

Audit Report

The wambo.org platform

Progress against business case, key risks and
current implementation arrangements

GF-OIG-17-021
2 November 2017
Geneva, Switzerland

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Audit Report

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1. Executive Summary

1.1. Opinion

The online purchasing platform wambo.org is designed to alleviate procurement challenges by bringing together buyers and suppliers of health products. It gives both parties greater visibility of procurement processes and aims to improve the availability of products, provide better prices and reduce procurement costs. The platform, as initially conceived, was expected to create greater transparency, increase savings, ensure sustainable supply, empower countries through capacity building, and automate processes to accelerate decisions. In the long term, the Secretariat envisioned the platform as a self-sustaining global public good allowing countries to place orders using domestic funding and offering global and transparent pricing for all stakeholders.

When assessed against these ultimate goals, wambo.org has indeed brought increased transparency to the ordering process of the Pooled Procurement Mechanism (PPM), a Global Fund initiative that aggregates orders and negotiates the best conditions for Principal Recipients. The platform has also received high client satisfaction rates.

However, progress in the implementation of wambo.org has been affected by various factors, internal as well as external. Firstly, there was a six-month delay in the approval by the Board of the pilot for domestic purchases (corresponding to phase 1b of the project, cf. Section 2 for more details), which slowed down implementation activities. Secondly, in 2016 and in the first half of 2017, the wambo.org Steering Committee¹ prioritized the transitioning of existing PPM Principal Recipients onto the platform. This effectively deprioritized efforts to a) increase the number of non-PPM Principal Recipients and b) expand the range of products available on wambo.org, both of which were considered key conditions of success in the initial concept note. The business rationale for this prioritization, which was communicated to the Board and Committees, was to avoid operating a dual manual/online process for too long. Thirdly, the Chief Procurement Officer position at the Global Fund remained vacant for most of 2017.² For wambo.org, this has delayed the development of specific strategies to support the implementation of phase 1b. Finally, the setup of a new supply chain team at the Secretariat in 2016 has also led to certain initiatives that were previously in the wambo.org project being reassigned to this new team. The combination of these various factors has materially affected the timely implementation of wambo.org as initially planned and has affected the ability of the platform to meet its stated targets within the expected timeframe.

At the time of the audit, wambo.org was not on track to meet its initially projected savings target of US\$246 million by 2019. This is because of both various limitations in the initial assumptions that were made and changes in the short term scope, priorities and timelines for the project decided by the Steering Committee. Likewise, the platform has not yet brought in the projected efficiencies to the PPM process, with lead time reported at 47 days at the time of the audit, against a target of 21-26 days.³ In the longer term, significant uncertainties still exist around the potential future phases of wambo.org. How these uncertainties are resolved will have significant ramifications on whether wambo.org is able to deliver on its stated goal of enabling continued access to affordable prices for countries that transition out of Global Fund support. Whilst all the significant risks associated with this initiative have generally been well identified by the Secretariat, many are yet to be effectively mitigated. Some of the risks can be addressed directly by the Secretariat while others will require clear direction from the Board.

¹ The Steering Committee is a Secretariat body comprised of the Chief Finance Officer, the Head of the Grant Management Division, the Chief Procurement Officer, the Head of Program Finance, the Chief Information Officer, as well as representatives of external parties (Unitaid).

² A new Chief Procurement Officer has now been appointed as of September 1, 2017

³ Subsequent to the audit, a project that has streamlined processes has been initiated and the Secretariat is reporting a resulting drop in lead times.

Overall, wambo.org's initial overarching goals of enhancing transparency; increasing procurement efficiency and savings; and ensuring a sustainable supply of health products, remain valid and aligned with the Global Fund's long term strategic objective of supporting resilient systems for health, including for supply chains. However, to enable wambo.org to deliver on these critical long term strategic objectives, **significant improvement is needed** to refine the business case, reassess the key assumptions and success factors, and define a coherent strategic framework for effective implementation.

At the operational level, the adequacy and effectiveness of structures, systems and processes for the current phase of implementation and the mitigation plans to address the identified risks also need strengthening and are currently considered **partially effective**.

1.2. Key Achievements and Good Practices

In its concept and design, wambo.org is a groundbreaking initiative. The creation of an electronic marketplace has the potential to bring much needed transparency to the procurement of health products. In the short term, through increased automation, wambo.org presents an opportunity to strengthen the ability of PPM to procure, in a timely manner, quality assured health products for implementing partners in country.

Since its roll-out in January 2016, wambo.org has been used by 81 Principal Recipients from 54 countries, with total transactions of US\$555 million processed through the platform. This includes 73 Principal Recipient who were already under PPM before wambo.org was available and eight additional Principal Recipients. The wambo.org platform has not only created a stronger interface among stakeholders involved in the procurement process, but also brought additional transparency to the ordering process by giving stakeholders increased visibility of the status of their purchases at key stages of the ordering process. Through its e-catalogue, wambo.org is empowering buyers as they can browse the full catalogue of products available, and compare reference prices and specifications before deciding what to buy. In a customer satisfaction survey conducted by the Secretariat, 90% of users commended wambo.org for this increased transparency and access to information, which enhances their decision-making.

In line with the Global Fund's current IT strategy, the Secretariat opted for a 'software as a service' implementation approach for wambo.org. Instead of spending money upfront purchasing software, it 'rents' software that is hosted on a cloud and is accessible over an internet connection. This option comes with benefits such as lower deployment costs, faster implementation, fully supported, well maintained and regularly upgraded software by the service provider. It also provides an easily accessible platform, which is readily scalable as wambo.org expands. Thus far, the platform has had 100% availability, which is a reflection of its reliability to work when needed. This level of reliability has contributed to a positive user experience.

In May 2017, the Board approved a pilot to allow a limited number of procurements on the platform using non-Global Fund resources, such as domestic funding. Whilst limited in nature, the pilot represents an important first step towards potentially taking wambo.org to scale.

1.3. Key Issues and Risks

Limited clarity on the role wambo.org plays in supporting organizational strategic objectives: While wambo.org was conceived and designed as a strategic initiative, there is a need for greater clarity in how it fits into the Global Fund's overarching procurement and supply chain management strategy. Partly as a result of the lack of an explicitly approved and formal mandate at the outset, significant questions remain as to how wambo.org fits into the broader strategic framework of the

Global Fund, its role in the implementation of priorities such as the Global Fund's Market Shaping Strategy,⁴ and the approach to mitigating key risks associated with the initiative.

Significant challenges over key assumptions underpinning the business case: As mentioned above, at the time of the audit, wambo.org was not on track to achieve the savings of US\$246 million by 2019 that were initially projected in its business case. This is due to a combination of both changes in the short term scope, priorities and timelines for the project decided by the initiative's Steering Committee but also several limitations in the initial assumptions that were made. One of the key assumptions is the ability of wambo.org to reach a wide and diverse user base through a projected increase of Principal Recipients joining the platform. The decision made by the Steering Committee to focus on recipients who are already using PPM means that only an additional eight non-PPM Principal Recipients out of a targeted 60 have been recruited, 18 months after the platform's roll-out.

Furthermore, according to the initial business case, wambo.org was also supposed to offer a comprehensive suite of products. However, so far, the platform has not diversified beyond the original PPM product list although the Secretariat has indicated, subsequent to the audit, that some product line extensions such as vehicles are now being implemented.

Projected efficiencies not yet achieved: The software used as the backbone of wambo.org was selected with the primary intent of developing a future phase 2 for the platform. The platform ensures continuous user availability and has registered high user satisfaction. However, because the solution design was not primarily geared towards addressing current PPM needs, the platform has so far not proven satisfactory in automating the PPM processes. As a result, wambo.org has not yet achieved its operational efficiency targets. At the time of the audit, order lead time (i.e. the total elapsed time from initial requisition to order confirmation) remained at 47 days compared with a baseline lead time under PPM that was 44 days.⁵ The wambo.org platform is only an automation of the front-end of the ordering process, whilst much of the back-end order processing is manual. In addition, PPM processes have not yet been streamlined as part of the automation process and remain largely unchanged.

While risks have been adequately identified, effective mitigations will be needed to move wambo.org to scale: The current pilot phase, during which a limited number of transactions are expected to be processed through wambo.org using domestic funding rather than Global Fund grant funding, presents challenges that required a structured risk mitigation plan. These challenges include managing upfront payments for transactions and accommodating differing legal requirements in individual countries. Whilst these and other risks have been properly identified by the Secretariat, effective mechanisms need to be formally developed as part of a structured risk mitigation plan.

Implementation arrangements, i.e. structures, systems and policies impacting the effective execution of wambo.org: At its current stage, wambo.org automates parts of the existing PPM process. However, although both wambo.org and the PPM report to the Chief Procurement Officer, they are currently run by independent teams, with different oversight arrangements, systems and data sets for the same transactions, and performance metrics. This fragmented implementation arrangement, and the lack of clear direction on how best to integrate these two processes, has hampered the organization's ability to leverage potential synergies that the introduction of wambo.org could have otherwise provided.

