Procurement Capacity Toolkit

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Introduction – Overview of Procurement Capacity Toolkit

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A. Introduction

Rationale

As developing-country governments and major programs increasingly take on responsibility for their health commodities supply chain—including the responsibility for procurement—requisite skills such as decision-making, planning, and technical skills often require strengthening. Resources for strengthening procurement systems exist, but they are often focused on other health topics (such as malaria and HIV/AIDS), and there are information gaps where resources specific to reproductive health (RH) product supply are needed.

Purpose

The *Procurement Capacity Toolkit* is intended to bring together existing resources in a manageable framework and aims to fill major gaps in the body of materials available to those responsible for and involved in RH product supply.

In broad terms, the *Procurement Capacity Toolkit*:

- Is intended for country-level use.
- Stands alone (i.e., can be used as a resource guide) or can be used as part of a training.
- Addresses all three phases of the RH supply process: program planning, the procurement process, and contract performance.
- Provides training tools that can be adapted to a specific country setting.
- Focuses on strengthening good procurement practices, particularly for RH supplies.
- Addresses known problems in procurement at the country level.
- Provides the user with current information on product specifications, manufacturer prequalification, and various procurement mechanisms.
- Provides tools and techniques for assessment, monitoring, and performance evaluation to allow for continuous improvement of the procurement process.

Specifically, the *Procurement Capacity Toolkit*:

- Describes the RH supply process within the context of good public-sector procurement practices.

- Describes measures to ensure procurement of safe, effective products.
- Provides tools for training personnel involved in the RH supply process.
- Lists existing resources and provides links to relevant websites.

Target Audience

1. Personnel Responsible for Purchasing Public-Sector Reproductive Health Supplies

a. Those With a Background in the Procurement Process

Often, these staff work with funding from a range of donors and must comply with many different donor and national requirements. They work in an environment where staff may have basic procurement training but little or no specialized training in RH supply, and no knowledge of existing resources that could help them ensure the quality and timeliness of essential RH supplies.

b. Those With a Background in Public Health/Program Planning

These individuals are acutely aware of quality and timeliness issues, budget constraints, and supply problems at the user level, but often have minimal knowledge about the rules and technical procedures of good public-sector procurement or where to find the resources that could help guide them through the necessary process.

This group includes technical assistance providers who conduct procurement training or carry out technical assistance to strengthen procurement capacity. The inclusion of this group as an audience can have the additional potential of enhancing consistency and quality of health care procurement training.

Terminology

Some terms used in this document may not be intuitive for every audience, thus are defined in this introduction to ensure accurate communication:

- **Procurement versus supply process:** The word "procurement" has both a broad meaning and a narrow meaning. In the broad sense, many people view it as the entire supply process. In a narrower sense, it is limited to the technical process of soliciting offers and placing a contract. This document will use "procurement" to mean the technical process of soliciting offers and placing contracts, while "supply process" will be used to describe the entire acquisition effort, from estimating need through the delivery of goods.

- **Prequalification:** The term "prequalification" has two applications: the first is a process purchasers use to narrow the field of potential suppliers to those with a viable financial, technical, and commercial history. This document will describe this as "prequalification of manufacturers (suppliers/bidders)." The second use of "prequalification" describes a quality assurance (QA) screening mechanism of the World Health Organization (WHO) that examines specific products of specific manufacturers and publicly lists those deemed to be safe and effective based on information submitted by manufacturers and inspections of their facilities. This document will describe the WHO mechanism as "WHO prequalification" or "prequalification by WHO for safety and efficacy." For more information, see Supplementary Topics, Section E: Prequalification.
- **Element, phase, component (of the RH supply process):** This document uses a hierarchy of terms to describe parts of the overall supply process. A "phase" is one of three sequential parts—program planning, procurement process, and contract performance. "Element" is used to describe one of ten sequential steps in the supply process. A "component" is a subset of a single element. For example, cost estimates are a component of the budget and funding element in the program planning phase.
- **Module:** A module is a chapter of the *Procurement Capacity Toolkit* that describes one of the ten elements of the supply process.

A glossary covering relevant vocabulary is included in each of the learning and reference modules, and a combined glossary is provided as a separate section at the end of the *Toolkit*.

