Independent observer
of the Global Fund
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Global Fund recipient countries procure more health commodities with domestic resources: challenges and way forward

Aidspan

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Preface

Aidspan (www.aidspan.org) is an international NGO based in Nairobi, Kenya, whose mission is to be an effective watchdog organization highlighting, analyzing, and influencing the transparency and effectiveness of the Global Fund to Fight AIDS, Tuberculosis and Malaria at the global and country level. Aidspan is an indispensable resource for a broad range of stakeholders – from policy-makers seeking independent critique and guidance on the Fund's processes, investments, and progress to grassroots organizations seeking access to the Global Fund's resources.

Aidspan provides information, targeted analyses, and independent commentary via its official website, reports, Global Fund Observer (GFO) newsletter, social media, and other communication channels. To receive the GFO Newsletter, go to www.aidspan.org and click on the "Subscribe to GFO Newsletter" link. To follow Aidspan on Facebook and Twitter, click here and here.

Some reports recently published by Aidspan are:

- The Global Fund programs in challenging monetary environments: Example of Zimbabwe
- Domestic financial contributions to HIV, tuberculosis and malaria
- Global Fund investments in adolescents and youth in Eastern and Southern Africa for the years 2018-2021
- Data collection and use in Global Fund grants: a multi-country report
- Involvement of Supreme Audit Institutions (SAIs) in Global Fund grants

Aidspan finances its work primarily through grants from governments and foundations. Aidspan does not accept funding of any kind from the Global Fund.

Aidspan and the Global Fund maintain a working relationship but have no formal connection. Aidspan does not allow its strategic, programmatic or editorial decision-making to be influenced by the Global Fund or by relationships with Aidspan's actual or potential funders. The Global Fund and Aidspan's funders bear no responsibility for the contents of any Aidspan publication.

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Introduction

The Global Fund to fight AIDS, TB, and malaria (the Global Fund) invests nearly $4 billion every year towards the three diseases and building resilient and sustainable systems for health in more than 100 countries across the world. The Global Fund spends approximately 40% of its resources on the procurement of health commodities, including antiretrovirals (ARVs), long-lasting insecticide-treated nets (LLINs), rapid diagnostic tests (RDTs) and antimalarials.[1] However, the proportion of commodities in the grants can be as high as 90% in some countries. For instance, in the current 2017-2019 funding cycle grants, Uganda allocated 90% of the total grant budget to the procurement of health commodities and supply management costs, Malawi (85%), Tanzania (73%), and Ethiopia (70%).

Despite the huge investments in the procurement and supply chain systems, Global Fund recipient countries still face challenges getting the health products to the end-user. Stock-outs and expiries of medicines and other health commodities remain rampant in many developing countries at the national and sub-national levels.[2] Treatment disruptions are also quite prevalent.

Procurement of health products within the Global Fund context

The Global Fund lacks an in-country presence and relies on the national systems to implement the grant activities, including existing procurement processes for health commodities. However, procurement and supply chain systems within developing countries, which are the majority of those receiving the Global Fund support, remain weak.[2,3]

Cognizant of the weaknesses in the countries' procurement processes, the Global Fund created the Pooled Procurement Mechanism (PPM) in 2009 to generate efficiencies and improve the procurement process for Global Fund-supported commodities.[4] The PPM aggregates procurement orders and negotiates lower prices for its recipient countries. The PPM procures commodities for HIV and malaria only; The World Health Organization's (WHO) Global Drug Facility (GDF) helps procure TB commodities.

Currently, more than 160 grants from 60 countries procure health products through PPM amounting to an approximate annual expenditure of $1billion. Through the PPM, the Global Fund made $178 million in savings in 2018 (the most recent publicly available data), and ensured that 83% of the orders are made on time and in full (OTIF) in the same year, according to the Global Fund.[5]

In 2016, the Global Fund introduced an online platform or marketplace called wambo.org to complement the PPM. On wambo.org, PRs have increased visibility over the ordering process; in contrast, when the Procurement Service Agent (PSA) acting on behalf of the Global Fund and its PPM, is in charge of procurement, the PRs have little visibility on the ordering and logistics. Now, PRs have real-time access to procurement and financial data on the Wambo.org platform, which has a catalog of over 700 products. The Global Fund is now granting access to wambo.org for non-Global Fund grant orders (more on this later).

