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FINAL REPORT

TASK FORCE ON CONTRACEPTIVE PROCUREMENT

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REPORT OF THE TASK FORCE ON CONTRACEPTIVE PROCUREMENT

A. BACKGROUND:

Over the past year, since funding for contraceptive commodities was transferred to Regional Bureaus and Missions, there has been a continuing dialogue between DS and Regional Bureaus concerning the optimal management of the contraceptive commodity funding and procurement process. On August 9, 1979, AA/ASIA, John Sullivan transmitted an information memorandum to the Administrator concerning contraceptive inventories in Nepal and a subsequent memorandum on August 16, 1979, concerning inventories in other Asian countries.

At the request of the Administrator a more detailed memorandum concerning contraceptive inventories in Asia was transmitted on October 10, 1979. (See Attachment 1.). This followed a previous information memorandum dated October 5, 1979 from the Office of Population concerning contraceptive supplies in Latin America, the Near East and Africa.

The October 10 memorandum signed jointly by John Sullivan, AA/ASIA and Sander Levin, AA/DSB noted that the Asia Bureau in particular and DSB were not in agreement concerning the best mechanism for handling contraceptive commodities - with the Asia Bureau favoring decentralization of funding authority for the procurement of contraceptive supplies directly to bilateral project accounts, and DSB emphasizing that a central funding mechanism is important because of the long lead time between purchase and delivery of contraceptives and the need for maximum flexibility in shifting program supplies as program requirements and country situations change.

To resolve this and other issues a Task Force on Contraceptive Procurement was established under the chairmanship of DAA/DS/HRD, Dr. Stephen Joseph, for the purpose of developing a proposed contraceptive procurement system for the Agency which would be presented to the Assistant Administrators for their consideration and their recommendation to the Administrator for approval. An interim report of the Task Force was submitted to the Administrator on November 13. (See Attachment 2.).

The Task Force is comprised of the principal technical and program officers of each interested bureau and representatives from PPC, FM, PM and COM. A list of participants in the Task Force proceedings is attached. (Attachment 3.).

The Task Force considered various aspects of the contraceptive procurement process under the following general headings:

1. Estimation of Requirements
2. Procurement: Budget and Fiscal Management
3. Flexibility of Distribution
4. Inventory Control and Monitoring
5. Utilization Rates
6. Donor Coordination

Papers prepared for purposes of discussion of these topics are attached. (Attachment 4)

B. ACTIONS AND RECOMMENDATION: (Task Force Meetings: October 3, October 17, and November 20)

1. GENERAL:

Task Force members agreed that central procurement of contraceptives should be continued because of the price advantage the Agency has attained through this system; because of the advantage of a constant flow of commodities into the system; and because of the flexibility and responsiveness to changing program needs provided by central purchase and distribution of commodities. It was also agreed that bilateral and grantee programs should continue to budget for future year purchases of contraceptive commodities.

It was further agreed that USAIDs and Grantees would continue to be responsible for estimating quantities of contraceptives required for their programs and for the management of inventory subsequent to shipment from the manufacturer of the commodity within the limits of agreements with host governments and voluntary organizations. It should be noted that the Office of Population has developed a system for estimating quantities of contraceptives that requires linkage between in-country inventories, pipeline, and estimated use of commodities. As a further step a proposal to decycle the estimating process from the ABS process was in the final planning stage and ready for presentation to the Task Force.

International donor coordination has long been a point of issue and discussion had been initiated in the summer of 1979 with UNFPA and IPPF with a view toward the development of a donors' report of commodity inputs into country programs.

Considering the system changes that were already in process and the agreements mentioned above the following subjects were discussed by the Task Force and recommendations made as noted.

2. Definition of Adequate Inventory Quantity - An adequate in-country supply of any type of contraceptive should be determined by the size of pipeline required to maintain an adequate supply at each level in the system. For instance, in Bangladesh the official Supply Manual, prepared under the joint auspices of AID, UNICEF (UNFPA), and the Government of Bangladesh, sets forth the maximum and minimum supplies recommended for the four different levels of the program. The table below, which refers to both orals and condoms, indicates the number of months' supply which should be maintained at each level in that program.

