UN PROCUREMENT
PRACTITIONER'S HANDBOOK









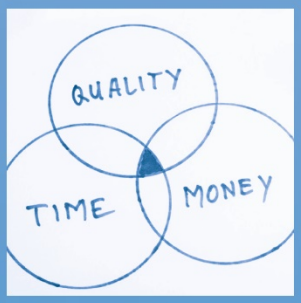












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Table of Contents

Table of Contents		**1**
Preface		**3**
Chapter 1	**Procurement in the UN System of Organizations**	**4**
1.1	United Nations System of Organizations	4
1.2	UN Procurement as a Tool to Advance UN Policy Goals	5
1.3	Guiding Principles	7
1.4	Financial Regulations and Rules (FRR) and Procurement Procedures	10
1.5	UN Procurement Reform	11
1.6	Procurement as a UN Profession	14
Chapter 2	**Ethics in Procurement**	**17**
2.1	Introduction	17
2.2	Codes of Conduct	17
2.3	The Principle of Stewardship	18
2.4	Ethical Concepts and Principles	18
2.5	Ethical Risks and Actions to Manage Them	21
2.6	Potential Areas of Risk in the Procurement Cycle	23
2.7	Ethics at an Organizational Level	25
2.8	Ethics at the Supplier Level	27
Chapter 3	**Risk Management**	**31**
3.1	Introduction	31
3.2	Risks in Procurement	31
3.3	Risk Management Process	32
3.4	Benefits of Risk Management	39
3.5	Risk and Risk Management in the Procurement Process	39
Chapter 4	**Organizational Procurement Strategy**	**45**
4.1	Objectives of the Procurement Strategy	45
4.2	Reviewing the Organization's Mandate and Strategy	48
4.3	How to Develop a Procurement Strategy	49
4.4	Examine the Organization's Procurement Spend	51
4.5	Analyzing the Organization's Procurement Function & Capability	58
4.6	Identifying Strategic Procurement Objectives	59
4.7	Developing & Implementing Corporate Level Strategies	62
4.8	Measuring Results	63
Chapter 5	**Planning the Procurement Process**	**68**
5.1	Operational Procurement Planning	68
5.2	Requirement Definition	72
Chapter 6	**Procurement Process**	**86**
6.1	Market Research	86
6.2	Procurement Strategy	89
6.3	Solicitation	97
6.4	Evaluation	103
6.5	Contract Award Review and Approval	110
6.6	Contract	112
Chapter 7	**Contract Management**	**123**

7.1	Introduction to Contract Management	123
7.2	Enabling Contract Management	123
7.3	Contract Performance Monitoring and Control	124
7.4	Change Management	129
7.5	Remedies	131
7.6	Dispute Resolution	133
7.7	Financial Management/Payment	135
7.8	Contract Completion and Closeout	136
Chapter 8	**Emergency Procurement**	**139**
8.1	Emergency Situations	139
8.2	Emergencies and Procurement	140
Chapter 9	**Cooperation**	**144**
9.1	Cooperation with UN Organizations	144
9.2	Alternative Methods of Cooperation	148
Chapter 10	**United Nations Global Marketplace**	**149**
10.1	About United Nations Global Marketplace	149
10.2	Functionalities on UNGM for UN Procurement Staff	149
Chapter 11	**Vendor Sanctions**	**151**
11.1	Proscribed Practices	151
11.2	The Model Policy Framework on Vendor Sanctions	153
Chapter 12	**Logistics**	**155**
12.1	Logistics Planning Process	156
12.2	Selection of Mode of Transportation	157
12.3	Packing	159
12.4	INCOTERMS 2020	162
12.5	Insurance During Transportation	169
12.6	Shipping Documents	170
12.7	Receipt of Consignments	171
12.8	Restrictions on the Export or Import of Goods	172
Chapter 13	**eProcurement**	**173**
13.1	Introduction	173
13.2	eProcurement Tools and Applications	174
13.3	eTendering	175
Chapter 14	**Sustainable Procurement**	**179**
14.1	Sustainable Procurement	179
14.2	United Nation Global Compact	202
Glossary of Procurement Terms		**204**

Preface

The UN Procurement Practitioner's Handbook (PPH) has been prepared by the *"Working Group on Professional Development",* formed by the United Nations High-Level Committee on Management's Procurement Network (HLCM-PN).

The PPH is available in electronic format on the United Nations Global Marketplace website www.ungm.org.

Purpose

The aim of the handbook is to serve the following purposes:

- Provide UN procurement practitioners with a common reference point for good procurement practices in the UN system.
- Describe the common and typical guiding principles, policies, procedures and practices which govern UN procurement activities.
- Support on-going procurement reform and harmonization efforts in the UN system through the provision of good practice examples and shared principles and procedures.
- Establish a common knowledge platform for training and on-going procurement capacity development.

Target Audience

The target audiences of the PPH are:

- Procurement practitioners in the UN system of organizations
- Trainers, facilitators and participants of procurement capacity development programs
- Requisitioners, clients and end-users that are part of the UN procurement process

References

Input for each chapter has been sourced from specialized agencies, organizations and procurement experts within the UN system and, where available, also from:

- Existing procurement manuals of the various UN organizations.
- Known procurement practices in the UN system of organizations.
- Procurement training and certification programmes.

Reservations

Procurement in the UN system is governed by the established financial regulations and rules of each UN organization. These regulations and rules may differ in matters of detail from organization to organization. Similarly, organizational-specific procurement policies, practices and procedures may vary.

The PPH attempts to collect, organize and present what are considered common good procurement practices and procedures without questioning or challenging any organizational-specific regulations, rules and policies. The idea is to bridge organizational differences and to provide a broader picture of the different ways procurement is practiced within the UN system by focusing on what is common and shared rather than on what is different and exclusive.

Therefore, the authors consider the PPH a *descriptive and supplementary handbook of good procurement practices* within the UN system rather than a prescriptive or normative document challenging existing organizational-specific procurement manuals, policies and procedures.

Chapter 1

Procurement in the UN System of Organizations

This chapter covers the following topics:

1.1	United Nations System of Organizations	4
1.2	UN Procurement as a Tool to Advance UN Policy Goals	5
1.3	Guiding Principles	7
1.4	Financial Regulations and Rules (FRR) and Procurement Procedures	10
1.5	UN Procurement Reform	11
1.6	Procurement as a UN Profession	14

1.1 United Nations System of Organizations

The "United Nations system of organizations" (UN) covers a wide variety of organizational units (centres, agencies, organizations, commissions, programmes, etc.) with different institutional and functional structures. The principal organs and subsidiary bodies of the UN Secretariat are included under the regular budget of the UN, as authorized by the General Assembly. Other agencies of the UN system, however, have their own regular budgets or are financed solely from voluntary contributions. These latter two categories, moreover, possess a certain degree of autonomy.

The organizations within the UN system also vary considerably both in size and activities. While all organizations spend a certain amount of their budget on administrative procurement to establish and run their offices (office furniture, stationery, etc.), their procurement activities differ as a result of their mandates and policy goals within the UN system.

The objective of procurement activities within the UN system is the timely acquisition of goods, services and works while upholding the following guiding principles:

- Best value for money
- Accountability, integrity and transparency
- Fairness and effective competition
- Best interest of the UN organizations concerned

While all organizations of the UN system have agreed on the above guiding principles, their individual procurement regimes are governed by the established Financial Regulations and Rules of each organization, which may differ in matters of detail. The different Regulations and Rules are often also translated into different sets of procurement policies, procedures and practises specific to each organisation and their mandate.

1.2 UN Procurement as a Tool to Advance UN Policy Goals

The Millennium Declaration[1] and the Millennium Development Goals (MDGs)[2] were in effect from 2000 to 2015 and provided a framework for the broader goals of individual organizations of the UN system. The MDGs established measurable, universally-agreed objectives for tackling extreme poverty and hunger, preventing deadly diseases, and expanding primary education to all children, among other development priorities. For 15 years, the MDGs drove progress in several important areas: reducing income poverty, providing much needed access to water and sanitation, driving down child mortality and drastically improving maternal health. They also launched a global movement for free primary education, inspiring countries to invest in their future generations. Most significantly, the MDGs made huge strides in combatting HIV/AIDS and other treatable diseases, such as malaria and tuberculosis.

In September 2015, at a historic UN Summit, world leaders adopted the 17 new Sustainable Development Goals[3] (SDGs or Goals) of the 2030 Agenda for Sustainable Development[4] which officially came into effect on 1 January 2016. The SDGs build on the success of the MDGs and over the next fifteen years, countries will mobilize efforts to end all forms of poverty, fight inequalities and tackle climate change, while ensuring that no one is left behind. The new SDGs are unique in that they call for action by all countries, poor, rich and middle-income, to promote prosperity while protecting the planet. They recognize that ending poverty must go hand-in-hand with strategies that build sustainable economic growth and address a range of social needs including education, health, social protection, and job opportunities, while tackling climate change and environmental protection. All 17 Goals interconnect, meaning success in one affects the success of others. Dealing with the threat of climate change impacts how we manage the fragile natural resources, achieving gender equality or better health helps eradicate poverty, and fostering peace and inclusive societies will reduce inequalities and help economies prosper.

While the SDGs are not legally binding, governments are expected to take ownership and establish national frameworks for the achievement of the 17 Goals. UN organizations will also use the SDGs as a framework for developing their own strategic plans, goals and objectives.

The Sustainable Development Goals

Goal 1	End poverty in all its forms everywhere
Goal 2	End hunger, achieve food security and improved nutrition and promote sustainable agriculture
Goal 3	Ensure healthy lives and promote well-being for all at all ages
Goal 4	Ensure inclusive & equitable quality education and promote lifelong learning opportunities for all
Goal 5	Achieve gender equality and empower all women and girls
Goal 6	Ensure availability and sustainable management of water and sanitation for all
Goal 7	Ensure access to affordable, reliable, sustainable and modern energy for all
Goal 8	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Goal 9	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

[1] Resolution of the UN General Assembly (A/RES/55/2): United Nations Millennium Declaration, 8 September 2000
[2] United Nations Millennium Development Goals on http://www.un.org/millenniumgoals/
[3] Sustainable Development Goals on http://www.un.org/sustainabledevelopment/sustainable-development-goals/
[4] Resolution of the UN General Assembly A/RES/70/1 - Transforming our world: the 2030 Agenda for Sustainable Development

Goal 10	Reduce inequality within and among countries
Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable
Goal 12	Ensure sustainable consumption and production patterns
Goal 13	Take urgent action to combat climate change and its impacts
Goal 14	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
Goal 15	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
Goal 16	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
Goal 17	Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development

Figure 1 – The Sustainable Development Goals



Each organization within the UN system has a certain mandate to contribute to achieving the SDGs. While the UN provides peacekeeping operations in areas affected by war, some organizations focus specifically on the protection of human rights of children, the empowerment of women, the fight against HIV/AIDS, hunger, capacity development etc. Each of these individual mandates results in the development of mandate specific programmes and projects. To implement and realize these programmes and projects the organizations require specific goods, services and works.

UN procurement is an essential function in achieving these organizational mandates and, in some cases, it is seen as a model for developing the capacity of recipient governments. In addition to efficiently supporting programmes in each of the above areas, procurement can take some of these goals into consideration when procuring certain goods or services as well as selecting their suppliers. For example:

- UN organizations may develop policies promoting increased opportunities for priority categories of suppliers. Such policies vary by organization, but the most frequent ones are to limit the number of suppliers from any single nation and to rather provide opportunities to suppliers from a diverse mix of nations, including those suppliers based in the countries or regions where the UN implements its projects. In most cases, such policies provide the respective category of suppliers with greater tendering opportunities but do not provide any preference in the evaluation process.

- UN organizations may seek to support the focus of the SDGs on poverty reduction, gender equality, women's empowerment, environmental sustainability and child education by stipulating clauses to this effect in the solicitation documents, and by providing greater representation on shortlists of suppliers respecting such goals. For example, contract clauses that prohibit child labour and prevent sexual exploitation or abuse.
- UN organizations may agree to implement programmes with funds that include constraints on the origin of suppliers or supplies (e.g., some bilateral tied assistance as well as most multilateral development loans and grants). Such offers should generally be reviewed to ensure that the funds can still be managed in accordance with the general procurement principles otherwise applied, and that subsequent procurement activities will provide an economic and effective solution to the requirement for which it has been offered.
- The UN actively promotes good governance in Member States, paying particular attention to procurement processes and technical assistance. The UN is aware that it also needs to set an example by practicing good governance.

1.3 Guiding Principles

In the area of procurement, the guiding principles are based on the concept of stewardship.

Stewardship

UN organizations are the stewards of all public funds, which have been provided in trust by peoples and their governments to fulfil the agreed objectives of the UN. A significant proportion of these funds are used through formal procurement processes, for which there are many stakeholders, such as citizens, suppliers or beneficiaries. These stakeholders need to be assured that the funds are being used correctly.

In the past, when most funds were allocated to regular administrative budgets and were spent on institutional needs of the organization, procurement accountability was largely the same as general management accountability. However, as funds are provided for specific purposes outside the daily administration of the institution itself – humanitarian relief, peacekeeping, sustainable development, etc. – the number of stakeholders has grown and visibility and scrutiny have been heightened as the impact of the funds on the daily lives of affected people has greatly increased.

Procurement officers are the guardians of the principles of procurement. They must ensure the funds they have been entrusted with are spent in a professional, correct, fair, timely and transparent manner. (For more information see Chapter 2: Ethics in Procurement)

Guiding Principles

While all organizations have agreed on the following four principles in procurement, sometimes minor variations in wording exist in describing the principles of the individual organizations.

- Best value for money
- Accountability, integrity and transparency
- Fairness and effective competition
- Best interest of the UN organization concerned

Financial Regulations and Rules (FRR), organization-specific procurement guidelines and policies and procedures offer, to a certain degree, a full legalistic and normative framework for procurement to be followed. However, there might, from time to time, be grey areas and contradicting instructions in this legal framework. In such situations, the principles of procurement serve as the overall guidelines in support of any professional judgement calls to be made. Buyers can, at any stage of the procurement process, conduct a self-assessment of the specific case or judgement calls made and check whether recommended procurement actions are in full compliance with the spirit of these principles.

Best value for money

Best value for money means selecting offers which present the optimum combination of factors such as appropriate quality, life-cycle costs (an accurate analysis of all costs involved), timely delivery and

other parameters which can include social, environmental benefits or other strategic objectives which meet the end-user needs. Best value for money does not necessarily mean the lowest initial price option but rather represents the best return on investment, taking into consideration the evaluation criteria and quality requirements as specified in the solicitation documents. The principle of best value for money should inspire and guide the selection of the best contracting strategy and should be applied at the award stage to select the offer that effectively meets the stated requirement.

In order to uphold the principle of best value for money, the processes of soliciting offers and selecting a contractor should:

- Maximize competition
- Minimize the complexity of the solicitation, evaluation and selection processes
- Ensure impartial and comprehensive evaluation of solicited offers
- Ensure selection of the contractor whose offer has the highest degree of realism and whose performance is expected to best meet the business unit's specifications, statement of work or terms of reference
- Where possible ensure the highest social and environmental benefit to the society

Accountability, integrity and transparency

Accountability in procurement means that buyers must take ownership of all responsibilities and commitments that have been allocated to them; delivering outputs (for which one has responsibility) within the prescribed time and cost and according to the required quality standards; operating in compliance with the FRR; supporting subordinates, providing oversight, taking responsibility for assignments, and taking personal responsibility for one's own shortcomings and those of the business unit, where necessary. This must be supported by a filing system, documenting the procurement process, signatures on key documents such as specifications, bidding documents, evaluation reports and approvals, with clear justifications for decisions made, thus leaving a clear audit trail of the actions and decisions taken.

Business Units are also responsible for protecting the *integrity* of the procurement process and maintaining fairness in the organization's treatment of all bidders. Integrity is therefore about demonstrating the core values of the UN in daily activities and behaviours. This may include: acting without consideration of personal gain; resisting undue political pressure in decision-making and actions taken; not abusing power or authority; standing by decisions that are in the organization's best interest, even if they are unpopular; taking prompt action in cases of unprofessional, unethical and corrupt behaviour. (For more information see Chapter 2: Ethics in Procurement)

A *transparent* procurement system has clear rules and mechanisms to ensure compliance with those rules (unbiased specifications, open advertisement of requirements, open and fair selection of suppliers invited, objective evaluation criteria, standard solicitation documents, equal information to all parties, confidentiality of offers, announcement of contract awards, etc.). Records are open to inspection by auditors, as and when appropriate, and unsuccessful suppliers can be briefed on the strengths and weaknesses of their own offers. Transparency ensures that any deviations from fair and equal treatment are detected very early, making such deviations less likely to occur and/or minimize their consequences. It thus protects the integrity of the process and the interest of the organization.

There are two degrees of transparency: internal scrutiny and external scrutiny. Internal scrutiny is transparency within the UN, such as being open and transparent to examinations conducted by internal auditors. External scrutiny involves transparency outside the UN, such as examination by Member States, the press, external auditors, or other outside observers.

Fairness and effective competition

Competition conducted in a fair and transparent manner is at the heart of procurement in the UN. For competition to be effective, it must guard against collusion and be conducted based on clear and appropriate regulations, rules and procedures that are applied consistently to all potential suppliers. The procurement process should be carried out in a manner that gives all interested parties, both inside and outside the organization, the assurance that the process is fair. Business units are therefore responsible for providing the widest possible access to UN contract opportunities for the supply community through open competitive procurement processes, broad advertisement on relevant websites, unbiased specifications, clear and unambiguous evaluation criteria, etc.

Effective competition also means providing an appropriate solution to the organization's need with regards to quantity, quality and timeliness at the right price. It requires that the overall transaction cost to the organization in conducting the procurement process is minimized in the interests of the overall budget of the organization. Economy in the procurement process should protect the interest of the budget owner, while effective competition ensures the interest of the end-user is met.

Best interest of the organization

The ultimate objective of procurement is to add value to the organization in fulfilling its mandate, goals and objectives. To a large extent the other three principles contribute to this principle, but this principle also includes concepts such as:

- Promoting the public good as specified in the mandate of the organization
- Maintaining the highest image, reputation and interest of the organization through execution of the procurement process in full conformity with the
- Respecting the interest of stakeholders

Potential conflicts among the guiding principles

While together the principles provide a common framework supporting UN procurement, individual principles may conflict in some situations, requiring professional and management experience, as well as judgement, to achieve the correct balance. Some examples are provided below:

- In a particular procurement transaction, for example, during humanitarian emergencies, the principle of doing what is in the "best interest of the organization" may prevail over the principle of effective competition. In fact, organizations involved in emergency relief are often faced with the limitations of procedures that were originally established to control standard office procurement and have therefore found it necessary to develop procedures better adapted to unforeseen emergency situations. This involves overriding some standard processes to enable urgent action. It is essential that steps taken in such circumstances, and the reasons for taking them, are well documented. Procurement officers should assume that such decisions will be reviewed and audited after the fact, and ensure they will stand up to scrutiny. (For more information see Chapter 8: Emergency Procurement)
- The interest of the organization may also cause the UN to explicitly consider factors which are otherwise extraneous to the immediate procurement, such as, geographic distribution, support to small and medium enterprises, support to women-owned businesses, environmental sustainability, curbing child labour and production of landmines, etc. This may require additional resources and effort to qualify potential suppliers.
- UN goals of broadening participation in solicitations, particularly to disadvantaged groups, may benefit from smaller lots to increase local interest. It may require use of additional procurement resources for active market research, including outreach to find appropriate potential suppliers not previously on the roster, and evaluation of extra offers. This should be accepted as part of the normal process.
- Open competitive tendering for an international organization may conflict with economical use of administrative resources and effectiveness of completing solicitations in a reasonable period. Organizations may address this through shortlisting procedures, whereby the higher the expected contract value, the larger the number of invitees on the shortlist.
- Open competition may conflict with the recommended practice of establishing strategic long-term partnerships. The competitive principle is normally understood to argue for placing each requirement out to competitive bidding, potentially risking disruption when changing suppliers. Some UN organizations have concluded that their FRR permit entering into long term framework agreements on a non-exclusive basis as the result of a competitive solicitation. This permits assurance of uninterrupted supply at competitive prices and the development of a closer quality assurance and working relationship.
- Transparency in UN procurement may require added effort by preparing solicitation documents with detailed criteria for evaluation and the tender process. The fairness and competition principles also require broad advertisement for a minimum period,

which increases costs and supplier preparation time. Whilst this results in a transparent and fair process, it may go against effectiveness.

Procurement officers and those acting in or supporting the procurement function are in a special position of trust and must uphold high standards of professionalism to be able to fulfil the above requirements.

1.4 Financial Regulations and Rules (FRR) and Procurement Procedures

The FRR of each organization provide the framework for the administrative context within which procurement is carried out, as specified in its respective procurement procedures. The FRR specify key guidelines for procurement, types of procurement instruments and evaluations, primacy of competitive tendering while recognizing situations in which that may not be in the best interest of the organization. The FRR vary among organizations, and the nuances are important for the work in each organization. The FRR provide for delegation of authority to increase the operational responsiveness of the procurement function, while also requiring segregation of duties to ensure control, and accountability for the correct (or improper) use of the authority and available resources.

While UN organizations share the same general procurement principles and have many similar processes and procedures, each organization's procurement procedures may differ as to levels of delegations of authority, monetary thresholds, approval processes etc. Differences are being reduced and increasingly harmonized as much as possible through the One UN procurement reform process.

Content of FRR

The FRR and procurement procedures (which some agencies have assembled into procurement manuals and guidelines) specify the solicitation procedures for the supply of goods, services, or works. They include appropriate methods for evaluating and selecting awardees and awarding potential contracts. The FRR clearly state the principle of selection through competitive tendering. They also indicate conditions which might justify waiving the competitive tendering process in favour of direct contracting, where it is deemed to be in the interest of the organization, as long as justification is supported by clear evidence that tendering would not provide an effective solution. The FRR may permit a UN organization to procure on a collaborative basis, i.e., on the basis of solicitations and arrangements, such as a long-term framework agreement, established by another UN organization. (For more information see Chapter 6: Procurement Process and Chapter 9: Cooperation)

The FRR vary among organizations, and the nuances are important for the work in each organization. The FRR provide for delegation of authority to increase the operational responsiveness of the procurement function, while also requiring segregation of duties to ensure control, and accountability for the correct (or improper) use of the authority and available resources.

Differences have been reduced through the "Delivering as One" UN procurement reform process and other harmonization initiatives.

No financial commitment without budget availability

The FRR and procurement procedures stipulate that the procurement process should only begin once an approved and budgeted requisition has been received. Nonetheless, those organizations faced with special exigencies in field operations often tolerate initiation of internal procurement processes, including issuance of solicitations, before formal receipt of an approved and budgeted requisition. In such exceptional circumstances, whenever solicitations are issued in advance of confirmed budget availability, potential suppliers should always be informed that the solicitation is "in anticipation" of the requirement, and that procurement will only proceed when full authorization has been received. While signature of the eventual contract and corresponding creation of a financial commitment should clearly wait until receipt of the approved and budgeted requisition, internal preparation of specifications and solicitation documents could be considered as part of procurement planning. Nonetheless, issuance of the solicitation documents prior to budget confirmation always requires a specific management decision and approval.

