

**November Strategic Review Meeting
AGENDA
Starling Hotel, Geneva
Day 1 - Wednesday, 2 November 2016**

Time	Topic	Presenter(s)
08.30 – 09.30	Registration (coffee and tea available) <i>Venue: Foyer Rive Gauche</i>	
09.30 – 09.45	Welcome and agenda <i>Venue: Crans Classroom</i>	Aziz Jafarov The Global Fund
09.45 – 10.00	Strategic overview: key achievement and priorities	Christopher Game The Global Fund
10.00 – 10.15	DFID Perspective	Colette Whigham DFID
10.15 – 11.00	Core health products – update and the future through five lenses <i>Venue: Crans Classroom</i>	Mariatou Tala Jallow The Global Fund
11.00 – 11.30	Break <i>Venue: Foyer Rive Gauche</i>	
11.30 – 12.15	Core health products – update and the future through five lenses (Case study) <i>Venue: Crans Classroom</i>	Martin Auton and Lin (Roger) Li The Global Fund
12.15 – 12.30	Key note message	Mark Dybul Executive Director, The Global Fund
12.30 – 13.30	Lunch <i>Venue: Zermatt 1</i>	
13.30 – 14.00	Core health products – update and the future through five lenses (Q&A and Discussion) <i>Venue: Crans Classroom</i>	Mariatou Tala Jallow The Global Fund
14.00 – 14.45	Update on Wambo.org	Anna Van Nieuwenhuizen The Global Fund
14.45 – 15.15	Guest speaker	Jonathan Webb Procurement Leaders
15.15 – 15.45	Break <i>Venue: Foyer Rive Gauche</i>	
15.45 – 16.45	Introducing the new Supply Chain vision <i>Venue: Crans Classroom</i>	Martin Ellis The Global Fund
16.45 – 17.00	Q&A and Closing remark of Day 1	Christopher Game The Global Fund
17.00	Reception <i>Venue: Zermatt 1</i>	

**November Strategic Review Meeting
AGENDA
Starling Hotel, Geneva
Day 2 - Thursday, 3 November 2016**

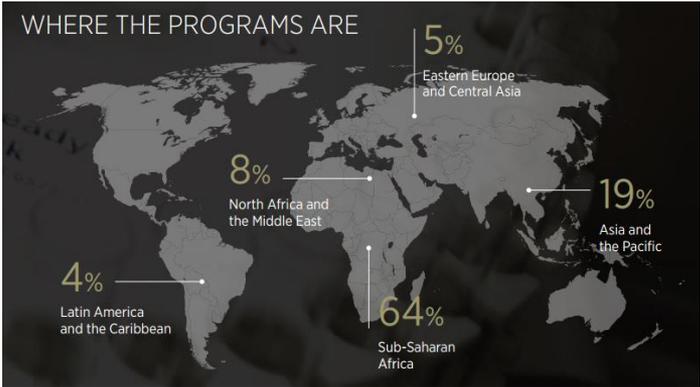
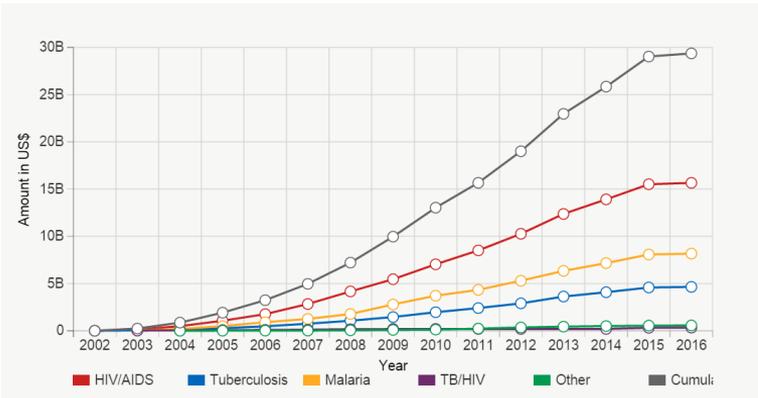
Time	Topic	Presenter(s)
08.30 – 09.00	Coffee and tea <i>Venue: Foyer Rive Gauche</i>	
09.00 – 09.20	Opening remarks; Agenda for the day <i>Venue: Crans Classroom</i>	Christopher Game The Global Fund
09.20 – 10.30	Parallel Break-out sessions (focused discussions): 1. Vector Control: What do we need to speed up the scale-up of new the next generation LLINs and Insecticides? <i>Venue: Zinal</i> 2. ARVs – how can we assure sufficient reliable supply of the ARVs to support scale-up to reach the international treatment targets? <i>Venue: Leysin, Nendaz</i>	Facilitators
10.30 - 11.00	Break <i>Venue: Foyer Rive Gauche</i>	
11.00 – 12.30	Parallel Break-out sessions 1. Procurement Game <i>Venue: Zinal</i> 2. Wambo.org Demo <i>Venue: Leysin</i>	Christopher Game and Steve Hornsby The Global Fund Mathieu Courtois Wambo.org
12.30 – 13.00	Next steps and closing remarks <i>Venue: Crans Classroom</i>	Christopher Game The Global Fund
13.00 – 14.00	Lunch <i>Venue: Zermatt 1</i>	

Annual Sourcing Strategy Review

November 2016
Geneva

Christopher Game – Chief Procurement Officer

The Global Fund raises & invests nearly US\$4 billion/year



BREAKDOWN OF PORTFOLIO BY TYPE OF IMPLEMENTER (ACTIVE GRANTS)



	Proportion funds	# countries
HIV/AIDS	53%	105
Malaria	30%	74
TB	17%	98

Medicines and health products = 40% spend

A reminder of where we started



The dreaded Silos, Even when working in partnership, partners all too frequently have to revert to the day job or are constrained by their own rules

- Reducing speed
- Adding complexity
- Reducing leverage
- Adding fragmentation
- Pilots often stay pilots

36.8%



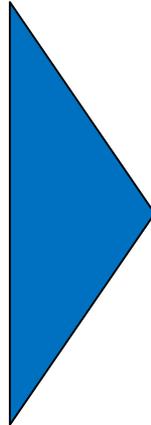
Our Focus is so often on the Mechanism or process for delivery that we lose sight of both the objective and speed to deliver in a simple and yet effective manner

And then we all hire a consultant, very often from the same pool



- Same old black suits
- Slow
- Can be dated in terms of drug lifecycles
- Difficult to refresh
- Academic focus
- Limited private sector experience

What did this mean for us?



- 1 Insourcing of Sourcing
- 2 Pooled disbursement
- 3 Scale & Leverage
- 4 Organization and Tools

Do you think that industry considers us easy to work with as a sector?

**Being a Customer
Of Choice**

- We are silo'd
- We are fragmented
- We are impeded by process / bureaucracy
- We have poor funds flow
- Inadequate planning & forecasting
- Much of what we do is outsourced/ lacks accountability
- Regulatory barriers

Or perhaps they do ?

How can we use SRM* To drive compliance?

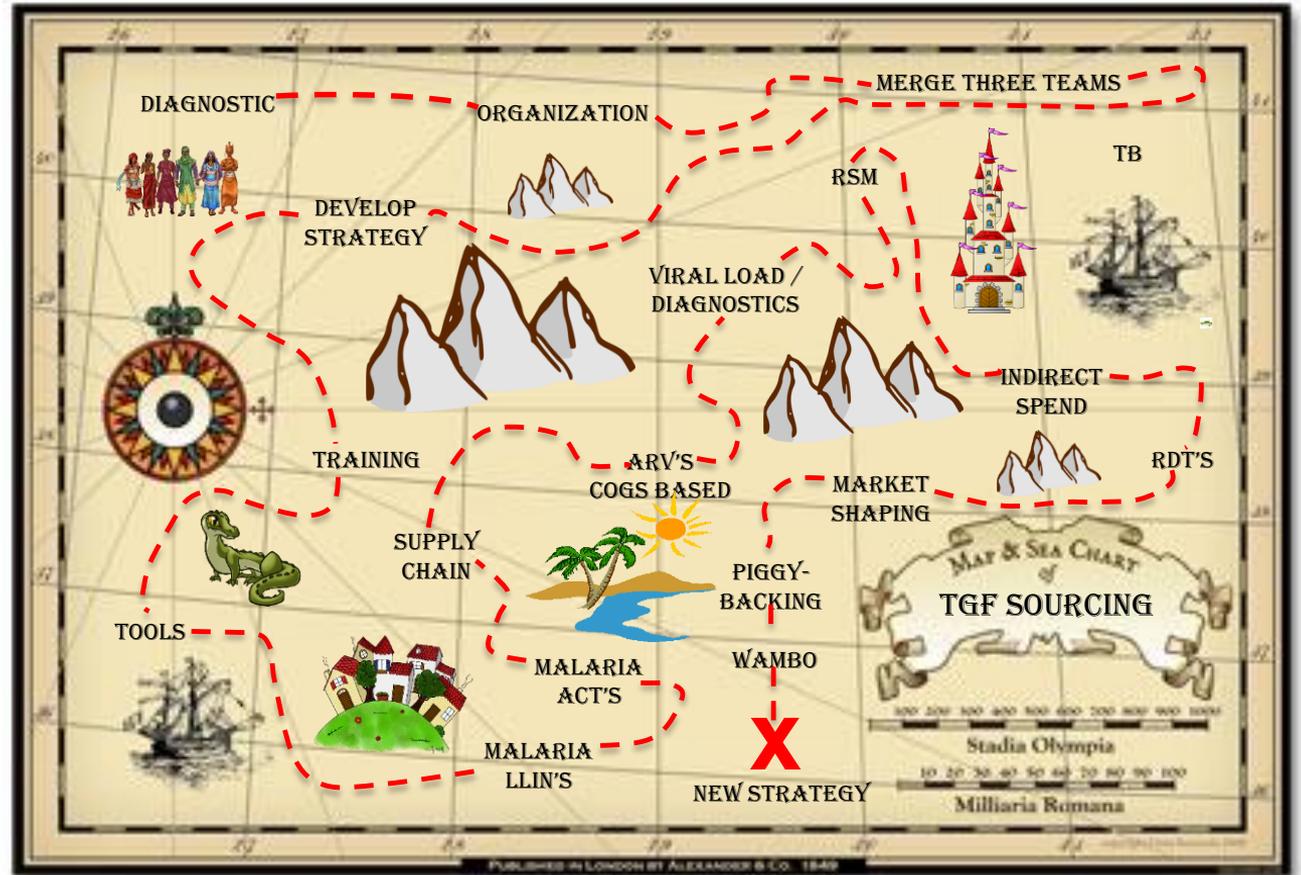
* Supplier Relationship Management

- All of these carry a \$\$\$\$ premium
- Risk increases with fragmentation, and we pay for that risk
- Long lead times may reduce system stress at manufacturers

What we set out to do 2 ½ years ago

Relevant treasure to this discussion:-

- Strategy driven by market and supplier analysis
- Collaborative approach with other agencies
- Cost of Goods Sold based
- Direct payment
- Leveraged volumes
- Long-term agreements
- Piggy Backing
- WAMBO



Procurement 4 Impact (P4i) followed 6 objectives fully aligned with the Global Fund' strategy ----- with the focus on industrialising thought leadership



Successes

Supplier performance

- Increased the on-time and in-full delivery of core health products purchased through pooled procurement from 36% to over 80%
- Approaching same performance as private sector in emerging markets (86% in 2013)

Availability and supply security

- Implemented rapid supply mechanism through vendor managed inventory allowing fast response to product shortages
- Supplier panels selected to ensure diversity, resulting in increased number of suppliers for LLINs and ACTs; 8 suppliers retained for ARVs

Innovation

- Level of innovation included as tender evaluation criteria
- Volume explicitly set aside for new entrants and new products in recent ARV tender
- Collaborative supplier projects focused on new products or formulations

Affordability and savings

- Nearly \$600 million in estimated savings achieved through tenders so far. Spend penetration up to \$1.5 Billion
- In LLIN and ACT tenders, largely through volume discounts
- ARV tender also used lifecycle segmentation and COGS-based benchmarking to inform negotiations

Direct Spend Performance – First half-year 2016

Year to date allocation of procurement volumes to manufacturers exceeds annual commitment.

The value driven out of our first half-year 2016 spend which includes pooled procurement and the co-payment mechanism \$64.4M or 12.5% against a target of 7%.

LLIN's contribute \$29.8M, ARV's contribute \$25.8M and ACT's contribute \$5M

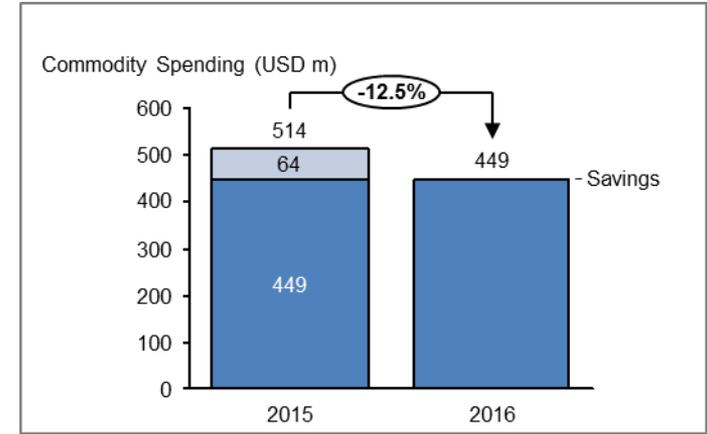
Malaria ACT's have experienced a cost increase of \$885K due to unexpected emergency orders, which means that to fulfill the requirement we have to source from a more expensive originator who manufactures to stock.

Pooled procurement ACT savings are 2.5% and Co-payment mechanism is 7.8%. We face an unexpected 40% ACT volume increase in 2016.

Non- ACT Anti-Malarials have gone up by 6.3%, is driven by Artesunate injectable price increases in Q4 2015. This was mitigated by a pre-negotiated 7% unit price reduction.

The first half-year 2016 Procurement services agent (PSA) fees saving is \$4.5M.

This was driven by the sourcing transformation, with the exception of PSA Fees for LLINs where fee reduction had already been achieved in 2013 (PSA Fees for LLINs range 1-1.5%)



NOTE: Indicator measures year-on-year savings gained through Pooled Procurement Mechanism (PPM & AMFM). \$ Savings = (Unit Price 2015 – Unit Price 2016) * 2016 volume. KPI = (savings 2016 / 2016 spend + 2016 savings).

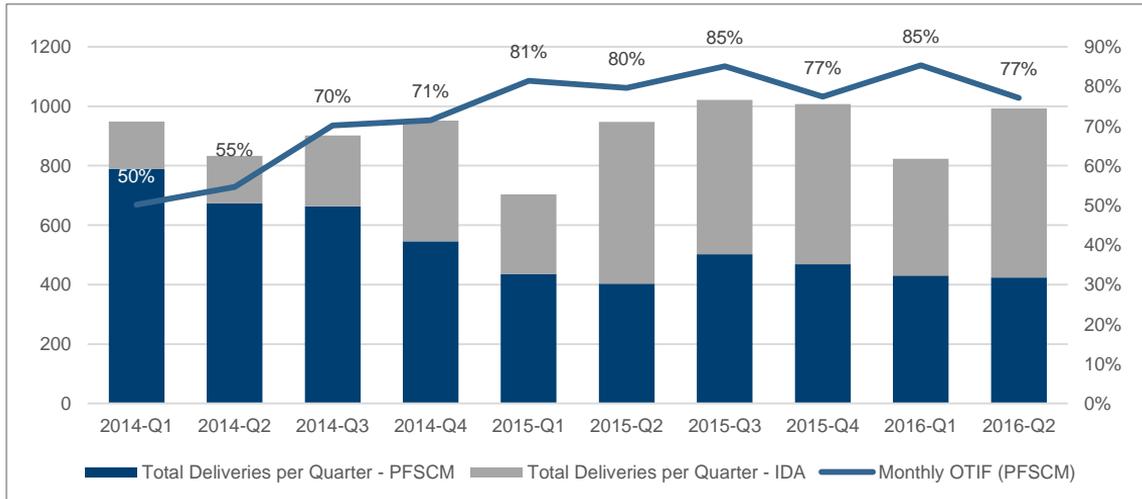
Delivery Performance – First half-year 2016

Measure

ii. On Time In Full Delivery Rates (OTIF):
Percentage of pooled procurement and IDA orders delivered on time

Performance

2016 Target: 75% on time deliveries at each reporting period
Q2 2016 Result: 77%

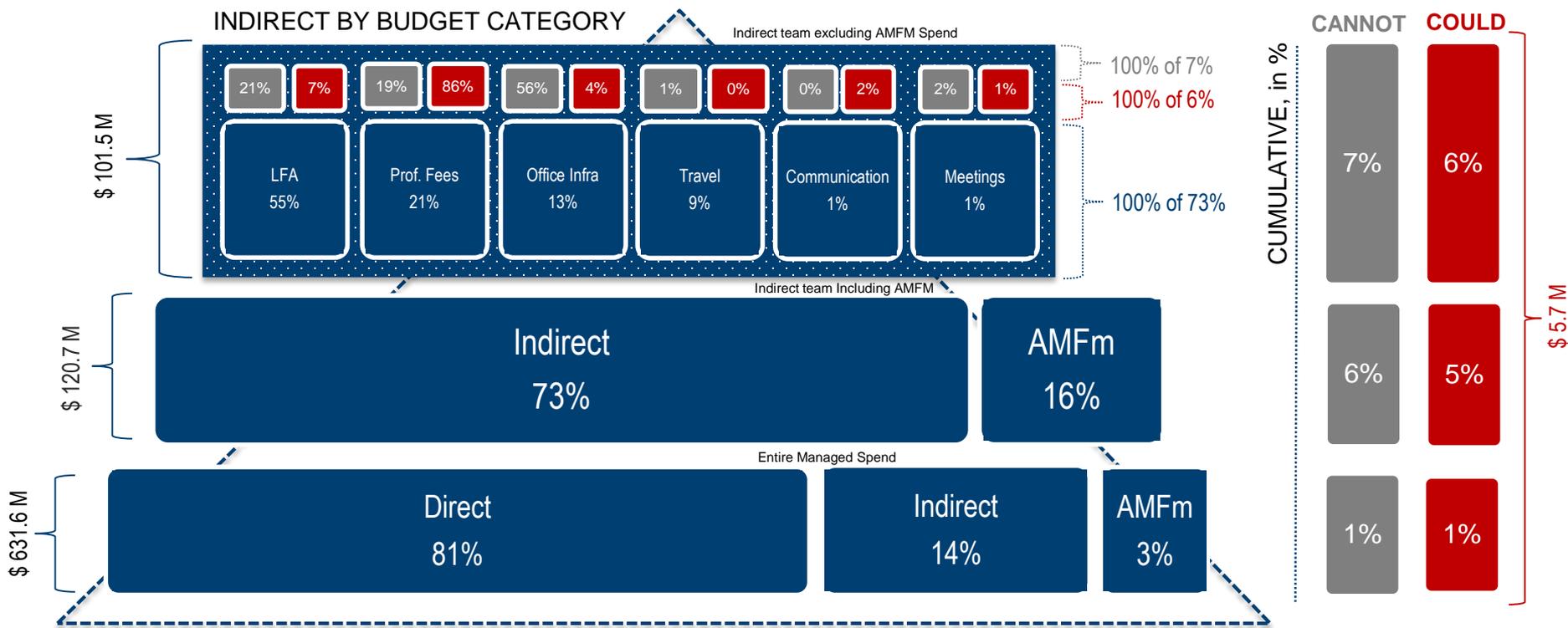


- Level of on-time product delivery remains consistently high over 2015 and into 2016
- Recipient confirmation of receipt has been implemented in 2016 in order to provide better information on “In Full” deliveries
- IDA OTIF data not available due to ongoing systems upgrade; data will again be available in Q3 2016

NOTE: IDA OTIF data not available in Q2 as a system upgrade is currently taking place – data will again be available in Q3 2016. Calculated by shipments delivered on time rather than weight. IDA carries 90% tonnage. Includes core and non-core products. On Time defined as due date + 14 days.

How much of our spend is managed?

Period: Jan-Jul 2016



Data source Direct: Spend data based on Pooled Procurement Mechanism (PPM) financial database, with dates reflecting the confirmation of orders by the Global Fund.
Data source Indirect: Spend data reflecting Purchase Order amount ordered on the Global Fund System (GFS) and recorded in Oracle Bi Application tool.
AMFm: Affordable Medicines Facility - malaria (now CPM – ACT subsidy program) health products recorded in GFS.

Our definition of “market shaping”

Market shaping supports health outcomes by...

