United States General Accounting Office

GAO

Report to the Honorable Jim Kolbe
Chairman, Subcommittee on Foreign Operations, Export Financing, and Related Programs, Committee on Appropriations, House of Representatives

May 2003

GLOBAL HEALTH

Global Fund to Fight AIDS, TB and Malaria Has Advanced in Key Areas, but Difficult Challenges Remain

GAO-03-601

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Highlights

Highlights of GAO-03-601, a report to the Chairman, Subcommittee on Foreign Operations, Export Financing, and Related Programs, House Committee on Appropriations

Why GAO Did This Study

By the end of 2002, more than 40 million people worldwide were living with human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS), with 5 million newly infected that year. HIV/AIDS, along with tuberculosis (TB) and malaria, causes nearly 6 million deaths per year and untold human suffering. Established in January 2002, the Global Fund (the Fund) aims to rapidly disburse grants to augment existing spending on the prevention and treatment of these three diseases while maintaining sufficient oversight of financial transactions and program effectiveness. As of April 1, 2003, the United States had pledged $1.65 billion to the Fund and is expected to remain its single largest donor. In this study, GAO was asked to assess (1) the Fund's progress in developing governance structures; (2) the systems that the Fund has developed for ensuring financial accountability, monitoring and evaluating grant projects, and procuring goods and services; (3) the Fund's efforts to raise money; and (4) its grant-making process.

In responding to our draft report, the Fund, the Department of Health and Human Services, the Department of State, and the U.S. Agency for International Development agreed with our findings.

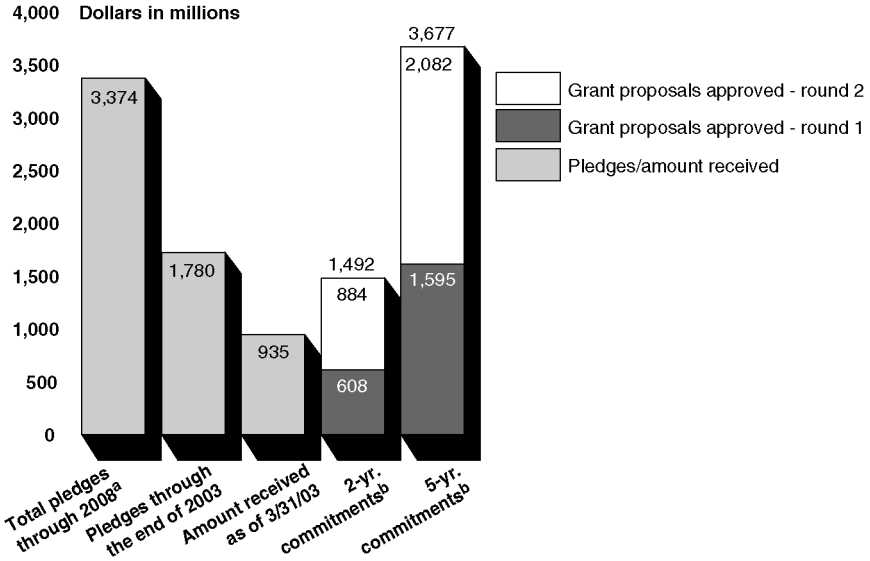
www.gao.gov/cgi-bin/getrpt?GAO-03-601.

To view the full report, including the scope and methodology, click on the link above. For more information, contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov.

What GAO Found

- The Fund has made noteworthy progress in establishing essential governance and other supporting structures and is responding to challenges that have impeded its ability to quickly disburse grants. A key challenge involves locally based governance structures, many of which are not currently performing in a manner envisioned by the Fund.
- The Fund has developed comprehensive oversight systems for monitoring and evaluating grant performance and ensuring financial accountability and has issued guidance for procurement; however, the oversight systems face challenges at the country level and some procurement issues have not been finalized.
- The Fund's ability to approve and finance additional grants is threatened by a lack of sufficient resources. Pledges made through the end of 2003 are insufficient to cover more than a small number of additional grants and without significant new pledges, the Fund will be unable to support all of the already approved grants beyond their initial 2-year agreements.

Pledges Made, Amount Received, and Grant Proposals Approved



Source: GAO analysis of Fund documents.

[a]The pledges expected through 2008 include $173 million that has no specified arrival date.

[b]These numbers represent the maximum amount approved by the board. Final budgets may be reduced during grant negotiations. Five-year figures are potential, rather than guaranteed, commitments.

Note: A shortfall in the funding of already approved grants is evident when 5-year commitments are compared with total pledges over this time frame. The small amount of resources available for funding new grants is evident when comparing 2-year commitments with pledges through 2003.

- Improvements in the Fund's grant-making processes have enhanced its ability to achieve its key objectives, but challenges remain. These challenges include ensuring that grants add to and complement existing spending on HIV/AIDS, TB, and malaria and that recipients have the capacity to effectively use grants.

Contents

Figures

Abbreviations

CCM	Country Coordinating Mechanism
HIV/AIDS	Human immunodeficiency virus/acquired immunodeficiency syndrome
LFA	Local Fund Agent
NGO	Nongovernmental organization
OECD	Organization for Economic Cooperation and Development
TB	Tuberculosis
TRP	Technical Review Panel
UN	United Nations
UNAIDS	Joint U.N. Program on HIV/AIDS
UNDP	U.N. Development Program
UNOPS	U.N. Office for Project Services
USAID	U.S. Agency for International Development
WHO	World Health Organization

G A O
Accountability * Integrity * Reliability

United States General Accounting Office
Washington, D.C. 20548

May 7, 2003

The Honorable Jim Kolbe
Chairman, Subcommittee on Foreign Operations,
Export Financing, and Related Programs
Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

By the end of 2002, more than 40 million people worldwide were living with human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS), with 5 million newly infected that year. HIV/AIDS, along with tuberculosis (TB) and malaria, causes nearly 6 million deaths per year and untold human suffering. In addition, these diseases, if unchecked, are increasingly seen as a threat to economic growth, with the potential to worsen conflict and political instability in many parts of the world. According to the United Nations (U.N.), about $10 billion will be needed in 2005, increasing to $15 billion in 2007, to fight AIDS alone; malaria and tuberculosis will require billions more. In January 2002, the Global Fund to Fight AIDS, Tuberculosis and Malaria ("the Fund") was established in Geneva, Switzerland. The Fund aims to rapidly disburse grants to augment existing spending on the prevention and treatment of these three diseases in developing countries while maintaining sufficient oversight of financial transactions and program effectiveness.

As of April 1, 2003, the United States had pledged $1.65 billion to the Fund[1] and is the single largest donor. Because of this significant commitment of U.S. resources, you requested that we report on the Fund's progress during its first full year of operation. This report assesses (1) the Fund's progress in developing governance structures; (2) the systems that the Fund has developed for ensuring financial accountability, monitoring and evaluating grant projects, and procuring goods and services; (3) the Fund's efforts to mobilize resources; and (4) the Fund's grant-making processes.

[1]Through fiscal year 2003 the United States had appropriated up to $650 million to the Fund and has pledged an additional $1 billion over 5 years, beginning in 2004.

As part of our review, we analyzed documents and interviewed key officials from the Fund; the Joint U.N. Program on HIV/AIDS (UNAIDS); the World Health Organization (WHO); the U.N. Development Program; and experts on project implementation and procurement. We obtained perspectives on the progress and evolution of the Fund from officials at the Department of State, the U.S. Agency for International Development, and the Department of Health and Human Services, as well as the directors of the Global Business Coalition on HIV/AIDS, the Earth Institute of Columbia University, the Gates Foundation HIV/AIDS and TB Program, and the Global AIDS Alliance. We also conducted research and reviewed data on global spending on HIV/AIDS, TB, and malaria. In addition, we visited Haiti, Honduras, Ethiopia, and Tanzania to meet with principle recipients of Fund grants and members of the country coordinating bodies that will be implementing activities supported by Fund grants.[2] In Haiti and Tanzania, we also met with the private sector firms that have contracted to serve as local agents for the Fund in these countries. (App. I provides a more detailed description of our objectives, scope, and methodology.)

Results in Brief

The Fund has made noteworthy progress in establishing essential governance and other supporting structures and is responding to challenges that have impeded its ability to quickly disburse grants. In its first year of operation, the Fund successfully established a board of directors, a permanent secretariat, and a grant review process. It called on countries to establish governance structures to develop, implement, and oversee grants. The principal country-level governance structure, the Country Coordinating Mechanism (CCM), is designed to provide a forum for all stakeholders to (1) review and submit proposals and (2) follow the progress of Fund-supported programs. However, as of late 2002, in three of the four countries we visited there was limited communication between the secretariat and the CCM and between CCM leadership and other members. These communication problems and the evolving nature of the country-level structures resulted in key participants being unsure of their roles in the proposal process and unprepared to support grant implementation. In

[2]We do not name individual countries in the text of this report, given the early stages of Fund activities in these countries. Of these four countries, Haiti and Tanzania were selected as two of the "fast track" countries that were close to having signed grant agreements during our field visits. Ethiopia and Honduras were less far along in the process and therefore represent most of the remaining countries that had proposals approved in the first round vetted by the Fund.

one country, the CCM was better prepared largely because it had received a high level of support from Fund staff and strong leadership from the CCM chair; however, the Fund does not have sufficient resources to provide this level of support to all CCMs. The Fund has acknowledged the difficulties experienced by CCMs and is addressing them by clarifying its guidance to CCMs through regional workshops and working with local partners such as bilateral and multilateral donors. At the headquarters level, to benefit from some of the tax and employment advantages of an international organization, the secretariat of the Fund has relied on the regulations and systems governing the U.N. WHO. However, this administrative relationship has contributed to delays in disbursing grants and uncertainties for Fund staff concerning responsibility and accountability. The Fund is exploring the possibility of gaining additional concessions from Swiss authorities that would eliminate the need for this relationship.

The Fund has developed comprehensive oversight systems for monitoring and evaluating grant performance and ensuring financial accountability and has issued guidance for procurement; however, the oversight systems face challenges at the country level and some procurement issues have not been finalized. The Fund has recognized these challenges and is working to address them. The Fund's principal oversight entity at the country level, the Local Fund Agent (LFA), is a Fund contractor that is responsible for ensuring that grant recipients account for the money they spend and measure progress they make in fighting disease. The LFA is also responsible for assessing recipients' ability to procure goods and services. However, the introduction of this new mechanism has been marked by controversy and misconceptions regarding its oversight role. These problems have delayed the designation of LFAs in some countries, slowing the implementation of grants. For example, several government officials in one of the countries we visited believed, incorrectly, that a government ministry would be permitted to perform the LFA functions. Moreover, in countries with a limited number of qualified personnel and organizations, LFAs will face the challenge of maintaining the independence necessary to avoid real or perceived conflicts of interest. Regarding procurement, the Fund has provided requirements in the agreements that each grant recipient must sign. These requirements are focused primarily on procurement of drugs and public health products in an effort to ensure quality, safety, and the lowest possible prices. The agreements also contain general but less extensive requirements on procuring goods and services, including nonmedical items such as vehicles and office equipment. The Fund encourages recipients to abide by national laws and international

obligations but does not explicitly address this issue in the grant agreements.

A lack of sufficient resources threatens the Fund's ability to approve and finance additional grants. Although the Fund has announced plans to award new grants in its third round of proposals in October 2003, pledges made through this year as of April 1, 2003, are insufficient to cover more than a small number of additional grants. The Fund has less than $300 million to support commitments in round 3—significantly less than the $608 million in 2-year grants approved by the board of directors in the first round and the $884 million approved in the second round. On the basis of the number of technically sound proposals it expects to receive and approve in future rounds, and the amount pledged as of April 1, 2003, the Fund projects that it will require $1.6 billion in new pledges in 2003 and $3.3 billion in 2004. In addition, without significant new pledges, the Fund will be unable to support all of the already approved grants beyond the initial 2-year agreements. If all currently approved grants demonstrate acceptable performance after 2 years, the Fund will require $2.2 billion more to assist these programs for an additional 1 to 3 years. These grants seek to provide, among other things, AIDS medications to 500,000 people and care and support to 500,000 AIDS orphans and other vulnerable children.

Improvements in the Fund's grant-making processes have enhanced its ability to achieve its key objectives, but challenges remain. Grant decisions are made by the board, based primarily on a technical evaluation of submitted proposals. Between the first and second proposal rounds, the Fund made several improvements and adjustments to its proposal review and decision-making process. These include revising the application materials, altering eligibility criteria to focus on the most needy countries, and adding additional members to the technical evaluation panel to increase its overall knowledge base and better prepare it to evaluate nonmedical, development-related issues. However, ongoing challenges to the grant decision process have been identified by the Fund and stakeholders, including ensuring that grants augment existing spending on HIV/AIDS, TB, and malaria and that recipients have sufficient capacity to effectively use the grants. The Fund has recognized these challenges, but its efforts to address them are still evolving.

In responding to our draft report, the Fund, the Department of Health and Human Services, the Department of State, and the U.S. Agency for International Development (USAID) agreed with our findings. The Fund

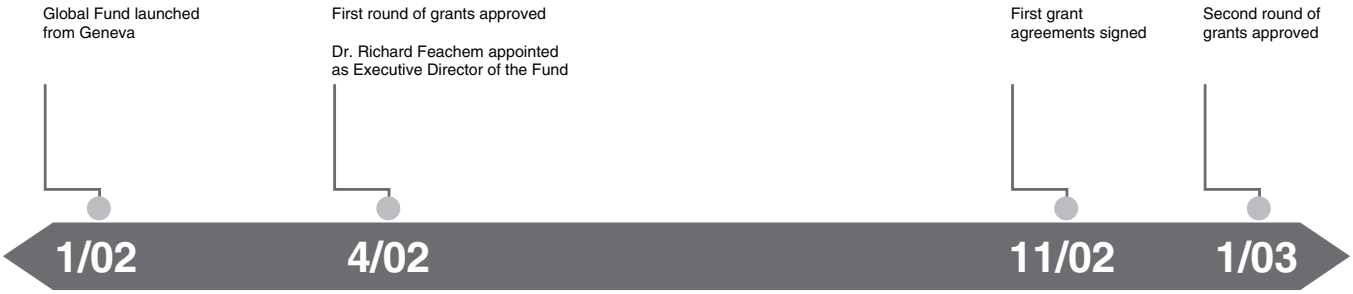
discussed steps it is taking to address the challenges identified in our report and identified several additional challenges.

Background

HIV/AIDS, TB, and malaria, three of the world's deadliest infectious diseases, cause tremendous human suffering, economic loss, and political instability. According to UNAIDS, in 2002 AIDS caused 3 million deaths, and 5 million people became infected. More than 70 percent, or 28.5 million, of the 40 million people with HIV/AIDS worldwide live in sub-Saharan Africa. However, according to a report by the National Intelligence Council, HIV infections in just five populous countries—China, India, Nigeria, Russia, and Ethiopia—will surpass total infections in central and southern Africa by the end of the decade. In addition, Thailand, a developing country that had successfully countered the growth of AIDS in the 1990s, is now facing a resurgent epidemic. According to WHO, after HIV/AIDS, TB is the world's leading infectious cause of adult mortality, resulting in as many as 2 million deaths per year. Like HIV/AIDS, tuberculosis primarily affects the most economically active segment of the population, with 75 percent of the annual deaths occurring in those between the ages 15 and 54. Conversely, malaria, which causes more than 1 million deaths and at least 300 million cases of acute illness each year, is a leading cause of death in young children. The disease exerts its heaviest toll in Africa, where about 90 percent of malaria deaths occur.

The Fund was formally launched in January 2002. The Fund is a grant-making organization with the purpose of attracting, managing, and disbursing funds that will increase existing resources and make a sustainable and significant contribution to the reduction of infections, illness, and death. The Fund aims for an integrated and balanced approach, covering prevention, treatment, care, and support, and seeks to establish efficient and effective disbursement mechanisms. During its first full year of operation, the Fund successfully completed two proposal rounds and began distributing grant money.

