

34th Board Meeting

Development of an e-marketplace for the procurement of public health commodities

GF/B34/24

Board Information

PURPOSE: To provide a comprehensive update on the Global Fund's e-marketplace initiative, including an implementation and Board decision timeline to the Global Fund Board.

I. Decision Point

1. There is no decision point presented with this paper.

II. Relevant Past Decisions

The following summary of relevant past Board and Committee decision points is submitted to contextualize this paper.

Relevant past Decision Point	Summary and Impact
GF/B23/DP21: Global Fund Market Shaping Strategy and Market Shaping Interventions for ARVs (May 2011)¹	The Board acknowledged the Global Fund’s critical role in shaping markets to maximize global access to health products and further emphasized its desire for the Global Fund to more actively shape markets for health products to optimize price, quality, design and sustainable supply. The Board approved the market-shaping strategy recommended by the Market Dynamics Committee, including a set of specific interventions for anti-retroviral medicines (ARVs). This strategy superseded the Market Shaping Strategy approved in 2007 (GF/B15/DP15).
GF/B23/DP09: Plan for Comprehensive Reform: Value for Money (May 2011)²	The Board recognized that the Global Fund is well-positioned to drive value for money and leverage its role as the primary financier of essential health products to improve quality, price, design, and sustainable supply. The Board asked the Market Dynamics Committee to propose expanded uses of the Global Fund’s market dynamics “toolkit”. Among other directives, it also requested the Secretariat to take all necessary and appropriate measures to fully implement voluntary pooled procurement and aggressively execute the Market Dynamics Committee recommendations.
GF/B15/DP15: Market Dynamics and Voluntary Pooled Procurement (April 2007)³	The Board adopted the objective and guiding principles for market shaping set out at the 14 th Board meeting and amended at this meeting. In addition, the Board decided to pursue voluntary pooled procurement as the first element of its market dynamics strategy. As such, the Board required that the pooled service shall be operated by one or more global or regional procurement agent(s), and that the Secretariat “shall direct the Procurement Agent to seek to award contracts for a given product to several suppliers, where possible and appropriate in view of consideration of market dynamics.” Finally, participants in the pooled service must agree to direct payment to the procurement agent for purchases. It also determined to strengthen the “Price Reporting Mechanism” (now the Price Quality Reporting Mechanism) and enter into contracts to provide procurement capacity-building services to Principal Recipients.

¹ <http://theglobalfund.org/Knowledge/Decisions/GF/B23/DP21>

² <http://theglobalfund.org/Knowledge/Decisions/GF/B23/DP09/>

³ <http://theglobalfund.org/Knowledge/Decisions/GF/B15/DP15/>

III. Action Required

2. This document provides an update on the e-marketplace initiative. Input provided by the Committee will be factored into further planning and development of the initiative. The Secretariat will continue to provide regular updates to the Committee and Board on the development, implementation and roll-out of the e-marketplace.

IV. Executive Summary

3. The Global Fund continues to have an influence on the markets of those products it finances through grant funds. The 2011 Market Shaping Strategy included a framework and recommendations to the Secretariat on the parameters to operationalize this strategy.⁴ The strategy mandates that the Secretariat, and specifically the Sourcing Department “play a greater role in market shaping to address market limitations and ensure Principal Recipients (PRs) procure the most cost-effective, quality assured WHO-recommended health products.”⁵ The Global Fund is well-positioned to drive value for money of donor investments and to leverage its role as the primary financier of essential health products to improve quality, price, design, and sustainable supply.

4. Through its decisions⁶, the Board has recognized the importance of the Pooled Procurement Mechanism (PPM) as a tool that allows the Global Fund to pool demand among participating PRs, resulting in lower prices as well as increased leverage and negotiation power. The Sourcing Department is committed to refining the operational implementation of PPM to provide an innovative solution to a number of challenges that exist in the HIV, tuberculosis and malaria health-product markets and limit the programmatic impact for Global Fund investments. Some of these include limited visibility leading to sub-optimal purchasing decisions, price volatility, significant waste, and market inefficiencies.

5. In 2014, the Secretariat introduced the concept of an online procurement platform to alleviate identified challenges and achieve higher procurement efficiency, direct cost optimization and reduced stock-out that would operate within the operational framework of the PPM.

6. The Secretariat has analysed the potential impact and benefits that the e-marketplace could provide. The e-marketplace initiative is expected to provide PRs with greater visibility on pricing and availability, as well as a means to purchase qualified medicines, diagnostics, and health and non-health commodities. The Global Fund anticipates that this will lead to increased market transparency and competition, resulting in greater affordability, as well as facilitating the adoption of innovative products. Benefits described in the business case as well as feedback from consulted PRs demonstrate that the e-marketplace initiative could encourage countries to build sustainable procurement processes and improve the effectiveness, efficiency, and value for money of donor investments.

7. Likewise, the Global Fund Secretariat, in consultation with partners, has conducted operational and strategic risk assessments. This paper explains the potential impact of such risks and further explains mitigations strategies. The paper also identifies a number of risks which are currently being analyzed together with strategic partners.

8. E-marketplace processes must be developed in accord with existing Global Fund ordering processes, sourcing interfaces and forecasting interfaces to ensure a timely implementation. The Global Fund has developed a series of design principles as well as an operational model to serve as the basis for e-marketplace development. The Global Fund completed a Proof of Concept in early 2015 and is

⁴ Annex 1 to GF/B23/09 – Revision 1

⁵ GF/B23/09 – Revision 1

⁶ GF/B23/DP21 approving the Strategy; GF/B23/09 revision 1 – annex 1, the Strategy

currently in a Consultation and Design phase, to be followed by a Phased Launch and Roll-out beginning in Q1 2016.

9. As part of the Consultation and Design phase, the Secretariat has completed a number of consultations with in-country partners, suppliers and Procurement Services Agents (PSAs). These consultations are intended to give PRs a first-hand experience using the e-marketplace systems and processes to ensure that compatibility and user experience requirements are met and are key to implementing the e-marketplace among first users and ensuring a smooth ramp-up of PRs to the platform.

10. The Secretariat is also conducting outreach and engaging with partner organizations and other multilaterals to gather feedback to share information with stakeholders regarding project development. The Secretariat and partners have held initial discussions on enabling other organizations to potentially utilize the e-marketplace for their own procurement.

11. The Global Fund maintains strong relationships with core partners in its fight against the three diseases. Strategic partnerships on the e-marketplace with the Bill and Melinda Gates Foundation, UNITAID and the Clinton Health Access Initiative (CHAI) draw upon expertise that will enhance, but not replace or duplicate, efforts to enable greater access to medicines.

12. UNITAID's innovative product and market-shaping knowledge is key to ensuring that the e-marketplace could facilitate the introduction and monitoring of new, innovative products. An e-marketplace driven by UNITAID's innovative product and market-shaping expertise – including market intelligence and data management – will enable greater accessibility to high-quality medicines and healthcare products to greater numbers of individuals in need. UNITAID will also help ensure that the tool does not create unintended market consequences, but rather leverages its potential to fully meet its mission.⁷

13. Collaboration via the Innovation work stream and the e-marketplace can achieve increased market effect and public health impact, while realizing greater value-for-money in donor investments. UNITAID's leadership in the Innovation work stream and its strategic partnership on the e-marketplace are vital to ensuring that the e-marketplace increases access to health products and services.