Implies proactive approach

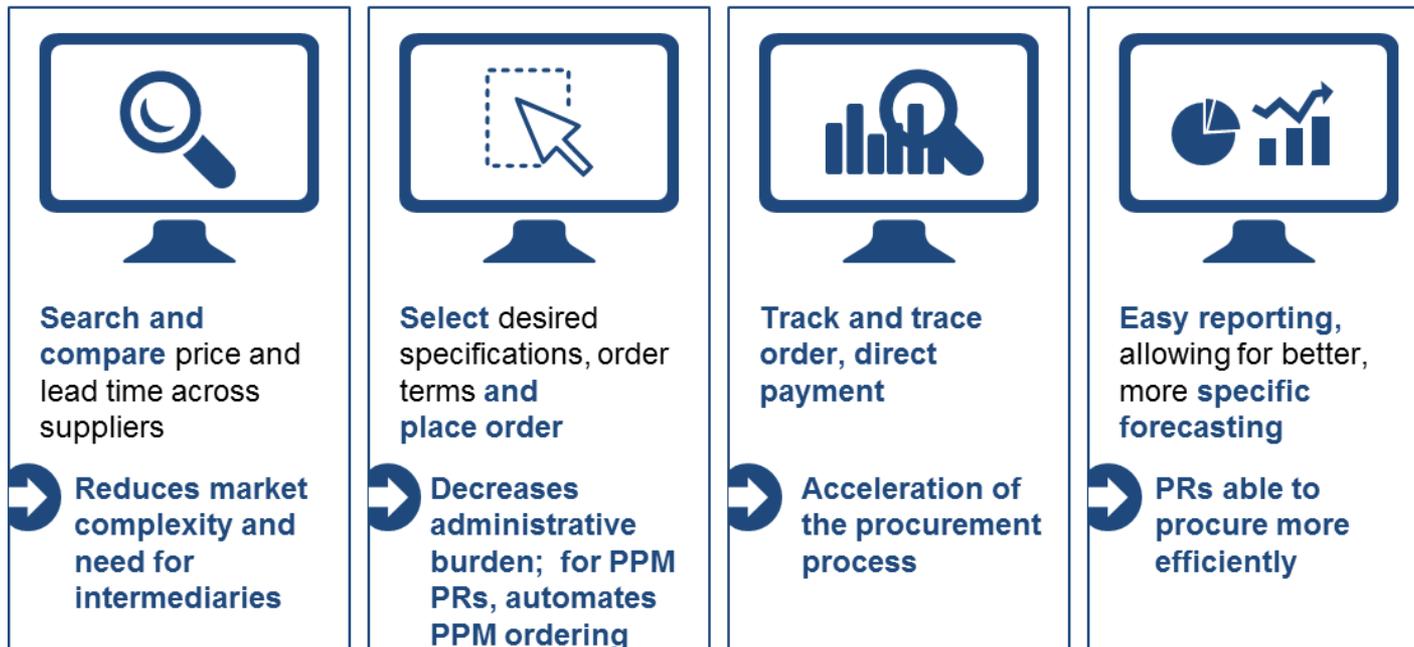
Leveraging the Global Fund’s position to facilitate healthier global markets for health products, today and in the future

Focused on global market outcomes, not limited to outcomes for the Global Fund

Market shaping extends to future possibilities, not limited to current market conditions

wambo.org: An innovative online procurement platform with several expected benefits

Wambo.org is built upon the vision of an online procurement platform which can tackle several challenges faced by PRs

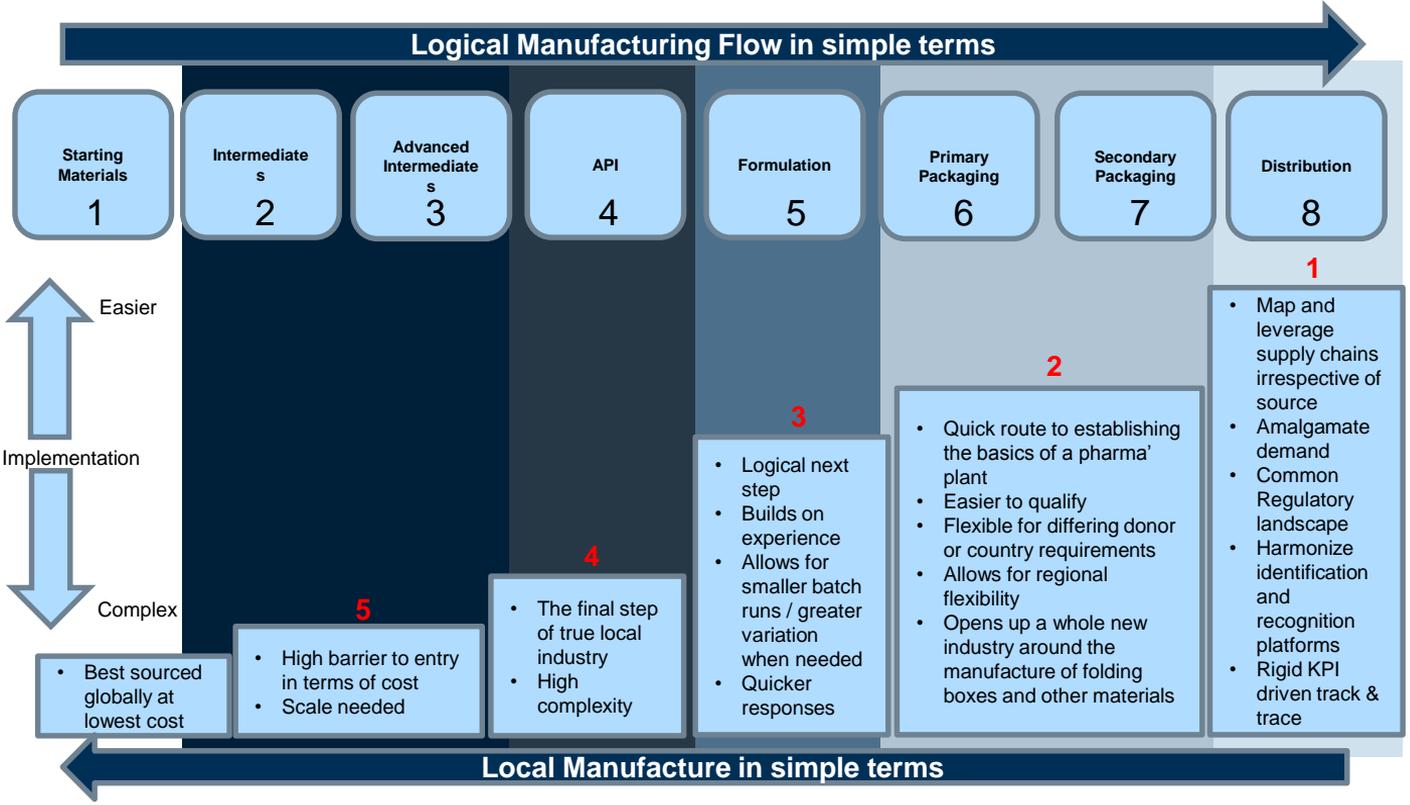


Local Manufacture – Another area of focus

Considerations for local manufacture:-

- Leverage will determine how far you can proceed up the value chain and be viable
- Global is better than regional which is better than local
- Asia builds enormous capacity with which it is difficult to compete
- IP is a barrier
- WAMBO is an enabler

working backwards.....



What comes next :-

Imagine our world where :-

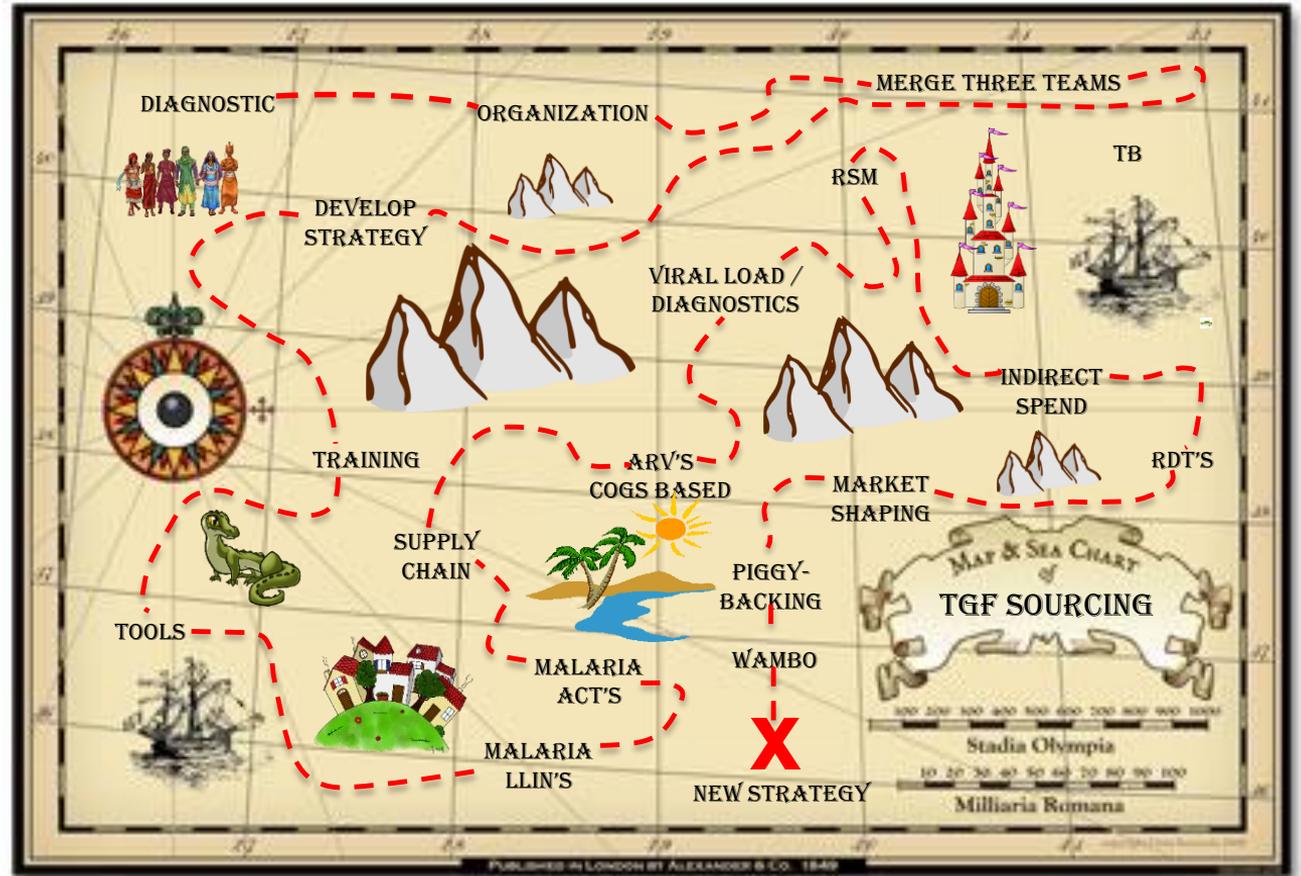
Outcomes based procurement

- Funds flow is flat, we pay per year's sustained good performance
- We are output based
- We free up funds for new advanced more effective interventions

Source plan generator

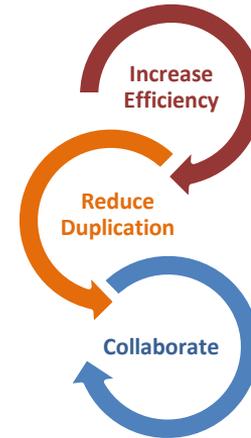
- We have optimal source plans for every country, totally data driven
- We can access sourcing and pipeline data immediately, by country, supplier, by intervention or disease type.

Thank You
Questions ?



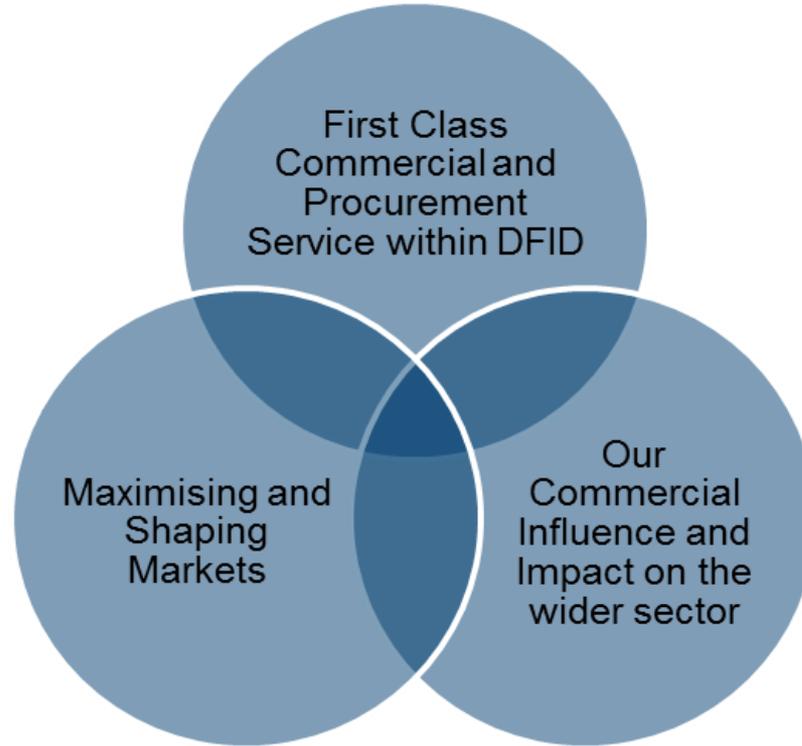
DFID's Perspective

Global Fund
2nd November 2016



DFID Commercial Roadmap – 2016 & Beyond

DFID's commercial expertise stretches beyond providing a good service for DFID programmes to understanding the markets and influencing the wider sector



Reforming the System

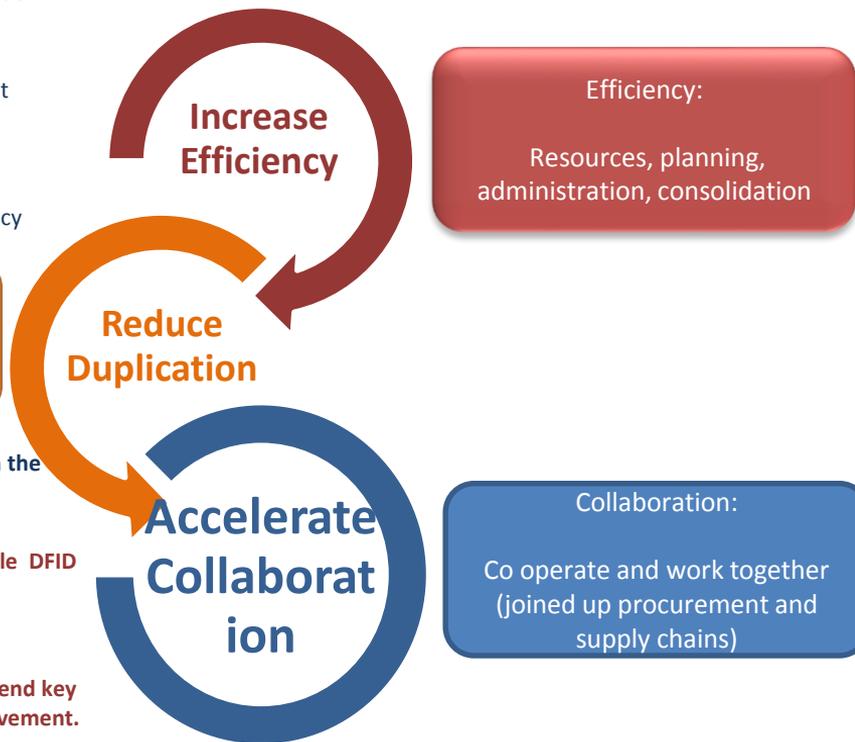
▪ **DFID's Commercial Capability Review made the following recommendations :**

- To strengthen delivery route selection
- To strengthen DFID's strategic commercial focus
- To enable DFID to be an intelligent customer
- To strengthen our commercial oversight of delivery partners
- To improve availability and accuracy of commercial information

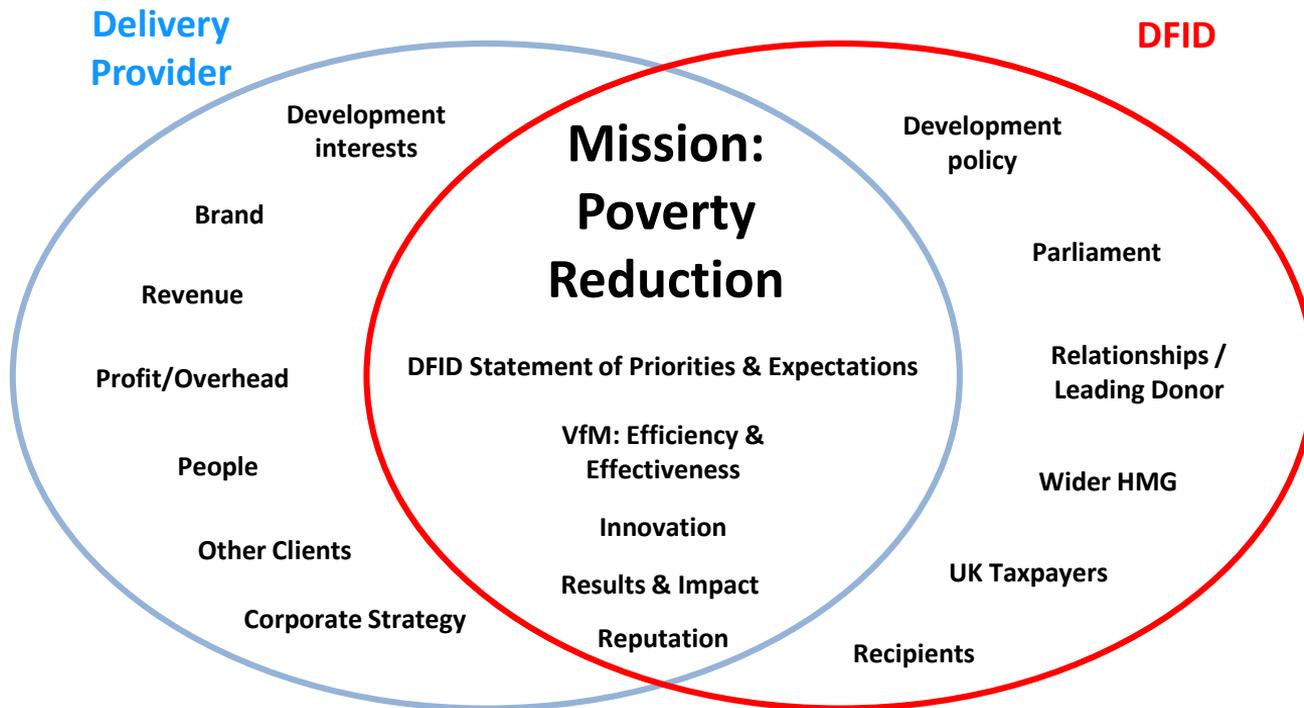
Duplication:
Working on the same areas delivering the same benefits

▪ **DFID's Commercial Expertise Review with the Global Fund ;**

- **Partnership Approach**
- **Constructive engagement to enable DFID to be an intelligent customer**
- **To strengthen our commercial oversight of delivery partners**
- **To identify best practice, recommend key commercial focus areas for improvement.**
- **Agree key commercial performance measures**
- **Shared experience and learning.**



Manage and Maximise Approach Alignment and Impact Partnership

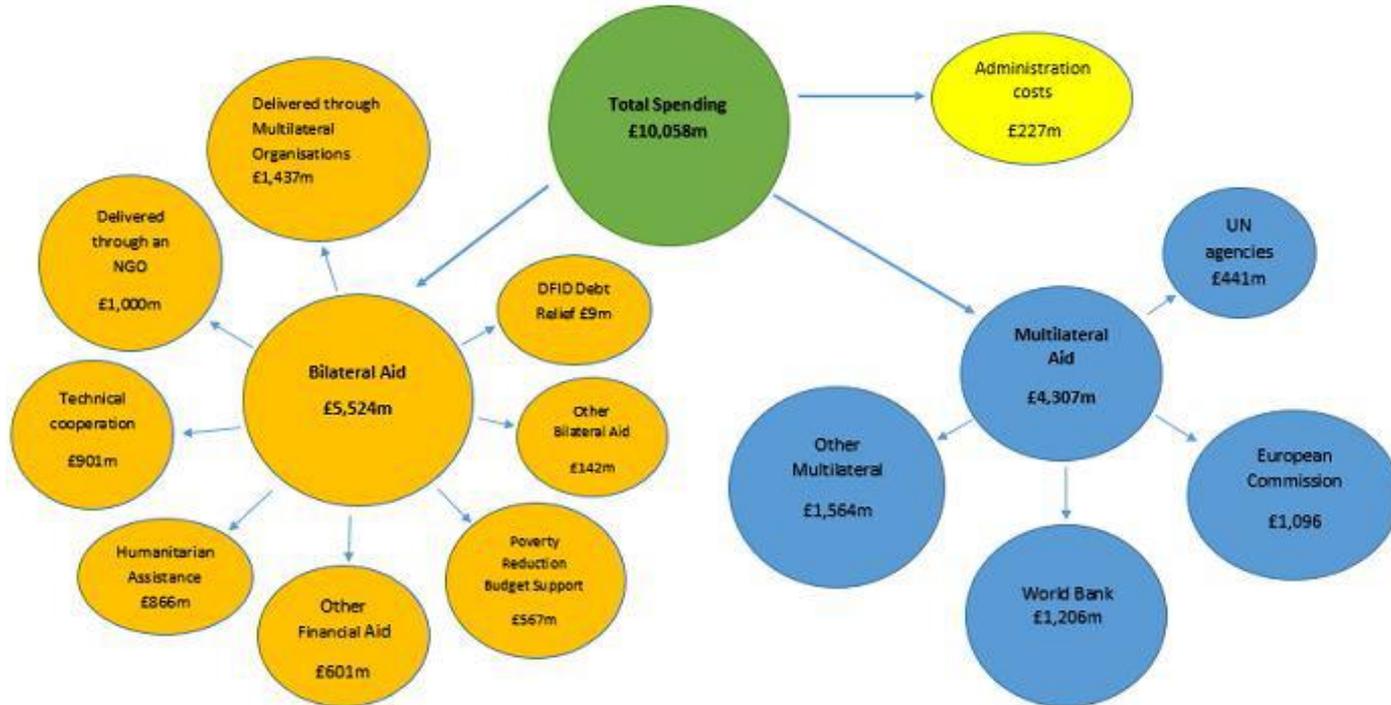


Commercial effectiveness is about delivering the best development impact and influence for target populations as well as the UK taxpayer

