

OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

PEPFAR in Africa: USAID Expanded the Use of Local Partners but Should Reassess Local Partner Capacity to Meet Funding Goals

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December 13, 2021





OFFICE OF INSPECTOR GENERAL U.S. Agency for International Development

TO: USAID Bureau for Global Health, Acting Assistant Administrator, Jennifer Adams

FROM: USAID OIG Africa Regional Office, Audit Director, Robert Mason /s/

SUBJECT: PEPFAR in Africa: USAID Expanded the Use of Local Partners but Should Reassess Local Partner Capacity to Meet Funding Goals

This memorandum transmits the final report on our audit of local partner participation in USAID's U.S. President's Emergency Plan for AIDS Relief (PEPFAR) programs in Africa. Our audit objectives, focusing on missions in Africa, were to assess to what extent (1) USAID's PEPFAR budgets were on track to meet goals for local partner funding and (2) selected USAID missions in Africa followed Agency guidance in preparing local partner funding strategies and met mission-level goals while addressing risks. In finalizing the report, we considered your comments on the draft and included them in their entirety, excluding attachments, in Appendix B.

The report contains our audit findings and two recommendations to reassess local partner capacity to meet funding goals. After reviewing information you provided in response to the draft report, we acknowledge management decisions on both recommendations and consider them resolved but open pending completion of planned actions.

For both recommendations, please provide evidence of final action to the Audit Performance and Compliance Division.

We appreciate the assistance you and your staff provided to us during this audit.

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Introduction

Since its establishment in 2003, PEPFAR has been a cornerstone of U.S. global health policy. Established to save lives and alleviate the suffering caused by AIDS and the human immunodeficiency virus (HIV), PEPFAR has strong congressional support, enhances the global image of the United States and, even in the wake of COVID-19, represents a significant portion of USAID's health spending. The U.S. government has spent nearly \$100 billion on PEPFAR from 2003 to 2021, mostly channeled through large, international nongovernmental organizations.

In April 2018, the Office of the U.S. Global AIDS Coordinator and Health Diplomacy (OGAC)¹ tasked U.S. agencies involved in PEPFAR with channeling 70 percent of their PEPFAR funding to local partners (host country governments or local organizations) by September 2020. According to OGAC, the purpose of the transition to local partners was to increase direct HIV services and establish sufficient capacity, capability, and durability of local partners.

When the 70 percent goal was announced, only around 34 percent of USAID's PEPFAR funding was channeled through local partners. In response, USAID developed its HIV/AIDS Local Partner Transition Corporate Strategy (Local Partner Strategy) in June 2018 with a focus on the 23 countries² considered key to PEPFAR's drive for epidemic control—which is the point at which new HIV infections fall below the total number of deaths from all causes among HIV-infected individuals. Within this group, USAID identified eight countries which comprise almost three-fourths of USAID's PEPFAR budget and, therefore, were critical to achieving the local partner goal: Kenya, Mozambique, Nigeria, South Africa, Tanzania, Uganda, Zambia, and Zimbabwe.

The transition to local partners raised concerns among USAID officials and development experts regarding the organizational capacity of local partners to meet PEPFAR targets in key areas, such as HIV prevention and treatment, while responsibly handling U.S. government funds. These risks were amplified by the short time frame for achieving the 70 percent goal.

We conducted this audit, focusing on countries in Africa, to assess to what extent (1) USAID's PEPFAR budgets were on track to meet goals for local partner funding and (2) selected USAID missions in Africa followed Agency guidance in preparing local partner funding strategies and met mission-level goals while addressing risks.

To conduct our work, we reviewed the Agency's Local Partner Strategy; the mission-level strategies completed by 19 of the 20 judgmentally selected countries from the universe of 23; OGAC planning guidance for 2019 and 2020; and PEPFAR Annual Reports to Congress for

¹ PEPFAR is led by the Office of the U.S. Global AIDS Coordinator and Health Diplomacy (S/GAC or OGAC). The U.S. Global AIDS Coordinator oversees implementation of the U.S. government's international HIV/AIDS efforts and ensures program and policy coordination among relevant agencies and departments. The coordinator is appointed by the President, confirmed by the Senate, and reports directly to the Secretary of State.

² Twenty of the 23 countries are in Africa: Botswana, Burundi, Cameroon, Côte d'Ivoire, Democratic Republic of the Congo, eSwatini, Ethiopia, Kenya, Lesotho, Malawi, Mozambique, Namibia, Nigeria, Rwanda, South Africa, South Sudan, Tanzania, Uganda, Zambia, and Zimbabwe. The 3 non-African countries (Haiti, Ukraine, and Vietnam) total roughly 3 percent of PEPFAR funding to the 23 countries and are not part of the audit scope.

2017, 2018, and 2019. We also met with officials from the eight critical USAID PEPFAR missions, OGAC, and USAID's Office of HIV/AIDS (OHA). We conducted our work in accordance with generally accepted government auditing standards. Appendix A provides more detail on our scope and methodology.

Summary

USAID's PEPFAR budgets were not on track to meet local partner funding goals largely due to aggressive time frames driven by OGAC and the low baselines that some missions started from. According to July 2020 projections of budget data for the 23 countries in USAID's Local Partner Strategy, USAID's PEPFAR budgets were not on track to meet local partner funding goals for the Country Operational Plan (COP) of 2020.³ These projections indicated that USAID's allocation of PEPFAR funding to local partners would increase to 51 percent—short of the Agency goal of 70 percent. At the critical mission level, these projections ranged from an increase of 21 percent to 29 percent in Nigeria and 58 percent to 96 percent in Kenya. Despite most critical missions making progress in increasing local partner funding since COP18, the relatively low baselines that some missions started from made achieving the goals by COP20 difficult, with seven of eight critical missions falling short. The shortfalls and low baselines suggest that the COP20 goals were not feasible within such a short time frame.

Missions generally followed guidance to prepare funding strategies, but most critical missions faced challenges balancing the risks of using local partners with meeting PEPFAR targets and could be hindered by COVID-19 limitations. USAID missions in Africa generally adhered to Agency instruction for preparing local partner funding strategies, although most of the critical missions encountered challenges balancing the risks associated with increased use of local partners with meeting PEPFAR programmatic targets. Five of eight critical missions explained they prioritized meeting PEPFAR programmatic targets due to challenges in identifying and developing capable local partners. This meant delaying new awards to local partners and extending existing international partner awards to mitigate risks to PEPFAR targets. The insufficient pool of capable local partners hindered USAID's attempts to reach the 70 percent goal and contributed to missions prioritizing the achievement of PEPFAR targets, with a few missions citing the risk of fraud as a concern. Moreover, the COVID-19 pandemic changed USAID's operating environment regarding local partners, and USAID personnel might have less time for capacity-building efforts as they devote more time to COVID-19 response efforts.

