IRC OPERATIONAL EFFICIENCY:
HEALTH PROCUREMENT CASE STUDY (Pilot)
BEST USE OF RESOURCES (BUR) | **2023**

Problem Statement
The International Rescue Committee (IRC), to date, has not undertaken analyses on the cost-efficiency of the procurement process undertaken by Global Supply Chain. Understanding the cost-efficiency of procurement will aid IRC in efforts to remain good stewards of funding and to improve the organization's value for money in the humanitarian response sector. The study was also implemented to improve cost-efficiency across the organization as part of IRC's Strategy100. The outcomes IRC achieves per dollar spent is affected by a range of factors, including contextual and country-level constraints within the procurement process.

Stakeholder Engagement
Over the course of 2022, BUR partnered with supply chain staff and country pharmacists across five country offices to retrospectively analyze how time and resources were used for the procurement of health goods within select country-level grants. Country staff provided key information about country-level constraints experienced during the procurement process which inform national and international procurement decisions.

Preliminary Lessons Learned

1. While international procurement produces better cost-efficiency than national procurement, national procurement is often chosen by country offices to avoid long wait times for goods to arrive in-country, due to transit time and import requirements.

2. Continuous changes in government restrictions for international procurement may cause a widespread shift to national procurement in the future. This could increase procurement resource costs if procurement practices remain unchanged and not adaptive.

3. Long tenure in key roles, such as country pharmacists, prevent the loss of institutional knowledge, therefore improving cost-efficiency of the procurement process.

4. Costs associated with procurement activities vary across countries and grants as a response to country-level restrictions, country-office staffing structure, and donor requirements.

Recommendations
Outcomes of this study inform how the IRC can improve its stewardship of funds and improve its competitiveness in receiving grants for work within the humanitarian sector. Some recommendations include:

- Procurement at larger scales will lower cost per good procured, allowing more funding to be allocated to direct program resources for our clients.

- Secure ongoing funding for key positions and activities that reduce information gaps. E.g., country pharmacists and centralized databases to improve knowledge sharing.

- Review current coordination practices in procurement planning to look for opportunities to reduce redundancy in practice and resources used.

Scope and Analysis Approach

The scope of the operations efficiency study on pharmaceutical procurement was done in partnership with Global Supply Chain and country-level staff.

Sample scope

IRC projects included in the study had to have directly procured medical within the past 2-3 years. For inclusion in the study, grants had to be closed responses to protracted crises, rather than emergency responses.[1] Table 2 in the Annex provides an overview of the study sample.[2]

Activity scope

Time and effort for procurement activities were retrospectively estimated to capture costs from grant award through procured goods reaching IRC warehouses. A schematic of this process is provided below in Figure 1, with the activities reviewed with country-teams indicated in blue, along with their definitions:

Figure 1. Scope of Operational Efficiency Study

Identification of Needs	Program Design	Grant Submission

Procurement Planning	**Procurement Planning:** (Technical Team) revisions of forecasted quantities of goods requested to $$ amount allotted by grant
Supply Planning	**Supply Planning:** (Supply Chain Team) planning logistics on how to procure goods identified by technical team
Supplier Identification and Vetting	**Supplier Identification & Vetting:** (Supply Chain & Finance) supplier pre-qualification process for quality assurance
Contract Design and Legal Agreements	**Contract Design:** (Supply Chain & Finance) legal agreements with suppliers and payment
Pre-Warehouse Transport and Logistics	**Pre-Warehouse Transport:** (Supply Chain) transport logistics from supplier to warehouse, and *inventory at warehouse*

Storage in Warehouse	Transport to Site	Project	Final Evaluation

Cost-Efficiency Ratio

The analysis compared total dollar amount of organizational resources used for the above activities to the total amount of goods procured for: pharmaceutical goods, vaccines, medical equipment, freight, and clearance. Costs of freight and clearance were included in the cost ratio to ensure comparability across countries engaging in national or international procurement.[3] Therefore the final cost ratio is:

$$\frac{\textit{Total resources used}}{\textit{Dollars of medical goods procured including freight and clearance}}$$

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[1] Two exceptions to this scope of work were made to achieve sufficient sample for the pilot. Liberia was one exception to this time-period, whereby procurement was undertaken 5 years prior to the analysis. Jordan was one exception to grant closure: the grant reviewed has remained open, given ongoing work, however BUR's criteria for inclusion was met given that the grant had been open for at least 1 year prior to analysis.