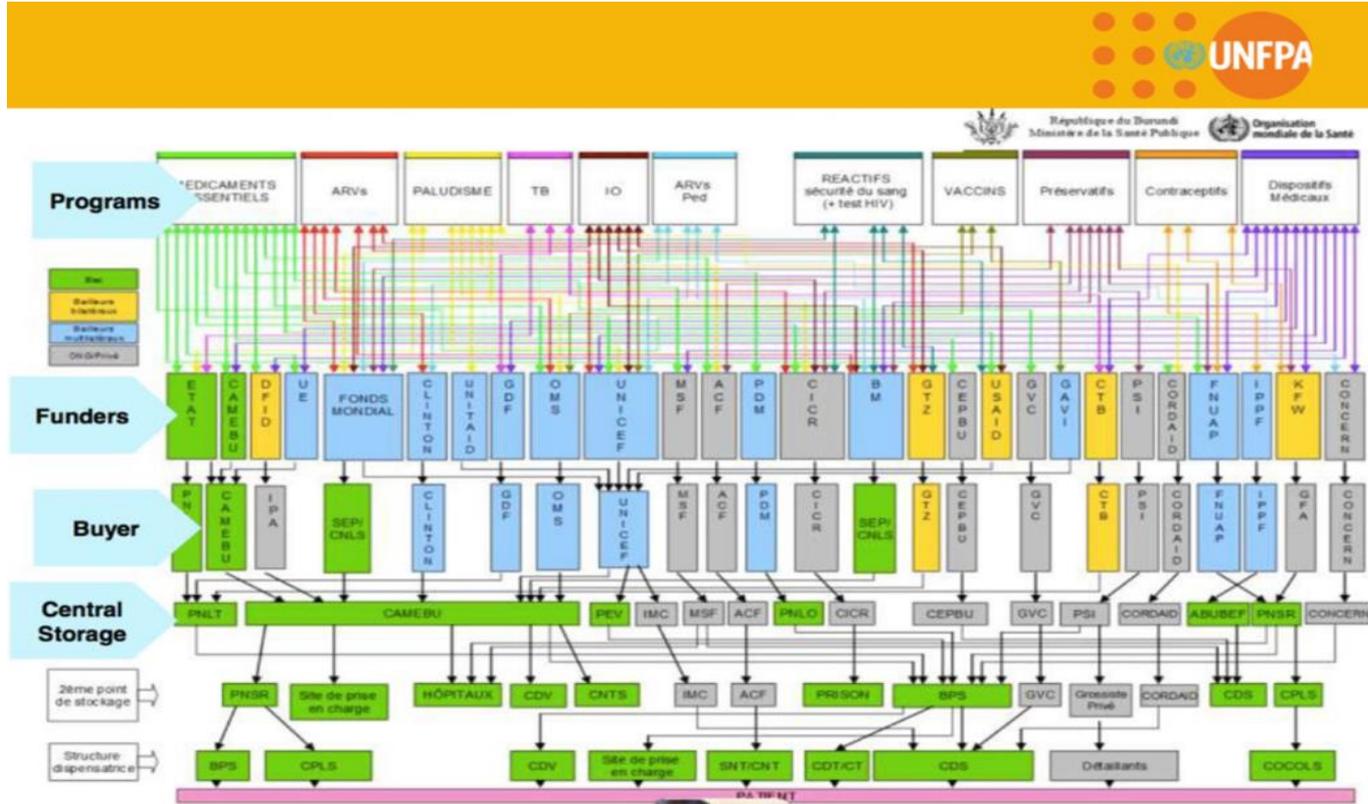
Follow The Money



DFID's Spending in 2014-15

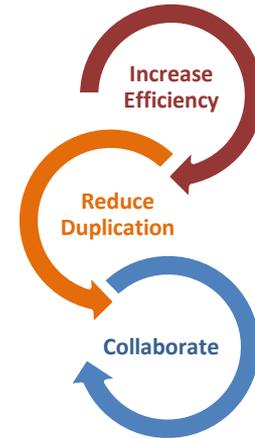


Supply Chain Complexity

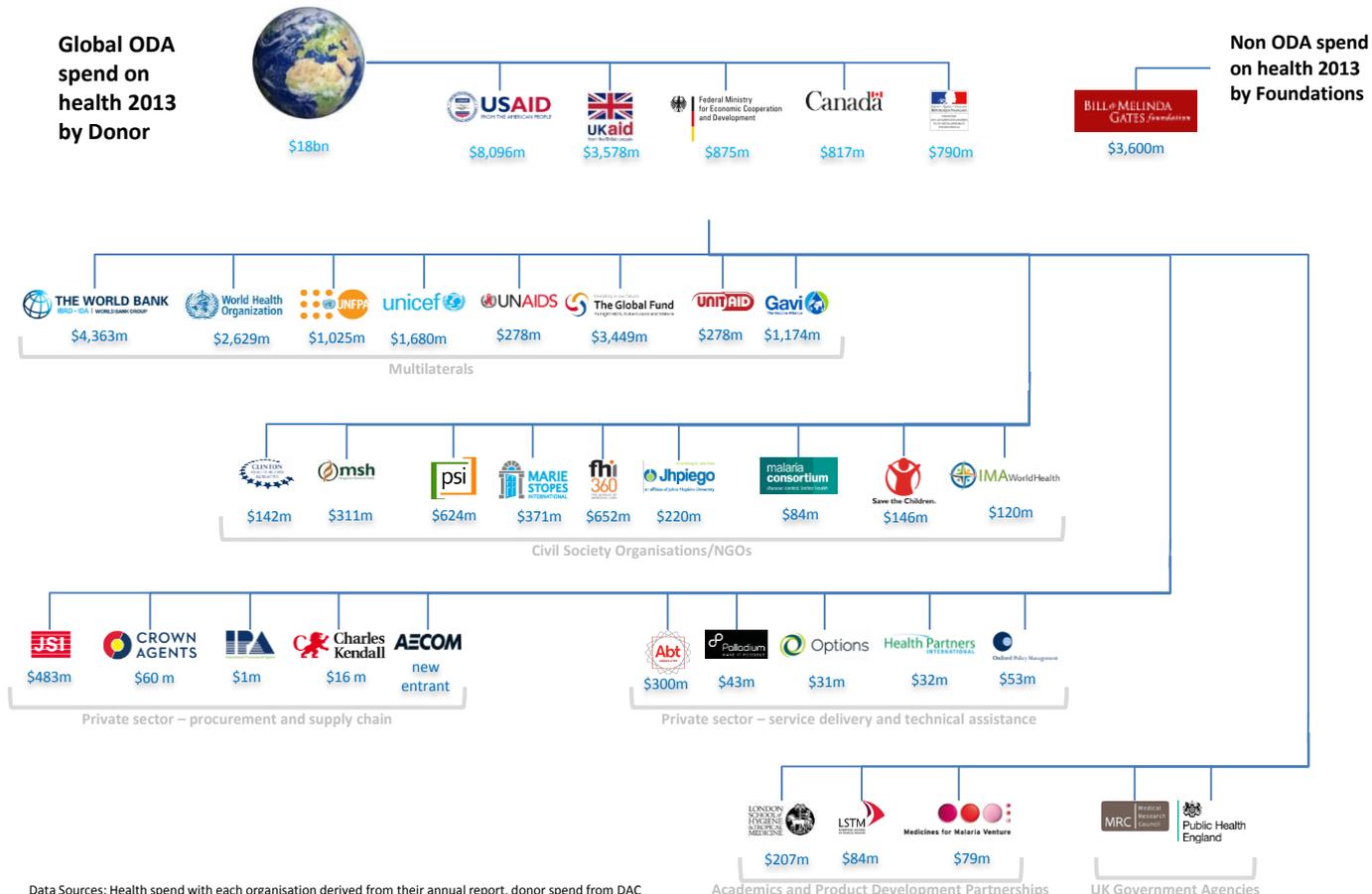


Follow The Money.....

Across the International Development System?

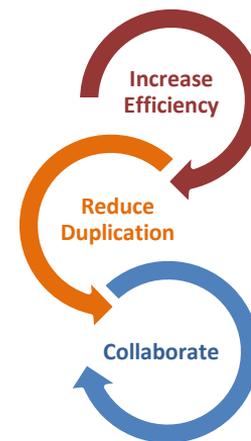


Global Health Spend for ALL Donors with Partners

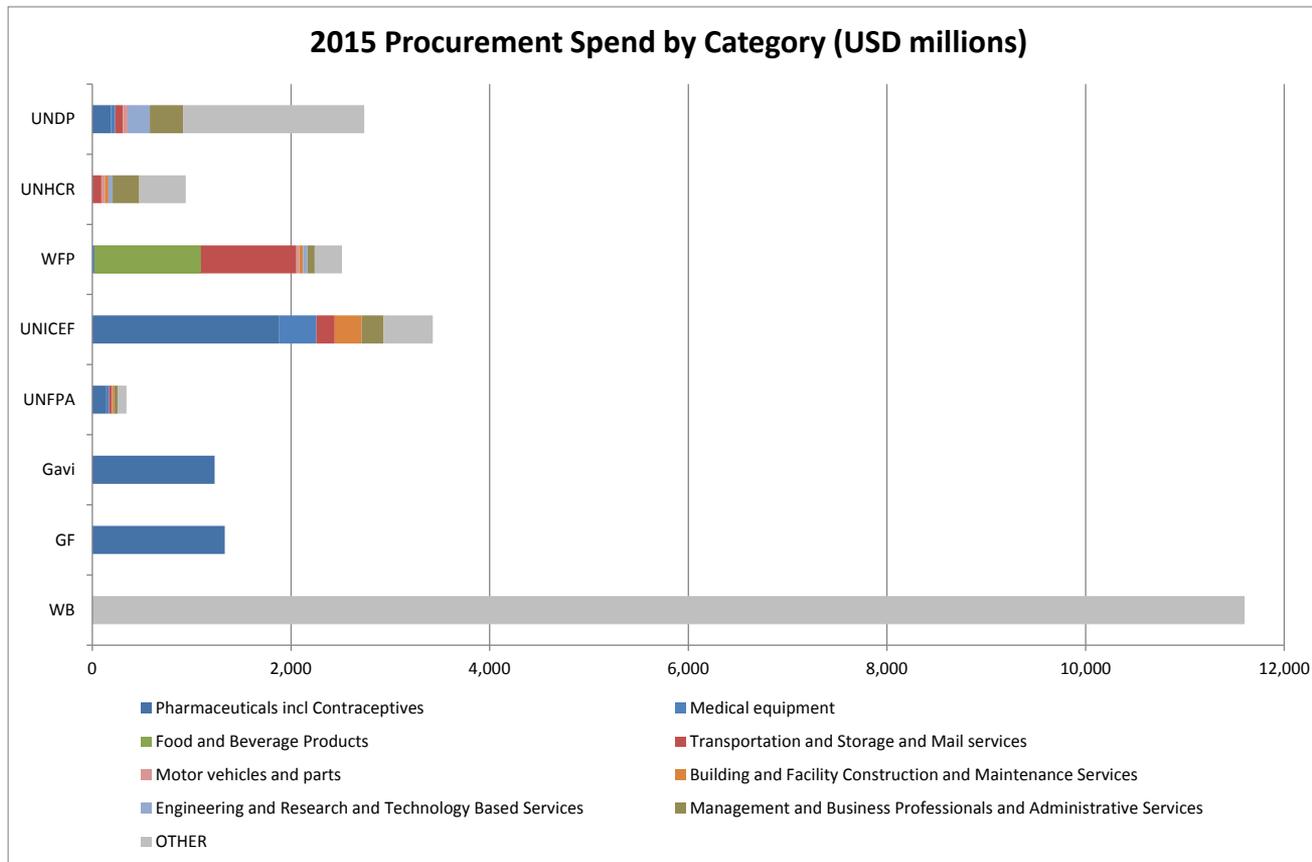


Data Sources: Health spend with each organisation derived from their annual report, donor spend from DAC

Intelligent Client



Multilateral Organisation by Sector



Data Source: UN orgs - https://www.unops.org/SiteCollectionDocuments/ASR/ASR_2015_Full.pdf

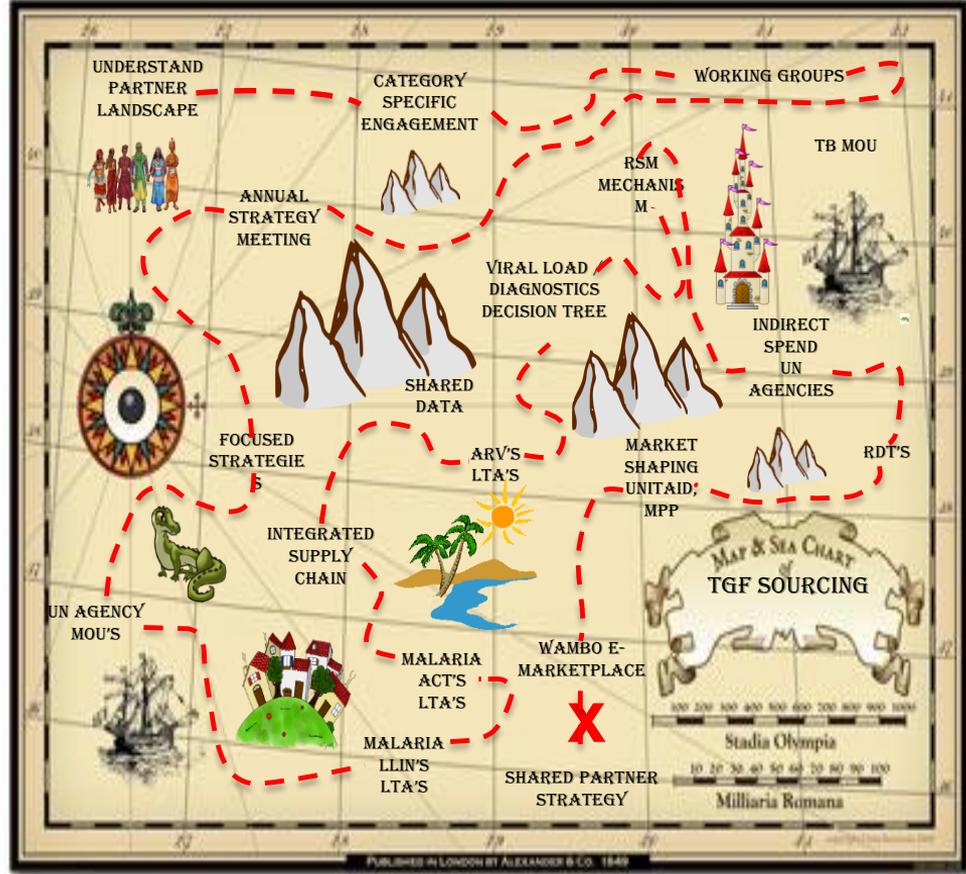
WB <https://finances.worldbank.org/Procurement/Major-Contract-Awards/kdai-wcs3/data> Note spend includes \$6.6 bn Civil Works

GF, Gavi - <http://www.theglobalfund.org/en/sourcing/> pro rata over 3 years

The Opportunity



Areas of Collaboration



Existing Collaboration Forums

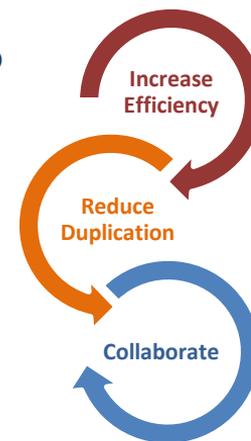
Group	Membership	Remit/Objectives
HLCM Procurement Network	All UN orgs	<ul style="list-style-type: none"> • Vendor Management • Sustainable procurement • Framework for harmonisation • Procurement prioritisation • Collaborative Procurement Prioritisation Exercise (led by UNHCR)
MDB's	All MDB's	<ul style="list-style-type: none"> • 2015 Agenda • Procurement policy development/reform • Capacity building & professional development
Inter-agency Supply Chain Group (ISG)	DFID, USAID, Norway, GF, GAVI, WB, UNICEF, UNFPA, WHO, BMGF	<ul style="list-style-type: none"> • Global Development • Health focus • Procurement and Supply
People that Deliver	Wide membership led by UNICEF	<ul style="list-style-type: none"> • Health Supply Chain Workforce Capability
World Humanitarian Summit Grand Bargain (UNOCHA)	Donors Multilaterals NGO's (not MSF/Oxfam)	Procurement commitments within much wider humanitarian remit <ul style="list-style-type: none"> • Shared procurement should leverage the comparative advantage of the aid organisations and promote innovation.

The Frameworks....

The Objectives....

The Outcomes....

Are we speaking the same language?



Healthy Markets Framework (Vaccines)



6.-8. Market attributes that may be only partially, impacted by market shaping efforts, depending on market. Attributes are total system effectiveness, long term competition and product innovation

3.-5. Supply security attributes that may be directly influenced by procurement and other market interventions. Attributes are buffer capacity, individual supplier risk and NRA risk

2. The second building block is to meet country preferences for specific vaccine characteristics such as vial size, packaging volume, etc.

1. The foundational building block of a healthy market is supply meets demand

1. Markets with inadequate supply

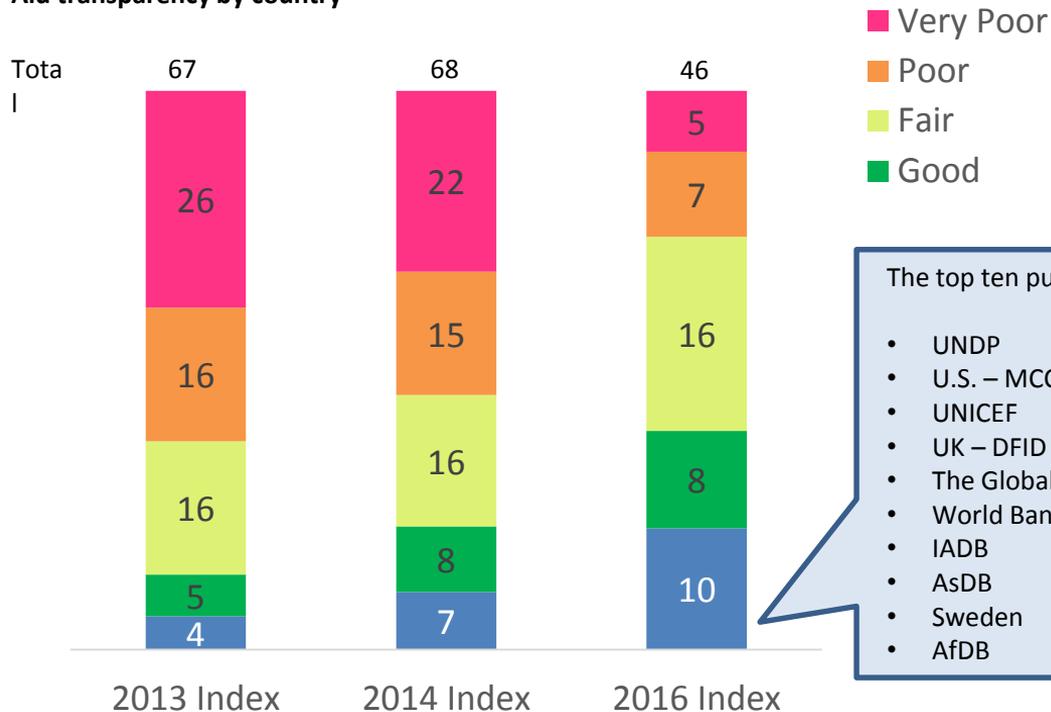
- C
1. **1. OBJECTIVES: To have a common way of thinking about the health of a market**
 2. **2. To better communicate how we assess individual markets and their ability to best meet the needs of the system**
 3. **3. To improve analysis of potential trade-offs between different market elements**

The Result:

Aid is becoming more transparent
We need to do more.....Responsibility and accountability.....

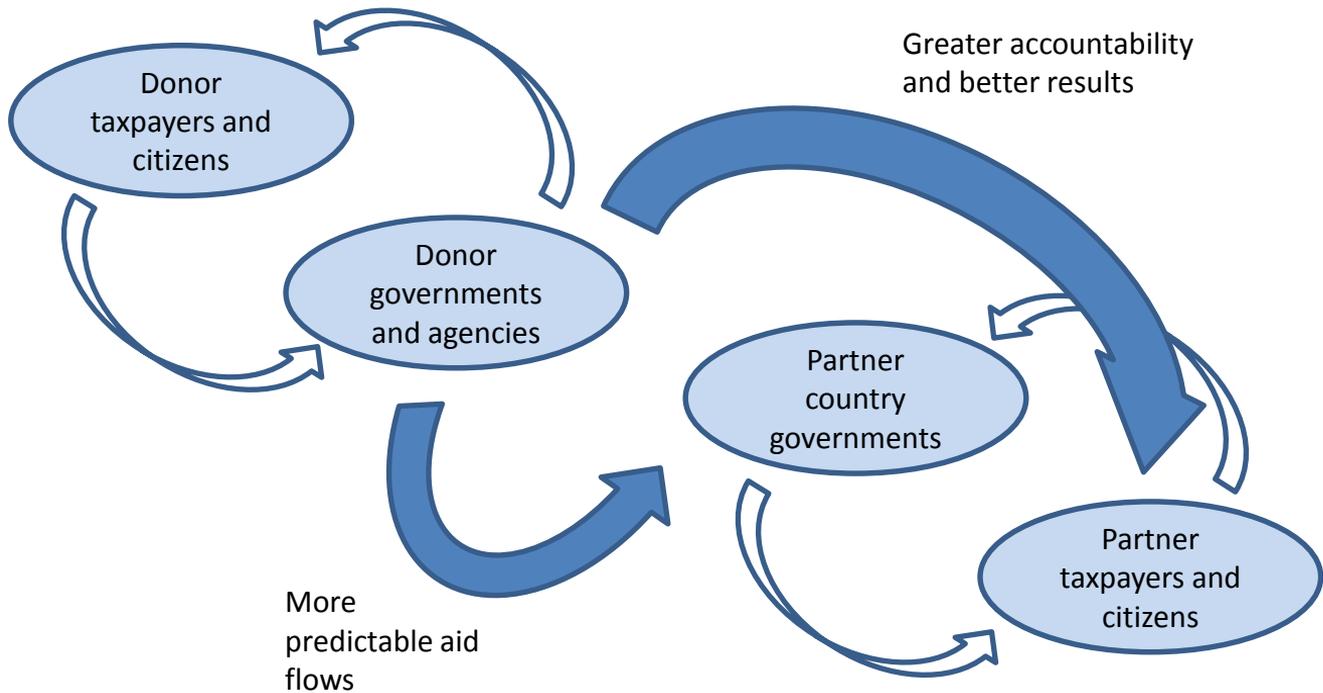


Aid transparency by country



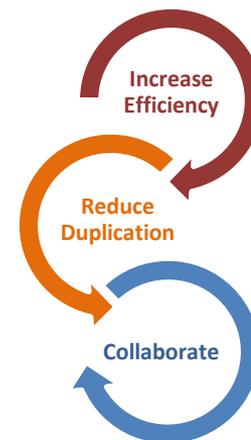
- The top ten publishers:
- UNDP
 - U.S. – MCC
 - UNICEF
 - UK – DFID
 - The Global Fund
 - World Bank – IDA
 - IADB
 - AsDB
 - Sweden
 - AfDB

High Level Push on Transparency



Performance and Results

System Wide.....



Performance and Results

Examine the System; comparative advantage

Knowing Where the Strengths are; play to them

Be true to our profession; duty to collaborate and reform?

Drive the commercial agenda as leaders...





Key results achieved in 2015



38
bridges designed,
constructed
or rehabilitated



more than
2.2 million
labour days created
for beneficiaries



2,572 km
of roads designed,
constructed or
rehabilitated



more than
\$717 million
worth of goods
and services
for partners



nearly
39,000 units
Of machine and
equipment
procured



more than
40 million
medical supplies
were handled



over
37,000 days
of technical
assistance and
advice



more than
6,200
vehicles procured



more than
240 million
doses of medicine were
procured or distributed



46
schools and 2 universities
constructed, designed, or
rehabilitated

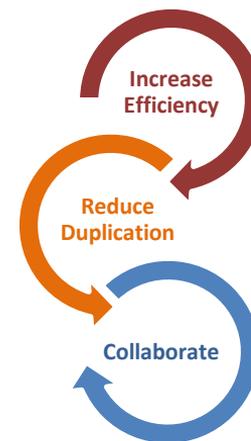


2
airstrips and 2 ports
constructed designed
or rehabilitated



25
hospitals and 105 health
clinics constructed,
designed, or rehabilitated

Questions?



Global Fund Sourcing of Health Products Strategy Review 2016

November 2016
Geneva, Switzerland

Global Fund has proactively shaped markets to improve health outcomes since 2004



Implementing the Board-approved (2015) Market Shaping Strategy

Vision

Market shaping supports health outcomes and access to critical health products by...

...Leveraging the Global Fund's position to facilitate healthy global markets; generate cost savings and improve procurement and delivery conditions (lead time; on time and in full (OTIF))

Scope

- All pharmaceuticals and health technology products financed by Global Fund
- **Sourcing strategies for core products** (ARVs, Antimalarials, LLINs, diagnostics including RDTs; essential medicines used in HIV) through Long Term Framework Agreements (LTAs) with suppliers
- Procurement methods for non-core products through PSAs and catalogues

Process

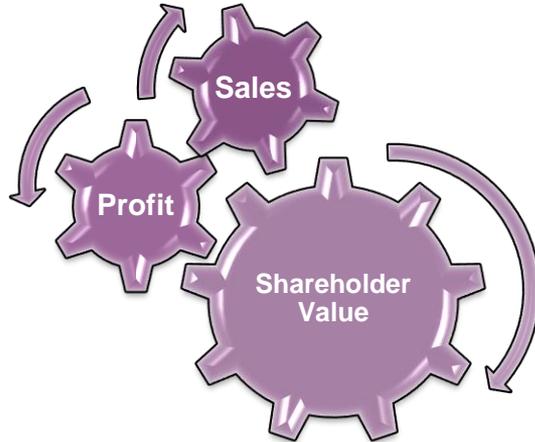
- Managing Supplier allocations and PR requests & demand of core health products through framework agreements
- Execution of PPM orders from requests to deliveries

Introduction

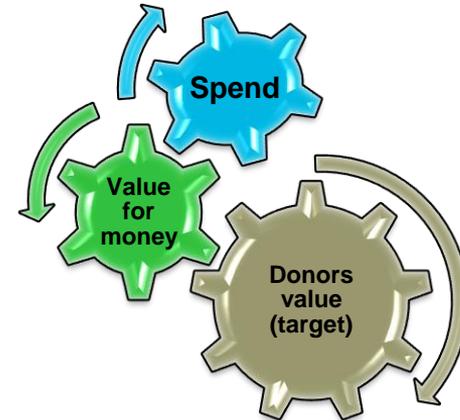
Previous reviews highlighted updates on sourcing of product categories.

