5 Procurement Planning

Three Phases	*Ten Elements*
I. Program Planning	**1. Defining Reproductive Health Supply Requirements**
	2. Specifications
	3. Assessment of Procurement Options
	4. Budget, Funding, and Procurement Requisition
II. Procurement Process	**5. Procurement Planning**
	6. Developing Bidding Documents and Inviting Offers
	7. Selecting Suppliers
	8. Contracts
III. Performance	**9. Contract Performance and Monitoring**
	10. Delivery of Goods

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A. Introduction

Module 5 covers the first step in the procurement process phase of reproductive health (RH) supply (Element 5 of 10): the procurement plan and schedule. It describes a set of activities that takes place after the procurement unit receives an official procurement requisition. At this point, RH program planning decisions have been made, the budget has been approved, and there is an official agreement to begin the procurement process for specific items. The procurement plan and schedule are important because they:

- Provide a framework for guiding procurement activities and monitoring progress.
- Establish expectations for a delivery date, which other parties will use for their own planning purposes—not the least of which is stock available to support the delivery of RH services.
- Establish a time frame for payment obligations.
- Provide an opportunity to anticipate problems and solve them before they happen.

Contraceptive procurement is the primary focus in Module 5 because these products have a somewhat different market environment and are handled a little differently than most pharmaceuticals. Contraceptives are usually imported and tend to be purchased centrally in large quantities using structured, competitive procurement methods. Essential medicines in the curative category tend to be purchased closer to the end user; that is, on a regional or local basis, in smaller quantities, using less elaborate procurement methods. They are often produced locally as well. For good information about this type of pharmaceutical procurement, readers should refer to the Management Sciences for Health (MSH) guide, *Managing Drug Supply: The Selection, Procurement, Distribution, and Use of Pharmaceuticals.*[1]

Module 5 includes information about:

- Procurement options (overview of material addressed in Module 3).
- Procurement methods and factors that help determine their selection.
- A basic procurement cycle.
- Developing a realistic timeline for delivery of a product.
- Organizing multiple procurement requisitions into a schedule.

[1] **Management Sciences for Health. *Managing Drug Supply: The Selection, Procurement, Distribution, and Use of Pharmaceuticals* (2nd Edition). Boston, MA: Kumarian Press Books on International Development; 1997.**

- Using the detailed plan as a basic monitoring tool.

An instructive case study threaded through the material sets up some common problems and describes a reasoning process that leads to solutions.

B. Learning Objectives

At the end of this module, the reader will be able to:

- Discuss the process for and importance of reviewing procurement requisitions to identify potential conflicts and constraints and identify solutions to these.
- Develop a realistic timeline for commodity procurement and delivery.
- Develop a procurement plan to monitor achievement of procurement cycle milestones.

C. Components, Considerations, and Challenges

1. Components

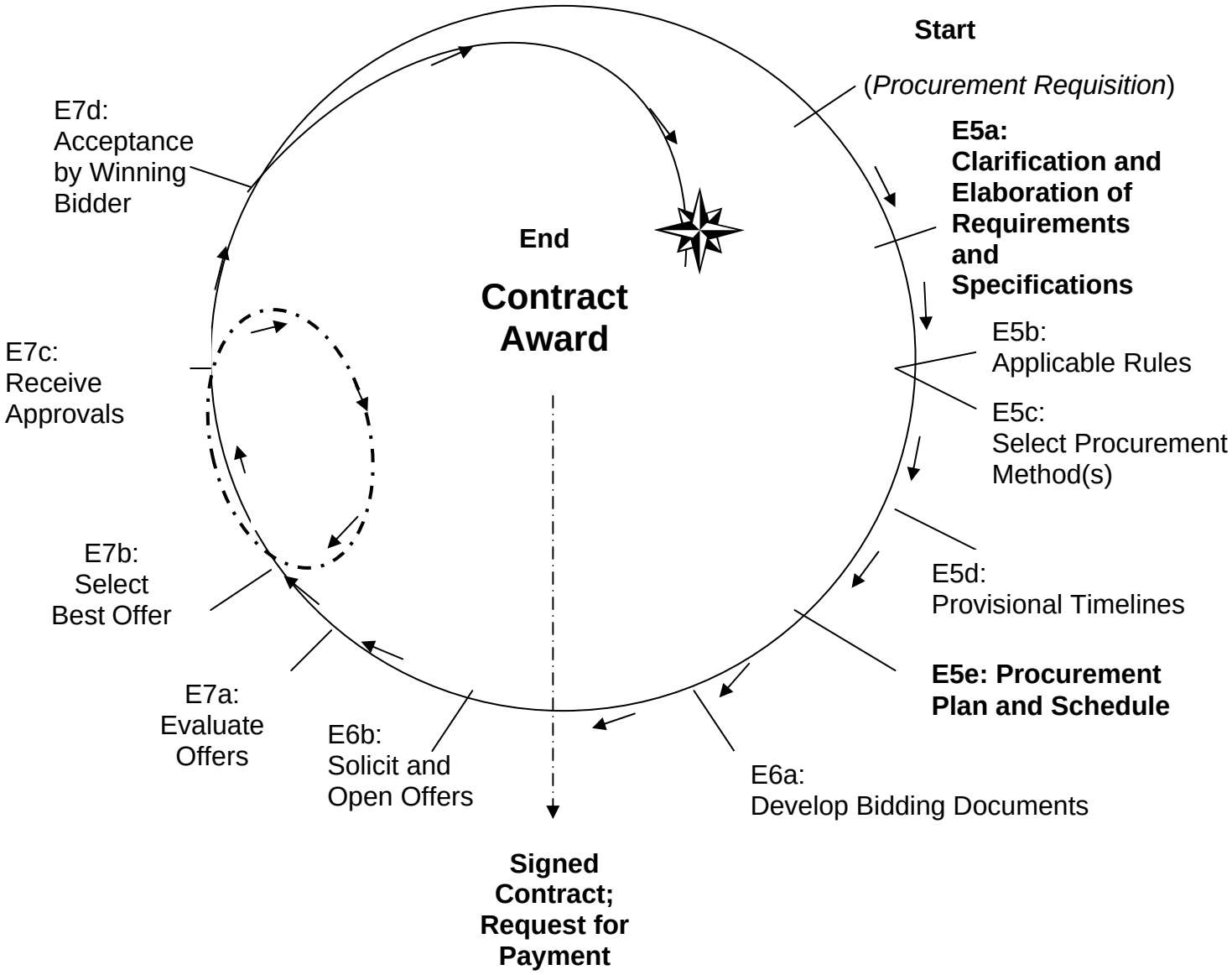
Element 5 has five main components:

- Clarification and elaboration of requirements and specifications.
- Applicable rules.
- Procurement method selection.
- Provisional timeline.
- Detailed plan and schedule.

The components of Element 5 and their relationships to the other elements in the procurement process phase of RH supply are shown in Exhibit 5-1.

Exhibit 5-1

RH SUPPLY—PHASE II
PROCUREMENT PROCESS
Elements 5–7



Critical Component: Approvals

***Repetition if process is found unsatisfactory**

2. Considerations

The main considerations for Element 5 are:

a. Overarching Principles of Quality and Timeliness

- Clear, complete technical specifications; quality assurance (QA) provisions to be applied.
- A realistic timeline that does not create false expectations.

b. Critical Component: None

There is no critical component in Element 5; that is, nothing would entirely stop the supply of RH goods. However, unavailability of funds at the wrong time or insufficient amounts can seriously disrupt supply plans.

c. Required Input From Other Elements

Official procurement requisition from Element 4:

- Items, quantities, and delivery dates desired, as determined in Elements 1 and 4.
- Specifications, as determined in Element 2.
- Possible procurement options, as determined in Element 3.
- Budget, as determined in Element 4.

d. Applicable Rules for Procurement

- Government regulations, agreements with outside funders, and organizational policy.

e. Key Decision Points

- Whether or not the official procurement requisition can be acted on without modification.
- Method to use for purchasing each item, including whether or not to conduct prequalification exercises.
- How to organize multiple item requirements into contract groupings for procurement.
- When to initiate procurement of each contract grouping.

f. Expected Output

- Provisional timeline for each product.
- Detailed plan and schedule for procurement of multiple products or contract groupings.
- Basic tool for managing and monitoring procurement of multiple products or contract groupings.

3. Challenges

The main challenges inherent in Element 5 are:

- Determining how long each step in the procurement cycle is likely to take.
- Recognizing and working around potential internal constraints and external conditions.
- Coordinating the procurement schedule with funds-release dates.
- Coordinating delivery dates with warehouse capacity and inventory requirements.

D. Procurement Options, Methods, and Cycles

1. Procurement Options

Procurement options are related to the **approach** the purchaser uses to obtain the needed requirements. The purchaser can use a direct approach to procurement or an indirect approach to procurement. Under a direct approach, the RH purchaser contracts directly with a manufacturer or the manufacturer's formal sales network for the necessary goods. Under an indirect approach, the purchaser contracts with an intermediary organization that buys products from manufacturers in large quantities for resale and/or supply in smaller quantities. For example, the United Nations Population Fund (UNFPA) purchases contraceptives directly from manufacturers and supplies them to client governments at cost plus an administrative fee. Procurement options are discussed in Module 3 as part of the program planning phase of RH procurement.

2. Procurement Methods

Procurement methods are related to the **procedures** a purchaser uses to select a supplier. They are normally considered within the context of direct-approach procurement. In the public sector, procurement methods are often specified by government regulations or by an agreement with an outside funder and applied in accordance with financial thresholds. Sector-wide approaches usually have specific procurement rules that need to be followed and may be somewhat different from the government-sector regulations. They often have requirements related specifically to a program. Most involve competition of some type.

