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ORISSA HEALTH SECTOR PLAN- TECHNICAL AND MANAGEMENT SUPPORT TEAM (TMST), ORISSA

FINAL REPORT: OPTIONS FOR STREAMLINING THE HEALTH PROCUREMENT SYSTEMS OF ORISSA

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ACRONYMS AND ABBREVIATIONS

AoA	Article of Association
CA	Crown Agents
CDSCO	Central Drugs Standards Control Organisation
CIMS	Computerised Inventory Management System
COPP	Certificate of Pharmaceutical Products
DEPM	Director Export Promotion & Marketing
DFID	Department for International development
DOHFW	Department of Health and Family Welfare
DoHS	Directorate of Health Services
IDCO	Orissa Industrial Infrastructure Development Corporation
EPM	Export Promotion and Marketing
EPW	Empowered Procurement Wing
ESI	Employee State Insurance Corporation
GMP	Good Manufacturing Practice
GoI	Government of India
GoO	Government of Orissa
ICB	International Competitive Bidding
INN	International Non-Priority Name
IO	Indenting Officers
IPR	Industrial Policy Resolution
KDLWS	Karnataka Drugs Logistics and Warehousing Society
KHSDP	Karnataka Health Sector Development and Reform Project ()
MoA	Memorandum of Articles
MPLUN	Madhya Pradesh Laghu Udyog Nigam Limited
NPO	Not for Profit Organisations
NRHM	National Rural Health Mission

ACRONYMS AND ABBREVIATIONS

ODMU	Orissa Drug Management Unit
OHSP	Orissa Health Sector Plan
OHSDP	Orissa Health Sector Development project
OSHM	Orissa State Health Mission
OSIC	Orissa Small Scale Industries Corporation
PRBS	Poverty Reduction Budget Support
PRI	Panchati Raj Institute
PROMIS	Procurement Management Information System
QA	Quality Assurance
ROC	Registrar of Companies
SLPC	
SSI	Small Scale Industries
T&MST	Technical and Management Support Team
TNMSC	Tamil Nadu Medical Services Corporation Ltd
UNOPS	United Nation Office for Project Services
UNICEF	United Nations Children's Fund
WB	World bank
WHO	World Health Organisation

1 INTRODUCTION

The Government of Orissa (GoO) is committed to improving health service delivery through enhanced equitable access to quality healthcare. The Orissa Health Sector Plan (OHSP) is Orissa's first integrated sector-wide implementation plan to achieve this goal. OHSP includes strategies for enhancing the capacity of the health system.

The Department for International development (DFID) provides sector Poverty Reduction Budget Support (PRBS) to the GoO. The OHSP is an integrated sector plan, implemented through State, district, block and village level committees. The overall responsibility for the programme is with the Principal Secretary, Department of Health and Family Welfare (DoHFW). Orissa. OHSP is implemented through the Orissa State Health Mission (OSHM) under the National Rural Health Mission (NRHM) and the existing DoHFW directorates.

DFID has contracted a Technical and Management Support Team (T&MST) to work with the OSHM to achieve the health sector objectives. The Options-IPE Joint Venture, in association with CARE, was awarded the contract which began on 1 April 2008. Technical Assistance (TA) may be provided from within a Core Team and Resource Pool or through additional sub-contracts.

The following are the strategies in the OHSP to bring about reform in the health sector:

1. Integrating the existing programmes of Health & Family Welfare;
2. Strengthen Health Service Delivery System to be effective and responsive;
3. Strengthening the Health Sector Management Systems;
4. Enhance demand and utilisation of services and mainstreaming equity and gender;
5. Promoting decentralized and participative planning and implementation through the P RI
6. Addressing health determinants through convergence and cooperation between related GoO Departments; and
7. Improving the efficiency & effectiveness of health expenditure through sector-wide planning.

GoO realises that out of the above seven strategies for enhancing the capacity of the health system, "strengthening the procurement and logistics system" should be given high priority. Recent reports suggest that various aspects of the procurement and logistics support need improvement in the State. While earlier budget constraints limited drug availability, the OHSP mandate to provide special funding for drugs needs to be matched by appropriate quality checks and delivery systems through to the patient level. Orissa has in place a centralised, computerised drugs procurement system, but this needs to be upgraded, to match the increased volume of drugs being procured through the system over the last few years.

Strengthening other aspects of the procurement process for medical equipment and other health related goods also needs to be considered. This particular aspect of the procurement function has received very little attention until recently. Various adhoc arrangements such as centralised procurement through a procurement agent, procurement through SDMU were experimented with in the past but at present there is no sustainable mechanism for centralised equipment purchase in Orissa. An effective, efficient and transparent procurement system for both drugs and equipment needs to be developed to ensure efficient and transparent

procurement which is a pre-requisite of donor support, given the increased funds flowing from treasury and off-budget funds from donors, the State and District Societies.

In accordance to the agenda set out by the DoHFW, GoO; T&MST led by Options-IPE has commissioned Crown Agents (India) Pvt Ltd. (CA) to examine the current procurement arrangements and to identify alternative options for streamlining the procurement of drugs, equipment and other health related goods by the DOHFW.

2 TERMS OF REFERENCE

The review paper includes the following:

I. Analysis of existing health procurement mechanisms of Orissa
This includes a summary of Drugs being procured by the Orissa Drug Management Unit (ODMU); Equipment being procured by various procurement committees; civil works by Public Works Department (PWD), Orissa Industrial Infrastructure Development Corporation (IDCO, etc. and Services by different directorates. The strengths and weaknesses of these existing procurement mechanisms need to be clearly documented and their potential to expand their scope and capacity analysed.

II. Review of procurement systems for drugs and equipment in at least 4 different states in India and examples from other countries
This includes an analysis of the strengths and weaknesses of current State procurement systems for drugs and equipment and their applicability in the Orissa context (i.e. given the present mechanisms and the goal of system improvement).

III. Options to improve the existing system
This includes a list of strengths and weaknesses of each proposed option. Proposed options considered included: strengthening and re-structuring of SDMU to take up additional responsibilities; the potential for OSIC (Orissa Small Scale Industries Corporation) to effectively and efficiently undertake equipment procurement; the creation of a new corporation for all medical procurement; potential for out-sourcing all procurement to another agency; and other options.

IV. Recommendations on most appropriate (efficient, effective, viable long term) option for Orissa and the steps needed to pursue this route.
Recommendations include realistic timeframes for each step, staffing requirements and capacity building needed to build a sustainable system.

3 COMPOSITION OF THE TEAM

The team undertaking the assignment was composed of procurement and supply chain specialists who can assess all aspects of the health procurement and supply chain systems including procurement systems, financial rules, institutional options and the current supply chain trends in the various states of India.

Ms Rekha Toteja (Procurement Specialist) undertook the compilation of State level data and information and provided procurement insight and experience to the development of the final recommendations.

Mr. Hemanta Nayak (Local Consultant) undertook a brief assessment of the procurement systems in the State, meeting with stakeholders and donors and used his local knowledge to develop recommendations for institutional change and reform.

Mr. Noel Setters, Crown Agents (CA) – UK has utilised his in depth knowledge of health supply chain processes to assist in the analysis of the findings from Orissa and the development of the various options for the way forward. Of particular usefulness was his experience in working with the CA team developing procurement options for Uttarakhand and Uttar Pradesh States under the auspices of the World Bank (WB).

4 ANALYSIS OF EXISTING HEALTH PROCUREMENT MECHANISMS OF ORISSA

A. Procurement of Drugs and Medical Consumables:

Prior to 1998 the procurement practices followed by the DoHFW of GoO was partially decentralized. The process of preparation of approved vendor lists, finalisation of drug-lists and rate contracting was done centrally with the involvement of the state institutions and the results were communicated to the District Level Authorities (DLA) and other Indenting Officers (IOs). Funds were then allotted to the DLAs and other IOs to carry out the procurement and distribution functions under their jurisdiction.

It is apparent that these processes have failed to deliver the expected/ desired outcomes such as ensuring health products were delivered in the right quantity, of an acceptable quality, at the right price, for timely delivery and storage to end users. Some of the major limitations identified during that period were;

1. *Lack of Vendor Performance Monitoring:* In the absence of defined procedures it was difficult to initiate any action against vendors who failed to deliver in conformance with contractual terms and conditions.

2. *Inadequate Quality Assurance*: As the procurement was decentralized and no standard operating procedures existed, different procuring entities followed different often ad hoc quality measures, resulting in inconsistent or poor product quality. Given the small quantities being purchased in many instances drugs were not tested to ensure that they met the quality standards laid down in the relevant pharmacopoeia.

3. *Economies of Scale*: The decentralized procurement coupled with the lack of an essential drug list and standard treatment guidelines resulted in an unnecessary range of alternative drugs being purchased in low volumes to treat the same diseases. There was very little opportunity for competitive price advantage as products were being purchased in relatively small volumes. The small quantities also had the effect of discouraging larger manufacturers from taking part in the procurement process. In some cases, due to the absence of generic specifications many of the drugs were procured by brand name, thus excluding generic drug manufacturers who are able to offer considerable cost savings.

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4. *Delay in procurement and distribution:* Due to process duplication and lack of adequate procurement skills at District level, procurement and distribution was often delayed. This directly impacted upon stock levels and the ability of medical practitioners to prescribe.

