



The Office of the Inspector General

Follow up review of the Global Fund grants to Uganda

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Annex 1: Snapshot of the DANIDA program implemented using government systems)

Acronyms

ACTs	Artemisinin-based Combination Therapies
AIDS	Acquired Immune Deficiency Syndrome
ARVs	Anti Retro Virals
CCM	Country Coordinating Mechanism
CMF	Caretaker Management Firm
CSF	Civil Society Fund
CSO	Civil Society Organisation
DPP	Directorate of Public Prosecution
DT	Deloitte and Touché
EY	Ernst and Young
FAC	Finance and Audit Committee
GAVI	Global Alliance for Vaccines and Immunization
GoU	Government of Uganda
GWP	Government White Paper
HIV	Human immunodeficiency virus
LFA	Local Fund Agent
LTIA	Long Term Institutional Arrangement
M&E	Monitoring and Evaluation
MOGLSD	Ministry of Gender Labor and Social Development
MOFPED	Ministry of Finance, Planning and Economic Development
MOH	Ministry of Health
NDA	National Drug Authority
NGO	Non Government Organisations
NMS	National Medical Stores
OAG	Office of the Auditor General
OIG	Office of the Inspector General
OLAF	European Anti Fraud Office
OTF	Operations Task Force
OVC	Orphans and Vulnerable Children
PAF	Poverty Alleviation Fund

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PLWA	People Living with HIV/AIDS
PMU	Program Management Unit
PoA	Plan of Action
PPDA	Public Procurement and Disposal of Assets Authority
PR	Principal Recipient
PwC	PricewaterhouseCoopers
PR	Principle Recipient
PSM	Procurement and Supply Management
SFO	UK Serious Fraud Office
SR	Sub Recipient
TB	Tuberculosis
ToRs	Terms of Reference
TRP	Technical Review Panel
TWG	Technical Working Group
UAC	Uganda Aids Commission
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
Ushs	Uganda Shillings
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank
WHO	World Health Organisation

Background

1. The Government of Uganda (GoU) has signed seven grant agreements with the Global Fund for amounts totalling \$426 million. The grants for Round 1 HIV, Round 2 TB and Malaria and Round 3 HIV are now time barred and are in the process of being closed. The PR for all the grants agreements is the Ministry of Financial Planning and Economic Development (MoFPED) and PricewaterhouseCoopers is the Local Fund Agent (LFA).
2. On 23 August 2005, the GF suspended its five grants to Uganda following a review by the LFA that highlighted material mismanagement by the Program Management Unit (PMU) and some SRs as well as significant weaknesses in the governance, oversight and management of the Global Fund grants under the to Round 1 HIV grant in Uganda. The PMU was responsible for coordinating the grant implementation and they were supervised by the MOH and nominally reported to the PR. In the suspension notification letter, the CCM and PR were asked to cease all program activities with the exception of life saving activities and restructure the implementation arrangements for all programs.
3. The GoU responded by among other things, establishing a Judicial Commission of Inquiry (the Commission) chaired by Principal Judge Justice Ogoola and devising an interim one year institutional arrangement that would give way to a longer term implementation framework. The suspension was lifted on 10 November 2005, following the signing of an Aide-Memoire between the GoU and the Global Fund. The Aide-Memoire established the structures that the PR would use to oversee the implementation of the five grants in the interim period. On behalf of the PR, Ernst and Young have acted as caretaker of the activities that were previously managed by the PMU.
4. The Commission issued its report in June 2006 which contained recommendations to prosecute culprits, refund misappropriated funds, and undertake further investigations and/or audits of CSOs and individuals. These recommendations were endorsed in the November 2006 Government White Paper (GWP) which contained a six month time-bound action plan for the recovery of misappropriated funds, conducting further investigations and audits and initiating legal action in a number of cases.
5. Concerns were raised at the 17th Global Fund Board meeting in April 2008 that two years after the GWP, the GoU had failed to fulfil its commitment to undertake further investigations and recover misappropriated funds. The IG travelled to Uganda in May and August 2008 to:
 - (a) review the actions taken by the GoU in undertaking investigations and recovering mismanaged funds;
 - (b) obtain assurance regarding the interim period managed by the CMF on behalf of the PR; and

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- (c) obtain assurance that the controls under the Long Term Institutional Arrangements (LTIA) would adequately safeguard GF investments in the future.

6. The conclusions of the OIG as detailed in the report entitled "Review of the suspension/ termination process for Global Fund grants, Audit Report No: TGF-OIG-08-003" were:

- (a) The GoU had shown a renewed commitment to investigate, prosecute culprits and recover misappropriated GF monies. However, a lot more still needed to be done to ensure that the investigation and recovery processes did not stall and recoveries were maximised.
- (b) The interim period, as defined by the signed Aide Memoire was supposed to be a one year temporary arrangement that gave way to a longer term arrangement. It was extended for a period of almost three years without revisiting the adequacy of the established structures, systems and processes to safeguard the Global Fund resources in the longer term which resulted in exposure of Global Fund investments to risk. The controls in place were not adequate to safeguard Global Fund investments.
- (c) The LTIA provided a broad architecture of the modalities through which proposals would be made, grants disbursed, monitored and reports sent back to the Global Fund. However, no detailed analysis had been undertaken about how the architecture would translate into the day to day management of the grants. In consequence, the IG could not at the time provide assurance that the arrangements and controls in place were inadequate to safeguard Global Fund investments in the country. OIG recommended that the LFA should undertake further assessments to identify areas where Government may need assistance in strengthening its controls under the LTIA. By so doing, the Secretariat would be able to invest its funds with reasonable assurance.