⁴ The Board acknowledges the critical role of the Global Fund in shaping markets to maximize global access to health products in accordance with the applicable Global Fund quality assurance requirements at affordable and sustainable prices and further emphasizes its desire for the Global Fund to more actively shape the markets for health products to optimize price, quality, design, and sustainable supply.

⁵ Subsequent to the audit, a project that has streamlined processes has resulted in a drop in lead times.

1.4. Rating

<p>Objective 1. Whether the wambo.org platform as designed is able to deliver the goals and objectives as articulated in the business case including significant cost savings.</p> <p>Needs significant improvement: The wambo.org platform is meeting its qualitative performance indicators related to increased access to information and transparency of the procurement process. However, it is not meeting its quantitative performance indicators, particularly its projected savings and goal of increased efficiency in the procurement process. The assumptions articulated in the business case need to be reassessed, particularly related to projected savings.</p>
<p>Objective 2. Whether key risks impacting the wambo.org platform in its current and future phases of implementation have been properly identified and assessed, and that adequate mitigations have been implemented by the Secretariat in a timely manner.</p> <p>Partially effective: While risks that would impede wambo.org meeting its goals have been adequately identified, effective mitigations have not been instituted to move wambo.org to scale. In consequence, some risks identified earlier have materialized; while other risks exist but have not so far materialized, or may materialize during future phases of wambo.org. Some of the risks are within the control of the Secretariat while others will require Board guidance and support. If unmitigated, these risks may impact the ability to move wambo.org to scale.</p>
<p>Objective 3. Whether structures, systems and processes for the current phase of implementation are adequate and effective.</p> <p>Partially effective: While wambo.org in its current form is mainly an automation of the PPM, strategically, structurally and operationally, wambo.org and PPM, are run independently with different oversight arrangements and performance metrics. This has impacted the cohesiveness of the two teams and impacted the overall effectiveness of wambo.org during the transition phase. The priorities of the two teams as directed by their visions and key performance indicators should be aligned so that they operate in synergy.</p>

1.5. Summary of Agreed Management Actions

The Secretariat will prepare a wambo.org implementation plan reflecting its short, medium and long-term ambitions. This will explain how wambo.org links to the Market Shaping Strategy, organization procurement and supply chain management strategies, and update its business case, organization structure and key success metrics.

2. Background and Context

One of the Global Fund's goals is to ensure that countries and communities have access to quality, life-saving health products in a timely manner and at a reasonable cost. Providing continued access to these critical health products is a key dimension to sustaining the progress achieved in the fight against HIV, tuberculosis and malaria. The Global Fund leverages its position as the largest financing institution for health products to fight these three diseases to negotiate agreements with manufacturers for preferential prices and contract terms and conditions, which are then extended to grant recipients.

Genesis of wambo.org

The e-marketplace initiative, which subsequently evolved into wambo.org, was initially conceptualized in late 2014. The original business case for the platform outlined the following expected benefits:

- increased value for money (cumulative savings of US\$246 million by 2019) and easier access to market information and data;
- streamlined procurement operations enabling all Principal Recipients to procure autonomously with simple, efficient and effective processes and lower transaction costs; and
- enhanced sustainability by enabling continued access to affordable prices for countries that transition out of Global Fund support, as a global public good.

Following its initial conception, the project entered into a transitional phase in mid-2016. This phase focused on moving PPM Principal Recipients to the new platform to avoid running the PPM and wambo.org concurrently. During this phase, the initial vision of a broader transformation of sourcing practices and the evolution of wambo.org into a public good was put on hold through management decisions impacting the scope, priorities and timelines of the project. The focus of the initiative narrowed to become an automation of the PPM. As it currently operates, wambo.org is essentially an automation of the front end of the PPM ordering process with increased transparency for the buyer over the ordering process. It hosts product catalogues that display prices, specifications and contract terms and conditions either negotiated through Global Fund long term agreements with manufacturers or made available by partners.

There are three teams in the Secretariat responsible for different aspects of procurement on behalf of Principal Recipients: the Sourcing Department, PPM and wambo.org teams. The Sourcing Department covers various key elements of the Global Fund's Market Shaping Strategy, which include market analysis; global tenders; long term agreements and framework contracts; supplier management; and the resulting negotiated (reference) prices. The PPM, which is the process enabling the sourcing activities, is the element that relates to the management of the order transactions. On the other hand, the Secretariat views wambo.org, as it is currently implemented in practice, as an online platform that is the "face" of the PPM to Principal Recipients who leverage sourcing long term agreements.

Phased implementation

The Global Fund designed, developed and implemented wambo.org in 18 months from conception in 2014 to launch in early 2016. The wambo.org platform went live with the expectation that it would go to scale by offering both health products and non-health products such as vehicles and IT equipment. The implementation approach is made up of the following three phases:

Phase 1a: In this phase, wambo.org is only accessible by Principal Recipients who are using Global Fund resources to procure commodities through the PPM. Principal Recipients can access the platform to search for, compare products and place orders. As of June 2017, all 81 Principal Recipients from 54 countries procuring through the PPM, use wambo.org. By June 2017, orders worth US\$554.5 million had been processed through the platform. It is also assumed that

automation and process improvements will attract other Principal Recipients that are not in the PPM. Furthermore, by June 2017, eight additional Principal Recipients who were not previously using the PPM, accounting for aggregate orders of US\$19 million, had also joined wambo.org.

Phase 1b: In May 2017, the Board approved a pilot for a limited number of transactions in which Principal Recipients can use non-Global Fund funding through the platform, thus extending wambo.org beyond Global Fund grants. The objective of the pilot is to gain practical understanding of additional risks, operational modalities and related challenges, and the level of interest from countries in using wambo.org. Thus, Principal Recipients using their own funding sources will have access to the prices negotiated and legally available to them under the long term PPM framework agreements. At the time of the audit, some countries were reported as having expressed interest in using wambo.org with domestic financing, but no procurements had yet been initiated. The result of the pilot phase 1b will allow the Global Fund to draw lessons and provide information that will be analyzed in preparations and consultations for the potential future phase 2.

Phase 2: A potential future phase 2 would transform the platform into a global public good for health program implementers to be able to procure a range of both health and non-health products and services using domestic resources or other donor funding. Implementing phase 2 would require approval from the Global Fund Board.

3. The Audit at a Glance

3.1. Objectives

The objective of the audit was to provide the Global Fund Board with assurance over the design and operational effectiveness of wambo.org in the following aspects:

- the wambo.org platform as designed is able to deliver the goals and objectives articulated in its business case, including significant cost savings;
- key risks impacting the wambo.org platform in its current and future phases of implementation have been properly identified and assessed and adequate measures have been taken to mitigate those risks; and
- operational structures, systems and processes for the current phase of implementation are adequate and effective.

3.2. Scope

This audit assessed the wambo.org business case, the strategic rationale underpinning its conceptualization and design as well as operational and risk management aspects. The audit also reviewed the status of wambo.org implementation under phase 1a, where wambo.org is used to procure medicines and health commodities using Global Fund resources, and phase 1b that extends to purchases made using non-Global Fund resources.

The audit did not cover the potential future phase 2 that envisions the evolution of wambo.org into a global public good. Phase 2 was only considered by the OIG in this audit if it was relevant to the analysis of the current phases. The audit scope did not include a review of the individual transactions processed through wambo.org, nor did it cover areas that were previously reviewed during a 2016 OIG audit of the processes to set up wambo.org (see Section 3.3 below).

3.3. Progress on Previously Identified Issues

In 2016, the OIG conducted a “Limited Scope Review of the Processes Undertaken to Procure Services and Resources for the Implementation of Wambo.org”. The audit noted that 65% of the procurements to set up wambo.org that were eligible for competitive tendering (worth US\$6.9 million) were not awarded competitively, contrary to the Global Fund’s Procurement Policy. Some weaknesses in the management of contracts once they had been awarded were also identified. To correct the anomalies found by the OIG, the Global Fund Secretariat has revised its procurement framework to strengthen compliance and accountability. The new framework has been cleared by the Audit and Finance Committee and was approved by the Interim Executive Director in August 2017.