14. UNITAID will identify and prioritize selected innovative HIV, TB, and Malaria interventions to pilot for introduction to the market via the e-marketplace. In collaboration with the Global Fund, a defined process will be developed for including new products on the platform. The Global Fund will advise on the technical aspects of incorporating these new products to the e-marketplace tool.

15. In addition to the partnership with UNITAID, CHAI and the Global Fund have finalized a Memorandum of Understanding (MOU) to collaborate on the e-marketplace across several work streams related to the design, testing and adoption of the e-marketplace by implementing partners, suppliers and other stakeholders.

16. The Secretariat has analyzed the PPM demand forecast for 2016, and has agreed upon a preliminary product ramp-up to facilitate procurement for pilot countries based on their product demand for the coming months. Based on this most recent demand forecast and product roadmap, it is anticipated that the e-marketplace could at least process USD 250 million in transaction volume in 2016.

17. The gradual implementation and on-boarding of PRs to the e-marketplace encourages continued and regular Board consultations, particularly at early stages leading up to the refinement of e-

⁷ The possibility of unintended consequences and potential trade-offs resulting from the deployment of the Global Fund's market-shaping tools is discussed in the revised Market Shaping Strategy. See GF/SIIC16/12: "Market Shaping Strategy – Revision 1." October, 2015.

marketplace processes. The Secretariat will carefully pace both the product and PR ramp-up to the e-marketplace, gradually introducing the different functionalities, product categories and PRs who choose to utilize the platform. The Secretariat will inform the Board in advance of such expansions to seek input and approval where necessary.

18. The Secretariat has consolidated a comprehensive overview and update on the e-marketplace, which is reflected in this paper and will be presented for information and review at the Global Fund Board meeting to be held in November 2015.

19. In addition to preparing for the Q1 2016 phased launch of the e-marketplace, the Global Fund has begun discussions with a number of multi-lateral organizations and transitioning countries that have expressed interest in the possibility of utilizing the e-marketplace to procure their own commodities during the second phase of the e-marketplace. Engagement with these agencies and countries will be coordinated to facilitate participation once the e-marketplace has been spun-off. However, the Secretariat will pay close attention to remain within the Board mandate to pilot the e-marketplace during its first phase and then seek the Board's approval whenever it shall propose a revision of the PPM model endorsed by the Board or envisage any spin-off model and its underlying operational, governance, financial and risk implications.

V. Background

01 E-marketplace goal, concept and vision

20. The Global Fund influences markets for HIV/AIDS, tuberculosis and malaria health products by financing the procurement of such products by its PRs and in the case of the PPM, negotiating terms on behalf of participating PRs. For example, in 2013, approximately 45% of the USD \$3.9 billion disbursed by the Global Fund was used to finance the procurement of health products such as anti-retroviral medicines (ARVs), artemisinin-based combination therapies (ACTs), long-lasting insecticidal nets (LLINs), tuberculosis medicines, and diagnostic products. Providing continued access to these critical health products is a key dimension to sustaining the progress achieved in recent years in the fight against the three diseases.

21. The e-marketplace is an online procurement platform where buyers (initially, Global Fund PRs) will be able to view and procure a broad range of products to be used in health programs. The e-marketplace could offer compelling benefits in terms of visibility and transparency, automation and efficiency, and cost optimization to both PRs and the Global Fund Secretariat.

22. The e-marketplace is an initiative launched by the Global Fund to make what the global public health sector has been doing mainly offline in the past, now systematically and comprehensively available online. The project will comprise of two phases:

- a) During phase 1, lasting until mid-2017 (preliminary timelines), the Global Fund aims to provide its PRs the tool to streamline procurement of products for Global-Fund-supported HIV/AIDS, TB and malaria programs. These transactions will be covered with Global Fund funding and the system will be in accord with the current, Board-endorsed PPM operational model.
- b) During phase 2, when the e-marketplace is spun-off, the tool will have the potential to become a veritable "global public good", available to broader global public health community beyond Global Fund PRs. The implications, including subsequent Board approvals, of an e-marketplace spin-off, and preparatory steps for doing so, are currently being discussed, however buyers could include for instance governments procuring with own funds ("transitioned countries"), PRs procuring with funds from development partners other than the

Global Fund, relevant non-governmental organizations (NGOs), and partner organizations. The spin-off phase is paramount if the financial and non-financial benefits of the platform (in terms of price, quality and processes) are to be secured sustainably and catalyzed to a larger scale.

02 Historical background: Board Sourcing mandate and corporate priorities

23. The Global Fund supports and promotes country-led grant implementation that promotes and respects country ownership. The Secretariat seeks to establish a simplified, rapid, innovative process with efficient and effective disbursement mechanisms that minimize transaction costs and operate in a transparent and accountable manner based on clearly defined responsibilities.⁸

24. Over the past 10 years, the Board has increasingly articulated the Global Fund's mandate to shape the markets of the health products it finances. The Strategy catalyzes the Global Fund's commitment to implement strategic procurement practices that can build resilient and sustainable systems for health. Finally, the strategy mandates the Sourcing Department *to play a greater role in market shaping to address market limitations and ensure PRs procure the most cost-effective, quality-assured WHO-recommended health products.*⁹

25. In 2007, the Board approved the Global Fund's initial Market Shaping Strategy, calling for the Secretariat to play "a deliberate and strategic role in improving the impact of grants by influencing market dynamics"¹⁰ and confirmed the Secretariat's authority to operate and implement Voluntary Pooled Procurement (VPP)¹¹. As part of the 2011 Market Shaping Strategy, VPP became the Pooled Procurement Mechanism (PPM) after implementing a number of operational improvements designed to enable true pooled procurement.¹² Based on lessons learned in recent years, the Sourcing Department has been tasked with taking all necessary and appropriate measures to fully refine the operational implementation of PPM under the oversight of Strategy, Investment and Impact Committee (SIIC) and the Finance and Operational Performance Committee (FOPC).

26. A 2013 review of Global Fund procurement and supply chain systems identified opportunities to encourage innovation, improve supplier performance, reduce lead-times, improve the flow of funds, and improve relationships with suppliers to further improve PPM's impact.¹³ The Secretariat launched the Procurement for Impact (P4i) transformation in 2013, which aims at bringing the Global Fund at par with best-in-class players in sourcing and procurement, yielding measurable performance in value and lives saved by increasing access to products by streamlining processes and adopting innovative tools to enable strategic development and implementation.

27. Within the Board mandate, the Secretariat is dedicated to fundamentally improving the approach in which the Global Fund works across the supply chain to increase its role in influencing the market dynamics of the health products that it finances. Thus, the Secretariat identified a corporate priority to *Increase value for money & synergies of investments, by furthering the important gains made on sourcing and procurement [...] under the Board's oversight.*

28. The Sourcing Department's P4i initiative pursues this objective by fundamentally transforming the Global Fund's procurement strategy, operations and initiatives.¹⁴ This strategy has led to a series of strategic and operational efforts and initiatives, one of which being the e-marketplace. An online

⁸ "The framework document of the Global Fund to Fight AIDS, Tuberculosis and Malaria." 2001.