Plan of action

7. Following the September 2008 OIG report, a task force comprising top government officials and development partners met on 13 August 2008 and developed a Plan of Action (PoA) to address the issues that were raised in the IG's debriefing meeting. The plan of action was divided into actions relating to the Global Fund related activities and those related to the LTIA. Details are provided in the following paragraphs.

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8. The status of implementation of actions related to the LTIA component of the PoA covered the following areas:

- (a) Strengthening and harmonisation of the monitoring and evaluation and harmonisation of the M&E activities. The M&E Technical Working Group had been tasked with taking all M&E related actions forward and nine additional staff were recruited to assist with the monitoring. Even with these interventions, this area still presents risk since most of the recommendations from the LFA assessments and the OIG report have either not been implemented or are only partially implemented. The challenge here is planning, coordinating and reporting the activities of the multiplicity of stakeholders i.e. central and local government, private, CSO and development partners to have a system that addresses all their respective needs.
- (b) Strengthening the procurement and supply management arrangements has been done by engaging a Third Party Procurement Agent (TPPA) and retention of a procurement advisor.

9. The status of implementation of Global Fund related activities is provided below:

- (a) Regarding the utilisation of the Round 6 TB grant money, Memoranda of Understanding were signed with the districts after which the funds were remitted to the separate district bank accounts. The burn-rate of the funds is still low. It has been reported that officers are wary of using Global Fund money given the negative publicity and recent convictions of people implicated.
- (b) Concerning the transition between the CMF and the MOH, the LFA recommends that the CMF contract be extended to allow the proper hand over of Global Fund activities.
- (c) With regard to the follow-up of recoveries and accountabilities as presented in the Government White Paper (GWP), the Office of the Auditor General for Ministry of Health staff has been asked to review these accountabilities. A decision on how to handle the rest of the accountabilities had not been made at the time of the LFA review. This should be included in the Plan of Action for follow up. Advertisements have been made in the local press calling on all organisations to submit outstanding accountabilities.
- (d) There has been some progress on the recoveries with an increase in amounts recovered as of June 2009 standing at Ushs 1.08 billion (US\$

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- 514,285¹) up from Ushs 699 million (US\$ 399,390) at September 2008. Out of this, Ushs 115 million (US\$ 54,760) was made by organisations which were not included on the list in the GWP. The GWP contained recommendations for refunds amounting to Ushs 2,745,143,224 (US\$1,568,653²) and recommendations for further audits/ investigations relating to grant disbursements of Ushs 7,322,193,185 (US\$ 4,184,110). Prosecutions are going on and the four cases that have been taken to court have all resulted in convictions and court order calling for refunds to be made by the defendants.
- (e) None of the Ministry of Health officials under investigation are still involved in handling of Global Fund activities. However the new Aids Control Program manager in the Ministry of Health is on the list of staff with outstanding accountabilities under the Global Fund.
 - (f) There have been four well-publicised convictions for persons implicated in the misuse of the Global Fund funds. According to press reports, this has increased the refund of monies; however OIG could not confirm the reasonableness of this perception. There has been publicity about the apparent diversion of funds meant to support the prosecution of The Global Fund cases in the DPP's office in the prior Financial Year 2008/09. OIG found this media coverage to be ill founded. The Government allocated the same amount to the DPP's office in the current year 2009/10 to enable the office to continue investigations and prosecutions of the people involved.
 - (g) In February 2009, the CMF provided the Steering Committee of the CSF with a list of all the Sub Recipients [SRs] that had failed to account for the Global Fund grants. The Financial Management Agent, Deloitte & Touche (DT), identified 15 of its SRs that were on this list. DT has since sent a letter to the 15 SRs identified notifying them of their outstanding obligations with the Global Fund. Whilst this action by CSF is commendable, DT as part of its due diligence should have ensured that all its SR had cleared all past obligations with the Global Fund before advancing further funds to them.
 - (h) The audit component of the POA addressed the timely submission of financial statements for the CMF period (2007/08); audits of these statements by OAG and timely response to the draft management letters by the MOH and MOFPED (2005/06 and 2006/07). These tasks have been largely completed; the MOH and MOFPED responded to the management letters and the only outstanding item is the completion of the audit process for the year 2007/08.

¹ Exchange rate used for translation is 1: 2,100

² Exchange rate used for translation is 1: 1,750

10. In February and April 2009, the IG made visits to Uganda to follow-up on recommendations made in the OIG's September 2008 report together with the status of implementation of the Plan of Action committed by government. He also sought, in April 2009, to obtain assurance from the additional work undertaken by the LFA; and assess the practicality of solutions provided.

LFA review

11. The September 2008 report by the Office of the Inspector General recommended that additional work be undertaken at country level by the LFA to identify areas where Government may need assistance in strengthening its controls under the LTIA. The Secretariat contracted the LFA to do this additional work in March 2009 in anticipation of a final report in April 2009.

12. The main thrust of the LFA review was to assess whether the current systems and controls as proposed under the LTIA provide assurance for the continued investment of the GF resources in Uganda. A draft report was produced in June 2009 and has been relied on in preparing this report. Key conclusions from the LFA report are summarized below:

- (a) With regard to the effectiveness and viability of the Long Term Institutional Arrangements,
 - the operational effectiveness of the LTIA in processing financial transactions has not been tested yet because no grant has been implemented under the LTIA financial arrangements.
 - Contrary to what the LTIA May 2007 document implies, at present, traceability and attribution is not possible because most activities cannot be attributed to the Global Fund.
 - Concerning the overall coordination of GF programs, the focal point office, charged with coordination of, and reporting on, GF activities does not have the capacity to effectively execute its mandate.
 - The LTIA can only be used if Global Fund money is included in the national Poverty Alleviation Fund (PAF) budgeting process. In the year 2009/2010. this is almost impossible because the budgeting process is near completion.

