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## Kenya successfully procures health commodities without using Global Fund's pooled procurement

The Kenya Medical Supplies Authority (KEMSA) successfully procures and distributes government, Global Fund, and other donor-funded commodities. Prices obtained by KEMSA are competitive compared to prices obtained by the Global Fund's Pooled Procurement Mechanism (PPM), stock-outs of health commodities occur rarely, if ever, commodities are delivered in a timely fashion, and inventory is properly managed at all stages of the supply chain. Strong legal and institutional frameworks, robust procurement arrangements and strategic partnerships are important factors contributing to KEMSA's success.

Kenya is one of the few African countries where the government procurement agency (KEMSA) procures Global Fund-supported medical supplies directly on behalf of the state Principal Recipient (PR; the National Treasury); other countries where this happens include Ethiopia, Rwanda and South Africa. KEMSA is mandated by law to procure, warehouse and distribute drugs and medical supplies for public health programs such as the HIV/AIDS, TB, malaria and reproductive health programs.

Most other African countries use the Global Fund's Pooled Procurement Mechanism (PPM), an initiative created in 2009 to aggregate procurement orders and negotiate lower prices for Global Fund recipient countries; currently, more than 60 countries use PPM for their Global Fund-related commodities. For the most part, the use of the PPM is voluntary. However, the Global Fund may require a country to use the PPM where the PR's capacity to procure is inadequate or the PR is working in a 'challenging operating environment'.

This article describes how KEMSA conducts Global Fund-supported procurement processes and the factors that have led to KEMSA's successful implementation of this role. The information comes from publications by KEMSA, grant documents available online and an interview with Mr. John Kabuchi,

KEMSA's procurement manager for donor-funded programs.

## KEMSA's procurement process

Procurement of Global Fund-supported commodities is a collaborative process involving KEMSA, the National Treasury (the equivalent of the Ministry of Finance), the Ministry of Health (MoH) and its respective disease programs: The National AIDS and STI control Programme (NASCOP), the National TB, Leprosy and Lung Disease Program (NLTP), and the National Malaria Control Program (NMCP). The disease programs select and quantify disease-specific health products on an annual basis and forecast needs for the following 4 years, with KEMSA's support. A robust mechanism to project and monitor the demand on regular basis determines KEMSA's schedule for procurement.

Important steps in the procurement process are:

Tenders and bids. KEMSA first publishes an Open International Tender – 95% of the time – where it invites bids from WHO pre-qualified international and local manufacturers. Evaluation of bids and the selection of suppliers is a transparent and rigorous exercise involving a team from KEMSA and the MoH and in compliance with the public procurement legal requirements. Mr. Kabuchi explained that selection is based on three main criteria: statutory – whether the supplier meets the country's legal requirements; technical – whether the supplier has the capacity to manufacture and deliver the products to the country; and commercial – price and delivery conditions.

Quality assurance. The supplier sends a sample of the procured health products to KEMSA to verify agreed-upon specifications and requirements. The quality of the product sample is tested in KEMSA's own laboratories and in independent WHO pre-qualified laboratories. When the sample proves to be satisfactory according to these tests, KEMSA then places its order for specific quantities of each product.

Upon receipt of stock from the suppliers, KEMSA quarantines all products immediately and proceeds with a second quality check, but this time on random samples from the consignment. When the quality is appropriate, the products are released for distribution. This process usually happens quickly and does not delay the distribution of the products.

Distribution. KEMSA is responsible for delivering health products to all public health facilities. For ease of distribution, KEMSA has divided the country into three regions and outsourced 'last-mile' distribution to logistics/freight companies. KEMSA has also contracted a courier service to respond to emergencies. Contracted companies are paid upon confirmation of on-time and in-full deliveries to the health facilities.

KEMSA conducts further checks on samples of health products delivered to the health facilities to ascertain whether they are of good quality, are safe and efficacious.

Three important factors contribute to KEMSA's success

Strong legal and institutional frameworks, robust procurement arrangements and strategic partnerships are three important factors that contribute to KEMSA's success. When the Global Fund started investing in Kenya in 2003, it found that KEMSA, which was then a department within the MoH, had inadequate capacity to procure and manage the supply chains. A consortium of four institutions, KEMSA, GIZ, John Snow International (JSI) and Crown Agents was set up to temporarily procure government and Global Fund-supported commodities.

In 2005, KEMSA, under a new management structure, began the integration of the 11 parallel supply chains that were active at the time. In 2010, the Global Fund re-assessed KEMSA's capacity to undertake Global Fund-supported procurement and found it sufficient. Now, KEMSA procures, warehouses, and distributes health products for the government, the Global Fund and other strategic partners including

USAID, UNICEF, World Food Programme, the World Bank and the Danish International Development Agency (Danida). KEMSA receives an estimated \$80 million each year to procure Global Fund-supported health commodities.