Direct-approach procurement methods used by public-sector RH purchasers include:

a. Competitive Bidding

In systems that have adopted principles of good public-sector procurement, bidding documents provide product specifications and performance expectations as well as rules and instructions about how to submit offers and information about how a winning bid will be chosen. Submissions are held until a specified closing date, and then opened publicly. Each offer is evaluated on its technical, commercial, contractual, and financial merit, and a winning bid is chosen in accordance with criteria described in the bidding documents. No negotiation is allowed except with regard to minor contractual points. There are two types of bids: open and restricted (also known as limited).

Open bid

Sealed bids are solicited by means of a widely advertised invitation open to all suppliers that choose to participate in the competition.

Restricted bid

- Selective: Sealed bids are solicited only from certain suppliers selected by the procuring entity; otherwise, procedures and documentation are similar to open bidding.
- Prequalified: Sealed bids are solicited only from suppliers selected through a process of prequalification carried out by the procuring entity that examines financial, business, and technical qualifications. Procedures and documentation are similar to open bidding.
- Prequalified by the World Health Organization (WHO): Sealed bids are solicited only from suppliers that offer products prequalified by WHO based on quality and safety criteria. Procedures and documentation are similar to open bidding.

b. Request for Quotation (with or without negotiation)

Quotations are solicited from a limited number of manufacturers and suppliers. Offers are opened as they arrive, and price and content are considered on a case-by-case basis and may be negotiated. A contract is awarded based on the lowest price and what is considered to be the most advantageous offer.

c. Sole-Source Procurement (with or without negotiation)

Price and terms are negotiated with one chosen supplier without benefit of competition. Sole-source procurement is an exception and is typically used when an item is available from only one single supplier. Other reasons a sole-source procurement may be requested: delivery dates or delays resulting from competitive solicitation are not acceptable, an emergency has occurred, or due to user acceptability of an ongoing product usage (such as oral contraceptive [OC] pills).

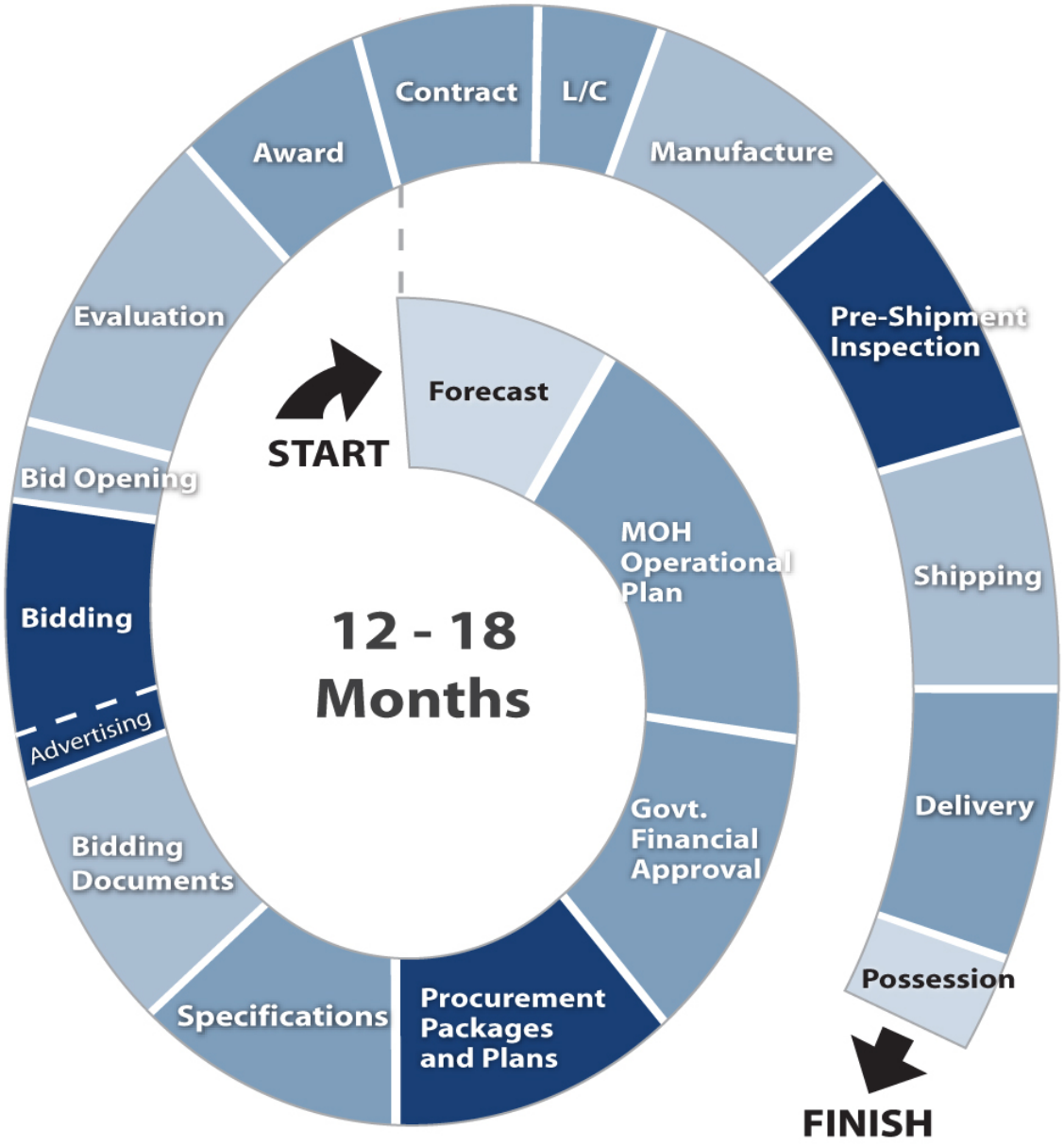
d. Shopping

Selection is based on comparison of prices published or otherwise communicated by at least three suppliers. This is not appropriate for high-quantity/high-value contracts.

3. Procurement Cycle

A procurement cycle is the **repeating sequence of steps** in a procurement process, generally starting at the initial planning phase and ending at possession of the goods. Steps and timing vary by situation and procurement method. A complete procurement cycle in the public sector, using competitive bidding, may span 12 to 18 months, depending on complexity, value, and number of approvals required. A generic procurement cycle is shown in Exhibit 5-2, and timelines are discussed in more detail in Section G.

Exhibit 5-2



L/C: *Letter of credit.*
MOH: *Ministry of Health.*

E. Official Procurement Requisition

The critical link between program planning (Phase I) and the procurement process (Phase II) of RH supply is the procurement requisition. The procurement requisition reflects program decisions about RH supply requirements and assigns procurement activity to a specific unit or office. Procurement requisitions are written and signed documents such as the examples in Module 4 (repeated in Exhibits 5-3 and 5-4). Note the inclusion of both the individual item request and the summary request that incorporates the individual items. Even when procurement work will be carried out by those who handled earlier program planning tasks, it is a good idea to prepare a written procurement requisition to establish a clear record of the particulars. (Discussion in this module assumes procurement-oriented personnel will carry out procurement tasks.)

Exhibit 5-3

Completed Item Procurement Requisition

PROCUREMENT REQUISITION

(1) **To:** *RH Procurement/Logistics Unit*

(2) **Program Submitted By:** *RH Program Planning Unit*

(3) **Date:** *July 1, 2009*

(4) **Program Contact Person:** *Emily Risari*

(5) **Program Contact's Telephone, Fax, Email:** *62 74390 (tel), 62 74369 (fax), erisari@moh.gov*

(6) **Item:**

Product Name	ID #	Unit	Unit of Measure	Quantity	Reference Price*	Total Cost
Oral Contraceptive	*C-54*	*Cycle Packet*	*Each*	*14.25M*	*US$0.35*	*US$4,987,500*

*with freight, fees, taxes

(7) **Item Description:** *[short version]*
Combined estrogen/progestin low-dose monophasic oral contraceptive. Each monthly packet shall contain 28 tablets (28 day); 7 tablets shall contain ferrous fumarate (iron).

(8) Full Technical Specification Attached: *No*
If "No," Current Disposition and Date Expected:
Awaiting review/approval of technical expert—due July 15, 2009

(9) Estimated Weight/Dimensions /100 Units: *1.52#; 0.1175 cu. ft.*

(10) Import License Required: *Yes*

Quality Assurance Provisions:

(11) WHO Prequalification Required? *Yes*

(12) Preshipment Inspection Required? *Yes*

(13) Preshipment Testing Required? *To be determined*

(14) Regulatory Licensing Required? *Yes*

(15) **Delivery Schedule:**
Number of Deliveries: *6*

	Date	Quantity	Location/Ultimate Consignee
1.	*3-1-09*	*2.375 M*	*Central Warehouse*
2.	*5-1-09*	*2.375 M*	*Central Warehouse*
3.	*7-1-09*	*2.375 M*	*Regional Warehouse*
4.	*9-1-09*	*2.375 M*	*Regional Warehouse*
5.	*11-1-09*	*2.375 M*	*Central Warehouse*
6.	*1-1-10*	*2.375 M*	*Central Warehouse*

(16) Partial Shipments Allowed? *No*

Shipping Instructions:

(17) Ship To: *Ministry of Health, Government of Dharma* [fictitious name]
(18) Ship Via: *Ocean Carrier to Port of Dharma, Republic of Dharma*
(19) Special Handling Requirements: *Protect from heat and moisture*
(20) Shipping Marks: *Generic Name; Contract No.; Lot No.; Expiry Date*
(21) Notify Party and Contact Information: *Emily Risari; Phone: 62 74390*

(22) **Payment Terms Authorized:** *Letter of credit (open at First National Bank)*

(23) **Preferred Delivery Terms:** *CIP Port of Dharma*

(24) **Procurement Option(s) Authorized:** *Competitive Bidding*

(25) **Source of Funding:** *Government Budget*

(26) **Applicable Regulations/Guidelines:**
Public Procurement Regulations 2002

(27) **Foreign Exchange Available?** *Yes*

(28) **Special Instructions:**
a. *Submit bidding document draft to Emily Risari for approval prior to release*
b. *Contract to allow for +/- 10 percent quantity fluctuation*

_____

Procurement authorized by: _____ **Date:** _____

Authorizing signature: _____

Exhibit 5-4

Completed Summary Procurement Requisition

SUMMARY PROCUREMENT REQUISITION

Multiple Items Per Attached Form

Date: July 1, 2007
Submitted By:
Reproductive Health Program
Approved By: *[signature]*

Project Reference: Not applicable
Source of Funding: Government Revenue
Budget Year: 2007–2008
Accounting Reference: L74532
Budget Available: US$5,236,875

Items:

	Name	ID #	Quantity	Estimated Cost
1	OC	C-54	14.25 million	US$4,987,500
2				
3				
4				
5				

OC: Oral contraceptive

It is not enough for personnel charged with the procurement task to proceed with planning based solely on the written procurement requisition document because:

- There is always room for misunderstanding about exactly what is to be purchased and when it is needed.
- The procurement requisition may not reveal important information uncovered during the options assessment and budgeting process.
- The procurement requisition may not take into consideration important facts known to the procuring entity.
- Specifications attached to the procurement requisition may require more attention in order to bring them up to industry standards for procurement, particularly in the international marketplace.
- Reference costs appearing in the procurement requisition may not reflect current market prices.
- Budget availability may need to be updated.