Segregation of duties

UN organizations have generally developed an administrative structure based on segregation (or in some cases separation) of responsibilities for procurement. This structure typically recognizes that the requisitioner, budget controller, buyer, receiver and payer should be separate authorities, in order to provide appropriate organizational checks and balances, and to permit specialization in their respective professional areas. The main purpose is to reduce the possibility of fraud and corruption, and to emphasize accountability of all key players in the procurement process.

Delegation of authority

As specified in their respective FRR, the Executive Directors of UN organizations may delegate authority to specific staff to implement procurement activities. Such delegations are intended to reduce administrative bottlenecks and provide increased responsiveness by locating decision making authority nearer to the activity. Of relevance to procurement are both the financial and procurement delegations of authority, although only the procurement delegation is discussed here. The procurement delegation provides authorization to award and/or sign a contract and/or issue payment upon confirmation that the correct procedures have been followed. By exercising the authority, the staff member becomes accountable for the action and potentially financially liable for error (misconduct). Delegations are generally made at one of the following levels and the thresholds for each level are found in the individual UN organization's procurement manual:

LEVEL	DELEGATIONS UP TO A MAXIMUM LEVEL…
1	Of petty expenditure for small purchases
2	For which tender procedures apply
3	Not requiring review by the organization's Contracts Review Committee
4	Requiring review by the organization's Contracts Review Committee
5	Of higher financial authority in very large programmes with experienced staff

Not all UN organizations use all levels.

1.5 UN Procurement Reform

Introduction

Procurement at the UN has undergone significant transformation since reforms were initiated in 1999. The main issues taken into consideration as part of UN procurement reform can be found in several UN official documents, particularly Resolution A/RES/54/14 of 22 November 1999. The Resolution specifies the direction that procurement reform initiatives need to follow in order to strengthen the principles of transparency, effectiveness and efficiency while also fully reflecting the international character of the UN.

Reform initiatives

Specific reform initiatives include:

- Increased opportunities to suppliers from developing countries and countries with economies in transition; wider participation of suppliers from all Member States in general; and improvement of communication with suppliers; improvement of system for registration of suppliers.
- More transparent, open, impartial and cost-effective procurement processes, based on competitive tendering.

- Increased use of modern electronic means of communication to disseminate/receive information regarding requests for proposals, invitations to bid and requests for expressions of interest.
- Assurance that bids received through electronic means are not compromised.
- Increased transparency of procurement decisions and maintenance of the principle of separation of responsibilities of the requisitioning and approving officers.
- Improved use of acquisition planning.
- Enhanced professionalism of procurement practitioners through increased training and formal certification in essential qualifications.
- Improved cooperation and common regulations and rules.
- Increased field support.
- Enhanced accountability through greater delegation of authority.
- Definition of conflict of interest and implementation of a zero-tolerance policy on gifts and hospitality.
- Introduction of financial disclosure programmes for procurement staff.
- Introduction of independent procurement challenge systems.

Working groups

Procurement reform is supported at the highest level and carried out at both the organizational and inter-agency level.

In 1976 a group of senior procurement staff from different UN agencies met in Geneva and formed the Inter-Agency Procurement Working Group (IAPWG). In April 2007, this informal working group was formalized under the Chief Executives Board's (CEB) High Level Committee on Management (HLCM). It is now known as the HLCM Procurement Network (HLCM PN or Procurement Network). At present, representatives of 40 UN organizations are members of the Procurement Network. These organizations are represented by their Directors of Procurement and/or their deputies, who actively participate in the Procurement Network's bi-annual meetings. Together these representatives have responsibility for the USD 18.8 billion (2018) that the UN spends annually to support its activities and programmes in more than 170 countries.

The purpose of the HLCM PN is to promote the strategic importance of Procurement and Supply Chain Management in programme and service delivery in a transparent and accountable manner. It has four working groups, which aim at professional development of procurement staff, strategic vendor management, harmonization of UN procurement business processes and practices, and ensuring that sustainable procurement interventions are embedded in the procurement activities of the UN system. The majority of the Procurement Network member organizations are also members of the United Nations Global Marketplace (UNGM), which is the common procurement portal of the UN system of organizations (for more information see Chapter 10: United Nations Global Marketplace).

The HLCM PN's programme of work furthers the efficiency and effectiveness of the procurement function within the UN system through collaborative procurement arrangements, simplification and harmonization of procurement practices, and by fostering professionalism amongst staff that are responsible for procurement. The Procurement Network, through information and knowledge sharing, promotes procurement opportunities to potential suppliers from developing countries, as well as those from countries with economies in transition, and supports, where possible, capacity development for procurement in those countries where UN organizations serve.

Achievements

The work of the HLCM PN has resulted in the following achievements:

- Establishment and continual enhancement of the UN Global Marketplace (UNGM): notably, the reform and simplification of the vendor registration process; facilitating information-sharing on sanctioned vendors; enabling integration with UN Agency e-tendering and enterprise resource planning (ERP) systems and development of a comprehensive Knowledge Centre for the benefit of both external stakeholders and UN staff.
- Development and implementation of a Model Policy Framework for Vendor Sanctioning, including vendor flagging functionality in UNGM.

- Development of Guidelines for Common UN Procurement at the Country Level (available in several UN languages) and corresponding training materials.
- Agreement on Best Practice for Sharing Long Term Agreements among UN Agencies (available in several UN languages).
- Standardization of the Table of Contents for UN Procurement Manuals.
- Development of a suite of common procurement prototype templates.
- Improved cooperation between UN Agencies at HQ-level through the establishment and strengthening of Common Procurement Teams.
- Identification of key commodities and services for collaborative procurement; for example, vehicles, freight forwarding and cargo insurance.
- Facilitation of supplier access to UN business opportunities, especially for entities from developing countries and countries with economies in transition: through coordinated multi-agency business seminar activities; improving availability of web-based information and fostering partnerships with Chambers of Commerce and Trade Agencies, etc.
- Development of Sustainable Procurement tools; guidelines, guides and training.
- Development of a framework to track Sustainable Tenders in the UN system.
- Compiling and sharing regular overviews of procurement training opportunities for reference purposes for UN procurement practitioners.
- Development and maintenance of this publication, 'UN Procurement Practitioner's Handbook'.

To harmonize their procurement activities, many UN organizations have formed formal collaborative procurement initiatives. The Common Procurement Team (CPT) of FAO, IFAD and WFP, the three Rome-based agencies, was initiated in 2010. The three organizations operate under harmonized rules and procedures for joint tendering of commonly procured HQ goods, works and services. Their Procurement Officers meet regularly to update the CPT tender plan and discuss CPT joint initiatives. Joint tenders are equally distributed among the three agencies and conducted based on the procurement procedures of the lead agency.

In Geneva, the Common Procurement Activities Group (CPAG) is leading efforts towards the simplification and harmonization of procurement practices within the Geneva-based international organizations, with the objective of increasing efficiency and effectiveness of UN procurement activities. The aim of the CPAG is to build more effective, coherent and better-performing business practices and to lower the cost of commonly required goods and services for all its members due to volume purchase agreements.

CPAG is a successful example of a group-led procurement strategy based on the shared goals of pooling experience and research, exchanging best practices and collaborating on procurement projects. CPAG is achieving these goals through:

- Promoting the standardization among member organizations of procurement policies, standards, procedures and procurement training programmes.
- Benefitting from economies of scale by pooling procurement requirements in the Geneva duty station.
- Promoting the standardization of goods, works and services in use among Geneva-based agencies.
- Enhancing the efficiency and effectiveness of procurement operations by enabling member organizations to benefit from the results of the procurement activities of other members.

At country level, many UN organizations have also created common procurement teams. More information on these collaborative efforts can be found in the Knowledge Centre on www.ungm.org.

There have been several Joint Inspection Unit (JIU) reports on cross-cutting procurement harmonization and coordination issues within the UN system. These JIU reports and their recommendations have provided important inputs to the HLCM PN for enhancing the procurement profession and practices within the UN system.

1.6 Procurement as a UN Profession

Introduction

Procurement is an internationally recognized profession. Within the UN system, it has evolved from being considered a simple "back-office" administrative purchasing function to increasingly being recognized as a professional, "value-adding" function, supporting the achievement of key goals and results of its member organizations. In addition, procurement has been elevated to a strategic function within more and more organizations. Procurement officers and those acting in or supporting that function are in a special position of trust and are held to high standards of professionalism. Development of professional and ethical competencies and qualifications of UN procurement officers is recognized as an important component of the UN procurement reform process.

Procurement officers operate within a complex environment. They are subject to pressure from end-users seeking rapid response or a specific technical solution, from suppliers seeking invitations or contracts, from donor representatives or the public seeking explanation for the use of the funds, and by anyone who thinks they detect a lack of transparency or other weakness in the process.

The Professional Competencies and this Practitioner's Handbook contain the basic common technical and procedural knowledge expected of UN procurement officers, to be complemented by specific knowledge of regulations, rules and procedures of each organization.

Heightened professionalism of UN procurement officers is the basis for increased delegation of authority and corresponding accountability that are central to the current UN procurement reform process. The current training and certification effort is an important element in this, as are the increased training efforts of each UN organization.

Staff Level Training and Certification Programmes

In an effort to further professionalize their procurement staff, many UN organizations have developed their own procurement training and certification programmes which include online training, in-house courses and attendance at training programmes designed by other agencies. These training programmes include topics such as:

- Acquisition planning
- Contractual issues in purchasing and contract management
- Humanitarian logistics and humanitarian supply chain management
- Risk management in procurement
- Monitoring in supply chain management
- Long Term Agreements
- Ethics in procurement
- Sustainable procurement
- Contract management and administration

Training and Certification provided by UNDP

United Nations Development Programme (UNDP) offers a specialized procurement training and certification programmes to staff from the UN system, non-governmental organizations, international development financing institutions and their borrowers, and governments[5]. The following formal procurement certification courses are provided:

- Introductory Certificate in Public Procurement, Level 2 – CIPS Accredited
- Advanced Certificate in Public Procurement, Level 3 – CIPS Accredited
- Diploma in Strategic Public Procurement, Level 4 – CIPS Accredited

The UNDP certification courses are accredited by the Chartered Institute of Procurement and Supply (CIPS)[6] assuring compliance with recognized international qualification standards. All UNDP/CIPS certification courses at Introductory (Level 2), Advanced (Level 3) and Diploma (Level 4) levels are tailored to reflect common UN and public procurement rules, policies, procedures and best practises. Upon completion of the courses, students receive a certificate co-signed by UNDP and CIPS, which

[5] www.training.undp.dk

[6] CIPS is a professional association, dealing with matters related to procurement and supply chain management based in the United Kingdom. www.cips.org

means that students accomplishing qualifications in this programme also achieve recognized academic credits and qualifications with entitlements for continued studies within the CIPS qualification system. The UNDP/CIPS programme also offers full CIPS membership benefits such as access to knowledge databases, participation in professional communities and networks.

Successful students from the UNDP/CIPS can continue to higher level based professional qualification programs offered directly by CIPS. These programs are slightly more geared towards private sector purchasing in developed countries, but offers a progressive and comprehensive qualification later in the domain of procurement and supply chain management:

- Professional Diploma in Procurement and Supply (CIPS level 6)
- Advanced Diploma in Procurement and Supply (CIPS level 5)
- Diploma in Procurement and Supply (CIPS level 4)
- Advanced Certificate in Procurement and Supply Operations (CIPS level 3)
- Certificate in Procurement and Supply Operations (CIPS level 2)

The Knowledge Portal of The Chartered Institute of Purchasing and Supply (CIPS) offers access to expertise, experience, knowledge and resources to support procurement and supply management activities. UN staff can access this portal through www.ungm.org.

UNDP also offers more generic, specialized and/or cross-cutting training courses addressing specific UN and public procurement topics and qualification requirements. The following courses are offered on recurrent basis at 15 different training locations around the world. These courses include:

- Contract and Supplier Relations Management
- Procurement Strategy Development
- Supply Chain Management in Humanitarian Organizations
- Risk Management in Contracting for Construction Services
- Effective Negotiations in Projects and Procurement
- Contracting & Management of Individual Contractors
- Logistics & INCOTERMS 2020
- Effective Programme and Procurement Teamwork
- Sustainable Public Procurement
- Anti-Corruption and Ethics in Procurement
- Public Procurement Reform Implementation
- Government Procurement Capacity Development

The International Training Centre of the ILO

The International Training Centre of the ILO offers competency-based procurement management training programmes. Training workshops cover all categories of procurement – goods, work and services - in accordance with: The World Bank's procurement guidelines; the United Nations Commission on International Trade Law (UNCITRAL) model law; the Government Procurement Agreement and/or the EU procurement directives and other regional provisions. The Centre provides procurement training courses in the following areas:

- Supply chain management: logistics, insurance policies and Incoterms
- Procurement management for goods, physical services and consultancy services
- Procurement management for goods and consultancy services
- Procurement of physical services
- Works procurement management
- Public - private partnership policies: legal framework and competition requirements
- Advanced contract management
- Sustainable procurement: social, economic and environmental considerations
- Procurement audit and systems for prevention and detection of fraud and corruption
- eProcurement
- Public sector governance: legal and institutional frameworks for procurement audits
- Public financial management
- Procurement management in the public sector

Finally, UNOPS offers a training course on sustainable procurement, which is developed in partnership with ITC-ILO and UNEP and based on the "Buying for a Better World" guide (available on

www.ungm.org). The course can be provided as classroom training and is also available online for all UN procurement practitioners on www.ungm.org.

Chapter 2

Ethics in Procurement

This chapter covers the following topics:

2.1	Introduction	17
2.2	Codes of Conduct	17
2.3	The Principle of Stewardship	18
2.4	Ethical Concepts and Principles	18
2.5	Ethical Risks and Actions to Manage Them	21
2.6	Potential Areas of Risk in the Procurement Cycle	23
2.7	Ethics at an Organizational Level	25
2.8	Ethics at the Supplier Level	27

2.1 Introduction

The UN procurement process involves a wide range of activities ranging from procurement planning through to contract monitoring and management. All procurement practitioners must adhere to the strict ethical standards and responsibilities that apply to procurement activities, in order to protect the integrity, fairness and transparency of the procurement process. The discipline of ethics relates to the concepts of right and wrong conduct, moral duties and obligations, a system of moral principles and values, and to moral character. Most procurement related principles, i.e., fairness, integrity, transparency and accountability, are based on ethics.

Procurement practitioners, therefore, need to maintain an unimpeachable standard of integrity in all business relationships, both inside and outside their UN organization. Ethical conduct must be observed in all dealings with the organization's partners, donors, governments and the general public, and ethical behaviour should be promoted throughout the entire supply chain. Procurement officials must never use their authority or office for personal gain and must seek to uphold and enhance the standing of the UN at all times. Professional standards of ethical conduct for UN staff are stated in Articles 100 and 101 of the Charter of the United Nations, in the Staff Regulations and Rules of the United Nations, as well as in the Financial Regulations and Rules (FRR). Further, each individual staff member, through signature of the Oath of Office, agrees to *"regulate their personal conduct with the interest of the United Nations only in view"*.

2.2 Codes of Conduct

Organizations and professions often seek to address standards of conduct through the adoption of codes of conduct. Professional codes of conduct are generally written in broad conceptual terms rather than in specific situational or descriptive terms. They leave room for interpretation and may often seem ambiguous. Procurement professionals cannot abide merely by the letter of the law, or the specific words in any code of conduct, but should rather be guided by the spirit of the law and the broader concept that the code is intended to express. One reason why many procuring organizations avoid detailed and specific codes is that these may give the impression that anything not specifically prohibited is permitted, or that anything not specifically addressed is unimportant.

No matter how hard policy-makers try, they will never be able to specify in law, code, regulation, rule, or other written requirement everything that a procurement officer needs to know regarding what is allowed or appropriate and what is prohibited or to be avoided. It is therefore, necessary for procurement officers to understand what the code, law or rule is intended to accomplish.

The primary UN system regulations and rules on ethics and behavioural standards are contained in the Secretary-General's Bulletin, *"Status, Basic Rights and Duties of United Nations Staff Members,"* ST/SGB/2002/13, as well as in the *"Standards of Conduct for the International Civil Service"* (Jan 2002)

and, as mentioned above, the United Nations Oath of Office which can be found at http://www.un.org/en/ethics/.

In addition, the procurement regulations and rules are derived from the respective FRR of each UN organization, and these FRR clearly state that consideration must be given to the following principles when exercising the procurement functions: best interest of the organization concerned; best value for money; accountability, integrity and transparency; and fairness and effective competition.

Although individual contractors do not have the status of UN officials, while working on UN-related business, individual contractors must comply with the UN Supplier Code of Conduct found at www.ungm.org and further discussed in Section 2.7 below.

2.3 The Principle of Stewardship

According to the Concise Oxford English Dictionary, a steward is *"a person employed to manage another's property."* When the steward is a UN staff member, spending money that comes from UN Member States and a variety of other public sources is a special kind of stewardship, with which international procurement officers are entrusted. It is an immense responsibility, and these funds should only be spent in accordance with each UN organization's regulations and rules. There should not be any deviation from these rules to suit an individual staff member's own convenience.

All UN officials are required to display the utmost loyalty to the UN, its Charter, regulations and rules over their respective personal preferences and gains. This requirement is straightforward and unbending. However, exercising the high standards of professional responsibility expected of UN staff members is not always easy. It requires UN staff members to exercise clear judgement every day by ensuring their professional practices and outside relationships conform with the spirit and letter of prescribed regulations and rules, as well as broader and harder to define ethical standards.

UN procurement officers can face highly competing pressures. The pressure to satisfy the demands for quicker turnarounds, better quality and lower prices in procurement can compete with the pressure to fulfil their duties with the utmost responsibility and ethical standards. It is therefore, the main role of each UN procurement officer to execute their procurement function according to the highest standards of professionalism and in respect of the values, objectives and interests of the organization. This implies the procurement officer must adhere to the principles of fairness, impartiality, transparency, stewardship, avoid conflict of interest and any impropriety or perception of such, and respect and apply the organization's relevant policies, rules and procedures.

2.4 Ethical Concepts and Principles

Professional standards of ethical conduct, no matter what the organization, contain typical characteristics, including commitments to:

- Loyalty and respect for regulations and rules
- Integrity
- Impartiality, fairness and transparency
- Confidentiality
- Avoidance of appearance of impropriety
- Due diligence

Loyalty and respect for rules and regulations

UN procurement officers are charged with the highest standards of loyalty and discretion. When undersigning the 'Oath of Office', UN staff members promise:

". . . to exercise in all loyalty, discretion and conscience the functions entrusted to me as an international civil servant of the United Nations, to discharge these functions and regulate my conduct with the interests of the United Nations only in view, and not to seek or accept instructions in regard to the performance of my duties from any Government or other authority external to the organization."

It is therefore important that UN procurement officers should:

- Stand by decisions that are in the organization's interest, even if they are unpopular.
- Understand the regulations and rules pertaining to his or her profession and organization.
- Understand why the regulations and rules are necessary and why they must be complied with.
- Interpret and apply rules in accordance with their intent.
- Be able to perform procurement responsibilities effectively and efficiently and still abide by the pertinent rules.

Permitted exceptions to requirements should be kept to a minimum and be fully justified and documented. If a regulation or rule must be reconsidered or changed, the procurement officer should pursue the appropriate process to submit the recommended revision through established channels and include complete documentation to explain and justify the proposed change. During this process, the existing regulations, rules and procedures must be followed. The procurement officer must perform regulated tasks consistently, according to the specified procedures, and take a leadership role to help co-workers and stakeholders to also understand and follow them.

Integrity

UN procurement officers are expected to maintain superior standards of integrity and moral values. The International Civil Service Advisory Board identifies integrity as, "one of the fundamental, if not paramount, standards of conduct" which is, "underlined in Article 101 of the United Nations Charter and explicit or implicit in corresponding articles of the basic instruments of the specialized agencies." Their report explains:

"The concept of integrity enshrined in the Charter of the United Nations embraces all aspects of behaviour of an international civil servant, including such qualities as honesty, truthfulness, impartiality, and incorruptibility. These qualities are as basic as those of competence and efficiency, also enshrined in the Charter…"

Cultural differences including nationality, ethnicity, industry or profession, must be set aside. Generic principles of integrity that extend beyond and rise above such differences must be allowed to prevail, especially in connection with the business transactions conducted by UN procurement officers. Integrity, to a procurement officer in the international marketplace, means believing that the public trust is so important that it cannot be compromised. A procurement officer should therefore demonstrate integrity by:

- Making decisions without consideration for personal gain.
- Resisting political pressure in decision-making.
- Ensuring that official power or authority are not abused.
- Demonstrating the values of the UN in his/her daily actions including impartiality, fairness and honesty.
- Taking prompt and effective action to deal with unprofessional or unethical behaviour.

Impartiality and fairness

In a report by the International Civil Service Advisory Board 'impartiality' features as a key requirement. The report states:

"Impartiality implies objectivity, lack of bias, tolerance, restraint - particularly when political or religious disputes or differences arise. The staff member's personal views and convictions remain inviolate, but he has not the freedom of a private person to "take sides," to enter a dispute as a partisan, or publicly to express his convictions on matters of a controversial nature, either singly or as a member of a group. Just as the practice of impartiality will strengthen the secretariat, repeated instances of partiality, or bias, will do serious harm to the organization".

In the context of impartiality and fairness the procurement officer should set aside all personal and organizational biases and apply the same standards of evaluation to all the suppliers (equal treatment). For example, if one supplier requests additional information, all suppliers should receive that same information at the same time. Or, if one offer is disqualified in the evaluation process and the award placed with the next lowest priced offer, the reason for disqualifying the lowest offer must be applied to the evaluation of all offers uniformly. Fairness implies being reasonable as well as impartial, and

treating UN suppliers with professional, business-like courtesy, as well as with strict adherence to the policies and procedures for conducting the transaction.

Transparency

Transparency means unimpeded visibility. Because public procurement involves the use of and accountability for public funds, transparency is, perhaps, paramount in all procurement activities. All transactions are subject to scrutiny but not all organizations experience such scrutiny to the degree of the UN. Therefore, procurement officers must always conduct themselves in such a way that any scrutiny would not damage the UN, its leaders, member organizations, staff, or programmes.

There are two degrees of transparency: internal scrutiny and external scrutiny. Internal scrutiny is transparency within the UN, such as examinations conducted by internal auditors. It seeks to ascertain compliance with the UN's own standards by the UN's own compliance officers. It enables an organization to determine if there are problems that need to be addressed with regard to transparency and provides them with recommendations on what steps may need to be taken. External scrutiny involves transparency outside the UN, such as examination by Member States, the press, external auditors, or other outside observers. It refers to the notion that almost anyone can observe UN activities and see how the UN conducts its business.

Only when something is truly of a confidential nature, such as proprietary data belonging to a supplier, or proposals being evaluated prior to contract award, should confidentiality be given a higher priority over transparency. It is still essential, however, that an overall transparent process be maintained. Procurement officers should always behave and perform their duties bearing in mind that their work may be open to public scrutiny.

Confidentiality

Confidentiality needs extra consideration in UN procurement due to the delicate nature of the information that is handled in procurement processes, such as pricing of products, marketing strategies, etc. A breach in the confidentiality of the data handled in the procurement process could result in discrediting the UN and instilling distrust in governments, partners or suppliers. The concept of confidentiality is repeated in several instances in the Code of Conduct documented in the Standards of Conduct in the International Civil Service 2001; ST/SGB/2002/13, Regulation 1.2 (i) and V, 35. It states that:

"The disclosure of information may seriously jeopardise the efficiency and credibility of the organization. International Civil Servants are responsible for exercising discretion in all matters of official business. They must not divulge confidential information without authorization. Nor should international civil servants use information that has not been made public and is known to them by virtue of their official position to private advantage. These obligations do not cease upon separation from service."

