



Audit Report

# Global Fund Transition Management Processes

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Geneva, Switzerland

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### Audit Report

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# 1. Executive Summary

## 1.1. Opinion

The Global Fund Board approved the Sustainability, Transition and Co-financing (STC) policy in April 2016. This policy defines transition as the mechanism by which a country, or a country disease-component, moves towards fully funding and implementing its health programs independently of Global Fund support, while continuing to sustain the gains made and scaling up programs as appropriate.<sup>1</sup>

In many ways, transition is not primarily a Global Fund process. Rather, it is first a country process supported by the Global Fund. As such, factors such as the political willingness, the level of commitment or the legal framework of countries, which are at different maturity levels, are key enablers of successful transition. While the Global Fund continues to play an advocacy role in most transitioning countries, these factors are country led and beyond the Secretariat's direct control. Furthermore, as Global Fund investments gradually decrease and eventually end in line with eligibility policies approved by the Board, the Global Fund's leverage also declines. Thus, successful transition requires focused engagement on the part of all stakeholders, including governments, the Global Fund Secretariat, the Board, partners, donors and civil society organizations.

Since the STC policy was approved, the Global Fund Secretariat has enhanced existing governance mechanisms and instituted new ones to support its implementation. The Secretariat has also tailored and enhanced key processes underlying transition including early planning. However, the need remains to leverage existing mechanisms to support countries post transition and improve Global Fund monitoring of transition grants. The design of governance mechanisms is rated as **effective** and key processes to operationalize the policy and support transition planning and preparedness are rated as **partially effective**.

## 1.2. Key Achievements and Good Practices

**Approval of the STC policy.** The Global Fund is one of a few donor organizations to develop and implement a policy that outlines the principles and framework for effective transition from its support. This has increased both transparency and predictability for countries and components that are likely to transition. It has also encouraged early planning and stakeholder engagement to address transition challenges.

**Improved Secretariat oversight to support transition planning.** The Secretariat has instituted a Steering Committee, led by the Head of Grant Management and including all relevant divisions, to oversee implementation of the policy. The Management Executive Committee has identified implementation of the policy as one of its key strategic priorities and has defined key deliverables, timelines, measures of success and accountabilities. Key performance indicators are also monitored at the Secretariat level to track progress on implementation. These oversight mechanisms are adequate, although it is still too early to gauge their effectiveness.

**Improved and tailored funding application and grant making processes to support transition.** The Secretariat has enhanced the processes and tools to support transition. The funding application process is now tailored, with a specific funding request for transition applicants. Strategic Information and Sustainable Financing (SISF) experts, included in the Technical Review Panel, review funding requests and provide guidance on transition activities and risks. At grant approval stage, country teams are required to indicate how the STC policy is taken into consideration in designing the grant. Relevant tools, such as the transition readiness assessment and a diagnostic tool for public financing of civil society organizations, have also been developed to support transition planning. For the transition grants sampled, these processes are adequate and effective to support the transition component of the STC policy.

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<sup>1</sup> GF/B35/04 – The Global Fund Sustainability, Transition and Co-financing Policy

### 1.3. Key Issues and Risks

**Identification of alternative mechanisms to support countries post transition.** A number of transition challenges such as access to quality-assured medicines can affect gains made in countries post transition. There is an opportunity for the Board and Secretariat to explore ways to support transition through mechanisms other than grant funding. For instance, the Global Fund could leverage existing arrangements to allow these countries to procure medicines and health products through the Fund's Pooled Procurement and Wambo platform. This will enable countries that have transitioned or are planned to transition in the current or future allocation cycles, to have continuous access to affordable and quality medicines. The OIG acknowledges that the Secretariat and/or the Board can only make these mechanisms available while decisions to use them are country led.

**Improvement required in monitoring transition grants.** Standard grant indicators alone are not sufficient for measuring the performance of specific transition activities. As a result, transition activities are currently captured in the Work Plan Tracking Measures of the Grant Performance Framework. Whilst there is an existing quality assurance process for the Performance Framework, there is limited control to ensure that all key transition activities as per the transition work plan are captured in the Work Plan Tracking Measures. As a result, transition activities are inconsistently captured and the progress of these activities could be overlooked during the annual funding decision-making process, where the grant's performance is fully assessed by the Secretariat. There is a need to define a formal and systematic approach to monitor the performance of transition grants and to ensure that transition-related challenges are promptly identified and mitigating actions put in place.

In addition to the above issues and risks, there are expectations gaps in communication between the Board and Secretariat on transition. Although the Secretariat has provided frequent updates to the Board, several Board members interviewed indicated they were not satisfied with the modalities, nature and frequency of the information received. In absence of expectations set by the Board, the OIG is unable to determine whether the current reporting process from the Secretariat is adequate or not

### 1.4. Rating

	<p><b>Objective 1: The adequacy and effectiveness of the Global Fund governance mechanisms to support transition</b></p> <p>The Global Fund Secretariat has enhanced existing governance mechanisms and instituted new ones to support its implementation. These oversight mechanisms are adequate, although it is still too early to gauge their effectiveness. The existing governance mechanisms are therefore rated as <b>Generally effective</b>.</p>
	<p><b>Objective 2: The adequacy of key processes to operationalize the transition component of the STC policy.</b></p> <p>The Secretariat has tailored and enhanced key processes underlying transition including early planning. However, the need remains to improve Global Fund monitoring of transition grants. Therefore the key processes to operationalise the policy are rated as <b>Partially effective</b>.</p>

### 1.5 Summary of Agreed Management Actions

Most of the transition challenges are beyond the Global Fund's direct control. The Secretariat does not believe an AMA is necessary for findings 4.1 and 4.2 because it considers the OIG findings to be within the overall risk appetite and consistent with prior decisions made by the Board. The OIG acknowledges this is consistent with the limited span of control that the Secretariat has over the challenges explicitly indicated in the report.