The necessary first step for good procurement planning and scheduling is to confirm, clarify, and expand on the basic information communicated by the procurement requisition.

1. Preliminary Examination and Confirmation

The procurement unit should examine all aspects of the Summary Procurement Requisition and each supporting Item Procurement Requisition, looking for possible performance obstacles and areas that need clarification or possible modification. For example, the procurement requisition in Exhibit 5-3 mentions a specific bank for opening a letter of credit (L/C) (payment terms authorized), but the procurement unit may have had problems in the past with this bank. In addition, the procurement unit should:

- Independently confirm reference prices by using the Internet or other tools, such as the MSH *Drug Price Indicator Guide.*
- Confirm budget allocations by direct contact with the appropriate funding authority.
- Ascertain timing for availability of funds by direct inquiry to the appropriate funding authority—for example, the Ministry of Finance.
- Review technical specifications to make sure they are complete and in a format consistent with international standards for the industry, making sure that:
    - The technical description is complete.
    - Regulatory requirements are clearly stated.
    - Packing and marking requirements are included.
    - Inspection and testing protocols are included.

2. Clarification and Elaboration of Requirements and Specifications

In order to clarify and elaborate on requirements and specifications, procurement personnel must have an opportunity for frank discussion with the individuals who prepared the (a) procurement options assessment; (b) budget; (c) procurement requisition; and, possibly, (d) specifications. One way is to organize an informal meeting (or meetings) between program and procurement personnel to:

- Review, confirm, discuss, and clarify as necessary all aspects of the procurement requisition.
- Come to a complete understanding of what is to be purchased and when it should be delivered.
- Uncover and discuss information that may have a bearing on the timeline, such as constraints or peculiarities in the system.

- Understand reasons behind findings and determinations that may have been sanitized for purposes of official consumption.
- Communicate opinions about what is possible or not possible based on prior experience of procurement personnel. (For example: Is the requested delivery date realistic? Is the mode of transport practical? Is the delivery location practical?)
- Discuss procurement options and possible procurement methods.

This discussion provides an important opportunity to address problems before they occur and serves to set expectations and obtain a common understanding of the plan.

By the meeting date, procurement personnel should have confirmed the budget and cost estimates, so if there are discrepancies, they can be discussed with the requesting party.

The less formal such a meeting can be, the better, as some of the content is likely to touch on issues about which there is conflict between executive policy and reality—or problems because of executive policy. These are discussed in Section F.

F. Rules, Constraints, and Selection of Procurement Method

Procurement rules, constraints, and methods are very important because they have a strong impact on the procurement cycle, which in turn helps to determine the procurement plan and schedule, including delivery dates.

1. Funder's Basic Rules

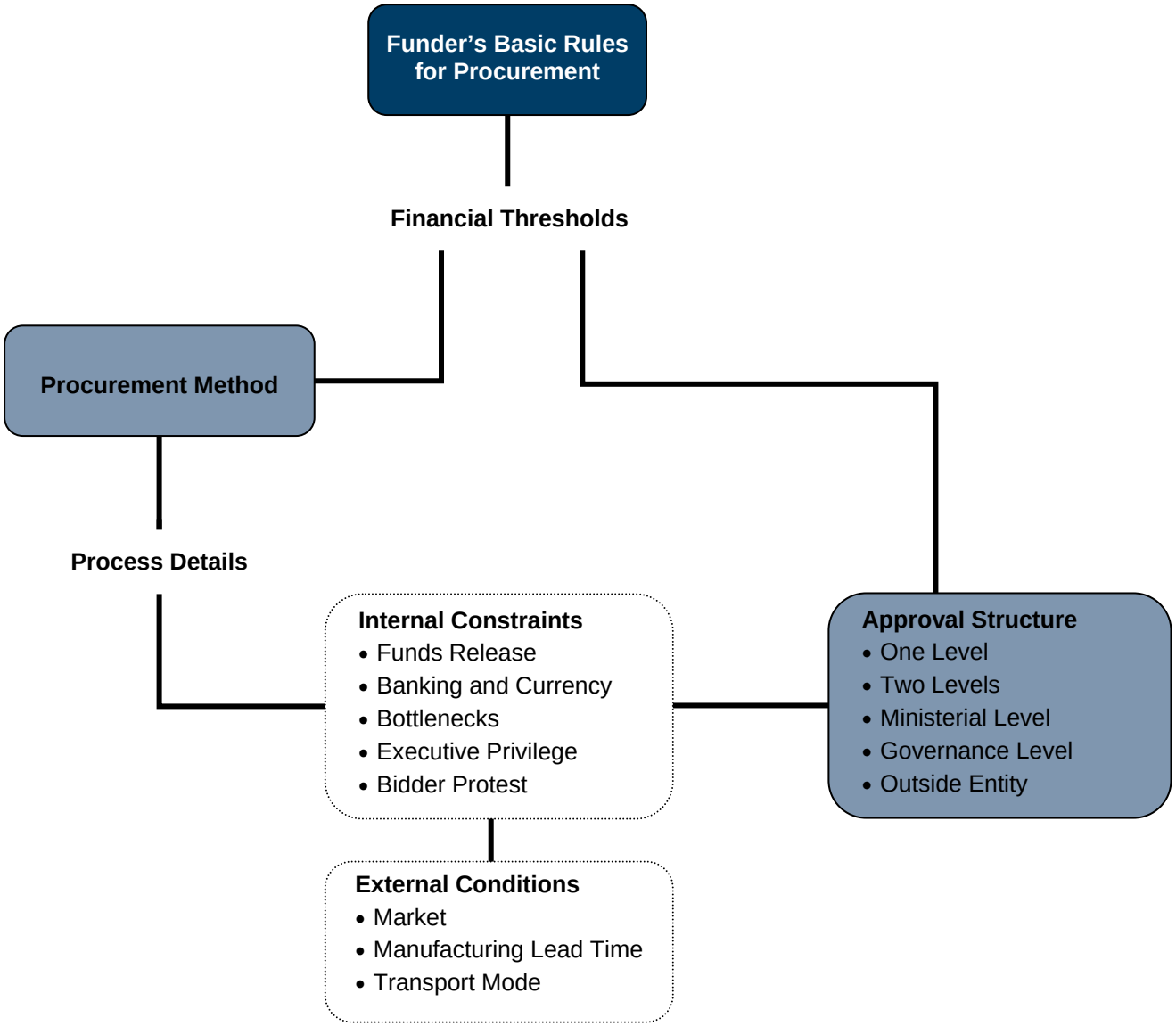
The basic rules governing procurement are usually set by the entity that provides funds to pay for the goods, in other words, the "funder." The funder may be a government budget, a donor, a development bank, or an independent organization. With the exception of several developing-country governments, most funders base their procurement rules on well-defined principles of good public-sector procurement.

Funders often specify the procurement method or methods a purchaser can use at different "financial thresholds." They assign longer, more complex methods to high-value purchases more often than to low-value purchases, unless there are extenuating circumstances, such as a limited number of potential suppliers.

Once a procurement method is defined, either by the funder or a choice of the procuring entity, planners can begin to estimate time requirements. These must be based on the actual process and procedures associated with the method in that environment, as well as tempered by any internal constraints, external conditions, and the level and number of approvals required before contracts can be awarded. The graphic shown in Exhibit 5-5 demonstrates these relationships.

Exhibit 5-5

Factors Impacting the Procurement Cycle Timeline



2. Factors That Help Determine the Method of Procurement

a. Agreement With Funder

Development banks, such as the World Bank, include specific requirements in their loan and credit agreements with governments about how procurement is to be carried out for specific classes of goods when using funds derived from the development bank. Contraceptives are often mentioned, particularly condoms.

Bilateral donors may include specific requirements about procurement when providing funds to support RH and other programs. For example, some limit supply sources to manufacturers in the donor country.

b. Financial Thresholds

Funders, including governments and development banks, usually specify financial thresholds at which certain methods of procurement are required. For example, the World Bank sets the threshold for international competitive bidding (e.g., open competition, sealed bidding) at US$300,000.

c. Costs Associated With the Process

Costs are related to workload, with open bids requiring the most work.

Document printing and distribution add to the cost for competitive bidding due to printing and distributing related documents.

d. Effect on Price

Generally, the more competition, the more favorable will be the effect on price.

If budgets have been prepared on the basis of open competition, a less competitive method may deliver prices that are in excess of the funding available.

e. Procurement Cycle Time

Open bids require the longest cycle, which necessitates planning the earliest possible procurement start date required to support needed delivery dates.