⁹ GF/B23/09 – Revision 1

¹⁰ GF/B23/09 – Revision 1

¹¹ GF/B15/DP15 Market Dynamics and Voluntary Pooled Procurement (April 2007)

¹² GF/B23/DP21: "Global Fund Market Shaping Strategy and Market Shaping Interventions for ARVs." May, 2011.

¹³ Overview of the Procurement for Impact (P4i) initiative: A paper developed for the SIIC and FOPC. 2015.

procurement platform, the e-marketplace is part of the next generation of procurement initiatives. It aims to increase impact and value for money through more efficient operations and lower procurement costs to ensure affordable, accessible, quality products for the Global Fund's implementing partners. In its initial implementation, it will automate the Global Fund's PPM, seeking to further streamline the process for participating PRs. A broader scope for the online tool is contemplated, and has previously been referenced in presentations to the SIIC and FOPC. However, lessons to be learned from initial implementation within a narrower scope, followed by additional assessments of risks, feasibility and costs-versus-benefits will be used to develop proposals for the committees and the Board to consider and approve before commencing and implementing the broader scope and ambition.

29. The Market Shaping Strategy highlights the importance of PPM as a market shaping tool, allowing the Global Fund to pool demand among participating PRs. This enables improved forecasting and increases negotiating leverage, contributing to improved health outcomes through greater availability, adoption and affordability of key products. These aspects of the 2011 Market Shaping Strategy are continuing themes in the revised Market Shaping Strategy recently discussed by the FOPC and recommended by the SIIC for Board approval.¹⁵

30. Today, the Global Fund uses a number of tools to implement its market shaping strategy and P4i, including Price and Quality Reporting mechanism (PQR), PPM, and guidance from Health Product Management Specialists (HPM Specialists) among others. While the tools have begun to fundamentally transform and improve the Global Fund's procurement practices, they have only partially addressed challenges existing in procurement operations, from the quotation process to product delivery. The e-marketplace has consequently been identified as a next-generation tool to advance procurement operations efficiency and increase the value for money of donor investments. When operational, the e-marketplace could contribute to achieving the objectives of the Global Fund's Market Shaping Strategy, in addition to the operational improvements noted to meet both near-term and long-term strategic objectives and extend the Global Fund's Quality Assurance (QA) policy.

31. For example, the e-marketplace could contribute to addressing many of the challenges existing in the markets for the health products that are procured by the Global Fund's grantees, such as the high volatility of prices, health products price opacity, and supply sustainability. In the near-term, the scope of the e-marketplace is limited to operationalizing one part of broader Global Fund strategy and is focused on improving the procurement process. Other strategic and operational considerations such as in-country supply chain and capacity building are addressed in other P4i initiatives. While the e-marketplace could aid the overall procurement and supply chain process by providing expedited order processing and greater visibility, in-country supply chain and capacity building are efforts that require alignment across the Secretariat, including Grant Management, Strategy, Investment and Impact Divisions, and include elements that are outside of the scope of the e-marketplace project.

32. On in-country supply chain, the Secretariat is simultaneously developing tools and engaging with PRs directly to support in-country supply chain. Among others, these tools include a tracking tool for product shipments and measures to avert stock-outs of core products (e.g., vendor-managed inventory). Moreover, the Secretariat is now focusing on a strategy for in-country supply chain strengthening, building on the success of the Nigerian case. In addition, the Global Fund Secretariat is currently developing a separate investment strategy focused on in-country supply chains.

33. PRs on-boarded to the e-marketplace will be supported by mandatory e-marketplace training modules on the tool itself but also the way to procure with it in accordance with local and international regulatory requirements. However, in-country capacity building is addressed more broadly through the Global Fund's ongoing investments to build resilient and sustainable systems for health, as well as the revised Market Shaping Strategy's Objective 05, focused on preparing for country transition and long-

¹⁵ GF/SIIC16/12: "Market Shaping Strategy – Revision 1." October, 2015.

term market viability.¹⁶ A cross-functional team within the Secretariat will be established to assess capacity needs, in close consultation with countries, other in-country actors including civil society, and partner organizations working on in-country capacity building. The assessment will consider areas related to skill sets or required knowledge, but also topics like human resource policies, leadership and governance. Based on this assessment, a procurement capacity-building program will be designed and implemented.

VI. Discussion

01 Why is there a need for a procurement solution and how will it function?

35. Involved daily in the public health procurement market, the Secretariat notices that existing public health procurement practices are often characterized by cumbersome, disjointed, and manual processes for gathering data on products and pricing, issuing tenders, and selecting from a limited pool of suppliers. Buyers often lack the experience, network and resources needed to access and fully analyze relevant information that would enable them to make efficient and effective purchasing decisions. The current procurement process incurs significant delays and is time consuming, resulting from numerous intermediary service providers guiding purchasing decisions, from heavy administrative burden on procurement officers, and from data that is either overwhelming or missing. These challenges limit the impact that implementers, civil society, and donor funding can have on public health programs.

36. Building upon the successes seen with past market shaping efforts by the Global Fund and partners, such as PPM, the e-marketplace aims to promote a sustainable procurement approach to address market challenges by streamlining and expediting the purchasing process. Furthermore, the platform could ensure greater visibility over procurement practices. These benefits could address many of the challenges existing in today's public health procurement market, particularly the high volatility of prices, market price opacity, and supply sustainability.

37. This innovative approach to providing access to health commodities reflects growing efforts to adjust to the changing development landscape, particularly in respect to those countries that will transition out of Global Fund financing in the coming years based on projected economic growth and current eligibility policies. If they deem it relevant, countries could have the option to utilize the e-marketplace during and after transition from Global Fund financing and will have access to Global Fund support via training and preferred pricing agreements.¹⁷ Orders to be made with countries' budgets instead of Global Fund's grants could be possible on the e-marketplace during the second stage of the e-marketplace, i.e. at spin-off.

38. The e-marketplace will provide product specifications and, eventually, cost of ownership for each product, including estimated shipping and other associated costs. A "search and discover" feature will enable buyers to access and compare product catalogs from various qualified suppliers with pre-negotiated prices, availability, and delivery estimates.

39. The buyer will be able to "select and buy," filling a shopping cart with multiple items across categories, gathering information on specific delivery times, and specifying packaging requirements. This feature will track whether the buyer has sufficient financial means in a grant to pay for the requested good or service. A "pay and track" feature to automate the payment process and track orders will provide visibility of payment, shipping, and delivery status. For each item, the e-marketplace will

¹⁶ GF/SIIC16/12: "Market Shaping Strategy – Revision 1." October, 2015.

¹⁷ The implementation timeline and parameters of possibly extending LTAs to non-PPM and transitioning countries is currently being defined, based on further evaluation of financial, risk and legal implications as well as necessary policy modifications or approvals.

show product specifications and the “total cost of ownership”, including estimated shipping and other associated costs.

