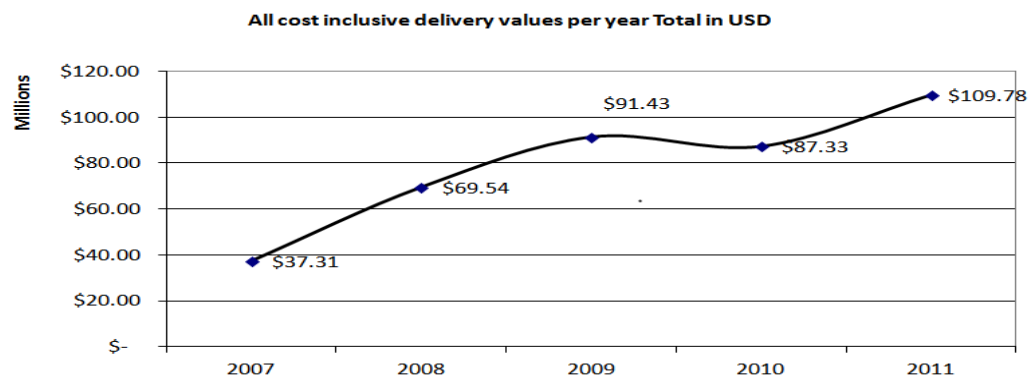


Rethinking the GDF:

Before one can consider where the GDF should be going it is necessary to know where it is, how it got there and what is needed for the future.

Original Purpose

The GDF has been around for nearly eleven years and has met or exceeded its original goals, even though at the time those goals were considered inspirational. The volume of goods provided still continues to increase at an impressive rate year by year.



In addition to providing patient treatments, the GDF led the move towards introducing the 4FDC, the patient pack, pediatric formulations and has taken on supply of diagnostics and more recently the supply of 2nd line drugs and diagnostics. The rapid expansion of treatments delivered was forecast to reverse the trend of increasing cases by the year 2010 and this has been confirmed. By any measure the GDF has done what was expected of it and has had great success.

However it would be naïve not to look at the current performance and say the GDF could do better. Lead times are getting longer, prices are not significantly below market prices, introduction of new formulations takes a long time, reports of performance to interested parties is less than routine. All signs that the GDF is straining and would benefit from review, additional support, even restructuring.

BCG undertook a detailed review of the GDF and, in brief, gave an approval of the current system though recommended many changes, more than 150 specific changes in all. Most of the recommended changes were managerial not structural. More attention needed to be paid to the strategy and objectives of the GDF and realigning staff accordingly. Work planning needed to be more detailed and staff focused on the results not just the activities. More authority to be given the newly created Quality Assurance manager as Quality of medicines is being increasingly recognized. Given the increase in volume, more staff would be needed and it was suggested that the Partnership should second knowledgeable staff to be part of the GDF. Operationally the GDF must pay more attention to managing its agents and to forecasting. A major theme of their recommendation relates to improvements in the

support systems used by the staff to undertake their work and managers to understand what needs the most attention. It observed the oversight of the GDF was insufficient and that there may be benefit in examining other institutions to determine if they were able to perform the operations more effectively or more efficiently.

Overall the BCG evaluation concluded that more attention should be paid to emergency supply, the procurement operation needed strengthening, less attention be paid to country support and the financial model was unsustainable. More internal support was needed to automate the work and more attention be paid to key performance indicators; changes were needed.

Subsequent discussion by this Coordinating Board rejected reduction of Country Support.

Six months on, the changes are significant; most of the 153 recommendations are underway with the intention to complete all within the next six months. The GDF of today is significantly different from the GDF of one year ago. Some areas are proving to be difficult to upgrade and these mostly fall into the operational support area. Realigning staff to new structures is never easy

As suggested by the BCG team, the GDF manager has looked at the various procurement models which exist, which could be considered by the GDF, and has summarized the pro and cons of six discrete models.