Other methods are shorter, but may need to be approved if the total procurement value is more than an established financial threshold that requires open bidding.

f. Currency Constraints: Local Currency or Foreign Exchange

International procurement may be ruled out if foreign exchange is not available.

g. Quantity of Requirements

Bidding on small-quantity contracts usually does not interest well-established international suppliers, so it is not worth the time and expense of open bidding. Likewise, large quantity requirements can benefit from international competitive bidding.

h. Number of Reputable Manufacturers Worldwide (size of supplier pool)

If there is only one manufacturer, or just a few, there is no incentive for the time and cost of competitive bidding.

i. Quality Issues/Concerns

Different procurement methods offer RH purchasers different levels of QA. Competitive international bidding restricted to manufacturers and products prequalified by WHO offers a high level of confidence, while local shopping usually carries a much lower level of confidence. See Supplementary Topics, Section H: Product Quality Assurance, for more information.

A summary comparison of purchasing methods can be found in Section I.2 of this module.

3. Internal Constraints

Most procurement environments have anomalies that must be taken into consideration when estimating a timeline. Constraints commonly found in developing economies include:

- Budgeted funds will not be released until after payment must be made.
- Budgeted funds are released on a quarterly or monthly basis and may need to be accumulated over time and coordinated with payment obligations, particularly for high-value contracts.
- Access to foreign currency may be limited.
- The government may specify a bank for L/C transactions that does not have adequate capability or good access to the international banking system.
- The procurement unit may be required by its government to turn over requirements for related services to a different ministry, thus losing control of the time element.

- Ministerial or executive privilege in awarding contracts very often results in bidder protest, which then delays or even cancels a bid process.
- A long regulatory licensing process, or a regulatory licensing process used as a trade barrier to protect local industry.
- Slow, multilevel approval requirements, particularly if recommendations are re-evaluated at each level.
- If funds are from a World Bank loan or credit, additional time must be allocated for three or more reviews and determination of "no objection." See Module 7 for more information.

4. External Conditions

The length of time from order to delivery is also affected by transportation issues, conditions in the marketplace, and the supplier's order and inventory position.

Ocean shipment requires at least four weeks from most locations. Air shipment can be overnight, but it is much more costly.

If there are shortages in the marketplace—e.g., demand exceeds supply or manufacturing capacity—customers must wait longer for their orders to be filled.

G. Demonstration Timeline for Procurement of a Single Contraceptive Product: Case Study—Part One

The steps required for an open bid (sealed international bidding) are outlined in the procurement cycle graphic in Section D (Exhibit 5-2). The open bid method of procurement has been chosen for demonstration purposes because it is commonly used to purchase contraceptives in large quantities.

Restricted bidding is a variation of sealed international bidding. It does not have significant impact on the total time required; it is more a matter of *when* in the process steps are performed. Bidding may be restricted to products that have been prequalified by WHO for quality attributes and/or to suppliers that were accepted through an open prequalification exercise that examined financial, commercial, and technical attributes. Or, a procuring entity may decide to arbitrarily narrow the field to known, established suppliers.

Estimating how long each step of the procurement process will take is the most difficult part of developing a procurement timeline. There is no rule of thumb; experience with the particular circumstances and information gathered during confirmation and elaboration of the requirements must guide the estimates. In some instances, time limits set for particular steps are part of the national procurement legislation. Whether or not these limits are normally observed is an important piece of information to be considered.

A full procurement cycle under open bidding is likely to take more than 1 year. Many people unfamiliar with public procurement find a turnaround time of more than 1 year unbelievable and excessive. And there is a tendency to focus criticism for "slow" procurement on the procurement unit, when, in fact, it is often a matter of unrealistic expectations. Thus, a very good initial estimate is to the benefit of everyone. An honest appraisal of internal constraints (including regulatory licensing conflicts), as well as an accurate allowance for external conditions and the established approval structure, is critical to success in this regard.

This module will revisit the case study in Module 4 to demonstrate development of a timeline for high-value procurement based on the assumption that approvals will be

required only from the government authority.[2] Although the time estimates in this case study may not be particularly accurate, they do serve to illustrate the process and reasoning that go into good procurement planning.

Case Study—Part One

Setting: Ministry of Health, Republic of Dharma *[fictitious name]*. The Director of Reproductive Health (RH) oversees four units in roughly the following hierarchy: Program Planning Unit, Procurement/Logistics Unit, Information and Education Unit, Service Delivery Unit.

Senior personnel from Program Planning and Procurement/Logistics prepared a draft budget in March for the fiscal year beginning July 1. It was adjusted downward before being approved for action.

On July 1, the RH Procurement/Logistics Unit received an official procurement requisition for multiple items from the RH Program Planning Unit. It consisted of a Summary Procurement Requisition and five individual Item Procurement Requisitions giving pertinent information about the requirements (refer back to Exhibits 5-3 and 5-4 in Section E).

Immediately upon receiving the requests, Max Rapert, head of the RH Procurement/ Logistics Unit, arranged for a meeting between his staff and RH program personnel who contributed to the budgeting work. The objective of the meeting was twofold:

1. To make sure everyone concerned had a clear understanding of what is required and what will be purchased.
2. To discuss potential constraints—official or unofficial—that might affect the timeline.

In preparation for the meeting, his procurement staff double-checked the reference prices on the Item Procurement Requisition by going online to the MSH website's *International Price Indicator Guide*. Later, they visited the Ministry of Finance to confirm the budget-available number on the Summary Procurement Requisition and to find out when these funds would be released. Their visit was facilitated by the fact that they were able to provide the correct accounting reference number, which had been included on the summary request. The budget numbers were accurate, but they were surprised to learn

[2] **In cases in which funding comes via a development bank, two sets of approvals are required—one from the government authority and one from the development bank. This increases the number of steps required and extends the time it takes to procure a product.**

that the actual release of funds would be made in four equal installments: on July 15, October 15, January 2, and April 1.

At the meeting, participants went through the procurement requisitions item by item, looking for potential problems, then engaged in an open discussion about other constraints that might affect the timeline. Below are the meeting notes that pertain to the purchase of OCs. (Max used the numbering system from the procurement requisition for reference.)

Review of the OC Requirements in the Item and Summary Procurement Requisitions (Exhibits 5-3 and 5-4)

Item Description

(8) The full **technical specification** is supposed to be available 2 days from now. When it comes, we will check to make sure it is similar in form and content to the industry standard and that it is consistent with the short version.

(10) We have noted the requirement for an **import license** and will include it in our bidding documents.

Quality Assurance Provisions

(11) Question from the floor: "Why do we need **WHO prequalification** if the OCs are licensed by our own national regulatory authority (NRA)?" Short answer from RH program staff: WHO prequalification helps to augment QA activities performed by the purchasing-country NRA. WHO performs the extra steps of inspecting the manufacturing facility to confirm compliance with current good manufacturing practices, reviewing product dossier information, and additional testing of product samples.

(11) According to John, who transferred over to the RH procurement unit from the government's central procurement unit several months ago, the government may not allow us to require WHO prequalification based on its beliefs that (a) it will limit competition, and (b) it is not necessary because the NRA is capable of safeguarding the quality and safety of any pharmaceutical product entering the country. We do know that our NRA has received a great deal of technical assistance recently—much of it through WHO—so it may be fully capable of this task. However, in our collective opinion, capability is one thing, execution is another. We will ask our director and highest-level program managers to discuss WHO prequalification with the appropriate authorities. We are going to need a fast answer on this, because it has to be mentioned in the bidding documents we will prepare in the very near future. If the answer is negative,

probably we will still use the WHO prequalification list to identify manufacturers to notify of our upcoming procurement. We will also review the WHO prequalification information to identify appropriate QA requirements to include in our bidding documents.

(12) Sam, another new member of the procurement staff, asked why we would want a **preshipment inspection** if we are allowed to require WHO prequalification. Answer: WHO prequalification is a predictor of quality and efficacy based on a careful examination of manufacturing facilities, procedures, and representative products ***at a point in time***. (See Supplementary Topics, Section E: Prequalification, for more information about WHO prequalification.) The preshipment inspection serves a different purpose; it is a visual inspection of specific goods, packed for shipment, to make sure the right quantities are being supplied; the packing, packaging, and labeling are all according to contract requirements; and the packaged tablets appear to be in good shape. The buyer always retains the right of inspection. (See Module 9 for more information about preshipment compliance, and Supplementary Topics, Section I: Product Inspection and Testing, for more information about product testing.)

(13) We will not decide about preshipment testing of OCs until after a supplier has been chosen. If it turns out to be a company we are not familiar with, we will probably ask for testing. For now, we are making a note to include a clause in the bidding documents, stating that we retain the right to have the goods independently tested prior to shipment.

(14) **Regulatory licensing** is required by our government statutes, but it can become a source of delay if the OCs offered in the winning bid are not already licensed by our NRA. In order to comply with good public-sector procurement practice, our bidding rules support the widest possible competition, which means we accept bids for goods that are not yet licensed; however, licensing must be in place before a contract can be signed. Typically, licensing in our country takes 6 to 8 months—an unresolved conflict. We will not know if there is going to be a problem until a winning bid is chosen, but in the meantime, our RH program manager will be petitioning for fast-track licensing. (See Supplementary Topics, Section K: Regulatory Authorities, for more information about regulatory licensing.)

Delivery Schedule

(15) Six deliveries 2 months apart, beginning in March of 2008, which is only 8 months away, and experience tells us the procurement cycle will take closer to 12 months. Program personnel are alarmed by this prediction because their requested delivery

schedule is based on projected inventory levels and warehouse capacity. They did not suspect a problem because the new government-wide guidelines for procurement processing show an 8-month schedule. After preparing the first draft of our procurement plan and processing schedule, we will meet again with program personnel to work out these timing issues.

Shipping Instructions

(18) Program staff may need to consider paying for limited air freight to meet the first delivery date, if the procurement cycle cannot be reduced to 8 months or another solution cannot be found.

