Independent observer of the Global Fund

Fiscal agents reduce financial risks within Global Fund grants but do not build implementer capacity

Fiscal agents have been part of the Global Fund Financial management system in countries with high or moderate fiduciary risks since 2012. According to the Global Fund Guidelines on Financial Risk Management, fiscal agents reduce financial risks originating from weak financial management of principal or sub-recipients of Global Fund grants. This article aims to foster an understanding of the place of fiscal agents in Global Fund grants, and of fiscal agents' successes and challenges.

Data for this article comes from Global Fund public policy documents, reports from the Office of the Inspector General, interviews with the Global Fund Secretariat's Finance and risk departments, Country Coordination Mechanism (CCM) representatives from Burkina Faso and Malawi (examples of countries that have fiscal agents) as well as technical assistance providers to Global Fund grants.

Fiscal Agents – a risk-mitigation measure

Fiscal agents work in 23 countries, among them 15 that are classified as high- or very high risk, according to the OIG report on Global Fund Grant Management in High Risk Environments. According to the financial risk management guidelines of the Global Fund, fiscal agents' first objective is to "mitigate the risk of fraud or misuse of grant funds and minimize ineligible expenditures on the use of grant funds". In this role, the fiscal agents verify that requests for funds are in line with the implementer's and Global Fund policy. Once payments are made, fiscal agents assess the appropriateness of supporting documents and ensure that records are properly maintained. The fiscal agents also aim to ensure that implementers produce accurate and timely reports. One of the Global Fund principles is performance-based funding: implementers submit a progress-update and disbursement request report containing financial and program achievements against agreed-upon targets at a regular frequency, usually every six months.

Fiscal agents should help build the capacity of the implementers to manage the grant over time. Part of fiscal agents' role is to help the Principal Recipient (PR) or sub-recipient (SR) develop and implement good financial management policies.

Fiscal agents operate through two possible modalities. The first is that they are signatory to the PR's bank account that holds the Global Fund grant monies. When this co-signature mode is not acceptable to the PR (sometimes the case with state PRs because of national laws or regulations) another modality is that fiscal agents sign purchase vouchers prepared by the PR to approve expenditures before Global Fund money leaves the PR's bank account.

Often, fiscal agents are set up after the Local Fund Agent (LFA) and external audits identify financial management issues, and the Secretariat and the CCM decide to maintain the PR or the SR, either because the Global Fund believes that the identified financial risks can be mitigated or because the risks emerge in the middle of an implementation period, when it would be complicated to change an implementer.

Fiscal agents, although independent from implementers, work on a daily basis with the PR's staff. Fiscal agents are often large companies and their staff report to the Global Fund Secretariat quarterly and to the headquarters of their own organizations. According to the Secretariat, fiscal agents are selected through competitive bids. The GFA consulting group, headquartered in Germany, covers 44% of the Global Fund's fiscal agent work.

Figure 1: Fiscal agent in the risk management process with stakeholders

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CAT: Capacity Assessment Team, LFA: Local Fund Agent, CCM: Country Coordination Mechanism

Source: The Global Fund Guidelines on Financial Risk Management

Other Global Fund risk-mitigation measures

The Global Fund has devised other risk-mitigation measures that add layers of assurance and staff to implementers' operations. Three such noteworthy measures are fiduciary agents, procurement agents and payment agents.

The fiduciary agents report to the PR; they are in charge of the financial functions at the PR level. The procurement agents report to the Secretariat; they are in charge of the purchasing of non-health commodities (health commodities are often bought through the Pooled Procurement Mechanism managed centrally at the Secretariat). Procurement agents follow the Global Fund procurement policy, which upholds the principle of competition and the values of impartiality, transparency and accountability. Finally, payment agents make "payment of physical cash in areas of high risk and limited banking services" on behalf of the PR to the intended beneficiaries. The Global Fund grant implementers use payment agents in cases of weak banking and control environments where cash payments are necessary.

Successes of fiscal agents in some countries

Fiscal agents have been relatively successful in their main role of reducing the risk of fraud and misuse of the Fund's monies, according to several reports published by the Global Fund's Office of the Inspector General.

Fraud and other misuse of Global Fund monies used to be common characteristics of grants in Nigeria. The country is one of the Global Fund's biggest portfolios owing to the size of its population (about 190 million) and the high prevalence of malaria. However, a 2016 OIG audit did not find any material irregularities, after the Secretariat had, in 2014, increased the scope of fiscal agents' work, along with changing the PR and instituting other risk-management measures. A related success was that the presence of fiscal agents enabled the Secretariat to continue funding grant activities through some sub-recipients in Nigeria, when principal recipients had been suspended because of financial mismanagement.

According to the Secretariat, the timeliness of reporting by PRs who have fiscal agents has also improved. An additional advantage of fiscal agents is that their presence allows the State PR (which they often support) to remain the grant implementer. (When a PR performs poorly, the PR can be changed; when the non-performing PR is a government entity, like a Ministry of Health, usually the Global Fund contracts an international non-governmental organization or a United Nations agency to serve as PR instead.)