In addressing finding 4.3, the Secretariat will revise its plan for ongoing Sustainability and Transition training for 2019 and incorporate lessons learned from previous transition activities to enhance the overall effectiveness of the training. The Secretariat will also reinforce the current approach to monitoring transition grants through sufficient use of standard programmatic indicators and WorkPlan Tracking Measures which will be tailored for each transition country as applicable.

## 2. Background and Context

### 2.1. Overall Context

The Global Fund Strategy 2017-2022 recognizes that ending HIV and tuberculosis as epidemics and eliminating malaria will require sustainable systems for health and national responses to the three diseases. This requires active stakeholder engagement as well as countries' increased contribution to the health sector.

The Board approved the [Sustainability, Transition and Co-financing \(STC\) Policy](#) at its 35th meeting in April 2016. The main purpose of the transition component in the policy is to establish a proactive approach, principles and framework for promoting effective transitions.

The policy defines transition as the mechanism by which a country, or a country disease component, moves towards fully funding and implementing its health programs independent of Global Fund support, while continuing to sustain gains and scaling up as appropriate.

A country or a disease component may transition from Global Fund support either voluntarily or because they become ineligible based on the [Global Fund Eligibility Policy](#) and/or have received their final allocation based on discussion with the Global Fund.<sup>2</sup> A transitioning country or component with an existing grant may receive a final allocation of transition funding upon becoming ineligible. The Global Fund determines countries eligible to receive funds on a regular basis in line with defined metrics approved by the Board. The metrics are usually based on the latest available official data provided by the World Bank, World Health Organization (WHO) and Joint United Nations Programme on HIV/AIDS (UNAIDS). Countries and components determined to be ineligible may receive transition funding for existing grants unless they move to high income status or become a member of the Organization for Economic Co-operation and Development.<sup>3</sup>

The Secretariat has developed a framework for countries at the various stages of the development continuum to ensure that all countries consider the STC in their funding requests. This means that planning for sustainability and transition is a priority, and expected to be built into country dialogue, co-financing commitments and grant design even if the country is not transitioning under the current allocation cycle. The Secretariat presented the framework to the Board in May 2017, outlining the following:

- 95 country disease components (approximately \$5.2 billion in allocation) are in low income countries and 90 components (approximately \$4.2 billion in allocation) are in lower middle-income countries with high or extreme disease burden. These countries need to focus on long-term sustainability planning by supporting the development of robust national health strategies, disease specific strategic plans and health financing strategies, through the gradual absorption of program costs and by building country systems, efficiency and optimization. The appropriate focus areas are determined by each country context.
- 69<sup>4</sup> components (approximately \$0.8 billion in allocation) are in lower middle-income countries with low or moderate disease burden. These countries need to focus on sustainability and transition preparedness.

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<sup>2</sup>The Global Fund Core Projected Transitions by 2025 document

<sup>3</sup>An intergovernmental economic organization with 36 member countries, founded in 1961 to stimulate economic progress and world trade

<sup>4</sup> These include two Challenging Operating Environments disease components which are allowed flexibilities under the STC and COE policy. These 69 components only include those countries who received an allocation and does not include Multi Country grants under Catalytic Investments.

Twelve disease components with a total allocation of approximately US\$35 million are receiving transition funding within the 2017–2019 funding cycle. These disease components have a maximum of three years to implement transition activities. See Figure 1 which shows the country disease components transitioning from Global Fund support in the 2017–2019 allocation cycle.



Figure 1: Country disease components receiving transition funding in the 2017–2019 allocation cycle.

In addition, seven components have elected to use a tailored transition funding request in the current cycle for contextual reasons. These are Belize (HIV), Costa Rica (HIV), Kosovo (HIV), Malaysia (HIV), Panama (HIV), Romania (TB), and Suriname (HIV).

In line with available funding and allocation methodology, the Global Fund’s contribution to those twelve disease components has decreased since the inception of the New Funding Model. The reduction in the Global Fund’s allocation to the above disease components requires that these governments increase their domestic funding to disease programs, strengthen efficiency through a reduction or optimization of costs and plan towards full transition.

To assist countries in advanced transition planning, the Global Fund has produced a [list of country components \(refer to annex D\)](#) projected to transition fully from Global Fund financing by 2025 due to improvements in their income classification.