The focus today is on the objectives common to all the product categories as basis of our sourcing strategy

The Private Sector



The Global Fund



The Private Sector uses different terms but the principles are the same, however public sector procurement rules are embedded in our strategies and daily implementation

Driving Sourcing Innovation

The Global Fund 2016 Results Summary highlighted the contribution of the Sourcing Function



"By 2016, the Global Fund had achieved three-year savings worth more than **US\$600 million** through a more effective pooled procurement mechanism, by working with partners and negotiating directly with manufacturers.

The price of **long-lasting insecticidal nets** to prevent malaria has **decreased by 38 percent since 2013**, and the price of combination **ARV therapy** for HIV has been **reduced by 25 percent since 2014**.

The medicines and health products purchased through the pooled procurement mechanism were delivered more swiftly than in the past, with **on-time delivery improving from 36 percent in 2013 to 84 percent in 2016**."

Behind the headlines it is not all about price, there is more going on.....

The Global Public Health Market characteristics

- High Volume / low margin operations
- Spot tendering is common
- A few large buyers
- Few large suppliers and a few emerging suppliers



- Short term, largely price focused contracting models
- A culture of over promise and under delivery
- A sense of entitlement for an 'equitable share' of the business
- A lack of co-ordination and an absence of meaningful data.

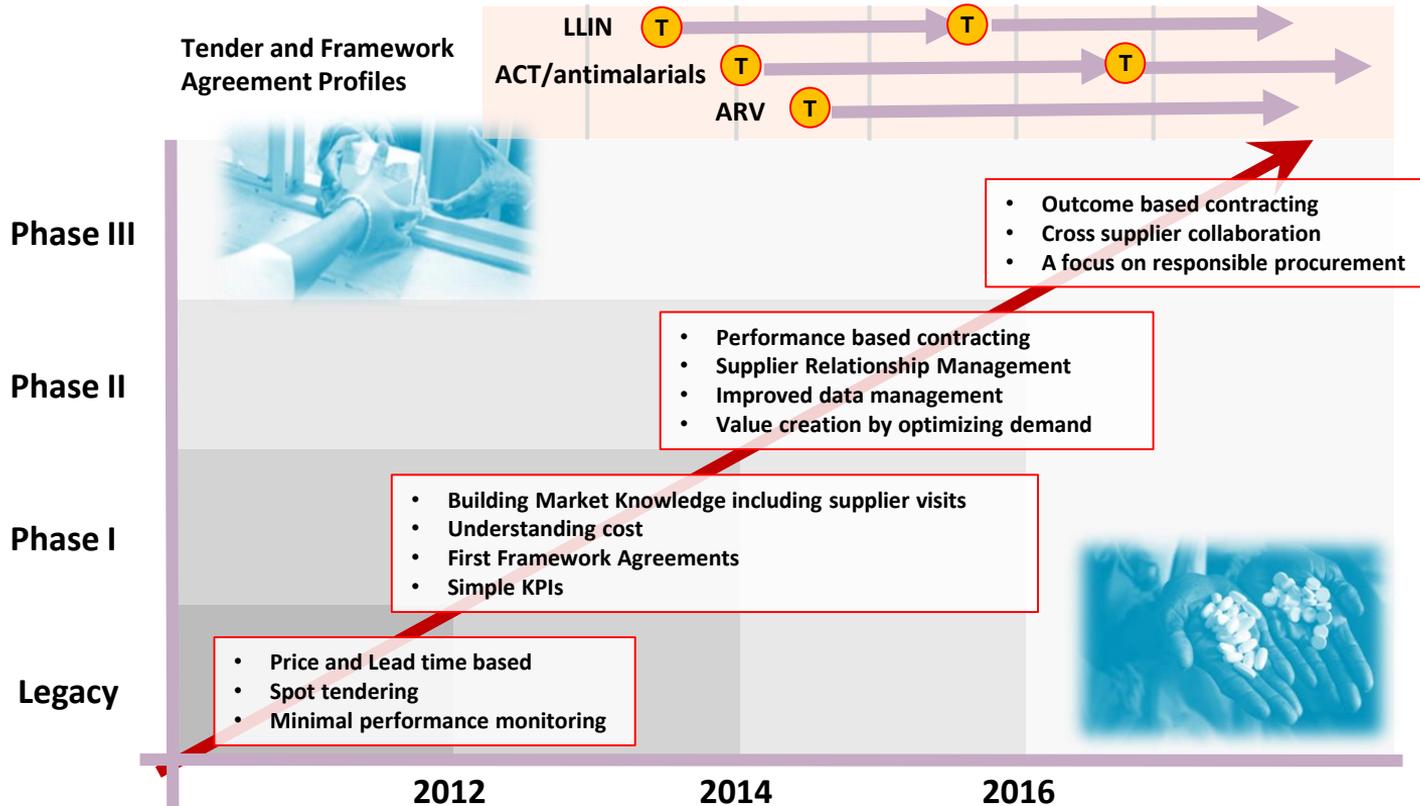
Sourcing through 5 lenses

The Global Fund Sourcing objectives are value based

Lense	Objectives
Cost Competitiveness	<ul style="list-style-type: none">• Best price BUT not always or necessarily the lowest → affordable <u>and</u> sustainable pricing• Reducing price volatility• Eliminating predatory pricing,• A fair return for suppliers
Performance	<ul style="list-style-type: none">• Reliable On Time delivery (OTIF)• Continuous Performance Improvement through supplier relationship management• Responsive - Delivering all the needed products irrespective of demand or volume• Shorter lead-times
Sustainability	<ul style="list-style-type: none">• Both across the Supply chain and within individual suppliers• Supporting manufacture close to the customer and welcoming new entrants• Ensuring continuity of supply• Coping with unexpected demand – both high & low
Risk Management	<ul style="list-style-type: none">• Risk based assessments• Extending best practice across the Supply Chain• Ensuring responsible procurement
Benefit sharing	<ul style="list-style-type: none">• Volume allocation is made on performance based value creation• Reference pricing published and utilized globally• Access to framework agreements extended to interested partners• Building Capacity• Vendor Managed Inventory (VMI) to respond to emergency needs

The Journey

There is a recognition that it is a journey and much is still to be done.



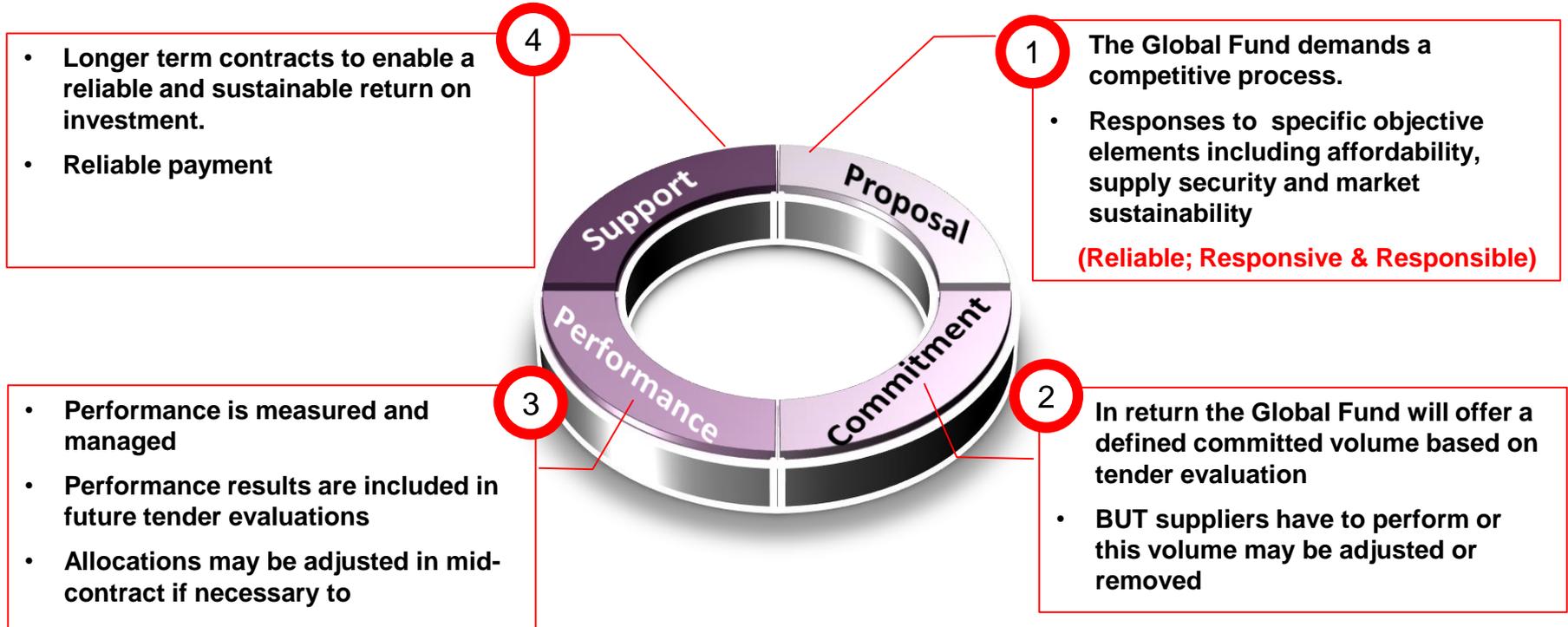
The Starting Point: Market Analysis

A focus on facts, wherever possible engaging with the key actors directly, based on key parameters :

- 1. The overall market make up including both direct and their up stream suppliers, the costs of entry and the overall capacity.**
- 2. A full understanding of cost structures at each stage of the process, the forces behind these and the historical and future trends.**
- 3. Individual supplier capability and maturity, the challenges they face and the constraints imposed by institutional business.**
- 4. The level of product evolution, where it sits in its lifecycle curve, what new introductions or innovations are forecast.**
- 5. Where the spend is large – what needs to be done to leverage it but not abuse the position.**

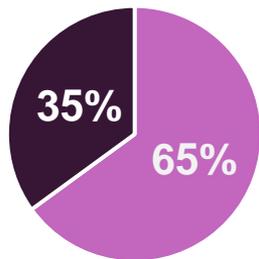
... as a custodian of this broad commercially sensitive information, we are obligated under competition law principles to ensure that this information doesn't leak into the market and potentially have an unintended and damaging anticompetitive effect!

Basis of the Global Fund's Approach: Performance Based Contracting

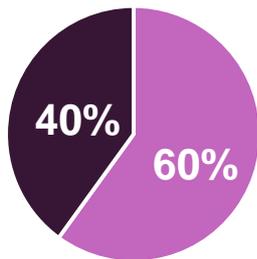


The Approach in Practice

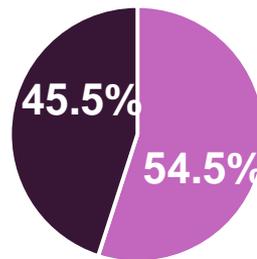
Since 2013 there has been a reduction in the commercial weighting during tender evaluation reflecting the specific category objectives and market situation



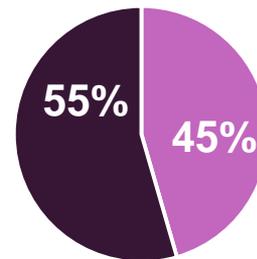
2013 LLIN



2014 ACT



2014 ARV



2015 LLIN



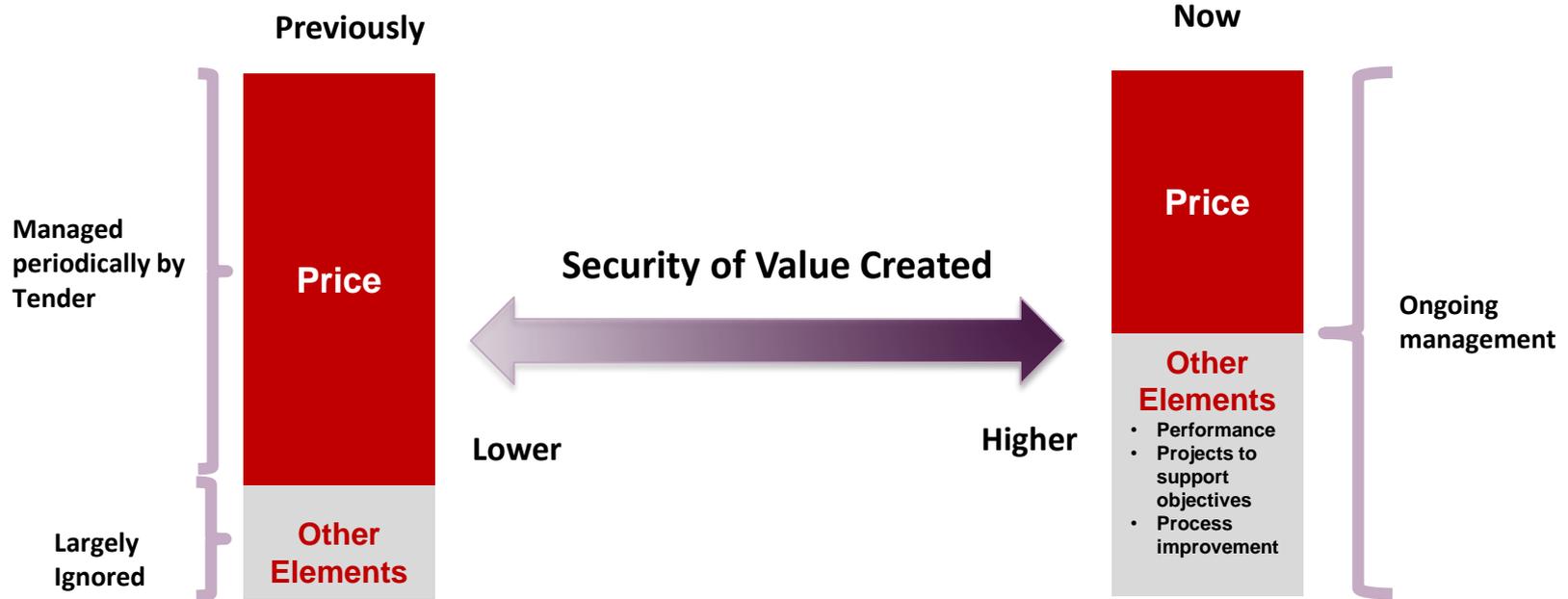
Technical factors



Commercial factors

Maximising Value through Supplier Relationship Management

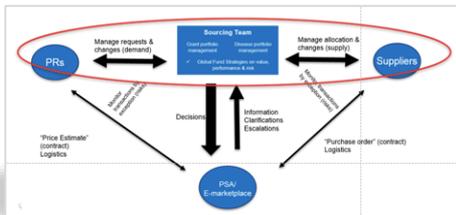
Previous approaches only focused on the price value lever. Value creation has been extended across a range of levers which will increase in importance as cost is optimized.



... a case study follows...

Improving the Global Fund's Internal Performance

Internal processes have also been reviewed and improved:



1. Managing the strategic sourcing process up to placing Purchase Orders (PO) to suppliers



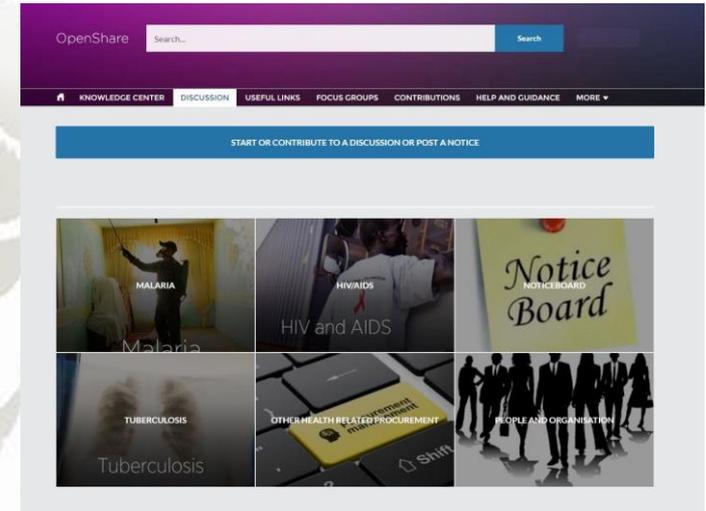
2. Rigorous and regular performance management – both Supplier & Procurement Service Agents



3. The team has been re-structured to provide greater focus and to support the new ways of working

Benefit Sharing and Capacity Development

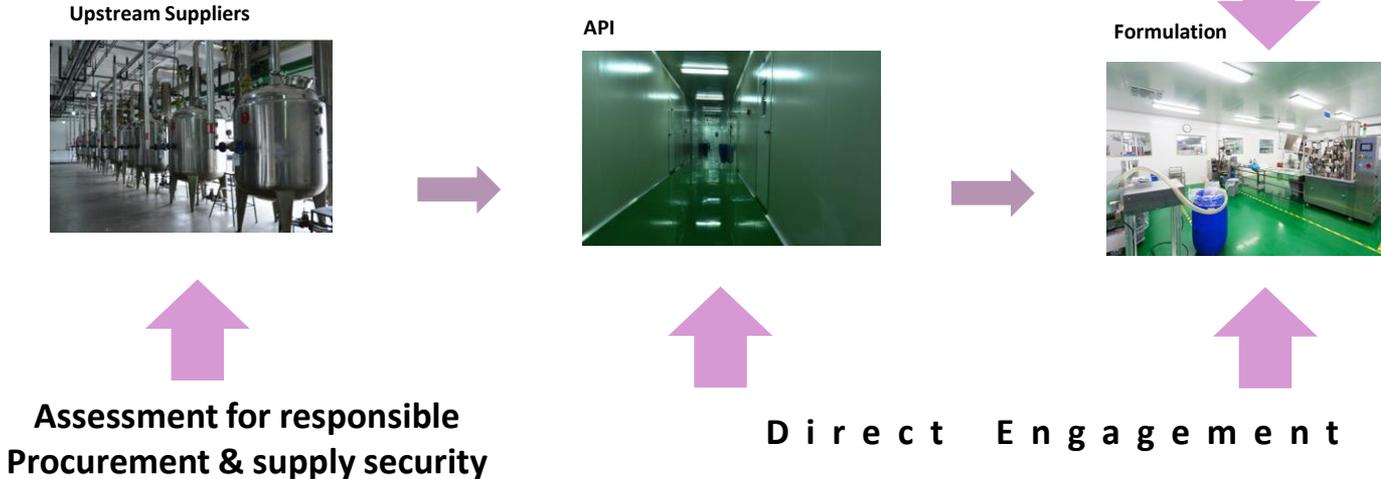
1. Reference prices are published and as benchmark for The Global Fund and others
2. Framework Agreements extended to partner agencies (PAHO; UNDP; UNITAID) and to Governments with national funding (e.g. Cameroun, Georgia, Guyana)
3. Underwriting the implementation of Wambo.org
4. Enabling manufacturing close to the customer and encouraging new entrants.
5. Sharing procurement expertise and experiences as part of capacity development. The Openshare – Procurement Portal for procurement practitioners is scheduled to go live in 2017.



Building Sustainability

Extending best practice upstream and downstream in the Supply Chain to reduce volatility and mitigate risk

In 2013 The Global Fund engaged solely with FPP Manufacturers



Today that approach is being extended through a process that includes ongoing market investigation and in many cases supplier education

More information: : <http://www.theglobalfund.org/en/sourcing/info/>

The screenshot shows a web browser displaying the page www.theglobalfund.org/en/sourcing/info/. The page features a header with the Global Fund logo and navigation tabs: HOW WE WORK, WHERE WE INVEST, NEWS & STORIES, and RESOURCE LIBRARY. A large banner image shows workers in a factory setting with the text "Sourcing & Management of Health Products".

Sourcing & Procurement of Health Products

The Global Fund play a significant role in global markets for health products for these three diseases as a key financier and support countries get the most value for their investment. To ensure that the Global Fund's purchasing power is best used to impact the three diseases, our Board has approved a Market Shaping Strategy.

The sourcing and management of health products which ranges from antiretrovirals (ARVs), anti-malarials, TB medicines, insecticide-treated nets to laboratory supplies is a critical component of the response to AIDS, TB and malaria.

One key tool for maximizing the purchasing power is the Pooled Procurement Mechanism, through which we are able to negotiate the best prices and delivery conditions with manufacturers on behalf of our Principal Recipients.

Through this mechanism, a strategy for each category of health product is developed using a standardized, rigorous and analytical approach. All procurement is guided by the relevant Global Fund quality assurance and procurement policies. Information on all procurement carried out by Global Fund-supported programs is made available through our online database, the Price & Quality Reporting tool.

