Independent observer of the Global Fund

To risk or not to risk, that is the question

022 is a replenishment year for the Global Fund, a pivotal year for all those involved in the fight against the three pandemics. As Executive Director Peter Sands reminded us in his report to the Board last November, this replenishment is one of great danger: it comes at a time when the Global Fund has not stopped raising funds over the last two years in the fight against COVID-19, in a global economic context weakened by two years of pandemic and supported by a less flattering balance sheet than expected. Added to this is the fear, experienced every three years, that the allocations made to countries will not be absorbed, aggravated by the arrival of the COVID response funds, whose implementation began slowly in the last quarter of 2021.

This frenetic cycle, which repeats itself every three years, puts pressure on the Secretariat to spend funds strategically and without financial risk. This has many consequences on the quality of implementation, the opportunities to reorientate activities deemed outdated, or the ability to question the appropriateness of the modus operandi. In response to this, implementers are under contradictory pressure to implement as quickly as possible, while ensuring that funds are properly managed, and risks are controlled. However, risk management and implementation agility are inversely proportional, and this discussion on the nature of risk, and how to trade off the range of risks (reputational, financial and operational) does not take place at the country level. This is regrettable, as it would make implementers and recipient countries more accountable, rather than generally placing them in a position of being taken to task by Global Fund staff. Nor does it really take place in the Secretariat, as the fear of being caught out of monitoring takes precedence. Finally, it is only discussed by the Board in terms of overall risk appetite, which is still very low. The ambition of zero financial risk kills the ambition of controlled operational risk.

Can financial risk management be openly reviewed and made a priority for country stakeholders?

The risk management framework is very comprehensive and was reviewed in 2021 following the increasing risks faced by the Global Fund in the context of COVID-19. A team is in place in Geneva to create and update the risk management tools and support the Country Teams in risk mitigation activities. In addition, the Fund's fiscal agencies and Local Fund Agents (LFAs) are working in recipient countries to monitor the commitment of expenditures and their proper justification, tracking fraud and verifying that the intended impacts are being achieved. The Office of the Inspector General (OIG) conducts at least ten audits each year and publishes the reports on the Global Fund website. Risk management, particularly financial risk management, is highly regulated and generates a whole ecosystem of useful but costly staff and mechanisms. Part of this expenditure is financed by the country grants (the work of the fiscal agency and annual audits), i.e., by the beneficiary countries, which do not have control over the process. But we must recognize the following truths.

First, this set of audit procedures and actors does not prevent fraud, it makes it more difficult, and therefore it must be more elaborate and inventive. A simple reading of the last 10 OIG audit reports shows the scale of some of the frauds, committed by local stakeholders as well as international Principal Recipients (PRs). In some countries the levels of corruption are so high that they are almost impossible to curb, as they permeate the entire system and have become fully-fledged modus operandi that have to be dealt with as a matter of course. In this case, we know that risk mitigation measures are useful but insufficient. It would be worse without them, but the price (cost of fiscal agencies, LFAs, audits, implementation delays, rejection of activities deemed too 'dangerous' even when they are programmatically relevant) is high.

Secondly, they are top-down, always placing the implementing partners in a position of being potential suspects, fearing that they will be blamed for something they do wrong. Risk management is not 'taught' in the field or even to Country Teams, nor is it a subject of discussion during country dialogue or grant making. The country proposes and the LFA disposes, in which case it chooses to recommend — or not — what it considers both relevant and easily controllable.

During implementation, the fiscal agent takes over all activities and corrects errors, without always taking the time to explain and train local counterparts. Fiscal agents answer to their headquarters in Europe or the United States, they know that any mistake is fatal, and they act more like bloodhounds tracking down errors than as coaches trying to prevent the errors occurring in the first place. The LFA, on the other hand, answers directly to the Global Fund and stands on the implementers' side-lines, evaluating their work. Again, this is a top-down, asymmetric relationship.

One wonders to what extent this architecture, where everyone seems to fear fraud, produces collective intelligence. Donors to the Board are already likely to be confronted by corruption in the activities they fund: bilateral partners support thousands of projects in developing countries and are well aware that risks exist. They are aware of the existence of the risk management framework to ensure that they will continue to financially contribute while at the same time spared from direct involvement in risk discussions. They are not sufficiently involved in seeking solutions that may be implemented in the programs funded by their countries. Country Teams and the risk management department are afraid of being caught out, while it is difficult — if not impossible — to manage risk from Geneva. In the field, the fiscal agent and the Fund's agent work under the double pressure of their hierarchy (which wishes to safeguard its position as a Global Fund service provider) and of the Global Fund's Country Team, with their efficiency sometimes called into question by OIG audits.

