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Principal Recipient

Round 7 HIV/AIDS Multi-country Western Pacific Grant MWP-708-G06-H

Enhanced Financial Reporting Summary to 31 December 2010

Date submitted: March 2011

Primary PR Contact: Mr Semisi Fukofuka

A. Introductory Remarks

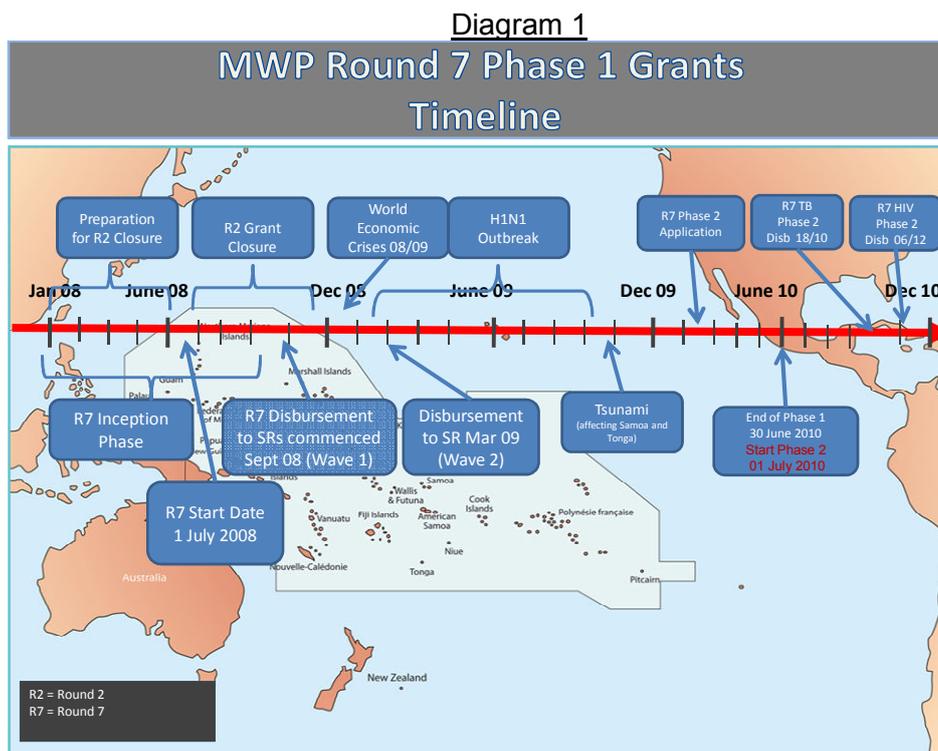
1. Attachment 1 encompasses the Principal Recipient's (PR) completed EFR report for the Round 7 HIV/AIDS Multi-country Western Pacific Grant ("R7 HIV/AIDS MWP Grant"). This document provides explanations at a higher level for the financial performance of the R7 HIV/AIDS MWP Grant for the reporting periods. This is the second EFR report for the R7 HIV/AIDS MWP Grant.
2. The report covers the period from January 2010 to December 2010 as the period-specific term. The cumulative period is from July 2008 to December 2010. Please note that the period January 2010 to December 2010 covers the final six months of Phase 1 and initial six months of Phase 2.
3. The budget for this reporting is made up of the total Phase 1 budget plus budget for Period 5 from Phase 2. The cumulative budget has not been amended in the same way the PUDR was amended to take into account the 30 June 2010 cash balance and the Phase 1 undisbursed amount from The Global Fund. The decision not to amend is based on the complexity of applying the adjustment to the three summaries. Furthermore, the variance analysis against the amended budget produces results that are arbitrary and do not reflect operational reality as the cumulative variance analysis for the PUDR shows.
4. The PR considers it a better option in terms of amending the Phase 1 budget would be to 'convert' the Phase 1 actual into budget. In doing this the cumulative budget would better reflect the plan activities for Phase 2. PR looks forward to receiving a response to this proposal from The Global Fund.

B. Change of Strategy for Phase 2

5. For Phase 2, the PIRMCCM made a strategic decision to align the R7 HIV/AIDS MWP Grant with the objectives of the Pacific Regional Strategy Implementation Plan 2 (PRISP 2) for HIV and STI. The alignment of the grant's objectives with PRISP 2 is expected to deliver:
 - a. Better harmonisation of approaches and systems,
 - b. Removal of duplications and
 - c. Development of country work plans that are better aligned across different areas and with a better focus on country priorities.
6. The change in the strategy was necessary, but it resulted in the Phase 2 activity codes being different from the Phase 1 milestone codes. This presented some challenges to the PR system for producing the financial data for the EFR which impacted on the PR's ability to deliver a quality EFR report on time.

