

# 37<sup>th</sup> Board Meeting

## Global Fund financing agreement with the World Bank

GF/B37/03- Revision 1

03-04 May 2017, Kigali, Rwanda

### **Board Decision**

**Purpose of the paper:** This paper presents the Board with a recommendation to request the Board to authorize the Secretariat to enter into an Administration Agreement with the World Bank for a Performance Based Funding project in the Democratic Republic of Congo.

## Part 1: Decision Point

### **Decision Point: GF/B37/DP07: Administration Agreement with the World Bank**

- 1. The Board:**
  - a. Notes the proposed Administration Agreement between the World Bank and the Global Fund for the Performance Based Funding project in the Democratic Republic of Congo, as presented in GF/B37/03- Revision 1 (the “Administration Agreement”);**
  - b. Acknowledges the Administration Agreement does not provide the Global Fund the right of access to books, records, personnel or sites relating to the Performance Based Funding project, including as required under the Board-approved Charter of the Office of the Inspector General; and**
  - c. Acknowledges that, accordingly, the Office of the Inspector General will not be able to provide the Board with assurance, whether through audit or investigation work, on the funds disbursed under the Administration Agreement.**
- 2. Based on the recommendation of the Audit and Finance Committee, the Board authorizes the Secretariat to enter into the Administration Agreement with the World Bank for the Performance Based Funding project in the Democratic Republic of Congo in accordance with the financial and programmatic terms presented in GF/B37/03- Revision 1.**
- 3. However, the Board confirms that this decision does not set a precedent for future investments with development partners or for existing relationships with partners and requests the Secretariat develop a framework to guide future consideration of such investments for presentation to and review by the Audit and Finance Committee, in consultation with the Strategy Committee, for recommendation to the Board.**

*Budgetary implications: not applicable*

## Part 2 - Relevant Past Decisions

<b>Relevant past Decision Point</b>	<b>Summary and Impact</b>
<b>GF/AFC03/EDP01 (April 2017):</b> Administration Agreement with the World Bank	Following its review and discussion of the analysis presented by the Secretariat and the Office of the Inspector General, the AFC agreed to recommend the Board to authorize the Secretariat to enter into the proposed administration agreement with the World Bank for a performance-based funding project in the Democratic Republic of Congo (DRC), as presented in this paper. In making its recommendation, the AFC noted the exceptional nature of the recommended decision and agreed it

Relevant past Decision Point	Summary and Impact
	<p>would not set a precedent for future investments with development partners or for existing relationships with partners. The AFC further recommended that the Secretariat consider development of a framework to guide future consideration of such investments, for presentation to and review by the AFC, in consultation with the Strategy Committee, for recommendation to the Board.</p>
<p><b>GF/B28/EDP16 (March/2013):</b> Revised Charter of the Office of the Inspector General and Terms of Reference for the Inspector General<sup>1</sup></p> <p><b>GF/B31/DP11 (March/2014):</b> Revision to the OIG Disclosure Policy and the OIG Charter<sup>2</sup></p>	<p>It is acknowledged that if the OIG does not have the requisite access and audit rights to fulfil its mandate under the Board-approved “Terms of Reference of the Inspector General” and the “Charter of the Office of the Inspector General”, it limits the scope of its work and consequently its capacity to fulfill its mandate.</p> <p>The OIG Charter, as initially adopted in March 2013, and most recently amended in March 2014, notes under Article 17 that the Office of the Inspector General will have the authority to access, inspect, review, retrieve and make copies of all 1) books, records and documents maintained by the Global Fund Secretariat; and 2) books and records relating to grants funded by the Global Fund or the implementation of Global Fund financed programs and operations, whether maintained by Principal Recipients, Sub-Recipients, LFAs or LFA subcontractors, suppliers and service providers or other individuals and entities who are engaged in, or involved in, carrying out or participating in Global Fund financed programs or operations, and those who have received Global Fund monies or assets, either directly or indirectly.</p> <p>It further authorizes the Office of the Inspector General to seek any information required from personnel of the Global Fund and those that are external, including Principal Recipients, Sub-Recipients and, suppliers and service providers involved in Global Fund financed programs and operations and require such personnel to cooperate with any reasonable request made by the Office of the Inspector General.</p> <p>If the decision point presented in this paper is approved by the Board, it will restrict the access rights of the OIG and accordingly, the OIG will not be able to provide any assurance (audit or investigation) on the use of funds or any other aspects of this arrangement.</p>

<sup>1</sup> <http://www.theglobalfund.org/Knowledge/Decisions/GF/B28/EDP16/>

<sup>2</sup> <http://www.theglobalfund.org/Knowledge/Decisions/GF/B31/DP11/>

### **Part 3 - Action Required by the Board**

1. A decision is proposed to the Board to:
  - Acknowledge the limitations on the ability of the Office of the Inspector General (OIG) to fulfill its relevant Board-approved mandate, as a consequence of the restriction on access and audit, which will enable the Secretariat to proceed with signing an Administration Agreement with the World Bank for a Performance Based Funding (PBF) project (PBF Project) in the Democratic Republic of Congo (DRC) funded from the 2014-2016 allocation;
  - Authorize the Global Fund Secretariat to invest and participate in the PBF Project in DRC through the signing by the Global Fund of an Administration Agreement with the World Bank; and
  - Request that the Secretariat consider development of a framework to guide future consideration of investments with development partners for review by the AFC, in consultation with the Strategy Committee, for recommendation to the Board.

### **Part 4 - Executive Summary**

2. The Global Fund fully embraces the principles of aid effectiveness, including partnership, focus on results, shared responsibility and country ownership. These principles have been agreed and codified in the Paris Declaration on AID Effectiveness in 2005, the Accra Agenda for Action in 2008, and the Busan Partnership for Effective Development Cooperation in 2012. The Global Fund has also set the building of Resilient and Sustainable Systems for Health (RSSH) as a critical strategic objective of the 2017-2022 Strategy. To implement these principles of aid effectiveness and build RSSH, the Global Fund always endeavors to work through existing country systems and in close partnership with other donors and implementers, and avoids building parallel implementation systems.
3. This paper presents a Board decision on whether the Global Fund should enter into an Administration Agreement with the World Bank for a Performance-based Financing (PBF) Project in DRC that as a matter of policy, does not grant the Global Fund, as a donor to this trust fund, access to books, records, personnel or sites related to the use of Global Fund monies. The alternative is for the Global Fund to explore other approaches to finance PBF. These other approaches would be at least partially parallel to the PBF Project and given the significant time needed to design and implement, would risk the loss of the approximately \$10 million from the current funding cycle being used in DRC.
4. The PBF Project and the Administration Agreement represents a significant step forward in the collective harmonization of donor investments, and coordination with country stakeholders. This is an important achievement in the context of the challenging operating environment in DRC. In the time remaining for this current funding cycle, signing the Administration Agreement is the best option for the Global Fund to invest in PBF in DRC in terms of simplicity and speed of implementation.
5. The Secretariat carefully considered the implications of such arrangements and limitation on its own monitoring, evaluation and oversight activities and is comfortable these arrangements represent a preferred option. However, given the Board-approved terms of the Charter of the Inspector General and its mandate to provide assurance over the use of grant funds, waiving such rights requires a Board decision.
6. Funding for the PBF Project was approved by the Board based on a recommendation from the Grant Approvals Committee (GAC). The purpose of this paper is not to fully review the strategic

or operational merits of Performance Based Funding, which are a delegated responsibility to the Secretariat and GAC. After extensive preparations and through the close Global Fund – World Bank collaboration in the design of the PBF model for DRC, the World Bank’s PBF Project in DRC is agreed as an innovative and high-impact intervention by all key stakeholders; Secretariat, World Bank and the DRC’s Ministry of Health.

7. The issue is that under the terms of the Administration Agreement, which is based on the World Bank’s Single Donor Trust Fund template, the Global Fund and particularly the OIG, does not have unrestricted access to books and records of the sub-recipients/implementing partners of the PBF Project. As a result, the OIG is unable to fully execute its mandate, and the Global Fund has to place additional reliance on the World Bank’s risk and assurance practices, audits and investigations with this specific investments. The PBF Project does have a robust risk management and reporting framework that provides the Global Fund with significant assurance, especially programmatic, over the operational performance of the PBF Project and its results.
8. Since the Fall of 2016, a relevant joint Secretariat-OIG process<sup>3</sup> is being implemented to manage situations where contractual arrangements such as the Administration Agreement for PBF in DRC may impinge on:
  - The OIG’s ability to execute its Board-approved mandate; and/or
  - The Secretariat’s ability to evaluate the fiduciary and programmatic oversight it can obtain in such situation, as well as the value in developing financial and programmatic arrangements that aim to optimize the impact of Global Fund investments, including innovative financing arrangements, and appropriate reporting and risk management measures.
9. The process involves consultation with the OIG and a thorough evaluation of the appropriate level of oversight as well as assurance measures and arrangements, given the value and nature of the services being contracted to be provided to the Global Fund. In addition to a formal no-objection by the Inspector General, senior management approval is required where there are deviations from standard access and audit rights through the Global Fund Secretariat’s “Executive Grant Management Committee” (EGMC).
10. This process could not however resolve this specific funding request due to:
  - The OIG not having unrestricted access to books and records of the sub-recipients/implementing partners of the PBF Project;
  - The materiality of the amount to be invested by the Global Fund (USD 10,543,387)<sup>4</sup>;
  - The complex and highly specialized nature of the PBF Platform designed by the World Bank, and the services to be provided under the Administration Agreement; and
  - The risk that this exceptional, specific and unique DRC case will not be an isolated event (as clearly intended in the Decision Point), and could create a precedent for future agreements with the World Bank and other development partners.
11. This investment requires a Board decision to resolve this issue between the Secretariat’s mandate to build RSSH and avoid creating parallel systems, and the OIG’s mandate for unrestricted access to books and records of sub-recipients/implementing partners of the PBF Project. The Secretariat and OIG have worked closely together throughout this process and will continue to do so to implement the Board’s decision.

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<sup>3</sup> Further details of the process developed to review access rights in contractual agreements is available in AFC paper GF/AF03/20.

<sup>4</sup> The Global Fund investment of USD 10,543,387 is approximately 1.4% of the current size of the Global Fund DRC grant portfolio.