Figure 1: Timeline of the Fund's First Year

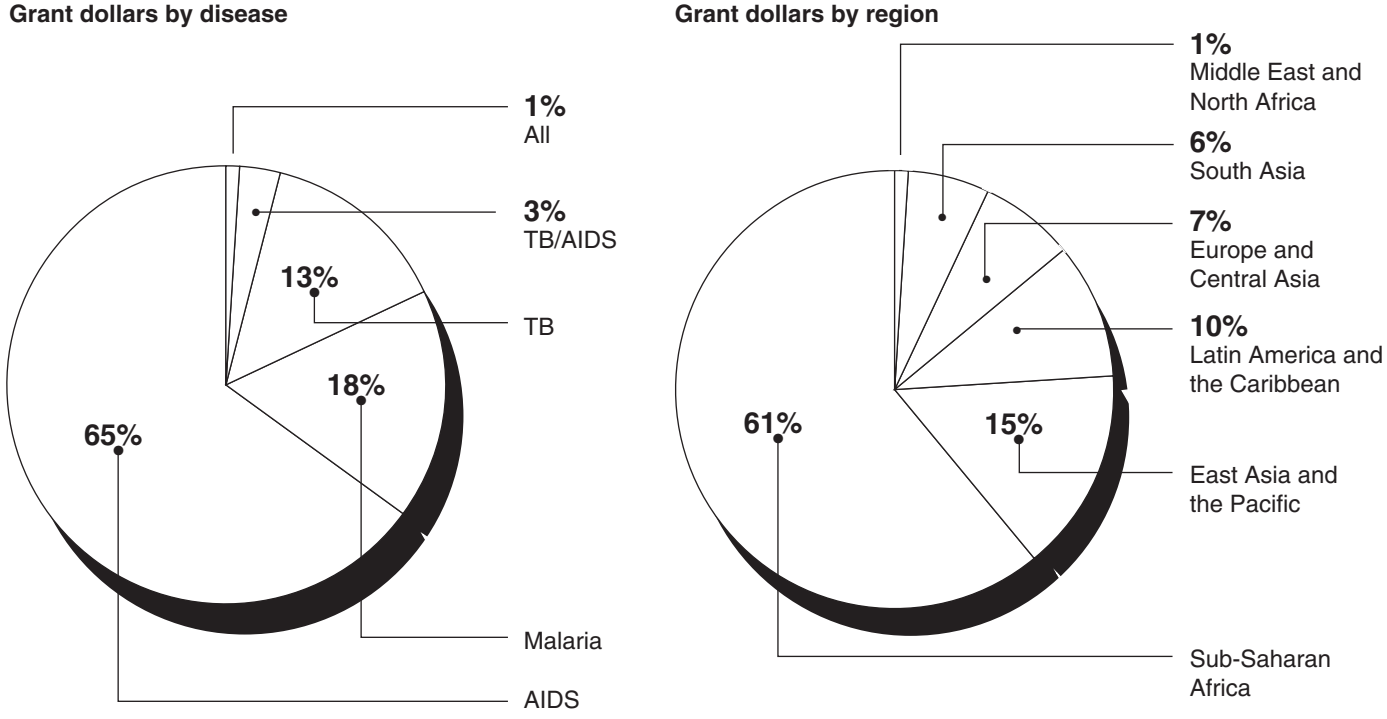


Source: GAO analysis of Fund documents.

Over the course of these two proposal rounds, the Fund approved grants to 153 proposals in 81 countries across the major regions of the world (see fig. 2).[3] These grants total nearly $3.7 billion ($1.5 billion over the first 2 years) and cover all three diseases.

[3]This country total does not include one global grant and grants to two regions.

Figure 2: Approved Grants, by Disease and by Region[a]



Source: GAO analysis of Fund data.

[a]Based on maximum allowable grant money for the full length of board-approved programs.

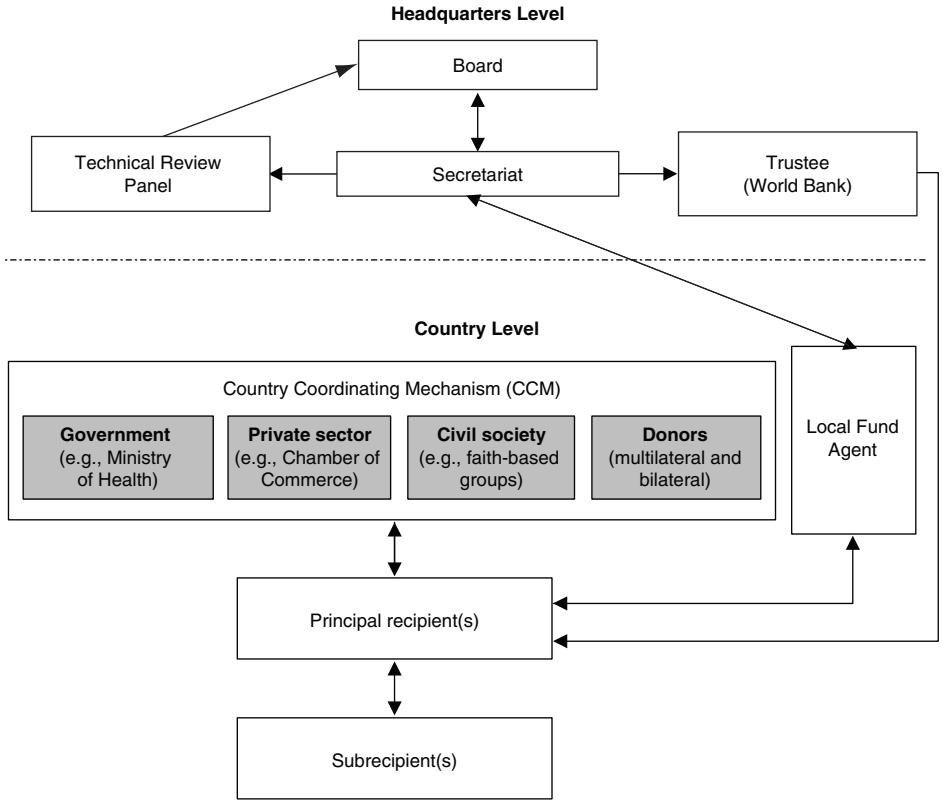
The Fund Has Established Key Governance Structures, but Implementation Challenges Impede Ability to Rapidly Disburse Funds

In its first year, the Fund developed and established key governance and other supporting structures, including a board of directors, a permanent secretariat, a grant review process, and country-level structures required to develop, implement, and oversee grants. However, limited communication, administrative complications, and the evolving nature of these new structures, especially at the country level, led to a lack of clarity over roles and responsibilities and slowed the Fund's ability to sign the initial grant agreements. The Fund has recognized these problems and is taking steps at both the country and headquarters levels to address them.

Key Governance and Other Supporting Structures Established

The Fund has made noteworthy progress in establishing key headquarters and country-level governance structures. Figure 3 illustrates the governance structure of the Fund.

Figure 3: Governance Structure of the Fund as of April 1, 2003



Source: GAO analysis of Fund documents.

Notes: WHO and UNAIDS assist the technical review panel with data and other expertise. The Fund has entered into an agreement with WHO for the provision of administrative services at the headquarters level.

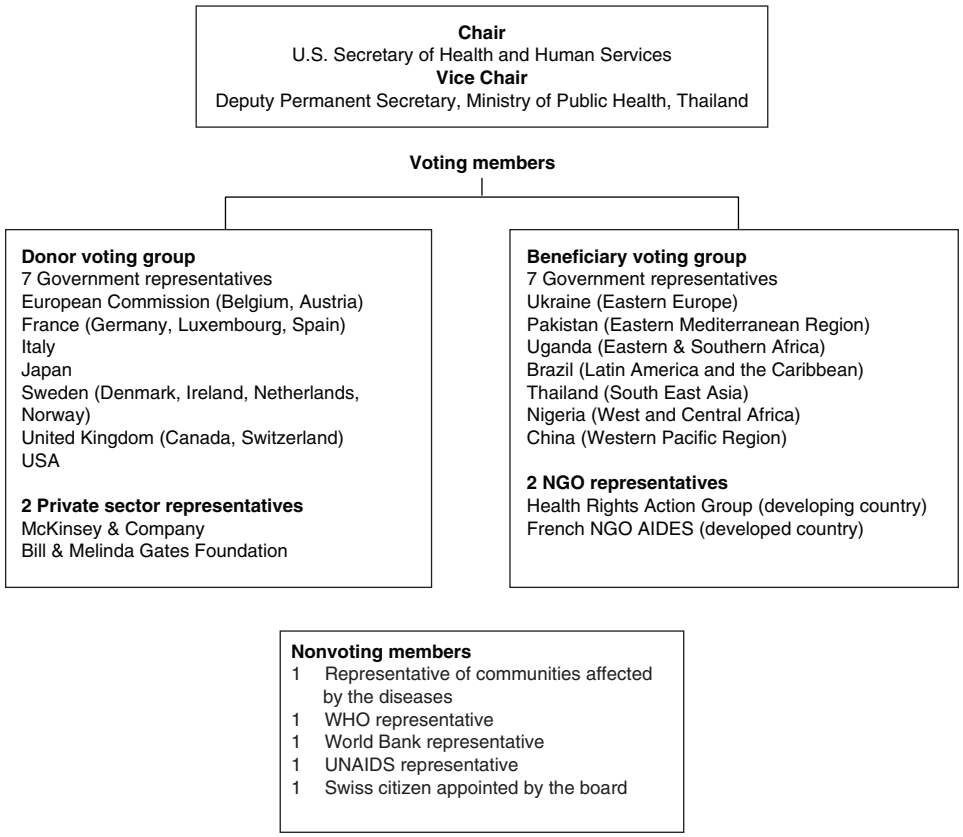
The arrows denote relationships but do not specify their nature, e.g., information or money flow vs. accountability. The relationships among the components of this governance structure are detailed below in the paragraphs on each component.

At the headquarters level, governance structures include a board of directors, a permanent secretariat, a Technical Review Panel (TRP), and the World Bank as its trustee.

- **The board** is the governing body of the Fund, consisting of 18 voting members and 5 nonvoting members. The voting members consist of seven government representatives from developing countries, seven government representatives from donor countries, and one representative each from a developing country nongovernmental organization (NGO), a developed country NGO, the private sector, and private foundations. The five nonvoting members consist of a representative from WHO, the World Bank (as trustee, see below), UNAIDS, a person representing communities living with HIV/AIDS, TB, or malaria, and one Swiss citizen appointed by the board.[4] The board makes all funding decisions; sets Fund policies, strategies, and operational guidelines; and selects the executive director of the secretariat. The board chair and vice chair rotate between beneficiary and donor country representatives. In January 2003, the U.S. Secretary of Health and Human Services was elected to serve as chairman, replacing the outgoing chairman from Uganda. Figure 4 illustrates the current structure of the Fund's board.

[4]According to the Fund, Swiss authorities generally require that a Swiss citizen with his or her domicile in Switzerland sit on the board of directors of a foundation registered in Switzerland. The Fund is a foundation registered in Switzerland.

Figure 4: The Structure of the Fund's Board as of April 1, 2003



Source: GAO analysis of Fund documents.

Note: Board members from beneficiary countries represent a region, which is identified after each country listed. Membership on the board as a donor is based on contributions, and members can represent an individual country or a group of countries. (Countries may be grouped on the basis of common interests or geographic proximity.)

The board plans to meet three times per year and strives to make decisions by consensus. When consensus cannot be reached, any voting member can call for a vote. Successful motions require approval from a two-thirds majority of those present, representing both donor and recipient voting groups, which means that the current voting structure may make it difficult to reach a decision. For example, the only time the board brought an issue to a vote a decision was not reached because the members could not get a sufficient number of affirmative votes.

The board has established four committees: (1) Governance and Partnership, (2) Resource Mobilization and Communications, (3) Portfolio Management and Procurement, and (4) Monitoring and Evaluation, Finance, and Audit. The committees respond to issues raised by the board and identify options for addressing them. For example, the Portfolio Management and Procurement Committee has developed a proposal appeals process. The United States has representatives on three of the four committees (Governance and Partnership; Portfolio Management and Procurement; and Monitoring and Evaluation, Finance, and Audit).

The secretariat has hired 63 staff as of April 1, 2003, to run the day-to-day operations of the Fund.[5] As the Fund's only full-time body, the secretariat receives and screens grant applications, studies and recommends strategies to the board, communicates board decisions to stakeholders, manages and oversees regional grant portfolios, receives and reviews program and financial reports submitted by grant recipients through the LFA, and performs all administrative functions for the Fund. The board reviews and approves the secretariat's business plan and budget. In January 2003, the board approved a $38.7 million budget for 2003 for the secretariat (see table 1).

[5]About half of these staff have been hired for 2-year terms; five have been seconded from other organizations; and the rest have been hired for shorter lengths of time. The secretariat has budgeted for 73 full-time staff.

Table 1: The Secretariat's Budget for 2003

Dollars in millons

Item	Description	Cost	Percentage of budget
Local Fund Agent fees	Based on estimates for the assessment of principal recipients and annual oversight work per grant	$16.4	42%
Staff	Includes salaries and benefits	11.0	28
Professional services	Includes $2 million in fees to the World Bank as trustee and $725,000 to WHO for administrative services	5.0	13
Travel	Includes secretariat and board travel	2.1	5
Other	Includes facilities, communication materials, information technology infrastructure, meetings, fixed assets, and other items	4.3	11
Total		**$38.7[a]**	**100%[a]**

Source: GAO analysis of Fund documents.

[a]Figures may not add up due to rounding

- **The Technical Review Panel (TRP)** reviews and evaluates eligible proposals submitted to the Fund. It currently consists of 22 independent experts: 7 members with cross-cutting expertise in development, including health systems development, economics, public policy, and finance; 7 members with expertise in HIV/AIDS; 4 members with expertise in malaria; and 4 members with expertise in TB.[6] There are two U.S. members on the TRP, an expert on TB and an expert with cross-cutting expertise in health and development issues. The TRP is supported by a WHO/UNAIDS[7] working group that reviews the accuracy of baseline data on disease prevalence, poverty, and other indicators provided in the proposals. The working group also reviews the accuracy and relevance of the information provided by applicants on their ability

[6]TRP members generally agree to serve for 2 years; members rotate at different times to ensure continuity.

[7]UNAIDS consists of eight cosponsors: U.N. Children's Fund, U.N. Development Program, U.N. Population Fund, U.N. International Drug Control Program, International Labor Organization, U.N. Educational, Scientific, and Cultural Organization, WHO, and the World Bank.

to effectively use additional funds. The TRP makes recommendations to the board for final decisions on proposal selection. According to officials at the Department of Health and Human Services, health and development experts at the Centers for Disease Control and Prevention and USAID conducted an informal review of approved proposals and largely concurred with the TRP's recommendations.

- **As the Fund's trustee, the World Bank** receives money from donors, holds the money in an interest-bearing account, and disburses it according to the Fund's written instructions.

At the country level, governance and oversight structures include a Country Coordinating Mechanism, a principal recipient, subrecipients, and a Local Fund Agent.[8]

- **The country coordinating mechanism (CCM)** is meant to provide a forum for stakeholders to work together to identify needs and develop and submit proposals to the Fund and follow the progress of grant projects during implementation. According to the Fund, CCM membership should include high-level government representatives as well as representatives of NGOs, civil society, multilateral and bilateral agencies, and the private sector. Further, all eligible partners in the CCM should be entitled to receive Fund money based on their stated role in implementing the proposal.

[8]An additional component of the governance structure, the Partnership Forum, will be made up of stakeholders concerned about the prevention, care, treatment and eventual eradication of HIV/AIDS, tuberculosis and malaria. It will meet every 2 years to provide views on the Fund's policies and strategies.

- **The principal recipient,** which is a member of the CCM, is responsible for receiving and implementing the grant. A principal recipient can be a government agency, an NGO, a private organization, or, if alternatives are not available, a multilateral development organization. Of the 69 grant agreements resulting from the first round of proposals approved by the Fund, 41 (59 percent) are with principal recipients that are government agencies, 17 (25 percent) are with NGOs, and 9 (13 percent) are with the U.N. Development Program.[9] (See app. II for more detailed information.) The principal recipient is responsible for making sure that funds are properly accounted for as well as for monitoring and evaluating the grant's effectiveness in accordance with indicators mutually agreed to by the Fund and the grantee. In some cases, there may be multiple principal recipients for a single grant. The principal recipient typically works with other entities, or subrecipients, to carry out grant activities.

- **Subrecipient**s are entities, such as NGOs, with the expertise necessary to perform the work and can be other CCM members. The principal recipient is responsible for supervising any subrecipients and distributing Fund money to them.

- **The local fund agent (LFA)** is the Fund's representative in each recipient country and is responsible for financial and program oversight of grant recipients. This oversight role includes an assessment of recipients prior to their receiving money from the Fund. The assessment covers recipients' ability to maintain adequate financial controls, procure goods and services, and carry out program activities. The Fund selects one LFA in each country. As of April 1, 2003, the Fund has contracted with four organizations to fill this role: two private sector firms, KPMG and PricewaterhouseCoopers; one private foundation that was formerly a public corporation, Crown Agents; and one multilateral entity, the U.N. Office for Project Services (UNOPS).[10] The Fund may contract with additional organizations as the need arises and expects to receive bids from potential LFAs by August 2003.

[9]In addition, one grant agreement is with a private sector entity and the principal recipient for another has yet to be determined.

[10]According to World Bank and Fund officials, the Bank is serving as the local fund agent for a TB project in India due to unique circumstances pertaining to this project.

Challenges at Country Level Slow Disbursement of Grants; Fund Taking Steps to Respond

Limited Communication, Lack of Clarity over Roles and Responsibilities at Country Level

As of late 2002, in three of the four countries we visited, country coordinating mechanisms were not operating at levels envisioned by the Fund, owing in part to insufficient communication between the Fund and the CCM as well as between the CCM's chair and members. This has resulted in confusion over the intended structure and purpose of the CCM. While our sample of only four countries is not necessarily representative of all grant recipients, several NGOs reported similar observations to the board. The Fund has posted general guidelines for CCMs on its Web site as well as in its calls for proposals. These guidelines encourage CCMs to hold regular meetings; engage all relevant participants, including representatives of civil society, in substantive discussions; ensure that information is disseminated to all interested parties; and be involved in the implementation of projects after proposals are developed and submitted to the Fund. However, many CCMs had difficulties following these guidelines.

