"Global Health Supply Chain Management:
Lessons Learned and Ways Forward"
Rep. Chris Smith
May 17, 2018

Good afternoon.

By holding today's hearing, this subcommittee is fulfilling its obligation to the American taxpayers to conduct vigorous oversight of our global health programs in order to ensure that U.S. taxpayer dollars are being used properly and efficiently to deliver aid to rightful beneficiaries. It also, we hope, will help better the lives of those beneficiaries in the developing world who receive life-saving medications thanks to the generosity of the American people.

Specifically, we will address serious concerns regarding the United States Agency for International Development's contractor selection process and performance by that supply chain management company, Chemonics International, which was awarded the agency's largest ever

monetary contract – a contract with a ceiling of $9.5 ***billion*** over five years.

Congressional interest in this was triggered by reports last year that Chemonics had failed repeatedly to deliver essential health commodities in a timely manner to African and other countries where they are desperately needed – most critically, anti-retrovirals to treat HIV/AIDS patients. At its lowest point, only ***seven percent*** of deliveries were made on time and in full. The purpose of this hearing is to determine where USAID went wrong in the selection and transition process of this contractor and what can be done to prevent such a failure in the future.

In January of 2014, USAID issued a Request for Proposals for a supply chain management contractor that would consolidate procurement and delivery of health commodities to Africa and elsewhere as well as provide health systems strengthening in conjunction with the President's Emergency Plan for AIDS Relief

(PEPFAR). Two companies responded to the request, the first being the then existing contractor, Partnership for Supply Chain Management, and the second being Chemonics.

In April 2015, USAID awarded the contract to Chemonics, in large part because Chemonics displayed greater data visibility and IT capability. As might be expected, the incumbent losing bidder filed a complaint against USAID with the U.S. Government Accountability Office and, upon losing that, lodged an appeal with the U.S. Court of Federal Claims. In both instances, a deferential standard of review is applied, and thus USAID's decision was upheld.

Following the final decision, the Partnership began the process to transition services to Chemonics. While tensions between the two companies were evident throughout the transition process, performance levels remained steady until after Chemonics fully took over operations. At the end of 2016, under Chemonics' leadership, on time deliveries dropped from 84 percent to 67 percent. They continued

to freefall throughout 2016, down to 31 percent and then reaching an all-time-low of 7 percent in the first quarter of 2017. During this time, some countries reported stock-outs of some commodities.

This absolutely unacceptable delivery record resulted in part from poor data quality, weak inventory management and distribution practices and poor planning. Moreover, while hindsight is 20/20, one cannot but question what justified certain of the assumptions USAID made when it selected Chemonics.

For example, USAID had graded Chemonics' data visibility as "Excellent," placing great reliance on Chemonics' promises regarding an IT system. No demonstration of a functioning IT system was ever requested by USAID during the selection process, however, nor any in-person presentation during which the Technical Evaluation Committee could ask questions.

Indeed, no such demonstration could have taken place, as Chemonics had not even completed building the IT system that was

specifically required in the request for proposals. The system would not be fully functional until June 2017, *nearly a year and half* after Chemonics began operations.

While USAID did require a corrective action plan from Chemonics and implemented some corrective measures on the company – including freezing promotions and raises until performance reaches an acceptable level – it is the spur of congressional oversight, including visits to the field, which has forced the issue and brings us to where we are today, demanding answers and seeking solutions.

Our oversight continues to raise questions, and not only with respect to the implementing partner, but also how PEPFAR and USAID are coordinating their activities. We need to know how is it that each year PEPFAR engages partner nations in developing Country Operational Plans designed to meet particular needs in each nation while guaranteeing that annual taxpayer investments are "maximally focused and traceable for impact," yet USAID is still paying for the drug

Nevirapine to give to HIV patients in Africa. Nevirapine is an outdated drug with serious side effects that was supposed to have been retired a long time ago! This is an issue I would like both of our witnesses to address.

I also expect to hear from our witnesses not only a post-mortem of what went wrong – and by that, not simply a passive voice recitation that "mistakes were made" – but also concrete solutions for how we can prevent such mistakes in the future.

With that, I turn to our witnesses.