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The Global Fund

To Fight AIDS, Tuberculosis and Malaria

The Office of the Inspector General

Review of oversight of Grant Procurement and Supply Chain
Management arrangements

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Acronyms

ACTs	Artemisinin-based Combination Therapy
ARVs	Antiretrovirals
CCM	Country Coordinating Mechanism
CEASS	Central de Abastacimientos y Suministros en Salud
CIES	Centro de Investigación, Educación y Servicios
DIR	Detailed Implementation Review
FPM	Fund Portfolio Manager
FPP	Finished Pharmaceutical Product
GF	The Global Fund
GOI	Government of India
HIV	Human Immuno Virus
ICTC	Integrated Counseling and Testing Center
LDC	Least Developed Countries
LFA	Local Fund Agent
LLINS	Long Lasting Insecticide-treated Nets
M&E	Monitoring and Evaluation
MOHSW	Ministry of Health and Social Welfare
MSD	Medical Stores Department
NACO	National AIDS Control Organisations
OEDC DAC	Organization for Economic Co-operation and Development - Development Assistance Committee
OIG	Office of the Inspector General
PC	Procurement Consortium
PHPM	Pharmaceutical and Health Products Management
PHT	Procurement and Health technology Unit
PMAS	Procurement Management Advisory Services
PMU	Procurement Management Unit
PQR	Price Quality Reporting
PR	Principal Recipient
PRM	Price Reporting Mechanism
PSM	Procurement Supply Management
QA	Quality Assurance
RDK	Rapid Diagnostic Kits
SR	Sub Recipient
TB	Tuberculosis
UNOPS	United Nations Office for Project Services
VPP	Voluntary Pooled Procurement
WHO	World Health Organisation

Executive Summary

Introduction

1. In accordance with its charter and its 2009 work plan, the Office of the Inspector General (OIG) undertook a review of the Global Fund's oversight of grant Procurement and Supply chain Management (PSM) arrangements. PSM accounts for over half of grant expenditure. Good PSM systems require effective oversight.

Basis for selection of review

2. This review has been selected by the OIG for the following reasons:
- (a) It is estimated by Global Fund's Procurement Management Unit that procurement of drugs and other health related commodities represents approximately 40% - 50% of the total expenditure of grant funds and significant sums are spent on distribution arrangements. PSM related activities are therefore critical to effective grant implementation funded by the Global Fund.
 - (b) The Global Fund five year evaluation raises concerns about the Global Fund PSM oversight standards lacking rigor. According to this report, failure to increase oversight standards could put the Global Fund's investments at risk.
 - (c) The country audits undertaken by the OIG revealed common weaknesses in PSM capacity and systems at the country level. This commonality in weaknesses points to inadequate PSM oversight of PSM in grant programs.
 - (d) Procurement is considered by several agencies in the development sector e.g. World Bank, Transparency International etc as one of the areas most likely to be subjected to irregular activities such as corruption. This is supported by the numerous procurement related allegations received by the OIG, grant suspensions by the Global Fund in part due to procurement related irregularities and a current court case involving irregularities in the area of procurement. This raises a question about what measures the Global Fund needs to put in place to mitigate PSM related risk, and how best to support the PSM function in order to strengthen grant implementation.

Purpose and objectives

3. The purpose of this review was to assess the Global Fund's oversight of grant related PSM procedures employed by PRs in accordance with relevant Global Fund policies and signed grant agreements. Specifically this review assessed:
- (a) the effectiveness of oversight arrangements that the Global Fund has put in place to ensure that procurement is undertaken by PRs in a fair, transparent and objective manner and results in best value;

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- (b) the compliance of the Global Fund Secretariat and country level players with established PSM oversight related systems and policies; and
- (c) whether there are any risks that the Global Fund grants are exposed to due to ineffective procurement oversight arrangements and the adequacy of measures taken to mitigate them.

Scope of work

4. The review focused on the systems and processes in place at the Global Fund Secretariat and at country level in the grant making process as it relates to PSM oversight. The PSM oversight arrangements function through the following stakeholders:

- (a) The Global Fund Board Committees;
- (b) Country Programs i.e. Fund Portfolio Managers (FPMs);
- (c) Pharmaceutical Management Unit;
- (d) Country Coordinating Mechanism;
- (e) Local Fund Agents;
- (f) National Procurement Oversight bodies;
- (g) National Drug Regulatory Authorities;
- (h) Auditors; and the
- (i) Office of the Inspector General.

5. The Voluntary Pooled Procurement (VPP) VPP and Affordable Medicines Facility Malaria (AmFM) functions are not covered in this review since they are subject to separate OIG reviews. The scope of this review also does not cover the OIG's effectiveness as a PSM oversight assurance provider. This report does however describe the systems and processes put in place by the OIG to respond to the PSM related matters raised at the country level.

Summary of findings

6. This section briefly highlights the findings and conclusions arising from the review; but detailed findings are contained in the rest of the report. It is therefore essential that this report is read in its entirety in order to comprehend fully the findings and the resulting recommendations.

PSM oversight within the Global Fund Architecture

7. In accordance with the Global Fund architecture, Principal Recipients have full responsibility for undertaking grant related procurement and supply management at country level in accordance with the grant agreement. The Global Fund's role in grant PSM has been focused primarily on establishing policy and assisting countries with interpreting policy requirements when procuring products. The Global Fund also provides limited oversight of the procurement and supply management processes to ensure PSM is undertaken in a fair, transparent, objective and effective manner.

8. It is for debate whether greater PSM oversight at a country level would be in conflict with the Global Fund model. The important question arises about how far

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procurement oversight structures established by the Global Fund can go without overstepping its mandate as a financing mechanism and interfering with the obligations of PRs in relation to PSM. That said the providers of funding to the Global Fund look for assurance that PSM arrangements are operating effectively. This report provides a platform for these issues to be considered.

9. The evidence of shortcomings related to PSM arising from the OIG's country audits suggests that the oversight arrangements have failed to spot and mitigate the risks that have emerged. These country audits reveal the following areas as being consistently weak across the various countries. The country audits seek to analyze the underlying causes of these problems and propose solutions to address them.

- (a) Forecasting drugs and health product requirements;
- (b) Developing technical specifications for procurement;
- (c) Absence of or weak procurement policies and procedures;
- (d) High product prices;
- (e) Poor performance of TPPAs;
- (f) Poor inventory management sometimes resulting in pilferage;
- (g) Poor storage and transportation facilities at national and sub national level;
- (h) Drug stock outs and/or expiries;
- (i) Weak procurement planning resulting in frequent emergency procurements;
and
- (j) Inadequate Management Information Systems.

10. In consequence, the OIG cannot at present give assurance that the PSM arrangements are operating effectively in the countries audited.

PSM oversight structures

11. The PSM oversight arrangements make provision for oversight by the Global Fund Board, the Secretariat and by country level providers such as Country Coordinating Mechanisms, Local Fund Agents, National Drug Regulatory Authorities, National Procurement Oversight Authorities etc. These stakeholders have their respective roles, responsibilities and authorities in undertaking their respective PSM oversight roles clearly articulated.

12. The Global Fund is currently developing several initiatives which, once implemented, should strengthen the PSM oversight function. These include establishment of the MDC Adhoc Committee to oversee specific PSM activities; the rolling out of the CCM dashboard that draws attention to PSM as part of the CCM's oversight function; revision of the Progress Update and Disbursement Report (PU/DR)¹ form used by Local Fund Agents (LFAs) to include PSM related reporting amongst other things; and the introduction of the development of the Country Profiles by the Pharmaceutical Management Unit.

¹ The PU/DR is a form that is completed by the PR in requesting further disbursements of grant funds, usually according to a pre-determined disbursement schedule. This incorporates an update on progress achieved in the preceding reporting period and a request for funds for the upcoming period. This form is verified by the LFA.

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13. The OIG concluded that the way in which these stakeholders are undertaking their prescribed roles is in some cases less than optimal which affects the quality of PSM oversight over grant programs. At the country level, CCMs have sometimes nominated PRs that do not meet the requisite PSM capacity and then in practice it emerges that they do not have adequate oversight mechanisms in place once program implementation is underway to enable them to spot shortcomings emerging. The CCM also need to pay closer attention to strengthening coordination of PSM activities across PRs, diseases and/or programs funded by other donors.

14. The LFA's role in relation to PSM activities is clearly defined and this is guided by the templates provided by the Global Fund for recording findings and reporting to the Global Fund. However, the effectiveness of the LFAs in undertaking their mandate is impacted by many of them lacking in country Pharmaceutical and Health Products Management (PHPM) experts. Such LFAs rely on 'fly in' consultants. In cases where these consultants are unable to fly into a country to undertake an assessment, this is done by 'desk review'. In cases where desk reviews are undertaken, the consultants have not verified some of the information provided by the PRs.

15. The OIG noted that the periodic LFA monitoring does not always cover PSM activities. The OIG commends the good practice in the Latin America and Caribbean Team where the LFAs are requested once a year to review the implementation of a sample of procurement processes undertaken by each PR in that region.

16. The Global Fund places reliance on the oversight provided by national structures like the National Drug Regulatory Authority (NDRA) and National Procurement Oversight Authority (NPOA). There are several challenges noted in this report e.g. their individual capacities which affect their ability to provide effective PSM oversight. NPOAs provide PSM oversight through establishment of the procurement legislative frameworks, monitoring through inspections/audits and provision of advice.

17. The country audits undertaken by the OIG have revealed that these national regulatory bodies have limited engagement with the Global Fund programs and unless their capacity is strengthened, cannot provide effective oversight of programs funded by the Global Fund. There is a need for better dialogue with the national regulatory institutions to sensitize them about the programs funded by the Global Fund and to engage with them to seek ways in which there can be better collaboration to strengthen PSM oversight.

18. The OIG commends the establishment of the Market Dynamics and Commodities Ad Hoc Committee (MDC) in 2009. This followed the Global Fund Board's recognition that over half of its portfolio is currently spent on commodities/ distribution and determined that there is an urgent need to review how these resources are being spent to develop options for the Global Fund to better utilize its buying power towards achieving economies of scale. By definition, this committee is temporary in nature and would be dissolved on completion of its tasks. Based on its review, the OIG notes that within the current Global Fund

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mandate, PSM is and will continue to be an area that the Board should pay specific attention to. It may therefore be prudent to consider establishing this committee as a standing committee.

19. Procurement oversight at the Global Fund Secretariat is undertaken through the Country Team Approach (CTA) where the FPMs seek advice from the technical advisory teams i.e. Pharmaceutical Management Advisory Services (PMAS), Monitoring and Evaluation (M&E), Finance and Legal units to support their decision making mandate. However, generally the advisory teams have an advisory role and there is no requirement for FPMs to consider and follow up advice given. There are also no mechanisms in place to ensure that action is taken on issues raised by the advisory teams.

20. In cases of lack of consensus on a matter, the CT Approach escalates the decision making to the Country Programs Unit Director who makes a decision, in consultation with the Country Programs Cluster Director. The resolution mechanism is exclusively assigned to the Country Programs Cluster without the input of the advisory teams. This undermines the checks and balances established in the CTA as well as the overall control environment within the Secretariat. The OIG recommends that the Global Fund should establish an accountability framework that addresses the roles, responsibilities, authorities and accountabilities of various stakeholders in the grant making process.

21. The Pharmaceutical Management Unit (PMU) provides PSM oversight by developing policy and assisting countries with interpreting policy requirements when procuring products. The OIG noted that the Pharmaceutical Management Advisory Services (PMAS) team is constrained in terms of numbers (there is 8 in the team) and this affects its ability to support over 140 country grant programs.

22. The Quality Assurance and Data Management team manages the development and review of PSM policies including the quality Assurance policy, their implementation and data management. Their work also covers the management and analysis of procurement data under the Price and Quality Reporting (PQR) Mechanism. The concept of this tool to track the prices and suppliers of a few health products (mainly drugs) is commended but it does not provide a comprehensive database of information for decision making. Quality Assurance by this Unit depends heavily on the PQR. However, there is no evidence that quality assurance issues noted are followed up and resolved in line with the policy.

23. As the Global Fund evolves and more risks inherent to its operations emerge, the roles and responsibilities of some of the PSM oversight providers (e.g. the LFA) will need to be revised to take into account risks emerging from changes in the operating environment.

PSM oversight policies and processes

24. The Global Fund's approach to PSM and its oversight is guided by its founding principles. Based on the model, the Global Fund has adopted a set of policies and

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principles on PSM that support PSM. While there is more that can be done to sharpen its policies, this would involve overstepping the foundational principles of the Global Fund. However, as the Global Fund model evolves, this could make way for refinement of the PSM oversight model. This OIG report offers some refinements for consideration.

25. The PMU estimates that the procurement of health and non health goods and services normally brings the costs to some 45% of the grant funds. However the Global Fund has limited regulation of non health products and services which as the OIG country audits show sometimes results in wasteful spending. The policies also focus on procurement while providing relatively less guidance on logistics management. However, the QA Policy specifies that "*in addition to the Global Fund's existing polices for procurement practices, PRs must ensure that all Finished Pharmaceutical Products (FPPs) are procured in accordance with principles set forth in the Interagency Guidelines: A Model Quality Assurance System for Procurement Agencies*". These guidelines cover storage and distribution practices. Ineffective supply chain management systems have resulted in problematic forecasting, drug stock outs and expiries. There is a need to provide for better regulation of non health products and services and supply chain management.

26. Countries that are assessed as lacking PSM capacity to implement the grants usually opt to use Third Party Procurement Agents (TPPAs). The OIG noted that there is no policy to regulate the selection and use of TPPAs. This sometimes results in the TPPAs not meeting the objectives for which they were appointed.

27. The Global Fund provides for countries to get a waiver so that they do not have to prepare a PSM plan which is then subjected to an assessment by the LFA of the PR's PSM capacity as part of the grant negotiation process. They have been allowed to produce a PSM plan and undergo an assessment of PSM capacity much later in the grant implementation. In most grants, this option has been widely applied across countries. This option has been widely applied across countries.

28. In the sample of 16 countries selected by the OIG for review, only one grant had a PSM plan prepared prior to grant signature. When the PSM aspects are deferred to post grant signature, the Global Fund misses an opportunity to address issues upfront that would potentially affect the timely implementation of programs. This has also often resulted in disruptions to the grant implementation as PRs prepare plans once the programs are underway which affects the timeliness with which program inputs are made available. In the OIG's view, this policy should be amended in its application so that it is restricted to truly exceptional cases.

29. The Global Fund seeks assurance through its LFAs that the agreed upon procurement arrangements meet the requisite minimum requirements. However, once implementation is underway, there is no mechanism in place to ensure that the PR complies with the PSM policies stipulated in the grant agreement and the PSM plan. Currently, the PU/DR template includes information on PQR reporting but does not adequately cover other PSM issues. In consequence challenges in PSM

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are not escalated to inform decision making. A process to update the PU/DR form was underway at the time of the audit. The new form includes information on stock levels, compliance with PQR reporting and comments on implementation issues for PSM activities.

30. The Phase II LFA template only has one question related to PSM. At the time of this review, the PU/DR template was under revision and one of the areas identified for strengthening was PSM related information. A new Phase 2 LFA template was under development at the time of the review with a number of specific questions related to Pharmaceutical and Health Products Management (PHPM) incorporated. The new template was due to be rolled out in March 2010.

31. The Global Fund through its grant agreement has a legal framework that sets out its policies and provides the legal basis for defining the rights of participants and establishing their responsibilities. Conditions Precedent² (CPs) are introduced in the grant agreements to address capacity gaps identified during LFA assessments. However there is no policy at the Global Fund that regulates the implementation of CPs raising the risk that CPs may be waived without addressing the risks they were set up to mitigate.

32. The Global Fund uses the PQR to prepare reports on price and quality assurance matters for certain products. The data from the PQR is analyzed into a report and distributed for action to the relevant units in the Global Fund. The completion of the PQR has significantly improved since the change from the Price Reporting Mechanism. There is no mechanism in place to provide assurance that the PQR is comprehensively completed. The Secretariat continues to face challenges in ensuring that the PQR is comprehensively completed. Mechanisms to assure PQR completeness have been introduced by the Global Fund i.e. (i) the LFAs have to verify accuracy and completeness of each PQR entry before disbursement, (ii) the PQR reporting status per grant is reported in the PU/DR form and (iii) PQR reporting is verified for the phase 2 review.

33. The penalty for failure to complete this report is, on paper, a freeze of disbursements. The country audits undertaken by the OIG revealed that some PRs have not completed the PQR e.g. Kyrgyzstan and Zambia. However such countries that have not completed this tool were able to get their disbursements. The OIG did not see evidence of the follow up of shortcomings noted in the PQR by the Global Fund Secretariat.

34. The PQR's effectiveness is also reduced by the limited selection of health products that are covered by the PQR. The decision making on what products to include in the PQR should be reviewed periodically so that management has relevant and timely information for decision making. The last review took place in 2008 when Rapid Diagnostic Kits were added to the list. However, there are a number of health products that are not included. Also there is a need to analyze other PSM related data e.g. how much procurement happens at SR level or through

² Express or implied stipulation in a contract that a contracting party must satisfy the conditions(s) before the counterparty is required to perform its relevant obligations

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a TPPA in addition to the availability of price and quality data for key oversight / policy initiation stakeholders like the MDC. Examples of such information are analyses of health vs. non health procurements undertaken, key suppliers, supplier concentrations, price trends etc.

35. The Five Year Evaluation commended the Global Fund and development partners in countries for providing technical assistance and requisite support towards the strengthening of country PSM capacity. However, in many cases, this capacity development was piecemeal and aimed at improving capacity so that PRs can comply with a set of procedures as opposed to addressing systematic structural issues.

36. In other cases the capacity development programs only targeted PSM at low-functional levels e.g. improvement of individual technical skills. This did not address fundamental PSM issues and sometimes did not result in sustainable improvements to the overall PSM control environment. The OIG recommends that the objectives, focus and timing of any capacity development programs should be integral to a country's overall procurement strategy. Technical assistance and capacity building have been addressed in the Secretariat's New Partnership Strategy.

Conclusion

37. As the Global Fund evolves and more risks are identified arising from the operations of the Global Fund model, PSM oversight will need to be refined. The OIG has in this report identified how PSM oversight can be strengthened to enable assurance to be given that PSM arrangements are operating effectively.

Background

Introduction

38. In accordance with its charter and its 2009 work plan, the Office of the Inspector General (OIG) undertook a review of the Global Fund's oversight of grant Procurement and Supply chain Management (PSM) arrangements. The Global Fund's PMU estimates that PSM accounts for about a half of grant expenditure. Good PSM systems require effective oversight.

39. In accordance with the principles of the Global Fund architecture, Principal Recipients have full responsibility for undertaking grant related procurement and supply management at country level. The Global Fund's role in grant PSM has been focused primarily on establishing policy and assisting countries with interpreting policy requirements when procuring products. The Global Fund has also provided limited oversight of the procurement and supply management processes to ensure that PSM is undertaken in a fair, transparent, objective and effective manner.

