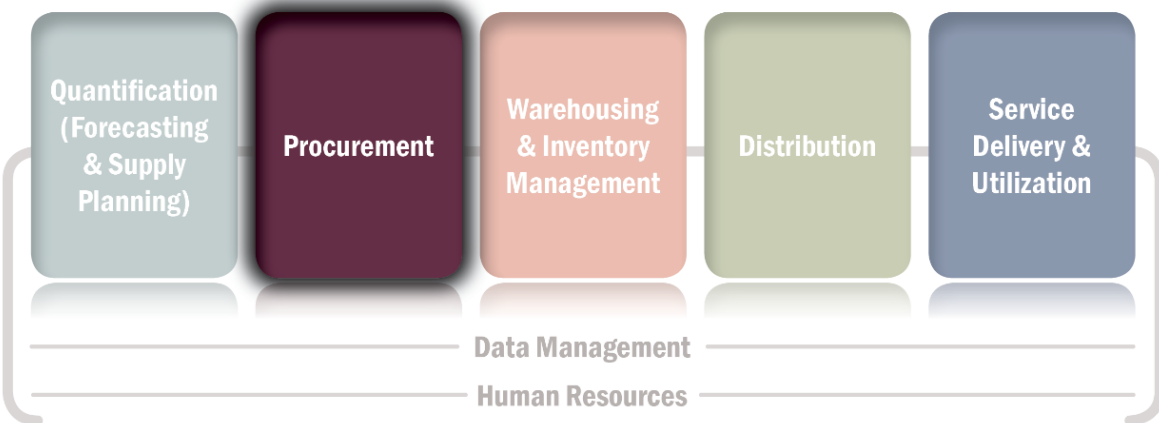


Promising Practices

PROCUREMENT

Brief #2 in the Promising Practices in Supply Chain Management Series




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This brief is part of the *Promising Practices in Supply Chain Management* series, developed by the Supply and Awareness Technical Reference Team (TRT) of the [UN Commission on Life-Saving Commodities for Women’s and Children’s Health](#) (the Commission or UNCoLSC). As part of the [Every Woman Every Child](#) movement and efforts to meet the health-related Millennium Development Goals by 2015 and beyond, the Commission is leading activities to reduce barriers that block access to essential health commodities. The Supply and Awareness TRT developed this set of briefs on promising practices in supply chain management to guide countries in identifying and addressing key bottlenecks in the supply and distribution of the Commission’s 13 life-saving commodities across the reproductive, maternal, neonatal, and child health continuum of care.

This series of briefs has been developed for use by in-country stakeholders. The briefs provide both *proven* and *promising* practices that may be used to address specific supply chain barriers faced by each country.

- *Proven practices* are defined as interventions with proven outcomes in improving health commodity supply chains in low- and middle-income countries tested using experimental or quasi-experimental evaluation designs. Examples of proven practices are identified by this symbol throughout these briefs. 
- *Promising practices* are defined as interventions showing progress toward improving health commodity supply chains in low- and middle-income countries.

To view all the briefs in the Promising Practices in Supply Chain Management Series, visit <http://siapsprogram.org/publication/promising-practices-in-supply-chain-management>

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Abbreviations and Acronyms

AIDS	acquired immune deficiency syndrome	PAHO	Pan American Health Organization
ARV	antiretroviral	PEPFAR	President’s Emergency Plan for AIDS Relief
DCP	Disease Control Program	PMU	procurement management unit
Global Fund	Global Fund to Fight AIDS, Tuberculosis, and Malaria	PPA	Public Procurement Authority
HIV	human immunodeficiency virus	PPB	Public Procurement Board
JSI	John Snow, Inc.	PPS	Pharmaceutical Procurement Service
LMU	logistics management unit	PROMESE /CAL	Programa de Medicamentos Esenciales/ Central de Apoyo Logístico (Program for Essential Medicines/Central Logistics Support)

RHSC	Regional Health Service Center	SPS	Strengthening Pharmaceutical Systems
SCMS	Supply Chain Management System	TRT	Technical Reference Team
SDP	service delivery point	UNFPA	United Nations Population Fund
SEAM	Strategies for Enhancing Access to Medicines	UNOPS	United Nations Office of Project Services
SIAPS	Systems for Improved Access to Pharmaceuticals and Services	USAID	US Agency for International Development
SOP	standard operating procedure	VEN	vital, essential, nonessential
SPE	strategic procurement entity	VMI	vendor-managed inventory
SUGEMI	Suministros Generales y Mantenimiento Industrial (Single System for Managing Medicines and Medical Supplies)		

Background

Procurement is the process of turning forecasts and supply plans into purchased products that are delivered to a point of entry. Typically divided into several steps, procurement focuses mainly on the management of the tendering, bidding, and contracting process. The length of the procurement process for new goods varies significantly and, in many cases, may take more than one year from start to finish. Procurement benefits most from well-defined and accountable processes, which work to ensure that commodities are obtained through fair, consistent, and reliable means. Without efficient mechanisms to manage procurement processes, the acquisition of commodities may easily become disorganized and costly, resulting in stock-outs of products or the placement of emergency orders to fill anticipated supply gaps.