Confidentially might seem to be in direct contradiction to the concept of transparency but, in this context, it means that whilst the way the overall procurement process is conducted needs to be clear and transparent, true proprietary data needs to remain confidential.

Avoidance of the appearance of impropriety

In the private sector, appearances are tempered by the wishes or standards of the organization's leadership. Employee behaviour is judged according to legality and the satisfaction of owners or customers. However, international public-sector procurement officers must adhere to more conservative standards. UN procurement officers must be constantly aware of how their actions appear to outside observers, and they should always behave in such a way that their actions cannot be perceived as improper.

Behaving correctly in a "technical" sense is not enough; it is also necessary to avoid even the appearance of impropriety. Not all societies have the same standards or traditions when determining what is considered proper and what is not. It is important to recognize cultural differences in appearances and to anticipate, in the most conservative terms, what might be perceived as improper conduct. This added dimension of the appearance of impropriety places an extra responsibility on procurement professionals. What people think of the procurement officer's behaviour can be the basis of major scandals, based on misunderstandings and erroneous information that can damage an organization's

effectiveness in achieving its mission. In an international environment, the damage can be immense and have long-lasting effects on the credibility of the organization.

Due diligence

Due diligence, in the context of UN procurement, refers to carrying out duties carefully and thoroughly and avoiding careless practices or techniques. Due diligence requires that all activities by procurement officers be pursued in a manner that goes beyond the minimum effort. For example, diligent UN procurement officers should:

- Check the references of potential suppliers.
- Develop impartial evaluation criteria.
- Carefully analyse the offers received.
- Avoid cutting corners for the sake of convenience.

2.5 Ethical Risks and Actions to Manage Them

Some of the common ethical risks in the procurement process include: conflict of interest; fraud; corruption; coercion and collusion. Each of these types of ethical risks is explained below.

Conflict of interest

A very common risk situation related to ethics in procurement is the risk of a conflict of interest. A conflict of interest can be defined as a direct or mutually exclusive clash between the interest of the UN and the private or personal interest of a UN procurement officer. A conflict of interest occurs when a staff member's private interests, such as outside professional relationships or personal financial assets, interfere or appear to interfere with the proper performance of his or her professional functions or obligations as a UN official. Within the procurement environment, a conflict of interest may arise in connection with private interests such as, personal investments and assets, political or other outside activities, employment after retirement from the UN or the receipt of a gift that may place the staff member in a position of obligation.

A conflict of interest may also arise in situations where a staff member is seen to benefit, directly or indirectly, or allow a third party, including family, friends or someone they favour, to benefit from the staff member's decisions.

There are three types of conflict of interest that could occur in the procurement environment.

- Actual Conflict of Interest - when a staff member is in a position to be influenced by their private interests when doing their job.
- Perceived conflict of interest - when a staff member is in a position to appear to be influenced by their interests when doing their job.
- Potential conflict of interest - when a staff member is in a position where they may be influenced in the future by their private interest when doing their job.

In the context of procurement, a UN procurement officer should:

- Declare with immediate effect any potential conflict of interest.
- Not use information obtained during their professional duty for personal profit.
- Disclose and dispose the financial interest involved.
- Withdraw from any procurement process where he/she may have a conflicting interest.

Declaration

It is good practice to have officials involved in the procurement process, including those participating in bid opening panels, evaluation committees or contracts committees, sign, in advance of their duties, a declaration of no conflict of interest. Honesty, truthfulness, impartiality, and incorruptibility must always be applied whenever a conflict of interest, or the appearance of conflict of interest, arises in the course of conducting procurement.

Gifts and gratuities

A common conflict of interest situation UN procurement officers have to face is whether or not to accept gifts from suppliers, partners or governments. Offering gifts to customers is a very common practice in the private sector. It is a marketing strategy based on the universal sense of reciprocity: if we receive something, we feel obliged to give something in exchange; i.e., there is no such thing as a "free lunch". Suppliers often offer different types of gifts, for example perishable products, hospitality, free training courses or experiences such as exhibitions, fair trades, and sometimes in-kind donations, etc. that are related to the activity of the specific UN organization.

Identifying covert gifts is not always easy. A supplier may, for example, offer free training activities which may be seen as beneficial for the organization. However, very careful review of the impact of accepting such gifts should be undertaken. Would receiving the gift benefit one company over the others? Would acceptance be fair to the competitors?

It can be difficult to judge how to behave in a particular situation, and what would be the appropriate action. Accepting gifts, honours or other tokens of appreciation can impact a procurement officer's independence and impartiality. Such situations may compromise both his/her integrity and the UN's reputation. The acceptance of a gift can also create a conflict of loyalties or raise expectations from the giver of the gift.

The majority of UN organizations have adopted a "Zero-Tolerance Policy" towards unethical behaviour and corrupt practices, including bribery, extortion, coercion, fraud and collusion. In exercising this policy, most UN organizations prohibit their staff from receiving any gifts or other incentives that could induce, or be perceived to induce, the staff member to take any action that is other than independent or impartial. The way the policy is applied to gifts and other emoluments is described below:

From Governments

As a rule, UN staff cannot accept any honours, decorations, favours, remuneration or gifts from Government sources. However, if refusal of an unanticipated gift would cause embarrassment to the UN organization, it may be accepted on behalf of the organization and then reported and entrusted to the Secretary-General or the Executive Director of the UN organization as appropriate.

From non-governmental sources

While the receipt of honours, favours, gifts or remuneration from non-governmental sources may be permitted with the prior approval of the Secretary-General, approval will only be granted in exceptional cases.

From any source having or seeking a contractual relationship

Accepting gifts from a person or entity doing business with the UN or seeking to establish a contractual relationship with the UN, constitutes a conflict of interest. A UN staff member may not accept anything from such sources. There is no exception to this rule.

Offering or promising gifts

When people exchange gifts in a work setting, it can be perceived as if favours were granted in order to influence the exercise of professional judgment. A UN staff member may not offer anything of value, such as gifts, favours, or other personal benefits, to other staff members or to third parties if by doing so they are trying to influence the recipient's official actions. Offering gifts such as a birthday present is acceptable if there is no expectation of any official action in return.

Procurement officers should take the following actions in order to avoid ethical issues related to gifts/gratuities or other types of honours from arising:

- Ensure that all vendors and contractors who work with the UN are aware of the UN's strict policy regarding the giving of gifts.
- Decline any offer of meals, tickets, travel expenses, or other hospitality from UN suppliers. Acceptance of such is prohibited.
- Register and dispose of gifts that arrive unexpectedly and cannot be returned in accordance with ST/AI/2010/1. A Guide for UN Staff.

- Refrain from distributing business cards, brochures, or any other type of business solicitation on behalf of an external entity.
- Never take a gift accepted on behalf of the UN organization for personal use.
- Never accept cash given as a gift in your official capacity from any person or entity, for any reason.

Some UN organizations may have their own guidelines with regard to gifts, and UN procurement officers are responsible for knowing and applying the respective guidelines of their organization.

2.6 Potential Areas of Risk in the Procurement Cycle

Procurement officers are exposed to a number of risks when dealing with suppliers whose business practices may be different from those of the UN organization. Situations posing ethical dilemmas can occur in any type of procurement activity but will have a higher impact in high value/high risk purchases. Regardless of the value of the procurement activity, the highest standards of ethical behaviour must always be maintained to ensure probity of the procurement process.

Some potential areas of risk relating to ethics in the procurement cycle are listed in the table below.

Table 1 – Potential areas of risk

AREA OF RISK	EXPLANATION AND EXAMPLES
Budgeting	Lack of proper budgetary control, for example when all funds are not allocated to a specific purpose, can provide the necessary funds for fraud and corruption to take place.
Financial approval policy	Without regular audits and strict management controls, there are opportunities for fraudulent use of a person's own levels of authority, or of misusing someone else's.
Perceived need	Requirements can be invented or falsified.
Specification development	• Specifications can be written to favour a specific supplier. • Clarifications on specifications can be provided to only one of the invitees during the tendering process.
Evaluation criteria	Evaluation criteria can be written, or amended, after receipt of offers to favour a particular supplier.
Pre-qualification	This process can be used to limit the field of competition to give a favoured supplier an advantage.
Invitation to tender/sourcing	This process can be used to give the illusion of competition where it does not really exist by inviting tenders from companies who are known to be unsatisfactory or ineligible, or by not sending out complete specifications to all bidders at the same time etc.
Offer evaluation	Fraud at this stage occurs mainly when objective evaluation criteria have not been agreed in advance. It can also occur where technical staff are able to use their specialist knowledge to mislead other members of the evaluation team.
Negotiation	Favoured suppliers can be assisted or given useful information during negotiations.
Contract award	Suppliers may find opportunities for fraud either through deliberately fraudulent acts or through buyer incompetence. Procurement staff could artificially split contract award to remain under the organizational threshold for contract committee review or to award more contracts to preferred suppliers.
Post award changes to specifications	Allow suppliers to increase profits by charging more for revised specifications.

Ordering and ½receipt of goods	Examples are: • Allowing under-deliveries of goods or non-performance to specifications • Drafting false goods inward notes • Deliberately over ordering • Allowing inventory to dwindle so that emergency orders at a higher price will have to be processed
Invoice certification	Deliberate overcharging, backdating orders to allow benefit from price changes, paying twice, failing to insist on or monitor retentions.
Decentralized procurement organization	Delegations to a large number of people making it difficult for the central procurement function to exercise total control and awareness of what is going on in the decentralized units. Although decentralization can often improve efficiency and reduce costs, it can also increase the risks of corruption.

Potential warning signs of unethical practices

There are some typical signs that may indicate or warn of unethical practices. These include, but are not limited to the following:

- Deviation from proper procedures
- Poor record keeping: missing files and documents
- Buyer's extravagant life style
- Resistance to audit and reluctance to delegate
- Exclusive handling of supplier by only one person
- Secrecy Vs confidentiality
- Dictatorial management style
- Unnecessary meetings with suppliers
- Reluctance of suppliers to submit bids

There are both internal and external forces which can serve as barriers to someone making ethical decisions. External forces include political pressure, following group norms, doing what is rewarded in the organization and what someone is told to do. Internal forces include personal expedience and greed, fear of reprisal and intimidation and ethical ignorance and blindness.

Below is a six-step ethical decision-making model which UN staff should consider when faced with making ethical decisions.

- **E**valuate the situation, determine the facts that you know and check your perceptions
- **T**est the ethics. What are the ethical issues and questions at stake?
- **H**elp those affected. Who are the stakeholders, and how might they be affected by the situation?
- **I**dentify the rule(s). Ensure compliance with organizational codes of conduct
- **C**all for advice and guidance, if necessary
- **S**tand up for ethics. Make the best possible decision and take action. Ensure the resolution is just and fair for all stakeholders

In addition to the six-step process outlined above, UN staff should also consider whether the decision is consistent with their organization's policies, procedures and guidelines and whether it is acceptable under applicable laws and regulations. They should also ensure that the decision adheres to the universal principles and values that their organization has adopted and that it satisfies the staff member's definition of right, fair, transparent and impartial.

UN staff do not have to make these difficult decisions alone. Each UN organization has many resources available, including an Ethics Office or Unit, to assist staff with addressing ethical issues that may arise in the course of their work. It is always best to ask for advice when the situation is not clear and there are reasons for ethical concerns.

Best practices

In order to try and prevent unethical behaviour, it is best practice during ongoing procurement activities for procurement officers to:

- Decline meetings with bidders one on one (always have two UN staff present).
- Only conduct business during normal working hours.
- Invite suppliers to meeting rooms and not individual offices.
- Establish an agenda and have minutes for all meetings with suppliers.

2.7 Ethics at an Organizational Level

There are also warning signs at the organization level showing potential weaknesses in ethical practices. Some of these are included below:

- No communication of expectations
- Too much trust in key employees
- Lack of proper authorization procedures – too many exceptions
- Changes in organizational structure
- Tendency towards crisis management
- Poor/no system design - processes just "evolved" over time
- Accounting personnel inexperienced or lax in their duties.

Organizational tools and mechanisms to prevent and detect unethical practices

In addition to individual UN staff taking responsibility for their ethical behaviour and following best practices, there are also some organizational tools and mechanisms that may be used to prevent and detect the occurrence of unethical practices as outlined below.

Management responsibility

Management should maintain the highest standards of integrity in its everyday dealings. Where senior management behaves dishonestly, corruption and fraud will spread to all levels. Management's responsibility is to set the highest standards of integrity and to be an example for everybody in the organization to follow. Managers should also point out correct behaviour to employees and draw the line between acceptable and unacceptable behaviour.

Management is also ultimately responsible for the operations and assets under their command. It is their responsibility, and in their interest, to ensure that the organization has the necessary procedures and control systems in place to ensure maximum security and minimize the risk of corruption and fraud.

Code of ethics

It is critical for all UN organizations to document very clearly in a code of conduct or a code of ethics the type of behaviour expected from staff members as well as what is considered unacceptable behaviour It is also important that organizations promulgate and enforce their codes of ethics so that they promote an atmosphere of ethical behaviour.

Organizational procedures

To prevent fraud and corruption an organization should have in place the following organizational procedures:

PROCEDURES	INCLUDING
Pre-employment screening	Background of all job applicants should be checked before they are employed and granted access to premises and assets.
Classification and protection of information	'Clear desk policy', secure filing cabinets for all employees, sufficient number of paper shredders, secure disposal of all waste paper.
Data security standards	• Procedures should be introduced for all data processing resource. • Instructions on minimum standards should be enforced.
Incident reporting	All employees should be responsible for reporting losses and security incidents. All incidents, regardless of how small they are, should be reported.

Personnel policies and procedures

Fair, open, and efficient personnel policies and procedures reduce the organization's exposure to fraud. UN organizations should consider the following factors in their personnel policies and procedures:

POLICIES AND PROCEDURES	FACTORS TO CONSIDER
Job descriptions	Security responsibilities should be drafted into contracts and job descriptions.
Education and training	• Awareness training can clarify what is meant by ethical conduct, short cuts, and fraud. • Training programs can be supported by booklets on the organization's business ethics and security policies, newsletters including reports on frauds discovered and lessons learned from them, as well as films and videos. • New employee induction training should cover security.
Investigation	• Organizational rules for conducting investigations into suspected or reported incidents of fraud or breaches of security, including employee obligations to assist in such investigations. • Criminal offences or reasons for disciplinary action should be brought to the attention of all staff.

Accounting controls

The integrity of accounting systems is an essential element in preventing fraud. Controls should ensure that details of all goods and equipment moving in and out of the organization are recorded on serially numbered documents or computer records, and copies of documents recording movements are retained securely. Maximum use should be made of numerical controls.

Levels of authority to approve accounting transactions should be clearly defined and regularly audited. Each system should define who will be held responsible for losses, errors and concealment. Areas of responsibility should be identified and enforced. Books and records should be protected in the same way as all the organization's assets.

Segregation of duties

This is the most basic and one of the most effective ways of preventing fraud since it removes the possibility of 'closed loops', that is, one person having the authority to budget, provision, order and pay. Each transaction should be divided into a number of stages and no one person should ever have the authority to handle all of the stages. All purchasing responsibilities must be segregated (including supplier selection) from disbursement and accounting activities in order to ensure that the procurement process is fair and transparent.

Control systems

Control systems in procurement protect honest buyers and suppliers from false accusations of dishonesty, encourage them to work honestly and effectively, and prevent and detect corruption. It is often difficult to get the right balance between under and over control and many organizations have control systems which are either too restrictive or too lax. An effective and well-balanced control system needs to be flexible, allowing honest buyers and suppliers to operate efficiently, while at the same time minimizing the risks of dishonesty.

Controls in procurement

Procurement procedures should be set out in a manual provided to all staff involved in procurement. Procedures, authorities, responsibilities and penalties for not adhering to procedures should be clearly defined. When setting the strategy for a particular procurement activity, the following factors should be taken into account:

- Threshold above which contracts and orders must be put out for competitive tenders should be clearly defined and enforced.
- As far as possible, spot, short-term, or emergency orders should be avoided.
- Cost-plus contracts should be avoided if possible, but if they cannot be avoided special care should be taken to verify the supplier's expenses.

Financial approval policy

The policy on financial approval for procurement actions should be clearly communicated to all relevant staff. The consequence of abuse should be defined. Approval levels should not be set artificially low, but at a realistic level sufficient to enable employees to do their jobs efficiently.

Standard terms and conditions of contract, and standard forms should be included in all solicitation documents as well as in all contracts and purchase orders. Standard forms used in procurement should be developed.

Control over goods and services received

As discussed above, there are several potential risks related to ethics in the procurement cycle. Controlling the receipt and storage of goods is a vital aspect of eliminating opportunities for fraud. There are various measures that can be taken to avoid these risks. The UN organization should have an auditable system in place for receiving and verifying the quality and quantity of the goods received. There should be procedures in place for reporting and recording variations in the quantities of goods and any defects in quality such as damage or breakages. In the case of large quantities, the organization should implement a sampling system in order to check the accuracy of the supplier's shipment. UN staff responsible for receiving goods should be properly trained in inspecting the quality of materials received.

In addition, only goods or services supported with an authorized purchase order or contract can be accepted. The UN organization must have a system in place to verify that goods or services received are for legitimate outstanding purchase orders. This entails matching the purchase order number entered as part of the receiving transaction with records contained in the organization's procurement system.

UN organizations should also periodically and systematically monitor their suppliers to ensure that their actual performance meets expectations. Performance reporting includes: percentage of on-time delivery, accuracy of shipments, product quality, and actual cost of performance compared with original cost projections.

Any storage areas maintained by a UN organization should be secure and only accessible to authorized personnel who have been given special access cards. The organization should also have an electronic log of items being stored and removed from the storage facility and spot checks should be carried out periodically. There should be a UN designated staff member responsible for monitoring the quantity of stocks of frequently used items in order to ensure that they are purchased on a regular basis and that last-minute purchases will not be required.

2.8 Ethics at the Supplier Level

Code of Conduct, UN Declarations and General Conditions of Contract

It is fundamental that the UN Organisations promote ethical conduct in the supply chain. The United Nations Supplier Code of Conduct (see Chapter 2 Ethics in Procurement) was developed from the core values outlined in the Charter of the United Nations. has been fully endorsed by all UN organizations. It is expected that all suppliers who wish to do business with a UN organization embrace this code of conduct.

UN organizations also expect all its suppliers to adhere to principles of the UN Global Compact (see Section 14.3), derived from the Universal Declaration of Human Rights; the ILO Declaration on Fundamental Principles and Rights at Work; the Rio Declaration on Environment and Development; and the UN Convention against Corruption. Suppliers are required to notify the UN should they themselves suspect that any suppliers of inputs to their processes might contravene any of the commitments contained in these documents.

In addition, suppliers have the obligation to comply with the UN organization's general conditions which form an integral part of every UN contract (see Chapter 6 on Procurement) and contain specific provisions on mines, child labour, sexual exploitation, and the fundamental rights of workers. Moreover, the UN is committed to conducting business with only those suppliers sharing its values of respect for fundamental human rights, social justice, human dignity, and respect for the equal rights of men and women. The chart below lists the types of issues addressed in the Supplier Code of Conduct.

1	Supplier Relationships	12	Health and Safety
2	Promoting the Principles of the Code of Conduct	13	Mines
3	Subcontracting	14	Environmental
4	Freedom of Association	15	Chemical and Hazardous Material
5	Forced Labor	16	Wastewater and Solid Waste
6	Child Labor	17	Air Emissions
7	Discrimination	18	Minimise Waste, Maximise Recycling
8	Working Hours	19	Corruption
9	Compensation	20	Conflict of Interest
10	Human Rights	21	Gifts and Hospitality
11	Harassment, Harsh or Inhumane Treatment	22	Post-Employment Restrictions

Unethical behaviour by UN staff and suppliers

Cases of fraud, bribery, corruption, coercion and collusion can involve both UN staff and suppliers. These different types of unethical behaviour are described below, as well as in Chapter 11 – Vendor Sanctions.

Fraud

Fraud is any act or omission, including misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation. With regard to procurement, this kind of practice can be done in order to influence the competitive selection process or the execution of a contract. There are four common fraud scenarios in procurement:

- Person with responsibility for buying defrauds his or her employer.
- Suppliers defraud their customers.
- Suppliers and buyers work together to defraud the buyer's employer.
- Buyers make personal gain at the expense of the supplier.

One example of fraud in procurement would be when a UN staff member, or several staff working together, establishes a dummy company or supplier account in the UN organization's rosters or systems and then works to steal from the organization via fraudulent contracts, invoices, and/or payments.,

Bribery/Corruption

Bribery and corruption involve the practice of offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence the actions of another party. A bribe can consist of immediate cash or personal favours, a promise of later payment, or anything else the recipient may view as valuable. An example of bribery or corruption in the procurement process would be for a supplier to offer money or something of value to a procurement officer or requisitioner in exchange for the provision of the specifications and/or available budget for a solicitation in advance of the tender being issued. By having this information in advance, the supplier has an advantage over other suppliers in preparing its offer.

There are two common types of corruption:

APPROACH	INCLUDES
Direct	• Cash paid to the procurement officer to settle his/her personal debts or paid to a third party for the buyer's benefit. • Cheques paid directly to the buyer or members of his family or paid to businesses in which the buyer has an interest. • Cheques paid to settle the buyer's personal debts. • Shares and share options. • Free or discounted goods or services.
Indirect	• Employment of a member of the buyer's family or employment of the buyer on a consultancy basis. • Future offers of the same. • Inside information which will benefit the buyer. • Threats of blackmail or violence. • Free travel and expenses to visit exhibitions or to visit suppliers' factories. • Invitation to entertainment events.

Coercion

Coercion is an act or omission that impairs or harms, or threatens to impair or harm, directly or indirectly, any party or the property of the party to improperly influence the actions of a party. An example of coercion would be for a supplier to use knowledge it has about a UN staff member to blackmail him/her into improperly carrying out his/her procurement functions in order to provide the supplier with an undue advantage. This could be in the form of obtaining advance knowledge of the details of an upcoming solicitation or in getting inferior quality goods or services accepted by the organization.

Collusion

Collusion means a scheme or arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party. With regard to procurement, collusion between two suppliers could be designed to establish prices at artificial, non-competitive levels. It can also mean an arrangement between a supplier and a UN staff member to manipulate the procurement process by restricting the list of suppliers or restricting competition to a particular geographic area. Practices could involve "kick-backs" or bribes benefiting both the supplier and the UN staff member.

An example of collusion between two or more suppliers is "price fixing and bid rigging" with the goal of suppressing and eliminating competition on contracts. Price fixing is an agreement where one or more bidders agree not to submit a bid, while bid rigging is where two or more bidders agree to submit bids that have been pre-arranged among themselves. Such schemes usually fall into one or more of the following categories:

- **Bid Suppression**: One or more suppliers who otherwise would be expected to bid, or who have previously bid, agree to refrain from bidding or withdraw a previously submitted bid so that the designated winning competitor's bid will be accepted.
- **Complementary Bidding:** An agreement by suppliers whereby at least one of them agrees to submit a bid that is either too high to be accepted or contains special terms and conditions that will not be acceptable to a UN organization. Such bids are designed to give the appearance of genuine competitive bidding.
- **Bid Rotation:** Suppliers submit bids but agree to take turns being the low bidder.
- **Subcontracting:** Suppliers agree not to bid or to submit a losing bid in exchange for subcontracts from the successful bidder.