Purpose and objectives

40. The purpose of the review was to assess the Global Fund's oversight of grant related PSM procedures employed by PRs in accordance with Global Fund policy and signed grant agreements. Specifically this review assessed:

- (d) the effectiveness of oversight arrangements that the Global Fund has put in place to ensure that procurement is undertaken by PRs in a fair, transparent and objective manner and results in best value;
- (e) compliance by the Global Fund Secretariat and country level players with established PSM oversight related systems and policies; and
- (f) any risks that the Global Fund grants are exposed to due to ineffective procurement oversight arrangements and the adequacy of measures taken to mitigate them.

Basis for selection of review

41. The Five Year Evaluation³ raised concerns that the Global Fund's procurement oversight standards lacked rigor. It attributed poor grant performance to shortcomings in PSM capacity and systems in many countries; and improper procurement procedures. These have led to excessive costs, poor quality products, potential irregularities and high inventory volumes that are maintained in poor inventory systems. These inefficiencies in the supply chain lead to loss, damage, inventory waste, and delays that put the continuity of treatment at risk. According to the report, failure to improve oversight standards may put the Global Fund's investments at risk.

³ The Five Year Evaluation - June 25, 2008 Procurement Review Annex 9

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42. The country audits undertaken by the OIG thus far as summarized in the OIG's report on lessons learnt from the country audits and reviews undertaken⁴ have revealed numerous common shortcomings in PSM capacity and systems at country level. The commonality in shortcomings points to inadequate PSM oversight arrangements in identifying and offering timely solutions to problems as they emerge.

43. Procurement has been ranked by the World Bank as one of the areas most prone to corruption⁵. The World Bank's Country Procurement Assessments have consistently found major performance weaknesses in PSM systems. PSM systems that are beset by corruption have a particularly destructive impact on the effectiveness of public spending since they promote excessive public investment while at the same time reducing the benefit the country derives from those investments.

44. The Joint OECD-DAC/World Bank Round Table noted that the potential efficiency gains from better procurement can make a significant additional contribution to financing the achievement of the Millennium Development Goals (MDGs)⁶. The Joint OECD-DAC/World Bank Round Table Initiative on Strengthening Procurement Capacities in Developing Countries was established in early 2003 as an integral component of the agenda for aid effectiveness, harmonization, alignment and results set out in the Paris Declaration. The work of the Round Table on procurement is to find answers to this important challenge, which has become increasingly central to the wider aid effectiveness agenda and to the achievement of the Millennium Development Goals (MDGs).

45. The Round Table concludes that procurement strategies that succeed in improving results are built upon the recognition that procurement outcomes are determined not only by the rules that define procurement, but also the conduct of the parties to the contract, the behavior of parties responsible for oversight and monitoring of public spending, as well as broader environmental issues and features such as the reliability of public expenditure flows and the competitiveness of private supplier markets.

46. The above issues raise a question about whether the Global Fund has adequate measures in place to mitigate procurement related risk, support the procurement function and strengthen grant implementation. It is therefore important to review the Global Fund's oversight systems and policies to ensure that they remain robust in minimising the risks to Global Fund investments at country level and ensure that best value is secured.

⁴ Report on Lessons learnt from the country audits and reviews undertaken (Report No: TGF-OIG-09-002 Issue Date: 3 September 2009)

⁵ Anti Corruption Resource Centre

⁶ The Joint OECD-DAC/World Bank Round Table Initiative on Strengthening Procurement Capacities in Developing Countries

Scope of work

47. This review covered the oversight arrangements over grant related PSM at the Global Fund Secretariat and at country level. 'Oversight' in management jargon, is equated with 'supervision' or arrangements for reviewing an institution's performance with particular attention to mitigating the risk of failures to carry out mandates, preserve discipline and root out inefficiency and poor productivity. Oversight helps an organization to enhance its effectiveness and integrity. It is performed by the units and processes that provide 'supervision' and 'watchful care' within an organization. This is usually through the assessment, monitoring, audit, evaluation, inspection and investigation.

48. This review focused on the systems and processes in place in the Global Fund Secretariat, in its governance organs, and at country level which seek to assist those with the responsibility for exercising effective oversight of the grant making process. The procurement oversight arrangements are through the following stakeholders:

- (a) The Global Fund Board Committees;
- (b) Country Programs Cluster i.e. Fund Portfolio Managers (FPMs);
- (c) Pharmaceutical Management Unit;
- (d) Country Coordinating Mechanism;
- (e) Local Fund Agents;
- (f) National Procurement Oversight bodies;
- (g) National Drug Regulatory Authorities;
- (h) In country development partners;
- (i) Auditors of and within Principal Recipients; and the
- (j) Office of the Inspector General.

49. The VPP and AmFM functions are not covered in this review since they will be covered in separate reviews. The scope of this review is also limited in as far as it is not appropriate for the OIG to assess its own effectiveness as a PSM oversight assurance provider. This report does however, set out the systems and processes put in place by the OIG to respond to PSM related matters raised at the country level.

PSM oversight within the Global Fund Architecture

50. The Global Fund was set up as a financial instrument rather than an implementing entity. Amongst other things, the Global Fund (i) relies on local stakeholders at the country level to implement programs; (ii) promotes rapid release of funds to assist target populations; (iii) monitors and evaluates program effectiveness and makes decisions on future funding based on program performance and financial accountability; and as far as possible (iv) encourages the use of existing systems and processes in grant recipient countries.

51. PRs are responsible for all PSM activities, whether directly implemented or sub-contracted. The Global Fund applies a "light touch" to grant management by placing reliance on local stakeholders at the country level to implement programs and manage grant proceeds and encouraging the use of existing standards and

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processes in grant recipient countries. In this case, the Global Fund is therefore responsible for putting in place arrangements to ensure that grant proceeds are used for the intended purposes and results are achieved without imposing new burdensome requirements on grant recipients.

52. The application of the Global Fund architecture in PSM oversight is in line with the “light touch” notion. This is consistent with the principle of ‘national ownership’. In relation to PSM oversight, the Global Fund sets minimum principles and standards and not detailed procedures that guide PSM at country level. It also monitors program effectiveness and makes decisions on future funding based on program performance and financial accountability.

53. However, the Five Year Evaluation calls for greater oversight in PSM matters at a country level which is potentially out of line with the Global Fund model. It therefore raises the important question about how far procurement oversight structures established by the Global Fund can go without moving away from the model. This review is undertaken with this ‘tension’ in mind.

54. The Global Fund model in its current form arguably does not allow for the establishment of effective PSM oversight arrangements in order to strengthen PSM at country level and ensure better value for money for its investments. Failure to strengthen the oversight function in the name of efficiency and letting national ownership take pride of place can come at the price of increased risk in PSM and may put the Global Fund’s investments at risk. As the Global Fund continues to learn from its past experiences and make amendments to its operating model, this is an important issue that must be addressed.

Procurement and supply chain management in practice

55. As already mentioned, the full responsibility for PSM arrangements lies with PRs with the Global Fund's role in grant PSM focused primarily on establishing policy and assisting countries with interpreting policy requirements when procuring products. The old adage that *the proof of the pudding is in the eating* points to the value of something being judged when it's put to use or tried and tested. The impact of the PSM oversight can only be properly assessed by reviewing PSM activities at the country level. The OIG looked at the outcome of the PSM related audit findings to provide insight on the effectiveness of the PSM oversight arrangements that are available to the programs funded by the Global Fund.

Findings of the Five Year Evaluation

56. The OIG review drew on the results of the Five Year Evaluation⁷ that carried out a detailed review of PSM arrangements across 16 countries and based on its work reached the conclusion that PSM oversight arrangements at country level lacked rigor. The basis of this conclusion is summarized in the excerpt of the report below.

Five Year Evaluation Procurement Review Annex 9

The Evaluation Team conducted its procurement review in three parts i.e. (i) Secretariat-level PSM processes; (ii) Country-level PSM processes; and (iii) Sample tender analysis in 16 country PSM arrangements. The sample tender analysis was intended to assess all the elements of an individual procurement for each of the 16 countries included in Study Area 2 of the Five Year Evaluation. The objective of this analysis was to compare this sample of actual procurements against:

- (a) The procurement guidelines governing them;
- (b) other (for similar commodities); and
- (c) other standards of international best practice in procurement (e.g. the World Bank).

CONCLUSIONS

Strengths

1. Where the GF has required PRs to follow certain PSM policies and practices as a condition of disbursement, there has been near universal compliance. The near universal compliance rate suggests the efficacy of imposing PSM standards prior to disbursement in improving PSM policies and practices. Examples include the requirement to develop a PSM plan and procurement guidelines, and to enter prices on the PRM. This can be considered a contribution to strengthening PRs' PSM capacity, although it has been achieved at some cost to the principle of country ownership.

2. LFAs are providing some oversight to PR-level procurement within the boundaries of the role assigned to them by the Global Fund, but are positioned to play a more active monitoring role. In addition to the required initial review and approval of PRs' PSM capacity and plan, LFAs are playing a role in monitoring ongoing PR procurement practices. Particularly as regards adherence to procurement guidelines, validating data entered on the PRM, and sharing Global Fund policies (e.g. Quality Assurance) with PRs, LFAs are executing the PSM oversight role assigned to them by the Global Fund. LFAs are also involved in the resolution of certain procurement problems, especially those caused by disbursement delays from the Global Fund to the PR. However, LFA oversight does not include conducting specific procurement audits or any systematic review of PRs' procurement capacity or performance. As the "eyes and ears" of the Global Fund, LFAs are aware of many procurement bottlenecks and anomalies in-country, as well as some disbursement delays between

⁷ The Five Year Evaluation - June 25, 2008 Procurement Review Annex 9

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PRs and SRs; however, their mandate to remain independent does not allow them to assist in the resolution of these challenges.

3. The Global Fund's principle of operating within a partnership system is functioning at the level of partner involvement in country-level procurement coordination. However partner involvement in resolving procurement problems encountered by PRs has been less forthcoming. Though not universal, development partners are coordinating with Global Fund PRs about what and how to procure and distribute. However, partners' interest in engaging with PRs around procurement issues appears to be motivated mainly by avoiding duplication or encroachment relative to their own programs, rather than by a desire to see the Global Fund grant succeed as such. Anecdotal evidence from the CPAs suggests that PRs may also be reluctant to reveal PSM problems they encounter to partners, which impedes partner assistance in resolving these issues. While generalizations across CPA countries are difficult, the partnership system around procurement seems immature, with a lack of trust and mutual ownership between PRs and partners limiting effective PSM collaboration in the fight against the three diseases.

Weaknesses

4. Procurement record keeping would appear to be poor in that complete files were not provided to the Evaluation Team. The alternative is that documents were deliberately withheld because the organization did not wish to reveal how the procurement was conducted. Based on the lack of complete documentation in most countries, a thorough sample tender analysis could not be completed. The Evaluation Team was surprised at the reticence and/or inability of PRs to provide a minimum of one complete procurement per grant. While this was partly due to PRs' extensive use of UN procurement agents with centralized purchasing systems, the paucity of documents provided represents a significant gap in either PSM capacity or oversight. While the data collected by the Evaluation Team is insufficient to conclude of actual procurement fraud or mismanagement, at a minimum the lack of robust record keeping across the 16 CPAs should be considered a red flag. The alternative, that PRs were intentionally avoiding providing documents to the Evaluation Team, should be of equal concern to the Global Fund.

5. The Global Fund's procurement oversight standards are less rigorous than those of other donors or of some GF grant recipients themselves. There is therefore a precedent for the Global Fund to adopt more systematic and thorough standards of PSM oversight, including regular procurement audits. Other donors are already requiring numerous Global Fund grant recipients to meet more rigorous procurement reporting standards, including undergoing procurement audits. Some PRs' own internal procurement policies are in fact more rigorous and specific than what is required by the Global Fund. This suggests that the Global Fund has room to improve its oversight of PR procurement without imposing an additional reporting burden, if new requirements are harmonized with other donors' and PRs' existing policies. Failure to increase oversight standards (in the name of efficiency or country ownership) may put the Global Fund's investments at risk or raise concerns among GF contributors.

6. The majority of disbursement and procurement delays are caused by factors internal to the Global Fund and its grant recipients and should therefore be amenable to improvement. The vast majority of disbursement delays are due to late, incomplete, or incorrect report submissions, which reflect either limited staff/management capabilities or strained human resources at the SR, PR, LFA, and GF Secretariat levels. Most procurement delays result from these same limitations - inadequate or inadequately trained staff or management - in addition to bureaucratic procedures imposed by or on the PR. Addressing these constraints could lead to significant improvement in PSM performance and allow better responses to exogenous variables like price changes or a limited number of suppliers.

7. Procurement agents do not necessarily improve countries' prospects of smooth commodity supply and management. This may be due to the non-competitive selection of most PRs' procurement agents and the resultant contract terms that give PRs limited leverage over non-performing agents. While procurement agents may be used for reasons of efficiency or lower commodity prices, the CPA results suggest that this strategy is not enough to assure PSM performance under Global Fund grants. Some of procurement agents' underperformance may be due to bureaucracy within the agent's central purchasing system (a common allegation with UN

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agencies conducting procurement for PRs). In such cases PRs need to have contractual arrangements that allow them to hold procurement agents accountable (including financially) for underperformance and to seek alternative procurement services if necessary. Opening procurement agent contracts to international public bidding could give PRs greater leverage in negotiating terms of payment, delivery, etc., although in some countries there may be a genuine supply constraint of interested and eligible bidders. The CPAs also revealed instances in which procurement agent performance was hampered by late or inaccurate forecasts and orders from the PR, and resulting changes in orders after submission. (These PR capacity issues are discussed in Conclusion 6.)

8. By design, the Global Fund has limited visibility into PSM executed by SRs but this represents a systemic risk to the effective implementation of Global Fund grants given the volume of PSM functions handled directly by SRs. The lack of direct GF assessment of SR PSM capacity, or of explicit standards for PRs about how to assess SR PSM capacity means that significant amounts of health commodities are being procured, stored, and distributed under inconsistently monitored conditions. This represents a risk to effective grant implementation not to mention a barrier to the Global Fund's tracking of how its resources are spent. This limited oversight of SR PSM also precludes identification of training needs or potential efficiency gains through pooled procurement.

Neutral

9. The Global Fund has adhered to its principles in the area of PSM but sometimes at the cost of grant performance. In the area of PSM, the Global Fund has successfully followed its principles to be a "financing-only" entity, to let countries own implementation of their grants, and to rely on partners to provide needed technical assistance to grantees. CPA respondents agreed that in almost no instance did the Global Fund offer guidance when grant recipients experienced procurement problems, nor was the Global Fund involved in any price negotiations on their behalf. The Global Fund may view these results as a measure of success in remaining true to their founding principles however this discipline may have allowed procurement problems to fester longer than necessary, resulting in treatment interruptions and implementation delays.

10. Global Fund grants have both helped and hindered indigenous PSM capacity development among grant recipients. The Global Fund appears to have emphasized short term grant performance over long term PSM capacity building, which may jeopardize progress made in the fight against the three diseases once grants end. Grants have provided and attracted resources for PSM training and technical assistance but their performance-based funding requirements have also prompted countries to outsource PSM to procurement agents. While outsourcing is not inherently contradictory to the Global Fund's principle of country ownership (as countries may select their own procurement agents), this finding suggests that Global Fund grants may be creating parallel systems for procurement rather than strengthening PRs' or governments' PSM capacity. Since the CPAs revealed that using a procurement agent is no guarantee of smooth PSM execution (see conclusion 4 above), the Global Fund may be encouraging PRs into a "lose-lose" situation with neither short term nor long term PSM success.

Findings from a sample of country audits undertaken by the OIG

57. This section draws on the PSM related findings in some of the countries audited by the OIG across different regions and over time. It draws upon the PSM oversight arrangements and how effective they have been in practice.

Tanzania

58. About fifty percent of Global Fund grant funds allocated to Tanzania are earmarked for procurement of medicines and other health commodities. Procurement and Supply Management (PSM) for drugs and health commodities under Global Fund grants is primarily the responsibility of the Medical Stores Department (MSD), an autonomous unit under the MOHSW, and the Procurement

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Management Unit (PMU) of the Ministry of Health and Social Welfare (MOHSW). PMU of the MOHSW handles mainly procurement contracts for Long Lasting Insecticide-treated Nets (LLINs) and service contracts for maintenance of laboratory equipment, for Global Fund health programs.

59. The Local Fund Agent (LFA) undertook a capacity assessment of the Medical Stores Department (MSD) at the start of grant programs in 2004. The assessment was inadequate as it did not cover key PSM components such as logistics management and storage capacities at the district and service delivery points such as health centers and dispensaries. No PSM capacity assessment was undertaken for the PMU of MOHSW.

60. In November 2007, the Global Fund made a disbursement of US\$ 2.4 million for the MSD to improve storage, provide equipment, upgrade the management information system and carry out training. At the time of audit in February 2009, these capacity strengthening activities have not been fully implemented because of slow and long-winding administrative processes.

61. The OIG review revealed a continuous procurement backlog, partly due to the long national procurement processes and procedures, and the limited human resource capacity of the MOHSW's PMU to cope with volume of procurements to be undertaken.

62. The OIG noted that for quantification of ARVs, existing stock levels for drugs in the district stores and in the Care and Treatment Centers were not taken into account to arrive at estimates of drug requirements. This led to oversupply problems. Although quantification procedures for ACTs took into account stock levels at MSD and orders placed or expected arrivals, stock levels at health facilities were not considered before determining national estimates of demand. This resulted in a high level of expired drugs, whose value was estimated at US\$130,000 at the time of the audit. At some of the care and treatment centers visited by the OIG team, there was stock out of ARV drugs for periods ranging from two weeks to six months.

63. In most health facilities visited by the OIG team, records for usage of medicines and health supplies were not well maintained. Stock ledgers and patient registers were not regularly updated with medicines and supplies dispensed. At some of the care and treatment centers visited by the OIG team, there was stock out of ARV drugs for periods ranging from two weeks to six months.

64. The OIG noted significant weaknesses in the inventory control and stock management systems at MSD. A consequence of these weaknesses was that ACTs worth more than US\$ 819,000 could not be accounted for.

65. In 2005, ARV medicine Stavudine 40mg capsules were procured from a manufacturer that had no WHO prequalification. The amount of the purchase was US\$ 469,000.

India

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66. United Nations Office of Project Services (UNOPS) was appointed to undertake procurement of centrally funded programs in April 2007 an interim corrective measure taken by the Government of India (GOI) in response to the World Bank's Detailed Implementation Review (DIR). The DIR had noted a number of indicators of fraud and corruption in international competitive bidding and national competitive bidding including collusion, flaws in bidding processes, poor record keeping, and equipment specifications.

67. Using Global Fund resources, central procurement is undertaken with respect of HIV Rapid Test Kits, Anti-TB Drugs and Long Lasting Insecticide Impregnated Nets (LLINs). The OIG reviewed the procurement and supply chain management and service delivery of the grant programs. Below is a summary of the major findings from the review: At some of the care and treatment centers visited by the OIG team, there was stock out of ARV drugs for periods ranging from two weeks to six months.

68. The PSM Plan contained only a brief summary of supply chain management issues and did not call for a much needed detailed assessment of supply chain capacity.

69. The OIG noted that UNOPS followed best practice in managing centralised procurement; however there were delays in procurement largely due to the multiple approval processes required.

70. The capacity of the existing system for supply chain management is significantly strained. The supply chain overall is being further stretched by the increasing need to handle newer products with varied storage and packaging requirements. In addition, the volume of products is growing as a result of increased coverage targets for all three programs.

