**Background thematic report no. 4**

# Progress Report on Procurement 2013/14

**Report Prepared for Joint Annual Review (JAR)**

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Government of Nepal (GoN)
Ministry of Health and Population (MoHP)
Ramshah Path, Kathmandu, Nepal

## EXECUTIVE SUMMARY

This document reports the progress in financial year 2013/14 on improving the systems for procuring drugs, equipment and health commodities for Nepal's public health system and for building and maintaining health facilities and other health-related buildings in Nepal. The Logistics Management Division (LMD) of the Department of Health Services (DoHS) is mainly responsible for the former while DoHS's Management Division is responsible for the latter.

### A. Achievements on the Procurement of Goods and Services

- A Consolidated Annual Procurement Plan (CAPP) containing 19 lots was produced for the 2013/14 procurement needs of all DoHS's divisions. In FY 2013/14, LMD procured NPR 623.05 million worth of goods and services from the 2013/14 plan and multi-year contracts awarded in previous years.
- The Contract Management System (CMS) was enhanced by instituting links for sharing information with DoHS's Finance Section and LMD's regional and central medical stores. The necessary links with DoHS divisions are under development.
- To mid-July 2014, 1,050 technical specifications for medical equipment, surgical instruments, drugs and hospital furniture had been drafted and uploaded into the Technical Specifications Bank. The bank is located on LMD's website and provides standard specifications to make procurement processes more efficient and transparent. Many hospitals and government health authorities have become aware of the existence and usefulness of the bank from LMD's biomedical engineers and other LMD staff and know about the choice it offers for government health procurement. Specifications continue to be added.
- In 2013, a training programme was designed and run for LMD contract management staff. Five internal training workshops were held in this reporting period (including on managing contracts for procuring goods and consultancy services and on the procurement cycle). Staff were also trained on information technology and English language skills.
- LMD central level staff carried out visits to all five regions in 2013/14 to improve supply chain coordination. The visits focused on coordination issues related to regional medical stores; with visits also made to district health offices and district stores. These visits led to the transfer of knowledge between cold chain, warehousing, procurement, contract management and programme staff. Problems were discussed and solutions suggested.

### B. Achievements on Infrastructure Development

1. Good progress was made on the more coordinated planning of public health infrastructure works. As a change from the previous practice of building work being implemented directly by regional and zonal hospitals, major building work at three large hospitals were brought under the CAPP. Also, no budget funds were allocated directly to DHOs and DPHOs to directly implement construction works, and all of this work was included in the CAAP.
2. Considerable progress was made on upgrading and updating the Health Infrastructure Information System (HIIS) and on integrating GIS into it to make it more evidence based. Health personnel were trained on using the strengthened system. The improvements enabled it to be used for higher level planning, such as for delineating where secondary and tertiary level hospitals should be according to catchment area, travel effort, travel costs and other factors. The system also provided the basis for the Management Division to select new health facility construction for fiscal year 2014/15.

3. The criteria to identify health facilities for upgrading were further developed and then endorsed by the health minister in August 2014. All health facility construction selected for 2014/15 was analysed and selected using these criteria.
4. The guidelines for the selection of suitable sites and land for health facilities were endorsed by the health minister in May 2014.
5. The completion rate of health facility construction projects increased and the number of sick projects decreased with fewer on-going projects compared to previous years. The average completion time of project completion is improving. Increased monitoring, and the black listing and fining of malfeasant contractors is contributing to these improvements.
6. The on-time preparation of the procurement plan of new constructions and its timely submission to the World Bank has been a major achievement. For the first time under the health SWAp, in August 2013 the Bank issued a formal no-objection letter to the annual procurement plan (the 2013/14 plan). A conditional no objection letter was issued for the 2014/15 procurement plan in September 2014.

**C. The Way Forward**

The following are the ways forward for improving the procurement of goods and services in the coming year (2015/16):

1. The more timely preparation of the consolidated annual procurement plan (CAPP).
2. Procurement training for MoHP district level staff.
3. The continued development and promotion of the Technical Specifications Bank.
4. The continued development and implementation of the Contract Management System.
5. Improving LMD's organisational structure to include more technical procurement positions and ensuring that all positions are filled.

The following are the ways forward for developing the health infrastructure in the coming year (2015/16):

1. Build the capacity of MoHP and DoHS officials and other staff on planning and implementing health infrastructure projects.
2. Build the capacity of Department of Urban Development and Building Construction (DUDBC) technical personnel on designing and building health facilities.
3. Build the skills of local builders and contractors on better quality workmanship.
4. Train DHO, DPHO and DUDBC division office officials on the web-based HIIS, ensure the regular updating of the information in the system and enter details of all upgraded sub-health posts.
5. Orient DHO, DPHO and DUDBC officials on the use of the land selection criteria. Support the strict implementation of the criteria and monitor compliance in the districts for new health facility construction.
6. Publish the standard designs, drawings and implementation guidelines and develop typical sanitary and electrical drawings and other details for these designs.
7. Complete the needs assessment reports of the building works at Bheri and Seti Zonal Hospitals and the Mid-Western Development Region Hospital and initiate tendering for this work.

**D. The Last Four Years- Progress and Challenges**

**Procurement** — There has been steady progress in LMD's system for managing the procurement of health care goods and services since the beginning of NHSP-2 in mid-2010. Highlights include the introduction of consolidated annual procurement plans, the Technical Specifications Bank and the Contract Management System, and the adoption of more systematic procedures for handling bids and contracts. At the same time many bidders have an improved understanding of procurement processes while many LMD staff are carrying out their jobs more efficiently.

However, considerable challenges remain including the delayed preparation of annual procurement plans, an inadequate number of appropriately skilled personnel, the too frequent transfer away of skilled staff and concerns over levels of transparency and interference in procurement processes.