The role of the CCM in developing proposals and participating in their implementation after approval is not clear, according to a report by an international HIV/AIDS organization that assessed the participation of NGOs in the CCM process[11] and according to CCM members in several countries. For example, many NGOs are not aware that they can participate in both the development and implementation of proposals. Furthermore, they are demanding clearer information on the selection of CCM members and the entities to which CCMs are accountable. An NGO participant told us that after a meeting in March 2002, the CCM did not convene again for about 6 months because it had received no guidance from the Fund on how to proceed. A number of members of another CCM said that they did not get a chance to vet or, in some cases, read proposals before endorsing them. In addition, after the proposals were submitted, members of this CCM were not informed of important events in a timely manner. A donor participating in this CCM stated that, with regard to a grant proposal for

[11]*NGO Participation in the Global Fund, a Review Paper*, International HIV/AIDS Alliance, October 2002.

more than $200 million that was submitted in the second round and has since been approved, no one knows who will be responsible for implementing it when the money arrives.

A number of the CCM members with whom we met were concerned over the level of involvement of all relevant parties. According to information compiled by the Fund's Governance and Partnership Committee for the board's January 2003 meeting, all CCMs that submitted second-round proposals[12] are chaired by a government official (79 percent from the health ministry). In addition, at least a quarter of the CCMs lack representation from one or more of the following groups: people living with one of the three diseases, the private sector, academic institutions, or religious organizations. In one country, for example, donors said that NGOs need to develop a stronger and more active voice on the CCM. An update on the Fund for nongovernmental organizations and civil society, prepared by the International Council of AIDS Service Organizations,[13] expressed similar views regarding CCMs in countries that we did not visit. However, the update also included evidence that CCMs are enhancing the involvement of NGOs in national health policies in some countries. In addition to members of civil society, key government ministries and donors are often not included as members in current CCMs. The Governance and Partnership Committee recognized this point in the document prepared for the January 2003 board meeting, stating, "Of concern is the relatively low participation from Ministries of Finance (37 percent), given the need to ensure consistency with Global Fund grant processes and overall fiscal and monetary policies of recipient countries." The committee also noted that although the World Bank is a significant source of resources for many recipients, it is a member of only 14 percent of CCMs. In one country we visited, for example, where neither the Ministry of Finance nor the World Bank were members of the CCM, a dispute over where the Fund money should be deposited delayed the signing of the country's first grant agreement.

[12]The Fund notes that the information provided by CCMs during the first proposal round was not detailed enough to extract this data and that most CCMs from round one resubmitted proposals in the second round. Two CCMs from areas experiencing long-running conflict were excluded from this analysis.

[13]*Global Fund Update for NGOs and Civil Society*, June 2002.

Dissemination of information is also a problem, according to the international HIV/AIDS organization report and CCM members with whom we met. The report stated that many NGOs are not receiving essential information from the Fund because the CCM chairs receiving this information are not passing it on to all stakeholders. In one country, several CCM members told us that the CCM is not functioning well because the flow of information is tightly controlled by the chair. Many members of this CCM, for example, were unaware that a nongovernmental organization had also submitted a proposal to the Fund.[14] As of April 1, 2003, more than 1 year after the proposal was submitted, the CCM had yet to review and endorse or reject it, as required by the Fund. As a result, the Fund has dropped this proposal from its list of those approved in the first round.

Of the four countries we visited, even the country with the most functional CCM experienced some difficulties. This country had received substantial support from a Fund staff member, who spent 6 weeks in the country helping the CCM clarify the Fund's principles regarding CCMs and how its proposal will be implemented. This support, together with the active leadership of the CCM chair, was widely credited with the relative success of the CCM. Members of this CCM said it had become a transparent, multisectoral, participatory, and consensus-driven forum that has held frequent meetings. However, CCM members were still unclear as to their role after the grant is disbursed.

The Fund Is Taking Steps to Address Problems Associated with CCMs

According to the Fund, it does not have sufficient resources to provide the same level of support for every country as it did in the country cited above. Nevertheless, it is currently attempting to enhance communication with and within country coordinating mechanisms in order to improve their functioning. While trying to remain flexible and attentive to differing situations in each country and avoid an overly prescriptive, "cookie- cutter" approach, the Fund's Governance and Partnership Committee proposed to the board in January 2003 specific guidelines for CCMs that address many

[14]The Fund has approved a few proposals from NGOs that were submitted outside the CCM process. According to Fund guidance, NGOs are currently allowed to apply outside the CCM process in exceptional circumstances, for example, in countries or regions where conflict has incapacitated local government and other structures or where no CCM existed.

of the issues raised above.[15] The committee also proposed that the secretariat work with it to develop a handbook for CCMs that contains these principles. Although the board did not reach a decision on this proposal in January 2003, as of April 1, 2003, the agreements between the Fund and grant recipients contained language describing the nature and duties of CCMs. This language states that CCMs are to have a role in monitoring the implementation of Fund grants; that they should promote "participation of multiple constituencies, including Host Country governmental entities, donors, nongovernmental organizations, faith-based organizations and the private sector"; and that they should meet regularly to develop plans and share information. According to U.S. government officials who were involved in setting up the Fund and who attended the January 2003 board meeting, the Fund may also consider other options to enhance the functioning of CCMs, such as having those CCMs that have been working relatively well share best practices with others or having a member of the secretariat hold regional workshops for CCMs from several countries. Starting in December 2002 through the spring of 2003, the Fund held a series of regional workshops for CCM members and other stakeholders in the Philippines, Myanmar, Senegal, and Cuba.[16] Additional workshops are scheduled to take place in South Africa, Ukraine, and Latin America. According to the Fund, these workshops are providing a forum for "open dialogue," whereby the Fund can disseminate and clarify information and receive feedback. In addition, the Fund is considering expanding the secretariat to allow its staff to devote more time to advising individual CCMs and to working with local partners, such as bilateral and multilateral donors, that are assisting with grant implementation.

[15]These guidelines include, among others, making sure that certain sectors and institutions are represented on the CCM, including the ministry of finance, multilateral development banks, religious organizations, academic entities, and the private sector. In addition, no more than half the CCM's membership should consist of members of public sector institutions (e.g., host country government officials and officials from bilateral or multilateral agencies). The guidelines also specify that the chair and other key posts should alternate between public sector officials and representatives of civil society or the private sector; that participating entities should choose their own representatives; that correspondence between the Fund and the CCM should be copied to all members; and that fiduciary arrangements as grants are implemented should include the monitoring of CCM performance as one of the indicators of proposal sustainability.

[16]The Cuba meeting was convened at a larger forum on HIV/AIDS and sexually transmitted diseases in Latin America and the Caribbean.

Administrative Arrangement with WHO Causing Delays; Fund Considering Alternate Arrangements

The Fund established an administrative services agreement with the WHO, an agency of the United Nations, to benefit from some of the tax and employment advantages of an international organization,[17] but this relationship is causing delays and other problems, and the Fund is considering alternate arrangements.[18] The agreement with WHO requires that the Fund apply certain WHO regulations and systems governing personnel and contractual issues. According to WHO and Fund staff, while this agreement gives the staff of the secretariat important privileges in Switzerland and allowed the Fund to begin operating quickly, it has contributed to administrative delays, frustration, and uncertainties concerning responsibility and accountability.

Regarding delays, once the Fund makes certain administrative decisions, it must wait until it obtains clearance from officials at WHO before it can act. According to secretariat officials and one of the local fund agents we met with, this dual approval process has delayed the approval of LFA contracts by up to 8 weeks. The officials stated that this is significant because it has lengthened the time required to get grant agreements completed and signed by recipient countries. The WHO official responsible for approving the Fund's administrative decisions said that it takes several weeks to vet key actions, such as the LFA contracts, when they are added to his unit's existing workload.

In addition to creating delays, the relationship between the Fund and WHO has led to frustration and uncertainties for Fund staff concerning the scope of their responsibility and the authorities to whom they are accountable. For example, although the board granted the executive director of the Fund the authority to sign contracts with vendors and grantees, WHO must be a party to all contracts since the executive director is technically a WHO employee. According to officials from both the Fund and WHO, removing the dual approval process would lessen delays and uncertainties over roles and responsibilities.

[17]The Fund, established as a foundation under Swiss law, is a private entity in Switzerland. As such, it lacks the privileges and immunities granted to international organizations.

[18]This administrative services agreement also enabled the Fund to begin operating without having to create its own administrative and management structure. Members of the board recognized the expediency of this solution and its risks, and directed the Fund to explore alternatives.

The board asked the secretariat to look into pursuing enhanced legal benefits for the Fund from Swiss authorities.[19] An important objective for this change is to allow the Fund to withdraw from the administrative services agreement with the WHO while retaining tax and other advantages. However, according to the Fund, there are important considerations to be resolved before the board would approve and the Swiss government would authorize a change in recognition. The board expects to address this issue at its next meeting in June 2003.

The Fund Developed Comprehensive Oversight Systems and Issued Procurement Guidance, but Systems Face Challenges, and Guidance Is Still Evolving

The Fund has developed systems for financial accountability and for monitoring and evaluating grant activities and has issued guidance on procurement. However, in the Fund's first year of operation, these systems faced challenges at the country level that the Fund is working to address, and procurement guidance is still evolving.

Oversight Systems Established but Face Challenges

The Fund, through the local fund agent, has established a comprehensive system for overseeing grant recipients, but the introduction of the LFA has been marked by controversy and misconceptions regarding its role. These problems may impede the implementation of grants. The Fund recognizes these issues and is developing additional guidance for LFAs and principal recipients.

[19]The Fund has discussed with the Swiss government the possibility of receiving the benefits of quasi-intergovernmental status, such as certain tax benefits, and is also discussing the possibility of gaining a more enhanced package of privileges and immunities comparable to those given to international organizations. Private organizations that have received such privileges and immunities from the Swiss government include the International Federation of Red Cross and Red Crescent Societies.

The Fund Has Established a Comprehensive System for Ensuring Recipients' Financial Accountability

The Fund has established a system for ensuring that principal recipients rigorously account for the money they spend. This system requires them to demonstrate adequate finance and management systems for disbursing money, maintaining internal controls, recording information, managing and organizing personnel, and undergoing periodic audits. The secretariat, the LFA, and the principal recipient each has a role in this system. The secretariat selects the LFAs, exercises quality control over their work, and draws up grant agreements. Prior to selecting LFAs, the secretariat considers their independence from principal recipients and other CCM members in an effort to avoid potential conflicts of interest. It also considers their expertise in overseeing financial management, disease mitigation programs, and procurement, as well as their experience with similar assignments. The LFAs, in turn, assess principal recipients for the same capabilities. To ensure that the disbursement of funds will be carefully controlled, the secretariat provides principal recipients with limited amounts of money at a time, based on their documentation of project results. In an effort to ensure clear definition of roles, responsibilities and accountability, it developed guidelines for LFAs that define their duties to assess and oversee principal recipients. For example, the LFA's financial assessment of the principal recipient is to be completed before the grant agreement is signed, and the secretariat is to receive and validate a preliminary assessment before the LFA proceeds with the full assessment. To minimize inefficiency, the preliminary assessment is to draw on existing records of the principal recipient's performance with other donors.

The Fund has established requirements for principal recipients in the grant agreement. Specifically, the agreement requires principal recipients to maintain records of all costs they incur, and these records must be in accordance with generally accepted accounting standards in their country or as agreed to by the Fund. Principal recipients are to have an independent auditor separate from the LFA and acceptable to the Fund that conducts annual financial audits of project expenditures. The principal recipient is also to ensure that the expenditures of subrecipients are audited. The LFA or another entity approved by the Fund is authorized to make site visits "at all reasonable times" to inspect the principal recipient's records, grant activities, and utilization of goods and services financed by the grant. The principal recipient is required to submit quarterly and annual reports to the Fund through the LFA on its financial activity and progress in achieving project results. For example, the annual financial reports are to include the cost per unit of public health products procured and the portion of funds supporting various activities such as prevention, treatment, care,

administering the project, and enhancing local skills and infrastructure through training and other activities. The reports are also to specify the portion of funds used by local NGOs, international NGOs, government agencies and other public sector organizations (e.g., U.N. agencies), the private sector, and educational institutions. Failure to abide by these and other requirements in the grant agreement can result in the Fund terminating the grant or requiring the principal recipient to refund selected disbursements.

The Fund Has Established a Detailed System for Monitoring and Evaluating Grant Performance

The Fund has established a detailed system for monitoring, evaluating, and reporting at regular intervals on the performance of grants that identifies specific roles for the LFA, principal recipient, subrecipients, and CCM. Prior to the signing of each grant agreement between the Fund and the principal recipient, the LFA conducts an assessment of the principal recipient that includes an evaluation of its capacity to monitor and evaluate grant projects. Within 90 days after the agreement enters into force, the principal recipient is required to submit a detailed plan for monitoring and evaluation. The principal recipient and the subrecipients are responsible for selecting the appropriate indicators, establishing baselines, gathering data, measuring progress, and preparing quarterly and annual reports. The LFA is charged with making sure that the principal recipient monitors and evaluates its projects and with reviewing the reports. If the LFA identifies concerns, it is to discuss them with the principal recipient and the CCM and may forward information to the Secretariat in Geneva. According to the Fund, the CCM should work closely with the principal recipient in establishing the monitoring and evaluation processes and should review the reports along with the LFA.

Building on the existing body of knowledge and contributions of evaluation specialists from organizations such as the U.S. Agency for International Development (USAID), UNAIDS, WHO, and the Centers for Disease Control and Prevention, the Fund has identified indicators for recipients to use in tracking the progress of grant-supported projects. The indicators that the principal recipient will use to track the progress of individual grants are expected to measure processes, outcomes, and impact. During the first 2 years of 5-year projects, the quarterly and annual reports submitted by the principal recipient to the LFA track steps taken in the project implementation process. For example, a process indicator for HIV/AIDS prevention activities could measure the dissemination of information, such as the number of prevention brochures developed and distributed to teenagers or other at-risk groups. Starting in the third year, the principal recipient is expected to report on program outcomes.

Following the HIV/AIDS prevention example, this would entail measuring whether the information had any effect on the behavior of the targeted population. In this example, the principal recipient would report on the percentage of the young people or others receiving the brochures who correctly identified ways of preventing HIV transmission and stated that they had changed their behavior accordingly. Near the end of the project, the principal recipient would report on its epidemiological impact by measuring whether there has been a reduction in the incidence of disease in the target group.

Funds will be released to the principal recipient at intervals based on its performance according to these indicators. The exact amounts to be released will be calculated using its anticipated expenditures. In cases where repeated reports demonstrate that progress is not being made, the Fund, after consultation with the LFA and CCM, may choose to make adjustments, including replacing the principal recipient or nonperforming subrecipients. The key evaluation for the majority of the grants[20] comes after 2 years, when the Fund expects to begin seeing evidence that grant-supported activities are leading to desired outcomes. At that point, the Fund will decide whether to continue to disburse money to grant recipients.

The board has agreed in principle that there should also be an independent evaluation of the Fund's overall progress in meeting its key objective of reducing the impact of HIV/AIDS, TB, and malaria by mobilizing and leveraging additional resources. According to the Fund, this evaluation will include an assessment of the performance of the board and the secretariat. The focus of the evaluation will be on the board's and secretariat's performance in governing and implementing processes that enable Fund grants to relieve the burden of disease, improve public heath, and contribute to the achievement of the U.N.'s millennium goals.[21] As of April 1, 2003, the board had not made a final decision on what entity will conduct the independent evaluation or how or when the evaluation will be conducted. In addition, the board had not yet determined what portion of its resources should be budgeted for this evaluation.

[20]Most grants last for 5 years.

[21]In September 2000, world leaders at the U.N. Millennium Summit agreed to a set of time-bound, measurable goals for combating poverty, hunger, disease, illiteracy, environmental degradation, and discrimination against women.

LFAs Face Several Challenges

In certain countries, the introduction of the local fund agent has been marked by controversy and misconceptions, partly due to its newness, that may delay the designation of LFAs and make it difficult for them to oversee the implementation of grants. For example, the chair of the CCM in one of the countries we visited, where the principal recipient is the Ministry of Health, believed that another government ministry could serve as the LFA, despite the Fund's explicit instructions that the LFA must be independent from the grant recipient. In another country, key government and some donor officials were upset over the Fund's decision to bypass existing systems for handling donor funds. This situation contributed to resentment of the LFA as the Fund's local representative and oversight mechanism.[22] A number of stakeholders with whom we met assumed incorrectly that the LFA was charging an exorbitant fee and deducting it from the grant. In fact, LFA fees are funded through the secretariat, not deducted from each grant. Payment for LFA services constitutes the single largest item in the secretariat's budget, accounting for $16.4 million, or 42 percent of its proposed 2003 budget. Overall, however, these fees represent only about 2 percent of estimated grant disbursements for the year, according to secretariat officials.[23] Moreover, representatives from KPMG, one of the entities designated by the Fund as an LFA, told us that they are charging the Fund 50 percent less than they are charging other clients for similar services.

The Fund is aware of these problems and is attempting to address them. According to a January 2003 report of the board's Monitoring, Evaluation, Finance and Audit Committee, the oversight role of the LFA can create resentment in a country if it is carried out without local participation in problem analysis and resolution. The report cites the same example we observed, stating that recent experience in that country showed that existing local systems should be used as much as possible to avoid new and unnecessary requirements that distract from, rather than support, the Fund's goal of helping countries improve their capacity to fight disease. On January 12, 2003, the Fund drew up guidelines on financial management

[22]Representatives from one LFA, however, stated that it was their understanding that the principal recipient, along with the CCM, chooses the LFA in each country. According to Fund documents, the Fund makes this decision, taking into consideration input from the CCM.