Recommendations: We made two recommendations to enhance USAID's efforts to responsibly increase the use of local partners in PEPFAR while considering circumstances such as the COVID-19 pandemic. USAID agreed with both of our recommendations.

³ OGAC provides guidance for annual COPs, which link government funding to specific results in the global fight against HIV and AIDS. The COP serves as an annual strategic plan for U.S. government-funded global HIV/AIDS activities, a source for informing Congress of those plans, and a tool for allocation and tracking of budget and targets.

Background

PEPFAR Priorities and Targets

PEPFAR has matured since its inception from an emergency response to a sustained public health intervention. Initially focused on saving lives, PEPFAR now aims to achieve epidemic control. PEPFAR's drive for epidemic control includes focusing HIV prevention in those program areas with the greatest potential impact—such as preventing new infections in women and adolescent girls and offering voluntary circumcision to young men—and accelerating access to antiretroviral treatment to reduce the morbidity and mortality of HIV and ultimately prevent its transmission. PEPFAR is also working to increase the impact and cost-effectiveness of every dollar invested and leveraging partnerships for sustainability.

PEPFAR uses progress against targets to assess advancement toward epidemic control while holding USAID, its overseas missions, and its implementers accountable for their performance and stewardship of taxpayer funds. PEPFAR sets targets for numerous performance indicators, which measure outputs and outcomes resulting from PEPFAR activities. According to officials in OHA,⁴ examples of key performance indicators measuring HIV prevention and treatment include:

- Number of individuals who received HIV testing services and received a positive test result.
- Number of adults and children newly enrolled on antiretroviral therapy.
- Number of key populations reached with individual and/or small-group-level HIV prevention interventions designed for the target population that was offered HIV testing services.

A 2013 U.S. government-supported evaluation of PEPFAR found that the emphasis on showing results led agencies to focus on interventions for which impact could be measured quickly.⁵ OGAC provides guidance for annual COPs, which link government funding to specific results in the global fight against HIV and AIDS. The COP serves as an annual strategic plan for U.S. government-funded global HIV/AIDS activities, a source for informing Congress of those plans, and a tool for allocation and tracking of budget and targets.⁶ Further emphasizing the linkage between targets, resources, and goals, OGAC proposed a funding cut in one major PEPFAR country in 2019 specifically because "progress ha[d] been grossly suboptimal and insufficient to reach epidemic control."⁷

The Local Partner Transition

In COPI9 and COP20 guidance, OGAC further explains that the transition to local partners is critical to sustaining epidemic control and is deemed a priority. A local partner is defined as an

⁴ OHA drives the Agency's efforts under PEPFAR to control the HIV/AIDS epidemic by providing technical leadership, monitoring impact, ensuring program integrity, and supporting the transition to local partners.

⁵ Institute of Medicine, "Evaluation of PEPFAR," The National Academies Press, 2013.

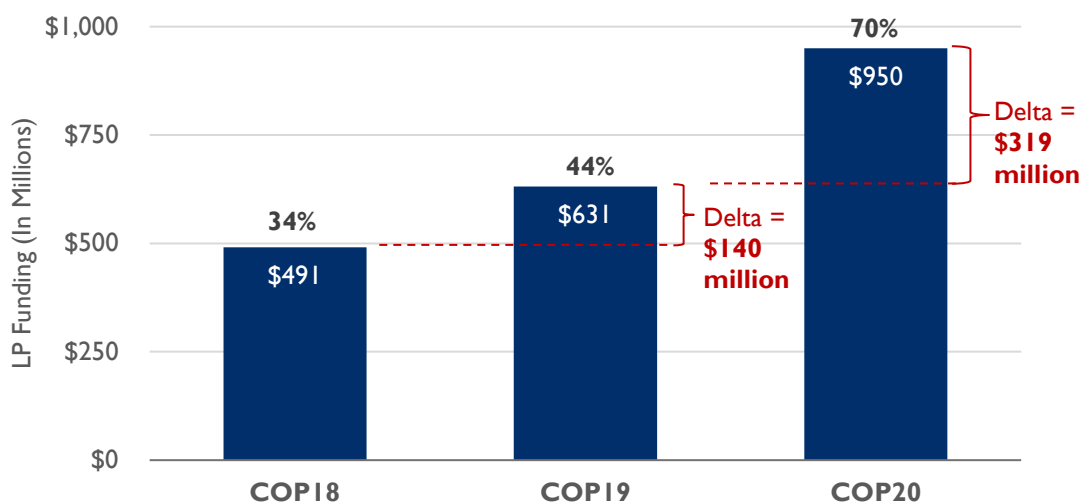
⁶ The COP is typically developed from January-March for implementation the following fiscal year. COPI8, for example, was implemented in fiscal year 2019. COP20 would be implemented in fiscal year 2021.

⁷ Devex, "[What's behind PEPFAR's funding cut threats?](#)" accessed March 3, 2021.

individual, sole proprietorship, or entity owned by a citizen or permanent resident of the country and/or incorporated in the country as the principal place of business; 75 percent locally owned or at least 75 percent of senior staff are citizens or permanent residents of the country; and if there is a board, 51 percent should be citizens or permanent residents of the country. Partner government ministries (e.g., Ministry of Health), subunits of government ministries, and state-owned organizations in the country are also considered local partners.⁸

To reach the goal of channeling 70 percent of PEPFAR funding to local partners by COP20, USAID estimated that an additional \$459 million in local partner funding—nearly double the COPI8 local partner budget of \$491 million—would be needed.⁹ When the 70 percent goal was announced, only 34 percent of USAID’s PEPFAR funding was channeled through local partners. Figure 1 depicts the planned local partner funding from the COPI8 baseline through COP20 for the countries included in the Local Partner Strategy.

Figure 1. USAID Planned Allocation of PEPFAR Funding to Local Partners in 23 PEPFAR Long-Term Strategy Countries, COPI8-COP20



Source: USAID HIV/AIDS, Local Partner Transition Corporate Strategy, October 2018-September 2021.

