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Global Fund Takes Steps to Improve LFA Performance

Task force on long-term improvements established to examine country-level structures

Also: New measures to reduce budget padding

Local fund agent (LFA) contracts for six countries were terminated during 2010 in response to poor performance, according to an update recently provided by the Global Fund Secretariat. The update was in response to issues identified by the Board's Finance and Audit Committee (FAC) from recent reports of the Fund's Office of the Inspector General (OIG) – see [“Board Committee Highlights Lessons Learned from OIG Audits,”](#) in GFO 125.

The Secretariat is implementing an LFA Performance Evaluation and Feedback system, which will include a formal mid-term performance review of each LFA contract. The goal of the system is to enable poor performance to be identified sooner rather than later.

The Secretariat said that it was taking additional actions to strengthen the performance of LFAs. These actions include the following:

- LFAs are considered part of the teams being set up in the Secretariat under the new Country Team Approach (CTA). A paper detailing the LFA role in the CTA has been developed for use by the Country Teams;
- the LFA terms of reference have been strengthened, particularly with respect to the need for increased LFA verification of pharmaceutical and health products management and financial management systems;
- the “LFA Manual” has been updated;
- a systematic review of the qualifications and mix of LFA experts in each country is being undertaken;

- the LFA in-country communication protocols are being updated; and
- a more rigorous cost-benefit evaluation of LFA services is being carried out.

Finally, the Secretariat said that recommendations for additional, longer-term improvements to the effectiveness of LFAs are being drafted in consultation with stakeholders.

In its update, the Secretariat also commented on two other issues raised by the FAC: management of sub-recipients (SRs), and budget “padding.” We report on these comments below.

Management of SRs

In response to FAC comments that weak management of SRs was identified as an issue in a number of OIG reports, the Secretariat said that it is implementing several measures to address the problem, within the limits imposed by the fact that, under the Global Fund model, PRs are responsible for assessing and managing SRs.

The Secretariat has set up a Task Force on Long-Term Improvements to examine country-level Global Fund structures and make recommendations to the Executive Management Team by June 2011.

The Secretariat said that Enhanced Financial Reporting (EFR) will be integrated on an annual basis within Progress Updates and Disbursement Requests (PU/DRs), and that this will strengthen the management and accountability of SRs without placing additional burden and transaction costs on implementers or the Secretariat. The integration of the EFR will ensure that each SR’s budget versus expenditure and variance analysis is reported, reviewed by the LFA, and taken into consideration in the disbursement decision-making process.

The Secretariat has recently issued revised “Guidelines for Annual Audits of PRs’ and SRs’ Financial Statements.” The Secretariat said that the new guidelines standardise the way in which the LFA reviews the PR’s approach to auditing SRs.

According to the Secretariat, under the Country Team Approach, the functional expert teams (M&E, Finance, Procurement and Legal) will support the Fund Portfolio Manager (FPM) in tailoring the scope of work of the LFA in relation to oversight. This may include requesting the LFA to carry out specific assignments to address risks at SR levels on a grant-by-grant basis. This approach will ensure that in high-risk situations, the work of the LFA can be expanded to SR levels without imposing a one-size-fits-all approach where all SR information is LFA-verified – which, the Secretariat says, would require significant increases to the LFA budget.

Budget “padding”

The FAC had said earlier that budget “padding” appears to be prevalent across grants, and that this results in excess funding being unnecessarily committed to existing programmes, instead of being deployed to support additional programmes. The FAC said that the measures to achieve so-called “efficiency gains” in Rounds 8 and 9 may have exacerbated the problem.

The Secretariat said that for new proposals several measures have been, or are being, introduced to ensure that any padding is identified and removed during grant negotiations. These measures include the following:

- at the proposal stage, applicants are clearly instructed that detailed budget assumptions must be provided and must be linked to the work plan and to performance targets;
- better quality information is being provided to the Technical Review Panel (TRP) for proposal review; and

- new budgeting guidelines have been developed and will soon be launched.

The Secretariat said that budget inefficiencies are often identified during programme implementation, and are not necessarily a result of deliberate padding.

Finally, the Secretariat said that while Board decisions on efficiency gains may create a reaction by some organizations to deliberately inflate budgets, the steps taken by the Secretariat to identify genuine efficiency gains – and a greater emphasis during grant negotiations on ensuring budgets are as economical as possible – are producing savings on Round 8 and Round 9 grants that are well in excess of the targets.

The information for this article was taken from “Secretariat Update on OIG Matters,” October 2010. This report, which was prepared for the Board’s Finance and Audit Committee, is not available on the Global Fund website. Some of the new or updated LFA-related documents mentioned in this article have been posted at www.theglobalfund.org/en/lfa/documents.

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