## 2.2. The Global Fund’s role in a transition context

The STC policy acknowledges that planning for transition from Global Fund support takes time and resources. There are a number of complex success factors and challenges for effective transition which are generally country led and beyond the Global Fund’s direct control. These factors include political willingness, domestic financing for health, legal barriers to services for key affected populations and post-transition governance (See details in section 4.1). The complexity of the factors and small size of the grant funding in these countries reduce the Global Fund’s leverage in addressing these challenges. As required by the policy, the Secretariat supports countries in the identification of transition challenges and their potential resolution including those transitioning in the current cycle and projected to transition in future cycles.



While the Global Fund helps countries to plan and plays an advocacy role in the resolution of identified challenges during the transition period, it cannot guarantee outcomes or government decisions post transition. It requires joint effort of all stakeholders, particularly the government, and support from the Global Fund Board and Secretariat, technical partners, financing agencies and Civil Society Organizations (CSO's) to ensure successful transition.

## 3. The Audit at a Glance

### 3.1. Objectives

The audit sought to provide the Board with reasonable assurance on the adequate design of transition management processes, under the STC policy, and the effectiveness of some of these processes where applicable.

Specifically, the OIG assessed:

- the adequacy and effectiveness of Global Fund governance mechanisms to support transition
- the adequacy of key processes to operationalize the transition component of the STC policy.

### 3.2. Scope

The audit included:

- A review of relevant applicable policies, procedures, guidelines and transition readiness assessment reports.
- An evaluation of the funding request and grant making processes applicable to transition.
- An assessment of the Global Fund governance mechanisms related to transition. This included the Board and its relevant committees, and the Secretariat's internal oversight processes.
- A desk review of six transitioning components in the 2017-2019 funding cycle and four disease components projected to become ineligible in future allocation periods.
- In-country missions to four transitioning countries to assess the level of planning and preparedness, and stakeholder engagement at the country level.

The audit sample considered countries and disease components across the various transition categories, as well as the status of transition grants made since the STC policy was approved, most of which had not yet been signed at the time of the audit. See **Annex C** for more details on the OIG Audit sample for transitioning countries and disease components.

#### *Scope exclusions*

This audit did not cover the following:

- The sustainability and co-financing aspects of the STC policy - these are applicable to all countries in the portfolio and are reviewed during specific country audits where necessary.
- Activities for components that transitioned prior to the Board approval of the STC policy - the Technical Evaluation Reference Group (TERG) reviewed those activities, which partly informed the development of the STC policy. However, the OIG leveraged the TERG's key recommendations, which remain relevant post the STC policy.
- Implementation of transition activities - most of the transition grants were not yet signed at the time of the audit.
- The Global Fund Eligibility Policy - whilst eligibility requirements do have a trigger effect on transition, the purpose of this audit was not to evaluate eligibility criteria which are Board-mandated.

## 4. Findings

### 4.1. Most transition challenges are country led and beyond direct control of the Global Fund

Successful transition requires careful management of a number of legal, political and cultural challenges. However, the reduced levels of funding significantly limit the leverage and influence that the Global Fund has in the national dialogue to address these challenges. As many of the factors for successful transition are country led, it is even more critical that the Global Fund Board, the Secretariat, partners and civil society organizations work together with the country to ensure successful transition. In particular:

- **Political willingness for key programmatic, financial and institutional changes to fight the three diseases:** A country's political willingness impacts key programmatic, financial and institutional changes that are essential for successful transitions. Eligibility for Global Fund support takes into account the disease burden and economic capacity of countries in order to optimize the investment of financial resources. Countries with greater economic capacity, particularly upper middle-income countries and lower middle-income countries are expected to have a greater ability to finance their health programs. However, ability to pay does not necessarily translate into a willingness to prioritize investments in the three diseases or support key populations affected by those diseases.

In a transition context, the transition component of the STC policy encourages governments to allocate domestic resources and create favorable environments for effective implementation of HIV/AIDS, TB and malaria programs. The co-financing component of the STC policy further places requirements on all countries to demonstrate a progressive increase in domestic investment of key program components. The transitioning countries have increased their financial commitment to the three diseases in line with the policy. The sampled countries and components have honored on average 82% of their previous cofinancing commitments. However, there are still funding gaps across all the transitioning countries which require governments to increase domestic resources as the Global Fund exits the countries. Data available from recent funding requests submitted by some of the transitioning countries<sup>5</sup> as of June 2018 indicate an average funding gap of 33% with Global Fund support. The gap increases as the Global Fund transitions from the countries. This increases the risk of certain activities not being funded by governments post transition. Studies conducted by organizations such as the Open Society Foundation<sup>6</sup> and the TB Coalition in Europe<sup>7</sup> highlight instances where governments have continued to finance HIV interventions as in the case of Macedonia and Croatia. However, these studies also identified cases where services ceased or declined after withdrawal of Global Fund support, notably in Serbia and Azerbaijan. In the case of Serbia, the country became re-eligible for Global Fund support in the new allocation cycle due in large part to a rise in HIV among some key populations. A comparative analysis of these cases highlights important success factors, including effective sustainability planning ahead of transition, adequate involvement of civil society and government commitment to address key areas of capacity gaps.

