3 Assessment of Procurement Options

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

One of the key decisions reproductive health (RH) purchasers must make is whether to contract for goods directly with a manufacturer or contract through an intermediate source that is not part of the manufacturer's formal sales network; for example, a United Nations supply service or local distributor. These "procurement options" and their several variations are discussed in Module 3. For the sake of clear communication, it is important not to confuse procurement options with procurement *methods.* A procurement method is the process a purchaser uses to reach an agreement with a seller; international competitive bidding, for example, is a procurement method. Procurement methods are discussed in Module 5.

The material in this module is important because selecting and using a procurement option that is inappropriate for the RH purchaser's circumstances can result in problems with quality, timeliness, and cost.

The assessment described in this module is based on—and requires—an informal, iterative process; internal examination; and local knowledge. It is not a "benchmarking tool" or a "procurement capacity assessment" device, which are sophisticated programs designed for use by external sources to identify weaknesses and assess risk. Several of these procurement capacity assessment devices are included in this *Toolkit* in the Procurement Assessment Guide.

The objective of the procurement options assessment described in this module is to help RH purchasers:

- Evaluate what is possible for them.
- Consider what is practical.
- Look at who can/will do the work.
- Examine cost implications.
- Evaluate the most effective option.

The work of Element 3 can begin only after product requirements are defined (Element 1). Ideally, formal specifications are available at this point (Element 2), but can be provided later if necessary. Element 3 concludes with a consensus on which options are appropriate for each product and a memo of advice to the budget preparation committee (Element 4).

Element 3 is an integral part of the program planning phase of the RH supply process, as shown in Exhibit 3-1.

Exhibit 3-1

Phase I—Program Planning: Element 3

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	

B. Learning Objectives

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

- Define direct and indirect procurement options and the variations under each.
- Identify and assess possible procurement options.
- Identify and assess practical procurement options.
- Determine the most cost-effective option.

C. Components, Considerations, and Challenges

1. Components

Element 3 consists of a single component—an assessment of procurement options. The main activities of Element 3 include:

- Research and investigation.
- Evaluation of options.
- Forming a management consensus.
- Writing an advice memo to the budget committee.

The relationship of Element 3 to the other elements in the program planning phase of RH supply is shown in Exhibit 3-1.

2. Considerations

The main considerations for Element 3 are:

a. Overarching Principles of Quality and Timeliness

Quality assurance (QA) practices vary depending on contracting practice and the procurement option. Quality is subject to variation based on source of supply, and timeliness can vary based on process and performance of the purchaser as well as performance at the source of supply. For more information, see Supplementary Topics, Section H: Product Quality Assurance.

b. Critical Component: None

There is no critical component in Element 3; that is, nothing is completely out of the control of the RH purchaser and nothing would entirely stop the supply of RH goods.

c. Required Input From Other Elements

- Items and quantities, as determined in Element 1.
- Specifications, as determined in Element 2.

d. Key Decision Points

- Whether to pursue a direct or indirect approach to procurement.

Contraceptives are not produced locally (in most cases), so a decision to employ a direct approach would effectively require the RH purchaser to undertake an international process.

e. Expected Output

- Consensus on procurement options suitable for each product.
- Memo of advice to the budget committee.

3. Challenges

Three main challenges are inherent in Element 3:

- Understanding the procurement options and the implications of each.
- An appreciation of what to evaluate and why.
- Honest appraisal—even if findings are politically unflattering.

D. What Are the Options?

For the RH purchaser, there are two main choices: a direct approach to procurement or an indirect approach to procurement, each with a number of variations.

1. Direct Approach to Procurement

The purchaser does business directly with the commercial marketplace; that is, a manufacturer or its representative, agent, or reseller (wholesale or retail), and sometimes a trading company. The contract is between the purchaser and the supplier based on detailed specifications and competitive pricing. The direct approach to procurement can be the most cost-effective option—depending on the fees charged by the private procurement agent (PPA). Modalities most applicable for RH goods include:

- **International competition:** Standardized procedures used by the public sector for high-monetary-threshold transactions when there is more than one potential supplier. The procuring entity solicits offers either by advertising or requesting directly. International good procurement practices are required. Usually involves formal bidding documents, sealed bid response, public bid opening, award based on criteria stated in bidding documents, and opening a letter of credit (L/C) at an international bank.
- **International competition using a PPA:** The PPA undertakes a procurement process on behalf of a procuring entity using competitive bidding procedures and may or may not select the winning bid. Award, contract, and financial arrangements are usually made by the procuring entity. Fees range from 3 to 15 percent, but may be offset by the reduced cost of the products. Good public-sector procurement practices (and the guidelines of most development banks) require a competitive process to select a PPA—which may be just as demanding as purchasing goods through direct competitive procurement. In addition, there must be a detailed contract with the PPA that spells out exactly what is to be done, rules to be followed, time limits, and deliverables. Once selected, however, a PPA may be used for numerous procurements. In addition, the performance of the PPA under this contract must be monitored by someone who understands what should be happening and when.
- **Sole-source procurement:** Contracting without competition in cases in which there is only one supplier available or it is justified by an emergency situation.