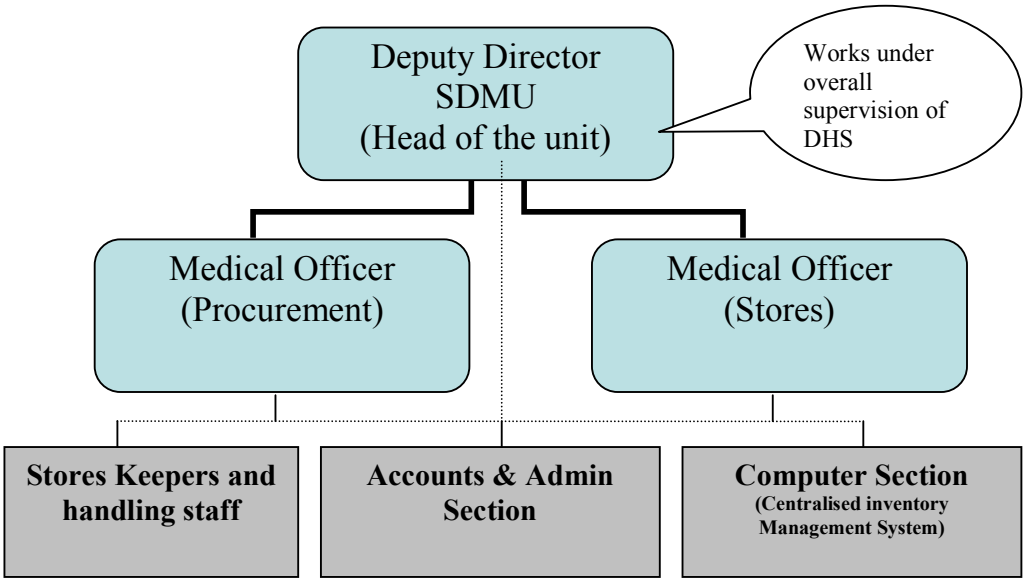
To overcome the deficiencies mentioned above and to streamline the procurement process, several actions were initiated by GoO under different projects with support/assistance from international agencies and which includes WB assisted Orissa Health Sector Development Project (OHSDP) and DFID's Interim Health Sector Support (IHSS). However most of the actions pertained to streamlining the systems for the procurement of drugs and hospital consumables and few actions were initiated in respect of the procurement of medical equipments to strengthen in-house capacity within the department for conducting the procurement of medical equipment efficiently.

One of the major landmark decisions taken by GoO was to constitute a Centralised Drug Procurement System in the State with the objective of ensuring sufficient good quality drugs were available to patients in all public health institutions. The ***State Drug Management Unit (SDMU)***" was created within the department by virtue of an Office Order in the year 1997-98 with the following mandate:

MANDATE OF SDMU:

(i) To make available good quality drugs and medical consumables in all government health institutions of the State at right time and at the most competitive price.
(ii) To ensure rational use of drugs in all government health institutions by developing an Essential Drug List dividing drugs into primary, secondary and tertiary categories and Standard Treatment Guidelines (STG) were developed and updated at regular intervals (2 years)
(iii) To establish and run a Computerised Inventory Management System (CIMS) by connecting all State medical stores (District Medical Stores, Medical College Stores, Central Store) to ensure better management of drugs and medical consumables. This system enabled the DoHFW to calculate stock levels in all the stores and potentially use this information to transfer stock between stores to avoid stock outs and to more accurately forecast requirements.
(iv) To develop a suitable quality assurance protocol and standard operating procedures to improve the quality control of drugs and hospital consumables.

Organisation Structure of SDMU:



Function of SDMU

1. To procure 80% of all drugs and consumables required by the department primarily under the supervision of Director Health Services, as far as possible, directly from manufacturers to ensure the maximum price benefits and improved quality (20% of the budget is earmarked for local purchase by IOs).

2. To distribute drugs and hospital consumables to stores at District levels and to the medical colleges in the required quantity at the right time.

3. To continually update the Essential Drug List and Standard Treatment Guidelines and disseminate the same to end users, with appropriate guidance and training to ensure the implementation of the policy.

Procurement Practices at the SDMU

1. Purchase under Export Promotion and Marketing (EPM)rate Contract:

   To promote Small Scale Industries (SSI) of the State, GoO has reserved certain drugs and consumables to be procured only from registered SSI units. In accordance with the policy, the Export Promotion & Marketing Directorate under Industry Department of GoO establishes the rate contract with the SSI units. The terms and conditions as agreed under EPM rate contract can be described briefly as under:

   (a) Items procured under rate contract, unless otherwise specified, will be delivered at Central Drugs Store in Bhubaneswar.

   (b) Suppliers with EPM rate contracts must start the supply of items within thirty days of contract receipt and complete the supply within 60 days or such extended time

as allowed by the Deputy Director, SDMU after an evaluation of the merits of the request proposed by the manufacturer. Where the supplier fails to deliver the goods within the time specified then the order will be cancelled forthwith and the department will procure the item(s) by open tendering or any other applicable method of procurement.

The state policy to reserve certain drugs and consumables for procurement from certain pre identified establishments such as SSI units or public sector undertakings is currently under review as in some of the cases these reservations are perceived to be detrimental to the product quality and susceptible to promotion of unfair trade practices such as collusion and cartelisation.

2. Procurement through Approved Vendors Rate Contract by SDMU

All the drugs and consumables other than those covered under EPM rate contract are procured from the approved vendors. Approved vendor list is prepared by the department through SDMU annually.

Responsibilities of SDMU:

a. Preparation of bid documents in consultation with the Directorate and to seek approval for the same from the Department.

b. To carry out the bidding process i.e. publishing invitation for bid, prepare and issue bid documents, receipt of bids including public opening of the bid and evaluation of the bid - including the completion of a full commercial and technical evaluation, making use of specialist technical advice where necessary. A bid analysis/comparison statement report is completed as the final output of the evaluation process.

c. To submit the bid analysis/comparison statement with the Technical Committee/Purchase Sub-committee (Annexure-1) for approval by DoHSW Purchase Committee (Annexure-II)

d. Distribution of the contract award/vendor-list following authorisation by a Cabinet Level Minister of the GoO.

Process Flow Chart for Vendor Approval: (Refer Annexure-III)

3. Open tendering, Shopping, etc.

In addition to procurement through EPM rate contracts and approved vendors, SDMU also conducts open tendering to procure certain items. There are currently no standard "approved" bidding documents, such documents are prepared on a case by case basis depending upon the nature and value of procurement.

Performance Analysis of SDMU:

The average value of procurement undertaken by SDMU over the last thee years is Rs. 3383.37 lakhs against an average allocation of Rs. 5309.02 lakhs which indicates an average utilization of 63.73 %. This figure suggests that the SDMU has failed to utilise 44% of the available funds over this period. However, these raw figures must be considered in conjunction with quantification data from the CIMS to identify the number of items that were either out of stock or which were not utilised within product shelf life dates. In addition a review is required of all Medical Institutions receiving drugs and medical consumables from the State to identify cases of stockouts or over supply.

SDMU's achievement in procurement of medical equipments and instruments for the years 2005-06 and 2006-07 were 44% and 66% respectively.

Key Limitations in the Current Procurement Practices of SDMU:

1. Procurement Manual: There is no procurement manual in use by SDMU. SDMU is currently following the procedures mentioned in the Drug Management Policy and other relevant orders issued by the Department from time to time. In the absence of a procurement manual clearly spelling out required procurement procedures to ensure transparent and ethical procurement, it is difficult to readily confirm that there is efficient, economic and transparent procurement. In the absence of clear-cut step by step guidelines for the conduct of all stages of the procurement process there is opportunity for inappropriate methods and processes to be used which result in bad procurement. Additionally, without clear guidelines for the conduct of procurement it is possible for outside influences to potentially influence procurement decisions.

2. Identification of roles:- There is no clear identification of the roles to be played by the different staff involved in the procurement process. Currently there are several different Committee and Sub-Committees involved in the procurement process, some of which appear to overlap, resulting in confusion in the process and at best delays completion of individual procurement activities.

3. Staffing issues: There are currently no dedicated "procurement" staff employed by the SDMU. Staff are seconded to the Unit and then transferred at the end of their attachment. This is detrimental in two ways; (i) trained procurement staff are not recruited who would bring procurement skills and experience to the Unit and (ii) whenever staff are transferred at the end of their time in the Unit they take any skills and knowledge with them. In most of the cases it is unlikely that the new position they move to has a role in the procurement function, Thus there are none or very few benefits from this process. As a result there is little institutional memory retained within the SDMU and staff are constantly "catching up" with their new procurement responsibilities. This is likely to affect the quality of the decision making of individuals who are aware that they lack specific skills required. As a result the procurement process can be adversely affected or subject to delay.

4. Bid Opening: Currently there is no formal policy for the opening of bids. It is recommended that where possible public bid openings are held for all bids undertaken by the SDMU. This enables bidding companies to see the prices offered by competitors, resulting potentially in lower prices in the future as well as providing transparency to the procurement process. It is understood that currently bids are opened in front of a Committee, which ensures that all members are aware of the value of bids received.

However, this does not provide reassurance to bidders that the process is transparent and does not assist the dissemination of prices to rival bidders.

5. Specified timebased milestones for the procurement process: It is desirable for defined minimum and maximum time limits to be set for each phase of the procurement cycle. This will enable the procurement process to be monitored by SDMU management and by the DHFW. Failure to meet the required timescales would be a key determinate of the efficiency of the SDMU and will impact upon the number of bids processed and contracts placed. This also has the added benefit of enabling the development of procurement plans to manage the workload of the SDMU.

6. Procurement Timing and Contract Placement: All drug and medical consumables procurement is undertaken on the basis of annual tenders with contracts being placed the following year. As a result by the time contracts are placed the prices used are out of date, though within the procurement validity date. Given that the Indian market for drugs and medical consumables is very dynamic, where inflation is increasing it is likely that the prices charged are artificially increased to allow for known delays in the contracting process.

This process is not replicable for the procurement of medical equipment, where price increases are applied more often with frequent technological updating of products. Given that medical equipment purchases are normally undertaken to meet specific needs it is recommended that bids are requested only against specific requirements. This is in line with standard international procurement norms.

7. Financial Threshold Limit: Currently, irrespective of the value of a tender, all evaluated bids are presented to SLPC for approval. Other committees have delegated financial authority under "Delegation of Financial Authority Rule, 1978" and amendment to approve the purchase of medical products. However, these powers are not currently being exercised.

