



Assessment of Procurement System and Capacity of Department of Health, Khyber Pakhtunkhwa

صحت زندگی



After the 18th Constitutional Amendment, delivering health care became the responsibility of provincial health departments. Federal Procurement Rules of 2004 were abolished thus bringing procurement of medical products and bio-medical equipment under the aegis of provincial health departments.

As a result, Department of Health (DoH), Khyber Pakhtunkhwa has been engaged in procuring required medical supplies, worth PKR 1.25 billion for the year 2012-2013. An assessment of the procurement system revealed that interaction between procurement, budget and financial management systems needs improvement for completion of procurement contracts. Weaknesses in contracting processes, predicting cash flows, timely payments to suppliers were pointed out as issues needing immediate attention.

Department of Health, Khyber Pakhtunkhwa has established a Procurement Cell to improve procurement and related processes. However, there is a need to develop professional capacity to manage the high volume of purchasing, encourage reliable procurement processes to combat counterfeit medical products and to promote good governance and transparency in procurement and medicine costing.

Background

In many developing countries including Pakistan, there is an increasing awareness of the importance of essential medical products and technologies. Initiatives and strategies for improving availability and use of essential medical products and technologies are being instituted in many developing countries. These include: rational selection, rational use, affordability, sustainable financing, reliable supply, combating counterfeits, and monitoring. A properly planned and well managed procurement system is a basic requirement for improvements in the procurement systems.

Department of Health (DoH) Khyber Pakhtunkhwa has been mandated with development of policies related to procurement. All procurements are managed by the Medical Coordination Cell (MCC) and the newly established Procurement Cell. The Procurement Cell centrally purchases bio-medical equipment for all districts by conducting pre-award procurement planning, designing standard bidding documents, conducting technical and financial evaluations, awarding contracts and administering post-award contractual relationships with suppliers. The MCC is involved in pre-award planning, bid evaluation and subsequent award of contract for the whole financial year related to selected drugs and surgical disposables. It also manages procurements as per requests from Executive District Officials (EDO), Medical Superintendent (MS) of District Head Quarter (DHQ) Hospitals, Autonomous Medical Institutions (AMIs) and vertical Programmes. Medical colleges manage their own procurements.

Khyber Pakhtunkhwa DoH is striving to strengthen its existing procurement systems and increase capacity of professional staff. An assessment of the existing procurement system was conducted with assistance from the Technical Resource Facility (TRF) to identify challenges and develop strategies for improvements in procurement systems.

Assessment Methodology

The assessment methodology of Khyber Pakhtunkhwa procurement system is based on Organization for Economic Cooperation and Development (OECD) Base Line Indicators (BLIs) which can be used for assessing national, sub-national and agency procurement systems. The BLIs are based on four pillars: i) Legislative and Regulatory Framework, ii) Institutional Framework and Management Capacity, iii) Procurement Operations and Market Practices and iv) Integrity and Transparency of a Public Procurement System. These four are subdivided into 12 indicators, with each having 4 to 6 sub-indicators and a scoring system¹ ranging from 3 to 0. The results of the assessment are visually depicted along four axes representing the four pillars.

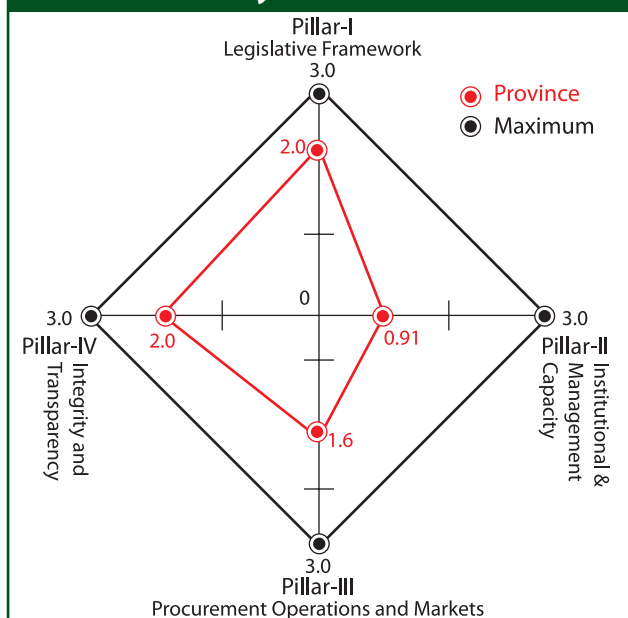
Based on the BLI system, information on existing procurement system was collected through document reviews, key informant interviews, data from existing records, and perspective observations. Interviews were carried out with 15 personnel related to DoH, one district, four vertical Programmes and pharmaceutical and bio-medical equipment suppliers etc.

Results and Findings

Figure 1 gives the results of the procurement assessment. A perfect square along the two axes depicts ideal compliance to all the baseline indicators. Based on the current system, the quadrilateral shape is a snapshot of the strengths and weaknesses of Khyber Pakhtunkhwa procurement system. It illustrates that Pillar I scored well; Pillar II was weakest; Pillar III scored lower and Pillar IV had above average scores. The explanation for achievement of these scores is shared below.