The Local Partner Strategy also identified methods that missions could employ to increase local partner funding. These included increasing funding for government-to-government awards, finding new local partners, and transitioning existing local subpartners to become prime

⁸ Starting in COP20 guidance, regional entities qualify as local partners, although the guidance does not provide the definition or boundaries of regions.

⁹ For the calculation of local partner percentage according to USAID, the numerator includes any direct (prime) funding to local organizations and government partners for 23 key PEPFAR country program budgets. This means funding to local subpartners is not included. The denominator includes the 23 key PEPFAR USAID country program budgets, except for management and operations, centrally funded commodities, central initiatives, and headquarters funding.

partners.¹⁰ The Local Partner Strategy also announced the Agency's plans to initiate new training efforts for local partners regarding PEPFAR requirements.

The strategy, however, did not specify mission-level goals. USAID said missions were to develop their own goals and the plans for achieving them. While missions were not told that each mission needed to increase local partner funding to 70 percent, missions with the largest PEPFAR budgets were informed that they would need to contribute significantly for the Agency to achieve the 70 percent goal. In December 2018, the Agency provided an orientation on risk management to missions. This orientation also included missions in the discussions to identify factors that could prevent USAID from reaching the 70 percent goal.

USAID's PEPFAR Budgets Were Not on Track to Meet Local Partner Funding Goals Largely Due to Aggressive Time Frames Driven by OGAC and Low Baselines Some Missions Started From

Although most critical missions are projected to increase funding to local partners, some of the critical missions began at very low baselines for local partner funding in COP18, and the overall increase did not reach the 70 percent Agency goal. In July 2020, OHA projected that USAID would allocate only 51 percent of PEPFAR funding to local partners across the 23 countries in the Local Partner Strategy. Those 23 missions initially developed mission-level local partner funding goals for COP20, which resulted in an estimated overall Agency local partner funding level over 70 percent. Based on the mission-level goals each mission set, the overall 70 percent goal would be achieved if each mission achieved their goal. However, the overall COP20 70 percent goal was generally not feasible within such a short time frame given low baselines of some of the critical missions.

Although USAID developed the Local Partner Strategy, mission plans, and the initial mission-level goals to reach the 70 percent Agency goal established by OGAC, the assessments to determine what was feasible within USAID were done after the overall goal was set by OGAC. The spreadsheet consolidating the mission-level goals stated that the goals were based on "best-case scenarios with optimistic timelines." OHA officials said that at some point during the process, USAID informed OGAC that the 70 percent Agency goal was not likely to be reached within the time frame. OHA officials said the goal then became "aspirational," and USAID would continue to move toward the goal.

Our analysis showed that of the eight critical missions, only Kenya was on track to meet mission-level goals established in September 2018. According to OHA officials, this is in part because the mission was already increasing funding to local partners before OGAC set the 70 percent goal, as reflected in its high baseline of 58 percent. According to USAID officials, Kenya also had a large preexisting commodities award with a state corporation. According to the mission, this entity had recently received negative publicity concerning corruption allegations

¹⁰ Government-to-government agreements are when USAID programs are implemented by a government ministry in the country in which the program is being implemented.

that highlighted significant risk for the mission. USAID/Kenya officials said the award ended in December 2020, but this would not impact the local partners goal since there are new local partners.

Further, our analysis showed that shortfalls at the remaining 7 missions were projected to range from 3 percent in Mozambique to 36 percent in Nigeria. Mozambique was the only one of the 8 critical missions that set a local partner goal below 60 percent. Table I displays the goals and projections for all eight critical missions.

Table I. Comparison of COP20 Mission Projections Versus COP20 Goals

Missions	COP20 Mission Goals (Sept. 2018)	COP20 Projections (July 2020)	COP20 Projections vs. COP20 Mission Goals
Nigeria	65%	29%	-36%
Uganda	66%	34%	-32%
Tanzania	62%	36%	-26%
Zambia	70%	44%	-26%
Zimbabwe	67%	43%	-24%
South Africa	91%	76%	-15%
Mozambique	37%	34%	-3%
Kenya	93%	96%	+3%

Source: USAID Office of HIV/AIDS.

Despite the shortfalls, our analysis comparing COP20 projections to the COPI8 baselines showed that seven of the eight missions made progress increasing funding to local partners, as shown in Table 2. These projected increases to local partners ranged from 6 percent in Zimbabwe to 38 percent in Kenya. South Africa was the only mission that did not increase PEPFAR funding to local partners, although it started from a higher baseline. Mission officials in South Africa explained that certain planned awards for local partners were not entered into because of capacity-building concerns. Moreover, budget cuts and shifts also played a role, according to OHA and mission officials.

Table 2. COP20 Mission Projections Compared to COPI8 Baselines

Missions	COPI8 Local Partner Funding Baselines	COP20 Projections (July 2020)	COP20 Projections vs. COPI8 Baselines
South Africa	76%	76%	0%
Zimbabwe	37%	43%	6%
Nigeria	21%	29%	8%
Mozambique	5%	34%	29%
Zambia	15%	44%	29%
Uganda	3%	34%	31%
Tanzania	3%	36%	33%
Kenya	58%	96%	38%

Source: USAID Office of HIV/AIDS.

As Table 2 shows, most missions made significant progress in increasing local partner funding over the COPI8 baselines. Yet, some of these critical missions began at very low baselines—Tanzania and Uganda at 3 percent, Zambia at 15 percent, and Nigeria at 21 percent—making the initial mission goals of over 60 percent unlikely to be achieved within the relatively short

time stated by OGAC. Other missions in Africa aside from the critical eight fell significantly short of their initial goals as well. The scale of these shortfalls indicates that the COP20 goals were generally not feasible within such a short time frame.

Since the 70 percent overall goal for USAID is an aggregate of what the missions can achieve, the 8 critical missions—comprising nearly three-fourths of USAID’s COP20 budget—would have to reach close to 70 percent for the Agency to reach its goal. In September 2018, 7 of the 8 critical missions initially set goals exceeding 60 percent.

The importance of setting realistic performance targets has been well established. Automated Directives System (ADS) 201 states that indicator targets should be “ambitious but achievable” for a given level of resources. In a 1995 report on government reform, the U.S. Government Accountability Office (GAO) stated that while “successful organizations typically create ambitious performance goals,” such “goals should be realistically achievable to avoid negative consequences,” and noted the importance of “establishing realistic, attainable goals at the onset.”¹¹ Numerous business publications advise that targets should be achievable and attainable.¹²

Management uses targets to help define its objectives in specific and measurable terms. Risk tolerance, in turn, is defined for those objectives. Targets that are unrealistic or unattainable, therefore, might not provide a suitable yardstick when assessing progress toward those objectives in the event the organization fails to meet those objectives, or for gauging acceptable risk. The targets’ lack of utility can lead some staff to diminish them, as in the case of USAID officials describing the 70 percent goal as “aspirational.” Conversely, the aggressive nature of such goals could lead others to take unwarranted risks to achieve them.