- (b) With regard to the effectiveness of interim and transition period, seven out of the 15 ToRs for the CMF were rated as fulfilled or partially fulfilled. The LFA did not rate two ToRs because the requirements were not applicable in the circumstances. Lack of institutional memory and inadequate monitoring on the part of the Principal Recipient (PR) partly explain why some ToRs were not fulfilled. The CMF contract was extended three times for a total of 19 months. The LFA did not find the 16 month second and third extensions reasonable because there was no clear agreed transition plan and performance review of the CMF. The

- (c) With regard to the recovery of the GF resources, as at June 2009, 39% of the amounts recommended for recovery had been refunded. Of the Ushs 9.5 billion (US\$ 4.5 million) identified for review/ audit of accountabilities, the Auditor General had been asked to review accountabilities for MoH staff worth about Ushs 2.2 billion (US\$ 1 million). The PR had not yet instructed the Auditor General to review the balance amounting to Ushs 7.3 billion (US\$ 3.5 million). The Auditor General undertook to develop a plan that will enable his office to complete the reviews assigned to him by 31 March 2010. Outstanding advances, according to the CMF records, were Ushs 5 billion (US\$ 2.3 million) as at April 2009 most of which relate to outstanding advances at the time of suspension.
- (d) With regard to the closure of time barred grants, four of the eight grants Uganda received are time barred, namely: Round I HIV/AIDS (June 2005); Round 2 Malaria and Tuberculosis (September 2006); and Round 3 HIV/AIDS (December 2008). The undisbursed funds amount to US\$ 62 million.

Status of the LTIA

13. The LTIA provides a broad architecture of the modalities through which proposals are made, grants disbursed, monitored and reports sent back to development partners including the Global Fund. The LTIA has key advantages such as (a) being supportive of government policy; (b) Ensuring better management of scarce resources since it reduces the likelihood of duplication of funding and roles undertaken by various institutions; and (c) strengthening country systems. However, this all comes at the cost of having less visibility of funds and with that, the increased risk that funds may not be used for their intended purposes and the inability to attribute results to funding provided.

14. This report does not seek to repeat what other reviews have covered but to isolate the key success factors that would in the long run lead to the success of the LTIA and enable the Global Fund to safely invest in Uganda through the LTIA.

15. OIG's identification of the key success factors (KSFs) is made against the background of the aspects listed below. The OIG considers these to be fundamental to any decisions that need to be made concerning the LTIA:

- (a) The LTIA is developed in the spirit of the Paris declaration which encourages donors and partners to jointly assess mutual progress in implementing agreed commitments on aid effectiveness by making best

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- use of local mechanisms. The Global Fund recognises this declaration and is supportive of any initiatives that are in line with this declaration. In Uganda, recent grant agreements have committed the Global Fund to implementing its grants through the LTIA.
- (b) It is also in line with one of the key Global Fund principles of not creating parallel structures but working with governments and other development partners to strengthen country systems.
 - (c) The LTIA should be comprehensive in as far as planning, implementing and reporting activities as well as remain applicable to all development partners. It cannot therefore be tailored to meet only Global Fund requirements but should be all encompassing to reflect all the needs of other development partners. The Global Fund in this case, may therefore need to make concessions while at the same time ensuring that it has assurance that its funds are not put in jeopardy.
 - (d) Because the LTIA is new and untested, there will inevitably be teething problems. But by signing onto the LTIA, the Global Fund alongside other development partners need to ensure that these are quickly overcome and that as an architecture it is steered quickly towards operating effectively.
 - (e) Interventions are necessary to strengthen capacity within the LTIA in the short medium and long term.

16. A provision for Global Fund support of Ushs 142.8 billion has been made in the 2009/10 sector budget estimates under project support and not the PAF modality and therefore not LTIA. Because the Global Fund money for the year 2009/2010 was not included in the PAF and consequently local governments' work plans and budgets, funds cannot be disbursed through the PAF modality. Global Fund activities can only be implemented under LTIA in the current year if supplementary budgets specific to Global Fund activities are prepared and approved by Parliament. As a fiscal measure, supplementary budgets are discouraged and rarely considered. Even if they were, this can only happen after September when the budget is approved implying that Global Fund related activities would not be undertaken until then. The other option is to implement the Global Fund programs through the project mode until the next financial year.

17. The TB Round 6 grants have been implemented under the project mode. The lessons learned from the experience with the TB Round 6 grant should be leveraged. The modified arrangements under Round 6 TB have created several challenges ranging from flow of funds, consolidation of reports and extra work load throughout the processes arising from GF specific processes.

18. Inclusion of the Global Fund activities in the national budget under the LTIA is possible but requires advance planning and commitment from the PR and program managers. The Global Fund should use the one year window to work with the country to put in place all key controls required to safeguard Global Fund resources under the LTIA. There also needs to be a commitment by the Global Fund to make disbursements as planned. If the Global Fund does not disburse for any reason, this will give rise to a budget deficit.

Oversight

19. The LTIA section on oversight in the LFA review is convoluted. There are multiple stakeholders mentioned all with roles that are conflicting e.g. organisations providing oversight to activities they are implementing. The efficacy of the roles of all stakeholders can only be tested once the LTIA is fully operational. However, because of the complicated structure established, there are bound to be problems as people learn what their roles are and how to work together towards the successful implementation of Global Fund programs.

20. The governance provisions in the LTIA require that as much as possible the existing structures are utilised. This would mean that the key decisions on objectives and indicators are made by the Basic Package Technical Working Group (TWG), and the Medicines and Procurement TWG. The TWGs are sector-wide and the representation would ensure that the Global Fund activities are not duplicated or double funded. The coordination would be similar at District level with the involvement of the District Technical Planning Committee (DTPC), the District Health Team (DHT) and the District HIV/AIDS Committee (DAC). The HPAC would take overall charge of the policy and advisory roles with full participation of the CCM.