Compared to other domains of the in-country supply chain, procurement is most likely to entail significant relationships and activities at the global level. Since few countries have local manufacturing capacity, particularly for the 13 life-saving commodities identified by the Commission, procurement relies on the satisfaction of in-country commodity needs through the combination of both global and local procurement strategies. In light of this, the case studies in this brief cover promising practices in local, regional, and global procurement.

Countries struggle with a variety of procurement challenges. Many challenges result from the lack of coordination and communication among the multiple entities and donors involved in the procurement process. The lack of coordination leads to: unclear or poorly defined processes; parallel procurement systems among the various entities; a lack of transparency in all aspects of the process (including tendering, bidding, receipt of donated goods, etc.); a lack of published and reliable lead times; and a lack of published standard operating procedures (SOP). Other challenges include donor or governmental funding mechanisms that do not align with the procurement schedules for the recipient country or program. When this happens, delays in the release of funds may occur, leading to further delays in procurement, the use of loans to procure the required commodities, or the redistribution of funds earmarked for other services.

Limited resources and bureaucratic constraints may cause procurement processes to become dominated by short-term and reactive action instead of long-term planning and preparation. The lack of comprehensive long-term planning may cause procurement delays and bottlenecks further down the supply chain, leading to unfilled orders at the service delivery point (SDP). Ultimately, these challenges lead to inefficient, expensive, and untimely procurement of commodities and affect the ability of programs and SDPs to provide effective health care.

To respond to these procurement challenges, many countries find themselves over-utilizing emergency orders, which reinforces short-term planning and increases overall costs. Emergency orders are commonly used by programs or SDPs to ensure faster delivery of goods than is possible through normal procurement channels. Emergency orders create additional bottlenecks by preventing the procurement department from filling routine orders, and increase the cost of goods procured.

To address these challenges and barriers, this brief proposes several promising practices as examples of how the procurement process may be improved.

Barriers	Description	Promising Practice(s) that Address the Barriers
Lack of coordination in the supply chain	Procurement is dependent on coordination with both quantification personnel and warehousing personnel. Without coordination between them, procurement is forced to make assumptions about the needs and capacity of the other supply chain functions, leading to procurement of goods that may not be timely, cost-effective, or appropriate to meet the needs and capacity of the supply chain.	<ul style="list-style-type: none"> • Strategic procurement entities • Pooled procurement • Outsourced procurement • Framework contracts • Prime vendor contracts • Published lead times
Unclear procurement processes	Procurement relies on processes that occur in a timely, coordinated, and accurate fashion. When processes are not standardized or accessible, they may be difficult to follow due to a lack of training on how to use them, confusing language, or missing information.	<ul style="list-style-type: none"> • Strategic procurement entities • Category/commodity management
Bureaucratic and cumbersome procurement practices	Many public and private entities and individuals may have influence on the procurement of various products. With so many invested parties, procurement may easily become bogged down in unnecessary or duplicative processes that provide little additive value. Bureaucratic delays may further exacerbate the dysfunction among the parties by preventing timely completion of key procurement activities.	<ul style="list-style-type: none"> • Strategic procurement entities • Outsourced procurement • Framework contracts • Prime vendor contracts
Limited use of procurement flexibilities	Procurement flexibilities enable greater control over the possible variations and changes that may occur in procurement. However, too often countries end up with rigid and unfavorable contracts with vendors. The contracts often limit the number of modifications or adjustments that may be made in response to changing needs and may prove more difficult to manage and more expensive.	<ul style="list-style-type: none"> • Framework contracts • Prime vendor contracts
Lack of product standardization	Procurement entities are responsible for ordering a wide variety of products of various quantities, dosages, sizes, etc. When similar products are ordered in smaller quantities, the prices or procurement time associated with these smaller quantities may be prohibitive and time-consuming. Moreover, the management of multiple contracts for multiple vendors may be cumbersome in instances of limited personnel resources and capacity.	<ul style="list-style-type: none"> • Category/commodity management • Pooled procurement
Unpredictable and long lead times	There may be significant variation in the amount of time it takes to procure commodities, particularly if they are new. This leads to lengthy and unpredictable ordering and delivery times for commodities.	<ul style="list-style-type: none"> • Published lead times
Unplanned, unsolicited, and unspecified donations	Many countries rely on the receipt of donations to help fill gaps in health-related commodities. Occasionally, donations will be offered for products that are not needed, do not follow country-specific guidelines, are expired or about to expire, or are of poor quality/limited use.	<ul style="list-style-type: none"> • Policies for the donation of medical commodities

Strategic Procurement Entities

To address the lack of coordination in the supply chain, unclear procurement processes, and bureaucratic and cumbersome procurement practices

One way that procurement may address disparate processes is by consolidating responsibility for procurement in a strategic procurement entity (SPE), such as a procurement management unit (PMU), procurement office, or as a function of a logistics management unit (LMU). Although these entities are often situated in various governmental ministries, they can also be nongovernmental and function alongside government. These entities are responsible for keeping a broad picture of the entire procurement process. They are formally established, multi-disciplinary committees or units, tasked with the management and oversight of procurement for a particular country, region, or program. Procurement entities, particularly those for health commodities, work to coordinate the efforts of supply chain personnel, programs, ministries of health, health facilities, and other relevant personnel to ensure proper consideration for all up- and downstream effects that stem from or influence procurement. In addition, they are responsible for establishing and updating key procurement SOPs and helping to establish a consistent, fair, accountable, and transparent procurement process. There may be separate units or groups in these entities that manage the tendering and bidding processes, secure and manage funding for procurement, support quality assurance processes, and provide monitoring and evaluation support.