The CB has asked for an independent review of the models to make it easier to understand the benefits and costs of the models described. To understand the relevance of the models it is necessary to have a good understanding of how the GDF achieves its performance and what will be required in the future.

Methodology of evaluation

Initially a document review was conducted to understand what the GDF had been doing and what the performance was. More than 40 people interested in TB drug supply were interviewed, including all GDF staff members. An evaluation of the models that had been proposed was undertaken. The BCG report was read (again) and conversation with the BCG staff took place

Findings from Interviews

There is considerable dissatisfaction in the way that the GDF operates. The dissatisfaction is the most intense amongst GDF staff and those that have had occasion to examine the internal workings of the way the GDF operates. As one moves away from the center of the GDF, the dissatisfaction became more general but just as real. Disappointingly and alarmingly concern was expressed by donors and partners. No group felt that all was well with the GDF. The GDF staff were the most able to articulate what was wrong and indicated how it could be fixed. There is a distinct mismatch between the achievement of goals for the GDF and the perception of problems.

The concerns most frequently expressed were diminishing communication and an increase in dissatisfaction from country recipients. Lengthening lead times was a common theme. Internally, human resource problems were significant.

While there was concern there was also a general theme that too move away from the existing model should only be done for technical reasons. If competitive processes were used then the GDF could be assured of moving towards something better.

Reasons

Partially it is the Procurement Agent syndrome. No one remembers the many orders that were delivered without problem or delay. Everyone remembers the few orders that were problematic. One can look at the procurement agent that one is not using and see all the good they are doing. One looks at the agent one is using and there is a focus only the problems. The problems are never as bad as they appear.

However there are problems and these can be directly traced to a small number of past errors or deficiencies. The errors are not recent and some go back to the origin of the GDF. (1) Insufficient attention has been placed on the system support of the GDF. One can operate a \$1 million a year business relying on people to pick up the slack of poor system support but not \$150 million a year business. The systems for the GDF should be cutting edge, to support a fast moving and fully flexible GDF; they are not. Staff has to spend too much of their time compensating for inadequate support. Any changes to the GDF must include use of an upgraded support system (2) the procurement agent chosen has not always been a good match between what the GDF needs and what the agent is able to provide. This has resulted in a higher than necessary fee being paid and GDF staff having to undertake duties which the agent is being paid to undertake. This duplication of effort is expensive and still leaves gaps. Little attention has been paid to shipping costs and the potential to save millions exists. More attention in the selection of any external agent is needed. Fees should only be paid for the services actually done and not for services available but unneeded. In addition to technical capability the financial system needs to interact with the GDF/WHO system so that invoices are rapidly reconciled. Data exchange between the agent and the GDF must be in real time. The agent must comply with WHO Quality Guidelines for Procurement Agents. (3) Finally there needs to be a consistency in management. The GDF went on far too long with caretaker management. This was a contributing factor in a decline of services. Staff has been restructured several times to compensate for the poor systems support and the mismatch of agent and GDF capabilities and responsibilities. This was inefficient and reduced moral.

Future.

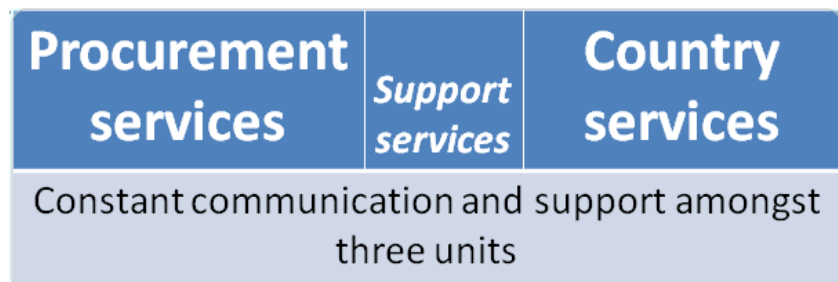
Before the future structure can be considered it must be decided what will be wanted from the GDF of tomorrow. For first line drugs the future is probably similar to the present, until new antibiotics or vaccines become available. While their arrival will be welcome, wide-spread use is more than 5 years away. More attention needs to be placed on pediatrics and diagnostics but using existing paradigms.