Whilst many of these cases pre-date the STC policy, the Global Fund now requires countries to demonstrate how services and/or service coverage will be continued as part of the transition planning. This is expected to mitigate some of the previously experienced challenges. However, the decision to continue to provide domestic financing, in particular for HIV and for key affected populations, lies with the country. In light of this, some countries have instituted innovative domestic financing mechanisms; for example, the national lottery in Costa Rica allocates around 1.5% of its revenue to support civil society organizations (CSOs) in the implementation of HIV-related activities. However, challenges remain for CSOs in accessing these resources, due to

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<sup>5</sup> Belize, Dominican Republic, Paraguay, Panama, Sri Lanka, Suriname and Turkmenistan

<sup>6</sup> <https://www.opensocietyfoundations.org/sites/default/files/lost-in-translation-20171208.pdf>

<sup>7</sup> <http://www.globalfundadvocatesnetwork.org/wp-content/uploads/2016/05/TBEC-Position-Paper-Transitioning-from-donor-support-HIVTB-programmes-in-EECA.pdf>

stringent requirements and lack of capacity at the CSO level. In 2017, the national lottery allocated US\$ 563,000 but only US\$ 152,000 was disbursed to CSOs for HIV prevention and treatment activities.

The OIG also notes that political willingness is not static and potential changes in a country's political leadership can significantly affect transition efforts. As noted by the TB Coalition in Europe in relation to Croatia<sup>8</sup>, political leaders that support the provision of services to key affected populations are more likely to continue this provision after transition, and vice versa.

- **Legal framework and supporting environment to sustain coverage for key populations:** In many countries that receive Global Fund support, certain populations that are disproportionately affected by the three diseases face legal and cultural barriers, such as men who have sex with men or sex workers. Often, the primary way to reach these populations is through the support of civil society organizations (CSOs). At the same time, the legal framework in some transitioning countries impedes governments from financing civil society organizations responsible for the prevention and treatment of key affected populations. As a country transitions, governments are expected to finance activities for these populations, which is challenging in cases where such groups face legal barriers or where governments are unable to fund civil society organizations to implement such activities. Our audit found that the transition readiness assessments in five out of the 10 countries reviewed highlighted significant legal and cultural barriers that affect access to health care by key affected populations. While the Global Fund and other partners have initiated advocacy mechanisms to address public financing of health services provided by CSOs (i.e. social contracting), in a number of countries it still remains a country-led decision. The Secretariat has started several regional grants, which are at different stages in the funding cycle, to help address some of the barriers at a regional level during the transition period.

Another legal hurdle relates to the international procurement of health commodities, which is not allowed under some local procurement guidelines even though there may not be quality assured manufacturers of anti-retroviral medicines and TB medicines in those countries. One of the transitioning countries, Cuba, whose local laws do allow international procurement, faces economic sanctions and is unable to directly procure certain medicines and health equipment from the international market. In other countries, such as Albania and Kosovo, the quantities of anti-retroviral medicines required are small and unlikely to attract manufacturers to supply the medicines at reasonable prices. Equally, TB medicines have a fragmented market and are relatively difficult to access by individual countries.

- **Post transition governance and oversight:** The Global Fund's Country Coordinating Mechanism (CCM) has generally created opportunity for civil societies and key affected populations to participate in the national dialogue and other decision-making processes related to the three diseases. However, the structure and composition of traditional CCMs may not be fit for purpose in the specific context of transitioning countries. For example, CCMs typically do not include national bodies or institutions that may need to play a critical role in addressing transition-related challenges such as increased domestic funding or removal of legal barriers. For instance, the Ministry of Finance, which is responsible for budgetary allocations, has not traditionally been actively involved in Global Fund activities in many transitioning countries. This raises the need to adapt the CCM membership in various countries to respond to their unique transition challenges.

Through the CCM Evolution Project, the Global Fund is developing options to gradually transfer the role of CCMs to other in-country bodies after transition. However, as a general rule, post-transition governance has not been consistently considered by in-country stakeholders as part of their transition planning. Although countries such as Cuba and Costa Rica have already identified existing national bodies to assume the functions of the current CCM after transition, six of the 10

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<sup>8</sup><http://www.globalfundadvocatesnetwork.org/wp-content/uploads/2016/05/TBEC-Position-Paper-Transitioning-from-donor-support-HIVTB-programmes-in-EECA.pdf>

countries reviewed have not yet considered post-transition governance or identified alternative mechanisms to carry forward the mandate of the CCM.

- **Need for advocacy support in transition countries:** Countries with transitioning components are at different levels of maturity and have different needs. Some partners have supported countries such as Cuba and Costa Rica in identifying specific transition challenges and targeted requirements. Other countries are yet to fully identify their challenges and needs. However, across all countries, advocacy at the senior government level during and after transition remains a key need. This is crucial, in particular, to ensure that services to key affected populations are continued after transition. Most donors have already exited well ahead of the Global Fund's transition and, as a result, the donor landscape may be relatively narrow in many of these countries. In the absence of traditional funding through grants or other financial aid, there is an opportunity and a need for partners to leverage bilateral ties and diplomatic presence ties to support advocacy efforts and help the countries address several of the transition-related challenges identified above.
- **Predictability and early planning:** Historically, the organization attempted to address sustainability and transition in its supported programs but this was not performed on a formal and systematic basis as noted in the Technical Evaluation Reference Group's (TERG)<sup>9</sup> review in 2013. Recognizing that a successful transition takes time, the Global Fund's STC policy strongly encourages countries to start planning for transition several years in advance of the expected exit from Global Fund support. The STC policy encourages the Secretariat to notify countries about expected transition timelines, support for transition readiness assessments, and level of transition funding in a timely manner. As a result, since approval of the policy, transition is now being factored into Global Fund grants several years before the projected transition period and this has increased the Secretariat's focus on transition.