12. The alternative to signing the Administration Agreement with the World Bank would be for the Global Fund to explore alternative and at least partially parallel approaches to invest in PBF in DRC. Adapting existing Global Fund grant implementation structures for PBF could result in the Global Fund having its usual access and audit rights under Global Fund grants. However, the design and implementation of an alternative PBF structure is at this time uncertain, and is likely to result in reduced Global Fund access to the World Bank PBF Project's risk management, reporting and assurance framework. Establishing an alternative and partially parallel PBF structure would also involve significant time, effort and potentially costs for all involved partners (see paragraphs 34 to 37 below). A negative Board decision means that the Global Fund would not be able to make a PBF investment before the current Global Fund grant ends in December 2017. This funding could be reprogrammed into other activities, but given the proximity to the end of the grant, it is likely that some or all of the funding would be lost to the country.
13. The Decision Point is clear that this decision will not set a precedent beyond this specific and unique case in DRC during this implementation period. Future such investments will likely vary considerably in their access and oversight, however the issue of OIG and Secretariat access will likely become increasingly relevant as the Global Fund considers ways to expand impact through partnerships with other development financiers. The Secretariat and OIG will continue to discuss this issue and may return to the Board and its committees with a proposal for resolving similar issues without the need for individual Board decisions.

## **Part 5 - Background**

### Country Health Context and Background

14. The Democratic Republic of the Congo (DRC) is the largest country in sub Saharan Africa, with a population of around 75 million<sup>5</sup>. It ranks 176 out of 187 countries on the United Nations Human Development Index<sup>6</sup>. The country is often listed as one of the most difficult countries to deliver health care services, and the Global Fund classifies the country as a "Challenging Operating Environment" under the Board approved Challenging Operating Environment policy.
15. Malaria is endemic and accounts for 7.1% of the global malaria burden, ranking second in the world. DRC accounts for 1.5% of the global HIV burden, ranking 16th. Tuberculosis accounts for 2.2% of the global burden, ranking 11th in the world. Health indicators in DRC are unacceptably poor, for example, under-five mortality is among the highest in the world at 119 per 1,000 live births<sup>7</sup>. However, progress is being achieved: under-five mortality has dropped from 176 (per 1,000 live births) since 1990; and thanks to leadership by the government, civil society and faith based organizations with sustained support from the Global Fund and other partners, the country is reaching universal bed-net coverage.

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<sup>5</sup> World Bank country profile for DRC: <http://www.worldbank.org/en/country/drc/overview>

<sup>6</sup> UNDP Human development reports: <http://hdr.undp.org/en/countries/profiles/COD>

<sup>7</sup> World Health Organization reports citing DRC: <http://www.who.int/countries/cod/en/>

## Part 6 - Discussion

### Global Fund - World Bank Collaboration on PBF in DRC

16. Following the signing of a Memorandum of Understanding between the World Bank, GAVI, UNICEF and the Global Fund in February 2015, a Partnership Platform (PDSS) was formed for improving collaboration between partners and the Government, including the design of an innovative and strategic PBF model for DRC (Partnership Platform).
17. In 2015, the Global Fund Board<sup>8</sup> through the recommendation of the Grant Approvals Committee approved a maximum amount of USD 20 million for the piloting of a PBF model in DRC under World Bank leadership in partnership with the Ministry of Health, and in collaboration with other partners.
18. The primary focus of the PBF Project is improving utilization and quality of MNCH services delivery through an innovative financing and decentralized approach to performance measurement in targeted health directorates at the sub-national provincial level. The PBF Project will address major health system challenges by improving governance, strengthening health administration directorates, and health policy capacities by focusing on:
  - human resources for health outcomes (motivation, distribution);
  - financial accessibility to health services;
  - availability of quality and affordable medicines;
  - community engagement; and
  - Improvement of data availability.
19. PBF is a potential game changer in DRC for how government (central and local) and partners, work together to deliver improved public health outcomes, especially through the appropriate incentivizing of health personnel to deliver quality services; as a vehicle for health reform at the provincial level; and Ministry of Health-partner alignment on public health priorities.
20. Operational collaboration between the Global Fund's DRC Country Team and the World Bank PBF team is excellent, and has contributed significantly to strengthening the design of the PBF approach in the specific DRC context, including how malaria, TB and HIV are covered by the PBF framework, the development of the community element in the approach, and close follow-up of PBF payments for the services related to the three diseases in terms of the quantity and quality of services. PBF will improve effective coverage and quality of TB, HIV and malaria related healthcare services, as well as reinforcing the performance of peripheral (BCZS) and intermediate – provincial (DPS) health directorates. As mentioned in paragraphs 38 to 40 below, the Secretariat is taking steps to ensure appropriate collective governance of the pooled investments. The Secretariat is monitoring the negotiations between the World Bank and the DRC Government, to assess whether the ratio of the Global Fund investment versus the World Bank and other donor investments, are set to approximate the initial projected PBF payments for services directly related to fighting the three diseases versus other health services. This will improve the impact of the programs for fighting the three diseases.
21. The PBF Project is strengthening risk management in the context of the challenging operating environment in DRC through the application of PBF principles to promote the independent review of data, enhance the financial and managerial autonomy of health facility resource mobilization, and incentivizing health facility staff to deliver more, and better quality services.

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<sup>8</sup> Electronic Reports to the Board GF-B32-ER01 and GF-B33-ER07

22. The Secretariat and its implementing partners have actively participated in the Partnership Platform initiated by the World Bank, through close follow-up at Kinshasa and provincial levels by the Secretariat's Country Team and with the strong support of implementing partners. There will be regular reviews of the reporting framework of the World Bank Project Implementation Unit within the Ministry of Health, (refer further to paragraph 40 below), and a joint design of a mid-term impact study. The Secretariat is closely following the operational implementation of PBF in DRC including, the World Bank results and performance framework, and is participating in the establishment of a joint performance framework between the main members of the Partnership Platform<sup>9</sup>.

### World Bank Administration Agreement negotiations

23. The Global Fund and the World Bank have held in-depth negotiations on the terms of the Administration Agreement, based on the World Bank's Single Donor Trust Fund template. The Global Fund agreed to explore the use of the World Bank's Single Donor Trust Fund and sign an Administration Agreement as an efficient mechanism to manage the Global Fund investments for the PBF Project before the conclusion of the current grant implementation period.
24. The Secretariat has directly involved the Inspector General in these discussions from the earliest stage, and sought and received the OIG's advice. Despite extensive rounds of open and robust negotiations, the World Bank has stated that it is not in a position to provide the Global Fund (including the Local Fund Agent (LFA) and OIG) with audit rights and unrestricted rights of access to the books and records of the sub-recipients/implementing partners of the PBF Project.
25. Based on input from the World Bank, the Global Fund understands that the basis for these restrictions is that, under the World Bank's Articles of Agreement, the World Bank is an international financial institution with privileges and immunities which protect the World Bank and its staff from national legal process, taxation, seizure of assets, and guarantee the inviolability of its archives. The immunity of archives protects the World Bank's books, files, communications, and other records in order to ensure the independence and effective functioning of the World Bank by safeguarding the institution's information and protecting its deliberative process and confidentiality.
26. Based on written statements from the World Bank, the Global Fund expects that with the relevant consent of the Government, the Global Fund would have access to, among others, current financial information relating to receipts, disbursements and fund balance, annual single audit reports, copies of all financial statements and auditors' reports received by the World Bank from the Government and, upon request, on an exceptional basis and at an additional cost, a financial statement audit by the World Bank's external auditors. Representatives of the Global Fund may be invited to participate in World Bank supervision missions (refer to Annex 1 attached for further details). The Global Fund has additional programmatic assurance through access to the results reported by each health facility covered by the Project (through a project website) and participation in monthly and quarterly progress review meeting with the World Bank, Ministry of Health and other stakeholders. In addition, the Global Fund has direct access to the health facilities covered by the PBF Project that also receive Global Fund financed health commodities supervised by Global Fund PRs and SRs.

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<sup>9</sup> GAVI, UNFPA, UNICEF, USAID, World Bank and the Global Fund



27. Nevertheless in this context, the Global Fund will have a restricted ability to evaluate the fiduciary and programmatic elements of the PBF Project, and will be required to place reliance directly upon the World Bank framework and policies and procedures, including those relating to risk and assurance, audit and investigation, recovery and reporting.
28. This also means that the OIG will not have any access rights, either for audit or for investigative purposes, to fulfil its mandate under the Board-approved “Charter of the Office of the Inspector General”, and the “Terms of Reference for the Inspector General”. This restriction would be only for the Global Fund’s PBF investment in DRC with the World Bank under the terms of the Administration Agreement. This investment would be made during the short remainder of the current implementation period ending in December 2017. The Decision Point would not set a precedent for similar uses of funds for the next grant implementation period, but broader implications of this issue are discussed below.

### Reliance on World Bank Policies and Procedures

29. Under the Administration Agreement, the Global Fund will have a restricted ability to directly evaluate the fiduciary and programmatic elements of the PBF Project, and will be required to place reliance directly upon the applicable World Bank framework, and policies and procedures (refer to the attached Annexes 1, 2 and 3 for further details). For example, the Global Fund will be relying on the World Bank to take appropriate measures to prevent corrupt, fraudulent and related obstructive practices consistent with the World Bank’s policies and procedures.
30. In this context, this means that the commencement of an investigation, sharing of information relating to the investigation and actions taken to recover funds will be ultimately determined by the World Bank in accordance with its policies and procedures (for further details refer to the attached Annex 1).

### Position of other donors on PBF Platform in DRC and their participation.

31. GAVI, UNFPA, UNICEF, USAID, and the Global Fund are part of the Partnership Platform. All partners to-date do not finance PBF payments, but are supporting the PBF Project through collaboration both on a technical and financial level through their respective investments (inputs and not outputs) and providing valuable support by financing the medicines, supply chain strengthening, as well as DHIS2 and a number of other important activities.
32. In terms of the PBF payments specifically, the World Bank has been the sole financier until recently when USAID has signed an Administration Agreement with the World Bank to fund PBF activities in Haut Lomami and Loualaba Provinces. USAID is providing USD 8 million over two years for PBF payments initially covering 2 health zones currently covered by their PROSANI project. However, USAID wishes to align with the PBF model of the Partnership Platform which is the national model and hence has entrusted its funds to the World Bank. USAID funding will fund PBF payments at the health facility level, as well as Health Zone and Provincial level. The funding from USAID has enabled to add 16 health zones to the current 140, resulting in the coverage of all the health zones in Haut Lomami and Loualaba Provinces. These provinces are not part of the Global Fund provinces for PBF payments under its Administration Agreement with the World Bank.
33. In the Provinces of Equateur and Bandundu, no additional donor at this stage other than the Global Fund would be funding PBF payments.