For second line drugs the problems facing supply are more significant. There is insufficient production capacity of drugs of known good quality for some of the drugs, to meet the rapid anticipated scale up.

Market shaping following the Porters Five forces, to bring online more producers and to increase capacity of already approved producers, is required. At the same time balancing the global demand so that an expansion in one large country does not cause shortages in all other countries. Anticipating and influencing the timing of new guidelines and training materials and influencing the prequalification process to give priority to high risk products. Understanding the impact of the new diagnostic methods and adjusting the market as quickly as possible. Forecasting needs in changing circumstances and entering into contracts which are enabling rather than restrictive, will require creativity. Thus the future will be very demanding and will require more high level skill sets.

Structure

The GDF has three main divisions.



- The Procurement side with staff interacting directly and managing the procurement agents, manufactures and the logistics of getting goods to countries.
- The Country side with staff interacting and supporting the countries to understand their supply needs and converting their needs into a structured demand.
- The Business services with staff responsible for providing the services that will allow the GDF to run effectively, including data, system support, finance, advocacy, human resources etc.

Each of these units look outward and communicates with the rest of the world on their topics but also look inwards exchanging information with each other to enable the other units within the GDF to do their jobs properly.

Consideration if these units are best positioned

Country support. The authority of WHO, more than any other organization, open doors in the health field in-country. Action and interaction at country level is greatly enhanced by being under the umbrella of WHO. In addition, Country support works very closely with the TB department as well as the STOP TB partnership. Understanding the direction of STOP TB is crucial. The Country side of the GDF works best when alongside the STOP TB. From the interview process it was clear that this unit was perceived to have a good interaction with the countries but needed more support from partners such as MSH to provide assistance to the in-country logistics and improving country programmes. Providing the support to the country to improve their TB programmes is beyond the scope of the GDF but observing problems and opening doors so that other agencies can do the work that they do best is an on-going and long term process.

It was explained that much of the work that should be done by the procurement agents is being done by the Country support teams. When a country reports a shortage or potential shortage the Country support team becomes involved with the manufactures to understand the situation and to try and resolve the issues. To a large extent this is a reactive process to complaints rather than a proactive process to prevent problems. It has become a vicious cycle with more and more staff time being

devoted to responding to country complaints and less and less reliance on the agents to do the job they are being paid for

While there are many advantages in clarifying the roles of the Country support team versus that of the procurement agent there are no obvious advantages in moving the Country support unit away from STOP TB or away from the other parts of the GDF.

The Business service unit obtains and provides information between the Supply side and the Country side and provides the tools for the GDF to be able to undertake and monitor its own work and the work of its agents. The display of information gathered and available within the GDF is impressive. However the information is incomplete and difficult for a busy person to access. The reports available are not yet being utilized by staff. The tools may be available theoretically, but staff is operating without them. This represents an easy upgrade of performance by making the information available on line in real time and in a manner that helps staff do their work. Because of the function of the Business services unit it must be aligned to at least one of the units and preferably both. While significant parts of the Business service unit could be moved to another organization or location, a significant part of the operation needs to be positioned alongside the Partnership and at least one of the units of the GDF.

The Supply side. This is the unit of the GDF where there are options. It may be well positioned but some or all of the parts could benefit from outsourcing where an outsourcing partner has significant advantages in performing the work. The analyses already provided to the CB are sound. Because of the variety of options that could be considered, a full financial analysis of the various options has not been performed but rough estimates of increases or decreases in cost have been added to each option. (For staffing in the UN system, it is considered conservatively that a professional costs \$200,000 per year and a support staff costs \$100,000. For private industry the cost is estimated at two thirds of this value).