¹Scoring system: 3 - full achievement of the stated standard; 2 - less than full achievement and needs some improvements; 1 - substantive work is needed for the system to meet the standard; 0 - failure to meet the proposed standard

Figure 1-Graphical Presentation of Strengths and Weaknesses of DoH Procurement System



Pillar I - Legislative and regulatory framework

Public Procurement Legislative and Regulatory Framework achieves agreed standards and complies to obligations which include legal and regulatory instruments from the highest level down to detailed regulation, procedures and bidding documents. After the abolition of concurrent legislative, the NWFP Procurement of Works, Goods and Services Rules 2003 has been in use. The provincial Public Procurement Regulatory Authority (PPRA) rules have been developed but have yet to get notification.

Pillar II - Institutional framework and management capacity

The annual budget for procurement was not updated to reflect inflation or deflation in costs of pharmaceuticals or bio-medical equipment rather the DoH increased the budget by 10 – 20 percent annually. Politically motivated schemes distort procurement planning and in most cases standard procurement procedures were not followed. Such projects are also responsible for lapse of 25 – 30 percent Annual Development Budget (ADP). Funds for non- ADP schemes are provided through re-appropriation of existing funds. Activity-specific procurement plan by DoH and Directorate General Health Services (DGHS) was not prepared in a standardised format to depict planned and actual dates for initiation and closure of contract. Timelines for allocation of budgets and award of

contracts were not developed; funds were allocated as lump sum for disbursement to the procurement entities. There is an integrated information system for majority of contracts at the central government level but there was no data collection system and access to available system was limited. Formal mechanisms for capacity development or training of professionals involved in procurement management did not exist and trainings were done on an ad-hoc basis. There was no monitoring system for assuring quality of procurement process or staff performance.

Pillar III - Procurement operations and market practices

Procurement of pharmaceutical products, surgical disposables, bio-medical equipment and goods was conducted by officials and staff in the traditional way of tender invitations, manual list preparations and submission to relevant departments; none of the personnel had any formal skill and knowledge for specialised procurement jobs. Few officials had attended training in public procurement on PPRA Rules in recent years. The DoH encourages dialogue with private sector and has established formal mechanisms for procurement trainings.

Pillar IV- Integrity and transparency of the Public Procurement System

Procurements conducted by Khyber Pakhtunkhwa DoH are annually audited by Provincial Accountant General Pakistan Revenues (AGPR) but implementation of recommendations by DoH was delayed. This was primarily due to lack of an effective monitoring and evaluation system and an internal audit mechanism. Despite established procedures for resolution of complaints, mechanisms and authority for enforcement were unclear and cumbersome.

Pharmaceutical Supply Chain Management

Supply chain of pharmaceutical products and bio-medical equipment to procurement entities of DoH was evaluated by visiting selected sites and soliciting information from store management through a questionnaire. Results revealed that practices regarding storage and inventory were not carried out as per internationally recognised guidelines.

Purchase of products and equipment

Purchase orders were issued by the EDO Health whereas products were supplied by the MCC selected suppliers

to the identified warehouses. However, purchase orders were not based on demand conveyed by the health facilities. Similarly, the MS of DHQ hospital issued purchase orders based on requirements of hospital wards which were then supplied to the hospital medicine store. The Autonomous Medical Institutions (AMIs) also received their medical supplies from the MCC approved suppliers and used procedures similar to the DHQs.

Storage and stacking of medicines

The recommended procedures for medicine storage were not followed throughout the province, primarily due to lack of space, shortage of warehouses, lack of equipment, non-availability of specialised temperature control environment and deep freezers for vaccines and drugs. Pallets for storing the medicines were in acute shortage in the warehouses of all the health facilities like AMIs, EDO (Health) stores, warehouses and to some extent in DHQs. In some places, medicines were stacked in corridors and without any clear classification of available stock.

Inventory management

Except for the warehouses in Abbottabad and Mansehra, inventory management systems were poorly maintained in all districts and DHQs. Inventory

management was primarily manual, maintained on ledgers by the staff. The AMIs and DHQs kept an estimate of the average working stock for each product with a fixed amount of safety (buffer) stock. The Hayatabad Medical Complex in Peshawar had the only computer-based inventory management system.

Requisition of stock

There was no standard procedure for health facilities to request medicines from pharmaceutical warehouses of EDOs (Health) and vertical Programmes. The Store In-charge guided facility supervisors to place orders and then transferred the stock to facilities on estimations based on earlier consumptions. Variations in demand and disease burden were not considered.

Consumption reporting of medicines

Except for AMIs and DHQs, other health facilities did not have records of daily, weekly or monthly consumption of medicines.

Physical verification of stock

Physical verification of stock was done on a quarterly basis. Indent register maintained by the chief pharmacist was periodically reconciled with expense records. An annual external audit of the process was also conducted.

Identified Risks and Mitigation Strategies Matrix

Assessment of procurement system of the DOH revealed some risks identified below along with mitigation strategies.