Payment Terms

(22) International suppliers generally expect an L/C, which is what has been authorized for the OC purchase. When we open the L/C, it must be "collateralized"; that is, the funds must be deposited in the opening bank against the time the "beneficiary" (supplier) shows proof that he has performed (shipped the goods). That means we would need the entire amount budgeted for the OC purchase 4 to 5 months from now—when only half of the RH procurement funds have been released—if we have an 8-month procurement cycle.

Delivery Terms—CIP Port of Dharma *[fictitious name]*

(23) Noted.

Procurement Options Authorized

(24) Competitive bidding is the preferred approach to public-sector procurement because it allows us to select either an open or a restricted method—as long as it involves sealed bids and evaluation based on specified criteria. If we do not run into significant constraints, we will advertise the opportunity to bid rather than soliciting offers from a few preselected suppliers. We will not undertake a prequalification exercise for OCs.[3] Instead, we will "post-qualify" the winning bidder based on financial, commercial, and technical attributes that will be specified in the bidding documents. We are basing this decision on marketplace characteristics; OC manufacturers and suppliers in general tend to be trustworthy and quality conscious. If we were going to purchase

[3] Prequalification is based on financial, technical, and commercial attributes of the manufacturer (supplier/bidder), which is different from WHO prequalification for quality and efficacy of the product.

condoms on the open market, we might make a different decision based on the history of the condom industry.

Source of Funding

(25) This year, contraceptives will be purchased with funding from the government budget. However, our RH program manager has secured a commitment for additional OCs through bilateral donation.

Applicable Regulations/Guidelines

(26) Government procurement regulations and the government system must be used to purchase goods with funds from the government budget. This has far-reaching implications, which we will discuss after we finish reviewing the procurement requisition.

Foreign Exchange

(27) Foreign exchange is available for paying foreign suppliers, but the amounts vary, and our government puts limits on how much any one entity or person can obtain at one time. Our procurement/program liaison will begin making arrangements right away to reserve the necessary currency.

Special Instructions

(28) Program staff want to review the draft bidding documents and specifications before we make them available to potential bidders. We think this is an excellent idea and will add their approval to our timeline.

The contract for OCs should be written to allow for a +/- 10 percent quantity fluctuation. During our meeting, RH program staff explained that their budget for OCs is a little less than the full amount required, so they want to be able to revise the quantity downward to accommodate the shortfall. This came as a surprise to the procurement staff, as they had not seen the budget worksheets, only the Summary Procurement Requisition. However, the discrepancy would have been obvious if they had totaled up the estimated costs for all five items on the summary and matched the total to the budget-available figure—a lesson learned!

Summary of Internal Constraints Noted During Review of Procurement Requisition for OCs

1. The government may not allow us to require WHO prequalification, so we will need to be ready with an alternate plan to ensure quality and safety. One alternative is to require that a manufacturer's product adheres to international standards.
2. The length of time required for regulatory licensing may delay contract signing and result in late delivery.
3. The delivery schedule may be unrealistic; RH program staff are asking for 8 months when 12 or more months is likely.
4. Funds will be released in four increments, and the release schedule may delay opening of the L/C, thus delaying the manufacturer's production commitment, which in turn will delay delivery.
5. Foreign currency is limited and requires early application.

Open Discussion: Potential Problems and Bottlenecks

Max shared this background with the meeting participants:

Until recently, government-funded purchasing activity was based on tradition and 30-year-old administrative procedures. However, 2 years ago, a new set of regulations and bidding documents based on widely held standards for good public-sector procurement were adopted and recently became law. We like the new regulations and documents in general, but have stumbled a little in our first attempts at using them. This year, we are planning for some technical assistance to help us develop our capabilities and guide us past potential problems, such as poor scheduling, incomplete specifications, and unclear bidding documents.

The transition to modern, good public-sector procurement practices has challenged some of our government officials as well. This is an important consideration because it involves problems that are not under our control but must be factored into our procurement timelines.

In order to get this part of our discussion started, Hal, one of our senior procurement officers, read from a document he found on the Internet about procurement problems. (See Section F.3 for a summary of these problems/constraints.) The group discussed which ones might be a concern for us based on history and personal knowledge:

Slow approvals: Due to inattention, multilevel repetition, and traditional "gifting" practices, we have a history of this problem. Things are improving now that our new

procurement regulations have become law, but old habits die hard, so we will allow some extra time for the approval process.

Bidder protest that cancels or slows award of contract: In the past, high-level officials sometimes bypassed the evaluation process and asked us to select a particular offer. We had no choice, and twice this led to official protests from the other bidders. We ended up cancelling these bids, and the delay in delivery from having to re-bid led to disastrous OC stock-outs in some locations. We do not think this is likely to happen again because our new good public-sector procurement regulations make it very difficult to hide favoritism and patronage activity. However, we will allow a little extra time in case any of our long-term officials have difficulty assimilating the idea of fair competition.

Sometimes there is such fierce competition among suppliers for high-value contracts that unsuccessful bidders will protest, even though the process was completely fair. Apparently, these bidders believe they can change the outcome and/or force cancellation and re-bidding, giving themselves another chance to win—fairly or unfairly. This malicious tactic ruins our timeline for procurement and delivery of RH products, so Hal has been thinking about what we might do to combat it. There is no guidance in our procurement regulations, so this is what he is proposing:

> A protesting bidder should be heard by a special committee and receive a determination within a week after the award announcement. If he loses, he is blacklisted (not allowed to bid on any future government contracts) for a substantial period of time. If he wants to pursue his claim further, he can do so, but he would have to deposit a sizeable fee, part of which could be refunded if he eventually won his case. In any event, the contract would not be delayed beyond the initial determination. The only benefit to appealing a negative finding would be to prevent the blacklisting.

Perhaps we could include this in our bidding documents, but more likely it would need to be appended to our government-wide procurement regulations. It is clearly an important issue that must be addressed. We agreed to discuss this with our director and ask her to approach the Ministry of Law about the issue. In the meantime, program personnel will reassess their buffer-stock levels and try to develop a plan to cover such an event.

Difficulty contracting for supporting services, such as advertising, inspections, laboratories, customs clearing, banking, and transportation, due to awkward government policy or procedures: Except for advertising, we are not having many problems in this regard because our new procurement regulations allow us to contract on our own

behalf and provide us with detailed instructions and standard forms. However, advertising in local newspapers remains a problem because this is the one case in which we are not allowed to contract directly but must turn over our requirements to the Ministry of Information. This adds at least a week, sometimes 2 weeks, to our timeline.

Estimated Timeline

Exhibit 5-6, on page 5-34, is a timeline worksheet that was developed several months ago by the RH Procurement/Logistics Unit. It shows, in weeks, the government's general guideline numbers in the first column, the generic procurement estimates in the second column, and the differences between the two in the third column. The fourth column is for trying out different estimates.

At the time the worksheet was developed, the procurement staff made generic estimates for each of the main steps that, when added together, came to almost 13 months—6 months longer than RH program personnel indicated in their procurement requisition. As a result of the meeting this morning, our procurement staff now understands where the 8-month requirement came from for the OC purchase. Unfortunately, program personnel overlooked the government's guideline disclaimer, which states that *A competitive procurement process requires 8–12 months from request to the first delivery—sometimes more.*

The first thing that becomes apparent when comparing the government guidelines to the generic estimates is a difference in line items—e.g., tasks to which time is assigned. The procurement unit's generic estimate lists five tasks that do not appear on the government/program estimate, which accounts for 13 weeks of the 23-week difference. The second issue is differences in time estimates for two major variables—manufacturing lead time and shipping—which account for another 8 weeks of difference. Presumably, the 4-week contingency allowance in the program estimate would help offset this, leaving a total of 17 weeks difference.

Based on the information they obtained in the planning process, the procurement staff have decided to complete an updated timeline worksheet (see Exhibit 5-7 on page 5-35). Starting from the top of the worksheet, here is what our procurement staff are proposing for the OC bid, along with their reasons:

<u>Initiate procurement of item or grouping: 0 weeks</u>

No allowance is necessary because most of this work has already been done. Our files are set up, and the recordkeeping system is in place. We now have the pertinent information we need, and our data are well on their way to being organized.

Develop bidding documents: 4 weeks

Good bidding documents are critically important to maintaining the timeline, and the new standard documents are still a little unfamiliar to us, so we will give ourselves 4 weeks in which to develop the OC documents. Two weeks is not nearly enough.

Solicit, receive, and open bids: 8 weeks

Bidding documents need to be "on the street" for a minimum of 6 weeks (the program estimate) for international competition, but we know there will be a front-end delay during placement of advertisements because we must involve the Ministry of Information, so we are going to stick with our generic estimate of 8 weeks.

Select winning bid: 6 weeks

This is really a two-part task—evaluation and approval—as indicated in the program estimate. Although this work could probably be done in 2 or 3 weeks, we will stay with a 6-week estimate based on the potential for processing delays inherent in the change-over to modern good public-sector procurement practices. Since we have already included the 2 weeks for obtaining approvals (noted in the government guidelines) in our estimate of 6 weeks, we can go ahead and deduct the 2 weeks in the "Difference" column.

Notify award: 1 week

Our procurement regulations allow 1 week for notifying the winning bidder.

Receive performance security and sign contract: 2 weeks

Since time is of the essence for this procurement, we will cut down the time normally allowed for receiving performance security and signing the contract from 3 weeks to 2 weeks—but we must remember to mention this in the bidding documents.

Open L/C: 2 weeks

This task was not included in the government guidelines, probably because it was written with national, not international, procurement in mind. Opening an L/C usually takes us about 2 weeks by the time we involve our Finance Unit and check to make sure the bank has included the correct terms and documentary requirements.

Manufacturing lead time: 8 weeks

Although our generic timeline used a "worst-case"12-week lead time, our latest market intelligence does not indicate shortages, so we think an estimate of 8 weeks is reasonable.

Preshipment quality check: 2 weeks

In our generic timeline, we allocated 4 weeks to this task, including testing. Much of the time allocation was for setting up contracts and reviewing results. OCs probably will not require testing, and the contract for inspection—if we decide it is necessary—could be set up during the manufacturer's lead time. Thus, we think 2 weeks would be more than adequate.

