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USAID Kenya KEMSA Support Program
Quarterly Progress Report
January to March 2013

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KEMSA Support Program

FY 2013 Q2 PROGRESS REPORT

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The authors' views expressed in this report do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

Table of Contents

Acronyms and Abbreviations

CEO	Chief Executive Officer
ERP	Enterprise Resource Planning
GWP	Good Warehousing Practices
ICT	Information and Communication Technology
KEMSA	Kenya Medical Supplies Agency
KPI	Key Performance Indicator
LMU	Logistics Management Unit
M&E	Monitoring and Evaluation
PPE	Personal Protective Equipment
POD	Proof of Delivery
PMP	Performance Management Plan
RHF	Regional Health Facility
SNO	Strategic Network Optimization
SOP	Standard Operating Procedure
SSD	Supplementary Service Division
STTA	Short Term Technical Assistance
USG	United States Government
WMS	Warehouse Management System

I. KEMSA SUPPORT PROGRAM EXECUTIVE SUMMARY

Health is a main component of the Kenyan Government's Vision 2030 for national long-term development. One of the key objectives of Vision 2030 is to strengthen the Kenya Medical Supplies Agency (KEMSA) to be a strategic procurement and supplies agency for the health sector. In support of Vision 2030, the USAID-funded KEMSA Support Program, led by Deloitte Consulting LLP, aims to strengthen KEMSA's commodity management system for effective service provision to client health facilities throughout the country.

This report covers the progress made from January 1, 2013 through March 31, 2013. Major accomplishments during this quarter included: receiving presidential assent for the KEMSA law, conducting a strategic network optimization (SNO) analysis, strengthening KEMSA's internal audit function and completing the KEMSA Performance Management Plan (PMP).

In January 2013, the KEMSA law was given the presidential assent and published. It will be effective from April 15, 2013. This is a major accomplishment and has provided KEMSA the legal foundation to strengthen their operational mandate and provide the organization with necessary autonomy.

We collaborated with KEMSA to develop four Board Committee Charters for the: 1) Ethics Committee, 2) Audit Committee, 3) Risk Management Committee, and 4) Human Resources Committee. These charters guide the Board of Directors to establish new committees in key areas and strengthen their governance structure.

We completed a strategic network optimization (SNO) analysis. The aim of the SNO analysis is to advise KEMSA on a logistics network configuration that best suites the Kenyan environment and optimize cost and service levels based on projected future demand.

Based on the analysis we recommended that three distribution centers located in Nairobi, Kisumu and Mombasa would provide the most optimal logistics network. In 2017, it would result in a potential 2.1% (KES 24 million) reduction in annual operating costs if compared to the centralized distribution strategy. The 3-Distribution Center scenario would improve the responsiveness of the logistics network from a current state of 4-hour delivery reach of 39% of facilities, to 84% of facilities. The 4-hour delivery reach was used as the measure of customer service since it will allow for delivery and return to a distribution center within one day. We recommended that the implementation be phased to ensure it is manageable and that organizational learning is obtained with the roll-out of each additional distribution center.

II. Key Achievements (Qualitative Impact)

This section highlights the qualitative accomplishments made during the first quarter of FY13 by each of the five key result areas that include strengthening KEMSA's operational mandate; governance architecture and practice; inventory management and tracking systems; warehousing and distribution systems; and internal performance monitoring.

Legal Status and Operational Mandate

In January 2013, the KEMSA law was given the presidential assent and published. It will be effective from April 15, 2013. This is a major accomplishment and has provided KEMSA the legal foundation to strengthen their operational mandate and provide the organization with necessary autonomy.

Governance Architecture and Practice

This work stream is focused on KEMSA's organizational development, change management and finance operations. During this quarter we conducted a Change Champions Capacity Building Workshop with 20 participants on March 15 to 16, 2013. KEMSA now has a Change Management Framework that includes a Change Oversight Team, Change Champions and the vision that all staff act as Change Agents. Following the workshop, Change Champions have delivered feedback presentations to 265 staff in related process areas.

We helped KEMSA develop and implement a standardized e-mail signature for staff. This helps strengthen the image of KEMSA as a professional organization. We trained 13 KEMSA staff on e-mail etiquette and Outlook Functionalities to support more efficient and professional methods to work.

We collaborated with KEMSA to develop four Board Committee Charters for the: 1) Ethics Committee, 2) Audit Committee, 3) Risk Management Committee, and 4) Human Resources Committee. These charters guide the Board of Directors to establish new committees in key areas.

We finalized with KEMSA their Internal Audit policies and procedures and the Standard Operating Procedures (SOP's) Manual. These manuals were reviewed and approved by KEMSA's Internal Audit Manager and the Legal Director. KEMSA's internal audit function supports KEMSA's risk management, governance and control systems.

