

STBP/GDF Flexible Procurement Fund (FPF)
Operating Principles - Diagnostics
(To be read in conjunction with the Process Flow Map attached)

Background

Stop TB Partnership-GDF's long experience and a special study it undertook in 2012 established that the root cause of more than 65 countries reporting stock-outs of anti-TB medicines between 2005 and 2012 was financial constraints.

It should be noted that even though The Global Fund (TGF) Principal Recipients accept the principle of advance payments, the finance ministries of several countries that control the flow of funds consider it against public financial accountability. The norm in such cases is to permit payments one month after delivery of the TB products.

The matter was discussed in 2014 with USAID, a principal donor of Stop TB Partnership/GDF, and it agreed to use part of its funds to set up a Flexible Procurement Fund (FPF) to function as a treasury facility for TB products. In addition, Stop TB Partnership (STBP) has decided to allocate funds from its savings over the past period to the FPF. This would offer guarantees to Procurement Agents and/or UNOPS for meeting payments in cases where the countries, even though they had the funds either through TGF or domestic funding (sometimes through a WB loan), were not able to make advance payments for procurement of TB products.

During the recent period, STBP has noticed the similar trend and need for the procurement of diagnostics products. The FPF mechanism is therefore extended to respond to this need from Country Clients who want to procure diagnostics products from STBP-GDF but are not able to make an advance payment.

Policy for using FPF

The policy is to assess the financial risk of eventual nonpayment of an order that has been proposed to be covered by an Amendment to the In-house procurement Project Agreement or by a Letter of Guarantee (LoG) from the Stop TB Partnership to Procurement Agent (PA) if procurement of diagnostics is done by a PA. If this risk is low, then to support the order, issue the Project Amendment in case procurement of diagnostics is done in-house or issue a LoG to PA in case the procurement of diagnostics is done through a PA. The policy requires that STBP keeps a strict control of the use of the FPF and uses its official contacts to recover the payment from the country/client.

Operational details relating to FPF

1. Total value of FPF currently stands at USD 6,560,000 million, in which USD 4,700,000 million is funded by USAID and USD 1,860,000 million is from STBP's own funding.
 - USAID funding will be used for USAID priority countries (Tier 1 and Tier 2)
 - STBP's own funding will be used for all other countries
2. The total amount set aside for use by FPF may be revised up or down and other donor funds may be put in the FPF.
3. A log will be kept by STBP finance on the use of FPF.

4. Use of FPF will be available to countries in the following three income categories as established in the WB list
 - Low-income
 - Lower-Middle income
 - Upper-Middle-income
5. A list of countries potentially needing support from FPF will be maintained by GDF and updated as and when the World Bank list is updated.
6. Orders to be drafted in OMS by GDF as soon as the Procurement Request Form (PRF) is received from the country and quote prepared. GDF Chief approves use of FPF for the order.
7. If a country is using TGF grants, then the following conditions must be satisfied:
 - 6.1 If funds are held by TGF, TGF shall provide a guarantee letter stating that the funds will be transferred directly to STBP (or PA) within the required timelines;
 - 6.2 If funds have been remitted by TGF to the country and are kept in the national treasury, the TGF shall provide a guarantee letter stating that a) the funds have been transferred to the country and b) that in case of payment default by the country, TGF will transfer the payment directly to the STBP (or PA) within the required timelines.
8. Countries that have TGF grants but would like to use domestic funding may also request FPF support.

The Client shall provide a letter of commitment stating that funds will be transferred directly to STBP (or PA) within required timelines. If country's credit rating is low, STBP may request for an additional letter from TGF or another donor to support request for FPF (to be provided at discretion of TGF or another donor).
9. If a country has graduated out of GF support, it may still request FPF support.

The Client shall provide a letter of commitment stating that funds will be transferred directly to STBP (or PA) within required timelines. If country's credit rating is low, STBP may request for an additional letter from TGF or another donor to support request for FPF (to be provided at discretion of TGF or another donor).
10. For In-house procurement, if a country requests to pay through a Letter of Credit (LoC), FPF will be needed to cover any cash needs until the payment to STBP is released by the bank. The Letter of Credit submitted must be issued/confirmed by a bank or financial institution with strong credit ratings and validated by UNOPS treasury.
11. STBP Finance carries out a financial risk assessment for each order requested to be guaranteed through the FPF mechanism. An FPF credit assessment will be done by STBP Finance for each country, based on but not limited to: the latest Country's Credit rating by rating agencies and World Bank, together with the World Bank analysis of the country's political and economic stability; (ii) Availability of The Global Fund (TGF) grants to it; (iii) TGF rating of the country; (iv) Previous financial defaults of the country, if any ; (v) previous record, if any, of using the FPF and actual invoking of the Letter of Guarantee (LoG) (if FPF has been used for medicine or diagnostics order for the country for procurement done through a PA) or Project Amendment (if FPF has been used for medicines or diagnostics order for the country for procurement done in-house).