The Supply side is normally thought of as the placing of purchase orders but this is only a small part of the operation. Essential elements of the supply system have been grouped into six areas for ease of comparison and discussion and include;

(A) Product selection, product design, enable new suppliers, expand existing capacity, prequalify quality, prequalify commercially, prequalify financially, stockpile management, forecasting, (all high level)

(B) Tendering, adjudication, long term contracting, (Medium level)

(C) Ordering, inspecting, payment, expediting, (Routine)

(D) Freight forwarding, customs clearance, inland freight, track and trace, (Routine)

(E) Warehousing, (Mostly routine)

(F) Monitoring and reporting. (Mostly routine)

These elements could be further subdivided into discrete activities or any of these elements could be subdivided so that activities could be handled by more than one entity. The theoretical possibilities are almost limitless but these logical groupings are to enable discussion upon a common basis.

Looking at the options on the table using these six categories:

Option A	A	B	C	D	E	F
	High level	Long term contracts	Placing purchase orders	Freight forwarding	Warehousing	Monitoring
Current GDF	Only partially done	Outsourced to agent	Outsourced to agent	Outsourced to agent	Outsourced to producer	Shared
Staffing and agents cost, about \$9.9 mm/pa	The tendering, expediting, monitoring and reporting, performed by the Agent, currently requires considerable support from the GDF. Such support is necessary with the selected agents but diverts effort from the high level Category A functions and also from Country support.					
	This option is showing signs of stress and needs to be strengthened or changed					

The original model, to outsource everything to the best available agent worked well for a number of years but became inefficient as time has passed. GDF staff has taken over more and more of the duties that had previously been done by the agents. Partially this reflects an increasing knowledge and capacity of the GDF staff and partially because the agents performed below the standards required for the much larger GDF.

In addition many of the tasks now required of the GDF simply cannot be performed by a disinterested agent but requires knowledge only available by constant interaction with country programs and STOP TB partners.

A general business manager may have been a good option in the earlier days bringing in procurement expertise when it was needed. With the increasing complexity of the work and the size of the operation having a manager completely competent in all aspects of procurement is a must.

Option B	A	B	C	D	E	F
	High level	Long term contracts	Placing purchase orders	Freight forwarding	Warehousing	Monitoring
GDF to procure directly	Only partially done	GDF	GDF	Outsourced to Agent	Outsourced to Agent	Only partially done
Agent costs minus about \$4 mm. Staff costs plus about \$1mm. High investment to create new entity.	The low cost is attractive, however WHO would never approve the establishment of an independent procurement system. This option need not be considered further.					
This option cannot happen (within WHO)						

It had been hoped that the GDF would create its own independent operation installing all of the systems needed to operate a good procurement and supply operation. This was an ambitious concept but would have made the GDF accountable entirely for all aspects of the supply process. The main advantages would be accountability, custom designed system and lower cost

This model would not be allowed while the GDF operates under WHO. WHO would not allow for a parallel financial system to operate and is ambivalent about expanding into an area which does represent its core competency

Option C	A	B	C	D	E	F
	High level	Long term contracts	Placing purchase orders	Freight forwarding	Warehousing	Monitoring
GDF to use the services of CPS	Only partially done	GDF	WHO/GMS	Outsourced to Agent	Outsourced to Agent	Only partially done
Agent costs would be reduced by about \$4 mm. Staff costs would increase by about \$1mm	The low cost is attractive; however the WHO/GSM system is unresponsive with collaborating staff transferred to Malaysia. There is no trace and track system so once orders are placed monitoring progress can only be done manually on a case by case basis. An advanced track and trace is scheduled for introduction in two to three years. In addition has no warehousing experience. Its QA system works well for items which are on the WHO published pre-qualified list but is difficult for products not yet pre-qualified as they do not have their own staff conducting QA.					
This option cannot be considered for two to three years						

If the GDF was unable to establish a standalone system then perhaps a hybrid system relying on the WHO/CPS/GSM system to place orders and make payment and for the GDF to undertake all of the activities before and after the placement of the order.