Between 2012 and 2015, the Global Fund has seen measurable results in sourcing products through global tenders, including:

- Cost savings of nearly US\$500 million
- Increase in on-time delivery, from 48 percent to 80 percent (for core health products)

Navigation Menu:

- Overview
- Updates and Events
- Information for Suppliers
- Policies & Principles
- Quality Assurance
- Price & Quality Reporting
- Sourcing & Procurement of Health Products**
 - Antiretrovirals (ARVs)
 - Antimalarial Medicines
 - Private Sector Co-payment Mechanism
 - Long-lasting insecticidal nets (LLINs)
 - Viral Load and Early Infant Diagnosis Selection and Procurement Information Tool
 - HIV & Malaria Rapid Diagnostic Tests (RDTs)
 - Implementer Support

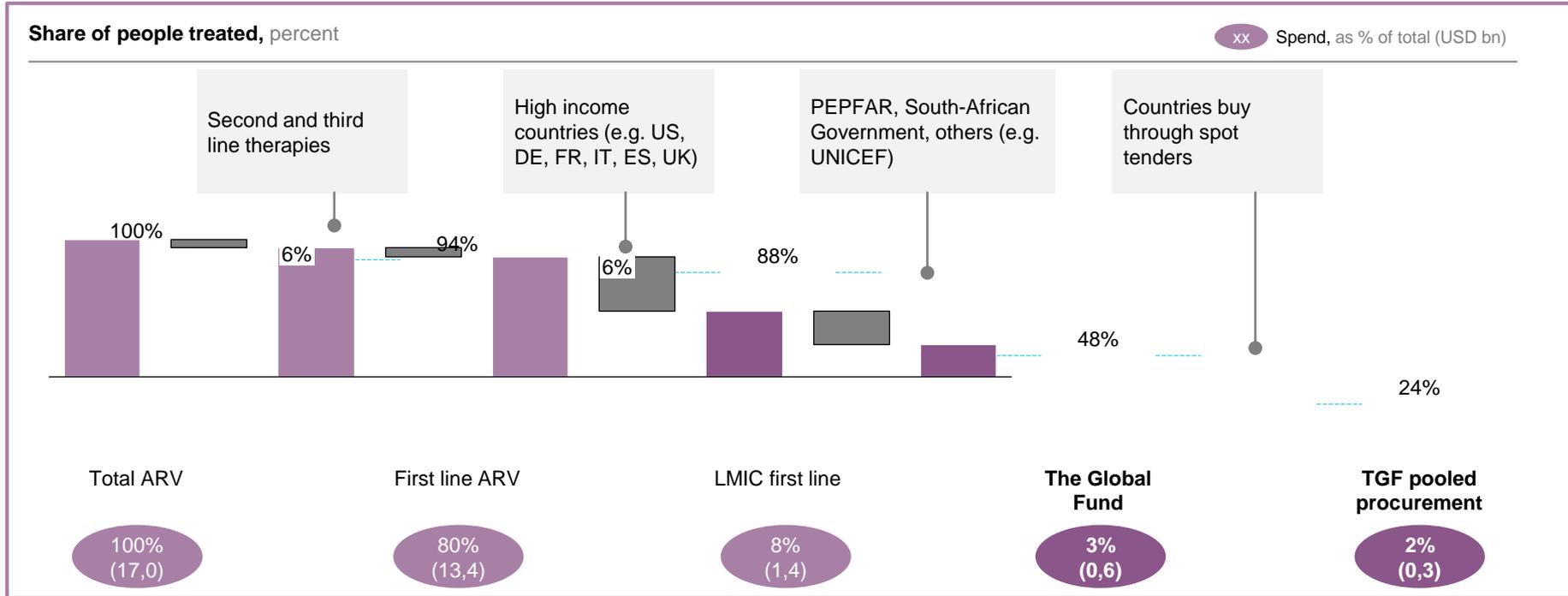
The Global Fund is working to deliver on its mission, which drives our procurement strategies and implementation approach



“Investing the world’s money to defeat AIDS, tuberculosis and malaria”

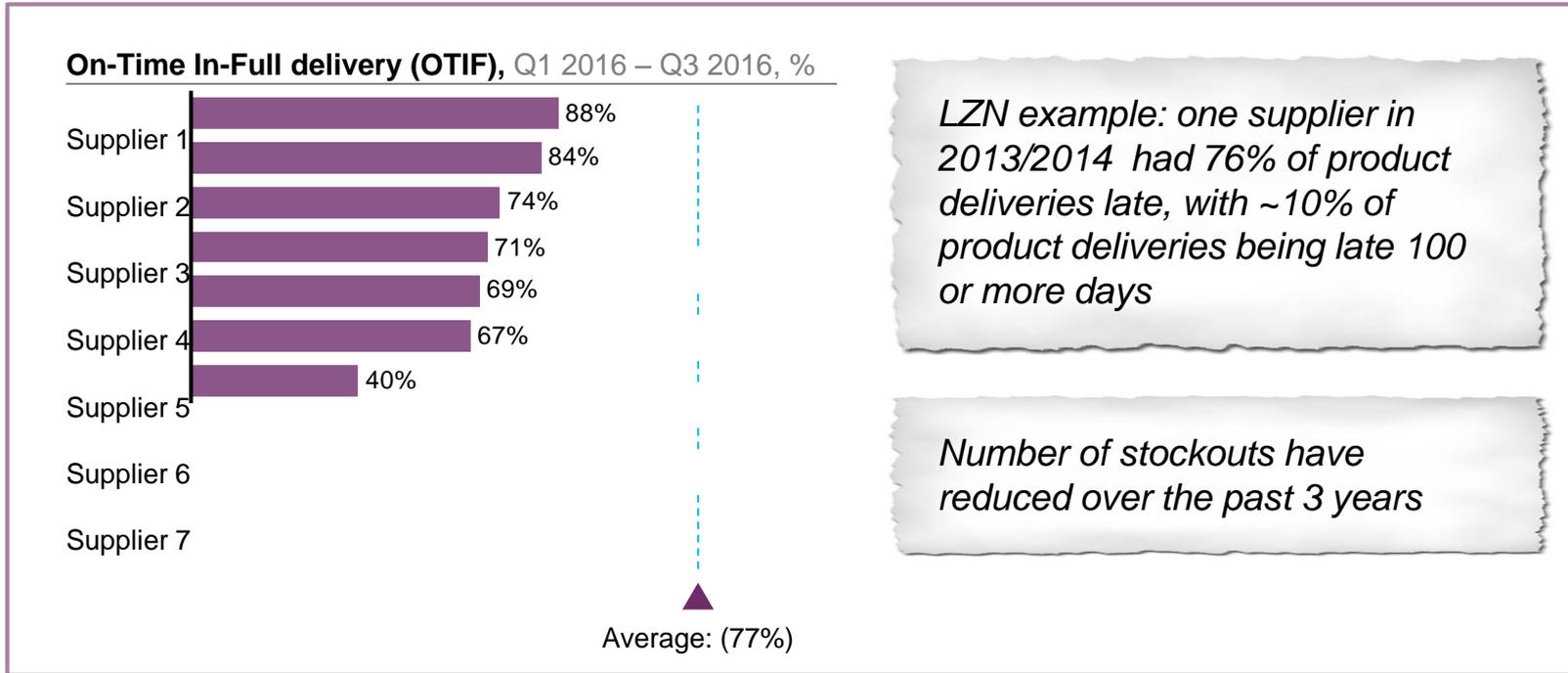
The Global Fund aims to maximize the **number of lives saved** and to build **resilient and sustainable healthcare** systems

The Global Fund Pooled Procurement addresses only small segment of the total ARV spend – but accounts for 24% of patients



1 Numbers are estimated and may not add up to 100%
 NOTE: ARV = Anti-Retroviral Treatment; PEPFAR = U.S. President's Emergency Plan for AIDS Relief; LMIC = Low and Middle-Income Countries
 SOURCE: Clinton Foundation, WHO, Global Fund, PEPFAR, Avert

Supplier OTIF for ARV products is low and highly variable – creating potential risks for patients



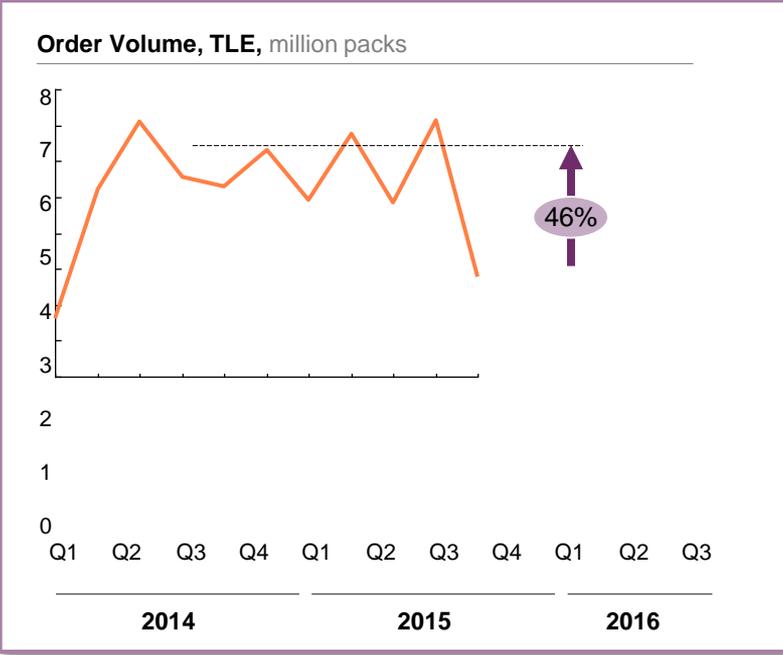
Note: LZN is a first-line HIV treatment drug, a combination of Lamivudine, Zidovudine and Nevirapine

Two factors drive overall supply performance: demand management and performance of suppliers

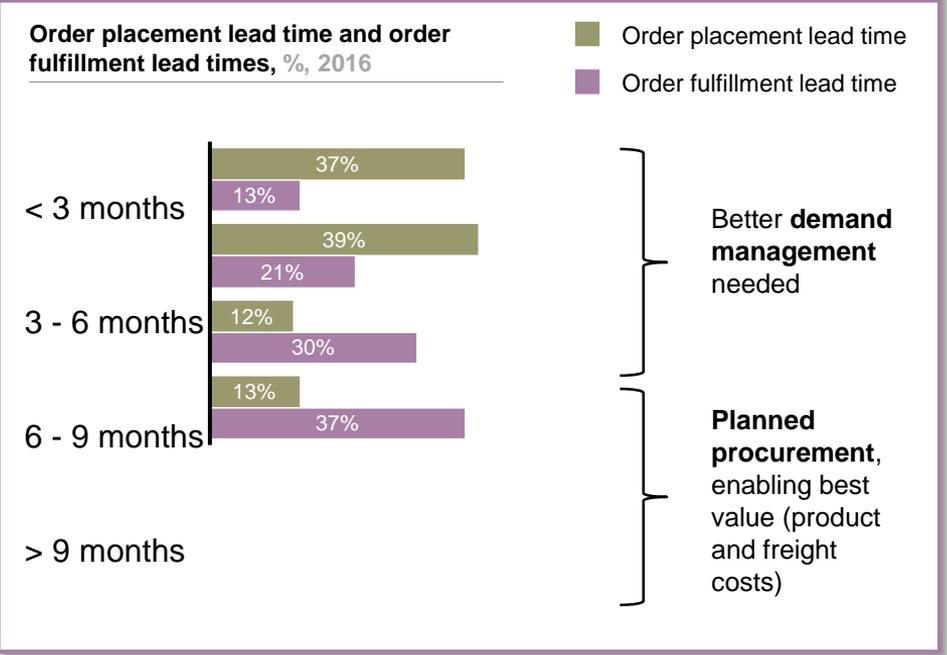


A The Global Fund knows about issues in demand management, and is currently reviewing its processes

Order volume fluctuates significantly...

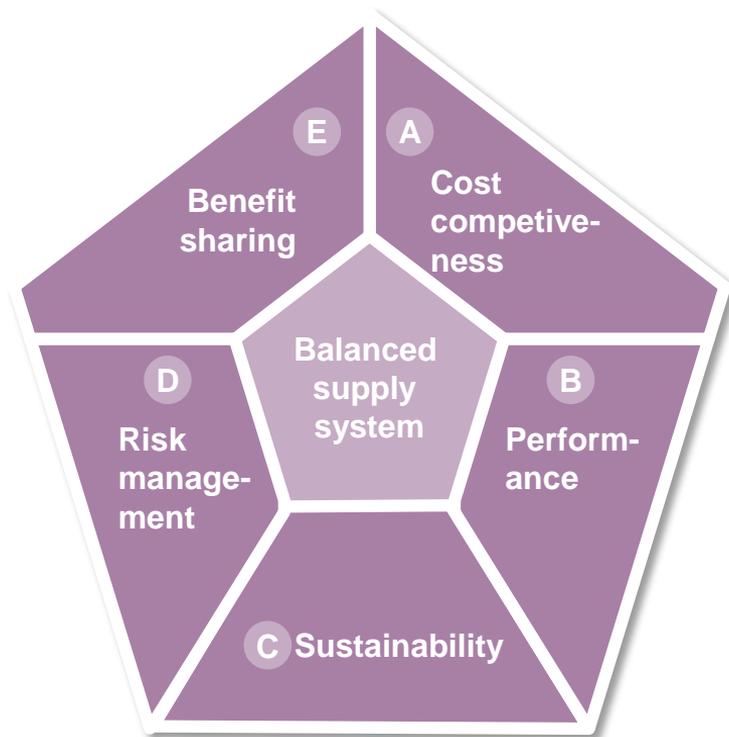


...and order placement lead times often cannot be fulfilled



NOTE: Lead time is defined as a time between purchase order being sent to vendor, and a shipment delivery date. Includes planned delivery.

B The Global Fund has introduced a more balanced supply system based on 5 elements to improve supplier performance



- A**
 - ❖ Providing products **at the lowest possible affordable and sustainable price** to reach the maximum number of patients
 - ❖ **Reducing price volatility** and eliminating predatory pricing
- B**
 - ❖ Supplying product **timely and in full**
 - ❖ Incentivizing suppliers to **introduce better formulations**
- C**
 - ❖ **Supporting new suppliers** to ensure sufficient supply and mitigate geographic supply risks
 - ❖ Investing in suppliers with **sustainable manufacturing practices**
- D**
 - ❖ Maintaining **well-diversified supplier base**
 - ❖ Meeting **The Global Fund and national quality** requirements
 - ❖ Mitigating **implementation risks**
- E**
 - ❖ Publishing **reference prices**
 - ❖ **Building capacity** and implementing rapid supply mechanisms

Why a more balanced supply system makes sense

1

It is possible to **“buy” good supply performance**

2

Good performance is **available at a reasonable price**

3

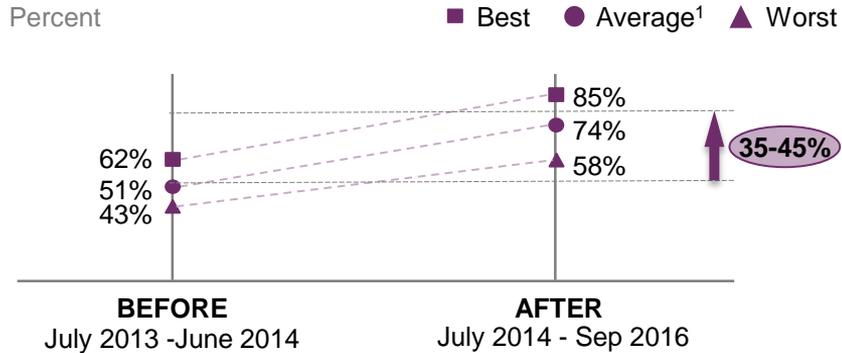
Low price **does not always equal** good value

4

Our approach **maintains robust supplier base**

1 Changes introduced in 2015 improved supply performance

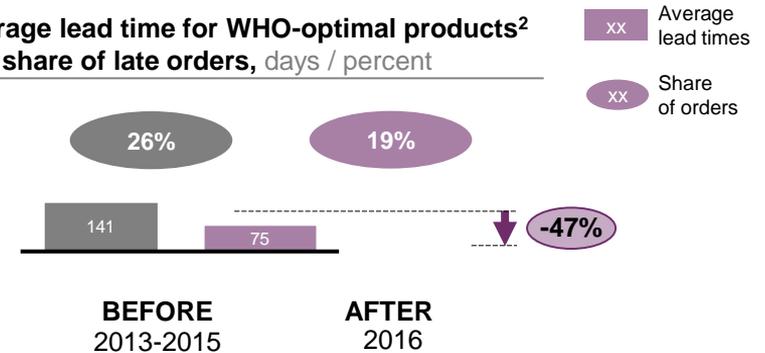
Supplier delivery performance (OTIF) has improved ...



- Supplier **OTIF increased by 35-45%** (15-25 percentage points) for all suppliers
- **Volume-weighted OTIF improved from 41% to 75%**

... and lead times and urgent orders reduced

Average lead time for WHO-optimal products² and share of late orders, days / percent



- Since implementing vendor managed inventory (VMI) in 2015, **average lead time to delivery decreased by 47%** (from 142 to 75 days)
- Number of **urgent orders went down from over 25% in 2015 to under 20% in 2016**

¹ Simple non-weighted average across top 7 suppliers

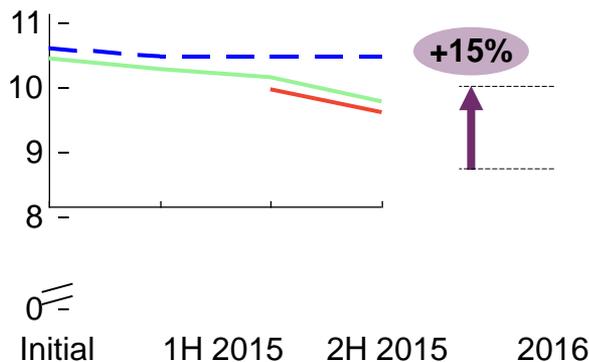
² For Rapid Supply Mechanism (RSM) products, time of order to time of demanded delivery by PR

³ Less than 3 months between ordering and time of demanded delivery by PR

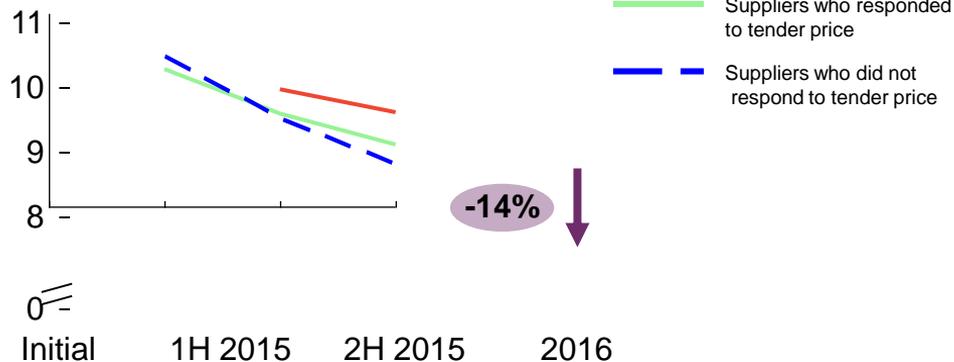
2 Price reduction was achieved through managed collaboration with the suppliers – prices dropped even further since

Supplier behaviors

Quoted tender price, TLE, USD per pack



Actual price, TLE, USD per pack



- **Some suppliers responded** to Global Fund target pricing, but **others could not or would not** – offering 15% higher than the target price
- After the allocation, suppliers who could not offer target pricing subsequently **reduced prices by up to 14% below the target pricing**, which were captured through the “most favored nation” clause

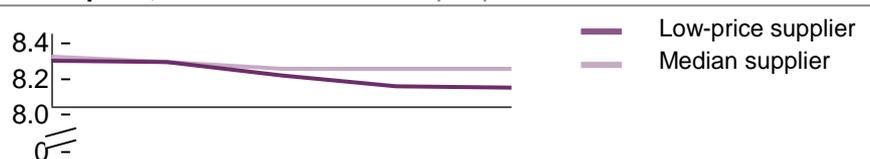
SOURCE: The Global Fund TLE pack prices

NOTE: TLE = combination of tenofovir (TDF) in combination with lamivudine (3TC) and efavirenz (EFV)

3 Lowest price often means poor performance

Price performance

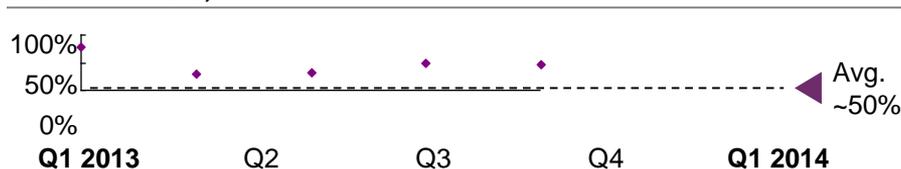
Product price, LZN, 2013-2014, USD per pack



- Low-price supplier consistently **undercuts prices** in the market...

Volumes secured

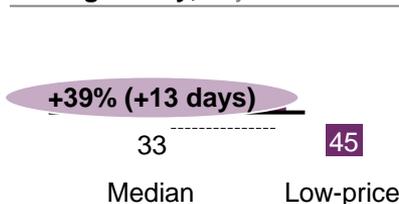
Share of orders, %



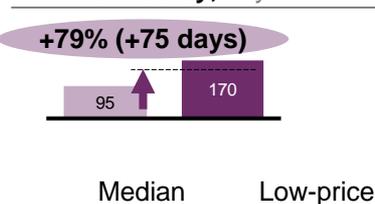
- ... which allows them to secure **high share of orders** (~50%)...

Delivery performance

Average delay, days



Maximum delay, days



- ... however, the **delivery performance is low**

Note: LZN is an first-line HIV treatment drug, a combination of Lamivudine, Zidovudine and Nevirapine

4 Robust supplier base maintained, minimizing supply risks

Supplier base evolution

Suppliers' allocation shares, %, before and after the changes

Supplier	2014 Actual (PPM)	2015 Actual (PPM)
Supplier 1	29%	56%
Supplier 2	15%	20%
Supplier 3	7%	9%
Supplier 4	12%	7%
Supplier 5	25%	7%
Supplier 6	2%	1%
Supplier 7	0%	<i>small</i>
Supplier 8		<i>small</i>
Others suppliers	8%	<i>small</i>

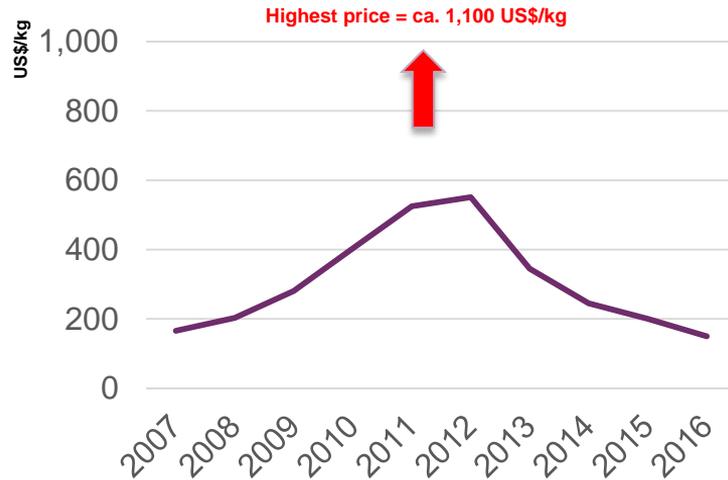
- In 2015, the Global Fund worked with 11 suppliers, and had **framework agreements** with 8 of which **six had substantial volumes** relative to their product offering
- More **suppliers have multiple API sources**
- **New entrants and diversification of the geographical** supplier base are encouraged
- Top 4 low-and-middle income countries suppliers **had a combined market share of 71%** in 2015 – and Global Fund allocation to them is **81% in 2014** (before tender), **and 90% in 2015**

SOURCE: Clinton Health Access Initiative

Example: Addressing Price Volatility in ACT supply

7 key causes of fluctuating artemisinin prices

Historical Artemisinin Pricing¹



Data Source: Agricultural Artemisinin price is based on Chinese export to India

Causes of fluctuating artemisinin pricing

1. Over-capacity as there are low technical barriers to entry; lack of harmonized quality standards and inconsistent in-house EHS controls
2. Poor demand visibility aggravates price volatility
3. Most extractors are 80-100% dependent on artemisinin
4. API and FPP manufacturers' buying practices
5. Opportunities for trading companies to stockpile cheap materials and sell at high price when supply is short
6. A speculative market with mixed and inconsistent messages; some interventions and studies drove price expectations
7. Unforeseen injection of additional funding with "urgent" procurements

Example: Addressing Price Volatility in ACT supply

Overall observations on the responses to the RFI

RFI Responses indicate

- All types of manufacturers expressed an interest to engage with the Global Fund on the supply of Artemisinin
- Demand visibility of Artemisinin is short term
- Artemisinin manufacturers face challenges with margin
- Total volume declared to sustain all Artemisinin manufacturers is much greater than GF PPM and CPM demand
- Some manufacturers indicate they need very high volumes to be sustained

Observations

- Continuous availability of Artemisinin supply is uncertain
- There are different regulatory and safety requirements for different manufacturers/ technologies and in different locations (e.g. GMP)
- The extraction process is high risk in terms of Environment, Health and Safety (large volumes of Petroleum ether)
- A number of Artemisinin manufacturers are willing to work with The Global Fund to secure supply and agree ceiling price for up to 3 years
- The price difference between Semi-synthetic and agricultural Artemisinin is narrowing

67

One of the Key measure to manage Artemisinin products implementation

Encourage good business practices across the production supply chain (1/2)

For finished product manufacturers:

Long term agreements with Artemisinin manufacturers (directly or indirectly through their API sources)	Volume Allocation	Volume Commitment	Finished product manufacturers need to disclose
Unable to prove	Can be a panel supplier but without allocated volumes	None	N/A
12month contract	12month allocation	25% of volume allocation	<ul style="list-style-type: none"> Artemisinin contracts are in line with volume and price elements of FPP contract Initial volume allocation split to Artemisinin manufacturers and length of the associated contract
24month contract	24month allocation	50% of volume allocation	
36month contract	36month allocation	80% of volume allocation	

Challenges & Implications

In re-shaping the market for sustainability, we provide longer term commitments and unapologetically performance-based contracting

In return we require suppliers to be Reliable; Responsive and Responsible

1. Level of understanding and maturity of some suppliers
2. Disingenuous lobbying - those who believe that "entitlement " and to cover for poor performance
3. Price centric approach of some buyers risks predatory price and very late delivery
4. Demand management including major buyer alignment will enhance sustainability of the market
5. We acknowledge that some suppliers may better placed to respond to spot tenders

Looking Ahead...More Focus on Outcomes

Today:

1. The product specification is determined.
2. The results are estimated
3. The quantities are contracted.
4. Performance is measured based on **INPUTS**

Future:

1. The characteristics of the need are determined.
2. The required results are contracted
3. The quantities and services necessary are determined by the provider.
4. Performance is measured based on **OUTCOMES**

This approach would require the involvement of both buyers and suppliers with broader skill sets and capabilities.

wambo.org: developing the e-marketplace of the future

Global Fund Sourcing Strategic Review

2 November 2016

Agenda

wambo.org concept and vision

Development in 2015

Roll-out in 2016

Future steps for advancement

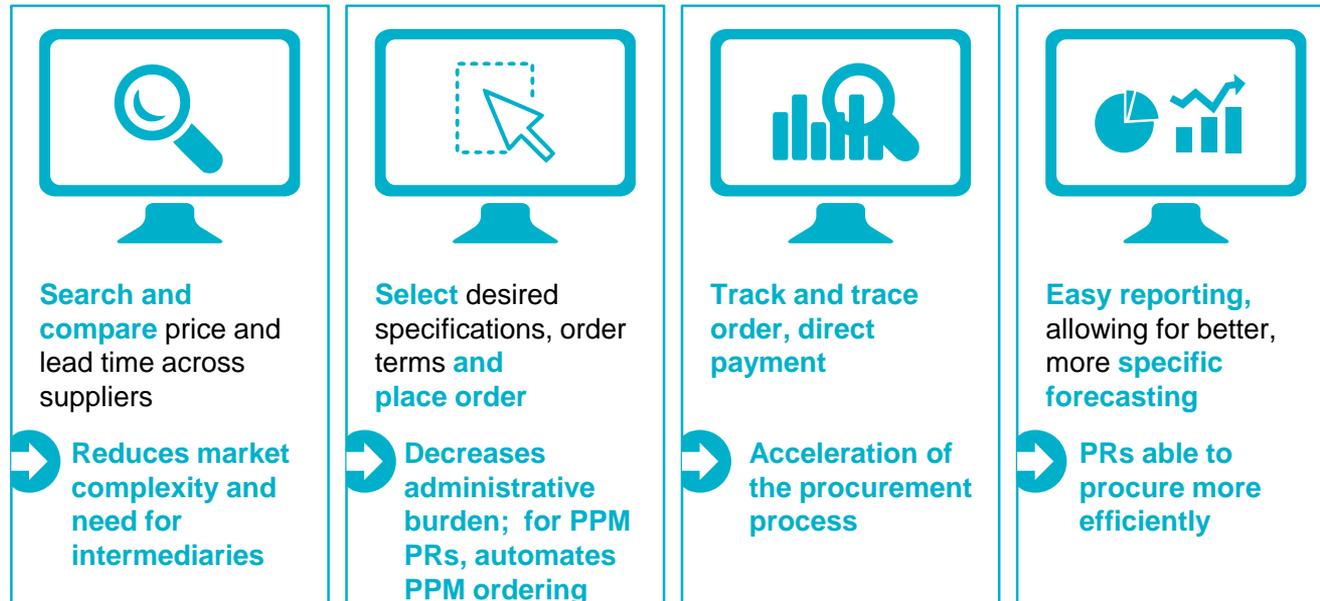
wambo.org: What is it?