21. There are internal auditors both at central and local government level. However, past reviews undertaken show that there remain challenges at local government level in terms of capacity i.e. staffing of these offices and skills deficiencies for people that hold these offices. The same internal auditors at local government level are expected to cover all sectors. When their reports are produced, recommendations are sometimes not implemented. However, the local government has had a number of interventions to strengthen this function.

22. The Global Fund can rely on the audit reports issued by the Office of the Auditor General for the health sector. This would, in principle, imply that audits cover the whole Ministry of Health and not specific sources of funding. The Global Fund may not be able to get assurance about how the money they have provided has been used. To this end, additional oversight activities should be planned and budgeted for to obtain the required level of assurance on performance, particularly in the early years of implementation of the LTIA. These audits will not necessarily follow the Global Fund requirements for

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auditing. The health development partners should consider financing independent tracking studies and or value for money reviews which should be conducted on an annual basis. These would further strengthen the control environment at local government level. If funding is made available, the OAG would either undertake these reviews or hire a firm to undertake these reviews on their behalf.

23. The role of the LFA would need to be revisited in the context of the LTIA. Consideration should be given to the different assurances that the Global fund would expect to get from the LFA and the LFA terms of reference amended accordingly.

24. The development partners up to this point have played a critical role in providing oversight over the Global Fund grants. This oversight is still very much needed as the Global Fund works with the Government to move towards the proposed LTIA. This is especially important since the Global Fund does not have an in country presence and may have to rely on the development partners at the periodic health sector meetings where key issues are discussed. The Global Fund Secretariat should engage with development partners to solicit support for the various capacity building initiatives required to operationalise the LTIA.

Key Success factors relating to oversight

<i>Risk</i>	<i>Key success factors</i>	<i>Level</i>	<i>Priority</i>
<ul style="list-style-type: none"><i>Audit will be for the whole ministry and not specifically Global Fund money</i><i>Short comings in the internal audit capacity at local government to ensure an effective internal audit function</i>	<i>Value for money reviews and tracking studies to provide further assurance about the use of funds especially at local government level.</i>	<i>Country level</i>	<i>Medium</i>
<ul style="list-style-type: none"><i>LFA ToRs may not be appropriate in the context of LTIA</i>	<i>The role of the LFA should be revisited in the context of the LTIA.</i>	<i>Secretariat</i>	<i>High</i>

Program management

25. Global Fund activities bring together a wide spectrum of different Ministries, public and private sectors and CSOs. There is a need to have a central point at which all the activities of these stakeholders are coordinated and that takes responsibility for putting together all Global Fund reports. The LFA report states that the focal point officers appointed are not full time and this affects their ownership of the programs. DANIDA has such an office within

the Ministry of Health. This office is important to take responsibility for all activities especially to guide various stakeholders on what needs to be done, who is responsible for doing it and when. The Global Fund's modus operandi is somewhat different from the traditional development partners.

26. The LFA assessment reports and PoA all make proposals for additional "contract staff". There are pros for having short term staff since they may quickly resolve a problem but this usually comes at a cost in the longer term as these benefits are not sustainable after the contracted staff leave if no capacity building is undertaken. The solution to all the problems may not necessarily be recruiting more 'bodies' but probably better rearrangement of existing staff with additional capacity to cover the Global Fund programs. The recruitment of additional resources at both centre and district level should follow a well developed and structured gap analysis. The proposals should give consideration to short, medium and long term benefits in hiring additional staff. The capacity gaps at district level should be well assessed including how the risks at that level can be managed for effective reporting and proper accountability. Where short term staff are recruited, this should be for a fixed period during which they should be expected to train staff that will take on their role on a more permanent basis. Any hiring of contract staff to support the function should be based on the expected scale up of activities.

27. Several activities should be implemented at local government level. The PR should provide proposals on how the capacity deficiencies at local government level should be filled. The scaling up of activities represents increased work load for a work force that is already struggling to manage the existing programmes. The manual systems at district level are prone to delays and inaccurate reporting. Support to districts on capacity issues should be outlined with both a medium and long term focus. The PR's strategy on this area of high risk is still not clear.

28. The current grants have different reporting periods most of which are not synchronized with the sector reporting periods of calendar quarters. Grant reporting periods should be amended to synchronize with calendar quarters or semesters and to the extent possible to align them to the sector calendar.

29. However, there is a need to have a proper handover with a transition period between the CMF and the focal points in the MOH. There has been no documented and planned transition between the CMF and MoH; and indeed the LFA report recommends extension of the CMF period to enable a smooth transition and completion of the audit process for both 2007/08 and 2008/09.

Key success factors relating to program management

<i>Risks</i>	<i>Key success factors</i>	<i>Level</i>	<i>Priority</i>
<i>Coordination of Global Fund activities has not been clearly articulated.</i>	<i>CSO coordination: Prior to CSOs having their own PR, CSF capacity to be enhanced to cover technical aspects of Malaria and TB.</i>	<i>Country level</i>	<i>High</i>
	<i>Coordination: Establishment of a coordination office within the Ministry of Health. There is already such an office operating under the auspices of DANIDA that coordinates DANIDA support through the Government systems. Consideration should be given to expanding this office to take on Global Fund activities.</i>	<i>Country level</i>	<i>High</i>
<i>Staffing interventions are reactive and while they may provide a quick fix this may be detrimental to strengthening of systems in the LTIA.</i>	<i>Staffing: Gap analysis to be undertaken to determine staffing levels. To the extent possible, staffing should be within the Government systems. Consultants/advisors should be hired as a stop gap measure and with the clear understanding that their skills will be passed on to a permanent staff and/or train existing staff</i>	<i>Country level</i>	<i>Medium</i>
<i>Lack of a handover</i>	<i>CMF to be contracted to have an effective hand over of grants</i>	<i>Country level</i>	<i>High</i>

Financial management

30. The LFA report realises that 10% of the total grant money goes to central and local government. Most of the activities relating to the three diseases are mainly handled by Government and so the successful scaling up of activities in the three diseases would require both central and local government to be actively engaged. There are capacity issues at both levels in the financial management function. These issues however are more acute at local government level. The use of project mode of funding will create a capacity crisis at central level as the principal accountant has to be actively involved in the disbursement, the receipt and review of accountabilities and preparation of reports for reporting to the Global Fund.