8. Procurement Capacity Building within SDMU. SDMU is short of the necessary skilled procurement staff to operate efficiently. Procurement activity is mainly conducted by Clinicians who lack specialist expertise in procurement and supply chain management. There is no existing system for in-house capacity building or through training courses. Experts/specialists in areas like procurement, logistics management, quality assurance, information technology, bio-medical engineering, contract management, are not recruited from the open market. New staff are required to develop their procurement skills through on the job training and learning from colleagues.

Procurement training and capacity building need to be developed and introduced and this combined with the recruitment of supply chain professionals. will enable the development of a professional organisation. The lack of supply chain professionals is a problem throughout the Indian Civil Service where skills are not recognised within the service and practitioners see no opportunity for career development.

9. Drug Quality Assurance Systems:- A State Drug Testing Research laboratory was set up to test the quality of drugs in use in Orissa State and specifically to ensure that the drugs procured by SDMU conform to the specifications detailed in the Indian pharmacopoeia. However, the laboratory does not have documented standard operating

procedures (SOP) or quality protocols to ensure the quality of the drugs and consumable through the whole supply chain. Testing laboratories need to have clearly delineated operating procedures for the testing of drugs to ensure that all testing is undertaken exactly in line with internationally designated testing standards. For example every time a specific drug is tested the same procedure is undertaken exactly without internal SOPs this cannot be guaranteed. There should be no inconsistency in the results produced, ensuring that both manufacturers and end users can trust the results.

B. Procurement of Medical Equipment and Instruments:

Past Experience & Issues

To streamline the procurement of medical equipment and instruments the decision was taken by the OHSDP, in consultation with the DoHS to out source the procurement of medical equipment and instruments to a independent agency in order to achieve efficiency, cost effectiveness, fairness and transparency The intention was to engage the services of an Agency as an interim measure till such time as the DoHS could strengthen the in house capability to undertake this type of procurement.

M/s ELMARK Limited, a GoO Corporation, was contracted to undertake this role. This arrangement continued for the length of the project. However, the contract ceased upon the completion of the project as ELMARK were experiencing financial difficulties and were unable to continue operations.

In the year 2005-06 SDMU was therefore given responsibility for the procurement of medical equipments and instruments. During the year the total amount allotted (State Budget plus TFC) for the procurement of equipment and instruments was Rs. 3677.37 lakhs. However, only Rs. 1602.55 lakhs was spent. The remainder was withheld by order of the Honourable High Court in response to a legal suit challenging the tendering process undertaken. The case is still awaiting final resolution.

In the year 2006-07, SDMU was allotted Rs 1052.00 lakhs for the procurement of medical equipment under NRHM. Of this allocation only Rs 691.99 lakhs (65%) was spent. Since then no procurement of equipments has been undertaken by the DoHS of GoO.

Issues:

1. The OHSDP failed to develop and implement a sustainable strategy to strengthen internal capacity of the Department to carry forward the procurement activities beyond project period successfully.

2. No exit strategy was developed to ensure continuity in the procurement function once the project concluded. No steps were initiated to either outsource the procurement function to an independent agency or to develop an in-house capacity within the DoHSW for the same. It is not apparent where responsibility for this failure lies.

3. As a consequence of the above SDMU was burdened with extra responsibilities for equipment procurement without receiving the resources necessary to undertake the work.

However, given the current procurement problems identified above it is not obvious that additional resources would have had an impact upon the result.

Recent Developments and their Relevance:

In response to above issues, after a series of deliberations, the DoHFW of GoO decided to engage Orissa Small Scale Industries Corporation Ltd (OSIC) to act as their Procurement Agents for the procurement of medical equipment. An office order was issued by the DoHFW on 22nd April 2008 to this effect.

History of OSIC:

OSIC was established in 1972 as a wholly owned Corporation of the Government of Orissa. The basic objective of the Corporation is to aid and assist the Small Scale Industry (SSI) units in the State to expand and develop their operations to expand the industrialisation process within the State.

Initially, the role of the Corporation was to create industrial infrastructure by the development of industrial estates at various locations within the State, provide initial capital support to entrepreneurs in the shape of "Seed Capital Loans" and "Hire Purchase Machinery Loans" for setting up units and to provide scarce and controlled raw materials required for production activities. Upon the formation of the Orissa Industrial Infrastructure Development Corporation (IDCO) in 1981 for the creation of industrial infrastructural facilities, the portfolio of development of Industrial Estates by the Corporation was transferred to IDCO. Similarly, there are other State Level Financing Corporations providing capital support to entrepreneurs to set up industries. As a result OSICs focus has shifted to providing raw materials assistance and marketing support to the SSI units. The Corporation also administers various Government incentive Schemes as per the State's Industrial Policy.

OSICs Objective and Mission:

The main object of the Corporation is to aid, assist, counsel and promote SSI units in the State and to provide them necessary support for their all-round growth. The present functions of the Corporation are as follows:

a. to provide quality raw-materials to SSI units at reasonable prices;
b. to provide marketing support to SSI units;
c. to help SSI units in exporting their products;
d. to assist and establish SSI units in the State by providing equity support to them wherever found necessary.

5. to provide incentive to the SSI Units as per the Industrial Policy Resolution (IPR) of the Government of Orissa.

OSIC's Experience as Procurement Support Agent:

OSIC has prior experience in working with the DoHFW as a Procurement Agent, however this was limited to the procurement of ambulances for the Department. In addition to working for the DoHFW OSIC has also worked with other State Departments

as Procurement Agent. During the years 2006-07 and 2007-08 OSIC's turnover as procurement agency was Rs. 93.00 lakhs and Rs 218.00 lakhs respectively.

Office Order Engaging OSIC as Procurement Agent for Equipment, Instruments and Furniture (EIF)

The Official Order was issued by the Department engaging OSIC for the procurement of equipments, instruments and furniture and briefly describes the operational procedures to be adopted. However, detailed terms of reference need to be prepared to avoid any ambiguity in the work to be undertaken and the procedures utilised to complete it. Some of the key areas where detailed clarification is required are below:

1. The Office Order does not detail the requirements in terms of both manpower (skills and experience relevant to their employment) and the infrastructure which must be made available by OSIC exclusively for the DoHFW's procurement activities;
2. No due diligence audit was undertaken to assess the capacity of OSIC to handle the additional level of activity in addition to their current work load;
3. The members of committees specified in the office order i.e. Co-ordination Committee, Technical Committee, Tender Committee, Purchase Recommendation Committee, etc and their roles, responsibilities and authorities need to be validated legally in line with "Delegation of Financial Power Rules, 1978;
4. The development of a comprehensive procurement manual detailing how procurement must be undertaken;
5. Timescales for the completion of procurement activities. This would encompass such areas as time required to prepare bidding documents, time allowed for bidders to respond (Bid period), time allocated for completion of evaluation reports and issuing of contracts to bidders.

   In addition procedures should be put in place to measure procurement success. This might include metrics such as procurement cost savings, % of goods delivered on time, the number of products rejected as not meeting technical or quality standards;
6. The specific roles and responsibility of OSIC and the DoHFW should be more clearly defined.
7. Procurement audit systems must be defined to ensure compliance with State financial regulations, international best practise, transparency and ethical procurement;
8. Financial threshold limits for approval and contract placement must be set.

The latest notification of Finance Department dated 28th April 2006, Rule – 12 (3) of the Delegation of Financial Power Rules, 1978(Amended) says:

"(i) The committee for the office of a Head of Department shall consist of a senior officer and the accounts officer, if any, of that office and a representative each of the Directorate of Export Promotion and Marketing and the administrative department concerned. The committee shall scrutinize cases involving expenditure exceeding Rs. 2,00,000/- but not more that 2,00,00,000/-. The proceedings of the committee, signed by members, shall be submitted to the head of the Department who may sanction expenditure up to Rs 100.00 lakhs. Cases involving expenditure exceeding Rs. 100.00 lakhs together

with a copy of the proceedings of the committee shall be forwarded by the Head of the Department with his comments to the Administrative Department, who may sanction expenditure up to Rs. 200.00 lakhs."

(ii) The Committee in the administrative department shall consist of the Secretary of the Administrative Department, a representative each from the Finance Department, Law Department and the Directorate of Export, Promotion and marketing and the concerned Head of Department. The financial adviser of the Department will act as the member Secretary. The Committee shall consider cases involving expenditure exceeding Rs 200.00 lakhs. The recommendations of the committee shall be placed before the Government in the administrative department for decision."

Under the above citations it is recommended that any and all deviations from this prescribed policy are clearly highlighted.

C. Centralised Inventory Management System (CIMS):

Another major step taken by GoO to streamline health procurement and supply chain management of the State with the support of DFID was to design and implement a Centralised Inventory Management System (CIMS). The object was to connect all the government medical stores i.e. 32 district level medical stores, 3 government Medical College Stores and the central store at Bhubaneswar for online inventory management. The system was developed by Broadline Computer Systems and was functional during the project. The system was run by project staff. Unfortunately, on the closure of the project it was difficult to manage the system and it is not currently being utilised to its full potential.

Currently, the MoHFW of the Government of India (GoI) under the Reproductive and Child Health II project (RCH II) is developing a Procurement Management Information System (ProMIS) to control, monitor and report on the procurement of goods under RCH II. ProMIS includes within its' scope the capability to record and monitor the receipt and despatch of goods down to District level. Four States (including Orissa) have been selected to pilot the implementation at State and District level. Under the project all 32 Districts of Orissa will be covered. The intention is that the current CIMS implementation in all 32 Districts will be accessed by ProMIS to extract logistics information.

Comments have been passed to the EPW that the CIMS implementation was handicapped by the employment of temporary staff to undertake some of the management and inputting of data to the system. These staff were trained by Broadline and the system operated efficiently for the duration of the project. However, upon completion of the project the temporary staff were laid off and there was no capacity within the permanent staff to continue the full operation of the system. CA do not have evidence to support this scenario, however care must be taken with the employment of temporary staff to undertake key development tasks.

It should be noted that CIMS is not being fully utilised and as such their may be a necessity to provide additional long term resources to ensure the system is fully operational.

