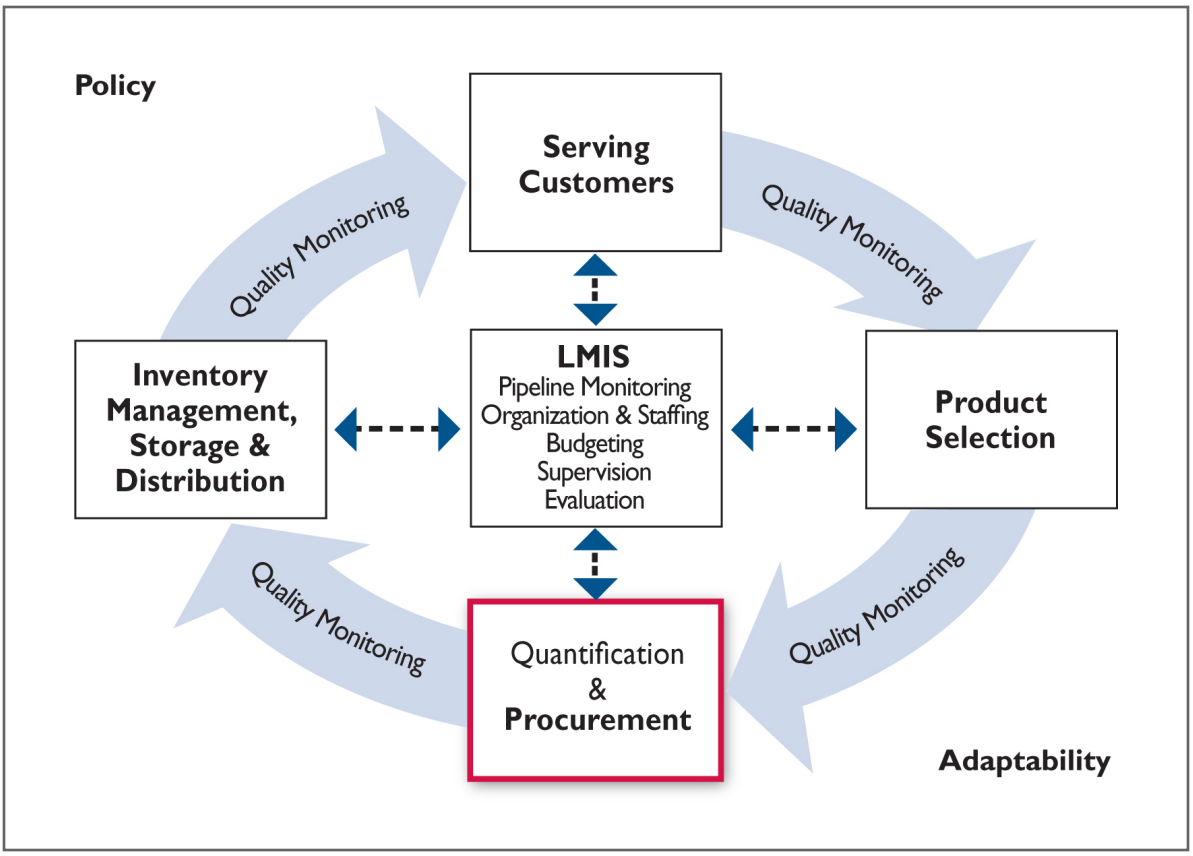
7 • Health Commodity Procurement

Objectives

In this chapter, you will learn about the following:

- the procurement process for public health sector systems
- stakeholder involvement in national health product procurement
- common procurement challenges
- procurement manager's role in supporting effective and efficient health commodity procurement.

Figure 7-1: The Logistics Cycle



7.1 Why Procurement in the Supply Chain Is Important

Procurement is a critical part of the logistics cycle (see figure 7-1). Procurement planning and the procurement process are important activities that ensure the correct products are available in-country and are ready for distribution when they are needed. Without procurement procedures and processes, you would not be able to meet the six rights. A procurement unit with staff also ensures that national procurement regulations and procedures are properly implemented.