## Alternative/Parallel Structure to Finance PBF Payments

34. The Global Fund Secretariat has considered exploring an alternative to using the World Bank PBF Platform thereby avoiding the need for the Administration Agreement. This may be possible, through what could be viewed as a “virtual-pooled investment”, dependent on the World Bank’s governance and operational flexibilities. However, alternative approaches have not yet been discussed with the World Bank in detail and will be at least partially parallel. Under this approach PBF payments would be made through existing DRC Global Fund grant implementation and disbursement mechanisms.
35. This alternative would have the benefit of ensuring that the Global Fund (including the LFA and OIG) have the full rights of access and audit over the use of grant funds available under the terms of the relevant Global Fund grant, while establishing a collective governance framework to coordinate the investments of the World Bank, the Global Fund and other donors. However, the establishment of a comprehensive collective governance, and fully integrated, pooled investment structure (virtual or actual) for PBF in DRC between the Global Fund and the World Bank is uncertain, will likely take significant time, and will depend upon the World Bank’s and the Ministry of Health’s governance and operational flexibilities. If the Board decides not to approve this investment, this funding could be reprogrammed into other activities, but given the proximity to the end of the grant, it is likely that some or all of the funding would be lost to the country.
36. Consequently, the Secretariat and World Bank’s strong and clear preference is for the Global Fund to participate in financing PBF payments by signing the proposed Administration Agreement as described in this paper. For the time being, this is the simplest, fastest and most harmonized way to move the PBF Project forward to impactful implementation with Global Fund investments. Also for the first time in DRC, there are active discussions on the feasibility of arrangements for the pooling of the investments of the World Bank, Global Fund and other donors, together under a collective governance framework. The Secretariat will in parallel engage with the World Bank to undertake a detailed analysis of alternative financing arrangement options for PBF, and the feasibility of other innovative financing mechanisms, for the next grant implementation period.
37. Signing the Administration Agreement with the World Bank does not preclude the Global Fund developing its own PBF approach during the next grant implementation period – leveraging and complementing the current World Bank led model and experience – for example, as part of the Global Fund’s evolving provincial level approach in DRC.

## Key implementation risks of PBF Project

38. A potential risk of the PBF Project is that the service packages for making PBF payments are insufficiently defined. This risk has already been mitigated by the World Bank and the Global Fund collaborating extensively with other partners and implementers to define the package of services at health facility and Provincial Health Directorate (DPS) level, including the methodology for measuring the quantity and quality of services for the PBF payments. The Global Fund has reviewed closely the services relating to the three diseases, and ensured that Health Community Centers where Malaria programs are implemented have been included in the PBF payment structure.

39. Although there is not yet a robust and detailed process of decision making to set the strategic purchase of services<sup>10</sup>, the Global Fund and the World Bank are exploring arrangements for the collective governance of the pooled investments of donors to the PBF Project. This includes, during the period of implementation of the Administration Agreement, arrangements for the selection of the targeted beneficiaries and geographical coverage. Also the ratio of the Global Fund investment versus the World Bank and other donor investments, should be set to approximate the initial projected PBF payments for services directly related to fighting the three diseases versus other health services. However, it is noted that the outcome on the latter issue will be determined at the time of the negotiations of the grant agreement and financing arrangements, between the World Bank and the DRC Government, which the Global Fund will proactively monitor.
40. The Global Fund is also closely following the discussions between the World Bank and the DRC Government on whether specific quarterly progress reports from the World Bank Project Implementation Unit of the Ministry of Health, can be disclosed to the Global Fund, in addition to the regular PBF Project donor reports. Based on discussions with the World Bank, the Global Fund has high confidence that it will have access to the specific quarterly progress reports. Also, the close collaboration between the Global Fund, the World Bank and other partners at field-level, is expected to provide the Global Fund with a better understanding of PBF Project implementation, as a co-financing partner.

#### Risk Assessment Summary

41. The Secretariat appreciates the limitations on the ability of the OIG to fulfill its mandate, as a consequence of the restriction on access and audit to the books and records of the sub-recipients/implementing partners of the PBF Project that would arise from signing the Administration Agreement with the World Bank for the PBF Project in DRC.
42. The potential to achieve results and progress towards public health outcomes through this innovative mechanism is significant, in particular with solid buy-in from the Government of DRC and partners such as USAID (which is channeling USD 8 million funding through a recently signed similar agreement with the World Bank), GAVI, UNFPA, and UNICEF. The Secretariat has explored alternative options with the World Bank, which at this time remain uncertain. As key members of the Partnership Platform, the Global Fund and the World Bank will be exposed to reputational risks and credibility with national stakeholders should the initial investments of USD 20 million be entirely lost for DRC as this will create an impediment to realizing progress towards impact.
43. The Secretariat will be placing reliance on the risk and assurance framework and reporting of an established and reputable organization that has mature processes and undertakes proper due diligence as outlined in the attached Annexes. Measures taken by the World Bank should mitigate financial and operational risks. Taking into account the fact that the Secretariat is closely monitoring negotiations between the World Bank and the Government with respect to the ratio of donor investments and the provision of specific quarterly progress reports to the Global Fund (refer to paragraph 26 above and Annex 1) to give the Secretariat more operational participation on the PBF Project in DRC as a co-financing partner. Further comfort could also be obtained by assurance providers through verifications in the facilities receiving PBF payments as described in paragraph 26 above.

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<sup>10</sup> As reflected by the level of PBF payments per service which can change over time with the consent of the Ministry of Health.

44. This exceptional request which should not set a precedent is requested while the Global Fund: (i) explores a broader collaboration framework with development partners, and (ii) considers the design of innovative financing mechanisms for PBF payments which will allow appropriate access and collective management of the pooled investment amongst all co-financing partners.

#### Impact on OIG Role and Mandate

45. The OIG is independent of the Global Fund Secretariat and reports directly to the Board through the Audit and Finance Committee. The scope of work for the OIG includes all systems, processes, operations, functions and activities of the Global Fund and of the programs and projects that it supports.
46. To fulfil the mandate and responsibilities set out in the “Charter of the Office of the Inspector General” and the “Terms of Reference for the inspector General”, the OIG requires amongst other matters, the authority to:
- Access all books and records relating to grants and projects funded by the Global Fund, including access to the sites where these records are kept and where the programs are implemented; and
  - Seek information required from any personnel involved in the Global Fund funded projects, and require such personnel to cooperate with any reasonable request made by the OIG.
47. Under the terms of the Administration Agreement, the OIG will not have any rights of audit or investigation or other access to fully discharge its mandate. For the viewpoint of the OIG refer to the section below.

#### Viewpoint of the Global Fund Office of the Inspector General

48. The mission of the Office of the Inspector General (OIG) is to provide the Global Fund with independent and objective assurance over the design and effectiveness of controls or processes in place to manage the key risks impacting the Global Fund's programs and operations, including the quality of such controls and processes.
49. To enable the OIG to accomplish this stated mission, the Board has approved a charter that explicitly establishes the scope of work of the OIG as follows: “All systems, processes, operations, functions and activities within the Global Fund and the programs it funds (including those in place or carried out by its program recipients, partners, suppliers and *service providers* [emphasis added]) are subject to the Office of the Inspector General's review, evaluation, and oversight.”
50. In order for the OIG to effectively discharge this mandate, under this defined scope of work, the Board further specified the specific authority given to the OIG to:
- Access all books, records and documents maintained by the Global Fund Secretariat (...), all books and records (...) relating to grants funded by the Global Fund or the implementation of Global Fund financed programs and operations.
  - Seek information required from any personnel involved in the Global Fund funded projects and require such personnel to cooperate with any reasonable request made by the OIG.
51. Over the past several months, the Secretariat has entered, with various counterparties, into an increasing number of agreements that include terms and conditions that substantially deviate from the Global Fund's standard audit and access rights. These agreements have significant potential for interference with the OIG's ability to provide the assurance mandated by the Board, in accordance with its approved Charter, over the use of Global Fund financing. Recognizing this

significant risk, and out of concern for accommodating legitimate business needs whilst preserving the OIG's ability to discharge its Board-mandated assurance mission, the OIG worked closely in late 2016 with the Grant Management Division and the Legal Department to develop a formal process for the review and vetting of any agreements that restrict the Global Fund's access and audit rights in relation to the activities covered under such agreements.

52. This process, which was finalized and agreed between the OIG and the Secretariat in September 2016 establishes appropriate consultation, escalation and accountability for the review and approval of such agreements. Since this process has been in place, the OIG has reviewed 26 agreements proposed by the Secretariat, as described in further detail in GF/AFCO3/20. In each case, the OIG has conducted a substantive review of the proposed terms of the arrangement with careful consideration of key factors, such as: business rationale, nature of the arrangement and perceived level of risk, vulnerability of the Global Fund to potential fiduciary or other exposure, materiality of amounts involved, nature of relationship between the OIG and the external counterparty's own assurance functions (for example, existence of a memorandum of understanding or joint investigation protocol), etc. In all cases, the ultimate determinant of OIG's position has been whether, under the terms of the proposed agreement and considering other mitigating factors, the Office of the Inspector General would be in a position to provide the level of reasonable assurance required by the Board under the terms of the OIG's charter.
53. The OIG has so far agreed, on a no-objection basis, to all previous arrangements proposed by the Secretariat, including several cases where deviations from standard contractual provisions did not present an actual limitation to the relevant access rights, except the proposed DRC arrangement with the World Bank. Under the terms of this arrangement, the OIG will be completely restricted from having any access to any books or records related to this project, which is both complex in nature and material in scope. As such, the OIG will be unable to provide the Board with any assurance on this arrangement or the use of any funds disbursed as part of its implementation.
54. To address the World Bank's concerns about the potential implications for its internal rules regarding assurance activities if it were to grant access rights to the Global Fund, the OIG has explicitly clarified that any access rights would be strictly limited to the books and records of the funded project itself and OIG would not seek any access rights to the books and records of the World Bank itself. Because the project will be managed as a standalone initiative, with its own project management structure and its own set of books and records separate from those of the World Bank, access to the books and records of the project is separate and distinct from access to the books and records of the World Bank itself. Therefore in the OIG's view, access that is narrowly limited to the project itself and to the use of funds allocated to the project will have no ramifications for the World Bank's privileges and immunities. In practice, to obtain assurance for its own purposes, the World Bank will likely need to provide access to the books and records of the project to other assurance providers (such as project internal auditors, external auditors, or local government auditors) who are not employees of the World Bank.
55. The OIG has also clarified with the World Bank that, under the OIG's risk-based audit methodology, it was not the intent of the OIG to request the actual books and records of the project or to conduct any review of the project (inspection, verification, audit, or investigation) unless specific risks of a significant nature were identified during the course of the project implementation. In the absence of any such specific risks arising during implementation, it is likely that granted access rights to the Global Fund may still not need to be exercised.
56. The most significant precedent of restriction to the Global Fund's right of access to books and records of an implementer relates to the relationship with the United Nations Development

