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GLOBAL HEALTH

**Assessment of First Year
Efforts of the Global Fund
to Fight AIDS, TB and
Malaria**

Statement of David Gootnick
Director, International Affairs and Trade





Highlights of [GAO-03-755T](#), 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/gettrpt?GAO-03-755T.

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.

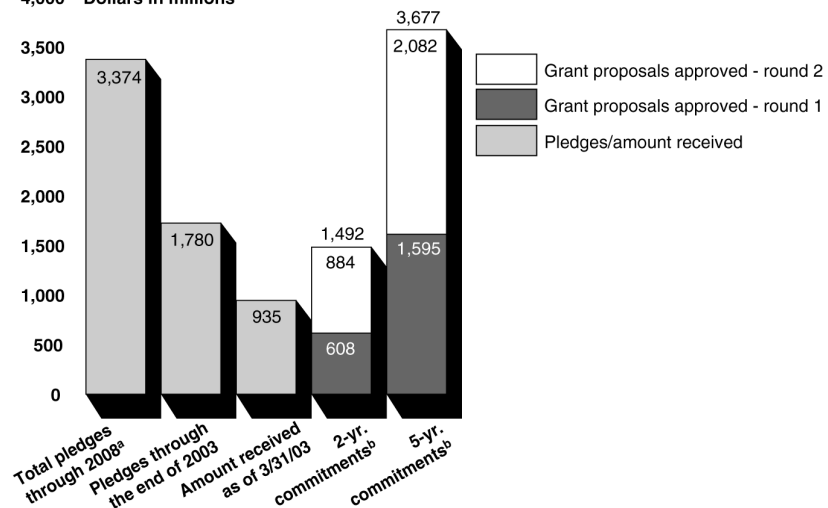
GLOBAL HEALTH

Assessment of First Year Efforts of the Global Fund to Fight AIDS, TB and Malaria

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
4,000 Dollars in millions



Source: GAO analysis of Fund documents.

^aThe pledges expected through 2008 include \$173 million that has no specified arrival date.

^bThese 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.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our assessment of the first full year of operation of the Global Fund to Fight AIDS, Tuberculosis and Malaria (“the Fund”).

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. In addition to causing human suffering in sub-Saharan Africa and elsewhere in the world, these diseases threaten economic growth and raise the potential for increased conflict and political instability. In January 2002, the Fund was established as a grant-making entity with the goal of rapidly increasing spending on the prevention and treatment of these diseases in resource-poor settings while maintaining sufficient oversight of financial transactions and program effectiveness.

My remarks will focus on several key areas, as discussed in our report issued today:¹ (1) the Fund’s progress in developing key governance structures, (2) the oversight mechanisms and procurement policies approved by the Fund, (3) the Fund’s efforts to mobilize resources, and (4) the Fund’s grant-making processes. I will highlight the progress made and the key challenges that the Fund faces in each of these four areas.

My observations are based on the work that our GAO team conducted over the previous year. For this project, our team conducted audit work that included site visits to Fund headquarters in Geneva, Switzerland, and to Ethiopia, Haiti, Honduras, and Tanzania— four countries that were awarded grants. We also 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.

Summary

The Fund has established key governance structures, including a board of directors, a secretariat, and a grant review process. It also has called on

¹U.S. General Accounting Office, *Global Health: Global Fund to Fight AIDS, TB and Malaria Has Advanced in Key Areas, but Difficult Challenges Remain*, [GAO-03-601](#) (Washington, D.C.: May 7, 2003).

potential recipient countries to establish structures at the country level to develop, implement, and oversee grants. The principal country-level governance structure, the Country Coordinating Mechanism (CCM), is designed to provide a forum for locally based stakeholders to develop, review, and submit grant proposals to the Fund and to follow the progress of Fund-supported projects. However, a number of challenges—for example, communication difficulties between the Fund and the CCM and between the CCM chair and its members—have slowed the establishment and effective operation of this key structure. The Fund has acknowledged the CCM-related challenges and is working to address them by enhancing its guidance and communications with CCMs.