Previous relevant OIG audit work

[Audit Report wambo.org](#)
[GF-OIG-16-016](#)

4. Findings

4.1. Limited clarity on the role of wambo.org in the broader strategic framework of the Global Fund.

Clarity of Board mandate for wambo.org as originally conceived: An explicit Board mandate for wambo.org was not sought by the Secretariat. This was based on the view that wambo.org was operating within the existing operational framework of the PPM model, which the Board had already approved.⁶ This is predicated, to a large degree, on the fact that wambo.org as implemented in practice mostly automated many processes of the existing PPM. However, there are also significant differences between the PPM and the original conception of wambo.org. The PPM mandate stated that: *“(i) the Secretariat establish a pooled-purchasing service to cover a set of target products and be operated by one or more global or regional procurement agent(s) that the Secretariat shall select following a transparent, competitive tender process.... (ii) Participants in the Pooled Service must agree to have the Global Fund Trustee make direct payment to the Procurement Agent for purchases.”* On the other hand, wambo.org as conceptualized both initially and in the future would alter several aspects of this original PPM mandate as follows:

- The wambo.org platform would be an online procurement solution for implementing partners, allowing buyers to search, compare and directly purchase their own products;⁷ thus, it may or may not involve pooled purchases as contemplated under the PPM.
- It would not make provision, in its original design, for the use of procurement agents. This would be a potential major shift from the Board directive on the PPM. Under the PPM model, procurement agents directly contract with Principal Recipients and the manufacturers, thereby assuming the liability and ownership of the goods up until final transfer of shipments to the receiving country. If and when wambo.org brought buyers directly into contact with sellers, as was the original conception, the risks previously assumed by the procurement agents would need to be appropriately managed.
- The platform would offer a broad range of products, including non-health products, while the PPM was restricted to target health products where the Global Fund has a competitive advantage.
- The wambo.org platform would not only target Global Fund related business but be extended to other funding sources. The PPM, on the other hand, was designed exclusively for Global Fund financed procurement.

The Secretariat has also linked wambo.org to the Board-approved November 2015 Market Shaping Strategy. The strategy references strengthening the PPM and setting it as the default channel for targeted products or countries.⁸ Annex 8 of the Board document articulated how wambo.org, then called the e-marketplace, supported the Market Shaping Strategy, stating that it will *“further enhance implementation of the PPM and thus, the Global Fund’s 2011 Market Shaping Strategy.”* This link was also emphasized during a Progress Update on the Market Shaping Strategy presented to the Strategy Committee in June 2017, which identified wambo.org as one of the processes to implement the Market Shaping Strategy. On the other hand, the proposed scope of wambo.org also goes beyond the Market Shaping Strategy, notably as it relates to the procurement of non-health products.

Notwithstanding these significant differences, wambo.org was not viewed as a separate strategic initiative requiring an explicit Board mandate. Partly as a result of this lack of a formal mandate, questions remain as to how wambo.org fits into the broader strategic framework of the Global Fund;

⁶ The Board meeting GF/B35/25

⁷ GF/B35/25

⁸ Global Fund Amended and Restated Market Shaping Strategy November 2015

its role in the implementation of priorities such as the Market Shaping Strategy; and the approach to mitigating key risks associated with the initiative. The absence of a clear mandate upfront may have contributed to the subsequent challenges in obtaining a Board consensus and clear guidance, which partly resulted in the implementation delays.

It is important, however, to also acknowledge that the Secretariat has provided regular updates to the Board and to its various committees throughout the design and implementation of the initiative. Furthermore, the Board's approval of the wambo.org pilot on domestic financing in May 2017 can also be seen as to represent a retroactive but explicit endorsement of wambo.org.

Uncertainties over the ability of wambo.org to deliver several of the benefits that underpinned its business case: wambo.org was designed to address challenges in the procurement of pharmaceuticals and other health products. Some of the key anticipated benefits were as follows: building countries' procurement capacity; promoting national ownership; fostering sustainability for countries transitioning out of Global Fund financing; and expanding the menu of available options to non-health products to better meet country procurement needs. In addition, wambo.org was also intended to provide countries with "*greater visibility of the delivery process, with the ability to track orders from placement to receipt.*" Whilst it is important to acknowledge that wambo.org is still in its early stage of implementation, there are still uncertainties about the platform's ability to deliver on each of these core objectives:

- ***Building country procurement capacity:*** Whilst a key provision in the business case was to build the capacity of national procurement systems, the wambo.org Steering Committee decided in late 2015 to replace this broader capacity-building approach with training limited to the actual use of the platform. Procurement capacity building was reassigned to the sourcing team, as part of the Market Shaping Strategy. It is still premature to draw definitive conclusions on the effectiveness of the capacity-building approach. Concerns about the ability to strengthen in-country procurement capacity were also raised in an earlier thematic review report on market shaping.⁹
- ***Wambo.org promoting national ownership:*** The Secretariat, in a communication to the Board, noted that "*PPM is **not** a national, country-owned system... To develop an efficient, effective, transparent, locally-owned procurement system, in January 2016, we launched wambo.org*".¹⁰ While wambo.org has brought improvements in areas such as transaction transparency, the platform operates under the same model as the PPM, which it mainly automates. Thus, it faces – at its current implementation stage- the same challenges and limitations highlighted by the Secretariat about the PPM in terms of national ownership.
- ***Fostering sustainability for countries transitioning out of Global Fund investments:*** This objective hinges significantly on the implementation of a future phase 2, as wambo.org would evolve into a global public good. As phase 2 has not yet been developed, activities and performance tracking against the sustainability indicator are also deferred.
- ***Providing non-health commodities on the platform:*** This is not covered under the Board-approved Market Shaping Strategy.¹¹ Thus, the ability of wambo.org to deliver on this objective will depend on a Board decision as to whether the Global Fund can diversify its PPM portfolio to cover non-health products. The Secretariat believes that, until a comprehensive procurement strategy is developed, the Management Executive Committee would be the relevant body to increase the scope of wambo.org rather than the Board.¹²
- ***Providing visibility throughout the procurement cycle until the point of delivery:*** As currently designed, wambo.org can only track the process until a purchase order is released. It does not currently support order tracking through the point of delivery. Following the creation of a unit

⁹ Thematic Review on Market Shaping for the Global Fund TERG report (2015)

¹⁰ Executive Director's report to the Board (GF/B36/10)

¹¹ The market shaping strategy limits Global Fund activities to health products only.

¹² Advice provided by the Secretariat's Legal department on July 24 2017 on the "Procurement of goods and service by secretariat using grant funds.

dedicated to in-country supply chain in the Grant Management Division, the work on order tracking through the point of delivery has now been incorporated in the scope of that unit.

The significant changes in the implementation of wambo.org, and in the underlying assumptions underpinning the original business case, indicate a need for an in-depth recalibration of the initiative to formulate a clear strategic framework that: a) explicitly addresses the short, medium and long term objectives of wambo.org; b) clearly articulates its linkages to other related strategic initiatives related to market shaping or supply chain strategy; and c) sets clear key success metrics and related milestones.

Agreed Management Action 1

The Secretariat will prepare and present to the Management Executive Committee for approval a wambo.org implementation plan based on its current scope reflecting the short, medium and long-term ambitions. This will include (i) a value proposition with clear linkages to market shaping strategy and organization procurement and supply chain management strategies and plans (once completed); (ii) an updated business case; (iii) an updated organizational structure where relevant; and (iv) updated key success metrics.

Owner: Head of the Finance, Information Technology, Sourcing and Administration Division

Due date: 30 June 2018

4.2. Key assumptions on expected wambo.org savings need to be reassessed

The Secretariat prepared a business case at the proof-of-concept stage that articulated the goals of wambo.org, its key drivers of success, its benefits, estimated savings and indicators to measure performance. A central aspect of this business case was the projected savings that were calculated based on a number of assumptions and twelve specific savings levers. The business case had three scenarios: conservative, realistic and optimistic, with projected savings under each scenario of US\$73 million, US\$246 million and US\$441 million, respectively. The Secretariat selected the realistic scenario of US\$246 million as its savings target, which was communicated to internal and external stakeholders.

At the time of the audit, wambo.org was meeting its qualitative performance indicators related to increased access to information and transparency of the procurement process. However, it was not meeting its quantitative performance indicators, particularly its projected savings. Two of the three business imperatives listed as critical to the success of wambo.org have not yet materialized, i.e. an increased number of Principal Recipients on-boarded and a diversified range of products on the platform.

The Secretariat had identified three business imperatives in order to deliver wambo.org's goals:¹³

- *Leveraging state of the art technology to provide users with a positive and reliable experience:* The platform is currently operational and provides 100% availability to users. The satisfaction survey conducted by the Secretariat indicates 90% positive customer satisfaction. However, its limitations in achieving operational efficiencies are highlighted in Finding 4.3.
- *Reaching wide and diverse user base:* In order to make savings, the Secretariat assumed that 10 additional non-PPM Principal Recipients would be added to wambo.org each quarter; with 60 new non-PPM Principal Recipients expected to have joined by June 2017. However, following a Steering Committee decision to prioritize the transition of existing PPM Principal Recipients onto wambo.org until June 2017 (date at which all PPM Principal Recipients moved to wambo.org), only eight additional non-PPM Principal Recipients were onboarded and had placed orders as of June 2017. These eight recipients accounted for US\$19 million out of the \$555 million worth of transactions at the time of the audit. Clear strategies to grow transaction volumes beyond the PPM thresholds are yet to be developed.
- *Offering a comprehensive suite of products:* The product offerings have not yet expanded beyond what was originally available through the PPM. Plans to supply tuberculosis products and non-health products are in place but have not progressed as envisaged. No agreement has been reached with relevant stakeholders that currently manage procurements for these products. This is particularly the case for second line tuberculosis drugs where a Board decision has put in place other implementation arrangements through the Global Drug Facility mechanism.¹⁴ Plans to offer non-health products are progressing. However, the plans have been impacted by the need to clarify whether the Secretariat has a relevant mandate to expand coverage to non-health products. The Secretariat's progress in offering vehicles onto wambo.org have also been affected by resourcing constraints of the key partner identified to support the process. However, subsequent to the audit, the Secretariat has indicated that some product line extensions such as vehicles are now being implemented.