C. Contextual Information

7. This section provides contextual information to identify the key drivers of the financial performance of the grant over the period July 2008 to December 2010. It summarizes the main reasons for the historically slow utilisation of funds at the PR level as reported to 31 December 2009.
8. Diagram 1 below displays key events for the R7 HIV/AIDS MWP Grant since its inception (with a formal commencement date of 1 July 2008).



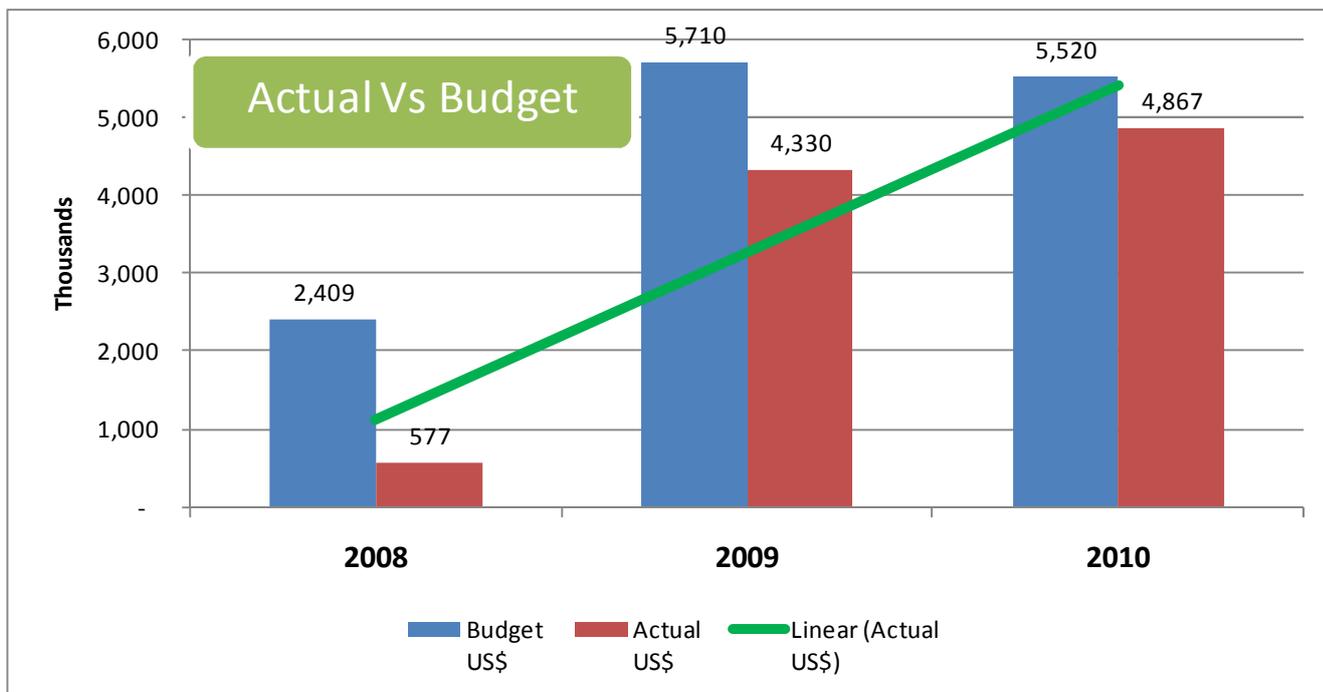
9. Diagram 1 demonstrates that the Round 7 Grants, since commencement, had to contend with a number of key events which adversely impacted on the ability of implementers to focus on implementing work plan activities resulting in much slower implementation rate than planned.
10. 2011 may be the first 'normal' year, a year without significant external event(s), affecting implementation. If this proves to be the case then the results of this year's work may provide implementers and stakeholders with the best indication of the region's absorptive capacity with regard to the Round 7 grants.