<u>Level</u>	<u>Maximum</u>	<u>Average</u>	<u>Minimum</u>
Central/Regional	24 mos.	18 mos.	12 mos.
District	12 "	9 "	6 "
Thana	8 "	6 "	4 "
Clinics/field workers	4 "	3 "	2 "
Total	48 mos.	36 mos.	24 mos.

While the goal of inventory control should be inventory maintenance at the minimum level, this goal can only be reached at that point in time when contraceptive usage rates are accurately reported and the system for resupply at all levels operates efficiently. Hence, a four year in-country supply of contraceptives in Bangladesh, based on the best estimate of current usage of contraceptives, is not necessarily excessive. Adequate inventory of commodities, in terms of current usage, can only be identified on the basis of in-country pipeline requirements. To better understand field needs, the Office of Population will gather data similar to the above on other countries' logistics systems.

3. Causes of Contraceptive Supply Imbalance

One of the major reasons for the convening of this Task Force was the supply problems reported to the Administrator by the Asia Bureau in August 1979. The Task Force has confirmed that field officers were and are responsible for inventory management and that they have taken this responsibility seriously and considered orders for contraceptive supply to be of major importance. The Task Force concluded that the primary cause of supply imbalance (shortages and overages) is program performance. Programs expand either more slowly or more rapidly than program managers predict. Estimates of contraceptive usage two or three years in advance of actual usage are unlikely to be correct in any program, even with the most accurate techniques for estimation. However, as experience builds over time, accuracy of estimation should improve. In the case of developing country programs total inventory often has to be estimated. In addition, data on current usage rates may be inaccurate, causing discrepancies at future dates because of the time lag between the manufacture and use of contraceptive commodities.

USAIDs ought to concentrate resources on the improvement of service statistics information and the efficient management of the in-country logistics system. Central resources will continue to be made available for technical assistance on a short-term basis to requesting country programs.

The central procurement process can also be improved. Decycling the estimating process from the ABS is a major step to more closely attune the estimation of requirements to the purchase of commodities. (The advantages of and procedures for decycling the estimation requirements are detailed in a memorandum of October 12, 1979, included in Attachment 4, "Proposed Change in the Timetable for Submitting Contraceptive Procurement Tables.")

4. Loan Funding

There are several obvious advantages to loan funding bilateral family planning programs. Loan funding can not only provide the U. S. Government with return of some of the resources provided for these programs but can also lessen the burden on other functional accounts of meeting the Congressionally mandated loan floor. However, experience to date has shown that other factors should be considered as well before decisions are made to loan fund contraceptives for these programs. In addition to the rigidities in procurement and distribution of contraceptives discussed below, consideration ought to be given to the proportion of total Agency procurement for this purpose that is already loan funded since central procurement system flexibility is diminished to the extent that loan funding increases.

Loan funding requires the establishment of fixed future year funding levels. Fixed funding levels result in fixed future year purchase levels that tend to cause supply imbalance. In the case of Indonesia loan funding has contributed to a serious undersupply of orals during 1980. (Fortunately, however, a fall-out from the Philippine program in FY 1979 of \$6 million was transferred to the Indonesia loan account; the supply situation should thus be somewhat improved by the summer of 1981 since this additional funding will allow delivery of 75 million cycles between July 1980 and June 1981.)

While one of the results of fixed future funding in Indonesia has been undersupply, one can also imagine a situation in which fixed funding results in oversupply since loan funding does not provide for short-term corrections in supply shipments.

The Task Force has elected to make no recommendation on future proposed loan funding except that the considerations noted here be taken into account when decisions are made for loan funding of contraceptives in the future.

5. Donor Coordination

Donors occasionally make decisions on commodity input to country programs without an accurate or timely estimate of what other donors are doing in the same programs. While it is recognized that inter-donor communication at the country level is primarily the responsibility of the host country and Mission staff, members of the Task Force expressed a need for better information on donor contraceptive supply activity on a global and regional basis. Since the Office of Population has initiated new efforts to gather data from other donors this action should be continued.

This activity will supplement the on-going donor coordination efforts of country and regional program managers.

6. Estimating Requirements

Since the Agency initiated a centralized funding and consolidated procurement system six years ago, the Annual Budget Submission (ABS) has included selected demographic and relevant logistics data for centrally procured contraceptive commodities. These data are used by USAIDs, the Regional Bureaus, and the Office of Population as the basis for estimating future oral and condom requirements. Other contraceptive commodities are procured on an ad hoc basis in accordance with specific requests made by USAIDs. Attachment 5 is a copy of the revised guidance and methodology currently being used under the modified timetable for the submission of the FY 1982 contraceptive procurement tables.