**Infrastructure** — The first four years of NHSP-2 have seen major improvements in the planning of the health infrastructure, the introduction of standards, and the implementation of building projects. The progress on planning is reflected in the improved annual civil works procurement plans, with the 2013/14 plan being the first one under the health SWAp to receive a no objection letter from the World Bank. The strengthened and updated Health Infrastructure Information system (HIIS) provides a solid base for planning new health institution buildings, while the forthcoming production of hospital infrastructure master plans should result in more user-friendly hospitals. The use of the new standard bidding documents, standard designs and guidelines for health institution buildings and the land selection criteria should also result in more fit-for-purpose buildings and improved service provision. The introduction of e-tendering for building projects and the increasing number of interactions between DUDBC and Management Division officials and the proposed monitoring committees put important preconditions in place for the more efficient and less costly implementation of building projects. Most of these new measures are being institutionalised by concerned Management Division and DUDBC officials.

**CONTENTS**

## ACRONYMS

| | |
|---|---|
| AWPB | annual work plan and budget |
| BCG | Bacillus Calmette-Guérin |
| BS | Bikram Sambat |
| CAPP | Consolidated Annual Procurement Plan |
| CMS | Contract Management Database System |
| CT | computerised tomography |
| DC | direct contract |
| DHO | district health office |
| DoHS | Department of Health Services |
| DPHO | district public health office |
| DUDBC | Department of Urban Development and Building Construction |
| EDP | external development partner |
| FY | financial year |
| GIS | geographical information system |
| HIIS | Health Infrastructure Information System |
| ICB | international competitive bidding |
| ICU | intensive care unit |
| IND | individual |
| JAR | joint annual review |
| LIB | limited international bidding |
| LMD | Logistics Management Division |
| MWRH | Mid-Western Development Region Hospital |
| NCB | national competitive bidding |
| NHSP | Nepal Health Sector Support Programme |
| NPR | Nepalese rupees |
| PHCC | primary health care centres |
| PPMO | Public Procurement Monitoring Office |
| SHP | sub-health post |
| USG | ultrasonogram |

The US$:NPR exchange rate was $1: NPR 99 in January 2014.

# 1 BACKGROUND

## 1.1 Procurement

**Background** — The Logistics Management Division (LMD) is responsible for procuring pharmaceuticals, health equipment and other health commodities for much of Nepal's public health system. LMD carries out this procurement through international competitive bidding (ICB) that complies with World Bank guidelines, and national competitive bidding (NCB) following Nepal's Public Procurement Act and regulations.

LMD procurement generally begins with the receipt of requisition orders from DoHS's divisions. These requisitions are then consolidated in to an annual procurement plan for the coming financial year. Key parts of LMD's work are estimating costs, preparing bid documents, advertising tenders, soliciting bids, receiving and evaluating bids, awarding and managing contracts and establishing effective supply chains. These activities are carried out routinely to ensure timely procurement and best value-for-money.

**Objective and rationale** — This progress update on procurement performance covers major achievements and the main lessons learned in Nepali financial year (FY) 2070/71 (2013/14), including progress made against procurement related tasks identified during the JAR 2014, plus a summary of the achievements since mid-2010 under NHSP-2 (see Annex 1).

## 1.2 Infrastructure

**Background** — Nepal's public health system suffers from a shortage of appropriate, high quality infrastructure. The improved management of existing and new physical assets is therefore a priority for the Ministry of Health and Population (MoHP) to create an enabling and safe environment for the provision of quality health services and to ensure the retention of human resources. The Government of Nepal (GoN) is institutionalising evidence-based planning for building, operating and maintaining the health infrastructure and for the effective management and efficient use of related resources. The overall aim here is to facilitate more equitable distribution and access to health care at all types of health facilities. Policies, strategies, plans, standards and guidelines are being developed, and the skills of implementers improved.

**Objectives** — This progress update on performance with regard to Nepal's health infrastructure covers major achievements and the main lessons learned in Nepali financial year (FY) 2070/71 (2013/14). A summary of the achievements so far under NHSP-2, the progress report of 2013/14 health infrastructure projects and planned health infrastructure projects for 2014/15 are attached as annexes 2, 3 and 4).

# 2 PROGRESS AND ACHIEVEMENTS: PROCUREMENT OF GOODS AND SERVICES

## 2.1 Preparation of Consolidated Annual Procurement Plan

In early 2013, the pooling by all DoHS's divisions of their procurement requirements led to the production of a consolidated annual procurement plan (CAPP) for 2013/14. Advice and suggestions from DoHS's Finance Section and divisions and technical assistance were incorporated in the plan. The World Bank is responsible for monitoring and signing off on expenditure from the Pooled Fund, which covers many health procurement costs. A final no objection letter to the CAPP was received from the World Bank on 25 September 2013.

## 2.2 Procurement of Goods

The approved 2013/14 procurement plan contained 19 procurement lots with ICB or NCB procurement. In 2013/14, LMD procured NPR 623 million worth of goods and services out of the targeted NPR 3,973 million including amounts from the 2013/14 procurement plan plus and multi-year contracts that were awarded in previous years (see Table 1).

Procurement progress during the year was generally difficult, with the above figures reflecting that only 16% of targeted expenditure was achieved. This was due in large part to LMD staff spending considerable time handling queries relating to investigations into LMD procurement practices by the Commission for the Investigation of Abuse of Authority (CIAA), following which some staff felt reluctant to sign off on new procurement because of a lack of clarity on processes.