The timing for countries transitioning during this cycle may however be too short to address transition-related challenges which were previously not adequately prioritized. In this regard, the STC policy indicates that the Secretariat will consider exceptions to the policy on an individual basis, taking into account country context and fiscal space considerations, as well as other relevant factors. For example, the Secretariat has applied these flexibilities under the policy in a number of countries such as Iran, Macedonia, Bosnia and Colombia where grant extensions were approved because certain country disease components were not eligible for transition funding.

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### **Management Comment:**

There is no Agreed Management Action for the finding as the Secretariat considers the OIG findings in this section to be within the overall risk appetite of the organization and consistent with prior decisions made by the Board, and therefore does not believe an AMA is necessary. The Secretariat is fully committed to ongoing implementation of the STC Policy, including a focus on strengthening transition planning and transition preparedness. Given that the Global Fund Secretariat's mandate to engage with countries is through Global Fund financing and Global Fund grants, there are clear limitations to how the Secretariat can support countries post-transition. The Secretariat is committed to continuing to support countries post transition in line with its mandate, including strategies to leverage global public goods, the ongoing implementation of regional grants, and ongoing advocacy at a regional level to strengthen national responses to HIV/AIDS, TB, and Malaria. Accelerated implementation of the Wambo.org pilot, which enables countries to use domestic financing for commodities accessed through the Global Fund's pooled procurement mechanism, is of critical importance to ensure countries have better options to access quality assured and affordable health products pre and post-transition.

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<sup>9</sup> The TERG) is an independent evaluation advisory group, accountable to the Global Fund Board through its Strategy Committee for ensuring independent evaluation of the Global Fund business model, investments and impact

The OIG acknowledges that the agreed management action approach is consistent with the limited span of control that the Secretariat has over the key challenges highlighted in this section, as explicitly recognized in the report

## 4.2. Transition mechanisms have been enhanced but strategic challenges remain in operationalizing transition

**The Global Fund has significantly improved its mechanisms to support transition. However, there are expectation gaps between the Board and the Secretariat in relation to operationalizing the STC policy.**

Given the unique challenges involved, transition planning requires strong oversight at the Secretariat. To manage the constraints as effectively as possible, the Secretariat established a Steering Committee to oversee implementation of the STC policy. The Committee, chaired by the Head of Grant Management, includes key business units in the Secretariat involved in transition planning. Between September 2016 and May 2017, the Committee was supported by an operational STC Working Group. The primary focus of the working group was to support cross-departmental discussions to operationalize the STC policy. These processes are now embedded within Grant Management and the working group has been disbanded.

The Management Executive Committee (MEC), chaired by the Executive Director, has identified implementation of the policy as a strategic priority for 2018–2020. A comprehensive three-year work plan has been developed, which includes significant initiatives to advance transition planning and preparedness. The MEC has defined timelines, measures of success, and roles and responsibilities for each initiative.

The Secretariat has developed Implementation Key Performance Indicators (IKPI) to track progress on identified success factors for transition planning and preparedness. These include domestic investment in key populations and core commodities, and transition planning at the country level. The first progress results of the IKPI were due to be ready by end of second quarter of 2018.

The above measures are appropriately designed to support operationalization of the STC policy, but more time is needed to assess their implementation effectiveness. However, within the existing framework for transition, there is a need to address a number of challenges:

*Focus on transition challenges identified in Transition Readiness Assessment:* The STC policy describes the expectations for transition planning and preparedness. It also clarifies that only activities in the transition work plan supporting a country's funding request can be funded out of a transition grant.

The activities in the transition work plan have been incorporated in the transition grants as allowed by the available allocation. However, as a new process, there are some lessons to be learned on the readiness assessment as indicated under finding number 4.3.

*Alternative mechanisms to support countries post transition* The countries and components transitioning from Global Fund support are at different maturity levels and face different risks, many of which are not necessarily related to funding. One of the main challenges faced by all countries is ensuring continuous availability of quality assured medicines to patients. This is complicated by restrictive local laws and insufficient volumes of patients to attract international manufacturers. Whilst these are country-owned decisions, there is an opportunity for the Global Fund Board and Secretariat to support countries in addressing these challenges by leveraging existing mechanisms other than grant funding, which may not be available under the existing Eligibility Policy. For instance, the Global Fund could assist countries (those that have transitioned, transitioning in the current allocation cycle or planned to transition in future allocation cycles) to procure medicines and health products through the Fund's procurement and Wambo platforms. In this context, the OIG noted that the Global Fund has an existing arrangement for the Pan American Health Organization and other countries to leverage the Pooled Procurement Mechanism to buy medicines with their own resources. This could enable countries with transitioning components to have continuous access to affordable and quality medicines to sustain and scale up the gains made. However, such mechanisms would still require the Secretariat to allocate internal resources to manage the process and requests from transitioned countries, which could distract from more mission-critical activities and grant portfolios.

