



Independent observer
of the Global Fund

OIG Audit of Global Fund's Procurement and Supply Chain During the COVID-19 pandemic

Audit Objective and Scope

On 19 November 2021, the Office of the Inspector General (OIG) released its audit on procurement and supply chain during COVID-19. The objective of this audit, which covered the period January 2019 to December 2020, was to review the adequacy and effectiveness of measures to maintain health product availability despite COVID-19 disruptions.

You can find the full report [here](#)

The audit reviewed:

- Measures implemented at the Global Fund Secretariat and at the country level in terms of procurement support, operational guidance, technical assistance and leveraging partner support. These adaptations were to minimize disruptions in flows of health products to countries.
- Monitoring approaches at the Secretariat to assess the performance and compliance of the procurement supply agents and of other suppliers.
- Controls in place to monitor health products at the peripheral level through the in-country monitoring conducted by the Sourcing and Supply Chain Department.

Because of the COVID-19 pandemic-related travel and other restrictions, the OIG did not review in-country supply chain controls beyond the receipt of goods at the central warehouses.

Background

Between 40% and 60% of Global Fund grant funding goes towards purchasing health products. The Global Fund has an online procurement platform – Wambo – that Principal Recipients (PRs) can use to order medicines and other health supplies, and which are then purchased through the Pooled Procurement Mechanism (PPM). PRs are required to report all procurement of grant-funded purchases of key pharmaceutical and health products through both PPM and non-PPM channels into the Global Fund's online Price and Quality Reporting (PQR) system.

The PPM, designed to consolidate health procurements across grants and managed by the Global Fund's Supply Operations Department, aims to:

- Provide access to competitive market terms and prices, no matter the order's size or value;
- Eliminate procurement delays due to complicated tendering processes at country level;
- Support timely grant expenditure; and
- Ensure that quality assured goods and medicines reach those most in need in a timely manner.

However, Supply Operations' three-year tenders are based on aggregated initial forecasts and countries can find it challenging to make accurate forecasts for the full grant period.

Procurement volumes therefore often differ significantly from the initial estimated demand. For example, in 2019 and 2020, 25% more antiretroviral drugs were procured through the PPM than forecast.

The Global Fund aims to play an active, deliberate, and strategic role in shaping global markets for HIV, tuberculosis, and malaria products, in order to maximize access and improve outcomes for people affected by these diseases. The Board approved the Market Shaping Strategy (2016-2021) which defines how partnership can contribute to health outcomes by influencing global health product markets. It sets out the following target goals:

- Ensuring continued availability and affordability;
- Promoting consistent quality standards;
- Supporting efforts to stimulate innovation;
- Accelerating the adoption of new and/or cost-effective products;
- Preparing for country transition from Global Fund support and long-term market viability; and
- Strengthening key foundational elements for market shaping.

Faced with COVID-related logistical and operational challenges including closed borders, disrupted shipping, lockdowns and closed factories, in 2020 the Secretariat adopted several mitigation arrangements to maintain the flow of affordable, quality health products to countries and to secure the continued availability of health products. This included increasing communications and engagement with suppliers and procurement service agents. Additional measures were introduced to improve the timely delivery of health commodities. These included setting a strict set April 2020 deadline for 2020 orders which helped suppliers to prepare production capacity based on clear demand. The amount of PR purchase orders placed through PPM/Wambo increased from 46% in 2019 to 53% in 2020.

Findings

The first finding is that improvements are needed in demand management, health commodity delivery lead times, and performance reporting. Three factors led to this finding: (1) sub-optimal quantification and forecasting are preventing further efficiencies; (2) long lead times for health product procurements increase the risk of stock-outs; and (3) improvements are needed in reporting and measuring the Supply Operations Department's performance against the Market Shaping Strategy.

The second finding is that wide price variances and the concentration of purchases among a few suppliers are hindering the Global Fund's Market Shaping Strategy objectives. The currently available tool used by Supply Operations to evaluate the effectiveness and efficiency of the PPM procurements is the PQR.

There are limitations when using PQR for comparisons, including data completeness, accuracy, and comparability. For example, PQR does not require non-PPM procurements to be separated from delivery costs or state package sizes. 2019 and 2020 data for non-PPM procurements are also largely underreported and unverified, while the verified data show incorrect unit costs. There is also a time lag in uploading data. It is therefore difficult to compare costs between PPM and non-PPM procurements. OIG analysis of procurement data for 2019 and 2020 noted that purchase prices from the same suppliers differed considerably for both PPM and non-PPM procurements, although both used Global Fund resources.

The approaches used to monitor in-country health product availability during the COVID-19 pandemic have been limited in coverage, quality and availability of information.

The limited coverage is due to inherent design limitations while the inability to triangulate results is due to timing and coverage differences among monitoring mechanisms. In addition, and understandably, COVID-19 disruptions have impacted the Global Fund's ability to collect and verify data.

From the foregoing, the audit concluded that:

1. Measures put in place by the Global Fund Secretariat to ensure an effective and efficient flow of health commodities to countries during COVID-19 were partially effective; and
2. Key procurement and supply chain controls to oversee and monitor health product availability during the pandemic were partially effective.