- **Small-scale national competition:** Various competitive methods for low-financial-threshold transactions in the local marketplace. Usually, offers are requested and prices negotiated.

2. Indirect Approach to Procurement

Purchasing activity is carried out through an intermediate organization. The purchaser is one step removed from the commercial marketplace; the contract is between the RH purchaser and an "intermediate" organization, and the purchaser normally pays a fee for the service. The indirect approach can be the more expensive option, due to service fees or when very small quantities are involved. Modalities most applicable for RH goods include:

- **International supply service:** (1) United Nations agencies such as the United Nations Population Fund (UNFPA) and the United Nations Children's Fund purchase standardized commodities in large quantities and supply them to various developing-country government institutions at cost plus a fee. (2) Private, nonprofit supply organizations purchase standardized products in large quantities and re-sell through catalogs at cost plus a fee to not-for-profit health care entities in developing countries. Examples of private, nonprofit supply organizations are the IDA Foundation (http://www.idafoundation.org) and Missionpharma (http://www.missionpharma.com). Government entities can use this option as well.

  The RH purchaser does not engage in a competitive process when contracting with these international supply services. No L/C is required; however, international supply services payment must be made in advance, with the order. The choice of manufacturer, formulation, configuration, packaging format, etc., is generally limited.

- **International procurement agency:** United Nations and not-for-profit agencies involved in supplying standardized products also undertake procurement of special-order items on behalf of RH purchasers, with similar terms and conditions, including the requirement for cash in advance in many cases. If procurement is financed under a development bank loan or credit (e.g., the World Bank), the procurement agency is considered to be an "agent" and must be chosen through a defined competitive process.

- **Parastatal procurement service:** Procurement of goods, for a fee, for government entities. Various formats are encountered: Some parastatal agencies assume responsibility for everything through delivery of the goods, including selection of the supplier and contracting with the manufacturer under the agency's

own name. Others carry out procurement tasks on behalf of a government entity up to the point of delivering sealed bids.

- **Regional buying alliance:** Requirements from several different entities are combined and purchased in one transaction to take advantage of economies of scale. Requires a lead agency and financial support for administration (e.g., a fee). The Organisation of Eastern Caribbean States (OECS) is an example.

E. Centralized vs. Decentralized Procurement

Whether to purchase centrally or delegate the procurement task to regional and local facilities is a system-wide financial control issue that is rarely decided at the RH program level. There are good arguments for both options: Centralized procurement allows for better management of national stocks and offers economies of scale. Decentralized procurement allows decision-making closer to the user level and (sometimes) faster resupply. In government systems, contraceptives and other items that must be imported are usually purchased at the central level, while common, low-cost drugs and medical supplies are purchased locally by regional or smaller facilities. This issue is discussed in Supplementary Topics, Section G: Procurement Models. It is not elaborated in this module.

F. Options Assessment

The assessment should begin by asking which procurement options are currently being used and if they are satisfactory, and if not, why not. For example, products purchased through an international supply service might not be available with the RH program's preferred packaging and labeling. Or, the fees for using a parastatal procurement service might be too high to be accommodated by the available budget. The material presented in this section will help RH purchasers look at the alternatives and decide on a course of action.

1. What is Possible?

International competitive procurement is the most complex of the options (discussed in Section D above); therefore, its requirements are used as an organizing framework for looking at what is possible. The "What is Possible?" table (Exhibit 3-3 on page 3-18) lists requirements and indicates which criteria are applicable to each of nine options in four areas: infrastructure, personnel, organization, and context for procurement. It also provides an indication of financial commitment for different options and makes an attempt at comparing risk. If it ultimately appears that a direct approach is possible, the next question that must be answered is: Is it practical?

2. What is Practical?

This section is written with the assumption that a direct approach to procurement is possible, although some of the information is applicable to indirect procurement as well. The information is subjective, asking RH purchasers to apply their personal knowledge and impressions to review issues that might limit the purchasing authority's performance or the market's perception of its competence and fairness. This section does not offer a comparative framework, but helps the reader make informed judgments by bringing to attention specific issues that might have a detrimental effect on the success of the procurement efforts.

a. Functionality: Are there any issues that might affect the procuring entity's ability to perform?

On-time delivery requires competent on-time performance by the purchaser as well as the supplier. Similarly, QA is the responsibility of the purchaser as well as the supplier. A look at past history, current attitudes, and process bottlenecks will indicate system issues that might limit the purchaser's performance:

- High-level resistance to good public-sector procurement procedures.
- Multilevel approval process and long deliberations (including World Bank No Objection Certificate when required).
- History of:
  - Exceptionally long regulatory licensing process.[1]
  - Protests lodged over award decisions.
  - Dispute resolution procedures (in contract documents) not supported by institutional policies/regulations.
  - Cancelled bids.
  - Bid processing delays; extension requests.
  - Funds to make payments against contractual obligations not released in a timely manner.[2]
  - Difficulty in carrying out contract administration responsibilities, such as inspection and acceptance procedures, quality control procedures, or review and issue of contract amendments.

b. Effective Competition: Does the procuring entity have the ability to attract bids from major international suppliers?