Officially, a country decides whether to use the PPM or not. However, the Global Fund often requires a PR to use PPM to mitigate procurement risks. Almost all countries in sub-Saharan Africa use the PPM to procure HIV, TB and malaria commodities with the Global Fund grants except four: Ethiopia, Kenya, Rwanda, and South Africa. These four countries use their national systems with success. For instance, Kenya obtains lower prices for health

commodities compared to prices obtained by the Global Fund's PPM, according to the Office of the Inspector General of the Global Fund .[6]

Countries receiving the Global Fund grants fund a higher proportion of the health commodities for HIV, TB and malaria using domestic resources. This trend is likely to continue in the 2020-2022 allocation period. Countries that use the PPM to buy commodities with Global Fund monies use their national procurement systems for domestically-funded commodities. Critics, especially from civil society organizations, decry this duality: they believe that countries lack the capacity or leverage to negotiate lower prices, commitment to quality, and forecasting capabilities that existing procurement mechanisms such as the PPM or wambo.org have.[7]

This paper explores this increased domestic financing for procurement within the Global Fund grants, the associated challenges, and opportunities.

Method

Information for this paper comes from publicly available documents on the Global Fund website (such as policies, Board documents, and individual country funding requests), Global Fund presentations, and other available literature. The paper also obtains information from country allocation letters for the 2020-2022 allocation period. However, the Global Fund does not make these letters public.

Procurement of health commodities with domestic funds in the GF program

Some countries rely heavily on donor funding for HIV, TB and malaria commodities

Some countries in sub-Saharan Africa rely mostly on donors to procure of HIV, TB, and malaria commodities while channeling domestic resources to other health areas such as health systems strengthening. In some extreme cases, countries purchase little to none of the commodities for the three diseases. For instance, Malawi obtains 96% of HIV commodities using Global Fund resources, and the remaining 4% using PEPFAR resources.[8] The Government of Malawi does not contribute towards procurement but invests in strengthening the health systems instead. Similarly, in Tanzania, the Global Fund pays for 54.5% of HIV commodities while PEPFAR pays for 45%; the Government of Tanzania contributes less than 1% to the commodities.[9] This reliance on external support poses a threat to the sustainability of the programs if external support stops abruptly.

To encourage countries to take more responsibility for their health, the Global Fund implements the Sustainability, Transition, and Co-Financing (STC) policy that requires countries to demonstrate increased domestic contributions to the health sector, in general, and the three disease programs.[10] The policy includes an incentive where countries access 15% of their allocation only if they demonstrate the fulfillment of their co-financing commitment.

The Global Fund Sustainability, Transition, and Co-Financing policy uses a country's level of income and disease burden to determine how the country can use the co-financing. Low-income countries can invest 100% of the co-financing investments in RSSH interventions or disease programs. Lower-middle income countries, on the other hand, have to invest at least

50% of the co-financing on priority areas within the disease program; the rest can be spent on RSSH. The choice of specific interventions to be funded by the co-financing is left to the discretion of the countries but should be in line with the Global Fund's guidance.

More countries dedicate co-financing to health commodities

The Global Fund follows a three-year funding cycle. In the 2017-2019 allocation period, more countries committed their co-financing to purchase health commodities related to the three diseases. We highlight co-financing commitments made by sampled countries in the 2017-2019 allocation period as noted in those countries' 2020-2022 allocation letters, funding requests from the 2017-2019 cycle or other alternative sources:

- Kenya dedicated all of its co-financing for the HIV and TB grant ($74 million) towards the procurement of related commodities, including ARVs, test kits, laboratory reagents, and some laboratory equipment.[11]
- Cameroon committed to funding, through the co-financing, 40% of the antiretroviral needs for people living with HIV, LLINs mass campaigns for two regions and first-line TB drugs for the general population
- Guinea committed to spending $20 million on ARVs
- Zimbabwe has instituted an AIDS levy, which represents a 3% tax on individual and corporate income, which serves as the main co-financing mechanism. The country spends half of the money raised on the procurement of HIV commodities.
- Eswatini committed to funding all first-line ARVs in the 2017-2019 cycle
- Congo also committed to spending EUR 3 million on ARVs and reagents
- Mali committed approximately EUR 39 million, part of which was meant for the procurement of anti-TB drugs

Out of the countries mentioned above, Guinea and Mali are the only low-income countries. The others are lower-middle-income countries.