D. Government of Orissa's Commitment for Streamlining Health Procurement

Orissa Vision 2010: A Health Strategy

The GoO has recognized the importance of health sector procurement and identified strategies to bring reform to improve the current arrangements. This view is clearly stated in the strategy an extract from the vision document reads as follow;

"(a) A system will be established for the management (procurement, installation and maintenance) of equipment and instruments either by setting up a State level organization or by hiring the services of existing organizations. The organization should have sufficient authority, expertise, tools and funds.

(b) Posts of biomedical engineers will be created in the headquarters and in the larger institutions (medical college hospitals) and filled up preferably on a contractual basis."

Orissa State Integrated Health Policy 2002:

A similar level of commitment by GoO is seen in this Policy document. An extract of the policy document reads as follows:

"The State has already introduced an essential drug list, and measures regarding pooled drug procurement, quality assurance and distribution for its own health institutions. These will be sustained and further developed. It will regularly review and update the essential drug list, drug policy and therapeutic guidelines, rate contract lists, registration and re-registration, drug selection, pooled procurement, quality assurance systems, and drug management systems, all with transparent procedures through established bodies and with the participation of professionals, consumer groups and the public. Use of generic prescribing will be promoted. Drug donation guidelines will be developed and implemented."

5 INTERNATIONAL PROCUREMENT MODELS

5.1 Introduction

An important and relevant procurement model that exists outside India can be found in the neighbouring country of Bangladesh. Many of the reasons why Bangladesh required procurement reform are consonant with the current situation in Orissa.

5.2 Public Procurement Reform Project in Bangladesh

The lack of a uniform legal framework to govern public procurement in Bangladesh, worth approximately USD 3 billion per year, and perceived waste and inefficiency triggered the Public Procurement Reform Project in 2002. Based on the recommendations of the Country Procurement Assessment Review (CPAR) undertaken by the World Bank, this project aimed to improve the procurement system and bring it up to international standards of efficiency, transparency and accountability[1[1]].

[1[1]] Further information is available on www1.oecd.org/daf/asiacom/nL01-01.htm and www.cptu.gov.bd/PPRP.aspx

The major inefficiencies identified were:

- Absence of a sound legal framework governing Public Sector Procurement
- Complex bureaucratic procedures that caused delay
- Lack of adequate professional competence of staff to manage public procurement
- Absence of adequate mechanisms for ensuring transparency and accountability
- Absence of a detailed procurement manual to provide guidance on how procurement should be undertaken
- Generally poor quality bidding documents and bid evaluation
- Ineffective administration of contracts

The Project had three main components:

- Establishment of Central Procurement Technical Unit (CPTU) within the Implementation Monitoring and Evaluation Division (IMED)
- Implementation of Public Procurement Reform
- Improvement of Procurement Management Capacity

Identification of activities under the above components focused on the following areas:

- Economy and Efficiency
- Transparency
- Accountability
- Procurement Management Capacity Building

The objectives of the reform were to contribute to improved performance in public procurement through the introduction of measures to make the system compliant with internationally agreed norms for efficiency, transparency and accountability & through creation of a national cadre of procurement professionals.

As a result of the reform project, the Bangladesh Public Procurement Regulations were passed in 2003. The prescribed procedures are further detailed by the Procedures for Implementation of the Public Procurement Regulations. Standard Bidding Documents were also developed and the Central Procurement Technical Unit was established under the Implementation Monitoring and Evaluation Division (MED) of the Ministry of Planning to provide technical advice for the implementation of the regulations.

Prior to the introduction of the Public Procurement Regulations, there were no nationally applicable uniform comprehensive procurement regulations or procedures. Consequently, procurement under local funding has been performed in a somewhat haphazard fashion leading to delays in decision making and wastage of public resources.

These interventions have yielded an efficient and effective procurement structure by Government Ministries, Public Sector undertakings and other Public Bodies and has considerably increased transparency and accountability. A wealth of documentation was generated but it is important to keep in mind that this level of change does not happen overnight, it has taken Bangladesh four years to fully reform their procurement processes.

6 BRIEF REVIEW OF PROCUREMENT SYSTEMS FOR DRUGS AND EQUIPMENT IN INDIA

Public Sector procurement is managed in many ways, ranging from total in-house systems, through various autonomous or semi-autonomous procurement agencies to use of private sector organisations. This section identifies the various initiatives undertaken by different Indian States – the purpose of this section is to provide GoO with a better understanding of the range of options available for consideration.

6.1 TAMIL NADU MEDICAL SERVICES CORPORATION LIMITED (TNMSC)

Tamil Nadu has established a State Government owned company, Tamil Nadu Medical Services Corporation Limited, to manage the procurement of health commodities and their distribution down to district level. TNMSC was incorporated under the Companies Act, 1956 on the 1st July 1994 and commenced operations from January 1995. TNMSC's board of Directors includes the Heads of the Directorates concerned with health programmes and services, the State Drugs Control Director, and the Chief Engineer (Buildings) from the Public Works Department. TNMSC is managed by civil servants on secondment from their parent departments.

Drugs and medical supplies

The primary function of the TNMSC is to operate a centralised procurement and distribution system for health commodities. The key elements of TNMSC's procurement strategy are:

(1) the purchase of drugs directly from manufacturers and not through middlemen/agents;

(2) the purchase of quality drugs at competitive prices through an open and transparent tender system;

(3) the identification of multiple suppliers willing to match the lowest price.

Procurement is done centrally via use of annual framework contracts and TNMSC operates a "pull system" based upon a detailed quantification process, utilising information from their Procurement Management Information System (PMIS) in conjunction with information provided by end user institutions in their annual forecast requirements. The procurement section is headed by Senior Regional Manager supported by Purchase Manager and other support staff who are generally outsourced.

TNMSC has adopted the concept of use of "essential drugs list" as advocated by World Health Organisation (WHO). The Corporation follows the WHO's recommendations for the use of the International Non-Priority Name (IPN) commonly known as "generic drugs". TNMSC utilises an open tender system conforming to the Transparency in Tenders Act 1998. In practise all bidders are required to submit bids electronically via CD-rom, utilising formats prescribed by TNMSC. At the public bid opening all the bidders information is loaded onto a PC and the results are displayed electronically on a display panel for all bidders representatives to note if they require. This ensures the full transparency of the system.

At the beginning of each year, 90% of the annual budgets for drugs and medical supplies of the various health Directorates are transferred to the TNMSC financial accounts. This provides TNMSC with the flexibility to undertake procurement in the knowledge that funds are available for immediate payment to suppliers on the contractual due date. Suppliers therefore know that they will be paid on time. This gives suppliers an incentive to work with TNMSC as security of payment is not guaranteed in other States. This also impacts upon the prices charged by bidders and in the on time delivery of supplies – the sooner supplies are delivered and quality checked the earlier payment is received.

TNMSC has a robust payment system to ensure prompt payment to suppliers. The payment system is outsourced to a private company that is able to make payments punctually, accurately but only when confirmation is received that drugs/equipment has been appropriately quality checked.

Ten (10) percent of funds for medical supplies are retained by the State Health Institutions for the direct purchase of materials by District Level institutions / Departments. This provides flexibility within the system and enables the purchase of non standard items at short notice to meet immediate needs. Any of these funds not utilised locally can be forwarded to TMNSC if it is so wished.

TNMSC purchases only from manufacturers having a Good Manufacturing Practice (GMP) Certificate and also having a market standing for at least three years. TNMSC takes stringent steps during the tender process to review the information provided by bidders to ensure compliance with all the requirements of the tender, this covers both commercial and technical aspects. In addition samples must be provided as part of the bid process and these are sent for independent testing. In addition all products are checked upon delivery with samples being sent for independent testing in an approved laboratory. All drugs are held in quarantine stores until the test results are received. These measures are taken to ensure the quality of the products entering the supply chain.

Distribution

TNMSC does not have a central warehouse to serve the Districts; instead the Corporation has established warehouses in all the District headquarters, each warehouse is the hub for drug distribution within the District.

TNMSC uses Warehouse Management Software (WMS) at all warehouses which includes Procurement Management Information System (PMIS) functionality. This was purchased from Broadline Computer Systems and each warehouse is linked to the Head Quarters and passes information on stock levels, receipts, despatches, use-by dates. TNMSC has set up an effective centralized online drug distribution system interlinking the various warehouses, suppliers and status of stocks of various items for the supply.

All replenishment requirements are passed to the State headquarters which then places a “call off” order, based upon the awards made during the annual tender process, with the manufacturer(s) arranging or undertaking delivery direct to the district warehouse. Where possible all replenishments are done electronically, with the PMIS automatically identifying that stocks of a particular product have reached a “reorder” level in the local store. The system will inform procurement staff at headquarters when further stocks are required and an instruction will be sent to the manufacturer to deliver. In many cases this will be done electronically in real time.

Equipment and Accessories

TNMSC is responsible for finalising all rate contracts through an open tender system for the purchase of equipment and accessories required for State Government Hospitals. The medical institutions can directly place purchase orders with the approved firms for the supply of equipments and accessories at the rates finalized by TNMSC. In addition, advanced and costly medical equipment, such as radiology required for Government Hospitals are procured and supplied by TNMSC based on specific government orders.

Key success factors of the TNMSC model

The TNMSC model has been documented as an example of good practice in the country by various agencies including GOI, DANIDA and the European Union. In order to successfully

replicate the model in other States it is necessary that the key success factors of the model be identified prior to considering implementation elsewhere. The key success factors of the TNMSC model are outlined below:

(1) TNMSC is a parastatal organization run by enthusiastic business minded (commercial) people; it has established a customer focused team that concentrates on getting quality assured supplies to the end user.

(2) TNMSC have a unique procurement system within India; procurement is done centrally, negotiations are conducted at the end of the tender process, orders are placed with suppliers, based upon rate contracts with stocks being automatically called when warehouse reorder levels are triggered. Suppliers deliver direct to the District warehouses.

(3) TNMSC have employed procurement professionals as part of their recruitment policy. This has ensured that a professional approach to the whole supply chain has been allowed to develop and has resulted in the development of an efficient procurement/logistics organisation.