- The Global Fund's on-line procurement platform designed to
 - Facilitate **sustainable access** to **quality assured** products at **affordable prices**
 - **Automate** PPM processes
 - Contribute to a faster scale-up of **innovative products**
 - Increase **transparency** by providing easy access to information at the right time
 - **Extend benefits** to a larger set of stakeholders
- Health products (core & non-core)
- Non-health products & services

The wambo.org concept

wambo.org is built upon the vision of an online procurement platform which can tackle several challenges faced by PRs

An innovative online procurement platform with several important benefits

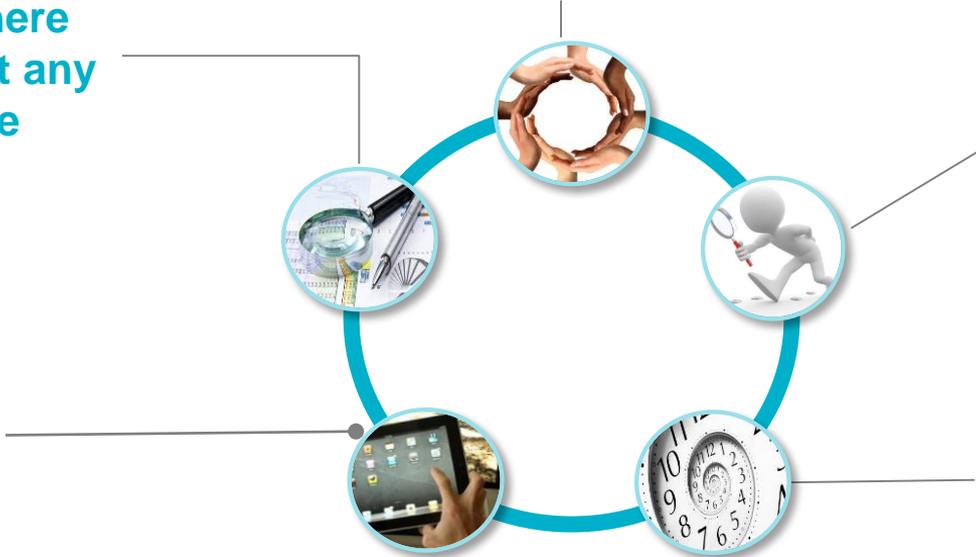


wambo.org: the benefits to PRs *(beyond those already available through PPM)*

Increased visibility;
ability to track where
requisitions are at any
given point in time

Enhanced range of
products & improved
visibility

Full audit trail,
transparency



Data for
analytics

Simplifies the
procurement process

wambo.org mechanisms

PRs can purchase from long term agreements, catalogues (including partner catalogues), as well as initiate competitive processes using the system

wambo.org mechanisms	Description of mechanisms	Selected examples
 e-ordering from LTA	<ul style="list-style-type: none"> Electronic ordering process leveraging internal catalogues that are a result of Global Fund negotiations (automate PPM) 	LLINs, ACTs, ARVs, Malaria/HIV diagnostics, Viral Load
 e-catalogue	<ul style="list-style-type: none"> Electronic ordering process leveraging external catalogues of partners / suppliers 	Other Anti-Malarials, TB medicines, medical supplies, Vehicles, condoms
 e-RFQ and e-auction	<ul style="list-style-type: none"> Electronic quotation process for products and services 	Other

wambo.org currently operating as a facilitator of Global Fund grant implementation, with a long term view to evolve to a global public good

Referred to as Phase 1

Referred to as Phase 2 and subject to Board approval

From a Global Fund e-marketplace...



... to a global public good

- Coverage of countries funded by the Global Fund
- Coverage of Malaria, HIV, and Tuberculosis health products only
- More accessible and affordable products with access to more suppliers, substantial savings, stricter lead times, and more sustainable supply

- Coverage of countries funded by global public health institutions as well as transitioned countries
- Coverage of products beyond malaria, HIV, and tuberculosis
- Global, transparent prices for all stakeholders

Agenda

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2015: From idea to reality in one year

- **Inclusive consultative process**
 - **Countries / PRs**, multiple rounds as the process/system was developed
 - **Suppliers and PSAs**
 - **Board constituencies and partners**
- **Coupa Software-as-a-service** selected as backbone
- **Strategic partnerships** (UNITAID, CHAI)
- **Procurement transformation and system design**
 - **Design principles**
 - **Target Operating Model**
 - **Detailed business requirements**
 - **Platform configured** and integrated with GF systems
- **Extensive testing completed** (2 rounds of unit testing, system integrations testing and 2 rounds of user acceptance testing)

In 2015, in-depth country consultations have been conducted with over 120 PR representatives in 9 countries to gather feedback on the platform

**Zambia,
March 2015**



**Ghana,
April 2015**



**Thailand,
June 2015**



**System Consultation
Geneva, October 2015**



Mar

April

May

June

July

Aug

Sep

Oct

Nov



**Senegal,
April 2015**



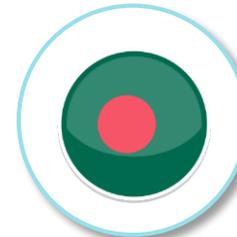
**Indonesia,
May 2015**



**Georgia,
June 2015**



**Mozambique,
October 2015**



**Bangladesh,
November 2015**

Agenda

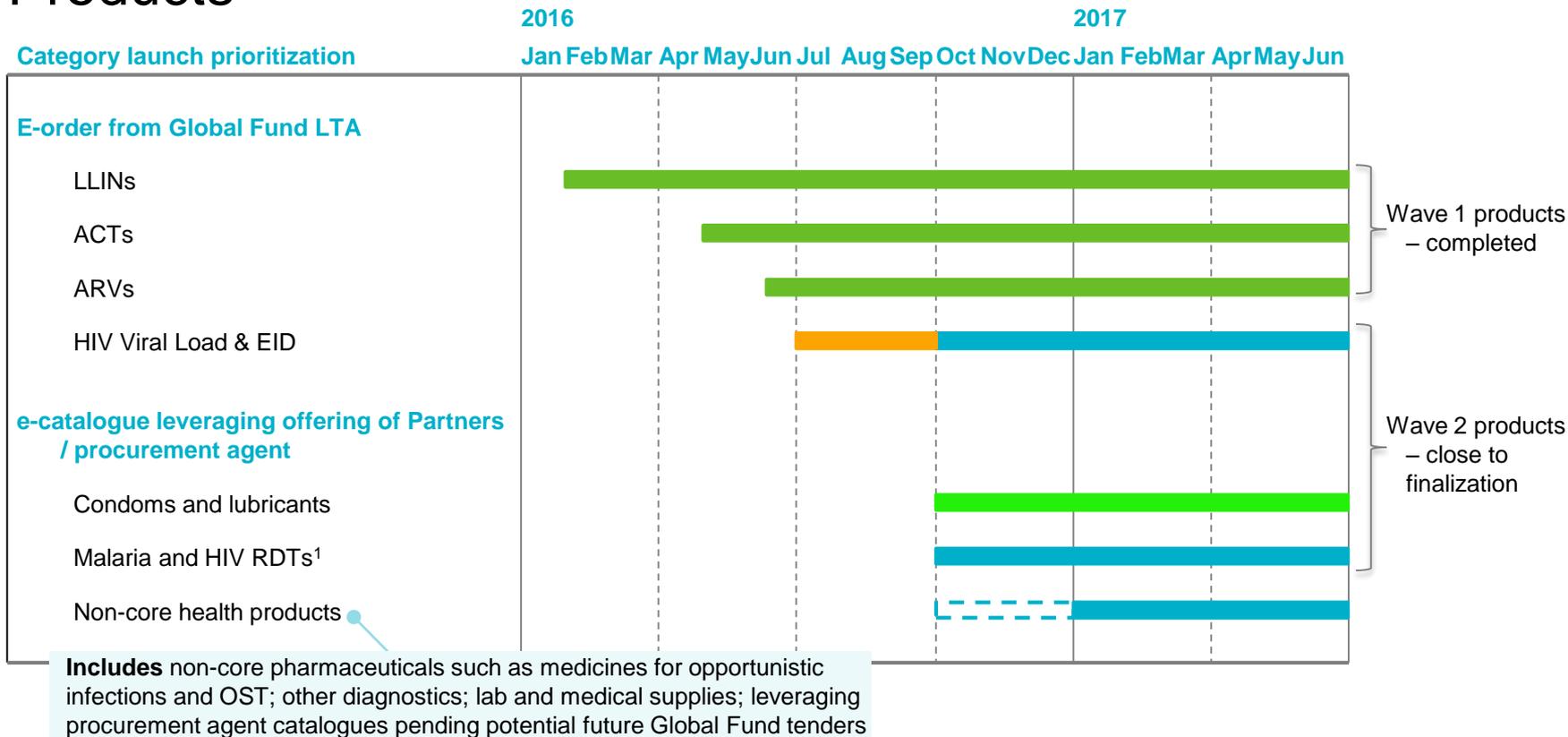
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Future steps for advancement

2016 Roll-out: Product Roadmap – focus on Health Products



Wide and growing range of products and manufacturers now available on wambo.org to-date

PRs able to search, browse, compare items based on specifications

- **LLINs**: 15 standardized options from 10 manufacturers
- **ACTs** and other anti-malarials: 13 items from 9 manufacturers
- **ARVs**: 60 items from 9 manufacturers
- **Condoms** and lubricants: 23 items from 12 manufacturers

~76% of PPM spend now available on wambo.org

Orders channeled via 2 procurement agents, with UNFPA close to operationalization. Total **37** manufacturers included in the background

The numbers above represent the products available through specific catalogue items on wambo.org. Catalogue items in wambo.org represent products that are available and recommended by WHO. PRs have a separate channel in the system to request any QA-eligible products that they do not find in the catalogue.

2016 Roll-out: Country engagement approach

- **General strategy for 2016: focus on PPM PRs, with openness to non-previously PPM PRs**
- 8 regional workshops

Date	Location	Countries
✓ 31 May – 2 June	Bangkok	Indonesia, Pakistan, Sri Lanka, Laos, Timor Leste, Solomon Island, Fiji***
✓ 12-14 Jul	Dar es Salaam	Ghana, Malawi, Mozambique*, Tanzania, Uganda, Zambia*, Zanzibar, Zimbabwe, Cape Verde, Angola, Ethiopia***
✓ 31 Aug – 2 Sept	Panama	Dominican Republic, Guyana, Haiti, Honduras, Jamaica***, Nicaragua, Belize***, El Salvador***, Panama***, Paraguay***
✓ 20-22 Sept	Abidjan	Benin, Burkina Faso, Cameroun, Cote d'Ivoire, Mauritania, Niger, Togo
✓ 4-6 Oct	Singapore	Bangladesh*, Bhutan, India, Mongolia, Nepal, Philippines, Vietnam, Myanmar***
✓ 6-7 Oct	Tblisi	Armenia, Belarus***, Georgia
✓ 25-27 Oct	Accra	Congo (Rep.), DRC, Liberia, Nigeria, The Gambia, Sierra Leone, Namibia
8-10 Nov	Dakar	Burundi, Guinea-Bissau, Guinea (Con.), Mali, Senegal, Comoros, CAR

* Already on-boarded

*** New/non-previously-PPM.

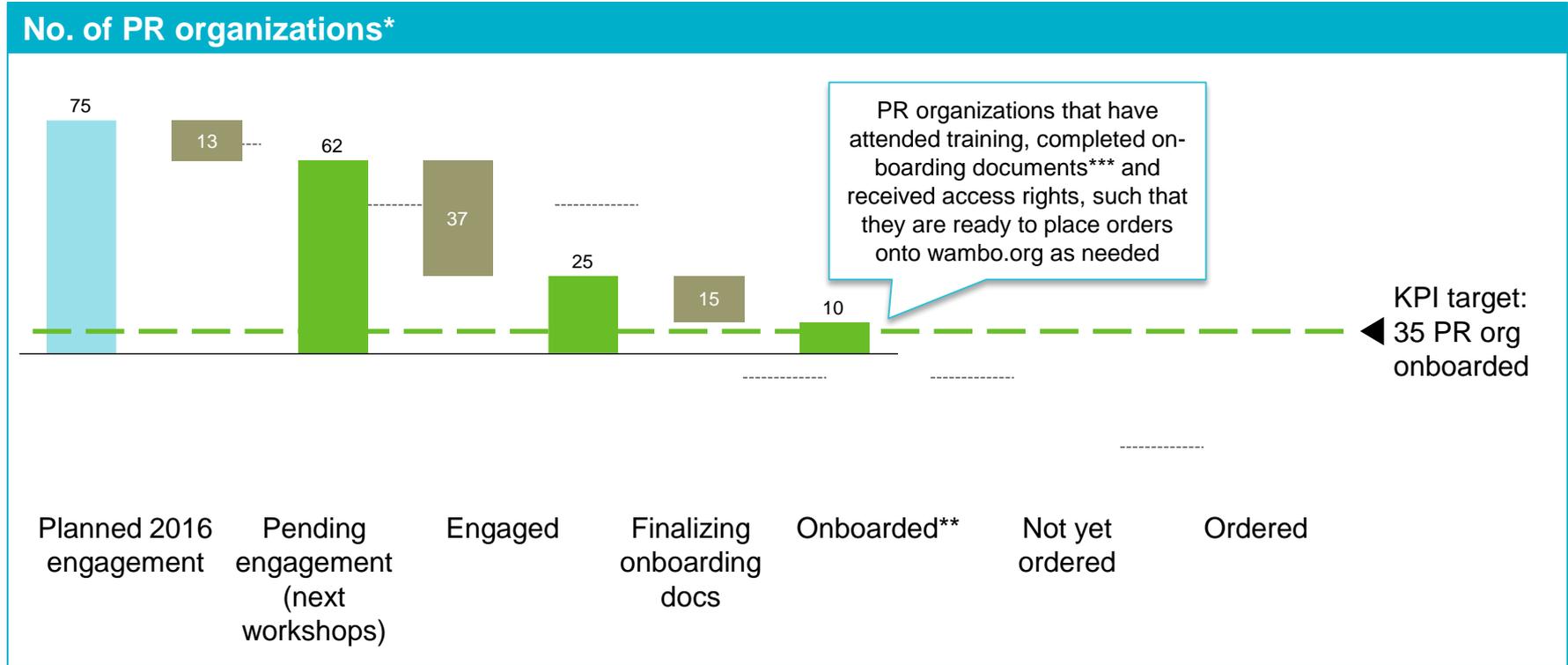
- In addition, direct 1:1 engagement with top 20 PPM countries

Typical agenda includes:

- Presentation on Global Fund sourcing strategies and tender/LTA processes
- consultation on procurement capacity building initiative (~1 day)
- Hands-on training on wambo.org (~2 days)
- Country-by-country dedicated interactions on all aspects, including wambo.org onboarding documentation

Country Engagement Progress

As at 29 Oct 2016



* Where National Programs are listed as PRs individually, we've counted MoH once

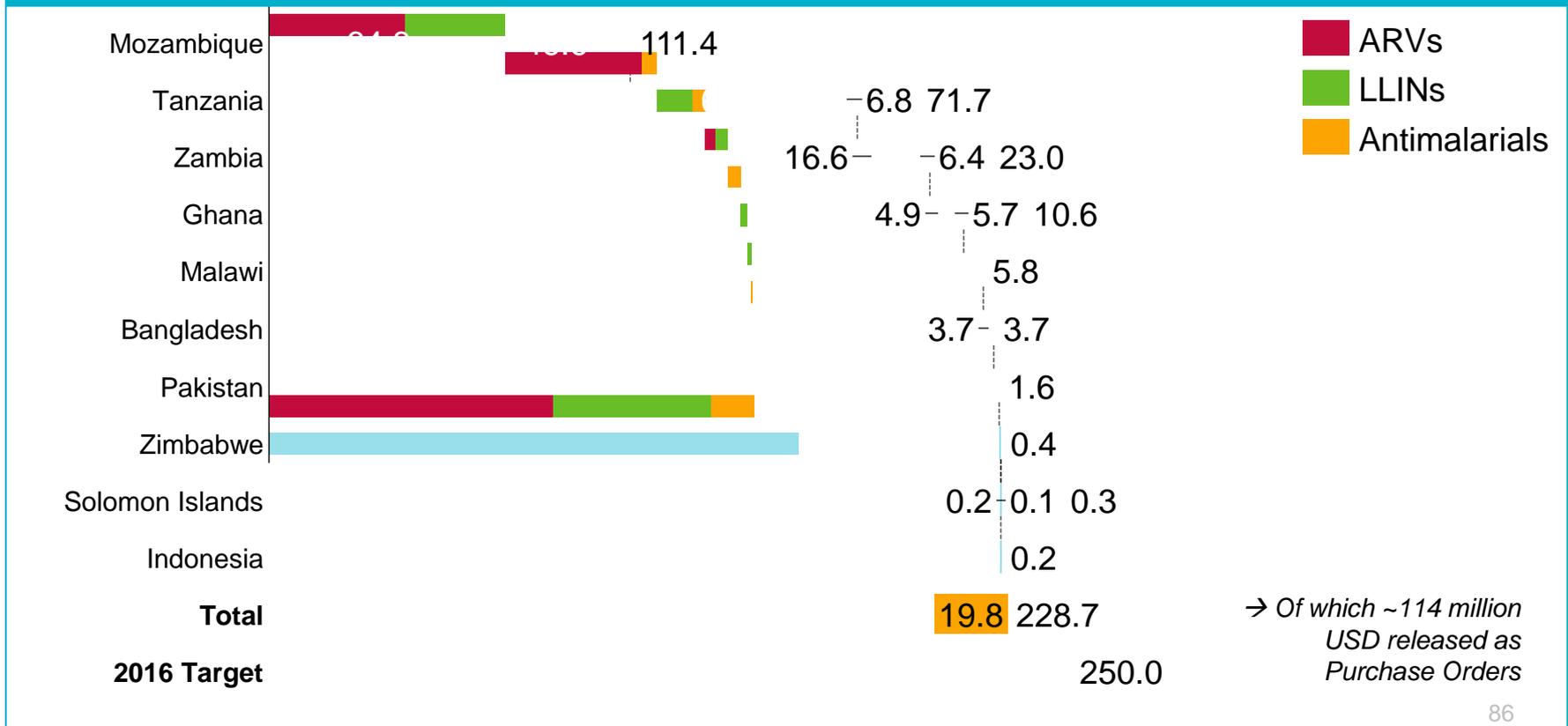
** Includes 3 basic memberships

*** Onboarding documents include: authorized users, approval hierarchies and approval method recognized by in-country legislation (fully electronic or requiring paper back up); delivery information; acceptance of wambo.org terms of use; for full membership, PPM registration letter if not already signed

Purchase requisitions throughput

As at 1 Nov Oct 2016

Purchase requisitions submitted, million USD



Agenda

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REMINDER

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Establishing solid foundations in Phase 1 context is the current priority, before moving on to global public good preparations and consultations

Priority for 2016: focus on Phase 1 roll-out, including building product offering and on-boarding PRs with adequate support.