**Table 1: Summary of LMD procurement of goods and services in FY 2013/14 (mid-July 2013 to mid-July 2014)**

| | Lot no. | Description of goods, work and services | Target | Actual | Remarks |
|---|---|---|---|---|---|
| | | | million NPR | | |
| 1 | ICB 11 (11.11) | Frusemide 40 mg | 0.25 | 0.25 | Multi-year contract of 2010-11 |
| 2 | ICB 11 (11.1) | Aminophylline 100mg | 1.70 | 1.70 | Multi-year contract of 2010-11 |
| 3 | ICB 11 (11.12) | Albendazole 400 mg (Chewable) | 20.51 | 20.51 | Multi-year contract of 2010-11 |
| 4 | ICB 11 (11.4) | Ciprofloxacin Hydrochloride 500mg, Salbutamol 4mg, Chloramphenicol 1% eye applicap blister pack, Chloramphenicol oral suspension 125 mg/5ml 60 ml | 25.86 | 25.86 | Multi-year contract of 2010-11 |
| 5 | ICB 11 (11.8) | 5ml disposal syringe with 21G needle | 3.03 | 3.03 | Multi-year contract of 2010-11 |
| 6 | ICB 11(11.2) | Chloramphenicol, Chlorpheniramine, Hyoscine butyl bromide | 50.33 | 50.33 | Multi-year contract of 2010-11 |
| 7 | ICB 11 (11.9) | Adhesive tape | 3.17 | 3.17 | Multi-year contract of 2010-11 |

| | Lot no. | Description of goods, work and services | Target | Actual | Remarks |
|---|---|---|---|---|---|
| | | | million NPR | | |
| 8 | ICB 11 (11.7) | Butterfly needle, IV infusion set, surgical gloves | 17.33 | 17.33 | Multi-year contract of 2010-11 |
| 9 | ICB 11 (11.6) | Phenobarbitone, Sulphamethoxazole, vitamin B complex, oral rehydration solution (ORS), Metronidazole suspension | 8.21 | 8.21 | Multi-year contract of 2010-11 |
| 10 | ICB 29 (29.12) | Incubator (minimum 30L) | 0.64 | 0.64 | Multi-year contract of 2012-13 |
| 11 | ICB 31 (31.12) | Video arthroscopy system | 0.08 | 0.08 | Multi-year contract of 2012-13 |
| 12 | ICB 29 (29.18) | Phototherapy unit (infant) | 1.95 | 1.95 | Multi-year contract of 2012-13 |
| 13 | ICB 29 (29.2, 17) | Dental instruments and examination lamps | 2.61 | 2.61 | Multi-year contract of 2012-13 |
| 14 | ICB 29 (29.4) | Hospital mattresses | 16.32 | 16.32 | Multi-year contract of 2012-13 |
| 15 | ICB 34 (34.5) | Absorbent cotton (400 g) | 6.26 | 6.26 | Multi-year contract of 2012-13 |
| 16 | ICB 34 (34.14) | Gauze 90 cm x 18m | 1.24 | 1.24 | Multi-year contract of 2012-13 |
| 17 | ICB 34 (34.6, 8) | Bandage 90 cm x 18 m and zinc 20 mg | 5.10 | 5.10 | Multi-year contract of 2012-13 |
| 18 | ICB 29 (29.9) | X-Ray dark room accessories | 5.60 | 5.60 | Multi-year contract of 2012-13 |
| 19 | ICB 29 (29.16) | Operating light (ceiling type) | 1.68 | 1.68 | Multi-year contract of 2012-13 |
| 20 | ICB 31 (31.9) | ICU ventilator for children and adult pneumatic | 117.64 | 117.64 | Multi-year contract of 2012-13 |
| 21 | ICB 31 (31.11, 15) | Portable USG (colour, doppler, 3 probes) and X-ray machine (300 MA) | 74.50 | 74.50 | Multi-year contract of 2012-13 |
| 22 | ICB 31 (31.21) | Flat panel digital fluoroscopy | 145.53 | 145.53 | Multi-year contract of 2012-13 |
| 23 | ICB 31 (31.6, 13, 16, 19, 20, 22, 23, 24) | CT scanner | 62.83 | 62.83 | Multi-year contract of 2012-13 |
| 24 | ICB 34 (34.7) | Gauze (90 cm x 18m) | 6.61 | 6.61 | Multi-year contract of 2012-13 |
| 25 | DC 47 | 5-year efficacy contraceptive implants (41,000 sets) | 37.35 | 0 | Contract signed 20 July 2014 |
| 26 | DC 48 | Measles-rubella (MR) vaccines (5 dose) – 255,000 vials | 78.41 | 0 | Procurement not started |

| | Lot no. | Description of goods, work and services | Target | Actual | Remarks |
|---|---|---|---|---|---|
| | | | million NPR | | |
| 27 | LIB 49 | Anti-snake venom serum — 21,000 vials | 16.41 | 16.24 | Procurement started |
| 28 | ICB 50 | Vehicles | 125.72 | 1.49 | 10 motorcycles procured. Other vehicle procurement not started |
| 29 | ICB 51 | Cold chain equipment and spare parts | 22.69 | 0 | Procurement not started |
| 30 | ICB 53 | Hospital equipment | 373.32 | 0 | Procurement not started |
| 31 | ICB 54 | Super Cereal wheat soya blend with sugar, and ready-to-use therapeutic food for malnourished children (RUTF) | 60.00 | 0 | Procurement not started |
| 32 | ICB 55 | Essential drugs and medical consumables | 2,190.00 | 0 | Procurement not started |
| 33 | ICB 56 | Vaccine, syringe and safety box | 71.05 | 10.44 | Partial quantity of BCG vaccine procured |
| 34 | ICB 57 | Injecting DMPA (Depo Provera) | 300.00 | 0 | Procurement not started. |
| 35 | NCB 59 | Printing materials | 37.38 | 12.80 | Single -year contract (4 of 5 slices procured). |
| 36 | NCB 61 | Office accessories and telemedicine | 21.90 | 0 | Procurement not started |
| 37 | NCB 62 | Non-consulting service contract for laboratory testing | 19.50 | 0 | Bid evaluation report (BER) is under evaluation |
| 38 | NCB 63 | Bags and tubular weighing spring balance | 10.89 | 3.10 | Only bags procured. Tubular weighing scale technically disqualified so not procured. |
| 39 | DC 64 | Single rod 3 year efficacy implants — 10,000 sets | 16.00 | 0 | Procurement not started |
| 40 | IND 209 | Procurement of software consultant and biomedical engineer | 3.30 | 0 | Procurement not started |
| 41 | NCB 210 | Non-consultant service contract for detailed design and cost estimate of storage facilities at central store, Teku and Pathalaiya store, Bara | 5.00 | 0 | Procurement not started. |
| 42 | NCB 211 | Web-based Logistics Management Information System (LMIS) | 6.80 | 0 | Procurement not started |
| 43 | NCB 213 | Security guards | 1.29 | 0 | Procurement not started |
| | | **Total (million NPR)** | **3,975.99** | **623.05** | |

