



Independent observer  
of the Global Fund

## GLOBAL FUND'S IN-COUNTRY SUPPLY CHAIN PROCESSES ARE INEFFECTIVE: OIG

According to the Office of the Inspector General (OIG), in-country supply chain mechanisms are neither adequate nor effective in ensuring that the right products are delivered in the correct quantities and condition, at the right place and time, and for the best value cost.

This is the central conclusion of an audit of the Global Fund's in-country supply chain processes. A report on the audit was released on 28 April 2017. Fifteen countries in Asia and Africa were selected for the audit: Cambodia, Democratic Republic of Congo, Ghana, India, Indonesia, Kenya, Malawi, Nigeria, Pakistan, Rwanda, Sudan, Tanzania, Uganda, Zambia and Zimbabwe. These countries represented 49% of the Global Fund's allocation to countries for 2014-2016. The audit did not involve any in-country visits, but rather drew on recent OIG country audits, as well as the work undertaken by different assurance providers and development partners.

The audit focussed on three areas:

- the adequacy and effectiveness of Secretariat interventions in addressing root causes of supply chain issues;
- the adequacy of Global Fund structures, systems, processes and resources to mitigate in-country supply chain challenges; and
- the adequacy and effectiveness of the design of the assurance framework in supporting the identification and mitigation of supply chain-related risks.

The OIG rated all three areas as “needs significant improvement.” This is the second lowest rating in the OIG's four-tier rating scheme. The four tiers are effective; partially effective; needs significant

improvement; and ineffective.

According to the Office of the Inspector General (OIG), in-country supply chain mechanisms are neither adequate nor effective in ensuring that the right products are delivered in the correct quantities and condition, at the right place and time, and for the best value cost.

This is the central conclusion of an audit of the Global Fund's in-country supply chain processes. A report on the audit was released on 28 April 2017. Fifteen countries in Asia and Africa were selected for the audit: Cambodia, Democratic Republic of Congo, Ghana, India, Indonesia, Kenya, Malawi, Nigeria, Pakistan, Rwanda, Sudan, Tanzania, Uganda, Zambia and Zimbabwe. These countries represented 49% of the Global Fund's allocation to countries for 2014-2016. The audit did not involve any in-country visits, but rather drew on recent OIG country audits, as well as the work undertaken by different assurance providers and development partners.

The audit focussed on three areas:

- the adequacy and effectiveness of Secretariat interventions in addressing root causes of supply chain issues;
- the adequacy of Global Fund structures, systems, processes and resources to mitigate in-country supply chain challenges; and
- the adequacy and effectiveness of the design of the assurance framework in supporting the identification and mitigation of supply chain-related risks.

The OIG rated all three areas as “needs significant improvement.” This is the second lowest rating in the OIG's four-tier rating scheme. The four tiers are effective; partially effective; needs significant improvement; and ineffective.

We provide more information on the audit findings for each of these three areas right after the section on background information (see “Detailed findings”).

## Background information

Procurement and supply chain management of health products represent the Global Fund's biggest investments in its grant portfolio (estimated at 40% but as high as 100% for some grants). An estimated 40% (about \$10 billion) of the Global Fund's total disbursements have gone towards health commodities since the Fund was founded in 2002.

Reviews of the Global Fund over the past decade have consistently identified procurement and supply chain management challenges as key impediments to funded programs. The Global Fund has implemented several measures to strengthen procurement – e.g. Pooled Procurement Mechanism, the wambo.org marketplace – but these interventions primarily target getting the health commodities into the country, the OIG said. They do not address the challenges of getting products to patients once the products are in-country, nor do they address the improvements required in quantification and forecasting.

In-country supply chains remain sub-optimal, the OIG said. Many in-country supply chain management systems were designed over 40 years ago. The pressure on already fragile supply chain systems has increased significantly in recent years as programs scale up and new initiatives are rolled out. These have led to increased volumes which have not always been accompanied by commensurate systems strengthening.

The OIG said that several pervasive supply chain problems were identified in its recent audits, including the following:

- there have been stock outs across the grant portfolio, especially at the facility level, mainly for antiretroviral and antimalarial medicines as well as test kits;
- plans for in-country quality monitoring of health commodities have not been effectively implemented;
- expiries and damages have been consistently reported across the grant portfolio; and
- stock has gone unaccounted for, especially with respect to malaria-related products.

In addition, there have been instances where health commodities were not used appropriately, threatening access to these commodities by the intended beneficiaries. These include the treatment of patients without proper diagnosis or regardless of diagnosis, especially for malaria; health commodities being used to treat other diseases; and the use of health products for other purposes – e.g. as animal feeds, fishing nets.