Projected cumulative savings of US\$246 million need to be re-evaluated: A key element of the business case in support of wambo.org was the significant savings it was expected to generate. Numerous Secretariat communications establishing the business case for wambo.org referenced

¹³ GF Board meeting GF/B35/25

¹⁴ GDF aims to ensure the timely delivery of all anti - tuberculosis drugs and diagnostics at sustainable prices.

those anticipated savings. For example, a November 2015 Secretariat report to the Board noted that “the Global Fund is expected to realize an anticipated accumulated net savings of about US\$250 million by 2019. This does not account for indirect savings which are expected to be substantial. The e-marketplace project costs will be recovered by the third quarter of 2016 thanks to the direct savings generated.”¹⁵ As of the time of the audit, wambo.org is not on track to meet the savings that were projected in the business case, due to both changes in the scope, priorities and timelines of the project decided by the Steering Committee as well as various issues with the initial assumptions that were made. Subsequent to the audit, the Secretariat indicated that US\$3.3 million of savings have been generated from the US\$19 million of transactions processed for the new Principal Recipients. The OIG has not been able to validate these reported savings during the audit or attribute them to wambo.org

The business model used to calculate the savings is analytical and well-structured, although the OIG did not have access to the data underlying some of the savings levers because it belonged to the external consultant who developed the business case. However, due to the current transition phase resulting from management choices affecting the scope, priorities and timing of wambo.org, many of the activities that were meant to generate the different savings levers have not occurred. Below is an overview of the main levers that were expected to generate the gross savings¹⁶ and a related assessment of their status:

Savings lever – (Amount and percent of anticipated total wambo savings)	Status assessment
<i>Increased volumes resulting in a reduction of negotiated prices with manufacturers</i>	
Price reductions from volume increase (PPM dependent) US\$150.5 million (50% of anticipated total wambo savings)	<ul style="list-style-type: none"> • The business model assumed that additional volumes of non PPM Principal Recipients would be leveraged to negotiate lower prices than the current negotiated PPM prices. This was based on the assumption that 50% of all Global Fund Principal Recipients would join wambo.org by 2019 and for these Principal Recipients, 100% of their health product budget, i.e. US\$2.2 billion, would be procured through wambo.org. However, these projected volumes had not yet materialized at the time of the audit and prices negotiated under the PPM long term agreements remain in force with no additional savings realized at the time of the audit. As already mentioned, this has been attributed to the Steering Committee’s decision in 2016 to prioritize the onboarding of existing PPM Principal Recipients onto wambo.org. Other factors noted include: <ul style="list-style-type: none"> – The assumption that Principal Recipients representing 50% of the procurement volume would join wambo.org was based on an extrapolation of initial interactions with 12 Principal Recipients. This sample may not have been representative of the over 300 Principal Recipients currently working with the Global Fund. – The consultant developing the business case had a proprietary model which assumed significant increases in overall Principal Recipient expenditure, which in turn would raise the volume of procurements through wambo.org. The baseline expenditure used was US\$1.6 billion for 2013, with projected cumulative increases of 14% and 28% in 2015 and 2016, respectively. Total expenditure volume was projected to reach US\$2.2 billion by 2019. The actual spend in the two years has not grown as projected with actual PPM spend in the two years standing at US\$906 million and US\$892 million respectively.¹⁷The assumption also does not take into account the fact that countries have had absorption challenges, which has a direct impact on the actual level of spending, irrespective of the available allocation amounts. Aside from these potential gaps in the volume assumptions, there may also be limitations in the price

¹⁵ E-marketplace goal, concept and vision (GF/B34/24, 16-17 November 2015 – Board Information)

¹⁶ Gross savings when netted of expenses give the projected savings of US\$246 million

¹⁷ The expenditure in the years 2015 and 2016 was US\$ 3.2 billion and US\$3.8 billion respectively.

Savings lever – (Amount and percent of anticipated total wambo savings)	Status assessment
	<p>assumptions. For example, the business case may have underestimated the impact that previous price reductions under the PPM would have on any further price negotiations. Over the past few years, the Global Fund has been very effective at re-negotiating contract prices with suppliers to get the best value in its purchases of commodities. As a result, an important and positive achievement of the organization over the years has been a material and steady decline in drug prices. A Technical Evaluation Reference Group report on market shaping¹⁸ noted that prices for the big volume products (Long-lasting insecticidal nets, artemisinin-based combination therapy and antiretroviral medicines) have been reduced and have plateaued since 2011/12 due to negotiations under the PPM and other market factors. According to this report, this is a reflection that prices may have reached the current lowest sustainable level and any further reductions may be a disincentive to manufacturers to continue investing in the relevant markets.</p>
Lowering transaction costs	
Savings from renegotiation of logistics agreement: US\$27.2 million (9%)	<ul style="list-style-type: none"> The business case assumed that the logistics rates under the PPM would be negotiated further down. However, at the time of the audit, the average logistics rate of approximately 10% remains the same.
Lowered fees due to reduced Procurement Service Agents activities: US\$15.3 million (5%)	<ul style="list-style-type: none"> The introduction of wambo.org was expected to reduce the transactional tasks undertaken by intermediaries such as the Procurement Service Agents. The related reduction of relevant fees was expected to create savings. However, agent activities and related fees have not been affected specifically by the introduction of wambo.org, as the processes are still heavily reliant on Procurement Service Agents. This is due to a decision by the Steering Committee in June 2015 to channel orders via Procurement Service Agents until a review of the organization’s logistics strategy was completed. This was still pending at the time of the audit.¹⁹ Thus, savings associated with a lowering of Procurement Service Agents fees have not yet materialized.²⁰ The Global Fund is regularly reviewing its agreements with the Procurement Service Agents and their service offers. In 2016, contract renegotiations resulted in a saving of US\$8.9 million. However, these price reductions are not attributed specifically to wambo.org.
Reduction of logistics costs through staggering of orders: US\$12.4 million (4%)	<ul style="list-style-type: none"> This lever is linked to in-country forecasting and procurement planning capacity and was also dependent on the activation of a forecasting model. This functionality is not operational in the current wambo.org software and therefore the related savings lever has not been activated under the remit of wambo.org. The responsibility for forecasting improvements has been transferred to the in-country supply chain team.
Changes in procurement methods and mechanisms	
Price reduction from product selection harmonization, selection of most	<ul style="list-style-type: none"> The business case assumed that the wambo.org “catalogue function”, which allows upfront price comparisons including prompts for purchaser acknowledgment when more expensive options are selected, would drive Principal Recipients to select standard specifications. The system guides the user to the preferred product options that represent the most value for money. This was expected to reduce incurred costs,

¹⁸ Thematic Review on Market Shaping for the Global Fund TERG report (2015)

¹⁹ A Supply Chain special initiative project has been tasked with, amongst other things, determining the relevance of the Procurement Service Agents model with regards to wambo.org.

Savings lever – (Amount and percent of anticipated total wambo savings)	Status assessment
cost-efficient specification: US\$42.9 million (14%)	especially for bed nets, condoms and lubricants. No analysis has been done yet to establish whether the catalogue function has resulted in any material change in procurement behavior. The consultant who developed the business case for wambo.org has indicated that it is too early to see this effect, which can be assessed only after at least two procurement cycles. Thus, the related savings cannot yet be ascertained.
Price reductions from accelerated payment of goods: US\$24.7 million (8%)	<ul style="list-style-type: none"> It was expected that accelerated payment of suppliers would result in price reductions. This relates to purchases that would be made using other funding sources. However, the business case did not take into consideration the fact that most business transacted on wambo.org is from governments, which implies significant constraints on the ability to accelerate payments. A recent World Bank report “Benchmarking Public Procurement (2017)” highlighted the challenges faced by governments in making timely payments for procurements. The report, which assessed public procurement regulatory systems in 180 economies around the world, found that payments are timely in only one-third of the economies measured. Thus, price reductions and savings predicated on accelerated payment of suppliers may face significant challenges. At the time of the audit, this lever has not yet been activated as there has not been yet any change in the existing arrangements.
Price reduction from batch size and manufacturing slot optimization: US\$20.4 million (7%)	<ul style="list-style-type: none"> The business case assumed that wambo.org’s forecasting function would support order timing and product specifications and, by doing so, facilitate the optimization of manufacturing processes. The resulting increase in equipment effectiveness would then lower manufacturer costs and give the Secretariat leverage to negotiate lower prices. However, the forecasting function does not currently exist in wambo.org. Therefore, anticipated savings have not yet been realized from this lever.
Price reduction due to new procurement mechanisms: US\$8.8 million (3%)	<ul style="list-style-type: none"> Savings were expected from the introduction of new key features in wambo.org procurement mechanisms, including the e-auction and e-Request For Quotation²¹ that would target non-health products such as motor vehicles. However, these functions are not operational in wambo.org and the related savings have not yet been realized.²² There may also be potential mandate limitations, as the Board-approved market shaping strategy currently only covers health products.