(4) The promptness and reliability of its outsourced payment system has allowed TNMSC to adopt a constructively hard-line stance with suppliers, the results being reliable delivery, reliable quality and packaging as required by TNMSC.

(5) To support logistics management, TNMSC has an efficient WMS and PMIS that record all stock movements at each district warehouse. This system allows goods t be transferred between district warehouses to balance stock levels and operates a "pull" system with supplies only being ordered when required.

(6) The company is given a lot of autonomy and it gives a lot of responsibility and "delegated authority" to its staff. One of the key element of TNMSC's success is its use of professionally trained and well motivated staff using transparent processes.

Other States

Karnataka - Karnataka Drugs Logistics and Warehousing Society (KDLWHS) provide drug procurement services only. It is a State Government owned registered society and it depends on funding releases from the Government to provide running costs as it is not self sustaining.

The limited range of services, together with a lack of autonomy and financial dependency from the Karnataka State Government means that this is a model that still has scope for further development to emerge as successful model for implementation elsewhere.

There is no single designated body in Karnataka State for the procurement of equipment. Limited support is available from the World Bank funded Karnataka Health Sector Development and Reform Project (KHSDP).

Madhya Pradesh – The State currently follows a policy whereby 80% of the State health procurement budget is spent centrally at State level and 20% is spent at District level. There are two key players for procurement function. These include a Procurement Cell within the Directorate of Health Services (DoHSD) which takes a strategic oversight of health procurement and the Madhya Pradesh Laghu Udyog Nigam Limited (MLUN). MPLUN is the major agency involved in the procurement function for the various departments of the State government and is not undertaking procurement exclusively for the health sector. Most of key Health Procurement Decisions to do with quantification, specification or final bid agreement are undertaken by two GoMP Technical and Commercial Evaluation Committees

Maharashtra - The procurement of drugs, pharmaceuticals and equipment is undertaken by a Procurement Cell within the Directorate of Health Services. The Cell was established about a year ago and is headed by the Joint Director who reports to the Additional Secretary, Government of Maharashtra through the Director of Health Services.

The Directorate has developed a procurement policy to provide guidance for the procurement of pharmaceuticals and services.

The bidding process is conducted by the Procurement Cell and evaluation reports are submitted to the state purchase committee for approval. The purchase committee is headed by the Principal Secretary health and its members include a member of the finance department in addition to the under secretary and various programme officers.

Rate contracts for drugs are concluded by the Directorate of Medical Education. The State policy allows programme officers to place supply orders against a rate contract concluded by Employee State Insurance Corporation. In addition the procurement cell may conclude a rate contract for a commonly used drug if no such rate contract exists with the above mentioned entities.

Deliveries are made direct to the end users i.e. the entity who originally requested the drugs or the equipment.

Services are procured at District Level and in some cases at Taluka Level directly by the hospitals requiring the services.

Uttar Pradesh (UP) and Uttarakhand - Recently under World Bank funding the States of UP and Uttarakhand have also undertaken initiatives to reform the Public Health Procurement and Supply Chain management systems. An assessment report was prepared and submitted by Crown Agents in August 2007 for both these States. The report emphasized the need to establish self contained entities capable of procuring drugs, equipments and the services. It is understood that following on from this report that UP is proposing to establish a corporation while Uttarakhand plans to establish a Procurement Cell within the Department of Health.

It would be fair to state that within the health sector reform programmes being initiated in India, the need to strengthen procurement systems within the health sector has been recognized as a high priority by most States. TNMSC has been cited as one of the best models of an efficient, effective and transparent supply chain system in the country. Most of the States have adopted or are planning to adopt at least some of the components of the TNMSC model.

Whilst there are number of state specific factors that explain the less than 100% success rate in adopting the TNMSC model, some of the common reasons for the low success rate are:

- Only a few States has developed any legislation similar to the transparency in tenders Act applicable to public procurement in Tamil Nadu.
- The Procurement Cells formulated by many States as mentioned above are not autonomous. The supply system is still inside the State government's control and is therefore open to the complicated administrative vagaries of funding facing all State Government Departments.

- The decision making process is slow as it is subject to bureaucratic delays as decisions are made by Evaluation Committees with members drawn from different departments, many of whom lack the procurement skills necessary to work quickly and efficiently. The committees often meet on an ad hoc basis where a quorum is often not achieved and meetings have to be rescheduled.
- Lack of accountability even within the Procurement Cell.
- Fragmented budgets leading to poor payment histories and a lack of support to the system by suppliers.

Fraud and Corruption (F&C) in Public Procurement

Recently the WB and the GOI undertook a Detailed Implementation Review (DIR) of five health projects in the WB's Indian portfolio. This followed on from a 2005 Bank investigation of RCH-I, which revealed systemic fraud and corruption and suggested that other projects may also be similarly compromised.

The DIR took place during 2007 and was made public in early 2008.

The following issues raised from the DIR should be addressed by all GoI organisations undertaking public procurement:

- Procurement organisations are failing to identify and act on indicators of Fraud and Corruption (F&C), in particular collusion, price fixing, failure to award contracts to lowest evaluated bidders, fraudulent certificates etc;
- Problems were identified in Equipment Purchase that resulted in narrow specifications, poor competition, inappropriate payment terms etc;
- Flaws in the bidding process were noted that included the use of inappropriate lot sizes, splitting of contracts and unrealistic price estimates. This resulted in poor competition, rejection of bids etc;
- Poor record keeping and complaint handling resulting in reduced competition and increased risk of collusion and poor quality assets;
- Poor overall contract and supply chain management leading to premature, over or under supply of goods, payment discrepancies, non use of supplied equipment, inventory mismanagement;
- Weak/corrupt systems for licensing/quality certification limiting the competition and enhancing the risk of supplying low quality products.

For procurement for centrally sponsored schemes by State, District and below, the DIR highlighted the following priority issues that needed to be addressed:

- The existence of inadequate institutional arrangements for procurement; with procurement being undertaken by officers who are not trained in WB or equivelant procurement guidelines; high risk of political interference;
- Overall poor record keeping; no system for complaints handling or detection of F&C
- Agreed procurement procedure not followed; mix of methods used and high risk of F&C in shopping;
- Weakness in estimating price and preparing specifications;
- Poor record keeping and complaint handling and lack of effective dispute resolution mechanisms and/or sanctions.

Qualities Required of Public Sector Procurement Entities

In view of the DIR findings and an absence of sufficient examples of successfully operating models in India (except for TNMSC) it may be helpful to briefly discuss the desired qualities for any entity undertaking procurement and supply chain management

- The procuring entity must have a degree of autonomy in its operations and enough authority to make decisions and to carry them out without external influence. The entity should be able to approve and sign procurement decisions based on State wide requirements, rather than going through long bureaucratic processes;

- Standard simple and homogeneous documentation should be used throughout the procurement process. A State wide set of documents sufficient for all Health procurement requirements should be available. Aside from the development of Standard Bidding Documents there should be a procurement manual and documented procedures for complaint handling and for the recall of medicines and medical equipment which fail quality tests. F&C together with collusive and other dishonest practices should also be identified and documented;

- Staff should be recruited from the open market with an emphasis upon proven procurement skills, qualifications and experience, to ensure that competent and experienced supply chain and procurement professionals undertake procurement and supply chain functions. Further more, these posts should be non rotational to ensure the benefits gained from the experience of these professionals and their training are not lost with every rotation;

- Procurement Audit. Arrangements should be made for all procurement entities to be subject to an annual audit of all procurement activity, with external auditors being employed to review the organisations every three to five years. This requirement in conjunction with the other actions recommended will ensure that F&C is appropriately controlled/managed

7 OPTIONS TO IMPROVE HEALTH PROCUREMENT IN ORISSA

Based on our preliminary findings of the State's procurement and supply chain management systems together with current findings about procurement system changes being adopted in other States, the preliminary options to improve the existing system are covered below:

OPTION 1 STRENGTHEN STATE PROCUREMENT SYSTEMS (SDMU) FROM WITHIN

This model is based upon predominantly centralized procurement but decentralized distribution whereby suppliers deliver supplies to Regional/District warehouses. At least 80% of the health commodities budget should be utilized for centralized procurement. Furthermore, the State would need to take steps to establish and strengthen rational drug selection, prescribing and quantification.

Given current arrangements for equipment, works and services procurement this area will require a concerted effort to ensure improvement is achieved.

This would in the current context imply strengthening and scope enhancement for the SDMU.

The existing procedures and processes which are in place could be fairly easily strengthened by filling all staff vacancies, adopting the use of generic specifications and standard bidding documentation.

However as mentioned above, SDMU has limited experience with the procurement of equipment and for the procurement of services. The State will need to incorporate a structure within SDMU for medical equipment procurement including the induction of a Bio-Medical Engineer. Extensive efforts and major capacity building initiatives will be required to develop and inculcate the required level of expertise for the procurement of equipment and services.

Under the above option the procurement processes would be subject to budgetary processes as applicable to a government department, hence system may be liable to procedural delays. Another key risk foreseen with the above option is the availability and appointment of professionally qualified staff from within the Department. It is anticipated that retention of the deputed staff will be a major problem in view of the GoI Civil Service staff rotation policy.

OPTION 2 CREATION OF A SINGLE PROCUREMENT CELL WITHIN THE HEALTH DIRECTORATE

To create a single procurement cell responsible for all the Health procurement entities in the State staffed with procurement and supply chain specialists together with biomedical engineers to provide procurement services as required. This unit should be a service unit for the entire DoHFW and staffed with procurement professionals employed on a non-rotational basis. The Cell would be provided with an appropriate delegation of financial authority to execute most of its business whilst avoiding procedural delays. This would imply that the Cell would be required to be headed by an officer of suitable designation.

The development of a Procurement Management Information System (ProMIS), an initiative undertaken by the Ministry of Health and Family Welfare is currently in progress. Orissa is one of the three States chosen for the pilot implementation and the only State where ProMIS will initially be implemented in all the Districts.