The Secretariat has taken steps to address supply chain management issues at the country level. The steps include the following:

- the development of a supply chain strategy (currently underway);
- the creation of a Supply Chain Department within the Grant Management Division, and the appointment of a Head of Supply Chain in August 2016;
- the development of a procurement and supply chain assurance framework; and
- implementation of a supply chain transformation project in Nigeria, with similar projects expected to start in Ghana and Malawi.

## Detailed findings

In this section, we take a deeper look at the three areas that were the focus of the audit.

### Adequacy and effectiveness of Secretariat interventions in addressing root causes of supply chain issues

According to the OIG, the Global Fund invested almost \$130 million in supply chain–related activities and processes in the 15 countries reviewed in the audit in the 2014-2016 allocation period. The funds have primarily supported the storage and distribution of health products “to the last mile” and have strengthened specific in-country supply chain processes, especially those related to quantification and forecasting.

The audit found that these mitigating actions – as well as recommendations from various assurance providers (including the OIG) – have not comprehensively addressed supply chain issues. In 11 out of the 15 countries reviewed, the OIG said, assurance providers have identified the same supply chain issues in subsequent audits and reviews. The OIG attributes this to the fact that the actions and recommendations have targeted the symptoms presented by specific process and system deficiencies, rather than the root causes which tend to be related to the underlying health systems.

The OIG said that its analysis of best practices and root causes of supply chain challenges in the 15 countries has identified four main barriers to supply chain management:

- country ownership and governance structures in 14 out of the 15 countries are not fully effective in driving a meaningful resolution of supply chain interventions;
- almost all the supply chain systems in the 15 countries reviewed had challenges in providing accurate and reliable data to support decision-making for key processes;
- supply chains are dependent on having sufficient human resources in the right places with the right skills and
- all the countries reviewed in this audit cite inadequate funding as an impediment to transforming their supply chain systems.

All four factors are health system–related, the OIG said, and so are more challenging and costlier to address effectively. “Although these issues cannot be solved by the Global Fund in isolation, progress cannot be made without tackling these systemic issues,” the OIG stated. Below, we look at each of the four factors.

**Country ownership and governance.** Country ownership and governance structures in 14 out of the 15 countries were not fully effective in driving a meaningful resolution of supply chain interventions, the OIG said. For example: there is a lack of functional country strategies to guide the prioritization of interventions designed to address supply chain issues beyond ad hoc donor driven requirements and initiatives; there is sub-optimal coordination of supply chain activities among multiple stakeholders; and there is inadequate in-country oversight and accountability over supply chain matters. In 14 of the 15 countries included in the audit, the OIG said, the responsibility and accountability for supply chain activities were fragmented across different parties and across different levels of government.

Actions and recommendations have targeted the symptoms presented by specific process and system deficiencies, rather than the root causes which tend to be related to the underlying health systems.

In 10 of the countries reviewed, the OIG said, the Global Fund and other donors have often had to bypass country systems. “The resulting parallel systems are not only unsustainable but have in some cases proven to be inefficient, uneconomical and not always effective in getting products to intended beneficiaries.” The OIG said that 11 of the countries included in the audit had developed supply chain strategies, but that only four were in the process of implementing them at the time of the audit. In addition, the Secretariat has limited visibility of supply chain activities in 14 of the 15 countries because these activities are undertaken at the SR level.

**Reliable data.** Because of the challenges in providing accurate and reliable data to support decision-making, planning decisions resulted in over- or under-stocking of commodities, treatment disruptions and drug expiries in all 15 countries reviewed, the audit found. The lack of data also affected the ability of stakeholders (including the Secretariat) to respond in a timely manner to avert supply chain crises that occur from time to time, and to prevent, detect and respond to the risk of theft of health products, the OIG said.

Investments in information systems at the country level have prioritized program data over consumption data, the OIG explained. The Global Fund and other partners have deployed electronic solutions to strengthen data collection and reporting in nine of the countries reviewed, the OIG said; however, this has not fully addressed the problem due to other interconnected factors such as inadequate human resource capacity (especially at lower levels), weak underlying manual processes and a lack of infrastructure.

