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**Principal Recipient**

**Tuberculosis Multi-country Grant**

**MWP-708-G07-T**

**Enhanced Financial Reporting  
Summary to 31 December 2010**

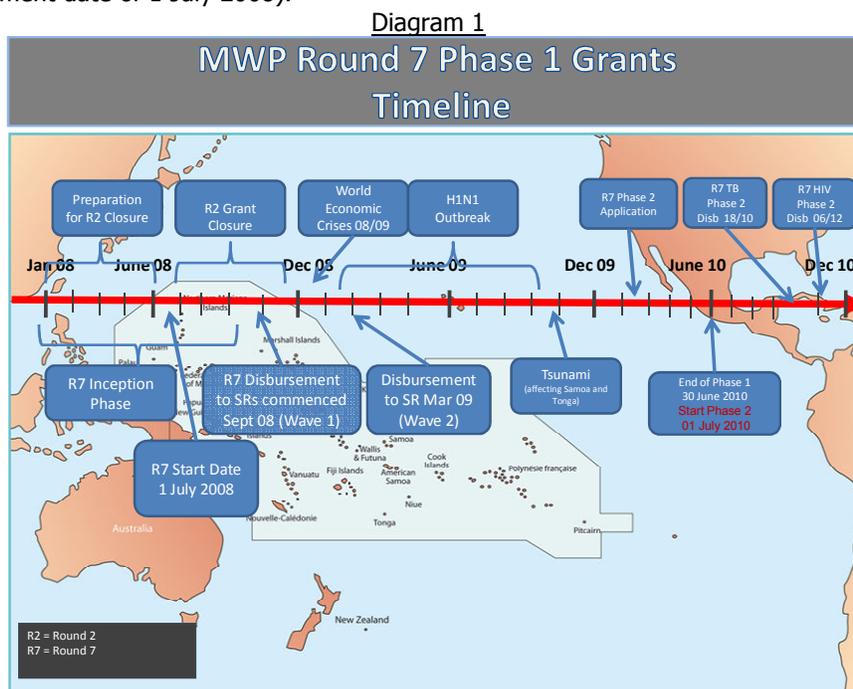
Date submitted: March 2011  
Primary PR Contact: Mr Semisi Fukofuka

## A. Introductory Remarks

1. Attachment 1 encompasses the Principal Recipient's (PR) completed EFR report for the Round 7 TB Multi-country Western Pacific Grant ("R7 TB MWP Grant"). This document provides explanations at a higher level for the financial performance of the R7 TB MWP Grant for the reporting periods. This is the second EFR report for the R7 TB 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. Contextual Information

5. 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.
6. Diagram 1 below displays key events for the R7 TB MWP Grant since its inception (with a formal commencement date of 1 July 2008).



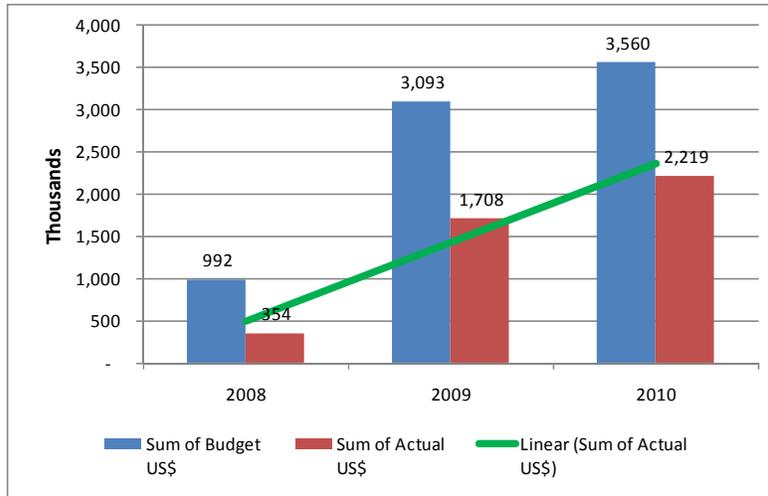
7. Diagram 1 demonstrates that the Round 7 Grants, since commencement, had to contend with a number of key events which adversely impacted on the ability of implementers to focus on implementing work plan activities resulting in much slower implementation rate than planned.
8. 2011 may be the first 'normal' 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.

**C. Overall Financial Summary**

	Period Jan - Dec 2010				Cumulative Jul 08 - Dec 2010			
	Budget	Actual	Var	Spending Rate	Budget	Actual	Var	Spending Rate
MWP R7 TB	3,560,275	2,219,064	(1,341,211)	62%	7,645,443	4,280,979	(3,364,464.08)	56%