40. Buyers will have the option to procure commodities via three mechanisms:

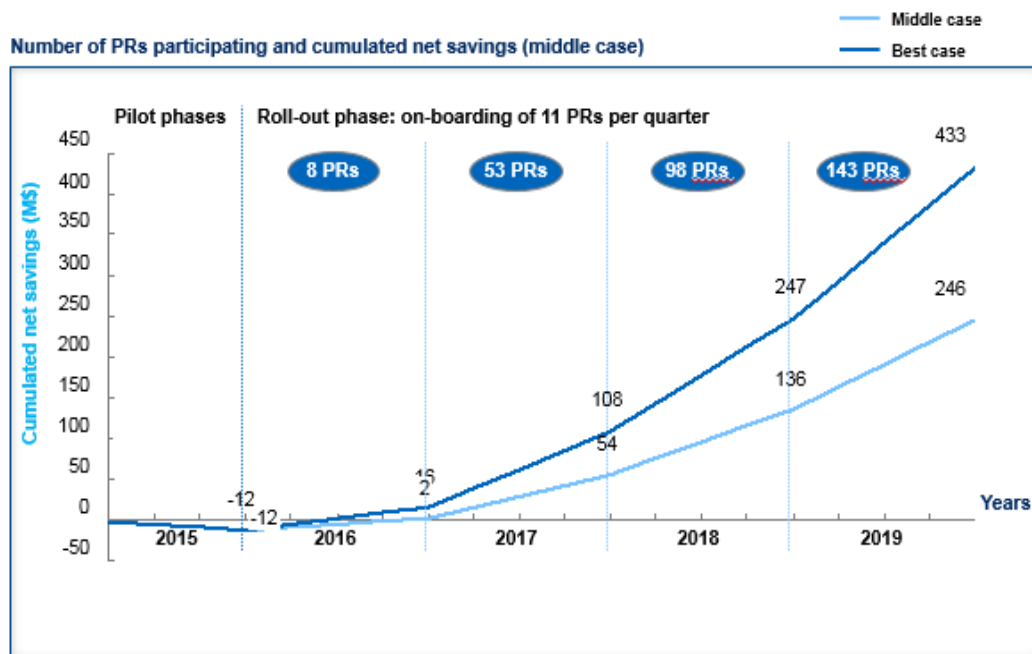
e-order from LTAs: Buyers purchase from a catalogue of products based on long term framework agreements (LTAs) between the Global Fund and manufacturers, which reflect the outcome of PPM tenders. For each product category, the catalogue will show among other things the pre-negotiated reference price.¹⁸

e-order from catalogue: Buyers purchase product categories which are not covered by LTAs, but rather available in catalogues maintained by the Global Fund or other organizations, in conformity with the Global Fund’s quality assurance policy.

e-RFQs/e-auctions: The platform could be used by buyers as an electronic tool to automate and facilitate the procurement process (e.g., tenders, auctions) and optimize quality and price outcomes.

02 Financial business case and other benefits

41. To assess the market impact and value for money of the e-marketplace investment, the Secretariat has developed a business case that measures the costs, value, and financial benefits during the first phase. The following business case analysis and associated benefits are relevant to the development and initial implementation of the platform prior to spin off. The Global Fund is expected to realize an anticipated accumulated net savings of about USD 250 million by 2019. This does not account for indirect savings which are expected to be substantial. The e-marketplace project costs will be recovered by the third quarter of 2016 thanks to the direct savings generated.



¹⁸ For "e-order from LTA", product selection is based purely on specification and not brand name. E-marketplace catalogues will only show reference prices, not specific prices actually offered by different suppliers. After product selection and submission of the purchase requisition, the e-marketplace will allocate the order to an appropriate supplier. At this point, the final product and logistics costs are communicated to the buyer.

42. The calculation of this net savings estimate is based on conservative spend assumptions, PR ramp-up of approximately 10 PRs per quarter and a middle case scenario for savings during the e-marketplace development. Further details on the business case, including savings breakdowns and assumptions are described in greater detail in Annex 1.

43. The Secretariat has analysed the potential impact and across the board benefits that the e-marketplace could provide to the Global Fund and PRs, including significant savings based on PPM spend, increased transparency and visibility, greater access to new suppliers and innovative products, each of which contributes to promoting sustainable procurement for in-country actors.

- a) Projected cumulated net savings of USD 250 million between 2015 and 2019
- b) Projected gross savings of USD 125 million generated every year as of 2019
- c) Country ownership and visibility over procurement processes
- d) 30 percent shorter transaction times, and reduced transaction costs
- e) Greater access to market for new and regional suppliers and manufacturers

44. In adopting the e-marketplace, buyers would have the option to contemplate catalogues of approved and quality-assured commodities to select the products that have the most favorable terms and best respond to their individual requirements. The platform can strengthen systems for health by providing greater market visibility on pricing, lead times, and other elements, to support forecasting and optimal grant budgeting as well as the ability to benchmark suppliers according to country needs.

45. Particularly via the e-RFQ mechanism, countries could be able to utilize the e-marketplace to facilitate pooled procurement for products and services at a global scale. Further analysis will be conducted on the adaptability to national systems. Buyers could be able to pool similar orders across communities, countries and regions. Among other things, this could enable suppliers to organize their production resulting in more competitive prices, generating substantial savings for PRs and for the Global Fund grants.

46. The automation of transactional, non-value-adding steps in procurement operations is expected to generate further savings in transaction costs and free up valuable resources for both PRs and the Secretariat, providing additional non-financial benefits including increased efficiency, absorption, transparency, and innovation. The Secretariat has conducted a series of process analysis to quantify baselines and targets and identifies the main drivers that lead to each of benefit category. These benefits are measured across the entire process, from when the product is selected to the confirmation of the Purchase Order (PO).

47. Global Fund PRs who decide to utilize the e-marketplace could experience improved forecasting as a result of enhanced visibility into lead times and delivery estimates through the order tracking feature. Automation and standardization of the procurement process could decrease lead time by half and contribute to the improvement of on-time delivery. Product transparency, automation and standardization contribute to the anticipated increase in efficiency and reduces the administrative burden on PRs.

48. On-time delivery could improve by more than 8 percent, based on an average deviation in days from current delivery times. Enhanced track and trace functionality and real-time information flow to stakeholders and PRs would allow for better logistics planning, and drive reduction in delays caused by documentation, process and planning, transportation, and payment issues, customs clearance, inspection/QA procedures, and others. Likewise, enhanced planning abilities as a result of increased transparency surrounding countries demands could reduce amount of emergency orders across core

categories and mandatory training programs could equip up to 900 PR staff members with e-procurement skills in 60 countries by 2019. Finally, PRs will have the optional opportunity to use the RFQ functionality of the e-marketplace and would therefore not require to invest in costly local procurement systems, which offer turn out to be rapidly obsolete and not secure.

49. Currently, supplier performance feedback is only received informally and is not always captured. Frequent feedback on supplier performance facilitates the tender process for the Global Fund and product selection process for PRs. The amount of feedback on supplier performance is expected to rise with the increased number of PRs utilizing the e-marketplace. In addition, the Secretariat is contemplating various options to inform the PRs of supplier performance and outcome of tenders.

03 E-marketplace risk analysis

50. The Global Fund Secretariat and partners have identified, defined and categorized a number of operational and strategic risks based on an assessment of likelihood and potential impact on e-marketplace success during the first phase. The following mitigation strategies are related to those risks which have been recognized as relevant to the development and initial launch of the platform during phase 1.

a) **A lower than expected number of PRs using the e-marketplace**

This has been identified by the Secretariat as well as external partners as a critical risk to the success of the e-marketplace, particularly as e-marketplace volumes, much like PPM volumes, are a significant driver for reduced prices via pooling demand. Should some countries choose to not utilize the platform, there is a risk that realization of the benefits and financial impact demonstrated in the business case would be delayed. However, the costs of the project would still be recovered.