We trained KEMSA staff on the new Internal Audit policies and procedures on March 18 to 19, 2013. Participants included KEMSA's Legal Director, Finance Manager, Warehouse Manager, Customer Service Manager, Information Technology Manager and two Procurement Managers. The training strengthened KEMSA's skills and knowledge on its internal audit mandate, roles and responsibilities, the benefits of the Internal Audit Department, and the new policies and procedures such as risk-based auditing and KEMSA's Institutional Risk Management Framework. The training was hands-on and included team-based case studies. Participants discussed how KEMSA's audit plan helps link the Internal Audit Department activities to key areas of potential high risk and develop and track risk mitigation strategies.

Inventory Management and Tracking System

We completed the Customer Service Analysis Report. Overall, customer service processes at KEMSA are challenged due to limited availability of system tools and resources; lack of functionality and integration with existing systems; and manually time consuming processes.

Based on findings of the analysis, we discussed key recommendations with KEMSA to address deficiencies and improve current operations within each customer service function. Within order management, KEMSA should implement improved processes to monitor and address delayed facility order submissions, improve integration points with warehousing and distribution throughout order fulfillment, address Enterprise Resource Planning (ERP) functionality gaps, and improve the LMIS system and integration with ERP. Reporting and tracking mechanisms should also be aligned to the new county structures.

Regarding complaints management, KEMSA should further optimize the customer complaints management by automating the process in the ERP system to improve, track and collaborate with other departments to resolve complaints, and regularly provide feedback and reporting on complaints. In addition, KEMSA should broaden the complaints functionality to move towards a more comprehensive Customer Relationship Management.

In reverse logistics, KEMSA should standardize processes and procedures and improve current system capabilities to facilitate tracking and accounting of reverse logistic transactions.

Following the review of Customer Service SOPs in the previous quarter, we developed new SOPs and updated existing SOPs, working closely with the KEMSA Customer Service Department in particular the Demand Analysis Officer and selected Regional Customer Service Officers (RCSOs). We conducted several review sessions with the Manager and Operations Director. The newly developed SOPs reflect the integration of LMU into the Customer Service Department, alignment with the metrics and key performance indicators (KPIs), newly implemented tools such as the Complaints Management Tool, Order Tracking Tool and Field Officers reporting tools. The SOPs have defined the responsibility matrix for the Customer Service staff to avoid role confusion and duplication of duties.

Following the completion of the Customer Service Analysis, we reviewed the ERP gap analysis and provided guidance on the Customer Service Module enhancements geared towards aligning the ERP and the already implemented processes and tools. The completion for the implementation of the identified areas will be in the next quarter.

We conducted a review session of the Technical Planning Unit design with the newly appointed Finance and Administration Director. During this session we explained the intentions at the core of this Supply Chain Commodity planning unit and reviewed the reporting lines of the planning unit for the new director's understanding and benefit. When implemented, the Technical Planning Unit will have a dual role of managing supply chain planning and coordinating KEMSA's continuous improvements based on performance management feedback within the operations and procurement areas.

Warehousing and Distribution Systems

We conducted the warehousing process analysis of the current warehouse operations processes and activities. The processes reviewed in detail include receiving, put away, order management, picking, consolidating, and dispatch. We also analyzed the enabling technology and the current infrastructure configuration to determine if improvements in functionality and physical organization are needed to support the process improvements.

A review of KEMSA's warehouse SOPs showed they provide basic guideline for warehousing processes. We noted the current practices and processes accomplish the fulfillment of orders on a daily basis; however, the abundantly manual steps required to complete the picking and consolidation functions prevent additional volumes to be absorbed. KEMSA would not be able to increase volumes without significantly improving its picking rates, space utilization, and overall organization of the order fulfillment process.

Given the consistently high volumes of KEMSA's customer demand, and the urgency and need for life-saving medications, it is imperative that improvements be made that can show short-term benefits and, at the same time, are of high impact and return. Our team made practical recommendations for improvement that maximize impact. These include improvements in the following areas:

- **Physical Changes** – Warehouse caging and relocation of racks are needed to accommodate process changes and improve product flow. Increasing warehouse velocity is the key to increasing productivity. The aim of caging is to restrict warehouse access to unauthorized staff.
- **Receiving** – Improving the receipt of goods into the warehouse will result in accurate count and expedited quality assurance processing when needed. The proper handling and palletizing of product will facilitate product flow and maximize space utilization.
- **Put Away** – Streamlining operations in the warehouse starts with product receipt and put away. The Put Away function affects everything that happens downstream in the order fulfillment process. You cannot fill orders if you cannot find the product. For this reason, implementing a zone-restricted put away strategy will produce immediate results during the pick, pack, and ship processes.
- **Picking** – The picking task tends to be tedious and time consuming. It is also plagued with errors, as it is mostly manual entry, even though it is carried out with WMS handhelds. This task, along with consolidating, represents the greatest opportunity for improvement. We observed that about half of the orders are low quantity, fine picking type orders. We recommend implementation of a high-speed flow rack model to pick, pack, and consolidate these fine-picking orders. This will accelerate the picking of these orders as well as the bulk orders where full cases are being picked. Separating the fine picks from bulk will allow uninterrupted case picking and accelerate that process as well.
- **Consolidating** – The consolidation task is carried out in batch mode. We observed that many times, this task is not completed on time because of errors made in the picking process and confusion about the orders that need to be consolidated for a route. We recommend that the picking task and the consolidation task happen in

sequence. Picking, verifying, packing, and consolidating should be executed in sequence for each order released.