71. The central stores did not maintain buffer stocks to take care of emergency needs as well as delays in procurement. The stores also lacked an efficient inventory management system.

72. Malaria Rapid Diagnostic Test Kits were available in the state store in Orissa, but there were stock outs in district stores (for example in Angul District and its peripheral health facilities).

73. The OIG found that one district store (e.g. Cuttack) was not fit for purpose. Stock-holding capacity of state stores that the OIG observed (e.g. Andhra Pradesh State TB Store) was exceeded. Stocks were piled up to the ceiling. Good storage practices were not being complied with.

74. The walk-in cold rooms that the OIG visited (e.g. Institute of Preventive Medicine (IPM) in Hyderabad) were also at their capacity limits and therefore did not function as walk-in facilities. In the district and ICTC stores, heat sensitive products are stored in household type refrigerators without provision for built-in continuous temperature-monitoring systems.

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75. Monitoring of the drugs and kits supplied is based mainly on a manual paper-based record system. Only limited information on inventory management is available in electronic format. Whilst NACO has a computerized management information system, the TB program uses Excel spreadsheets and the malaria program Fox Pro software. None of these programs are fully functional.

76. HIV test kits were out of stock nationally from Jan to March 2008 because of delays in procurement. There was a further stock out from mid May 2008 until the first week of June 2008 because of distribution problems. The OIG found that drugs, insecticides, and Rapid Diagnostic Kits (RDK) and bed nets were out of stock at times. Such situations were common in the past as well. This occurred because the district management did not maintain the buffer stock at optimum levels.

Zimbabwe

77. The CCM appointed a third party agent to undertake procurement on behalf of the PRs due to the weak procurement capacity at PR level. This function was given to a Procurement Consortium (PC) comprising of NatPharm and Crown Agents. Procurement was undertaken by Crown Agents and logistics by NatPharm, without a provision for capacity building of NatPharm with regards to procurement.

78. Memoranda of Understanding were signed between each of the PRs and the PC. A review of the signed MOU showed weaknesses in the definition of roles and procedures to be followed in this relationship.

79. The development of the PSM Plans commenced around June 2007 but at the time of the audit in October 2008, the final PSM Plans had not been approved for all PRs.

80. There was no evidence of review and monitoring of the activities undertaken by the Procurement Agent. Some contracts exceeded their contractual period of completion. Review of the contract files revealed that the PRs were not adequately updated on the delays and the action that the PC was taking to handle the delays.

81. Documentation of certain procurement processes was found to be inadequate on the procurement files. For example details (such as names) of invited bidders for a number of procurements were not on file. As a result it was difficult to confirm whether the bidders for those contracts were indeed invited.

82. The controls over the ACT malaria drugs were not adequate as there was no evidence of an existing logistics management system for the drugs. The ACT drugs are not included in NatPharm's computerized warehouse management system. As a consequence the OIG noted disparities in the book records and actual count quantities in the drugs

83. The process of forecasting for ACT drug requirements was not possible because there was no data coming from treatment centers on a regular basis to

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support forecasting of drug requirements. As a result (i) There are no accurate consumption figures held for treatment centers; (ii) There may be stock outs at treatment centers which are not picked up by NatPharm; and (iii) Where challenges in administering the drugs exist, these cannot be addressed in time.

84. ARV drugs were part of NatPharm's computerized warehouse management system. However, the OIG noted several differences in stock balances. From the review of the supply and distribution system, we noted that on several occasions there were stock outs for ARV drugs.

Bolivia

85. In December 2006, the OIG undertook a country audit of grant programs in Bolivia. Below is a summary of PSM related weaknesses from the audit.

86. Quantification of drugs especially ARVs was defective. This problem was attributed to lack of information of the number of patients due to poor registration records and limited knowledge of HIV patient trends.

87. The LFA procurement assessment of PR, Centro de Investigación, Educación y Servicios (CIES), identified capacity weaknesses in procurement and recommended that WHO procure all drugs and health products. Although this recommendation was included in the grant agreement as a condition precedent to disbursement it was not implemented. CIES undertook the procurement.

88. After grant signature, Bolivia received a grant for ARVs from Brazil. However the quantities for ARVs in the PSM Plan were not adjusted to reflect the additional procurements under this grant.

89. CIES used direct procurement methods as opposed to national competitive bidding in cases where amounts involved meant that the latter should have been used. CIES also awarded contracts to suppliers for products that did not meet technical specifications laid out in the bid documents. Contracts were awarded to companies that did not meet the criteria set out in the bid documents. Key documents such as bidding documents, evaluation reports and contract were missing for most of the procurements.

90. A visit to the warehouse at the national medical store i.e. Central de Abastacimientos y Suministros en Salud (CEASS) revealed the following weaknesses:

- (a) Inadequate shelving, so drugs were not well arranged strewn all over the floor;
- (b) No refrigerators for storage of drugs that should be kept under cool conditions.
- (c) At the time of the audit, there were expired ARV drugs in store and others may expire based on the stock levels held and the anticipated consumption of drugs.
- (d) Expired drugs were kept on the shelves with out due consideration of expiry dates.

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- (e) A consignment of multivitamins was procured for ARV patients. These drugs were rejected by the Ministry of Health, and were due to expire.

91. There was poor coordination between regional stores and health centers leading to stock outs. At the time of the audit, the system of having buffer stock at the regional stores had not been instituted. In 2006, there were four instances where drugs were lost between CEASS and the regional stores.

PSM related issues raised in the Lessons learned report

92. Since its inception, the OIG as part of its mandate to provide assurance on grant processes and other main business processes undertook a number of country audits. The OIG synthesized the issues arising from the 13 audits/reviews undertaken to identify common issues emerging, identify their likely causes and make recommendations to strengthen grant processes. The excerpt below provides a summary of the issues arising from the *Lessons learned report from the country audits and reviews undertaken by the OIG (Report No: TGF-OIG-09-002 Issue Date: 3 September 2009)* that identified common critical issues cutting across the countries audited as well as underlying causes.

Procurement and logistics management of pharmaceutical products

Procurement has been identified in the five year evaluation as one of the key risk areas that can compromise the successful implementation of Global Fund grants. Instances were noted in OIG audits where the procurement process did not result in value for money. Logistics management was found to be ineffective in most countries audited resulting in stock outs and/or expired drugs.

59. The Global Fund requires that the PR's procurement and supply management capacity be assessed before grant disbursements related to procurement of health products are undertaken. Once the procurement plans are approved by the Global Fund, the PR implements the plan. A review of a sample of procurements in Kenya, Uganda, Bolivia, Sierra Leone, Tanzania and Zimbabwe revealed instances where the procurement process did not result in value for money.

60. The OIG observed instances where the Global Fund policy on procurement as well as best practice was not followed. Instances were noted where the lowest bidder was not awarded the contract. In Sierra Leone, the contract to import LLINs was awarded to middle men and not directly to manufacturers resulting in higher prices. In Zimbabwe, all the procurements were made using restricted bidding i.e. bids were sought from a selected number of suppliers without taking into consideration the value of the procurement. In Bolivia, the procurement procedures did not comply with best practice as several exceptions were noted with the procurement method used, evaluation processes and eventual award of contracts.

61. There is no mechanism in place to verify the PR's compliance with the procurement plan. Oversight over the procurement process has been restricted to assessment of procurement plans with hardly any monitoring of PRs being undertaken after the approval of the plan. It is estimated that procurement of drugs and other commodities represents approximately 50% of total grant funds. Emphasis has only been placed on health products leaving oversight over non health products inadequate although a lot of procurement is in this area.

62. The OIG noted in all the countries audited that there were either stock outs and or expired drugs. The underlying reason for this was usually weak forecasting and poor quantification of drugs required for the program. The linkages between forecasting, purchase of drugs and reporting for decision making were also weak. Country systems to ensure effective delivery of drugs to where they are needed were also found to be weak. An example is Uganda where drugs worth over US\$ 2

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million were about to expire at the time of the review. There were no mechanisms in the stores to warn about the likelihood of stock outs/expired drugs and these were only noted after the event.

63. LFA procurement assessments usually identify the lack of capacity to procure as an impediment to implementation. In these instances, the option taken is usually to recruit a third party procurement agent to assist with the procurement. There were procurement agents noted in India, Kenya, Uganda and Zimbabwe. There have been weaknesses identified with the third party agents from the points of contracting with the agent to management of the procurement process by the PRs. This in most cases has resulted in the inefficient running of the procurement process.

64. Although agents are supposed to be a 'stop gap measure', most PRs did not have plans to take over the procurement from the agents. This works counter to the Global Fund principle of not building parallel structures. At the time of the Kenya audit, the OIG noted that contracts had been placed for US\$ 11m under Round 2 Phase 1 for which funds had not been disbursed by the Global Fund. This indicated a failure in controls at the PC and at the MOH. There is no guidance from the Global Fund about how PRs can better manage procurement agents. In the spirit of not building parallel systems, these agents should also not take over but work with PRs to build country structures and systems.

65. During country audits, the OIG visited a sample of stores and reviewed the controls over inventory management. The OIG notes that the following exceptions were common to Bolivia, Sierra Leone, India, and Zimbabwe:

- (a) The stores for drugs were poorly organized with drugs strewn on the floor and in conditions that were not ideal. There was a lack of cold chain facilities for drugs and test kits that should be stored under such conditions;
- (b) Expired drugs were still on the shelves raising the risk of issuing expired drugs;
- (c) More recently procured drugs were distributed before older supplies in stock, increasing the risk of expired drugs;
- (d) Some stocks counted could not be agreed to stock cards;
- (e) The lead time between request of drugs and the delivery of drugs was long; and
- (f) There were stock outs.

93. The country audits undertaken by the OIG, and the work undertaken by the Five Year Evaluation identified consistently weak PSM performance across the various countries. Many of these areas are also highlighted in some of the LFA assessments. As part of PSM oversight, the Secretariat should develop solutions for tackling these aspects in order to strengthen the control environment in which the grants are implemented and to ensure that there is value for money from its investments in the countries. The work done also points to the risks that are prevalent across countries that the Global Fund may need to address through its policies with time. It also points to a lack of rigor in the PSM oversight arrangements in identifying and addressing the risks.

PSM oversight structures

Background

94. There are a number of stakeholders that are responsible for providing PSM oversight. This section of the report provides a synopsis of who the key stakeholders are, what their respective roles are and where applicable makes recommendations about how their work can be strengthened to improve PSM oversight. The Global Fund model places the primary responsibility for PSM oversight on the country mechanisms. However, this responsibility is also partly shouldered by the Global Fund Secretariat and governance structure.

95. At country level, the institutions that should provide PSM oversight are the Country Coordinating Mechanism, the Local Fund Agent, the National Procurement Drug Regulatory Authorities and National Procurement Oversight bodies and the auditors of the PRs. Within the Global Fund Secretariat, the responsibility for PSM oversight lies with the relevant FPM drawing on the support of the Pharmaceutical and Health Technology, Monitoring and Evaluation (M&E), Legal and Program Finance Units. The OIG also in effect provides some PSM oversight to the extent that the Office undertakes country audits, investigates PSM related cases of irregularities and makes recommendations regarding PSM matters.

Country Coordinating Mechanisms

96. The CCM is a country-level multi-stakeholder partnership that develops and submits grant proposals to the Global Fund based on priority needs at the national level. One of the CCM's roles is to nominate a PR that meets the minimum capacities set by the Global Fund. The CCM should ensure that PRs proposed are able to procure and distribute products to their intended beneficiaries in a timely manner and ensures that best value for money is secured. However, the OIG noted that from the country audits undertaken that many of the PRs nominated by the CCMs were assessed by LFAs as lacking the minimum PSM capacity requirements.

97. CCMs are also responsible for overseeing progress during implementation which involves working with PRs to address problems that affect the progress of the programs. The country audits undertaken by the OIG have revealed that PSM remains a challenge in all the countries audited with limited or no involvement of the CCM to address the problems. While one cannot be prescriptive about what should be covered under the CCM's oversight role, it is important that CCMs identify what the critical success factors to their respective grants are and tailor their oversight to these areas. In most cases, PSM will inevitably be a critical success factor to successful grant implementation and therefore qualify for a place on any CCM's oversight agenda.

98. The PSM related issues identified often are cross cutting and far reaching and therefore require the concerted effort of different stakeholders to adequately tackle them. The CCM brings together representatives from both the public and

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private sectors, including governments, multilateral or bilateral agencies, non-governmental organizations, academic institutions, private businesses and people living with the diseases. This is a good forum to address the issues that are likely to be common challenges among the different stakeholders as they implement their respective programs. It is also a good forum to discuss harmonization and coordination of PSM activities across different funders.

99. Many CCMs have established sub committees to support them in executing their defined mandates. Traditionally, CCMs sub committees have been developed by disease component. This sometimes creates a gap especially where there are cross cutting issues like PSM that are likely to fall between the cracks. Another model that has recently become common is the establishment of oversight sub committees by function e.g. management, technical, financial management, PSM, proposal writing etc. The latter model has contributed to better PSM oversight by the CCM since it provides particular focus on PSM.

100. The Global Fund Secretariat CCM team has developed a CCM oversight dashboard that draws attention to procurement as one of the indicators that needs to be closely monitored by the CCM. At the time of this review, the dashboard was rolled out in nine countries. It is expected that the CCM's oversight over PSM will be refined as this dashboard is rolled out to more countries.

Local Fund Agents

101. The Global Fund does not have a country-level presence outside of its offices in Geneva. Instead, it hires Local Fund Agents to oversee, verify and report on grant performance. With regard to PSM, the LFA is required to employ the services of a Pharmaceutical and Health Products Management (PHPM) expert to undertake the following:

- (a) Assess if the PR's PHPM systems and capacity are sufficient to successfully implement the approved proposal;
- (b) Review the PSM plan and provide appropriate recommendations for enhancement;
- (c) Identify any critical capacity gaps that need to be addressed in the short-and/or long term; and sometimes to
- (d) Monitor / review grant implementation and report on any issues or potential risks to effective management arising from the procurement and distribution of pharmaceuticals and health products financed by the grant.

102. The LFA is expected to propose and agree on arrangements with the FPM, based on the country risk context. The Secretariat decides what the scope e.g. desk or country work, volume and frequency of PSM work. The LFA is provided with detailed guidance on what areas the PHPM review should cover. The tool, if rigorously and fully completed, provides the Global Fund with a reasonable amount of information for decision making. This tool also ensures that there is a consistent flow of information to the Global Fund from the different LFAs at country level. This is a good practice.

103. The LFAs were required to undertake the same work in most countries and did not take into consideration the specific risks associated with Global Fund grants in different countries. The role of the LFA has been driven by the templates which resulted in a 'one size fits all' methodology for countries with varying contexts and risks. The country teams using the assessments and verifications, in the OIG's view, should have identified the risks inherent in the Global Fund grants in each country and tailored LFA work to provide assurance on risky areas such as PSM.

104. Based on its work in 16 countries, the Five Year Evaluation concludes that "LFAs have so far not been assigned a firm PSM role and there appears to be substantial variation in how they engage in PSM issues in-country (besides approving PSM plans and at times overseeing large tenders). Although LFAs can play a role in policing the procurement system, this is not a part of their official role."

Recommendation 1 (Significant)

The Global Fund should be some flexibility allowed in the work done by the LFA in order to address key risks identified within the programs funded by the Global Fund in a country. LFA TORs should reflect the risks identified at country level. In this way, the reviews of the LFA will be relevant and help identify critical issues, and help inform, as a starting point, further LFA country and grant specific work.

105. The OIG noted that the way in which the majority of LFAs staff this role is inadequate. LFAs normally do not have PHPM experts available in country. They are usually only available on a 'fly in' basis as part of the assessments undertaken during grant negotiation. The Secretariat recognizes the need to strengthen the LFA's PSM capacity. This is because post LFA retender, LFA teams are required to have PSM experts that have the requisite qualifications i.e. at least 7 years PSM experience and an advanced degree in pharmacy-related field. Some LFAs especially in Africa have not been able to identify people that meet this criteria and who have not been involved in country Global Fund related programs. This is why some PSM experts are only available on a 'fly-in' basis. The LFA Team is already working with LFAs to expand their pool of qualified experts at country and regional levels.

106. In many instances, they are not involved in the implementation phase of the grant. LFAs argue that most PSM related work is undertaken as part of the grant negotiation processes and they do not see the need to keep these experts once the grant implementation is underway. They therefore call them in when they are needed during the life of the grant.

107. Where LFAs have engaged a team of PHPM experts to review the PSM assessments, the experts fly into the relevant country for a number of days, undertake their assessment and write a report. They are normally not available to verify any follow up information that may be provided by the PRs. In such instances, a desk review is undertaken by the LFA. In other instances, where they are unable to travel to the country, then desk reviews of information are

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undertaken. Desk reviews of PSM capacity are ineffective in as far as the LFA is unable to physically verify the PSM related information provided by the PR.

Recommendation 2 (High)

All capacity assessments undertaken by PHPM experts should be undertaken in country and all structures and systems in the plan physically verified. The decision to undertake a capacity assessment by desk review should be discouraged and, when made, should be in consultation with the Global Fund Secretariat (relevant country team) to ensure that there are no risks that are overlooked.

108. The monitoring of PR activities against their approved PSM plans is one of the available options for oversight. However, there is no requirement for LFAs to review PSM processes during the grant implementation stage. This is only undertaken at the request of the FPM and normally happens in exceptional cases where there has been a complaint about a procurement process. The OIG commends the good practice in the Latin America and Caribbean Team where the LFAs on an annual basis are requested to review a sample of procurement processes undertaken by each PR.

Annual procurement reviews undertaken by the Latin America and Caribbean Team

The LAC Team requires all its LFAs to undertake annual Procurement Review and provide the Global Fund with assurance that the procurement, contracting, and implementation processes, financed from Global Fund resources were undertaken transparently and will result in value for money. The specific objectives of the Review are to:

- (a) Review the capacity of the PR in handling procurement efficiently and effectively and determine whether there are adequate systems in place for procurement planning, implementation and monitoring and documentation are maintained as required by the Global Fund;
- (b) Determine whether the procedures, processes and documentation for procurement undertaken were transparent and competitive, and that procurement resulted in value for money;
- (c) Determine, to the extent possible, whether identified non-compliance with the PR's procurement manual or the Grant Agreement, inappropriate practices or questionable decisions/actions, may have resulted in irregular practices;
- (d) Verify, to the extent possible, that Goods, Works and Consulting Services contracted were supplied/completed according to the required specifications, ToRs and technical standards and comment on the reasonableness of prices; and
- (e) In the light of deficiencies, identify possible improvements in the procurement procedures and processes and make recommendations.

The review covers a sample of:

- At least 10% of procurement activities that are less than USD 20,000
- At least 30% of procurement activities between USD 20,000 and USD 100,000
- At least 50% of procurement activities that are more than USD 100,000

109. This PU/DR template currently does not adequately cover PSM matters and so challenges in PSM are not brought to the fore front for decision making. For example, the OIG noted that in most of the countries it audited, there were cases of expiry and/ or stock out of drugs but these matters had not been brought to the attention of the Global Fund Secretariat through the periodic reporting. Despite the significance of procurement to grant implementation, the Phase 2 LFA template only has one question related to PSM.