Introduction to health commodity procurement

In many countries, a procurement unit within the ministry of health or central medical stores (or similar entity) manages procurement for public health supplies. The unit purchases the appropriate quantities of quality products, which are necessary for ensuring continuous product availability. Usually, another unit within the health system instructs the procurement unit on what to purchase; with what funding sources, including quantities and the specifications of products to be purchased (see chapters on Quantification and Product Selection). However, staff in the procurement unit probably have experience with earlier processes; the staff responsible for quantification usually understand the product prices, how to develop the budget, and what quantities to order.

Key stakeholders in the procurement process

The procurement process involves many different parties, whose input helps determine the how, what, and when of procurement. Many countries have a procurement coordinating committee to help ensure that all the key stakeholders are informed of each others' activities and plans, both to avoid duplication and to ensure appropriate coordination and decisionmaking.

- The program unit (i.e., the Family Health Division, National Malaria Control Program, etc.) usually determines what products need to be procured to support their programs. Most of the time, they use the national standard treatment guidelines to select the products that different populations need and to inform product selection. The program units are usually closely involved in the quantification process to estimate requirements and to determine if they can meet the program demands or coverage targets.
- The National Drug Regulatory Agency should be part of this process; this will ensure that the procured products are registered for use in the country (or have the appropriate waivers, if necessary) and that the products meet quality standards. The agency will have the most up-to-date information on what products are registered, when registrations will expire, and what new products are in the process of being registered. You should consult the agency during each round of procurement. They may be involved throughout the process, or at specific milestones; they may help sample products sent from suppliers, as part of their bids; or they may batch test samples from the eventual shipments, before the country receives them for distribution.
- Funding agencies are another important stakeholder in the procurement process. Whether funding comes from donor organizations, intergovernmental loans, or national treasury funds managed by the Ministry of Finance, each has procurement requirements as a condition of their support. The procurement unit must work with these sources to understand when funds will be released for procurement and the procurement regulations they must follow as a condition of their funding. This means that procurement units must understand procurement regulations and align procurement cycles with funding availability.
- Last, manufacturers are important stakeholders; although, frequently, they are not directly involved until the later stages of the procurement process. Manufacturers are responsible for registering products in countries before procurement takes place; however, frequently the procurement unit does not know about nor is involved in this process. Procurement units usually establish contact with suppliers during the tender process, but they may have longer term relationships with suppliers, which may date back to previous procurements.

Key terms in health commodity procurement

For a full list of terms related to procurement, see PATH's *Procurement Capacity Toolkit* (see text box).

tender. The documentation and initiation of a process for soliciting bids; the specifications for the product/service desired and opening the contract to the bidding process.

bid. A written offer for a quantity of goods, works, or services, at a stated price; based on technical specifications and other terms and conditions. Bids are submitted to a purchaser by an interested seller in response to an Invitation for Bids.

contract/framework contract. A contract is an agreement entered into by two parties for the execution of a certain activity; for example, a sale and purchase, or provision, of services. A framework contract is a general term for an agreement with a supplier that sets out terms and conditions against which specific purchases can be made throughout the life of the agreement. This enables purchasers to draw down against an on-going arrangement, rather than engage in a one-time contract for a definite quantity of goods.

good manufacturing practices (GMP). A quality system covering the manufacturing and testing of active pharmaceutical ingredients, diagnostics, foods, pharmaceutical products, and medical devices. GMPs are guidelines that outline the aspects of production and testing that can impact the quality of a product. Many countries have laws requiring that pharmaceutical and medical device companies follow GMP procedures; and they have created their own GMP guidelines that correspond to their legislation.

prequalification (WHO). This is a process of predetermining that a specific product, from a specific manufacturer, meets stated requirements. WHO prequalified products use their own mechanism to provide assurance of quality, especially for countries unable to undertake the process.

supplier. The party that transfers goods out of its control and to a named recipient.

direct procurement. Purchaser contracts for goods directly with a manufacturer or its representatives.

indirect procurement. Purchaser contracts for goods through an intermediary that has or will purchase directly from a manufacturer.

The procurement process is often complex and, frequently, has many regulations and policies. Therefore, you must undertake procurement carefully and methodically, and with a good understanding of local procurement laws and processes.

This chapter outlines the main steps of procurement, but it is only an overview. For a more detailed, comprehensive guide, see PATH's *Procurement Capacity Toolkit* (version 2 - 2009). The process in the section below will follow the same 10 steps used in PATH's toolkit, but with less detail. While the focus of the toolkit is reproductive health products, the concepts can also be applied to public sector health procurement.