- **Dispatch** – This process is impacted by improvements in the picking and consolidation area. The addition of a staging area will improve the dispatch function by minimizing the clutter in the area and restricting this area to only completed routes being staged.
- **General Warehouse Practices (GWP)** – We made several recommendations to improve GWP. These include implementing lean principles such as signage and performance feedback, improving lighting and temperature in the worksite, and providing opportunities for skill building and training to staff. These recommendations contribute to the overall productivity of the warehouse, ensure safety and compliance, and improve the well-being of the warehouse staff so that interruptions are minimized during the peak labor hours.

Strategic Network Optimization (SNO)

We conducted a strategic network optimization (SNO) analysis. The aim of the SNO analysis is to advise KEMSA on a logistics network configuration that best suites the Kenyan environment and optimize cost and service levels based on projected future demand. With Kenya moving towards devolution it is very likely that the new county structure will place new demands on KEMSA to move away from an exclusive centralized approach. The future commercialization of KEMSA (as currently enabled through the Supplementary Services Division), will require increased service delivery and customer service flexibility to compete against external commercial companies.

The SNO analysis compares KEMSA's current state against potential future state scenarios to better understand the cost and infrastructural requirements of moving towards a decentralized approach. KEMSA has recognized that although most facilities are within reach of Nairobi, a decentralized approach may offer better customer service. Decentralized distribution centers will be able to offer more cost effective distribution if more frequent deliveries are required, compared to the centralized structure.

We held a number of working groups and senior management meetings to discuss and decide on future state scenarios with KEMSA. The following future state scenarios were identified as critical by KEMSA:

a) **Scenario 1: Centralized Distribution**: KEMSA decided to review the current centralization model against potential projected future volumes for 2017 and 2030 to determine cost impacts as well as required warehouse sizes for a centralized model. This model was compared against the decentralization alternatives.

b) **Scenario 2: Distribution Center in Every County:** This scenario reviews the "what-if" cost impact if a regional distribution center were established in all the 47 counties for the years 2017 and 2030. The rationale for this scenario is to understand the cost impact of potential requests for county specific distribution centers. By proactively understanding the impact of this scenario, KEMSA will be prepared with the facts when counties propose implementation of county distribution centers.

c) **Scenario 3 and 4: Optimal Distribution Center Locations Leading to Rationalized Distribution Center Locations:** This scenario reviews the optimal placement of distribution centers across Kenya based on demand volume from the facilities and best cost comparisons for 2017. Following a review of the optimal distribution center locations, we made adjustments to the locations based on existing infrastructure and other strategic knowledge such as future growth and security sensitive areas.

We built in the global positioning system coordinates of facilities into software models and calculated demand projections for 2017 and 2030. We ran the agreed future state scenarios through the model software to generate reports and visual outputs. We reviewed and validated all outputs of the report with KEMSA's management.

Based on the analysis we recommended that three distribution centers located in Nairobi, Kisumu and Mombasa would provide the most optimal logistics network. In 2017, it would result in a potential 2.1% (KES 24 million) reduction in annual operating costs if compared to the centralized distribution strategy. The 3-Distribution Center scenario would improve the responsiveness of the logistics network from a current state of 4-hour delivery reach of 39% of facilities, to 84% of facilities. The 4-hour delivery reach was used as the measure of customer service since it will allow for delivery and return to a distribution center within one day. We recommended that the implementation be phased to ensure it is manageable and that organizational learning is obtained with the roll-out of each additional distribution center.

We conducted a review of regional depot infrastructure focusing on Kisumu, Mombasa, Eldoret and Njeri. We aligned this review with the SNO analysis to recommend priority improvements as follows:

1. **Kisumu Depot:** Kisumu Depot will be converted into the first regional distribution center and the roof extension combined with racking implementation will increase the pallet storage from 628 to 696 pallet spaces. The SNO analysis recommended a warehouse size of 2,200 pallet spaces. Further expansion will be required in future. The current 628 pallets are based on 3-pallet high stacking which does not provide for efficient commodity retrieval.
2. **Mombasa Depot:** Mombasa Depot is recommended as the second regional distribution center. The roof extension combined with racking implementation will increase the pallet storage from 320 to 480 pallet spaces. This compares well with the recommended minimum pallets of 440 that were identified by the SNO analysis.