31. Traceability of funds: The LTIA proposals are primarily sector budget support arrangements, which would not easily allow traceability of funds. Also support through the Poverty Alleviation Fund (PAF) arrangement, where funds can be ring-fenced would provide sector specific tracking of funds but not

donor-specific attribution. The Global Fund usually requires that its funds are maintained in systems where they remain traceable for accountability purposes. In this case, the Global Fund monies would not be traceable under the PAF modality. Currently the Round 6 TB funds remain traceable because they have been disbursed to specific Global Fund bank accounts at district level and are therefore akin to a project mode than the LTIA.

32. Planning and budgeting: The use of PAF systems and ring fencing of funds has the advantage that these funds are protected against any re-allocations arising from government cash flow constraints. It also means that these funds have to be part of the government planning and budgeting cycle. The planned activities and estimates would have to be included in the Indicative Planning Figures (IPFs) which are released in October and kick-start the budgeting process. The IPFs include both amounts per district and a list of objectives for the allocation. This pre-supposes a team of technical persons; either at the PR (MoFPED) and/or MoH obtains the Global Fund budget for a particular disease; allocates funds to the districts and MoH and specifies the objectives and indicators for central and local governments. The final district budgets would include the Global Fund monies which would be remitted to the districts every quarter following the normal PAF procedures.

33. Under PAF, the Global Fund would be expected to commit to disbursing funds periodically. Firm figures of what would be disbursed in the following financial year would have to be agreed by October of the previous year for planning purposes. Failure to disburse for any reason would imply that there would be a budget deficit. In such cases, the Global Fund will inevitably be placed under pressure to disburse. The Global Fund needs to identify what they would receive from the country as a trigger to disbursements since the reports of the nature of those provided in the past would not be possible.

34. Additionally, future disbursements should be aligned to the government budget cycle and other fiscal year activities to ensure a synchronised process. A baseline for additionality should be agreed up front drawing from prior year government interventions to avoid displacement of government funding in the PAF mode.

35. The Global Fund remits funds to the Principal Recipient's bank account with the Bank of Uganda. The funds are transferred to the consolidated account of the treasury. The PR [also Secretary to the Treasury] is the same Ministry that remits quarterly releases to the districts and MoH under the LTIA. The PR would disburse the funds as per the budget and work-plan to the districts and MoH. The PAF arrangement, which has disbursed on average 95% over the last two years would ensure that most of the funds are disbursed and utilised during the budget year. The key challenges will be the monitoring of the ring-fencing arrangement at local government level and securing timely reports and accountability for onward reporting to the Global Fund.

36. The likelihood of having unspent funds under the PAF mechanism is minimal as demonstrated in past PAF trend analyses. Under PAF, identifying the use of Global Fund monies as is the case with the Round 6 TB grant will not be there since the money cannot be separated from the pool. Under PAF, all unutilised funds are returned and new releases sent in accordance with the new budget for the following year. The LFA has noted in their report that there needs to be an agreed position about how unspent funds would be re-programmed and the activities included in the subsequent Financial Year. However, since the funding to the local governments would be sector specific, it may be difficult to isolate Global Fund monies that should be reprogrammed. All activities not undertaken in the any year are included in the following year work plan and budget.

37. Once funds are received at local government level and spent, they do not send accountabilities to the MOFPED. The accountabilities are retained at local government level and will be subjected to an audit at the end of the financial year. However, financial reports are sent to the MOFPED on a quarterly basis. These quarterly financial reports are received by MoFPED from the districts in accordance with the MoUs that are signed annually between the MoFPED and the districts. If the reports are found to be complete, they act as a trigger for the next quarter's release for the districts.

38. The mechanism to consolidate reports for Global Fund periodic reports has not been described by the LFA at process level. The LTIA requires the PR [MoFPED] to generate periodic reports and submit them to the Global Fund. The practicality of this requirement is still questionable. The MoFED tracks finances by disbursement and not actual expenditure. Whilst local governments and sector ministries submit quarterly reports, there is no evidence that these financial reports are consolidated, at MOFPED, for sector reporting. It is not clear how the financial sector reports will be generated for periodic reporting to the Global Fund and what would be contained in such reports. The PR and MoH in consultation with the Global Fund should review the proposed arrangements and draw up a process that will be followed to generate the required reports.

Key success factors relating to financial management

<i>Risks</i>	<i>Key success factors</i>	<i>Level</i>	<i>Priority</i>
<i>Global Fund monies will not be traceable in the financial system.</i>	<i>The Global Fund would need to provide a concession with regard to having its funds traceable within the GoU system if Global Fund monies are to be implemented within the LTIA.</i>	<i>Secretariat</i>	<i>High</i>
<i>Global Fund</i>	<i>Definition of how additionality will</i>	<i>Country/</i>	<i>Medium</i>