To access the toolkit, go to the following URL: http://www.path.org/files/RH_proc_cap_toolkit_v2.pdf

7.2 Procurement Process

Procurement is the decisionmaking process you follow when you buy products; you usually have many options. Because this involves the transfer of money, frequently substantial amounts of money, most of the procurement process focuses on making it as fair and competitive as possible. Therefore, good public sector procurement relies on thorough documentation and transparency throughout the process to ensure that no party can claim that one group was unfairly favored over another. This means that each step must be standardized and regulated according to public laws and regulations. However, this can also make the procurement process time consuming. It is important for supply managers, program managers, procurement units, and other stakeholders interested in supply chain management to understand how long the procurement process usually takes; to ensure continuous availability, they must be able to plan procurement schedules and order quantities in a reasonable time.

The process (10 elements)

The description of the procurement process in this chapter follows the format developed in the *Procurement Capacity Toolkit*. The toolkit identifies three phases: (1) program planning, (2) procurement process, and (3) performance—these processes are necessary for obtaining supplies. Each phase is divided into elements that, together, comprise the end-to-end process for procurement. Table 7-1 identifies the elements that make up each phase.

Table 7-1: The Product Supply Process (PATH 2009)

THREE PHASES	TEN ELEMENTS
I. Program Planning	Defining Reproductive Health Supply
	Specifications
	Assessment of Procurement Options
	Budget, Funding, and Procurement Requisition
Critical Link: Funded Procurement Requisition	
II. Procurement Process	Procurement Planning
	Developing Bidding Documents and Inviting Offers
	Selecting Suppliers
	Contracts
Critical Link: Signed Contract and Payment Guarantee	
III. Performance	Contract Performance and Monitoring
	Delivery of Goods
Critical Conclusion: Delivery and Acceptance of High-Quality Products	

Product Selection and Quantification

After you complete the product selection (see chapter 5) and quantification process (see chapter 6), the information is submitted to the procurement unit to obtain the correct quantities of the correct products from international, regional, or local marketplaces. In table 7-1, this is listed as "Defining Reproductive Health Supply" as printed in PATH's toolkit, but refers to product selection and quantification.

Specifications

The procurement unit must ensure that, in addition to the product information provided by program managers (including generic name, dosage, formulation, and unit packaging requirements), suppliers must produce products that meet regulatory and shipping/packaging requirements—including proof that products are manufactured at facilities that meet GMP certification requirements, or have WHO prequalification status—and that they can provide products that meet certain technical specifications, including standards for raw materials; and requirements for shelf life, labeling, language, and inner and outer packaging.

Technical specifications also include testing requirements for quality assurance, and packaging and shipping requirements. The specifications are the primary way that countries protect their populations against counterfeit or substandard products; they also help ensure that the products are properly labeled and adequately protected from heat and cold during shipping. As part of the bid, quality assurance specifications should also be clearly written, identifying all documents that the purchaser will require from the supplier—including manufacturing records, the Certificate of Analysis, test data, and regulatory certificates. These specifications should also detail the plans for inspection by the purchaser, product sampling procedures, and the manufacturer's process for sampling their production lots. Countries may involve many of the key stakeholders mentioned above, as well as technical specialists to ensure that product specifications are followed and are complete.

Why product specifications are important for procurement

Good product specifications need to be complete, comprehensive, and accurate. If they do not fulfill these requirements, suppliers may offer products that do not meet the product, or quality standards, of the country. However, specifications must be as product-neutral, as possible, to ensure that if products truly are comparable, the specifications are not written to favor one supplier over another.

Good technical specifications not only tell the supplier exactly what the purchaser is looking for, but also the criteria the purchaser will use to evaluate potential suppliers, and how the selected supplier's performance will be judged.

Assessment and Selection of Procurement Options

Most of the time, procurement units have two main procurement options: direct and indirect procurement.