Consequences of non-compliance

Integrity is doing the right thing, even if no one is watching. Not only is our expectation that personnel should be honest and engage in good, appropriate, ethical behaviour, but the raw practicality is that if you do something wrong, you will likely be caught. If you are found to have violated rules, regulations, policies, standards, bulletins or administrative issuances or local laws, you may be subject to discipline

up to and including demotion, loss of privileges summary dismissal or termination of your contract, or, depending on the violation, even referral to local authorities for possible criminal prosecution.

Duty to report

If you see something, say something. What does this mean? Management must maintain an open-door, speak-up culture, where staff and other personnel can approach them with concerns of any nature, without fear that they will be punished for doing so. If you see, or suspect, that a UN staff member, or other personnel, or a vendor, supplier, partner, government official, NGO or anyone else is acting or has acted improperly (or if you receive credible information from someone else that leads you to believe there may be improper activity taking place, such as harassment, fraud or corruption etc.), you have an obligation to report the suspected misconduct without fear of reprisal or retribution.

Speak to your manager or, if you have concerns raising the matter with your manager, speak to another manager. Alternatively, the Office of Audit and Investigations maintains an Investigations Hotline for that purpose; personnel who report wrongdoing have the option of remaining anonymous (except in matters alleging workplace harassment or abuse of authority because the victim must identify him/herself). Finally, most UN organizations have established an Ethics Office which can be approached for confidential advice and guidance. UN staff members should familiarise themselves with their own organizations policies and procedures governing ethics in procurement.

Protection from retaliation

UN organizations actively promotes "whistleblowing", which means staff are encouraged to come forward, speak up, speak out and raise good-faith concerns of possible misconduct, fraud, corruption, harassment, abuse of authority, discrimination or other wrongdoing. The UN supports an open environment where such good faith reporting is viewed as a positive action – because you are protecting the best interests of the organization. In fact, under the UN Staff Rule 1.2(c):

"*Staff members have the duty to report any breach of the Organization's regulations and rules to the officials whose responsibility it is to take appropriate action and to cooperate with duly authorized audits and investigations. Staff members shall not be retaliated against for complying with these duties.*"

Thus, you are encouraged to make good-faith reports of wrongdoing without fear of reprisal or retaliation; you cannot be punished for fulfilling your obligation. Leaders are counselled to support this speak-up, open-door culture where personnel feel comfortable bringing their concerns to light. The Ethics Office is empowered to protect staff, contractors, interns and UNVs from retaliation for good-faith reporting of misconduct or for cooperating with duly authorized audits or investigations. And remember, retaliation is itself misconduct. If you believe that you have been subject to retaliation or a threat of retaliation because you reported misconduct or cooperated with an audit or investigation, contact your organization's Ethics Office for confidential advice and guidance.

Conclusion

As this chapter has clearly illustrated, there are many potential opportunities for unethical conduct during the different stages of the procurement process. It is important that all relevant parties: the organization, UN staff (especially procurement staff) and suppliers all make a concerted effort to ensure that the procurement process is fair and transparent. Training is also important for all UN staff and essential for new staff joining the organization. Organizations should also require staff to take refresher training courses in ethics on a periodic basis in order to emphasize how critical ethical behaviour is to working environment and credibility of the organization. Staff should also familiarize themselves with their own organization's ethics policy and other related documents.

Chapter 3

Risk Management

This chapter covers the following topics:

3.1	Introduction	31
3.2	Risks in Procurement	31
3.3	Risk Management Process	32
3.4	Benefits of Risk Management	39
3.5	Risk and Risk Management in the Procurement Process	39

3.1 Introduction

All organizations face internal and external factors that create uncertainty in their ability to achieve their objectives. The effect this uncertainty has on an organization's objectives is "risk". Risk cannot be entirely avoided either in the business world or the public sector, rather it is part of the normal work environment within which organizations operate.

UN organizations have mandates that involve multiple partners, challenging humanitarian and development contexts and extensive geographic scope. This complex environment in which UN organizations work is inherently risky, so it is critical that risks are recognized and reduced or mitigated to an acceptable level. The overall goal of a UN organization should be to create a shared understanding of, and promote a consistent approach to, risk awareness, risk intelligence and risk management.

Because there has been more attention given to risk over the past several years, an international standard was developed ISO 31000:2009(E) that provides principles and guidelines on risk management. The formal definition of risk under the international standard is the "effect of uncertainty on objectives".[7]

The international standard recommends that *"organizations develop, implement and continuously improve a framework whose purpose is to integrate the process for managing risk into the organization's overall governance, strategy and planning, management, reporting processes, policies, values and culture. Risk management can be applied to an entire organization, at its many areas and levels, at any time, as well as to specific functions, projects and activities*."[8]

The main principles of the international standard are that risk management:

- Creates and protects value
- Is an integral part of all organizational processes
- Is part of decision-making
- Explicitly addresses uncertainty
- Is systematic, structured and timely
- Is based on the best available information
- Is transparent and inclusive
- Is dynamic, iterative and responsive to change
- Facilitates continual improvement of the organization[9]

3.2 Risks in Procurement

With regard to procurement, risk is defined as exposure to loss as a consequence of uncertainty. The procurement process contains in each of its stages, multiple specific risks and consequences (see Section 3.5 below). Managing these risks is part of the professional responsibility of each procurement officer.

[7] ISO 31000:2009 (E) found at http://www.iso.org/iso/home/standards/iso31000.htm
[8] ISO 31000:2009 (E) found at http://www.iso.org/iso/home/standards/iso31000.htm
[9] ISO 31000:2009 (E) found at http://www.iso.org/iso/home/standards/iso31000.htm

Risk can to some extent be managed. Some measures to manage risk are based on the quality of the procurement process applied across all activities, while other measures may target specific risks inherent in certain categories of procurement. Understanding the main categories of risk faced in the procurement process assists in risk assessment and in developing and implementing measures to mitigate those risks. The primary risk impact areas in procurement are:

- Total cost
- Delivery schedule
- Quality of the goods and services delivered

Secondary risk impact areas are, for instance:

- Performance of the organization
- Buyer's professional standing
- Political consequences – image of the organization[10]

Risk management must be integrated into all of the organization's practices and processes. Managing risk is a logical and systematic process which should be used when making decisions to improve the effectiveness and efficiency of performance. Risks should be considered at the earliest stage in procurement planning. During the process of defining requirements, developing specifications and carrying out market research, the procurement officer and other relevant staff should develop a plan to identify, analyse, evaluate and treat risk. In addition, risk management responsibilities should be allocated and communicated to the staff involved so that they can be held accountable. In many cases, the early identification of risk results in revisions to specifications and contract documents.[11]

3.3 Risk Management Process

According to ISO 33000 (E) risk management entails "coordinated activities to direct and control an organization with regard to risk".[12] It seeks to mitigate the impact of the risk by reducing the:

- Likelihood of its occurrence, and/or
- Consequences/Impact

Both likelihood and consequences of risks can be mitigated through proactive planning, monitoring and other appropriate actions.

Whether in general or in a specific case, procurement officers should identify and analyse all risk factors that are likely to occur during the life of a project, and then decide on the most appropriate management response for each risk or combination of risks. There are several stages in the risk management process which are further described below.

- Establishing the context
- Identifying the risks
- Analyzing the risks
- Evaluating and prioritizing the risks
- Monitoring and reviewing risks

Establishing the context

In order to manage risk, the organization needs to first establish the context in which it is operating. This entails having a clear understanding of its goals, objectives, values, policies and strategies; identifying the needs of its stakeholders, as well as analyzing the external and internal contexts which will have an influence on risks to the organization. The external context is the external environment in which the organization operates and includes cultural, social, political, legal, regulatory, economic and environmental factors, etc. The internal context includes governance, organizational structure, roles and accountabilities, policies, objectives and strategies, information systems, risk appetite and risk culture, etc.

After the organization has taken the actions described above, it then needs to develop criteria to evaluate the significance of risk. These criteria enable the organization to rank the different risks and decide whether they are acceptable or not. At this stage, it is also critical to define the likelihood and

[10] UNDP – Risk Management Planning, 2016
[11] UNDP – Risk Management Planning, 2016
[12] ISO 31000:2009 (E) found at http://www.iso.org/iso/home/standards/iso31000.htm

consequences of potential risks, how the level of risk will be determined and when implementation of risk mitigation measures will become necessary.[13]

Identifying the risks

This step in the risk management process involves identifying different sources of risk and their potential impact. This process should result in the development of a full set of risks based on those events that might influence the organization's ability and/or capacity to achieve its objectives. The organization should identify risks that are under its control, as well as those that are not. It is also critical at this stage to consider the consequences/impact that each risk could have on the organization.

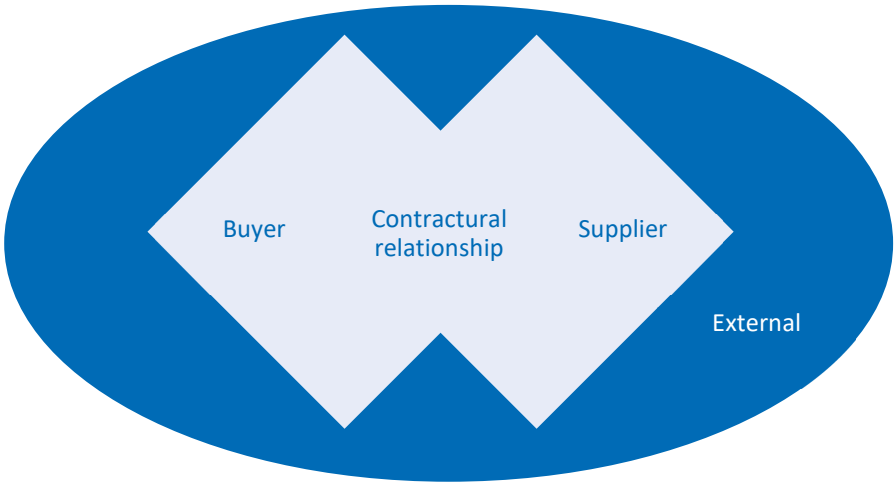
With regard to procurement, there are different approaches to risk identification such as risk logs, simple standard checklists and scientific engineering methods. A risk log identifies some key management areas such as security management, time management, quality management, scope management and communications management. The log then lists potential risks that may occur under each management area. An example under security management would be: harm to UN staff and premises due to insecurity in the project area; inability to bring in essential equipment for the project due to requests for bribes from non-state actors; and unrealistic economic expectations in the community.

Sources of risks

Effective risk management requires both buyers and suppliers to identify, analyse and evaluate the risks they face; plan how to deal with them; and negotiate and allocate responsibility for dealing with them. Buyers and suppliers should understand and accept responsibility for these activities. By reducing overall costs and uncertainty and improving the management of the procurement process and the outcome, effective risk management benefits the client, the buyer, the supplier, and the relationship between them.

Risks to successful procurement can originate from several different sources, namely:

Figure 1 - Sources of Risk



Risk factors under the control of the buyer, for example:

- Correct identification of requirements and proper planning
- Development of comprehensive requirements and specifications
- Competency and experience of procurement staff
- Budget checks and availability of resources
- Efficiency and effectiveness of procurement processes

[13] ISO 31000:2009 (E) found at http://www.iso.org/iso/home/standards/iso31000.htm

Risk factors under the control of the supplier, for example:

- Correct quantity and quality control of products offered
- Financial strength and viability
- Experience, expertise and competencies of employees
- Capacity and availability equipment and facilities

Risk factors emerging from the contractual relationship, for example:

- Form of contract
- Suitability of terms and conditions of contract (General & Special Terms and Conditions)
- Delivery requirements
- Terms of payment
- Liability for damages, late delivery, non-performance

External risk factors outside the control of both supplier and buyer which must be identified, for example:

- Market based or industry-wide risk issues
- Political stability
- Weather in construction contracts or transportation
- Changes in interest, inflation and exchange rates
- Safety and security

Risk factors typically under the control of the buying organization also include project complexity. Very complex projects may lead to objective difficulty in specifying requirements, either because conditions are not fully known or the requirement is subject to change, for political or other reasons. Risks can be reduced by early involvement of procurement officers in the project team, and by regularly reviewing the requirement. In some cases, such as major civil works, this may call for appropriate contractual arrangements that recognize the specific uncertainties involved.

Where the buying organization does not properly carry out project or procurement planning, this can contribute to more negative outcomes, as well as cause friction in relations among colleagues. The risks can be best reduced through early involvement of procurement officers in the planning stage of the respective activities, to ensure that requirements for procurement are properly integrated.

Risk factors under the control of the supplier typically relate to qualifications of the company and its staff, its production capacity, financial strength and capacity and its ability to deliver and manage supply.

Different aspects of the contractual relationship between the organization and the supplier may pose risks to the success of the procurement action as well as the project itself. Contractual relationship risk factors include pricing levels, payment schedules, clarity of terms and conditions, adequacy of insurance, quality requirements and intellectual property.

In addition, fraud, corruption and unprofessional conduct can enter into any stage of the procurement process, producing the risk of loss of organizational and financial resources due to an inappropriate supply (of goods, services or works, resulting in significant damage to the image of the organization. In particular, at the contracting stage, fraud and corruption risks needs to be addressed. Key among the measures to mitigate these risks are:

- Transparent process
- Competition
- Separation of functions
- Clear rules and procedures
- Standard documents
- Professional training of staff
- Effective control systems
- Accountability

Competition, transparency and separation of functions are the foundation of risk mitigation, since they help the organization detect fraudulent or corrupt behaviour. Senior management needs to communicate clearly to staff that unethical behaviour will not be tolerated. The provision of training,

systems, authority and controls will assist staff in carrying out the procurement function correctly (see Chapter 2 - Ethics in Procurement).

External factors can include political issues (government decisions, legislative changes, etc.), economic issues (fluctuations in exchange rates, commodity prices, inflation rates and interest rates); security; and natural disasters as well as social and environmental issues that have a negative impact on the society. Among the more frequent external factors are the UN organization and partner government decision-making processes that are used to approve activities and their budgets. While political and budgetary factors are generally outside the control of the procurement officer, to reduce the risk of late supply, it is appropriate to begin the procurement process with sufficient lead time, and include appropriate caveats to potential suppliers when a solicitation is issued in advance of authorization, ensuring that it will not lead to binding commitments until such time the appropriate authorization is received.

All those involved in the procurement process should consider themselves, "risk managers" and be aware of the potential risks at each stage in the procurement cycle in both planning and undertaking their activities.

Analysing the risks

At this stage, risks are analysed from two perspectives – likelihood and consequence/impact - as a basis for determining how they should be managed. It helps direct attention to which risks warrant close attention and what risk mitigation measures may be needed to address the risk.

There are distinct risks at each stage of the procurement process. Risk analysis should form part of each stage of procurement planning and be regularly updated. In analyzing procurement risk, three basic questions must be answered:

- How likely is the risk to occur?
- What are the likely consequences/impact of the risk? and
- What is the level of risk.

Determining the likelihood (probability) of a risk occurring can be expressed as a frequency in any given period (number of occurrences) or the probability that the risk will occur within a certain timeframe (i.e. within 1, 2, or 3 years). For example, if likelihood is measured in terms of an event occurring within the next 3 years, then it would be expressed as in the table below:

Table 1 – Determining likelihood/probability

LEVEL	DESCRIPTION	EXAMPLE
A	Very Likely	Very Likely to occur within the next 3 years
B	Likely	Likely to occur within next 3 years
C	Possible	Possibly occurring within next 3 years
D	Unlikely	Unlikely to occur within next 3 years

It is also important to measure the consequence or impact of a risk occurring. Consequences can be described as minor, moderate, major and severe. The table below is an example of how consequences could be measured:

Table 2 – Determining consequences

LEVEL	DESCRIPTION	EXAMPLE
1	Minor	Limited security issue, medium financial loss
2	Moderate	Possible security issue, outside assistance required, high financial loss

3	Major	Security problem for staff and project assets, project continuation in jeopardy, major financial loss
4	Severe	Death, project closure, huge financial loss

The impact of risk can be measured by the likelihood of an unwanted event occurring and the consequences if it does occur. For planning purposes, the impact of risk could be the same for both low level damage resulting from a highly probable recurring event and very high-level damage resulting from a rare event. But the two situations would be managed in different ways. For example, the highly probable event could perhaps be made less frequent through improved procedures and professional practice, whereas insuring (or self-insuring) for the damage of the rare event could be a practical alternative if it can be combined with a class of similar risks.

The approach most often used in making decisions about the level of risk is qualitative. Procurement staff use experience, judgement and intuition to make decisions. The level of risk is determined from the relationship between likelihood and consequence/impact as set out in the table below.

Figure 2 - Level of Risk

Probability	**Impact**			
	Minor	**Moderate**	**Major**	**Severe**
Very Likely	Medium	High	Critical	Critical
Likely	Low	Medium	High	Critical
Possible	Low	Medium	High	High
Unlikely	Low	Low	Medium	Medium

Definitions of Probability:

Very Likely – The risk is seen as certain to occur

Likely – The risk is seen as likely to occur

Possible – The risk is seen as possibly to occur

Unlikely – The risk is seen as unlikely to occur

Definitions of Consequence/Impact:

Minor – The risk will not substantively impede the achievement of the objective, causing minimal damage to the organization's ability to carry out its work or to its reputation.

Moderate – The risk will cause some elements of the objective to be delayed or not be achieved, causing potential damage to the organization's ability to carry out its work and to its reputation.

Major – The risk will cause major elements of the objective to be delayed or not be achieved, causing likely damage to the organization's ability to carry out its work and to its reputation.

Severe – The risk will cause the objective to not be achieved, causing serious damage to the organization's ability to carry out its work and to its reputation.

Many organizations use a Risk Management Matrix (RMM) to document the organization's main risks by describing each risk, the likelihood of its occurrence, the likely consequence/impact should it occur, as well as the risk mitigation manager, mitigation actions being undertaken and a log of the responsible parties. It should be noted that the RMM is a living document and should be reviewed, updated and

revised on a regular basis. The risks included in the current RMM may eventually be removed while new ones are added.

Evaluating and prioritizing the risk

The purpose of this step is to decide whether risks are acceptable or not by comparing the level of each risk (determined by the risk analysis) with the internal risk criteria (determined under establishing the context). The risks are then ranked so that management can prioritize which risks need the most attention and what is the most appropriate risk treatment. The evaluation should also take into consideration the degree of control the organization has over each risk and the cost impact, benefits and opportunities presented by the risk as well as the risk borne by the different stakeholders.

With regard to procurement, the level of risk should be compared with internal criteria developed by managers for acceptable levels of risk in procurement. Examples of the type of criteria used to determine standards for risk acceptability are:

- Potential financial losses or cost overruns
- Acceptable schedule slippages
- Specification tolerances
- Acceptance quality levels
- Acceptable programme delays[14]

Risks can become acceptable through a treatment plan which will be discussed further below.

Risk treatment

After risks have been identified, analysed, evaluated and prioritized, the organization has to decide what course of action it will take to address each risk. There are several treatment options available. When selecting the appropriate treatment option, the organization evaluates options in relation to the organization's risk appetite, cost vs. benefit of potential risk responses, and degree to which a response will reduce impact and/or likelihood. There are just some risks that are too high to mitigate and these will need to be dealt with in other ways. It is important that whatever treatment options are selected, that they are integrated into normal business processes and communicated clearly to all staff and stakeholders.

In most cases, low levels of risk can be accepted and additional action may not be needed, but these risks should be monitored. Medium or significant levels of risk should be treated, and high levels of risk require close management and the preparation of a formal risk management plan.

There are four options for treating risk:

- Avoid the risk – by deciding not to proceed with the activity or project.
- Mitigate the risk – by reducing the likelihood and/or the consequence.
- Transfer the risk – by shifting responsibility from the buyer to another party, for instance to the supplier or a to a third-party commercial insurance provider.
- Accept the risk – by deciding not to commit time or resources in managing the risk.

Avoid the risk

This is the most radical risk treatment option as the organization simply decides that the risks are so high and the impact would be so fatal that the organization decides to abandon or not to proceed with the activity.

Mitigate risks

In most cases, organizations choose the treatment option of mitigating the risk. This is done by either reducing the likelihood of the risk occurring or reducing the consequences if it should occur. In order to reduce the "likelihood", the organization may review its specifications for different types of higher risk goods/services. It may also want to include specific product or service quality standards in its tenders and final contracts. There may be regular checks on technical compliance. In addition, the organization may ensure that there are comprehensive contract conditions that include requirements such as pre-

[14] UNDP– Risk Management Planning, 2016

shipment inspections, etc. Finally, it is always important to have good communication between the buyer and seller so that all parties are clear on the requirements in the purchase order or contract.

With regard to reducing the consequences of a risk occurring, the organization needs to have strong internal controls, ensure that it has incorporated appropriate contract terms and conditions, as well as requiring warranties, indemnifications and guarantees as applicable. When working in conflict zones, the UN organization should require the supplier to have extra security and adequate insurance for its employees and third-party insurance to cover potential claims. The organization should also have a formal fraud control planning and contingency plan in place for specific high risks.

The following table provides some examples of typical procurement related risks and how likelihood and consequence can be mitigated:

POTENTIAL RISK	MITIGATE LIKELIHOOD	MITIGATE CONSEQUENCE/IMPACT
Late delivery	• Liquidated damage • Proactive contract management	• Contingency plan • Proper planning • Keep buffer/emergency stock
Poor quality	• Pre-shipment inspection • Use of product standards • Develop clear specifications • Develop clear evaluation criteria	Refuse to accept delivery
Non-performance	• Qualification criteria • Quality assurance	Cancel purchase order
Poor after sales service	• Warranty terms • Performance bond	
Damage in transit	Packaging specifications	Insurance
Bankruptcy of supplier	Financial Eligibility	Termination

Transfer Risk

When an organization transfers the risk, it is shifting responsibility to another party, usually the supplier. There are also cases when the organization shares part of the risk in an agreed manner contractually. Transferring risk may require that some form of insurance be taken out to cover the risk, but this is not without some cost. In the case of insurance taken out by the supplier, it is important that the procurement officer check that the insurance is adequate to protect the UN organization from any claims. In managing risk, it is important to understand the extent to which a party has control over the risk and the ability to do something about it. Responsibility for risk should be allocated according to the ability each party has to manage the risk. Efforts to make a party responsible for risks over which it has no control are likely to lead to dispute and additional costs in time or money. In fact, such “risk avoidance” leaves the risk in place, when it is in the interest of the organization that it be managed.

Accept the risk

In some cases, the organization may decide to accept the risk. This decision may be due to the costs of trying to mitigate the risk. There will be risks that are just too expensive to mitigate and the organization will have to make the decision to either not carry out the activity or to accept the risk as part of doing business. If an organization decides to accept the risk, then it is important to specify how the risks will be monitored and how any costs will be met. Managing acceptable risk is an ongoing process which requires regular monitoring and evaluation of all factors that may influence the levels of risk.

Monitoring and reviewing risks

It is critical for the organization to have a documented monitoring plan to ensure that risk management is effective and supports the organization in achieving its goals and objectives. UN organizations are operating in a dynamic environment where there are continually changing circumstances which can affect risks, increase or decrease their likelihood and/or consequences and result in changes to the level of risk. Additional and/or new risk mitigation measures may need to be implemented. Monitoring also enables the organization to assess whether its risk management strategy and risk mitigation measures are effective and still appropriate or whether they need to be revised. The monitoring plan will have the most success if performance indicators have been established against which progress can be measured.