In effect, USAID’s slower than desired progress toward the 70 percent goal means the intended benefits of the transition to local partners—which includes reaching epidemic control and sufficient capacity, capability, and durability of local partners to deliver critical HIV services to the most vulnerable populations—were delayed.

Missions Generally Followed Guidance to Prepare Funding Strategies, but Most Critical Missions Faced Challenges Balancing the Risks of Using Local Partners With Meeting PEPFAR Targets and Could Be Hindered by COVID-19 Limitations

Our review of all 20 African countries in the Local Partner Strategy showed that 17 mission strategies aligned with the OHA template and the Local Partner Strategy. In addition to

¹¹ U.S. Government Accountability Office, “Government Reform: Goal Setting and Performance” (GAO/AIMD/GGD-95-130-R), March 27, 1995.

¹² For instance, George T. Doran in “There’s a S.M.A.R.T. Way to Write Management’s Goals and Objectives” (1981) argued that for goals to be meaningful, they should also be specific, measurable, assignable, realistic, and time-related (SMART). The Corporate Finance Institute includes similar elements for goal setting, with achievable and realistic being key attributes of a well-formulated goal.

reviewing the strategies, we also sent the eight critical missions a questionnaire and followed up with interviews about the local partner transition, including reasons for not meeting mission-level local partner goals. Mission officials from five of the eight critical missions said they prioritized meeting PEPFAR targets in major program areas because of challenges in identifying and developing capable local partners. In addition, the Agency's focus on responding to the COVID-19 pandemic may draw resources away from addressing the risks to PEPFAR programming.

Most USAID Mission Strategies in Africa Aligned with Agency Guidance to Increase Local Partner Funding and Address Risks

To help implement the Local Partner Strategy, OHA provided a template for missions to use in tailoring strategies suited to their circumstances. The template asked missions to prepare a narrative mission strategy to provide country context, set mission-level objectives, determine possible approaches to increase funding to local partners, and identify pertinent risks and associated mitigation measures. OHA also provided missions with a procurement plan template to update during the local partner transition. All eight critical missions indicated that the instructions provided by OHA were generally useful.

While 17 of the 20 African missions we reviewed had strategies that aligned with the OHA template and the Local Partner Strategy, the remaining 3 missions did not fully follow the OHA strategy template and the Local Partner Strategy. In particular, South Africa did not prepare a strategy because the mission was already at a high local partner percentage; the Democratic Republic of Congo did not complete sections on country context and risks and mitigations; and Ethiopia did not include risk and mitigations for the different funding approaches, although it specifically included local partner transition risks and mitigation measures in another spreadsheet. On the other hand, 3 of the 17 missions with strategies that aligned with the OHA template and the Local Partner Strategy—Uganda, Burundi, and Zimbabwe—prepared strategies that included thorough discussions of the country context, risk mitigation, and funding approaches. These discussions provided a well-documented explanation of the missions' plans, situations, and realities at a particular moment in time.

Most Critical Missions Prioritized Meeting PEPFAR Targets Given the Limited Pool of Local Partners, While Some Cited the Need to Provide Capacity Building and Minimize Fraud Risks

Despite the prominence of local partner goals in OGAC policy, responses from five of the eight critical missions indicated that those missions prioritized meeting PEPFAR targets in major program areas such as treatment over expanding use of local partners, especially given the challenges in identifying and developing capable local partners. Some missions mitigated the risks to achieving PEPFAR results by delaying new awards to local partners and extending existing international partner awards. For example:

- Zimbabwe mission officials said their market research showed there was a limited number of local partners capable of implementing PEPFAR programs and achieving targets while responsibly managing more funding. Mission officials concluded that they could not reach the local partner funding goal without putting PEPFAR results at risk.
- Nigeria mission officials said it was challenging to reach local partner goals within the stipulated time frame and prepare new local partners while maintaining PEPFAR results. Most tellingly, mission officials stated that there is a risk they will lose PEPFAR program funds to other U.S. government agencies implementing PEPFAR if results suffer.
- Zambia mission officials said their COP20 planning letter outlined an increase in funding coupled with specific program targets. To meet those results, the mission decided to retain international partner awards that were slated to be transitioned to local partners.
- Tanzania mission officials said that a limited pool of local partners and restrictions on multiple U.S. agencies funding the same partner means there is a smaller pool of adequately capable local partners eligible for direct funding from USAID. The officials said they prioritized achieving PEPFAR results over increasing local partner participation.

Although OHA and mission officials indicated that some capacity-building training had taken place under the Local Partner Strategy, they said that these efforts were hampered by a lack of time and resources. For example:

- Officials from five missions that did not meet their goals—Nigeria, Tanzania, Uganda, Zambia, and Zimbabwe—said more time was needed to prepare additional local partners given the limited number of existing local partners with capacity to manage PEPFAR awards and deliver results.
- Officials from missions in Mozambique, Nigeria, Uganda, and Zambia explained that local partners needed more training in management, administration, and finance as opposed to training in technical health areas. While this need was identified and addressed by USAID early on, OHA and mission officials said that more time and funding were needed to build the operational capacity of local partners.
- Officials from missions in Zambia and Zimbabwe said that PEPFAR budgets did not include a dedicated line item for capacity building.

Minimizing fraud risks was also a factor in some missions' uncertainty about meeting local partner goals within a short period as early as June 2018. For example:

- In Tanzania, suspicions that an implementer was fraudulently reporting PEPFAR program results heightened officials' caution about the risks involved in local partner awards. The mission explained that the pressure of achieving PEPFAR targets coupled with the likelihood that local partners are often considered for community-based services made it wary of making high-dollar-value awards with their inherently high targets to newly recruited local partners.
- In Uganda, mission officials said the approach toward local partners changed following the termination of a local health award due to fraud, waste, and abuse in June 2018 and multiple fraud reports from international partners about local subpartners. The mission chose to

focus on risk analysis and mitigation, including hiring additional staff to implement a risk management framework and working with local partners to ensure they minimize the risk of fraud. This helped inform the mission's local partners strategy.