It is commendable that more countries take additional responsibility for the three-disease programs. However, as countries assume a greater role in the procurement of health products, they risk reduced quality assurance, higher prices, and reduced administrative efficiency, and longer lead times[12] if their domestic system is less effective than the one of Global Fund. We expound on these challenges below:

Delayed/partial fulfillment of co-financing commitment

Countries do not always fulfill their co-financing commitments timely. In the current 2017-2019 cycle, Mali failed to honor its co-financing commitment fully for buying anti-TB drugs for 2018 and 2019; the Global Fund had to step in to purchase the drugs and avoid impending stock-outs, according to the country's 2020-2022 allocation letter. Guinea, on the other hand, experienced stock-outs for ARVs for about four months in 2018 due to delays by the government in releasing funds. Cameroon and Ghana have also failed to honor their co-financing commitments fully in the current grant implementation period. Cameroon had met only 22% of the total co-financing commitments by September 2019, whereas Ghana had met less than 30% in July 2019.

Weakened quality assurance for commodities

The Global Fund ensures that health products financed through its support are procured from WHO-prequalified suppliers. And it offers quality assurance after delivery. However, countries use national quality assurance systems when procuring with domestic funding. Details and procedures of those national quality assurance mechanisms are not often publicly available, making it difficult to ascertain the quality of commodities bought through domestic resources.[13]

Domestic procurement threatens gains by pooled procurement

The Global Fund has leveraged, through pooled procurement, the large volumes of commodities needed by its recipient countries to negotiate lower prices with the manufacturers or suppliers.[7] This is called market shaping in the Global Fund policy. If more countries move away from pooled procurement mechanisms to their national process, there is a risk that some countries will face higher prices. The individual countries may have a small market size or geographically uneasy access, which may lead to increased prices or lack of interest from suppliers to bid on tenders.

Way forward for countries

Countries will need to address the weaknesses within their national procurement systems if they are to procure commodities using domestic resources successfully. However, the Global Fund's Technical Review Panel (TRP), which is an independent group of experts that reviews funding requests for technical merit and strategic focus[14] noted that the countries did not enhance efforts to address existing procurement and supply chain challenges or put in place measures to mitigate risk, in the 2017-2019 cycle funding requests.[2] Countries have the opportunity to include interventions that strengthen the procurement systems in the RSSH funding requests for the 2020-2022 funding cycle.

The Global Fund and the countries also need to manage the transition process which relates to countries that are no longer eligible to receive Global Fund monies. Part of the transition process management includes a readiness assessment to understand the existing gaps and frequent monitoring to ensure timely availability of commodities.[7] Countries can also choose to use the existing international pooled systems such as the wambo.org to procure commodities (read more below).

wambo.org may offer some reprieve for countries

The Global Fund is currently carrying out a pilot on the use of wambo.org to procure HIV, TB, and malaria commodities using non-grant funding.[12] Upon completion of this pilot, countries will have the option of procuring through wambo.org using domestic resources. However, the pilot has highlighted two main barriers to the use of non-grant funding.[12] First, wambo.org will require the countries that are making purchases with non-grant funding to make a full up-front payment to the PSA before an order can be processed. This requirement locks out those countries where national legislations do not allow the government to make 100% upfront payments but rather calls for payment upon delivery. This requirement also increases the lead time because the order cannot be processed until the buyer has made the payment. The Global Fund is proposing to create a revolving fund that makes the payment on behalf of the buyer. However, the Global Fund is likely to incur an additional service fee to cover for the cost of capital.

Second, national procurement laws for these countries should allow access to international pooled mechanisms. Preliminary findings from the pilot show potential legal barriers in the use of pooled procurement when using domestic resources. In some countries, national laws/regulations require or give preference to local manufacturers and distributors; or prescribe specific procurement channels or processes.

Overall, individual countries will have to weigh the benefits of using wambo.org vis-à-vis their national systems. With wambo.org, countries may obtain lower prices, quality-assured commodities, and increased forecasting capabilities coming with access to global price estimates that are useful for budgeting.[12] However, wambo.org has the disadvantages of having a limited number of health products. It does not consistently provide laboratory supplies, and it has long lead times ranging between 5-6 months.

Conclusion

The increased reliance by Global Fund recipient countries on their domestic resources to procure HIV, TB, and malaria is a step towards country ownership and sustainability of the disease responses. However, this reliance also increases risks such as reduced quality commodities, higher prices and reduced administrative efficiency, and longer lead times, especially in countries with national weak procurement systems.

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