With regard to procurement, the risk management monitoring plan should have a description of the purchase, scope, objectives and critical success factors. It should list all identified risks and include an analysis of the likelihood and consequences of each risk. The plan should identify the risks over which the organization has little or no control. It should also prioritize the risks, describe specific treatment options and their associated costs. Monitoring enables the organization to assess whether its risk management strategy and risk mitigation measures are effective and still appropriate, or whether they need to be revised. The monitoring plan will be most successful if the organization establishes performance indicators against which it can measure progress.

Finally, the risk management monitoring plan should have an implementation plan that can be used to track and measure progress.[15]

In order to monitor risks, UN organizations can hold regular team meetings, use existing management systems, collect and analyse data related to risks, and communicate and consult with the relevant stakeholders. When the organization wishes to carry out a more formal monitoring process, it can use its internal audit team.

Some of the methods of monitoring and reviewing risks include:

- Hold regular team meetings
- Use existing management systems
- Collect and analyse data related to risks
- Communicate and consult with the relevant stakeholders
- Use internal audit as a more formal method

3.4 Benefits of Risk Management

There are many benefits to an organization having an effective risk management framework. This is probably even more true for international organizations or businesses that may face more risks in their operations due to the diverse geographic locations they work in and the types of services they are delivering. Risk management increases the likelihood of achieving the organization's objectives by reducing the consequence and impact of risk. It strengthens the organization's resilience and improves stakeholder confidence and trust. Risk management also strengthens risk awareness among staff and promotes stronger team communication. This enables staff to better identify risks and potential opportunities resulting in more informed decision-making. Good decisions can help minimize losses and lower the probability of damage to the reputation of the organization.

3.5 Risk and Risk Management in the Procurement Process

As previously explained in this chapter, there are risks in each phase of the procurement process, and there are organizational and commercial measures that can be taken to mitigate those risks. Examples of typical risks, possible consequences and actions that can be taken at each stage are listed in the tables below:

[15] UNDP – Risk Management Planning, 2016

Planning a procurement activity

RISK	POSSIBLE CONSEQUENCES	ACTION
Understatement/ overstatement of the need	• Purchase of unsuitable product or service • Money wasted or greater expense • Need not satisfied	• Analyse need accurately • Use functional and performance requirements • Consideration of life-cycle cost analysis at the financial planning stage.
Insufficient funding	• Delay in making the purchase • Additional costs for re-tender	• Obtain appropriate approvals before undertaking process • Improve planning
Impractical timeframe	• Inadequate responses from bidders • Reduced competition • Delivery schedule not met	• Improve forecasting, planning and consultation with users • Improve communication with potential bidders

Requirement definition

RISK	POSSIBLE CONSEQUENCES	ACTION
Narrow definition or commercial specification (eg. use of brand name)	• Fewer alternatives • Most suitable product or service may not be obtained • Increased costs	• Define the specification in terms of required outputs • Use functional and performance specifications
Definition of inappropriate product or service	• Need not satisfied • Time lost • Increased costs	• Ensure specification is consistent with needs analysis • Improve market knowledge • Use functional and performance specifications
Biased or restrictive specifications/TOR/ SOW	• Inadequate supplier responses • Claims of unfair or unethical dealings	• Use functional and performance specifications • Implement a control mechanism to review specification before release
Inadequate specifications/TOR/ SOW	• Significant variety in offers • Insufficient responses • Offer of goods/services that not meet needs • Difficult to evaluate competing offers	• Be familiar with requirements • Use functional and performance specifications • Use an Expression of Interest or Request for Information to clarify requirements

Selecting the procurement strategy

RISK	POSSIBLE	ACTION
Failure to identify potential sources	• Inadequate or inappropriate supplier response	• Improve procurement planning processes • Improve market research/use UNGM and supplier rosters • Seek industry participation • Use an Expression of Interest or Request for Information
Selecting inappropriate method	• Need to seek offers again • Possible cost variations • Failure to obtain value for money	• Improve implementation of procurement policies, guidelines and practices • Improve solicitation documents and clearly identify the evaluation criteria in RFPs/ITBs • Provide staff with appropriate training and experience

Preparation and issuance of solicitation documents

RISK	POSSIBLE CONSEQUENCES	ACTION
Use of inappropriate evaluation criteria	• Inadequate or inappropriate results • Not achieving best value	• Consider implications of evaluation criteria • Seek offers again and incur extra management effort
Terms and conditions unacceptable to suppliers	• Loading of costs in offers • Many qualifications to bids/proposals • Having to modify terms and conditions • Too few bids	• Select appropriate documentation for purchase type (i.e. goods, services) • Assess and allocate risks appropriately • Develop commercially acceptable terms and conditions in line with market practice • Provide staff with appropriate tender planning and procurement skills
Provision of adequate information	• Loading of costs in offers • Variations in offers • Having to provide clarifying information, causing delays in tender closing • Additional costs	• Ensure staff have appropriate procurement planning and documentation training and experience • Standardize key aspects of solicitation documents • Review solicitation documents prior to issuance • Ensure evaluation criteria contain the critical factors on which assessment of tenders will be based

Clarifications and receipt of offers

RISK	POSSIBLE CONSEQUENCES	ACTION
Failure to adequately address inquiries from bidders	• Claims of unfair practices • Offers with qualifications • Withdrawal of offers	• Implement standardized procedures for responding to inquiries • Respond in a timely manner to all queries • Ensure all clarifications/answers to inquiries are issued to all bidders at the same time
Actual or perceived favouritism in providing information	• Supplier complaints • Withdrawal of offers	• As above • Answer inquiries in writing and provide copies to all potential bidders • Ensure that all potential bidders are provided with any changes to solicitation documents
Actual or perceived breach of confidentiality	• Supplier complaints • Withdrawal of offers	• Establish formal security procedures • Train staff in their obligations • Perform regular audits and reviews of security processes • Advise bidders of security measures
Insufficient number of responses	• Need to undertake process again • Increased costs • Delayed delivery • Poor value for money due to limited competition	• Use appropriate strategy for advertising solicitation (i.e., open international competitive • Provide potential bidders with advance notice of solicitation requests • Improve solicitation documentation and specifications/TOR/SOW • Allow sufficient time for bidders to respond
No response from known quality suppliers	• Reduced competition • Increased costs of products or services	• Actions as above for insufficient number of responses • Improve market research • Review specifications or conditions of contract • Seek feedback from known suppliers on their non-response

Evaluation

RISK	LIKELY CONSEQUENCES	ACTION
Failure to observe effective evaluation procedures	• Inconsistency in evaluation of offers • Possible complaints from bidders • Subjective not objective evaluation of offers	• Provide staff with appropriate evaluation training and experience • Improve evaluation processes • Perform regular audits of evaluation procedures • Ensure that Evaluation Committee members declare any conflicts of interest
Failure of offers to meet needs	• Need to re-tender • Additional costs • Delay in delivery	• Improve market research • Improve tender documentation • Ensure that specifications/ TOR/SOW are clearly stated and understandable
Failure to identify a clear winner leading to selection on subjective grounds	• Claims of unethical and unfair behaviour from bidders	• Ensure that evaluation criteria are appropriate, well defined and measurable
Selecting an inappropriate supplier	• Failure of supplier to fulfil the contract	• Improve evaluation criteria and procedures • Reject offers from unacceptable suppliers • Perform financial, technical and company evaluations before awarding contract • Procurement Review Committee to review tender and selection process prior to awarding contract
Selecting inappropriate product	• Failure to meet the client's need	• Ensure users are involved in the evaluation/selection process • Improve technical evaluation procedures and train staff as appropriate • Procurement Review Committee to review tender and selection process prior to awarding contract

Contract finalization and issuance

RISK	POSSIBLE CONSEQUENCES	ACTION
Not matching the expectations of buyer and supplier	• Contract disputes • Delivery delays • Cost variations	• Improve communication, including ensuring that general conditions of contract form part of the RFQ/ITB/RFP • Record minutes of any negotiations prior to contract signing • Clarify all ambiguities prior to contract signing
Deadlock on details of agreement	• Delays in delivery • Need to restart procurement • Possible cost of legal action	• Investigate better ways of sharing risks • Distinguish between essential and non-essential goals and requirements for negotiations
Failure to secure mandatory conditions	• Inability to finalize contract • Delays in delivery • Possible variations in cost • Inefficiency and misuse of resources	• Distinguish between essential requirements and others before negotiating • Consider variations in the contract • Refuse the offer • Provide negotiators with adequate training

Unfair or onerous requirements on the supplier in the contract conditions	• Contract disputes • Invalidity of contract • Legal action • Poor working relationship with the supplier	• Negotiate on commercial terms • Terms should be fair and reasonable • Ensure that negotiators are adequately trained and experienced
Failure to reflect the terms offered and agreed in the contract	• Contract disputes • Legal action • Poor working relationship with the supplier	• Check final draft of contract with successful bidder • Keep records of all negotiations and agreements
Inadvertently creating a contract without appropriate prior approval	• Increased expense to negotiate out of the contract and paying damages • Committing other associated work before main contract exists or falls through	• Establish procedure to ensure that appropriate approval is obtained prior to contract signature • Provide staff with adequate training

Contract management

RISK	POSSIBLE CONSEQUENCES	ACTION
Variations in price and foreign exchange	• Cost overruns	• Agree on prices and the basis of prices • Determine the basis and formula for calculating variations
Unwillingness of the supplier to accept the contract	• Delays in delivery • Need to restart procurement	• Seek legal redress if non-acceptance causes loss • Negotiate the concerns of the supplier but retain integrity of the contract
Failure of either party to fulfil the conditions of the contract	• Contract disputes • Failure or partial failure to satisfy needs • Delays • Legal action	• Ensure good contract administration and performance management • Include clear and reasonable KPIs • Hold regular inspections / meetings and ensure progress reports • Ensure all staff know responsibilities and conditions • Ensure and maintain good record keeping and documentation
Inadequately administering the contract	• Cost increases • Failure of contract • Full benefits not achieved • Delivery of unsatisfactory product • Contract/supply disputes	• Maintain up-to-date procedures and practices • Ensure all staff are adequately trained and experienced in contract management • Work with the suppliers and contractors to enhance contract performance
Commencement of work by the supplier before contract is signed	• Potential liability to pay for unauthorised work • Possibility of legal action for perceived breach of contract	• Ensure that contract is signed by both parties prior to any work being authorized • Ensure all contracts and amendments are in writing
Unauthorised increase in scope of work	• Unanticipated cost increases • Contract disputes	• Ensure all contract amendments are issued in writing • Record all discussions and negotiations • Confirm instructions in writing
Failure to meet liabilities of third parties (e.g. royalties or third	• Legal action • Damage to the organization's professional reputation	• Check that all obligations are covered in the contract • Check that supplier has adequate insurance upon signature of contract

party property insurance)		• Agree on responsibilities • Implement appropriate safety standards and programs
Loss or damage to goods in transit	• Delays in delivery • Liability disputes	• Include appropriate packaging instructions in specification • Agree on insurance cover for supplier to provide • Accept delivery only after inspection • Know when title of goods is transferred to buyer
Fraud	• Misuse of resources • Legal action • Disruption to procurement activities	• Maintain an ethical environment • Follow and maintain fraud control procedures

Chapter 4

Organizational Procurement Strategy

This chapter covers the following topics:

4.1	Objectives of the Procurement Strategy	45
4.2	Reviewing the Organization's Mandate and Strategy	48
4.3	How to Develop a Procurement Strategy	49
4.4	Examine the Organization's Procurement Spend	51
4.5	Analyzing the Organization's Procurement Function & Capability	58
4.6	Identifying Strategic Procurement Objectives	59
4.7	Developing & Implementing Corporate Level Strategies	62
4.8	Measuring Results	63

4.1 Objectives of the Procurement Strategy

Achieving business objectives, tangible outcomes and results is the prevailing management paradigm in the public and private sectors.

While the delivery of results has dominated management thinking across the range of organizational functions, procurement management, especially in the public sector, has generally focused on *managing for compliance* with regulation and on administrative process efficiency. The same applies in many ways to procurement in the UN system.

Recent initiatives among UN system organizations have though started to emphasize management reforms for procurement that goes further than just focusing on compliance with rules and regulations. Instead recent reforms focus stronger on improving internal control environments, process efficiency, procurement co-ordination and administrative harmonization. These reforms are of course important but are not sufficient to make the degree of difference that could be achieved through a more strategic management of procurement and supply efforts.

The ongoing "*One UN Procurement Reform"* does not only now offer an opportunity to comply with regulations and rules but also to a higher degree aspires to support the achievement of overall organizational delivery outcomes and results. Those in turn are essential in feeding into and achieving the high-level objectives of the Sustainable Development Goals and the intent of the Paris Declaration on Aid Effectiveness.

Broadening the reform of procurement among the UN system organizations could integrate the procurement function deeper into the operations, service/programme delivery and, in fact, the fulfilment of an organization's mandate and objectives, all with the aim to maximise effectiveness and accountability for outcomes.

Analyses of the nature and risks/opportunities associated with the main categories procured by UN system organizations, clearly indicates that the majority of the high-value procurement is directed towards acquiring goods and services that are critical to the delivery of the mandates of the organizations. However, in spite of that, in the UN system the same compliance based *"one size fits all"* procurement management strategies still tend to be applied across all categories of procurement regardless of the inherent category-specific risks and other strategic implications.[16]

To address this imbalance and to help re-position the procurement function at a more strategic level within an organizational context, a range of range of strategies might be applied. A staged approach to the development of the procurement function suggests that the aim should be to reframe its

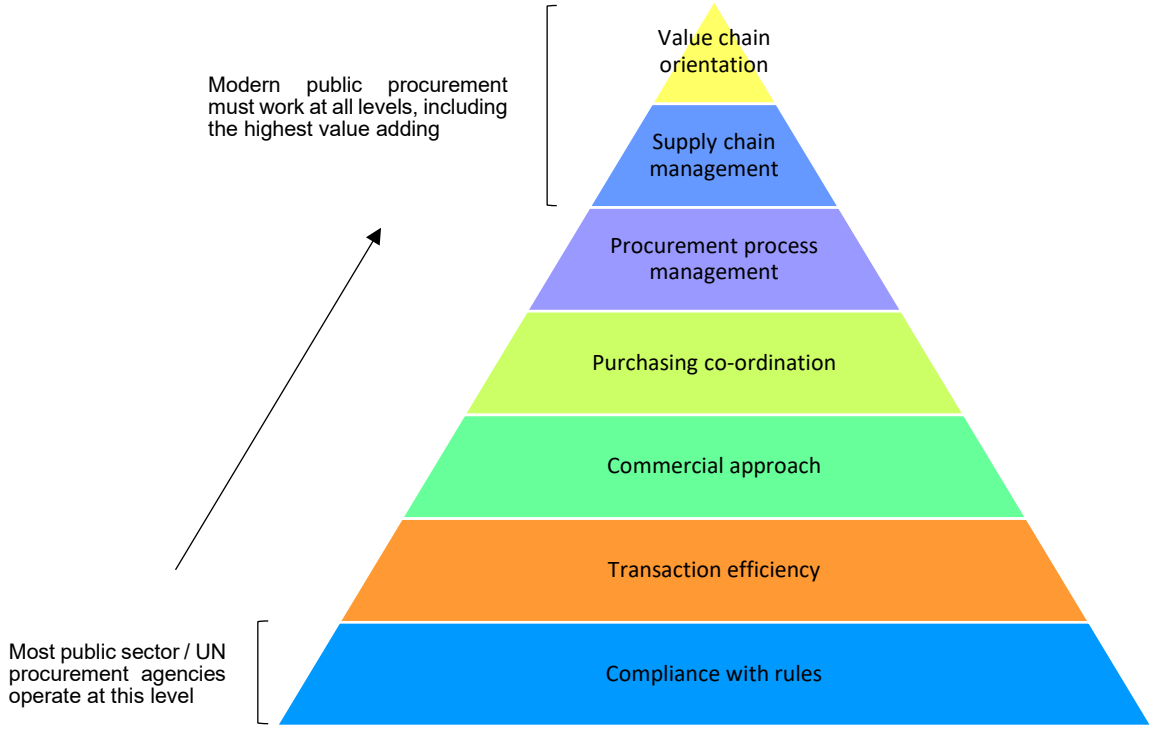
[16] A Blueprint for UN Procurement Reform, UNDP, 2008

management and practice and ultimately shape it towards supply and value chain management practices.

Full value chain orientation of the procurement function would mean that procurement effort is; Aligned with the business results or values to be achieved by the organization; Optimizing client and stakeholder satisfaction; Supporting continuous learning processes; Stimulating product/service innovations in the market, and; achieving financial results in an accountable, transparent and fair manner.

Figure 1 provides an overview of the stages of development of the procurement function. In the UN System, most reform measures have focused on addressing the lower stages 1, 2 and 4, compliance with regulations and rules; transaction efficiency, and; some procurement cooperation. While those are required for every well-working public procurement function the imperatives of the wider "One UN" reform challenge organizations to further develop and elevate their procurement management and practice with the ultimate goals to reach the highest level - a supply and value chain orientation of the procurement function.

Figure 1 - Stages of public sector/UN procurement function development



The following table 1 elaborates further on the seven different stages on development of the procurement function, the related practices and desired outcomes

Table 1 - An overview of the stages of development of the procurement function

STAGE OF DEVELOPMENT		PRACTICES	OUTCOMES
7.	**Value chain orientation**	• Procurement strategy supports delivery of programme/ service delivery/ policy outcomes. • Stakeholder, customer and supplier relationship management and development.	• Accountability for outcomes in support of organizational objectives. • Optimised client and stakeholder satisfaction, learning/innovation, processes and financial results. • Stimulation of product/service innovations; sustainable production and consumption
6.	**Supply chain management**	• Supply, demand, consumption, and stakeholder analysis • Supplier development and optimisation strategies. • Supplier performance monitoring and management. • Life cycle costing/sustainability	• Supply chain strengths, weaknesses, opportunities, and threats identified and addressed. • Up to date market intelligence and competition surveillance • Supply chain performance focus • Promote sustainable outcomes
5.	**Procurement process management**	• Spend and risk analysis. • Use of life cycle costing methods • Process identification, integration and optimisation.	• Pro-active spend and risk management • Processes under control
4.	**Purchasing co-ordination**	• Internal/external pooling of demand • Lead agencies for markets.	• Potential cost reductions of goods/services. • Trade-offs between efficiency and effectiveness.
3.	**Commercial approach**	• Commercially advantageous arrangements with suppliers • Supporting technical experience with commercial/analytical expertise	• Trade-offs between risks and rewards
2.	**Transaction efficiency**	• Standardized procurement processes, procedures and practices. • Efficient transaction process using financial management information system • Use of e-procurement solutions • Supplier management tools.	• Efficient execution and management of the procurement cycle • Simplified and automated purchase to pay processes • Innovative solutions to promote sustainability outcomes
1.	**Compliance with rules and regulations**	• Internal control environment • Legal and institutional framework • Ethical behaviour	• Accountability, transparency, integrity and fairness.

An organization planning to make this transition towards a value chain orientation should address its efforts at two levels. It should shift from reactive demand management to entirely proactive supply management of the procurement and supply function in the context of service or programme delivery; and it should increase the extent of integration of the procurement function into the business of an organization.

In practical terms, this means that a more strategic value and supply chain orientation requires close collaboration between procurement staff and technical subject matter experts, and with staff with programmatic expertise in the framing of programme parameters (expected results, key performance indicators, performance measurement etc.). This is particularly so where the delivery of programme results requires the acquisition of goods and services. Hereby demand attributes, stakeholder needs and issues, and supply market dynamics can better be taken into account. For instance, what products or services are required, who is the end user and what specific needs do they have in their overall context; what is the market like for the required products and services in terms of availability, regulatory environment, shipping requirements and other limitations; and how can the market potentially be shaped to better meet key supply attributes of the organisation?

In the next sections (4.2 to 4.8) a step-by-step guide will outline how organisations can develop and implement supply and value chain management strategies.

4.2 Reviewing the Organization's Mandate and Strategy

The guiding principle in developing and implementing a procurement strategy is to ensure that it is fully aligned with the overall mandate and strategy of the organization. Therefore, before embarking on the development of a supply and value chain management strategy, it is important to review the organization's mandate and overall strategy[17].

In the procurement context, the fulfilment of the mission and mandate of UN organisations requires the efficient, effective and timely provision of goods, services and works, making procurement a strategic function essential to delivering value and results globally. UN organizations typically spend somewhere between 60% - 80% of their total expenditure on goods, services and works contracts, expenditures challenged through the procurement function. By putting into place an organizational procurement strategy, significant savings and benefits can be achieved without compromising the accomplishment of organizational goals.

When the organization's procurement strategy is better integrated into programme and project design at the country office and at the regional and HQs levels, it also helps achieve better development outcomes.

A well worked procurement strategy puts into place policies and procedures that maximise the contribution that the procurement function can make to the organization. The form the procurement strategy may vary from organization to organization and, in some cases, may involve reviewing a variety of material and documents including business plans, procurement plans, spend profiles, risk/opportunity assessments, strategic communications from senior management etc.

Many organizations have already recognized that in order to capitalize on the value-added potential of the procurement function, it needs to be treated as a key business process.

Organizational procurement strategies should focus on using procurement activities as a strategic asset to support organizational mandates on a daily basis by obtaining the necessary inputs for the organization to do its work in an effective and efficient manner. Procurement strategies hereby focusses on the strategic management of the organisation's procurement function and ensures that the function adds value to the agency's service delivery and its priorities.

In practical terms, the development of a procurement strategy that is aligned with the overall organizational objectives, as defined under the mandate, should be incorporated into the organization's annual planning cycle and be coordinated with and, as appropriate, flow into the formulation of other

[17] For example, while willing to integrate sustainability in its strategy the organization should engage in the analysis of the impacts that the procurement decisions do have on social and on environmental aspects and include among the objectives of the strategy mitigation actions to reduce those negative impacts. For more information refer to Chapter 14.

business plans dealing with finance, human resources, information management, and other related functions.

Responsibility

Development of organizational procurement strategy is normally the responsibility of the organization's senior management and is typically led by the Chief Procurement Officer. However, the strategy should be developed in collaboration with other senior management and with the support of procurement, the programmes, the technical subject matter experts and other officials involved in undertaking the various analyses. Usually it is in line with the normal organizational business planning cycle. For most organizations, this process is performed on either an annual or biennial basis.

4.3 How to Develop a Procurement Strategy

This section will shortly outline the five typical steps involved in the development of an organisational procurement strategy. Each of the five steps are presented in much more practical details in the following Chapters 4.4 - 4.8.

The development of an organizational procurement strategy (step 1) is started through a process of reviewing and analysing the organization's:

- Mandate, strategic direction and objectives
- Procurement portfolio: what and how much is purchased from who, where and how; including studies of key supply markets, procurement profiles, risk analysis and an assessment of the agency's impact on its key supply markets.
- Procurement function – its role and structure, systems, capability and processes.

On the basis of this review and analysis, the strategic procurement objectives (step 2) for the organization can be identified.