Njeri Depot provides an alternative to Mombasa Depot. KEMSA is not considering Eldoret Depot for expansion at this stage.

MS Access-based Planning and Distribution Tracking System

Distribution has presented Performance Management's greatest challenges. The lack of any reliable information systems for managing the planning cycles and subsequent distribution and metrics reporting has stretched both project and KEMSA resources unnecessarily. While the ERP's Distribution Module is under development, there was the need for an interim tool to assist the Distribution Department to plan, dispatch, and report metrics. To fill this gap, we

developed the MS Access-based Planning and Distribution Tracking Tool to provide a series of easy-to-use forms for critical distribution processes, including:

- Develop the weekly and quarterly distribution plan
- Track trucks requested and availed by transporters
- Consolidate orders into trucks and their routing
- Monitor Proof of Delivery returns
- Track damaged products and distribution-related complaints
- Automate performance metrics calculation and other standard distribution reporting

Testing with KEMSA users was performed in December 2012 and, as a result, a number of changes and enhancements were made during this quarter. We trained the Distribution Department team in February 2013. The tool will serve as a model for the ERP functionalities under development by the Information and Communication Technology (ICT) Department.

Performance Monitoring Plan: The focus of the Performance Management work stream during the quarter has been on transition and sustainability. During the quarter we submitted KEMSA's PMP to the CEO for final approval. While KEMSA, with the project's assistance, is already implementing a broad range of activities illustrated in the PMP, we stressed the need to operationalize and transition these responsibilities to the various departments. With our support, PMP implementation actions were integrated into KEMSA operations by including them in KEMSA's current Business Plan. Using the Business Plan as the channel for their implementation avoids the need to have a separate action plan solely for the PMP and ensures buy-in from KEMSA leadership and implementing groups through sustainable mechanisms.

Also in the interest of sustainable impact, Actionable Information Use presentations have been led by KEMSA's M&E Champions from Customer Service, Warehouse, and Distribution for the third consecutive quarter. In the operations staff meetings, the M&E Champions present metrics results, interpret the findings, and make recommendations for action to address performance challenges. They review the actions from past presentations and what has been done to address the aforementioned challenges. These presentations guide discussions and encourage cross-departmental collaboration, highlighting the need for greater integration across the various groups.

As a part of our ongoing development of Actionable Information Products, we rolled-out the Executive Performance Management Dashboard for KEMSA Directors and the CEO. The dashboard includes KPIs, procurement information, expired stock data, finance summaries, and ERP performance details. The dashboard tracks inventory and operational performance and provides an early warning mechanism for inventories and supply chain operational plans which may require corrective action. The scorecard will help improve and track KEMSA's performance and provide critical transparency into actionable information to support decision-making.

Program Administration

We expect all demobilization activities to be completed by the end of the contract period, May 10, 2013, except preparation of the final invoice and completing some final payments of vendor invoices. A detailed demobilization plan task list and schedule has been created and is being tracked by the program administration.

Subsequent Quarter's Work Plan

Mandate Legal Status and Operational Mandate

- Support KEMSA to draft implementation process and protocols to operationalize the KEMSA Act

Governance Architecture and Practice

- Monitor the implementation of the revised finance SOPs

Inventory Management and Tracking Systems

- Train KEMSA on updated Customer Service SOPs and policies

Warehousing and Distribution Systems

- Finalize strategic network optimization analysis report
- Review strategic network optimization analysis with KEMSA senior management
- Update distribution SOPs with warehouse analysis impact on dispatch processes
- Train distribution SOPs and policies
- Train quality assurance SOPs and policies
- Finalize warehouse processes and update SOPs
- Train warehousing SOPs and policies

Performance Monitoring Plan

- Continue data collection, analysis, reporting and information use

III. PROGRAM PROGRESS (Quantitative Impact)

As illustrated in Performance Data Table I, during this quarter we made significant quantitative impact in KEMSA in several key areas. Nearly all (96%), of the project indicators have shown improvement over their baselines during the life of the project. We have the following highlights this quarter:

- **Order Fill Rate**: The two most recent quarters have seen excellent performance in this indicator at 94% and 92%, respectively. Although a number of factors contributed to these improvements, the availability of stock is often the single-most important contributor to the fill rate metric. As such, we collaborated with KEMSA to introduce

planning reports and planning forums to assess stock status against demand to inform fast tracking of pipeline procurements for low stock or out-of-stock items.

