



Independent observer
of the Global Fund

Corruption by Global Fund Grant Implementers

On January 23, the Associated Press (AP) ran a long story about the Global Fund entitled “Fraud Plagues Global Health Fund.” The story was picked up by nearly 200 media outlets in the U.S. and 50 in other parts of the world. (See, for instance, [here](#).) This led to [Germany](#) putting on hold its 2011 contribution to the Fund pending a full investigation.

The story stated that in Mali, the Fund’s Office of the Inspector General (OIG) found that \$4 million in funding was misappropriated. Half of Mali’s TB and malaria grant money went to supposed “training events,” for which signatures were forged on receipts for per diem payments and travel expense claims. Mali has arrested 15 people suspected of committing fraud, and its health minister resigned without explanation two days before the audit was made public. (Note: GFO, in one of its 30 articles on the OIG over the past year, [reported](#) on the Mali developments in December.)

The AP story added that in Mauritania, the OIG found “pervasive fraud,” with \$4.1 million – 67 percent of an HIV grant – lost to faked documents and other fraud. And in Djibouti, the OIG found that about 30 percent of grant funding they examined was lost, unaccounted for or misused. Much of this money went to buy motor vehicles. Almost \$750,000 was transferred out of one account with no explanation.

The AP story was quickly seized upon by the Fund’s critics in some donor countries. For instance, Fox News ran an interview with Nile Gardiner, director of The Heritage Foundation’s Margaret Thatcher Center for Freedom, in which he [said](#), “Potentially, we could be looking at billions of dollars here in terms of missing funds. If that is the case, we are looking at the biggest financial scandal of the 21st Century.”

Hmm. Let’s take a deep breath. First, the corruption is nothing like as extensive as a fast reader of the AP story would conclude. Second, the story shows that the Global Fund takes corruption seriously and tackles it forcefully – which suggests that the Fund deserves greater, not lesser, donor support. Third, the

funding from the Global Fund saves 4,400 lives a day, and the Fund's expenditure on this still represents remarkable value. But fourth, there are some things that the Fund should have done long ago to better tackle corruption. Let's review these points in more detail.

When any entity gives multi-million dollar grants, there will always be corruption. The key issue is what is being done to unearth the corruption and minimise losses. The Global Fund is far better at investigating allegations of corruption and at recovering stolen monies than most or all other major aid donors. Roger Bate of the American Enterprise Institute, a conservative think tank, who has criticised the Fund on some matters, says, "All the focus on the Global Fund is a shame – [the Fund] has done far more than any other multilateral agency to be transparent and expose corruption." Bobby Shriver, founder of (Product) RED, adds, "The Fund was set up to find the bad guys early. Many other international organizations do not have the aggressive tools used by the Fund. Others find bad guys late in the game."

Another thing that distinguishes the Global Fund from other donors is its willingness to publish the details of the corruption that it has unearthed. How many donors such as Pefpar, DFID, USAID, UNDP, Gates Foundation, Norad, SIDA and the World Bank have committed to publish at their website, unedited, the findings of their Inspector General (assuming they even have one)? I'll ask them, and I'll let you know what I learn. Right now, the Fund is paying a price for its toughness and transparency.

Corruption is not unique to developing countries. Defence contractors in the U.S. are notorious for fraud that runs in the billions. Government bureaucracies in all parts of the world exhibit inefficiency, patronage, and occasional graft and corruption. Bobby Shriver asks, "Does anyone think banks [in the US and Europe] have less corruption than the Fund? Not a chance."

The information on corruption in the AP story was not new; it was obtained from OIG reports that were posted at the Global Fund website in December and earlier, and from press releases issued by the Fund.

Well before the AP story was published, the Global Fund had taken steps to recover the mis-used funds that were the subject of the AP story. In addition, the Global Fund was working with the relevant authorities to ensure that those committing fraud are brought to justice; criminal proceedings were launched in Mali, Mauritania and Zambia; the Fund terminated one grant to Mali and suspended others; and the Fund imposed "special safeguards" on other grants in Djibouti, Mauritania and Mali. Furthermore, the Global Fund Secretariat is devoting additional specialist staff to monitor higher risk countries and to improve the capacity of local fund agents to detect potential fraud.

Reacting to the AP story, one headline writer said that the Global Fund was "rife with fraud." This emotive headline appeared in several blogs and online newsletters. In fact, the total amount of funding that the Global Fund has asked grant recipients to refund because of mis-use is \$39 million, of which \$5 m. has been received thus far. That \$39 m. is 0.3% of the \$13 billion that the Fund has disbursed in all of its grants worldwide.