The e-marketplace follows the same principles that have been endorsed by the Board for implementing PPM, which include requiring PRs to procure through a pooled service, e.g.: PPM or the e-marketplace, should they demonstrate inadequate capacity to procure effectively and efficiently. Practically, it would mean that all PPM-enrolled PRs would gradually be rolled over to the e-marketplace, hence ensuring the continued sustainability of the platform. Improved transparency in pricing and product availability will enable the Global Fund to identify where significant savings could be realized for PRs and implementing partners.

However, the Secretariat intends to design a tool that is also displaying sufficient incentives and benefits for PRs to join the platform:

- The e-marketplace team has consulted and will continue to consult with PRs to gather input in the e-marketplace design and to demonstrate the advantages of the platform. Several waves of country consultations have been organized in order to collect as much input as possible. Other activities will include, building PR pilot cases, adding additional products to the e-marketplace portfolio and providing additional support during the e-marketplace transition period.
- The approach taken to design the e-marketplace is very customer-focused. The platform will be intuitive and attractive enough to drive usage and the Secretariat has ensured that these elements came first in the technical design.
- Non PPM-enrolled PRs should be offered access to the e-marketplace with relative flexibility. The Secretariat is therefore considering "membership" options that would require PRs, if they wish to use the e-marketplace, to commit to procure via the e-

marketplace for a jointly defined share of their orders volume over a defined period of time and for jointly agreed product categories.

- Additional mitigation strategies for this category include increasing resources for IT transformation and conducting surveys to identify pain points and make the platform more user-friendly.

b) A lower than expected number of suppliers will choose to leverage the e-marketplace platform

Supplier participation has been recognized as a potential risk to successful implementation of the e-marketplace, most notably should there be a lack of participants due to perceived unacceptable visibility. Confidentiality agreements to further protect visibility of prices as well as specified user profiles will enable only eligible buyers to see prices. The e-marketplace team is engaging with suppliers to gather their input and feedback in the e-marketplace design as well as to develop risk mitigation strategies to address concerns.

c) Insufficient co-funding for the project

The Secretariat has engaged closely with potential funding partners to provide information on the development of the project. The Bill and Melinda Gates Foundation provided a USD 1 million grant to develop the proof of concept during Q4 2015. Going forward, the e-marketplace budget is partially covered by the Operating Budget for 2016 and partially funded by donor support. The Secretariat is currently engaging with partners and donors to submit funding proposals.

The Secretariat continues to monitor the risk of insufficient co-funding by consulting stakeholders throughout the implementation process with regular progress updates and involvement in e-marketplace activities, as well as demonstrating where alignments exist with partner organizations' strategies.

d) Delay in technical development

Following the Proof of Concept phase, in May 2015 the Global Fund held an Request for Proposal (RFP) to select a technology and implementation partner to lead the implementation, roll-out and ongoing support & maintenance for the e-marketplace platform and systems. The RFP was divided in three stage with multiple screening steps (pre-qualification on elementary pre-requisites, full proposal and exploratory workshop, technical and cost proposal submission, live demonstration based on pre-defined scripts, shortlisting of selected firms, Q&A workshop and final decision). Proposals were received from five organizations and the Technical Evaluation Committee (TEC), composed of representatives of all Global Fund departments, independently evaluated and scored each proposal against 217 evaluation criteria, both technical and business-related. After reviewing the proposals, the TEC recommended the use of a Software as a Service (SaaS) provider for award based upon evaluation against the technical, cost and demonstration criteria stated in the RFP. Criteria included the understanding that bespoke technology requirements (code development) are not required for the e-marketplace design and use, that the technology can be used in various different contexts and locations, and that transactions made on the platform should be secure at all time.

Other risks related to the technical development include (i) delays in the development of interfaces or (ii) insufficient analysis of business requirements and functional specifications. The team has therefore established a strict governance model and IT architecture by which (i) a granular and detailed timeline is set and reviewed weekly to ensure the development of the technology and interfaces are on track (ii) bi-weekly Design Authority meetings are hold in order to make design decisions on design alternatives based on the business requirements and functional feasibility – key business and IT representatives attend these meetings (iii) the

technology can operate as standalone with manual interfacing in case severe delays is occurring in the interfaces development.

The current monitoring of the project make the Secretariat very confident that it can deliver a highly satisfactory product on time for the Q1 2016 go-live deadline.

e) **Management of reputational damage or liability claims for the Global Fund**

One of the design principles of the e-marketplace is that all buyers and sellers must be able to buy with confidence and that the Global Fund cannot face any reputational or liability risk. A selection of supplier and products along various criteria such as specifications and quality, in addition to price, must be monitored by Country Managers and must ensure that the focus on reducing prices does not lead to decreased quality of health and non-health products. The platform itself is being designed with multiple checkpoints throughout the procurement process during which Country Managers, Country Teams and Finance would have monitoring capabilities. These steps reduce the potential risks of financial misconduct or unauthorized users. In concurrence with current Global Fund procurement guidelines, a thorough assessment of local guidelines will ensure that PRs are only able to purchase products that are in alignment with local requirements and the Global Fund QA policy.

f) **The e-marketplace is not compliant with national procurement guidelines**

The Secretariat has consulted with a wide spectrum of PRs, from government to non-government, from countries fully dependent on the Global Fund to countries transitioning out of the Global Fund support, and from PRs with varying degrees of guideline rigidity. Each of these consultations has included dedicated sessions on assessing compliance of e-marketplace usage with the local procurement guidelines. Based on these engagements, the Secretariat is confident that there is a mechanism to allow entities to procure through the e-marketplace while still complying with their procurement guidelines.

During Phase 1, as the e-marketplace will not fundamentally change the procurement arrangements, rather it automates the current PPM processes, PRs have expressed they do not foresee any challenges with the transition to the e-marketplace. The Global Fund currently runs a transparent and competitive product selection process and provides a summary report to countries demonstrating the available products. Likewise, non-PPM countries would also be able to leverage the e-marketplace using the Global Fund resources based on these assurances. As is current practice, the Secretariat will identify additional PRs to introduce to the e-marketplace, and will review their procurement regulations and to determine the feasibility of each PR using the platform. Early consultations demonstrate that for many PRs there are mechanisms in-place that would allow them to use the e-marketplace in compliance with their procurement guidelines.

During phase 2, the e-marketplace could become available for additional PRs who procure on their own. For example, transitioning countries (countries who procure with funds other than Global Fund financing) have expressed interest in using the e-marketplace platform with government resources. These countries typically have stringent procurement guidelines and laws that dictate the type of tendering and different elements of procurement process. However, these government entities often have the ability to obtain a waiver to use “sole-sourcing” for procurement based on a number of different conditions. The Global Fund will work with each country to identify if a waiver or other options will satisfy local procurement guidelines and laws.

51. While the initial scope of the e-marketplace is to provide an automation of the Global Fund PPM model and to improve the procurement process for Global Fund PRs, policy, risk and legal considerations that have been identified need further analysis, particularly as the initiative progresses

beyond Phase 1 and the automation of the PPM operational model. The Secretariat also acknowledges there exist a number of risks necessitating further analysis in regards to the spin off. The Global Fund and partners have identified risks related to governance models, market shaping, competition, intellectual property and commercial analysis which could inhibit its acceptance and success as a global public good. The Secretariat will conduct an assessment of these risks over the course of 2016, together with partners to develop risk mitigation strategies.