One of the main benefits of procurement entities is that they help to avoid duplicative or parallel procurement processes between programs. In countries where this strategy has been used, the procurement of medications and supplies has been streamlined, thereby helping to avoid the unnecessary procurement of commodities in quantities or dosages that are not in accordance with standard treatment guidelines. In turn, this helps to avoid wastage of funds, space, and personnel time, and allows such resources to be devoted to other needs. SPEs may also work to ensure that there is greater alignment between the funding mechanisms and procurement schedules.

When should strategic procurement entities be considered?

SPEs may be used in most situations, provided that political will for reform in the procurement domain exists as well as supportive legislation, as well as procurement expertise on which to base the reform. Procurement entities, such as PMUs or LMUs, are meant to be a permanent part of the procurement process. Given the changes that should occur to bring procurement under the purview of a SPE, there should be long-term commitment to reform. Moreover, procurement entities work most efficiently when experts from other parts of the supply chain are willing to work together and share their areas of expertise to improve the supply chain as a whole.

To learn more:

- [Procurement Strategies for Health Commodities: An Examination of Options and Mechanisms within the Commodity Security Context: Section 4.0 Procurement Mechanisms \(page 19\)](#)
- [Logistics Management Units: What, Why, and How of the Central Coordination of Supply Chain Management](#)
- [Managing Access to Medicines and Health Technologies: Managing Procurement: Organization and Management of the Procurement and Distribution Functions \(section 18.6\)](#)

GHANA

Enacted in 2003, the Public Procurement Act enabled the Government of Ghana to begin making important improvements in its procurement processes. One of the first changes was the establishment of the Public Procurement Board (PPB), which oversees the Public Procurement Authority (PPA). In Ghana, the PPB is the SPE in charge of streamlining procurement processes and increasing the transparency of the entire process. The PPA manages the actual procurement of goods, including the tendering, bidding, and contracting processes. To maintain transparency and ensure accountability, tender review boards assess the contract recommendations and provide approvals after a thorough review.

These reforms have helped reduce fraud and corruption and have led to increased transparency in all aspects of procurement. Key accomplishments of the PPB include the standardization and documentation of procurement procedures, and the development of diploma and Bachelor's degree programs in procurement as a means of increasing professional capacity in Ghana.

To learn more:

- [Ghana's Comprehensive Approach to Public Procurement Reform](#)

DOMINICAN REPUBLIC

Beginning in 2011, the Strengthening Pharmaceutical Systems (SPS) Program partnered with the Dominican Republic's Ministry of Public Health to address problems in the procurement of medicines and medical commodities. The problems—namely frequent stock-outs, parallel procurement processes, and poor planning—limited the ability of the health system to provide care and treatment for illnesses. Although there was a central medical store, called Programa de Medicamentos Esenciales/Central de Apoyo Logístico (Program for Essential Medicines/Central Logistics Support [PROMESE/CAL]), which managed the procurement of larger quantities or more generic categories of goods, many programs and health facilities also procured commodities using their own means. Goods procured through PROMESE/CAL were typically purchased at reasonable prices, but procurements made by individual programs or facilities were up to 2000% higher than the PROMESE/CAL purchase prices.

Initially tasked with addressing procurement issues in disease-specific programs, SPS' scope of work was expanded to tackle the broader issues plaguing all aspects of procurement. To deal with the issues of parallel procurement systems, uncoordinated purchasing, and higher purchase prices, the Single System for Managing Medicines and Medical Supplies (SUGEMI, in Spanish) was created. This SPE was designed to integrate the procurement of health-related commodities by acting as the sole manager of purchases for medicines and supplies for the Regional Health Service Centers (RHSC) and Disease Control Programs (DCP). While the decisions on what products to procure and the quantities needed remained with the RHSCs and the DCPs, the procurement of these commodities is managed by SUGEMI and PROMESE/CAL.

As a result of greater integration in procurement, the Dominican Republic has benefitted from fewer stock-outs, less wastage of expired or unused commodities, and lower procurement prices due to greater purchasing power with vendors.

To learn more:

- [Integrated Pharmaceutical Supply Management as a Strategy for Strengthening the National Health System in the Dominican Republic](#)
- [Planning the Purchase of Medicines and Medical Supplies for the Ministry of Health for 2012 and Its Implications for Improving Supply in the Dominican Republic](#)

Pooled Procurement

To address the lack of coordination in the supply chain and lack of product standardization

Pooled procurement is the joint procurement of specific commodities or groups of commodities by one procurement agent on behalf of a group. The group may consist of a variety of entities, including facilities, programs, bilateral and multilateral organizations (such as USAID or UNFPA), regions, or countries. Larger procurement groups have greater negotiating power with a vendor, allowing them to have greater flexibility in the contracting process, and facilitating the purchase goods at lower prices than when ordered individually. In return, these joint entities agree to purchase products from a particular vendor only.