## 2.3 Procurement System Reform

In 2013/14 a review was carried out of MoHP's procurement arrangements and plans and appropriate and possible alternative procurement arrangements for NHSP-3 were discussed:

- 2013/14 meetings between MoHP and the World Bank reviewed possible NHSP-3 procurement arrangements including: a) repositioning LMD within MoHP; b) procuring through an external agent or LMD; c) the selection of staff with good aptitudes to be trained for a procurement cell; d) overseas exposure visits for senior ministry staff; e) lessons to be learnt from international practices, and f) the position of infrastructure procurement in any reorganisation.
- MoHP is increasingly recognising the need for health sector procurement reform and has a growing commitment to this as shown by its formation of a Reform Committee.
- A workshop was held on procurement reform on 19 September 2014 where key stakeholders assessed issues and recommended the way ahead. A concept note was developed in November 2014 followed by a workshop in December, supported by the World Bank. This workshop led to the preparation of procurement reform plan with clear actions, timelines and responsibilities.
- MoHP/LMD supply chain management arrangements were included in these discussions.

## 2.4 E-bidding

The 2014 Aide Memoire called for MoHP/LMD to institute e-bidding in 2014 as an important measure to improve the procurement of goods. However, this activity has been superseded by the initiation of an e-bidding implementation programme across all government agencies by the Public Procurement Monitoring Office (PPMO). Progress is not expected within MoHP on this until the PPMO system has been agreed by the World Bank.

## 2.5 Contract Management

Considerable work went into developing the Contract Management System (CMS), which had been introduced in the previous year. The CMS was piloted in three districts and two divisions in order to test its linkage with other government agencies' information systems. These links have been instituted with DoHS's Finance Section on payment and other financial matters, and with central and regional warehouses on supply chains and stock control. The links with DoHS' divisions are currently under development.

## 2.6 Technical Specifications Bank

By the end of June 2014, 1,050 technical specifications for medical equipment, surgical instruments, drugs and hospital furniture had been prepared and uploaded to the Technical Specifications Bank, which is housed on LMD's website (www.dohslmd.gov.np). The technical specifications are intended to form an integral part of all bidding documents in order to improve the efficiency of procurement processes.

The databank provides standard agreed technical specifications that are available with open access to all and especially to DoHS divisions, district health offices and potential bidders. It is also being accessed and used by Nepalese health institutions, the private sector and health organisations in Bangladesh and Myanmar.

This databank is continuously being updated, improved and quality assured with inputs from pharmacists, biomedical engineers and senior technical assistance.

## 2.7 Staff Training

A training needs assessment was carried out for LMD staff concerned with managing procurement contracts and a training plan drawn up and implemented. The training was focused on LMD's contract management personnel, although other LMD staff participated in the sessions relevant to them. Internal training workshops were run on contract management for goods and consultancy services, the procurement cycle, the CMS and biomedical equipment. External courses were provided on information technology and English language skills.

In 2015/16 the focus will be on training district level personnel who are involved in procurement.

## 2.8 Supply Chain Coordination Visits

A new activity was launched this year whereby LMD staff visited all five development regions to exchange information and discuss the resolution of procurement-related issues with regional and district medical store personnel and other concerned staff from district health offices (DHOs) and district public health offices (DPHOs). The subjects covered in the visits related mostly to senior management, procurement, contract management, programmes, the cold chain and general storage issues. Regional and district medical stores, district health offices and health posts were visited.

Visit reports were prepared following each trip and follow-up activities were carried out at central and district levels.

## 2.9 Asset Management

Several guidelines have been developed on asset management including for bio-medical equipment and the disposal of expired drugs. A comprehensive asset management policy remains to be developed.

# 3 PROGRESS AND ACHIEVEMENTS: INFRASTRUCTURE

## 3.1 Updating and Use of Web-based Information System

The web-based Health Infrastructure Information System (HIIS) was completed, officially approved and adopted in the previous year (2012/13). Considerable progress was made in 2014 on developing the system as the information base for strengthening health infrastructure planning and management, on training staff on its use and on bringing it into use.

- Progress was made on updating the system by adding in new report formats, improving the structure in other ways and by entering new data.
- The government's recent budget speech (FY 2070/71) declared that all remaining sub-health posts (SHPs) would be upgraded to health posts. It is therefore very important that land size, terrain, orientation of land, type of existing building, ownership type, GIS coordinates and other relevant data be obtained for all SHPs. It is recognised that the location of many SHPs is sub-optimal in relation to their accessibility, enabling environment for service providers, access to support services and size of catchment population. This information needs to be added into the HIIS to enable the analysis of the above issues and to enable more rational planning. A ToR has been prepared and approved for carrying out a survey of all sub-health posts (SHP) that have been upgraded to a higher level since 2007. This data will be entered into the HIIS.
- In 2014, the Management Division, in collaboration with NHSSP, conducted training events in the Eastern Development Region on the web-based HIIS. Technical personnel from the Department of Urban Development and Building Construction's (DUDBC) division offices, district health offices (DHOs) and district public health offices (DPHOs) learned how to use the HIIS software.
- And most importantly, the system began to be used for planning purposes:
    - The GIS-based information in the HIIS began to be used to identify the catchment areas of health facilities and their accessibility from surrounding settlements. For the first time the Management Division used this information to select new health facility construction (for fiscal year 2014/15).
    - MoHP developed a system for identifying the most suitable locations for secondary and tertiary level health institutions using the GIS-based information in the HIIS. This exercise went back to first principles. The purpose is to inform future planning to bring about a more equitable distribution of these institutions so that they serve larger populations and so that users, on average, have to travel less far to reach them. Distance matrices and catchment areas were analysed and the suitability of the more than 4,000 existing health institutions was assessed. Maps with details of the proposed sites were presented to the health minister, MoHP's joint secretary and other high level MoHP and DoHS officials in December 2014.