110. This matter has been raised in the OIG's *Lessons Learned* report. At the time of this current review, the PU/DR template was under revision and one of the areas identified for strengthening was PSM related information. Specifically the revised form will involve providing information about whether (i) there are any risks of drug stock-outs; (ii) there are any forthcoming drug expiry issues; and (iii) there are any issues related to the PSM of health and non-health products. The LFA will verify the PR's explanations and provide analysis on any PSM issues to the Global Fund. The new template had not been rolled out at the time of writing this report.

Recommendation 3 (Significant)

(a) The Global Fund Secretariat should periodically review LFA PU/DR and Phase 2 assessment report templates to ensure that they reflect any risks that may emerge.

(b) The LFA should be required to review the status of the implementation of the PSM plan as part of its quarterly review as well as the progress in implementing other recommendations made for improvement of PSM systems.

National Procurement Oversight Authorities (NPOAs)

111. NPOAs have been around for a long time operating under a variety of labels. Traditionally, their main function is to perform administrative functions related to the operation of a country's procurement system, more often than not under the overall guidance of the local Ministry of Finance. Recent years have seen procurement reforms in most country settings with their mandate changing to taking on the role of procurement oversight bodies.

112. The NPOAs are of paramount importance in regulating the procurement environment in which PSM activities will happen. The effectiveness of these bodies affects the respective countries' procurement environments since governments are often the largest purchaser of goods and services and the way governments do their business depends on the actions of the NPOAs. The national PSM structures, policies and procedures established by these Authorities therefore provide a backdrop against which PSM activities are undertaken at the country level.

113. Most NPOAs have the mandate to provide procurement oversight by (i) setting up a legal framework within which procurement is undertaken by government related entities; (ii) ensuring that procurement procedures are complied with; (iii) monitoring the public procurement system and recommending improvements; (iv) assisting in the implementation and operation of the procurement system; and (v) initiating public procurement policy and amendments to the relevant legal frameworks.

114. The Global Fund advocates for the use of existing systems and frowns on the creation of parallel systems. In instances where the country systems do not meet the Global Fund PSM capacity requirements, the OIG has found that parallel systems are often established which often fall outside the mandate of the NPOAs.

115. The OIG visits NPOAs as part of its country audits. The OIG noted NPOAs often have limited information about the programs funded by the Global Fund, and do not see themselves as having a role to play in providing PSM oversight over programs funded by the Global Fund. In a few instances, the OIG noted the involvement of NPOAs in programs funded by the Global Fund in the following areas: (i) the complaints handling mechanism where bidders submitted complaints about a procurement process; and (ii) where PRs seek exemptions from following the laid down procurement regulations. The OIG otherwise did not see evidence of active Global Fund engagement with these bodies.

116. Most NPOAs have a monitoring arm that undertakes inspections, audits and investigations. These reviews normally cover only Ministries and Government parastatals and do not cover other programs funded by other parties unless specifically requested to do so. The results of such procurement audits can be used in assessing the procurement environment within which programs funded by the Global Fund will operate. Another PSM oversight aspect that has not been well explored (except in the few instances noted above) is using NPOAs as a local point of reference for complaints since they have the authority to review and implement their recommendations.

117. However it is noteworthy that the capacities of most NPOAs are still under development which means that they are not yet fully effective in undertaking their oversight role. There is also scope for a better dialogue with these entities to ensure that programs funded by the Global Fund are included in any oversight activities that are undertaken by the NPOAs.

National Drug Regulatory Authorities

118. National governments are responsible for establishing national drug regulatory authorities that promote and protect public health by ensuring that (i) medicines are of the required quality, safety and efficacy; (ii) health professionals and patients have the necessary information to enable them to use medicines rationally; (iii) medicines are appropriately manufactured, stored, distributed and dispensed; (iv) illegal manufacturing and trade are detected and adequately sanctioned; (v) promotion and advertising is fair, balanced and aimed at rational drug use; and (vi) access to medicines is not hindered by unjustified regulatory work.⁸

119. The PSM capacity assessment undertaken by LFAs covers an assessment of the NDRAs as oversight structures for the qualitative aspects of drugs. Where found to be lacking in capacity, the Global Fund has provided financial support towards the strengthening of these Authorities in the execution of their mandate.

120. NDRAs are noted by the OIG to have better awareness of the programs funded by the Global Fund than the NPOAs. However, in the execution of their mandate, the National Drug Authorities will generally follow their national

⁸ World Health Organisation – Assessing national medicines regulatory systems

guidelines which may sometimes not be adequate to address the quality assurance policies of the Global Fund.

121. The Global Fund's QA policy requires that laboratories recognized by National Drug Authorities that meet certain criteria should undertake drug quality monitoring. The Global Fund QA policy requires that such laboratories meet certain criteria before they are eligible to conduct quality assurance monitoring. The OIG notes that most laboratories used by NDRAs in the countries audited do not meet the conditions prescribed by the Global Fund QA policies and they often lack the resources to send samples to the pre-qualified laboratories. The Global Fund grant budgets should make provision for testing of QA samples but NDRAs are sometimes not aware of this provision.

122. The country audits undertaken by the OIG to date have revealed some issues that point to the need to strengthen further the regulatory authorities to enable them to effectively executing their mandate and providing effective PSM oversight at a country level. Some of the weaknesses noted have been (i) importation of drugs that are not registered with the drug authority; (ii) delays caused by registration of drugs with the authority; (iii) delays in the disposal of expired drugs; (iv) inadequate testing of samples of imported drugs; and (v) inappropriate storage for drugs. In most cases the gap created by the lack of capacity remains unfilled during grant implementation.

123. It should also be noted that NDRAs are prone to political interference e.g. a NDRA may not be in a position to refuse the registration for medicines produced by a national company. An assessment by WHO in African countries revealed that between 50% and 90% of anti-Malarial drugs on the market did not meet international standards.⁹ A University of the South Pacific (USP) report of June 2009 showed that 27% of Artesunate under distribution in Cambodia was counterfeit. This points to the potential of ineffective NDRs to be operating in country and raises the question of whether they can be relied on to provide QA.

124. The challenge this creates is to identify what mechanism the Global Fund can place reliance on for QA oversight in cases where the NDRA is found not to be capable of executing its mandate effectively.

Recommendation 4 (Significant)

The collaboration between the Global Fund and relevant National Institutions e.g. the National Drug Regulatory Authorities and the National Procurement Oversight Authorities of the respective countries receiving grant funding should be strengthened in order to secure better oversight over the Global Fund grants. This collaboration can be built into the soon to be rolled out "Pharmaceutical and Health Product Management (PHPM) Country Profile"¹⁰ approach as part of the country PSM assessment.

⁹ World Health Organisation - The quality of Anti Malarials - A study in 10 countries, February 2010

¹⁰ The Country Profile will build upon and improve existing knowledge to holistically describe country systems and capacity, rather than only focus on grant-specific implementation arrangements. The Country Profile will describe the systems and structures used by the PR for PHPM, the complementary efforts of different grants

Auditors

125. The PR is required under the grants signed with the Global Fund to appoint auditors that will carry out financial audits of the programs funded by the Global Fund in accordance with agreed upon ToRs. The current PR audit TORs issued by the Global Fund do not make provisions for auditors to provide assurance over PSM systems, policies and processes. The International Standards on Auditing require that audits are risk based. This suggests that PSM will only be included in the audit scope if the auditors assess the PSM area as risky.

126. The Global Fund Secretariat was in the past year involved in a discussion about what the audit ToRs should cover and it was agreed not to add additional scope to the financial audits as this would complicate the audits and increase the audit fees. This position is reasonable and the need to increase the scope of an audit to cover PSM should be risk based and identified on a case by case basis.

127. One area that would strengthen PSM arrangements in country would be having an internal audit department that reviews the control environment within which grants are implemented. However, having an internal audit department is not a mandatory requirement from the Global Fund. The OIG has noted from past country audits, that in cases where these departments exist, they have not always provided effective assurance due to lack of resources, inadequate staffing levels and having a mandate that usually covers only government programs and this does not necessarily cover the programs funded by the Global Fund.

Board Committees

128. PSM related matters have been actively addressed at the Global Fund Board level mainly through the Policy and Strategy and Portfolio and Implementation Committees. These Committees have overseen the development and subsequent refinement of the PSM related policies and procedures as they stand in the Global Fund today.

129. In 2009, the Board recognized that over half of its portfolio is spent on commodities (and their distribution) and that issues around market dynamics, procurement, and health technologies were not being addressed within the current oversight mechanisms. Additionally, the Board recognized that initiatives such as the Price Reporting and Quality Mechanism, the Voluntary Pooled Procurement mechanism, and the Quality Assurance policies would benefit from stronger oversight and review. This culminated in the establishment of the Market Dynamics and Commodities Ad Hoc Committee (MDC).

130. The MDC is a temporary ad-hoc committee. By definition, this committee is ad hoc implying that it has been set up for an objective that no standing organ or committee in the Global Fund governance structures can absorb into their scope of

and funding in the country, and provide an overview of the different institutions in-country and their roles in PPHM.

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responsibilities. However, it also carries with it the implication that it is temporary and should be dissolved on completion of its tasks. Based on this review, the OIG notes that within the current Global Fund mandate, PSM is and will continue to be an area that the Board should provide specific attention to. It may therefore be appropriate to establish this committee as a standing committee to which oversight of other emerging aspects like the AMFm can be added.

131. The decision to strengthen PSM oversight at Board level and to cascade the outcome down to the Secretariat should be driven by the Global Fund's risk appetite. Risk appetite is the amount of risk exposure, or potential adverse impact from an event, that the organization is willing to accept/retain. This will fall within the Global Fund's overall risk management framework¹¹ and would help the Board determine the level of time and resources that should be dedicated to PSM to manage risk exposure. For example, any conscious decision by the Board not to increase oversight standards but to give prominence to country ownership may increase the risk to the Global Fund's investments. Therefore the risk that the Board is willing to take will help it determine what concessions, if any, may need to be made to the Global Fund model to accommodate the extra oversight required over PSM given the associated risks.

Development partners

132. The Global Fund has no country presence and therefore relies on in-country stake holders including the development partners to oversee the grant implementation process. These Development partners play an important role supporting the programs funded by the Global Fund by sitting on the CCM or some other donor forum e.g. the health development partner group found in many countries. These Development Partner groupings provide oversight over activities in the health sector. Development partners are also key in mobilization of technical and financial support in the Health Sector.

133. Coordination with regard to PSM activities takes various forms e.g. division of territory or function e.g. some donors supporting logistics management information systems and others storage or drug regimen where one donor may provide first line ARVs and another donor second line ARVs. However, as stated in the Five Year Evaluation, there is hardly any coordination of purchases to reap better economies of scale nor coordinated price negotiations with other partners.

134. Some development partners are already undertaking more PSM oversight activities than the Global Fund e.g. procurement audits, having technical assistance in the procurement units and in stores, establishing logistics management systems etc. In the OIG's view, there is a need for better collaboration with the activities undertaken by the development partners so that

¹¹ GF/PSC13/07 - At its Twentieth Meeting in November 2009, the Board (GF/B20/15) endorsed the Risk Management Framework of the Global Fund. The risks in the corporate risk register that are related to PSM are (i) Financial Fraud within Grants (ii) Poor Quality Pharmaceutical Products (iii) Independence and Objectivity of Program Oversight.

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the country grant programs funded by the Global Fund can benefit from these activities more effectively.

135. There are also development partners that are undertaking procurement at global level that the Global Fund should have better collaboration with e.g. UNITAID, Clinton Foundation, PEPFAR etc. Such dialogue at a global level can result in initiatives that help address PSM challenges at a national and international level.

Recommendation 5 (High)

The Global Fund should consider the benefits of playing a more active role in resolving or mobilizing development partners at global and national level to resolve procurement problems even if it comes at the cost of 'flexing' the principles of the Global Fund as a 'financing only' entity.

Country Programs

136. Procurement oversight at the Global Fund Secretariat is undertaken through the Country Team Approach (CTA). This Approach was coined to enhance collaboration in grant management across the Global Fund Clusters. The FPM and representatives from the technical advisory teams i.e. Pharmaceutical Management Advisory Services (PMAS), Monitoring and Evaluation (M&E), Finance; and Legal form the Country Team. This approach provides for FPMs to seek advice from technical advisory teams as part of the grant negotiation and signing of agreements. This approach was initially developed to facilitate grant negotiations, but the OIG recognizes that it is applicable to all the other stages of the grant making process.

137. The CTA is defined in the Operations manual which lays out the principles, roles and responsibilities of the various parties. The key principles on which this Approach are based are:

- (a) The FPM under the supervision of the Regional Team Leader is responsible for managing the grants with Principal Recipients (PRs).
- (b) The Country Team members work together to meet the goals and corporate key performance indicators within agreed timelines.
- (c) CT members ensure that due diligence is followed in their respective areas of expertise to enable timely, efficient, and accountable grant signing.
- (d) Members (i) work and address issues in a collegial and collaborative manner striving for consensus to the extent possible, (ii) agree on timelines and deliverables, and (iii) commit to provide timely advice and inputs.
- (e) Each advisory team will establish its internal processes to ensure continuity and consistency in the individuals involved during the grant negotiations process. Decisions about grant agreement during key milestones of the negotiations process should be based on consultation among Country Team in a timely manner to enable all members to provide inputs relevant to their subject-matter expertise.

138. The effectiveness of the CT approach lies in its underlying principles. The FPM leads and manages the Country Team process which among other things

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involves managing Country Team's inputs and making decisions with the Regional Team Leader after consideration of technical inputs from advisory teams. The decision making responsibility is allocated exclusively to the FPM under the supervision of the respective Team Leader. The technical teams offer advice to guide actions but the FPM is not obliged to follow the advice. In the OIG's view, there is a need to bring all the technical teams to the decision making table in order to ensure that decisions made are reflective of the due diligence by the CTA.

139. The CTA does not provide a mechanism to ensure that all advice provided is handled appropriately i.e. either used or a rationale provided in cases where the advice is not followed and mitigating actions instituted to address the assessed risk. As a result, where advice is not taken, additional safeguards may not be put in place to mitigate the risks identified. An example is the case where the Global Fund received a request to procure mosquito nets following the single source method with 'emergency' as the rationale. The PMU advised against this but Country Programs went ahead to approve the procurement through single sourcing. However, these nets had not been received one year after the authorization was granted by the Global Fund which brings into question the rationale of this procurement being an 'emergency'.

140. The CT members work together to meet the goals and corporate key performance indicators within agreed timelines. However, there are conflicting goals between the FPM and technical advisory teams. The FPMs are assessed against their ability to sign agreements within the approved timelines and thereafter disburse funds to countries.

141. On the other hand the technical advisors have a responsibility to ensure that due diligence is undertaken to identify and mitigate risks that Global Fund investments may be exposed to. This due diligence is likely to raise issues that delay the signing of agreements and disbursement of grants. Since one cannot easily reconcile the two conflicting principles, there is a need to ensure that decisions made are optimal by taking into account all the positions of the CT team.

142. This notion is reinforced in the Five year Evaluation¹² that states that "...the Secretariat-level responses to PSM problems in countries are ad hoc and lack standardization. Some FPMs are actively intervening to resolve problems while others are more prone to leave this up to partners or the CCM. This was expressed in a staff interview as, "everything filters through the FPM's individual values." The pressure is on FPMs to meet deadlines; this may contribute to the perception among some that the Procurement Unit causes unnecessary delays in disbursements when PSM problems are identified.

143. The policy provides for instances where there is a lack of consensus among Country Team members. In these cases, the CT members submit the issues to the Regional Team Leaders and Managers of the Technical Advisory Teams for resolution through a memo. If the issues remain unresolved, these are presented to the Country Programs Unit Director who, in consultation with the Country Programs

¹² Five year evaluation – Study Area 1 (Page 117)

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Cluster Director, will make a decision. The resolution mechanism is exclusively assigned to the Country Programs Cluster without the input of the technical team which undermines the checks and balances established in the CTA and also undermines the overall control environment within the Secretariat.

Recommendation 6 (High)

The Global Fund should establish an accountability framework that addresses the roles, responsibilities, authorities and accountabilities of various stakeholders to ensure that the grant making process is managed more efficiently and effectively.

144. The CT approach is also only as effective as its application. The OIG noted some instances where the CT approach was not applied as part of the grant making process e.g. the advisory teams were not always consulted. When applied, the consistency with which it was implemented differed from Team to Team within the Cluster and from country to country. Until such time that this approach is enforced consistently, then the Global Fund will not be able to reap its benefits.

Recommendation 7 (High)

The Global Fund should enforce the CT Approach across all country grant programs to ensure that due diligence is followed for all decisions made and proper checks and balances are in place to facilitate optimal decision making.

The Pharmaceutical Management Unit (PMU)

145. The PMU comprises of the Voluntary Pooled Procurement (VPP) team, the Pharmaceutical Management Advisory Services (PMAS) team and the Quality Assurance (QA) and Quality Assurance and Data Management (QADM) team. These teams primarily focus on developing policy and assisting countries with interpreting policy requirements when procuring products. The VPP team is responsible for leading the implementation of Voluntary Pooled Procurement and related capacity building services. The work done by VPP is not part of the scope of this review.

Pharmaceutical Management Advisory Services (PMAS)

146. The PMAS team on request of the FPM (i) reviews PSM plans; (ii) advises on PSM implementation issues including assessments, reviews and proposed solutions; (iii) provides in-country PSM support; (iv) develops conditions precedent in grant agreements and provides PSM support during grant negotiation; and (v) reviews Phase 2 grants and participates in the Phase 2 review panel. The PMAS team is a member of the CT and its effectiveness within the CT is impacted by the issues raised about the CT approach in the section above.

147. The number of staff has increased over the years from two to eight (including one consultant) but this increase has been overtaken by the increase in the number and size of grants. The staffing numbers are not commensurate to the heavy and wide ranging work load of this team. This team works long hours and travels extensively in order to meet its mandate but the resource constraints inevitably constrain the timeliness and possibly the quality of its deliverables.

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148. The OIG compared the head count in the PMAS team with that of other technical teams. The OIG noted that the other technical teams have double the head count of the PMAS team. This comparison is made recognizing full well that the nature of work of the teams is not the same. Nevertheless, in the event that all teams have to work on preparing the same number of grants for signature e.g. over 300 grants in 2010, the team with less staff members will definitely feel a greater burden of the work.

	M&E	Legal	Program Finance	PMAS
Manager	1	1	1	1
Team Leader	1	-	-	-
Technical Officers	11	10	15	7
Program Officers	2	4	-	-
Assistants	2	3	1	-
Total	17	18	17	8

Recommendation 8 (Significant)

Given the current restriction on the increase of the head count, the Global Fund should consider reallocating resources to this team and/or using consultants in times when the work load is high e.g. when there are a large number of grants to sign.

149. The OIG commends the PMAS team for the development of the *Pharmaceutical and Health Product Management (PHPM) Country Profile* approach which once implemented should be a more efficient and effective way of doing business. This approach moves countries away from having to prepare PSM plans and their capacity having to be assessed for every grant. A country's PSM capacity is assessed once and only updated when there are changes on the products to be procured under new grants. It is consistent with the single stream of funding concept. Although this should reduce the volume of work associated with grant signature at country and Secretariat level it will not affect the other PSM work that the team is involved in.