However, the question of risk, in particular financial risk, is everyone's responsibility, just as the question of safety does not depend solely on someone with the word 'safety' in their job title. Every member of a PR and Sub-Recipient (SR) team, every ministry, every Court of Auditors, the General Health Inspectorate, is in fact concerned with this issue. They know better than anyone the risks they run, and they must take their share of responsibility, not just pay out when fraud is proven.

If risk is treated as just another issue, and one in which all of us have a share, it strengthens the governance, transparency and trust that donors have in a country and, hence, it may well find a home. There is an urgent need to avoid making risk management a topic that is pushed “from Geneva”, presented as restrictive, unnecessarily complex, and a source of unequal relations that can sometimes even be perceived as neo-colonial. Ownership is one of the ways to make this subject sustainable, and to put the responsibility first and foremost on the leaders of the recipient countries. Not only when they have to foot the bill, but in the arduous exercise of putting in place good management habits, discussions on exemplary measures, and the notion of accountability towards the beneficiaries. The question of risk is not a purely financial one. It is a broader political issue addressing governance and accountability in the noblest sense: the organisation and management of health services for those most in need.

Operational risk management, let’s open the discussion

The two years of COVID-19 have put the activities planned in the current NFM3 cycle at great risk. And the addition of C19RM grant activities in 2020 and 2021 has amplified this risk, as the same PRs have been selected to implement both grants. Many PRs are now behind schedule, with the year 2021 cut short by the C19RM application process. The African Constituencies’ Position Statement on the 18th Audit and Finance Committee Meeting in March 2022 makes several observations on the C19RM which addresses all these very same stumbling blocks to effective implementation.

Countries are now being asked to accelerate implementation on both NFM3 and C19RM grants, in contexts where the latter is tending to dwindle, rendering some activities obsolete or partially useless. But this acceleration is usually slowed down by numerous procedures to mitigate the risks. Untimely revisions of terms of reference, requests for no-objection notices that drag on, requests for justification of advances that condition the launch of the next activity, etc., all this produces numerous delays, multiple exchanges of emails, telephone discussions and obstacles to implementation. Here and there, some fiscal agents agree to take a one-off risk, only to return to normal very quickly. And the operational risk associated with the delays is not calculated.

Indeed, absorption rates that do not exceed 50 or 60% for the COVID response are not ‘savings’, as Country Teams are accustomed to calling them. They are in fact many missed opportunities to deliver services that were thought to be useful to beneficiaries. Every activity cancelled or cut back is a right taken away from a community, at the risk of no longer meeting the needs identified during the application process. Is this not the ultimate risk for the Global Fund and its partnership? Reputational risk, of not keeping its promises to serve the most vulnerable; operational risk, of not contributing to the elimination of the three diseases as it should? Moreover, there is a moral risk, of having certainly protected resources, but having done so at the expense of the most vulnerable.

What next?

To avoid this untenable situation, we need to think as partners, without being afraid to face up to the problems, and by placing the debate at the right level. The partners on the Board play a fundamental role: the communities are represented, they must question the pace of implementation, the tools used to manage the risk, and advocate for a simplification of procedures; the donors must look the problem of risk in the face and recognise that it will result in uncomfortable situations of fraud, which they will analyse, condemn, and monitor the resolution of, without burdening the Secretariat with the threat of their withdrawal; the delegations of the beneficiary countries have a great responsibility in the way they must raise awareness among the ministries of the countries in their zone, train them if necessary on the Global Fund’s requirements, and encourage them to be transparent.

In the field, there are opportunities for everyone to take up the issue of risk: why not add it to the country dialogue? During grant-making, one could also consider collectively building a risk matrix attached to the grant, for which each actor involved would be held accountable. Finally, let's use the monthly, quarterly, and half-yearly reviews to discuss operational risk, in particular the non-implementation of activities and the necessary reorientation of envelopes sometimes planned as much as three years before their use, in a changing context. The response to COVID is a good lesson and a starting point for this discussion: should we persist in buying millions of tests and protective equipment, when the epidemic no longer seems to be seriously affecting a number of countries? How do we redirect the funds towards activities to strengthen emergency response actors and the health system, and in a timeframe short enough to allow the funds to be implemented before December 2023? In short, how can we risk using the funds allocated intelligently, with the aim of providing beneficiaries with the best efficient, equitable and accessible health services?

The new Global Fund Strategy 2023-2028 and its implementation, as well as the next round of funding (NFM4), represent a unique opportunity to tackle the question of risk differently, and thus to renew this partnership which has demonstrated its success, but which the Strategy says must evolve or it will reach its limits

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