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**Agreed Management Action:**

Refer to management comment under finding 4.1



#### 4.3. Grant processes are appropriately tailored to support transition planning and preparedness but monitoring of activities needs improvement.

**The Secretariat has enhanced its processes, resources, tools and approval mechanisms to operationalize transition grants. However, improvements are needed to monitor transition activities using specific indicators.**

All transitioning countries are informed of their status on a timely basis, through their funding allocation letters. The Secretariat has produced a [list of country components](#) projected to transition fully from Global Fund financing by 2025 due to improvements in income classification and based on the current eligibility criteria. The list is updated annually and published on the Global Fund website. Grant Management Country Teams engage in extensive dialogue with relevant countries to ensure their funding requests are targeted towards transition activities. Most countries reviewed in this audit confirmed that information regarding transition and the access to funding process were communicated to all relevant stakeholders.

##### **Enhanced guidance and tools**

Since the approval of the STC policy, the Secretariat has developed a number of tools and guidance materials to support transition planning and preparedness and the submission of funding requests. An STC guidance note has been developed to further explain key aspects of transition and relevant information to be included in funding requests. Various members of the Secretariat, including the Executive Director, Head of Grant Management and STC Senior Project Lead, have met with Board constituencies and other stakeholders to discuss progress on implementation of the STC Policy.

A Transition Readiness Assessment tool has been developed for TB/HIV and malaria components. The tool is expected to stimulate dialogue at the country level on transition needs, identify key gaps in programming that can be planned for, and highlight areas where technical assistance may be required. Approximately US\$4.4 million of the strategic funding under catalytic investments has been allocated to specifically support transition planning and preparedness activities.

The Secretariat has also developed a diagnostic tool known as the Public Financing of Civil Society Organizations for Health Service Delivery. The tool assists countries to better understand the barriers and opportunities to continuing health services provided by civil society organizations using public sector financing. This tool has been used in a number of countries, often as part of transition readiness assessment.

In all countries reviewed by the OIG, readiness assessments have been performed for disease components transitioning from the Global Fund in the current funding cycle. All major in-country stakeholders, including the Country Coordinating Mechanisms, governments, partners, implementers and key affected populations confirmed that they were engaged in the process.

Given that this is a new process, there are a number of lessons to be learned regarding the readiness assessments:

- There is a need to ensure effective engagement of key in-country stakeholders throughout the full lifecycle of the readiness assessment process, from identification of issues to development of mitigation actions and, where appropriate, monitoring of the implementation of those actions. In Sri Lanka and Kosovo (two of the four countries visited), key stakeholders who were part of the readiness assessment were not subsequently involved in the identification of potential mitigation measures.
- All of the assessments included limited details on the transition challenges to enable the formulation and implementation of time-bound and measurable actions. For example, in three countries, monitoring and evaluation were highlighted as significant transition challenges. However, the assessments stopped short of identifying specific aspects of monitoring and evaluation as inadequate. Subsequently there was no corresponding action in the transition work plan to address monitoring and evaluation challenges.

## **Resources**

There has been a strong commitment from the Secretariat to dedicate resources to support implementation of the STC policy; this includes the appointment of a Senior Project Lead to manage and coordinate the Secretariat's efforts in operationalizing the policy, and five Sustainability and Transition specialists to support the Eastern Europe and Central Asia, South East Asia, and Latin American and Caribbean Country Teams, the regions most impacted by transition in the current and next allocation cycle. The Secretariat has also invested in training relevant internal staff, principal recipients and other in-country stakeholders on the STC policy. Additional training is planned for 2018 and 2019, and is expected to take into consideration lessons learnt from the first wave of transition applications.

Transition-related issues are complex and require extensive advocacy and leverage with several in-country stakeholders including governments, civil society organisations, other donors and partners. In most cases, significant challenges to successful transition need to be addressed urgently and therefore Fund Portfolio Managers require to be closely supported by technical specialists to develop practical and quick solutions that have the ability to be sustainable in the long run. As such, there is a need to concentrate on continuously building capacity, including strategy development for traditional transition challenges for both Fund Portfolio Managers and supporting technical specialists who oversee transition in a number of countries.

## **Approval and implementation of transition grants**

The existing access to funding and grant-making processes specific to transition applicants are effective. The Secretariat has enhanced access to funding and grant-making processes to address transition elements of the STC policy. A specific transition funding application form has been developed to enable countries to tailor their funding request in a transition context. In addition, a tailored work plan is required to support transition funding requests. The OIG noted that seven disease components opted to use the transition funding request in the current allocation cycle to advance their transition planning and preparedness; this was despite the fact that they were only projected to transition in future allocation cycles.

Strategic Information and Sustainable Finance (SISF) experts are now members of the Technical Review Panel. These specialists review funding requests to ensure that sustainability and transition related challenges and action plans are appropriately incorporated in funding requests. This has contributed to an increased focus of the panel's recommendations on transition and sustainability issues for all Global Fund portfolios; in particular, the OIG noted that the panel advised two countries to resubmit funding requests because the transition risks and work plans had not been adequately addressed.