This strategy is especially useful in settings where individual countries or programs need to procure a smaller quantity of goods, but the purchase price or the shipping logistics prevent them from doing so in a cost-effective and sustainable manner. The joint tenders allow for the procurement of larger quantities of products at one time, may help reduce the number of orders placed, and may also reduce the procurement time. When properly implemented, pooled procurement helps reduce costs, minimizes stock-outs of key commodities, and increases capacity.

Pooled procurement may be implemented in two ways, using either group contracting or central contracting, depending on the procurement needs of the country and the feasibility of implementation. Group contracting involves the selection of vendors and negotiation of prices jointly between the pooled procurement participants, but then allows each member state or country to make their own purchases. With central contracting, a central procurement unit oversees the vendor selection, price negotiation, and purchasing for the participants using pooled funds. This strategy requires a greater level of collaboration and integration among the participants, but may also lead greater rewards through higher levels of savings or more favorable contract terms.

When should pooled procurement be considered?

Participants who want to retain control of purchasing benefit most from the implementation of group contracting. Although group contracting still relies on some degree of communication and coordination among the participants, this method does not require as much as central contracting.

Central contracting is best used when there is a high level of communication and agreement among the partnering entities (NGOs, programs, regions or states, or countries) so that coordinated and informed procurement may occur. Central contracting also requires a greater investment of both financial and personnel resources than group contracting, and may be less feasible in locations with limited capacity.

Regardless of the type of pooled procurement implemented, personnel knowledgeable about the selected strategy are required to guarantee effective and correct implementation. When pooled procurement occurs across programs, warehousing and distribution entities also need to be involved to ensure that there is sufficient capacity to store and deliver larger quantities of goods.

Pooled procurement may work against building local manufacturing capacity, since pooled procurement agreements consolidate orders with a small number of manufacturers. A ministry in one country might place priority on local manufacturers when making procurement decisions, while pooled procurement will likely target larger manufacturers without concern for building local capacity. Lastly, pooled procurement requires a certain level of transparency and scrutiny throughout the procurement process to ensure fairness and accountability of all participants.

When pooled procurement occurs across countries or semiautonomous states, several additional factors should be taken into consideration. Namely, each country or state is subject to its own set of legal requirements, in addition to separate tendering, bidding, and contracting processes. To function optimally, pooled procurement requires that each party be flexible or willing to modify its existing procurement structure to suit the details of the pooled procurement agreements. Given the need to work across boundaries, whether physical, organizational, or governmental, pooled procurement is best thought of as a long-term investment.

To learn more:

- [World Health Organization: Multi-country Regional Pooled Procurement of Medicines Meeting Report](#)
- [Regional/Multi-country Pooled Procurement of Pharmaceuticals](#)
- [A Situational Analysis and Feasibility Study on Regional Pooled Bulk Procurement of Essential Medicines and Other Health Supplies in the East African Community Partner States](#)

NIGERIA

Recognizing the need to coordinate procurement across multiple implementing partners of the President's Emergency Plan for AIDS Relief (PEPFAR), the Supply Chain Management System (SCMS), in conjunction with the United States Government/PEPFAR Procurement and Supply Management Team, implemented pooled procurement strategies for antiretroviral (ARV) medications in Nigeria. Once procured by PEPFAR, the ARVs were then distributed to the PEPFAR implementing partners for use in various HIV programs. This approach helped to reduce the fragmented procurement processes currently in place through the use of improved quantification exercises, coordinated product selection, and the pooled procurement of two high-volume ARVs. The pooled procurement of the ARVs led to significant reductions in stock-outs and procurement costs by allowing for greater coordination among the various HIV programs, as well as improved budgeting and forecasting methods, and lower costs through larger purchases. Specifically, the coordination among pooled procurement participants helped promote the redistribution of commodities from implementing partners with excess stock-on-hand to programs and facilities facing stock-outs. The sharing of commodities among participants helped save money by mitigating the need for emergency orders and reducing wastage and expiry of excess stock. In just over one year, participants transferred more than \$2 million worth of goods among themselves. The achievements of this strategy led to the inclusion of other first-line ARVs and HIV-related commodities in the pooled procurement activities at PEPFAR-supported facilities in Nigeria. The larger procurement volumes gave the procurement team greater negotiating power with suppliers, leading to better contract terms and delivery dates.

While there is an ongoing need for better matching of consumption data with forecast projections and for better coordination among health facilities that receive commodities from multiple sources, SCMS plans to expand its activities in Nigeria and to pilot test the inclusion of other products in the pooled procurement activities.

To learn more:

- [In Brief: In Nigeria, a PEPFAR-wide strategy for procurement](#)
- [On the Road with SCMS, Part 1: In Nigeria, PEPFAR partners pool procurement of live-saving commodities](#)

THE CARIBBEAN

Initially formed in 1986, the Pharmaceutical Procurement Service (PPS) for the Organisation of Eastern Caribbean States manages regional pooled procurements for nine member states. After the introduction of pooled procurement schemes, procurement prices for medications dropped by more than 25% over individual country prices. Annually, the PPS is responsible for procuring almost 700 items, 70% of which are pharmaceuticals. Altogether, this accounts for 80% of the public sector need for pharmaceuticals. Benefiting from stronger bargaining power, information sharing processes, regional cooperation, enhanced emphasis on quality control, the development of a common regional formulary, and ongoing staff training, the members have experienced a measurable increase in access to essential medicines.