Direct procurement is when the purchaser establishes direct contact with suppliers or their representatives. Usually bids are solicited from the marketplace, individual suppliers respond, and a contract is established between the purchaser and selected supplier. The contract is based on competitive pricing and the ability to meet other product specifications. The direct approach to procurement can be a cost-effective option, but it may require substantial resources to conduct and manage, depending on how many suppliers they need to evaluate and the number of products to procure. The two main types of direct procurement are *international competition* and *small-scale national competition.*

- *International competition* involves adherence to standardized procedures that the public sector uses when there are multiple potential suppliers. The procurement unit creates an invitation to tender, or requests bids directly, to solicit formal offers from suppliers. This process follows international good procurement practices, including formal bidding documents; sealed bid responses; a public bid opening; and a contract award, based on evaluation criteria included in bidding documents.

- *Small-scale national competition* is used to solicit offers from a local marketplace. Offers are usually requested from a few suppliers and prices are negotiated; this is often called shopping. This option works well when only a few local manufacturers produce needed products, such as certain essential medicines; however, is not feasible for procurement of products that are not available locally, or when the quality of local products may not be sufficient.

Indirect procurement is conducted by an intermediate organization; the procurement unit does not interact with the marketplace. The procurement contract is between the procurement unit and another organization; the procurement unit usually pays a fee to provide this service. The indirect approach can be more expensive—it often includes service fees when small quantities are involved—but this approach may reduce the resources necessary to follow good procurement practices. Several types of organizations provide indirect procurement services: *international supply services* and *international procurement agencies*.

- *International supply services* and *international procurement agencies* are organizations that purchase health products in bulk and resell to non-profit health care organizations in developing countries. They maintain catalogues of products and sell to donor organizations and governments at-cost plus fees. An international procurement agency procures specific items requested on behalf of the procurement unit, not necessarily items kept in stock; they often require cash in advance for these procurement services.

Another option available to some countries is participation in a ***regional pooled procurement system***. With this system, purchasers join together to benefit from better pricing by increasing their bargaining position in negotiations with suppliers. Examples of successful pooled procurement mechanisms include the Pan American Health Organization (PAHO) Expanded Programme on Immunization (EPI) Revolving Fund for vaccines, the Gulf Cooperation Council group purchasing program, and the Pharmaceutical Procurement Services (PSS) of the Organization for Eastern Caribbean States (OECS).

Another pooled procurement option that recently became available to principal recipients of the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) grants is the GFATM's Voluntary Pooled Procurement (VPP) service. Initiated in 2009, the VPP consolidates forecasts, and establishes long-term supplier contracts and direct payments to obtain favorable pricing and delivery conditions from suppliers.

Case Study: Pooled procurement in the Eastern Caribbean

The Pharmaceutical Procurement Service of the Organization for Eastern Caribbean States (OES/PPS), previously known as the Eastern Caribbean Drug Service, combines or *pools* public sector drug procurement from nine island nations, which have a combined population of 550,000. When it started in 1986, founding members deposited one-third of their annual pharmaceutical budget into individual country accounts at the Eastern Caribbean Central Bank (ECCB) to establish a revolving drug fund and to ensure payments to suppliers. The service became financially self-sufficient in 1989; participating governments were charged a 15 percent administrative fee. Building on its success with the pooled procurement of pharmaceuticals, the PPS has expanded its product portfolio to include contraceptives and other medical supplies.

The PPS produces a Regional Formulary Manual, from which large-volume and high-cost items, with consistent demand, are selected for pooled procurement. To increase order sizes and decrease unit costs, the PPS has standardized drug choices; all member countries use the same products, pack sizes, and dosages.

The PPS operates a centralized bidding system that is restricted to suppliers who have been pre-qualified, based on their technical competence, quality standards, past performance, and financial viability. After soliciting bids from more than 75 international suppliers, the PPS awards Regional Price Contracts to selected suppliers, who are guaranteed to be the sole source of supply for all participating countries. Individual countries can order as often as they need during a contract year, although the system has gradually moved toward consolidating two to three orders per country, per year. Suppliers ship consignments directly to participating countries. The countries reimburse their accounts to the ECCB; which, in turn, arranges for prompt payment of foreign exchange to suppliers.

During its first procurement cycle, competitive bidding reduced unit drug costs by 52 percent, followed by an additional 18 percent for the second cycle. The average country savings from the first tender ranged from 16 percent to 88 percent. During the 2001/2002 tender cycle, a survey of 20 popular drugs found that regional prices were 44 percent lower than individual country prices. The service's ability to pay suppliers promptly in foreign exchange was one of the most critical elements in its ability to reduce drug costs. Recently, slow reimbursements by some member countries experiencing economic difficulties have diminished the PPS's reputation for prompt payment. Instability in the regional currency and weak forecasting have also diminished the full potential of pooled procurement.