The Fund has developed comprehensive oversight systems for ensuring financial accountability and monitoring and evaluating grant performance, and it has issued guidance on procurement. The Fund's principal oversight entity at the country level, the Local Fund Agent (LFA), is one of several potential contractors hired by the Fund and is responsible for (1) ensuring that grant recipients account for the money they spend and measure progress in fighting disease and (2) assessing recipients' ability to procure goods and services. However, the introduction of the LFA as an oversight mechanism has been marked by controversy and misconceptions, which have delayed the designation of LFAs in some countries, thereby slowing the implementation of grants. The Fund has recognized these challenges and is working to address them—for example, through its new guidelines on financial management.

A lack of 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 proposal round, planned for October 2003, pledges made as of April 1, 2003, were insufficient to cover more than a small number of new grants. Specifically, the Fund projects that it will receive \$1.6 billion in technically sound proposals at its next proposal round in October 2003, but it currently has less than \$300 million to support this round of grants. In addition, without significant new pledges, the Fund will be unable to support all of the already approved grants beyond the initial 2-year commitments. 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.

The Fund has made improvements in its grant-making processes that enhance its ability to achieve its key objectives. These improvements include altering eligibility criteria to focus on the neediest countries and adding additional members to the proposal evaluation panel to increase its

overall knowledge base and better prepare it to evaluate nonmedical, development-related issues. However, the Fund faces the ongoing challenges of ensuring that its grants augment and complement existing spending on HIV/AIDS, TB, and malaria and that recipients have sufficient capacity to effectively use these grants. Although these coordination and capacity challenges are not unique to the Fund, the Fund has recognized them, and its efforts to address them are evolving.

Background

HIV/AIDS, TB, and malaria, three of the world's deadliest infectious diseases, cause tremendous human suffering and economic loss and threaten political stability in many countries in sub-Saharan Africa and the developing world. According to the Joint U.N. Program on HIV/AIDS, in 2002, AIDS caused 3 million deaths, and 5 million people became infected with HIV. 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. According to the World Health Organization, after 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, TB primarily affects the most economically active segment of the population, with 75 percent of the annual deaths occurring in those aged 15 to 54 years. 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 annual malaria deaths occur.

The Fund was formally launched in January 2002. As of April 1, 2003, the United States had pledged \$1.65 billion² to the Fund out of total pledges of \$3.37 billion and was its single largest donor. (See fig. 1 for more information about the Fund's first year.)

²Through fiscal year 2003, the United States had appropriated up to \$650 million to the Fund, and it has pledged an additional \$1 billion over 5 years, beginning in 2004.

Figure 1: Timeline of the Fund's First Year



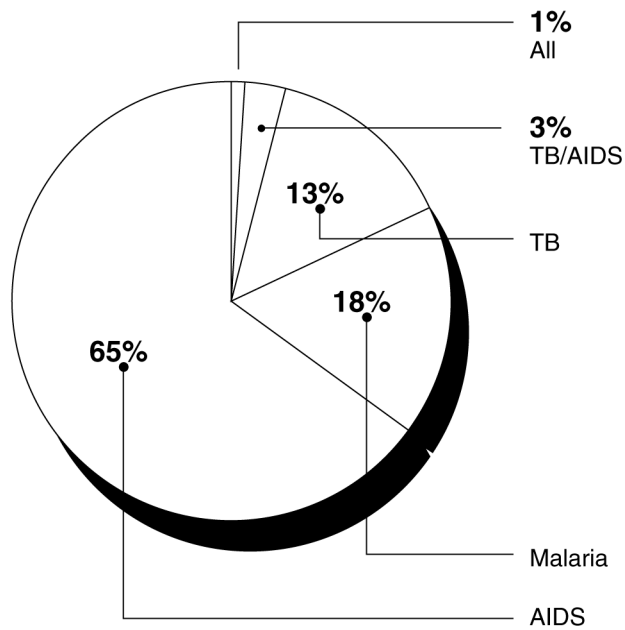
Source: GAO analysis of Fund documents.