As a result, **Phase 2 preparations** not expected to be launched before 2017 – Fact based and inclusive consultations

Nevertheless, specific opportunities are emerging to advance towards the global public good in a controlled way

- Interest to access wambo.org with domestic funding – Phase “1b” subject to Board approval
- Enhancing existing collaboration with partners, e.g., UNFPA on condoms and lubricants
- Facilitating the introduction and roll-out of new, innovative health products in collaboration with UNITAID
- Enhancing existing collaboration with PAHO on procurement for LAC countries

Not duplication other partners' efforts or ordering systems

BUT: Collaboration, leverage of comparative advantages and system integration among partners, for the benefit of the same end beneficiaries

Supply Chain Management – Increased Focus

Geneva, Switzerland
02 November 2016



This document is part of an internal deliberative process of the Global Fund and as such cannot be made public until after the Board Meeting

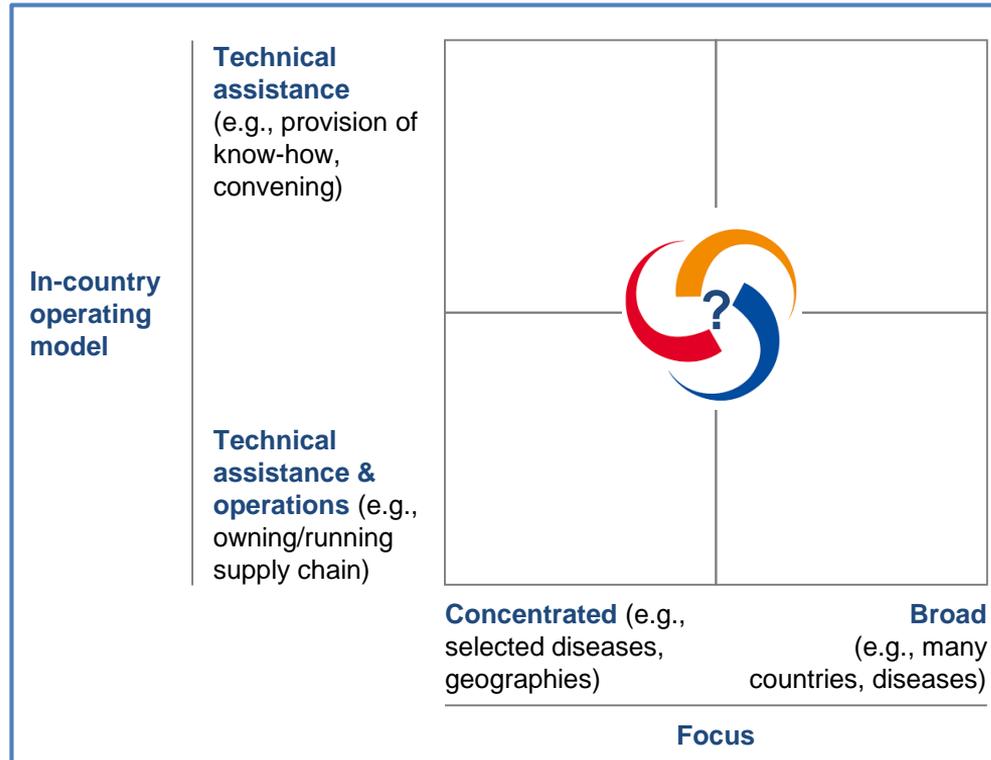
We know that we need to offer more help to countries which lack national supply chain capabilities & capacity

- OIG reports have indicated that there are many failings in national supply chain operations
- A thematic report highlighted a need for The Global Fund to influence downstream supply chain activities to make them more efficient
- The countries we provide funds to have varying degrees of Supply Chain knowledge and operational maturity
- National supply chain inefficiencies are resulting in a number of significant issues ranging from stock-outs and expirations to overstocking with associated high working capital and inventory management costs

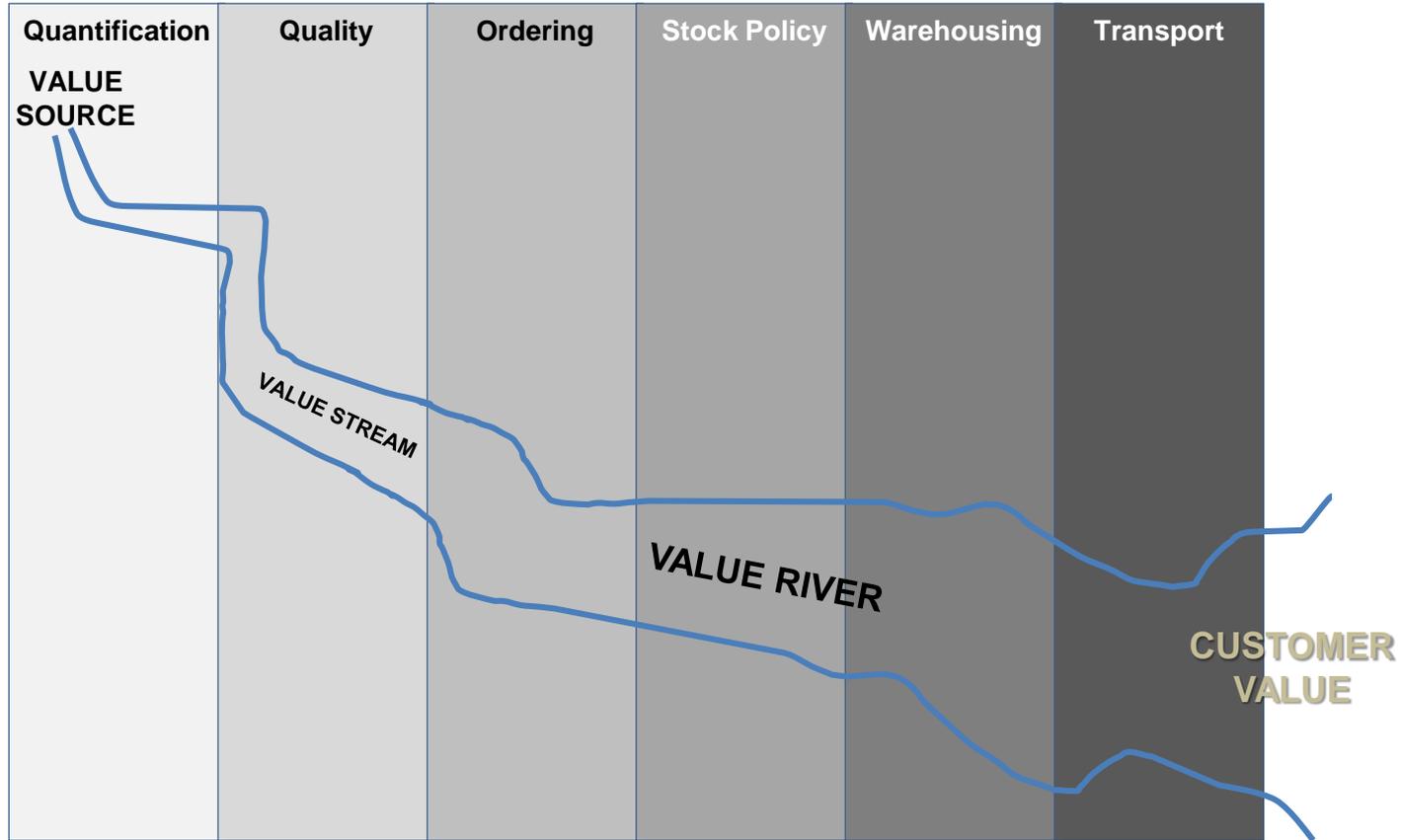
There are many common / typical issues with national supply chains

- **High degree of paper systems** in place which take time to review and fill in with opportunities for human error
- **Inaccurate Inventory data**
- **High Buffer Stocks** = High Working Capital = Risk of Expiration = High Inventory Carrying Costs
- **Inefficient warehousing** leading to excessive intra-warehouse transportation and cost due to satellite warehouses
- **Manual / Excel ordering** not integrated into warehouse management systems
- Practical and meaningful **KPIs are not being properly utilised**
- **Too many parallel supply chains!**
- Many countries depend on **Pharmacies and Health Facilities collecting supplies** rather than scheduled delivery service
- **Not enough supply chain professionals** managing national supply chain
- **Long replenishment frequency / periodicity** at all supply chain levels is not conducive to optimising levels of inventory which leads to high levels of inventory & expired product
- **Unsafe transportation** from District Pharmacies to Health Facilities - unsafe for the people transporting the product and for the products
- **Stock-outs!**

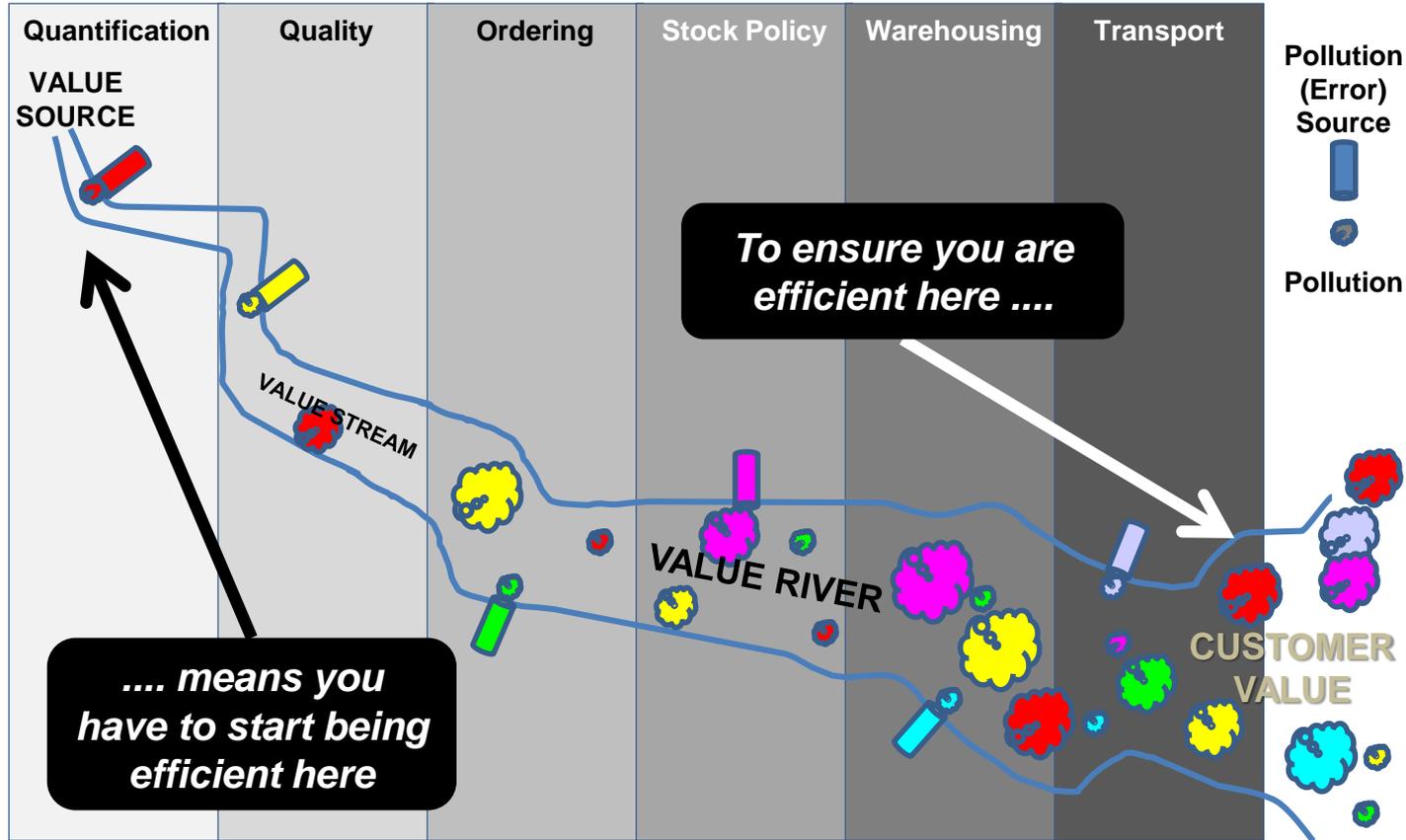
What should The Global Fund's supply chain management scope and approach be?



Sub optimal supply chains can often be a symptom of poor processes up stream



Sub optimal supply chains can often be a symptom of poor processes up stream



Increasing the Frequency of Deliveries has a Direct and Proportionate Effect on Reducing Inventory Costs and Expiration

**CENTRAL
WAREHOUSE**



**REGIONAL
WAREHOUSE**



**DISTRICT
PHARMACY**



**HEALTH
FACILITY**

3 Monthly Replenishment Model



Replenishment
Up to every
3 Month



Replenishment
Up to every
3 Month



Expired
Products



Replenishment
Up to every
3 Month



Expired
Products



**BIG
WAREHOUSES
(Capital Expenditure)**

**HIGH
STOCK VALUE
(Working Capital)**

**HIGH INVENTORY
CARRYING COSTS**

**HIGH
EXPIRATION**

Monthly Replenishment Model



Monthly
Replenishment



Monthly
Replenishment



Monthly
Replenishment



With regular monthly deliveries only a smaller buffer stock is required – ensuring better availability for the patient

LESS SPACE REQUIRED

LOW STOCK VALUE

LOW EXPIRATION

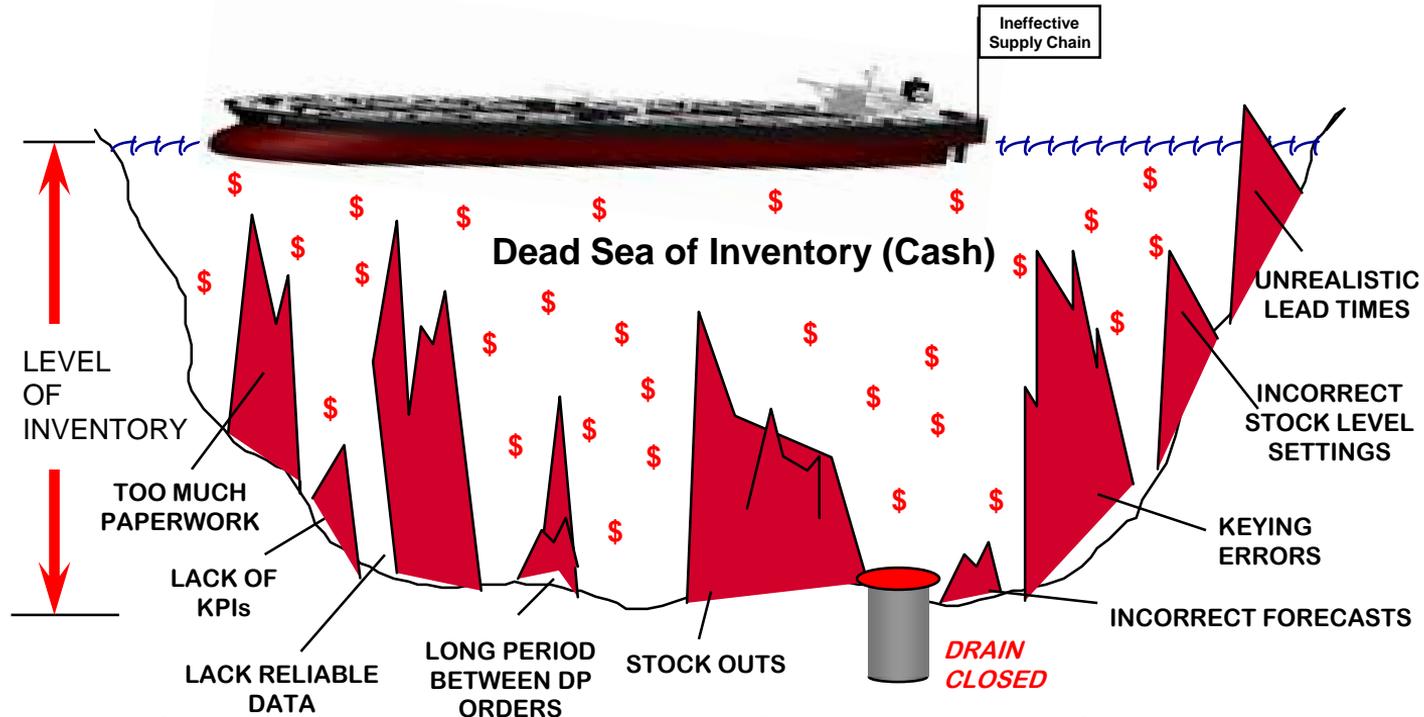
**FEWER EMERGENCY
DELIVERIES**

MORE DELIVERIES

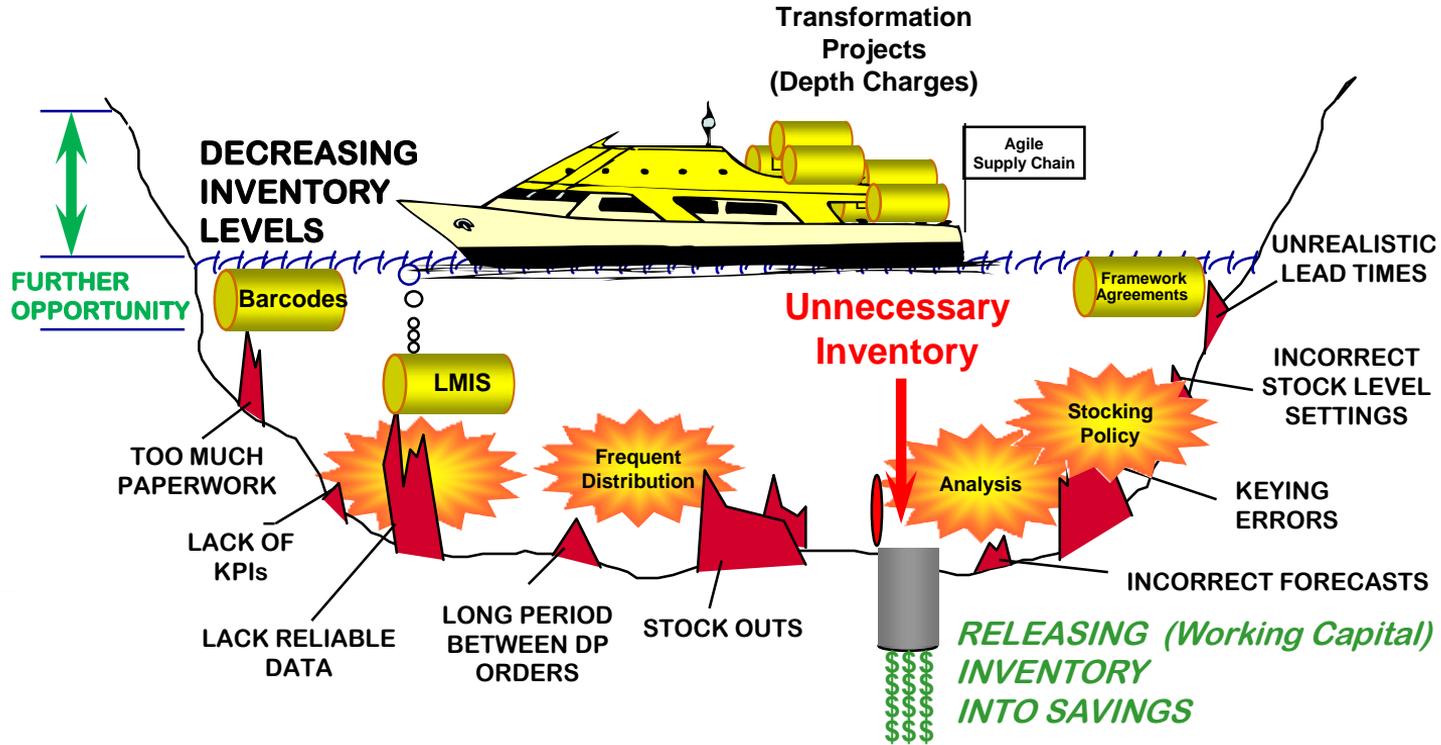
Stock to
expire within
6 months

Stock to
expire within
6 months

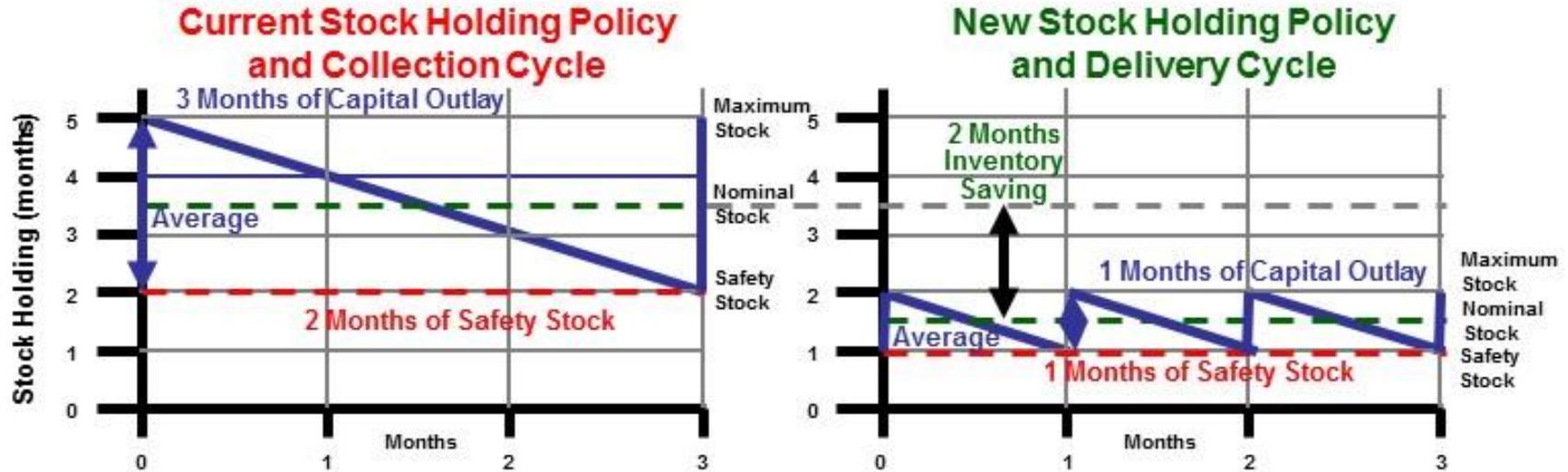
Excess inventory is used to protect (hide) against inefficiencies in the Supply Chain



Supply Chain transformational interventions will eliminate or reduce the problems to improve efficiency



Average Stock Holding can be significantly reduced with more frequent deliveries



Operating a monthly delivery with a one month buffer stock, saves 2 months of District Pharmacy DP inventory (+ associated inventory carrying cost saving)

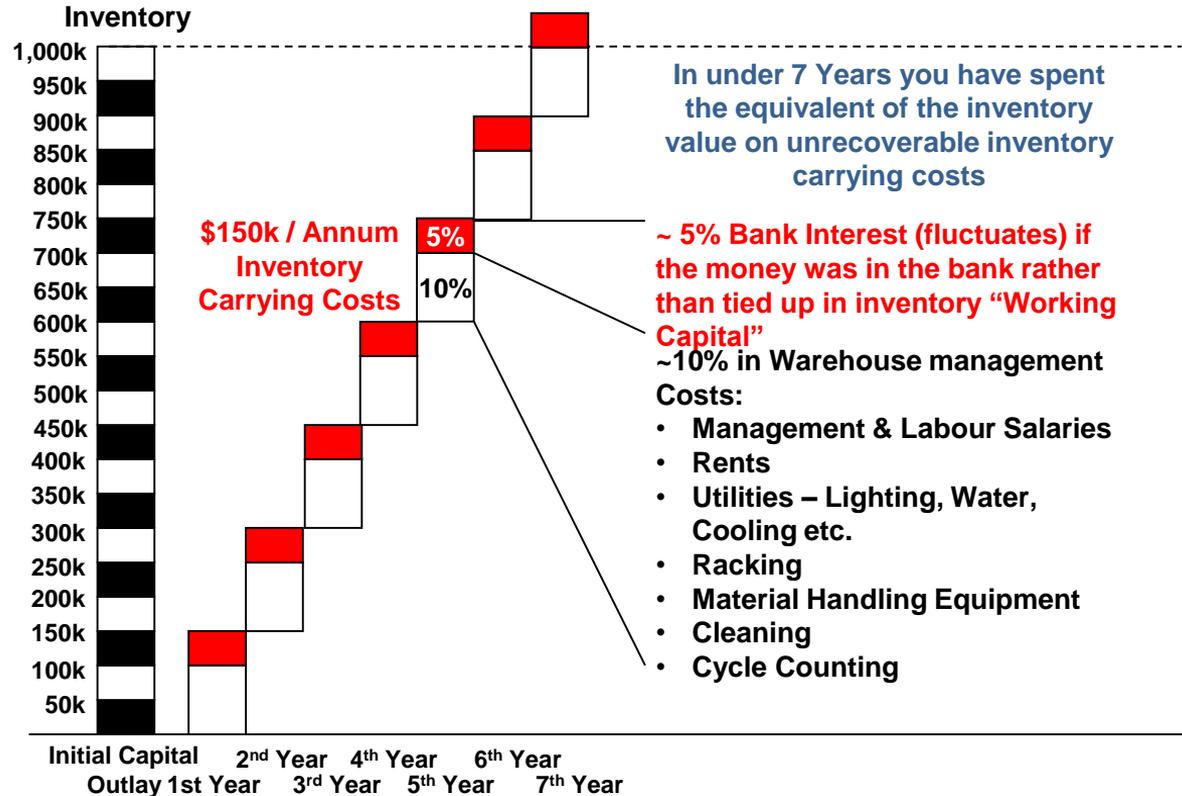
Instead of 3 months of working capital outlay every 3 months, only 1 month of capital outlay is required each month which is more acceptable to the Districts

Less inventory:

- Requires less management
- Requires less space
- Reduces the potential for expiration

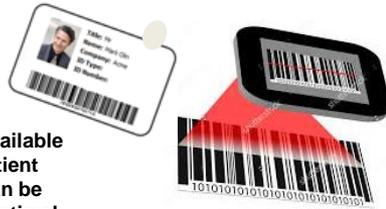
If a DP stocks out of a product early in the ordering cycle, they know they will receive stock in less than a month rather than waiting up to 3 months or having to send in an emergency order

Every \$1,000,000 of Inventory, costs us approximately \$150,000 per annum in Inventory Carrying Costs



Vision at the Health Facility

ID CARD with Barcode



If the ID card is not available
manual entry of Patient
Name or Number can be
used but this is not optimal

+

PRODUCT with Barcode



If package / strip breakdown
is required then this can be
manually entered



At the Health Centre

=

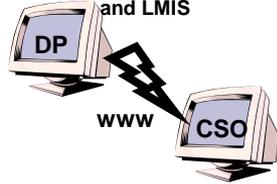
Booking In Accuracy
Accurate Physical Inventory
Easier Expiration Identification
Mobile Upload to Cloud
Real time data

+

Fast & Accurate Identification of Product to Patient
Quick identification of whether Patient is consuming to plan
Real Time Consumption Data which can be fed back to MoH
Better data on which to make forecasts

Vision at the Warehouse..... and beyond!