Reproductive Health Product Supply Process

1. Three Phases, Ten Elements

The RH supply process consists of three phases: program planning, procurement process, and contract performance, with critical path links between the phases. Each phase is divided into elements, for a total of ten roughly sequential elements that begin with defining the requirements and end with the delivery of goods.

Three Phases	Ten Elements
I. Program Planning	Defining Reproductive Health Supply Requirements
	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	

Each module of the *Toolkit* corresponds to one of the ten elements.

2. Quality and Timeliness

Quality and timeliness are key considerations for RH product supply.

Every element of the process affects or is affected by the following principles.

Element		Principles	
		Quality	**Timeliness**
1.	Defining reproductive health supply requirements	*Ability to procure low-cost, quality-assured commodities*	*Ability of the forecasting team to mobilize resources and information in suitable time*
2.	Specifications	*Safety, efficacy requirements, and QA criteria clearly stated*	*Ability of the technical team to mobilize resources and information in suitable time*
3.	Assessment of procurement options	*Strong consideration for assurance of safety and efficacy*	*Strong consideration regarding likelihood of on-time delivery*
4.	Budget, funding, and procurement requisition	*Enough funding to purchase safe, effective products*	*Funding in place in time to ensure timely receipt of products*
5.	Procurement planning	*Aimed at obtaining high-quality products*	*Aimed at on-time delivery*
6.	Developing bidding documents and inviting offers	*High-quality product is required, assured by bidding document clauses, such as QA provisions*	*Well-prepared bidding documents improve chances of trouble-free bidding, which impacts timely delivery; efficiency of the procuring entity*
7.	Selecting suppliers	*Evidence of ability and intent to deliver high-quality product is mandatory*	*Promise of on-time delivery and evidence of capacity to comply is mandatory*
8.	Contracts	*Quality requirements are detailed in the contract*	*Timely receipt provisions spelled out in contract*
9.	Contract performance and monitoring	*Proof of quality prior to payment; provisions to protect goods during transport; and supplier performance monitoring*	*Payment arrangements made promptly; penalty for late delivery; specified departure and estimated time of arrival*
10.	Delivery of goods	*Inspection of goods upon receipt*	*Understand and support customs clearance to clear shipments*

3. Good Public-Sector Procurement Practice

Good public-sector procurement practice is based on competitive bidding and a transparent, well-documented supplier selection process. These widely held standards and procedures are required of procuring entities by development banks and donors around the world, as well as by many governments, when their funds are being used, in order to attract

the best prices and ensure fair competition. In the past, details have varied by institution, but in recent years, the Organisation for Economic Co-operation and Development has spearheaded a movement to harmonize rules, procedures, and documents across their membership. The World Bank *Standard Bidding Document: Procurement of Health Sector Goods* (revised August 2008), which can be found on the World Bank website at http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:21890171~menuPK:84284~pagePK:84269~piPK:60001558~theSitePK:84266~isCURL:Y,00.html, offers a good example of public health-sector procurement practices.

Health-sector procurement involves an additional challenge. Products such as contraceptives, pharmaceuticals, and vaccines have unique safety, efficacy, and regulatory requirements that must be added to normal provisions for public-sector procurement. The World Bank recognizes this and has begun producing special bidding documents for procurement of health-sector goods.

4. Overview of Key Decision Points for the Reproductive Health Supply Process

a. Source of Funds

Funds may come from a variety of sources: a government's own revenue budget, loans or grants from development banks (for example, the World Bank), bilateral donor arrangements, and foundation gifts. *Confirmed funding*—regardless of source—*is the most critical link between program planning and the procurement process.* In addition, the source of funding may dictate how the procurement should proceed, who should do it, and what markets can be solicited for offers. For example, a development grant may stipulate procurement through a United Nations supply agency for certain products, while a government health program using its own revenue funds may expect its centralized national procuring entity to carry out a competitive bidding process.

b. How Quality Will Be Ensured (Modules 1–10)

As shown in the table on the previous page, every one of the ten elements of RH supply influences or is influenced by quality considerations. Some of the measures available for ensuring quality include limiting bidders to WHO-prequalified manufacturers and products, special contract provisions, preshipment inspection and testing, and regulatory licensing. In addition to each module, more information about these topics is available in Supplementary Topics.

c. Who Will Do the Work (Module 3)