The decision about what kind of procurement option to choose depends on the context—including the products and quantities to be procured; procurement personnel skills and experience; infrastructure; access to foreign currency; and timeline. While the direct procurement option can result in more competitive deals, using good practices requires significant time and expertise. Furthermore, small order quantities may mean few or no interested bidders.

Indirect procurement can be more expensive, for product cost and fees, but may include money-saving advantages throughout the entire procurement process, because the service organizations are responsible for vetting suppliers and establishing quality assurance procedures. This ensures that manufacturers follow GMP practices and, also, do random testing of product and site inspection. Additionally, these organizations usually have expertise in shipping, customs clearance, and importation regulations in many low-income countries, which often helps avoid demurrage charges and delays if the procurement unit is unfamiliar with these. Overall, the decision requires an understanding of the risks and benefits of each method and a careful evaluation of internal capacity and needs.

Budget, funding, and procurement requisition

The procurement unit supports the supply chain and program managers with important planning inputs on product pricing. Procurement units can research reference prices and share historical price information with program managers. Because they also have access to and relationships with suppliers and other players in the marketplace, they should also be aware of and able to share information about product improvements or developments; including the availability of generic products, which may yield cost savings. The program can use this information to calculate budget requirements based on their quantifications. It will also be necessary to factor in other expenses related to the shipping, insurance, storage, and clearance of products. These additional fees and expenses contribute to the overall cost of procurement.

It is also the responsibility of the procurement unit to coordinate with the ministry of health/ministry of finance stakeholders and funding agencies to determine when funds will be released to procure the products. Purchasers usually need to have access to the funds (typically in their account) before any bidding documents can be released. Delays with funds are one of the major (though, by no means, only) reasons for procurement delays.

Procurement planning

As mentioned before, procurement can be a lengthy process and, because it involves the transfer of money, including fund availability and potentially currency exchange issues, it needs to be planned carefully and often well in advance of the actual activities. A procurement plan is similar to a supply plan, which was discussed in chapter 6 on quantification, but it includes more information. The supply plan, which is the final output from the quantification exercise, provides critical inputs to the procurement plan.

The information generated from the supply plan, which will become part of the procurement plan, includes the required shipment quantities, with a schedule of each desired delivery date. In addition, a procurement plan includes the identification of the procurement method to be used, a list of the key steps in the procurement process (such as advertise bid, open bid, evaluate bid, award contract, disburse payments, etc.), and a timeline with estimated dates for completing each step of the process, including the names of the responsible parties. Like the supply plan, the procurement plan should be started 24–36 months ahead, and be updated regularly (i.e., rolling procurement plan). The rolling part represents the cyclical nature of procurement of health products—rarely is it a one-time activity, but rather a cycle that will be repeated at regular intervals. This process also ensures that all steps and timelines are accounted for to ensure that the right products, in the right quantities; arrive at the right time, in the right condition, at the right price, and to the right place.

The procurement unit or the logistics management unit, usually maintains this plan; they share it with other stakeholders, as needed. Part of the plan should clearly state timelines, dates, and responsibilities assigned for each activity. Dates for completion should be set for all activities; but they must be realistic, based on past experience and current capacity. They should include dates all the way through to product delivery and payment schedules to ensure on-going procurement planning (to ensure continuous availability). Knowledge of when stock will arrive will help determine when the next order needs to be placed.

Procurement methods typically include competitive bidding, requests for quotations, sole source procurement, and shopping. Each procurement method has different tasks associated with it, so each procurement will have its own timeline. If possible, think about longer term contract options to increase the competitiveness of bids—including framework contracts. However, certain countries have regulations that limit their ability to enter into long-term agreements with suppliers.

Develop bidding documents and invite offers

For effective competitive procurement, it is important for you to create detailed bidding documents against which suppliers will assess their ability and interest in providing the goods. Bidding documents should explain in detail the—

- quantities, specifications, and quality assurance requirements of the desired products
- delivery dates and required destination of the shipment
- regulations, procedures, and timing for responding to the bids
- selection criteria that will be used to evaluate and select suppliers.