Reputable, reliable international suppliers are most likely to deliver fair prices and good quality, in the quantities and time frame needed. When considering an opportunity to bid, these suppliers must feel reasonably confident that:

- An eventual contract would be worth the effort of preparing a bid—the total value is attractive, and the delivery schedule is feasible.
- There are no major impediments to a successful transaction—they will get paid, will get paid on time, the contract will be satisfactory, there will be legal recourse in case of dispute, and regulatory licensing will not be a problem.
- The contracting authority is competent and transparent—the bidding is not rigged, selection and award will be fair, the procuring entity will perform its

[1] **A history of problems with regulatory licensing may indicate potential problems with every procurement option, not just those in the direct-approach category.**

[2] **A history of problems with timely funds release may indicate potential problems with every procurement option, not just those in the direct-approach category.**

responsibilities, and the procuring entity will observe the time frame indicated in the bidding and contract documents.

Reputation, past experience, and public facts about the current state of a government's economic, legislative, political, and trade affairs contribute to the market's perception of the purchaser's competence and fairness. This is a very important issue because high contract values and an appearance of limited competence will sometimes induce large, regionally powerful suppliers to bid with the expectation of challenging any award decision not made in their favor. This scenario always causes delay and extra expense.

Thus, RH purchasers must ask: Are there any factors that could limit the perception of our competence and fairness? Country-specific information about the quality of procurement systems is publicly available on various websites; some charge a fee, while others are free (for example, a World Bank country procurement assessment review or a Development Assistance Committee [DAC] benchmarking exercise for a specific country may be available on the Internet). Ideally, a government's own public-access website is providing information about the legislative and regulatory framework that forms the legal basis for ensuring rights and responsibilities of participants in the procurement process. Information on regulatory licensing should be there as well. Bidding documents sold or otherwise provided to interested parties should be furnishing precise rules and requirements for specific procurement actions (including bid evaluation and award criteria) and expected contract conditions.

3. Which Approach is Most Cost Effective?

There is no easy, single answer to this question. It will change from situation to situation and product to product. Because of fees associated with indirect procurement, direct procurement is usually the least expensive option for large purchases. Any additional administrative costs related to direct procurement activity must be considered as well. However, indirect procurement may add value by obtaining lower product costs or assuring quality.

Product cost is not the most important criteria for determining whether or not a procurement option will be "cost effective." Quality must come first. Timeliness and satisfaction with all aspects of the product and anticipated transaction must also be considered. Delays, mistakes, replacement of substandard products, and damaged packaging all increase cost—after the procurement process has concluded.

4. Who Will Carry Out the Procurement Tasks?

In a traditional setting, RH program personnel would be responsible for RH program planning tasks (Phase I, Exhibit 3-1), and a separate procurement unit would be responsible for the procurement process tasks (Phase II, Exhibit 3-1) as well as some of the performance tasks (Phase III, Exhibit 3-1). However, the work can be divided in any way that suits the situation as long as whoever is assigned to carry out the Phase II procurement process tasks has the skills and knowledge appropriate to the procurement option chosen. In the case of indirect procurement, administrative capabilities will usually suffice, but in the case of a direct procurement approach, more skills are required (specifics are detailed in the "Personnel" section on pages 3-20 through 3-22).

5. Other Factors

Several other considerations may affect the choice of a procurement option:

- **Length of time available:** In cases of emergency procurement—for example, following a natural disaster—or unanticipated stock-out situations, the procuring entity may need immediate delivery or a very short turnaround. This is not the time to consider international competition, but perhaps a time to investigate procurement through an international supply service that stocks the required products.
- **Requirements of funder:** In some cases, a funder will require that one or another product be purchased in a specified way; for example, purchasing condoms through a United Nations supply service rather than undertaking direct international procurement.

G. Options Evaluation and Consensus

Evaluation of procurement options is an iterative rather than a structured process, which lends itself to roundtable discussion and group consensus. It is important to remember that the output is for information and guidance, with the exception of one decision: whether or not a direct procurement approach can be pursued, and under what conditions. **In cases in which a direct procurement approach is not considered feasible, it should be firmly eliminated at this stage.**

If an organization does meet the criteria for a direct procurement approach (Section F.1 and Exhibit 3-3), and no substantial negatives are found (Section F.2), it should consider—by product or product class—which of four options would be most suitable: international competition, assisted international competition, sole source, or small-scale national competition. Other factors will enter into the consensus; for example, whether or not there is any local production or local enterprise to be considered. Are there more than one or two international suppliers?

If the finding for a direct procurement approach is contingent on outside assistance (e.g., PPA, nongovernmental organization [NGO]-based technical assistance, etc.), this must be made very clear.

In most cases in which a direct approach is considered feasible, an indirect approach should not be ruled out. As the supply process moves through budgeting and procurement planning/scheduling, additional information may come to light or circumstances may change. A mixed approach may produce the best results, considering different market conditions and purchasing environments.

H. Advice Memo

The output from Element 3 will be a memo to the budget committee, advising them of a consensus on options that have been considered. A template for the memo is provided as Exhibit 3-4.