52. The Global Fund Secretariat and e-marketplace strategic bi-lateral partners recognize that the platform has the potential to be used as a market-shaping tool. Questions have been posed which highlight the need to address in more detail the future market shaping potential of the e-marketplace, particularly if it is eventually spun-off from the Global Fund. Some examples include: the extent to which the e-marketplace will be used to promote market transparency (e.g., through the publication of transaction data), how the supplier vetting process and timing can promote or unintentionally stifle competition, how the e-marketplace will promote quality assurance, and how and when data should be used to inform further market shaping initiatives. In the near-term, the e-marketplace will be a tool to implement certain objectives of the Global Fund's Market Shaping Strategy. Going forward, together with UNITAID and other strategic partners, the Secretariat is initiating a more detailed analysis of these issues, to assess potential impact, mitigate risk, and identify opportunities to leverage the e-marketplace to support the Global Fund's market shaping mandate.

53. As part of the ongoing development and implementation of the e-marketplace project, the Global Fund Secretariat will undertake additional analysis and consultation with strategic partners, suppliers, civil society organizations, and in-country partners to identify further risks. This continuous exercise will inform the development of options for the Global Fund to address potential challenges to implementation and adoption of the platform. Section 07 of this paper further addresses the considerations that the Global Fund will address ahead of transitioning to a spin-off model.

04 What is the e-marketplace implementation process?

54. A strong implementation plan is necessary to ensure the e-marketplace is operationalized and reaches its full potential. To that end, the e-marketplace roll-out sits within the Sourcing Department and is managed and coordinated by a project management office (PMO). Implementation objectives and project roles and responsibilities have been allocated across different work streams to address key activities and deliverables. The PMO is set up to solve strategic questions related to the e-marketplace and to monitor activities.

55. E-marketplace processes must be aligned with existing Global Fund ordering processes, sourcing interfaces and forecasting interfaces to ensure smooth and timely implementation. The Global Fund has developed a series of design principles as well as an operational model to serve as the basis for e-marketplace development. The Global Fund completed a Proof of Concept phase in early 2015 and is currently in a Consultation and Design Phase. The Secretariat will commence the Phased Launch and Roll-out beginning in Q1 2017, lasting through 2017.

a) **Country Consultations**

Country consultations aim to test the PRs' perspective on the benefits of the e-marketplace and their interest for such a tool. Consultations also aim to gather feedback from PRs and recommendations on the procurement journey. This is achieved through tutorial sessions which cover e-order, e-catalogue and e-RFQ mock-ups and a review of e-marketplace processes.

Country consultations serve as a tool for customer-driven product development: they are a key guide in the development of the e-marketplace system and to ensure that the final solution matches the common themes in the PRs' needs.

Wave I country consultations were conducted with positive feedback in Georgia, Ghana, Indonesia, Senegal, Thailand and Zambia. Twelve diverse Wave 1 PRs contributed to the consultations compared to the original target of four Wave I PRs. These consultations have provided helpful feedback to the Global Fund regarding expectations from the PRs, design and benefits. These six countries were selected because they represent a mix of geographies, procurement mechanisms, and procurement guidelines. The aim of the country consultations was to address a series of envisioned questions and potential issues, and to generate insights for e-marketplace development.

The Global Fund has just started a second wave of country consultations in order collect feedback on design and system requirements, user expectations, country regulations, etc., which is needed to ensure a smooth transition for PR adoption. 17 participants from 7 countries joined a 2.5 day workshop to provide feedback on the platform prototype that was developed. During these sessions, procurement officers had the opportunity to initiate mock purchases on the platform to better understand and visualize proposed e-marketplace processes. The Secretariat intends to run similar consultations with another 2-3 countries in the coming weeks.

b) Supplier and PSA consultation

The Secretariat's P4i Strategy calls for a fundamental transformation of the Global Fund procurement process, which includes regular and continued engagement with suppliers. In September 2015, members of the e-marketplace project team, accompanied by representative of the Global Fund Sourcing Unit, conducted consultations with both PSAs and over 30 suppliers to provide an in-depth briefing of the platform. Discussions focused on how new processes via the e-marketplace would affect PSAs and suppliers.

Overall, the feedback from these initial consultations was positive and discussions with suppliers confirmed that there will be little change for suppliers as in the near-term, as they will continue to interact with PSAs. The expected decrease of time delay, increase in volumes as non-PPM volume is added to the pooled volume, and the increased visibility around countries' product demand were identified as initial benefits.

The Global Fund will continue to engage with PSAs and suppliers throughout the process, particularly as opportunities for suppliers to take a more active role in e-marketplace and supply chain systems. For example, some suppliers have indicated interest in product registration and improving logistics.

c) Engagement with other stakeholders

Since 2011, the Global Fund has initiated a series of strategies to address current market limitations, streamline the procurement process, and ensure country ownership of procurement practices. The e-marketplace is a key initiative that not only could provide solutions to a number of current challenges, but has the potential to also provide significant benefits to Global Fund PRs, civil society, multi-lateral agencies, and governments.

The e-marketplace has established a dialogue to ensure that both internal and external stakeholders are informed on project milestones and to incorporate their feedback into the e-marketplace strategy. Stakeholder engagement includes regular briefings with civil society, donors, implementers, and Board delegations, including regular updates at Global Fund Board meetings as well as SIIC and FOPC meetings.

The e-marketplace team is engaging with partner organizations and other multilaterals to gather feedback from partners and to share information with stakeholders regarding e-marketplace progress and implementation. The Secretariat and partners have held initial

discussions on enabling other organizations to potentially utilize the e-marketplace for their own procurement in the future.

05 Strategic partnerships to support the e-marketplace

56. The Global Fund has the ability to facilitate alignment and coordination between strategic partners given its unique position as one of the largest financing organizations across HIV/AIDS, tuberculosis and malaria. The e-marketplace initiative could contribute to the Global Fund's ongoing stakeholder alignment activities, including providing manufacturers with visibility on country demand, sharing market analysis with partners and publishing information to countries about new products or regimens that partner organizations are introducing into the market.

57. In terms of new and innovative products, the Global Fund does not invest in research and development or negotiate licensing agreements, instead relying on partners which have greater expertise and capabilities in the pipeline phase of the product lifecycle. In this respect, Global Fund efforts can complement that of partner organizations who are leading innovative product activities. It is critical that the Global Fund engage with partners early in the product life cycle to ensure that there is a market for products that come to fruition and that new products are smoothly introduced.

58. The Global Fund maintains strong relationships with core partners in its fight against the three diseases. Strategic partnerships on the e-marketplace with the Bill and Melinda Gates Foundation, UNTAID and CHAI draw upon expertise that will enhance, but not replace or duplicate, efforts to enable greater access to medicines. The added value of these collaborations increases the e-marketplace's potential to provide life-saving treatments to men, women, and children globally. These strategic partnerships will be leveraged during both phase 1 and the spin off in phase 2.

d) **UNTAID and the innovation work stream**

UNTAID and the Global Fund both recognize the potential to develop and pilot the e-marketplace in order to expand the set of market-shaping tools available to both organizations. The Global Fund and UNTAID are collaborating in a strategic partnership to complement Global Fund's P4i initiative, implementation of the Market Shaping Strategy, and the e-marketplace initiative.