Two main roles are required for carrying out the ten elements of RH supply: program management and procurement processing. In addition, critical contributors play peripheral but important roles, ranging from banking to customs clearing and receiving. The decision to be made here is which tasks of the ten-step RH supply process will be handled by program management personnel and which tasks will be done by procurement personnel. It is not uncommon to see program management doing some of the procurement processing tasks and vice versa.

d. Specifics of Annual Procurement Requirements (Modules I, 2, 4)

Annual procurement requirements for each commodity must be defined before the procurement process can begin. Program management decisions about coverage goals, product mix, and quantity are required and must be adjusted for existing inventories. From there, quantities required for procurement can be calculated and adjusted as necessary, based on availability of funds and cost estimates. Delivery dates and product specifications complete the specifics of annual procurement requirements.

e. Whether or Not to Pursue Direct Procurement (Module 3)

Within the context of this series, "direct procurement" means the organization requiring RH goods contracts directly with manufacturers or their representatives (using good public-sector procurement practices), and "indirect procurement" means the organization deals with an intermediary who contracts with manufacturers or their representatives. Direct procurement usually returns the lowest price, but requires the most expertise. The decision to choose either direct or indirect procurement should be made based on what is possible, what is practical, who can/will do the work, and cost implications.

f. Procurement Plan (Modules 3, 5)

The procurement plan requires decisions as to the best way to purchase *each item*. It is not uncommon for several different procurement options and several different procurement methods to be used for purchasing annual RH supply requirements. The procurement plan also includes a provisional timeline for procurement, a notation of the applicable rules, and whether or not prequalification by the procuring entity will be carried out.

g. Details of Bidding Documents (if direct procurement) (Module 6)

In order to develop formal bidding documents, decisions must be made about rules and conditions for bidding and how a winning bidder will be chosen, as well as conditions of the

contract and the payment modality. Bidding documents also require formal specifications, quantities, and a delivery schedule. Under good public-sector procurement practice, everything must be stated and clear. Nothing can be changed once the bids are opened, so careful decisions at this point are extremely important.

h. Selection of Supplier (Module 7)

The criteria for selecting a supplier are decided along with other details of bidding documents. The actual selection decision is based on evaluation and comparison of the bids received. Good public-sector procurement practice requires a transparent, equitable process and timely award. Approval by the financing authority is often required, and disagreements over selection or process can result in delayed procurement and delayed delivery.

i. Contracting (Module 8)

The appropriate contract type must be selected based on the procurement circumstances, and the actual contract must be prepared and awarded. The critical link between the procurement process and contract performance is a signed contract and payment guarantee.

j. Acceptance of Product (Modules 9, 10)

Several layers of decision-making may be involved, including regulatory licensing, results of preshipment inspection (and sometimes, testing), review of QA documents, customs entry procedures, and receiving warehouse inspection. The *critical conclusion* is on-time delivery and acceptance of high-quality products.

B. Modules of the *Procurement Capacity Toolkit*

1. Overview of Module Topics

Module 1: Defining Reproductive Health Supply Requirements

- Defining Reproductive Health Supply Requirements
- Program Goals
- Commodity Considerations
- Calculations of Desired Procurement Quantities and Time Frame

Module 2: Specifications

- Technical Specifications
- Methods for Development of Product Specifications
- Format and Content
- Sample Specifications

Module 3: Assessment of Procurement Options

- What Are the Options?
- Centralized vs. Decentralized Procurement
- Options Assessment
- Options Evaluation and Consensus
- Advice Memo

Module 4: Budget, Funding, and Procurement Requisition

- Pricing Research: Representative Pricing and Variables; How to Use Pricing Guide
- Cost Estimating: Additions to Price
- Budget Exercise: Case Study—Part One
- Funding and Budget Adjustment: Case Study—Part Two
- Procurement Requisition: Case Study—Part Three

Module 5: Procurement Planning

- Procurement Options, Methods, and Cycles
- Official Procurement Requisition
- Rules, Constraints, and Selection of Procurement Method
- Demonstration Timeline for Procurement of a Single Contraceptive Product: Case Study—Part One
- Procurement Plan, Schedule, and Monitoring Tool: Case Study—Part Two

Module 6: Developing Bidding Documents and Inviting Offers

- Documents for Public-Sector Competitive Bidding
- Preparing Draft Bidding Documents
- Inviting and Receiving Bids
- Prequalification: Issues and Documents
- Request for Quotation: Issues and Documents