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. It aims for an integrated and balanced approach, covering prevention, treatment, care, and support. It also seeks to establish efficient and effective disbursement mechanisms. In the past year, the Fund has approved 153 grants in 81 countries across the major regions of the world.³ These grants total nearly \$3.7 billion (\$1.5 billion over the first 2 years) and cover all 3 diseases (see fig. 2). The Fund began disbursing money to grantees in late 2002.

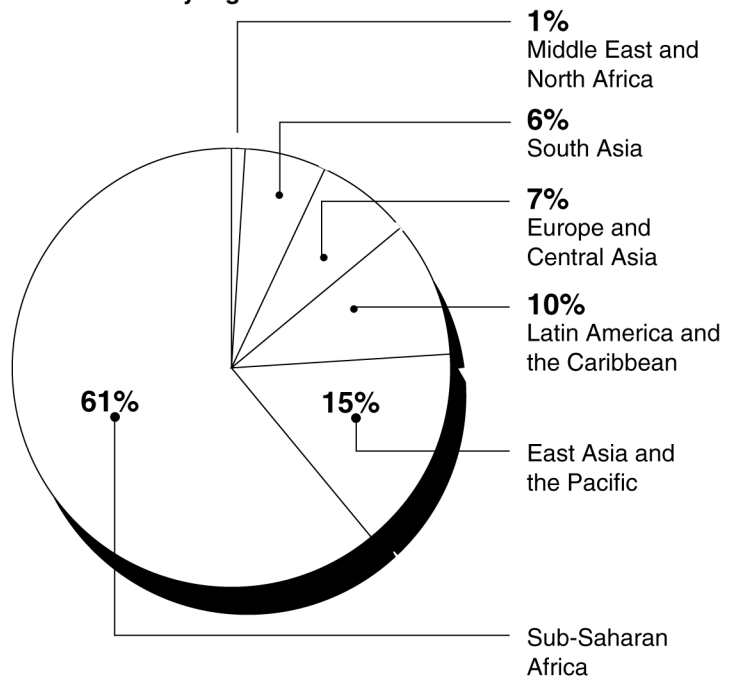
³This country total does not include one global grant and grants to two regions.

Figure 2: Approved Grants, by Disease and by Regiona

Grant dollars by disease



Grant dollars by region



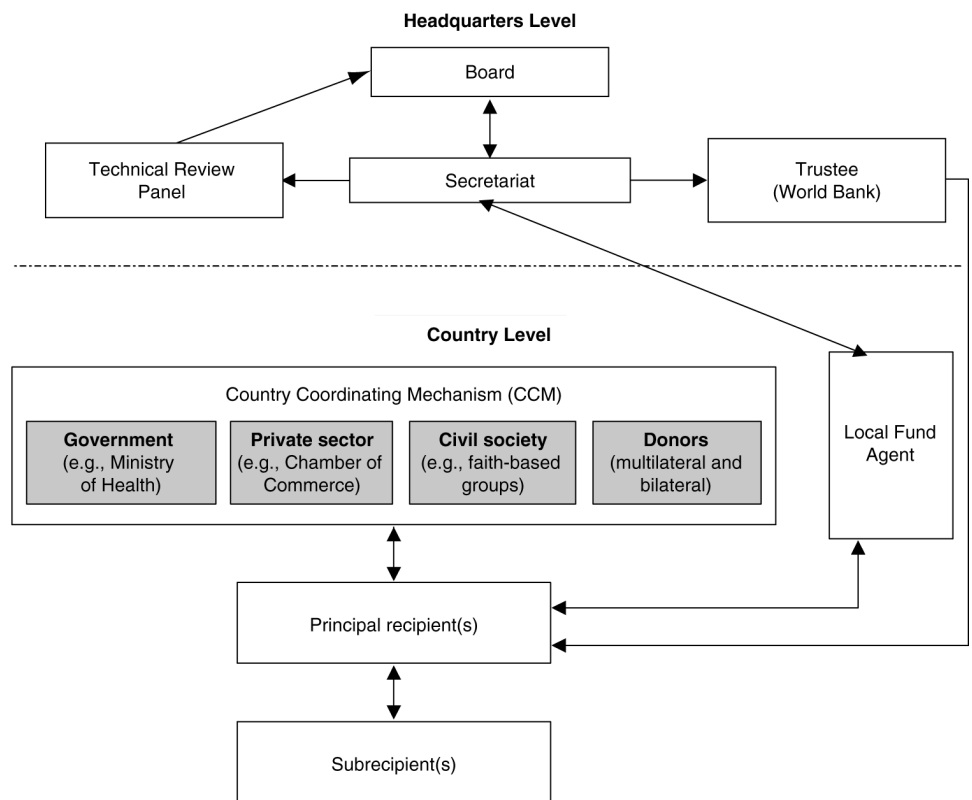
Source: GAO analysis of Fund data.