COVID-19 Has Changed USAID's Operating Environment in Terms of Working With Local Partners

The rapid emergence of COVID-19, coupled with projected increases in local partner funding, has created change in USAID's operating environment regarding planning for local partners, which USAID did not have to respond to when the Local Partner Strategy was prepared in 2018. Federal internal control standards require managers to analyze and respond to identified changes and related risks as part of a risk assessment or similar process to maintain effective controls.¹³ According to OHA officials, local partner funding goals may be negatively impacted as USAID staff devote more time to COVID-19 response efforts and have less time for capacity-building efforts. As a result, OHA officials said that existing awards to international partners could be extended, which may delay new local partner awards. These significant changes in the planned local partner operating environment could inhibit the achievement of funding goals for local partners.

Conclusion

USAID's efforts to increase PEPFAR funding to local partners were part of a broader OGAC initiative intended to promote long-term impact and sustainably reach epidemic control through strengthening local actors. Yet the limited pool of capable local partners, coupled with USAID missions prioritizing achievement of PEPFAR targets in areas such as prevention and treatment, slowed USAID's progress toward OGAC's 70 percent goal. In addition, external events, such as the COVID-19 pandemic, have changed the operating environment and might impact local partner funding goals. As USAID looks to responsibly increase the use of local partners, the Agency will need to factor in existing circumstances as it considers the capacity of implementers to meet local partner funding goals.

Recommendations

We recommend that USAID's Bureau for Global Health:

1. Assess country-specific capacity needs for local partners and develop a plan to address critical capacity gaps to inform an updated analysis of risks and mission-level local partner funding goals for the U.S. President's Emergency Plan for AIDS Relief.
2. Develop and implement a plan to update mission-level local partner funding goals for future U.S. President's Emergency Plan for AIDS Relief funding at its critical missions considering the Agency's current progress, the COVID-19 operating environment, and the Office of the

¹³ GAO, *Standards for Internal Control in the Federal Government*, "Risk Assessment," Principle 9, "Management Should Identify, Analyze, and Respond to Significant Changes That Could Impact the Internal Control System," September 2014.

U.S. Global AIDS Coordinator and Health Diplomacy’s intentions for the local partner initiative.

OIG Response to Agency Comments

We provided our draft report to USAID on November 2, 2021. On November 30, 2021, we received the Agency’s response, which is included as Appendix B of this report. The Agency also provided technical comments, which we considered and incorporated as appropriate.

The report included two recommendations. We consider both resolved but open pending completion of planned actions.

We acknowledge management decisions for both recommendations.

Appendix A. Scope and Methodology

We conducted our work from January 2020 through November 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted this audit, focusing on missions in Africa, to assess to what extent (1) USAID's PEPFAR budgets were on track to meet goals for local partner funding and (2) selected USAID missions in Africa followed Agency guidance in preparing local partner funding strategies and met mission-level goals while addressing risks.

Our audit is centered on USAID's Bureau for Global Health (GH) and the Office of HIV/AIDS (OHA) within that bureau and its involvement with and strategic response to the U.S. Global AIDS Coordinator and Health Diplomacy (OGAC) directive to PEPFAR agencies, including USAID, to increase PEPFAR funding to local partners. The audit focused on the period from the April 2018 OGAC announcement of the PEPFAR local funding goals until July 2020, when we received Country Operational Plan (COP) of 2020 budget information. We reviewed additional information after this date as necessary to determine the extent to which observations were still valid.

To perform audit procedures, we made two judgmental sample selections:

- **Sample selection 1:** We judgmentally selected a sample of 20 countries from the 23 PEPFAR Long Term Strategy (LTS) countries USAID focused on in the HIV/AIDS Local Partner Transition Corporate Strategy (Local Partner Strategy) because they are in Africa and represent 90.27 percent of total USAID COP20 PEPFAR funding. The 20 selected countries were:
 - Botswana
 - Burundi
 - Cameroon
 - Democratic Republic of Congo
 - eSwatini
 - Ethiopia
 - Cote d'Ivoire
 - Kenya
 - Lesotho
 - Malawi
 - Mozambique

- Namibia
- Nigeria
- Rwanda
- South Africa
- South Sudan
- Tanzania
- Uganda
- Zambia
- Zimbabwe

Although USAID expends PEPFAR funding in countries other than the 23 PEPFAR LTS countries, using COP20 budget data we found the budgets of the countries receiving USAID PEPFAR funding other than the 23 countries in the Local Partner Strategy represented only 6.5 percent of total PEPFAR funding. The budgets of the remaining African countries receiving USAID PEPFAR funding, other than the 20 PEPFAR LTS countries in Africa, represent 2 percent of the total. Therefore, our sample selection of 20 African PEPFAR LTS countries represents 98 percent of PEPFAR funding in Africa and 90 percent globally. While we cannot project the results of testing conducted on our sample selection 1 to the population of PEPFAR countries, we determined that our method for selecting these 20 countries was appropriate for our audit objectives and that the selection would generate valid, reliable evidence to support our findings and conclusions.

- **Sample selection 2:** We judgmentally selected the eight missions that were deemed critical by USAID's Local Partner Strategy in June 2018 and September 2019. We did so not only because USAID deemed these 8 missions critical to achieve the 70 percent goal, but also because our analysis led us to consider these 8 missions as key based on additional factors such as their PEPFAR budget and Transparency International's corruption index ranking. For example, while South Africa was not considered a critical mission in the June 2018 Local Partner Strategy (although it eventually was in September 2019), we included the mission in our selection given its large USAID PEPFAR budget and because South Africa is one of the most important countries in Africa economically, according to the World Bank. Similarly, while Nigeria was no longer considered critical when the Local Partner Strategy was updated in September 2019, we included it in our sample given Nigeria's large population, mission PEPFAR budget, and corruption index ranking. The eight selected missions were:

- Kenya
- Mozambique
- Nigeria
- South Africa
- Tanzania
- Uganda

- Zambia
- Zimbabwe

Furthermore, our sample selection of the 8 critical missions represents over 70 percent of PEPFAR funding globally using COP20 budget data. Although we cannot project the results of testing conducted on sample selection 2 to the population of PEPFAR missions, we determined that our method for selecting these missions was appropriate for our audit objectives and that the selection would generate valid, reliable evidence to support our findings and conclusions.