Grant Management Country Teams are now required to specifically indicate how sustainability, transition and co-financing are considered in the Grant Making Final Review Form submitted to the Grant Approval Committee. These considerations are also included in every grant that is submitted to the Board for approval.

## **Tailored indicators for effective monitoring of transition grants**

The Secretariat requires transitioning countries to develop Transition Work plans as part of their funding requests. In most cases, the work plans are costed with clear timelines and defined responsible parties for the activities. Effective monitoring of these plans is required to support transition success. Standard performance frameworks and grant indicators are not sufficient as the transition activities are often tailored to a particular country context.

Transition activities are currently included in the Workplan Tracking Measures. Whilst the Secretariat's Monitoring and Evaluation and Country Assessment (MECA) team quality assures the Performance Framework for all Global Fund grants, this process does not include checks to ensure that all key activities as reflected in the transition work plan are captured in the Workplan Tracking Measures. As a result, these have been inconsistently captured and incomplete, impacting subsequent monitoring including the annual funding decision-making process, where the grant's performance is fully assessed by the Secretariat. In the absence of formal and systematic monitoring, significant risks and challenges to successful transitions cannot be identified and mitigated in a timely manner.

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**Agreed Management Action 1:** The Secretariat will revise the training plan for the ongoing Sustainability and Transition training for 2019 which will include strategies to incorporate lessons learned from previous transition work and trainings to continue enhancing the overall effectiveness of the training. The training will be offered to Fund Portfolio Managers (FPMs) and other members of Global Fund country teams, including but not limited to technical specialists (such as Legal, Health Products Specialists, PHME Specialists, and Program Officers) with the primary goal of strengthening internal expertise on thematic areas related to sustainability and transition. The finalized plan will be reviewed by the STC Steering Committee. The implementation of the plan will be subject to available funding.

Owner: Head of Grant Management Division

Due date: 31 December 2018

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**Agreed Management Action 2:** The Secretariat will reinforce its approach to monitoring transition grants by providing formal guidance to Country Teams to ensure that an appropriate combination of standard programmatic indicators and relevant Work Plan Tracking Measures are systematically and consistently included in performance frameworks for transitioning grants. This will include ensuring that relevant Work Plan Tracking Measures, tailored to each country context, effectively and consistently incorporate the most essential and prioritized aspects of transition grants and transition work-plans (as applicable).

Owner: Head of Strategy, Investment and Impact Division

Due date: 31 March 2019

## 5. Table of Agreed Actions

Agreed Management Action	Target date	Owner
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<p>1. The Secretariat will revise the training plan for the ongoing Sustainability and Transition training for 2019 which will include strategies to incorporate lessons learned from previous transition work and trainings to continue enhancing the overall effectiveness of the training. The training will be offered to Fund Portfolio Managers (FPMs) and other members of Global Fund country teams, including but not limited to technical specialists (such as Legal, Health Products Specialists, PHME Specialists, and Program Officers) with the primary goal of strengthening internal expertise on thematic areas related to sustainability and transition. The finalized plan will be reviewed by the STC Steering Committee. The implementation of the plan will be subject to available funding.</p>	<p>31 December 2018</p>	<p>Head of Grant Management Division</p>
<p>2. The Secretariat will reinforce its approach to monitoring transition grants by providing formal guidance to Country Teams to ensure that an appropriate combination of standard programmatic indicators and relevant Work Plan Tracking Measures are systematically and consistently included in performance frameworks for transitioning grants. This will include ensuring that relevant Work Plan Tracking Measures, tailored to each country context, effectively and consistently incorporate the most essential and prioritized aspects of transition grants and transition work-plans (as applicable).</p>	<p>31 March 2019</p>	<p>Head of Strategy, Investment and Impact Division</p>

## Annex A: General Audit Rating Classification

<p><b>Effective</b></p>	<p><b>No issues or few minor issues noted.</b> Internal controls, governance and risk management processes are adequately designed, consistently well implemented, and effective to provide reasonable assurance that the objectives will be met.</p>
<p><b>Partially Effective</b></p>	<p><b>Moderate issues noted.</b> Internal controls, governance and risk management practices are adequately designed, generally well implemented, but one or a limited number of issues were identified that may present a moderate risk to the achievement of the objectives.</p>
<p><b>Needs significant improvement</b></p>	<p><b>One or few significant issues noted.</b> Internal controls, governance and risk management practices have some weaknesses in design or operating effectiveness such that, until they are addressed, there is not yet reasonable assurance that the objectives are likely to be met.</p>
<p><b>Ineffective</b></p>	<p><b>Multiple significant and/or (a) material issue(s) noted.</b> Internal controls, governance and risk management processes are not adequately designed and/or are not generally effective. The nature of these issues is such that the achievement of objectives is seriously compromised.</p>

## Annex B: Methodology

The OIG audits in accordance with the global Institute of Internal Auditors' (IIA) definition of internal auditing, international standards for the professional practice of internal auditing (Standards) and code of ethics. These standards help ensure the quality and professionalism of the OIG work.

