



Independent observer  
of the Global Fund

## The Global Fund's Next Steps in Responding to Corruption

The corruption unearthed among grant recipients by the Global Fund's Office of the Inspector General (OIG), and the media storm that [erupted following](#) a January 23 Associated Press (AP) story, have created something of a crisis not only for the Fund, but also, by extension, for millions of people affected by HIV, TB and malaria. According to a [recent article](#) in the Economist, politicians may “use the scandal to justify cutting back on commitments, not just to the Global Fund, but to aid in general.”

In responding to this situation, the Global Fund, governments and health activists need to think and act carefully. In doing so, here are five things to remember:

1. Note the facts; challenge the media hype.
2. Beware the counter-productive consequences of a quick and over-zealous reaction.
3. Recognise that corruption in the health sector is not limited to Global Fund grants or to poor countries.
4. Pay attention to other forms of corruption that need greater attention as part of the fight against HIV/AIDS, TB and Malaria
5. Address systemic problems with systemic solutions.

### 1. Note the facts; challenge the media hype

Subsequent to the OIG's audits and investigations in 25 countries, the Global Fund is demanding the return of approximately \$39 million. This is significant money; but the figure needs to be understood in the context of two additional facts.

First, the \$39 million is made up of three separate components: (1) proven or suspected theft and fraud; (2) expenditure that is unaccounted for, some of which no doubt involves fraud and the rest of which

involves sub-standard, lazy or incompetent accounting practices; and (3) expenditure for programmatic activities that do not involve fraud but were not included in the agreed programme budget. To date, the Fund has not given a breakdown, country-by-country or collectively, of these three components. It should.

Secondly, in terms of scale, the \$39 million represents 0.8% of the \$4.8 billion that the countries investigated by the OIG have received from the Global Fund. We don't know what the figure might be across the entire grant portfolio, but it is clear that we are not talking about theft and fraud on a grand scale. The vast majority of grant money channelled by the Global Fund appears to have been used legitimately to support health care delivery.

These two facts have been frequently ignored in mainstream media reports and conveniently forgotten by opponents and ideological critics of the Global Fund. This must be challenged.

## 2. Beware the counter-productive consequences of a quick and over-zealous reaction.

A speedy response by the Global Fund that is influenced more by the media scandal and knee-jerk responses from donors, rather than by the facts and conditions on the ground, runs the risk of being counter-productive.

For example, the Fund might be tempted to institute a new and stricter accounting regime, with "bean counters" placed at every step in the flow of money from Geneva to hundreds of thousands of service delivery points around the world. While this may tighten financial controls, it would choke up the system with red tape and result in administrative costs that might exceed the amount of money at risk of fraud.

Furthermore, if new financial management procedures are implemented in a way that is overly aggressive, this could cause principal recipients (PRs) and sub-recipients (SRs) to become resentful and less transparent (out of fear that small, unintended or accidental transgressions may provoke a disproportionate sanction). This in turn would only undermine the future ability of the OIG to promote a culture of trust and probity, and the development of sustainable and effective financial management systems.

## 3. Recognise that corruption in the health sector is not limited to Global Fund grants or to poor countries.

The kind of fraud described by the OIG is not limited to Global Fund grants; nor is it a feature only of health systems in low income countries. As noted by [Transparency International](#), a growing body of evidence shows that the scale of corruption is vast in the health sectors of both rich and poor countries. For example, on 24 January, the day after the AP ran its story about the Global Fund, the US government [reported](#) (with almost zero media interest) that last year it recovered more than \$4 billion that had been stolen from government-financed domestic health care programmes.

This does not mean that we should excuse the fraud detected by the OIG. But the Global Fund is being unfairly singled out. Even [Roger Bate](#) of the American Enterprise Institute for Public Policy Research (who has previously been critical of the Global Fund) said: "If the Global Fund is punished simply because it has been more transparent than other multilateral agencies, transparency efforts will be thrown back by a decade [or] more, and this crisis will be tragically wasted."

It is also important to note that the Global Fund is one of the few health funding agencies in the world that have adopted an explicit strategy to seek out evidence of corruption. For this, the Global Fund should receive praise.