[2] The study included countries from MENA, East Africa, and West Africa only. Asia was not included given that the region's complex requirements for procurement, which may require its own analysis. Latin America and the Great Lakes Region were not included due to limited health procurement taking place for these regions.

[3] Comparability relied on tracking costs associated with freight and customs. However, this data was not available in all countries, whereby the costs of transport are baked into the unit costs of the goods procured from pharmaceutical distributors.

Lessons Learned

The findings of this study can be distilled into lessons between country comparisons, within-country comparisons, and within-resource use comparisons. These lessons have implications for all operations practices undertaken at the IRC.

What can we learn from between-country comparisons?

Country-level decisions for procurement type (national or international) are motivated by balancing considerations of cost, quality, transit time, availability, and accessibility. All these decisions are highly influenced by country-level restrictions imposed by national governments, customs requirements, and transit times from source distributor. Country-level restrictions may include limitations such as strict regulations for importation of specific drugs or bureaucratic approval processes for specific drugs, taking considerable time and staff resources to navigate. Customs requirements include extensive testing, approvals, and clearance at the border, further increasing time and tax costs.

Data from this study showed that the procurement process was more expensive for countries that used only national procurement to avoid extensive government and customs restrictions. International procurement tends to be for larger quantities at a single time, benefitting from economies of scale. This is depicted in the following graph, comparing the efficiency ratio (dollars of resources used per dollar of goods procured) to total dollar amount of goods procured. National procurement has a higher cost-efficiency ratio, and lower dollars of goods procured, in comparison to projects that leverage international procurement.

Figure 2. Scale benefits of larger procurement
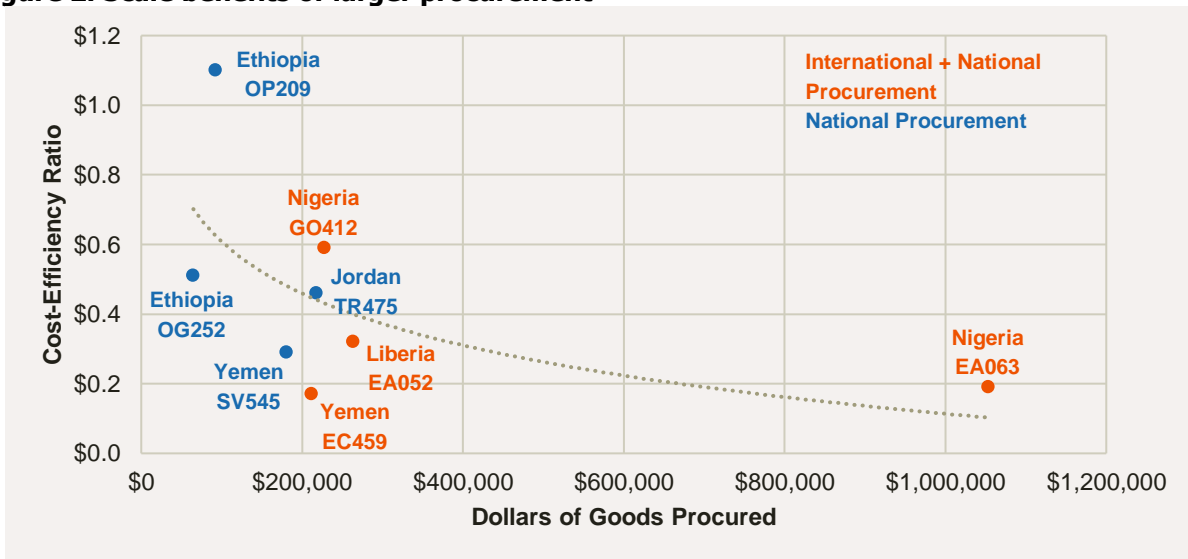
This prompts us to ask: **is it possible to increase the scale of national procurements to achieve similar scale benefits?**