The HIIS is open access and can be located via the link on the home page of MoHP's website (www.mohp.gov.np).[1]

[1] An article about the HIIS was selected for presentation at the Second International Conference on Emergency Medical Service Systems' held in New Delhi in October 2013 by the All India Institute of Medical Sciences (AIIMS). An abstract of the presentation was published in the Australian Medical Journal [2014, 7, 2, p. 102].

## 3.2 Criteria for Upgrading Health Facilities Approved

The criteria to identify health facilities for upgrading were further developed in 2013/14. The criteria used are geographical location, accessibility, and districts' health status as per the district health index level of the latest Human Development Report. These criteria were subsequently endorsed by the health minister in 2 August 2014 (BS 2071/4/17).

The system is based on identifying health facilities for upgrading in locations that serve the maximum number of people and to avoid overlapping or shadowing by higher level health institutions. Using this system to locate new health facilities and upgrade existing ones should help increase the coverage of health services to bigger catchments with better access. The system will also allow policymakers and planners to plan the location of new health buildings more rationally and avoid political pressure in locating facilities. All health facility construction selected for 2014/15 was analysed and selected using these criteria.

## 3.3 Endorsement of Land Selection Criteria

The selection of suitable sites and land is one of the most important steps in health building construction. Up to now most delays and high costs of health facility building construction have been due to inappropriate land selection. A major factor here has been the lack of any standard criteria for site selection for building new health facilities. With the initiative of the Management Division, land selection guidelines were developed and then circulated to DUDBC's district offices in 2012/13 as part of the Management Division's guidelines for programme implementation. These criteria were endorsed by the health minister on 7 May 2014.

## 3.4 Improved Bidding Procedures and Accelerated Progress on Building Projects

Continuing the trend from last year, the completion rate of health facility construction projects increased and the number of 'sick' projects decreased. The positive trend is reflected in the data in Table 2 with:

- a reduced number of on-going projects in FY 2013/14 compared to in the previous year (FY 2012/13), with the majority of these being in the finishing stage; and
- an increased number of completed and handed over projects.

Annex 3 (in a separate file) gives details of the progress on all these projects in 2013/14. At the same time DUDBC has become more confident in preparing national and international competitive bids (NCBs and ICBs) and the number of ICBs increased for hospital building projects in 2013/14 (with nine ICB contracts at different stages in this year). For fiscal year 2014/15 there probably won't be any ICBs as the World Bank has raised the ceiling of ICBs for civil works from $1 million to $5 million.

**Table 2: Progress of projects reported in FYs 2012/13 and 2013/14**

| | Status of construction of works | Number of projects | | Notes |
|---|---|---|---|---|
| | | 2012/13 (2069/70 | 2013/14 (2070/71) | |
| 1 | On-going work and finishing stage | 365 | 283 | 125 of the 283 project are in the finishing stage |
| 2 | Tendering | 3 | 0 | |
| 3 | Design or cost estimate | 3 | 0 | |
| 4 | Completed and handover in process | 41 | 68 | |
| 5 | Handed over or in use | 6 | 67 | |
| | **Total** | **418** | **418** | |

*Note: Table 2 does not include new projects planned in 2013/14.*

Two hundred and forty-three new construction projects are planned for FY 2014/2015 (see Table 3 and Annex 4). The status of the on-going projects is shown in Table 2. A further 210 projects are at the design and cost estimation stages (Table 4).

**Table 3: Summary of infrastructure planned for construction, 2014/15**

| | Type | Numbers | Remarks |
|---|---|---|---|
| 1 | Hospitals | 6 | |
| 2 | Primary health care centres | 7 | |
| 3 | Birthing centres in health posts | 20 | |
| 4 | Health posts | 200 | |
| 5 | Other | 10 | 15 bed hospitals, Seti, Bheri, Surkhet, DHO/DPHO buildings, maternity unit in Dhangadhi |
| | **Total** | **243** | |

**Table 4: Progress of projects initiated in 2013/14**

| SN | Stage of construction of constructions planned for 2013/14 | Number | Remarks |
|---|---|---|---|
| 1 | On-going work and finishing stage | 1 | In Kavre district |
| 2 | Work ordered | 83 | |
| 3 | Work up to foundation level | 49 | |
| 4 | Work up to sill level | 1 | |
| 5 | Work up to first floor level | 4 | |
| 6 | Tendering underway | 43 | |
| 7 | Designing and estimating stage | 29 | |
| | **Total** | **210** | |

Although the completion rate has increased, the handover of completed buildings remains an issue. Once the Management Division completes and implements its new handover guidelines the rates of handover should increase as parties should be clearer on their roles and responsibilities.

DUDBC also needs to give more attention to the on-going projects that were initiated or planned before 2067/68 (2010/11). The 25 such overdue projects need immediate action.

## 3.5 Mitigation Actions

The following issues continued to hinder health infrastructure progress in 2013/14:

a) Carelessness by contractors on the timely completion of projects (delays in civil works).
b) Contractors disobeying contract conditions.
c) Banks delaying payments from forfeited bid bonds and bank guarantees.
d) Delayed handover.

The following actions were taken to address these issues:

a) More monitoring of building projects by the central DUDBC office.
b) A notice on the black listing of malfeasant contractors was sent to the Public Procurement Monitoring Office (PPMO) and published in national and local newspapers.
c) Ninety-five contractors were fined for delays in the mid-July 2013 to December 2014 period. Fines of NPR 19.5 million were received in FY 2069/70 and NPR 24.5 million in 2070/71.
d) Requests were sent to the concerned banks for the forfeiture of the advance payment guarantees and payment guarantees of contractors whose contracts had expired. The national bank (Nepal Rastra Bank) has been given formal notice of this.
e) DUDBC is developing guidelines for contract termination, blacklisting and other mechanisms to complete terminated contracts.
f) MoHP and DUDBC are jointly developing a document to expedite construction project handovers.

