that are under the ASP due to the inherent weaknesses in the national systems. “The Secretariat does not have effective and timely corporate measures to enable country teams to tailor responses to address supply chain and programmatic issues in high risk environments.”

To respect the Global Fund’s country ownership principle, additional safeguards are supposed to be short-term measures. However, the OIG said, a clear strategy to phase out short-term measures has not been consistently agreed and implemented with in-country stakeholders. The audit found that 13 of the 19 countries that are under the ASP did not have exit strategies. Only two countries have transitioned from the ASP since 2004. (Editor’s note: This is a sore point for many countries.)

The OIG also found that monitoring has been less than optimal. Eleven of the 19 high-risk countries have been under ASP for at least five years without a reassessment of its effectiveness. Contrary to what its own operational policy note calls for, the Secretariat has never presented a report of the status of countries to the Audit and Finance Committee (or its predecessor committee). While fiscal agents are required to be assessed every year, the OIG said, the necessary tools and systems have not been developed, resulting in inconsistent reassessments by country teams.

The audit also found that the Secretariat has not analyzed and defined thresholds for the costs of doing business in high-risk environments. The OIG’s analysis of grant expenditure in 2014 and 2015 indicated that five countries spend at least 57% (\$42 million) of their grants on staff, overheads, planning and administration. Such high indirect costs affect the ability of countries to fund programmatic activities, the OIG said.

The audit concluded that the existing implementation and monitoring of the additional measures and tools in high risk environments “needs significant improvement.”

As we indicated at the top of the article, we plan to do a separate article on the actions the Secretariat has agreed to take in response to the OIG’s findings.

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