Critical to the success of this partnership was the development and management of a credible procurement agency with professional staff and transparent processes, timely/full payment from members, harmonization of medicines policies across members, and administrative and political commitment in the form of signed member agreements.

To learn more:

- [Organisation of Eastern Caribbean States](#)

THE PAHO STRATEGIC FUND

Consisting of 17 countries, two social security agencies, and five Principal Recipients of the Global Fund to Fight AIDS, Tuberculosis, and Malaria (Global Fund), the Pan American Health Organization (PAHO) Strategic Fund was founded in 2000 to assist PAHO members with the procurement of key public health commodities. By managing the procurement of these commodities, the PAHO Strategic Fund leverages its greater resources to purchase large quantities of goods at low prices and manages the storage and distribution to each member state, thereby ensuring a consistent supply of affordable commodities. For example, the PAHO Strategic Fund uses pooled financing to purchase large quantities of vaccines at lower prices than the member states could procure independently.

Under the guidance of the PAHO Strategic Fund, a single procurement plan was instituted for all Global Fund beneficiaries in Haiti and led to the elimination of all vertical procurement and supply management programs in Venezuela. Negotiations undertaken by the PAHO Strategic Fund have helped ensure regional price referencing for more than 14 ARVs procured by Brazil, Guatemala, Haiti, and Nicaragua. Additional accomplishments include the procurement of more than 41 items for six member countries totaling tens of millions of dollars' worth of goods.

To learn more:

- [Regional/Multi-country Pooled Procurement of Pharmaceuticals](#)

Outsourced Procurement

To address the lack of coordination in the supply chain, and bureaucratic and cumbersome procurement practices

Similar to pooled procurement, outsourced procurement is a separate procurement strategy that leverages power in numbers to achieve process improvements and reduced costs of procurement. This strategy works by partnering with third party agents from either the public or private sector to manage the procurement process in a particular region, country, state, or program. The third party agents may be responsible for a variety of activities, including planning, contracting, and/or purchasing of goods. These procurement agencies may charge service fees that are between 5% and 10% of the procurement costs.

Procurement agents typically have greater resources and capacity to ensure that manufacturers or suppliers adhere to Good Manufacturing Practice guidelines and are well situated to obtain the highest quality commodity at the lowest price possible. This expertise helps ensure that countries or programs are not overcharged for the procurement of goods and provides an important service for locations with limited technical capacity in specific procurement activities. In addition, greater enforcement and adherence to established policies by the third party agents may help to ensure that the procurement process functions as intended and that the number of emergency orders needed is kept to a minimum.

When should outsourced procurement be considered?

Governing bodies should consider outsourced procurement when they have a sufficient level of technical expertise to oversee the procurement agent. To function most efficiently, it is important that the procurement team and the contracted partner have a clear and well understood statement of work. Local procurement personnel need to be able to manage the outsourced contracts to ensure that the vendors are delivering high quality products that meet procurement expectations. It is critical that these the procurement team defines and enforces adherence to the contract terms by the procurement agent through the use of key performance indicators and explicit descriptions on the frequency and level of detail required in reporting.

In addition, governments need to be willing to increase the transparency and visibility of their budgeting and procurement processes when they bring in a third party to manage them. The selection of the procurement agent needs to be fair, impartial, and ensure that the good of the country and its needs are placed over profit. To achieve this, countries may consider requiring that the outsourcing agent allow a review of their pricing formulas to foster a greater sense of transparency and accountability, which may help the country make informed decisions when choosing the agent. Countries that have strong programmatic representation and a reliable quantification and forecasting process are also most likely to benefit from this type of procurement reform.

To learn more:

- [Exploring Supply Chain Augmentation for Malaria Commodities](#)
- [Managing Access to Medicines and Health Technologies: Chapter 39. Contracting for Pharmaceuticals and Services \(pages 39.1–39.20\)](#)

INDIA

Beginning in 2007, the Government of India contracted out the procurement of selected health sector goods to the United Nations Office of Project Services (UNOPS). This partnership was created to help address delivery and funding issues in procurement, and focused on HIV and AIDS, malaria, tuberculosis, and maternal health commodities. In 2009, UNOPS expanded its scope to include the tendering of more than 50 commodities across additional disease and diagnostic specific commodities. Annually, UNOPS is responsible for procuring more than \$100 million worth of goods for the Government of India using funding from the government, the United Kingdom, the Global Fund, and the World Bank.

By outsourcing procurement services to UNOPS, the government was able to purchase needed commodities at reasonable costs and with timely delivery. In addition, UNOPS provides valuable assistance during emergency situations. When the national immunization program faced a looming stock-out of syringes, UNOPS was able to use its resources to help the Government of India place an emergency order for this commodity. Not only did UNOPS manage to procure enough syringes to avoid a stock-out, they were also able to procure the syringes without paying higher prices and to facilitate delivery within a record-setting 30-day timeline.