- **Short-Dated Commodity Batches**: This metric continues to perform exceptionally well and the percentage of commodity batches which have less than six months of shelf life has dropped to 1.89%, approximately 50% of its 3.8% baseline. Performance of this indicator has improved due to a number of measures recommended by the program such as routine monitoring of stock shelf life as well as donation of short-dated batches to avoid expiries. We also introduced planning reports that flag overstocked items for prompt management action. Actionable information related to this indicator is highlighted in the Executive Performance Dashboard provided to the CEO and KEMSA Directors.

- **Order Turnaround Time for Special Programs:** In the previous quarter's M&E Champion presentation, Customer Service presented the poor performance in order turnaround due to a large increase in ARV orders. KEMSA and project advisors took immediate action to improve the performance of this metric and the turnaround time for ARV orders dropped by over 50% this quarter to 6.04 days.

- **On-Time Deliveries:** This quarter experienced the highest on-time delivery to hospitals since the project began in May 2011. We observed that 95.7% of orders were delivered to hospitals on-time.

- **On-Time Proof of Delivery Returns**: For the second straight quarter – and after the project supported KEMSA to retender transporter contracts which include service level agreements (SLA) for returning Proof of Deliveries (PODs) – the project saw significant improvement in this metric. In early 2012, we observed baselines of 12% and 13% on-time POD returns for hospitals and RHFs, respectively. Thanks to the new transporter contracts as well as routine monitoring and communication to transporters about their performance, this quarter observed a remarkable 82% of hospital and 58% of RHF PODs returned within the SLA period.

- **Picking Rate**: Efficiency in warehouse picking activities has been an ongoing issue of discussion between KEMSA leadership and project advisors. Recent picking rates were published on the Performance Management posters on the warehouse floor at both Embakasi and Commercial Street. For the second consecutive quarter, the project observed a picking rate above the target of 4.5 order lines per hour. The last two quarters demonstrated picking rates of 4.6 and 5.79 order lines picked per hour.

- **Audit recommendation resolution rate:** KEMSA exceeded the audit recommendation resolution rate target. The indicator was 88% during this quarter. The baseline was 76% and the target was 85%. This demonstrates the progress that KEMSA is making to improve key areas of financial management.

Table 1: Performance Data Table

INDICATOR NAME	YEAR 1 BASELINE	YEAR 1 BASELINE DATE	YEAR 1 VALUE (DATE)	May 2011 - Sep 2011	Oct 2011 - Dec 2011	Jan 2012 - Mar 2012	Apr 2012 - Jun 2012	Jul 2012 - Sep 2012	Oct 2012 - Dec 2012	Jan2013 - Mar 2013	TARGET VALUE YEAR 2 (MAY 2013)
A legal and regulatory framework for the organization exist and there is evidence of it being followed	2	Aug-11	2 (Apr 2012)	N/A	N/A	N/A	N/A	N/A	2	3	3
Presence of governance body charters that support KEMSA's program objective(s)	2	Aug-11	3 (Apr 2012)	N/A	N/A	N/A	N/A	N/A	3	4	4
Audit recommendation resolution rate	76%	Systems Audits (FY09/10 and FY10/11[6]) and Fin Mgt Audits (FY09/10 and FY10/11)	TBD pending 2011/2012 audit results (see comments)	N/A	N/A	N/A	N/A	N/A	N/A	88%	85.0%
Bank reconciliation completion date variance	4	Sample - Feb to Apr 2012	4 (Feb-Apr 2012)	Data not available	Data not available	6 (Feb-Mar 2012)	4	0	0	0	3
Standing imprest replenishment lead time	3.7	Mar – Apr 2012	3.7 (Mar-Apr 2012)	Data not available	Data not available	Data not available	3 (April 2012)	9.50	4.45	1	3
Payment processing days	8.32	Mar – Apr 2012	8.32 days (Mar-Apr 2012)	Data not available	Data not available	Data not available	7.41 (April 2012)	7.12	6.46	8.37	10
Financial reporting timeliness variance	5	Jan-Feb 2012	3 (Jan-Apr 2012)	Data not available	Data not available	3	2	0	1.0	2	4