Depending on the local context, it may be necessary to obtain document approval for bidding documents by government agencies or donors before they are publicly available. It is important to review the documents carefully before they are finalized to ensure that changes made to one section correspond to changes in another; and that wording, terms, and clauses are consistent throughout.

Now, you are ready to use the final bidding documents to solicit bids. The objective is to reach a broad range of interested suppliers to ensure that the selection process is as fair and competitive as possible. You can advertise in newspapers, trade bulletins, journals, organizational and government websites, and local bulletin boards. Additionally, the procuring agency can send invitations directly to suppliers it would like to bid.

Select suppliers

A program's success depends on selecting suppliers that will be able to deliver high-quality goods, at an affordable cost, within the required timeframe. Therefore, after bids come in, it is important for you to ensure that the evaluation process is structured as fairly and transparently as possible. Often, committees are created for bid evaluation; they compare and recommend bids to the contracting authority. The first step of the evaluation process is to evaluate the bids against the requirements that were set out in the bidding documents.

This includes ensuring that the bids are in the correct format; contain all the required information, samples, and terms; and are otherwise complete.

The following are general guidelines for reviewing bids that meet the minimum requirements:

- Evaluate all bids or proposals by the same criteria to ensure equity, impartiality, and transparency. Bids must match the requirements included in the bid documents at the time the bid was released.
- Reject and do not evaluate bids and proposals that do not qualify.
- Evaluate all qualified bids and proposals based on the lowest price.
- If it is a policy to give preference to national companies, clearly state the nature and extent of the preference in the initial invitation to tender or request for proposals.

Additional commercial and technical criteria for selection include—

- The program or agency has sufficient financial resources to meet any monetary obligations associated with the contract.
- The bidder has the necessary organizational capacity to comply with the terms and conditions of the contract and to complete it.
- The bidder must provide references, or another indication, that it has performed satisfactorily under similar contract terms in the past.
- Manufacturers meet GMP criteria and appropriate ISO standards, as required by the government or funding agency.

All bids that meet the technical and commercial requirements are then evaluated based on the financial comparison of total price (including currency conversions, if necessary) and ranked according to the lowest price.

The bid evaluation committee then writes a report of the evaluation process and the bidders' performance, including a recommendation for the contract award. This report and recommendation should include information on all bidders and a clear explanation for the recommended supplier. The evaluation committee members sign the report with its recommendation, certifying that it was a fair and complete process. This is important in public procurement—you must maintain supplier confidence in the system to encourage them to bid again in the future and to avoid protests against unfair procurement practices.

Award contract

The contract is the outcome of the bidding process; it is the document that will legally bind the purchaser and supplier to an agreed-upon set of product specifications, delivery requirements, performance and payment obligations of both parties, and legal recourse in the case of non-compliance on either side. A variety of contract types are commonly used, but local procurement policies may dictate the ones you should use, or are permissible, in your country.

Determining payment methods is an important part of the contracting process. To avoid delays in receiving supplies, you must complete payment arrangements as soon as possible after the contract is finalized. Especially for large international orders, suppliers will not risk beginning production without proof of payment. In large volume orders, via international competitive bidding, the most common methods of payment are a letter of credit or a down payment. For indirect payment via international supply services, it is common for the service to require full payment in advance of ordering products on behalf of the purchaser.

The final step is to obtain any necessary approval by the contracting authority and funder, if required; you must ensure that all documents are properly signed and authorized by the appropriate parties.

Monitor contract performance

The next step is to ensure that the established contract is adhered to and that supplies are received, as planned. This means that you must have a process to monitor supplier performance. A contract monitoring system ensures that the technical specifications and contract requirements are met, enables the purchaser to identify any potential issues, and evaluates the supplier in light of consideration for future contracts.

The basic parts of this type of system are—

- procurement documents and key performance indicators
- procedures for addressing issues or disputes
- pre-shipment compliance plan
- procedures for monitoring shipment transport.

Examples of frequently used key performance indicators are—

- timeliness of deliveries
- adherence to—
  - technical specifications, labeling and packaging requirement
  - shelf life requirements
  - other terms and conditions outlined in the contract.