## 3.6 Other Proposed Infrastructure Reforms

**Monitoring committee** — Towards improving the coordination, implementation and monitoring of health construction works a high level meeting held in January 2015 of MoHP's secretary and DUDBC officials agreed to form building project monitoring committees of concerned stakeholders at central, regional, district, and user levels.

**DUDBC district offices** — DUDBC has proposed expanding its number of division offices from 25 to 43 (10 divisional and 10 sub divisional) from 2015/16. An O&M survey is underway to assess this.

## 3.7 Improved Procurement Planning

For the first time in the history of NHSP-1 and NHSP-2, a formal no-objection letter was received by the Management Division/MoHP from the World Bank to the procurement plan of new constructions for financial year 2013/14. The letter was received in August 2013. A conditional no objection letter was received for the 2014/15 plan on 10 September 2014. This indicates the improved capacity of DUDBC and the Management Division and their improved coordination for preparing the procurement plan.

## 3.8 Management of Civil Works

Earlier, much construction at regional and zonal hospitals was implemented by hospital development boards with grant budgets provided directly to them. However:

- much of this construction has been carried out without necessary technical inputs and supervision, resulting in sub-standard construction;
- there has been inadequate progress reporting, procurement planning and the consolidation of plans and progress reports;
- much of this work was not carried out under the CAPP, which is managed by the Management Division; and
- Many such projects have not been fully completed due to lack of required budgets and adequate planning.

To avoid this situation (and as recommended by the 2014 JAR), starting in 2013/14 and continuing in 2014/15, the Management Division is working towards a fully integrated infrastructure CAPP. In addition to district and sub-district health facility construction it has included the building projects at the Mid-Western Development Regional, Seti Zonal and Bheri Zonal hospitals in its approved AWPB and in the CAPP. Sufficient funds were allocated to rehabilitate these projects and the hiring of construction supervision staff is underway. A needs assessment of the three large hospital projects is being carried out in January 2015 before finalising the designs, details and estimates (as also advised by the 2014 JAR). Considering the past difficulties, no authorisation was given to DHOs and DPHOs to directly carry out construction works at district level and below in 2013/14. All district level construction projects in 2014/15 are being managed by the Management Division.

# 4 CHALLENGES

## 4.1 Procurement of Goods and Services

The main challenges facing the timely, efficient and proper procurement of goods and services are as follows:

a) Delays in LMD-related procurement due to delays in the approval of budgets and procurement plans and in the production of no objection letters.

b) Ensuring that adequate transparency is seen in the procurement process.

c) Ensuring proper communication channels between LMD and DoHS's Finance Section and other divisions.

d) Providing procurement-related training to regional and district staff who are involved with health procurement.

e) Ensuring sufficient government staff are available to conduct LMD's procurement responsibilities in an efficient and timely way.

f) Preparing, finalising and getting approval for the revised LMD organisational structure that will provide for sufficient procurement staff, including technical personnel such as biomedical engineers and pharmacists, to be in post for the smooth functioning of the supply chain.

## 4.2 Infrastructure

The main challenges facing the rational and efficient planning, procurement and implementation of health infrastructure building works are as follows:

a) The institutionalisation of the new guidelines, strategies and documents.

b) Positive feedback has been received from stakeholders on getting the planning of all types of infrastructure development work, including ongoing retrofitting works and infrastructure development works under grant budgets, implemented under one MoHP division (the Management Division). This would enable the Management Division to prepare a consolidated procurement plan and more easily report on progress.

c) Direct grant budgets to zonal and higher level facilities for construction works and construction directly implemented through district health offices (DHOs) and health facilities under DHOs needs to be included in the regular reporting system as prescribed in the Joint Financing Arrangement. At present there is no procurement plan or progress reporting for these types of construction projects.

d) Institutionalising the web based HIIS.

# 5 LESSONS LEARNED

## 5.1 Procurement of Goods and Services

The major lessons learned in 2013/14 on the procurement of goods and services are as follows:

a) The timely preparation of annual procurement plans (i.e., by the end of the previous financial year) and the adherence to these plans on a day-to-day basis should be the cornerstone of efficient and systematic procurement. This point is repeated from last year's JAR report as there has only been limited progress on this matter.

b) Particular attention needs to be given to ensuring the transparency of procurement processes. Too often during FY 2013/14, valuable LMD resources were taken up handling queries, complaints and investigations from bidders and regulatory authorities because of the lack of transparency in procurement processes.

c) The need to ensure that vendors are paid on time.

d) Many concerned regional and district staff have a limited capacity to manage procurement processes. They lack basic awareness of general good practices and understanding of World Bank and government requirements. More of a focus is needed on training staff at these levels.

e) LMD has an inadequate organisational structure with necessary positions missing and many vacant positions resulting in an over-reliance on technical assistance. Prominent examples are the lack of pharmacists and biomedical engineers.

f) The inadequate number of LMD procurement staff is exacerbated by them spending too much time on non-core activities. More procurement staff are needed.

## 5.2 Infrastructure

a) Clearer guidelines, policies and documents will increase understanding between implementing agencies and bring about more efficient planning, procurement and implementation. This will in turn improve value for money in building construction and use.

b) More systematic approaches and systems can increase transparency and help in proper people-oriented planning and benefit more users with the same investments.

c) The regular supervision of projects by central and district level authorities will improve the quality of work and help rectify errors on time without additional costs.

d) The strict implementation of existing rules, such as blacklisting and forfeiting advance money, should expedite the completion of construction projects.