As an example, an organization with hard currency and the desire to use direct procurement (but limited knowledge and experience) might consider something like the memo in the following exhibit.

Exhibit 3-2

Reproductive Health Supplies Memo

To: *Budget Committee, Reproductive Health (RH) Unit* **Date:** *January 08, 2009*
From: Procurement *Program Management, RH Unit*
Subject: *Advice on Procurement Options*

Pursuant to our meeting(s) of *January 4–January 6, 2009*, *Program Management* provides the following information and advice to the *Budget Committee*:

Taking into consideration the requirements and potential limitations of both direct and indirect approaches to procurement for the RH supplies required in fiscal year *2010*, we find:

Direct approach to procurement is
Feasible
Feasible if assistance is provided
Not feasible

Our suggestions for *2010* RH procurement are as follows:

Condoms	United Nations supply service requiring a 5 percent fee and cash in advance, managed by RH procurement/logistics staff due to high value and sensitive timeline.
Oral contraceptives (OCs)	International competitive procurement by RH procurement/ logistics staff, limited to World Health Organization prequalified producers/products. ***Technical assistance is required.***
Intrauterine devices	National competition per suggestion of government funder. Alternative: United Nations or nongovernmental supply service.
Injectables	International competitive procurement by RH procurement/logistics staff, et al. (Same as OCs.)
Implants	Sole-source central contract by administrative staff.
Pharmaceuticals	Small-scale local competition (local shopping) by decentralized RH units.

I. Reference Material

1. Checklists and Forms

The "What is Possible?" table, Exhibit 3-3, lists contracting options and indicates which criteria are applicable to each of nine options in six areas: infrastructure, personnel, organization, context for procurement, financial commitment, and QA risk factor. The criteria listed require some judgment but are basically objective and geared toward "yes" or "no" answers. Thus, a "Yes/No" column is provided for the RH purchaser to assess the options. "No" answers to any of the listed criteria would indicate that the options marked with "xxx" are probably not viable. Options showing any of the other x-symbols are weighted estimations of how important those requirements are, and indicate that they may be needed, but in a lesser degree. Following the table is a key describing the different levels of x-symbols and their meanings.

Exhibit 3-3: What is Possible?

		Direct Options				Indirect Options			
CRITERIA	**Yes/No**	Int'l Comp	Private Procurement Agent	Int'l Sole Source	Small-Scale National Competition	Int'l Supply Service	Int'l Agency	Parastatal Agent	Buying Alliance
Infrastructure									
Access to foreign currency		xxx	xxx	xxx		xxx	xxx	x	xxx
Access to international banking		xxx	xxx	xxx		xxx	xxx	x	xxx
Access to the Internet		xx		xx		x	x		
Access to int'l inspection/testing services		xxx		xx				x	
Access to customs clearing services		xxx	xxx	xxx		xxx	xxx	x	xxx
Personnel									
Staff time and commitment		xxx	x	x	xx				x
Funding sufficient to support personnel		xxx			xx				
English or another business language		xxx	x	xxx		x			x
Procurement knowledge and skills		xxx			xx				
Technical expertise/resources		xxx			xx				
Computer skills		xxx			x				
Technical assistance as needed		xxx							
Organization									
Defined chain of authority		xxx	xxx	xxx	xx				
Formal power to contract on its own behalf		xxx	xxx	xxx	xx				
Scope for official cooperation with the NRA		xxx	xxx	xxx	x	xxx	xxx		x
Context for Procurement									
Written procedures		xxx		xxx	x				
Bidding documents and contracts		xxx		xxx	x				
Separate evaluation committee		xxx	x		(x)				
Mechanism for grievance/protest		x	x		(x)				
Mechanism for publishing bids/awards		x	x	x	(x)				
Financial Commitment									
Cash in advance						xxx	xxx	x	x
Fees payable			xxx			xxx	xxx	xxx	xxx
Procurement value range		high	high	med-high	med-low	any	med-high	any	any
QA Risk Factor		neutral	neutral	neutral	increase	decrease	decrease	increase	decrease

xxx = high requirement; xx = medium requirement; x = low requirement; (x) = ideal but not required; NRA = national regulatory authority

a. Details for "What is Possible?" Table

Infrastructure

Access to foreign currency

When the currency of the seller's country is different from the currency of the buyer's country, there is risk that the difference in value—the exchange rate—will change between the time of the quote/offer and the time of payment. Someone has to assume this risk, and it is normal for the buyer to do this by contracting to pay in the currency of the seller's country. Thus, buyers must be able to obtain foreign currency.

Foreign currency is not a problem in developed countries, because banking institutions have fast access to all traded currencies, and exchange rates are universally available on a minute-by-minute basis. Buyers often insure themselves against losses due to fluctuation in currency value by locking in an exchange rate as soon as a commitment is finalized by purchasing currency or a futures contract, for example.

Access to foreign currency can be a problem in developing economies if national currencies are not widely traded on the international currency market. In this case, national banks must rely on foreign exchange reserves, which are often limited. Limitations are passed on in many forms, including lottery arrangements and restrictions on how much, if any, foreign currency a person or entity may obtain within a specified period.