[23]These officials said that they expect to disburse about $750 million in 2003 but cautioned that this figure is not certain.

arrangements for principal recipients that offer several options, including the use of credible, existing local systems.

Finally, despite the Fund's having designated independence as a key factor in the selection of LFAs, the limited number of trained personnel and organizations in many recipient countries may impair independence, resulting in potential conflicts of interest. Given the small pool of qualified disease experts available for hire in some poor countries, subrecipients recruited to implement grant activities will be competing with subcontractors to the LFA for monitoring these disease-mitigation projects. It is unclear whether there is sufficient expertise available to provide staff for both of these functions. For example, in one of the countries we visited, the NGO the LFA had hired to assess the the principal recipient's capacity to carry out its grant activities will also be implementing a Fund project for this principal recipient. Since effective evaluation assumes that the monitor is independent of the implementer, achieving such independence may be a challenge in such circumstances. Conceivably, there also may be situations in which one U.N. organization, the U.N. Office for Project Services—one of the entities contracted by the Fund to serve as an LFA—may be overseeing another, the U.N. Development Program, serving as the principal recipient. Fund officials have stated that they would try to avoid this situation. The board's Monitoring, Evaluation, Finance and Audit Committee is developing a conflict of interest policy for LFAs. In the meantime, the Fund has required one LFA with a potential conflict of interest to include in its contract conflict of interest mitigation policies and procedures to minimize this possibility. The Fund has included conflict-of-interest and anticorruption provisions for principal recipients in the grant agreement document.

Board Developed Procurement Requirements, but Certain Issues Have Not Been Finalized

The Fund, through the grant agreements, has developed detailed procurement requirements for medical supplies and a brief list of requirements for procuring nonmedical items, but certain issues have not been finalized. Establishing procurement requirements is important to ensure that grant recipients use Fund money efficiently as they purchase medicines, vehicles, office equipment, and other items; contract services; and hire personnel.

Board Analyzed Issues and Developed Options for Procuring Drugs and Health-Related Items

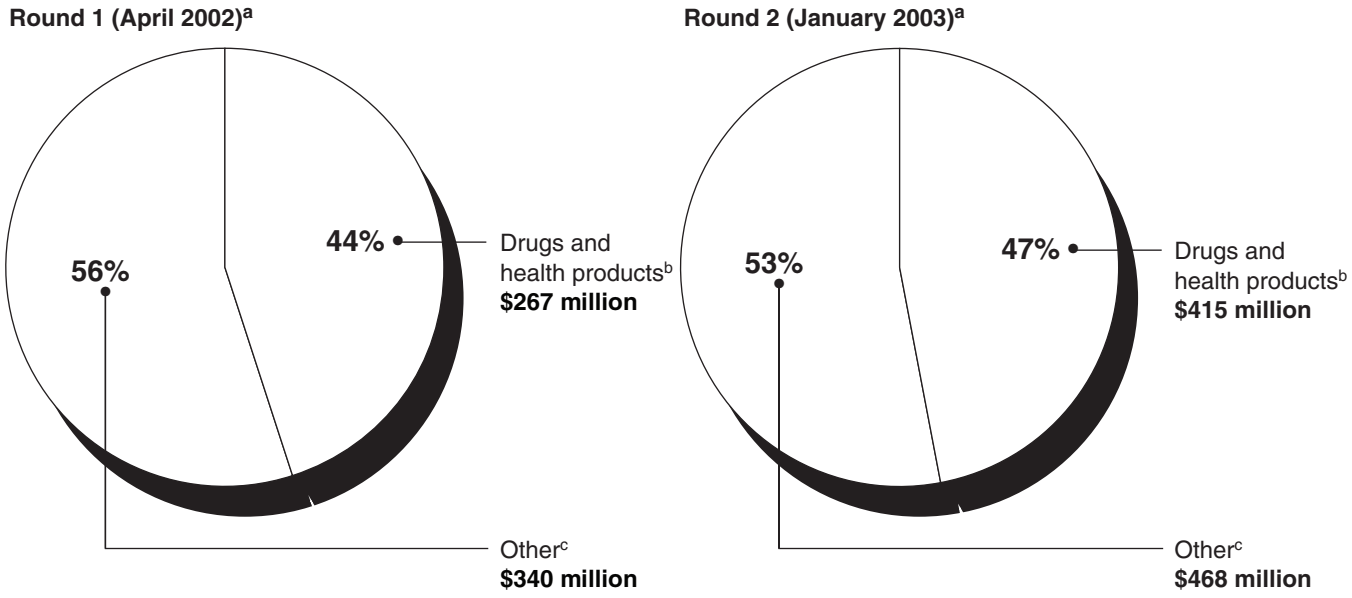
The Fund's procurement provisions have focused primarily on drugs and health products[24] because a significant amount of Fund money will be spent on these items and because drug procurement is complex. For example, the Fund anticipates that $194 million of grant money will be spent on drugs in the first 2 years of second-round grants, based on the proposals approved in that round.[25] When other health products are included, the total comes to $267 million, or almost half of anticipated expenditures, for the first 2 years of round-1 grants, and $415 million, representing a similar percentage of anticipated expenditures, for the first 2 years of round-2 grants (see fig. 5). Drugs and health products for round-2 grants are expected to grow to $1.17 billion over the full life of these grants.[26]

[24]The term "health products," as defined by the Fund in the grant agreement, includes pharmaceutical products; diagnostic technologies and supplies (e.g., HIV test kits); bed nets; insecticides; aerial sprays against mosquitoes; other products for prevention (e.g., condoms); and laboratory equipment and supportive products (e.g., microscopes and reagents).

[25]Data on anticipated expenditures for drugs are not available for first-round proposals.

[26]The Fund has not provided a breakdown of anticipated expenditures for the full life of grants approved in the first round.

Figure 5: Anticipated Grant Expenditures for Drugs and Health Products



Source: GAO analysis of Fund data.

[a]The totals for each round are board-approved ceilings for approved proposals; actual grant totals may be less.

[b]Drugs and health products include educational materials and possibly other items, based on information provided in the proposals for this category.

[c]Other includes expenses associated with infrastructure and equipment (e.g., vehicles), training, human resources, information systems, administrative costs, and monitoring and evaluation.

Drug procurement is complex, as it requires strict standards for ensuring and monitoring quality, controlling transport and storage, and tracking how the products are used. For example, many grant recipients have plans to purchase antiretrovirals, which block the replication of HIV and are indispensable for treating patients living with the disease. These drugs have strict dosing regimens, and patients must be closely monitored to ensure that they are adhering to these regimens and do not develop adverse reactions or resistant strains of the virus. The Fund estimates that close to 200,000 people will be treated with antiretrovirals during the first 2 years of grants resulting from the first 2 proposal rounds and that close to 500,000

will be treated over the life of these grants.[27] (See app. III for more detailed information.)

In April 2002, the board established a procurement and supply management task force, made up of technical experts from U.N. agencies, the private sector, and civil society, to analyze issues related to procuring drugs and health products and develop options and recommendations for grant recipients on how to procure them. In October 2002, the task force provided a list of issues to the board that included

- drug selection and the use of preventive, diagnostic, and related health products;
- monitoring drug quality and compliance with country drug registration processes for marketing and distribution;
- procurement principles and responsibilities, including supplier performance, obtaining the lowest price for quality goods, compliance with national laws and international obligations, and domestic production;
- managing and assessing the chain of supply, including forecasting demand, ensuring proper shipping and storage, and preventing drug diversion;
- payment issues, including direct payment and exemption from duties, tariffs and taxes; and
- ensuring that patients adhere to treatment while monitoring drug resistance and adverse drug reactions.

In the grant agreements, the Fund provides specific requirements for principal recipients regarding many of these issues. The requirements are meant to ensure the continuous availability of safe and effective drugs and other health products at the lowest possible prices and to provide a standard for the LFA to use in evaluating the procurement activities of the principal recipient. For example, the requirements state that recipients

[27]The Fund cautions that the actual number of patients treated may vary depending on prices, recipients' ability to procure and deliver the drugs, and other factors related to the implementation of the grants.

must comply with established quality standards when purchasing medicines. The requirements also stipulate that no Fund money may be used for procuring drugs or other health products until the Fund, through the LFA, has verified that the principal recipient has the capacity to manage (or oversee subrecipients' management of) procurement tasks, such as purchasing, storing, and distributing these products in accordance with Fund guidance, unless the Fund agrees otherwise. In one country, the Fund issued additional procurement requirements to complement the grant agreement, based on an assessment of the principal recipient's ability to procure drugs and other goods. The Fund anticipates that all grant recipients that have plans to purchase medicines with Fund money will be assessed within 6 months after signing the grant agreement.

The Fund Provided General Requirements for Procuring Goods and Services

In addition to providing specific requirements for procuring drugs and other health-related products, the grant agreement includes a brief list of general requirements that also apply to services and nonmedical items such as vehicles or office equipment. These requirements establish a series of minimum standards that recipients must observe when purchasing goods or executing contracts. For example, recipients are to award contracts on a competitive basis to the extent possible and must clearly describe the goods they are requesting when they ask for bids. They must pay no more than a reasonable price for goods and services, keep records of all transactions, and contract only with responsible suppliers who can successfully deliver the goods and services and otherwise fulfill the contract.

The Fund encourages recipients to use international and regional procurement mechanisms if doing so results in lower prices for quality products. For example, in one country, the U.N. Development Program will purchase vehicles for subrecipients because it has extensive experience with the import process. Similarly, the health ministry of another country—the entity that will implement the grant—may purchase antiretrovirals through the Pan American Health Organization. The Fund also encourages recipients with procurement experience to use their existing procedures, provided these procedures meet the requirements set forth in the grant agreement. For example, a principal recipient in one country will use its own procedures to purchase nonmedical items because these procedures are familiar and are based on generally accepted management practices.

The Fund Has Not Finalized Some Procurement Issues

The Fund has not finalized certain procurement issues, including (1) the consequences of noncompliance with national laws regarding patent rights and other intellectual property obligations, (2) the acceptance of waivers that would permit recipients to pay higher prices for domestically produced goods, and (3) solicitation and acceptance of in-kind donations. The board amended its policy on a fourth issue, payment of taxes and duties on products purchased with Fund money, and has asked the secretariat to monitor the impact of this change.

Board documents and the Fund's guidelines for submitting proposals encourage grant recipients to comply with national laws and applicable international obligations, including those pertaining to patents and other intellectual property rights. This issue is significant because these laws and obligations have rules and procedures that affect the procurement of drugs.[28] The board has yet to reach a decision regarding the consequences of noncompliance, that is, whether failure to comply would automatically be considered a breach of the grant agreement and cause for termination of the grant. As of April 1, 2003, the Fund has not included any language concerning compliance with national laws and international obligations in the grant agreement. In the interim, however, Fund officials stated that the Fund retains the option of using the more general termination clause in the grant agreement in the event that a recipient is found by the appropriate authorities to be in violation of national law or international obligations.

Another issue on which no formal decision has been made is whether the Fund, like the World Bank, should allow aid recipients to pay higher prices for domestically produced medicines and other goods to develop local manufacturing capacity. Documents prepared for the fourth board meeting note that the benefits of paying higher prices for domestically produced items are not clear and that it could be difficult for recipients to administer such a pricing scheme. The documents also note that it may be beyond the mandate of the Fund to support domestic efforts by approving higher

[28]As of April 1, 2003, the World Trade Organization has not been able to resolve a dispute concerning a clarification of its Trade Related Intellectual Property Agreement that would allow the importation of generic drugs under patent by developing countries that do not have the capacity to manufacture them domestically. The dispute concerns which drugs, diseases, and countries will be covered. The United States has pushed for limited coverage, whereas other countries favor broader coverage. The World Trade Organization was established in 1995 to administer rules for international trade and provide a forum for resolving trade disputes and conducting trade negotiations. Based in Geneva, Switzerland, it is composed of 145 member states.

prices for them. This was the only issue that board members brought to a vote, at the January 2003 meeting, and were unable to obtain the votes necessary to reach a decision. According to the Fund, the fact that no decision was reached means that the status quo—that recipients are encouraged to pay the lowest possible price for products of assured quality—remains. This policy is also likely to remain for the foreseeable future, since, according to Fund officials, it is no longer on the agenda of the Portfolio Management and Procurement Committee or the Procurement and Supply Management Advisory Panel, the two bodies that report to the board on issues pertaining to procurement.

The board deferred to its June 2003 meeting the question of whether the Fund should solicit or accept in-kind donations such as drugs on behalf of grant recipients. The Portfolio Management and Procurement Committee cautioned that the Fund needs to consider methods for ensuring the quality of these products.

While the Fund states in the grant agreements that Fund resources shall not be used to pay taxes and duties on products purchased in the recipient country, the Portfolio Management and Procurement Committee revisited this issue in its report to the January 2003 board meeting.[29] Specifically, the committee noted that this policy may be difficult for NGO recipients to follow, as they have neither the authority to guarantee exemption nor the cash reserves to cover costs when exemptions are not possible. The committee implied that given these weaknesses, NGOs may be reluctant to serve as principal recipients and indicated in its report that making sure NGOs are included as principal recipients is more important than trying to ensure that grant recipients don't pay taxes and duties. The committee also raised a practical issue, noting that the Fund's current reporting requirements do not provide it with the information necessary to determine whether grantees are in fact using Fund money to pay these levies. At the January 2003 board meeting, the Fund amended its policy on exempting grant recipients from duties, tariffs, and taxes. The amended policy allows, but does not encourage, Fund resources to be used to pay these costs. The board asked the secretariat to monitor the impact of this revision and report back when sufficient information is available.

[29]While USAID generally does not finance customs duties associated with procurement of imported items, it will finance duties under certain circumstances. For example, it will finance duties for NGOs that do not have tax exempt status.

Lack of Resources Threatens Fund's Ability to Continue to Approve and Finance Grants

The Fund's ability to approve and finance additional grants is threatened by a lack of sufficient resources. The Fund does not currently have enough pledges to allow it to approve more than a small number of additional proposals in 2003. In addition, without significant new pledges, the Fund will be unable to support all of the already approved grants beyond their initial 2-year agreements.

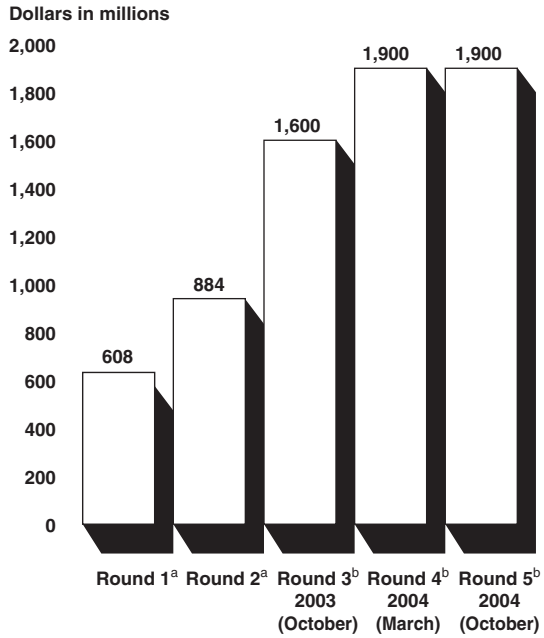
The Fund Requires Additional Pledges to Continue Approving Grants

Because the Fund approves grant proposals on the basis of amounts that have been pledged, it will require additional pledges if it is to continue approving grants. According to the Fund, it will approve proposals on the basis of actual contributions to the trustee or pledges that will be converted to contributions soon after approval, so that proposals can be financed in a timely manner.[30] As a result, the Fund has only a limited amount of money available for its third proposal round, currently planned for late 2003. In addition, the Fund will require significant additional pledges in order to continue holding proposal rounds beyond the planned third round. The Fund has less than $300 million available to support commitments in round 3, which would be significantly less than the $608 million in 2-year grants approved in the first round[31] and the $884 million approved in the second round. These available resources are substantially less than the $1.6 billion in eligible proposals that the Fund expects to be able to approve in round 3. The Fund's resource needs are based on expected increases in eligible proposals over the next two rounds (rounds 3 and 4) due to a concerted effort on the part of local partners to prepare significantly expanded responses to AIDS, TB, and malaria (see fig. 6). Based on the number of technically sound proposals it expects to receive and approve in future rounds, and the amount pledged as of April 1, 2003, the Fund projects that it will require $1.6 billion in new pledges in 2003 and $3.3 billion in 2004.

[30]Pledges to the Fund may be multiyear, and thus some pledged money may not be contributed to the trustee in the same year the pledge was made.

[31]The Board originally granted up to $613 million over 2 years to 58 proposals. Three of these proposals have since been dropped due to their inability to address a follow-up request by the Fund. The maximum approved by the Board is thus $608 million for round 1.

Figure 6: Anticipated Expansion in Approved Proposal Dollars through 2004 (actual and estimated 2-year commitments)



Source: Adapted by GAO from Fund documents.

Note: Round 3 has been announced and decisions will be made in October 2003. Dates for rounds 4 and 5 are tentative.