INDICATOR NAME	YEAR 1 BASELINE	YEAR 1 BASELINE DATE	YEAR 1 VALUE (DATE)	May 2011 - Sep 2011	Oct 2011 - Dec 2011	Jan 2012 - Mar 2012	Apr 2012 - Jun 2012	Jul 2012 - Sep 2012	Oct 2012 - Dec 2012	Jan2013 - Mar 2013	TARGET VALUE YEAR 2 (MAY 2013)
Order fill rate for funded tracer commodities	66%	Jan-Apr 2011	Figure under validation.	Data not available	Data not available	Data not available	Data not available	46%	94%	92%	71%
Short-dated commodity batches	3.80%	Mar-12	3.80% (Mar 2012)	Data not available	Data not available	3.80% (Mar 2012 only)	5.62% (May-Jun 2012 only)	2.78%	1.64%	1.89%	2.85% (30% decrease from year 1 baseline)
Order turnaround time for special program distribution cycles	6.76 days (ARVs only)	Dec 2011-Mar 2012	6.44 days (ARVs only, Dec 2011-Apr 2012)	Data not available	8.2 days (Dec 2011 only)	6.23 days (Feb-Mar 2012 only)	6.59 days	6.97 days	12.11 days	6.04 days	Special program distribution cycle: 6 days
Customer complaints response time	69%	Jun-12	N/A	Data not available	Data not available	Data not available	75%	44%	68%	72%	80%
On time reporting	56%	Jan-Apr 2011	41% (Jan-Apr 2012)	Data acquired, figures being calculated.	Data acquired, figures being calculated .	37%	47%	47%	42%	23%	65%
Months stock cover (tracer commodities only)	17.31 months	Feb-Apr 2012	17.31 months (Feb-Apr 2012)	Data not available	Data not available	20.08 months	9.17 months	16.53 months	41.19 months	18.83 months	10 months
Dock to stock	6.32 days	Jan-Apr 2011	4.80 days (May 11-Apr 12)	4.39 days	5.29 days	3.86 days	3.70 days	3.32 days	3.52	2.04 days	3.5 days
On-time delivery	Hospitals: 31% RHFs: 38%	Jul-Dec 2011	Hospitals: 36% (Jul 2011-Apr 2012) RHFs: 28% (Jul 2011-Mar 2012)	N/A	Hospitals: 31% (Jul-Dec 2011) RHFs: 38% (Jul-Dec 2011)	N/A	Hospitals: 38% (Jan-Jun 2012) RHFs: Insufficient data available at this time	N/A	Hospitals: 8.7% (Oct-Nov 2012); RHFs 33% (Nov12-some Jan13)	Hospitals: 95.67% ; RHFs:21%	Standard distribution cycle: Hospitals = 65% RHFs = 50%

INDICATOR NAME	YEAR 1 BASELINE	YEAR 1 BASELINE DATE	YEAR 1 VALUE (DATE)	May 2011 - Sep 2011	Oct 2011 - Dec 2011	Jan 2012 - Mar 2012	Apr 2012 - Jun 2012	Jul 2012 - Sep 2012	Oct 2012 - Dec 2012	Jan2013 - Mar 2013	TARGET VALUE YEAR 2 (MAY 2013)
Truck availability	60%	Nov/Dec-11	80% (Nov 11-Apr 12)	Data not available	60% (Nov-Dec 2011 only)	98%	81%	91%	92%	0.82	85%
Picking rate	3.91 picks per hour	Mar-Oct 2011	2.33 picks per hour (May 2011-Apr 2012)	N/A	3.20 picks per hour (May 11-Dec 11)	N/A	1.96 picks per hour (Jan 12-Jun 12)	N/A	4.6 picks per hour	5.79 picks per hour	4.5 picks per hour
Order to shipment readiness cycle time for special distribution of selected programs	10.3 days	Feb-Apr 2011	8.1 days (May 11-Apr 12)	11.0 days	13.1 days	7.8 days	8.0 days	5.7 calendar days	2.86 calendar days	In process	5.0 days
Pick to shipment readiness cycle time for standard distribution cycle	41 hours 49 minutes	Feb-Apr 2011	24 hours 28 minutes (May 11-Apr 12)	21 hours 04 minutes	27 hours 43 minutes	35 hours 17 minutes	24 hours 39 minutes	59 hours 02 minutes	49 hours 31 minutes	55 hours 15 minutes	19 hours 0 minutes (19:00)
Transporter on time delivery	Hospitals: 71% RHFs: 75%	Jul-Dec 2011	Hospitals: 74% (Jul 11-Apr 12) RHFs: 74% (Jul 11-Mar 12)	N/A	Hospitals: 71% (Jul-Dec 2011 only) RHFs: 75% (Jul-Dec 2011 only)	N/A	Hospitals: 78% (Jan-Jun 2012) RHFs: 70% (Jan-Jun 2012)	N/A	Hospitals: 90%; RHFs: 72%	Hospitals: 89% ; RHFs 10%	Hospitals: 85% RHFs: 85%
Delivery transit time	Hospitals: 2.61 days RHFs: 4.86 days	Jul-Dec 2011	Hospitals: 2.32 days (Jul 11-Apr 12) RHFs: 5.15 days (Jul 11-Mar 12)	N/A	Hospitals: 2.61 days (Jul-Dec 2011 only) RHFs: 4.86 days (Jul-Dec 2011 only)	N/A	Hospitals: 1.91 days (Jan-Jun 2012) RHFs: 5.90 days (Jan-Jun 2012)	N/A	Hospitals: 1.97 business days; RHFs: 5.02 business days	Hospitals: 1.39business days: RHFs: 8.74 business days	Hospitals: 2 days RHFs: 4 days