The Pharmaceutical and Health Product Management (PHPM) Country Profile approach

The current PSM Plan template is linked to a specific grant and describes a) how a Principal Recipient (PR) will adhere to Global Fund PSM policies; and b) the systems and structures for managing pharmaceuticals and other health products for that grant. Each PSM plan focuses on grant-specific implementation arrangements and issues, thus encouraging a "project-based" approach. Currently, PRs are not encouraged to:

- a. Take a holistic view of the a) procurement and supply management capacity, b) all of the Global Fund grants in country (many of which are managed by the same PR), and c) other donor-supported programs;
- b. Identify gaps in the procurement and supply management systems, and focus on addressing those weaknesses, possibly with support from other partners; and
- c. Take a long-term view of program implementation and plan how Global Fund resources aimed at the three diseases can help improve the general procurement and health product management systems.

Additionally, with more and more grants and repeat PRs in each country, the current PSM Plan fails to consolidate and improve the Global Fund's knowledge of country systems and capacity. It also requires unnecessary duplicative efforts from PRs, LFAs, and Global Fund staff. The concept

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developed by the PMAS Team, proposes an alternative approach to assessing PR PHPM capacity, through two components: a) A Country Profile that describes the general procurement and health product management systems in a country; and b) A revised, lighter, PSM plan focusing on essential, grant-specific information.

The Country Profile will build upon and improve existing knowledge to holistically describe country systems and capacity, rather than only focus on grant-specific implementation arrangements. The Country Profile will describe the systems and structures used by the PR for PHPM, the complementary efforts of different grants and funding in the country, and an overview of the different institutions in-country and their roles in PHPM. The Country Profile will encompass about 80% of the information contained in the current PSM Plan. Its content will be flexible enough to capture the different in-country PRs and contextual arrangements. The current LFA PHPM Assessment Report will be integrated into the PHPM Country Profile. However, the LFA's review of the Country Profile will not be linked to grant signing.

The revised PSM Plan will provide the essential grant information: a list of key health products, including quantities and unit costs, a procurement schedule, and the proposed procurement methods. This represents about 20% of the current PSM Plan. The LFA will review the revised PSM Plan and the country profile, but this will take less time and effort.

Quality Assurance and Data management

150. The Quality Assurance and Data Management team manages the development and review of PSM policies including the quality Assurance policy, their implementation and data management. Their work also covers the management and analysis of procurement data under the Price and Quality Reporting (PQR) Mechanism. With regard to data management, this team is responsible for: (i) analysis and reporting of Price Quality Reporting (PQR) usage data on a monthly basis; (ii) management of the PQR system; (iii) development and management of budgets; (iv) non PQR / PRM related data analysis and (v) reporting to meet internal and external user requirements.

151. The PQR system gathers information about product prices, product quality and supplier performance and assists the PRs and the Global Fund Secretariat team in monitoring and evaluating the procurement process as detailed in the diagram below:



152. As already mentioned the data that is collected is limited to several products. The OIG noted that there are health products that take up large portions of the budgets that are not monitored e.g. insecticides under Malaria. The information produced by this team should be reviewed periodically in light of the changing environment in which grants are being implemented in order to ensure

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that it remains relevant for decision making. For example, the products that are reported in the PQR should be reviewed against data on where the PRs are spending most of the money. The OIG for example noted that under the Malaria grants, a lot of the budget i.e. up to 40% is going towards insecticides but this is not monitored in the PQR.

153. The OIG was provided with a copy of the monthly PQR usage report (June 2009) that provided a progress update regarding procurement data reported in the PQR for the key health products required to be reported i.e. ARVs, anti-malarials and anti-TB products, Condoms, bed nets and Rapid Diagnostic Tests (RDTs). The report showed that the Latin America Team has the highest reporting of grants in the PRM (100%) while Southern Africa has the lowest (68%). Details are provided in the table below. More recent formulations of the PQR reports do not allow for such an analysis:

Cluster	Grants			Value		
	No. of Grants	Grants Reported in PQR	% of Grants Reported	Estimated Target Value	Reported Value	% of Value Reported
East Africa	49	43	88%	797.6	494.3	62%
West and Central Africa	66	59	89%	408.6	192.1	47%
Southern Africa	41	28	68%	496.3	189.0	38%
Middle East and North Africa	51	43	84%	219.9	81.7	37%
Latin America and Caribbean	47	47	100%	293.9	108.2	37%
South and West Asia	42	29	69%	226.1	114.5	51%
East Asia and Pacific	69	58	84%	496.1	116.0	23%
Eastern Europe and Central Asia	52	48	92%	306.0	114.0	37%
GRAND TOTAL	417	355	85%	3,244.5	1,409.9	43%

Source: PQR prepared by Quality Assurance Team

154. The Secretariat continues to face challenges in ensuring that the PQR is comprehensively completed. Mechanisms to assure PQR completeness have been introduced by the Global Fund i.e. (i) the LFAs have to verify accuracy and completeness of each PQR entry before disbursement, (ii) the PQR reporting status per grant is reported in the PU/DR form and (iii) PQR reporting is verified for the phase 2 review. The PMU informed the OIG that this remained a challenge as the total value to be reported per grant does not match with the total expenditures for pharmaceutical and health products (only key products are to be reported). Therefore completeness verification is made against cumulative estimated values.

155. This team is also responsible for Quality Assurance¹³ which covers (i) development of operational procedures and guidelines; (ii) management of quality control testing activities; and (iii) monitoring of compliance with the Global Fund QA policy. At the end of each month, the Quality Assurance Policy team prepares, using data from the PQR, a report that shows the drugs purchased by the PRs using

¹³ Quality assurance refers to the management activities required to ensure that the medicines (and/or other health products) that reach patients are safe, effective and acceptable to the patient. These activities may include, but are not limited to, (pharmaceutical products) registration, pre-qualification and quality control.

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Global Fund funds. There are clear policies and guidelines prepared by the team and these have been communicated to all PRs.

156. The PQR is the main source of information for the Secretariat in monitoring compliance with the QA Policy for Pharmaceutical Products (all ARVs, antimalarials, anti-TB products) after products have been purchased and received in countries. The monthly compliance report facilitates corrective actions when non compliance issues arise. The Secretariat also has a notification process in place, as another means of monitoring compliance with the QA Policy. The notification process (through which the Secretariat provides a non objection) is required for all products that are not yet meeting stringent criteria set out in the QA policies.

157. However, the PQR has some limitations. The PQR covers a limited number of products and this prevents the Secretariat from monitoring the quality health products. For example it does not include indoor residual spraying insecticide. This prevents the Secretariat from monitoring the quality of all health products. In the event that non compliance with PQR reporting is identified before shipment, the Secretariat organizes Quality Control testing of such products retroactively when possible (post shipment) as part of the retrospective approval of the procurement. The OIG noted instances where PRs that did not complete the PQR and so by default will not be quality assured e.g. Zambia, Kyrgyzstan. In cases of non compliance, retrospective approval of the procurement is granted. However this formalizes non compliance with a process but does not address the risk of having compromised product purchased with Global Fund resources.

158. Incidences of non-compliance to the Global Fund Quality Assurance policy are highlighted in the monthly Quality Assurance report, which is circulated to the Directors of Strategy, Performance and Evaluation (SPE) and Country Programs, and the Chief Finance Officer. Incidences of non-compliance to Global Fund Policy are invariably given by retrospective approval for the procurement from the Global Fund Secretariat. Continued non-compliance results in a formal warning of the PR and action taken, which may lead to direct payment of products by the Global Fund on behalf of the PR. Additionally, the QADM team has put in place a monitoring tool for tracking actions for identified non compliance since June 2009. The OIG was not provided with evidence that any action had been taken on the exception reports submitted to Country Programs.

159. The enforcement of the Quality Assurance policy was noted to be lacking by the Five Year Evaluation since PRs cannot comply with a policy that they are not aware of. The Five Year Evaluation states that only 50% of the sample of PRs reviewed were aware of the Quality Assurance policy. It also noted that PRs in some cases were not aware that this policy had evolved since the inception of the Global Fund. The grant agreement clearly stipulates the latest QA policies. However, it is unlikely that the procurement team will have access to the grant agreement. The PMU also provides workshops during regional workshops. However, the relevant audience may not attend these meetings are headed by the heads of programs and rarely by the procurement staff.

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160. Based on the risk management approach, the QADM prioritizes products for which impact of uncertain quality is the most critical i.e. pharmaceutical products. However, the QADM team should, in the OIG's view, also cover QA issues for non pharmaceutical health products such as bed nets, condoms and diagnostics. It does not do so at present. Consequently, most of the quality assurance work is targeted at drugs and not other non drug health products e.g. bed nets where the impregnation of the net with more than required chemical can have adverse effects on the beneficiaries as can an excessive level of insecticide used for indoor residual spraying. The operational procedures and guidelines developed and management of quality control testing activities are more applicable to drugs than non drug health products. The Secretariat report that they have developed information notes on the procurement of LLINs and RDTs but the OIG found that these did not adequately cover the QA raised above. A review of QA for diagnostics is underway with a commitment to develop a QA policy by the end of 2010.

Recommendation 9 (Significant)

(a) The Quality Assurance Team should strengthen the monitoring of quality assurance of products by undertaking periodic reviews of the health products being undertaken by the Global Fund and assessing whether there is a need to add or remove some products.

(b) Country Programs should enforce the policies that relate to following up the QA related exceptions and if need be granting penalties to offenders as provided for in the QA policy. This will create awareness about the QA policy and the need for PRs to comply.

(c) The Quality Assurance Team should also cover other non drug related health products. The operational procedures and guidelines should be refined to give greater coverage to non drug health products so that any health associated risks may be addressed.

Office of the Inspector General

161. 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 in place to manage the key risks impacting the Global Fund's programs and operations. The scope of work of the OIG encompasses all aspects of the Global Fund's activities including those carried out on its behalf by its program recipients, partners and suppliers. All systems, processes, operations, functions and activities within the Global Fund are subject to the IG's review, evaluation, and oversight. The main activities undertaken by the OIG are audit and investigations.

Audit

162. The OIG has a mandate to audit and investigate country grant programs which invariably cover PSM activities. The OIG's audit team typically includes a PHPM expert who reviews PSM capacities and systems that are used to deliver

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Global Fund funded health and non-health products. The findings of such a review are submitted as part of a comprehensive country audit report. The number of country audits that the OIG has undertaken is small (11 in 2009) and 20 planned for 2010) when compared to the countries where the Global fund has invested resources. This audit coverage is not adequate to provide the necessary global assurance about PSM activities in country.

Investigations

163. The mandate of the OIG provides for it to undertake investigations of potential fraud, abuse, misappropriation, corruption and mismanagement (collectively, "fraud and abuse") within the Global Fund and by Principal Recipients ("PRs"), Sub-Recipients, Country Coordinating Mechanisms ("CCMs"), Local Fund Agents ("LFAs"), as well as Suppliers and those with whom Suppliers engage in connection with their activities to implement Global Fund projects, programs or operations, or that receive, have received, or have sought to receive, Global Fund funds, either directly or indirectly, but not limited to, their agents, intermediaries, subcontractors and assignees. Such investigations may be carried out where the programs and projects are, or have been, implemented as well as those locations where evidence and witnesses may be located.

164. The OIG has established a hotline through which whistle blowers are encouraged to report allegations of irregularity. The OIG has established a mechanism through which complaints can be analyzed and shared with the Global Fund Secretariat for decision making. These issues are an indication of risks that are emerging that the Global Fund may need to address through its policies over time.

165. A number of significant risks to Global Fund programs are emerging:

- (a) Wiring of product specifications: Product wiring is the act of creating tender specifications for a procurement that will favour a specific bidder. This practice is possible when the PR procurement staff collude with one of the potential suppliers to give them an unfair advantage during the bidding process, or where the PR does not have the expertise to prepare product specifications. The OIG recognizes the difficulty in putting in place controls over a process that is operated wholly by the PR or a Procurement Agent.
- (b) Procurement Agents are retained by PRs when the PR has capacity limitations in undertaking procurement activities. However the contractual responsibilities for PSM still rest with the PR in accordance with the grant agreement. Most PRs do not have the capacity to contract, monitor and evaluate the activities of Procurement Agents. The OIG also notes that Procurement Agents do not always improve the capacity of the PR to undertake the contracted services in the short to medium term. This would be desirable to support the Global Fund principal of encouraging the development of country systems.
- (c) Quality assured health products imported using Global Fund funds may be exchanged for inferior or counterfeit products which are then distributed to

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the intended recipients of the grants. The quality assured health products are then sold in commercial centers in the country or exported to neighbouring countries. Although this risk cannot be easily quantified, it has a great impact on the grant program both in terms of reputational risk as well as endangering the lives of the recipients of Global Fund programs.

- (d) Lack of ethics and integrity among major suppliers to Global Fund Programs. The Global Fund core principles require open, transparent and accountable procurement processes. The OIG encourages suppliers and other stakeholders in procurement to report practices that indicate lack of ethics and integrity.

166. The OIG has supported the Global Fund Secretariat in the development of a Code of Conduct for suppliers. This is currently on the Global fund website that is (<http://www.theglobalfund.org/documents/business/CodeOfConduct.pdf>). The goal of this code is to enlist suppliers' commitment to maintain integrity of the grant operations funded by the Global Fund and corporate procurement activities. The Code of Conduct is based on the core principles and ethical values of the Global Fund, including probity, transparency and accountability. Building on the Global Fund's existing policies and practices, the Code sets clear and coherent guidelines that all suppliers are expected to adhere to. It also clarifies and communicates its policy on sanctions against suppliers. The related sanctions procedure sets out the actions that the Global Fund should take when there is evidence that the Code has been breached.

PSM oversight policies and processes

167. The Global Fund's role in PSM (including its oversight) is primarily focused on policy setting and assistance to countries with policy requirements when procuring products with Global Fund resources for the prevention, treatment and care of HIV/AIDS, Tuberculosis and Malaria.¹⁴ The Global Fund has adopted a set of policies and principles on PSM that support the procurement of quality-assured medicines and other health products in sufficient quantities, reduce cost inefficiencies, ensure the reliability and security of the distribution system, encourage appropriate use of health products and continuously monitor and evaluate the procurement process.

Principles and policies that underpin PSM oversight

168. The Global Fund's approach to PSM and its oversight is guided by the principles. All Global Fund PSM principles and policies are available on the Global Fund website. These are listed below:

- (a) Principles and minimum standards, not detailed procedures;
- (b) Build upon existing systems;
- (c) Distinction between health and non-health products;
- (d) Expanded definition of Procurement: Pharmaceuticals & other Health Products Management (How health products arrive in a country and what happens to them subsequently); and
- (e) Principal Recipient (PR) is responsible for all PSM activities (whether directly implemented or sub-contracted).

169. Although the Global Fund is not engaged in direct procurement activities, which are managed and conducted under the full responsibility of grant recipients, it provides the following mechanisms to promote safe and cost-effective procurement of health products:

- (a) *Procurement and Supply Management (PSM) Plan*: The objective of the PSM plan for health products is to outline how the PR will adhere to the Global Fund's procurement and supply management policies.
- (b) *Quality Assurance Policy*: The Global Fund's revised quality assurance policy (effective 1 July 2009) defines the requirements which must be met for finished pharmaceutical products (FPP) funded with Global Fund resources.
- (c) *Price and Quality Reporting (PQR)*: database (formerly PRM) offers information on procurement of selected health products, including prices and results of quality control testing.
- (d) *Procurement Support Services (VPP, CBS/SCMA)*: Voluntary Pooled Procurement and capacity building services / Supply Chain Management Assistance programs for Principal Recipients have been offered since January 2009 for VPP and assistance programs will shortly be made available.

170. The principles against which the PSM oversight is set up are adequate based on the Global Fund architecture that advocates for the use of existing systems and

¹⁴ Guide to the Global Fund's policies on Procurement and Supply Management

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processes in grant recipient countries. There is more that can be done to strengthen PSM oversight e.g. the establishment of more detailed PSM procedures that would strengthen the PSM control environment as is the case with other financing institutions like the World Bank. However this would come at a price of having to overstep the foundational principles of the Global Fund. However, as the Global Fund model evolves, this could make way for more procedures to be incorporated into the PSM oversight model.

171. The policies have a focus on health products but the same general principles that apply to health products are also applicable to the non-health products. While the procurement of health products is estimated to be in the region of 50% of the grants, the procurement of non health goods and services normally brings the total procurement undertaken to 50% of the grant funds. The procurement of non health products therefore takes up a fairly large portion of the budget but the principles and policies do not give them equivalent importance. This is attributed to the impact that compromised product can have vis a vis the impact from a flawed procurement process of non health products.

172. The limited regulation of non health products and services could well contribute to the inefficient purchases noted by the OIG in the countries audited. For example the type of motor vehicles, equipment etc that are procured is usually 'top of the range' and very costly and does not reflect value for money especially when reviewed in the light of the fact that the funds were meant to fight the three diseases.

173. This policy also focuses on procurement and provides limited guidance on logistics management where some of the substantial issues in implementation of grant programs have arisen. Ineffective logistics management systems have resulted in problematic forecasting, drug stock outs and expired drugs. Ideally this policy should also cover tracking of health products to intended beneficiaries. It does not. If the drugs are procured and stored well but never reach their intended beneficiaries then the Global Fund would not be meeting its goals. It should probably also cover drug efficacy, whether the products are used rationally and measures are in place at country level to prevent the development of drug resistance.

174. The PSM oversight provided by the Global Fund stops at PR level. The Five Year Evaluation report noted that significant procurement activity was taking place at the SR level, where the Secretariat and LFA have a limited mandate, and may be inconsistently monitored by the PR. This represents a risk to the Global Fund's investments if SR procurement is not subject to the same scrutiny as PR procurement.

175. The PR may choose to manage all its PSM activities; subcontract certain PSM activities or sub contract PSM activities to a Third Party Procurement Agent. The OIG noted that in many instances the countries lack the capacity to implement the grants and so Third Party Procurement Agents (TPPAs) are brought on board to assist with the procurement and sometimes with the logistics management. The OIG noted that there is no formal policy to regulate the use of TPPAs.

176. The Five Year Evaluation report notes that TPPAs are not selected following procurement best practice. Furthermore, although the justification for selecting TPPAs is efficiency, expertise and protection of PRs from stock outs, the problems have persisted and the Five Year Evaluation asserts that in some cases the TPPAs are the cause of the problems e.g. procurement delays.

177. Often the use of TPPAs is meant to be an interim measure with a plan to transition the PSM back to the Government once capacity is built. However, because there are no incentives to (i) build capacity; and (ii) transition back to the existing systems, it becomes a long term measure which in some cases works to the detriment of existing systems.

178. The newly established VPP and CBS functions are expected to address most of the concerns related to TPPAs as they take on procurement of some of the health products and provide training to PRs. However, this will not fully address the TPPA issue since (i) VPP in its current form only caters for the procurement of several and not all health items; and (ii) joining the scheme is voluntary. There is therefore a need to regulate TPPAs through the development of policies that promote the underlying Global Fund policies.

Recommendation 10 (Significant)

The Global Fund should periodically review its PSM policies in light of the emerging risks arising out of changes in the environment within which grants are implemented. Specifically, the Global Fund should consider (i) regulating TPPAs; (ii) establishing policies on non health products; (iii) encouraging stronger supply and logistics management and (iv) tracking of products to the intended beneficiaries.