To address the first audit objective, we collected COP20 budget information from OGAC in the PEPFAR Country Operational Plan Approval 2020 memos to identify all USAID missions with PEPFAR budgets from which to select a judgmental sample of missions with local partner transition goals. We relied on the computer-processed data contained in the Foreign Assistance Coordination and Tracking System/Next Generation (FACTS INFO/NEXTGEN) maintained by USAID to determine the USAID PEPFAR funding percentage to local partners. We performed a data reliability assessment for the percentage of PEPFAR local partner funding by selecting the partners identified as local in a FACTS INFO/NEXTGEN database report for USAID/Ethiopia and USAID/South Africa and verifying that the universe of identified local partners (12 for each mission) had their physical address in the respective country.

To conduct the data reliability assessment of FACTS INFO/NEXTGEN, we judgmentally selected the Ethiopia and South Africa missions based on budget, location, and the projected increase in local partners. For the purposes of the data reliability assessment, two missions were deemed sufficient with one from southern Africa and another from eastern Africa. While the results of this verification cannot be projected to population of missions in FACTS INFO/NEXTGEN as we found no discrepancies, the results of these tests led us to conclude that data are sufficiently reliable for our use.

Furthermore, we reviewed OHA's July 2020 projections for COP20 of USAID PEPFAR local partner funding to determine the extent to which USAID's PEPFAR budgets are on track to meet the Agency goal for local partner funding. Similarly, we reviewed the July 2020 projections for the eight critical missions to determine the extent to which these missions with large PEPFAR budgets are on track to meet mission-level percentage goals. We interviewed OGAC and OHA officials to confirm the projections determined.

To address the second audit objective, we reviewed the Local Partner Strategy and interviewed OHA and OGAC officials to obtain an understanding of the local partner transition. Audit team members also attended 2 days of a 5-day conference held by OHA and various USAID missions in Johannesburg, South Africa on USAID's Local Partner Transition on November 4-5, 2019. We determined that USAID focused on the 23 PEPFAR Long Term Strategy countries in the local partner transition. We reviewed, analyzed, and summarized criteria and background information including COP guidance for 2019 and 2020; PEPFAR Annual Reports to Congress for 2017, 2018, and 2019; U.S. government websites; media articles; and various reports related to the local partner transition.

In addition, we performed testing regarding the eight missions from sample selection 2. The testing included inquiries sent via email to these missions to corroborate evidence regarding the local partner transition, including the risks and process for mitigating risks. We also included inquiries on the additional risks to the local partner transition from COVID-19. After reviewing the responses, we had subsequent discussions with the eight missions to inquire about the responses received. We did so in order to corroborate interviews with OHA to determine to what extent USAID focused more on the eight missions deemed critical to achieving the Agency 70 percent goal.

We asked to review mission-level strategies for the sample selection 1 missions to determine if strategies were prepared according to the instructions and standardized templates provided by GH. We reviewed 19 mission strategies that were prepared as one mission from sample selection 1 did not prepare a mission-level strategy. We sought to understand to what extent risks and associated mitigation measures were identified and how consistently this was documented. We then analyzed the review results to determine the extent to which missions' plans and strategies aligned with OHA instructions and standardized templates, as well as USAID's Local Partner Strategy.

We performed further testing for sample selection 2 missions. In particular, the testing included inquiries sent via email to these missions after the review of their strategies regarding the local partner transition. We asked those missions projected to fall short of their initial goals for local partner funding percentages the reasons this was the case. We also included inquiries on the impact COVID-19 might have on the local partner transition. After reviewing the responses, we had subsequent discussions with the eight missions to inquire about the responses received.

In planning and performing the audit, we gained an understanding and assessed the internal controls deemed significant to the audit objectives. In particular, we designed and conducted procedures under all five components of internal control as defined by the U.S. Government Accountability Office (GAO).¹⁴ These included the Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. Furthermore, we assessed controls that were significant in the context of our audit objectives. Specifically, we designed and conducted procedures to test the internal controls OHA relied on to ensure the 23 PEPFAR Long Term Strategy missions were working toward the local partner transition and provide sufficient support to these 23 missions, which included a review of USAID's Local Partner Strategy, OHA instructions to the 23 missions for a mission-level strategy to set mission-level goals and identify and mitigate risks, and OHA monitoring and support during the local partner transition.

In addressing these objectives, our audit techniques included interviews and review and analysis of USAID reports, processes, and strategies. We did not seek to determine whether USAID's implementation of PEPFAR program activities was successful. Likewise, we did not seek to determine whether USAID's COVID-19 response efforts were successful. We relied on documentary evidence along with testimonial evidence from USAID officials to support our findings, results, and conclusions.

¹⁴ GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G), September 2014.

Appendix B. Agency Comments



MEMORANDUM

TO: Office of the Inspector General for the U.S. Agency for International Development (USAID), Africa Regional Office, Director for Audit, Robert Mason

FROM: USAID/Bureau for Global Health, Acting Assistant Administrator, Jennifer Adams /s/

DATE: December 2, 2021

SUBJECT: Management Comments to Respond to the Draft Audit Report Produced by the Office of Inspector General (OIG) titled, “*PEPFAR in Africa: USAID Expanded the Use of Local Partners but Should Reassess Local Partner Capacity to Meet Funding Goals*” (4-936-22-00X-P). Prepared by the Office of the USAID Inspector General (OIG)

The U.S. Agency for International Development (USAID) would like to thank the Office of Inspector General (OIG) for the opportunity to provide comments on the subject draft report. The Agency agrees with the recommendations, and herein provides plans for implementing them and reporting on significant progress already made.

Over the last three years, USAID’s HIV programs have made tremendous progress in establishing direct awards with local organizations to implement HIV programs. Direct partnerships with local organizations are a crucial means to better achieve and sustain epidemiological control of HIV/AIDS. State/Global AIDS Coordinator (S/GAC) has continued to emphasize the importance of working with local organizations by including a focus on “Building Enduring Capabilities of Country Health Systems, Communities and Local Partners” as a Goal in their 2025 Draft Vision Statement, currently available on the State Department website. Additionally as many countries reach epidemic control, the next phase of PEPFAR will focus on sustaining the gains made and will prioritize strengthening the local organizations and government systems to implement national HIV responses beyond PEPFAR.