# 6 THE WAY FORWARD

## 6.1 Procurement of Goods and Services

1. The proper adherence to scheduled activities and the increased use of IT systems to facilitate the early submission of forecasts for goods and services and procurement plan preparation.
2. The increased use of the CMS, the Technical Specifications Bank and other IT systems to make information more readily and widely accessible to stakeholders for a more transparent procurement process.
3. The use of the CMS to improve communication between LMD and the DoHS Finance Section/DoHS divisions to enable payments and other financial procedures.
4. Providing procurement-related training to concerned MoHP regional and district staff. Such training is planned to start from January 2015 through regional workshops on procurement procedures relating to the Nepal Public Procurement Act and Regulations.
5. Increase the number of technical procurement staff. This is already being addressed by temporary procurement specialists who are made available under the NHSSP sponsored Technical Assistance Resource Fund (TARF). A permanent arrangement for increased staffing under a new organisational structure is planned under NHSP-3.

## 6.2 Infrastructure Development

Priorities for the immediate future are as follows:

1. Get all public health construction work, including work carried out, not only by DUDBC, but also by central, zonal and regional hospitals and DHOs/DPHOs, to be carried out under a single entity (the Management Division). In this scenario construction will only be approved if it is included in the annual procurement plan and if satisfactory provision is made for technical supervision. This will therefore include getting all MoHP construction grants to the semi-autonomous public hospitals under the Management Division's AWPB. This will help avoid duplication of responsibilities, and improve planning and monitoring and will ease the preparation of the annual consolidated procurement plans.
2. Strengthen the institutional structure for ensuring the timely and up-to-standard completion of infrastructure projects by:
    - increasing the number, skill and capacity of district level construction implementing agencies, including district technical offices (DTOs), DUBDC divisional and sub-divisional offices, for the better supervision and quality of work on these projects; and
    - establishing and empowering monitoring committees of concerned stakeholders at central, regional, district, and user levels.
3. Build the capacity of DUDBC and district technical office (DTO) staff at the centre and in the districts, and DHO and DPHO staff on planning health infrastructure, including training staff members to use the standard designs and guidelines.
4. Train officials from all DHOs, DPHOs and DUDBC division offices on the web-based HIIS and on directly updating the physical and financial progress of infrastructure works from into the HIIS.
5. Start incorporating details of existing and upgraded sub-health posts into the HIIS.

6. Monitor the implementation of the land selection criteria for new health facility construction (initiated from 2013/14) and carry out a study to analyse the value for money of the use of the criteria.
7. Publish the standard designs and drawings.
8. Develop typical sanitary and electrical drawings for the published standard designs.
9. Complete the needs assessment reports of the building works at Bheri and Seti Zonal Hospitals and the Mid-Western Development Region Hospital and initiate tendering for this work (to be completed by June 2015).
10. DUDBC to finalise its guidelines for completing the construction of terminated contracts.
11. MoHP and DUDBC to finalise standard formats and instructions for the handover of construction projects.
12. Produce more integrated and holistic health institution building plans that include all necessary support services and provide a better enabling environment for service providers. For example, hospital plans should include all necessary support facilities (quarters, generator house, landscaping, approach roads and roads inside the compound, guard house, power backup services, and fencing and walling). The aim is to make health buildings usable immediately after handover.

## ANNEX 1: RESULTS OVER THE LAST FOUR YEARS — PROCUREMENT OF GOODS AND SERVICES

**A. Progress**

There has been considerable progress over the NHSP-2 period (2010 to date) on developing a more efficient health procurement system:

More systematic and standard procedures have been introduced and adopted for LMD procurement:

1. Peer reviews and quality assurance practises have been introduced for bidding documents.
2. LMD has drafted and is using standard templates to document bid opening.
3. The implementation of acceptance reports for incoming goods.
4. About 900 standard equipment and 200 pharmaceutical specifications have been created and uploaded into the Technical Specifications Bank on LMD's website. The bank provides more choice of equipment and pharmaceutical products than was previously available and saves considerable time by offering off-the-shelf quality-assured specifications for procurement processes.
5. A computerised Contract Management System (CMS) is being taken into use covering finance, demand forecasting, warehousing and contract management.

The working environment and capabilities of LMD staff has improved:

6. LMD's office practices have been modernised through the use of lever arch files, diaries, year–to-view wallcharts, whiteboards and other practices.
7. A meeting room has been built in LMD and work spaces improved for LMD contract managers.
8. The skills and knowledge of procurement contract managers has improved from their participation in formal training sessions.
9. LMD staff have an improved capacity to complete standard bidding documents (SBDs) for goods.
10. The quality of letters in response to World Bank correspondence has improved.

Other improvements:

11. The increasing use of LMD's website reflects the improved transparency in LMD's procurement processes.
12. Increased bidders' understanding of procurement processes under the World Bank guidelines has resulted from their participation in LMD-sponsored bidder workshops held since 2010.
13. The improved coordination of supply chain operations resulting from the regional visits in 2013/14 by LMD central level staff to field counterparts to exchange information and ideas on procurement issues and solutions.
14. The action taken as a result of the reports produced on potential barriers to local manufacturers participating in LMD procurement.
15. The use of price studies to determine more accurate budget systems for equipment and pharmaceuticals.