[a]Actual data from receipt and approval of proposals (2-year grant commitments).

[b]Global Fund estimate of expected 2-year grant commitments.

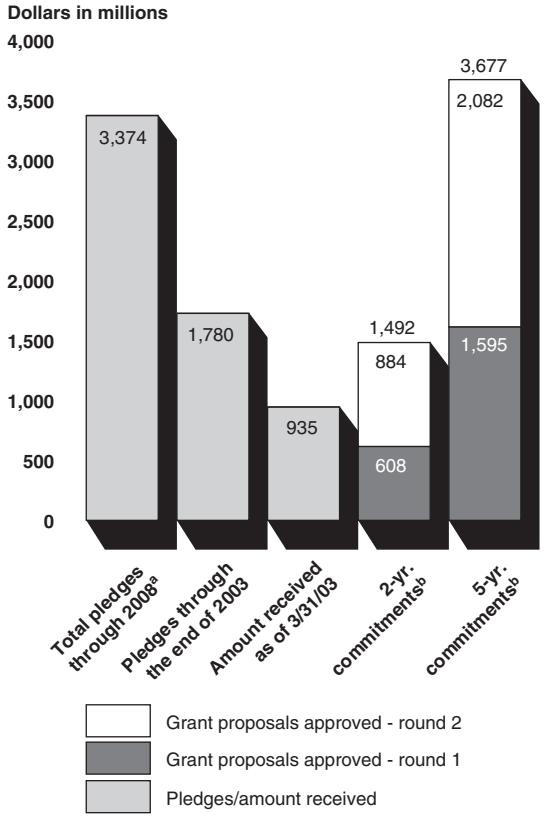
The Fund Requires Significantly Greater Contributions to Finance Approved Grants for Duration of Programs

The Fund will require significantly greater contributions to finance approved grants beyond initial 2-year commitments of money. By January 2003, the Fund had made 2-year grant commitments equaling nearly $1.5 billion in the first two proposal rounds.[32] Among other things, these grants seek to provide 500,000 people with AIDS medications and 500,000 AIDS orphans and other vulnerable children with care and support. Although the Fund approves grants that can be covered by pledges received, these

[32]The board approves grant proposals based on budgets submitted, but recipients are not guaranteed this amount. The amount approved is a ceiling, and the Fund may slightly decrease the grant amount on closer inspection of the recipient's needs.

pledges need only be sufficient to finance the initial 2-year period of the grant. Since the typical Fund-supported project lasts five years, this could result in the Fund's inability to fulfill its longer-term obligation to programs that are deemed successful at the 2-year evaluation. If all currently approved proposals demonstrate acceptable performance after 2 years, the Fund will require $2.2 billion more to assist these programs for an additional 1 to 3 years. Currently, the Fund has $3.4 billion in total pledges and nearly $3.7 billion in potential obligations from the first two proposal rounds (see fig. 7). The Fund will only sign grant agreements based on money received by the trustee, as opposed to pledges received. Thus, continued support beyond the 2-year point requires that a significant amount of pledges be turned into actual contributions. However, not all pledges are contributed in a timely manner. For example, as of January 15, 2003, more than $90 million pledged through 2002 had still not been contributed, including $25 million pledged by the United States. The Fund is providing numerous grants that will be used to procure antiretroviral drugs for people living with HIV/AIDS. Interruption or early termination of funding for such projects due to insufficient resources could have serious health implications, although Board documents suggest that special consideration for people undergoing treatment may be given during the evaluation process. The Fund currently has potential obligations lasting at least until 2007, and each additional proposal round will incur further long-term obligations for the Fund.

Figure 7: Pledges Made, Amount Received, and Grant Proposals Approved



Source: GAO analysis of Fund documents.

Note: A shortfall in the funding of already approved grants is evident when one compares 5-year commitments with total pledges over this time frame. The small amount of resources available for funding new grants is evident when comparing 2-year commitments with pledges through 2003.

[a]The pledges expected through 2008 include $173 million that has no specified arrival date.

[b]These numbers represent the maximum amount approved by the board. Final budgets may be reduced during grant agreement negotiations. Five-year figures are potential, rather than guaranteed, commitments.

The Fund has estimated that it will need at least $6.3 billion in pledges for 2003–2004 to continue approving new proposals and finance the grants already approved in rounds 1 and 2.[33] The Fund is looking to raise these resources from both public and private sources, with $2.5 billion needed in 2003 alone. As of April 1, 2003, only $834 million had been pledged for 2003, 6 percent of which came from the private sector.[34]

Improvements in Grant-Making Processes Enhance Fund's Ability to Achieve Key Objectives, but Challenges Remain

The Fund has established detailed objectives, criteria and procedures for its grant decision process and is making enhancements to the process in response to concerns raised by participants and stakeholders. Several improvements were made to the proposal review process between the first and second proposal rounds, and the Fund has committed to further improvement. These efforts will seek to address ongoing challenges, including ensuring that the money from the Fund supplements existing spending for HIV/AIDS, TB, and malaria and that recipients are able to use the new aid effectively. The Fund has recognized these challenges, but its efforts to address them are still evolving.

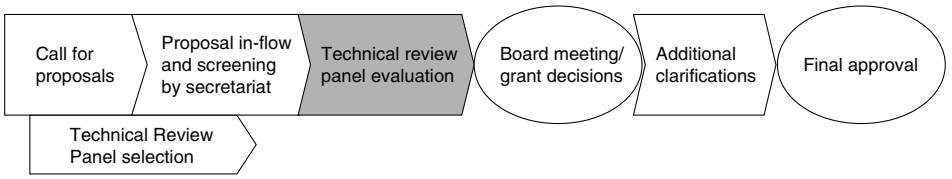
Improvements in Proposal Review and Grant-Making Process Support Key Objectives

The Fund has made improvements in its proposal review and grant-making process to support key objectives, but assessment criteria and procedures are still evolving. According to the Fund, criteria for successful proposals include (1) technical soundness of approach, (2) functioning relationships with local stakeholders, (3) feasible plans for implementation and management, (4) potential for sustainability, and (5) appropriate plans for monitoring and evaluation. In addition, the Fund states that successful proposals will address the abilities of recipients to absorb the grant money. Using these criteria, the Fund established a grant approval process, based primarily on an independent evaluation of proposals by the TRP (see fig. 8).

[33]This resource needs estimate is reduced from an earlier one made at the October 2002 board meeting, which called for three proposal rounds in 2003 (rather than the currently planned two rounds), and projected a need of $7.9 billion through 2004.

[34]In addition to seeking direct monetary contributions, the Fund is also trying to encourage in-kind contributions, such as equipment or drugs, as well as skills and services, directly to recipients. While some in-kind donations have been made at the country level, the Fund itself cannot accept them directly at a global level since it is only a financing mechanism.

Figure 8: Global Fund Proposal Review Process



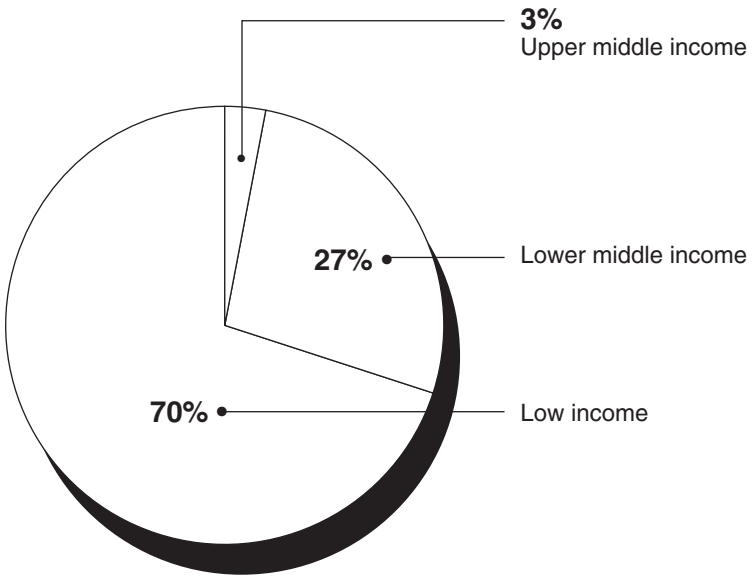
Source: Adapted by GAO from Fund documents.

Between the first and second proposal rounds, the Fund made several improvements to the process, based on feedback from participants and the work of one of the Board's committees. These improvements included revising the proposal forms and instructions to make them more comprehensive and better support the criteria for successful proposals as determined by the Fund. The Fund also added additional members with cross-cutting expertise to the Technical Review Panel to allow it to better evaluate nonmedical development–related aspects of the proposal, and lengthened the proposal application period from 1 month in round 1 to 3 months in round 2 to give applicants more time to develop their proposals. According to Fund and other officials, these improvements helped increase the overall quality of grant proposals submitted in the second proposal round. The Fund also made all successful proposals from the second round publicly available on its Web site, increasing the amount of information available to all interested parties regarding Fund-supported programs.

Some board members expressed concerns between the first and second proposal rounds regarding the way the Fund was addressing its objective of giving due priority to the countries with the greatest need. In particular, the board members were concerned that countries with the greatest need, as determined by poverty and disease burden, might be least able to submit high-quality proposals, resulting in their systematic exclusion. In the first two proposal rounds, the Fund excluded only the highest income countries

from grant eligibility.[35] However, the Fund stated that priority would be given to proposals from the neediest countries. Most of the grants approved in rounds 1 and 2 did in fact go to recipients in countries defined by the World Bank as low income, demonstrating that the poorest countries were not being excluded. No money was awarded in countries defined as high income, and only 3 percent of the money was awarded in countries defined as upper-middle income (see fig. 9). Similarly, sub-Saharan Africa, the region that suffers from the highest burden of disease for HIV/AIDS, received 61 percent of the money for HIV/AIDS programs. (See app. IV for more detailed information.)

Figure 9: Grant Money by Country Income Level[a]



Source: GAO analysis of Fund data.

[a]Based on maximum allowable grant money for full length of Board approved programs.

[35]Members of the Organization for Economic Cooperation and Development's (OECD) Development Assistance Committee are ineligible. These countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States, and the Commission of the European Communities.

However, to further ensure that this key objective is supported, particularly in the face of increasingly scarce resources, the Fund has altered its eligibility criteria for round 3 to focus more clearly on need. All high-income countries are now excluded from eligibility for Fund money,[36] and upper-middle and lower-middle income countries must meet additional criteria such as having cofinancing arrangements and a focus on poor or vulnerable populations. Low-income countries remain fully eligible to request support from the Fund. Beginning in the fourth round, WHO and UNAIDS will be asked to provide matrices categorizing countries by disease-related need[37] and poverty.

Challenges to Grant-Making Process Remain

The Fund and other stakeholders note that meeting key grant-making criteria will be a challenge, and the Fund's efforts to address these criteria are still evolving. According to Fund guidelines, proposals should demonstrate how grants complement and augment existing programs and how these additional resources can be effectively absorbed and used.[38]

Ensuring that Grants Complement and Add to Existing Spending

The Fund's policy is that both the pledges the Fund receives and the grants it awards must complement and add to existing spending on the three diseases. However, ensuring adherence to this policy is difficult. According to the secretariat, it monitors the sources of new pledges to assess whether the pledges represent additional spending. Monitoring pledges is problematic, however, because it can be difficult to determine how much money was spent by a donor or multilateral institution specifically on AIDS, TB, or malaria-related programs. According to a UNAIDS report, pledges to the Fund from most of the G-7 countries,[39] as well as from eight

[36]Previously, only high-income countries included in the OECD's Development Assistance Committee were excluded. See footnote 35 for membership. Country income categories are based on World Bank documents.

[37]According to Fund documents, disease-related need encompasses both current and potential burden of disease.

[38]The capacity to absorb new aid hinges on a country's ability to effectively combine its domestic resources, such as labor and managerial capacity, with the additional foreign assistance.

[39]The United States, Canada, Japan, France, Germany, Italy, and the United Kingdom.

of the Development Assistance Committee[40] governments, have thus far been determined to add to baseline HIV/AIDS funding. Nonetheless, despite its monitoring efforts, the Fund can only encourage, rather than require, donors to contribute new spending rather than simply transfer funds from related programs.

It is also difficult for the Fund to ensure that the grants it awards will augment existing spending at the country level. It has identified several situations to be avoided, including allowing grants to replace budgetary resources or other "official development assistance," and it has taken certain steps to ensure that the grants will in fact represent new and added spending in the country. For example, the Fund has required all applicants to include information in their proposals on how the funds requested would complement and supplement existing spending and programs. In addition, the Fund has reserved the right to terminate grants if it discovers that they are substituting for, rather than supplementing, other resources.[41] However, the Fund does not have the ability to formally monitor whether grants constitute additional spending once disbursed, and we anticipate that doing so would be difficult. Even if the Fund succeeded in documenting that all grant money was spent appropriately on the approved project and that no previously allocated money for AIDS, TB, or malaria was supplanted in the process, it still could not document the level of spending on these diseases that would have occurred without the grant. Thus, it could not show whether the grant in fact substituted for money that would have been otherwise allocated. A report presented at the Fund's October 2002 board meeting proposed the development of a policy for monitoring additionality.

At present, lacking any formal system, the Fund may be unaware of, or unprepared to address, situations in which its grants do not represent additional, complementary spending. For example, an official from a development agency that currently funds much of one country's TB program stated that he believes the country lacks the capacity to increase

[40]See footnote 35 for Development Assistance Committee membership.

[41]Grant Agreement, Article 9: "In accordance with the criteria governing the selection and award of this Grant, the Global Fund has awarded the Grant to the Principal Recipient on the condition that the Grant is in addition to the normal and expected resources that the Host Country usually receives or budgets from external or domestic sources. In the event such other resources are reduced to an extent that it appears, in the sole judgment of the Global Fund, that the Grant is being used to substitute for such other resources, the Global Fund may terminate this Agreement in whole or in part under Article 21 of this Agreement."

its program for TB, despite having received a TB grant in the first round. The development agency therefore planned to transfer its current TB funding to other health assistance projects in response to the Fund's TB grant, raising questions of whether the grant will fulfill its purpose of providing *additional* funding for TB. Similar concerns have been expressed by other officials representing both Fund recipients and donors.

Ensuring that Recipients Have the Capacity to Absorb New Funding

Although the Fund has stated that proposals will be assessed based on whether they have demonstrated how grants could be effectively absorbed and used, Fund officials, donors, and others have raised concerns regarding the actual capacity of recipients to absorb new aid.[42] While some countries may have surplus labor and institutional capacity within their health sectors, other countries may have difficulty rapidly expanding their health sectors due to a shortage of skilled health workers or insufficient infrastructure to deliver health services. While such capacity constraints can be relieved over time with additional training and investment, in the short run they could limit the effectiveness of expanded health spending. For example, officials in one country told us that it has been slow in disbursing its World Bank HIV/AIDS money because of difficulties in establishing the necessary institutions to identify and distribute funds to effective projects. In another country, government and NGO officials cited a lack of administrative capacity in NGOs as a likely challenge to their ability to absorb the Fund grant. The Fund is aware of these concerns and is addressing them in a number of ways. Proposal applications must describe the current national capacity—the state of systems and services—available to respond to HIV/AIDS, TB, and malaria. After the first round, the Fund also added more members to the TRP to evaluate these issues in proposals. In addition, the Fund requires LFAs to preassess principal recipients to ensure that they are prepared to receive, disburse, and monitor the money. On at least one occasion, the Fund decided to reduce its initial grant disbursement to a recipient, based on concerns raised by the LFA in the preassessment.

[42]In this report, "absorptive capacity" refers to the ability of a country to effectively use development assistance. Absorptive capacity is affected by resource constraints at various levels, including institutional capacity within the health sector and the capacity of the larger economy to absorb an influx of foreign exchange.

The LFA preassessment does not address all potential constraints on a country's ability to absorb new funds, notably across sectors or at the macroeconomic level. While these capacity constraints could hinder the effectiveness of the grant, they could also generate unintended side effects beyond the scope of the funded project. Introducing more money into a sector with insufficient capacity to utilize it could draw scarce resources from other vital sectors, such as agriculture or education. For example, one way to reduce temporary shortages of skilled health workers would be to raise the salaries of those positions, relative to the rest of the economy. Over time, this wage disparity will provide an incentive to increase the number of graduates trained in the health field. However, in the short term, it may encourage already skilled workers in other sectors to pursue higher wages in the health sector, adversely affecting the sectors they leave. To the extent that these other sectors are also priorities in economic development, this could adversely affect a country's pursuit of poverty reduction. The country coordinating mechanism model of proposal development is intended to help avoid such problems by ensuring that those with the most knowledge of a country's needs and capacities are directly responsible for developing proposals. However, as discussed earlier, many CCMs are facing challenges in operating effectively.