It is expected that the successful implementation of ProMIS will enable better forecasting since accurate usage data will be available and stock holdings and requirements will be captured at District warehouses. This will result in a "pull supply system" rather than the "push system" currently being followed. Another benefit of ProMIS will be the creation of information within the system, such as supplier database, complaints database, supplier performance reports resulting in better monitoring of the procurement process.

The successful implementation of ProMIS can support a single procurement cell that would allow for a consistent State wide approach to the procurement function, facilitate the creation of procurement processes, bidding documentation, IT systems, Communications etc. This will allow for quicker and more effective audit and procurement staff interchange between different procurement sectors, improve potential control/oversight of function. Appropriate safeguards would be required so that the organisation is capable of working independently and transparently.

OPTION 3 CONTRACT OUT PROCUREMENT AND SUPPLY CHAIN MANAGEMENT SERVICES FROM THE PRIVATE SECTOR

The use of an International or National Procurement Agency. This Agency would be contracted by the GoO to undertake all health procurement and to arrange the distribution of all medical products to end users. Contracting in this manner has the advantage of moving responsibility for procurement outside the State administration.

The success of this initiative is dependent upon the availability of an Agent to undertake the task and the potential costs of such an operation. It is unlikely that such an organisation currently exists in Orissa and it is unlikely that an International Agency will have the degree of local knowledge to undertake the task.

The decision to contract out services can only be undertaken after a thorough review of the whole medical supply chain and a decision over what parts of the existing supply chain should be included. Should the contract include all procurement, transportation and warehousing? Should it include warehousing within hospitals or just be at central level. Should existing warehouses be included in the contract or would bidders be required to provide a totally independent system. The degree of interest from the private sector will depend upon a combination of all these factors, including the length of any contract and whether existing staff will need to be employed.

At the World Bank's behest, the MOHFW opted for a similar option as an interim measure till such time as the Ministry could strengthen its own central procurement operations. Both UNOPS and UNICEF expressed their interest and finally UNOPS was appointed as the Procurement Agent. The Ministry is in the process of initiating a similar exercise for the appointment of a Procurement Agent through International Competitive Bidding (ICB).

If the GoO decides to explore this option, the final outcome for the exercise conducted by the GOI can provide guidance on the way forward for Orissa. The tender document utilised by the MOHFW could be utilised by the GoO to tender for their requirements.

OPTION 4 TO ESTABLISH AN AUTONOMOUS ENTITY

OPTION 4 – A) ESTABLISHMENT OF A TNMSC LIKE CORPORATION FOR ORISSA

This proposal would be based upon the creation and development of the Orissa equivalent of the TNMSC operation. This has centralised procurement, would have IT intensive systems, delivery would be to warehouses based at District Level. From a logistics point of view this arrangement would be based upon a "pull" system whereby procurement decisions and quantification are based upon demands identified at local level and passed to the centre for action. However it will take time to establish as it would potentially require both legislative and executive measures.

This option would entail top to bottom reform of the supply chain with the corporation taking responsibility for all procurement and distribution, including control and management of all warehouses. The current CIMS system would be at the centre of this option as this system is a key component of the success of TNMSC.

OPTION 4 – B) ESTABLISHMENT OF A BODY UNDER SOCIETIES ACT

The GoO could alternatively form a Society, registered under Societies Registration Act 1860, a Trust or a Sec 25 Company registered under companies Act 1956. The primary objective of the organisation would not be commercial but to use it for the benefit of the public at large. Societies are considered to be a time tested option for routing government and/or non-government grant-in-aid and donation or other government allocations for implementation of different programmes/projects more efficiently and effectively due to the additional administrative flexibility they enjoy vis-à-vis government administrations.

Under this option the Sec 25 form of companies are considered to be the most suitable form of NPO which has to a great extent takes care of the shortcoming inherent in a conventional governance structure and public accountability aspect NPOs run under Societies Registration Act. This is a relatively new concept adopted by a number of International NGOs working in India. As such a review of the relative success of the societies should be undertaken prior to proceeding.

8 RECOMMENDATIONS

The basic aim of the Public Health Management Procurement System (PHMPS) is to ensure better competition and transparency in the procurement of health sector drugs, equipment, and services to deliver quality products on time. This can be achieved through the implementation and development of new policies and actions to enhance procurement practise and supply chain management including strengthening the institutional structure and professional capacity.

The decision making process must also take into account the findings of the recent World Bank DIR into the operation of projects under RCH. This identifies failings within the existing procurement arrangements.

It should be noted that procurement cannot be treated in isolation from the complete supply chain. In option 4 (TNMSC) above, the success of the organisation is in large part determined by the successful development of a "pull" logistics system, based upon a successful computerised procurement management system. This means call off contracts (deliveries) are placed automatically when stock levels in the warehouse reach pre-determined reorder levels. Our recommendations are therefore broader in nature than the development of a single "Cell" or unit to undertake procurement.

Serious consideration must be given to the success of the TNMSC model and what elements can be retained and incorporated within the State system. It is proposed that CA include a detailed review of the TNMSC operational activities to determine whether they are relevant to Orissa.

No matter which option the GoO chooses to pursue, the need to strengthen the procurement and supply chain system to ensure the objective of improved health service delivery through enhanced equitable access to quality healthcare cannot be ignored. In this context it would be relevant to make a few systemic recommendations that would be equally applicable to all the options listed above.

Procurement Systems:

- To achieve an efficient, homogeneous and standardised procurement system State-wide, which is transparent and accountable, procurement procedures and a procurement manual should be developed and implemented state wide. This should be adopted and adapted for all procurement commodities including medical equipment and services. The EPW model manual could be used as the basis for this documentation.
- Select medicines within a rational drug use criteria, this will reduce the size of the Essential Drug List (EDL) and therefore make it easier to manage.

- Drug quantification should be based on real consumption patterns from all the service delivery points not solely from hospital statistics and technical assistance should be provided to support an annual forecast and procurement training.
- An integrated WMS and PMIS IT system should be developed at the Centre and implemented at District store level to ensure that accurate logistics data is captured at local level and accessible at the center. This will support local quantification data to enable the development of a "pull" system. The system currently being developed by Broadline for the EPW could be the basis of the system as it incorporates much of the existing programming from CIMS.
- Both the availability of computers and information systems together with computer competence training should be made available to officers as it will be beneficial to the procurement and supply chain functions.

Logistics System:

- Investigate and develop a transport and distribution plan that corresponds to the needs of the system.
- Develop a distribution guide with SOPs in keeping with good store management practices for use in all transaction/storage facilities.
- Develop a Logistics Manual which will aim to improve record keeping and reporting procedures at all levels of the supply chain.

Medical Equipment Procurement:

- A detailed, technical specifications database for all medical equipment should be developed. The MOHFW, Delhi, under the RCH II program, as part of strengthening procurement systems, has initiated an exercise to standardise specifications for medical equipment. The specifications already completed are available on the MOHFW website and more specifications are currently being developed. There is also a provision for regular updates of these specifications so that these specifications are in line with the latest available technology. These standard specifications should be incorporated into all bid documents for procurement of medical equipment.

- Standard bidding documents should be developed for procurement of equipment.

Services Procurement

- Currently the majority of services contracts are let to State owned companies who operate on a cost plus basis with the state basically paying "what it costs". This is a very common situation in an environment where the state operates its own building organisations. It is recommended that this work be opened up to the private sector tp introduce competition into the process. However, this will introduce the need for a much more experienced procurement staff who n addition to procurement skills also has engineering and construction skills. It will be necessary to develop very detailed construction specifications and for all work to be subject t continual inspection by qualified quantity surveyors. A detailed review will be required into current practises within the DoHS to ascertain the skills available and the level of planned expenditure.
- It is recommended that all construction procurement is undertaken on the basis of fixed price lump sum contracts, which are enforced. However, skilled engineering staff must be employed to manage the contracts. It should be remembered that many

construction companies break even on contracted work but make a profit on "alterations and amendments" to construction plans brought about by poor planning and specifications.

Quality Assurance Systems

- Standard Operating Procedures should be developed to ensure that QA is undertaken by officials at State or District levels in accordance with recommended good practice procedures.
- Current procurement policies are not specific when dealing with QA issues. Clear documentation must be produced proscribing what documentation is required from bidders, both at tender and contract stages and upon delivery, covering GMP, Certificate of Pharmaceutical Products (COPP).
- At State level an agreement should be worked out with the MOHFW to enable access to technical specifications for drugs, vaccines, medical equipment that are currently being drafted by the Empowered Procurement Wing (EPW).
- There should be documented procedures for complaints handling and for the recall of medicines and medical equipment which fail quality tests. There should also be systems to identify and report fraud and corruption together with collusive and other dishonest practices.

Development of an Appropriate Organisational Structure:

- An Organizational Structure will need to be developed, to include the following functions\tasks:

    - Procurement Planning and Coordination
    - Procurement (Medicines, Medical Supplies and Equipment)
    - Procurement of Services
    - Procurement of Civil Works
    - Stores and logistics
    - Quality Control
    - Complaints and Disputes
    - Legal
    - Administration and Accounts
    - Information and Technology and Communications Systems
    - Human resources

- To ensure that there is clarity of roles amongst the various functions, and accountability is built into the structure, it is desirable that a 'Roles Directory' is prepared, clearly delineating the roles of different functions and how they will interact.

- Similarly, it is suggested that 'Job Description/Specifications' are prepared for all positions. These should be specific to each position and not a generic template. This will ensure that a proper review of the requirements of each post is undertaken prior to the start of the recruitment process. These will help in the recruitment/placement process when recruiting staff and will detail the job requirements for each post and enable both incumbents and their managers and subordinates to understand their roles

and responsibilities to, and within the organisation. This tool can also be used in the performance and appraisal process to monitor staff performance.

- Currently medical cadre staff undertakes the majority of procurement tasks and performance has been less than satisfactory. It is recommended that, by and large, the staff should have expertise in their assigned roles, having professional qualifications and experience e.g. the procurement function should be headed and staffed by people with procurement, materials management expertise.