**Human resources.** According to the OIG, the World Health Organization estimates that countries face supply chain–related vacancy rates of up to 71% in public sector posts. Where staff shortages were noted with regard to supply chain management, the OIG said, countries resorted to deploying unqualified staff with limited training. This, coupled with heavy workloads, means that workforces were unable to perform key tasks such as maintaining key stock records, the OIG stated. “This has impacted stock levels, the availability of data and the ability to account for commodities, resulting in expiries, losses, damages and stock-outs of health commodities.”

The OIG said that the Secretariat has supported in-service staff training tied to specific performance targets. The audit found that while this is effective in the short-term, staff shortages and heavy workloads remain largely unaddressed. Although the investment of grant funds in supporting human resources is generally discouraged, the OIG noted, direct support has often been provided at the central level, rather

than at facility level where there is a greater need. Although it is well acknowledged that governments should take a lead in finding lasting solutions to human resource problems, the OIG said that in only one of the 15 countries did it see evidence that the Secretariat had actively engaged with governments on this matter.

**Funding.** More than a third of the countries reviewed in this audit were unable to meet the operational costs to run their own supply chain. Given limited internal and external resources, the OIG said, supply chain management is often de-prioritized in light of more pressing program needs, such as treatment. Supply chain–related interventions have mainly been included in the above-allocation portion of requests for funding, the OIG said, and, as a result, rarely get funded. The OIG also said that the Secretariat has not effectively followed up on government commitments to provide counterpart funding for supply chain initiatives.

**Adequacy of Global Fund structures, systems, processes and resources to mitigate in-country supply chain challenges**

“Parallel systems are not only unsustainable but have in some cases proven to be inefficient, uneconomical and not always effective in getting products to intended beneficiaries.”

Although the supply chain has been identified as an area of strategic importance to the achievement of Global Fund objectives, the OIG noted, there has been limited oversight of supply chain matters at the Board and Management Executive Committee levels. A supply chain department was established in 2016; however, the OIG said, because the Global Fund is conceived as a funding mechanism rather than an implementing agency, the scope of its mandate may limit the options available to the Secretariat in tackling systemic supply chain issues. In addition, the OIG said, the Board will need to guide the Secretariat on the trade-offs between the importance of getting products to beneficiaries versus building sustainable country systems.

The OIG stated that although the Global Fund has established [corporate] key performance indicators for procurement and supply chain management, they need to be translated into operational key performance indicators to measure the organization's progress in this area.

In terms of structure, the OIG said, the Secretariat has adopted a silo approach to procurement and supply chain management, with responsibilities spread across two divisions and five departments, all of which have different objectives, priorities and performance measures.

The OIG also noted that ongoing Secretariat projects have not been fully leveraged to find solutions for supply chain management challenges. For example, the Risk and Assurance project has been implemented in six of the countries reviewed for the audit, but this has not translated into any material changes to in-country supply chain–related assurance mechanisms.

**Adequacy and effectiveness of the design of the assurance framework in supporting the identification? and mitigation of supply chain related risks**

The Secretariat has not allocated sufficient resources to gain assurance over procurement and supply chain management activities, both at the country team level and local fund agent (LFA) level, the OIG said. For example, only 12% of the LFA budget has been allocated to procurement and supply chain management, although an estimated 68% of grant disbursements in the 15 countries reviewed relate to these areas. Information collected by LFAs is often limited to reporting stock outs at the central level, the OIG noted, without relevant insights on conditions at the facility level. The OIG considers this information to be of limited value since it is often too late to act by the time these stock outs are reported to the Secretariat.

The OIG said that at the time of the audit, the Secretariat had embarked on a process to revamp the in-country supply chain assurance framework, but that measures put in place so far do not adequately address well-acknowledged weaknesses.

Supply chain management and health systems

As we indicated above, the OIG believes that challenges in the overall health systems are the main barrier to having effective supply chains. There is no quick fix to supply chain issues, the OIG said. The Secretariat acknowledges that strong health systems underpin effective service delivery, the OIG added; this includes getting quality commodities to beneficiaries on time. “However, supply chain related issues will, by their nature, be more challenging to address given the funding and timing required to resolve them whereas the Global Fund has limited funding and its grants are time-bound over relatively short implementation cycles.”

The OIG said that there are tensions between program activities and health systems. Strengthening procurement and supply chain management is one of the seven sub-objectives of building resilient and sustainable systems for health in the Fund’s 2017-2022 Strategy, the OIG explained. “However, delivering on this sub-objective may require a major shift away from the current funding approach, which tends to prioritize treatment, towards more of a health systems–centric approach.”