As part of the methodology, the guidance requests that USAIDs establish a desired end-of-year stock level which can be used as part of the rationale for determining future requirements -- taking into account such variables as host country storage capacity, the nature and extent of the contraceptive distribution network, shipment/delivery time, etc. The Agency recommends that as a minimum, end-of-year in-country stocks be maintained at a level sufficient to cover at least 100 percent of the expected contraceptive use of the following year; it is recognized that some large programs may require considerably larger quantities to fill the country supply line and to insure continuous contraceptive availability at the outlet and field-worker level.

By establishing the end-of-year stock level as a fixed parameter, estimates of future requirements can be determined more closely with each ABS exercise as recent inventory and drawdown data are brought to bear to assess program development, to correct past projections of yearly contraceptive use, and to refine/adjust commodity requests accordingly -- thereby reducing the possibility of stock deterioration and/or disequilibrium in supply conditions. An examination of successive ABS contraceptive procurement tables will show how calendar year estimates of contraceptive requirements vary over time.

Although the Office of Population analyzes the logistics data submitted on the contraceptive procurement tables for internal consistency, and translates the calendar year estimates into the appropriate contract shipping periods, the estimation of requirements and the management of in-country inventories remain the responsibility of the USAIDs. Missions confirm their requirements for a specific delivery period by submitting an unfunded Project Implementation Order/Commodities (PIO/C) and a desired shipping schedule. It should be noted, however, that the central procurement mechanism allows the Office of Population to respond to requests for adjustments in commodity shipments on fairly short notice. Commodities

purchased for a particular program that are identified as in excess of actual requirements at the time of shipment (changes may be made up to 90 days before the scheduled shipping date) are provided to programs whose requirements may have increased since the original purchase. In summary, it is understood that changes in requirements may be necessary at different points in time: after reservation of funds, after receipt of unfunded purchase documents, and even shortly prior to shipment of commodities. Such changes are coordinated with the Technical Office and Development Planning Office of the appropriate Regional Bureau and the particular USAID involved.

7. Attribution of Obligations

Obligations for orals and condoms centrally procured are charged against a DSB allotment, and, therefore, reflected in Agency financial reports as DSB obligations. Beginning in mid-FY 1979 FM/PAD established a system of attributing obligations to country projects based on estimated requirements at the time a procurement action takes place. As adjustments to estimates take place, obligation attributions and Operational Year Budget (OYB) levels maintained by Regional Bureaus and PPC are correspondingly adjusted. When changes in requirements occur during the operational year, Congressional Notification, if required, can be accomplished and adjustments in attribution and OYB levels can easily be made. However, since changes are likely to occur up to two years after funds are obligated a question arises as to how agency records should reflect adjustments required after the close of the operational year and how to assure that we are not in violation of the Congressional Notification requirement.

As regards the Congressional Notification requirement, AID will report such changes on an annual basis as part of the Congressional Presentation.

FM/PAD will make changes to the Agency's financial records based on a written request prepared by DSB and cleared by the appropriate Regional Bureaus and continue to attribute shipments of centrally procured contraceptives to bilateral projects.

8. Budget Control for Central Procurement of Contraceptives for Future Delivery

The Task Force agreed that funds in Operational Year Budgets for procurement of contraceptives purchased through the central system should be transferred to DSB when OYBs are established so that purchases can be made during the operating year. Since budget management of future year funds is controlled by the 16 to 20 USAID Missions and the grantees involved, some method should be developed so the office responsible for central procurement is involved in changes that may occur in the planned availability of these future funds. In addition, the diffusion of budgetary control in AID does not make provision for any new starts in the supply system that may be required because of changing events. These new starts that may occur can be described in two ways:

- (a) A new start might be a new requirement for contraceptives for a program being initiated such as that which occurred in FY 77/78 with the new program in Mexico.
- (b) New starts might also be described as the introduction of new types of contraceptive commodities into the worldwide supply system. In the last 12 months there are three examples of this type of activity — the purchase of low dose oral contraceptives, of Copper T IUDs and of foaming tablets. Production and shipment of these three products has just been initiated and 1 or 2 years additional purchase of these commodities from a central fund may be required before these products can be adequately budgeted through bilateral programs and grantee accounts.