Program (UNDP). The original agreement signed between the Global Fund and UNDP in 2003, when the Global Fund was at its very early stage with limited capacity and UNDP was an implementer of last resort, gave UNDP the right to administer the grants using its own rules and procedures. Accordingly, the Global Fund waived many of the fiduciary controls it otherwise exercises on other implementers. It is worth noting that, five years ago, the High-Level Independent Review Panel on Fiduciary Controls and Oversight Mechanisms of the Global Fund highlighted this exceptional nature of the UNDP arrangement. Whilst it did not recommend a renegotiation of the agreement, the Panel explicitly noted that it “might not have advised the Global Fund to accept the provisions of the agreement with UNDP [negotiated eight years earlier]”, calling on the Global Fund to consider the arrangement as “transitory” and “temporary”. Yet, even under the restrictive terms of the UNDP agreement that the Panel called into question, several safeguards are still in place that significantly mitigate the impact of the access restrictions. For example:

- UNDP’s Office of Audit and Investigations (OAI) has assigned specific resources dedicated to the oversight of the Global Fund programs and, each year, develops a detailed audit program which is shared with the Global Fund OIG.
  - OAI and OIG have signed in 2015 a Memorandum of Understanding as well as a Joint Investigation Protocol, which allow the two oversight units to: collaborate very closely on both audits and investigations, provide each other with relevant information pertinent to the discharge of their respective mandates, routinely share intelligence and confidential documents, jointly conduct audits or investigations, fully disclose to each other the results of audits and investigation, and have access to each other’s reports.
  - The OIG has full access to the books and records of Global Fund projects implemented by non-UN sub-recipients engaged by UNDP and UNOPS and the OIG can audit or investigate such recipients.
  - The OIG and the World Bank’s Integrity Vice Presidency have signed an MoU allowing the OIG and INT to collaborate regarding information sharing and investigations in 2010. However this document is not applicable to the present situation. It does not include collaboration in situations where the Global Fund is a donor to a World Bank managed fund. It only applies to situations where both the World Bank and the Global Fund have separate programs in the same country.
57. None of the above provisions would be available under the terms of the proposed arrangement with the World Bank, which does not provide the OIG with any possibility of access to any of the funded project’s books and records, either directly or indirectly. Whilst the proposed arrangement does include provisions for an internal auditor to be recruited and for reliance to be placed on the local Inspection Générale des Finances, OIG’s assessments over the years have repeatedly highlighted the significant limitations on the scope and quality of in-country local assurance mechanisms, especially in challenging operating environments such as DRC. As a result of these restrictions and limitations, the OIG will not be able to provide the Board with any level of assurance on either the project itself or on any Global Fund business process, initiative or type of activity (such as Performance-Based Funding (PBF)) that this project would be a material component of. Likewise, should any allegations of wrongdoing arise in connection with this project, the OIG will be unable to investigate such allegations.
58. Furthermore, in light of the significant challenges that had to be overcome to reach mutually agreeable terms for the Memorandum of Understanding and the Joint Investigation Protocol with UNDP (both of which were concluded after nearly one year of negotiations), there is a significant risk that entering into an arrangement with another entity that accepts far more restrictive access rights for the Global Fund will set a significant precedent that may

subsequently be invoked by other UN or multilateral partners to request similar access restrictions. As the volume or scope of such arrangements increases, either with the same entities or with a broader range of entities, they may cover a material enough segment of the Global Fund's overall grant portfolio that the ability of the OIG to provide any assurance on that portfolio as a whole may be seriously compromised. Therefore, aside from the specific World Bank arrangement, the Audit and Finance Committee and the Board should also carefully consider the ramifications of this precedent-setting, whether such precedent is explicitly formulated or simply implied.

59. Finally, whilst acknowledging the innovative nature of the PBF approach contemplated under this arrangement, the OIG also notes that, as with any innovation, the inherent risks cannot be fully understood and mitigated upfront. As implementation is underway, the Global Fund will develop stronger understanding of the risk profile, be in a position to better understand the risk/return trade-offs, and make necessary adjustments and course correction to yield greater success. There is a significant risk that institutional learning, continuous improvement and risk management may be compromised by drastic restrictions on the Global Fund's ability to have adequate visibility into the implementation of the project.

#### Future Considerations

60. The Decision Point will not set a precedent beyond DRC during the current grant implementation period. However the Board in the future will likely be asked to weigh the costs and benefits of other similar types of co-investments with the World Bank and development partners. The Board should also consider the Global Fund's commitment to the principles of aid effectiveness and building RSSH. Although no precedent will be set in terms of consideration and approval of future arrangements, the creation of a business precedent, where other parties will request similar terms to that afforded to the World Bank, cannot be avoided, even if such requests are ultimately rejected. Additionally, the precedent of requiring individual Board decisions on any joint investments where such issues arise will deter country teams from exploring such joint RSSH investments.
61. Co-investments with other financiers of development are increasingly being explored as potentially useful tools for increasing Global Fund impact and helping resolve challenges to implementation, from advancing PBF efforts, to front-loading investments in line with the global plans for HIV, TB and malaria, to increasing the sustainability of Global Fund investments.
62. The Global Fund has discussed exploration of such tools in the Development Continuum Working Group Report, which advised that the Global Fund could "consider complementary funding arrangements..." including loan/credit/loan-buy downs and reaching "out to regional development banks which are likely to play a greater role in development going forward." Similarly, the Sustainability, Transition and Co-Financing (STC) Policy states that "To encourage increased co-financing and program sustainability, the Secretariat will explore the use of innovative financing mechanisms ..."
63. The issues of OIG and Secretariat access identified in this paper could however severely limit successful exploration and execution of innovative financing opportunities. The simple need to achieve a Board decision on oversight exceptions before being able to engage in such investments will discourage other efforts to increase impact through such partnerships.
64. We expect the specific circumstances of innovative financing arrangements, including Secretariat/LFA and OIG access, to vary considerably. And as committed to in the STC Policy, the Secretariat will continue to "update the Audit and Finance Committee and the Board on progress, lessons learned and recommendations, as appropriate, from utilizing such

mechanisms.” However, a decision from the Board is requested on this specific case which considers the importance of pursuing innovative and joint financing partnerships with the World Bank, and the weighting of requirements of OIG and Secretariat oversight in these investments.

## **Part 8 - Recommendation**

65. Following deliberations during the AFC’s March 2017 meeting and a subsequent teleconference discussion, the AFC recommends the Board to approve the proposed Decision Point authorizing the Secretariat to enter into the Administration Agreement with the World Bank for the PBF Project in DRC despite the Administration Agreement not providing the Global Fund the right of access to books, records, personnel or sites relating to the PBF Project. However, the AFC also recommends that the Board explicitly confirm that this decision does not set a precedent for future investments with development partners or for existing relationships with partners, and request that the Secretariat consider development of a framework to guide future considerations of such investments.



## Annex 1

### Outline of World Bank Risk and Assurance Framework and Reporting

1. As part of the due diligence undertaken for the PBF Project, the World Bank has informed the Global Fund that the following World Bank risk and reporting processes are applicable to the PBF Project. References to the terms of the Administration Agreement are as indicated below.
2. **Clarification on World Bank Role in context of Single Donor Trust Fund with the Global Fund.** As with all donors who entrust their funding to the World Bank via a Trust Fund, the World Bank acts as a Trustee and not as an implementing agency. Once an administration agreement is signed between the World Bank and the donor, the World Bank enters into a grant agreement with the Government for the portion of the funding that is recipient (i.e. Government) executed. The Government, not the World Bank, implements the Project following the fiduciary policies and guidelines of the World Bank. In its capacity as trustee, the World Bank provides assurance to the Donor that the full weight of the fiduciary safeguards and operational requirements that it would apply to its own funds would be extended to the funds provided by the Donor through the Trust Fund. This is different from any agreement entered into by the Global Fund with UN agencies which act as implementing agencies and not trustees.
3. **Governance and anticorruption considerations.** In the context of the PBF Project, the following governance and anti-corruption measures will contribute to enhance transparency and accountability during project implementation: (i) an effective implementation of the fiduciary mitigation measures should contribute to strengthen the control environment, (ii) ensure an appropriate representation and oversight by a steering committee involving key actors, (iii) guarantee transparency in the implementation of the PBF Project's activities and ensure the involvement of the stakeholders and public during the project implementation, (iv) the Terms of Reference of both the internal audit unit and external auditor include a specific chapter on corruption auditing, and (v) the Financial Management (FM) manual of procedures includes anti-corruption measures with a specific safety mechanism that will enable individual persons and Non-Government Organizations to denounce abuses or irregularities.
4. **Accounting Policies and Procedures.** The PBF Project Implementation Manual (PIM) details and documents the project accounting, policies and procedures as well as the responsibilities of all stakeholders involved. A "multi-projects" and "multi-sites" accounting software has been purchased and customized to facilitate processing of financial information and to prepare interim quarterly financial statements as well as annual financial statements. FM staff will also be trained to ensure optimal use of the software application. Detailed FM documentation will be maintained in the PBF Project files for the implementing entities.
5. **Internal Control and Internal Auditing.** The Management Support Unit (Administrative and Financial Management Directorate for Donors (CAGF)/Ministry of Public Health) and Directorate of Planning (DEP) will ensure that staffing arrangements in place are sufficient to ensure adequate internal controls, preparation, approval and recording of transactions as well as segregation of duties. Internal control procedures will be detailed in a PIM. An internal auditor will be recruited to maintain a sound control environment that will be described in the PIM. In line with the DRC Use of Country System (UCS) Report to fully rely on Inspection Générale des Finances (IGF) for the PBF Project's internal audit, the PBF Project's internal control system could be strengthened by establishing a channel of collaboration between IGF and the PBF Project's internal audit unit to agree on the project's risk mapping and work program.