## 4. Pay attention to other forms of corruption that need greater attention as part of the fight against HIV/AIDS, TB and Malaria

There are other forms of corruption that contribute to the high rates of poverty, premature mortality and disease in low and middle income countries. But these forms of corruption rarely get the media attention they deserve in spite of the fact that they are considerably more significant.

According to [Global Financial Integrity](#), \$500 billion a year is lost from developing and transitional economies through illicit outflows of money. Of this amount, approximately 60-65% is lost through commercial tax-evasion (driven primarily through falsified pricing in imports and exports), often involving multinational corporations, banks, accountancy firms and tax havens. It is further estimated that for every \$1 poor nations receive in foreign aid, about \$10 in “dirty money” flows illicitly abroad.

While it's important to constantly improve the use and impact of international aid to poor countries, the global health community needs to speak out much more about the systemic causes of poverty that arise from illicit outflows of finance, tax havens and deficient tax regimes. See [here](#) for more information.

## 5. Address systemic problems with systemic solutions.

The obvious temptation for the Global Fund, in light of the OIG's discoveries, is to create for itself a stronger system of Global Fund-specific financial controls. But in line with the Global Fund's commitment towards harmonised health systems strengthening, it would be better for the Fund to work systemically and in concert with other agencies and national governments to strengthen country-based systems of financial management and fraud-prevention.

It's worth noting that the widespread use of training allowances, per diems and other non-salaried forms of payment to health workers in low income countries provides an obvious opportunity for fraud, as the OIG has pointed out. Such allowances can also create perverse effects such as health workers shutting down clinics in order to attend training workshops.

But, again, we need to look at the context. The frequent use of allowances and per diems in many countries has arisen partly as a consequence of the deterioration of health worker salaries. Thus, while it is important to minimise the abuse and corruption associated with allowances and per diems, the more sustainable solution is to fix the systemic problems associated with inadequate pay and remuneration. See [here](#) and [here](#) for more about the issue of health worker salaries.

Lack of bookkeeping skills, limited availability of accounting software, broken or non-existent printers and photocopiers, and even unreliable electricity – these are also examples of systemic deficiencies that make it difficult to implement robust accounting procedures.

## Recommendations

The response from the Global Fund to the corruption issue should be proportionate and sensible. Here are some suggested next steps.

- **LFAs:** Some of the fraud identified by the OIG was first spotted by local fund agents (LFAs), who “blew the whistle” in an appropriate manner. But LFAs apparently missed the rest of the fraud. Before expanding the mandate of LFAs, the Global Fund needs to clearly determine how that happened.
- **CCMs:** Before rushing to strengthen the role of CCMs in grant oversight, the Global Fund should think hard about whether this is the best way to go, and if so, how it could be done effectively. Remember, CCMs are committees made up of volunteers, many of whom have major conflicts of interest; and CCMs have few resources at their disposal to perform this kind of work. A worthwhile initial step might be to ask CCMs to comment on the fraud uncovered by the OIG and to suggest

how the Global Fund, working with other agencies, can help reduce fraud and graft.

- **Bureaucracy:** The Global Fund should seek input from other donors, and from independent health-sector and non-health sector experts, on how best to strengthen fraud detection systems without creating an administrative nightmare.
- **Systems:** The Global Fund should seek to use the current scandal to leverage systemic improvements in financial management across the health sector as a whole; and not just seek to strengthen its own “vertical” financial management and audit systems.
- **Cost-benefit:** The Fund should conduct a cost-benefit analysis regarding corruption-related measures. There is a real danger that imposing additional financial controls will increase the cost of doing business, but not increase the extent of health care coverage.

But in order for the Global Fund to be able to respond proportionately and sensibly, it will be necessary also for donor governments to act proportionately and sensibly; and for ministries of health in recipient countries to show their commitment towards improved systems of financial management. Meanwhile, the broader global health community needs to remind itself and the world that the Global Fund and its grant-making programme are largely a force for good and that there are other more harmful forms of corruption that deserve much greater attention.

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