The report on the audit cites another report, this one from the Technical Review Panel (TRP), which observed that health system strengthening, including supply chain, has been insufficiently resourced. (Source: TRP observations on the 2014-2016 allocation-based funding model, 2016, Document [GF-B35-13](#).) According to the OIG, a TRP proposal to the Board to earmark funding for health system strengthening [presumably, as part of the allocations] was not approved. Instead, the Board made funding available for health systems strengthening for 2017-2019 in the amount of \$264 million (part of \$800 million set aside for catalytic investments).

Finally, the OIG noted that funding is provided on a three-year cycle, but that health systems strengthening requires longer-term investments.

Agreed management actions

The Secretariat agreed to implement four management actions in response to the audit findings. They are described in the table.

Table of agreed management actions (AMAs), OIG audit on the supply chain

AMA: The Secretariat shall develop a comprehensive strategy that addresses all the significant supply chain health system issues identified in the in-country supply chain audit. In particular, the strategy will define the Global Fund's scope of responsibility, oversight, and necessary initiatives that must be taken to support the resolution of in-country supply chain challenges. This strategy will take into account proposals detailed in the building resilient systems for health strategy that aims to strengthen and expand the capacity of health systems to address health issues in a sustainable, equitable and effective manner.

#2

Category: Strengthening in-country supply chain systems

AMA: The Secretariat will conduct in-country supply chain diagnostic studies in 12 prioritized countries and use these to develop specific plans on how their supply chain systems will be strengthened. Each country plan will include plans detailing: (i) the creation or strengthening of effective country governance structures with the support of a partner-financier group in order to strengthen in-country supply chain accountability and coordination as well as the establishment or reinforcement of a costed country supply chain strategy; (ii) identification and implementation of mechanisms to support the collection of key supply chain data required by the Secretariat for decision making; (iii) establish baseline on in-country supply chain capacity and identify suitable programs to close capacity gaps; and (iv) a plan on how funds for country supply chain transformation will be mobilized. The Secretariat will also develop a plan for conducting in-country supply chain diagnostic studies for the rest of the relevant portfolios.

#3

Category: Organization of the procurement and supply chain management structure

AMA: The Secretariat will: (i) agree a plan to structure both the Supply Chain and the Procurement teams and implement an improved structure and related systems and processes that clarifies roles, responsibilities and accountabilities and ensures the effective use of available procurement and supply chain management resources; and (ii) define oversight arrangements for procurement and supply chain management at Secretariat level to ensure increased visibility and accountabilities over this function.

#4

Category: Supply chain assurance framework

AMA: The Secretariat will develop a procurement and supply chain management-specific assurance framework that lays out principles that will guide country specific assurance under the differentiated approach. The assurance plan will be linked to the Secretariat's broader assurance framework to avoid fragmentation in approach. Assurance plans will be developed for the 12 priority countries.

Most of the AMAs in this report are linked to the supply chain strategy that the Secretariat is already developing. If the strategy is well designed and effectively implemented, the OIG said, it would bring a more strategic discipline to the Global Fund's management of supply chain risks in its programs and, accordingly, help to mitigate many of the risks highlighted in this report.

## Conclusion

Program results over the years demonstrate that the majority of health products successfully reach their intended beneficiaries, the OIG said. "However, reports of stock-outs, expiries, unaccounted for stocks

and quality issues show that challenges remain with in-country supply chains.”

While the audit highlighted several shortcomings in the Global Fund’s approach, the OIG said, the pervasiveness of supply chain issues must also be evaluated in the broader context of country ownership, mandate constraints and limitations in the partnership model. “Supply chain systems first and foremost belong to the countries,” the OIG stated. Unlike procurement, which can be centralized to some extent with processes such as the Pooled Procurement Mechanism, the OIG said, most supply chain processes are necessarily local by definition. “As such,” the OIG stated, “significant factors include the degree of country ownership and political will, the prioritization of national investments in this area, and the overall national infrastructure quality.”

The OIG believes that the extent to which the Global Fund can effectively tackle the challenge also hinges significantly on the degree of consensus – including at the Board level – on both the scope of its mandate and the level of resources the organization can commit to address systemic in-country supply chain issues. Although it is clear that the Global Fund cannot succeed in its fight against the three diseases without a supply chain that can effectively and efficiently deliver drugs and services to patients, the OIG said, the resource-constrained environment imposes real trade-offs (both political and financial) on program focus and investment choices. “Lastly, noted gaps in supply chain also often extend well beyond the Global Fund and reflect, in many cases, ineffective partnerships that have resulted in poor coordination of interventions and the inefficient development of parallel systems in-country.”

[Read More](#)

---