Shipping and transit time: 5 weeks

Actual transit time depends on how far the goods need to be shipped. We estimated 8 weeks for the generic timeline, but for OCs, we are happy with a 5-week estimate.

Delivery, including import procedures: 2 weeks

Both the generic estimate and the program estimate suggest 2 weeks is reasonable yet the government guidelines do not mention time for delivery.

Contingency

Contingency planning is addressed on a case-by-case basis, but since we plan to monitor this contract closely, we are comfortable without a contingency, so we deducted the 4 weeks in the "Difference" column.

In total, the OC timeline now spans 40 weeks—or 10 months—which is still not good enough to deliver the first shipment of OCs next March—8 months from now. In addition, the government's quarterly funds-release scheme is beginning to worry us, because contracts for several RH products will need early funding from the RH procurement account. We wonder if there will be enough money accumulated by then.

We will meet with our director and senior program officers to discuss delivery schedules and these funding challenges within the next few days. In the meantime, we will draft timelines for the other commodities and start working on a procurement plan/schedule that will include the entire list of commodities in our procurement requisition summary.

A blank copy of the timeline worksheet has been included in Section I.1 for future use.

Exhibit 5-6

Timeline Worksheet for OC Bid: Generic Estimate

	Government Guidelines	Generic Estimate	Difference	Possible Reductions
Task	**Time to Complete (in weeks)**			
Initiate Procurement of Item or Grouping	0	**4**	4	
Set up files/recordkeeping system				
Compile pertinent information				
Organize data				
Develop Bidding Documents	**2**	**5**	3	
Include instructions and rules for bidding, criteria for evaluation of contract provisions, product requirements, delivery schedule, etc.				
Solicit, Receive, and Open Bids	**6**	**8**	2	
Place advertisements; notify parties that have expressed interest				
Sell bidding documents				
Organize and hold pre-bid conference for potential bidders				
Organize and hold public bid opening				
Select Winning Bid	**4**	**6**	2	
Examine and evaluate each bid				
Compare offers and identify best				
Obtain approvals	2	0	-2	
Notify Award	**0**	**1**	1	
Receive Performance Security/Sign Contract	**2**	**3**	1	
Open L/C	**0**	**2**	2	
Manufacturing Lead Time	**8**	**12**	4	
Preshipment Quality Check	**0**	**4**	4	
Contract services of independent inspector, laboratory				
Inspection				
Testing (as required)				
Review reports/authorize shipment (1)				
Shipping/Transit Time	**4**	**8**	4	
Delivery	**0**	**2**	2	
Import procedures				
Receiving inspection				
Certificate of Acceptance				
Contingency period	4	0	-4	
Total	**32**	**55**	**23**	

Tasks not mentioned in the government guidelines.

Tasks not differentiated in generic estimate: Selecting winning bid includes obtaining approvals; contingencies are built into individual entries.

Exhibit 5-7

Timeline Worksheet for OC Bid: Revised Estimate

	Government Guidelines	Generic Estimate	Difference	Possible Reductions
Task	**Time to Complete (in weeks)**			
Initiate Procurement of Item or Grouping	0	**0**	0	
Set up files/recordkeeping system				
Compile pertinent information				
Organize data				
Develop Bidding Documents	**2**	**4**	2	
Include instructions and rules for bidding, criteria for evaluation of contract provisions, product requirements, delivery schedule, etc.				
Solicit, Receive, and Open Bids	**6**	**8**	2	
Place advertisements; notify parties that have expressed interest				
Sell bidding documents				
Organize and hold pre-bid conference for potential bidders				
Organize and hold public bid opening				
Select Winning Bid	**4**	**6**	2	
Examine and evaluate each bid				
Compare offers and identify best				
Obtain approvals	2	0	-2	
Notify Award	**0**	**1**	1	
Receive Performance Security/Sign Contract	**2**	**2**	0	
Open L/C	**0**	**2**	2	
Manufacturing Lead Time	**8**	**8**	0	
Preshipment Quality Check	**0**	**2**	2	
Contract services of independent inspector, laboratory				
Inspection				
Testing (as required)				
Review reports/authorize shipment (1)				
Shipping/Transit Time	**4**	**5**	1	
Delivery	**0**	**2**	2	
Import procedures				
Receiving inspection				
Certificate of Acceptance				
Contingency period	4	0	-4	
Total	**32**	**40**	**8**	

Tasks not mentioned in the government guidelines.

Tasks not differentiated in generic estimate: Selecting winning bid includes obtaining approvals; contingencies are built into individual entries.

H. Procurement Plan, Schedule, and Monitoring Tool: Case Study—Part Two

1. Procurement Plan

Once the procurement unit has received annual procurement requisitions from each department it serves, it assigns procurement methods and sorts the required goods and services into groups of items that are likely to be available from the same supplier. In large systems, this sorting helps to manage the workload by reducing the number of bids, contracts, approvals, L/Cs, and other components that must be processed. If the groupings are very large, they may be subdivided by department, required delivery date, destination, financial thresholds, or any other criteria that serve a purpose. These groupings are sometimes called "packages" in procurement literature; however, this document will use "contract grouping" to avoid confusion with packaging of the wrapping and boxing type.

The procurement plan assigns numbers to each contract grouping and lists them on a document or form that includes:

- Name of the goods.
- Unit of measure.
- Quantity.
- Estimated cost.
- Requested delivery date.
- Funder (if multiple).
- Procurement method.

2. Schedule

Obviously, everything cannot be processed at one time (except in very small operations), so the procurement unit also develops a tentative schedule for purchasing activities. This schedule serves multiple purposes: not only does it help to organize the workload, but it identifies time frames in which certain things will be required, such as funds to cover payment commitments.

3. Monitoring Tool

The procurement plan can also serve as a rudimentary monitoring tool for the progress of the procurement. This can be done by tracking the planned and actual dates for the procurement. This will highlight those procurements that are behind schedule and could jeopardize the program. This tool is adequate for tracking most procurement activity, but it cannot be used for contract monitoring, which is the subject of Module 9.

Case Study—Part Two

The procurement staff has transferred their OC timeline estimate to the corresponding line on the procurement schedule (Exhibit 5-8), but in a slightly different form: instead of using the number of weeks each step will take to process, they have calculated the **week number** in which a process should be completed. For example, counting from week 0, the bid opening should happen in week 12, contract signing in week 21, and delivery in week 40. From there, it is easy to build a calendar. If they begin on July 9, adding 12 weeks, the bid opening would result on October 1, and so on. Now they know they will need to be ready with cash funds for OCs on about December 17 to support an April 14 delivery.

In comparing the estimated cost of the OCs (US$4,900,00) and the amount accumulated from the government's quarterly funds release prior to December 17 (US$5,285,064), it appears there would be enough money to cover the commitment.

However, OCs are not the only contract that will need to be supported with the government's quarterly funding. Three additional products and their estimated costs have been entered on the plan side. The big question is: When do they have to be paid for?

Individual worksheets prepared earlier by the procurement staff show a different timeline for each product, due to unique market characteristics and the method of procurement. Without entering details, let us assume that at least one other product will need to be paid for in the same time frame as the OCs, and there will not be enough funds to support both. These issues and other conflicts that come to light during the procurement planning stage (for example, delivery schedule versus warehouse space or low stock level) must be resolved between high-level program personnel and high-level procurement personnel before our procurement staff can proceed.

Here are the meeting notes:

Subject

2007–2008 Procurement Schedule for High-Value Contraceptives.

Problems addressed

Funds-release schedule in conflict with payment obligations.

Delivery schedules in conflict with inventory positions.

Potential solutions tabled and discussed

A potential solution in some countries may be to split the OC requirement into two contracts with two bidding cycles run several months apart. The values would still be high enough to attract good competition, but the payment obligation would be spread out over several quarters. If different suppliers won, it would create back-up possibilities in the event of production delays and/or default.

Temporarily shift funds earmarked for another line item to RH commodity procurement.

It would be good if we could sequence some of the procurement so payment is not needed until after the 36th week of the year. Is there inventory available for any of the products that would allow a later resupply?

We might be able to add 10 or 15 percent to an existing contract now and shift the new contract to a later date. We would have to pay for the add-on right away, but it probably would not be enough to hurt the financial picture, leaving the bulk of funds from the first two increments available for the most critical procurement.

What is the lead time for UNFPA condoms? It might not be necessary to order them until later in the fiscal year. Remember, this procurement option will not require a bid process; we can go right to contract signing and payment.

Perhaps we can use different payment terms for some of the contracts. The L/C is a very secure way to do business for us and for the supplier and it helps attract competition, but having to fund it at the same time we award the contract would put a strain on our financial picture. If we could get suppliers to accept a "payment against documents" arrangement, we would not have to come up with the cash until the goods ship.

We have a donor commitment for 250,000 OC cycles to help fill our annual requirement. If we can secure early delivery of the donated OCs, will that allow for a

later bid process and contract? Someone will need to check existing inventory and the most current draw-down projections.

If the government is going to continue using a quarterly funds-release approach, we should increase our buffer stock.

Do you think the Ministry would let us use leftover funds from the old development credit? *Answer*: Maybe, but it would add time to our schedule because of the extra approvals we would need to obtain at each stage of the procurement process.

Could we borrow condoms from another program?

How about a short-term loan arrangement with a donor or a development bank?

Local suppliers do not usually ask for L/Cs. Is there a reason we are not using local suppliers? *Answer*: Not enough capacity.

Intrauterine devices (IUDs) are lightweight. Maybe we could use air freight and eliminate the 6-week ocean crossing; that would allow us to order and pay later in the year.

Perhaps we should consider purchasing IUDs from a supply service catalog instead of taking the time to run a bid process. The government would not require us to use a bid process for this because the total cost would be less than US$300,000.