The provision of large amounts of new foreign aid to countries from all sources, including the Global Fund and bilateral and multilateral initiatives, may also have unintended, detrimental macroeconomic implications. Large increases in development assistance are considered critical to the successful fight of the three diseases, as well as the achievement of long-term poverty reduction goals. Moreover, increasing the number of healthy people in a country, such as through successful treatment, may increase its productive capacity. However, increasing spending beyond a country's productive capacity could result in problems, such as increased domestic

inflation, that are not conducive to growth or poverty reduction.[43] While a substantial share of Global Fund grant money is expected to fund imports such as medicines—which likely have no adverse macroeconomic implications—a significant amount will also be spent domestically on nontraded items, such as salaries and construction expenses. Concerns over potential macroeconomic difficulties prompted one government to initially propose offsetting its Global Fund grant with reductions in other health spending; however, upon further assessment the government reconsidered and will not reduce other health spending. An International Monetary Fund official stated that he believed that the Global Fund grants are not generally large enough, as a share of a country's Gross Domestic Product, to cause significant macroeconomic effects. He added, however, that country authorities should nonetheless monitor these grants in case they do become significant and possibly destabilizing. The Global Fund expects that the amount of money that it disburses will rise substantially in the future, which—along with large increases in other proposed development assistance, such as through the U. S. Millennium Challenge Account[44]—could substantially increase total aid flows to certain countries in a relatively short period of time. Available research on the macroeconomic effects of large increases in overall grant aid is thus far inconclusive, providing little guidance on the magnitude of assistance that may trigger these negative macroeconomic impacts.

[43]Increases in grant assistance contribute to a rising domestic money supply as the government exchanges the hard currency grant assistance for local currency at the central bank. The resulting rise in the domestic money supply increases aggregate demand, contributing to higher inflation if the economy is at or near its short-run productive capacity. The increase in foreign exchange is also likely to lead to an appreciation of the real exchange rate under a fixed exchange rate regime, which is common in poor countries. Under a fixed system, maintenance of the nominal rate in the presence of inflation results in real currency appreciation. Real currency appreciation increases a country's export prices, rendering it less competitive internationally, reducing its export earnings and weakening its trade balance.

[44]On March 14, 2002, President Bush announced that the United States planned to increase its core assistance to developing countries by 50 percent over the next 3 years, resulting in a $5 billion annual increase over current levels by fiscal year 2006. The Millennium Challenge Account will receive the increased aid to fund initiatives to improve the economies and standards of living in qualified developing countries. The President submitted his plan for the Millennium Challenge Account to Congress in February 2003.

Agency Comments and Our Evaluation

We requested comments on a draft of this report from the Executive Director of the Fund, the Secretary of Health and Human Services, the Secretary of State, and the Administrator of USAID, or their designees. We received formal comments from the Fund as well as a combined formal response from the Department of Health and Human Services, the Department of State, and USAID (see apps. V and VI). Both the Fund and the U.S. agencies agreed with the information and analysis presented in this report. The Fund's Executive Director concluded that this report accurately describes the challenges faced by the Fund in responding to the three diseases. The Fund outlined measures it is taking to address these challenges and identified several additional challenges. The U.S. agencies stressed that they and other donor agencies should work with the Fund to address the challenges. Both the Fund and the U.S. agencies also submitted informal, technical comments, which we have incorporated into this report as appropriate.

We are sending copies of this report to the Executive Director of the Fund, the Secretary of Health and Human Services, the Secretary of State, the Administrator of USAID, and interested congressional committees. Copies of this report will also be made available to other interested parties on request. In addition, this report will be made available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-3149. Other GAO contacts and staff acknowledgments are listed in appendix V.

Sincerely yours,

David Gootnick, Director
International Affairs and Trade

Objectives, Scope, and Methodology

At the request of the Chairman of the House Committee on Appropriations, Subcommittee on Foreign Operations, Export Financing and Related Programs, we assessed (1) the Fund's progress in developing governance structures; (2) the systems that the Fund has developed for ensuring financial accountability, monitoring and evaluating grant projects, and procuring goods and services; (3) the Fund's efforts to mobilize resources; and (4) the Fund's grant decision-making process.

To assess how the Fund has progressed in establishing structures needed for governance, we reviewed Fund documents and reports from nongovernmental organizations involved in the country coordinating mechanism (CCM) process. We also interviewed Fund officials in Geneva and U.S. government officials from the Departments of State and Health and Human Services and the U.S. Agency for International Development. In addition, we traveled to Haiti and Tanzania, two "fast-track" countries where grant agreements were about to be signed, and two countries less far along in the process, Ethiopia and Honduras. In these four countries, we met with a wide variety of CCM members, including high-level and other government officials, multilateral and bilateral donors, faith-based and other nongovernmental organizations, professional associations, and private sector groups. In all four countries, we met with organizations designated as the principal recipient in grant proposals. We also met with a Fund official who was working with the CCM in Haiti. To understand the Fund's administrative services agreement with the World Health Organization (WHO) and its impact on the Fund's ability to quickly disburse grants, we reviewed Fund documents pertaining to the agreement, met with WHO and Fund officials in Geneva and spoke with a U.S. government legal expert in Washington, D.C. We also met with a WHO official while he was traveling in San Francisco.

To assess the Fund's development of oversight systems to ensure financial and program accountability, we reviewed Fund documents prepared for the second, third, and fourth board meetings; requirements contained in the grant agreements; and Fund working papers prepared after the fourth board meeting that propose further clarifications and guidelines for principal recipients and Local Fund Agents (LFAs). We also reviewed the U.S. Agency for International Development's (USAID) Handbook of indicators for programs on human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) and sexually transmitted infections, Joint United Nations HIV/AIDS Program publications for monitoring and evaluating national AIDS programs, and WHO coordinates for charting progress against HIV/AIDS, tuberculosis and malaria. We held

discussions with the secretariat in Geneva on fiduciary and financial accountability and monitoring and evaluation of grant programs and received presentations on these topics from the secretariat. In addition, we discussed these issues with U.S. government officials from the Departments of State and Health and Human Services and USAID, and with officials from the World Bank. During our fieldwork in Haiti and Tanzania, we met with representatives of the entities serving as local fund agents in those countries (KPMG in Haiti and PricewaterhouseCoopers in Tanzania); we also met with representatives from KPMG's Global Grants Program in San Francisco. To further our understanding of the Fund's oversight systems and the challenges to implementing them in recipient countries, we met with the following groups in all four of the countries we visited: government officials, multilateral and bilateral donors, nongovernmental organizations, and others who will be involved in implementing Fund grants or who had observations on the Fund's oversight systems.

To assess the Fund's procurement guidelines, we reviewed the grant agreements and data prepared by the Fund showing anticipated spending on drugs and other items and met with Fund officials in Geneva. We also interviewed a U.S. legal expert serving on the procurement and supply management task force and reviewed documents prepared by taskforce and the Portfolio Management and Procurement Committee at the request of the board. To learn about the ability of grant recipients to procure goods and services, we met with local fund agent representatives, a principal recipient, and subrecipients. We asked the principal recipient and subrecipient representatives about their procurement practices, their understanding of Fund guidance and their plans to procure medicines, goods and services. In Washington, D.C., we met with staff from a public health consulting firm who assessed one of the principal recipients. To further our understanding of the procurement process, we also interviewed representatives from several other consulting firms that assist developing country governments and nongovernmental organizations with procurement.

To assess Fund efforts to mobilize resources, we analyzed pledges made to the Fund from public and private sources as well as the Fund's commitments to grants. We reviewed their expected future financial needs to make new grants and finance already approved grants. In addition, we contacted officials from the Fund to discuss their resource mobilization efforts and strategies for dealing with a resource shortfall.

To assess the Fund's grant-making process, we reviewed the objectives and processes of their proposal review and approval processes. We reviewed Fund documents, including proposal applications and guidelines from the first and second proposal rounds. Additionally we tracked the Fund's efforts at improving the grant-making process by reviewing documents prepared for the Fund's first four board meetings. We also interviewed representatives from the Fund and the technical review panel in Geneva and Washington, D.C., and we asked government, donor, and nongovernmental organization officials in the four recipient countries we visited for their assessment of the proposal process and its challenges. To assess the nature of the challenges identified and any efforts made by the Fund to address them, we interviewed officials at the World Bank and International Monetary Fund, and we conducted a review of relevant economic literature. We also conducted research and reviewed data available on global spending on HIV/AIDS, TB, and malaria.

For general background and additional perspectives on the Fund, we spoke with representatives from the Gates Foundation, the Global AIDS Alliance, and the Earth Institute at Columbia University.

We conducted our work in Washington, D.C.; San Francisco; Geneva, Switzerland; Ethiopia; Haiti; Honduras; and Tanzania, from April 2002 through April 2003, in accordance with generally accepted government auditing standards.

Status of Round 1 Grants

Table 2: Signed Grant Agreements—Funds Committed and Disbursed

No	Country	Program	Principal recipient	Local Fund Agent	Date of signed agreement	Total funds committed (in U.S. dollars)[a]	Latest disbursement date[b]	Total funds disbursed as of April 22, 2003 (in U.S. dollars)
1	Argentina	HIV/AIDS	U.N. Development Program (UNDP)	Pricewaterhouse Coopers (PWC)	29-Jan-03	$12,177,200	21-Mar-03	$1,500,000
2	Benin	Malaria	UNDP	PWC	20-Mar-03	2,389,185	14-Apr-03	341,021
3	Burundi	HIV/AIDS	Minsitry of Health	PWC	04-Apr-03	4,877,000	17-Apr-03	554,100
4	Cambodia	HIV/AIDS	Ministry of Health, Kingdom of Cambodia	KPMG	27-Jan-03	11,242,538	17-Apr-03	95,919
5	China	TB	Chinese Center for Disease Control and Prevention, Ministry of Health	U.N. Office for Project Services (UNOPS)	30-Jan-03	25,370,000	10-Apr-03	1,200,000
6	China	Malaria	Chinese Center for Disease Control and Prevention, Ministry of Health	UNOPS	30-Jan-03	3,523,662	10-Apr-03	542,800
7	Ethiopia	TB	Ministry of Health	KPMG	18-Mar-03	10,962,600		
8	Ghana	HIV/AIDS	The Ministry of Health of the Republic of Ghana	PWC	12-Dec-02	4,965,478	18-Dec-02	429,599
9	Ghana	TB	The Ministry of Health of the Republic of Ghana	PWC	12-Dec-02	2,336,940	18-Dec-02	468,270
10	Haiti	HIV/AIDS	Fondation SOGEBANK	Mérové-Pierre - Cabinet d'Experts-Comptables[c]	12-Dec-02	17,945,067	10-Feb-03	2,690,782
11	Haiti	HIV/AIDS	UNDP	Mérové-Pierre - Cabinet d'Experts-Comptables[c]	12-Dec-02	6,754,697	10-Feb-03	926,762
12	Honduras	HIV/AIDS	UNDP	Pricewaterhouse Coopers Interamerica S. de R.L.	29-Jan-03	12,583,466	2-Apr-03	685,735

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No	Country	Program	Principal recipient	Local Fund Agent	Date of signed agreement	Total funds committed (in U.S. dollars)[a]	Latest disbursement date[b]	Total funds disbursed as of April 22, 2003 (in U.S. dollars)
13	Honduras	TB	UNDP	Pricewaterhouse Coopers Interamerica S. de R.L.	29-Jan-03	3,790,500	2-Apr-03	514,731
14	Honduras	Malaria	UNDP	Pricewaterhouse Coopers Interamerica S. de R.L.	29-Jan-03	4,096,050	2-Apr-03	379,889
15	India	TB	Ministry of Health	World Bank (in process of being finalized)	30-Jan-03	5,650,999		
16	Indonesia	TB	Ministry of Health	PWC	27-Jan-03	21,612,265	13-Mar-03	750,000
17	Kenya	HIV/AIDS	Sanaa Art Promotions	PWC	30-Mar-03	2,650,813	15-Apr-03	137,270
18	Kenya	HIV/AIDS	KENWA	PWC	30-Mar-03	220,875	15-Apr-03	8,500
19	Lao People's Democratic Republic	HIV/AIDS	Ministry of Health, Department of Hygiene & Prevention	KPMG	05-Feb-03	1,307,664		
20	Lao People's Democratic Republic	Malaria	Ministry of Health, Department of Hygiene & Prevention	KPMG	05-Feb-03	3,155,152		
21	Madagascar	Malaria	Population Services International	PWC	05-Feb-03	1,482,576	12-Mar-03	591,931
22	Malawi	HIV/AIDS	National Aids Committee	PWC	10-Feb-03	41,751,500		
23	Moldova	HIV/AIDS -TB	Ministry of Health	PWC	20-Mar-03	5,257,941	22-Apr-03	880,000
24	Mongolia	TB	Ministry of Health	UNOPS	05-Feb-03	644,000	9-Apr-03	42,960
25	Morocco	HIV/AIDS	Ministry of Health	PWC	29-Jan-03	4,738,806	21-Feb-03	420,000
26	Panama	TB	UNDP	PWC	10-Feb-03	440,000	20-Mar-03	112,000
27	Rwanda	HIV/AIDS -TB	Ministry of Health	Crown Agents	10-Apr-03	8,409,268	17-Apr-03	790,854
28	Senegal	HIV/AIDS	National AIDS Council of Senegal	KPMG	10-Feb-03	6,000,000	28-Feb-03	600,000

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No	Country	Program	Principal recipient	Local Fund Agent	Date of signed agreement	Total funds committed (in U.S. dollars)[a]	Latest disbursement date[b]	Total funds disbursed as of April 22, 2003 (in U.S. dollars)
29	Senegal	Malaria	National Strategic Plan to Fight Malaria, Ministry of Health	KPMG	10-Feb-03	4,285,714	28-Feb-03	350,000
30	Serbia	HIV/AIDS	Economics Institute	UNOPS	16-Apr-03	2,718,714		
31	Sri Lanka	Malaria	Ministry of Health of Sri Lanka	PWC	19-Dec-02	730,140	11-Feb-03	176,573
32	Sri Lanka	Malaria	Lanka Jatika Sarvodaya Shramadana Sangamaya	PWC	19-Dec-02	4,467,480	11-Feb-03	752,893
33	Sri Lanka	TB	Ministry of Health of Sri Lanka	PWC	19-Dec-02	2,384,980	11-Feb-03	478,073
34	Sri Lanka	TB	Lanka Jatika Sarvodaya Shramadana Sangamaya	PWC	19-Dec-02	475,020	11-Feb-03	75,260
35	Tajikistan	HIV/AIDS	UNDP	PWC	31-Mar-03	1,474,520	22-Apr-03	206,702
36	Tanzania	Malaria	The Ministry of Health of the Government of the United Republic of Tanzania	Pricewaterhouse Coopers Limited	11-Dec-02	11,959,076	4-Feb-03	489,478
37	Uganda	HIV/AIDS	Ministry Of Finance, Planning And Economic Development Of The Government Of Uganda	PWC	06-Mar-03	36,314,892		
38	Ukraine	HIV/AIDS	National AIDS Foundation	PWC	19-Mar-03	6,150,000		
39	Ukraine	HIV/AIDS	Ministry of Health	PWC	29-Jan-03	16,925,200	17-Apr-03	481,926
40	Ukraine	HIV/AIDS	UNDP	PWC	17-Feb-03	1,895,011		
41	Worldwide regions	HIV/AIDS	World Lutheran Federation	KPMG-Geneva	29-Jan-03	485,000		
42	Zambia	HIV/AIDS	Central Board of Health	PWC	30-Mar-03	21,214,271		
43	Zambia	TB	Central Board of Health	PWC	30-Mar-03	12,447,294		

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No	Country	Program	Principal recipient	Local Fund Agent	Date of signed agreement	Total funds committed (in U.S. dollars)[a]	Latest disbursement date[b]	Total funds disbursed as of April 22, 2003 (in U.S. dollars)
44	Zambia	HIV/AIDS	Churches Health Association	PWC	30-Mar-03	6,614,958		
45	Zambia	TB	Churches Health Association	PWC	30-Mar-03	2,307,962		
46	Zanzibar	Malaria	Ministry of Health	PWC	06-Mar-03	781,220		
47	Zimbabwe	Malaria	Ministry of Health	PWC	05-Feb-03	6,716,250		
Total signed agreements as of April 22, 2003						**$366,683,944**		**$17,674,028**

Source: The Fund.

Note: blank cells indicate that no disbursement had been made as of April 22, 2003.

[a]Amounts may differ from grant ceilings approved by the board because budgets may be reduced during grant agreement negotiations.

[b]Date disbursement request was sent from the Fund to the World Bank.

[c]Affiliated with KPMG.

Table 3: Grant Agreements in the Pipeline

No	Country	Program	Principal recipient	Local Fund Agent	Date of signed agreement	Total funds committed (in U.S. dollars)[a]	Latest disbursement date[b]	Total funds disbursed as of April 22, 2003 (in U.S. dollars)
48	South Africa	HIV/AIDS -TB	National Treasury (Soul City)	PWC	Not yet signed	$2,354,000		
49	South Africa	HIV/AIDS -TB	National Treasury (Love Life)	PWC	Not yet signed	12,000,000		
50	South Africa	HIV/AIDS -TB	National Treasury (Kwazulu Natal Sub-CCM)	PWC	Not yet signed	26,741,529		
51	Tanzania	HIV/AIDS	President's Office of Regional Administration & Local Government (PORALG)	PWC	Not yet signed	5,400,000		
52	Zambia	Malaria	Central Board of Health[c]	PWC	Not yet signed	17,892,000		
53	Zambia	Malaria	Churches Health Association[c]	PWC	Not yet signed			
54	Zambia	HIV/AIDS	Minsitry of Finance & National Planning[c]	PWC	Not yet signed	14,468,771		
55	Zambia	HIV/AIDS	Zambia National AIDS Network[c]	PWC	Not yet signed			
56	Zambia	TB	Zambia National AIDS Network	PWC	Not yet signed	1,644,744		
57	Zimbabwe	HIV/AIDS	National Aids Council	PWC	Not yet signed	10,300,000		
Total agreements in the pipeline as of April 22, 2003						**$90,801,044**		

Source: The Fund.