The issues that must be considered when defining procurement objectives at the organizational level are:

- Linking procurement activities to overall organizational objectives
- Understanding of the agency's procurement expenditure and demand attributes
- Reviewing the agency's supply markets
- Managing the total costs involved in procurement
- Understanding quality, capacity, timeliness, sustainability of products, services and the suppliers
- Identifying and managing risks and opportunities
- Interrelating with all stakeholders to understand and satisfy their needs

Next (step 3) is to develop the substantial parts of the actual procurement strategy. The strategy will have two parts to it:

- Objectives related to the purchase of goods, services and works:
    a. Identification of significant procurement categories
    b. Buying strategies for each major category of goods, services and works
    c. Strategies for the development of sustainable supply markets
- Objectives related to the management of the procurement function and identification of areas for improvement:
    a. Administrative arrangements (policies, procedures, practises etc.)
    b. Procurement capacities (qualifications and competencies of human resources etc.)
    c. Systems and processes (e-procurement, sourcing, tendering etc.)

Hereby procurement management strategies will be formulated addressing for the major expenditure categories:

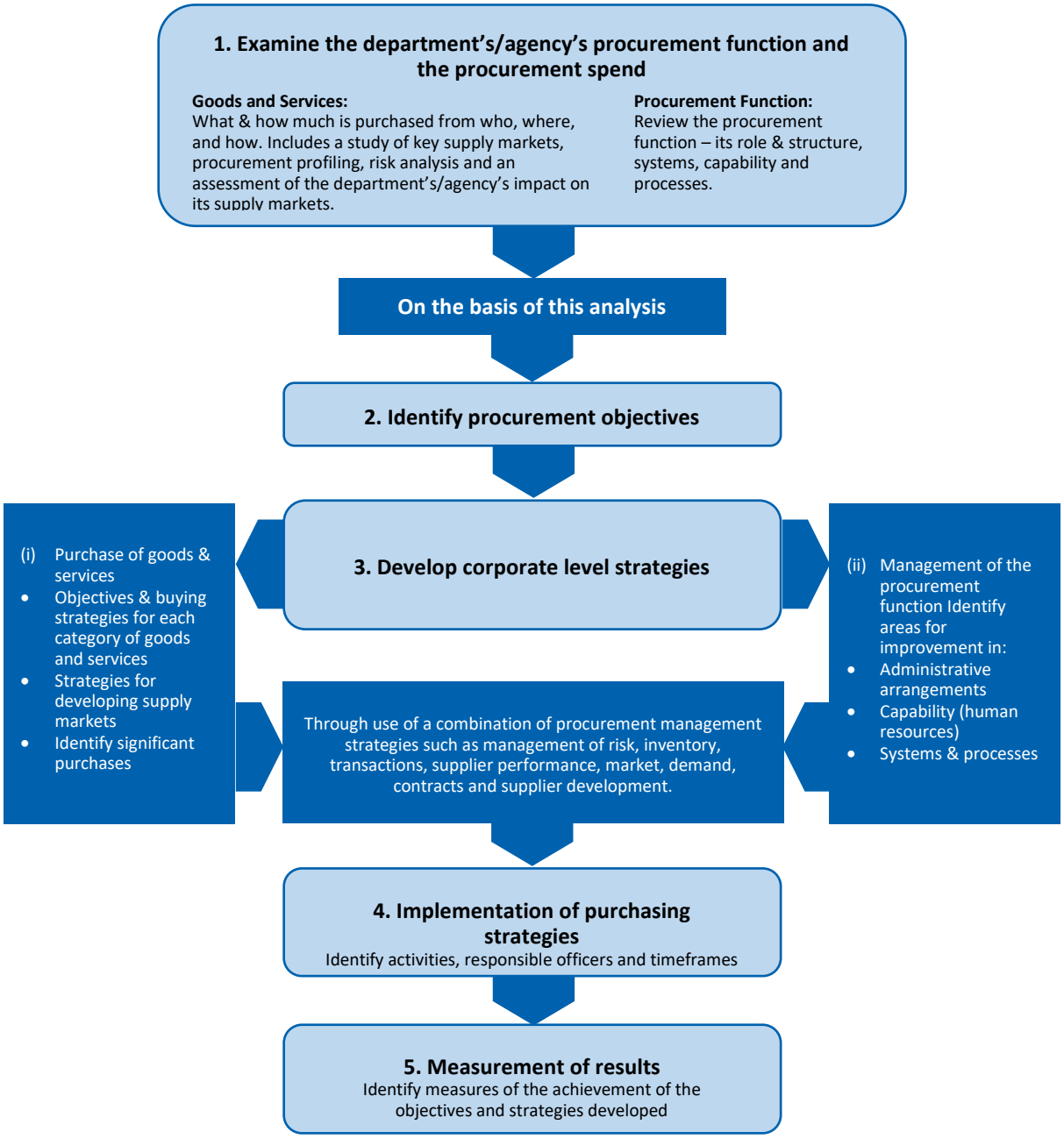
- Management of risks and opportunities
- Inventory
- Transactions
- Supplier performance
- Supply markets
- Demand attributes
- Contract management
- Supplier development

The next step (step 4) is the process of implementing the procurement strategies through identifying specific activities, responsible officers and timeframes.

The final stage (step 5) of the process is to develop key performance indicators that can later be used to measure results and to evaluate if the organization is achieving the objectives set out in the procurement strategy.

Figure 2 summarizes the five steps involved in developing an organisational procurement strategy.

Figure 2 - How to develop an organizational procurement strategy



In the following sub-chapters, each of the five steps illustrated in figure 2 and their sub-steps will be discussed in more detail and have been supplemented with practical best practice advice and guidance to enable procurement practitioners to more easily analyse their organizations' procurement profile and objectives and how to develop, implement, and keep alive a relevant organizational procurement strategy.

4.4 Examine the Organization's Procurement Spend

An organizational procurement strategy is developed by first reviewing and analysing the organization's mandate, strategic direction and objectives, together with its procurement portfolio: what and how much is purchased from whom, where and how; including studies of key supply markets, procurement profiles, risk analysis and an assessment of the agency's impact on its key supply markets (step 1).

The four tasks involved in this first step of analysing the procurement portfolio are summarized in the following table and explained more in details in the following sections

Table 2 – Analysing the Procurement Portfolio

1. PROCUREMENT PROFILING	2. SUPPLY RISK ANALYSIS	3. SUPPLY MARKET RESEARCH	4. AGENCY'S IMPACT ON THE MARKET
- **What** goods and services are purchased and how much is spent on them? - **Compare** the past year's expenditure on each item with the projected spend. - **How** are goods and services purchased? - **Who** are the goods and services purchased from? - **What** is the geographical location of suppliers? - **What** are life cycle costs of goods and services procured?	- How **critical** are the goods and services to the Agency? - What is the **risk** associated with each good or service, purchased based on: • internal risk factors; • external risk factors; • complexity of the procurement task?	- **How many** suppliers are there and what are their market shares? - What **alternative, substitute or sustainable** products are available? - What is the degree and type of **competition** between suppliers? - What is the nature and quality of the **supply chain**?	- What is the agency's **value as a customer**? - How are suppliers likely to **view the agency's business**?

1. Procurement profiling

The first activity is to conduct procurement profiling and analyse past and projected procurement expenditure for goods, services and works (also called *"spend analysis"*). When preparing a spend analysis one should analyse whether the historical spend data is a good indicator of future spends? To establish this, it is necessary to ask various questions such as:

- Were there special events affecting the historic spend that will not be repeated, e.g. a natural disaster or large-scale emergency project that caused a large, but temporary increase in spend?
- Are there anticipated special events that will affect future spend, e.g. a forthcoming large-scale project?
- Are there events happening in the external environment that are likely to affect the spend profile, e.g. political or economic changes in the programme country or in the behaviour of the donor community?
- Are there any strategic organizational issues that are likely to affect spend, e.g. changes in the funding profile or in the priorities of the organization such as higher sustainability performance?

If, as a result of this analysis, the conclusion is that the historic spend will provide a reasonably accurate prediction of future spend, the next step is to undertake a 'spend analysis' based on the relevant historic data available**.**

Analysing procurement spend makes available data that can be used as a baseline to measure improvements as well as provides reliable data for deciding strategies to realize short and long- term savings. Various tools are available to conduct a spend analysis, but normally the first step is to download data from the financial management system, most usually the Accounts Payable. Data should include all invoices that have passed through the system within the specified time period. This data can

then be analysed using parameters relevant for the particular organization, but typical parameters may include:

- Spend and number of transactions per commodity or category
- Number of suppliers per commodity or category.
- Average purchase order value
- Total expenditure per supplier
- Transaction distribution by currency range (e.g. less than $1000, $1000 – 2500 etc.)
- Spending distribution between main clients (internal, end-users etc.)
- Spend and number of transactions per procurement officers/business units
- Number of procurement officers involved in the transaction per commodity group (to determine complexity and level of effort)

Special factors

Where special factors may indicate that the historic spend analysis will not be a good predictor of future spend, it would, in most circumstances, it would still be relevant to conduct a spend analysis and to adjust the results taking into consideration these special factors. If there are factors involved that imply that the historic data does not have any relevance in predicting future data, then the procurement profile would need to be constructed by analysing as much data as possible from information on the future strategies and activities of the organization, such as project plans, budgets and so on.

The resulting procurement profile should provide as comprehensive a picture as possible of the actual procurement spend including:

- What goods, services and works are purchased and how much is spent on them?
- What are the life-cycle costs of the different categories purchased?
- Comparison of historic spend on each item with the projected spend
- How the goods, services and works are purchased?
- Who the goods, services and works are purchased from?
- Geographical location of suppliers e.g. local, national, international?

2. Supply risk analysis

A risk analysis also needs to be carried out during the analysis of the procurement profile in order to gain awareness of the difficulties and risks associated with securing the goods, services and works that have been identified in the spend profile.

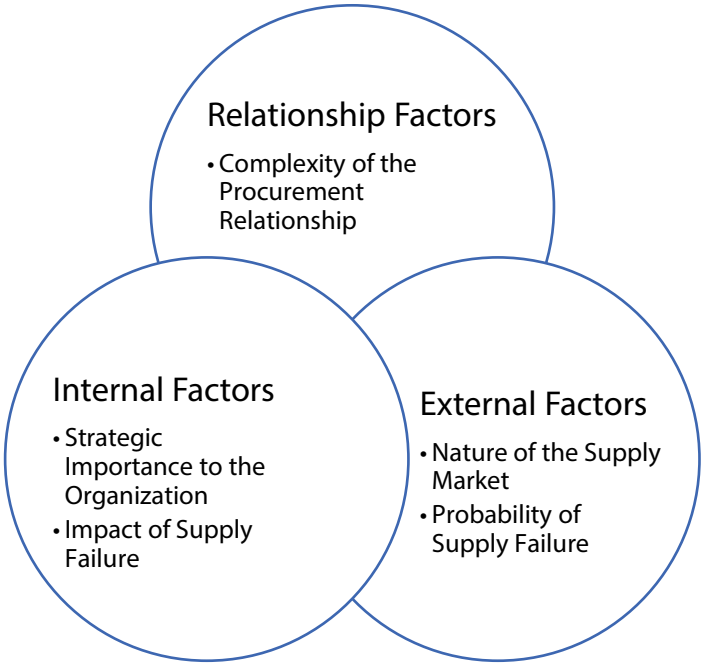
A more detailed discussion on risk identification and management can be found in Chapter 3, but the main factors that need to be considered at this stage of procurement strategy development have been outlined below.

Any risk analysis should look at the following issues:

- How critical the goods, services or works are to the organization
- The difficulty and risk associated with securing the goods, services and works
- Risk associated with each commodity or category based on:
- risk specific to the goods, services or works
- organization related risk
- supplier related risk, and
- market related risk

Figure 3 illustrates the specific supply risk factors, both external and internal, that need to be considered and, if possible, quantified as part of a supply risk analysis.

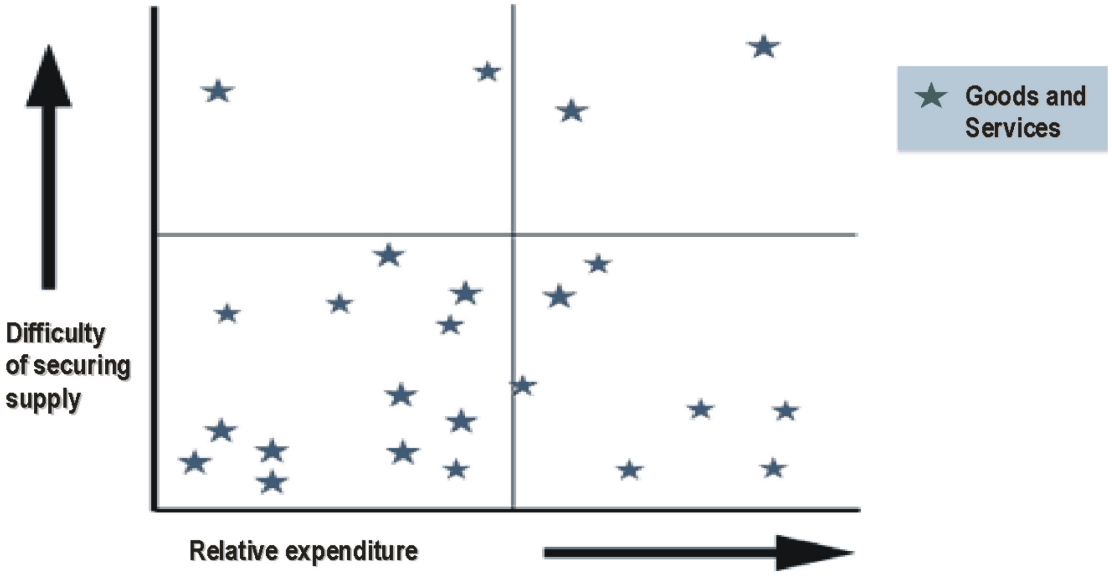
Figure 3 - Supply Risk Factors



Many UN organizations use an online tool called *"Supply Positioning and Risk Evaluation Matrix"* (SUPREM) which can be found at www.iapso.org/suprem. The tool enables an organization to plot its relative expenditure against the difficulty of securing supply using a matrix as shown in the next figure 4.

To help in developing the procurement profile and related strategies, SUPREM flags potential risk exposures which enables contingency planning and provides strategic direction for procurement. SUPREM also helps to identify general cost-effective buying strategies. In this way, an organization can complete a comprehensive risk analysis of its procurement portfolio and (thereby) gain a clear picture of the goods, services and works that represent a particular supply risk to the organization in its specific context and operating environment.

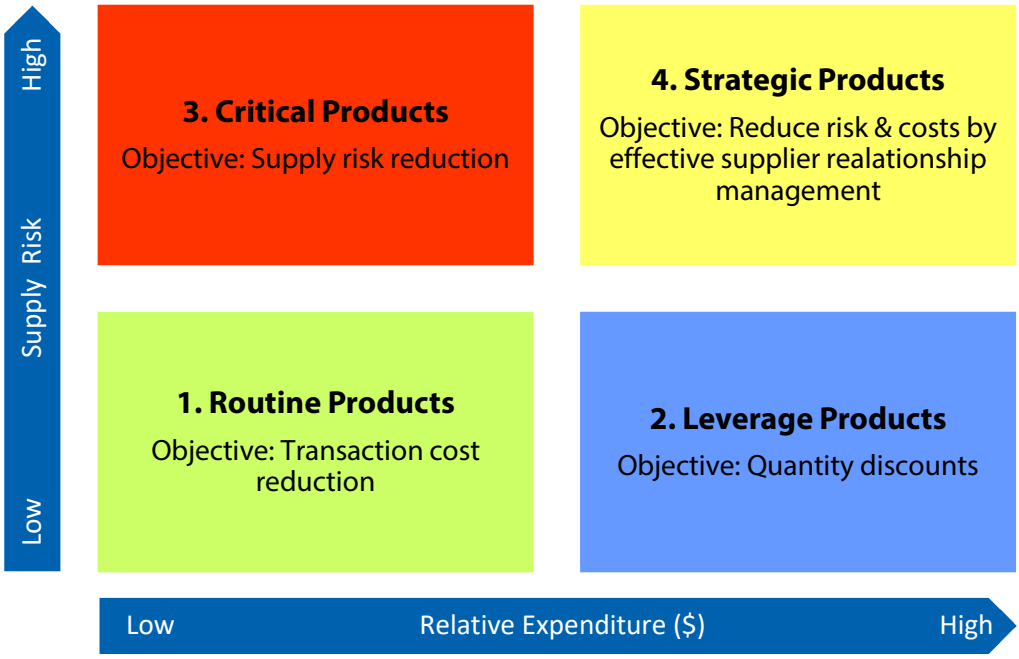
Figure 4 – Procurement portfolio supply risk analysis



As part of the procurement profile exercise, you now (as illustrated in figure 5) enter the results of the SUPREM risk analysis, shown in figure 4 above, into the four categories of spend, including their main characteristics and the follow-on procurement objectives for the organization to address[18].

[18] The Purchasing Portfolio, Kraljic, 1983.

Figure 5 – Supply risk by spend categories



Procurement falling into the Leverage, Critical and Strategic categories would be considered *"significant purchases"*. In general, more resources should be allocated towards managing these significant high-risk and high-spend categories (quadrant 2, 3 & 4), rather than routine procurement (quadrant 1). High-risk/high-spend categories often account for up to 80% of the organisations total spend and these are strategically important to the organisation. Any failure of securing significant supply categories has a high impact on organisational and programmatic outcomes.

Routine categories are relatively easy to secure and low expenditure, however, there might be many product and service categories in the routine quadrant. For some organisations thousands of different product categories that often turn out to be time consuming and repetitive transactions. It is often a reflection of the Pareto principle where 80% of the categories often accounts for only 20% of the spend. The majority of these routine items are usually available from competitive local markets and represent little or no risk. The strategic focus is on simplifying and expediting the ordering process of these categories.

As far as possible, framework contracts should be established for routine products, this, together with a reasonable monetary threshold and delegation of procurement authority, will allow direct procurement of the majority of low value, low-risk, non-recurring products.

The typical characteristics of each of the four categories (quadrants of the procurement profile in figures 4 and 5), their objectives and possible strategies for dealing with them are described in more detail in table 2 in the Annex at the end of this chapter 4.

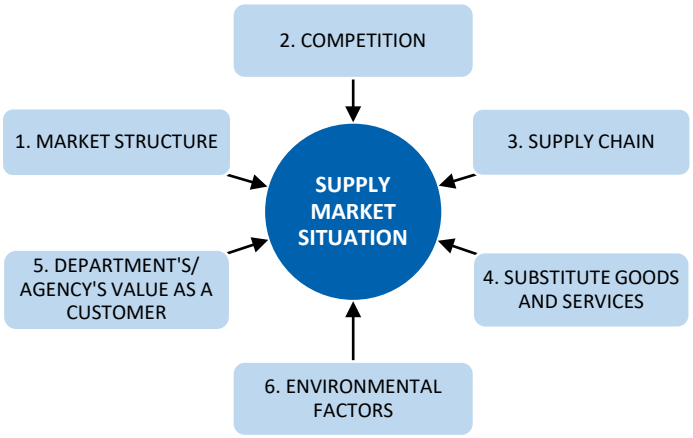
3. Supply market research

Supply market research essentially means getting to know how the market works, the direction in which it is heading, who the key players are and the value they place on the organization.

It is a commonly accepted best practice in procurement to *'know what you are buying*'. Therefore, market research means that you should identify all relevant information you need about the product or service you are buying and understand the associated supply market (see Chapter 6, Section 6.1).

Supply market research can be divided into six key areas of analysis, market structure, competition, supply chain, substitute products, value as a customer, and environmental factors, as illustrated in Figure 6 below.

Figure 6 - Areas of supply market research



Analysing these six different supply market factors will typically provide important answer to questions such as the following:

1. **Market Structure:**

- How many suppliers are in the market?
- What is their size (production capacity, market share etc.)?
- How suppliers are geographically distributed?
- What is the level of market concentration?
- How is the ownership structure of the market?
- Who are the market leaders and followers?
- What is the level of product differentiation?

2. **Competition:**

- How do suppliers compete? On product quality, price, service, innovation, sustainability?
- What are the barriers of entry into the market?
- Is there any competitive advantage held by a supplier?
- What are the market trends?
- Are there any Government restrictions, such as governmental authorisation or licensing requirements?

3. **Supply Chain:**

- How complex is the supply chain?
- How stable is it? Is it very vulnerable? Is cold chain required?
- Is there a high level of dependency on other suppliers or sub-contractors?
- How does each member of the supply chain contribute to the end product?
- What are typical delivery and transportation methods?

4. **Substitute goods and services:**

- What goods and services are currently available to meet the needs of the end user?
- Are there any substitutes that can fulfil the same requirements?
- Can requirements be advanced by selecting sustainable or socially responsible alternatives?

5. **Agency's value as a customer:**

- What is the organization's market share as a customer?
- Are we considered a core business partner, a 'cash cow' or are we considered a nuisance to the supplier?
- How attractive (or unattractive) is the organization as a customer?
- Can the organization drive the market towards more sustainable production and consumption approaches?

6. Environmental factors:

Analysis on environmental factors include how economic, cultural, legal, political and environmental and social issues impact on an organization's ability to do business in this market and provide answer to questions such as:

- What impact does the local and overseas economic climate have on this industry? This may include exposure to exchange rate and interest rate fluctuations.
- Are any specific social groups that may have a significant impact on marketplace? Are there any culture-related sensitivities or issues that may influence the outcome of procurement?
- What national legislation impacts on this industry, for example, obligatory licences applicable in the industry?
- What are the key environmental impacts or issues of the industry?
- What suppliers are leading the introduction of more environmentally or socially friendly products to market?

If the organization does not currently conduct market research or supplier performance monitoring, then the task at first will be a little more demanding. Once the initial market research is gathered on the above areas it will simply be a matter of updating information on an ongoing basis.

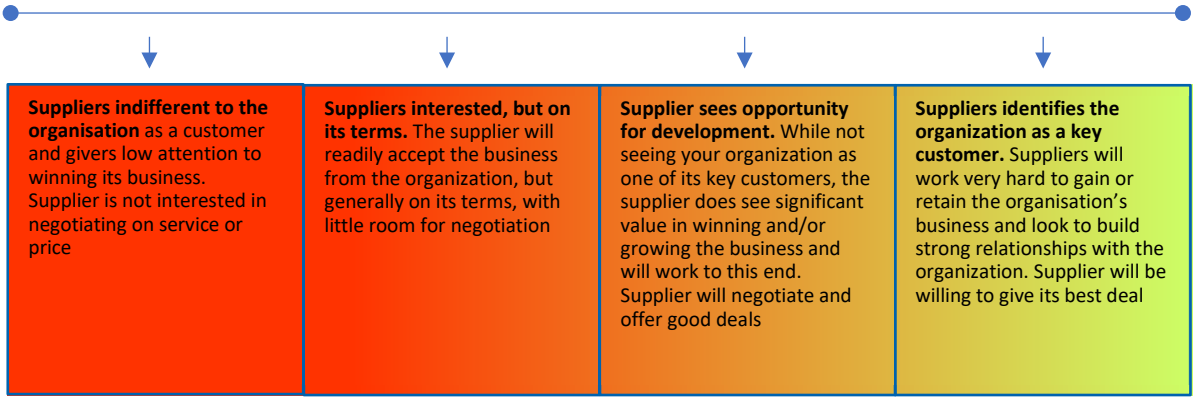
4. Agency's impact on the market

This analytical step should bring answers to the following questions:

- What is your market share as a customer?
- Are you attractive (or unattractive) as a customer?
- Do you provide a platform to increase their sales to other customers?
- Can you contribute to the development of the industry or the individual suppliers?