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<i>Risks</i>	<i>Key success factors</i>	<i>Level</i>	<i>Priority</i>
<i>monies may not be additional</i>	<i>be measured</i>	<i>Secretariat</i>	
<i>The Global Fund grants may not be incorporated in the budgeting process for the coming year.</i>	<i>Forecast the amounts that would have to be disbursed to the country periodically. The Global Fund should identify what they would expect to receive to trigger the disbursement.</i>	<i>Country / Secretariat</i>	<i>High</i>
	<i>An annual work plan specifying objectives, activities and indicators and a budget should be prepared for each disease that allocates funds to the districts and central level i.e. at Ministry and district level specify the objectives and indicators. This should be linked to the Global Fund overall work plan and budget and be reviewed by LFA. All this should happen before October 2009.</i>	<i>Country</i>	<i>High</i>
	<i>MOFPED should provide a commitment to the Global Fund that unutilised funds are rolled forward to the following year and are an addition to the following year's budget.</i>	<i>Country</i>	<i>High</i>
<i>Process for reporting to the Global Fund has not been defined.</i>	<i>Agreement on what periodic reports to the Global Fund will contain and what will be the trigger for disbursement</i>	<i>Country Secretariat</i>	<i>High</i>

Monitoring and evaluation

39. The LFA in their report rightly points to M&E as being one of the weak links in the chain. The reports states that " *There are still challenges with the country M&E systems that require to be readdressed in order to strengthen it further, especially consistency, coordination, multiple reporting; and varying capacities to appreciate, plan, implement and report on activities. Most of these issues are inherent within a system characterized by a multiplicity of stakeholders i.e. from the public, private, donor group, CSOs, national and community based entities, etc. For any system of that magnitude to succeed and deliver effectively and efficiently, coordination is very important.*" This has been one of the areas that those involved in putting the Plan of Action into practice have paid particular attention to. Additional staff have been recruited but some of the risks identified remain unresolved.

40. Attribution: The Global Fund principle of performance based funding promotes the spirit of attribution of results to the funding it provides. Under PAF, technical staff at the MOH would as part of the annual planning process have to include Global Fund activities and indicators in the local government activities. These should ideally be derived from the approved grant work plans. Funding is sent for these activities alongside that for other activities from the MOFPED. Once activities are undertaken, reports are prepared showing achievement of results against agreed upon indicators and sent to the Ministry of Health. These are consolidated for reporting purposes and these reports are not donor specific. The Global Fund has in principle agreed to waive its need to receive reports that show results from the activities that they have funded and will have to settle for assurance that in general terms because they funded an activity and it was completed, then its money has been put to good use.

41. In line with the performance based funding principle, the Global Fund Secretariat should liaise with the PR and agree on which sector indicators it would receive reports on as a trigger to disbursement. The MoH is currently finalising the Health Sector Strategic Plan [HSSP III], which will provide for the health sector interventions. The PR should work closely with the Global Fund Secretariat to agree on sector indicators aligned with the HSSP, which would form the basis for performance measurement on The Global Fund grants.

42. Reporting: The requirement to submit quarterly PU/DRs should be re-aligned to the LTIA. The reports under the LTIA (PAF mechanism) are submitted quarterly; and these would be sector reports which would not meet the Global Fund requirements of attribution. There are also unresolved challenges in consolidation of reporting. The programmatic reports would be obtained from the Health Management Information System; which would collect the results, indicators and progress on targets. The input into the HMIS is collected at district level and submitted onwards to the MoH. Any outputs and indicators not fully covered by the HMIS would be included using the checklist developed from the approved Global Fund work-plans and budgets.

43. The HMIS should be strengthened if it is to be relied on for reporting under the LTIA. The LFA reports that the core Health Management Information System (HMIS) which should be the main data collection system in the health sector is characterized by inadequate staff levels and manual systems for data collection and reporting at district level. Lack of electronic reporting systems at district level is bound to result into under reporting, double counting and delayed reporting. Moreover, the HMIS is not yet recognised as a management tool at all levels. Supporting the HMIS was identified as a major action point during the M&E systems strengthening assessment. No funds have been identified to take forward the recommendations from the assessment. The USAID is currently providing support to develop standards for the HMIS in the

Vision 2012 document. It is envisaged that when this exercise is concluded, the areas requiring support will be clearer.

44. Because of the HMIS challenges and its inability to meet current customer needs, parallel monitoring and reporting systems are rife. The issues with the HMIS can only be resolved in the medium to the long term. Creation of parallel systems could well result in less effort being placed on strengthening current HMIS systems.

45. In an environment where the HMIS may not be able to provide required information, all participating stakeholders continue to use the parallel systems. The Global Fund needs to define what information it will need for decision making and work with the PR and MOH to define how such information will be extracted and reported. It is important to note that additional reporting requirements under the LTIA would raise the transaction costs for implementing the Global Fund grants because separate systems would have to be set up for recording transactions, reporting, reviewing, monitoring and oversight.

46. Technical assistance is also needed in building capacity at district level to ensure that the information collected is timely, of acceptable quality and comprehensive. The Global Fund will need to engage with other development partners on how such assistance can be funded and the best way of handling it.

47. There are currently interventions at the national level to harmonize M&E systems especially under the HIV/AIDS programme. UAC has developed a national Performance Management and Monitoring Plan (PMMP) and an M&E database with USAID support. Further, the Local Government Information System (LOGICS) has been designed to link all local governments into one agreed data collection and management system. Nine M&E specialists have been recruited funded by the Global Fund. Sector data collection forms have been developed with support from USAID. Training modules and M&E curricula are being developed. The interventions e.g. to recruit staff should however be well coordinated to avoid duplications and should be sector-wide in order to further strengthen the proposed LTIA. Project specific interventions may weaken or undermine the efforts to build institutional capacity.

48. The monitoring of activities by the Centre [at both PR and MoH levels] is provided for in the LTIA but challenges of capacity in terms of staffing have not been well addressed. The MoH has limited capacity to carry out monitoring of utilisation of funds at local government level. The monitoring would have to be part of the health sector monitoring and it would need to be recognised that it will be Global Fund specific. The overall capacity gap should be determined to ensure that monitoring of programme implementation is effectively carried out.