- 1** District Pharmacy (DP) Online order received at Central Supply Organisation (CSO) and accepted – Information is integrated with WMS and LMIS



Inventory levels are automatically reviewed and replenished as required

- 2** Order sent wirelessly to Hand Held Terminal (HHT) on date and time programmed in system

NO PAPER



Next available operator is selected and they acknowledge receipt of order and starts to pick

- 3** HHT Info directs operator to shelf location of each line item. Line items are sorted to optimise distance walked

NO PAPER

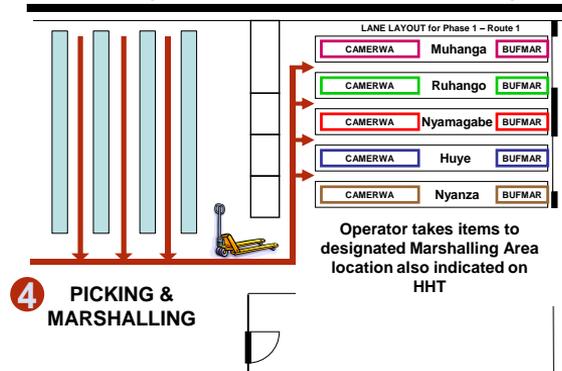


Operator scans items as they are picked and enter number of items pick using the key pad on the HHT

All shelves and boxes are barcoded



WMS is automatically updated as items are picked



- 5** DISTRIBUTION

Monthly

Weekly



NMS Truck takes order to DPs



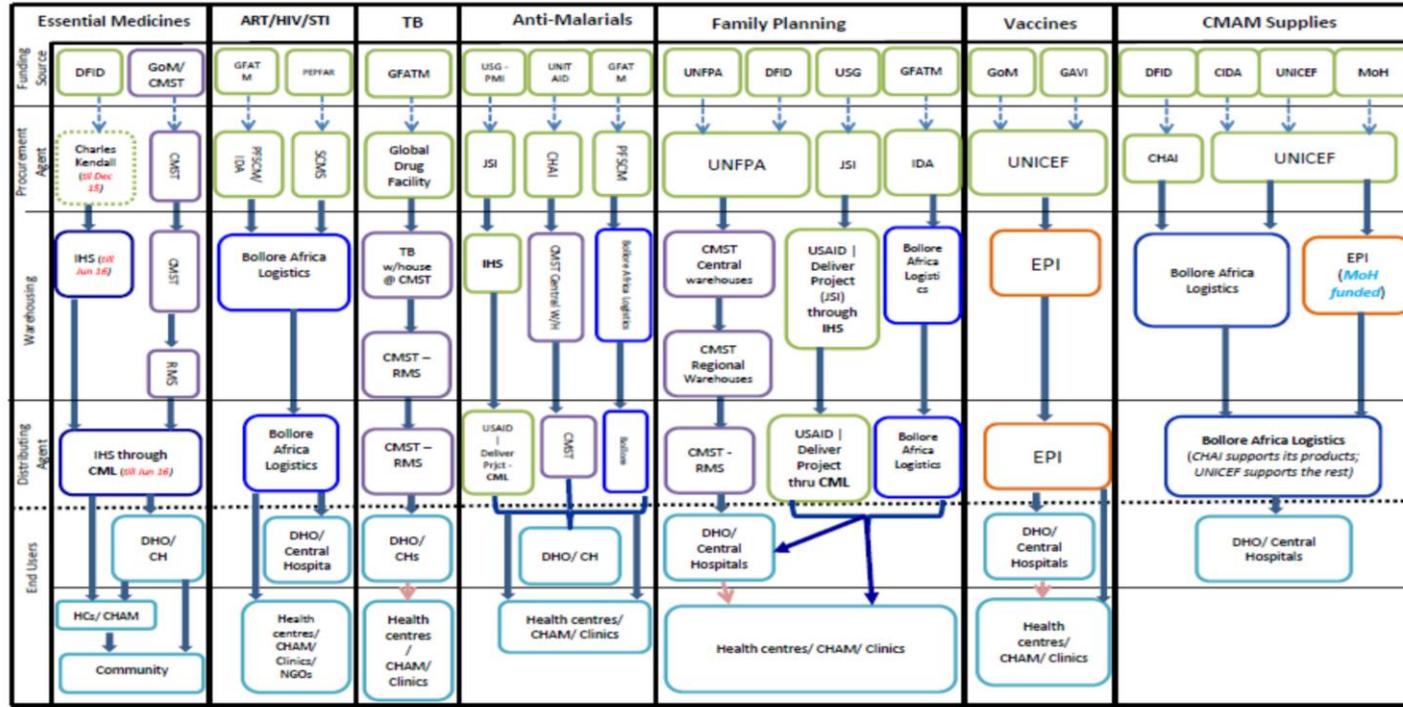
DP Truck takes order to Health Facilities

All transactions are logged by eLMIS

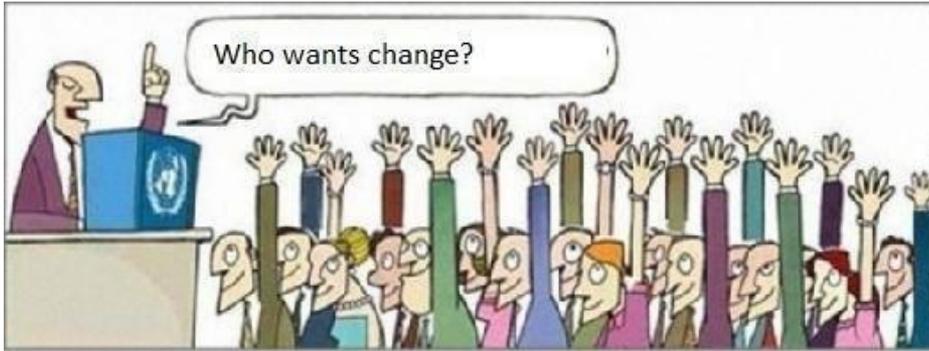


?

We need to drive towards consolidated supply chain owned nationally.... and is sustainable!

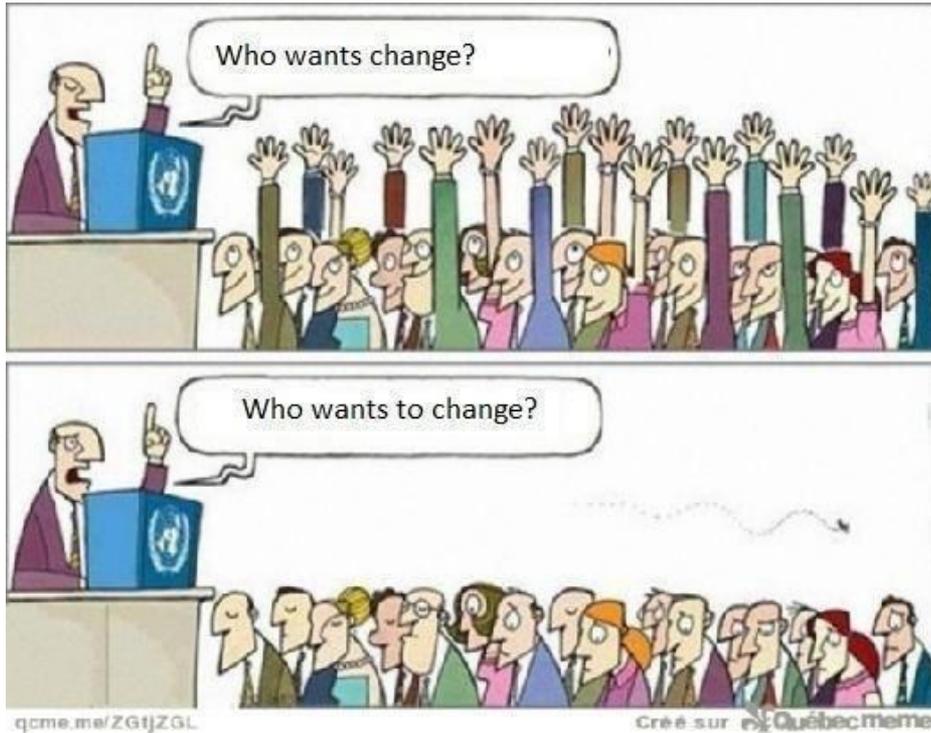


Supply Chains succeed when resource, discipline and hard work are combined to make positive change



*People typically
say they want
change*

Supply Chains succeed when resource, discipline and hard work are combined to make positive change



People typically say they want change

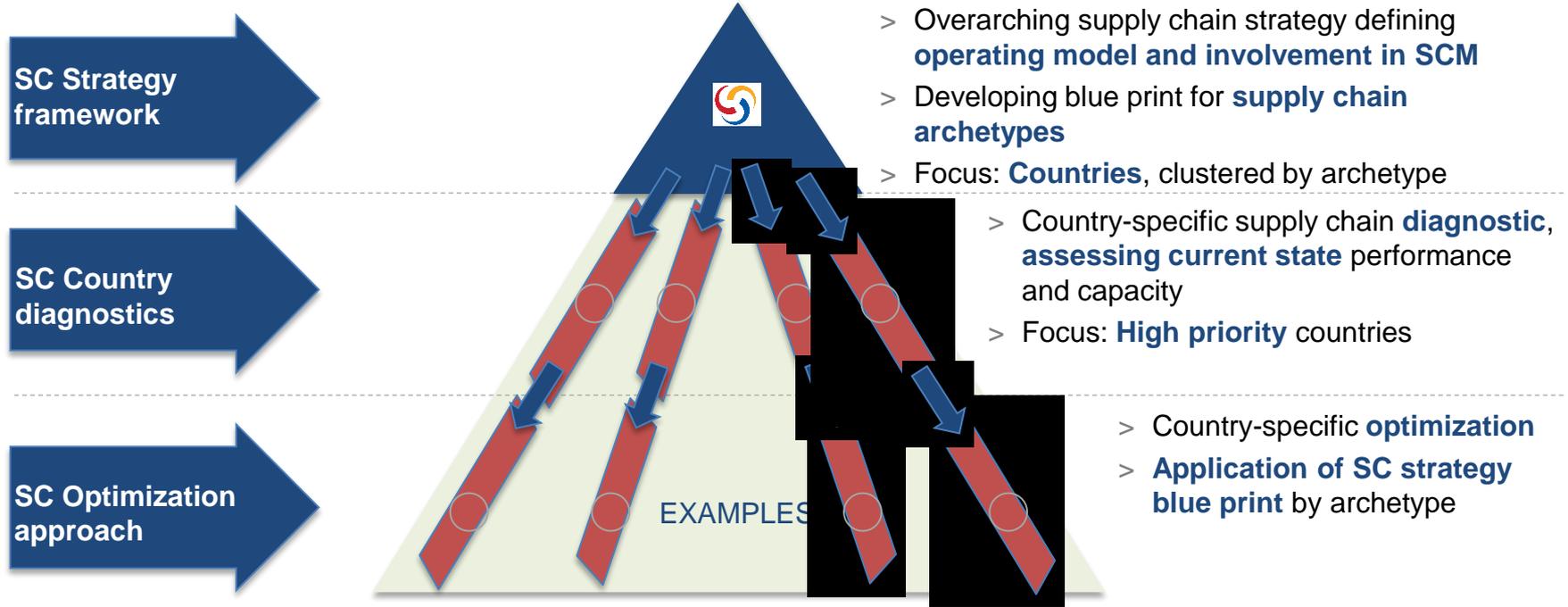
Right up to the point when you ask them to do something differently

Supply Chain progress made so far

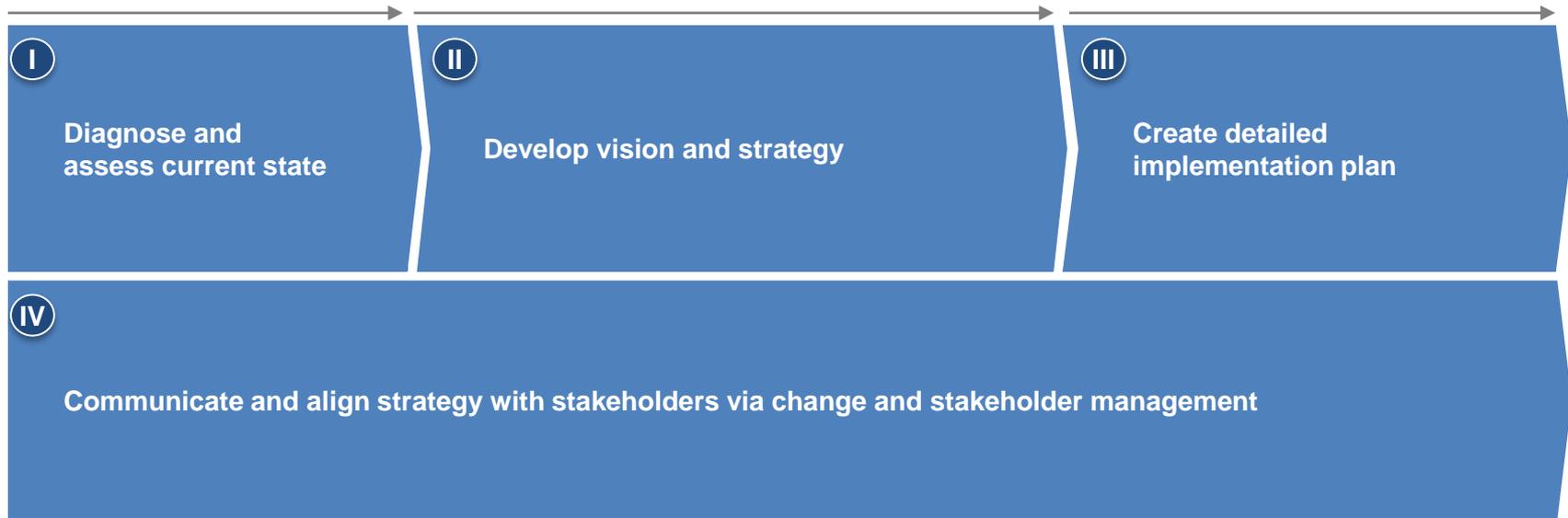
Supply Chain Organisation

- We have established a new department within the Grant Management Division and are staffing it to ***supply chain strategy*** and implement pragmatic ***transformational solutions***
- The department will include three specialized teams: ***strategy design; tactical team; and MAP (metrics, analysis and performance)***
- Two supply chain loanee have started one year secondments responsible for coordinating the Supply Chain Strategy and Transformations - these senior executives have ***deep experience in the public and private sectors*** and are enabling us to engage more effectively across our partnerships and to support countries maximize impact

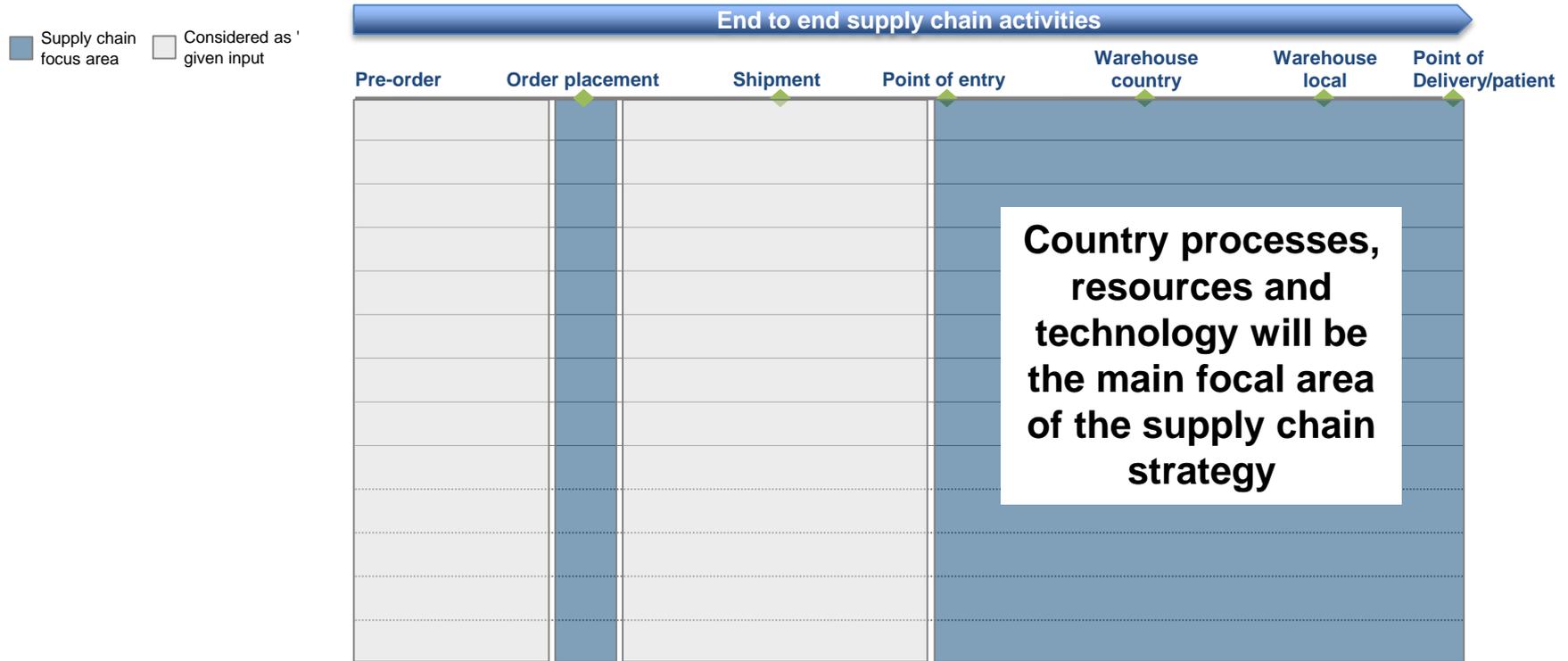
Developing supply chain strategy will help focus our in-country diagnostics & optimization of selected countries



In a three phase process from now to mid of next year we will develop the Global Fund in-country supply chain strategy



Focus of the supply chain strategy development will be on in-country supply chain with light touch on global logistics



Summary and Next Steps

Supply Chain Strategy

- Currently in the first phase of strategy development – current state base lining in progress

Diagnostics for Transformational Interventions

- Supply Chain diagnostic methodology development is in progress
- RFP responses for external support is in progress
- Strategy consultancy current state phase will cover five diagnostics

Supply Chain Catalytic Funding Preparation

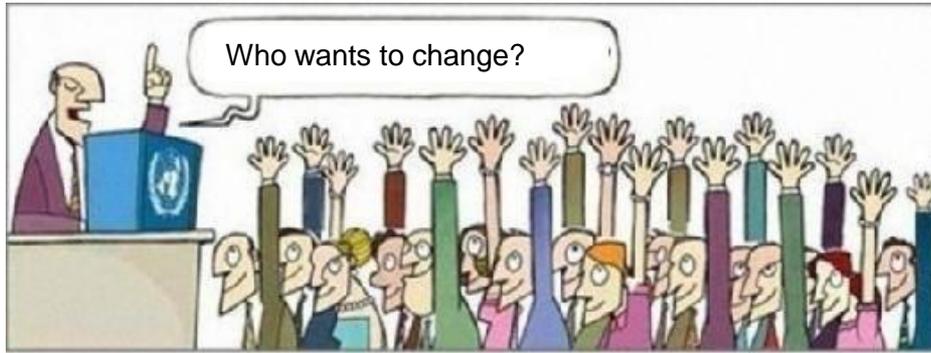
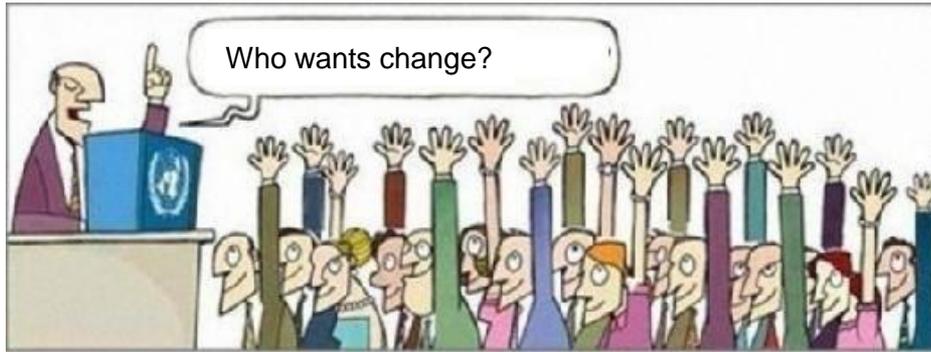
• Capacity Building

- Consulting a number of partners to discuss grass roots degree level *academic programs* for Supply Chain Management in Africa

• Innovation Challenge

- Process to set challenges and assess for funding is being developed
- Discussions taking place regarding *mobile data collection* of consumption data at Health Facilities
- Discussions taking place regarding *use of drones* for deliveries

Supply Chains succeed when resource, discipline and hard work are combined to make positive changes



*Let embrace
change!*