6. **Funds Flow and Disbursement Arrangements.** Two Designated Accounts (DA) will be opened in a commercial bank on terms and conditions acceptable to the World Bank under the fiduciary responsibility of the CAGF/Ministry of Public Health, and overall oversight by the DEP. These DAs will be managed according to the disbursement procedures described in the PIM and the Disbursement Letter (DL) for the PBF Project. The DAs will be replenished against withdrawal applications supported by Statements of Expenditures (SOE) and other documents evidencing eligible expenditures as specified in the Disbursement Letter. All supporting documents should be retained at the project and readily accessible for review by periodic World Bank implementation support missions and external auditors.
7. **Assurance Over Results.** Throughout the PBF Project's life cycle, FM specialists in task teams work with the project participants to ensure sound management of funds and accountability for project resources in achieving the desired development results. This is achieved through:
- Quarterly review of Interim Financial Reports (IFRs);
  - Review of annual audited financial statements and related audit reports;
  - Periodic on-site supervision visits, the frequency of which is based on project risk rating, typically ranging from three (3) to six (6) months;
  - Impromptu in-depth operational and transaction reviews; and
  - Application of sanctions as the need may arise (e.g. if ineligible expenses are identified to have been billed for reimbursement<sup>11</sup>).
8. In this way, the World Bank periodically assesses the PBF Project, and reviews monitoring activities carried out by the project participant(s) pertaining to results, risks and implementation status. The World Bank then updates the project information and identifies necessary follow-up or remedial actions, as appropriate. Such update is entered in the system and an Implementation Sectoral Review is prepared and disclosed for review and made public.
9. Further information on the World Bank's risk and reporting processes relating to the PBF Project are set out in the attached Annex 2 and Annex 3.
10. **Description of the reports, audits, reviews, evaluations etc. that the GF will have access to and providing programmatic assurance over the PBF project.** Please note the following:
- a. **Agency MOU.** The **Memorandum of Understanding** (MOU) signed by the Global Fund, GAVI, UNICEF, UNFPA, USAID and the World Bank for Health System Strengthening for Better Maternal and Child Health Results in DRC (February 2015) states that the parties agree to collaborate on a number of axes: (i) Design and supply of defined results-based programs through implementation and use of a public utility agency; (ii) Design and implement actions aimed at improving DRC's supply and distribution system for essential medicines and vaccines; (iii) Provide support for the functioning of the regulatory institutions at the Central and Provincial level, including Ministry of Provincial Health, Provincial Health Divisions, and officials of health, and Ministry of Public Health at the Central level; (iv) Design and implement actions aimed at empowering families and communities for greater demand and utilization of health services and for improving key family practices; (v) Evaluate the jointly provided programs; and (vi) Ensure transparency in terms of information sharing regarding the contributions of each party. These assurances, to which both the Global Fund and the World Bank have signed and committed

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<sup>11</sup> For details of refunds to the Global Fund and other donors see paragraph 10(g) of this Annex.

themselves institutionally,<sup>12</sup> ensure alignment, complementarity and efficiency so as to reach the intended results. Such partnership at the institutional level involves quarterly meetings by all partners to discuss the various entry points, identify actions partners need to take, monitor progress, and address any bottleneck. The MOU provides the governance framework for this partnership of the 6 agencies and the quarterly meeting serves as the venue where issues pertaining to the partnership platform can be raised and resolved, and further actions can be agreed.

- b. **PDSS Partnership Platform.** In addition, the Secetaire Generale has issued a letter forming the **PDSS Partnership Platform** comprising of the 6 partners and Government. The role and objectives of this PDSS platform is to review/discuss all activities and tools pertaining to the PDSS project and the PBF interventions along with ensuring the activities of the various partners would be aligned to the PDSS activities to ensure complementarity of interventions. This platform meets monthly at which time the Ministry of Health shares all activities, results, and issues concerning the PDSS. Mission reports and outcomes (if available) are shared. Partners have a chance to contribute and support the planned activities. To date all the partners of the platform have contributed and validated the tools being developed, contributed to the hiring of the verifiers and TA. Partners, including the Global Fund, have also been part of the evaluation committees for hiring the TA and the External Verification Agency. Finally, partners along with the World Bank, Global Fund, and the Ministry of Health conduct joint missions to the field to talk to facilities, personnel, administrators and Provincial government. Thus, transparency is present throughout the implementation process.

As part of the PDSS platform, activity and mission reports of the PDSS on the delivery and results for all the activities conducted by the PDSS (on PBF and activities beyond the PBF) are shared with partners. For example, the budgeted yearly activity plan (PTBA) is shared with the partners and they can see what activities are planned so that they can align their interventions if need be. Furthermore, baseline reports about the impact evaluation and data has been shared and will continue to be shared with the partners. The M&E framework of the PDSS is also shared with the partners. All PBF subsidies are paid once the verifiers have conducted their analysis at the health facility level and the results are validated by the committee at the province level in collaboration with the purchasing agency. The PDSS World Bank-financed health facilities are the same health facilities receiving drugs and other inputs from the Global Fund, GAVI, UNICEF, UNFPA, and USAID and as such, the facilities and personnel maybe accessible with the relevant consent of the concerned parties.

- c. **OpenRBF.** The PDSS also includes an openRBF website which is used to monitor the results achieved by each health facility contracted under the PBF intervention and every provincial health directorate. The website is accessible to everyone and shows the geographic location of the health facility, its picture, contact person, and the package of services for which the facility has been contracted. It also shows the quarterly results achieved both in terms of quantity of services and quality. In addition, the budget each health facility receives through the PBF subsidies is found on the website along with source of funding for that PBF subsidies.

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<sup>12</sup> Please note that this Memorandum of Understanding is specified in section 9 as not intended by the parties to be legally binding.

- d. **Interim Unaudited Financial Reports and Progress Reports.** In terms of the Government's official reporting to the World Bank as part of its obligations under the IDA Financing Agreement negotiated and signed between the World Bank and the Government, the Government is required to submit to the World Bank quarterly interim unaudited financial reports and progress reports. The World Bank has already shared with the Global Fund the draft template for both the operational progress report and the quarterly interim unaudited financial report and the Global Fund has reviewed them. Should the Global Fund proceed with the establishment of the Trust Fund, as part of the negotiations of the Grant Agreement, the World Bank will request the Government to share these reports with the Global Fund.

**(Points 5 to 7 below are based on the draft Administration Agreement Standard Provisions, Sections 3 to 5)<sup>13</sup>**

e. **Accounting and Financial Reporting**

- i. The Bank is under an obligation to furnish to the Global Fund current financial information relating to receipts, disbursements and fund balance in the Holding Currency with respect to the Contributions via the *Development Partner Center* website which will be updated quarterly. Within six (6) months after all commitments and liabilities under the Trust Fund have been satisfied and the Trust Fund has been closed, the final financial information relating to receipts, disbursements and fund balance in the Holding Currency with respect to the Contributions is also made available to the Global Fund via the *Development Partner Center* website (paragraph 3.2 of the Standard Provisions).
- ii. Within six (6) months following the end of each Bank fiscal year, the Bank also provides an annual single audit report, comprising (i) a management assertion together with an attestation from the Bank's external auditors concerning the adequacy of internal control over cash-based financial reporting for all cash-based trust funds as a whole; and (ii) a combined financial statement for all cash-based trust funds together with the Bank's external auditor's opinion thereon. The cost of the single audit borne by the Bank (paragraph 3.3 of the Standard Provisions).
- iii. If a Donor wishes to request, on an exceptional basis, a financial statement audit by the Bank's external auditors of the Trust Fund, the Global Fund and the Bank will consult and agree on the appropriate scope and terms of reference of such audit. Following agreement on the scope and terms of reference, the Bank will arrange for such external audit. The costs of any such audit, including the internal costs of the Bank with respect to such audit, are borne by the Donor (paragraph 3.4 of the Standard Provisions).
- iv. The Bank will also make available to the Global Fund copies of all financial statements and auditors' reports received by the Bank from Recipients in accordance with the Bank's Access to Information Policy (paragraph 3.5 of the Standard Provisions).

f. **Progress Reporting; Review or Evaluation of Activities; Financial Management**

- i. The Bank will provide the Global Fund with semi-annual written progress reports by December 31 and June 30 with reference to the agreed results framework. Within six (6) months of the End Disbursement Date, the Bank will

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<sup>13</sup> As considered necessary, the Secretariat would seek clarity from the World Bank on the implications and operational implementation of these provisions on a case-by-case basis.

provide to the Global Fund a final narrative progress report (paragraph 4.1 of the Standard Provisions).

- ii. The Global Fund may review or evaluate activities financed by the Trust Fund at any time up to closure of the Trust Fund. The Global Fund and the Bank will agree on the scope and conduct of such review or evaluation, and the Bank will provide all relevant information within the limits of the Bank's applicable policies and procedures. All associated costs, including any costs incurred by the Bank, (paragraph 4.2 of the Standard Provisions).
- iii. The Bank will, consistent with its policies and procedures, take all appropriate measures to prevent corrupt, fraudulent, collusive, coercive and obstructive practices in connection with the use of the Trust Fund funds, and include provisions in its agreements with Recipients to give full effect to the relevant Bank guidelines on fraud and corruption (paragraph 4.3 of the Standard Provisions).
- iv. In the event that the Bank determines that there are credible and material allegations of fraud, corruption, collusion or coercion in relation to Recipient-executed and/or Bank-executed activities financed by the Trust Fund that result in the Bank opening an investigation into such allegations (an "Investigation"), the Bank will, in accordance with its applicable policies and procedures:
  1. Take timely and appropriate action with respect to such allegations and, where relevant, seek appropriate redress, including potential sanctions;
  2. As soon as practicable, inform the Global Fund of the outcome of the Investigation, provided that the Global Fund agrees to keep such information confidential, unless such information is already publicly available;
  3. On a case by case basis, decide whether to share information with the Global Fund on an active Investigation, and provided that the Global Fund agrees to keep such information confidential;
  4. Take all necessary actions to recover funds that are the subject of an Investigation where the Bank has determined it as appropriate; and
  5. To the extent that any funds are refunded to the Trust Fund following an Investigation, the Bank will use such funds for the same purposes as the Contributions, unless otherwise agreed between the Bank and the Global Fund (paragraph 4.4 of the Standard Provisions).

**g. Disbursement; Cancellation; Withholding of Payments**

It is expected that the funds deposited in the Trust Fund will be fully disbursed by the Bank by June 30, 2018 (the "End Disbursement Date"). The Bank will only disburse funds deposited in the Trust Fund for the purposes of the Administration Agreement (other than returns to the Global Fund) after such date to the extent such date is changed in accordance with amendments made to the Administration Agreement. Following the End Disbursement Date, the Bank is required to return any remaining balance of the Trust Fund to the Global Fund (paragraph 5.1 of the Standard Provisions).

Upon three (3) months' prior written notice, the Global Fund may cancel all or part of any Contributions (paid and not yet paid) that are not committed pursuant to any agreements entered into between the Bank and any consultants and/or other third parties, including any Grant Agreements. In the event of a cancellation, the Bank will return the cancelled funds to the Global Fund (paragraph 5.2 of the Standard Provisions).