The principles and details of the OIG audit approach are described in its Charter, Audit Manual, Code of Conduct and specific terms of reference for each engagement. These documents help our auditors to provide high quality professional work, and to operate efficiently and effectively. They also help safeguard the independence of the OIG auditors and the integrity of their work. The OIG Audit Manual contains detailed instructions for carrying out its audits, in line with the appropriate standards and expected quality.

The scope of OIG audits may be specific or broad, depending on the context, and covers risk management, governance and internal controls. Audits test and evaluate supervisory and control systems to determine whether risk is managed appropriately. Detailed testing takes place at the Global Fund as well as in country and is used to provide specific assessments of the different areas of the organization activities. Other sources of evidence, such as the work of other auditors/assurance providers, are also used to support the conclusions.

OIG audits typically involve an examination of programs, operations, management systems and procedures of bodies and institutions that manage Global Fund funds, to assess whether they are achieving economy, efficiency and effectiveness in the use of those resources. They may include a review of inputs (financial, human, material, organizational or regulatory means needed for the implementation of the program), outputs (deliverables of the program), results (immediate effects of the program on beneficiaries) and impacts (long-term changes in society that are attributable to Global Fund support).

Audits cover a wide range of topics with a particular focus on issues related to the impact of Global Fund investments, procurement and supply chain management, change management, and key financial and fiduciary controls.

# Annex C: OIG Audit sample for transitioning countries and disease components

Transition Category	Projected Transition Components from Global Fund support by 2025 <sup>^</sup>	OIG Audit
Ineligible since 2014-16 allocation and receiving transition funding in 2017-2019	Albania (HIV, TB) Algeria (HIV) Belize (TB) Botswana (malaria) Cuba (HIV) Dominican Republic (TB) Paraguay (TB) Panama (TB) Sri Lanka (malaria) Suriname (TB) Turkmenistan (TB)	Albania (HIV and TB)~ Cuba (HIV)~* Sri Lanka (Malaria)~* Turkmenistan (TB)~ Paraguay (TB)~
Projected to become ineligible in 2017-2019 based on country move to UMI status and may receive transition funding in 2020-2022	Armenia (HIV, TB) El Salvador (TB, malaria) Sri Lanka (HIV, TB)	Sri Lanka (HIV and TB)~*
Projected to become ineligible based on country move to UMI status in 2020-2022 and may receive transition funding in 2023-2025	Bolivia (malaria) Egypt (TB) Guatemala (TB, malaria) Kosovo (HIV, TB) Philippines (malaria)	Kosovo (HIV and TB)~*
Countries projected to move to High Income status and become ineligible (High Income countries are not eligible for transition funding)	Panama (HIV) Malaysia (HIV) Costa Rica (HIV) Kazakhstan (HIV, TB) Romania (TB) Mauritius (HIV)	Malaysia (HIV)~ Romania (TB)~ Costa Rica (HIV)~*
<b>Legend</b> <sup>^</sup> Based on Projected Transitions from Global Fund Support - October 2016 ~ Desk reviews performed country transition files * In country visits in addition to desk reviews		

# Annex D: Projected Transitions from Global Fund Support by 2025 – projections by disease component <sup>10</sup>

## Transition Projections\*

Ineligible since 2014-16 allocation and receiving transition funding in 2017-2019	Projected to become ineligible in 2017-2019 based on country move to UMI status and may receive transition funding in 2020-2022	Projected to become ineligible based on country move to UMI status in 2020-2022 and may receive transition funding in 2023-2025
Albania (HIV, TB) Algeria (HIV) Belize (TB) Botswana (malaria) Cuba (HIV) Dominican Republic (TB) Panama (TB) Paraguay (TB) Sri Lanka (malaria) Suriname (TB) Turkmenistan (TB)	Armenia** (HIV, TB) El Salvador (TB, malaria) Sri Lanka (HIV, TB)	Bolivia (malaria) Egypt (TB) Guatemala (TB, malaria) Kosovo (HIV, TB) Philippines (malaria)
<b>Countries projected to move to High Income status and become ineligible (High Income countries are not eligible for transition funding)</b>		
<i>Projected to become ineligible over 2017-2019</i>	<i>Projected to become ineligible over 2020-2022</i>	<i>Projected to become ineligible over 2023-2025</i>
Panama (HIV)	Malaysia (HIV)	Costa Rica (HIV) Kazakhstan (HIV, TB)

\* Includes all components that received a 2017-2019 allocation, where countries are projected to move to the high income group or – for components categorized as low or moderate disease burden – to the UMI group, except for small island economies and G20 countries. Does not include a projection of countries that may become members of the G20 or the OECD DAC.

\*\* For 2018, Armenia is newly ineligible for HIV and TB because its income classification has changed to UMI and it has less than high disease burden, as reflected in the 2018 Eligibility List.

<sup>10</sup> [https://www.theglobalfund.org/media/5641/core\\_projectedtransitionsby2025\\_list\\_en.pdf?u=636567241900000000](https://www.theglobalfund.org/media/5641/core_projectedtransitionsby2025_list_en.pdf?u=636567241900000000)