This is a low cost option as the services of the CPS/GSM system are included within the normal overhead charged by the WHO. Unless they opt to outsource to another agency such as UNICEF. There are cross agency agreements for some items where orders placed with WHO are purchased and supplied by UNICEF.

However the supply services provided by WHO have never risen to the standard of others and WHO has often contemplated closing it down leaving only the services in place that WHO needs to operate. The internal systems are in the process of being updated but currently are well below the standards that a modern supply business needs. There is no ability to track orders or to provide a report on progress.

In addition to the lack of system the structure is changing. The core staff has been transferred to Malaysia. Communication directly with the people responsible for ordering is prevented. Instead all questions go into a general enquiry and are answered anonymously. This prevents the building of a rapport and leaves urgent question responded to in a routine manner.

New systems are being installed and perhaps in two to three years (their target for trace and track) this option could be again revisited.

	A	B	C	D	E	F
Option D						
	High level	Long term contracts	Placing purchase orders	Freight forwarding	Warehousing	Monitoring
Transfer all procurement activities to another high functioning agent; example UNICEF	Only partially done	UNICEF	UNICEF	UNICEF	UNICEF	Shared
Staff costs minus \$300,000. Warehouse cost costs plus \$3mm. Shipping costs minus 2mm	A well known reliable entity with well functioning supply systems. Significant confidence in status of order placement and delivery. Already meets QSM standards. Staff in GDF would reduce by 4. Staff in UNICEF would increase by 2. Net staff saving \$300,000. The agent fee would be about the same for items shipped from producer to country (4%). Fees would triple for items to be warehoused (8%). UNICEF now has a series of Regional warehouses which would allow for stockpiling close to the point of use. Sea shipment to the stockpiles offers reduction in delivery times and shipping cost reductions.					
	Probably the highest performing option available but the most expensive					

UNICEF has a very good reputation for the provision of vaccines, medical equipment pharmaceuticals and anything else that supports their mother and child focus. Supply of commodities is a core competency of UNICEF and they do supply well. Because they do end to end procurement, the fees charged are at the high end of what an agent would charge. The end to end service is fixed and not negotiable. One either hires the entire system or none of it.

For the high level market shaping activities that will be increasingly required by TB especially the second line drugs, UNICEF is not a good match. They have little experience with TB neither at the HQ level nor at the country level. This could change as they became involved but it would take some time to have the depth of experience already contained within the Partnership. There is also some question if UNICEF would be interested in raising its profile on TB as it does not easily fit within the image that UNICEF has been cultivating for decades.

If the UNICEF option was chosen, there would still be a need to maintain the high level future functions for procurement in the GDF alongside STOP TB and the Country support team.

NB Apologies to the Board. An earlier draft used information that was out of date. UNICEF fees for warehousing have dropped from 13% to 8% and Regional warehouses have been established putting stock closer to the clients.

Option E	A	B	C	D	E	F
	High level	Long term contracts	Placing purchase orders	Freight forwarding	Warehousing	Monitoring
Transfer all procurement activities to VPP	Only partially done	Agent	Agent	Agent	Agent	Shared
Staff costs minus \$600,000. Agent fees no change	The description of the procurement activities of the VPP and the GDF are very similar. The VPP is significantly larger but without a focus or experience in the supply of TB drugs and little interest in the high level functions of global supply that are required for the future. Good for GF recipient. Lower staff cost for GDF Deliveries often delayed due to time consuming approval processes. Some question whether increased responsibility is welcome.					
	Reasonable option for current GF grants recipients. Little obvious advantages over GDF for other clients					

The Global Fund is the public health supply giant, easily dwarfing other support in its areas of interest. For the most part it has a radically different approach to procurement. As a fund it provides money but does not try and influence countries neither to standardize on a limited number of products nor to consolidate procurement through a central contract.