Access to international banking

There must be a way for a buyer in one country to pay a seller in another country without hand-delivering cash. And, sellers often want some kind of guarantee that they will be paid, before they commit manufacturing resources. The international banking system provides both through various means, the most common being a commercial L/C. An L/C is a guarantee by a bank that it will pay the seller upon receiving proof that it (the seller) has performed according to the terms stated in the L/C. The bank holds collateral deposited by the buyer and acts as an independent third party. Confidence in the bank's financial viability and credibility is a cornerstone of this payment modality.

Most international contracts that use L/Cs or similar financial tools require the modality to be opened with a reputable, regulated international commercial bank, often in the seller's country. National banks in developing countries usually do not qualify. However, some commercial banks in developing countries have correspondent relationships with major international banks, which make it possible for them to carry out the required services, or there may be a branch of a major international bank operating within the country.

The problem comes when (a) a government requires its procuring entities to use its national bank, or (b) there is no commercial bank with the kind of correspondent or branch relationship mentioned above.

Access to the Internet

International commerce uses the Internet in one way or another: for information; for communication; and lately, for banking, procurement, and inventory control systems. While not strictly required, lack of access to the Internet is a significant handicap for procuring entities.

Access to international inspection and testing services

The quality and safety of contraceptives and essential medicines is a critical concern. The World Health Organization (WHO) recommends preshipment inspection and testing by an independent third party for all condom shipments (see Section I.2.b), and for other commodities under certain circumstances and to a different degree. In some cases, developing-country governments require their procuring entities to use national or government inspection and testing entities, although they may not be equipped for or trained sufficiently to provide the specialized services required.

Access to customs clearing services

All goods arriving at an international border must be released by the customs service for entry into a country. Delays in processing the required paperwork and procedural mistakes can be costly for an RH program, as demurrage (storage) charges begin to accrue after only a few days. In addition, goods may be at risk of damage or theft during this period. It is best for the RH purchaser to hire an experienced customs clearance agent. Since time is of the essence, contractual agreements should be in place well before goods arrive, providing a window to resolve any problems that might come up (for example, compliance with government requirements).

Personnel

Staff time and commitment

The procurement cycle for contraceptives is around 12 months, but may be as long as 18 months. Staff must be available throughout this period to take care of the required tasks. The actual days/hours required depends on the procurement option chosen and the number of separate procurement contracts involved. A single international competition requires a substantial investment of time and focus that can amount to a full-time job for several weeks during the initial stages and again after bids are opened. With the caveat that there are huge differences from organization to organization and between people, a starting estimate might

be one-half to three-quarter time on an annual basis for one person with relevant experience and commitment to the task.

Funding sufficient to support personnel

See above. Salary and office facilities for two people might cover procurement tasks for a full complement of RH supplies.

English or another business language

Any international transaction will require some communication in a commonly used language. The one exception might be procurement through a United Nations agency with a presence in the country, since at least part of the United Nations staff will be bilingual. The more sophisticated the transaction, the more the requirement for a common business language. International competition cannot be undertaken without the capacity for clear communication, both spoken and written.

Procurement knowledge and skills

What would we need to know to undertake procurement on our own behalf; that is, to use a direct approach to procurement?

- Procurement cycle.
- Principles of good public-sector procurement.
- Policy and procedures:
  - Procurement methods.
  - Eligibility criteria.
  - Local regulatory requirements and environment.
  - QA mechanisms.
  - Advertising rules and time limits.
  - Rules on participation (bidding).
  - Bidding documentation and technical specifications.
  - Standard conditions of a contract.
  - Submission receipt and opening of bids.
  - Complaint review procedures.
  - Rules on qualitative selection (criteria and award).

What would we need to do?

- Assist with cost estimates.
- Carry out prequalification, if necessary.
- Develop bidding documents, including conditions of the contract.
- Evaluate bids.
- Conclude the contract.
- Initiate the L/C.
- Monitor contract provisions (including payment, transport, delivery, and customs entry).
- Initiate inspection/testing as appropriate.

Technical expertise/resources

Specifications, written in the technical language of the industry and presented in a widely accepted format, are very important to the success of a procurement effort, as is an informed evaluation of technical offers and inspection/testing reports. Most procuring entities do not have the depth of in-house expertise needed to ensure that these matters are adequately covered, but instead, arrange for access to appropriate resources.

Computer skills

While it is possible to prepare procurement documents on a typewriter, widely used international bidding and contract documents assume modern word processing capabilities. Standard clauses and standard formats are copied to a new file where the user fills in particulars. Bidding documents, in particular, are lengthy, so any attempt to produce one on a typewriter would require many hours of work. Evaluation and comparison of bids can also be streamlined by using a computerized spreadsheet (for example, Microsoft Excel).

Technical assistance as needed

Guidance and training may be necessary in order to make a direct approach to procurement possible. Interest and desire—as well as management approval—must be present as well.

Procurement technical assistance is sometimes available through an NGO or donor program, through a consulting contract, or it may be included in the services of a PPA. An outside assessment should determine the exact needs.