Annex 2

Implementation Arrangements Health System Strengthening  
Project for Better Maternal and Child Health Results Project  
(PDSS)

Annex 3

Project Implementation Fiduciary Mechanisms

## IMPLEMENTATION ARRANGEMENTS

### Health System Strengthening Project for Better Maternal and Child Health Results Project (PDSS) (P147555)

- 1. The health system in the Democratic Republic of Congo comprises a health pyramid with 3 levels:** (i) a national central level, consisting of the General Secretariat with central departments and specialized programs, (ii) an intermediate provincial level consisting of the Provincial Health Directorate (DPS) and (iii) an operational level consisting of the health area, which includes the structures that provide health care health (hospitals for the Complementary Health Packages and health centers for the Basic Health Package) and the community organized in a community Health Committee (COGE) and in the health area Development Committee (CODESA).
- 2. As part of the health system reform initiated in 2006 through the health system strengthening strategy (SRSS, 2006 and 2010),** significant actions have been initiated since 2010 by the Government, and these include the revision of the organizational structure of the Ministry of Public Health which led to a reduction in the number of central offices from 13 to 7, and the separation between inspection functions and duties of health administration. Furthermore, DRC was divided into 26 provinces (from the previous 11) each with a Provincial Health Directorate (DPS – *Division Provinciale de Santé*). Unlike the previous configuration, the intermediate level (provincial level) will be a single level with the disappearance of the health districts. For parts of the country, some satellite offices will be kept to ensure close supervision of the health zones. The DPS will become decentralized structures of provincial power with a head of division supported by six offices.
- 3. At its heart, the central level will set up some specialized cells that have been and are attached to the Secretary General of Health.** These are the Management Support Unit (CAG / Ministry of Public Health-MOPH), which are the anchor for several projects (EU- FED, GF, GAVI etc.), the Technical Unit for Performance-Based Financing (CT-FBR) that receives technical and financial support from MSH/USAID and Cordaid, the Monitoring and Evaluation Cell (CS&E) which deals with the monitoring of programs and projects under the MOPH. In addition to these units at the central level, there are specialized directorates such as PNTS the PNLTHA, EPI, PNLS, the PNLN, etc.
- 4. The PDSS will be embedded in the Ministry of Public Health and will be coordinated and managed by the DEP.** In this project, normative responsibility and control reside with the Secretary General (SG) for Health. The project will be anchored within the MOPH; this is different from the institutional arrangement in the current PARSS which was set-up with a project implementation unit (PIU). The project will introduce internal performance contracts for central MOPH departments. For instance the DEP, the CT-FBR and the HMIS Division will all be under performance contracts. These contracts will be set up based on the results which will be defined in conjunction with the national health development plan (PNDS). This approach guarantees the application of the project standards and procedures with its strategies. It provides support and advice, compliance monitoring and monitoring of contractual commitments by the contracted departments.



5. **The Planning and Evaluation directorate of the MOPH (DEP-Health) will coordinate and implement the project and will also function as the fund holder.** In PARSS, the DEP is currently working on several issues related to study and planning for the health system as part of its mission and is leading the reform of the DPS. The DEP will coordinate and manage the project from the central level. It will be supported by experts with a strong knowledge of management, including health systems management, health financing as well as expertise in Bank fiduciary procedures. The DEP will sign a performance contract with the Secretary General based on its mission and certain objectively verifiable processes and outputs. The DEP will carry out the coordination and monitoring of project contracts and manage the Public Utilities (EUPs) that will be set-up in the provinces and which will function as the PBF contract management and verification agents.

6. **The Health Management Information System (HMIS-SNIS) Directorate will be strengthened in its role as health information manager.** In the last several months, the HMIS Directorate has received technical and financial support from various partners for the implementation of the DHIS-2 – system which is replacing the GESIS. In addition, the DRC has developed a PBF web-enabled application based on OpenRBF (<http://www.fbrsanterdc.cd/>) to improve governance in this area. Under the PDSS, the HMIS Directorate will be strengthened to enable effective management of communication tools. The HMIS Directorate will sign a performance contract with the Secretary General of Health to manage the web portal and the DHIS-2.

7. **The Results-Based Financing Technical Support Cell (CT-FBR/ MOPH) will continue to play a supporting role in the technical implementation of performance-based financing.** The CT-FBR was established in 2011 and is attached to the office of the Secretary General of Health. This unit's mission is to support the implementation of Results Based Financing in DRC. Under this project, the CT-FBR will be supported by PBF experts to strengthen their technical and monitoring capacity. The technical unit will be under a performance contract with the Secretary General of Health.

8. **The Monitoring and Evaluation Cell of the MOPH will be responsible for assessing the performance of the directorates and units/directions that are under the SG.** This cell is placed under the responsibility of the SG and will work jointly with a third party agency to monitor and evaluate structures under performance contracts by this project. This unit will report directly on the results produced by each contracted structure.

9. **The extended team will be a specialized technical group comprised of PBF-experts from different agencies which will constitute a horizontal coordination mechanism and will provide advisory support for the implementation of the project.** These experts come from different institutions of the Ministry and local and international organizations that have experience with PBF.

10. **The Provincial Health Directorate (DPS) is the main lever of the health pyramid for technical support areas in the provision and regulation of health services.** As part of the implementation of the PBF, the DPS will sign a single integrated performance contract (“*contrat unique*”) with the provincial Ministry of Health or the Secretary General MOPH (to be determined)

that will be evaluated quarterly by the monitoring and evaluation cell of the MOPH in collaboration with an external verification agency. The DPS will have among other functions: (i) regular supervisory visits to their health zones, (ii) organize and participate - in collaboration with clinicians specialized in quality of care- quarterly quality assessments in the first level referral hospitals (HGR); and (iii) provide the secretariat of the provincial PBF steering committee.

**11. The provincial PBF steering committee is a sub-committee of the existing financing and contracting committee (CPP-SS) to strengthen governance and institutional fit.** A fundamental institutional element of the PBF approach in DRC is the provincial PBF steering committee which ensures good governance of the approach by the province. The quarterly meeting of the provincial PBF steering is a meeting in which the consolidated quarterly PBF Health Zone invoices are approved (or changed if necessary). This committee will also discuss issues related to decentralized management of PBF. This committee will have a contract with the head of the provincial health department.

**12. Public Utilities (EUPs) will be created by the project following the model of the EUPs in the Kivus.** In South Kivu, the agency (*Agence d'Achat des Performances*) is a not-for-profit association which has a mandate to improve the quantity and quality of health services, ensure broad based access, and promote community participation. The institution has managed performance funding since 2006, serving as the fiduciary agency for different partners (e.g. Cordaid, European Union, UNICEF, UNDP, Dutch Cooperation and GAVI). In North Kivu, the purchasing agency (*Fonds d'Achat des Services de Santé*) is also an autonomous public service institution established with the mission of “managing funds of different partners and the Government for interventions to improve access to quality health services.” The agency currently has a devolution convention from MoF to manage European Union funds and implement the performance based approach.

**13. The EUPs are expected to be much more cost- efficient than international NGOs.** This model of EUPs will be created in the provinces targeted by the project. They will be coached by the DEP/MOPH and will take care of the following activities: (i) contracting: identifying health facilities to contract on the basis of the provincial health map and existing health facility population norms; (ii) negotiating management plans and performance contracts with health facilities for PMA and PCA services; (iii) provide training on PBF for health service providers collaboration with the health zone management teams; (iv) verify the quantity of services provided by health facilities; (v) provide coaching to health facilities in collaboration with the health zone health teams; (vi) participate in the evaluation of the performance of health zone management teams in collaboration with the provincial health departments; (vii) select and coach local grassroots organizations for carrying out community client satisfaction surveys; (viii) enter information about the quantity and the quality of services in the web-enabled application; (ix) monitor the performance of EUP- antennas that are placed under the supervision of EUP; and (x) disseminate the results from community surveys.

**14. Given the limited geographical access in some of the provinces such as Equateur and Bandundu, EUP satellites will be created to ensure efficient and effective coverage for the verification function.** To make possible efficient and effective implementation of quantity verification and the organization of community client satisfaction surveys, the EUPs will establish

antennas in inaccessible or difficult to access areas. These antennas will rely on the management and supervision of the main EUP, which will be placed in the capitals of the current provinces to participate in sectoral dialogue and dissemination of PBF results.

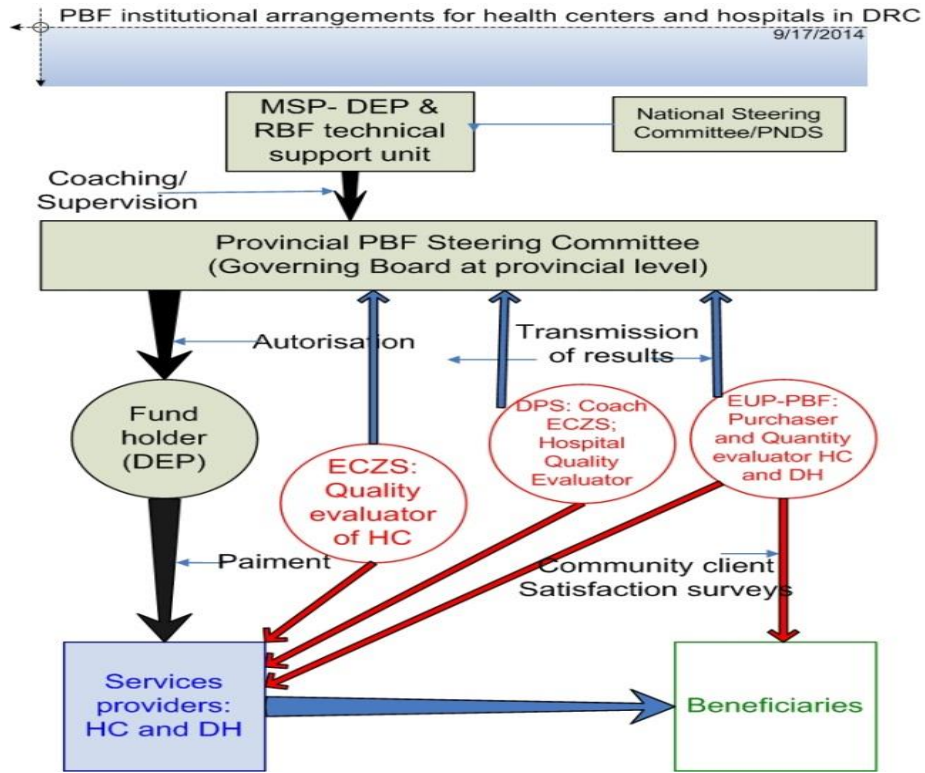
15. **The health zone management teams (ECZS –*Equipe Cadre de Zone de Santé*) will have an important role in the regulation of the quality of health facilities.** As part of the implementation of the PBF, the health zone team signs a performance contract with the EUP. The health zone health team will be responsible for: (i) conducting each quarter a quality of care assessment in each contracted health center using a quantified quality checklist; (ii) providing technical support (supervision, coaching, compliance etc.) to health facilities; (iii) strengthening the analysis and consolidation of the HMIS data and providing feedback on the quantity and quality of services of health facilities as well as support providers in the organization of services and the implementation of their management plans; and (iv) organizing monthly review meetings to discuss the quantity and quality indicator trends.