Establishing a contract performance monitoring system and implementing it early in the contract process ensures that problems are identified and resolved early, before they become bigger problems. It also means that if there is an issue with production, the purchaser and supplier can work together to identify alternatives sooner, rather than later, when options may be more costly because the need is more urgent.

One method of monitoring supplier compliance is to conduct preshipment sampling, inspection, and testing. This may be a requirement of the government or funder, or it may be optional; but, this is usually considered a good opportunity to ensure product compliance and quality before the product leaves the supplier's property.

The three basic levels of preshipment compliance are—preshipment document review, visual inspection of product, and laboratory or physical testing of the product. The level(s) of preshipment compliance selected may vary by product or supplier; if suppliers establish a reputation for providing quality products, the levels are reduced. However, to ensure consistency of quality over time, you should occasionally do random checks of different levels.

After products leave the supplier's plant or warehouse, it is also important to monitor transportation and delivery arrangements of consignments to ensure that they arrive on time and in good condition. The key areas to monitor are proper packaging; compliance with shipping instructions; compliance with delivery schedule; and compliance with temperature, or other special shipping requirements.

Delivery

The last step in the procurement process is to ensure delivery and receipt of the goods at the required destination. For international shipments, this includes the shipment of goods from the supplier's warehouse, through the port of entry, clearance through customs, receipt and inspection at the designated place of delivery, and resolution of any insurance or damage claims. While shipping terms and responsibilities may vary, it is the responsibility of both the purchaser and supplier to support the customs clearance process by ensuring that they have the necessary documentation to facilitate clearance. Insufficient or incorrect documentation can cause unnecessary delays in clearance, which frequently leads to charges that the purchaser is responsible to pay. Customs requirements should be clarified with the national agency, and shared with the supplier, before the shipment is sent, so that all documentation can be provided to the purchaser in a reasonable time.

When the consignment is delivered at the destination, the warehouse must officially receive the shipment by confirming receipt of the correct documentation; including the commercial invoice, packing list, and any other required documentation. At this point, the warehouse staff should inspect the consignment to ensure that the shipment includes the correct products, in the correct quantities, in good condition (with no damage), in correct packaging and labeling. Products must also meet any special packing or expiry date requirements included in the contract, and include a complete packing slip and the manufacturers' certification of product.

After inspection, if no problems are detected, products can be accepted into the warehouse and added to the usable inventory. Warehouse records should be updated to include the new shipment and all shipment paperwork should be shared with the procurement manager to show proof of delivery and to authorize them to process payment to the supplier. If the contract has been fulfilled and payment made, you can consider it closed.

7.3 Key Challenges Faced in Procurement

As is evident from the steps described earlier, public sector procurement of health care supplies is a complex process that engages several stakeholders over an extended period of time. Given the number of stakeholders, the strict nature of procurement procedures, and the often high value of funds allocated for procurement, it is not uncommon to have challenges during the procurement process. While you may have a wide range of problems that can impact procurement, the more common and critical procurement challenges revolve around the following:

Accurate quantification/forecast data

This data is essential for ensuring the procurement process results in the correct quantity of commodities that will best support the program's projected needs. A forecast that is too low could result in stockouts,

which often trigger expensive emergency procurements, creating a financial strain on limited health care budgets. A forecast that is too high can cause excess holding costs, storage-capacity strain, and an increased chance of products expiring on the shelf.

Lengthy procurement process

Each of the process steps described above—from quantification of requirements to delivery of goods—requires a specific amount of time to complete. While some steps can be done in parallel and will vary in the time required, some are often fixed for a set period of time. For example, most national procurement regulations will stipulate the amount of time a bidder has to respond to an international bid—which can range from 30–90 days. Donor requirements may also add time to the procurement process. The World Bank, for example, will often require that bidding documents be submitted for their review and *no objection* prior to release. If corrections are needed, the documents are returned to the procurement unit; the unit must correct and resubmit them for the World Bank's no objection, all of which takes time. You must also consider the manufacturer's production time, as well as shipping transit time and customs clearance time. Together, it is not uncommon for the public sector procurement process for health care commodities to take from 10–16 months, and sometimes longer, to complete.

As noted earlier in this chapter, it is important for supply and program mangers to understand procurement lead time requirements to ensure that quantification and procurement planning can be initiated early enough to support the procurement and supply cycle.