Key success factors relating to M&E

<i>Risk</i>	<i>Key success factors</i>	<i>Level</i>	<i>Priority</i>
<i>Global Fund monies will not get attribution in form of results for monies provided for its programs.</i>	<i>The Global Fund would need to provide a concession with regard to attribution.</i>	<i>Secretariat</i>	<i>High</i>
<i>Identification of indicators to be measured for evidence of performance</i>	<i>The PR should work with the GF Secretariat to align support [and the grant work plans] with the sector indicators as reflected in the HSSP for appropriate sector performance measurement. Agree what indicators to report on periodically and what will be the triggers for the funding.</i>	<i>Country/ Secretariat</i>	<i>High</i>
<i>HMIS may not be able to provide timely comprehensive programmatic reports as reporting</i>	<i>Identify how reports will be extracted in the short to medium term and how HMIS can be strengthened and how Global Fund can support that in the long term</i>	<i>Country/ Secretariat</i>	<i>High</i>

Procurement and supply management

49. Procurement under the Global Fund programs lies at the heart of successful program implementation. This is because 75% of grant budgets relate to procurement. It is noteworthy that the grants like Round 4 Malaria which are mainly for procurement of health products and where a third party was identified early enough have demonstrated better performance than the rest of the grants.

50. Procurement would be undertaken by the Procurement and Disposal Unit (PDU) of the Ministry of Health and supported by a TPPA. Another alternative would be for the PR to consider enlisting the help of the Global Fund Voluntary Pooled Procurement mechanism for procurement. The Procurement and Supply Management (PSM) plan would be included in the overall MoH procurement plan. This presupposes that an assessment of the readiness of the PDU has been done and that the PDU has been found ready and able to handle Global Fund procurements; with capacity building being done for those areas still lacking. The LFA did not assess the readiness of the PDU to handle the volume of

procurements the Global Fund grants would bring. This should be undertaken as part of the PSM plan assessment.

51. It is assumed that the assessment would also identify capacity needs at the PDU and practical solutions to the following gaps identified in the LFA report:

- (a) Improvement of forecasting and quantification by planning in the short term for the harmonisation of the data collecting instruments;
- (b) Procurement: sensitising the user departments on their roles and responsibilities in procurement, planning for the provision of infrastructure to aid procurement at district level in subsequent years. Another intervention could be for the Global Fund to actively encourage the MoH to harmonise the procurement plan and the requests for procurement; in an effort to reduce the workload of the PDU team. A review of the report on the ministry wide TA needs-assessment that is currently on-going would provide insights into the TA needs at the PDU;
- (c) Receipts and Storage: Find and plan for ways of improving the flow of information from the facilities to the NMS; to feed back into the system and ultimately reduce expired stock to a minimum;
- (d) Distribution: A needs assessment for the NMS would be useful in ascertaining the gaps that still exist despite the interventions that have been undertaken. This would also ensure that the Global Fund does not duplicate ongoing and past interventions by other development partners. The focus of this assessment would be partly to determine why past interventions have not worked;
- (e) Challenges at district and health facility level: the needs assessment at the NMS would include the working relationship with the districts; and would determine the reason for stock-outs and expired stock in one facility in comparison to other facilities.

52. The procurement support sourced from the third party procurement agent should include capacity building to the PDU and or NMS. In the short and medium term, the Ministry should explore the benefits of working with the TPPA with a dual role of a management support agent [MSA] to provide capacity development. Under such a TA arrangement the TPPA would support the implementation of best practices within the PDU and NMS. Consideration should be given to having a resident TA resource person at the MoH. Alternatively, the Government should consider joining the newly formed Voluntary Pooled Procurement by the Global Fund that assists PRs that lack capacity to procure their health products and also provides capacity building.

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53. In the medium term, the assessment of the readiness of the PDU to handle Global Fund procurements should be completed and the areas for capacity building identified. The involvement of the PDU in the procurement process would have increased by the medium term, with the necessary capacity building in place to strengthen the Unit. In the medium term, the assessment of the NMS would be complete and the proposed interventions in terms of TA and financial assistance should be implemented.

54. Whilst the Round 9 proposal provided for transitioning of the procurement mandate for health products to the NMS, there is need for the PR to develop a comprehensive plan on how this transition will happen. The capacity building plan/proposal for NMS should be documented with a clear work plan, budget and funding-source proposals to deal with the challenges currently faced at NMS. Substantial work has been undertaken by the sector stakeholders to identify areas of strengthening the NMS. Substantial support in storage infrastructure has been committed in the past by DANIDA. DANIDA is currently re-prioritising its support away from the health sector. The support strategy for NMS, on how it can regain its role to procure health products, should be developed, costed with proposals on how it can be funded.

55. The distribution would be handled by the National Medical Stores (NMS), which is having serious problems with its distribution fleet. The NMS also still faces challenges in maintaining a reliable information management system to minimise expiries; ensure timely and accurate reporting; and effectively manage forecasts. The record systems at local government level are still weak with several deliveries still not accounted for at that level, which presents a challenge in terms of controlling leakage. These challenges require a practical action plan addressed at the CCM or HPAC level.

56. The PPDA Act and NMS Statute need to be aligned to ensure that the role of NMS as the government procurement entity for health products is well provided for in the PPDA Act. The current legislation [PPDA Act and NMS Statute] is weak in providing guidance on the role of NMS in the PPDA Act. This lack of clarity presents operational challenges on how the PDU at MoH and the NMS should efficiently coordinate procurement of health products.