Module 7: Selecting Suppliers

- Framework for the Selection Process: Guidelines for Committees and Subcommittees
- Bid Opening
- Bid Securities
- Bid Evaluation: Format and Code of Conduct
- Bid Evaluation: Initiation and Preparation
- Bid Evaluation Stage 1: Examination
- Bid Evaluation Stage 2: Financial Evaluation
- Bid Evaluation Stage 3: Verifying Qualifications of Lowest Evaluated Cost Bidder
- Award Recommendation
- Approvals, Delays, and Extension of Bid Validity

Module 8: Contracts

- Contract Types and Use
- Contract Selection and Preparation
- Contract Award
- Contract Amendments
- Contract Payment

Module 9: Contract Performance and Monitoring

- Contract Performance Monitoring
- Preshipment Compliance
- Monitoring Commodity Transport
- Payment Management

Module 10: Delivery of Goods

- Customs Clearance
- Warehouse Delivery and Inspection
- Freight Claims and Damages

2. Standard Module Format

Each module follows the format below:

- Introduction
- Learning Objectives
- Components, Considerations, and Challenges
- Informational Essays and Case Studies (where appropriate)
- Reference Material
- Learning Evaluation
- Performance Indicators
- Glossary and Acronyms

C. Supplementary Topics

A number of activities performed during the procurement supply process involve additional systems, conventions, and procedures. In order to adequately monitor and sometimes facilitate performance, RH personnel may benefit from information on the following topics:

A. Anticorruption Issues

Forms and causes of corruption, and measures the procurement unit can take to curb corrupt practices.

B. e-Procurement

Description of e-procurement and its benefits, challenges, and costs of implementation.

C. Letters of Credit

Types and processes of letters of credit.

D. Payment Terms and Methods of Funds Remittance

Payment terms and methods of funds remittance establish risks and costs for each party to the contract.

E. Prequalification

Prequalification of manufacturers and the WHO Prequalification Programme.

F. Procurement Agents

Whether or not to use a procurement agency is examined, with advantages and disadvantages summarized in tables at the end of the section.

G. Procurement Models: Centralized vs. Decentralized

Whether to purchase centrally or delegate the procurement task to regional and local facilities is a system-wide financial control issue. Each alternative is examined and summarized in tables at the end of the section.

H. Product Quality Assurance

Key activities and the roles of different parties in ensuring quality in the supply chain.

I. Product Inspection and Testing

Laboratory testing and visual inspection guidelines.

J. Recordkeeping

Best practices in keeping required documentation of the procurement process.

K. Regulatory Authorities

Aspects of regulatory licensing that affect the supply process, including national authorities and international schemes.

L. Standard Operating Procedures

Development and usage of standard operating procedures for the procurement unit.

M. World Bank Standard Bid Evaluation Form

The entire Standard Bid Evaluation Form, as referenced in Module 7.

D. Summary Guide for Policymakers, Ministry Personnel, and Program Managers

The objective of the Summary Guide is to help policymakers, senior health ministry personnel, and program staff members develop the insight necessary to effectively support the goals of RH supply: safety and efficacy of the product (quality) and timely delivery. It seeks to instill realistic expectations about RH supply matters, and to give an overview of where support and coordination are most needed.

E. Procurement Assessment Guide

The purpose of the Procurement Assessment Guide is to provide designated assessors with a structured format to use in reviewing and evaluating the procurement system for the purpose of improvement. The questionnaires are designed to obtain environmental, structural, operational, and performance information on a public-sector procurement system. Information from the assessment can then be used to develop a customized training program to enhance performance.

The Assessment Guide also explains the importance and role of performance indicators in a procurement assessment. Performance indicators measure and evaluate success against a specific goal.

F. Trainer's Guidelines

The Trainer's Guidelines are intended to serve as a basic illustration of how training materials can be adapted from the various tools in the *Procurement Capacity Toolkit*. The document also includes information on the training implemented in the two field-test countries, Zambia and Malawi; the role of procurement system assessments and performance indicators when developing training; and guidance on developing and implementing a workshop.

G. Combined Glossary

The combined glossary contains all of the terms and acronyms used throughout the *Toolkit* by combining the glossaries from each of the modules and the Summary Guide. Acronym entries are indexed by their abbreviated (rather than spelled-out) form in both locations.