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Global Fund Board adopts new principles for procurement of LFA services

The Global Fund Board has adopted a set of “principles” governing the selection of LFAs (some of the principles are really policies); has delegated to the Audit and Finance Committee (AFC) the authority to modify the principles; and has delegated to the Secretariat the authority to establish the procedures for procurement of LFA services. The principles were recommended by the Secretariat and endorsed by the AFC.

The Secretariat said that the Board’s decision will lead to an LFA procurement method that embodies an efficient and cost-effective approach and that ensures a regular testing of the market to obtain value-for-money LFA services.

The Board replaced its 2007 decision, which required the Global Fund to globally re-tender its LFA contracts every four years, with a decision that provides more flexibility with respect to the timing of re-tendering.

Background

Under the decision made by the Board in 2007, LFA contracts were to be re-tendered every four years. To implement this decision, the Secretariat commenced a global tender process in April 2007 covering all 121 portfolios. The tender was concluded in mid-2008. Indefinite Quantity Contracts (IQCs; also known as “framework contracts”) were subsequently signed with 11 pre-qualified suppliers for a four-year term.

According to the paper prepared for the Board, re-tendering on a four-year basis implies conducting just under 40 LFA tenders every year or a global re-tender for 142 portfolios every four years. On average,

tendering an LFA contract for an individual portfolio takes between two and five months to complete. The Secretariat considered that the global tender was time- and resource-intensive, a view that was corroborated by a 2009 [internal audit](#) on the LFA tendering process conducted by the Office of the Inspector General (OIG). “The process took too long and was highly resource-intensive for both the Global Fund and tender competitors alike,” the OIG said. “The process consumed enormous amounts of senior and middle management time and proved to be frustrating for prospective suppliers.”

The strain of re-tendering would be particularly felt in the case of the 88 focused portfolios, the Board paper said, where fund portfolio managers (FPMs) and shared technical specialists cover many countries. The likelihood of attracting better value LFA service providers in focused portfolios is small given the limited LFA budgets in these countries and the satisfactory performance of the incumbent LFAs, the Secretariat said. The average LFA budget for focused portfolios in 2017 was \$117,157, it added, compared to \$633,486 for core and high-impact portfolios; and the latest available data shows that 96% of LFAs in focused portfolios met or exceeded expectations.

Consequently, in 2013 the Secretariat developed and initiated a new approach based on re-tendering LFA contracts on a rolling basis. This approach is based on (a) annually issuing requests for information (RFIs) for selected portfolios to obtain up-to-date market information about potential LFA service providers; and (b) annually issuing requests for proposals (RFPs) for selected portfolios — i.e. tenders for LFA contracts, based on the results of the RFIs and other considerations, such as LFA performance. (In its recent audit on country assurance — see [GFO article](#) in this issue — the OIG said that in limited cases, the Secretariat has also directly appointed LFAs without tender, “as was the case for 10 new regional grants in 2015 and 13 new regional grants in 2016.”)

Meanwhile, in 2009, the Secretariat had put in place a systematic LFA Performance Evaluation and Feedback System to track on an annual basis the quality of LFA service delivery and provide feedback to LFAs. Also, in 2012, the Secretariat had launched a process to strengthen LFA management processes to ensure value adding LFA services, stronger controls and greater cost efficiency. This led to a reduction of the LFA budget from \$85 million in 2012 to \$47 million in 2017, with LFA costs as a percentage of disbursements reduced from 2.32% to 1.17%.

The Secretariat said that the experience of the rolling re-tender method, taken together with strengthening of the management of LFAs and the assessment of LFA performance and costs on an annual basis, provide a clear basis for recommending an LFA procurement method that is more responsive to the real-time needs of the portfolio and is not bound by a four-year or otherwise fixed term.

Although since 2013, 85 portfolios had an LFA RFI and 52 portfolios had an LFA re-tender, the Secretariat acknowledges that, contrary to the 2007 Board decision, there are a number of portfolios for which the LFA contracts have not been opened to competition during this period.

New principles

The Board approved the following principles:

Differentiation. More resources will be invested in achieving value-for-money LFA contracts where they can make the greatest difference – i.e. in high-impact and core portfolios.

Ensuring value for money through monitoring LFA performance and costs. LFA performance over time is measured through the Global Fund's LFA Performance Evaluation Tool. The cost element is based on considerations such as the amount of annual LFA budget expressed as a percentage of the annual disbursement value of the portfolio; the volume of the LFA contract; and available market and benchmarking data.

Encouraging the diversity of LFA service providers. The Secretariat shall continue to encourage a diversity of participants, including civil society, in LFA procurement.

Unique contracting arrangements. Six-year framework contracts shall be signed with the LFAs. They will contain the terms and conditions governing the LFA work. They do not contain cost information, nor do they assign countries. This will be supplemented by country-specific work plans, which will form part of the framework contracts. The work plans will define an annual list of LFA services, experts and costs, which will be negotiated on an annual basis with each LFA. The framework contracts will provide a legal umbrella under which the country-specific annual LFA work plans and purchase orders are issued. In case a new supplier wins an LFA tender, a framework contract will be signed. If an LFA service provider with a framework contract already in place is selected following a tender process, a new framework contract will not be signed as the country-specific work plan will be governed by the existing framework contract. The framework contracts will be signed for an initial term of six years and their renewals will be automatic.

(The work plans and frameworks described above have been in effect since the new approach was introduced in 2013.)

These principles will be operationalized through procedures developed by the Secretariat in order to come up with what the Secretariat calls "the dedicated LFA procurement method."

With the application of the principles described above, the Board paper said, "some countries may be more often competed than others, and for some countries, the market may not be tested as frequently through a re-tender. This may result in a situation where LFAs in a number of portfolios are providing LFA services without a re-tender for a significant number of years. Even where a re-tender is conducted, it may result in the selection of the same service provider."

The Secretariat is currently developing an implementation plan along with its work planning for 2018. It is envisaged that the new procedures will be developed in 2018 and will be operational in 2019. No additional costs or investments are expected.

Most of the information for this article was taken from Board Document GF-B38-ER01 (Principles of the LFA Procurement Method). Aidspan is not aware of any plans to post this document on the Global Fund website. (This is a gap in transparency. The Global Fund posts papers prepared for in-person Board meetings once the meetings are concluded. But it does not post papers prepared for the Board which contain decision points that are voted on electronically — such as the decision described in this article.)

The Board decision (GF-B38-EDP01) should be posted in due course at www.theglobalfund.org/en/board/decisions.

Editor's Note: This article, originally written on 9 January, was updated on 18 January to correct two errors. First, the original article erroneously stated that as a result of a Board decision, LFA tenders will be for six years instead of the current four. The decision provided more flexibility with respect to the timing of re-tendering, but did not set any specific time frame for the re-tenders. Second, the original article stated that in 2012, the Global Fund launched a process to strengthen LFA management by, among other things, adding services to be covered by the LFAs. This last part was incorrect. The process launched in 2012 was designed to ensure that LFA services add value; it was not designed to add services covered by the LFAs.

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