Agreed Management Actions

1. With respect to demand management, lead times and performance reporting:
 1. The Secretariat will elaborate an implementation plan to: (i) reduce procurement and supply lead times, including identifying key up- and downstream levers to achieve this; and (ii) strengthen procurement service agent reporting, including improving completeness, accuracy, and standardisation of the information reported.
 2. The Supply Operations Department – through the comprehensive M&E framework development process underway for the post-2022 Global Fund Strategy, with input from external technical experts – will introduce to the Board a set of key performance indicators (KPIs) to monitor the progress of the NextGen Market Shaping approach.
2. To deal with the wide price variances and the concentration of purchases among a few suppliers:
 1. The Supply Operations Department will work with the Grant Management Division to establish a policy requiring the countries to seek the support and guidance from the Supply Operations Department to ensure best value for money procurement in view of lead time, quality assurance, pricing and stewardship.

2. The Secretariat will update the related processes and tools to permit improved visibility across all Global Fund-supported core health product procurement, including PPM and non-PPM.
 3. The Supply Operations Department will identify the factors affecting the procurement reallocation and enhance mitigation measures to address them to better support the supply operations strategic plan to expand the supplier base.
3. To correct the limited visibility over in-country stock levels:
1. The Secretariat will ensure that the ongoing initiatives to enhance monitoring of in-country supply chains are implemented in timely fashion as planned.
 2. For sustainability of ongoing monitoring initiatives and to ensure quality logistic management information systems (LMIS) reporting data, the Secretariat will leverage available funding sources (including, but not limited to, the Procurement Supply Management Strategic Initiatives) to support the target cohort countries to improve the reporting rate and accuracy of data from LMIS reporting. Specifically, the Secretariat will assess the LMIS reporting capacity and needs of the target cohort countries.

Commentary

Procurement and supply management is a complex topic with many variations in experience over different time periods and countries. So this report does well to deal with the subject in a concise manner. That said, there are two confusing aspects to this report.

Firstly, where the audit objective is stated, it also states that the audit period was January 2019 to December 2020, yet the first key achievement in the executive summary refers to 2021: “During 2021, the Supply Operations Department took appropriate steps to reduce COVID’s impact on procurement activities and to secure the continued availability of health products”. And in the next paragraph, it goes on to say: “As of May 2021, the PPM expanded to include personal protective equipment and COVID-19 diagnostics, as well as partnering with UNICEF to source oxygen products.” And, in the first finding (Section 3.1) there is an explanation: “Since the current NFM3 grant cycle launched in January 2021, individual Health Product Management Tools have been consolidated in an aggregation tool accessible to Supply Operations.” But this is not only outside the 2019-2020 audit period, it does not appear relevant to what follows.

In response to this comment, the OIG clarified that it is normal practice in OIG reports to keep the reader updated on all crucial issues with the most recent update possible. These two updates highlight the further steps taken by the Global Fund’s sourcing department to minimize COVID’s effect on health products procured through PPM.

Looking at the topic from the outside, it may be difficult to understand why the use of grant funds for non-PPM procurement is allowed for items that can be purchased through the PPM. Surely, if the Global Fund has negotiated good deals with suppliers, that include a clause that they cannot supply more cheaply to any other customer, it makes sense for the Global Fund to insist on the use of the PPM for all items that the PPM procures. One might well think that resistance to using the PPM surely raises other questions/issues. However, the Global Fund’s original principles, which may nowadays have been forgotten, was to use —where possible — country systems and mechanisms, including strengthening them where needed. PPM has weakened countries’ procurement systems. Countries have morphed into becoming solely distribution channels. There is a lot which can be written about this topic and we at the Global Fund Observer have written articles about some countries which are not under PPM and have been able to get better prices than PPM. And sometimes commodities procured through non-PPM

channels have even been of better quality (for example, the long-lasting insecticidal nets discussed in our article <http://aidspan.org:8080/en/c/article/4715>). Hence, it should not be mandatory for all countries to use PPM. If PPM were to become the primary procurement channel, what would happen in countries when the GF were to transition out of supporting them?

In response to this, the OIG agreed that this is a good point. The Sourcing and Supply Chain department emphasizes that its role is to create table access for affordable and quality health commodities (through the market shaping strategy). Once done, its focus will shift more toward building the capacity of the national stakeholders to ensure sustainability after the Global Fund. This of course is perfectly aligned with the Global Fund's strategy.

The 50% procurement through PPM is mostly requested by the countries themselves due to their inability to conduct timely and efficient procurement of quality health products. A minority of countries go through PPM as a mitigation measure due to serious concerns over the country's procurement process. However, it is very difficult to quantify the economy, effectiveness and efficiency of PPM compared with non-PPM procurements, as the current system does not allow such analysis, especially with the limitations associated with the PQR (OIG Finding #2).

Finally, it does not appear the COVID-19 had any particularly adverse effects on procurement supply management and reporting; rather, it served to highlight already inherent weaknesses that need correction.

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