While the USAID HIV program has not reached the 70% funding global goal set by S/GAC and originally projected to be achieved by USAID in 2018; in the last three years the Agency has shifted more than \$200 million dollars in annual funding to local organizations and initiated

nearly 100 new awards with local government and non-profit partners. In addition, nearly every country-level USAID HIV program has made progress in increasing annual funding to local organizations, and several USAID HIV programs have significantly ‘localized’ their programming. For example, Mozambique went from 5% in 2018 Country Operational Plan (COP18) and is now projected at 34% in COP21. Kenya started with 55% funding levels in COP18 and as of July 2021 has projected over 95% of their program implemented by local organizations in COP21. Similarly, Rwanda started with 41% funding in COP18 and now has over 80% local funding projected in COP21. Despite the large number of new partners and shift in funds, USAID HIV programs have been able to maintain HIV program service delivery targets and deliver quality programming through local and government partners, while responding to a global COVID-19 pandemic. Although USAID local partner funding achievements were lower than 2018 projections, the programs have made transitions in a thoughtful way to ensure continuity of HIV programs and quality services for patients and beneficiaries, while also ensuring capacity of local implementing partners.

Three years into USAID HIV Local Partner Transition efforts, the Bureau for Global Health’s Office of HIV/AIDS (GH/OHA) recognizes the program is at an inflection point in the transition process. While the original 2018 funding goals have continued to be updated annually, it is important to step back and assess the strategic plan for the next three years and the lessons learned that will improve our approach and support the success of continued efforts going forward. The OIG Recommendations arrive at the ideal time to inform GH/OHA’s thinking on the FY22-FY24 phase of the transition and help the USAID HIV program support broader localization efforts happening across the agency. Currently USAID HIV local partner portfolio represents the largest local partner ‘funding footprint’ across any USAID program. Recently the USAID Administrator announced a new Agency wide goal of increasing direct funding to local organizations to 25% by 2025. USAID HIV programs have significant experience and lessons learned to share with the rest of the Agency on direct partnerships with local organizations. USAID has been working to institutionalize local partnerships within Agency processes and broaden transition efforts beyond HIV to other health sectors and development areas.

Between May 2021 and April 2022 GH/OHA has and will continue to work with USAID PEPFAR Operating Units to reflect on lessons learned over the last three years and create new global and country specific Local Partner funding goals for FY22- FY24. The consultation process outlined below will result in: #1) **country specific Risk and Capacity Analysis** for the Local Partner Transition and #2) updated **country specific local funding goals**. Each of these deliverables will apply to 20 African Operating Units (OUs) for FY22-24. This process has already begun but will be ongoing through April 2022.

MANAGEMENT COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) ON THE REPORT RELEASED BY THE USAID OFFICE OF THE INSPECTOR GENERAL (OIG) TITLED, “PEPFAR in Africa: USAID Expanded the Use of Local Partners but Should Reassess Local Partner Capacity to Meet Funding Goals” (4-936-22-00X-P) (Task No. 441P0219)

Please find below the management comments from the U.S. Agency for International Development (USAID) on the draft report produced by the Office of the USAID Inspector General (OIG), which contains two recommendations for USAID.

USAID agrees with both of the OIG recommendations, and has already begun to implement steps to address both. The processes to update country specific funding targets, capacity analysis and response plans, and the risk analysis are interconnected and complimentary in scope. Steps described below are similar for both recommendations and in practice will be implemented together across recommendations. The consultation process outlined below will result in: #1) **country specific Risk and Capacity Analysis** for the Local Partner Transition and #2) updated **country specific local funding goals**. Each of these deliverables will apply to 20 Operating Units (OUs) in Africa for FY22-24. This process has already begun but will be ongoing through April 2022.

Recommendation 1. Assess country-specific capacity needs for local partners and develop a plan to address critical capacity gaps to inform an updated analysis of risks and mission-level local partner funding goals for PEPFAR.

USAID agrees with this recommendation. The process outlined within this Recommendation #1 will lead to updated country specific Risk and Capacity Analysis for the Local Partner Transition for 20 OUs in Africa.

Consultation on Future of PEPFAR Local Partner Transition (May - July 2021)

USAID/Global Health/Office of HIV/AIDS (GH/OHA) began a consultation process in May 2021 to inform the next three years of the USAID PEPFAR Local Partner Transition. This process involved consultations with OHA and GH leadership, GH staff at headquarters, and Mission staff working on the Local Partner Transition across all PEPFAR African OUs. The consultations also focused on the next three years, new opportunities, risks related to the transition, and what was needed to support the next three years of the transition, including capacity strengthening needs.

Missions Draft Risk & Capacity Analysis (August - Sept 2021)

USAID Mission teams updated the local partner funding goals and capacity needs for current and future prime local implementing partners. These draft local partner funding goals and capacity needs will be adjusted and confirmed based on discussions with leadership, GH/OHA, and other stakeholders before finalizing.

Mission Director Inputs (September - October 2021)

Following the country consultations GH/OHA led calls with Mission Directors and USAID Mission staff from the Operating Units in Africa to discuss the local partner transition progress to date, plans, risks, and opportunities associated with the next three years of the Local Partner Transition. The series of calls were as follows:

- September 8, 2021 - Southern Africa Regional: Angola, Botswana, Eswatini, Lesotho, Namibia, and South Africa
- September 22, 2021 - Cameroon, Côte D'Ivoire, and DRC
- September 27, 2021 - East/Central Africa: Ethiopia, Kenya, Tanzania, South Sudan, and Uganda
- September 29, 2021 - Southern Africa Bilateral: Malawi, Mozambique, Zambia, and Zimbabwe
- October 4, 2021 - Burundi, Nigeria, and Rwanda

During these calls each country identified country specific local partner transition opportunities for the next three years and drafted estimates on local partner funding goals. Mission Directors touched on critical areas of need from their perspective such as the need for staff to support oversight of local partners, importance of government-to-government agreements, capacity building needs of local partners, the support needed for USAID local partner procurements, and

desire for strategic plans for supply chain transitions.

Risk Workshop for Local Partner Transition (November 2021)

As part of the OHA 3rd Annual Local Partner Meeting (November 1-5, 2021), OHA hosted an internal Risk Workshop for USAID/PEPFAR field staff; including health, financial management (Office of Financial Management) and grants and contract (Office of Assistance and Acquisition) staff supporting local awards. The Risk Workshop session on November 1, 2021, kicked off with a plenary focused on Risks and Lessons Learned from the past three years of USAID HIV program Local Partner Transition efforts, as well as an introduction to USAID's approach to Enterprise Risk Management. Following the Plenary, Operating Unit teams held breakout sessions that focused on country and program specific risk identification and risk management approaches relevant to Local Partner transition goals for the next 3 years. Teams used a template provided by GH/OHA that had pre-populated opportunities from the Mission Director calls in September/October.

