



Key Performance Indicators Strengthen Procurement in Latin America



Country teams from Guatemala and Honduras work together to share lessons on procurement at a Latin America and the Caribbean Contraceptive Security Initiative regional workshop in Lima, Peru.

Introducing and monitoring performance indicators can help smooth the procurement process and help get contraceptives to the people that need them.

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Effective procurement is a critical component of a strong supply chain. Policies and procedures can be put in place to increase the effectiveness of the procurement process. When designing and implementing these improvements, key indicators are critical to evaluating success and progress toward meeting procurement and supply chain goals.

This brief describes the evolution of contraceptive procurement in the Latin America and Caribbean (LAC) region; it highlights how LAC countries monitored and evaluated key data when making performance improvements, over time.

During the last decade, as USAID gradually phased out contraceptive donations, they provided technical assistance to help several LAC countries increase their financing for contraceptives. While there were challenges along the way; today, multiple countries are procuring contraceptives, through the public sector, almost entirely with government funds.

Countries learned several key lessons when working toward more sustainable and effective procurement. One important lesson was that when they introduced and monitored key indicators, they could smooth the procurement process and improve procurement performance (USAID | DELIVER PROJECT 2011).

Ultimately, these procurement improvements have helped ensure a more continuous supply of contraceptives for the men and women that need them; they have also saved government resources, which could then be invested in other parts of the supply chain or in health programs.

Using Key Data to Make Decisions and Improve Procurement

To understand how key performance data became so critical to improving the procurement process in the LAC region, we should revisit what happened in these countries, over time.

Securing Competitive Prices

When country policymakers and managers first began procuring on their own, many insisted that contraceptives be procured locally to stimulate and protect their national markets. Moreover, in decentralized countries, regions planned to procure small volumes at the lower levels of the system. Family planning advocates feared these practices would lead to a lack of competition and fragmented procurement, resulting in exorbitant prices and wasteful expenditures when public-sector budgets were limited. But, these stakeholders lacked the data to determine whether or not the governments were paying competitive prices.

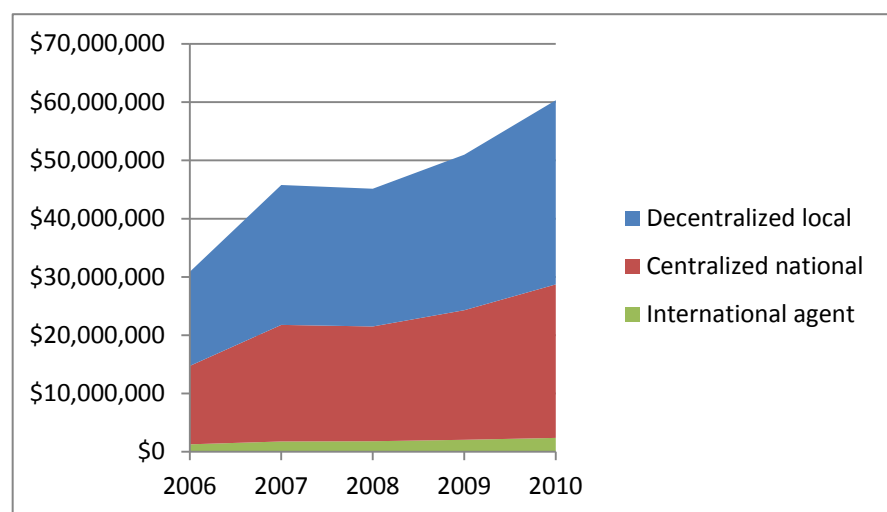
To help evaluate prices, a USAID-funded procurement and pricing study, carried out in 14 LAC countries, compared local contraceptive procurement prices to international reference prices (Sarley et al. 2006). The study showed that, in some cases, procuring goods in local markets cost the public sector 10 times more than what many countries and procurement agents pay on the international market; particularly, because there were few established mechanisms, available suppliers, and regulations in place to create competition in the local markets.

Civil society advocates used this data, coupled with complementary technical assistance at the country level, to advocate for centralized procurement that would enable significant cost savings through bulk purchasing for all government buyers. For example, in some decentralized countries, policy changes were put in place requiring all government agencies and regions to procure priority products, like contraceptives, through pooled procurement or prices negotiated at the central level.

Guaranteeing Cost Effectiveness

While it was identified that pooled procurement at the central level would result in cost savings, pricing analysis also indicated that further savings could be achieved by using global third party procurement agents, like the United Nations Population Fund (UNFPA). Figure 1 highlights the use of product price variance data to identify cost-effective procurement options in Guatemala (Abramson et al. 2006). By using similar analyses, seven countries successfully made the case to shift to a third party procurement agent to access lower-priced, quality contraceptives.