To learn more:

- [India Operations Center: Health Sector Procurement for the Indian Government](#)

Framework Contracts

To address the lack of coordination in the supply chain, bureaucratic and cumbersome procurement practices, and limited use of procurement flexibilities

Sometimes called framework agreements or national framework agreements, framework contracts are a more recent procurement strategy for the public sector. They have been used by the private sector for a long time. Framework contracts allow countries or programs to directly negotiate with the vendors of particular commodities and then purchase a defined set of commodities in variable quantities at a fixed price for the duration of the agreement. Often lasting two to three years, these contracts are established with prequalified or prime vendors and may help countries plan in advance for the procurement of a fixed set of goods. In addition to benefiting the country, these contracts also provide important information to the manufacturers on projected needs and delivery schedules, allowing them to plan manufacturing and distribution schedules accordingly.

When should framework contracts be considered?

Given the longer term commitment, these contracts are best used when countries have dedicated funding sources for the commodities and when they have reliable forecasting and supply planning numbers. Procurement entities should work to ensure that there is regulatory support for the use of this type of procurement strategy. The use of framework contracts may be particularly beneficial to countries that procure commodities with unstable pricing, as some of the risk of market variations is then assumed by the manufacturer or vendor.

To learn more:

- [Improving Procurement Practices in Developing Country Health Programs](#) (pages 17–26)
- [Addressing Procurement Bottlenecks](#)
- [Supply Chain Management of Antiretroviral Drugs: Considerations for Initiating and Expanding National Supply Chains](#) (page 23)

CHILE

ChileCompra, a strategic procurement entity, is a decentralized public procurement department run by the Chilean Department of Treasury. It was created to improve the national procurement process for all government-related goods, services, and activities. Since its establishment in the early 2000s, ChileCompra has been successful in implementing standardized policies, increasing transparency, and using fair bidding and tendering practices. To achieve these improvements, ChileCompra uses multi-year framework agreements to procure health commodities and other public sector goods. As a recipient of these contracts, the vendors are placed into a national catalog that procurement entities in Chile may use to make purchases without having to carry out a lengthy tendering and bidding cycle.

Not only did ChileCompra help to consolidate the procurement of most health sector commodities under one entity and establish transparent and fair procurement policies for Chile, it also helped to develop capacity and management expertise in the administration of framework agreements and catalog development.

To learn more:

- [Getting Products to People without a Traditional Medical Store](#)

Prime Vendor Contracts

To address the lack of coordination in the supply chain, bureaucratic and cumbersome procurement practices, and limited use of procurement flexibilities

Prime vendor contracts are contracts awarded to specially designated vendors that have gone through an assessment in which they are evaluated for their ability to provide high quality, reliable, and cost-effective procurement services. Once approved for prime vendor status, procurement entities may work with these vendors to procure commodities from them without having to go through a competitive bidding and tendering process for each individual procurement. The ideal time frame for these contracts is somewhere between one and five years, with the majority lasting two to three years. This ensures that the contract is long enough to promote sufficient benefits while allowing for the revision, cancellation of prime vendor status, or addition of new vendors over time. Prime vendor contracts help shorten the procurement lead time, and reduce costs and minimize stock-outs by avoiding lengthy tendering, bidding, and contracting processes. Using prime vendor contracts may help ensure greater product quality and consistency in delivery schedules. In addition to procuring commodities, prime vendor contracts may also include components of quality assurance, capacity development, and technical assistance with quantification and supply planning.

One major benefit of having prime vendor contracts is that countries may establish these contracts with multiple vendors, thereby ensuring competitive pricing between manufacturers and the availability of back up resources should the manufacturing capabilities or quality of a particular vendor be compromised. This process may be used as a stand-alone strategy or as a first step in the process of developing framework contracts, which are described in detail above. Additionally, some countries may implement a prime vendor model system that includes a combination of procurement, warehousing, and distribution support. This practice is sometimes referred to as “vendor-managed inventory” (VMI). For a further description of this practice, refer to the VMI section of the [Promising Practices in Distribution](#) brief.

When should prime vendor contracts be considered?

Prime vendor contracts are best used when procurement officials are willing to consider and fairly evaluate all potential vendors for a particular product, category, or group of commodities. To be most effective, countries should ensure that the prices are reasonable and the quality offered by the vendor meets minimum standards, as determined by the country. In places where there may be local production of products, contracts should only be awarded to these manufacturers if they are truly the best source for the acquisition of the specified products.

Prime vendor contracts may also be used when framework contracts are not feasible due to the longer length of commitment required, funding shortages, and untrustworthy quantification estimates, or if there are legal or other regulatory restrictions that prevent them from being enacted.

To learn more:

- [Improving Procurement Practices in Developing Country Health Programs](#)

TANZANIA

Tanzania is a country that uses a variety of procurement strategies, as demonstrated by its partnership with SCMS. Responsible for procuring HIV commodities, SCMS recently implemented a prime vendor model strategy to secure a local supplier of medicines to prevent opportunistic infections in HIV-positive patients. Under this model, SCMS was able to evaluate the ability of local manufacturers to meet the need for quality, affordability, and greater product consistency by conducting a thorough assessment of the facilities, providing recommendations to improve adherence to good storage and distribution practices, and providing follow-up visits to monitor progress. The use of a prime vendor contract not only helped ensure that high quality products were delivered to the people of Tanzania, but that important technical assistance and capacity development of the local manufacturer were also provided. The lessons learned from these activities have been shared with other manufacturers and the Tanzanian Food and Drugs and Authority to inspire similar reforms.