In order for the central procurement office to provide for new starts in AID's worldwide family planning programs the Task Force recommends that a special project for central procurement be established for this purpose. This project could also be used as a clearing account for changes in budget levels for other central procurement. In other words, this project would become the means by which new starts would be budgeted and funded, the clearing account to which OYB funds for central procurement would be transferred from the regional OYBs, and the place where funds budgeted for future year purchases would be carried for purposes of Congressional presentation and budget control as a non-add item. Changes in funds budgeted for USAIDs or grantees in future years for Congressional Presentation would be cleared through the manager of this project so the effects of budget changes on future year commodity requirements could be reflected early on in the management of central procurement activities. Using this mechanism the manager of the central procurement project could keep management informed of the effects of budget changes on future contraceptive supply. While this in itself would not avert future shortages of contraceptive supply, it would provide a mechanism to monitor the effect of future year budget changes on planned procurement actions. This kind

of project activity would also be of benefit to other donors who have an interest in planned procurement of contraceptive commodities since it would provide a contact in AID who would be aware of planned future procurement actions by the Agency.

In order to provide reports to the Congress of changes made in projected delivery of centrally procured contraceptive commodities AID would use the proposed central project for these purchases. Each year the Congressional Presentation would include a report showing the source of funds of centrally procured commodities as well as the planned distribution of commodities already purchased for future shipment. LEG will discuss the change in procedure with the appropriate Congressional Committee staff.

The memorandum signed by the Administrator approving the OYB would authorize transfer of these funds to DSB earmarking them for central procurement of bilateral commodities. An attribution table could be attached. FM/FC would use this memorandum as necessary authorization to approve allotment of funds for this purpose. This would eliminate the piecemeal transfer of funds.

Prior to initiation of a procurement action, DS/POP would inform Regional Bureaus of the quantities and cost estimates of commodities to be included for countries within their region.

At critical stages in the procurement cycle, Regional Bureaus and DS/POP would jointly determine the need for revision of commodity levels/attributions, if any. Any fallout not used for commodities would be returned to the appropriate Regional Bureau.

Recommendation: That a project be established in DS/POP (a) to provide funding for new starts; (b) to serve as the basis for purchases of centrally funded commodities; (c) to be the basis for annual reports to Congress on changes made in commodity distribution; and (d) to serve as a clearing account for future year funds. Funds for central procurement of contraceptive commodities for bilateral projects will be transferred to this project when OYB levels are established at the beginning of the operating year.

C. SUMMARY:

The Task Force reviewed the Agency's current procurement practices for contraceptive commodities, and the types of actions necessary to assist field programs with the principal aspects of procurement: estimation of requirements, in-country management of commodities, and adjustments as needed for situations of over- and under-supply. It concluded that the economy in purchase price, assurance of a constant supply of contraceptives, and flexibility in responding to changing needs are substantially greater with the centralized procurement system than would be possible if procurement were decentralized. The Task Force agreed, however, that management for both budget and inventory control of purchased commodities should remain at the Regional Bureau and Mission level. A consensus was reached on a system that would retain this responsibility by Regional Bureaus and Missions, and at the same time permit participation by the managers of central procurement.

The work of the Task Force resulted in a number of suggestions for improving contraceptive procurement practices, as well as a generally broader understanding in AID/W of the process required to maintain adequate supplies of contraceptive commodities for family planning programs. The Task Force identified at least five actions that should help Missions, AID/W and host countries, as appropriate, with contraceptive procurement. These include:

- (1) Decycling the process of estimating commodity requirements from the ABS schedule, thus providing more accurate estimates of need for purchases;
- (2) Continuing to provide Missions with short-term technical assistance, funded through central projects, to assist in improving management of in-country logistics systems and collection of service statistics;
- (3) Using central resources to gather data on the size of pipeline required in each country to maintain an adequate supply of contraceptive commodities at each level in that particular system;
- (4) Developing a reporting system for commodity support by donors to family planning programs — to provide more accurate information on the supplies already going into each country program, and, thus, on unfilled needs; and,
- (5) Establishing a central project to serve as a basis for purchases during each operating year, provide funds for unexpected requirements and new types of commodities, and help avert future shortages or oversupply of commodities by monitoring the effects of budget changes on future supplies.