Delays in funding allocation and release

In many countries, national polices require that funding for procurement be allocated and available to the program, or procurement unit, before bidding documents can be publicly released. Delays in government funding approval and allocation of program procurement budgets delay the release of bidding documents; which, in turn, can delay the eventual delivery of the commodity. Donor funding cycles may also create delays in the procurement process if their funding cycles are not aligned with the government procurement cycle. Delays in supplier payments, because of national cash flow and treasury management constraints, can cause suppliers to hold shipments; this can lead to supply problems.

Product quality assurance

Counterfeit and substandard products are in the marketplace, creating a significant product quality risks for the supply system. To address this risk, public sector procurement processes and national regulatory agencies must implement appropriate quality assurance measures to ensure that only quality products enter the supply system. Procurement addresses this responsibility through the technical specifications, issued with the bidding document, that identify key product quality requirements, such as product certification requirements, pharmacopeia standards (when applicable), labeling and packaging requirements, shelf life requirements, etc. These requirements become the contractual obligations the supplier must comply with when a contract is awarded. The bidding and contract documents should also include the right to conduct preshipment or postshipment inspection and testing, as required, to confirm that the product complies with the stated quality assurance requirements.

Quality monitoring of procurement

As with every other function in the logistics cycle, you should consider quality monitoring during every step of procurement. In addition to the quality assurance steps mentioned in this handbook, quality must be part of every step—from the determination of what to order through to the receipt and acceptance of products in the national inventory. You should monitor all procurements to ensure that product specifications and quantities are precise and accurate, that the bidding process follows regulations and procedures and is documented appropriately, that contracts are written carefully, and that you receive the correct products, in good condition, after shipment and delivery.

Transparency throughout the procurement process

Because of the large sums of money involved in health care commodity procurement, it is not uncommon for fraud and corruption to occur. Special interests, suppliers, procurement personnel, and others may seek to influence product selection, manipulate order sizes, and manipulate supplier selection and contract award decisions to increase sales and profit margins for their personal benefit. Procurement officials must support an open procurement process by consistently applying national procurement regulations and procedures, and international best procurement practices that promote transparency.

Fighting corruption in Paraguay

In Paraguay, public procurement officials often lacked the technical knowledge and legal understanding to conduct procurement effectively, punctually, and transparently. Procurement decisions were frequently improvised, without following the regulations that were supposed to govern the process. Some officials worked closely with private sector contractors, effectively stifling competition and maintaining high prices.

To address these problems, workshops were held for procurement officials throughout the government. Participants in the seminars used their shared experiences to identify commonly used informal and illegal practices that can cover corruption and bribery. They used this information to develop a map of potential risks and dangers in the procurement process, which they contrasted with the norms and practices that promote transparency and efficiency. In addition to increasing officials' technical knowledge of the procurement process and its regulations, one of the workshop goals was to develop and promote a more ethical culture among participants to help guide their future procurement activities. (Transparency International 2002)

Chapter Summary

In this chapter, you learned the following:

- Good product specifications are critical to good procurement and to ensure that the procured products meet all program requirements and quality standards.
- Selection of a procurement method will depend on the types and quantities of products to be procured.
- Aligning procurement cycles with the availability of financing will help ensure that availability of funding does not delay procurement.
- Procurement is often a lengthy process. The full timeline needs to be known and communicated with other stakeholders to ensure that quantification and procurement planning can be initiated early enough to support the procurement and supply cycle and to avoid stockouts.
- It is critical to manage the bidding process to ensure that procedures are followed and the process is well documented. An open and transparent process will increase competition and the perception of fairness; it will decrease the risk of bidder protests.
- While lowest cost is important to selecting a supplier, other important criteria to consider when selecting suppliers include—
  - quality of products
  - ability to meet delivery schedule
  - past performance.
- Contract monitoring is necessary to ensure that the supplier is meeting its obligations. and that products arrive on time and in good condition.

For specific guidance and instructions about how to conduct public sector procurement for health products, see the following resources:

Procurement Capacity Toolkit (PATH 2009)

Managing Drug Supply (MSH 1997)

Procurement and Supply Management toolbox: www.psmtoolbox.org

Malaria Booster Control Program: Procurement and Supply Management Toolkit (World Bank) http://siteresources.worldbank.org/INTPROCUREMENT/Resources/Malaria-Toolkit.pdf