The VPP goes some way to taking advantage of the large purchasing power of the GF but by making the process voluntary and not requiring standardization reduces the ability to influence the major producers.

Influencing the producers is a crucial way forward to improve the availability of second line drugs and so transferring the procurement process to the VPP is likely to have a negative influence on market shaping.

The process used by the VPP is similar to the process used by the GDF but without the market shaping activities. As the VPP has no expert knowledge of TB drug supply there are no obvious procurement advantages in transferring the procurement operations to the VPP.

There are some advantages in encouraging countries receiving grants for TB drugs from the GF to requesting the GF to also undertake procurement through the VPP as it would keep accountability all in one organization. It would mean that non-GFTB countries would still need another mechanism.

	A	B	C	D	E	F
Option F						
	High level	Long term contracts	Placing purchase orders	Freight forwarding	Warehousing	Monitoring
Transfer all procurement activities to CHAI	CHAI Done well	CHAI	Agent	Agent	Agent	Shared
Staff cost minus \$300,000. Agent fees no change in most models	CHAI has considerable strength in market shaping. It carries this into long term contracts. CHAI is able to use private sector negotiations to arrive at contracts. Such contracts are excluded from the GDF and would prevent GDF being able to utilize funds from WB, USAID, and CIDA etc. From this point on, they follow a similar design to the GDF but on a much larger scale. As CHAI uses agents in the same way that the GDF does there would be no change in agent fees.					
	Working with CHAI to shape markets but stay within public procurement guidelines, would be beneficial. Similar process for other activities, but novel fee structures					

CHAI is the most innovative and successful procurement entity that we have. They have thrown out the rule book concerning how public procurement should be conducted and have no fixed process. They adjust each process according to the circumstances of the program.

They use agents to a greater or lesser extent. The fee structure when they use agents has been 3-4.5%. Sometimes they involve agents minimally and have a flat fee for the placing of a purchase order. The fee varies from \$500-\$1500. Sometimes they undertake procurement themselves, from top to bottom, when this is the best option.

They select suppliers to cultivate and then give them long term assurance of price maintenance.

In so many respects CHAI acts like a private sector entity but works within the public sector environment.

There is much to be gained by a close association with CHAI with some care to reduce the risks which the private sector can assume but are an anathema to the public sector. There is also a need to maintain transparency and inclusiveness, which CHAI is not bound by in some of its transactions.

There are more risks to the GDF if CHAI were to take over responsibility for TB supply but these can be mitigated if the activities are limited to collaboration

Summary and alternative model

The analyses already provided to the CB are sound, but look at the other operations in totality. There are possibilities to take the best functions from more than one agent to arrive at a solution better than choosing between fixed options

Option	A	B	C	D	E	F
	High level	Long term contracts	Placing purchase orders	Freight forwarding	Warehousing	Monitoring
Current GDF	partial	agent	agent	agent	agent	shared
GDF does all	partial	yes	yes	agent	agent	partial
GDF with WHO	partial	yes	WHO/GMS	agent	agent	partial
UNICEF	partial	yes	yes	yes	yes	shared
VPP	partial	agent	agent	agent	agent	shared
CHAI	yes	yes	agent	agent	agent	shared
USAID					agent	
GDF high level	yes	yes	agent	agent	agent	shared

Putting these options into one table and marking in blue areas which are done particularly well by each entity it can be seen that UNICEF and CHAI undertake areas of work which are considered to be amongst the best available. CHAI and UNICEF stand out as having the features which are of the most value to the GDF. CHAI couples the high level procurement functions with long term contracting before seeking agents to undertake the routine work. UNICEF couples the long term contracts with the routine work and does not use any agents for procurement and has a global contract for freight forwarding.

If the high level procurement functions were maintained within the core GDF then UNICEF could be a good option to undertake everything else. This would bring all of the UNICEF systems in to play in the supply process. The ability to modify contracts or priorities in a changing world would be limited. Supply of routine items, such as first line drugs are more appropriate for a UNICEF process.