^aBased on maximum allowable grant money for the full length of board-approved programs for the Fund's first two proposal rounds.

The Fund Has Established Necessary Governance Structures, but Its Ability to Rapidly Disburse Grants Is Challenged at the Country Level

In its first year, the Fund developed and established key headquarters and country-level structures required to develop, implement, and oversee grants. (See fig. 3). However, limited communication and the evolving nature of these new structures, especially at the country level, led to a lack of clarity over roles and responsibilities, slowing 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.

Figure 3: The Fund’s Governance Structure



Source: GAO analysis of Fund documents.

Notes: The World Health Organization and the Joint U.N. Program on HIV/AIDS assist the technical review panel with data and other expertise. The Fund has entered into an agreement with the World Health Organization 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 CCM—the country-level governance structure designed to review and submit proposals and follow the progress of Fund-supported programs—identifies a principal grant recipient. The principal recipient is a member of the CCM and is responsible for receiving and implementing the grant. A principal recipient can be a government agency, a nongovernmental organization, a private organization, or, if alternatives are not available, a multilateral development organization.

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 the implementation of grants. In 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, according to the Fund, it 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. For example, it is conducting regional workshops and working with local partners such as bilateral and multilateral donors. 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 that are assisting with grant implementation.

The Fund Developed Comprehensive Oversight Systems, but the Systems Face Challenges

The Fund has developed systems for financial accountability and for monitoring and evaluating grant activities. However, in the Fund's first year of operation, these systems faced challenges at the country level. The introduction of the local fund agent (LFA)—the Fund's representative in each recipient country—has been marked by controversy and misconceptions regarding its oversight role. For example, several government officials in one of the countries that we visited believed, incorrectly, that a government ministry would be permitted to perform the functions of the LFA, even though the grant recipient is another government ministry. This contradicts explicit Fund instructions that the LFA must be independent from the grant recipient. Also, stakeholders in recipient countries have 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.

Finally, in countries with a limited number of qualified personnel and organizations, LFAs will face the challenge of maintaining the