Agreed plan of action

a. Obtain the donated OCs as soon as possible (and try to get more).

b. Divide the OC requirement into two bids and initiate the first one immediately.

c. Extend the existing injectable contract by 15 percent and schedule the new bidding work to begin as soon as the first OC bidding work is under control.

d. Schedule the UNFPA condom agreement so that payment falls in the fourth quarter. Borrow condoms from the HIV/AIDS program if stock falls too low.

e. Switch the procurement method for IUDs to a Request for Quotation and solicit local suppliers and supply services as well as manufacturers, offering a down payment plus cash against documents.

Exhibit 5-8

Procurement Plan and Schedule

The example in Exhibit 5-8 on the following page uses four RH commodities to demonstrate a combined procurement plan and schedule. The plan section is on the left side; the schedule section is on the right side. Each item on the plan side is a contract grouping. On the schedule side of the document, the column headings represent a sequence of major events in the expected procurement process. Based on the information in the case study, the procurement plan and schedule for OCs has been completed. The procurement schedule can also be used to track the progress of the procurement by noting the planned date, actual date, and elapsed time. According to the procurement schedule for OCs, the procurement is behind schedule by 18 days. This should be elevated to management because it will impact the delivery of the product. A real schedule would have many more contract groupings and may use a different set or sequence of events.

In studying the example, readers will notice a second table at the bottom of the page. This is used to indicate expected funds-release dates and amounts. The first row shows the number of weeks from July 1 (the beginning of the fiscal year) in which a release of funds should occur. The second row shows a corresponding date. The third row is the amount to be expected. And the fourth row calculates cumulative amounts up to the total budgeted.

Exhibit 5-8: Procurement Plan and Schedule

Procurement Plan						Procurement Schedule						
#	Goods	Unit	Qty in Millions	Method	Est Cost	Requisition Received Date	Advertise Bid	Bid Opening	Evaluation and Approval	Contract Signing	Payment Obligation	Delivery
1	**OC**	Cycle	14	Bid	US$4,900,000	0	+6 wks	+12 wks	+18 wks	+21 wks	+23 wks	+40 wks
					Planned Date	07/09	08/20	10/01	11/12	12/03	12/17	04/14
					Actual Date	07/08	08/20	10/01	11/30	12/18		
					Elapsed Time (in days)	1 day early	0 days	0 days	18 days late	18 days late		
2	**Condom**	Each	75	UNFPA	US$1,500,000							
					Planned Date							
					Actual Date							
					Elapsed Time (in days)							
3	**IUD**	Each	0.080	Bid	US$440,000							
					Planned Date							
					Actual Date							
					Elapsed Time (in days)							
4	**Injectable**	Dose	2.5	Bid	US$3,975,000							
					Planned Date							
					Actual Date							
					Elapsed Time (in days)							

	RH Budget 2007–2008: Funds-Release Dates and Amounts						
From July 1:	2 weeks		14 weeks		24 weeks		36 weeks
Date:	July 15		October 15		January 2		April 1
Amount:	US$2,642,532		US$2,642,532		US$2,642,532		US$2,642,532
Cumulative:			US$5,285,064		US$7,927,596		US$10,570,128

I. Reference Material

1. Forms

Timeline Worksheet

	Government Guidelines	Generic Estimate	Difference	What If
Task	**Time to Complete (in weeks)**			
Initiate Procurement of Item or Grouping				
Set up files/recordkeeping system				
Compile pertinent information				
Organize data				
Develop Bidding Documents				
Include instructions and rules for bidding, criteria for evaluation of contract provisions, product requirements, delivery schedule, etc.				
Solicit, Receive, and Open Bids				
Place advertisements; notify parties that have expressed interest				
Sell bidding documents				
Organize and hold pre-bid conference for potential bidders				
Organize and hold public bid opening				
Select Winning Bid				
Examine and evaluate each bid				
Compare offers and identify best				
Obtain approvals				
Notify Award				
Receive Performance Security/Sign Contract				
Open L/C				
Manufacturing Lead Time				
Preshipment Quality Check				
Contract services of independent inspector, laboratory				
Inspection				
Testing (as required)				
Review reports/authorize shipment				
Shipping/Transit Time				
Delivery				
Import procedures				
Receiving inspection				
Certificate of Acceptance				
Contingency period				
Total				

2. Documents

Comparison of Procurement Methods

Purchasing Method	Brief Description	Effect on Price	Procurement Cycle Time to Delivery	Workload	Need for Merit Rating of Suppliers	Conditions Favoring Use
Open bid	Bids accepted from all interested parties	Very favorable	Long	Very high	Very high	High value; many reputable suppliers
Selective bid	Bids accepted only from suppliers that have met established requirements	Favorable	Moderately long	High	None	High value; prequalified suppliers or all reliable suppliers are known
Request for Quotation (with or without negotiation)	Buyer approaches a small number of selected potential suppliers and bargains for price and conditions	Moderately favorable	Short to moderate	High initially; low later	Moderate	Moderate value; only a few reputable suppliers
Sole-source procurement	Purchase is made from a single supplier at its quoted price without competition	Unfavorable	Short	Very low	None	Only one supplier available; emergency items; situations in which negotiation is not possible, such as United Nations supply services (e.g., UNFPA)
Shopping	Buyer compares published prices of several suppliers	Can be unfavorable	Short	Very low	Not applicable	Common low-value, small-volume items

3. Websites

The ***Practical Guidelines on Pharmaceutical Procurement for Countries with Small Procurement Agencies*** (WHO Regional Office for the Western Pacific, 2002) melds good pharmaceutical procurement practice with procedures for good public-sector procurement and offers detailed guidance on prequalification and restricted bidding.

http://www.wpro.who.int/NR/rdonlyres/7D1B522D-DEB1-48CB-88A7-68DEB599CCE1/0/PharmaProcurementGuide.pdf

The ***International Drug Price Indicator Guide***, published by MSH since 1986, provides a spectrum of prices from pharmaceutical suppliers and procurement agencies (such as the IDA Foundation) based on their current catalogs or price lists. It also contains prices obtained from international development organizations and government agencies.

Look up drug/contraceptive prices at http://erc.msh.org/mainpage.cfm?file=1.0.htm&module=DMP&language=English.

Alternatively, you can order the 2008 guide on CD-ROM at http://www.msh.org/resource-center/ebookstore/product.cfm?p=33.

J. Learning Evaluation

1. What is a procurement cycle and what are the key activities in a procurement cycle?
2. What is the range of time usually required to complete a public-sector procurement cycle for a high-value procurement requiring international competitive bidding?
3. Identify four reasons why it is not good practice to process a procurement requisition immediately upon receipt.
4. What is the necessary first step in good procurement planning and scheduling following receipt of a procurement requisition?
5. What is the preferred approach for procurement personnel to clarify and elaborate on the requirements and specifications received in the procurement requisition?
6. What factors help to determine the method of procurement that can be used?
7. Identify four constraints on an effective procurement process that are commonly found in developing economies.
8. Why do people unfamiliar with public-sector procurement often underestimate the amount of time required to complete a full procurement cycle under international competitive bidding?
9. Name a benefit of collecting similar products into groups that are likely to be available from one supplier.

Learning Evaluation Answers

1. A procurement cycle is the repeating sequence of steps in a procurement process, generally starting at the initial planning phase and ending at possession of the goods. See Section D.3. For an example of key activities in a procurement cycle, see Exhibit 5-2, Section D.3.

2. The range of time usually required to complete a public-sector procurement cycle for a high-value procurement requiring international competitive bidding is 12 to 18 months. See Section D.3.

3. Reasons why it is not good practice to process a procurement requisition immediately upon receipt include:

   - There is always room for misunderstanding about exactly what is to be purchased and when it is needed.
   - The procurement requisition may not reveal important information uncovered during the options assessment and budgeting process.
   - The procurement requisition may not take into consideration important facts known to the procuring entity.
   - Specifications attached to the procurement requisition may require more attention in order to bring them up to industry standards for procurement, particularly in the international marketplace.
   - Reference costs appearing in the procurement requisition may not reflect current market prices.
   - Budget availability may need to be updated.

   See Section E.

4. The necessary first step in good procurement planning and scheduling following receipt of a procurement requisition is to confirm, clarify, and expand on the basic information communicated by the procurement requisition. See Section E.

5. The preferred approach for procurement personnel to clarify and elaborate on the requirements and specifications in the procurement requisition is to have a frank discussion with the individuals who prepared the (a) procurement options assessment; (b) budget; (c) procurement requisition; and, possibly, (d) specifications. See Section E.2.

6. The factors that help to determine the method of procurement that can be used are (a) agreement with funder; (b) financial thresholds; (c) costs associated with the process; (d) effect on price; (e) procurement cycle time; (f) currency constraints: local currency or foreign exchange; (g) quantity requirements; (h) number of reputable manufacturers worldwide (size of supplier pool); and (i) quality issues/concerns. See Section F.2.

7. Constraints on an effective procurement process that are commonly found in developing economies include:

   - Budgeted funds will not be released until after payment must be made.
   - Budgeted funds are released on a quarterly or monthly basis and may need to be accumulated over time and coordinated with payment obligations, particularly for high-value contracts.
   - Access to foreign currency may be limited.
   - The government may specify a bank for L/C transactions that does not have adequate capability or good access to the international banking system.
   - The procurement unit may be required by its government to turn over requirements for related services to a different ministry, thus losing control of the time element.
   - Ministerial or executive privilege in awarding contracts very often results in bidder protest, which then delays or even cancels a bid process.
   - A long regulatory licensing process, or a regulatory licensing process used as a trade barrier to protect local industry.
   - Slow, multilevel approval requirements, particularly if recommendations are re-evaluated at each level.
   - If funds are from a World Bank loan or credit, additional time must be allocated for three or more reviews and determination of "no objection." See Module 7 for more information.

   See Section F.3.

8. People unfamiliar with public-sector procurement often underestimate the amount of time required to complete a full procurement cycle under international competitive bidding because they find a turnaround time of more than 1 year unbelievable and excessive. And there is a tendency to focus criticism for "slow" procurement on the

procurement unit, when, in fact, it is often a matter of unrealistic expectations. See Section G.