Organization

Defined chain of authority

A procuring entity needs a defined chain of authority in order to have its many actions supported and/or validated, to know where its responsibility begins and ends, and to know to whom it should look for components of the supply process that are out of its mandated performance area.

In Western business and government, the organizational chain of authority is often captured in an organizational chart (organogram) that shows the various levels and divisions of responsibility and their relationships to one another—the larger the organization, the more complex the chart. A summary version showing only the main elements is usually prepared for public consumption, while detailed charts for each unit are used internally to define reporting lines and authority for decisions. Beyond that, job descriptions specify who is supposed to do what and to whom each position should look for management decisions and authority.

Formal power to contract

The procuring entity must be authorized to contract and commit funds on behalf of the organization it represents. A formal delegation of financial powers is used for this purpose in some government structures. This specifies financial thresholds at which authority moves to the next level up or down.

Scope for official cooperation with the national regulatory authority

The national regulatory authority (NRA) (or drug regulatory authority) in every country undertakes some type of licensing or registration process to protect the population from unsafe pharmaceuticals, contraceptives, and medical devices. Some NRAs also use this process to protect locally manufactured products from competition with imports.

NRAs bar unlicensed products from entering their countries and look to national customs services for enforcement. Regulatory licensing procedures can be complex, lengthy, and expensive for the manufacturer, so those without an existing presence in a country are reluctant to begin the process until and unless a contract is assured. Given the time it can take for licensing, this issue threatens timely delivery and limits competition.

RH procuring entities must be able to communicate with NRA personnel in order to provide accurate information about registration requirements in bidding documents. They also need to stay current on products that are already registered and make sure procurement specifications reflect current regulatory requirements. Typically, the NRA has

a great deal of autonomy within a Ministry of Health and is often not openly approachable; thus, sanctioned access can be very important.

Context for good public-sector procurement

Written procedures

Written procedures help to ensure a smooth procurement process and consistent application of rules and guidelines, as well as a standardized interpretation. It is recommended that written procedures be formally documented as standard operating procedures (SOPs). SOPs provide a clear set of instructions, or steps, for procurement personnel to follow to ensure the procurement process is implemented in compliance with legislative and regulatory requirements and in keeping with good procurement practices. See Supplementary Topics, Section L: Standard Operating Procedures, for additional information on SOPs.

Bidding documents and contracts

Standard bidding documents and contracts reflecting the principles and procedures of good public-sector procurement should be available to the RH purchaser and to others on a public access website—particularly if a government organization is the RH purchaser. The availability of standard documents speeds the process for purchasers and helps to make sure that everything necessary is incorporated. For suppliers, publicly available documents provide assurance of the contracting entity's competence and ethics.

Separate evaluation committee

The individuals who evaluate offers and select the winning bid should be separate from the procurement personnel who develop bidding documents and run the competitive process. This helps to discourage corrupt, fraudulent, and unfair practices.

Mechanism for grievance/protest

Bidders that feel the procurement process has not been fair must have a way to be heard and the charges evaluated. This enhances the market's confidence in the contracting authority and tends to discourage corruption as well.

Mechanism for publishing bids and awards

Publishing bids serves to increase competition through wide circulation of bidding opportunities. Publishing awards serves to notify unsuccessful bidders. Both tend to discourage corruption, collusion, and other fraudulent practices through public disclosure.

Financial commitment

Cash in advance

Cash in advance in hard currency is required by United Nations agencies and some other supply services. Some governments and NGOs have strict regulations that do not allow payment of cash in advance. This is a point for investigation when assessing different procurement options.

Fees payable

Nearly all indirect-approach procurement options require payment of fees in one form or another to cover administrative costs incurred by the intermediary. (The exception is government stores.) A direct approach assisted by a PPA will also require payment of fees. These fees may increase overall product cost and will need to be considered when assessing procurement options. The fees may be offset by lower product or internal costs.

Procurement value range

Some procurement options are appropriate for high values, others for low or medium values, based on the amount of work involved. For example, international competition is usually reserved for high-value procurement because it is labor intensive.

QA risk factor

The relative risk of receiving less-than-optimum quality products is estimated across the nine options based on proximity to the manufacturer and an assumed (or known) level of routine QA performed by the original purchaser. A "neutral" notation indicates that the relative risk is not inherent in the option; it will depend on the RH purchaser's actions.