Note: blank cells indicate that no disbursement had been made as of April 22, 2003.

[a]Amounts may differ from grant ceilings approved by the board because budgets may be reduced during grant agreement negotiations.

[b]Date disbursement request was sent from the Fund to the World Bank.

[c]the exact amounts to be disbursed to principal recipients have not yet been decided.

Table 4: Grant Agreements Pending, but Less Far Along in the Process

No	Country	Program	Principal recipient	Local Fund Agent	Date agreement expected to be signed	Total funds committed (in U.S. dollars)[a]	Latest disbursement date[b]	Total funds disbursed as of April 22, 2003 (in U.S. dollars)
58	Chile	HIV/AIDS	nongovernmental organization (specifics to be determined)	To be determined		$13,574,098		
59	Democratic People's Republic of Korea	TB	To be determined	Global Fund secretariat		2,294,000		
60	Indonesia	HIV/AIDS	Ministry of Health	PWC	Being negotiated	6,924,971		
61	Indonesia	Malaria	Ministry of Health	PWC	Being negotiated	16,018,800		
62	Mali	Malaria	Ministry of Health	KPMG		2,023,424		
63	Nigeria	HIV/AIDS	Yakubu Gown Center	KPMG	Being negotiated	17,722,103		
64	Nigeria	HIV/AIDS	Yakubu Gown Center	KPMG	Being negotiated	8,708,684		
65	Nigeria	HIV/AIDS	Yakubu Gown Center	KPMG	Being negotiated	1,687,599		
66	Thailand	TB	Ministry of Health	PWC	Being negotiated	6,999,350		
67	Thailand	HIV/AIDS	Ministry of Health	PWC	Being negotiated	30,933,204		
68	Vietnam	HIV/AIDS	Ministry of Health	KPMG		7,500,00		
69	Vietnam	TB	Ministry of Health	KPMG		2,500,000		
Total pending agreements as of April 22, 2003						**$109,386,233**		
Total agreements (signed, in pipeline, and pending) as of April 22, 2003						**$566,871,221**		

Source: The Fund.

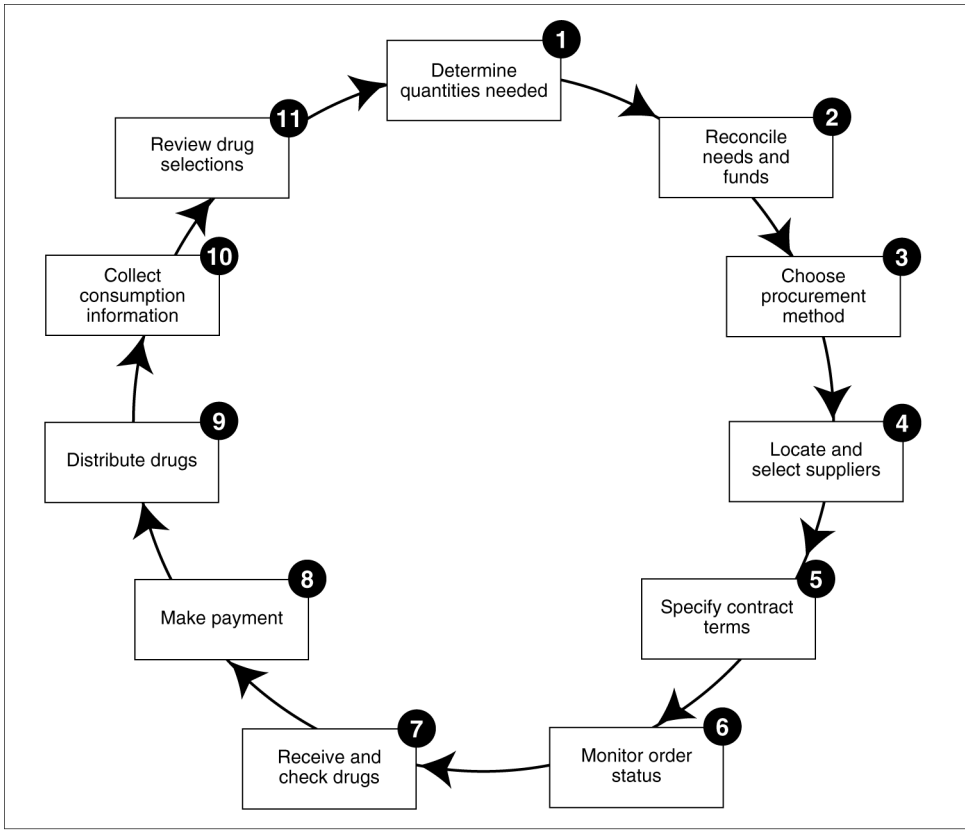
Note: blank cells indicate that no disbursement had been made as of April 22, 2003, or that negotiations for signing the grant agreement had not yet begun as of that date.

[a]Amounts may differ from grant ceilings approved by the board because budgets may be reduced during grant agreement negotiations.

[b]Date disbursement request was sent from the Fund to the World Bank.

Drug Procurement Cycle

The drug procurement cycle includes most of the decisions and actions that health officials and caregivers must take to determine the specific drug quantities obtained, prices paid, and quality of drugs received. The process generally requires that those responsible for procurement (1) decide which drugs to procure; (2) determine what amount of each medicine can be procured, given the funds available; (3) select the method they will use for procuring, such as open or restricted tenders; (4) identify suppliers capable of delivering medicines; (5) specify the conditions to be included in the contract; (6) check the status of each order; (7) receive and inspect the medicine once it arrives; (8) pay the suppliers; (9) distribute the drugs, making sure they reach all patients; (10) collect information on how patients use the medicine; and (11) review drug selections. Because these steps are interrelated, those responsible for drug procurement need reliable information to make informed decisions.



Sources: Adapted with permission from Management Sciences for Health and the World Health Organization.

Note: the adaptation is from *Managing Drug Supply*, 2nd edition, revised and expanded, Hartford, CT, Kumarian Press, 1997.

Indicators of Need for Recipient Countries

Country[a]	Diseases being addressed by Fund grants	Amount requested by approved grants for full length of programs	HIV/AIDS rate (%), Adults (15-49)	Malaria (Cases/ 100,000)	TB (Cases/ 100,000)	Human Development Index[b]	Gross National Income per capita (in U.S. dollars)[c]
Low Income							
Afghanistan	HIV/AIDS, Malaria, TB	$3,125,605	NA	1,825	325	NA	NA
Armenia	HIV/AIDS	7,249,981	0.2	NA	58	76	$2,580
Bangladesh	HIV/AIDS	19,961,030	<.1	47	241	145	1,590
Benin	HIV/AIDS, TB, Malaria	23,803,254	3.6	11,845	266	158	980
Burkina Faso	HIV/AIDS, Malaria	26,776,825	6.5	5,852	319	169	970
Burundi	HIV/AIDS, Malaria	26,423,125	8.3	28,031	382	171	580
Cambodia	HIV/AIDS, TB, Malaria	47,460,470	2.7	473	560	130	1,440
Central African Republic	HIV/AIDS	25,090,588	12.9	2,485	415	165	1,160
Chad	TB	3,039,327	3.6	190	270	166	870
Comores	Malaria	2,485,878	NA	2,286	NA	137	1,590
Congo, (Democratic Republic of)	TB	7,973,002	4.9	2,963	301	155	680
Cote d'Ivoire	HIV/AIDS	91,203,150	9.7	6,874	375	156	1,500
East Timor	Malaria	2,963,723	NA	NA	NA	NA	NA
Eritrea	Malaria	7,911,425	2.8	7,405	272	157	960
Ethiopia	HIV/AIDS, TB, Malaria	237,568,925	6.4	618	373	168	660
Georgia	HIV/AIDS	12,125,644	<.1	NA	72	81	2,680
Ghana	HIV/AIDS, TB, Malaria	29,214,210	3	8,874	281	129	1,910
Guinea	HIV/AIDS, Malaria	22,029,110	NA	6,469	255	159	1,930
Haiti	HIV/AIDS	66,905,477	6.1	12	361	146	1,470
India	HIV/AIDS,TB	137,975,999	0.8	226	185	124	2,340
Indonesia	HIV/AIDS, TB, Malaria	130,574,740	0.1	82	282	110	2,830

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Country[a]	Diseases being addressed by Fund grants	Amount requested by approved grants for full length of programs	HIV/AIDS rate (%), Adults (15-49)	Malaria (Cases/ 100,000)	TB (Cases/ 100,000)	Human Development Index[b]	Gross National Income per capita (in U.S. dollars)[c]
Kenya	HIV/AIDS, TB, Malaria	176,745,326	15	1,000	417	134	1,010
Korea, (Democratic Republic of)	TB	4,891,000	NA	448	176	NA	NA
Kyrgyz Republic	HIV/AIDS, TB	19,844,373	<.1	NA	130	102	2,540
Lao People's Democratic Republic	HIV/AIDS, TB, Malaria	19,507,845	<.1	755	171	143	1,540
Lesotho	HIV/AIDS, TB	34,312,000	31	NA	542	132	2,590
Liberia	HIV/AIDS, TB	12,192,274	NA	26,828	271	NA	NA
Madagascar	HIV/AIDS, Malaria	8,335,149	0.3	2,360	236	147	820
Malawi	HIV/AIDS, Malaria	323,798,722	15	58,139	443	163	600
Mali	Malaria	2,592,991	1.7	4,213	261	164	780
Mauritania	TB, Malaria	5,627,299	NA	11,000	241	152	1,630
Moldova	HIV/AIDS, TB	11,719,047	0.2	NA	130	105	2,230
Mongolia	HIV/AIDS, TB	4,727,103	<.1	NA	205	113	1,760
Mozambique	HIV/AIDS, TB, Malaria	155,735,362	13	4,120	407	170	800
Myanmar	TB	17,121,370	NA	254	169	127	NA
Nepal	HIV/AIDS, Malaria	18,840,210	0.5	39	209	142	1,370
Nicaragua	HIV/AIDS, TB, Malaria	18,865,903	0.2	392	88	118	2,080
Nigeria	HIV/AIDS, TB, Malaria	137,655,309	5.8	541	301	148	800
Pakistan	HIV/AIDS, TB, Malaria	21,619,750	0.1	74	177	138	1,860
Rwanda	HIV/AIDS, TB	14,641,046	8.9	13,237	381	162	930
Senegal	HIV/AIDS, Malaria	18,857,142	0.5	553	258	154	1,480
Sierra Leone	TB	5,698,557	7	9,318	274	173	480
Somalia	Malaria	12,886,413	1	102	365	NA	NA
Sudan	TB, Malaria	76,319,734	2.6	13,553	195	139	1,520
Tajikistan	HIV	2,425,245	<.1	295	105	112	1,090

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Country[a]	Diseases being addressed by Fund grants	Amount requested by approved grants for full length of programs	HIV/AIDS rate (%), Adults (15-49)	Malaria (Cases/ 100,000)	TB (Cases/ 100,000)	Human Development Index[b]	Gross National Income per capita (in U.S. dollars)[c]
Tanzania	HIV/AIDS, Malaria	28,683,718	7.8	1,293	340	151	520
Togo	HIV/AIDS	19,882,903	6	8,512	313	141	1,410
Uganda	HIV/AIDS, TB, Malaria	96,719,638	5	9,305	343	150	1,210
Ukraine	HIV/AIDS	92,152,744	1	NA	73	80	3,700
Vietnam	HIV/AIDS, TB	22,000,000	0.3	95	189	109	2,000
Yemen	Malaria	11,878,206	0.1	15,202	NA	144	770
Zambia	HIV/AIDS, TB, Malaria	191,967,000	21.5	26,260	495	153	750
Zimbabwe	HIV/AIDS, Malaria	22,977,500	33.7	9,429	562	128	2,550
Lower middle income							
Bulgaria	HIV/AIDS	15,711,885	<.1	NA	46	62	5,560
China	TB, Malaria	54,476,659	0.1	1	103	96	3,920
Cuba	HIV/AIDS	26,152,827	<.1	NA	15	55	NA
Dominican Republic	HIV/AIDS	48,484,482	2.5	12	135	94	5,710
Ecuador	HIV/AIDS	14,104,108	0.3	683	172	93	2,910
Egypt, (Arab Republic of)	TB	4,032,014	<.1	NA	39	115	3,670
El Salvador	HIV/AIDS, TB	26,912,923	0.6	NA	67	104	4,410
Honduras	ALL	41,119,903	1.6	547	92	116	2,400
Iran, (Islamic Republic of)	HIV/AIDS	15,922,855	<.1	33	54	98	5,910
Jordan	HIV/AIDS	2,483,900	<.1	NA	11	99	3,950
Kazakhstan	HIV/AIDS	22,360,000	0.1	NA	130	79	5,490
Morocco	HIV/AIDS	9,238,754	0.1	NA	119	123	3,450
Namibia	HIV/AIDS, TB, Malaria	113,157,021	22.5	2,556	490	122	6,410
Peru	HIV/AIDS, TB	50,177,054	0.4	257	228	82	4,660
Philippines	TB, Malaria	23,267,609	<.1	15	314	77	4,220
Romania	HIV/AIDS, TB	48,360,586	<.1	NA	130	63	6,360
Serbia (Yugoslavia)	HIV	3,575,512	NA	NA	NA	NA	NA
South Africa	HIV/AIDS, TB	190,388,018	20.1	83	495	107	9,160

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Country[a]	Diseases being addressed by Fund grants	Amount requested by approved grants for full length of programs	HIV/AIDS rate (%), Adults (15-49)	Malaria (Cases/ 100,000)	TB (Cases/ 100,000)	Human Development Index[b]	Gross National Income per capita (in U.S. dollars)[c]
Sri Lanka	TB, Malaria	14,505,200	<.1	1,402	59	89	3,460
Swaziland	HIV/AIDS, Malaria	56,736,900	33.4	300	564	125	4,600
Thailand	HIV/AIDS, TB, Malaria	209,635,201	1.8	199	141	70	6,320
Upper middle income							
Argentina	HIV/AIDS	28,756,200	0.7	NA	55	34	12,050
Botswana	HIV/AIDS	18,580,414	38.8	4,467	702	126	7,170
Chile	HIV/AIDS	38,151,562	0.3	NA	26	38	9,100
Costa Rica	HIV/AIDS	4,202,362	0.6	50	17	43	7,980
Croatia	HIV/AIDS	4,945,192	<.1	NA	61	48	7,960
Estonia	HIV/AIDS	10,246,580	1	NA	61	42	9,340
Panama	TB	570,000	1.5	34	54	57	5,680

Sources: the Fund; Joint U.N. Program on HIV/AIDS, *Report of the Global HIV/AIDS Epidemic, 2002*; World Health Organization data on malaria cases (data from varying years, based on latest year for which information available); World Bank, *World Development Indicators, 2002*; U.N. Development Program, *Human Development Report, 2002*.

Note: "NA" indicates that the information is not available.

[a]Although each country is listed only once, many countries received multiple grants. All grants received have been accounted for when noting disease programs addressed and dollar amount requested by approved programs. This table includes only grants for individual countries. Multicountry grants are not included.

[b]The Human Development Index is reported by the U.N. Development Program. It measures a country's achievements in terms of life expectancy, education level attained and adjusted real income.

[c]Purchasing Power Parity method.

Comments from the Global Fund to Fight AIDS, TB and Malaria

THE GLOBAL FUND
to Fight AIDS, Tuberculosis and Malaria

28 April 2003

David Gootnick
Director, International Affairs and Trade
United States General Accounting Office
Washington, DC 20548
United States of America

Dear Mr. Gootnick,

Thank you for sharing the draft report on the Global Fund: *Global Fund to Fight AIDS, TB and Malaria Has Advanced In Key Areas but Difficult Challenges Remain.* The GAO report is a constructive, forward-looking analysis that will contribute to improved near-term performance of the Global Fund as well as the sustained success of the programs it supports.

Your findings reflect both the substantial progress and the growing pains inherent in the start up of a new organization. In its first year, the Global Fund balanced the imperative to demonstrate results with the necessity of putting in place basic policies, physical and human infrastructure, and systems to move money. The analysis also reflects the challenge of resolving some underlying tensions in the principles of a more effective response to AIDS, TB and malaria: finding the right mix of accountability and efficiency in disbursement mechanisms; being innovative while building on proven existing efforts and models; and moving quickly while assuring quality and due diligence.

The Global Fund represents an opportunity to reconcile these apparent dualities and, in so doing, to contribute dramatically to improved health outcomes for the world's most disadvantaged. The partners who constitute the Global Fund have therefore embraced its mandate, aware of the obstacles, but committed to rapid solutions and ongoing course corrections. In that spirit, I provide below information on how the Global Fund is responding to the challenges identified and highlight an additional challenge that your report does not emphasize related to the Fund's monitoring and evaluation efforts.