As an illustration, in Malawi, the fiscal agents help the Ministry of Health, which is the PR for HIV/TB and malaria grants ,submit error-free and timely reports, according to Maziko Matemba, vice-chair of the Country Coordinating Mechanism. Both of these grants are now rated A1 and A2 (the two highest ratings out of five). Maziko Matemba explained that the fiscal agents follow up on planned activities, to remind the PR to conduct them on time. They even attend CCM meetings as observers, not participating during discussions but listening in order to gather important insights that can be used for their work.

Fiscal agents' limits

Financial fraud and misuse still occur in grants that have fiscal agents, though at a much-reduced rate and scale. The reason is twofold: first, fiscal agents concentrate on the fiscal aspects of the grants, leaving the program side to other assurance mechanisms, notably Local Fund Agents; second, fiscal agents cannot and do not control all financial aspects of the grants but focus on areas that are considered higher risk.

An illustration of how financial fraud and misuse still occurs comes from a technical assistance provider to a Global Fund grant, who was not able to speak on the record but is familiar with the implementing environments in several African countries. He explained that implementers bent on stealing Global Fund resources and familiar with Global Fund grant writing and submission processes sometimes orchestrate the inclusion of certain activities into the grant at the time of concept-note development, or grant making. Then, once those activities are approved as part of the program, fiscal agents—whose mandate focuses only financial risk mitigation— cannot stop them. Even when the fiscal agents have a strong suspicion that those activities were designed to enable the misuse of resources.

Another example, given by the Global Fund Secretariat, illustrates fiscal agents' limits: Fiscal agents based in a PR's office at the central level authorize an expense for training to occur in a rural area. The PR staff then takes the money intended to finance the training and steals some through inflated bills, or outright forgery of invoices. In such an occurrence, the fiscal agents are not held responsible and the PR is required to reimburse the Global Fund. The OIG report on grant management in high-risk countries (cited above) also highlighted the fact that seven grants in 14 countries received qualified audit opinions because of ineligible and undocumented expenses.

Problematic issues with fiscal agents

The fiscal agent concept faces several fundamental issues.

The first issue is the lack of clear plans and milestones for fiscal agents' exit. Fiscal agents' support, which is supposed to be temporary, sometimes becomes a fixture in the grant. This finding is supported by the OIG review in West and Central Africa, which found that once a fiscal agent is installed in a country, the agent remains in place several years or grant cycles later without a clear exit plan. Fiscal agents have been supporting grants in Burkina Faso, Guinea, Guinea Bissau, Niger and Sierra Leone since 2013, or for at least 6 years (without counting the current year 2019) as the Table 1 below extracted from the OIG report indicates (grey shading indicates the presence of a fiscal agent).

Table 1: Countries and years of fiscal agents presence in West and Central Africa

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Source: OIG review Grant implementation in Western and Central Africa (WCA) Overcoming barriers and enhancing performance in a challenging region

Plans are now underway for the exit of fiscal agents from Burkina Faso and Bangladesh, according to the Secretariat and the CCM Chair of Burkina Faso. These plans have been made after repeated criticisms by the OIG on the shortcomings of the fiscal agents in different countries like Chad, Guinea, or group of countries like the high-risk countries.

A second fundamental issue with fiscal agents is that they rarely build the capacity of the PR or SR although this function is an essential one as stated in the Global Fund financial risk guidelines. The lack of capacity building is due to the inherent conflict of interest in fiscal agents' objectives: Building the capacity of the PR would be a threat to their business.

Consequently, fiscal agents "have an incentive to make the PR look bad so their contracts get extended," according to a technical assistance service provider on several Global Fund grants with a fiscal agent, who requested anonymity in order to speak to Aidspan. The lack of capacity building is compounded by a high staff turnover within the fiscal agent firm or at the PR level, according to the Secretariat.

Finally, little coordination occurs among fiscal agents and other institutions that provide assurances for the Global Fund. For instance, fiscal agents do not have a system of regular consultations with Local Fund Agents (LFA) or Country Coordinating Mechanisms to understand or address existing and emerging risks. This lack of systematic, formal meetings has been acknowledged by both the Secretariat and the CCM representatives who talked to Aidspan. The OIG also highlighted inconsistent assessments of the fiscal agents by country teams.

Note that fiscal agents are paid out of grant funds meaning their presence reduces the amount available for grant implementation.

Way forward

According to the Secretariat, the way forward is to "retain the fiscal agent concept but improve the model," for instance by clearly defining measures of success and potential exit strategies. The OIG report on West and Central Africa also recommended that the fiscal agents' role should not include capacity building.

Further reading:

- OIG Review The Global Fund Guidelines on Financial Risk Management, November 2017, Geneva, Switzerland
- Audit Report – Global Fund Grant Management in High Risk Environments – 23 January 2017 (GF-OIG-17-002)
- OIG Investigation Final Report of Investigation of Global Fund Grants to Nigeria – Part One: Principal Recipient Yakubu Gowon Centre for National Unity and International Cooperation (YGC)31 October 2011 (GF-OIG-11-011)
- OIG review Grant implementation in Western and Central Africa (WCA) Overcoming barriers and enhancing performance in a challenging region
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