Procurement and Supply Management Plan

179. Under the current policy, a PSM plan is required for each grant and PR. Once a proposal has been approved by the Global Fund, the PR must describe in a PSM plan how it will adhere to the Global Fund's procurement and supply management requirements. In 2004, the Global Fund developed a guide to writing a PSM plan template for health products.

180. The PR prepares a PSM plan that covers the 2-3 years a grant is operational and which provides information on the health products required by the program that will be funded under the new grant. The PSM plan describes :

- (a) how the Principal Recipient will adhere to the Global Fund PSM policies and related provisions of the grant agreement;
- (b) the systems and structures that will be used for managing these products for that grant;
- (c) details about the need for any technical assistance;
- (d) how a PR will coordinate the PSM activities funded by the Global Fund with those from other sources of funding for the same disease;

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- (e) the key health products for the program as specified in the plan template, i.e. with their respective estimated quantities, unit costs with INCOTERM,3 and total cost; and
- (f) the total cost of ownership for durable products, as well as cost associated with storage and distribution.

181. There is no requirement to prepare a PSM plan for non health products. PSM plans should be encouraged for all Global Fund related activities since this creates the good control framework within which the PSM activities will be undertaken by the PR. It also enables a PR to consider the key PSM aspects and identify possible bottlenecks that may arise when grant implementation gets underway.

182. The Global Fund PSM policy provides for a waiver from the requirement to prepare a PSM plan and assess PR PSM capacity as part of the grant negotiation process. Grant negotiations are aimed at amongst other things (i) identifying key implementation risks and agreeing on measures to address these; (ii) agreeing on the implementation plans and the associated budget for the grant program and ensuring that minimum systems and capacities are in place for efficient implementation; and (iii) ensuring that programs adhere to Global Fund Board decisions, policies and guidelines.

183. A grant agreement may be signed without a final PSM plan when issues that are holding up their finalization are not significant and the PR and Secretariat agree on the timeframe for finalization of the documents. In such cases, the finalization of the PSM is included as a condition precedent in the Grant Agreement and provides for PRs plan to submit plans for approval before PSM activities are implemented. The OIG noted that because of this policy, most PSM plans are prepared and assessed post the grant signature. As long as consideration of the PSM aspects is deferred to post grant signature, the Global Fund misses an opportunity to address issues upfront. Resolving these PSM issues later results in delays once grant implementation is underway.

184. The OIG noted from the countries audited that the PSM plan is not usually prepared as part of the grant signing process. In most cases, the trigger to prepare and have plans approved is usually when there is an urgent need for health products. This has resulted in drug shortages and/ or emergency procurements that often resulted in a failure to follow the set procurement processes and in higher prices.

185. The requirement for the PR to complete a PSM plan for each grant has resulted in multiple PSM plans being prepared by the same PR. In the light of the increasing number of grants in each country, the PSM plan in its current form fails to consolidate and communicate information about country systems and capacity. This results in unnecessary duplicative efforts of LFAs and Global Fund staff in assessing capacity from PRs, LFAs, and Global Fund staff every time a grant has to be signed. Some of the information provided by PRs for the same structures and systems is contradictory. These issues will be addressed once the *Pharmaceutical and Health Product Management (PHPM) Country Profile* approach is implemented.

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Recommendation 11 (Significant)

The assessment and approval of PSM aspects after grant signature should be discouraged and only done on an exceptional basis and with the requisite approval of the Global Fund. The decision to defer this process should be made in consultation with the PMAS team.

Review, approval and implementation of the PSM plan

186. The Global Fund policy requires documentation to support a PSM capacity assessment using standard templates as part of the PR assessment report submitted by the LFA. The LFAs conduct capacity assessments applying the minimum requirements based on a number of key documents including the PSM Plan. The policies on the review of the PSM plan by the LFA are clearly defined.

187. Two areas in the PSM plan that have been noted as being weak are the prices in the plan and the quantities proposed for purchase. The price quoted in the proposals and translated into the approved budgets and PSM plans is usually higher than market rates. The prices quoted in the proposals are usually inflated and until Rounds 8 and 9, there was no mechanism in place at the Technical Review Panel to check reasonableness of price. There was an assumption that this would be addressed at LFA assessment stage. However this is not in case as the OIG notes that even with the 10% budget 'scrub', the budgets approved often remain inflated and this can result in waste.

188. The PSM plans also provide forecasts for products which should be reviewed by the LFA. However, the OIG notes that shortages and expiries are usually associated with poor forecasting. It also points to the LFAs not having undertaken a comprehensive review of the estimates proposed by the PRs.

Recommendation 12 (High)

The Global Fund Secretariat should strengthen mechanisms to verify prices and quantities in the country proposals and the resultant budgets and PSM plans.

189. FPMs are responsible for country grants and therefore they are directly responsible for enforcing laid down Global Fund PSM policies at country level. The FPM approves the PSM plan, decides on what PSM related CPs should be included in the grants and also approves the satisfactory achievement and /or waiver of CPs of the PSM related CPs. Because PSM is a specialized technical field, FPMs may not have the requisite knowledge and skills to assess the appropriateness of plans submitted which is why they are encouraged to seek advice from the experts in the Secretariat.

190. The PMU as part of its support to the grant management process plays an advisory role to the Country Programs Cluster but only on request. The policy states that the FPM may ask the PMU to review the work done by the LFA in undertaking the PSM capacity assessments and to make recommendations for follow up actions by the PR and approval of the PSM plan. This policy leaves the sharing of the PSM plans with the PMU to the discretion of FPMs.

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191. The number of PSM plans provided to the PMU for review has increased significantly over the years but is not yet at 100% (The PMU was not able to provide a precise percentage). Where the PSM plan is not shared with the PMU, there is no advice provided to Country Programs on the basis of which important decisions will be made. Where advice is provided, there is no obligation to take it on board with the final approval of the PSM plan sometimes not reflecting the advice provided by the PMU.

192. The PR is obliged to undertake PSM activities in accordance with the PSM plan. The plan therefore becomes a tool for measuring PSM performance once implementation is underway. There is no policy in place to follow up the PRs and ensure that the PSM plans are followed. The Global Fund depends on the good will of the PRs to implement the plan. And as the saying goes, there is a risk that “what does not get measured does not get done”.

193. The policy provides for the PSM plan to be approved before disbursements take place and for any significant deviations to the approved PSM plan to be only made with the prior approval of the Global Fund. The OIG has noted in many of the country audits undertaken by it so far that the PSM plans are not fully followed and this results in program funds not being spent effectively and/or delays in program implementation.

194. The areas of non compliance with the PSM plan noted vary from quantities purchased, change of items to be procured, procurement methods followed, timelines set in the PSM plan, entities responsible for procuring i.e. where the agreed upon entity does not undertake procurement etc. In most of these cases, prior approval to deviate from the PSM plan was not obtained from the Global Fund and this remained undetected at the Secretariat until the time of the OIG audit.

Recommendation 13 (High)

The Global Fund Secretariat should institute measures through which PR's PSM activities are monitored in accordance with the grant agreement, approved PSM plan and Global Fund procedures. In line with good risk management, such provisions should be made for countries classified as high risk in the Global Fund risk model. Consideration should be given to expanding the LFA role as has been done by the Latin America and Caribbean team. Another alternative may be incorporating procurement audits in the scope of the financial audits undertaken by PRs on an annual basis.

Processes in place that underpin PSM oversight

195. The Organization for Economic Cooperation and Development - Development Assistance Committee (OECD/DAC) lists procurement oversight under one of the four pillars (Institutional Framework and Management Capacity) for best practice procurement systems¹⁵. It lists the processes that underpin procurement oversight as:

- (a) Establishing and drafting changes to key documents in the legal framework;

¹⁵ Benchmarking tool for Assessment of National Procurement Systems, Version 4

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- (b) Providing advice to procuring agencies;
- (c) Monitoring the performance of public procurement; and
- (d) Disseminating procurement information.

The Global Fund has set up various processes within the grant making mechanisms that support PSM oversight and the paragraphs below provide an assessment of the Global Fund's processes against best practice.

Legal framework

196. The legal framework for the Global Fund is the grant agreement. It sets out the basic conditions for the manner in which PSM activities will be undertaken, the results that can be expected, and the potential efficiency gains that can be achieved. The PSM related conditions set out in the grant agreement adequately lay out the Global Fund policies and provide a legal basis for ensuring the rights of and responsibilities of both parties.

197. The Global Fund policy provides for an assessment of PR PSM capacity and where weaknesses are identified, make provision for mitigating factors to strengthen the relevant capacity. The conditions in the grant agreement are normally supplemented with conditions that should be put in place to address the weaknesses identified. The OIG noted that for most of the cases reviewed the grant agreement was drafted and signed before the assessment of the PSM plan. As such, the grant agreements included a blanket provision requiring the PR to submit an acceptable PSM Plan and this would not address PSM specific shortcomings in capacity and risks that may subsequently be identified.

198. Conditions precedent (CPs) to disbursement are intended to address capacity gaps identified during PR LFA assessments and therefore act as additional safeguards for the resources sent to countries. The OIG noted that over time, the Country Programs has restricted on the number of CPs that should be included in grant agreements. This has resulted in cutting back the number of CPs, some of which are related to PSM. While the OIG appreciates the spirit behind this move i.e. minimizing the work load they create for the PRs, it runs counter to the need to carry out due diligence and have adequate controls to safeguard Global Fund resources.

199. Most grant agreements will have PSM related CPs. However, the OIG noted from country audits undertaken that these CPs are sometimes cleared without consulting the PMU and/or waived without instituting alternative measures to address risks they were intended to mitigate. The LFA is meant to alert the Secretariat about the conditions precedent that have not been met. The OIG noted that LFAs sometimes did not alert the Secretariat of conditions precedent that were not met and where they did, there was no evidence that this was taken into consideration in the grant making decision process.

Recommendation 14 (High)

Country Programs should strengthen the process through which PSM related conditions precedent are complied with. This should comprise (i) processes that ensure that critical CPs are included in the grant agreement; (ii) measures for

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verifying the satisfactory fulfillment of a CP; and (iii) a process for granting waivers to CPs. This will strengthen the control environment within which disbursements are made and ensure that Global Fund grants are safeguarded.

200. The grant agreement is a means to an end and not an end in itself. The conditions set out in the grant agreements are meant to safeguard Global Fund assets and reduce the risks that the Global Fund monies are exposed to. There is currently no mechanism at the Global Fund to 'police' and enforce compliance with grant agreements. Moreover, there are currently no sanctions imposed on PRs who fail to comply with grant agreements. Failure by PRs to comply with the conditions in the grant agreements, as has been noted in most of the country audits, leaves the Global Fund grants and assets exposed to the risk of loss. The Global Fund Secretariat is in the process of revising the financial audit ToRs and in future audits are supposed to be asked to provide comments on compliance with the grant agreement. This exercise had not been finalized at the time of this audit.

201. The OIG commends the Global Fund's initiative to develop a code of conduct for suppliers and a sanctions procedure that signal ethical expectations and help protect the reputation and integrity of the Global Fund. This comes about in the wake of an increase in allegations received in relation to suppliers' conduct. Sanctions have already been applied to one supplier.

Advisory

202. Good PSM oversight processes should also cover the establishment and provision of advice on policies and tools used in conducting fair, transparent and objective PSM which results in value for money. This is constrained by the model that explicitly states that the Global Fund is not an implementer but a financier and that programs are country led.

203. The PMU provides advice on implementation challenges countries face but only to the extent that they relate to the policies of the Global Fund. These normally relate to technical specifications, change of PSM plan, non compliance with the Quality Assurance policy, emergency procurements, breach of procurement processes etc. The advisory work done by this Unit is triggered by a request from the FPM and so the involvement of this team is bound to be person centric i.e. adapted to the level of involvement an FPM wants for the PMU team.

204. The Global Fund model creates restrictions in the provision of PSM related advice. The Five Year Evaluation notes that PRs reported that they did not receive PSM related advice when they experienced procurement related problems. On the provision of advice, the Five Year Evaluation concludes that *"The Global Fund may view this as a measure of success in remaining true to their founding principles; however this discipline may have allowed procurement problems to fester longer than necessary, resulting in treatment interruptions and implementation delays.*

205. An example where the PR could have benefited from some PSM advice was when a PR sought approval from the Global Fund to implement 'vertical

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integration' of procurement and to appoint a TPPA to undertake procurement and logistics management. The proposed practice was against procurement best practice that advocates the separation of the two functions and good internal control i.e. segregation of duties. In line with its policy, the Global Fund did not provide the required advice which may have been misconstrued to be an approval.

206. The PMU Advisory services can also be consulted when a complaint is received by the Global Fund about a procurement process. Advice relating to PSM complaints needs to be timely since any delays will potentially result in the contract being wrongly awarded. Such a decision may be hard to reverse. At a country level, most NPOAs have a complaints review mechanism where PSM related complaints can be made. The advantage of using these bodies is that they have the authority to stop a procurement process and to initiate an investigation. The Global Fund can in the OIG's view make better use of the national systems to address procurement related complaints.

Monitoring

207. This entails ensuring compliance with the policies set out in the grant agreements as well as the approved PSM plans. The mechanisms currently in place to aid monitoring of PSM activities are the LFA reviews and the completion of the PQR. The prior section on the roles and responsibilities of the key stakeholders in PSM oversight points to the lack of a mechanism in place through which problematic tenders can be identified and acted upon. However, mechanisms that other development partners like the World Bank have set up for 'policing' tenders would go against the grain of the Global Fund model.

208. Mechanisms in place for PSM monitoring within the Global Fund model are mainly centered around the LFA. The LFA undertakes monitoring in two ways i.e. (i) the periodic LFA reviews which are driven by a template known as Progress Update and Disbursement Request (PU/DR) which guides the LFA on the information that the Global Fund requires for decision making; and (ii) the Phase 2 report which provides a snapshot of grant implementation after 18 months.

209. There is no policy in place that requires a review of PSM activities by the LFA during grant implementation. The OIG also noted that there is hardly any monitoring of PSM activities at SR level. Country audits have revealed there are instances where there is a lot of procurement at SR level. LFAs that have undertaken reviews of PSM related processes have done so on the request of the FPM e.g. in the LAC Team. .

210. As already mentioned, the PQR is another monitoring tool. The completion of the PQR has significantly improved since the change from the Price Reporting Mechanism. LFAs are required to confirm that the tool is accurately completed and disbursements have been tied to its completion as a control measure. However, the OIG noted that the completion of this tool is still not 100% and even countries that have not completed this tool are still able to get their disbursements.

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211. As a monitoring tool, the PQR also provides price data for the reported health products. This information should be used by the Secretariat to monitor PRs' product prices and also by PRs for comparisons of prices reported by other PRs. The OIG noted that the comparison of price across different PRs is undermined by the different product specifications and other additional costs like shipments, insurance etc, which results in differing prices being reported. The Secretariat also noted that around 15% of data points reported into the PQR could be considered as outliers. A significant portion of these outliers are likely to be data entry error, which may provide misleading price information. The Secretariat is reviewing these data points and is working on ways to address these 'outliers' e.g. through LFA validation of data.

212. As already mentioned, the financial audits do not cover a review of PSM activities. Procurement audits are not common across the different CP Units. One country that did undertake procurement audits has been the SWAp arrangement in Malawi. In the response to the OIG's *Lessons learned* report, Country Programs noted that it was considering including the review of procurements in its annual audit ToRs. However, this would only cover the procurement and not supply management aspects of the grant making process. This proposal was still under consideration at the time of this review.

213. National Procurement Oversight Authorities also provide a means for monitoring Ministries. This is done through inspections and procurement audits. However NPOAs have to review all the government entities which means that they may only visit the Ministry of Health once every several years. Even then there is no guarantee that these visits would cover the Global Fund programs. There should be better engagement with the National Procurement Oversight bodies to assess Global Fund programs can be included in their oversight activities.

Data management

214. Data management relates to the collection, analysis and distribution of data for decision making. The Global Fund currently requires that PRs complete the PQR. Reports produced contain price and quality assurance matters on certain products. The data collected in the PQR is currently limited to specific products and may not be comprehensive for decision making. The decision as to what products to include in the PQR should be reviewed periodically so that management has relevant and timely information for decision making. Such a review last took place in 2008 when a decision to include Rapid Diagnostic Tests in the PQR was made.

215. The PQR was created to address all the issues that were identified with its predecessor the Price Reporting mechanism. It has checks and balances and provides for the verification of data by the LFA before it is analyzed by the PMU. Data has very limited power until it is communicated to stakeholders that use it for decision-making. The fact that countries that have not completed the PQR can have access to funding means that there are shortcomings in the completeness of data from this system. As already mentioned, there was no evidence provided to

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the OIG that any action is taken on the exceptions raised with Country Programs by the PMU.

216. The OIG sought PSM information other than that reported in the PQR on price and quality that would be useful to decision makers. This was not readily available. The Global Fund has a lot of data that can be analyzed into a form that is useful to decision makers. There is a lot of data that is analyzed by the SPE Cluster but this information is not shared across the Secretariat for decision making.

217. Examples of such information are:

- (a) An analysis of the percentage of grant funds spent on procurement;
- (b) How much procurement happens at SR level and which raises the issue of the need for the Global Fund to regulate PSM activities at that level;
- (c) Analysis of what PRs are buying by disease;
- (d) An analysis of health vs non health procurements undertaken;
- (e) Who the key suppliers are and can the Global Fund negotiate price on behalf of its PRs;
- (f) Whether there are supplier concentrations and if these create any risk to the Global Fund;
- (g) Capacity of suppliers and if this can result in a shortages;
- (h) Comparison with what other partners are paying;
- (i) What constraints there are that affect PSM. One such constraint is timely disbursements, the lack of which will inevitably affect timely disbursements;
- (j) What are other donors buying in the countries where Global Fund operates;
- (k) Analysis of trends e.g. based on prices from economies of scale as the demand of these products increases etc.

Recommendation 15 (Significant)

(a) The Global Fund should strengthen the sharing of information across Global Fund Clusters for decision making. The analysis of available PSM information should be undertaken and disseminated for decision making.

(b) The Global Fund should consider automating the overall grant management process, especially the LFA Assessment; PU/DR reviews; and monitoring conditions precedent. This will ease information sharing across the clusters.

Capacity development

218. Capacity is the ability of people, organizations/institutions and society as a whole to successfully manage their affairs. *Capacity development* is the process of unleashing, conserving, creating, strengthening, adapting and maintaining capacity over time."¹⁶ After an LFA assesses a PR as lacking in capacity to undertake PSM activities, the PR will either have to undertake initiatives that strengthen their capacity to match the minimum requirements of the Global Fund

¹⁶ OECD/DAC Task Force on Capacity Development (2004)

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or subcontract part or all of the PSM activities to a third party. The Global Fund allows PRs to use part of the grant funds to strengthen their capacity.

219. The Five Year Evaluation commended the Global Fund and development partners in countries for providing technical assistance and requisite support towards the strengthening of country PSM capacity. However in some cases, this capacity development has been piecemeal and aimed at improving capacity so that PRs can comply with a set of procedures. In other cases the capacity development programs only targeted PSM at low functional levels e.g. improvement of individual technical skills. This did not address fundamental PSM issues and sometimes did not result in sustainable improvements to the overall PSM environment.