- Induction and training programmes should be developed and instituted for all staff to ensure they develop the requisite levels of confidence and competence as quickly as possible. An appropriate policy will need to be put in place so that there are no rotational transfers to ensure the ongoing stability of the organization. This will not stop staff from moving on to new positions within the state system or the private sector, but will ensure that they are not automatically moved at detriment to the procuring organisation.

9 THE WAY FORWARD

Business Case For The Change

The broad assessment undertaken brought to light the gaps in the institutional arrangements for the procurement process and supply chain management. There is a lack of uniform and comprehensive procurement procedures and processes, quality assurance and monitoring processes affecting procurement and distribution of both Drugs and Medical Equipment. The existing arrangement suffers from a lack of common perspective, executive authority and a diffusion of accountability.

Therefore for GoO to incorporate the recommendations highlighted in the last section, two clear priorities emerge:

i. reform of the procurement process and supply chain function
ii. identification of institutional arrangements and their related human resource requirements for the establishment of an autonomous centralised procurement and supply chain management entity.

Whereas the first component has been dealt under the relevant sections in the report, this section deals with the establishment of the institutional set-up to meet the procurement needs of the state health system

Institutional Set up

The centralised procurement and supply chain management can be achieved through creation of an autonomous procurement entity in line with the TNMSC approach, however given the nature of the organization and its core objectives, three distinct possibilities exist for the legal entity required:

- Corporation,
- Not For Profit Organisation and
- Not For Profit Organisation under Section 25

A brief analysis of the strengths/weaknesses related to the three possibilities mentioned above is enclosed as Annexure IV

Based on the comparative analysis at Annexure IV, it is recommended that the Government of Orissa centralise the procurement and supply chain by incorporating a Not for Profit Organisation to undertake the procurement activity on behalf of the Department of Health, GoO under Section 25 of the Companies Act 1956.

Such a not for profit organisation will become operational by obtaining license under Sec 25 of the Companies Act from the respective Regional Director of the Ministry of Company Affairs. The pre requisites for obtaining such a license are mentioned below

1) *The Company should be formed for the charitable purpose.* ***Charitable Purpose*** *includes relief to the poor, education, medical relief, and advancement of any other object of general public utility.*

   An organisation established with the objective of procuring drugs, medical consumables and medical equipment with the sole purpose of providing equitable health services to the general public qualifies for the "charitable purpose" as defined above.

2) *The company should not have the motive to distribute the profit. The income should be utilized for the purpose for which it is incorporated*

   This requirement can be taken care of by introducing suitable provisions into the Memorandum and Article of Association of the Company.

   As the organisation will be procuring on behalf of the Department of Health, GoO an official order detailing the mission and scope of this organisation will need to be issued with a Cabinet Approval. If the concerned minister is of Cabinet Level he may give the approval on his own without referring the proposal to the Cabinet Committee.

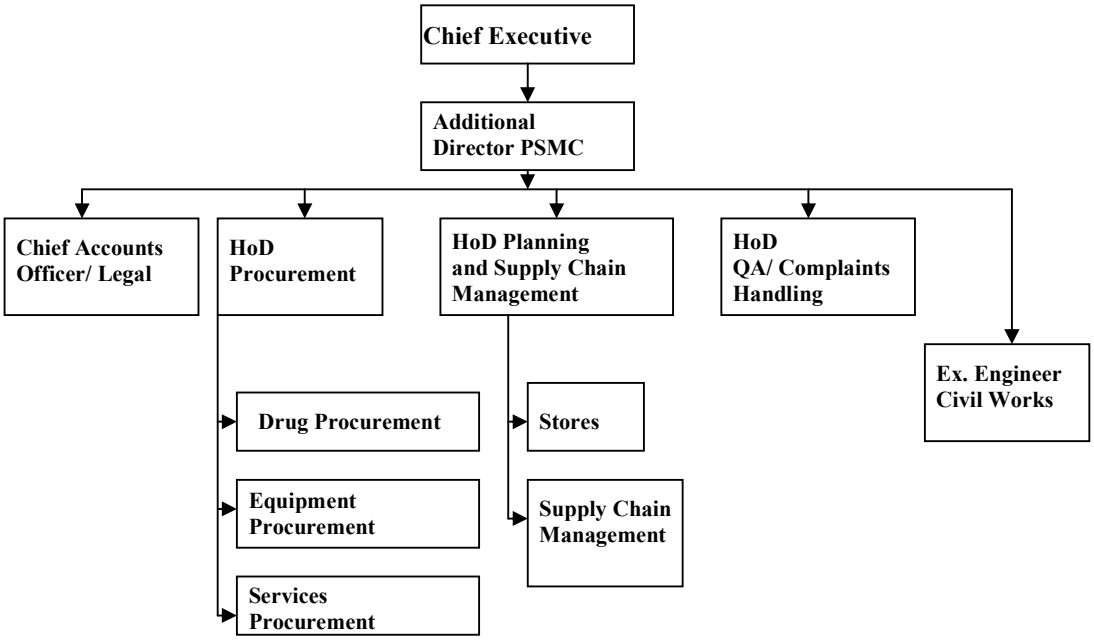
Organisation Structure:

Based on the functional roles defined under the section on recommendations, an organizational structure will need to be developed, to including a managerial structure catering to those roles. Under these functional heads working groups will be created catering to the complete set of task requirements to run the organisation as an independent unit.

a. Planning and Supply Chain Management
   i. Procurement Planning
   ii. Stores
   iii. Supply Chain Management (supervision of the service provider)
   iv. IT and MIS (planning, procurement, specifications database, complaints database, accounts and other MIS support)
b. Procurement
   i. Medicines and Medical Supplies
   ii. Equipment
   iii. Services(including PPP agreements)
c. Civil Works

d. Quality Control and Complaints Handling - Stores
   i. Quality Assurance for procurement of Medicines and Medical Supplies, Vendor prequalification and Vendor Assessment
   ii. Complaints Handling
e. Administration, Accounts and Legal
   i. Administration and Accounts
   ii. Human Resource Management
   iii. Legal

Based on the above following organisation structure has been proposed, a detailed staffing requirement would need to be worked out during institutional design to be undertaken as a follow-up action.



The Key Performance Indicators (KPI) for the proposed organisation

In order to set-up a organisation with orientation towards service delivery in the public domain, as a key differentiator to the existing system, it has been suggested that the key performance indicators are clearly defined for the various functions indicated from the commencement. Some of the key performance indicators are suggested below. The list below is only an indicative list; it is recommended that during the institutional development phase a comprehensive list with quantifiable targets are drawn up.

- Procurement planning process taking due care of compilation of the items to be purchased based on requirements received from indenting units
- Compilation of budget before the start of financial year
- Approval and allocation of budget at the beginning of financial year
- Computation of quantities to be purchased based on MIS reports and approved budget (Drugs, consumables and medical equipment)
- Release Schedules / lots based on available stocks
- Tendering Process number of transactions, lead time per transaction etc

- ✓ Drafting and Issue of RFP
- ✓ Evaluation (Technical and Commercial)
- ✓ Issue of the Contracts

- Contract Monitoring
  - ✓ Number of pre shipment inspections carried out
  - ✓ Number of deliveries received as per schedules
  - ✓ Number of lots inspected in the warehouse
  - ✓ Number of lots rejected in the warehouse
  - ✓ Timely reporting of the rejected lots to the supplier
  - ✓ Timely replacement against the rejected lot
  - ✓ Number of times of stock out for a particular item
- Number of times the payment is issued to the supplier as per the contractual terms
- Number of complaints received in the financial year and resolved satisfactorily
- Frequency of the stock taking exercise in the warehouse/ stores
- Availability of updated reports on discrepancy between the ledger stock and physical count
- Number of equipment (Material Handling as well as the Quality Assurance) calibrated on schedule
- Availability of the updated Essential Drug List as indicated in the policy (currently revised every two years)
- Disposal of the obsolete stock
- Annual audit and redressal of the issues raised in the audit report.

Proposed Action Plan

In order to implement the proposed recommendation an immediate way forward plan including the following key activities has been suggested:

- ➢ Design and development of the institutional plan
- ➢ Development of financial proposal
- ➢ Issuance of Government Order
- ➢ Incorporation of the NPO under section 25 of Companies Law
- ➢ Procurement and QA System formulation

The table below provides a broad time plan alongwith details of activities to be carried out under each activity.

Activity	1	2	3	4	5	6	7	8	9	10	11
Design and development of the institutional plan ▪ Overall scope of its activities/service delivery and the limitations ▪ Key interfaces with DoHFW entities, its roles and responsibilities ▪ Manpower plan including staffing requirement, job roles, skills requirement and hiring plan ▪ Development of KPIs	■	■	■								
Development of the financial proposal ▪ Costing Structure ▪ Capital Structure ▪ Service Charge	■	■	■								
Issuance of the Government Order				★							
Incorporation of the NPO under section 25 of Companies Law ▪ Formulation of an objective clause, name selection, naming first directors and trustee ▪ Incorporation activities i.e. name application, drafting of MoA and AoA, Vetting of the same by RoC, application for licence under Section 25 to Regional Director Company Law Board and Incorporation					■	■	■	■	■	■	■
Procurement and QA System formulation ▪ Development of a single set of procurement guidelines and procedures (customise RCH Manual) ▪ Development of Quality Assurance Systems and Manuals ▪ Kick-starting actions for creating Drugs and Equipments Specification Database ▪ Review and reinstate the existing integrated Logistics Management Information Systems (LMIS) leveraging upon the RCH – ProMIS implementation ▪ Review of the state/district warehouses ▪ Development of Procurement Audit plans					■	■	■	■	■	■	■

10 LIST OF PERSONS MET IN ORISSA:

Sl. No.	NAME
1	SDMU TEAM Dr. S. Mishra, Dy. Director Dr. Paty (Medical Officer) (Medical Officer Stores)
2	NRHM, Orissa Rajesh Mishra (Procurement Specialist)
3	SCB, Medical College Dr. Keshab Ch. Kar (Store Medical Officer)
4	OSIC Marketing Team (Officially entrusted carry out health procurement function) Mr. A.K. Das Mahapatra (Manager) Mr. Satpathy (Asst Manager), etc
5	Department of Health, GoO Mr. K.K. Tripathy, FA cum Additional Secretary to Govt Mr. Chandan Satpathy, AFA