Exhibit 3-4

Reproductive Health Supplies Memo Template

Reproductive Health Supplies Memo

To: **Date:**
From: Procurement
Subject:

Pursuant to our meeting(s) of _____, _____ provides the following information and advice to _____:

Taking into consideration the requirements and potential limitations of both direct and indirect approaches to procurement for the reproductive health (RH) supplies required in fiscal year ____, we find:

Direct approach to procurement is Feasible
Feasible if assistance is provided
Not feasible

Our suggestions for ____ RH procurement are as follows:

Condoms

Oral contraceptives

Intrauterine devices

Injectables

Implants

Pharmaceuticals

2. Websites

a. Good Public-Sector Procurement

***Guidelines—Procurement Under IBRD [International Bank for Reconstruction and Development] Loans and IDA [Foundation] Credits* (International Bank for Reconstruction and Development/World Bank, 2004)** lays down the precise rules and procedures to be followed in procurement of goods financed through World Bank programs and projects. It is typical of good public-sector procurement.

http://siteresources.worldbank.org/INTPROCUREMENT/Resources/Procurement-May-2004.pdf

World Bank *Standard Bidding Document: Procurement of Health Sector Goods* (revised August 2008) is intended for purchasers to use in soliciting bids for supply of pharmaceuticals, vaccines, condoms, nutritional supplements, and oral and injectable hormonal forms of contraception through international competitive bidding. It includes clauses necessary to ensure product quality and safety, as well as addresses requirements for licensing by the NRA.

http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:21890171~menuPK:84284~pagePK:84269~piPK:60001558~theSitePK:84266~isCURL:Y,00.html

Organisation for Economic Co-operation and Development (OECD)/DAC Guidelines and Reference Series: *Harmonising Donor Practices for Effective Aid Delivery—Volume 3: Strengthening Procurement Capacities in Developing Countries* (2005) is an agreed international standard for national procurement systems and their assessment (The Johannesburg Declaration, 2004).

http://www.oecd.org/dataoecd/12/14/34336126.pdf

***Methodology for Assessment of National Procurement Systems* (OECD/DAC, Version 4, 2006)** is a benchmarking and assessment tool for public procurement systems (The Paris Declaration, 2005).

http://www.oecd.org/dataoecd/1/36/37130136.pdf

b. Inspection and Testing

***The Male Latex Condom: Specification and Guidelines for Condom Procurement* (WHO/UNFPA/Joint United Nations Programme on HIV/AIDS [UNAIDS], 2003)**

This document developed by WHO is designed to provide a set of purchase specifications and procurement guidelines that ensure the highest level of QA for condoms consistent with high-volume purchases, the needs of different populations, harsh environmental conditions, and the probability of less-than-ideal storage conditions. It recommends the prequalification of primary manufacturers and lot-by-lot compliance testing prior to shipping condoms from the country of manufacture. The document also provides a list of manufacturers and testing laboratories *for informational purposes only*. Appearance on this list does not imply endorsement by WHO, UNFPA, or UNAIDS.

http://www.who.int/reproductivehealth/publications/family_planning/9241591277/en/

c. Access to Country-Specific Information

- Example of a public-access government website
  A full listing of Government of Bangladesh procurement-related documents may be accessed at http://www.cptu.gov.bd/, or enter through http://www.bangladeshgov.org/ and choose Ministry of Planning; Central Procurement Technical Unit.
- World Bank country procurement assessment reports
  Available to the public at http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:20108359~menuPK:84285~pagePK:84269~piPK:60001558~theSitePK:84266,00.html.
- Example of a fee-based country information website
  International Strategic Analysis is a provider of international market analysis, economic forecasting, and country intelligence for many of the world's leading companies, organizations, and governments.
  http://www.isa-world.com

d. Supply Services and International Agencies (examples)

- Crown Agents is an international company providing services and training in multiple areas, including procurement.
  http://www.crownagents.com
- The IDA Foundation is a not-for-profit supplier of essential medicines and medical supplies.
  http://www.idafoundation.org
- UNFPA operates a global procurement service for public-sector purchasers of contraceptives and related products.
  http://www.unfpa.org/procurement/index.htm

e. Buying Alliance (example)

The OECS Pharmaceutical Procurement Service is an example of a self-financing public-sector buying alliance (limited to countries comprising the OECS). It covers its operating costs from a 15 percent surcharge.

http://www.oecs.org (click on pharmaceutical procurement services)

J. Learning Evaluation

1. What are the two main procurement approaches a purchaser can consider when evaluating procurement options?
2. Under a direct approach to procurement, what procurement options are most applicable for RH commodities?
3. Under an indirect approach to procurement, what procurement options are most applicable for RH commodities?
4. What are the four main categories of criteria a purchaser should evaluate when determining whether a direct procurement approach is possible?
5. What are the two main categories of issues a purchaser should consider when determining whether a direct procurement approach is practical?
6. Which procurement approach is often more cost effective?
7. What other considerations may affect the choice of a procurement option?

Learning Evaluation Answers

1. The two main approaches to procurement are the direct approach and the indirect approach. See Section D.

2. The procurement options most applicable to RH commodities under the direct approach are international competition, international competition using a PPA, sole-source procurement, and small-scale national competition. See Section D.1.

3. The procurement options most applicable to RH commodities under the indirect approach are international supply service, international procurement agency, parastatal procurement service, and regional buying alliance. See Section D.2.

4. The four main criteria that should be evaluated when determining whether a direct approach is possible are infrastructure, personnel, organization, and context for procurement. See Section F.1.

5. The two main issues a purchaser should consider when determining whether a direct approach is practical are functionality and effective competition. Functionality addresses whether there are any issues that might affect the procuring entity's ability to perform. Effective competition addresses whether the procuring entity has the ability to attract bids from major international suppliers. See Section F.2.