220. Another initiative is the engagement of TPPAs whose ToRs should ideally provide capacity development to allow for the eventual transfer of PSM activities back to the national structures. However there has been no evidence seen of this happening. Yet another initiative to strengthen capacity that is common with many PRs is the establishment of a special unit that meets the Global Fund minimum PSM capacity requirements. However, this is often a 'quick fix' that may meet the short term delivery pressures but goes against the founding Global Fund principles that advocate for working with existing structures which involves strengthening them where necessary.

221. The Global Fund's PMU has provided the requisite training to PRs in the past mainly through the regional meetings where PSM workshops are held. These workshops however concentrate on what the Global Fund PSM policies are and how the PR can comply with them. They may not necessarily address capacity weaknesses identified within the PR. Although National Procurement Oversight Bodies run capacity building programs, they are driven by the national strategies which rarely coincide with the program activities.

222. The Global Fund policy provides for a waiver to prepare a PSM plan and assess the PR PSM capacity as part of the grant negotiation process. A grant agreement may be signed without a final PSM plan when issues that are holding up their finalization are not significant and the PR and Secretariat agree on the timeframe for finalization of the documents. In such cases, the finalization of the PSM capacity assessment is included as a condition precedent in the Grant Agreement and provides for PRs having to submit plans for approval before PSM activities are implemented. The OIG noted that because of this policy, most PSM plans are prepared and assessed post the grant signature.

223. The Global Fund initiated the Capacity Building Services / Supply Chain Management Assistance (CBS/SCMA) which provides services aimed at strengthening in-country PR PSM systems in June 2009. The main focus of the CBS/SCMA is on quantification, storage, distribution, Logistics Management Information System (LMIS) and Quality Assurance activities and this is undertaken in collaboration with in-country development partners. This initiative has just been rolled out and so its ability to affect capacity issues cannot be assessed as part of this review.

224. The OECD-DAC emphasizes that any capacity development initiatives should follow a clear national policy on how a country wants its procurement system to evolve over time and the kinds of specific capacity demands the system will face. Without such a policy, it may be futile to design a PSM strategic program that produces the right mix of capacities required to deliver on program requirements. The *Pharmaceutical and Health Product Management (PHPM) Country Profile* approach should hopefully drive the creation of a platform for broad stakeholder participation, ensure that a realistic PSM needs assessment is undertaken, and promote country ownership of capacity development processes.

Recommendation 16 (Significant)

The objectives, focus and timing of any capacity development programs funded by the Global Fund should be integral to a country's overall procurement strategy.

Effectiveness of grant PSM oversight

225. The Global Fund has put in place PSM related policies and procedures as part of its oversight over PSM. These policies and procedures are the conditions put in place to safeguard the Global Fund resources and therefore reduce the risks to which Global Fund money is exposed to. However the extent to which these policies are implemented determines the extent of effectiveness. The OIG reviewed 16 countries as part of this review in order to measure the level of compliance to procurement oversight policies and procedures in place.

226. The Global Fund encourages PSM plans to be prepared and PSM capacity assessed for all grants before grant signature. However, the policy allows for the plans to be prepared post grant signature. The OIG noted that out of the 16 cases, a PSM plan for only one case was approved by the FPM prior to grant commencement i.e. the Round 5 Indonesia TB - Phase II. The consequence is that a grant commences without confirmation of the capacity of the PR to undertake the PSM component. Once the grant is signed, the Global Fund is compelled to work with the PR even if they lack capacity to undertake key activities like PSM. Considering that the PSM component for most grants form 40% - 60% of the total grant amount, fulfillment of PSM requirements prior to grant commencement is critical to the successful implementation of grants.

227. From the sample of grants reviewed by the OIG, a PSM plan was not prepared for the Round 4 Malaria grant to Nigeria implemented by Yakubu Gowon Centre (Grant number NGA-404-G05-M) amounting to US\$ 38m . The submission of a PSM plan and assessment of the PSM capacity was not part of the conditions precedent in the grant agreement signed with the Global Fund. Although procurement of health products was undertaken as part of the program implementation, the OIG did not see evidence of assessment of the PSM capacity of the PR prior to and post signature of grant agreement. This is contrary to the relevant Global Fund policies and contrary to the standard provisions of the grant agreement between the Global Fund and PRs, where the procurement of health products should be after the approval of the PSM plan and clearance of the PR's capacity to manage such procurement.

228. The OIG noted that PSM assessments were undertaken by the LFA for 15 out of the 16 grants selected for review. However, the OIG also noted cases where the LFA's PSM expert undertook only a desk review of the PRs PSM systems and capacities and this was used as the basis is evaluating suitability of the PSM Plan. Waivers are provided by FPMs setting aside the need for the assessment of PSM capacity. This was without evidence of consultation with the PMU on whether there would be any risk arising from this that would need to be mitigated.

Recommendation 17 (significant)

The Country Program and LFA Teams should develop a program for the minimum field reviews that should be undertaken by the LFA as part of PSM capacity assessments. The LFA's PSM expert should be required to review procurement documentation and also inspect storage and logistics facilities at the central and local levels as well as treatment centers.

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229. The Global Fund policy requires approval of a PSM Plan by the FPM. During the review, for the selected sample of grants, the FPM did not formally approve and communicated to the PR approval of the PSM plan:

#	Country	Grant Number	Phase
1	China	CHN-405-G05-H	Phase I and II
2	Russian Federation	RUS-405-G04-T	Phase I and II
3	Bosnia	BIH-506-G01-H	Phase I and II
4	Haiti	HTI-506-G05-H	Phase I and II
5	Mali	MAL-405-G02-H	Phase I and II
6	Sudan	SUD-405-G05-H	Phase II
7	India	IDA-405-G05-H	Phase I and II
8	Bangladesh	BAN-506-G05-T, BAN-506-G04-T	Phase I
9	Ethiopia	ETH-405-G04-H	Phase I and II
10	Tanzania	TNZ-405-G08-M	Phase I and II
11	Ghana	GHN-506-G06-H	Phase I and II
12	Nigeria	NGA-407-G10-M	Phase II

230. The Operational Policy Note on *Approving the Procurement and Supply Management Plan* requires the FPM to send the PSM plan to the PMU team at the point of PSM assessment and upon completion of the PSM assessment, so that the procurement specialists can provide input into the areas that the LFA should pay attention to during the assessment. In practice, FPMs forward a PSM assessment together with a PSM plan to the PMAS team, who reviews it and provides advice. This results in a missed opportunity to influence the work done during LFA assessments.

231. In the cases of the grants reviewed for Haiti, India, and Nigeria the PSM plan and LFA assessment were forwarded to the PMAS unit for review and significant weaknesses were raised for follow up by the FPM. The PMU was not informed about how the matters that were raised were resolved. Out of the 16 grants reviewed, the OIG noted that PMU was not provided with the PSM plans for review before implementation of the plan started:

#	Country	Grant Number	Phase
1	India	IDA-405-G05-H	Phase I and II
2	Bangladesh	BAN-506-G05-T, BAN-506-G04-T	Phase I
3	Ethiopia	ETH-405-G04-H	Phase I and II
4	Tanzania	TNZ-405-G08-M	Phase I and II
5	Angola	AGO-405-G03-H	Phase I and II
6	Ghana	GHN-506-G06-H	Phase I and II
7	Nigeria	NGA-407-G10-M	Phase II
8	China	CHN-405-G05-H	Phase I and II
9	Russian Federation	RUS-405-G04-T	Phase I and II
10	Bosnia	BIH-506-G01-H	Phase I and II
11	Sudan	SUD-405-G05-H	Phase II
12	Peru	PER-506-G04-T	Phase I and II

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13	Haiti	HTI-506-G05-H	Phase I and II
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232. There is non compliance with set policies and procedures and this reduces the effectiveness of the PSM oversight procedures put in place.

Appendices

Appendix 1: Response to the OIG's review of oversight of grant procurement and supply chain management arrangements

This section presents an overview of the Secretariat's response to the report summarizing the overall reaction of the Secretariat to the recommendations in the report.

In addition to the detailed responses provided with the Tables 1 and 2, the Secretariat would like to highlight the following general items:

- i. The Secretariat response is guided by the fact that the report is not a 'traditional' audit report but a "review of oversight of the grant procurement and supply chain management arrangements" which seeks to highlight important issues.
- ii. The report presents 17 recommendations. Seven of these are marked as "high priority" and ten as "significant". The Secretariat welcomes the report and is in agreement (fully or partially) with all of the recommendations. All recommendations provide useful insights to further improvement of the oversight of grant procurement and supply chain management arrangements, which the Secretariat considers a key success factor in the implementation of Global Fund grants.
- iii. Reflecting the statement above, it is encouraging to note that many of the recommendations are already covered to a significant extent in the Secretariat's work plans for 2010 and/or existing Operation Policy Notes (OPNs). The Secretariat's responses provided in Table 1 highlight this fact.
- iv. One recurrent proposed action therefore is to install a "compliance monitoring" mechanism at the Operation Policy Committee level to increase compliance with existing OPNs (see recommendations 2, 7, 14).
- v. Some of the recommendations (in particular "high priority" recommendation 5) refer to the question of how the Global Fund could improve its cooperation with partners (in particular with technical partners) at country level. While the Secretariat fully agrees with the importance of this issue it would like to point out that this issue needs to be discussed in a broader context. The Global Fund partnership strategy and the "Technical Assistance Options paper" developed by the Secretariat, which will be discussed by the Portfolio and Implementation Committee and likely by the Board in April 2010, reflect latest efforts of the Secretariat to address this issue.
- vi. Two of the high priority recommendations refer to the need to further clarify roles, responsibilities and accountabilities (recommendation 6) and to strengthen the oversight of procurement and supply chain arrangements through the cross-cluster Country Team (CT) Approach (recommendation 7). The Secretariat is in full agreement with these recommendations and is committed to ensure a consistent implementation of the CT approach.
- vii. Responsibility for implementation of the proposed actions for all of the recommendations is seen within the Secretariat.

Appendix 2: Plan of action

Recommendations	Response and action	Timelines
<p><i>Recommendation 1 (Significant)</i> <i>There should be some flexibility allowed in the work done by the LFA in order to address key risks identified within the programs funded by the Global Fund in a country. LFA TORs should reflect the risks identified at country level. In this way, the reviews of the LFA will be relevant and help identify critical issues, and help inform, as a starting point, further LFA country and grant specific work.</i></p>	<p><u>Response</u></p> <p>Agreed by the Secretariat</p> <ul style="list-style-type: none"> - The LFA system already gives the Secretariat and LFAs the necessary flexibility to customize the scope and depth of each LFA service to the specific grant and country contexts. There is significant interaction between the Secretariat and the LFA on risk issues and their mitigation both at the PR assessment stage and during the implementation period. The Secretariat can also request LFAs to perform additional services, including PSM reviews, in response to the country specific risk context. - The Secretariat ensures that LFA ToRs are tailored to country risks. The on-going updates of LFA tools and ToRs place an increased emphasis on risk management. For example, the new Round 9 PR assessment tools require LFAs to identify areas of risks in the grant and implementation environment that need more in-depth assessment, and to be in agreement with the Secretariat on the scope and depth of the assessment before commencing work. <p><u>Action</u></p> <p>A1. An enhanced approach to identifying risks, in the form of an LFA Country Risk Assessment (to be undertaken once a year by the LFA) will be piloted in a number of selected countries. Based on the outcome, this approach could be rolled out to all countries.</p> <p>A2. Best practice in LFA PSM verifications as described in the OIG’s review findings (such as the Latin America and Caribbean regional</p>	<p>A1. Piloted in 2010,</p> <p>A2. Replicated/adapted as part of the 2011 LFA services</p>

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Recommendations	Response and action	Timelines
	team approach to annual procurement reviews) will be systematically replicated/adapted to other regions as appropriate.	
<p>Recommendation 2 (High) <i>All capacity assessments by PHPM experts should be undertaken in country and all structures and systems in the plan physically verified. The decision to undertake a capacity assessment by desk review should be discouraged and, when made, should be in consultation with the Secretariat to ensure that there are no risks that would be overlooked.</i></p>	<p><u>Response</u></p> <p>Agreed by the Secretariat</p> <ul style="list-style-type: none"> - We note that this recommendation is already covered within requirements described in existing OPNs (in particular the OPN on the Country Team Approach and the OPN on grant negotiation and grant signing). - Decisions on the scope of the PHPM assessment are supposed to be made by the FPM and the relevant Secretariat technical team in consultation with the LFA and reflect the risks inherent in the implementation environment. - While in-country assessments and on-site physical verification in principal are a requirement for LFA work, the possibility of a waiver for this requirement is described in the OPN on grant signing and grant negotiation. Reason for this possibility is that the in-country assessment approach should not be prescribed for <u>all</u> capacity assessments. The scope and type of the assessments by PHPM experts should be driven by the risk context (see also response to Recommendation 1). For example, there is little value added in a physical verification if performed recently by the LFA for another grant or when a grant has limited procurement activity. <p><u>Action</u></p> <p>A1. Ensure consistent implementation of the relevant OPNs (in particular OPNs on Country Team Approach and OPN on grant negotiation and grant signing).</p> <p>A2. Initiate quarterly “compliance” reviews within the OPC (with OPC recommending measures in case of non-compliance), as well</p>	<p>A1/A2 Starting from Q3 2010</p>

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Recommendations	Response and action	Timelines
	as 6 monthly updates to the EMT.	
<p>Recommendation 3 (Significant)</p> <p>(c) <i>The LFA PU/DR and Phase 2 assessment report template should be reviewed periodically to ensure that they reflect any risks that may emerge.</i></p> <p>(d) <i>The LFA should review the status of the implementation of the PSM plan as part of its quarterly review as well as the progress in implementing other recommendations made for improvement of PSM systems.</i></p>	<p><u>Response</u></p> <p>-The Secretariat is in agreement with the regular revision of these templates, according to the Secretariat’s evolving information and risk management requirements. The following efforts are ongoing:</p> <ul style="list-style-type: none"> - a) The PU/DR report template and guidelines are currently being updated and revised (to include information on stock levels, compliance with PQR reporting and comments on implementation issues for PSM activities). Field test of the updated form is planned for Q2 2010). - Phase 2 report: a PHPM section was added to the LFA Phase 2 report template and rolled out on 22 February 2010. - b) As part of the update of the PU/DR template, a new section on LFA follow up on grant management issues is being introduced to the form. This includes LFA findings and recommendations related to PHPM. Among others, the LFA is asked to report on deviations from the agreed PSM plan (the frequency of the PU/DR depends on the grant - annual, semi-annual or quarterly). <p><u>Action</u></p> <p>In addition to the ongoing efforts described above:</p> <p>A1. The PU/DR report template to be reviewed periodically and to be revised as necessary.</p>	<p>A1. As necessary</p> <p>A2. By July 2010</p>

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Recommendations	Response and action	Timelines
	<p>A2. A new Phase 2 grant score card will be introduced.</p> <p>A3. Periodic Review to be conducted.</p>	<p>A3. In 2011</p>
<p>Recommendation 4 (Significant) <i>The collaboration between the Global Fund and relevant National Institutions e.g. the National Drug Regulatory Authorities and the National Procurement Oversight bodies of the respective countries receiving grant funding should be strengthened in order to secure better oversight over grants. This collaboration can be built into the soon to be rolled out "Pharmaceutical and Health Product Management (PHPM) Country Profile" approach as part of the country PSM assessment.</i></p>	<p><u>Response</u> Agreed by the Secretariat</p> <p>- The Secretariat clearly supports this recommendation, as proven by the fact that the implementation of this recommendation is already an on-going activity in PMU's work plan (work on NRAs strengthening and implementation of Country Profiles).</p> <p><u>Action</u> - Ensure implementation of actions as laid out in current PMU workplan, in particular:</p> <p>A1. Work on NRAs strengthening incl. : A1.1 analytical work to be undertaken to support existing efforts to provide support to 10 countries. A1.2 Develop together with partners a strategic plan - to be presented to EMT. A1.3 Provide regular status updates to the EMT.</p> <p>A2. Work on implementation of Country Profiles (implementation in about 20 countries)</p>	<p>A1.1 By Q3, 2010</p> <p>A1.2 Starting Q1 2010</p> <p>A1.3 Regular updates</p> <p>A2 By end 2010</p>
<p>Recommendation 5 (High) <i>The Global Fund needs to consider the benefits of playing a more active role in resolving or</i></p>	<p><u>Response</u> - The Secretariat is in agreement, provided that this recommendation refers to the overall activities related to</p>	

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Recommendations	Response and action	Timelines
<p><i>mobilizing partners at global and national level to resolve procurement problems even if it comes at the cost of 'flexing' the principles of the Global Fund as a 'financing only' entity.</i></p>	<p>Pharmaceutical Management and not only the "procurement subset".</p> <ul style="list-style-type: none"> - PMU is part of various global working groups that address these issues, such as the RBM PSM working group for malaria health products and the CPP Coordinated Procurement Planning initiative for HIV health products, continued collaboration with the Global Drug Facility for TB products. - Capacity Building Services has been put in place in 2009 and is a good example of partners' involvement in provision of TA to recipient countries - The Secretariat is working with partners in mobilizing assistance from partners. The approach is outlined in the Secretariat's "TA Options Paper". <p><u>Action</u></p> <p>A1. Provided additional resource allocation in PMAS (see action related to Recommendations 8), acceleration of implementation of Country Profiles, leveraging the experience of using Country Profiles during Round 9 grant signing process.</p> <p>.</p> <p>A2. Rely, as relevant, on existing work on stock outs and work with partners to identify risks - as part of partner agreement letter - and further define roles and responsibilities.</p>	<p>A1. During 2010</p> <p>A2. Ongoing</p>
<p><i>Recommendation 6 (High)</i> <i>The Global Fund should establish an</i></p>	<p><u>Response</u></p>	

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Recommendations	Response and action	Timelines
<p><i>accountability framework that addresses the roles, responsibilities, authorities and accountabilities of various stakeholders to ensure that the grant making process is managed more efficiently and effectively.</i></p>	<p>Agreed by the Secretariat</p> <p><u>Action</u></p> <p>A1. Initiate an internal process (through CT approach or other mechanism where appropriate) in order to further clarify and agree on roles, responsibilities, authorities and accountabilities (beyond the definitions already provided in the existing OPNs), i.e., an accountability framework - for EMT approval.</p> <p>A2. The Disbursement Signing Task Force (long-term) set up by the Deputy Executive Director will be part of the accountability framework and will help to consistently implement it.</p>	<p>A1. For EMT approval by Q3, 2010, with roll-out to follow</p> <p>A2. Ongoing</p>
<p>Recommendation 7 (High) <i>The Global Fund should enforce the CT Approach across all country grant programs to ensure that due diligence is followed for all decisions made and proper checks and balances are in place to facilitate optimal decision making.</i></p>	<p><u>Response</u></p> <p>Agreed by the Secretariat</p> <p><u>Action</u></p> <p>A1. Ensure consistent implementation of existing OPN on the CT Approach (see Action of Recommendations 2)</p>	<p>A1. Starting from Q3 2010</p>
<p>Recommendation 8 (Significant) <i>Given the current ban on the increase of the head count, the Global Fund should consider reallocating resources to this team and/or using consultants in times when the work load is high e.g. when there are a large number of grants to sign.</i></p>	<p><u>Response</u></p> <p>Agreed by the Secretariat</p> <p><u>Action</u></p> <p>A1. Identify resource needs with written plan for especially peak periods. Articulate how the resources will be used by PMAS, elsewhere in SPE, across the Secretariat.</p>	<p>A1. By end Apr. 2010</p>