To learn more:

- [SCMS Supply Lines Newsletter May 2013](#)
- [Six Years of Saving Lives Through Stronger Public Health Supply Chains](#)

Category/Commodity Management

To address unclear procurement processes and the lack of product standardization

Category/commodity management involves the appointment of an individual or group to oversee the procurement of a specific set of products that share similar characteristics or uses. These appointments contribute to the development of deep expertise in that category and facilitate the establishment of long-term relationships with the vendors. This may help minimize inefficiencies in procurement, particularly in the bidding, tendering, contracting, and quality assurance components. While long considered a best practice in private sector industries, such as aerospace, this approach has not been widely used in the procurement process for public sector health supply chains.

To successfully use category/commodity management, several processes should occur. First, key procurement officials need to develop a thorough understanding of all of the commodities procured and their uses. From there, the commodities should be grouped into categories and analyzed to determine prioritization needs, as described later in this brief. Procurement strategies should then be developed for each category to ensure that streamlined, transparent, and consistent procurement processes are in place. Once the commodities have been categorized, dedicated procurement staff are assigned to manage the specific relationships associated with that category. This helps build local procurement expertise for the commodities in the category and facilitates the development of strong relationships with the clients (typically the SDPs or program) and the vendors.

Using category analyses to inform category/commodity management

One of the most important aspects of a well-functioning procurement process is having a thorough understanding of how commodities are used by the health system. This knowledge enables intelligent and effective decision making related to commodity procurement. To achieve this understanding, a category analysis, or segmentation analysis, may be used to obtain information on the need, specifications, and use of the products and to help countries determine where (i.e., which category or segment) to invest the majority of their supply chain time, expertise, or resources.

As defined by JSI, a segmentation analysis is simply “an approach that can help identify opportunities in supply chains where products or customers can be grouped together or combined in such a way that improves product availability and decreases costs and functional redundancies.”¹ One key feature of a segmentation analysis is that it is flexible and may be tailored to a country-specific situation. The segments, as determined by the analysis, are typically grouped together based on common logistics requirements, operating procedures, and the needs of the end users (in this case, the SDPs).

The segmentation analyses may take a variety of forms. Some common methods include the ABC analysis and the vital, essential, and nonessential (VEN) analysis. ABC analysis is an assessment and prioritization process for countries to use when they have limited time, resources, and personnel for medicine procurement. Under category A, the most expensive items or those with the highest utilization rates are given higher priority over medicines assigned to category B (medium priority for medium cost or medium utilization items) and category C (lowest priority given to the lowest cost or

¹Allain L, Goentzel J, Bates J et al. *Reengineering Public Health Supply Chains for Improved Performance: Guide for Applying Supply Chain Segmentation Framework*. Arlington, VA: USAID | DELIVER PROJECT, Task Order 1; 2010.

least utilized items). Category A commodities offer the greatest possibility for cost savings and may provide an important starting place for the investment of limited resources.

VEN analysis uses similar categorization principles, with commodities designated as: vital (potentially life-saving or crucial to the provision of basic health services); essential (important for the treatment of significant illness, but not vital); or nonessential (not used for life-saving purposes or have a low therapeutic advantage and high costs).

When should category/commodity management be considered?

Personnel with sufficient procurement expertise should determine which of the analyses to implement and the resulting categorization of commodities. Dedicated procurement personnel are also needed to assist with the development and cultivation of good working relationships with the suppliers to ensure the efficient and cost-effective procurement of the desired commodity or commodities.

To use this strategy effectively, the procurement personnel should have a good understanding of the supply and commodity needs of their country, from rural to national levels. Poor, incomplete, or untimely data impair the development of the necessary expertise and may lead to reductions in cost savings, efficiency, and product availability.

This strategy may be more feasible in countries that do not participate in pooled procurement (especially across countries) or that use outsourced procurement strategies. When procurement is outsourced, the commodity expertise resides with the outsourcing agent and may not transfer well to in-country procurement staff.

To learn more:

- [Drug and Therapeutics Committees: A Practical Guide](#)
- Drug and Therapeutics Committee: [Identifying Problems with Medicine Use: Aggregate Methods](#)
- [KEMSA Support Program Inventory Analysis Report](#)
- Managing Access to Medicines and Health Technologies: [Chapter 40. Analyzing and Controlling Pharmaceutical Expenditures](#)
- [Putting Integration into Perspective: Proven Practices to Strengthen Public Health Supply Chains](#) (page 7)

NIGERIA

In Nigeria, the existence of separate national, state, and local procurement regulations and activities led to difficulties in understanding commodity demand, flow, and utilization. While managed nationally, programs often conduct their procurement and warehousing activities together. These activities are further complicated by local and state entities that separately manage the procurement of goods for hospitals, primary health care facilities, and other SDPs.