ANNEXURE I

PURCHASE SUB-COMMITTEE/ TECHNICAL COMMITTEE

1.	**Director Health Services, Orissa**	**Chairman**
2.	**Director Medical Education and training, Orissa**	**Member**
3.	**Director Family Welfare, Orissa**	**Member**
4.	**Drugs Controller, Orissa**	**Member**
5.	**Deputy Director, SDMU**	**Convener**
6.	**FA-cum-C.A.O., Director of Health Services**	**Member**
7.	**Medical Officer, SDMU**	**Member**
8.	**Store Medical Officer, SDMU**	**Member**
9.	**Representative from Concerned Departments**	**Member(s)**

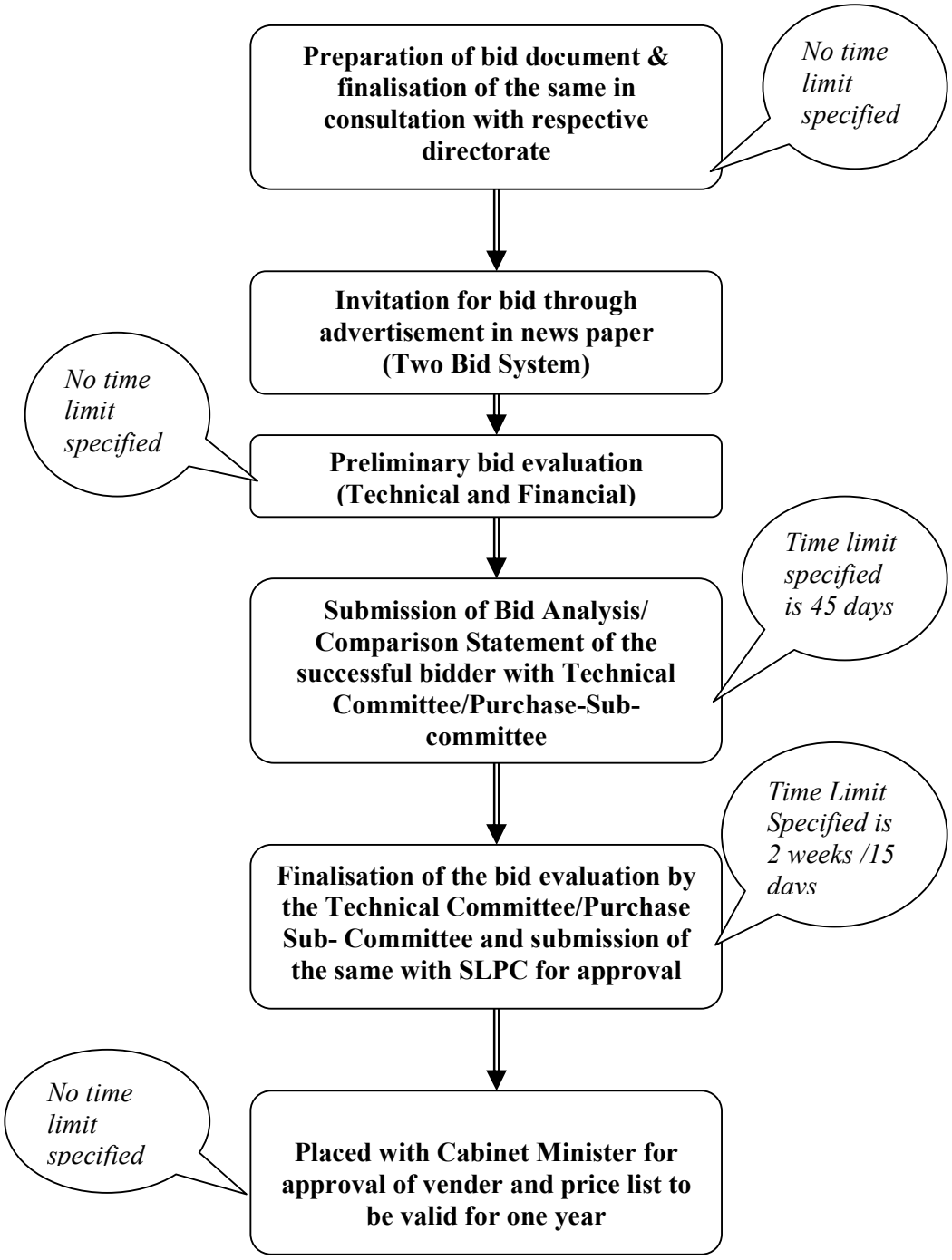
ANNEXURE II

STATE LEVEL PURCHASE COMMITTEE:

1.	**Secretary to GoO, Health and Family Welfare Dept.**	**Chairman**
2.	**Addl. Secretary to GoO, Health and Family Welfare Dept.**	**Member**
3.	**Director Health Services, Orissa**	**Member**
4.	**Director Medical Education and training, Orissa**	**Member**
5.	**Director Family Welfare, Orissa**	**Convener**
6.	**Director of Indian Medicine and Homeopathy, Orissa**	**Member**
7.	**Drugs Controller, Orissa**	**Member**
8.	**Representative of Finance Department**	**Member**
9.	**Representative of Law Department**	**Member**
10	**Representative of Export Promotion & Marketing, Orissa**	**Member**
11	**FA- cum- Deputy Secy to GoO, Department of H& FW.**	**Convener**
12	**Deputy Director, SDMU**	**Member**

ANNEXURE- III

PROCUREMENT PROCESS FLOWCHART SDMU



ANNEXURE- IV

CORPORATION VS. NOT FOR PROFIT ORGANISATION (NPO) (*A COMPARATIVE EVALUATION*)

Definitions:

1. ***Corporation*: Corporation means a company registered under Companies Act 1956 and not less than 51% of the share capital is held by the government (GoO) - A Government Company.**

2. ***Not for Profit Organisation*: In the given context by NPO we mean either a society registered under Societies Registration Act 1860, a Trust or a Sec 25 Company registered under companies Act 1956. - Objective is not to distribute profit among the trustees but to use it for the benefit of public at large.**

	Corporation	NPO other than Section 25 Companies	Section 25 Company
1. Flexibility in Capital Structure	Company is considered to be the best form of organisation so far as it relates to the sourcing of Capital. Under the Act a company has been given many options to raise capital for its business requirement i.e. equity share, preference shares, debentures, bonds, and also banking arrangements.	NPOs are not conventionally designed for carrying out commercial activities. So the necessity of raising capital to run the unit is not taken seriously in the context of an NPO. Hence there is a little scope for sourcing capital. It has to rely upon grants, donations or trust property to fund ongoing activities.	Section 25 company is primarily a company incorporated as any other Registered Company. A section 25 company can also have a share capital like other companies. However, it gets certain benefits/preferences under the Act for not having a profit motive. For the bankers and other financial institutions it does not offer the opportunity to provide financial services.
2. Governance	The Companies Act 1956 is considered to be comparatively more detailed and comprehensive enough to regulate the day to day affairs of the company. There is very little scope for flexibility in statutory compliance. The roles and responsibilities of each key official are clearly defined. The management and owners are separate and a clear line of separation exists so far their roles and responsibilities are concerned. In addition, the regulatory arrangements in case of a company are more	The laws governing NPO are not as robust/ stringent as in case of companies; the reason being NPO are formed primarily on mutual trust and confidence without any motive of personal interest. So the required level of compliance is low vis-à-vis companies.	Primarily Sec 25 companies are governed by the Companies Act although some relaxation is granted to then vis-à-vis other conventional companies.

	Corporation	NPO other than Section 25 Companies	Section 25 Company
	focused and uniform across the country being legislated by central laws.		
3. Transparency	The level of transparency is high in the case of companies because of better governance of the statute. Secondly, the filing of returns with the statutory authority (ROC) are standardised and designed in line with international practices. Better governance ultimately contributes towards better transparency.	NPOs being charitable in nature have to meet a lower level of detail under the statute so far as filing of returns are concerned. This leads sometimes to a low level of transparency.	The level of transparency is at par with conventional companies. Which give them an edge over other forms of NPO.
4. Professionally Managed	Due to better clarity about the roles and responsibilities of the key officials in the statute, professionals prefer to work in companies to NPOs. In addition, it is hard to ignore issues such as efficiency, economy, and expediency in a company setup.	NPOs are normally less sensitive to issues like; profitability, economy, and efficiency and professional managers have less scope to excel and to use their professional skills	In this context, Sec 25 Companies are placed in between Corporations and NPOs. Because Sec 25 Companies are governed by the same statutes as that of conventional Companies, except the lack of commercial/economic motives (profits) professionalism in some extent is vitiated.
5. Commercial Acceptance	Last but not the least; companies have a more acceptable in commercial circles than NPOs as NPOs are not considered serious business entities to deal with.	.	Sec 25 Companies by virtue of their status (Charitable) are allowed not to put the word "Ltd" as suffix to their name. As a result of which, to some extent their identity as a company is hidden and to that extent their acceptance is affected.

Summary:

- NPOs are considered to be a time tested option for routing government and/or non-government grant-in-aid and donation or other govt allocations for implementation of different programmes/projects more efficiently and effectively due to the additional administrative flexibility they enjoy vis-à-vis the government setup. However, the appropriateness of NPOs in carrying commercial activity like procurement is yet to be proved /tested.

- Sec 25 form of companies are considered to be the most suitable form of NPO which has a flavour of both NPO and Company characteristics and to a great extent overcomes the shortcoming inherent in a conventional form of NPO . However, this is a relatively new form of NPOs and isnot very common in India.

Timeline for Sec 25 Company and normal Company incorporated under Companies Act 1956 is almost similar except that Sec 25 Company needs to obtain a licence from Regional Director Company Law Board as an additional requirement which normally takes about 6 weeks.