D. Overall Financial Summary

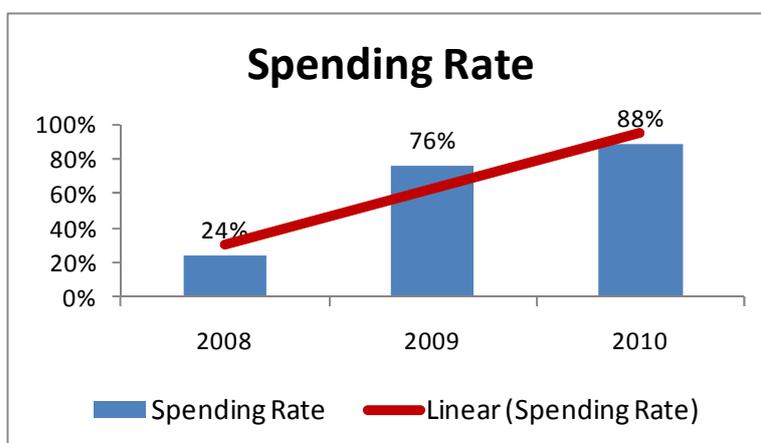
	Period Jan - Dec 2010				Cumulative Jul 08 - Dec 2010			
	Budget	Actual	Var	Spending Rate	Budget	Actual	Var	Spending Rate
MWP R7 HIV/AIDS	5,520,384	4,867,144	(653,240)	88%	13,640,049	9,773,903	(3,866,145.73)	72%

11. By way of overall summary, the total expenditure for the R7 HIV/AIDS MWP Grant at the end of Period 5 (31 December 2010) is US\$9,773,903 against a budget of US\$13,640,049. This represents a 72% spending rate¹. This is a significant improvement from a 55% spending rate at the end of December 2009. The major reasons for the financial results to date are discussed in the next section.
12. The following graph shows the annual total expenditure and budget for the R7 HIV/AIDS MWP Grant since July 2008.

¹ Spending rate is defined as "actual expenditure as percentage of budget".



13. The PR reported in the last EFR that it expected Period 4 (January to June 2010) to show the full capacity of the grant as all in-country coordinators have been recruited and the PR's heavy investment in training and technical assistance over previous periods would be demonstrating increased in-country programme implementation capacity.
14. The following graph shows the spending rate trend since 2008. The trend line clearly shows improvements especially during the last two years with regard to spending rates.



15. The over all spending rate of 72% appears low in the first instance but this needs to be considered taking into account the contextual information presented in Section C above. The graph on spending rate shows increasing rate over the last three years with 2008 showing the lowest at 24% only. The 2008 result has a significant impact on the overall spending rate of 72%. See next section for more information on factors affecting Period 1. Over the last two years the average spending rate is 82%. The PR believes that the 82% spending rate is a fairer reflection of the grant's performance within the constraints discussed below.

E. Factors Affecting Absorptive Capacity in Phase 1

i. Round 2 grant closure

16. Sub-Recipients (SRs) of the R2 HIV/AIDS MWP Grant which are also part of R7 HIV/AIDS MWP Grant went through a process of completing Round 2 grant closure activities, including closing R2 bank accounts and opening new R7 bank accounts before funds could be disbursed.

This resulted in complexity and delay, and a lesson learned is that new bank accounts for continuing SRs may not be an opportune process.

17. The R7 grant represents the first time for the PR to take on a new grant following the closure of a previous one. Concurrently, the same PR and SRs were dealing with the R7 HIV/AIDS MWP Grant closure and R7 HIV/AIDS MWP Grant commencement processes also. As for HIV/AIDS, the PIRMCCM's design of the R7 HIV/AIDS MWP Grant assumed a swift transition from Round 2 to Round 7. Although there was some phasing of activities at the start of the Round 7 work plan (e.g., newer activities starting up more slowly) the significant planned Period 2 scale-up was in hindsight overly optimistic. It failed to recognise the impact of the R2 HIV/AIDS MWP Grant closure activities and the time required to complete the R7 inception based on available capacity both at the SR and PR level. Consequently disbursements of R7 funds to SRs did not commence until September 2008, three months into the R7 start date of 1 July 2008 (refer to timeline in Diagram 1 above). Implementation at the SR level was delayed for at least three months as a direct result of this.

ii. Human resources recruitment delays

18. One of the key activities in the R7 HIV/AIDS MWP Grant work plan was to strengthen in-country capacity with the recruitment of additional human resources for programme and financial coordination and management. Key components of the work plans were dependent on these additional resources. As discussed above, the delay of the disbursement of the funds also had an impact on the recruitment process at the SR level. That is, the more ambitious R7 (compared to R2) work plan required increased activities by national HIV/AIDS and STI programs. The planned staff was essential to the commencement and success of these activities. Because of the interdependencies between the two items in the work plan, the delays in recruitment have compounded negative impact on SR performance.
19. As all in-country positions were intended to strengthen fragile health systems (and not build structures adjacent to them), SR recruitments went through government processes. It is known that these processes can be slow and time consuming. However, following set processes are necessary in order for the SR to comply with all legal requirements for transparent recruitment.