Suppliers might view buyers quite differently based on the volume and attractiveness of the business portfolio the individual buying organization offers:

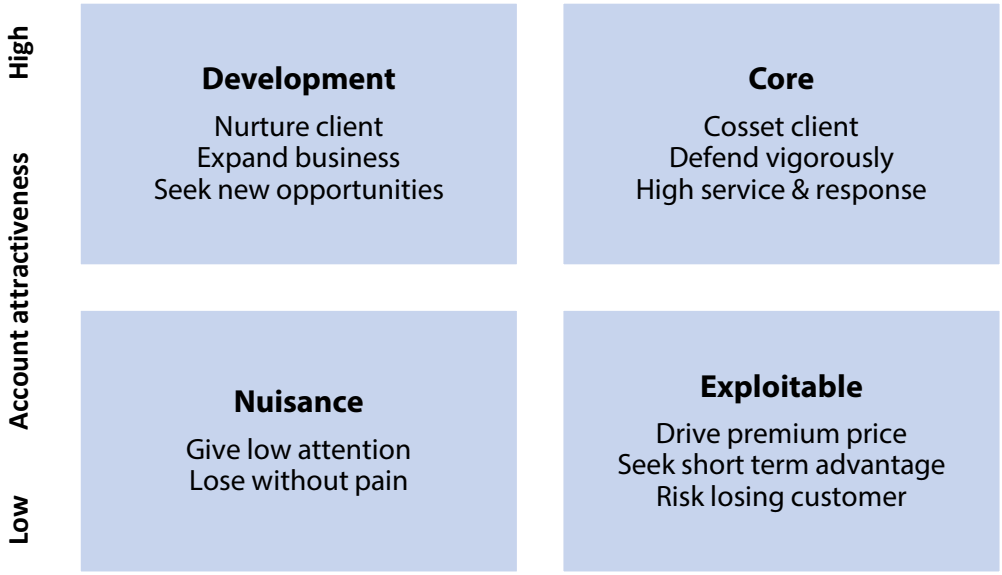
Figure 7 - Suppliers' assessment of buying organizations



Many businesses today also evaluate their customer's worth in order to determine the amount of effort they wish to exert to maintain the account. Suppliers will evaluate the total cost of doing business with an organization in order to determine if it is a profitable account. A procurement management tool called supplier preferencing (or customer segmentation) can assist you in assessing how a supplier may view your business.

The supplier will look at the value of your account and then classify the "attractiveness" of the account. The account may be viewed in four general categories, as shown in Figure 8 below:

Figure 8 - Supplier preferencing



If the buyer is viewed as a **nuisance** account, the supplier may show little interest in the business. The aim of both parties should be to reduce transaction costs and risks and, in some cases, the buyer may wish to consider sourcing from other suppliers that may value the buyer's business more highly.

The supplier may regard the buyer as an account with **development** potential. For example, one that is seen as attractive perhaps because of possible opportunities for more valuable business in the future or the account is a high profile one. In this case, the supplier may be willing, in the short term at least, to meet the buyer's requirements in order to win more business. There can be many supplier development opportunities in these cases by seeking to improve the capacity and performance of these suppliers.

Where the buyer is seen as an **exploitable** account, the supplier may have a high volume of sales but the account is still regarded as unattractive due perhaps to low profitability or other factors like location or inconvenience. Consequently, the supplier may be keen to increase prices. The buyer may wish to seek alternative suppliers or try to make the relationship more attractive by considering more efficient ways of doing business.

If the buyer is seen as a **core** part of the supplier's business, in most cases, a rewarding business relationship that seems to continually add value can be established. The supplier is generally keen to meet the buyer's requests and provide a high level of service in order to retain the business.

It is essential that the buyers accurately gauge their value as a customer as this will determine the extent to which they can influence a market and achieve better procurement outcomes for their organization. In the ideal situation where the buyer (maybe in combination with other UN organisations) is valued as a customer and is seen as core business to the supplier the buyers are in a position to tender for or negotiate better procurement outcomes.

4.5 Analyzing the Organization's Procurement Function & Capability

To complete the analysis, it is (still at step 1) also necessary to look at the procurement function and capability in parallel with the analysis of the procurement portfolio. This analysis includes:

- Roles, responsibilities, structure and reporting
- Procurement systems and processes
- Procurement skills and capacity

In all three cases, it is important that they are appropriate in terms of matching and mirroring the requirements of the procurement portfolio.

Aspects of the procurement functions and typical features to be analysed are listed in table 3 below:

Table 3: Aspects and analysis of the procurement function

PROCUREMENT FUNCTION ASPECTS	FEATURES TO BE ANALYSED
• Roles • Responsibilities • Structures • Reporting	• Are roles and responsibilities clearly defined? • Who is involved in procurement and what is the reporting line? • Is there high-level responsibility for the function? • To what extent is procurement delegated and/or decentralized? • To what extent do decentralized procurement authorities coordinate their procurement of common items? • Do procurement officers share information about markets, suppliers and products? • How is the performance of the procurement entity measured?
• Systems & Processes	• How is procurement conducted for the various types of goods, services and works, and what are the associated transaction costs? • Are e-procurement systems used – electronic catalogues, e-tendering, dynamic purchasing systems, e-reverse auction, inventory management or payment systems? • How are centralized procurement arrangements managed, i.e. long-term agreements, pre-qualified suppliers, coordinated procurement of common items? • Is procurement management information (procurement profile, supplier performance information) captured and easily available? • What tools exist and how are they used e.g. standard solicitation documents, procurement manuals, good practice guides, etc.? • What are the recent audit results and recommendations? • What issues and trends appear in contracts committee minutes?
• Skills • Capacities	• Do the levels of procurement skills match the portfolio? • Are skill levels evaluated on a recurrent basis? • Are skills for procurement developed systematically? • Is there a strategy for recruitment, selection, training and certification of staff, does a policy for staff development exist?

4.6 Identifying Strategic Procurement Objectives

Based on the procurement portfolio review and analysis, the strategic procurement objectives of the organization will need to be identified next (step 2).

In this process, it will be important to link the foreseen procurement activities to the overall organizational objectives. There needs to be a thorough understanding of the organization's procurement expenditure and demand attributes but also in-depth knowledge of the supply markets in which the organization is operating in or delivering to. In the same context, factors related to the quality, capacity and timeliness of the procurement requirement and the supplier should be analysed and addressed. Other risks and also opportunities will also have to be identified and managed, together with the total cost of the procurement.

Throughout, interrelation of the procurement function with all stakeholders to understand and satisfy their needs will be instrumental in the successful development of an organizational procurement strategy.

The use of this supply positioning information (SUPREM) can potentially transform the buying organization from a predominantly transaction processing-based function to one with a strategic role and influence on the overall organization. It is a matter or working out the:

- Procurement objectives for each category of goods, services and works on the supply positioning matrix
- Objectives for significant purchases (falling into the leverage, bottleneck and strategic categories on the supply positioning matrix.)
- Objectives for the management of the procurement function.

Objectives for each category of goods, services and works

Objectives for the procurement of each category of goods, services and works should be made based on the procurement portfolio using the four procurement categories. The full results of the earlier analyses should be used as input.

The objective of **Routine** procurement categories is usually *"transaction cost reductions"* as the actual value per item usually is low and the transaction costs can in many cases even be higher than the actual value of the products procured. The focus here is on simplifying and streamlining the ordering process. Typical product categories include: stationary, consumables, simple spare parts, journals etc.

The objective of **Leverage** procurement categories is usually *"cost reductions & discounts"* due to the high spending per category. The focus is on maximising competition to achieve attractive prices, services and delivery terms. Secondary objective is efficient procurement transaction management as costs involved in procurement can be high for this category. Typical product categories include vehicles, computers, phones, office machines, fuel etc.

The objective of **Critical** procurement categories is usually *"risk reduction"* due to the high importance of these categories to the organization. The focus is on securing supply at all costs as these goods and services are critical to the organization. Failure in securing supply might otherwise become a bottleneck for the organization's efforts to reach its programmatic goals. Alternative strategies for these categories would be to keep high stocks levels or to source for alternative products or solutions due to the high importance of these categories. Typical categories include: medical services, expert consulting services, specialized IT software etc.

The objective of **Strategic** procurement categories is usually *long-term value for money* as these categories are high risk items and represent significant spending for the organization. The strategic focus is on optimal supplier and contract performance management as deliveries often can take years to be completed and might include complex "bundles" of goods, services and works. Typical strategic categories include: Innovative packages of IT products and services (e.g. new Enterprise Resource Planning system); Turn-key solutions; construction of hospitals; bridges; advanced professional services etc.

The table below summarizes these typical, general objectives and examples of some suggested solutions for each segment of the procurement matrix.

Table 4 – Category, general purchasing objectives and solutions

CATEGORY	DIFFICULTY OF SUPPLY	RELATIVE EXPENDITURE	GENERAL OBJECTIVES	POTENTIAL SOLUTIONS
Routine	Easy to secure	Low relative expenditure	Minimize administrative effort	Increase use of purchasing cards
Leverage	Easy to secure	High relative expenditure	Reduce total expenditure	Introduce more long term agreements
Critical	Difficult to secure	Low relative expenditure	Ensure continuity and quality of supply	Establish emergencies stocks and supplier buffers
Strategic	Difficult to supply	High relative expenditure	Reduce risk and cost by managing supplier relationships	Increase proactive supplier performance management

The objectives will vary from organization to organization depending on their specific procurement profile.

Objectives for significant purchases

Specific strategic objectives for significant purchase categories would be included if they were critical for the organization, e.g. the impending procurement of an organization-wide Enterprise Resource Planning (ERP) implementation or a high-risk commodity critical to a core strategic objective of the organization. The process for developing objectives for significant purchases is covered in more detail in Chapter 5, Section 5.1 Individual Procurement Planning.

Procurement management objectives

Procurement management objectives should also be developed using the results of the analysis of the procurement function and capability. They should relate to the objectives defined for each category of goods, works and services and also for any specific, critical and/or significant purchases. These objectives can relate to the roles, responsibilities, structure and reporting, the procurement systems and capacities and/or the procurement skills and capacities.

There are three main areas that usually form part of procurement management objectives:

- Administrative arrangements.
- Purchasing capabilities;
- Purchasing systems and processes

Administrative arrangements

The aim is a procurement management function with a clearly defined and recognised role, supported by an effective organization and performance management regime. Key questions that need to be asked are:

- Are roles and responsibilities clearly defined (i.e. delegation of authority; approval rights and modalities)?
- Do procurement policies, procedures and processes support the overall procurement objectives?
- “Make or buy” – do everything in house or outsource?
- Is there a senior executive responsible for the overall function?
- To what extent do substantive divisions/programmes coordinate their procurement of common user items?
- Do officers capture and share information about markets, suppliers and products?
- How is the performance of the procurement entity assessed?

Purchasing Capabilities

The aim is high levels of competencies from officers and managers committed to achieving the department/agency’s purchasing objectives. Key questions that need to be asked are:

- Does the level of procurement staff and staff capacity match the type of categories being procured?
- Are skills for procurement developed systematically?
- Is there a long-term strategy for recruitment, selection, training and certification of staff – does a training policy exist?
- Are skill levels evaluated on a recurrent basis?

Purchasing systems and processes

The aim is to streamline processes and establish effective supporting systems that reduce transaction costs, handling of routine processes and logistics activities as well as provide accurate, easily accessible procurement information. Key questions that need to be asked are:

- What tools exist and how are they used?

- Are e-procurement systems used? (electronic catalogues, e-tendering, dynamic purchasing system, e-reverse auction, supplier databases, payment system, etc.)[19]
- How is procurement conducted for the various types of goods, services and works – and what are the associated transaction costs?
- How are centralised procurement arrangements managed (i.e. LTAs, pre-qualified suppliers, coordinated purchasing of common user terms)?
- Is procurement management information captured and easily available (dashboards, spend data etc.)?

Each UN organization will have to go through this analysis and then develop objectives that are relevant to their particular situation. Procurement management functions will therefore vary from organization to organization, and also within a specific organization, and can vary from year to year. Examples of specific objectives could be:

- Increase coordination of common user items across the organization
- Introduce new e-procurement system(s)
- Implement ISO 9001
- Increase numbers of procurement officers with formal certifications/qualifications

4.7 Developing & Implementing Corporate Level Strategies

At the third and fourth stage (step 3 & 4) detailed procurement strategies for each major category of goods, services and works must be developed and implemented, addressing the different risk/expenditure attributes and factoring in the previously identified procurement objectives.

All procurement activities must at all times be conducted in compliance with the Financial Rules and Regulations of the buying organization, as stipulated in the organization's Procurement User Guide, Manuals, Policies etc.

However, it is equally important to address the sometimes very different procurement objectives of the main procurement categories.

For example, when developing and implementing a procurement strategy that aims to integrate sustainability, the related procurement activities should be conducted in accordance with distinct policies, requirements and regulations and rules which are up-to-date and address social and environmental factors, such as the UN General Conditions of Contract, Suppliers Codes of Conduct and other UN Agencies' Procurement Policies and Manuals as well as social and environmental internationally recognised standards.[20]

Once detailed objectives have been agreed, and using the current status as a basis, a strategy can be developed which outlines how the objectives are going to be achieved. This should include an implementation plan which identifies activities, timeframes and responsible officers. In some cases, the implementation plan may include large-scale initiatives that in themselves are "projects" requiring project managers, budgets and so on.

Strategies might be drawn from a mixture of the following procurement, supply and value chain management strategies:

- Market management, including development of key supply markets where these markets are not meeting the buyers needs
- Supplier development, including identification of new local suppliers, development of the capabilities of existing suppliers and development of new and more sustainable products and services
- Supplier performance monitoring and management
- Risk and opportunity management
- Demand management.
- Inventory management
- Transaction costs management
- Contract management

[19] For further information on e-procurement tools and applications refer to Chapter 13, Section 13.1 - E-Procurement.
[20] For further information refer to Chapter 14, Section 14.2 - Sustainable Procurement.

The table below indicates how different management strategies can be used by the UN organizations.

Table 5 – Management strategies by category

"Critical Categories" • **Objective**: supply risk reduction • **Strategy**: problem solving and risk management • **Organization**: support technical expertise with commercial expertise • **Policy or procedure**: procurement strategy development and approval, risk management • **Systems**: None in particular • **Skills:** contingency planning, market analysis, risk management, supplier development, problem solving and supplier performance monitoring and management	**"Strategic Categories"** • **Objective:** long term value for money & reduce risk and costs • **Strategy**: effective supplier relationship management • **Organization**: governance boards/ steering committees, project team • **Policy or procedure**: business case and procurement strategy development; contracting to achieve outcomes/ performance • **Systems:** project management, supplier performance monitoring and management • **Skills**: relationship management, complex negotiations, performance management, strategic planning, market analysis
"Routine Categories" • **Objective**: transaction cost reduction • **Strategy**: efficient transaction management • **Organization**: decentralised • **Policy or procedure**: devolution of budget/ decision-making close to the point of need • **Systems**: purchasing cards • **Skills**: process management	**"Leverage Categories"** • **Objective:** cost reduction: cost of goods/services and transaction costs • **Strategy:** Aggregate demand and efficient transaction management • **Organization:** specialist procurement group • **Policy or procedure:** procurement strategy development and approval, buyer discipline • **Systems:** e-tendering, e-catalogues, e-reverse auctions, efficient purchase to pay in FMIS • **Skills:** market analysis, negotiation, performance & contract management

4.8 Measuring Results

The fifth and final stage of the process is to develop key performance indicators (KPIs) that can later be used to measure results to evaluate if the organization is achieving the objectives set out in the procurement strategy, and how much these results are feeding into the overall organizational delivery under its mandate.

A framework needs to be put in place to measure whether the procurement strategy objectives have been met. Performance measurement is important in order to aid probity and accountability and also to identify strengths and weaknesses in the procurement function, and therefore areas for development.

Measures should be developed that are relevant, specific, agreed with relevant stakeholders and within the control of the organization. Performance measures should also relate to specific strategies or key processes.

Benchmarking

Benchmarking with other procurement organizations either within or outside the UN system can be useful for collecting data and measuring performance. However, there may be some difficulties with implementing benchmarking such as, sharing confidential information and ensuring that like is compared with like. For example, comparing the number of procurement officers per procurement volume or cost per order between organizations would not normally be relevant unless both organizations had identical procurement portfolios and because the complexity of the procurement actions required as well as the diversity of items or services provided would have a significant effect on workload.

Performance measures

Examples of performance measures are listed in the table below:

Table 6 – Examples of Performance Measures

PERFORMANCE MEASURES	INCLUDING
Efficiency of the competitive process	• Number of compliant bids and proposals received • Number of suppliers involved in the competition • Suppliers feedback on process

Cost reduction / containment	• Level/amount of savings/cost reductions achieved due to:
	  • New contract/supplier arrangements or initiatives
	  • Value of negotiated additional benefits
	  • Using alternative goods or services
	  • Life cycle cost evaluations
	• Value of negotiated additional benefits
	• Reduction of stockholdings and improved payment terms
	• Reduction in demand for a good or service
	• Improved waste management
	• Value of improved warranties
	• Number of goods rejected

Supplier management and performance measurement	• Number of “new” suppliers involved in competition • Number of late/damaged/inadequate deliveries • Level of quality achieved • How subcontractors meet corporate, social and environmental responsibilities
Efficiency of internal systems and processes	• Volume of transactions through corporate credit card or other electronic means • Usage of aggregated arrangements or long-term agreements • Volume of prepositioned goods • Reduction in transaction costs • Internal customer satisfaction • Volume of e-tendering
Procurement management	• % of procurement officers certified • Number of staff days for training
Building Capacity	• Extensive network of partners working together to achieve development outcomes

	• Government partners – capacity building and internal training • Shifts in HQ and regional business architecture • Aligning country programmes – respond to national priorities • Closer integration of procurement and programme

Tools

It is necessary to establish an information base that monitors achievement. The provision of regular online information on the procurement profile, markets, supplier performance and contract management is essential and will need to include detailed monitoring of specific measures, such as cost reduction/containment, response times, customer service levels and quality levels of goods and services.

Some UN organizations have implemented tools and systems to support all or part of this process. A number are using strategy implementation tools such as the Balanced Scorecard© which supports the process of setting objectives and measuring performance. Other organizations have designed their own tools. In some organizations, this is a separate process for the procurement function, while in others performance measuring will be integrated into the overall organizational strategic management system.

Annex to Chapter 4

Table 7 - How to address supply risks and develop category specific purchasing strategies

CATEGORY	TYPICAL CHARACTERISTICS	OBJECTIVES AND POSSIBLE STRATEGIES
Routine	• Usually low value/low volume items • Represents routine procurement processing • Typically represents up to 90% of the organization's suppliers which are often small businesses • Transaction costs can be greater than value of items themselves • Generally competitive local supply markets for these items	**Objective:** Transaction Cost Reduction **Strategies:** Minimize administrative efforts by: • Procuring at lowest practical level. Decentralized or outsourced to user departments • Encouraging local suppliers to view organization as a valuable client resulting in lower transaction costs. • Focussing ordering and payment terms with suppliers on transaction efficiency (direct debiting, aggregation of orders, monthly accounts, payment cards, etc.)
Leverage	• Commodities commonly used across entire organization with high volume • Represent commodities where there is potential for reduction of inventory management, handling and storage costs • Mature and competitive supply markets. • Markets are served by a few suppliers with extensive distribution networks	**Objective**: Quantity Discounts **Strategies**: Total cost reduction and high service levels from suppliers by: • Establishing automated supplier interfaces to minimize process related costs for high volume standard goods • Ensuring regular management information reports on nature of this expenditure to keep strategic focus • Establishing long term agreements to simplify procurement, coupled with automated paying systems

		• Regionalising supply by using local suppliers that are agents for centralized arrangements; enhancing local supply market developments • Forming collaborative initiatives with other organizations to build leverage, target off-peak periods in supply markets
Critical	• Highly specialized goods, services or works. • Technical specifications include social and environmental factors • Procurement is often undertaken by technical experts rather than procurement professionals. • Technical specifications are inappropriately detailed and limit supply base • Often there are only a few potential suppliers. Usually there are only a few transactions in this category	**Objective**: Supply risk reduction **Strategies**: Reduce the organization's market vulnerability and to secure ongoing supply by: • Identifying alternative sources of supply and/or substitute goods or services • Holding extra stock where possible • Developing supplier capabilities and/or changing demand requirements • Ensuring long term agreements secure supply from key suppliers • Encouraging new supply participants into the market. • Considering local supplier development strategies • Developing contingency plans to deal with potential disruptions • Developing performance or functional specifications to ensure a wider and more sustainable sourcing base • Developing a mixture of technical expertise and procurement skills to manage supply.
Strategic	• Represents goods, services or works that are critical to the organization • Often complex "bundle" or "package" of goods and associated services • Requires innovative or sustainable solutions and high-level expertise from suppliers • Suppliers' attitude (whether or not they consider the organization valued customers) have high impact on value and quality of goods, services or works delivered. • Category represents very few transactions, often with very few suppliers available.	**Objective:** Long term value for money by reduced risk & costs **Strategies**: Effective supplier relationship management by: • Focus on supplier relationship management for complex and costly bundles of goods and services • Understanding correctly supplier needs and agree to performance management criteria and interfaces • Maintaining regular communication with suppliers to ensure innovation and continuous service level improvements • Encouraging local suppliers with an incentive to deliver long term value rather than suppliers for which the business is not significant

	• Costs in offering contracts are substantial for both the procuring organization and supplier	• Helping to develop suppliers' performance levels

Chapter 5

Planning the Procurement Process

This chapter covers the following topics:

5.1	Operational Procurement Planning	68
5.2	Requirement Definition	72

5.1 Operational Procurement Planning

Effective procurement planning is essential to optimize the contribution of the procurement function towards achieving the overall goals of the organization. It supports transparency and accountability within the procurement process enabling procurement to be carried out in a strategic, systematic and procedurally correct way. The ultimate goal of procurement planning is coordinated and integrated action to fulfil a need for goods, services or works in a timely manner and at a reasonable cost. It enables the UN organization and its staff to work smoothly to achieve the organization's goals with the right quality and quantity of inputs in place. Ineffective procurement planning may result in failure to achieve those goals, jeopardizing the organization's procurement principles and potentially damaging its credibility.

Procurement planning also strengthens a UN organization's procurement power vis-à-vis suppliers since, with good planning, the organization is better able to aggregate requirements, develop Long Term Agreements (LTAs) and obtain the best available prices based on volume and better quality and/or the advancement of sustainability. Engaging other UN agencies who have similar procurement demands at the planning stage also helps to promote UN collaboration and realize further economies of scale, resulting in cost savings and a more streamlined acquisition process.

Early and accurate planning is essential to avoid last minute, emergency or poorly planned procurement, which is contrary to open, efficient and effective – and consequently transparent – procurement. In addition, most potential savings in the procurement process are achieved by improvements in the planning stages (e.g. by consolidating requirements or deciding to establish LTAs that can lead to price discounts and reduced operational costs). Even in situations where planning is difficult, such as emergencies, proactive measures can be taken to ensure contingency planning and better preparation to address upcoming procurement requirements.