16. **Health facilities (general reference hospitals and health centers) are structures which provide care and defined services.** They represent the key institutions of the primary health set-up. Health facilities which are select public, private or faith-based institutions have as main tasks: (i) Provide a minimum package of activities (health centers) or a complementary package of activities (promotional, preventive, curative, rehabilitative and administrative) – (hospitals) as appropriate and following the standards dictated by the regulator; (ii) Strengthen the management of human, financial and material resources through a vision of autonomy and implement the recommendations that have been made during supervisory missions; (iii) Sign a performance contract with the EUP on basic list of selected services, (iv) Develop the management plan each quarter which reflects and discusses access of the population to quality health services; and (v) Develop internal procedures for allocating performance bonuses to staff using the indices tool and the individual performance evaluation tool.

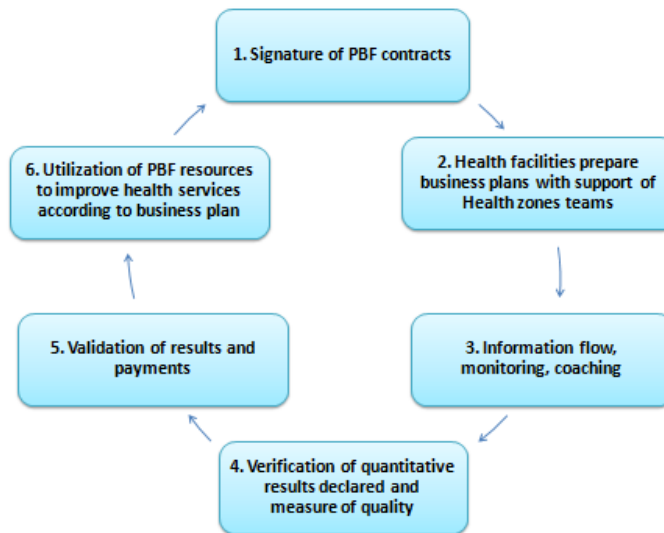
17. **An external counter-verification agent (ACVE), contracted by the DEP/MOPH will carry out ex-ante verifications on central MOPH departments,** on DPS performance and on CDR performance, and will have a counter-verification function (ex-post, that is: after payment) for the performance of the health zone health teams, and the quality performance of health centers and hospitals.

18. **Community institutions will be involved in social mobilization and community verification to strengthen the voice of the population.** The community is involved in the following activities: (i) Participation in meetings of the Health Committee (COGE) and development committees of health areas (CODESA); (ii) Co-management and use of funds providing assistance to the health facility guided by the objectives and targets set out in the management plan; (ii) participate in discussions and negotiations with the manager of the health facility on the fee structures; (iii) through local grassroots organizations (GROs; ASLOs) that are contracted by the EUPs, contribute to the community client satisfaction surveys; (iv) use the results of these community surveys to strengthen the voice of the people and improve user satisfaction.

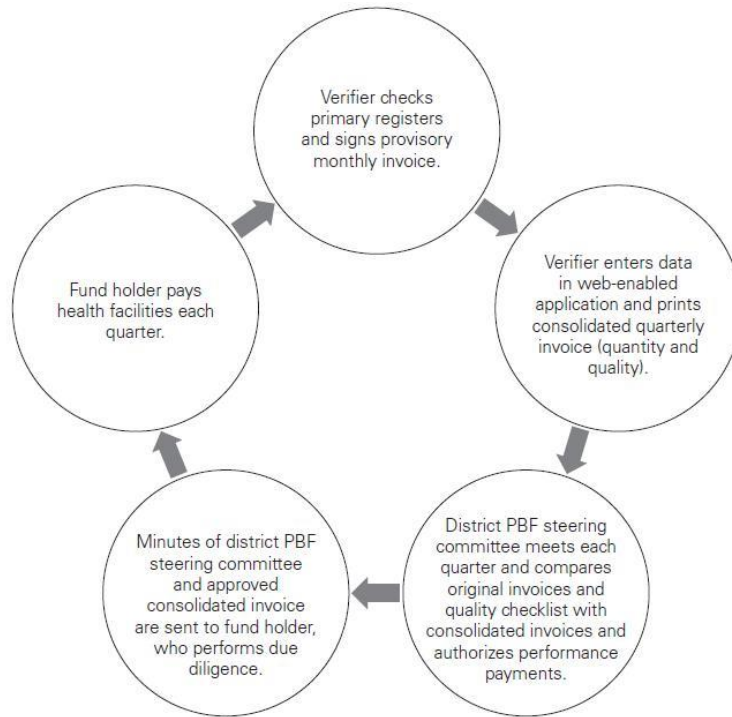
**FIGURE 1: INSTITUTIONAL ARRANGEMENTS**



**FIGURE 2: QUARTERLY CYCLE AT HEALTH FACILITIES**



**FIGURE 3: VERIFICATION CYCLE**



### 1. Overview

This document summarizes the fiduciary mechanisms of the World Bank Group that are in place to ensure the proceeds of any loan<sup>1</sup> are used only for the purposes for which the loan was granted.

### 2. Fiduciary Mechanism during Project Design

The Systematic Operations Risk-Rating Tool (**SORT**) was developed to help the World Bank consistently assess and monitor risks across all operational instruments and country programs. The risks considered are those potentially affecting development results associated with the operation: both the risks to not achieving the intended (positive) results intended by Bank-supported operations; and the risks of Bank-supported operations causing unintended (negative) results. Within the World Bank Group, SORT is used to:

- systematically and consistently rate the residual risk (after consideration of the Inherent, Control and Project risks) of operational and country engagements in all regions and across all operations;
- help focus management attention on high and substantial risk operations and on particular risks within operations during implementation; and
- provide a light but systematic and contestable way of identifying the appropriate level of corporate review process and any need for Board discussion.

Its ultimate objective is to assist in the design of a project with appropriate institutional and fiduciary arrangements in place.

SORT applies to operations that are in the *early stages of preparation*. In the case of instruments that are *already under implementation*, teams use an Implementation Status and Results Report (ISR) to update the risk rating of the operation and take appropriate corrective action (e.g. Risk mitigation plan, fiduciary arrangements and risk based-Implementation support). The rating, which can be High, Substantial, Moderate or Low, indicates the likelihood of a given risk to have an impact on the operation, while the risk categories are described as follows:

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<sup>1</sup> “Loan” includes IBRD loan, IDA credit, Bank grant, IDA grant, advances under the Project Preparation Facility (PPF), and recipient-executed grants financed from the World Bank resources and from trust funds financed by other donors, where the Bank is the administrating agency.

Risk Categories	Description	Rating: H, S, M or L
Political and Governance	This category assesses the risks to the development objective stemming from the country's political situation and governance context.	
Macroeconomic	This category includes external and domestic economic risks that may derail proper preparation, implementation and achievement of results of the proposed operation or otherwise affect the development results associated with the operation.	
Sector Strategies and Policies	These risks are specific to the sector(s) which are at the core of the operation.	
Technical Design of Project or Program	These risks include those related to technical aspects of the operation's design that could affect the development results associated with the operation.	
Institutional Capacity for Implementation and Sustainability	This risk relates to the capacity of the government to implement the activities supported by the operation and to achieve the expected results.	
Fiduciary	Such risks could arise from deviations from key fiduciary principles, including economy, efficiency, effectiveness (3Es), integrity, openness and transparency, and fairness and accountability.	
Environment and Social	Environmental (including climate change and natural disasters) and social risks that may have an adverse effect on physical, biological and cultural resources and on human health and safety.	
Stakeholders	These risks are related to stakeholders who may have grounds to object to the operation design, implementation or objective, and who may affect its successful completion by delaying or halting its implementation.	
Other	Any other risks relevant in the context of the specific operation that are not covered in any of the eight categories in the template, e.g. international political risks, specific risks related to regional operations, security risk, risk of spillovers from neighboring countries, etc.	
<b>Overall</b>		Judgment based on collective team expertise.

### 3. Fiduciary Mechanism for Financial Management

The Bank's Operational Policy 10.00 defines the financial management (FM) arrangements in projects as the *planning and budgeting, accounting, internal control, funds flow, financial reporting, and auditing arrangements of the Borrower and entity responsible for project implementation*. The FM arrangements rely on the Borrower's existing institutions and systems, with due consideration to the capacity of those institutions.

#### a. Project Preparation Phase

During the preparation stage, FM staff assess the financial management risks to achieving the project's development objectives and determine the adequacy of the FM arrangements proposed at the implementing agency levels, together with any measures needed to mitigate the impact of the likelihood of risks materializing.

#### b. Project Implementation and Supervision Phase

Throughout the project's life cycle, FM specialists in task teams work with the country Borrower to ensure sound management of funds and accountability for project resources in achieving the desired development results. This is achieved through:

- quarterly review of Interim Financial Reports (IFRs);
- review of annual audited financial statements and related audit reports;
- periodic on-site supervision visits, the frequency of which is based on project risk rating, typically ranging from three (3) to six (6) months;
- impromptu in-depth operational and transaction reviews;
- application of sanctions as the need may arise (e.g. if Ineligible Expenses are identified to have been billed for reimbursement)

In this way, the Bank periodically assesses the Project, and reviews the monitoring activities carried out by the Borrower or Project Participant(s) pertaining to results, risks and implementation Status. The Bank then updates the project information and identifies necessary follow-up or remedial actions, as appropriate.

While annual audit reports continue to be generally required within 6 months following the Borrower's financial year, alternative time limits are allowed. The Bank and the Borrower may agree on alternative time limits for presentation of annual audit reports, and such limits are reflected in the project documents. In the projects already approved by the Board, or for ongoing projects, these changes may be made through project re-structuring. This audit benefits the Borrower by helping to ensure that resources are used efficiently in financing project activities.

#### Ineligible expenditures

As part of the Bank's responsibility to provide implementation support and to monitor the Borrower's implementation of the project, FM reviews of the Borrower's control environment are carried out periodically to flag any risks that are likely to have a material impact on project outcomes. This review process takes into account the country's overall governance and anticorruption environment and sector and project-specific risks and advises the Bank team on the design and monitoring of mitigation measures from a FM perspective. In the case of misuse of funding or misprocurement, the Bank will deem the expense as an 'Ineligible Expenditure'. These include the following:



- items not covered by the project and category descriptions in the legal agreement;
- items not procured in accordance with the procurement plan and agreed procurement procedures;
- payments made before the legal agreement date or, for projects with retroactive financing provisions, before the earlier date specified in the legal agreement;
- payments made for expenditures incurred after the closing date, except as otherwise agreed with the Bank (see the section on “Loan Account Closing”);
- expenditures for which the Borrower has been unable to provide sufficient and appropriate evidence.