The platform wambo.org could not break even by 2016 as expected: The Secretariat expected wambo.org project costs to be recovered “*by the third quarter of 2016 thanks to the direct savings generated...*”²³ As of June 2017, wambo.org had not yet realized the projected savings.

As many of the core underlying assumptions that supported the business case’s projected savings have not yet been realized since the launch of wambo.org, the Secretariat needs to critically reassess them and to update the business case. This is to ensure wambo.org remains fit for purpose and it supports future Secretariat and Board decision-making.

Agreed Management Action

Refer to Agreed Management Action 1

²¹ Request for quotation

²² eRFQ was under development at the time of the audit

²³ E-marketplace goal, concept and vision (GF/B34/24, 16-17 November 2015 – Board Information

4.3. Expected operational efficiencies from wambo.org are yet to be realized

The wambo.org platform has increased access to information and created greater transparency within the PPM process. However, some of the expected efficiencies are yet to materialize. As of June 2017, the wambo.org lead time was at 47 days against a 2017 performance target of 21-26 days and a previous PPM baseline of 44 days.²⁴ The development of the current platform and the choice of the related software backbone were geared towards a potential spin-off scenario contemplated in a phase 2. The subsequent decision by the Steering Committee to use wambo.org, in an interim period, primarily as an automation of the PPM front-end order processing created a challenge since the selected software did not cater for some specific PPM automation needs. As a result of this gap between the initial design and the eventual usage, manual workarounds are sometimes necessary to process transactions end-to-end through the PPM. Likewise, business process design aspects such as additional transaction approval requirements at the country level introduced in wambo.org have also added to the process length and complexity. These design issues, and the missed opportunity to redesign end-to-end and to streamline PPM processes before automation, have limited the ability of wambo.org to increase overall procurement process efficiency as expected. At the time of the audit, the wambo.org team had initiated actions to improve lead times by streamlining its transaction management and Principal Recipient review chains.

Increased access to information and transparency: The introduction of wambo.org and the related automation of some of the PPM process has created the following benefits:

- As a system, wambo.org is user-friendly and has created a stronger interface among Principal Recipients, country team members and the Sourcing Department throughout the procurement process.
- It supports buyer decision-making through its discover/search/select/ buy functions, which allow buyers to browse the full catalogue of products available. The use of the catalogue has strengthened the quality of purchase requests received from Principal Recipients, an area that previously caused delays.
- The platform's pay-and-track function has also provided increased visibility on the progress of the procurement process. This is evidenced in the customer satisfaction survey conducted by the Secretariat that shows a 90% customer satisfaction rate. Users generally commend wambo.org for the increased transparency and access to information that supports their decision-making processes. Country team members interviewed were also complimentary of the email updates that the software provides, showing the status of the order throughout the procurement process.
- The platform provides an audit trail of changes that are made to orders throughout the process. It also automatically performs budget checks, a process that was previously done manually.

Notwithstanding these significant strengths, a few challenges also remain.

The software lacks some key functionalities required for current wambo.org operations: In conformity with the Secretariat's IT strategy, the Secretariat purchased "software as a service". The Secretariat opted to hire software that is hosted on a cloud and is accessible over an internet connection instead of spending money upfront purchasing software.

(i) *Benefits and challenges of the software type selected:* This option comes with certain benefits, namely less deployment costs and faster implementation. The software is also fully supported, maintained and upgraded by the provider. Therefore, it is less costly to operate in the long run. It is also easily accessible and scalable in the event that wambo.org expands. The service provider has made 11 out of 33 requested functional enhancements to the software. However, the selected software still lacks some elements considered as important for wambo.org:

²⁴ Subsequent to the audit, a project that has streamlined processes has resulted in a drop in lead time to 40 days.

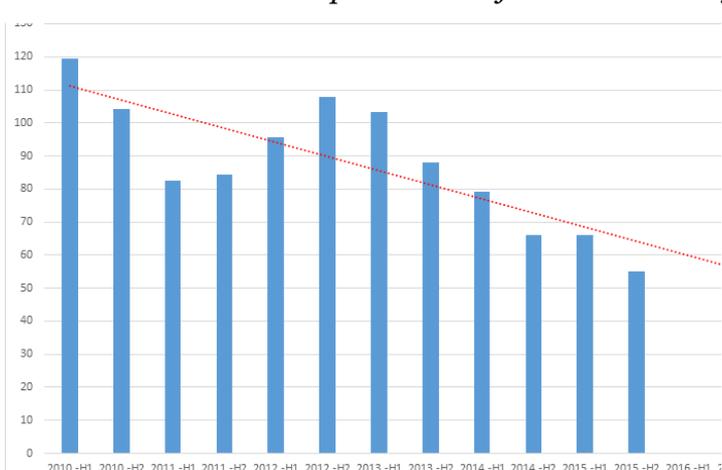
- The forecasting functionality is not included, yet US\$12.4 million of the gross savings projected in the business case relied on this functionality. The responsibility for procurement forecasting has since been moved from wambo.org to the in-country supply chain team.
- Two out of the four high level functionalities identified in the initial business case as critical business needs for wambo.org, i.e. the e-auction and the e-Request For Quotation (RFQ), were not prioritised for implementation. The business case projected US\$8.8 million of gross savings from these two functions. While the e-RFQ was supposed to support national tendering processes, its role as listed in the request for proposal was only limited to identifying third party logistics parties. Work related to the inclusion of the e-RFQ option in wambo.org started in May 2017.

(ii) *The selected software has limitations in its flexibility to be tailored and adapted to fit some of the unique circumstances of Global Fund procurements at the current stage:*

- The PPM model is dependent on Procurement Service Agents who act as intermediaries between buyers and sellers. The selected software, on the other hand, is best suited in a commercial setting where there is a direct interaction between the buyer and the seller, which is the scenario contemplated in phase 2. Consequently, some tasks are currently carried out manually outside of the wambo.org tool.
- There are specific challenges that are unique to the procurement of health products under the PPM where orders must be allocated to manufacturers based on a variety of criteria that are specified in the long term agreements. The wambo.org platform and order process are not designed to cater to these order-allocation criteria and this process is undertaken manually outside the system.²⁵

Efficiencies from streamlining of procurement processes through wambo.org are yet to be realised: wambo.org was expected to streamline procurement operations so that Principal Recipients could procure autonomously through a simplified and more efficient process. The Secretariat’s performance with regard to efficiency is measured using the procurement lead time, which is the elapsed time from initial requisition to order confirmation. A review of the performance against targets showed the following:

(i) The lead time performance is below target: The Secretariat, in its report to the Board, noted that “*automation and standardization of the procurement process could decrease lead time by half and contribute to the improvement of on-time delivery.*”²⁶ Over the past few years, the Secretariat



has achieved significant progress in achieving PPM lead times. An analysis of the lead time trend from 2010, when PPM started, to December 2015, immediately preceding the launch of wambo.org, is shown in the graph. It reflects a steady reduction of lead time from 110 days in 2010 to 44 days at the end of 2015.²⁷ The wambo.org platform was expected to bring the lead time down from the baseline of 44 days to 21-26 days by 2017. This target was set based on a top down estimation approach. A detailed analysis of lead time by purchasing stage was not undertaken in

order to assess the actual amount of time spent at each stage of the process and to identify specific

²⁵ The IT roadmap included the development of a tool that will undertake the allocation of orders to manufacturers. Once in place, wambo.org will look to build interfaces that will allow the seamless automatic allocation of manufacturers.

²⁶ GF/B34/24

²⁷ Baseline take to be 44 and not 55 days as shown in the PPM data because wambo.org and PPM calculate lead time differently. Manual adjustments had to be undertaken to align the PPM calculations to what wambo.org recognizes as lead time.

improvements required in order for wambo.org to further reduce lead time at each stage such that the overall target could be achieved.

As a result, wambo.org has not reduced the lead time as had been anticipated. The actual lead time stands at 47 days as of June 2017, a deterioration from the PPM baseline of 44 days. An analysis of this total lead time shows that, on average, nine days are spent at the initiation stage (managed on the platform), 22 days at the purchasing stage (off the platform) and 16 days at the ordering stage (on the platform). The Secretariat attributes some of the lead times to administrative inefficiencies at the Principal Recipient level, including late receipt of orders, changes made to orders related to products, quantities or timelines midway through the purchasing process, and lengthier approval processes in country. Consistent with the objective of country ownership, the approval process under wambo.org is supposed to mirror unique country approval processes and has tended to be drawn out. Some of these challenges were supposed to have been addressed through capacity building. Responsibility for such capacity building was removed from the wambo.org team by the Steering Committee.