UNTAID has a wealth of experience in cleaning and standardizing data, particularly around commodities. This knowledge will be extremely relevant in designing the product (and other) databases for the e-marketplace. This will also ensure that data from the e-marketplace can be readily analyzed and contribute to demand forecasting, improved market transparency, monitoring product adoption, and further market-shaping interventions.

UNTAID and the Global Fund will also collaborate to identify and assess market implications of the e-marketplace implementation. Additionally, UNTAID and the Global Fund will embark on joint stakeholder engagement to work with partners, suppliers, countries and PRs in case of the introduction of new products. Dialogue with suppliers will also focus on ensuring that the e-marketplace is attractive to manufacturers with innovative products.

The Innovation work stream, co-led by UNTAID, was created to assist in scaling-up innovative products by identifying barriers to access. The e-marketplace, as part of this work stream, is one way that these key innovative products can be introduced to the public health procurement market, where they will be visible to buyers within governments, NGOs, and organizations. UNTAID will be able to leverage the e-marketplace to channel existing and future investments such as pediatric fixed dosed combination (FDC) HIV LPV/r pellets/granules, pediatric FDC

TB medicines, and injectable and rectal artesunate anti-malarials to accelerate market access for these innovative products.

UNITAID is represented on the e-marketplace Steering Committee, which reports to the Global Fund Executive Management on strategic issues, oversees development of the project, and ensures proper external stakeholder communication.

e) **CHAI and PR onboarding**

In addition to the partnership with UNITAID, CHAI and the Global Fund has finalized a MOU to collaborate on the e-marketplace across several work streams related to the design, testing and adoption of the e-marketplace by implementing partners, suppliers and other stakeholders.

The partnership on the e-marketplace leverages the complementary reach of CHAI and the Global Fund. While the Global Fund does not have an in-country presence, CHAI has extensive experience in consulting with global public health workers globally, and will contribute to on-going efforts to gain the endorsement of the initiative by additional partners and stakeholders. CHAI will support the country consultation, PR on-boarding and training processes with a number of key PRs to stimulate interest, build potential customer base and ensure the usability of the platform.

The Secretariat sees CHAI as an integral partner to provide continuous support to the technical configuration of the platform, as well as providing input on specific strategic questions relating to the e-marketplace development in the near, medium and long-term.

CHAI is represented on the e-marketplace Steering Committee, which reports to the Global Fund Executive Management on strategic issues, oversees development of the project, and ensures proper external stakeholder communication.

06 Project timelines and activities for 2016

59. Scale-up among PRs will be carefully paced up to mid-2017. During this stage, the e-marketplace will facilitate procurement for Global Fund PRs who choose to utilize the tool. The Global Fund aims to represent a geographic split of countries during the initial launch. The primary selection criteria for pilot countries includes:

- f) Level of readiness of a country/PR to participate in the early phase of the e-marketplace
- g) A sufficient amount of orders planned for the respective quarter

60. Ten pilot countries have been identified that meet the necessary criteria to be potentially included in the initial launch: Zambia, Mozambique, Bangladesh, Pakistan, Indonesia, Zimbabwe, Uganda, and Vietnam. More countries will most probably be added to the list once they are confirmed in the coming weeks.

61. At launch in Q1 2016, the e-marketplace will facilitate procurement of LLINs via the e-order from LTA mechanism. ACTs will be made available in Q2 2016, followed by malaria Rapid Diagnostic Tests (RDTs) and ARVs in Q3 2016, all via the e-order from LTA mechanism. Condoms and vehicles are scheduled to become available via the e-order from catalogue mechanism in Q3 2016. The Secretariat is in discussions to make available a number of other product categories, such as Viral Load HIV diagnostics (Q2 2016), HIV RDTs (Q3 2016) and additional sole-sourced TB diagnostics that could be prioritized such as MGIT and Hain (Q4 2016) via the e-order from LTA mechanism.

62. Over 2017-2018, the e-marketplace may transition from a Global Fund-only tool to a global public good in a spin-off situation following further evaluation and assessments that will be presented for consideration and/or approval by the Board and relevant committees. During that process, the new structure would onboard transitioned countries and external partners to the platform with modalities and a governance model to be defined. The Global Fund is currently exploring options and developing a business case to demonstrate how the e-marketplace will be sustainable and financially viable after the spin-off to a global public good. Extensive consultations with key partners, Board committees, and relevant stakeholders will be organized prior to structuring any spin-off entity to ensure that an efficient, representative, and lean governance model is in place.

07 E-marketplace project governance and oversight

63. Management and oversight on the e-marketplace initiative by the Secretariat is provided by the internal Steering Committee and Operational Committee, which reports to the Management Executive Committee (MEC). The Steering Committee and Operational Committee are comprised of high-level representatives from Grant Management, Sourcing, Finance, IT, and Legal. The development approach also includes conducting consultations to gather feedback and expectations from future-users such as countries and PRs as well as suppliers. Additionally, the project continues to seek input from global health experts and development partners as well as e-commerce and technical experts from the private sector to provide comprehensive input to the development process.

64. The e-marketplace follows the route of other Global Fund initiatives and seeks guidance and oversight from the Board and committees on strategic decisions by providing regular updates on the e-marketplace design and implementation, including targeted calls with Board Members, Alternate Board Member and Focal Points for each Board constituency. Informational papers and briefings have been prepared for the SIIC and FOFC and shared with Committee members. Market Shaping Focal Points designated by each committee will continue to play a key role in providing ongoing input during development and implementation through monthly updates with the Sourcing Department. Both committees will continue to receive updates during its in-person meetings and will have the opportunity to provide feedback on materials prepared for the in-person meetings of the other committee. The Secretariat has consolidated a comprehensive overview and update on the e-marketplace, which will be presented for information and review at the Global Fund Board meeting to be held in November 2015.

65. As the supreme governing body of the Global Fund, the Board exercises all powers required to carry out the purpose of the Global Fund, including the establishment of strategies and initiatives, while the Secretariat is responsible for managing the day-to-day operations of Global Fund investments.¹⁹

66. The policy framework under which the e-marketplace will operate originates from the strict strategic model of VPP, which based on further direction to take all necessary measures to implement the mechanism and refine the operational implementation, has been improved to form the PPM.²⁰ The Secretariat introduced the concept of an online procurement platform to resolve identified challenges and achieve higher procurement efficiency, direct cost optimization and reduced stock-out within the operational framework of the PPM. During the initial phase to commence in early 2016, the Secretariat will operate the e-marketplace within the Board mandate described above, to pilot the e-marketplace and assess how the functionality and scope of the tool could be broadened to then seek the Board's approval should it propose a revision, modification or expansion of the scope.