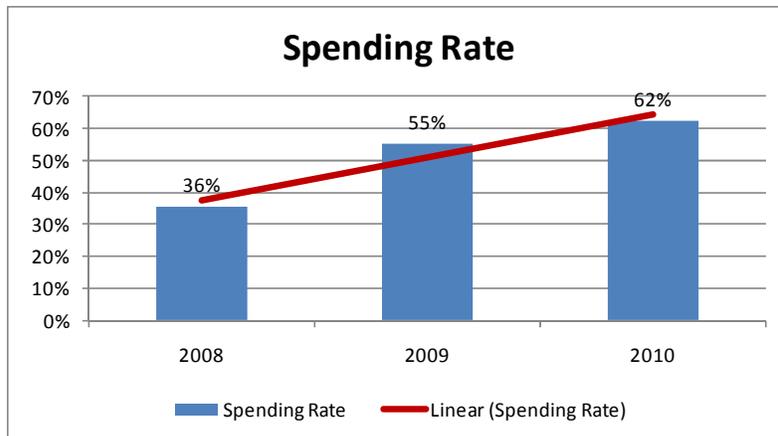
9. By way of overall summary, the total expenditure for the R7 TB MWP Grant at the end of Period 5 (31 December 2010) is US\$4,280,979 against a budget of US\$7,645,443. This represents a 56% spending rate<sup>1</sup>. This is an improvement from a 50% spending rate at the end of December 2009. The major reasons for the financial results to date are discussed in the next section.
10. The following graph shows the annual total expenditure and budget for the R7 TB MWP Grant since July 2008.

Graph 1: Annual budget vs expenditure



11. 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.
12. Graph 2 below shows the spending rate trend since 2008. The trend line clearly shows improvements especially during the last two years with regard to spending rates.

Graph 2: Annual spending rate



<sup>1</sup> Spending rate is defined as “actual expenditure as percentage of budget”.

### ***Forecast Spending Rate***

13. The overall spending rate for TB Round 7 to the end of December 2010 is 56%. It is important to note that the 56% spending rate includes is the 'unadjusted' rate which does not reflect part of the Phase 1 budget which was carried forward to Phase 2 in the form of the undisbursed amount and the cash balance at the end of phase 2. Para 3 and 4 above explained the reasons why the PR did not amend the cumulative budget and proposed an alternative option for accounting for Phase 1 undisbursed amount and cash balance.
14. The carry-forwards are regarded as permanent savings for phase 1. By adjusting the cumulative budgets for the carry forwards the adjusted spending rates is 73%.
15. The TB grant actual expenditures for 2010 were US\$2.2 million. This was achieved despite the disruptions for the Phase 2 re-application and the delays in finalising grant signing. The PR believes that the TB grant could reach US\$2.3 million annual expenditure in an optimum year.
16. The average annual budget for the whole of Phase 2 is US\$2.5 million. If the TB grant maintains an annual average actual spending at US\$2.0 million (based on 2010 actual), the forecast average annual spending rate for the remaining period of Phase 2 is 81%. Noting that in an optimal year, the TB grant could achieve US\$2.3 million in total expenditures.

### **D. Factors affecting absorptive capacity**

#### ***i. Round 2 grant closure***

17. Sub-Recipients (SRs) of the Round 2 Tuberculosis Grant which are also part of MWP R7 TB Grant went through a process of completing R2 Closure: closure activities, including closing R2 bank accounts and open new R7 bank account 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.
18. The R7 grant represents the first time for the PR to take on a new grant following the closure of a previous one. The PIRMCCM's design of the MWP R7 TB 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 scales-up was in hindsight overly optimistic. It failed to recognise the impact of the R2 Grant Closure activities and the time required to complete the Round 7 inception based on available capacity both at the SR and PR level. Consequently disbursements of Round 7 funds to SRs did not commence until September 2008, three months into the Round 7 start date of 1 July (refer to timeline in diagram 1 above). Implementation at the SR level was delayed for three months as a direct result of this.

#### ***ii. Human resources recruitment delays***

19. One of the key activities in the MWP R7 TB Grant work plan was to strengthen in-country capacity with the recruitment of additional human resources at the National Tuberculosis Programme (NTP) level, within in-country DOTS programmes, and within laboratories. 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 NTPs. The planned staff were essential to the commencement and success of these activities. Because of the inter-dependencies between the two items in the work plan, the delay in recruitments had a compounded negative impact on SR performance. As all in-country positions were intended to strengthen fragile health system, SR recruitments had to go through the 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 impacting on the SR ability to accelerate implementation.

#### ***iii. Delay in release of WHO revised treatment guidelines***

20. A number of the planned activities in the SR (country) work plans involved training activities attached to the new WHO treatment guidelines. Through factors beyond country control, the roll out of these guidelines was significantly delayed. It was determined, in consultation with WHO, that training and re-training on treatment guidelines should not occur until the new guidelines became available. For this reason, the activity was delayed until Period 4.

**iv. *Natural disasters/Outbreaks***

21. The H1N1 outbreak in early 2009 did not have a significant 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 Round 7, staff from these departments was almost universally redirected towards the H1N1 emergency responses for a period of time. In the context of very constrained HR, this means some activities were delayed at NTP and, to a lesser extent, senior management level.
22. The Tsunami in the 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.

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

23. 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
24. 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.

**vi. Phase 2 Re-application**

25. 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. 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 TB MWP Grant would have shown stronger performance without these obstacles.
26. The Phase 2 work plan took into accounts activities that were behind during phas2 and roll forward those activities that are still relevant important for the success of the Round 7 TB grant.

**D. Conclusions**

27. The obstacles faced during Phase 1 are now behind the R7 TB 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.
28. 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.
29. As stated in paragraph 8 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 an 'optimal' year. Notwithstanding another natural disaster or disease outbreak in the region, 2011 may be an 'optimal year' in terms of grant implementation.

30. The PR is optimistic that the R7 TB Grant will be able to, at the very least, maintain the level of performance to date, thus achieving a forecasted spending rate of 81% (refer to para 16) but will be more likely to improve in the coming periods.