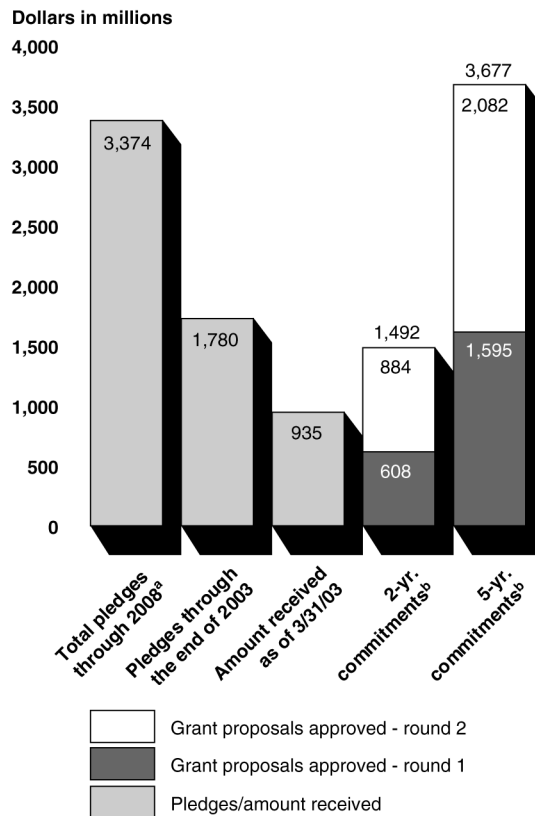
independence necessary to avoid real or perceived conflicts of interest. These problems may delay the designation of LFAs in some countries, slowing the implementation of the first round of grants. The Fund is aware of these issues and is taking measures to address them. For example, in January 2003, the Fund drew up guidelines on financial management arrangements for principal recipients that, among other things, includes options for the use of credible, existing local systems.

The Fund has developed detailed procurement requirements for drugs and medical supplies as well as more general requirements for procuring goods and services. These requirements are focused primarily on procuring drugs and public health products in a manner that ensures quality, safety, and the lowest possible prices. 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 recipients have the capacity to manage procurement tasks such as purchasing, storing, and distributing these products in accordance with Fund guidance, unless the Fund agrees otherwise.

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 has announced plans to award new grants in its third proposal round in October 2003. However, pledges made through April 1, 2003, for this year 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 grant commitments approved in the first round and the \$884 million approved in the second round (see fig. 4).

Figure 4: Pledges Made, Amount Received, and Grant Proposals Approved



Source: GAO analysis of Fund documents.

^aThe pledges expected through 2008 include \$173 million that has no specified arrival date.

^bThese 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.

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.

Based on the number of technically sound proposals it expects to receive and approve in future rounds and the amount received 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 commitments. Specifically, 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. Of the \$3.37 billion pledged as of May 2003, 97 percent was pledged by governments and only 3 percent was pledged by the private sector, including foundations, corporations, and individuals.

Improvements Made in Grant Decision-Making Process, but Challenges Remain

The Fund made improvements in its grant decision-making process and enhanced its ability to serve its key objectives. For example, the Fund altered eligibility criteria to focus on the neediest countries and added additional members to the technical panel responsible for reviewing proposals to increase its overall knowledge base and better prepare it to evaluate nonmedical, development-related issues. However, the Fund and its stakeholders have identified ongoing challenges to the grant decision process, including ensuring that grants augment and complement existing spending on HIV/AIDS, TB, and malaria and that recipients have sufficient capacity to effectively use the grants. For example, the Fund has not yet developed a system for monitoring whether the grants in fact add to and complement existing spending once disbursed. The Fund has recognized these challenges, and its efforts to address them are evolving.

Conclusion

In conclusion, our assessment of the Fund's first year of operation indicates that it provides a promising mechanism to complement bilateral, multilateral, and private initiatives to fight three of the world's deadliest diseases. However, the Fund's success will depend on its ability to meet the challenges of facilitating effective locally based governance and oversight mechanisms and raising sufficient resources to continue to approve and finance grants. The Fund's success will also depend on its ability to ensure that its grants augment and complement existing spending on HIV/AIDS, TB, and malaria and that recipients have the capacity to effectively implement Fund-supported programs.

Mr. Chairman and members of the committee, this concludes my prepared statement. I will be happy to answer any questions you may have at this time.

Contacts and Acknowledgments

For information on this statement, please contact David Gootnick, Director, International Affairs and Trade, at (202) 512-3149 or Thomas Melito, Assistant Director, at (202) 512-9601. You may reach them by email at gootnickd@gao.gov or melitot@gao.gov. Other individuals who made key contributions to this testimony include Sharla Draemel, Kay Halpern, and Tom Zingale.

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