Government restrictiveness serves as a key limitation to undertaking international procurement in some countries, forcing the IRC offices to engage in more costly, less cost-efficient procurement. We are also seeing increased import restrictions in some countries, affecting business as usual. For this reason, countries which may have procured internationally in the past may have to shift to national procurement, increasing costs. As a factor that is outside of IRC's control, responding to these restrictions **will require the IRC operational structure to look inward to how coordination and planning processes for procurement can be improved** to mitigate the impacts of increased restrictions.

What can we learn from within-country comparisons?

Upon comparing cost-efficiency of procurement across projects <u>within</u> country, differences emerge which correspond primarily to the following:

- **Employing country pharmacists improves cost-efficiency:** Procurement for grants with a country pharmacist exhibited greater cost-efficiency than procurement without country pharmacists. The cost-savings from this position likely stem from country pharmacists serving as retainers of institutional knowledge around procurement processes. Information gaps contribute to cost-inefficiency. Therefore, cost-efficiency gains can be made by filling this gap with roles like country pharmacists, and/or centralized databases to house and share procurement-related information. Changes in country restrictions also make these roles important, whereby dedicated staff can monitor changing import requirements, and notify sourcing strategies accordingly.

- **Stringent donor requirements are associated with lower cost-efficiency:** Donors with procurement restrictions are less cost-efficient than donors who are less restrictive about sourcing. E.g., cost-efficiency in Nigeria differed substantially between a USAID-funded grant that required more resources for procurement-related activities than a EuropeAid-funded grant.

Within-country comparisons also reinforced that efficiency gains are made when procuring larger amounts, however this also cannot be fully separated from gains made from international procurement. Meaning: lager procurement in the sample observed often took place when procuring internationally.

What can we learn from within-resource variation?

There is extensive variation between countries, and between grants within countries, regarding the full-time equivalence of staff types involved in procurement. This highlights the extent to which procurement processes are not only affected by supply chain, but also by program and finance teams. The implication of this finding is that the cost-efficiency of procurement processes will likely depend on the level of coordination and reduced redundancy that can be achieved between program and operations staff.

Table 1. Variation of staff type involved in procurement

Full Time Equivalence (% of time) by Group	Average	Median	Min.	Max.
Leadership (CD, DDO, DDP)[4]	2%	2%	0%	4%
Finance (Finance controller, officer, assistant)	5%	4%	1%	13%
Operations (supply chain, procurement officers, warehouse, etc.)	41%	41%	5%	84%
Program (health technical advisors, health coordinator, pharmacists, etc.)	56%	54%	24%	97%

Variation in resource use was also observed among procurement activities (see Figure 3). This is likely a result of country offices adjusting procurement practices to their unique contextual constraints. These practices include quantity of time and effort spent on various procurement activities such as procurement planning, supply planning, supplier vetting, contract design, and pre-warehouse transport. This variation of staff time is also likely an outflow of differences in country office structures, procurement type (national or international), as well as grant and donor requirements. As a result, procurement processes and resource usage should not be expected to remain the same across each country.