9. A benefit of collecting similar products into groups that are likely to be available from one supplier is that the workload can be better managed by reducing the number of bids, contracts, approvals, L/Cs, and other components that must be processed. See Section H.

K. Performance Indicators

Performance indicators measure and evaluate success against a specific goal. The process begins by selecting performance indicators that are relevant for the procurement environment. This is followed by identifying and collecting appropriate data for each performance indicator to establish a baseline on the level of performance in the country. After training and corrective actions have been implemented, the same performance indicators are evaluated to determine the revised level of performance. Further information on conducting an assessment can be found in the Procurement Assessment Guide.

The following performance indicators can be used for monitoring and evaluating key aspects of this module:

1. A process exists to clarify and elaborate on the requirements and specifications of the purchase requisition to ensure that any potential constraints are adequately addressed (e.g., budget, product pricing, etc.).
2. The procurement unit confirms budget allocations through direct contact with the appropriate funding authority.
3. Standard time period guidelines for completing key steps in the procurement process exist and are monitored for compliance.
4. The procurement unit monitors the actual completion dates for procurement activities against the original estimated completion dates, and the data are used to identify areas for improvement.
5. Percentage of procurements planned as competitive bids (international competitive bids/national competitive bids).

L. Glossary and Acronyms

AIDS	Acquired Immunodeficiency Syndrome.
Beneficiary	A legal term used in banking to describe the party entitled to collect funds guaranteed by a commercial letter of credit upon presentation of stipulated documents (usually shipping and quality assurance documents). Also known as the seller.
Bid	A procurement term describing a written offer for a quantity of goods, works, or services at a stated price based on a technical specification and specific terms and conditions. Bids are submitted to an intending purchaser by an intending seller in response to an Invitation for Bids.
Bidder	An intending seller or supplier that submits a bid offering goods or services in response to an invitation or request for bids and offers.
Bidding documents	The written description and set of terms and conditions of an intended purchase that is circulated by the intending buyer to prospective sellers.
Cash against documents	A payment method: A contracted bank acts as an intermediary, transferring the buyer's funds (payment) to the seller when the seller furnishes documentary proof of shipment to the contracted bank.
CIP	Carriage (freight) and insurance paid to: Costs paid to the named destination by the seller. Title and risk pass to buyer when delivered to carrier.
Commodity	Any piece of tangible property, supplies, or equipment that is the subject of a procurement activity.
Component	An important function or process that occurs within an element of the reproductive health supply process. Each module of the *Toolkit* focuses on one element.

Contract	An agreement entered into by two parties for the execution of a certain activity (e.g., sale and purchase, construction, service provision, etc.).
Contract grouping	Assemblage of goods or services of a similar nature into one group.
Criteria	Specific points, standards, qualities, and/or requirements against which something is judged.
Current good manufacturing practice(s)	Manufacturers must employ technologies and systems which are up to date to the performance standards for pharmaceutical and medical device manufacturers established by the World Health Organization and many national governments. Includes criteria for personnel, facilities, equipment, materials, manufacturing operations, labeling, packaging, quality control, and in most cases, stability testing.
Discrepancy	Used in banking and trade to indicate lack of agreement with stated requirements and/or documents.
Efficacy	The capacity of a drug to produce scientifically proven therapeutic effects.
Element	One of the ten key operational, broad-based activities in the reproductive health supply process.
Entity	A business and legal term to describe something that exists and functions as a separate and distinct body (e.g., a corporation, Ministry of Health, or committee).
Expiration (Expiry) date	The date beyond which the manufacturer will not guarantee the product.
Fast-track licensing	Regulatory licensing based on confidence in the quality of a product as evidenced by similar licensing in countries with stringent, highly respected regulatory authorities.
Financial threshold	Monetary division used to trigger an action or requirement. (Procurement method selection is often tied to financial thresholds.)

Funder	Organization (or person) providing funds for a specific project, program, or purpose.
HIV	Human Immunodeficiency Virus.
IDA Foundation	Claims to be the world's largest not-for-profit supplier of essential medicines and medical supplies to low- and medium-income countries. Established in 1972 in Amsterdam by a group of pharmacists.
Injectable	Injectable contraceptive.
International supply service	An international agency such as the United Nations Population Fund that purchases standardized commodities in large quantities and supplies them to developing-country government institutions at cost plus a fixed fee.
Invitation for Bids	An invitation to manufacturers or contractors, through a bidding process, to submit a proposal on a specific product or service to be furnished or project to be realized.
IUD	Intrauterine device.
L/C	Letter of credit: An arrangement by banks for settling commercial transactions; specifically, a written promise by a bank given to the seller in accordance with instructions (backed by a cash deposit) of the buyer to pay up to a given sum of money within a prescribed time limit when and if the seller presents specified documents that give evidence of its performance.
Lot (Batch)	In manufacturing, a single, uniform, and homogeneous quantity produced from one compounding formulation, in one manufacturing and production operation, and that has received entirely the same processing treatment.
Manufacturer's (Bidder's) representative	A direct employee of a manufacturer with responsibility to promote the use of, provide information on, and sell the manufacturer's products. In some cases, the representative also facilitates importation. Sometimes the term "agent" is used to convey the same relationship.

Marks, markings	An application of numbers, letters, labels, tabs, symbols, or colors for handling or identification during shipment and storage.
MOH	Ministry of Health.
MSH	Management Sciences for Health: A nonprofit international health organization with a mission to save lives and improve the health of the world's poorest and most vulnerable people by closing the gap between knowledge and action in public health.
NRA	National regulatory authority (same as drug regulatory authority): An independent government entity responsible for establishing procedures to ensure that medicines intended for use in the country are safe, potent, and effective.
OC	Oral contraceptive.
Offer	Used interchangeably with "bid," "tender," and "proposal."
Open bid	Sealed bids are solicited by means of a widely advertised invitation open to all suppliers that choose to participate in the competition.
Packaging	The primary wrapping and marking of a product.
Packing	The assembling of a packaged product into multiple units. Prepared for shipment in appropriate cartons or crates with all necessary blocking, bracing, cushioning, weatherproofing, reinforcement, and markings.
Performance indicator	Measures and evaluates success against a specific goal.

Performance security	A procurement term describing the financial instrument used to guarantee compensation to the buyer for inconvenience and expense if the seller does not perform (i.e., does not produce and ship the contracted goods or provide the contracted services within the stated period). The seller puts up its own funds, often through a bank or insurance company, to be held in reserve until the contract terms have been met.
Phase	A natural division of the ten elements of the supply process into three sequential parts: program planning, procurement process, and contract performance.
Prequalification (of manufacturer/ supplier/bidder)	A process of preapproving suppliers for participation in bids based on a judgment of reliability, technical competence, and financial stability.
Preshipment compliance	Process by which the purchaser confirms the acceptability for shipment of the supplier's commodity prior to shipment. There are three basic levels of preshipment compliance a purchaser can institute, ranging from document review to visual inspection up to full laboratory or physical testing of the commodity.
Preshipment inspection	An inspection of manufactured goods ready for shipment undertaken by an internationally recognized inspection agency (such as Societe Generale de Surveillance).
Procurement cycle	The repeating sequence of steps in a procurement process, generally starting at the initial planning phase and ending at possession of the goods.
Procurement method	Process a purchaser uses to reach an agreement with a seller.
Procurement option	Approach to procurement: Direct or indirect, and several subdivisions of each are differentiated by who contracts with the original manufacturer (or its representative).
Procurement requisition	A document describing what is to be purchased and giving authority to do so.

Procurement unit	Individuals organized around procurement duties within a larger entity.
QA	Quality assurance. For more information, see Supplementary Topics, Section H: Product Quality Assurance.
Request for Quotation	A procurement method without sealed bidding or formal bidding procedures in which potential suppliers are contacted and asked to provide a price for specified goods.
RH	Reproductive health: A state of complete physical, mental, and social well-being—not merely the absence of disease or infirmity—in all matters relating to the functions and processes of the reproductive system. Reproductive health implies that people are able to have a satisfying and safe sex life and that they have the capability to reproduce and the freedom to decide if, when, and how often to do so; implicit in this last condition is the right of men and women to be informed and to have access to safe, effective, affordable, and acceptable methods of family planning of their choice, as well as other methods of their choice, for regulation of fertility.
Sealed bids	A procurement process in which formal bids are submitted in sealed envelopes and held unopened until an appointed date and time, then opened and read in public with bidders in attendance.
Specification	A definitive description of the commodity to be procured.
Standard	Establishes the minimum level of performance and safety requirements for the product, and generally specifies methods of use when carrying out basic tests for quality verification. Standards are traditionally developed and published by international and national regulatory authorities or standards bodies.
Supplier	The party that transfers goods out of its own control to a named recipient.

Supply	Goods and services of a specific kind that are provided to businesses, public agencies, or directly to consumers.
UNFPA	United Nations Population Fund: A semiautonomous United Nations agency working to ensure universal access to reproductive health, including family planning and sexual health, to all couples and individuals. Operates a global procurement service for public-sector purchasers of contraceptives and related products.
United Nations	An international organization founded in 1945 after the Second World War by 51 countries committed to maintaining international peace and security; developing friendly relations among nations; and promoting social progress, better living standards, and human rights.
Visual inspection	A comparison of a product to written specifications (e.g., packaging, labeling, and marking instructions) that is performed without the aid of test instruments.
WHO	World Health Organization: The directing and coordinating authority for health within the United Nations system.
WHO prequalification	Included on the WHO list of prequalified medicines. WHO assesses quality, efficacy, and safety of specific medicines from specific manufacturers and accepts or rejects them for inclusion on its list. For more information, see Supplementary Topics, Section E: Prequalification.
World Bank	The World Bank Group offers loans, advice, and an array of customized resources to more than 100 developing countries and countries in transition.