USAID recently piloted a segmentation analysis in the Nigerian states of Edo and Kano to better understand the flow of commodities throughout the supply chain. The information gained during this analysis showed that there were clear differences in the procurement volumes of different commodities, with some commodities purchased often and in large quantities. As a result of this analysis, procurement personnel focused their efforts on improving procurement processes for these high frequency, large quantity goods. These reforms have not only enabled the development of expertise for these goods, but they have also supported the development of better contractual terms for longer periods of time. The reforms are helping to save time and money and are increasing the capacity of procurement personnel in Edo State.

To learn more:

- [Getting Products to People: The JSI Framework for Integrated Supply Chain Management in Public Health](#)
- [Nigeria: Segmentation of the Supply Chain for Essential Medicines](#)

Published Lead Times

To address the lack of coordination in the supply chain and unpredictable and long lead times

Many procurement problems stem from the lack of knowledge about the process outside of the procurement team. In particular, many programs or departments often place orders with limited or no knowledge about when the order will be fulfilled. As described earlier, this lack of knowledge may lead to the placement of emergency orders to ensure that products arrive in a shorter and more desirable time frame. Key to addressing this issue is the development of and commitment to regularly publishing and disseminating lead times to all relevant parties.

Lead times cover a variety of activities that are managed in the procurement process, including: the time it takes to place the order with the vendor (which includes tendering, bidding, and contracting, if needed); the time it takes for the product to be manufactured, shipped and delivered; and the time it takes for the product to be received by the SDP. Failure to adequately account for and communicate each of these steps may lead to stock-outs. Especially important is the amount of time that should be factored in if tenders need to be issued, bids received, and contracts awarded. The lead time for procurement varies based on the number of steps required to complete the entire cycle. In countries where processes such as framework agreements or prime vendor contracts are used, the procurement process may be shorter.

When should published lead times be considered?

This strategy is most effective when used as a part of a package of procurement reforms, including the implementation of national framework agreements and prime vendor contracts. All of these strategies help create consistent procurement processes and standards that may be referenced and adhered to, thereby enabling the creation of reliable lead times.

UNFPA

UNFPA currently publishes the lead times for a number of key reproductive health commodities. Sometimes used as an outsourced or pooled procurement entity by countries or programs, UNFPA helps ensure that valuable reproductive health commodities are accessible to those who need them. The lead times for the reproductive health commodities may be found on the AccessRH website, an easily accessible resource that may be used during the supply planning process. In addition to publishing general lead times for commodity acquisition, the website allows recipients to get tailored estimates of lead times based on the manufacturer, quantity procured, and individual country or program needs.

To learn more:

- [Lead Time for Reproductive Health Supplies](#)
- AccessRH

Policies for the Donation of Medical Commodities

To address unplanned, unsolicited, and unspecified donations

In addition to improving the procurement of commodities through planned, regular purchases or acquisitions, countries are also subject to offers of unplanned, unsolicited, or unspecified donations. Such offers may come from a variety of places, vary in quality and applicability, and may be politically problematic for countries.

Country- or program-specific policies help ensure that there are transparent and well-defined processes for the acceptance of donated medical supplies, medicines, and equipment. To this end, countries should have SOPs that clearly define the types of products accepted, the minimum quality standards, expiry restrictions, quantity limits, and who assumes liability for any fees, taxes, or other charges that may be incurred. To ensure that the donations also follow current treatment recommendations, countries should be prepared to share their standard treatment guidelines, essential medicines list, or other appropriate documentation for the donor to review. To ensure proper receipt and tracking of the donated goods, the SOPs should also specify the reporting requirements that the recipient should follow. Information on the consequences of non-adherence to these policies should also be considered for inclusion in the SOPs.

Countries should be prepared to decline donations that do not fit in their currently defined needs or that would lead to a breach of contract in other areas. For example, if a country has already begun the procurement process and accepted bids for certain products from another source, they may be legally required to honor the contract or face significant penalties. If a country is also given the same product as a donation, it may experience issues with wastage, storage, and under-consumption.

When should a policy for the donation of medical commodities be considered?

Always! All procurement entities should have clearly defined processes on the acceptance of donated goods. Countries that do not currently have well-defined policies for the management of donations or that do not address the minimum standards as described above should consider revising their donation policies.

To learn more:

- [Guidelines for Drug Donations](#)
- [World Health Organization Guidelines for Medicine Donations](#)
- [Supply Chain Management of Antiretroviral Drugs: Considerations for Initiating and Expanding National Supply Chains \(page 27\)](#)

Conclusion

Procurement is a complicated process that requires relationships across ministries, with vendors, and with the end customers. While there are many barriers that impede successful procurement processes and activities, there are also many promising practices that address the challenges. The practices described in this brief rely on collaboration, transparency, and standardization of processes. Political will, procurement capacity, and a flexible environment are also important for their successful implementation. Taking the time and effort to assess the specific needs and areas for improvement bring significant rewards in the long term. Some of the practices described above, like publishing lead times, are helpful for all procurement entities to implement. Others require analysis and consideration to determine whether they are appropriate for the context. Strategic improvements in the procurement process help ensure that the right products are available at the right time. With the right investments in improving this aspect of the supply chain, countries, programs, and SDPs will continue to ensure that the necessary commodities are available when needed.

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