Figure 1. Cost Savings by Procuring through International Procurement versus the National and Local Market in Guatemala



To help justify this decision to use a third party procurement agent (in this case, UNFPA) over time, countries continued using pricing indicators and funding analysis to track their savings. For example, in 2005, El Salvador was able to determine, through pricing analysis, that they saved U.S.\$3 million by using UNFPA as a procurement agent instead of procuring on the local market. In 2008 and 2009, Nicaragua did similar calculations using their routinely tracked contraceptive

pricing data. They reported that they saved U.S.\$106,200, and U.S.\$320,000, respectively, by procuring through UNFPA, rather than the local market.

Guaranteeing Effective Procurement Mechanisms

To manage these new third party procurement agreements, countries needed to develop a memorandum of understanding (MOU)—a requirement when procuring through UNFPA—and a way to clarify the terms through which the government and UNFPA would relate throughout the course of their procurement relationship (Olson et al. 2010) (see box 1).

Governments also had to provide up-front and timely payments to UNFPA, as the agreement requires. This included quantifying the cost of each procurement at the beginning; requesting this exact amount from the administrative and planning office of the Ministry of Health (MOH); and, to avoid delays, establishing systems to track and ensure that payments were made on time. In some cases, countries had to revise their financing laws to allow for these payments; because, usually, public financing systems only pay for services that have already been rendered.

As countries learned to set up these agreements and manage them better, they used these lessons to support each other to set up and more effectively manage their agreements with UNFPA, across the region (see box 2).

Monitoring the Process to Remove Procurement Bottlenecks

In addition to establishing MOUs, countries also found that, to identify and remove bottlenecks, they needed to set up systems that could routinely track performance.

For example, although UNFPA's prices were more competitive, the lead times were long (12–24 months, in some cases) and communications between partners were not always streamlined (Olson et al. 2010).

Countries found that tracking lead times and addressing bottlenecks in the procurement process would be critical to managing an agile supply chain.

Box 1. Mapping and Monitoring the Critical Path of the Procurement Process

- In 2005, El Salvador, one of the first countries to draft a Memorandum of Understanding with UNFPA, mapped all the steps involved in procuring contraceptives with UNFPA, which enabled them to track progress throughout the process. As a result, they could determine the amount of time taken during each step and could identify bottlenecks that slowed down the process.
- The Dominican Republic developed a procurement manual that institutionalized the tools needed to track the procurement process when engaging with UNFPA; this was based on their own experience and what they learned from other countries in the region.

Box 2. Monitoring and Evaluating the Process can Help Improve Performance

El Salvador tracked the time it took them to carry out the procurement process. Doing so helped them reduce by 50 percent the time it takes to execute procurements through the United Nations Population Fund (UNFPA)—in 2005, procurements were reduced from eight months to only four months.

In Peru, the MOH adapted the standard document used for ordering contraceptives from UNFPA to ensure that it was more comprehensive and included performance criteria to increase transparency, speed the transfer of funds, and improve each agency's understanding of their roles and responsibilities (Lopez 2008). Thus, in 2004, the first Annual Procedure and Requirements Document (DARP is its Spanish acronym) was created; each year, it became more and more comprehensive—including quality conditions, delivery timeframes, expiration data requirements, etc. Using these indicators, the Peruvian government also created a technical committee for monitoring the agreement.

Using Performance Data to Diversify Procurement Options

Finally, after countries developed their capacity to monitor and carry out their procurements, several began working actively to build more sustainable and complementary procurement mechanisms at the local level for contraceptives and other essential medicines, which did not previously exist. Two of these procurement mechanisms are reverse auctions¹ and framework agreements² that allow countries to identify new suppliers, bid prices down, and set up more flexible contracts that help aggregate demand at the central level.

Key performance indicators have been critical to understanding when it is valuable to move beyond a third party agent, procuring through multiple channels in tandem, and advocating for this change (see box 3). For example, in recent years, using market studies, Peru determined that they would save costs by procuring oral contraceptives centrally on the local market, through their new reverse auction mechanism. However, it was still more cost effective to procure IUDs through UNFPA. Today, they procure all their contraceptives locally.

Similar to Peru, Chile tracks key performance indicators, including the length of the procurement process and the overall cost of procurement to make the case for procurement reforms. One example is the governments' ability to determine the administrative cost of each procurement transaction.

Box 3. Tracking Cost Savings and other Benefits of New Procurement Options

Peru has used innovative new procurement mechanisms to implement bulk procurements of essential medicines by all government agencies at the central level.

Due to the higher volume when using central procurement, they instituted reverse auctions and successfully procured quality low-priced contraceptives and essential medicines.

They tracked key performance indicators like price data, length of procurement process, and aggregate cost data to show the benefits of these new, complementary mechanisms.