12. Following completion of the financial risk assessment for the order requested to be supported by the FPF mechanism, STBP Finance drafts a memo setting out the rationale for supporting or not the use of FPF guarantee mechanism. STBP Finance submits the memo to STBP management for its clearance. Such memo shall be cleared by GDF Chief and STBP Executive Director.
13. An OMS ceiling is established to monitor commitment and expenditure in OMS.
14. This step applies only to the orders using USAID funding from the FPF. If the order is considered acceptable for FPF support by STBP management, then STBP will consult and obtain approval from USAID for the use of the funds. The USAID approval would mean that in case the country fails to conform with agreed payment terms to UNOPS or to PA, funds from the FPF shall be utilized to settle pending payments to PA or suppliers and service providers. If USAID approves the use of FPF for the order in case, the guarantee letter can then be issued to the PA or amendment of the project agreement can be done if procurement done in-house and the order can be processed.
15. If procurement is done through a PA, STBP Finance will prepare the LoG and inform UNOPS on the case. UNOPS will review the case and the LoG will be signed by Regional Director, UNOPS ECR. If procurement is done in-house, the amendment to the project agreement will be made and signed by UNOPS ECR Regional Director and the Client.
16. The signed LoG or signed amendment of the project agreement will be uploaded under the respective FPF order in OMS. The FPF orders will subsequently be cleared by STBP Finance after adjusting the relevant FPF ceiling and entering the details in a chronological record and will be placed with suppliers.
17. PA or STBP-GDF shall execute the POs guaranteed through the FPF on credit terms, with a target timeframe for payment by eligible clients of 30 calendar days from the date of arrival of the products at the designated point of delivery and submission of Proof of delivery/Proof of arrival as per agreed Incoterms. In case of Letter of Credit, payment from the bank shall be released upon submission of all agreed documents as proof of delivery/arrival as per Incoterms.
18. UNOPS/StopTB-GDF (in case of in-house procurement) or PA (in case of external procurement) shall follow-up closely with Client/bank to ensure payment for the order.
19. In the event the Client fails to pay the invoiced amount to PA within the target timeframe of 30 days after delivery, the PA will be entitled to call upon the guarantee.
20. In case the Client fails to conform with agreed payment terms to the PA, and PA calls upon the guarantee, the funds from the FPF shall be utilized to settle pending payments to the PA. For in-house procurement, in case the Client fails to confirm with agreed payment terms to UNOPS/STBP-GDF as per amendment to the project agreement, the funds from the FPF shall be utilized by STBP-GDF to settle pending payment to suppliers and service providers.
21. This step only applies to orders using USAID funds from the FPF: Upon receipt of request to invoke the guarantee if procurement done through a PA or funds are not received from Client while payments are due to suppliers and service providers for procurement done in-house, UNOPS/STBP will send an official letter to USAID to inform on the use of funds from the FPF for the payment purpose (relevant funds shall be drawn down from USAID Treasury, and available balance of FPF adjusted accordingly).

22. (Steps 21 to 24 are applicable only for procurement done through a PA). UNOPS/STBP will make the payment within 30 days after receiving from the PA: the request, the invoice and complete supporting documentation including proof of payment default by the Client to PA and will update the FPF log.
23. Upon receipt of payment from STBP, PA will immediately write to the Client and request immediate payment to STBP stating that the payment now needs to be remitted to STBP as the PA's liability related to the FPF order has been settled by STBP on the basis of the guarantee letter issued by STBP to PA.
24. If for some reason, payment for the invoice settled by STBP is received by the PA from the Client, the PA will notify STBP immediately and remit the funds so received to STBP. If funds cannot be remitted immediately, they should be kept by the PA in a special FPF account for STBP.
25. The Special FPF account, held by the PA, may be used if authorized by UNOPS/STBP to settle future guarantee payments. It will be revised periodically and UNOPS/STBP may request the PA to transfer the funds from the special FPF account to STBP/UNOPS as and when deemed necessary.
26. (Steps 25 to 26 are applicable only for procurement done in-house). Upon receipt of invoices and complete supporting documentation as proof of delivery from Suppliers and Freight Forwarders, UNOPS/STBP will proceed with payments.
27. Upon receipt of payment from the Client, UNOPS will inform STBP, record the funds and make the necessary accounting entries in one UNOPS.
28. If payment is not received from the Client, UNOPS/STBP-GDF will make efforts to obtain the payment. However, payment not received within six (6) months after delivery of the order will be considered default.
29. The FPF log will be updated and record of the client will be kept and facilitate business decision in the future. A monthly report will be prepared by STBP Finance on the use of FPF and it will be submitted to donor, STBP management, and UNOPS.