Governance structures and related challenges to fund disbursement

In this section of the report, you assert the need to improve the effectiveness of CCMs through more clearly defined roles, broader composition and improved processes. While I agree with this assertion, it is important to acknowledge that the current performance of CCMs already represents significant progress in broadening and strengthening local ownership of public health and development programs.

Based on an analysis of 91 CCMs that submitted proposals in Round 2, the average portion of CCM composition drawing from "civil society" (including non-governmental organizations, faith-based organizations, academic institutions, communities living with the diseases and the private sector) was 44%. Of all CCMs submitting in Round 2, 99% included at least one representative of NGOs and community-based organizations. And 46% of funds approved in Round 2 is allocated to civil society for expenditure during program implementation.

Such figures are unprecedented, and they are coupled with anecdotal evidence of better CCM performance over time. This has been the natural consequence of increased interaction with the Global Fund to negotiate Grant Agreements, the mobilization of CCMs to develop new proposals to the Global Fund, support from bilateral and multilateral partners in building capacity, the sharing of good practices among CCMs at regional workshops held by the Global Fund, and pressure from civil society demanding that CCMs live up to responsibilities for inclusiveness and transparency.

Notwithstanding this notable progress, the Global Fund must continue to encourage still better CCM performance as quickly as possible. Local partnerships, which CCMs represent, are at the heart of the Global Fund's success and they are the ultimate "owners" of approved programs. The Global Fund is pursuing at least three strategies to strengthen CCMs:

- *Transparent communications and critique.* Correspondence from the Global Fund to CCMs is increasingly copied to all members of CCMs, as the Secretariat confirms the necessary contact information. The Global Fund is considering mechanisms which would ensure that the full membership of CCMs has the opportunity to review documentation produced by PRs. Such documentation, including disbursement requests and progress reports, certainly will be posted publicly on our website, for all members of CCMs to access. Also to be posted are independent, evidence-based critiques of CCMs, such as those mentioned in the GAO report. The Secretariat has commissioned additional studies of this type. I also intend that our website will become a forum for the sharing of best practices.

- *Supportive partnerships.* While the Global Fund cannot invest its own staff or funds to assist CCMs directly, our partners can make such investments. Multilateral agencies, particularly UNAIDS and the World Health Organization (WHO), are well represented on CCMs and provide financial assistance specifically for outreach to NGOs. Bilateral agencies also provide support, and USAID alone participated in 26% of CCMs submitting to Round 2. Gesellschaft für Technische Zusammenarbeit GmbH (GTZ), the German agency for international cooperation, has committed 25 million towards strengthening the ability of local partners to access the Global Fund; this includes a dedicated bilateral channel to fund support of CCMs. From the private sector, the Glaser Progress Foundation has made grants to Columbia University's Access Project, which provides similar direct support in selected countries. Other examples exist and are in development.

- *Affirmation of ongoing responsibilities.* As referenced in the report, the Global Fund has noted explicitly in Grant Agreements the expected role of CCMs throughout the duration of proposal implementation. This includes integrating Global Fund-financed programs into national strategies, encouraging accountability through broad scrutiny of progress, and leveraging existing and incipient monitoring and evaluation systems to support data collection and systematic surveillance. Continued clarity of these roles – and, if possible, evaluation of CCM performance vis-à-vis the functions specified – will be pursued further in future Board discussions on CCM policies.

This section of the report also correctly characterizes the procedural delays and uncertainties concerning accountabilities and responsibilities resulting from the Global Fund's administrative relationship with the WHO. While this relationship has been important to the Global Fund in its first year of operation and improvements are being made, important near-term and longer-term issues concerning the autonomy and legal status of the Global Fund remain to be resolved.

Oversight systems, procurement guidance and monitoring & evaluation of grants

In this section, you fairly describe the initial debate associated with the LFA model. The controversy associated with the introduction of LFAs, particularly private ones, was an outcome of both the pace of implementation and degree of innovation of the Global Fund's oversight architecture. The role of LFAs has since been clarified to the greater comfort of both recipients and donors. We now see improved understanding of the indigenous nature of the LFAs selected. For example, PriceWaterhouseCoopers in Tanzania is staffed entirely by East Africans and does indeed contribute to the local private sector. In addition, greater trust in the process of selecting LFAs has been engendered by the announcement of an international request for proposals or tender to select the most qualified organizations. Evidence of growing credibility with existing LFAs is seen with Round 2 recipients agreeing to move PR assessments forward with the originally selected LFAs while the international tender proceeds. Moreover, the LFAs themselves are improving the quality of services they offer by applying lessons learnt from their experiences and hiring the relevant expertise necessary (for example, in drug procurement) to perform agreed functions. Having said this, I recognize that the LFA role and the organizations that perform it need to evolve further in the light of experience.

On the issue of procurement, also discussed in this section, I would like to clarify the status of topics that the report states are outstanding. The Global Fund's Framework Document and supporting procurement policies specify Board-agreed principles on procurement and modalities for their operationalization. They state clearly that only proposals that are consistent with international law and agreements (such as TRIPS) should be supported by the Global Fund. The Global Fund will be taking further measures to prevent or report any violations of this principle.

The GAO raises three other important issues related to procurement. The solicitation and acceptance of in-kind donations requires process-related policies on how the Global Fund would channel and value such resources; these will only be pursued after the Board is satisfied that the potential financial worth of these donations outweighs the costs of

administering them. This analysis is being coordinated by two of our Board committees, assisted by a pro bono team of consultants commissioned by the Private Sector Board Delegation. Secondly, the issue of price premiums to encourage domestic production of medications is resolved. Consistent with the decisions of the last Board Meeting, the Board has sanctioned no such premiums. The last issue of taxes and duties has also been resolved and is not outstanding. The last Board Meeting adopted a revised policy on this subject stating that, "The Global Fund strongly encourages the relevant national authorities in recipient countries to exempt from duties and taxes all products financed by Global Fund grants and procured by NGOs or any other Principal Recipient or sub-recipient." This provides flexibility in cases where the PR is a non-government entity. That said, the Secretariat is negotiating on a case-by-case basis with governments in recipient countries to declare Global Fund-financed purchases exempt of such taxes.

The progress in adopting these policies has, for me, demonstrated an important ingredient in the Global Fund's success: that debates on critical issues are based on the active engagement of experts from donors, recipients, NGOs and the private sector and that agreement is reached quickly in almost all cases. The full range of stakeholders has expressed confidence in this process. More importantly, the market has responded to both the policies and the volumes of purchases approved, with deeper discounts on drugs and broadened eligibility for such discounts. Moreover, quality assurance measures by partners are expanding to meet the need of the Global Fund's recipients, as are regional and global procurement cooperatives, which enable competitive pricing and expanded access. While great challenges remain to expand access, I believe substantial strides forward have been made.

A final topic raised in this section of your report is the Global Fund's system of monitoring and evaluation. I appreciate that the GAO concludes that the system developed is detailed and responsible, but I am not satisfied with our performance thus far. It is true that we have made progress in designing our monitoring and evaluation systems. But this means little if it cannot be effectively implemented at the country level. I would add two significant challenges to those you have listed:

- *Requiring regular yet light reporting.* The commitment of the Global Fund to performance-based disbursement requires regular reporting by grantees of their progress. At the same time, the Global Fund faces an imperative not to over-burden recipients with the administration of such requirements. Recipients are required to report progress in regular disbursement requests, which are simple, streamlined documents that provide essential information on outputs achieved – primarily against "process" and "coverage" (referred to in your report as "outcome") indicators and associated expenditure – to justify the need for further disbursements from the Global Fund. These will be verified by the LFA. Less frequent and more substantive reports on progress will be required also. Performance measures, whether reported frequently for disbursement or annually for evaluation, will align with other donor reporting requirements and longer-term international monitoring and evaluation frameworks, including those of the Millennium Development Goals and the UN General Assembly Special Session on HIV/AIDS, which require more systematic surveillance of particular indicators.

- *Turning off the tap.* The Global Fund will soon be required to interrupt the flow of funds to those recipients whose disbursement requests do not show adequate progress. This is far from a straightforward process. To do so fairly requires a transparent calculus of what is "adequate", an ability to discern when performance is strong even when milestones are not fully met, and a mechanism to not penalize parts of a broad program that are successful when others are not. The Global Fund will not be able to do this perfectly at the start, but it quickly must initiate a system that is regarded as fair by recipients and accountable by donors. The overriding principle of performance-based disbursement will again guide us in this task. In such cases that performance is inadequate, the Global Fund will require compelling corrective action following decisions to suspend disbursements. Monies will not flow until the Fund receives evidence of such actions. Grantees will have every incentive to correct deficiencies knowing that swift recommencement of funding will occur once performance has improved.

While the concept of performance-based grant making is not new, the Global Fund is pioneering practical systems to implement it. As most grant making only commenced in 2003, these systems for performance measurement and disbursement are yet to be tested. The lessons learned in the near term will guide not only the continued design and implementation of our operations but also those of other foundations and development finance institutions that aspire to fund on the basis of results.

Resource mobilization

You have represented well the enormous task ahead for the Global Fund to raise money to meet its current and future commitments. This is our single most important challenge. While the Fund's current commitments are a contribution towards the global resource gap for AIDS, TB and malaria (in 2003, the commitments of the Fund may close 10% of this divide), we are a long way from having raised the resources required. These diseases rage out of control, causing devastation and destabilization in many African countries and threatening to do the same in China, India and Russia. Immediate, courageous and large-scale action is required and this costs a lot of money. It will also save money down the line, as investment now avoids the magnitude of cost in the future that will otherwise be associated with worsened epidemics. While my colleagues at the Global Fund work to get money to grantees and assure that it is effectively used, I – along with many tireless advocates – am on a relentless path to find new money.

To date, the United States has led the way in giving, acting as a beacon for others. I am grateful for such leadership and support. However, relative to need, current pledges are insufficient to enable the Global Fund to respond adequately to the scope of this crisis. According to current projections – which will be revised consistently on the basis of what the Fund actually receives and approves – donors have pledged 33% of the need for calendar years 2002-2004, with the US pledge amounting to add at least 12% (assuming minimum contribution for FY2004 is US$ 200 million). Thankfully, our most able donors, the G8, meet in one months time to discuss how they can continue to address this challenge, along with the Global Fund's many other supporters and donors. I hope and expect that the US will continue to ensure that its contribution represents a "fair share" relative to the total

commitments to the Fund, potentially through a "challenge grant" mechanism as we await the new and renewed pledges of other donors.

I am convinced that sufficient resources will be raised to allow the Global Fund's financial assistance to reach a level that significantly contributes to stemming the tide of devastation which we are witnessing. In your report, you draw attention to the fact that each proposal round creates long-term obligations. While the amount of those obligations, which will renew two year grants, will vary as operational plans are revised after initial implementation and any unexpended funds reduce the amount requested for subsequent years, we recognize the risk associated with commencing programs for which indefinite financing is not immediately guaranteed. It is a necessary risk, however, to meet the upfront and urgent need in affected communities. The faster and more effectively we fight this fire, the sooner it will burn out. It is imperative to understand that underinvestment today only prolongs and expands funding demands tomorrow. These diseases are fueled by neglect and denial. They are doused by bold, quick, large-scale and comprehensive action.

Grant-making and effective resource use

This section usefully highlights the grant making process and underscores the challenges of ensuring effective resource use. Here, I emphasize the Global Fund principles concerning additionality and absorptive capacity.

Additionality is important to assure at both donor and recipient levels. On the donor side, this affirms the need, in our resource mobilization efforts, to pursue sources of finance beyond existing ODA budgets and is why the Global Fund is actively supporting efforts including the UK International Finance Facility, the Italian De-Tax Programme and unblocking of part of the European Development Fund. Also important to donors is the need to ensure additionality among allocated funds, which is why coordination among investments is critical as the Global Fund is joined by other major initiatives. Of particular note is the President's Emergency Plan for AIDS Relief which will invest in 14 highly affected countries, 13 of which have been approved in the Global Fund's first two proposal rounds for US$ 400 million over 2 years (up to $1.1 billion over 5 years) to fight AIDS alone.

On the recipient side, I reaffirm that the Global Fund is committed to ensuring additionality. As you note, in one approved country in Africa, an official stated forthrightly that the Global Fund's dollars would not be additional to the overall health budget, and the Secretariat halted its grant agreement negotiations until the government of that country committed to ensuring additionality. More procedurally, the Global Fund negotiates agreements with a view to ensuring financial flows and accounting that do not enable the grants to be counted against national budgets. In at least two countries, this has resulted in adapting the proposed fiscal mechanisms. While catching these cases is a challenge, we are prepared to act robustly when aware of threats to additionality.

Further, grant expenditures and recipients' progress reports will be available publicly through our website, which will encourage stakeholders within recipient countries to hold CCMs and governments accountable for the money granted and the additionality promised. Moreover, our international partners, especially UNAIDS in the case of HIV/AIDS, are

making substantial efforts to track resource flows in these countries, so there can be objective third-party analysis to assess additionality over time.

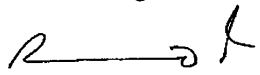
This section also raises the challenge of absorptive capacity, which will surely be a challenge for all stakeholders committed to fighting these diseases in the years to come. Developing countries clearly have today substantially more capacity to fight AIDS, TB and malaria than is being effectively utilized by local and international finance. That said, they do have human and physical capacity shortages that challenge program implementations. Countries themselves recognize this, as illustrated by the fact that nearly 50% of the funds approved by the Global Fund are for physical and human infrastructure, with half of that share being specifically for the recruitment, compensation and training of personnel.

The Global Fund is looking at multiple ways to avoid overwhelming country capacity. For example, the TRP will include as a factor in its adjudication of proposals the track record of the applicant in spending money awarded in previous grants from the Global Fund. The Global Fund is also encouraging approved applicants to adopt structures that will enable expenditure, such as the use of both public and private PRs for public and private spending in country. More importantly, we are working with our partners – bilateral and multilateral agencies, NGOs, foundations and corporations – to ensure the availability of relevant capacity: including technical assistance, management expertise, training, and procurement services. Their ability to provide this direct support to implementation is a critical element to the success of grantees being able to maximize the use of their resources.

In conclusion, I am impressed with your team's ability to capture our successes and specify our challenges. You have provided those who should judge us with accurate information. Your report describes well the work of the Global Fund and provides sobering data on the challenges faced by all of us in responding more effectively to AIDS, TB and malaria.

We have no option other than to mount a response to these three pandemics that is far larger, bolder and more comprehensive than anything attempted hitherto. The Global Fund was established to be major part of this response. Together we must succeed.

With kind regards,



Professor Richard G.A. Feachem, CBE, FREng, DSc(Med)
Executive Director
The Global Fund to Fight AIDS, Tuberculosis and Malaria

Joint Comments from the Departments of Health and Human Services and State, and the U.S. Agency for International Development

April 28, 2003

Dear Mr. Gootnick:

We appreciate the opportunity to comment on the draft General Accounting Office (GAO) report, *Global Fund to Fight AIDS, TB and Malaria Has Advanced in Key Areas but Difficult Challenges Remain,* GAO Code 320120.

The Department of State, the Department of Health and Human Services and the United States Agency for International Development concur with the overall conclusion reflected in the report's title. The Fund has made remarkable progress in establishing key structures based on the principles of partnership and coordination at global and country levels, designing new mechanisms to assure accountability and transparency, and independently vetting and approving proposals in a very short period of time. Of particular note is the Fund's emphasis on balancing donor/recipient, and public/non-governmental interests.

However, much remains to be done. Over the coming year, the Fund must put its principles into practice as implementation begins and money flows to recipients. The Fund will be challenged to strike a balance between awarding grants quickly, while still ensuring accountability, and strengthening the systems necessary to document results achieved. The Fund must take advantage of all opportunities to explain, clarify, and clearly communicate the respective roles and responsibilities, particularly at the country level, of the new structures developed.

We note that some of the described challenges, such as demonstrating that pledges to the Fund and the grants the Fund gives out are additional to existing resource flows and effectively dealing with issues of absorptive capacity, affect many donor and national programs, and are not unique to the Global Fund. These challenges are at the heart of the establishment of the Fund as a public-private partnership with the mandate to mobilize additional resources and strengthen the relationships necessary to better coordinate programs.

The need to build capacity to be able to take advantage of increased resources from many sources, requires the combined efforts of bilateral and multilateral agencies to do more in their own programs to support the Fund. All parties associated with the Fund agree that it is not in a position itself to provide technical assistance and training, particularly if the Secretariat is to remain limited in size.

The Fund remains a center of great interest and comment in public fora, and within the donor and health development communities. The three agencies believe that this report will be useful not only to the Fund Secretariat but also to the Fund's Board, the U.S. delegation, and the general public.

Sincerely,

Christopher Burnham
Assistant Secretary for
Resource Management and
Chief Financial Officer
U.S. Department of State

for Janet Rehnquist
Inspector General
Department of
Health and
Human Services*

John Marshall
Assistant Administrator
Bureau for Management
U.S. Agency for International Development

Mr. David Gootnick,
Director,
International Affairs and Trade,
U.S. General Accounting Office

*The Office of Inspector General (OIG) is transmitting the department's response to this draft report in our capacity as the department's designated focal point and coordinator for General Accounting Office reports. The OIG has not conducted an independent assessment of these comments and therefore expresses no opinion on them.

GAO Contact and Staff Acknowledgments

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Staff Acknowledgments

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