67. It has therefore staged as a second phase the roll-out of the e-marketplace with strategic and operational implications that go beyond its current mandate (see description in section V.01.). That

¹⁹ The Global Fund Bylaws, as amended 21 November 2014

²⁰ GF/B15/DP15

phase, part of the long-term vision for the e-marketplace, is that it will be “spun off” from the Global Fund as an independent entity, a process that is anticipated to begin in mid-2017. There are multiple considerations to take into account in this perspective. For example, a transition to an independent entity would need to be accompanied by an assessment of the type of operational and structural changes needed for the future. These considerations could involve governance, financial, legal, regulatory, commercial, risk or other factors for the Global Fund prior to such transition, as well as possible implications in the future for such an entity. And for any interim period, analysis would be needed on how a change in the operational model might affect the existing operations of the Global Fund. In time, the Secretariat will seek Board guidance via a decision on aspects such as a potential shift to an alternate logistics model, working capital and governance considerations. In the meantime, the Secretariat will continue to provide information updates to the Board on the development and implementation of the initiative within current mandates under the PPM. Over the second half of 2016, extensive consultations will be held with Board constituencies, the SIIC and FOPC, as well as relevant stakeholders.

68. Over the first phase, the Secretariat will carefully pace both the product and PR ramp-up to the e-marketplace, gradually introducing the different functionalities, product categories and PRs who choose to utilize the platform. The Secretariat firmly intends to duly inform the Board of the nature and the outcome of these operational improvements. Additional information regarding the scope of the Sourcing mandate can be found in Annex 2.

Annex 1: Savings Breakdowns

Calculations in the business case follow the methodology outlined in this annex. Potential savings are calculated on the basis of Global Fund PPM procurement spend only and are based on conservative assumptions in regards to spend, ramp-up and savings levers.

In terms of ramp-up, it is assumed that until 2019, approximately 50% of all PRs, representing only approximately 50% of the total Global Fund procurement spend, will use the e-marketplace.

Yearly addressable spend has been calculated at USD 2.2 billion. Health products via PPM processes account for USD 1.032 billion, non-PPM (PR) health products account for USD 419 million and non-health products with procurement leverage and global supply base account for USD 110 million. Due to the assumed 50% PR coverage, a spend base of USD 1.6 billion is retained in the business case.

The savings levers that stimulate price reduction and savings based on PPM spend have been allocated to the 6 separate spend categories: Malaria; HIV; TB; Other medical; Non-health; and Other. E-marketplace savings are in addition to the savings realized in recent PPM tenders.

Category	Savings, USD millions, 2019	Savings, %	Main levers (saving, USD millions, 2019)
Malaria	34	10.7	<ul style="list-style-type: none"> Price reduction due to increased volume (economies of scale) (23.9) Savings from product standardization (7.0)
HIV	45	10.3	<ul style="list-style-type: none"> Price reduction due to increased volume (economies of scale) (18.5) Savings due to utilizing existing competitive prices (non-PPM products purchased at PPM prices) (5.0)
TB	5	4.7	<ul style="list-style-type: none"> Price reduction due to increased volume (economies of scale) (2.1) Savings from product standardization (1.1)
Other medical	10	14.5	<ul style="list-style-type: none"> Price reduction due to increased volume (economies of scale) (4.9) Savings from product standardization (3.3)
Non health	6	10.5	<ul style="list-style-type: none"> Price reductions due to new procurement mechanism - e-catalogue (2.9) Savings from product standardization (1.0)
Others	23	14.4	<ul style="list-style-type: none"> Savings due to set up of international logistic agreement (12.0) Savings from lowered PSA fees (6.5)
Total	123	10.7	

Levers for price reduction due to increased volume (economies of scale) stimulates savings across all spend categories as buyers will be able to pool orders across communities, countries and regions. Malaria and HIV savings are further attributed to levers which encourage savings due to utilizing existing competitive prices, i.e.: non-PPM products which are purchased at PPM prices.

Additional savings for TB, Other medical, Non-health, and Other spend categories are generated by savings levers related to product standardization, international logistics agreements, and logistics costs reductions.

Business Case Assumption

The business case provides conservative and best-case market impact scenarios to demonstrate adjusted savings assumptions per lever and product category. The Global Fund has opted to use values demonstrated in the conservative scenario for project planning and market impact forecasting. The savings figures in this document reflect savings from the conservative scenario. Calculations in the

business case are focused on savings from Global Fund spend only and are based on conservative assumptions in regards to spend, ramp up and savings.

It is assumed that only 50% of all PRs will use the e-marketplace until 2019 and as a result that only 50% of the total spend will be addressed (PPM currently covers 60% of the spend). It is expected that e-marketplace savings will be significantly higher than demonstrated in the business case. Some e-marketplace benchmarks used are derived from the private sector, which generally demonstrates lower savings potential than the public sector.

The outlined economic effects assume a gradual PR ramp-up to approximately 50 Global Fund PRs by the end of 2017. A quicker ramp-up of PRs to the platform or a ramp-up of higher-spend PRs would result in greater realized savings.

Potential savings resulting from decreasing the number of financial transactions (transaction fees) and direct payment (FX fees) are not included in the scope of the e-marketplace business case.

Annex 2: Board Decision Parameters and Timeline

34. During phase 1, the Secretariat intends to automate PPM to improve its efficiency and solve its current issues, while granting access to more PRs the same benefits that currently PPM enrolled-PRs enjoy. As such, the e-marketplace and its operational aspects are designed to operate within the following approved boundaries of the PPM model defined by the Board.²¹

- The PPM model covers a set of target products. With the e-marketplace launch in Q1 2016, product categories will be introduced to the platform gradually. PRs will have the option to place orders from Long Term Agreements (LTAs) of core health products as of Q1 2016. Orders from Procurement Service Agent (PSA) catalogues of non-core products will be possible as of Q2 2016. As such, the e-marketplace operates within the Board-endorsed PPM model by focusing on a set of target products that are currently being procured via the PPM model.
- The PPM is operated via procurement agents selected by the Secretariat following a transparent, competitive tender process, with a view to minimizing Global Fund liabilities. Should the Secretariat move away from these core principles, it will immediately seek the Board's approval.
- Within the PPM model, the Board acknowledged the direct transfer of funds to procurement agents, on behalf of participating PRs that have opted into such arrangements, as an exception to the general rule of restriction. The e-marketplace operates within these boundaries.
- While PR use of the PPM is voluntary, the Secretariat may in each case require to procure through the Pooled Service, where a PR has demonstrated inadequate capacity to procure effectively and efficiently. The e-marketplace does not alter this principle.
- In order to benefit from the preferential pricing and LTAs, PRs must commit to strict PPM conditions. E-marketplace membership options have been drafted in line with existing PPM conditions. Non-PPM PRs who choose to utilize the e-marketplace will enroll under similar terms and conditions, entering into a "lite-PPM" version realizing limited benefits.
- In parallel of the e-marketplace piloting and outside of its scope, the Sourcing department may undertake an analysis of its current procurement and logistics model, its stakeholders and its costs. This analysis has not started yet and will not be proposed to the Board committee and, eventually, the Board before the end of 2016.
- At third, part of the long-term vision for the e-marketplace is that it will be "spun off" from the Global Fund as an independent entity, a process that is anticipated to begin in mid-2017. There are multiple considerations to take into account in this perspective, as a change in the operational model might affect the operation of the Global Fund. In November 2016, the Secretariat will seek Board approval and guidance via a decision on aspects such as a potential shift to an alternate logistics model, working capital and governance considerations. In the meantime, the Secretariat will continue to provide information updates to the Board on the development and implementation of the initiative. Over the second half of 2016, extensive consultations will be held with Board constituencies, the SIIC and FOPC, as well as relevant stakeholders.

²¹ GF/B15/DP15