INDICATOR NAME	YEAR 1 BASELINE	YEAR 1 BASELINE DATE	YEAR 1 VALUE (DATE)	May 2011 - Sep 2011	Oct 2011 - Dec 2011	Jan 2012 - Mar 2012	Apr 2012 - Jun 2012	Jul 2012 - Sep 2012	Oct 2012 - Dec 2012	Jan2013 - Mar 2013	TARGET VALUE YEAR 2 (MAY 2013)
On-time Proof-of-Delivery (POD) returns	Standard distribution cycles: Hospitals: 12% (Jan-Feb 12) RHFs: 13% (Feb-Mar 12)	Jan/Feb-12 (Hospitals); Feb/Mar-12 (RHFs)	Hospitals: 13% (Jan-Apr 12) RHFs: 13% (Feb-Mar 12)	N/A	Data not available	N/A	Hospitals: 16% (Jan-Jun 2012) RHFs: 15% (Feb-Jun 2012)	N/A	Hospitals: 71% on-time; RHFs: 38% on-time	Hospitals: 82%; RHF:58%	Standard distribution cycles: Hospitals: 50% RHFs: 50%
Presence of an approved Performance Management Plan which is linked to strategic goals and is being used for program decision-making	1	Aug-11	3 (May 2012)	N/A	N/A	N/A	N/A	N/A	1	1	5
Percentage of indicators aligned with KEMSA's strategic indicators	N/A	N/A	100% (May 2012)	N/A	N/A	N/A	N/A	N/A	100%	100%	100%

IV. PERFORMANCE MONITORING

We provided updated measurements of the appropriate project indicators as indicated in the Performance Data Table. These indicators are grouped under relevant project work streams and linked with the impact areas (i.e., strong, accountable, responsive, and efficient). In recent periods, much of the ownership of Performance Monitoring has been transitioned to the agency through the Performance Management Plan, continuous process improvement and Actionable Information Use, as well as key performance management activities in KEMSA's current Business Plan.

We continue to support KEMSA interpret data results, implement the PMP, and strengthen data quality through activities such as the Planning and Distribution Tracking System. Greater emphasis has been placed on using the ERP and WMS as the preferred data source for most indicators. The project strives to strengthen the learning that occurs from metrics results. We continued to encourage regular review of metrics results in KEMSA staff meetings and with project technical staff allowing for forward-looking decision-making and program modifications to address performance challenges.

V. PROGRESS ON LINKS TO OTHER USAID PROGRAMS

We collaborate with complementary USAID-funded programs such as the Capacity Kenya Project; the Health Commodities and Services Management (HCSM) program; the Kenya National Health Management Information System (HMIS) program (AfyaInfo); and the Leadership, Management and Sustainability (LMS)/Kenya program, to rationalize responses that can enhance KEMSA's capacity to serve Kenya's healthcare facilities.

With the HCSM program we work together to ensure that health facilities are able to report their commodity consumption data to KEMSA. This collaboration ensures that the central level improvements in the supply chain are leveraged with facility-based interventions to strengthen reporting, planning and monitoring.

Together with the Supply Chain Management System (SCMS) program, we collaborate during planning exercises with KEMSA to help improve access to medical commodities to client health facilities throughout the country. Additionally, we collaborate with SCMS to ensure that consumption data of commodities distributed through SCMS is shared between SCMS and LMU and that reporting of consumption data is appropriately done through the LMU.

We continue to collaborate with Kenya Pharma to ensure that stock sharing when required is done through a seamless process through elimination of the quarantine requirement for commodities originating from Kenya Pharma. This process leads to improved access to HIV/AIDS medicine and commodities and helps to eliminate stock outs throughout Kenya.

We collaborate with Afyainfo in sharing facility lists and the geocodes during the updates to the Master Facility List. This ensures that the Master Facility List is consistent and available to the stakeholders in a harmonized format.

VI. PROGRESS ON LINKS WITH GOK AGENCIES

We recognize that the most effective approach to improving and sustaining supply chain capacity in Kenya is through building local capacity through direct collaboration and support to KEMSA. Prioritized activities and solutions are selected by KEMSA and implemented in partnership with our team. Through this process we ensure ownership and sustainability of all activities.

With the Ministries of Health we actively participate in policy and guidelines development together with KEMSA. Through this process we have leveraged resources and contributed to a strengthened national supply chain system. Together with KEMSA, we collaborate across the Ministry's programs to leverage inputs and harmonize planned interventions to holistically strengthen Kenya's health system.

We collaborate with the National AIDS & STI Control Program (NASCOP) to strengthen the response to HIV/AIDS through improved access to HIV/AIDS commodities and supplies. We participate during commodity security meetings and during forecasting and quantification meetings.