iii. Natural disasters and outbreaks

20. As for Tuberculosis, the H1N1 outbreak in early 2009 did not have a significant impact on the region in terms of the number of people infected by the virus. However it still had a distorting effect on work programs in terms of the resources required to manage the outbreak. Due to the small sizes of Public Health and Infectious Diseases Departments of many of PICTs involved with program implementation, staffs from these departments were almost universally redirected towards the H1N1 emergency responses for a period of time. In the context of a very constrained HR, this means some activities were delayed at the implementer's level and, to a lesser extent, senior management level.
21. The tsunami in Samoa in Period 3 also had an impact on the activities implementation, with the clean-up and counselling phase requiring considerable unplanned support from all sectors of the health department.

iv. Republic of Marshall Islands requiring specific legislation for the receipt of donor funding

22. Due to national provisions regarding use and access of donor funding, the Government of the Republic of the Marshall Islands passed the 'Global Fund Act' on 5 June 2009. The Legislation was enacted to facilitate the creation of a Country Coordinating Board (CCB) within the Ministry of Health to govern the management of the R7 MWP Grants. The legislation:
 - a. Allows for the creation of the CCB
 - b. Sets out the functions and duties of the CCB

- c. Defines the powers of the CCB
- d. Allows the creation of separate bank accounts and use of funds in these bank accounts

23. Whilst desirable to have been enacted much earlier in the Phase 1 term, the legislation's passage 12 months after the official Phase 1 start date significantly impacted implementation at the country level.

v. Phase 2 Re-application

24. Although difficult to quantify, the Phase 2 reapplication process did interrupt the 'flow' of activities for most SRs as key staff members were required to work on the reapplication process. The change in strategy meant that the work required on updating the work plan was more complex than expected requiring more staff time to complete. Additionally, some implementing activities were delayed due to the uncertainty of the funding flow because of the significant delays in completing the grant signing process. It is the PR's view that the R7 HIV/AIDS MWP Grant would have shown stronger performance without these obstacles.

F. Impact of delay in final grant approval on SDA results

25. Section B above explains that the HIV grant changed its strategy for Phase 2. One of the implications for the change was change in the SDAs for Phase 2. As a result the PR is reporting on twenty seven SDAs, eleven SDAs for Phase 1 and sixteen SDAs for Phase 2.

26. During the period from 1 July till the receipt of the Phase 2 funding in October 2010, implementation activities continued and were funded from the Phase 1 cash balance as at 30 June 2010. All expenses incurred during this period were code against activity codes (milestone codes) from Phase 1. The impact of this in the current report is that most of the Phase 1 SDAs are over budget for the period and the Phase 2 SDAs are behind budget. This is because the budget for Phase 1 ended 30 June 2010 but the actual recorded against these SDAs continued until about November 2010.

G. 2010 Improving Trend

27. Despite the 'interruptions' during the Phase 2 re-applications and the factors discussed in the previous section E, the R7 HIV/AIDS MWP Grant, as the spending rate graph shows, still managed to show significant improvement during 2010 compared to previous years.

28. The most significant factor in the 'recovery' is the impact of the investment in HR capacity at both the PR and SR level. The PR reported in the last EFR that it expected to see improved performance as the grant was operating at close to full capacity. Moreover, STI clinic renovations in a number of SRs planned to previous periods were completed during period 4 and 5.

H. Conclusion

29. The obstacles faced during Phase 1 are now behind the R7 HIV/AIDS MWP Grant. The PR and SRs completed the Phase 2 reapplication successfully despite the challenges they faced with regards to the mid-point change in grant strategy and the ensuing delays in grant approval.

30. The PR conducted a regional workshop on programmatic and financial reporting to all SRs under the R7 MWP Grants on 7 to 11 February 2011 in Nadi, Fiji. A session was organized for SRs to review their approved work plans and budgets and re-prioritize their grant program activities for Period 6 and Period 7, with a view of identifying opportunities to accelerate implementation of activities beginning Period 6.

31. As stated in paragraph 10 above, 2011 may be the year which will provide the R7 MWP Grants with the best indication of its absorptive capacity in what can be considered a 'normal' year.

The grant is at near full capacity with only a small number of Phase 2 recruitment to be completed. Notwithstanding another natural disaster or disease outbreak in the region, 2011 may be a 'normal year' in terms of grant implementation.

32. The PR is optimistic that the R7 HIV/AIDS MWP Grant will be able to, at the very least, maintain the level of performance to date but will be more likely to improve in the coming periods.