Key success factors relating to PSM

<i>Risk</i>	<i>Key success factors</i>	<i>Level</i>	<i>Priority</i>
<i>Unreadiness of the MOH PDU to handle Global Fund procurements</i>	<i>The LFA should undertake an assessment of the readiness of the MOH PDU to handle Global Fund procurements. Capacity building should be planned for all those areas still lacking.</i>	<i>Country level</i>	<i>High</i>
<i>NMS lacking capacity</i>	<i>The CCM should leverage the</i>	<i>Country</i>	<i>High</i>

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<i>to store and deliver program inputs</i>	<i>support of DPs to address the serious capacity gaps identified within NMS. The PR should develop a comprehensive plan on how the transitions from the third party agent or VPP will happen.</i>	<i>level</i>	
<i>Contradictions between the PPDA and NMS statutes</i>	<i>The PPDA Act and NMS Statute should be aligned to ensure that the role of NMS as the government procurement entity for health products is well provided for in the PPDA Act</i>	<i>Country level</i>	<i>High</i>

Aide Memoire

57. The Director of Country programs led a mission to Uganda from 29 to 31 July 2009 to discuss the best way to put grant implementation back on track. The key outcome from this mission was a renewed commitment to use the LTIA and put in place enabling structures to ensure that funds are well managed. The Government of Uganda was commended for implementing a number of aspects meant to strengthen the LTIA in managing the Global Fund programs.

58. Key aspects from the Aide Memoire are listed below.

- (a) It was realised that planning and budgeting of grant activities should follow Government cycles and related funds appropriated through the national budget. The budget for consideration before the Parliament did not include Global Fund money and steps would be taken to ensure that Global Fund grant funds were included in the 2010/11 work plans and budgets.
- (b) In order to strengthen the coordination function, the Government will boost the capacity of the FCO by enhancing staffing and clear definition of roles.
- (c) Communication should be enhanced through the use of the established official channels.
- (d) Procurement and supply management plans should be completed and submitted to the Global Fund for approval by 31 August 2009 and the process to hire a third party procurement agent should be finalised.

Conclusion

59. The Government of Uganda has demonstrated, in the last one year, a recommitment to recover the outstanding funds that were misused. But a significant US\$ 780,000 (61%) at June 2009 is still to be recovered and accountabilities amounting to US\$ 2.3 million are still outstanding. The four convictions of the prosecuted individuals has also rendered credibility to the ongoing process of investigation and prosecution of the culprits. Full recovery of funds should continue to be a priority of government to ensure all funds are returned to finance the purpose for which they were intended.

60. The proposed LTIA is principally based on the government public financial management systems and its use is to be welcomed. However, it is impractical to use the LTIA until the 2010/11 financial year because the process for inclusion of Global Fund grant monies in the 2009/10 budget had not been followed and the requisite budgetary approval by the Government was not secured by the Government of Uganda. The Global Fund needs to use the one year window to work with the Government of Uganda to put in place all key controls required to safeguard Global Fund resources under the LTIA.

61. This report identifies key success factors that need to be addressed by the Government of Uganda and the Global Fund Secretariat in order to make the LTIA work effectively. In the meantime, the Global Fund is left with no option but to implement its programs through a project mode process as has been developed for the Round 6 TB grants.

62. The performance of the LTIA should be subjected to regular monitoring and review. The Secretariat should review the role of the LFA in the context of the LTIA. The GAVI Fund has instituted a monitoring mechanism at the MoH level to assist in the tracking of performance of their cash based grants implemented through the new arrangements. This approach is intended to provide assurance that the proposed arrangements are functional but also to identify specific technical support in many aspects of management to ensure operationalisation of the LTIA. The GF should work closely with other development partners to identify how these efforts can be leveraged and avoid duplication of technical support.

63. In response to this report, the Secretariat have indicated that they will work with the Government of Uganda to put the key success factors identified into practice.

Review of the DANIDA model at the MoH and how it relates to the LTIA

1. HSPS III was designed within the policy and framework of the Poverty Eradication Action Plan (PEAP), the National Health Policy (NHP) and the Health Sector Strategic Plan Phase II 2005/06 to 2009/10 (HSSP II). Support is granted in the form of a sector-wide approach (SWAp), which addresses the health sector in terms of planning and management as well as resource mobilisation and allocation. The HSPS III consists of five components: (a) Support to district health services; (b) Support to the districts in the North; (c) Central-level support to Ministry of Health (MoH); (d) Support to training of Enrolled Comprehensive Nurses (ECNs) in Private Not-for-Profit (PNFP) schools; and (e) Pharmaceutical sector support. Of the five components; only Component 1 is fully aligned to the government processes.
2. Component 1 is included in the Medium Term Expenditure Framework (MTEF). Funding is made through the Poverty Action Fund (PAF); where funding is either general or sector specific. In the case of this component; the funding is sector-specific and is ring-fenced for Primary Health Care (PHC).
3. Any follow-up on the spending is by review of the successful disbursement of the PAF; which should be at least 95%. The component relies on the Health Management Information System (HMIS) for indicators and results. The procurement is done by the MoH Procurement Unit and DANIDA has a representative on the contracts committee; to ensure that the requirements are followed. For Component 1 DANIDA relies on the sector audit performed by the Office of the Auditor General. The districts and MoH submit reports to MoFPED.
4. DANIDA's involvement in governance is limited to representation on two bodies: the Health Development Partners (HDP) and the Health Policy Advisory Committee (HPAC) both of which meet monthly. The HDP reports and provides inputs into HPAC which is the highest Policy Body in the health sector.
5. The lessons learnt by DANIDA in the implementation of the LTIA are:
 - Where support is provided to MoH is under the PAF sector-specific support; in line with LTIA; support should be provided to the HMIS to increase assurance of the reports information generated. The Development Partners could consider directing some of the support to the HMIS.
 - Support in staffing should target strengthening the existing teams to perform the designated duties/mandates without creating parallel structures; contract staff would provide this support