(ii) The platform's ability to process a larger volume of transactions without the need to increase resources still remains to be demonstrated. In its report to the Board, the Secretariat noted that "*the automation of transactional, non-value-adding steps in procurement operations was expected to ... free up valuable resources for both Principal Recipients and the Secretariat*".²⁸ The wambo.org platform has not yet generated the expected efficiencies in this area. The volumes processed through PPM in 2015 were US\$905 million. This decreased to US\$892 million (25% of which was online through wambo.org) in 2016. Nonetheless, the number of staff supporting the processing of transactions in 2016 includes both wambo.org staff and the PPM team. Thus, based strictly on current transaction volume and allocated staff resources, expected efficiencies in transaction cost have not yet materialized.

Underlying cause for shortfalls in lead time efficiencies include:

(i) The wambo.org platform is a mix of manual and automated PPM processes: the platform is mainly an automation of the front end of the PPM ordering process, leaving the back-end purchase requisitions to manual processing by the PPM team. Wambo.org currently operates mostly as an electronic ordering platform, with limited impact on the back-end order processing.

(ii) The vendor software which is the backbone for wambo.org was not procured for the purpose of automating PPM. Under wambo.org, the team has worked hard to customize and adapt this backbone to respond to PPM needs but this remains work in progress and some limitations persist. These include further automation of the process due to, among other things, significant limitations in the ability to customise the selected software. As wambo.org had broader goals and was not primarily developed for the PPM, it does not yet meet all the business needs of the PPM. In addition, the PPM processes were not reviewed prior to their automation under wambo.org, resulting in a potentially missed opportunity to streamline, as needed, and related processes. Thus, some of the core PPM processes have not benefitted from the automation brought about by wambo.org

To the extent that wambo.org is expected to effectively support the PPM procurement transactions and to yield the anticipated efficiency gains, a significant reassessment, and potentially an end-to-end redesign, of the order procurement process may be required.

Agreed Management Action 2

The Secretariat will undertake a detailed analysis of the underlying challenges affecting wambo.org's operational efficiency. Based on this analysis, it will develop and implement a work plan on the operational improvements necessary to achieve the efficiency targets from the wambo.org platform articulated in the business case.

Owner: Head of the Finance, Information Technology, Sourcing and Administration Division

Due date: 30 June 2018

²⁸ GF/B34/24

4.4. The Secretariat has identified significant risks, but effective mitigation is needed if wambo.org is to move to scale

The overall risk identification process around wambo.org has been robust and generally effective. The audit did not identify any material additional risks that had not already been identified by the Secretariat. Since 2015, key risks were identified and reported to the wambo.org Steering Committee and to the Board Committees, for both phases 1a and 1b. For example, in 2015, the Secretariat presented nine key risks related to wambo.org to the then-existing Finance and Operational Performance Committee (FOPC). Similarly, various aspects of wambo.org were presented to the Board and to the Strategy Committee in 2016, which resulted in identification of various concerns and risks. However, whilst risk identification has generally been effective, some of the identified risks remain largely unmitigated. Some of the risks identified earlier have materialized. For example, wambo.org has not increased product volumes or driven prices down as had been anticipated. Other risks exist but have not so far materialized, or they may materialize during future phases of wambo.org. Some of the risks are within the control of the Secretariat while others will require Board guidance and support. If unmitigated, these risks may impact the ability to move wambo.org to scale.

As early as March 2015, the FOPC identified the need to have a proper risk assessment and mitigation plan for wambo.org. In its March 2015 meeting, the committee requested “*additional information about the plans to mitigate key risks jeopardizing the short- and long-term success of the e-marketplace; long-term operating costs based on the operating model of the online platform; availability and regularity of training offered to users; establishment of parameters for FOPC oversight of progress made, against desired outcomes and risk mitigation plans as well as decision-making mechanisms as appropriate; and instruments put in place to guarantee payment from countries that do not benefit from Global Fund funding.*”²⁹ The Secretariat committed to presenting a feasibility study covering legal constraints, cost-benefit, risks, costs and staffing requirements. After it presented an update and business case in July 2015, the committee raised concerns that risk mitigation remained unaddressed, especially for specific gaps related to market disruption risks, sustainability, legal exposure, or governance.³⁰

Phase 1a related risks: These risks exist in the current phase when purchases are exclusively with Global Fund related resources:

(i) *Removal of Procurement Service Agents, thereby increasing the Global Fund’s contractual risk:* The existing Procurement Service Agent arrangement externalizes various risks related to title, ownership of goods, and contractual risks, such as delays by the suppliers contravening the contractual stipulations. These private agents enter into direct contractual relationships with the Principal Recipients and suppliers and assume ownership of goods during transit. The wambo.org business case contemplates removing these agents and having these activities taken up directly by the Global Fund, with an estimated saving in Procurement Service Agents costs of US\$15 million. However, any changes made to this implementation arrangement may result in the Global Fund assuming ownership and/or contractual risks. During the current transition phase, this risk has not materialized as the Secretariat is currently retaining the services of the Procurement Service Agents. Procurements are still conducted via an agent or a partner acting in a similar capacity. In response to the audit, the Secretariat has indicated that, if and when the PPM/wambo.org and the logistics strategy change, the new contractual risks will be mitigated through the introduction of additional controls, and any residual risk will be transferred through contractual agreements, subject to agreement of the Principal Recipient and the supplier.

(ii) *Approval for the non-health procurements is yet to be clarified:* The wambo.org work plan projects that procurement of non-health products, such as vehicles, would start mid-2017. However, there is not yet an explicit board mandate for such non-health products and there is lack of clarity

²⁹ GF/FOPC14/18, FOPC meeting report, par. 90, page 19 March 2015

³⁰ GF/FOPC15/07, Annex to Market shaping update, July 2015

on the nature of the required approval.³¹ Board approval may be necessary to extend wambo.org to the procurement of these non-health product categories. On the other hand, the Secretariat is of the opinion that that, until a comprehensive procurement strategy is developed, the Management Executive Committee would be the relevant body to increase the scope of wambo.org rather than the Board. At the time of the audit, no approvals had yet been requested from the Management Executive Committee and/or the Board to extend the scope of wambo.org to include non-health products. Although the business case relies significantly on the ability of wambo.org to expand the scope of its product offerings, the Secretariat does not consider this a risk but rather as a mere uncertainty over applicable governance processes.

Phase 1b and 2 related risks: The Board's approval of phase 1b in May 2017 set the stage for wambo.org to pilot a limited number of purchase transactions using domestic and other non-Global Fund funding. The Secretariat has identified risks that arise with purchases using domestic funding, but these risks are yet to be effectively mitigated. It is important to acknowledge that part of the delay in mitigating these risks was also related to the need for the Secretariat to first get clear direction from the Board on the way forward before significant time and effort could be spent on addressing the related operational risks.

(i) *The wambo.org platform may not comply with national regulatory requirements:* At the time of the audit, the Secretariat planned to review the legal limitations and national regulatory requirements that affect wambo.org and how they can be effectively mitigated. The outcome of this analysis will inform the future direction of wambo.org. The risks that remain unmitigated in this regard relate to:

- *Whether wambo.org's e-RFQ and e-auction functionalities, once activated, can enable a verifiable and competitive tendering process while being compliant with the national procurement and tendering regulations of procuring countries.* Once developed, unless these functionalities are compliant with domestic procurement regulations, countries may not be able to use wambo.org for domestic-financed procurements, including for phase 1b pilots now approved by the Board. In response to the audit, the Secretariat has indicated that it will assess requirements country by country and "implement the functionalities in a way that responds to general trends." The Secretariat also believes that it will avoid part of this risk by recognizing that some countries may still not be able to compliantly use the functionalities.
- *The extent to which governments would always be able to make advance payments for product orders before delivery takes place, or alternatively to provide bank guarantees or other securities to the suppliers.* From the perspective of suppliers, advance payments ensure that the financial risks for domestic-financed procurements would be similar to those on procurements financed through the Global Fund grants. This requirement is likely to be essential for suppliers to agree to extend Global Fund discounted prices to domestic-financed procurements. Unless such advance payments or guarantees are allowed, domestic procurements might not benefit from preferential prices offered by the suppliers to the Global Fund, adversely affecting wambo.org's projected savings. The Secretariat has indicated that it accepts this risk and acknowledges that some countries may not be able to participate in the pilot phase. As part of the preparation work for a potential future phase 2, the Secretariat would design and implement mechanisms for removing or managing the risks, which are not deemed feasible for the current small pilot of 10 transactions.
- *Whether only health products registered in a country are eligible to be procured.* The specifically approved products tend to differ by country. Under the existing PPM procurements, at least four cases have been identified in the past where products were supplied to countries although they were not registered or had an expired registration, which led to the need for emergency waivers and significant delays in delivery.³² These situations, which are inherent risks of operating with procurement of health products in a transnational context, can

³¹ Board decision on VPP GF/B15/DP15 permits procurements of items like agency services and technical assistance, but does not extend to vehicles. At the time of the audit, the Secretariat was assessing whether this approval can be extended to cover items such as vehicles.