Finalize Risk and Capacity Analysis (November 2021 - April 2022)

Operating Units required more consultation and time to complete the templates. They will take until mid December 2021 to draft analysis for each Local Partner Transition opportunity. After submission of those drafts, GH/OHA will support Mission teams to finalize the Risk and Capacity Analysis. Teams will address the risks and capacity gaps through activities in the PEPFAR Country Operational Plan submissions, addressing Mission staffing needs, headquarters support, or alternative means.

Final Deliverable:

Risk Analysis and Capacity Plans for FY22-FY24 for 20 Africa Operating Units.

Target Completion Date: April 29, 2022

Recommendation 2: Develop and implement a plan to update mission-level local partner funding goals for future PEPFAR funding at its critical missions considering the Agency’s current progress, the COVID-19 operating environment, and OGAC’s intentions for the local partner initiative.

Management Comment:

USAID agrees with this recommendation. The process outlined within this Recommendation #2 will lead to Local Partner Funding Projections FY22-24 for 20 Operating Units in Africa. The work has already started and will continue until April 2022. The following steps are to address this recommendation:

Plan for the Updated Local Partner Transition (May 2021)

GH/OHA held initial consultation with the Bureau for Global Health leadership during a Senior Management Meeting on the progress to date on the USAID PEPFAR Local Partner Transition and the proposed process to update targets and assess needs for the next three years. The proposed process to update the Local Partner Transition funding goals included consultations with USAID headquarters staff, Mission staff, Mission Director calls, and discussions at the 3rd Annual Local Partner Meeting. GH leadership was supportive of the proposed plan and the need to update the Local Partner Transition funding goals.

Headquarters and Mission Listening Sessions and Survey (June - July 2021)

To begin the consultations GH/OHA held a Mission “Listening Session” with staff from our PEPFAR Operating Units to share our progress to date on direct funding of local partners and discuss recommendations for the next three years. This Mission consultation was followed by a presentation to GH/OHA to share the same background and again request feedback for the next three years. In both cases, GH/OHA provided a survey for people to respond in writing. These USAID “Listening Sessions” and survey inputs were critical in shaping overarching priorities for the next three years of the local partner transition. Three priority areas identified were: 1) Increasing capacity building support for local partners, 2) Supporting better integration across all health programs, and 3) Continuing to transition HIV service delivery programs to local partners.

Initial Mission Consultations on Local Partner Funding Goals (July - August 2021)

GH/OHA developed country-specific Local Partner slide decks for each USAID PEPFAR Operating Unit to review progress to date on funding local partners and the performance of the existing local partners. The team held consultations with USAID PEPFAR Operating Unit staff working on the Local Partner Transition. Additionally, the discussion included the opportunities for direct funding to local partners for the next three years and what specific risk and capacity support might be needed to support the transition. Teams discussed the impact of COVID on the country program and in some instances how COVID had caused delays in new procurements for local organizations or dip in performance measures. The USAID Mission teams drafted updated Local Partner Transition Workplans with specific country funding goals for FY22-FY24 (or COP21-COP23).

Mission Director Inputs on Local Partner Funding Goals (September - October 2021)

As noted above, the Local Partner consultations culminated in calls with Mission Directors from the Operating Units in Africa from September to October 2021. The specific grouping of countries with dates is noted in Recommendation #1. During these calls each country team identified country specific local partner transition opportunities for the next three years and the draft estimates on local partner funding goals. These estimates were based on specific local context realities, COVID's on-going impact on the HIV programs, in some countries political unrest or other conflicts, and the lessons learned of the last three years of the local partner transition. The newly drafted goals were once again Mission driven estimates of funding shifts that could occur while still maintaining the ambitious PEPFAR targets and priorities for programs.

Continued S/GAC Prioritization of the Local Partner Transition (September 2021)

As noted above, on September 10, 2021 S/GAC released the new draft 2025 PEPFAR Vision (Draft Vision Statement), which includes as one of the three pillars "Build Enduring Capabilities of Country Health Systems, Communities and Local Partners", with a focus on working with local organizations and building local health systems. Local Partner funding is still a goal within the draft COP22 Guidance, and one of the minimum program requirements is to show progress against this goal. The 70% target is still highlighted in draft COP22 Guidance but no longer has a specific year associated with achieving the goal. GH/OHA will continue to consult with S/GAC on the details of the Local Partner Transition goal as part of external consultations noted below.

The 3rd Annual Local Partner Meeting (November 2021)

The draft Local Partner Transition global estimates for FY22-24 were presented at OHA's 3rd Annual Local Partner Meeting. Additionally during country specific "Listening Sessions" at the meeting, local organization representatives shared with the USAID Mission teams (often with USAID Mission Directors or Deputy Directors present), their recommendations for how USAID could improve the Local Partner Transition. These recommendations were documented and Missions plan to address the feedback in country. GH/OHA is also compiling feedback from local organizations to share with Agency leadership. Overall, GH/OHA projects a continued increase in funding to local partners globally over the next three years but the final projections by country will be completed after full analysis of feedback from local partners, additional external consultations, and finalization of risk and capacity analysis; as noted in the steps below and in Recommendation #1.

External Consultations (January - April 2022)

With the global estimates and initial priority areas of focus for the next three years of the USAID HIV Local Partner Transition, GH/OHA will hold additional external consultations. These will include discussions with the S/GAC existing and new leadership and existing international implementing partners as well as additional meetings with local partners themselves.

Finalize Country Specific Funding Goals for FY22-FY24 (January 2022 - May 2022)

GH/OHA will work with each country to update the draft local partner funding goals in the Local

Partner Workplans. These initial drafts will be informed by the risk analysis and capacity gap analysis process noted above in Recommendation #2. As with the last years of the Local Partner Transition (FY18-FY21), targets will be updated annually (and sometimes at greater frequency) based on specific updates within each country, including the impact of COVID on projections, shifts directed by S/GAC, the HIV epidemic data, and other contextual factors.

Final Deliverable:

- Local Partner Funding Projections FY22-24 for 20 Operating Units in Africa (dollar value and % funding by year).

Target Completion Date: April 29, 2022.

In view of the above, we request that the OIG inform USAID when it agrees or disagrees with a management comment.

Appendix C. Major Contributors to This Report

Members of the audit team include:

- Rob Mason, Audit Director
- Louis Duncan Jr., Assistant Director
- Ismail Kenessy, Lead Auditor
- Lydelle Botha, Auditor
- Unothando Moribe, Auditor

The audit team would also like to acknowledge contributions from Joanne Howard.



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