The close interaction between CHAI and the producers is particularly suited for changing situations such as exists for second line drugs and new diagnostics. Passing the supply function for TB drugs over to CHAI

would be difficult, using the current funding process, as they follow business practices which work well for them and their funding sources but would be difficult to get approved by WB and WHO.

Option A revised	A	B	C	D	E	F
	High level	Long term contracts	Placing purchase orders	Freight forwarding	Warehousing	Monitoring
Revised GDF	GDF Partner with CHAI	GDF	Outsourced to private sector agent	Outsourced to private sector agent	Shared with private sector agent	Shared with private agents
Staff costs minus \$300 m. Agent fees reduced by 1% minus \$600 m. Reduction in shipping cost \$2mm	The major changes of this option would be a strengthening of the High level procurement functions by partnering with CHAI. Control over the long term contracts currently outsourced to an Agent. Better choices of a procurement agent to more closely match with GDF needs. Outsourcing of warehousing closer to point of use. Cost of warehouse more than offset by reduction in shipping costs.					
	This option follows not just one model but the best of all of them. It partners market-shaping with CHAI. Models high level contracting on CHAI and UNICEF. It contracts out to the best possible agent with the best ability to report and undertake the routine functions of order placement and delivery, modeled on VPP and CHAI (with greater due diligence). It takes the warehousing and stockpiling from USAID/SCMS					

This final model would require that the high level function activities of the current GDF be strengthened and encourages a close cooperation between CHAI and the GDF. The GDF would take over the issuance of tenders and the creation of long term contracts which would be tightly coupled with the high level activities.

The other procurement functions would be outsourced to the best available agent based on function and cost through a competitive process, with awards been made based on technical merit and compatibility. A lower than current fee would apply as some functions would be undertaken by the GDF. A much better match between the GDF system and financial requirements would need to be made.

Routine products would be a good match for a full service procurement organization like UNICEF. Products which are not yet routine would require a tailor made solution

Annex

List of contacts made by Peter Evans during the visit 9-18 January

GDF

Caroline Bogren GDF manager

GDF Country Support team- Andrea de Lucia, Anne Zeindl Cronin, Aziz Jafarov

GDF Operations team - Thierry Cordier Lassalle, Helene Castel, Tom Hiatt

GDF Procurement teams - John Loeber, Kaspars Lunte, Maria Sarquella, Miro Garcia Montes, Elena Mochinova, Annette Kasi Nsubuga

GDF pharmacist - Paloma Marroquin Legra

Thomas Vergès - Logistics Officer FIND

Gini Arnold - former GDF manager

Robert Matiru - former GDF manager

Tom Moore – former GDF manager ad interim

Julia Greer –former GDF manager ad interim

Stop TB

Lucica Ditiu - Executive Secretary of the Stop TB Partnership

Suvanand Sahu - TB Reach

Joel Spicer Strategist Stop TB partnership

WHO/STB

Mario Raviglione - Director Stop TB Department

Paul Nunn - Coordinator Stop TB Department

Katherine Floyd - Stop TB Department

Malgosia Grzemska - Coordinator Stop TB Department

Diana Weil - Coordinator Stop TB Department

Karin Weyer - Coordinator Stop TB Department

Ian Smith – WHO/ DGO

Esa Paakkonen WHO/IOS

David Webb WHO/IOS

Rago Lembit WHO/QSM

Partners

Cécile Mace - The Union

Nathalie Garon - CIDA

Michael Kimerling - Gates

Abigail Moreland - BCG

Joelle Daviaud - the Global Fund

Cheri Vincent - USAID

Maarten Van Cleeff – KNCV

Yvette Madrid - UNITAID

Oliver Sabot – CHAI

Umesh Wart - CHAI

Robert Gie - Chair of the GDF/TRC