But of course, the real percentage must be worse than 0.3%, because the OIG has thus far only audited 25 of the 145 countries to which the Fund gives grants, and in some of those countries it has not audited all grants. (Preliminary work has also been conducted in a further eight countries.) The 25 audited countries have received grant disbursements of \$4.8 billion. The \$39 million that the fund says has been mis-used in these countries represents 0.8% of the funding they have received. In reviewing that figure, we have to bear in mind that not all the OIG's audits have been completed; that the OIG may have missed some things; and that the OIG has focussed primarily on countries that are "high risk" or regarding which it has received input from whistle-blowers.

Based on all this, my guess is that the total percentage of money that has been mis-used across the entire Global Fund portfolio, including what the OIG has missed, is something approaching 1%. If I'm correct,

that's still a worrying figure. But it also means that the great majority of grants don't involve corruption and are funding programmes that save huge numbers of lives. (For some insightful discussions on all this, see [here](#), [here](#) and [here](#).)

Another factor to bear in mind is that only part of the \$39 million claimed by the Fund was used fraudulently. Another part relates to legitimate expenditure for which the principal recipients (PRs) have been unable to provide receipts. And a final part relates to documented expenditure on programme activities that were not in the approved budget. These latter two errors by the PRs or their sub-recipients caused the PRs to be in breach of contract, so the Fund is perfectly entitled to ask for the money back.

Still, while there are reasons to think the problems at the Fund are not nearly as serious as painted, there is ample room for improvement.

For instance, although I fully support a tough OIG, there is a major imbalance of power between the OIG and the PRs it investigates. For some of the smaller PRs, the OIG's published findings could ruin the PR's reputation, and the Fund's consequent demands for restitution from the PR could render the PR insolvent. What if, hypothetically speaking, the OIG's conclusions regarding a particular PR were in error? Because of the Fund's "privileges and immunities" in Switzerland and its lack of legal presence elsewhere, such a development could make it impossible for an unfairly harmed PR to obtain adequate damages through a lawsuit.

Moreover, corruption is not the only factor that can reduce the Fund's impact. Sometimes, incompetence or laziness come into play. In what to me is a shocking instance of this, there was so little activity by grant implementers in one particular country that two grants to that country went through the entire three-year Phase 2 without the Fund being prepared to send a single disbursement. How many lives were saved during that period? None. And what did the Fund do to highlight this problem on the website pages for the relevant country? Nothing. And for that matter, what has the Fund done to highlight, on the web pages for Mauritania, Mali and Djibouti, the OIG's findings regarding corruption? Again, nothing.

And what about the Local Fund Agents (LFAs), those in-country employees of companies like KPMG and PWC who are supposed to be the "eyes and ears" of the Global Fund? Many of the cases investigated by the OIG had been missed by the LFAs, or were found really late. The Fund recently started training LFAs to look for corruption. It should have been doing so since Day 1.

What else could the Global Fund do? First, the Secretariat could thoroughly analyse what happened in the countries where corruption has been detected; it could work out how these problems could have been detected earlier, and how they could have been prevented in the first place; and it could apply, across its entire grant portfolio, the lessons learned.

Second, the Fund's Executive Director could send an email to every CCM member, every PR and every sub-recipient, explaining clearly the actions that the Fund will take if corruption or inadequate documentation is identified. And the Fund could create a DVD of the ED making the same statement in English, French and Russian (he is fluent in all three), and send it to each CCM with a request that it be played at the next CCM meeting.

Third, the Fund could develop a way that PRs can "self-report" past violations of Global Fund contractual requirements (such as the requirement that all expenditures are fully documented), and it could permit these PRs to request reduced penalties if they report these cases of being "fools but not thieves" prior to the OIG discovering them.

Finally, the Fund's board could confront head-on, and resolve, the following problems:

- Most CCMs, which are supposed to exercise grant oversight, have multiple members who have

conflicts of interest, because they are, or want to become, grant implementers.

- Tightening grant oversight using external parties will conflict with the Fund's desire to maximise "country ownership."
- If the Fund avoids all risk, it can't get its job done.

The Global Fund says that it has a "zero tolerance" policy with respect to corruption. That's the right approach to take. Every stolen Global Fund dollar is a dollar that can't be spent on saving lives.

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