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Recommendations	Response and action	Timelines
	A2. Allocate additional resources to the PMAS and other teams within the PMU unit to cover critical and supporting activities to those of PMAS.	A2. Starting May 2010
<p><i>Recommendation 9 (Significant)</i></p> <p><i>(d) The Quality Assurance Team should strengthen the monitoring of quality assurance of products by undertaking periodic reviews of the health products being undertaken by the Global Fund and assessing whether there is a need to add or remove some products.</i></p> <p><i>(e) Country Programs should enforce the policies that relate to following up the QA related exceptions and if need be granting penalties to offenders as provided for in the QA policy. This will create awareness about the QA policy and the need for PRs to comply.</i></p> <p><i>(f) The Quality Assurance Team should also cover other non drug related health products. The operational procedures and guidelines should be refined to give greater coverage to non drug health products so that any health associated risks may be addressed.</i></p>	<p><u>Response</u></p> <ul style="list-style-type: none"> - 9a: The QADM is strategically increasing the monitoring activities of the quality of the health products in its work plan. The team has prioritized its monitoring activities according to risks (priority to medicines) and taking into account HR constraints to phase in these activities. - 9b: A monitoring tool for QA compliance was developed by QADM to support CP regards to the follow up and implementation of corrective measures, as appropriate. - 9c: More attention is given to the non pharmaceutical health products as explained above. In addition, a QA policy for diagnostics is being developed and should be presented to the Board at its last 2010 meeting. <p><u>Action</u></p> <p>A1. A quality Assurance policy for diagnostics is being developed and will be presented to the Board.</p>	<p>A1. Presented to Board in December 2010</p>

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Recommendations	Response and action	Timelines
<p>Recommendation 10 (Significant) <i>The Global Fund should periodically review its policies in light of the emerging risks arising out of changes in the environment within which grants are implemented. Specifically, the Global Fund should consider (i) regulating TPPAs; (ii) establishing policies on non health products; (iii) encouraging stronger supply and logistics management and (iv) tracking of products to the intended beneficiaries.</i></p>	<p><u>Response</u></p> <p>Agreed by the Secretariat, as proven by the fact that the Secretariat is already in line with this recommendation and addressing these issues.</p> <ul style="list-style-type: none"> - Policy analysis and discussion with relevant partners for health products are ongoing to look at PSM issues for some specific health products (eg: ACTs, bed nets and diagnostics). - For non-health products, PMU has already initiated discussion with Finance and Corporate Procurement for the development of appropriate policies and monitoring. <p><u>Action</u></p> <p>A1. Ensure implementation according to work plan with policy analysis.</p> <p>A2. Additional consideration will be given to the areas specified in the recommendation as part of the 2011 workplan.</p>	<p>A1. By end 2010</p> <p>A2. During 2011</p>
<p>Recommendation 11 (Significant) <i>The assessment and approval of PSM aspects after grant signature should be discouraged and only done on an exceptional basis and with the requisite approval. The decision to defer this process should be made in consultation with the PMAS team.</i></p>	<p><u>Response</u></p> <p>Agreed by the Secretariat</p> <p><u>Action</u></p> <p>A1. Update existing OPN on grant negotiation and grant signing to strengthen requirement for an approved PSM plan at the time of signing grants and further clarify possibility for exceptions.</p>	<p>A1. In time for Round 10 grant signing</p>

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Recommendations	Response and action	Timelines
<p><i>Recommendation 12 (High)</i> <i>The Global Fund Secretariat should strengthen mechanisms to verify prices and quantities in the proposals and the resultant budgets and PSM plans.</i></p>	<p><u>Response</u></p> <p>- Discussions on this topic are on-going at the MDC (part of its ToR) with inputs of the Secretariat. Also, the issues have been taken up by the Value for Money Sub-Committee.</p> <p><u>Action</u></p> <p>A1. Prepare a template for price comparisons and benchmarking for Round 10</p> <p>A2. Develop a plan to further develop key aspect of PQR functionality which can inform decision-making such as price references, comparisons and benchmarking- to be presented to the MDC.</p> <p>A3. Develop a tool in collaboration with IT that would help track, share and integrated information related to prices and quantities in the Proposals, PSM plans, and PQR. This would need to be prioritized as part of the Information Management initiative.</p>	<p>A1. By August 2010</p> <p>A2. Presented to the MDC at its 3rd meeting</p> <p>A3. Q2/Q3 2011, subject to prioritization</p>
<p><i>Recommendation 13 (High)</i> <i>The Global Fund Secretariat should institute measures through which PR's PSM activities are monitored in accordance with the grant agreement, approved PSM plan and Global Fund procedures. In line with good risk management, such provisions should be made for countries classified as high risk in</i></p>	<p><u>Response</u></p> <p>Agreed by the Secretariat</p> <p>- PHPM issues, such as deviation of activities from the agreed PSM plan will be more closely monitored with the implementation of the updated PU/DR template in 2010.</p> <p>-The roll out of the good practice of undertaking annual</p>	

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Recommendations	Response and action	Timelines
<p><i>the Global Fund risk model. Consideration should be given to expanding the LFA role as has been done by the Latin America and Caribbean team. Another alternative may be incorporating procurement audits in the scope of the financial audits undertaken by PRs on an annual basis.</i></p>	<p>procurement reviews, as is done in the Latin America and Caribbean region, to all regions is currently being considered.</p> <p><u>Action</u></p> <p>A1. Please note Actions listed for Recommendations 1 and 3</p> <p>A2. The Secretariat will request that procurement audits be carried out as part of annual audit reports.</p>	<p>A1. See Rec.1 and 3</p> <p>A2. Annually</p>
<p>Recommendation 14 (High) <i>Country Programs should strengthen the process through which conditions precedent are complied with. This should comprise (i) processes that ensure that critical CPs are included in the grant agreement; (ii) measures for verifying the satisfactory fulfillment of a CP; and (iii) a process for granting waivers to CPs. This will strengthen the control environment within which disbursements are made and ensure that Global Fund grants are safeguarded.</i></p>	<p><u>Response</u></p> <p>Agreed by the Secretariat</p> <p>- Concerning point (ii): the updated PU/DR template includes a section in which the PR is requested to report on the implementation progress of not only CPs/special conditions but also of Management actions. The LFA is requested to verify the PR information. This will allow a more thorough follow up on CPs and GF Management actions.</p> <p><u>Action</u></p> <p>A1. Finalize the OPN on CPs.</p> <p>A2. Monitor the implementation of the OPN (see Action for Recommendation 2).</p>	<p>A1. By September 2010</p> <p>A2. See Recommendation 2</p>
<p>Recommendation 15 (significant) <i>(a) The Global Fund should strengthen the sharing of</i></p>	<p><u>Response</u></p> <p>Agreed by the Secretariat</p>	

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Recommendations	Response and action	Timelines
<p><i>information across Clusters for information. The analysis of available PSM information should be undertaken and disseminated for decision making.</i></p> <p><i>(b) The Global Fund should consider automating the overall grant management process, especially the LFA Assessment; PU/DR reviews; and monitoring conditions precedent. This will ease information sharing across the clusters.</i></p>	<p>-An integrated IT system is currently under development.</p> <p><u>Action</u></p> <p>A1. There is an integrated IT Grant Management solution that is underway that will be delivered in Phases starting with Grant Architecture being delivered in Q1 2011. The other phased deliverables planned for 2011/2012 still need to be prioritized and this requirement would also be subject to prioritization.</p> <p>A2. There is a Grant Document Management initiative underway that will provide mechanism to centralize and share PSM plan documents across the Secretariat. This is expected to make information sharing much easier and consistent across clusters.</p>	<p>A1. Starting Q1 2011</p> <p>A</p> <p>2. By Q4 2010</p>
<p>Recommendation 16 (Significant) <i>The objectives, focus and timing of any capacity development programs should be integral to a country's overall procurement strategy.</i></p>	<p><u>Response</u></p> <p>Agreed by the Secretariat, as proven by the fact that the Secretariat is already in line with this recommendation and addressing these issues.</p> <p>- The Secretariat agrees with this recommendation, as also proven by the implementation in 2009 of the Capacity Building Services provided by the Procurement Services Team (PST).</p> <p>- The PSS team works closely with the PMAS team to address identified capacity gaps.</p> <p><u>Action</u></p>	<p>A1. By end 2010</p>

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Recommendations	Response and action	Timelines
	A1. Country Profiles will capture capacity gaps and required development plans for each country. This will be rolled out in 20 countries in 2010 and made available for TRP and Phase 2 review.	
<p><i>Recommendation 17 (significant)</i> <i>The Country Program and LFA Teams should come up with minimum field reviews that should be undertaken by the LFA as part of PSM capacity assessments. The LFA's PSM expert should be expected to review procurement documentation and also inspect storage and logistics facilities at the central and local levels as well as treatment centers.</i></p>	<p><u>Response</u></p> <p>- Although the Secretariat is largely in agreement with the recommendation, there is a need to point out that the scope of the work and the engagement of LFA experts need to be decided by the GF based on the risks inherent in the country/PR/grant. See also response to Recommendations 1 and 2.</p> <p><u>Action</u></p> <p>A1. Ensure that annual procurement reviews as considered under actions of Recommendation 1 include proper inspections of facilities at peripheral level.</p>	A1. See Recommendation 1

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Appendix 3 - Procurement Review in the framework of Global Fund's financed Programs

Terms of Reference

1. Objectives

The purpose of the Procurement Review is to seek an LFA's opinion on the procurement, contracting, and implementation processes, which have been followed for contracts/purchase orders financed from Global Fund resources. The specific objectives of the Review are to:

- (i) Review the capacity of the PR in handling procurement efficiency, comment on the quality of procurement and contracting; and identify reasons for delays, if any. Determine whether adequate systems are in place for procurement planning, implementation and monitoring and documentation are maintained as per required standards and can be relied upon;
- (ii) Determine whether the procedures, processes and documentation for procurement and contracting were transparent and competitive, and that procurement carried out achieved the expected economy and efficiency;
- (iii) Conduct specific analysis of value for money at all levels for:
 - Goods, using national and international price indicators;
 - Civil Works, compare to locally accepted standards and prices; and
 - Services, compare quality-output to national and international standards and prices;
- (iv). Determine, to the extent possible, whether identified non-compliance with the PR's procurement manual or the Grant Agreement, inappropriate practices or questionable decisions/actions, may have been related to irregular practices;
- (v). Verify, to the extent possible, whether Goods, Works and Consulting Services contracted were supplied/completed according to the required specifications, ToRs and technical standards and comment on the reasonableness of prices; and
- (vi). In the light of deficiencies, identify possible improvements in the procurement procedures and processes and make recommendations.

2. Scope of the Review

This review will cover procurement carried out by the PR for period xxxxxxxxxx. The review will cover a sample of:

- At least 10% of procurement activities < USD 20,000

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- At least 30% of procurement activities between USD 20,000 and USD 100,000
- At least 50% of procurement activities > USD 100,000

The LFA will conduct a thorough review of the selected procurement activities for contracts/purchase orders financed from Global Fund resources. For some of the contracts/purchase orders selected, and as appropriate, program sites will be visited to make physical inspections of quality and quantity of goods, works and services procured.

Where appropriate, and to the extent practical, prices will also be compared with similar contracts/purchase orders financed by other sources in the country and the region and verified against international market prices for the items in question.

3. Methodology and Output

To attain the specific objectives, the LFA will carry out the review in three stages, in collaboration with the PR's team, particularly the Procurement Specialist.

3.1. First Stage

The objective of this stage is to finalize the work plan, scope and review program of the Procurement Review.

3.1.1. Methodology

As a first priority, the LFA must obtain the latest version of the PR's procurement manual. In addition to that, the LFA should, to the extent possible, identify and obtain essential information on legal agreements, audits, annual reports from the PR, relevant aide-memoires, contract and disbursement data, etc.

It may be useful to develop a standard "contract review data sheet" to perform the initial documentary review. For each of the selected contracts/purchase orders, key information should be gathered based on documents obtained from the PR. The aim of this initial review is not necessarily to find all the information, which will be needed for the purpose of the review, but rather to collect and compile key procurement data to the greatest extent possible, based on documents made available to the LFA. In some instances, specific contract information may not be found at the initial review stage. This may be retrieved during later stages of the review or identified as a deficiency in the information trail of the program.

The data sheet should include factual indicators related to the procurement of goods/works/services for each bid and to the execution of the awarded contract. Presented in a comparative manner, this basic information provides the starting point for assessing performance and for identifying patterns, potential deviations and/or cases of non-conformities.

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The LFA and the FPM will select the sample of contracts/purchase orders awarded for review, in accordance with the criteria specified in this TORs. If the LFA should find it necessary, during the conduct of the review, to introduce variations to the number, nature and other aspects of contracts/purchase orders to be reviewed, such changes should be agreed in advance with the FPM.

The LFA will then finalize the work plan, scope and program of the review with the PR.

3.1.2. Output

At the end of this stage, which should not exceed **2 working days** from the commencement of the review, the LFA should produce a first report -for the FPM's prior clearance- which will comprise the following:

- (i) Work plan,
- (ii) List of contracts/purchase orders to be reviewed, and
- (iii) The review program (including site visits and dates).

3.2. Second Stage

The objective of this second stage is to carry out the reviews.

3.2.1. Methodology

To be able to attain the above objective, the LFA will work in close co-ordination with the staff of the PR. The maximum expected duration for this second stage is about 3 working days. As far as practical, the LFA should give the PR advance notice of the information and documents which the LFA will require for the review. Some of the important areas on which the LFA should focus on are as follows:

- i. *Compliance with PR's Procurement Manual and Grant Agreement.* The LFA will verify whether procurement and contracting procedures and processes followed under the program are in compliance with the PR's procurement procedures, and in conformity with the Grant Agreement;
- ii. *Capacity Assessment.* The LFA will review and assess the capacity of the PR in handling procurement to determine whether adequate systems for procurement planning, implementation, and monitoring and documentation are maintained per required standards, and can be relied upon. The LFA will verify that procurement is handled in a timely, transparent, documented and efficient manner. The LFA will also review the time lag between key procurement activities to determine the effectiveness of the procurement process.

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- iii. *Risk Assessment.* The LFA will (i) conduct a PR's Risk Profiling, which will consist in assessing control risks (such as institutions and organizations responsible for contract management and procurement oversight), mitigating and tracking procurement risks; (ii) assess the risks related to efficiency (delays), economy (sub-standard quality or high costs), fairness (limited competition), transparency (fraud) and reputation; (iii) identify inappropriate practices or questionable decisions/actions, and (iv) propose Recommendations for improvements.
- iv. *Contract Performance.* The LFA will assess the degree of compliance of contract performance with agreed requirements, ToRs and technical specifications (e.g. test, inspection certificates), payment terms and timely performance by namely focusing on: (a) qualitative and quantitative changes in contract: based on the information included in the contract data sheet, change orders should be reviewed in order to assess their compliance with the PR's procedures; (b) status of deliveries: the dates of the different deliveries agreed in each contract should be checked and any discrepancy noted. In appropriate instances, the final destination of deliveries should also be verified; (c) status of payment: evidence of payments by the PR should be checked. Payment information should also be used to cross-check and to confirm the date of completion; and (d) quality documentation: the LFA should also check the availability of quality documentation mentioned in each contract, such as certificates and inspections performed; and
- v. *Physical Inspection.* The LFA will verify, to the extent possible, whether goods, works and consulting services contracted were supplied/completed according to the required specifications, ToRs and technical standards and comment on the reasonableness of prices and physical completion of the contract. In this context, the LFA will randomly select about 50% of the number of contracts/purchase orders under review under each category of goods and works and visit the program sites to carry out the physical inspections. Depending on the type of goods/works, the following types of inspections should be performed as appropriate: (a) standard physical inspections of goods/installations: quality control (conformity with technical specifications stipulated in the contract) and confirmation that quantities were delivered; (b) site visits to works: field visits should be undertaken to verify the status of works or to confirm their completion, documentary checks (certificates of acceptance/completion, defects list, tests, etc.) should also be made. Where appropriate, and to the extent practical, prices should also be compared with similar contracts/purchase orders financed by other agencies in the country and verified against international market prices for the items in question.

3.2.2. Output

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At the end of this stage, the LFA will present his/her preliminary findings to the FPM in the form of a Draft Procurement Review Report in one original and one electronic copy. This should be done within 2 working days from the date of completion of field works. The report should be structured as follows:

- a)- Outline of the review:
 - Objectives and Terms of Reference; and
 - Scope, approach and review sample.
- b)- Summary of findings and recommendations
- c)- Specific Findings on matters relating to:
 - Procedures, process and documentation for procurement and contracting;
 - Compliance with guiding principles;
 - Compliance with specifications, ToRs and technical standards;
 - Reasonableness of prices in specific contracts/purchase orders;
 - Country-specific issues;
 - Program issues, including specific procurement and contracts/purchase orders;
- d)- Risk Assessment
- e)- Recommendations for improvements
- f)- Annexes:
 - Review Methodology; and
 - Review Data, including details of all review findings.

3.3. Third Stage

The objective of the third stage is to finalize the Procurement Review.

3.3.1. Methodology

The FPM will review the draft Procurement Review Report and furnish its comments in writing within 5 working days of receipt of the report.

The LFA will not be required or expected to change the findings or the Report to reflect the FPM's comments. If there is a disagreement between the FPM and the LFA, the LFA should retain the findings and recommendations, but must incorporate the FPM's position, verbatim, in the Report making it clear that this is the FPM's position on the issue.

The Final Procurement Review Report will be submitted to the FPM within 5 working days after the FPM has furnished its comments to the LFA.

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If acceptable, the FPM will approve the Final Procurement Review Report within 5 working days; if not, the FPM will specify reasons/issues and require the LFA to address them in the final Procurement Review Report before resubmission for acceptance.

3.3.2. Output

The final Procurement Review Report will be issued and will be in English, and should be presented in one original and one electronic copy.

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Appendix 4 - Sample of reviewed grants

No.	Regional Team	Country	Round	Disease Component
1	South Asia	India	4	HIV
2	South Asia	Bangladesh	5	TB
3	Eastern Africa	Ethiopia	4	HIV
4	Eastern Africa	Tanzania	4	MALARIA
5	Southern Africa	Zambia	4	MALARIA
6	Southern Africa	Angola	4	HIV
7	Western Africa	Ghana	5	HIV
8	Western Africa	Nigeria	4	MALARIA
9	East Asia	China	4	HIV
10	East Asia	Indonesia	5	TB
11	Eastern Europe	Russian Federation	4	TB
12	Eastern Europe	Bosnia and Herzegovina	5	HIV
13	Latin America & Caribbean	Peru	5	TB
14	Latin America & Caribbean	Haiti	5	HIV
15	North Africa & the Middle East	Mali	4	HIV
16	North Africa & the Middle East	Sudan	4	HIV