³² The countries are DRC, Malawi, Pakistan and Sudan. In case of Pakistan, the resulting delays in drugs supplies were over a year. These are detailed in Global Fund In-country Supply Chain Processes audit (GF-OIG-17-008).

raise legal or reputational risks, including possible allegations of indirectly affecting countries' drugs registration and intellectual property rights policies. The wambo.org platform would need strong processes, preferably with automated controls, to ensure that products supplied to countries have active registrations. However, there are limitations to the extent to which wambo.org can be tailored to incorporate functionalities that filter suppliers/ products approved for a specific country as part of every procurement process. The Secretariat believes that this risk is sufficiently mitigated by having three layers of control in the approval chain of each transaction (PPM Specialist, Procurement Agent and Principal Recipient). In addition, the Secretariat's position is also that any residual risk would be effectively transferred by including clear language in all legal agreements with Procurement Agents, Principal Recipients and manufacturers that would exclude the Global Fund from any liability.

(ii) *PPM terms and conditions may not be extendable to countries procuring under domestic funding:* The long term agreements, subject to supplier approval, generally allow for negotiated prices to be extended to purchases using non-Global Fund resources. Whilst this approval is not yet in place, the Secretariat has indicated that it will be requested once the countries participating in the pilot are confirmed and once there is visibility on what products they intend to purchase. The assumption is that this approval from suppliers will be given but, since it has not yet been requested, there is no guarantee at this point that waivers will be granted. The Secretariat also assumes that Procurement Service Agents would be willing to take on additional tasks and related risks resulting from procurements using domestic funding. Should any of these assumptions not materialize, scaling up wambo.org and operationalizing its procurement model may present significantly more challenges than anticipated. The Secretariat considers this risk as following naturally from the contract-based nature of the PPM regimen and it plans to negotiate this inclusion as it negotiates all other aspects of the PPM with these partners.

(iii) *Risks of restrictive procurements:* A potential future phase 2 envisages using domestic government financing for procurements of drugs, which will further increase the combined volume of health products procured from the suppliers. This, in turn, can help negotiate even better prices from those suppliers, based on economies of scale. However, such pooling of various purchasers on a larger scale, could also potentially be considered as restrictive or monopolistic procurement. Monopsony, also referred to sometimes as a buyer's monopoly, occurs when a group of major buyers are capable of collectively controlling the market of a drug, colluding to unfairly reduce market prices below the fair market price. If asserted, such allegations could lead to legal and reputational risks and, if proven, to significant fines based on applicable antitrust laws. In order to constitute a monopsony, various conditions generally have to be fulfilled, particularly where a few buyers together constitute a majority market share, which is why each product and situation has to be analyzed in detail for purposes of assessing the risks. While the Secretariat has been aware of this risk, it has not yet analyzed the nature and potential magnitude of this risk in the context of wambo.org, which products or items might fall into such categories, and what appropriate risk mitigation strategies should be considered. The Global Fund Secretariat recognizes this issue and has included it in the list of topics to address in the potential future phase 2 preparations shared with the Board. However, because the Secretariat has not yet been able to work on phase 2, it believes that this risk is not yet applicable and a mitigation plan is not necessary at this stage.

Plans for phase 2 of wambo.org are currently on hold, with the deferral of any decisions relating to a possible spin-off into an independent entity and a global public good. Future decisions are likely to be informed by progress in the next 18 months, including the results from the phase 1b pilot. Whilst this is a safe strategy, there are also associated risks. From an external support perspective, some donors have a particular interest in phase 2 of wambo.org, which is even explicitly referenced in their funding agreements. If a decision is made not to proceed with the spin-off of wambo.org, the legal or financial risks would likely be limited. However, the anticipated benefits of a self-sustained and independent functioning platform may be compromised, and there may also be reputational and donor support risks. On the other hand, in case of a decision to develop wambo.org into an independent entity, legal and operational arrangements will be needed to ensure adequate risk mitigation. Significant delays in final Board decisions may also lead to risks of loss of interest from potential donors and stakeholders with the passage of time.

An in-depth analysis of risks and mitigation plans, with a substantive discussion of the outcome at the Board level, would improve risk management related to wambo.org, enhance decision-making, and potentially build stronger stakeholder buy-in.

Agreed Management Action

The Secretariat's position is documented above on each of the risks highlighted in this section. Therefore, the Secretariat did not deem necessary to implement additional Agreed Management Actions to further mitigate these risks.

4.5. Secretariat implementation arrangements, i.e. structures, systems and policies, impact the effective execution of wambo.org

As wambo.org in its current form is mainly an automation of the PPM, the two teams should be streamlined and operate in synergy. However, strategically, structurally and operationally, wambo.org and the PPM, although they both report to the Chief Procurement Officer, are run independently with different oversight arrangements and performance metrics. The Secretariat's core policy documents, such as the Operational Policy Manual (January 2017), refer to the PPM and wambo.org as two separate mechanisms. This arrangement has impacted the cohesiveness of the two teams during the transition phase. Some actions have been taken to bring wambo.org and PPM teams together through the ongoing development of common policies and regular meetings to understand and settle bottlenecks in the system. However, to the extent that the teams' visions and key performance indicators remain different, priorities are not fully aligned.

The wambo.org platform is organizationally placed in the Sourcing Department under the Secretariat's Finance, Information Technology, Sourcing and Administration Division. The Sourcing Department covers the key elements of the market shaping strategy which includes market analysis, global tenders, long term agreements, supplier management, and the resulting negotiated (reference) prices. Sourcing is the process through which the Market Shaping Strategy is operationalized by aggregating order volumes on behalf of participating grant recipients and negotiating prices and delivery conditions with manufacturers. The current focus of wambo.org is to provide the online platform for management of the order transactions initiated primarily for the PPM.

Need to reconcile the visions and goals for wambo.org and the PPM: Both the PPM and wambo.org teams belong to the Sourcing Department and therefore share the same leadership. However, wambo.org and PPM were set up for different purposes. Wambo.org was created with an outward focus (going above and beyond the Global Fund) with the aim of becoming a global platform that would be available to a broad range of organizations and programs connected to the fight against the three diseases and, more broadly, to the achievement of the Sustainable Development Goals.³³ The PPM, on the other hand, is more focused on the operationalization of Global Fund grants and is primarily designed to facilitate recipients' access to better price and delivery conditions. It is also important to note that the PPM's role is broader than just order transaction processing. It also encompasses significant and more strategic upstream and downstream activities such as implementation of the market shaping strategies, sourcing of suppliers, management of global tenders, monitoring of prices, etc. Even as wambo.org evolved into primarily a tool to automate PPM transaction processing, no adjustments were made to align the visions and mandates of the two mechanisms and to actively build synergies where appropriate.

Despite the fact that the PPM and wambo.org teams support the same process, their different visions and goals drive different priorities. For example, since the Board approval in May 2017 to pilot a limited number of domestically-financed transactions, a key focus of wambo.org has been the operationalization of phase 1b and the onboarding of new Principal Recipients. This is a critical milestone for wambo.org since it brings it a step closer to its longer term vision of phase 2. However, as wambo.org moves through this evolution, many of the issues that it was meant to have addressed in the PPM process remain unresolved, such as the enhanced automation of the PPM process or the lead time inefficiencies.

Need to better align teams managing wambo.org and PPM processes: The organizational structure does not reflect wambo.org as an integrated part of the PPM process. Instead, it reinforces the fact that they are two different teams. The wambo.org team was set up separately from the PPM team because it was supporting a project that was initially intended to be spun off over time. The two teams retained the separate working arrangement despite the fact that

³³ <https://www.theglobalfund.org/en/wambo.org/>

both are managing the same process. Whilst the retention of a small separate wambo.org team to maintain the platform and to develop certain wambo.org-specific related work may be fully justified, the business case for this operational autonomy is less obvious in the case of team members who work on PPM transactions on a day to day basis.

As the decision was made to transition wambo.org into an automated tool supporting PPM, efforts were not made to consolidate the two teams so they would work better together. The wambo.org team that supports the PPM team comprises 11 people (with 10 posts filled) while the PPM team responsible for processing the orders is made up of 15 staff. The Secretariat has not analyzed as yet how best to optimize the available resources in the short and medium term. The split between the two teams may affect their ability to achieve synergy and result in gaps in the overall execution of processes.

Roles, responsibilities accountabilities and interfaces need clarification: The 2017 PPM Operational Policy Note lists the roles and responsibilities of key actors in the PPM process. However, the wambo.org team is not listed as a key actor nor are its roles and responsibilities articulated upfront. The tasks that the team is responsible for are, however, noted in the different sections of this policy. The interactions of the respective teams under the PPM are also not clarified. For example, the two teams are actively engaged in identifying clients for PPM and for wambo.org separately and this can cause confusion and be a reputational risk to the Global Fund.