Table 1: Risks and Mitigation strategies	
Risk Factor	Mitigation Strategy
Regulatory risks	
Absence of a regulatory framework	Establishment of Khyber Pakhtunkhwa Public Procurement Regulatory Authority and promulgation of Khyber Pakhtunkhwa Public Procurement Rules 2012
Weak grievance redressal mechanisms	
Vague technical specifications of bio-medical equipment	Develop estimates of yearly requirements in advance based on previous years' trends for pharmaceutical products, bio-medical equipment and medical supplies from all the EDOs (Health)
Absence of sector specific guidelines	Develop health sector specific guidelines in conjunction with relevant procurement rules and Drug Act 1976
Unauthorised extension in drug pricing by DGHS in purchasing time	Legislation of regulations regarding limitation on extension
Lack of internal audit	Establish internal audit functions in DoH as an inherent governmental function
Process Risks	
Use of out-dated bidding documents	Undertaking a revision of Standard Bidding Documents (SBDs)
Different purchase committees for purchase of bio medical equipment and chemicals	All such purchases should be done at Procurement Cell's level
Unvaried membership of preliminary scrutiny committees	Members once nominated in a committee may not be nominated in another committee

Institutional and Professional Capacity Building Risks	
General lack of expertise for using revised bidding documents	Initiate training on PPRA rules, ensure regular coaching, mentoring and on-job knowledge sharing
Safeguards and Residual Risks in Procurement Monitoring	
No monitoring of procurement processes in the concerned department and hence efficiency is compromised	Initiate process of regular procurement process monitoring
Operational Risks	
Lack of procurement planning	Develop quarterly financial plans
Sub-standard supply chain mechanisms	Identify and improve the weak areas in supply chain
No base line price estimate list	Conduct an annual exercise for developing baseline price estimates of bio-medical products
Illegal supply channels of pharmaceutical companies	pharmaceutical manufacturers
Lack of technical resources for assessing equipment	Develop department capacity for technical evaluations
No ownership of the procurement activities conducted by the Health Sector Reforms Unit (HSRU)	Improve inter departmental communications

Recommendations for Improvement

Following steps are recommended for improving procurement processes:

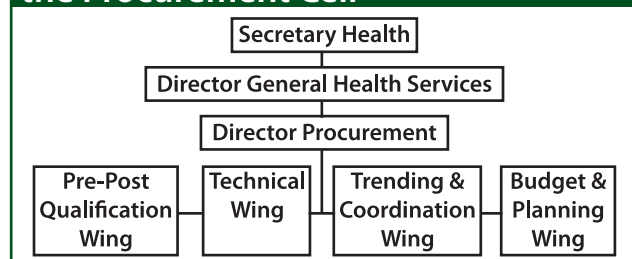
1. Establishment of Khyber Pakhtunkhwa Public Procurement Regulatory Authority (PPRA) and Rules

The DoH should establish the regulatory authority for implementation of PPRA rules in the province. These rules should be accompanied with a procurement manual to supplement and explain regulatory, operational and process risks and their mitigation procedures.

2. Procurement Cell Strengthening

The Procurement Cell needs strengthening by ensuring availability of staff with clearly defined roles and responsibilities (Figure 2).

Figure 2: Organizational hierarchy of the Procurement Cell



Tasks for the Cell may include:

- Procuring bio-medical equipment and pharmaceutical products using Single Stage Two Envelop Bidding method
- Planning and estimation of drugs along with development of technical, legal and commercial standards for health procurements in the form of the Standard Bidding Documents (SBDs)
- Training and capacity building of officials handling

procurements in DGHS, AMLs, vertical Programmes and districts through short-term workshops and technical sessions

3. Web portal for health department

The DoH is currently using Expanded Programme of Immunization (EPI) website for procurement related activities. It should utilise its own web portal and strengthen it for e-procurement, verification of suppliers and posting of tender related documents. Contract management software can be acquired to assist in this process.

4. Human resource management and capacity development

The DoH should initiate capacity development trainings on regulatory and conceptual frameworks, procurement rules, development of bidding documents, monitoring and evaluation for all procurement concerned staff such as EDOs-Health, MS DHQs, Chief Executives of AMLs, Medical Superintendents of DHQs, principals of medical colleges, Programme coordinators of vertical Programmes and hospital pharmacists.

5. Inventory and warehousing management

Computerised inventory management software may be utilised by the DoH. This will provide a platform for homogenised inter-connectivity among health entities. Implementation of the proposed recommendations will improve the procurement system of KP, making it more efficient and cost effective.

Khyber Pakhtunkhwa DoH is struggling to ensure equitable access to essential medical products, vaccines and technologies of assured quality, safety, efficacy and cost-effectiveness. This needs strengthening of existing health procurement system for proper planning and management which will require building the capacity of its professional staff. The DoH should undertake proposed reforms for improving its procurement systems for managing purchasing, developing reliable procurement mechanisms to combat counterfeit and substandard medical products, and to promote good governance and transparency in procurement and medicine pricing.



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