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[4] CD = Country director; DOO = Director of Operations; DDP = Deputy Director of Programs

Figure 3. Resources used for staff time per dollar procured by grant
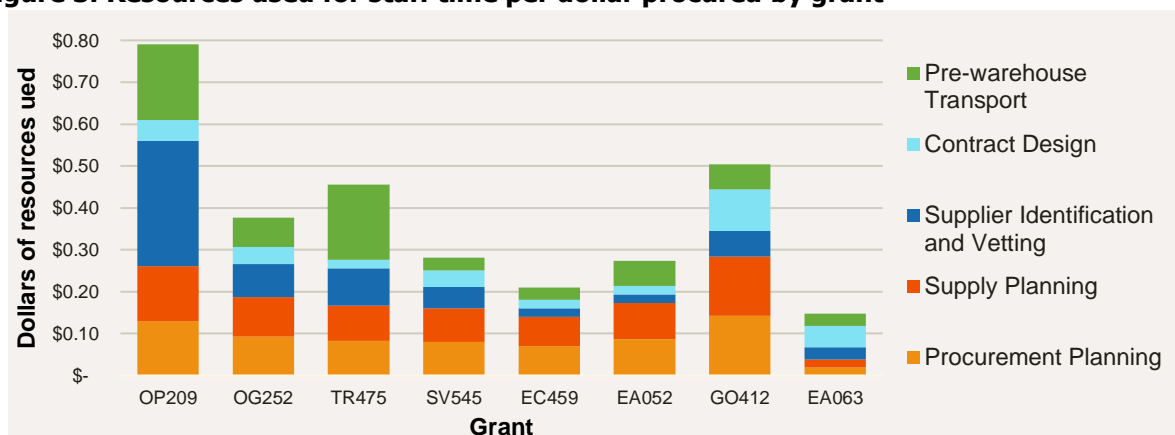
Recommendations

To improve cost-efficiency of procurement among health projects, and to increase the IRC's value for money, a review of internal processes for procurement related activities is necessary. Overall, key recommendations from this study include the following:

1. **Procure in larger quantities:** Resources are used more efficiently when procurement of large quantities takes place at a single time. This spreads some of the costs of shipping and associated fees across more procured goods. Putting this into practice may entail looking into opportunities to procure across multiple grants at one time to reap benefits of scale procurement.

2. **Investment in procurement infrastructure:**
   a. Secure long-term funding for key positions like country pharmacists who serve as retainers of institutional knowledge and oversee country-level quality control of pharmaceutical procurement.[5] While support of main office staff play an important role in quality assurance, country pharmacists have a focused expertise that improves the efficiency of staff time dedicated to procurement, as indicated in Table 1.
   b. Explore ways to improve efficiency for countries which require national procurement (e.g., reduce information gaps through use of databases of national suppliers, procure in larger quantities, etc.).

3. **Review current procurement-related processes:**
   a. Actively seek ways to improve coordination across practices, including technical units, finance, and supply chain, in the procurement process. Look for opportunities to reduce redundancy, sharing of common goals and vision, and coordinated activities.
   b. Anticipate that resources will not be used in the same way in each country (i.e., non-uniformity of resource use), prioritize developing processes that can adapt to ongoing country-level changes such as government import restrictions.

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For any questions, please contact Mikaela Cochran at *Mikaela.Cochran@rescue.org*

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[5] Country pharmacists also oversee quantification and forecasting processes (out of scope for this evaluation).

Annex

The following table provides an overview of characteristics across each country and project included in the analysis:

Table 2. – Characteristics of Projects Analyzed							
Ethiopia		**Jordan**	**Yemen**		**Liberia**	**Nigeria**	
OP209	**OG252**	**TR475**	**SV545**	**EC459**	**EA052**	**GO412**	**EA063**
Source National	National	National	National	Int'l + Nat'l	Int'l	Int'l + Nat'l	Int'l + Nat'l
Pharmacist No	Yes	Yes (Syria)	Yes	Yes	No	Yes	Yes
Freight Costs Separate	Baked in	Baked in	Baked in	Separate	Separate	Separate	Separate
Freight Type Land	Land	Land	Land + Sea	Sea	Air	Air	Air
Gov't Restriction High	High	High	Moderate (increasing)	Moderate (increasing)	Low	Moderate (increasing)	Moderate (increasing)
Donor Restriction Low	Low	Low	Low	High	Low	High	Low
Years 2019-2022	2021-2022	2018-2022	2019	2019-2021	2016-2017	2020-2021	2017-2021

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