6. The direct procurement option is often more cost effective. See Section F.3.

7. Other considerations that may affect the choice of a procurement option are who will carry out the procurement, length of time available, and requirements from the funder. See Sections F.4 and F.5.

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. The procurement organization implemented an assessment of procurement options for procuring RH commodities.
2. Percentages of procurement value that were direct procurements and indirect procurements.
3. Percentages of procurement value that were procured at the centralized and decentralized levels.

L. Glossary and Acronyms

Agent	A supply term for an independent contractor authorized by a manufacturer to promote and sell the manufacturer's products within a designated geographic area. Often, an agent will contract to represent several manufacturers of noncompeting products.
AIDS	Acquired Immunodeficiency Syndrome.
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.
Centralized procurement	The government owns, funds, and manages the supply chain for the public-sector health system. Procurement is conducted at the central level.
Commodity	Any piece of tangible property, supplies, or equipment that is the subject of a procurement activity.
Compliance testing	A methodology of prescribed inspection and testing procedures applied to a product to ensure the product meets its defined specifications and/or performance requirements.
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.).
Correspondent relationship	An affiliation that a local developing-country bank establishes with a major, international bank that allows the local bank to expand its availability to implement international financial transactions, such as letters of credit.
Criteria	Specific points, standards, qualities, and/or requirements against which something is judged.
Customs clearance agent	A licensed professional agent appointed by an importer to clear a shipment (consignment) coming from abroad through the port and customs authorities.
DAC	Development Assistance Committee: Currently working to strengthen procurement capacities in developing countries under the auspices of the World Bank and the Organisation for Economic Co-operation and Development.
Decentralized procurement	Different levels of responsibility for procurement are handled by the provincial, district, municipal, or even the facility level.
Demurrage charges	Charges assessed against the consignee (purchaser) by a carrier, shipping agent, or customs agent for delay beyond the time allowed or agreed upon for unloading and/or removal of goods from port facilities.
Direct procurement	Purchaser contracts for goods directly with a manufacturer or its representative.
Drug regulatory authority	Same as national 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.
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.
Eligibility (criteria)	Not excluded from competing for contracts in general by reason of nationality, debarment, lack of regulatory approval, etc.
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).
Financial threshold	Monetary division used to trigger an action or requirement. (Procurement method selection is often tied to financial thresholds.)
Forecast	To calculate beforehand.
Formulation	The amounts of active ingredients per tablet.
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.
Indirect procurement	Purchaser contracts for goods through an intermediary that has or will purchase directly from a manufacturer.
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.

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.
Lot-by-lot	Applicable to each manufacturing lot (batch).
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.
Missionpharma	Supplies generic pharmaceuticals and medical devices to governments, United Nations agencies, and nongovernmental organizations in developing countries.
NGO	Nongovernmental organization: Usually involved in providing services to or alongside government entities. Often financed through projects using donor funds.
No Objection Certificate	Issued by a manufacturer or a government when goods to be imported into a country are already manufactured in that country. States that there is no objection to the goods being imported.
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.

OECD	Organisation for Economic Co-operation and Development: An international organization helping governments tackle the economic, social, and governance challenges of a globalized economy.
OECS	Organisation of Eastern Caribbean States: Nine-member group that promotes cooperation in defense issues, international diplomacy, and economic policies.
Offer	Used interchangeably with "bid," "tender," and "proposal."
Packaging	The primary wrapping and marking of a product.
Parastatal	Self-supporting, quasigovernmental organization.
Performance indicator	Measures and evaluates success against a specific goal.
Phase	A natural division of the ten elements of the supply process into three sequential parts: program planning, procurement process, and contract performance.
PPA	Private procurement agent: Undertakes a procurement process on behalf of a procuring entity using competitive bidding procedures and may or may not select the winning bid.
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 unit	Individuals organized around procurement duties within a larger entity.
QA	Quality assurance. For more information, see Supplementary Topics, Section H: Product Quality Assurance.
Registration	A term used in regulating medicines, pharmaceuticals, and vaccines; exact usage varies from country to country. It is often synonymous with licensing, but it can mean simply that the particulars about a shipment are recorded as it enters a country.
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.
SOPs	Standard operating procedures: Provide a clear set of instructions, or steps, for procurement personnel to follow to ensure the procurement process is implemented in compliance with legislative and regulatory requirements and in keeping with good procurement practices. See Supplementary Topics, Section L: Standard Operating Procedures, for additional information.
Specification	A definitive description of the commodity to be procured.
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.
UNAIDS	Joint United Nations Programme on HIV/AIDS: Brings together the efforts and resources of ten United Nations system organizations in the AIDS response to help the world prevent new HIV infections, care for people living with HIV, and mitigate the impact of the epidemic.
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.
United Nations Children's Fund	A semiautonomous United Nations agency working for sustainable human development to ensure the survival, protection, and development of children. Operates a global supply service that contracts with manufacturers for large quantities of vaccine and other products which it then supplies in smaller quantities to individual clients in the public sector on a reimbursable, but not-for-profit basis.
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.