- **Reduced price:** Because local suppliers are available and a reverse auction creates a competitive process for bidding prices down, prices for injectable contraceptives were reduced from U.S.\$1.18 through a third party procurer in 2005 to U.S.\$0.38 through a national procurement in 2010.
- **Cost savings:** In 2006, various government agencies pooled their procurement needs, saving approximately U.S.\$14 million.
- **Reduced the length of the process:** The procurement process was reduced from seven to two months.
- **Improved transparency:** The auction is held in public and data on suppliers, specifications, and prices are available to suppliers and the public.

¹ At a *reverse auction*, a bidding process, the supplier of a product is selected based on the best price offered and not on the technical characteristics of the goods, including quality. Other characteristics are predefined and applied as a minimum standard for participating in the auction.

² A *framework agreement* is an arrangement between the buyer and supplier; both parties agree to the terms of future dealings between them—for example, volume, price, etc.—without committing to or guaranteeing a specific purchase or contract.

Using this data, Chile was able to estimate that framework agreements have saved the government approximately U.S.\$8,000, per procurement, in management costs; and the agreements have streamlined the procurement process by eliminating 120 days from the process after the framework agreement has been finalized (Goya 2010). In other words, the tendering process only happens one time—to set up the contract—rather than every time a large quantity of product needs to be procured. The MOH is considering procuring contraceptives through these agreements; it is already using this mechanism to procure several of its high-volume essential medicines.

Ensuring a Competitive and Transparent Contraceptive Procurement Process

The historical trajectory countries followed throughout the region, starting from conducting national procurement only to employing a number of complementary national and international procurement options at the same time, illustrates a major improvement in contraceptive procurement capacity in the LAC region. In the beginning, even the simplest pricing data was difficult to obtain without first investing in a comprehensive and costly study. Since then, countries have learned to set up mechanisms that track, report, and publicize routine data on suppliers; the procurement process; prices; and the quality of the products being procured by the public sector.

These monitoring systems benefit the public in cost savings and improved essential medicine and contraceptive availability for the men and women that need to access these products.

New Tool Available to Track Procurement Performance

Countries, like those mentioned throughout this brief, struggle with procurement challenges that can lead to inefficiencies and waste and can result in stockouts of key essential medicines, such as contraceptives. For example, 71 percent (25 out of 35) of countries that responded to the 2011 Contraceptive Security Indicator survey had a central-level stockout at some point during that year. Many of these stockouts were caused by challenges and delays in the procurement process.

For countries interested in strengthening contraceptive procurement, the *Procurement Performance Indicators Guide—Using Procurement Performance Indicators to Strengthen the Procurement Process for Public Health Commodities* includes a list of key procurement performance indicators that can be integrated into the country-level monitoring and evaluation process (see table 1).

This guide is intended for procurement managers at MOHs and central medical stores that are responsible for procuring health care supplies and that want to improve the performance of the procurement system to ensure that programs receive, on time, the needed health care supplies that support program objectives.

Table 1: Procurement Performance Indicators

No	Indicator Name	How It Can Improve Performance	Description	Performance Category
1	Product price variance	Prices paid for focus goods are in alignment with international prices	Percentage price variance between contract unit price and international unit price for focus products	Cost
2	Contract utilization	Efficient procurement mechanisms are being used	Percentage by value of purchases made under simple purchase orders, annual contracts, and multi-year contracts	Cost
3	Expiration management	Good supply chain practices are in use, including inventory management, demand management, timely supply of good quality products	Annual dollar value of expired products, or percentage value of expired products	Quality
4	Supplier performance	A) Supplier delivers the correct goods	Percentage of orders in compliance with contract criteria	Quality
		B) Supplier delivers goods on time	Percentage of orders delivered on time	Timeliness
5	Procurement cycle-time	No delays in executing procurements	Percentage of procurements completed (placed) within standard time guidelines	Timeliness
6	On-time payment	No delays in processing payments to suppliers	Percentage of supplier payments made within the payment period called for in the contract	Timeliness
7	Emergency procurement	Good supply planning practices are in use	Percentage by value and number of purchase orders or contracts issued as emergency orders	Systems Productivity
8	Procurement cost	The level of efficiency of operations in procurement unit	Ratio of annual procurement unit cost-to-value of annual purchases	Systems Productivity
9	Staff training	An effective training program is in place to improve procurement staff skills	Key training program components are in place and the percentage of staff provided training annually	Systems Productivity
10	Transparent price information	The level of product pricing information that is available to the public	Percentage of products with prices posted on publicly accessible website	Integrity
11	Transparent tendering	The level of competition achieved through a competitive bidding process	Percentage of total value of contracts that were awarded through an open and competitive process	Integrity

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