### Strong legal and institutional frameworks

KEMSA went through a growing period when it first became autonomous from the 'mother' ministry (MoH), then struggled with institutional structures and systems to perform to its full potential. For instance, by 2007, the MoH had not fully handed over the responsibility of procuring and supplying medical supplies to KEMSA. In 2009, the dysfunctional board of directors was disbanded and a new board with performance-based management was installed.

In 2013, the Parliament adopted the KEMSA Act which granted KEMSA a 'legal authority' status, giving it a sound governance structure and financial muscle. Financially, KEMSA receives funds from the MoH budget to serve public facilities but is also allowed to set up a division to offer commercial services on a competitive basis to the general Kenyan public. Previously, KEMSA relied only on funding from the MoH.

The law allowed KEMSA to establish a network of storage, packaging and distribution facilities, enter into strategic partnerships, and support county governments to establish and maintain supply chain systems. KEMSA has invested in information, communication and technology (ICT), and modern warehousing systems and structures, among others. Currently, KEMSA has two warehouses in the capital, Nairobi, and eight depots across the country.

KEMSA has fully automated its processes through Enterprise Resource Planning (ERP) which, among other things, allows KEMSA to track distribution of supplies with global positioning systems (GPS). ERP also enables health facilities to report consumption data and make instant procurement orders through the Logistics Management Information System (LMIS), which is developed in-house.

KEMSA supplies medical commodities to all 47 counties in Kenya, serving the more than 6,000 public health facilities across the country, and faith-based and private facilities. [UNICEF](#) estimates the availability of programme-specific commodities and essential medicines at health facilities to be 95% and 80% respectively.

The law enables KEMSA to competitively recruit well-qualified staff to head and run its operations. Currently, some senior positions in KEMSA's management and board are unfilled; though some officials step into the gaps on an interim basis, such gaps delay strategic decision-making and negatively impact long-term planning. KEMSA's strong institutional systems and structures have minimized the impact of these gaps, according to Mr. Kabuchi.

### Robust procurement arrangements

The open tendering process and huge volumes of orders enables KEMSA to negotiate competitive prices. (Kenya's population is about 48 million, and approximately one million people are on antiretroviral treatment.) KEMSA saved more than \$13 million within Global Fund grants in the procurement of anti-retroviral drugs (ARVs), rapid diagnostic tests (RDTs) and artemisinin-based combination therapy packs (ACTs) in 2016.

To ensure a smooth procurement process, KEMSA employs a two-pronged approach. First, KEMSA focuses on the contracted suppliers: KEMSA trains them on Kenya's legal requirements pertaining to public procurement processes, tax and customs compliance, and insists on appropriate lead times for delivery and appropriate quantities for warehousing. Second, KEMSA focuses on in-country processes and timeliness. For instance, the Global Fund requires recipient countries to exempt from taxes those commodities purchased with Global Fund monies. KEMSA obtained from the National Treasury a general

waiver for supplies procured under the Global Fund grants. Then, with individual shipments, KEMSA requests and obtains specific waivers for each order. Mr. Kabuchi explained that the specific waivers are administratively approved at lower levels of management at the National Treasury, thus taking much less time.

In practice, for example, when KEMSA expects an upcoming airborne shipment of medications, it requests and obtains specific waivers based on the existing general waiver from the National Treasury. This specific waiver is generally processed within a week; then KEMSA shares the waiver with the manufacturer about a week before shipment of the health products. Upon arrival, the shipment is therefore able to be processed quickly and is not stranded at the port of entry.

### Strategic partnerships

Several international partners supported the growth and strengthening of KEMSA's capacity to procure and distribute medical supplies. Partners include USAID, Danida, Germany's KfW, the World Bank and UNICEF. Support for KEMSA's strengthening came in the form of technical or monetary assistance. [UNICEF](#) estimated that KEMSA received approximately \$900 million from international partners between 2010 and 2017.

In 2015, USAID awarded KEMSA a five-year, \$650-million contract – USAID's largest bilateral agreement – to strengthen the supply chain management system for HIV/AIDS commodities (pharmaceuticals, supplies, food commodities, laboratory reagents and equipment) and support warehousing and distribution of select family-planning, nutrition, and malaria commodities.

### Conclusion

KEMSA has developed an expertise in the procurement of health commodities and management of supply chain systems in the region from which other countries may benefit. Its success is validation that a country can build its own systems to procure and distribute health commodities proficiently with the right legal and governance structures as well as strategic partnerships. Strong country ownership of the transformation process seems to be the key success factor.

The Global Fund's current Strategic Objective 2 recommends building up capacity in procurement and supply-chain processes in-country, to solve recurrent challenges in that area. The Global Fund should push for all implementing countries to develop this capacity.

### Sources:

KEMSA website: <http://www.kemsa.co.ke/>

UNICEF Case study: KEMSA after the devolution: financial sustainability through a supply chain strategy with a strong focus on human resources and leadership

<https://www.technet-21.org/iscstrengthening/media/attachments/2017/11/06/51497-1—unicef-national-capacity-development—kenya—web.pdf>

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