Separate governance and oversight structures: The wambo.org has remained classified as a “project” even after it went live. It has not yet been streamlined into the Secretariat processes. This has consequences especially for its governance and where and how it fits in the organization structure. While the two teams are housed within the same department, they have different governance structures. Both the wambo.org and PPM team heads report to the Chief Procurement Officer while the wambo.org manager also receives technical guidance from a Steering Committee. The Chief Procurement Officer is a member of the wambo.org Steering Committee.

Separate systems and performance measures: The wambo.org and the PPM teams maintain separate sets of data with regard to the same transactions. At the time of the audit, the numbers reflected in the two sets of data did not reconcile. The audit noted that the two teams define performance measures differently, e.g. lead time, orders put through, etc. The lead time per the PPM team runs from when a request is received by the Secretariat and ends when the Purchase Order is confirmed by the manufacturer. For wambo.org, on the other hand, lead time starts when a Principal Recipient initiates a request in the system (before the PPM start-trigger) and ends when a Purchase Order is issued to the Procurement Service Agents (before the PPM end-trigger). These definitional inconsistencies weaken the ability to effectively monitor and analyze expected improvements in a key performance metric such as procurement lead time.

Agreed Management Action

Refer to Agreed Management Action 1

5. Table of Agreed Management Actions

Agreed Management Action (AMA)	Target date	Owner
<p>1. The Secretariat will prepare and present to the MEC for approval a wambo.org implementation plan based on its current scope reflecting the short, medium and long-term ambitions. This will include (i) a value proposition with clear linkages to market shaping strategy and organization procurement and supply chain management strategies and plans (once completed) (ii) an updated business case (iii) an updated organizational structure where relevant, and (iv) updated key success metrics</p>	<p>30 June 2018</p>	<p>Head of the Finance, Information Technology, Sourcing and Administration Division</p>
<p>2. Same as AMA 1</p>		
<p>3. The Secretariat will undertake a detailed analysis of the underlying challenges affecting wambo.org's operational efficiency. Based on this analysis, it will develop and implement a work plan on the operational improvements necessary to achieve the efficiency targets from the wambo.org platform articulated in the business case.</p>		<p>Head of the Finance, Information Technology, Sourcing and Administration Division</p>
<p>4. Same as AMA 1</p>		

Annex A: General Audit Rating Classification

<p>Effective</p>	<p>No issues or few minor issues noted. Internal controls, governance and risk management processes are adequately designed, consistently well implemented, and effective to provide reasonable assurance that the objectives will be met.</p>
<p>Partially Effective</p>	<p>Moderate issues noted. Internal controls, governance and risk management practices are adequately designed, generally well implemented, but one or a limited number of issues were identified that may present a moderate risk to the achievement of the objectives.</p>
<p>Needs significant improvement</p>	<p>One or few significant issues noted. Internal controls, governance and risk management practices have some weaknesses in design or operating effectiveness such that, until they are addressed, there is not yet reasonable assurance that the objectives are likely to be met.</p>
<p>Ineffective</p>	<p>Multiple significant and/or (a) material issue(s) noted. Internal controls, governance and risk management processes are not adequately designed and/or are not generally effective. The nature of these issues is such that the achievement of objectives is seriously compromised.</p>

Annex B: Methodology

The OIG audits in accordance with the global Institute of Internal Auditors' (IIA) definition of internal auditing, international standards for the professional practice of internal auditing (Standards) and code of ethics. These standards help ensure the quality and professionalism of the OIG's work.

The principles and details of the OIG's audit approach are described in its Charter, Audit Manual, Code of Conduct and specific terms of reference for each engagement. These documents help our auditors to provide high quality professional work, and to operate efficiently and effectively. They also help safeguard the independence of the OIG's auditors and the integrity of their work. The OIG's Audit Manual contains detailed instructions for carrying out its audits, in line with the appropriate standards and expected quality.

The scope of OIG audits may be specific or broad, depending on the context, and covers risk management, governance and internal controls. Audits test and evaluate supervisory and control systems to determine whether risk is managed appropriately. Detailed testing takes place at the Global Fund as well as in country, and is used to provide specific assessments of the different areas of the organization's activities. Other sources of evidence, such as the work of other auditors/assurance providers, are also used to support the conclusions.

OIG audits typically involve an examination of programs, operations, management systems and procedures of bodies and institutions that manage Global Fund funds, to assess whether they are achieving economy, efficiency and effectiveness in the use of those resources. They may include a review of inputs (financial, human, material, organizational or regulatory means needed for the implementation of the program), outputs (deliverables of the program), results (immediate effects of the program on beneficiaries) and impacts (long-term changes in society that are attributable to Global Fund support).

Audits cover a wide range of topics with a particular focus on issues related to the impact of Global Fund investments, procurement and supply chain management, change management, and key financial and fiduciary controls.

Annex C: Message from the Executive Director

The Global Fund conceived and developed wambo.org as an online marketplace for quality-assured medicines and health products that allows partners to benefit from pooled procurement at accessible prices, increased transparency and improved reliability. By expanding access in a sustainable way, wambo.org is a critical enabling tool for the Global Fund to deliver its mission.

Since January 2016, wambo.org has on-boarded over 80 Principal Recipient organizations from more than 50 countries, with total transactions of US\$555 million at the end of June 2017. The platform has created a stronger interface for the procurement process, and has given stakeholders increased visibility on the status of their purchases. With a 90 percent user satisfaction rate, wambo.org is delivering in large part on its core functionality.

The original business case for wambo.org was ambitious, and like all business cases, dependent on certain assumptions. While we still have high ambitions for wambo.org, we also want to point out that we made several conscious decisions that reduced the original scope and delayed some deliverables. For instance, in 2015 we chose to retain our current logistics model in the short term. In March 2016, we chose to prioritize the transitioning of Principal Recipients operating the manual pooled procurement process onto the platform to avoid operating a dual manual/online process. Those decisions were pragmatic and necessary for moving ahead, but they affected our forecasts on savings, our product extensions beyond the pooled procurement mechanism, and our efficiency improvements in order lead times.

In May 2017, the Board approved a pilot for the procurement through wambo.org of a limited number of purchase transactions using non-Global Fund resources. The pilot is an exciting step, and we will report back to the Board and Committees on progress at appropriate intervals. It is mission-critical for the transition element of the Global Fund's Strategy 2017-2022, as a number of countries prepare to wholly finance their responses to the three diseases, and also for sustainability, where a number of high burden countries need to start financing an increasing share of their commodities.

This audit report by the Office of the Inspector General recognizes the significant achievements of wambo.org as well as some areas that we are still improving. In June 2017, when the Office of the Inspector General performed its audit as of that point in time, we were not yet in a position to show strong levels of all deliverables. Just a few months later, however, we can see distinct progress. For instance, we have launched a new phase of product extensions, and order lead times have improved to 34 days, subsequent to the audit, with room for further improvement.

A key role for our new Chief Procurement Officer, Patrik Latin, who began work on 1 September 2017, is to reinforce clarity and vision for the future of wambo.org. We are now in a strong position to review and update the business case in a way that will be grounded in reality with a strong commitment to make this happen.

We have kept the Board and Committees updated regularly throughout the project on progress, key issues and challenges, and we have paid close attention to ensure that Board decisions were indeed taken at the appropriate time. I very much appreciate the close interest that the Board, Committees, individual constituencies, partners and countries have taken in the development of wambo.org and the extensive input and advice we have received along the journey, not to mention financial contributions, the ultimate commitment and endorsement.

We cannot accept the status quo, even when it is the easier path. The only way to achieve ambitious goals of ending epidemics is to embrace change that makes sense. In this case, that means significantly expanding access to quality-assured medicines and health products. Continuing to improve wambo.org supports our focus on leveraging innovation and advances in technology, and getting greater economies of scale, all to achieve greater impact for the people we serve.

Realizing wambo.org's vision – a secure and user-friendly online marketplace for public health partners for accessible prices, increased transparency and improved reliability – requires

challenging convention. The Global Fund's strength, by constantly evolving, supports new approaches that can really make a difference toward our common goal of ending epidemics.

Respectfully,

Marijke Wijnroks

Annex D: wambo.org budget vs actual spend

	Budget or forecast amount for reference	Total operational expenditure across all spend categories	Actual external funding	Actual GF funding
2014	Not included in 2014 budget as developed in the summer of 2013	US\$1 million	US\$1 million (from BMGF)	0
2015	Not included in 2015 budget as developed in the summer of 2014. However, forecast of US\$ 11.6 million shared with Committees in the summer	US\$5.86 million	0	US\$5.86 million
2016	Budget included US\$5.6 million with an assumption that US\$3 million would be funded externally	USD2.25 million	USD0.95 million (from UNITAID)	US\$1.3 million
2017 YTD	Budget included US\$5.4 million with an assumption that US\$2.2 million would be funded externally	US\$1.29 million	US\$1.08 million (from UNITAID, of which 0.39 million USD recognized in P&L so far)	US\$0.21 million (with unrecognized portion of UNITAID co-funding 0.9 million USD)
Total to date		US\$10.4 million	US\$3.03 million (of which 2.33 recognized so far)	US\$7.37 million