Together with the Department of Reproductive Health, we help strengthen planning processes and analysis for increased access to family planning and reproductive health products. We work with the Division of Malaria to improve the availability of anti-malarials across the country by supporting KEMSA to track and share key metrics related to availability. We collaborate with the Division of Tuberculosis and Lung Diseases to strengthen the continuous supply of both first and second line anti-tuberculosis medicines through KEMSA.

VII. PROGRESS ON USAID FORWARD

We directly contribute to the main areas of the USAID/FORWARD initiative.

- **Building local sustainability and partnerships:** We continue to build on and strengthen the existing national supply chain system. We work to strengthen the national supply chain system and capacities to allow KEMSA to manage their challenges effectively. We work with KEMSA to improve transparency and accountability to facilitate a path of unifying parallel commodity supply chains into one national system to increase efficiencies and sustainability of the national health system.

- **Fostering innovation:** We work with our KEMSA counterparts to promote innovative approaches to strengthening their operations. We transfer to KEMSA the knowledge and skills acquired through our experience improving supply chains in the public and private sector. Our capacity development activities in KEMSA's distribution department are based on leading practices such as distribution route optimization, carrier contract renegotiations, and transportation service level agreements.

VIII. SUSTAINABILITY AND EXIT STRATEGY

Our team continued to focus on strengthening KEMSA's capacity in key areas identified through analysis of current processes and metrics. We put KEMSA's priorities at the forefront, to empower KEMSA to own and sustain capacity building initiatives. KEMSA's departments are continuously implementing improved processes and procedures to improve performance. Using change management and other methodologies, we are sensitizing KEMSA leadership to uniformly support these changes and help ensure that the strengthened mechanisms are institutionalized and monitored to sustain improvements.

IX. SUBSQUENT QUARTER'S WORK PLAN

Planned Activities from Previous Quarter	Actual Status this Quarter	Explanations for Deviations
Mandate Legal Status and Operational Mandate		
Meet with key stakeholders to advocate and gain support for passage of the Draft Bill	Completed. Bill passed.	
Governance Architecture and Practice		
Draft the funding procedure for the KEMSA Act to allow direct funding allocation	Planned	KEMSA bill was assented into law in January 2013.
Capacity building of Change Champions	Completed	
Inventory Management and tracking systems		
Finalize design of Technical Planning Unit	Design submitted for board review and approval	Newly appointed Finance Director reviewed and made additional reporting line recommendations to CEO. Awaiting final decision by CEO on reporting lines.
Develop Supply Chain planning SOPs and Policies	Planned	Will only be completed in April. Capacity building activities were prioritized in January and March.
Conduct Customer Service training on essential Customer Service skills and SOPs	Planned	Training on SOPs planned for 5 April. Due to scheduling conflicts, the training could not be conducted in March 2013.
Warehousing and Distribution Systems		
Review and update quality assurance SOPs and Policies	Final reviews required	Delays due to election and scheduling conflicts with KEMSA staff
Distribution Department capacity planning	Planned for April, 2013	Distribution cycle was behind schedule and staff had to focus on catching up.
Monitoring of third party transport performance	Ongoing	
Conduct Strategic Network Optimization analysis	Final review by CEO	Analysis conducted in previous quarter. Report to be submitted in April 2013.
Performance Monitoring Plan		
Continue data collection, analysis, reporting, and information use	Ongoing	

XI. PROJECT ADMINISTRATION

Constraints and Critical Issues

1. **Procurement processes:** Our scope does not include strengthening procurement processes. Inventory management and tracking systems rely heavily on timely procurement orders. During planning sessions, it has been determined that some inventory issues (e.g., excess, expiry, shortages, etc.) were partially a result of long procurement lead times or potential delays in inbound receipts of procurement orders. Without strengthening procurement processes, KEMSA's operations will not be able to reach their optimal level of efficiency.
2. **KEMSA staff capacity assessment remains outstanding:** Our project has noted that some staff may be better suited for other roles than their current positions. Recommendations for changes need to be supported by a skills/capacity assessment.
3. **ERP/WMS improvements:** Without targeted enhancements to the ERP/WMS, supply chain productivity efficiency improvements will be limited. Connectivity problems, lack of strong ERP functionality, weak reporting capability, lack of automated tracking of KPIs and lack of stock visibility at regional depots are all major obstacles.

Annex I: Schedule of Future Events

Date	Location	Activity
11, 12 April 2013	Lukenya, Nairobi	Training on Distribution SOPs Training on Distribution and Quality Assurance Leading Practices
5 April 2013	Panari, Nairobi	Training on Customer Service SOP's
25, 26 April 2013	Lukenya, Nairobi	Training on Warehouse and Quality Assurance SOP's
3 May 2013	Panari, Nairobi	Integrated SOP training for KEMSA Operations and Finance Department SOPs
6 May 2013	KEMSA	Process mapping training using Visio