**B. Challenges**

The following challenges have hindered LMD's more efficient procurement of goods and services since 2010:

1. *Frequent transfers* —Almost all LMD staff who undertake procurement activities in LMD are health professionals. Although they can learn how to carry out procurement processes (as evidenced by the success of some current staff) it needs to be ensured that they stay in their current posts for long enough to use their new specialist skills and provide reasonable value to LMD though staff transfer is a usual and anticipated phenomenon as per the existing personnel management rules and regulation across the Nepal Civil Service. Irrespectively, it is too often the case that staff that have developed sufficient procurement competencies and experience are soon moved to non-procurement roles outside LMD and their replacements lack the necessary expertise. The lack of continuity of core professional procurement staff has not been resolved during the four years under review even though it has been continually identified as a problem.
2. *Organisational structure* — LMD's organisational structure provides for insufficient procurement related personnel even though it is understood by management that more specialised personnel are necessary. As of late 2014, LMD lacks biomedical engineers, pharmacists and core procurement staff. The main difficulty appears to be the lack of certain necessary sanctioned posts in LMD, especially for biomedical engineers. The result is that LMD over-relies on technical assistance and other donor-funded support.
3. *Skills* — Many LMD personnel need improvement in basic office and clerical skills to manage procurement and contracting processes. Some lacked basic IT skills and although training has been provided, there is still a reluctance to use computers, hence making it difficult to upgrade systems.
4. *Transparency* — LMD has been seen as lacking transparency in its procurement processes. This causes bidders to be reluctant to invest their efforts in bidding for tenders, resulting in higher prices and poorer quality goods than should be the case. A number of initiatives have been undertaken to address this situation including holding bidder's workshops, public bid openings, the wider advertising of tenders, quality assurance documentation reviews and market surveys.
5. *Annual procurement plans* — The timely preparation of annual procurement plans (i.e., by the end of the previous financial year) and the adherence to these plans on a day-to-day basis should be the cornerstone of efficient and systematic procurement. This simple fundamental has, however, have not been practiced optimally. Time sensitive dates have often been missed however the situation has improved little since 2010. A simple procurement monitoring report has been introduced in 2014 to be completed regularly to track progress against the procurement plan.
6. *Communication* — There have been continual communication problems between LMD and other MoHP divisions and sections that play a role in procurement. This has resulted in supplier payment problems and other difficulties. Efforts are only now being made to address these inefficiencies such as by introducing the automated contract management system.

## ANNEX 2: RESULTS OVER THE LAST FOUR YEARS — INFRASTRUCTURE DEVELOPMENT

**Planning**

1. The timely preparation and submission of the procurement plan for civil works, as required by the Joint Financing Arrangement (JFA), has improved over the last two years with the World Bank giving a no-objection letter to the last two plans.
2. A model based on the GIS-based HIIS has been endorsed by MoHP for prioritising health facilities for new construction or upgrading. Earlier the number, types of infrastructure development works, site selection for new expansions were mostly planned in an ad-hoc way and were resource based rather than need based.
3. The Health Infrastructure Information system (HIIS) has been made web based and now contains both physical information about facilities and GIS based information for planning. Orientations have been provided to all regional and district level health entities including DUDBC division district and regional offices on using the system and the information it contains.
4. The delineation of secondary and tertiary level hospitals based on the concept of health districts has been completed including the analysis of population of catchment areas and distance matrices. Detailed maps on this have been submitted to the health minister who asked for the views of all concerned stakeholders to be solicited.
5. MoHP initiated and subsequently approved the allocation of budgets for all hospitals to prepare master plans for the development of their infrastructure. The aim is to ensure more holistic and integrated development of the infrastructure of these hospitals. The Management Division's district level AWPBs for 2071-72 provide funds for this.

**Standards and criteria**

6. Standard bidding documents were developed and published and are in use by DUDBC.
7. Standard designs and guidelines for health institution buildings have been developed and brought into use. Value for money studies on infrastructure development works under NHSP-2 (2011) show that the use of standard integrated designs are resulting in significant cost savings and improved service provision. These benefits are expected to further increase in the future.
8. Land selection criteria for new health facilities have been developed and endorsed by MoHP. Previously, due to the lack of proper criteria many health institutions were sited on unsuitable and non-accessible locations resulting in the non-use of services and discouraging health workers from staying there.

**Implementation**

9. The e-tendering of health infrastructure projects was successfully implemented by DUDBC. A 'value for money' study on this proved that it has facilitated more efficient and transparent tendering and has contributed to reducing construction costs.
10. The increasing number of interactions between DUDBC and Management Division officials, the increased participation of DUDBC officials in health sector workshops at all levels, and regular joint monitoring has helped resolve many long delayed construction projects. Increased monitoring and strict actions against contractors, including the forfeiting of bonds and advance payment guarantees, and public notices to contractors has improved the completion and handover rate of health building projects. The number of sick projects have drastically reduced.

11. MoHP and DUDBC have agreed to form monitoring committees of concerned stakeholders at different levels of implementation (central, regional, district, users) for the better coordination, implementation and monitoring of construction works.

**Ownership**

12. A very important achievement in the NHSP-2 period has been the good participation of officials from DUDBC, the Management Division, and other concerned divisions and departments in the improvement measures, which has led to their ownership of these measures, with most of the above achievements either institutionalized or under institutionalization.

## ANNEX 3: PROGRESS REPORT ON THE HEALTH INFRASTRUCTURE PROCUREMENT PLAN IN 2013/14

The detailed progress reports of all public health infrastructure projects in 2013/14 is on four sheets of the attached spreadsheet file (along with Annex 4). The Form A sheets give more contract-related information while the Form B sheets give more expenditure and budget related information.

| No. | Form | Subject | No. projects |
|---|---|---|---|
| Annex 3.1 | Form A new | Annex 3.1: Implementation Progress on 2013/14 Health Infrastructure Procurement Plan (Bid and Contract Details) | 201 |
| Annex 3.2 | Form A ongoing | Annex 3.2: Implementation Progress on Civil Works Planned Before 2013/14 (Bid and Contract Details) | 425 |
| Annex 3.3 | Form B new | Annex 3.3: Progress on 2013/14 Health Infrastructure Procurement Plan under NHSP-2 (Expenditure Details) | 210 |
| Annex 3.4 | Form B ongoing | Annex 3.4: Implementation Progress on Civil Works Planned Before 2013/14 (Expenditure Details) | 425 |

Note that the Annex 3.1 progress report lists 425 projects while only 418 projects are mentioned in Table 2 of the current report. This is because the progress report includes several projects that were completed in 2012/13.

## ANNEX 4: PLANNED HEALTH INFRASTRUCTURE PROJECTS FOR 2014/15

The list of planned infrastructure projects for 2014/15 is attached in a separate spreadsheet file along with Annexes 3.1 to 3.4.