## **Fraud and Corruption**

It is the Bank’s policy to require that Borrowers (including beneficiaries of Bank loans) and bidders, and their personnel, observe the highest standard of ethics during the procurement and execution of all Bank-financed contracts. In accordance with this policy, should a case of fraud and corruption be identified in relation to a Bank-financed project, the Bank will:

- reject a proposal for award if it determines that the bidder recommended for award, or any of its personnel, or its agents, or its sub-consultants, sub-contractors, service providers, suppliers and/or their employees, has, directly or indirectly, engaged in corrupt, fraudulent, collusive, coercive, or obstructive practices in competing for the contract in question;
- declare misprocurement and cancel the portion of the loan allocated to a contract if it determines at any time that representatives of the Borrower or of a recipient of any part of the proceeds of the loan engaged in corrupt, fraudulent, collusive, coercive, or obstructive practices during the procurement or the implementation of the contract in question, without the Borrower having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur, including by failing to inform the Bank in a timely manner at the time they knew of the practices;
- sanction a firm or individual, at any time, in accordance with the prevailing Bank’s sanctions procedures, including by publicly declaring such firm or individual ineligible, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; and (ii) to be a nominated sub-contractor, consultant, supplier, or service provider of an otherwise eligible firm being awarded a Bank-financed contract;
- require that a clause be included in bidding documents and in contracts financed by a Bank loan, requiring bidders, suppliers and contractors, and their sub-contractors, agents, personnel, consultants, service providers, or suppliers, to permit the Bank to inspect all accounts, records, and other documents relating to the submission of bids and contract performance, and to have them audited by auditors appointed by the Bank; and
- require that, when a Borrower procures goods, works or non-consulting services directly from a United Nations (UN) agency in accordance with paragraph 3.10 of these Guidelines under an agreement signed between the Borrower and the UN agency, the above provisions of this paragraph 1.16 regarding sanctions on fraud or corruption shall apply in their entirety to all suppliers, contractors, service providers, consultants, sub-contractors or sub-consultants, and their employees that signed contracts with the UN agency.

## **4. Fiduciary Mechanism for Disbursement Arrangements**

The Bank establishes disbursement arrangements for an operation in consultation with the Borrower and taking into consideration, inter alia, an assessment of the borrower’s financial management and procurement arrangements, the procurement plan and cash flow needs of the operation, and its disbursement experience with the borrower.

Arrangements for secure, efficient, and cost-effective delivery of loan proceeds include the methods used for payment to the Borrower or to third parties and the supporting documentation to be provided to the Bank as evidence of the use of loan proceeds. Disbursement arrangements are sometimes more broadly defined to include the expenditures eligible for financing from the loan and the expenditure categories and disbursement percentages for a loan.

The Bank disburses proceeds from the Loan Account established for each loan, to or on the order of the Borrower, using one or more of the disbursement methods set forth below, as determined by the Bank:

- **Reimbursement:** The Bank may reimburse the Borrower for expenditures eligible for financing pursuant to the loan agreement (“eligible expenditures”) that the Borrower has pre-financed from its own resources;
- **Advance:** The Bank may advance loan proceeds into a Designated Account of the Borrower to finance eligible expenditures as they are incurred and for which supporting documents will be provided at a later date;
- **Direct Payment:** The Bank may make payments, at the Borrower’s request, directly to a third party (e.g., supplier, contractor, consultant) for eligible expenditures;
- **Special Commitment:** The Bank may pay amounts to a third party for eligible expenditures under special commitments entered into, in writing, at the Borrower’s request and on terms and conditions agreed between the Bank and the Borrower.

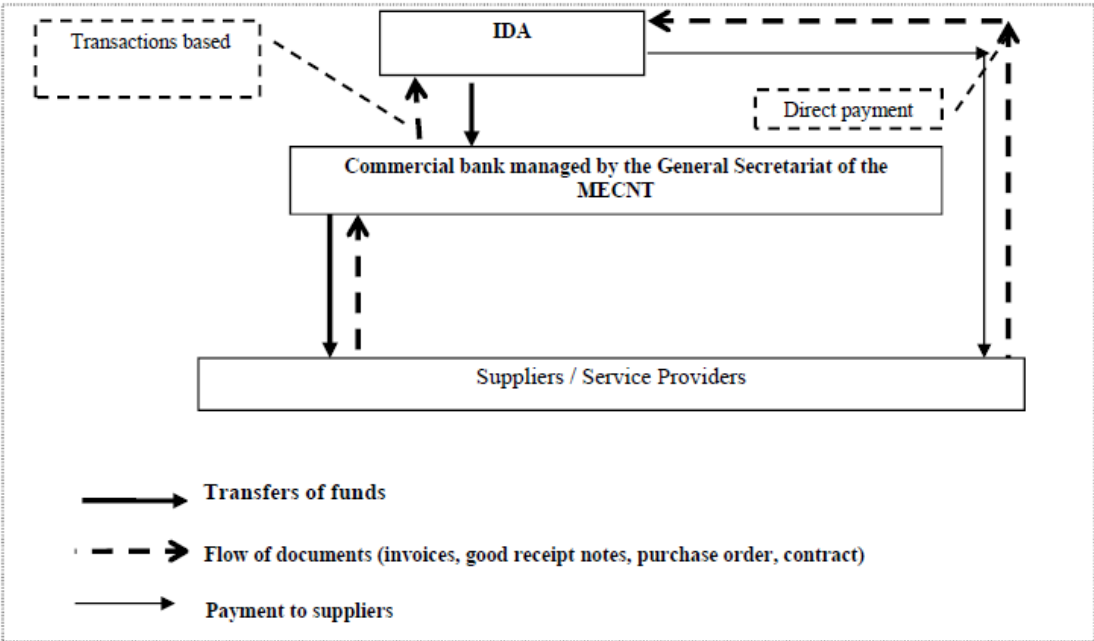


Figure IV: Possible Disbursement Methods

In specific cases, the loan agreement may contain a disbursement condition for a specific expenditure category, in which case the Bank will disburse loan proceeds for that category only after the disbursement condition has been fulfilled and the Bank has notified the Borrower to this effect. Normally, the condition

applies to the first disbursement under a specific expenditure category. In the legal agreement, this condition is referred to as a withdrawal condition.

If the Bank determines that any payment out of the Designated Account was not justified by the evidence furnished to the Bank or was made for an ineligible expenditure, the Bank may, at its discretion, require the Borrower to take one of the actions listed below. Upon notification by the Bank, the Borrower must promptly take the action requested:

- (a) Provide the additional evidence requested by the Bank;
- (b) Deposit an equivalent amount into the Designated Account;
- (c) Refund an equivalent amount to the Bank; or
- (d) Exceptionally, provide substitute documentation evidencing other eligible expenditures.

## 5. Possible Specific Fiduciary Measures for the Democratic Republic of Congo within the framework of the PDSS Project

### 5.1 SORT

In a High Risk Scenario, the World Bank Group will assess and ensure establishment of appropriate institutional arrangements, taking into account the institutional capacity of the prospective implementing agency/ies, their implementation and monitoring and evaluation arrangements.

### 5.2 Financial Management

The following additional specific FM risk measures are put in place to ensure sound use of loan proceeds during Project Implementation. The table below illustrates a planned measure, including the standard measures already in place.

	Generic measures	Specific measures	Additional Project Financial Control
<b>Project field supervision visit</b>	Frequency ranges from 3-12 months, based on level of determined risk of project.	Frequency range will be reduced to a maximum of 6 months.	In addition, as part of the Bank Executed funds, the Bank will externally source a financial controller (FM Consultant) for permanent monitoring and control of all FM aspects, including:  (i) Join project field supervision visit;
	During field supervision (SPN) visits, transaction testing is optional (based on level of determined risk of project), and is usually done on a test basis.	Transaction testing will be mandatory, and cover all transaction occurrences for period under review.	
<b>Planning and Budgeting</b>	Budget planning and execution documented and illustrated in a quarterly monitoring sheet.	In addition, all variances will be commented and justified in a quarterly schedule.	(ii) Planning and budgeting;  (iii) Accounting;

<b>Accounting</b>	Review of accounting and book keeping arrangements, involving adequacy of Bank reconciliation statements;  Inventory Reconciliation.	Regular procedures will apply.	<p>(iv) Internal control with a focus on fraud and corruption risk;</p> <p>(v) Funds flow/disbursement;</p> <p>(vi) Financial reporting;</p> <p>(vii) Auditing arrangements;</p> <p>(viii) Update of the work-program of the current Internal Audit Unit to reflect the new project specificities.</p>
<b>Internal control</b>	Review of the adequacy of: <ul style="list-style-type: none"> <li>• Manual of procedures;</li> <li>• Internal audit function.</li> </ul>	All the preceding and the content and structure of the Manual of procedures will be based on existing manual tailored to project specificities.	
<b>Funds flow</b>	Organize frequent controls for each involved actor in order to help to prevent and mitigate the risk of diversion of funds;  Payment requests will be approved by the Coordinator (B signatory) and the financial management specialist (A signatory) prior to disbursement of funds.	Regular procedures will apply.	
<b>Financial reporting</b>	Review of quarterly Interim Financial Reports (IFR) and their compliance with FA and Bank stipulations and guidelines.	In addition, quarterly financials in OHADA reporting format as well as accompanying schedules and analyses will be produced on a quarterly basis.	
<b>Auditing arrangements</b>	Recruitment of independent external auditor will be based on agreed Terms of Reference developed in line with International Accounting Standards Review of annual audited financial statements and related audit reports.	In addition, the auditor selection criteria will be enhanced to ensure a superior quality assurance review policy is in place; and candidates will be assessed on Bank external audit evaluation guidelines.	

<b>In-depth reviews</b>	Performed on an optional basis (based on level of determined risk of project); non-recurrent.	Performed on an annual and impromptu basis.	
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If the Bank determines that an ineligible expenditure is financed from a Designated Account, it will require a refund in accordance with the provisions outlined in the Disbursement Handbook. This provision applies equally to any amounts transferred from a designated account. As an additional risk measure specific to High Risk Implementing Agencies, should the Bank determine that a payment out of the Designated Account was not justified, it will decline the exceptional action, respectively (d) accepting substitute documentation evidencing other eligible expenditures.

### Annexes

Annex I – Guidance note on Systematic Operations Risk-Rating Tool:

[http://www.worldbank.org/content/dam/Worldbank/document/SORT\\_Guidance\\_Note\\_11\\_7\\_14.pdf](http://www.worldbank.org/content/dam/Worldbank/document/SORT_Guidance_Note_11_7_14.pdf)

Annex II – Investment Project Financing Operational Policy I0.00:

[http://siteresources.worldbank.org/OPSMANUAL/112526-1124459412562/23585578/OP10.00\\_July1\\_2014.pdf](http://siteresources.worldbank.org/OPSMANUAL/112526-1124459412562/23585578/OP10.00_July1_2014.pdf)

Annex III – Disbursement Handbook: [http://intresources.worldbank.org/CTR/Resources/264273-1334555366246/8581715-1340600368291/Disb\\_Handbook\\_English.pdf](http://intresources.worldbank.org/CTR/Resources/264273-1334555366246/8581715-1340600368291/Disb_Handbook_English.pdf)