Some of the benefits of effective procurement planning are:

- Advance identification of suitable suppliers of potential products and services which are frequently requested in emergency operations (for more information see Chapter 8: Emergency Procurement), including confirmation by suppliers on ability, capacity and willingness to respond (deliver/supply/provide) at short notice.
- Establishment of contingency stocks when applicable.
- Determination as to whether a procurement action is for a programme/project in a high threat security environment requiring additional security considerations and preparations in the procurement process.
- Determination as to whether there are sanctions (UN, EU, US and possibly others) imposed against certain recipient or supplier countries and whether the sanctions exempt the UN or its contractors/grantees or if a special license needs to be obtained (for more information see Chapter 10: UNGM and Chapter 11: Vendor Sanctions).
- Development of standard specifications/TOR/SOW for products/services/works requested in emergency operations.
- Early confirmation of needs and requirements helps to identify potential risks, definition of procurement objectives, time frames, and resources required.

There are two types of procurement planning which will be described in this chapter: consolidated procurement plans and individual procurement planning.

Consolidated procurement plans

Consolidated procurement plans are often developed for the whole organization but depending on the structure and level of decentralization these may be developed at the corporate, divisional, country office or business unit level – or even at a number of these levels.

Responsibility

At the organizational level, the responsibility for preparing the plan would normally lie with the authority responsible for procurement policy and planning, but in smaller business units it may lie with the procurement officer. Consolidated procurement plans would usually be prepared annually, but in some environments where the needs are more difficult to define, e.g., because business focus is on emergency relief or on procurement agency services, these may be done more frequently, though not more than quarterly.

The procurement plan is always based on estimates of procurement operations to be carried out in the specified time period. Some procurement needs cannot be anticipated, and the plans can therefore never be accurate. However, a procurement plan based on estimates is still better than no procurement plan.

In the case of joint procurement planning involving multiple agencies, a lead organization shall be identified. The lead organization will then appoint an appropriate officer to coordinate the planning process among participating agencies (for more information see Chapter 9: Cooperation).

Information sources

The information for the procurement plan should be collected by the responsible person, normally a representative of the Procurement Section, from a variety of sources depending on the particular organization. In some cases, the information can be collected by asking requisitioners and clients to complete questionnaires, while in other cases the information can be collected through Management Information Systems or ERPs. Typically, the information is collected from requisitioners, clients, project plans, forecasting systems and lists of expiring LTAs.

Data collected varies from organization to organization, but as a minimum would include:

- Planned programmatic/project activities and activity description
- Expected requirement for goods/services/works
- Any additional, related service or item required (e.g. warranty, installation, training, spare parts, etc.)
- Quantities
- Delivery time requirements
- Consignee/delivery points
- Estimated prices and budget/funding

Consolidation

Once this data has been collected from all the appropriate sources it should be consolidated into the overall procurement plan. Analysis of the plan provides an opportunity to identify potential consolidation of procurements to achieve economies of scale, to better utilize resources, and to provide an overview of the magnitude of the procurement activity. In addition, when used as a management tool, plans can identify periods of time in which a large percentage of procurement actions are required. This information can assist in planning and distribution of workload between various projects and operational units. It is essential that the consolidated plans are reviewed regularly to ensure that they are still valid as there can be changes in circumstances that would affect the consolidated plan and revisions may have to be made to bring it up-to-date.

Good practice

It is good practice to publish consolidated procurement plans, for example on the organization's website or the duty station's website. This provides advance information to the outside world of upcoming procurement activities and advances the key principle of transparency in procurement. It may also be useful to share consolidated procurement plans with other UN agencies in order to identify areas of common procurement.

Individual procurement plans

Once a requisition or project plan is received determining an actual requirement, the procurement officer is then responsible for developing the individual procurement plan for each procurement case. The scope of the individual procurement plan will depend on the complexity of the requirement. While it is good practice to always make a plan, in the case of low risk/low spend requirements the plan should be simple and can include an overview of the necessary steps of the process, the associated timeline, and the stakeholders involved. At the other end of the scale, managing the procurement of an extremely high risk/high spend requirement is, in fact, project management and should entail a thorough and comprehensive planning process.

Significant purchases

Particular focus needs to be made in developing plans for "significant purchases". Significant purchases are those goods, services or works that have been identified as being of high relative expenditure and/or are difficult to secure (for more information see Chapter 4, Section 4.4: Examine the Organization's procurement spend). Some examples of a significant purchase could be one annual purchase valued at USD 1 million for a complex consulting assignment, a large number of recurring low value purchases, which could be more economically addressed through a consolidated procurement exercise, resulting in an LTA, or a mid to low-value, highly complex requirement with a potential of risk to the organization in case of tender or contract failure, such as a piece of equipment, system or software that is key to the organization to deliver its mandate.

Identification of desired procurement outcomes and objectives

The first step in the planning process is to identify the desired outcomes and objectives of the procurement. However, the process is not necessarily linear. In some cases, information obtained in the informational gathering stage will also have an impact on the identification of objectives. For example, an analysis of the supply market shows that there are limited sources of supply which means that a key objective is to identify suppliers who can develop alternative products. This, in turn, will have an impact on the requirement definition stage of the process. The complexity of this process will vary from case to case. In some instances, for example where the requirement is for a commodity used across the organization with high volume, e.g., vehicles, the objectives and the desired outcomes of the procurement action may already be clearly defined in the organizational procurement strategy. In other instances, such as the procurement of a complex and high value solution that is critical to the organization or the client, such as a new ERP system, then there may be a complex network of stakeholders each with their own ideas on objectives and desired outcomes.

Stakeholders

Where the situation is complex it is a good idea to systematically analyse the group of stakeholders involved. Stakeholders are anyone who has an interest in procurement activities delivering actual or perceived objectives. They can include development partners, clients, end-users, civil society, senior management, finance, technical experts, etc. It is important to identify the interests and relative importance of each stakeholder. Sometimes the interests of various stakeholders can be in conflict or competition with each other. In practice, the procurement officer needs to develop a collaborative, but focused relationship with key stakeholders. This includes listening to their concerns and ideas, seeking their agreement where necessary, keeping them informed, challenging their needs and wants, and adapting to their needs where necessary. Nevertheless, in this process, the procurement officer at the same time needs to represent and defend the interests of the UN organization within its regulative and procedural framework.

Specific objectives of key stakeholders may relate to delivery times; adherence to specific regulatory frameworks; sourcing from specific groups of suppliers; and use of specific brands if justified. These stakeholder objectives need to be combined with the information gathered during the requirement specification and supply market analysis, as well as the organization's overall procurement strategy. Then, if necessary, through a collaborative process, the objectives and outcomes for the procurement should be agreed. At this time performance measures and indicators should also be agreed upon which will enable the procurement officer to determine whether the agreed procurement objectives have been met.

Information gathering

The information gathering stage relates to collecting and analysing two types of information: definition of the requirement and analysis of the supply market. The information gathered in both cases will provide input into the identification of the objectives and outcomes and the subsequent development of the procurement plan. (For further information see Section 5.2: Requirement Definition and Chapter 6, Section 6.1: Market Research)

Total Cost of Ownership (TCO)

The Total Cost of Ownership[21] is an approach that takes into consideration costs that will be supported by the organization during the life cycle[22] of the item to be purchased. It is commonly used both in the planning and the evaluation stage[23], and it focuses on the economic evaluation/calculation of the possible costs, bringing out the so-called "hidden" costs of purchasing the goods, services or works, in order to identify the lowest total cost of ownership and to help procurement officers and requisitioners to choose a more cost-effective and sustainable purchase in the long run.[24]

In addition, while setting specifications or drafting the requirements, the life-cycle, cost-effective approach can be very beneficial since it requires taking into consideration every possible cost, besides the acquisition price, when selecting which alternative to purchase. In this sense, it is important to assess not only the short-term price that is revealed during the purchase of an item, but also its long-term cost, which is represented by the Total Cost of Ownership and includes:

- purchase price and all associated costs (delivery, installation, insurance, etc.)
- operating costs, including energy, fuel and water use, spares, and maintenance
- end of life costs, such as decommissioning or disposal[25]

Therefore, by assessing the total cost of ownership through the life cycle of a certain product, service or work, the definition of requirements becomes more accurate and assertive, thereby improving the chances of achieving a sustainable purchase based on Value for Money.

Although one of the challenges for the adoption of life-cycle costing approaches is the difficulty of defining the scope and time scale, the benefits derived from the calculation of total cost of ownership are extensive and significant, such as greater awareness of total costs, greater transparency of future costs, better prediction and planning and capacity to budget for future expenses, which in turn reflects on the evaluation of bids in a more sustainable manner.

Development of the procurement plan

Once the objectives have been set and the relevant information on the requirement definition and the supply market has been gathered, the next stage is to develop the procurement plan. A key element of

[21] For further information on life-cycle costing and the Total Cost of Ownership, please refer to: ICLEI. *The Procura+ Manual: A guide to cost-effective sustainable public procurement.* ICLEI Secretariat GmbH, Freiburg, 2007, pp. 32-39.
EUROPEAN COMMISSION. *Green Public Procurement Training toolkit: Life Cycle Costing (LCC) Factsheet*. Bruxelles, 2008, pp. 2-3.

[22] According to the definition of the European Union Directive 2014/24 on article 2 (20), life cycle means "all consecutive and/or interlinked stages, including research and development to be carried out, production, trading and its conditions, transport, use and maintenance, throughout the existence of the product or the works or the provision of the service, from raw material acquisition or generation of resources to disposal, clearance and end of service or utilisation." In EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EU. *Directive 2014/24 on public procurement and repealing Directive 2004/18/EC*. Official Journal of the EU, 2014, Article 2 (20).

[23] The Total Cost of Ownership can also be applied during the evaluation stage as can be seen on Chapter 6, Section 6.4 – Evaluation.

[24] There are many other life cycle assessment techniques besides the Total Cost of Ownership, for example those that consider in its calculation/evaluation the non-monetized factors of social and environmental impacts. For further information on these distinct LCC techniques, please refer to Chapter 14 – Sustainable Procurement.

[25] ISO/DIS 20400:2017 found at https://www.iso.org/standard/63026.html

this is the selection of the correct and most appropriate procurement method. This is covered in detail in Chapter 6, Procurement Process.

Once the procurement method has been selected, the procurement plan can be elaborated, often in collaboration with key stakeholders, such as the client, requisitioner or technical experts. Typically, the procurement plan would include the following information:

- Procurement objectives and performance indicators
- Breakdown of activities in accordance with the selected procurement method
- Identification of responsible party for each activity
- Timeline and milestones, taking into consideration procurement method and required clearances
- All appropriate administrative requirements (relevant codes, budget allotments, etc.)

5.2 Requirement Definition

Introduction

Requirement definition involves defining and describing what is needed and will be procured, collecting information, identifying appropriate solutions and specifying these in specifications for goods and equipment, terms of reference (TOR) for services, or statement of work (SOW) for works. The requirement definition needs to be linked to the objectives and timelines in the procurement plan and should not be developed in isolation.

Specifications, TOR and SOW constitute the technical basis for the solicitation and the evaluation of offers and will determine whether they satisfy the requirements as stipulated in the solicitation documents. They become the "heart" around which the eventual contract is written and later administered. They have an effect on the entire lifespan of the procurement - from planning, sourcing and solicitation through to bid evaluation, review and award and contract performance up to completion and post-contract evaluations. Together with the main purpose of good requirements as outlined below, this is one of the reasons why a clear and appropriate definition and description of the procurement requirements is of utmost importance.

Purpose

Requirements should be defined with the aim of ensuring fair and open competition by being as generic as possible and without the use of brand names or other restrictions. Requirement definition should identify the exact need (technical and quality), aiming at avoiding over-specifications (as this may increase the cost) or under-specifications (where needs will not be met), as well as by when it is needed (timing), in order to avoid progress delays or additional cost due to, e.g. extra storage and handling charges if delivered earlier than required.

Responsibility

Requirement definition is formally the responsibility of the requisitioner who is usually also the technical subject-matter expert for the requirement. However, the procurement officer is responsible for ensuring the technical description provided by the requisitioner is free of ambiguities, is clear and generic and promotes fair and open competition among the suppliers.

The procurement officer plays a support role to the requisitioner in the following areas:

- Provides information on previous, current and upcoming procurement activities for similar products or services
- Reviews the requisition for completeness and ensure that the specifications or descriptions are not restrictive or biased towards a specific supplier
- Assists in market studies to identify sources of supplies, information on pricing and availability and extent of competition
- Provides advice on the best method to obtain goods and services in a timely manner at the best possible price

Defining the requirement starts when a need is identified and is an integral part of the individual procurement plans described in Section 5.1. A systematic and team approach between programme/project and procurement officers is recommended to develop a generic technical

description. Early involvement of the procurement officer can add value due to experience with similar types of requirements. At the conclusion of this process, the requisitioner should review the finished description to ensure that it responds to the identified need. The final requirement definition should then be submitted, including certification of availability of funds, as part of a requisition to the procurement function.

Requirement analysis

During this phase the requisitioner will identify the requirements, i.e., what are the functional, performance, and technical characteristics that need to be included in the Specification/TOR/SOW. For example, the requirements for buying a generator include: Where will it be used? What fuel should it use? In what climate is it going to be operated? What is the minimum power requirement in KVA (Kilovolt-Ampere)? Is a local representative of the supplier needed? For services, the objectives and deliverables should be identified. For works, it is important to describe what should be constructed, where, and for what purpose. In addition, the requisitioner is responsible for making sure that the items requested are not included in the list of supplies and equipment sanctioned by the United Nations Security Council (UNSC).

As many UN organizations have already implemented the International Public Sector Accounting Standards (IPSAS), following the adoption of IPSAS by the General Assembly in 2006, and others are in the process of doing so, it is imperative that the requisitioners also identify whether the items are to be procured for programme purposes or for the respective UN organization's Property, Plant and Equipment (PP&E) prior to the issuance of the requisition. In practical terms this means that there will be awareness from the outset whenever a potential future asset is to be procured that will need to be added to the organization's asset register, so it can be accounted for and depreciated in line with IPSAS standards throughout its useful life.

Information gathering

Once the requirement has been defined, information needs to be gathered on what is available in the market in order to define the specification/TOR/SOW. For services, information should be sought on the current situation, which activities and outputs are required to achieve the objectives defined and what input is required to perform the activities. For works, information should be sought on the construction site, soil conditions, access to the site, materials to be used, possible drawings, local conditions that must be adhered to, permissions that need to be sought, etc.

It is also important for the procurement officer to determine if there are sanctions imposed by potential supplier countries with regard to specific recipient countries, as well as security issues in high-threat environments, which may have an affect not only on the procurement process but also on the specifications/TOR/SOW. When reviewing the specifications/TOR/SOW developed by the requisitioner, the procurement officer can consult with other procurement officers who have bought similar products or services, technical specialists and other users of similar goods.

During this phase, the procurement officer should also check whether the organization or another UN entity already has a Long-Term Agreement (LTA) for the services, works or goods required. This would have a significant impact on procurement planning. The development and use of LTAs will be further discussed in Chapter 6.

Request for information

A request for information (RFI) is an instrument to conduct a market survey in order to obtain information (from the market) that can be used to identify available or potential solutions for fulfilling identified needs which may include information on cost and delivery time.

The RFI can be used to obtain information from potential suppliers on specifications of their latest products, price indications, or any other information that could be used. This tool can be used specifically to obtain information for developing specifications/TOR/SOW. It is not used to design specifications which suit a specific supplier, but rather to learn and broaden the knowledge of what is available on the market. The policy on contact with suppliers may differ between organizations, and procurement officers should follow the respective guidelines of their organizations. The RFI is entirely non-binding to the UN organization and does not represent a commitment of any kind towards suppliers. It is advisable in the RFI to clearly stipulate the purpose and objectives of the exercise to

ensure that suppliers do not feel disadvantaged or are disappointed due to wrong expectations. Normally, participants in an RFI should also be allowed to participate in any resulting tender exercise.

Standard specifications in the UN system of organizations

Technical descriptions of products require developing product specifications. However, before writing technical descriptions and developing product specifications, requisitioners and procurement officers are advised to check whether generic or other product specifications already exist. This can be done by consulting other UN organizations likely to procure these items on a regular basis. Sometimes a standard specification has already been developed for the requirement. For example, an organization such as UNHCR, which buys plastic sheeting in high volume for its refugee camps, has developed a standard for this product which could be used system wide. In some cases, standard specifications exist for recurring products, such as those determined in the Compendium of Generic Specifications for Emergency Relief Items which is available in the Knowledge Center of UNGM (www.ungm.org).

These standard specifications limit the variety of types, grades, and sizes of products that are often used to allow interchangeability and inventory control. They also inform potential suppliers of product standards used by the UN organizations which allow suppliers to adapt their products to meet these standards. Standard stock item descriptions, for example in the UNICEF Supply Catalogue[26], are a valuable source of information.

Writing specifications/TOR/SOW

Based on the requirement analysis and information gathering, the requisitioner will develop the specifications/TOR/SOW. It is important to use clear and simple language and be accurate in all descriptions, to minimize misinterpretation of the risks. In case the requisitioner is not a subject matter expert, in relation to the requirement, it is good practice to engage a specialist to review and proofread the specifications/TOR/SOW before finalizing them. A common mistake is to include information that should not be part of the specifications/TOR/SOW. Because the specifications/TOR/SOW will become part of the contract, they should not address pre-award issues such as evaluation criteria for an Invitation to Bid (ITB) or a Request for Proposal (RFP), or contract terms and general conditions since these are all included elsewhere in the solicitation documents.

Preparation of specifications for goods

Specifications or the description of physical or functional characteristics of tangible goods must provide a detailed description of the requirements. They should be generic in nature to enable the broadest possible competition.

[26] https://supply.unicef.org

Specifications may be developed as one or a combination of the three different types:

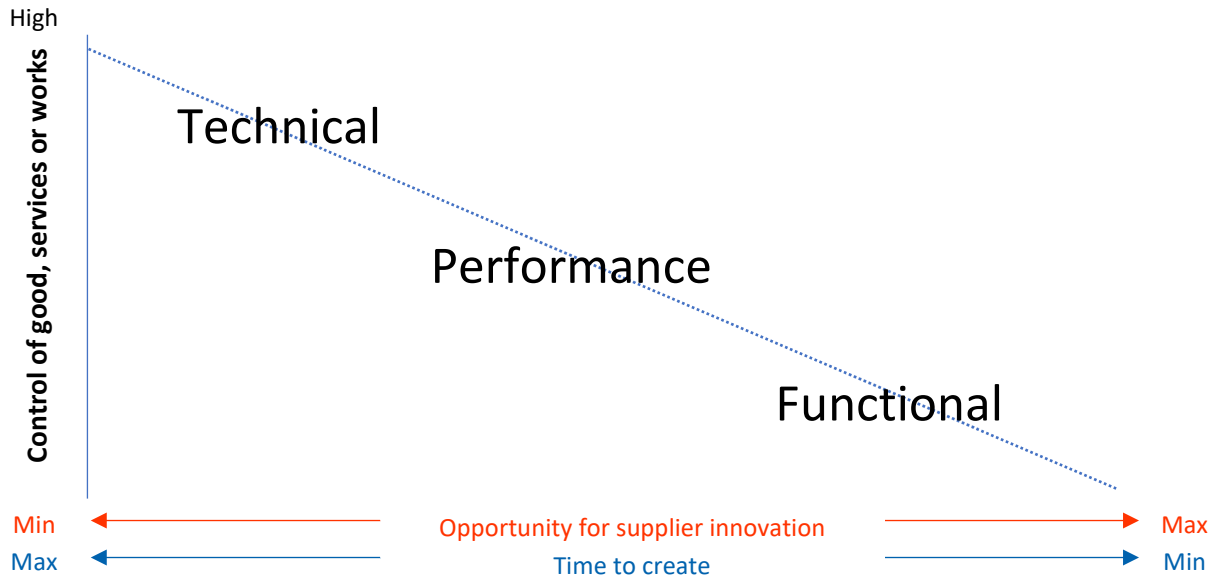
SPECIFICATION	DESCRIPTION
Functional	Concentrates on the function or purpose of the product and is less concerned with materials and dimensions. It normally takes very little time to create such specifications. When reviewing specifications/TOR/SOW, procurement officers to ensure that the purpose of the procurement activity is clearly defined for the potential suppliers. *Example:* dry erase markers for use on porcelain, dry erase boards, glass, unpainted metal, and glazed ceramics.
Performance	Describes what is to be achieved rather than providing a fixed description of how it should be done. Where possible, it is good practice to include a minimum and/or maximum acceptable output or performance level. For example, when procuring a photocopier, you can specify the minimum acceptable number of pages that the photocopier should be able to print or copy per minute. To ensure quality, a reference to product standards (e.g., ISO) and environmental requirements (e.g., Energy Star), should be stated. *Example:* fine tip dry erase markers; durable tip will not soften or spread; quick-drying ink; wipes off easily; certified non-toxic by marker industry (AP) standards.
Technical	Defines exact design and details of a good (i.e., the physical attributes, material to be used or to be avoided, power input and output, the manufacturing process required, or in the case of a service, the working methods to be used). Take care not to make the technical specifications too restrictive or base them on the detailed product specifications of a particular supplier, brand or model. Where possible, it is good practice to include a range of measurements, such as a minimum and/or maximum acceptable: weight, dimension, volume, thickness etc. This will allow for more bidders to be able to find a suitable product from their range of offerings. For example, minimum petrol tank size or engine size in cc for a vehicle, Technical specifications may also take a long time to create due to their detailed and complex nature. *Example:* Dry erase marker, Weight: 5.5-6.0 grams, Length: 13.0 cm, Diameter: 14.0 mm, Colour: Black, Material (exterior): Plastic, Size (pack): 12-Pack, Ink Colour: Black, Tip Type: Fine.

When buying goods, technical specifications tend to be the most dominant. We are not normally looking for the suppliers to provide a solution to meet a given need, as requisitioners usually have a clear idea of what is needed. The challenge is to develop technical specifications that deliver the right quality product on time without restricting competition. Whilst technical specifications are the most dominant for goods, it is considered best practice to also include both functional specifications, so the suppliers are aware of the intended purpose or function of the item being procured, and performance specifications, so that the suppliers are aware of the required level of performance /output of the item.

When buying services, we are often looking for suppliers to provide a solution to a given need. In general, we inform the potential bidders of what we need by specifying the required function or purpose and the expected performance or output of the service. The onus of ensuring that a solution or proposal will actually meet those needs is then placed on the supplier. It leaves room for the suppliers to be more innovative in their approach by proposing a solution that they believe will achieve the desired outcomes. When writing specifications for goods, services and works, we should remember that we also need to consider how we are going to evaluate the bids and proposals against the different types of specifications that we have developed

The differences between the three types of specifications are summarized in the next figure.

Figure 1 - How to combine different types of specifications



In addition, the minimum mandatory requirements should be clearly stated in all specification documents. The supplier should never be put in the position of having to decide which physical attributes are essential and which ones are not. Instead of minimum requirements, the requisitioner may also choose to accept technical offers for equipment within a defined and limited range of specifications which should be clearly stated in the requirements document. For example,

Use of brand names
Brand names or similar references should be avoided[27]. It is sometimes more practical to specify a brand name for the purpose of defining acceptable functional, performance and/or technical standards, but in these cases it is necessary to remember the following:

- Nomination of these products should only be used to define the required product standard.
- Brand names should never be used without also specifying essential minimum requirements.
- Specifications should clearly invite offers of equivalent products, i.e., products meeting similar functional, performance and/or technical standards by adding the wording *"or equivalent"* (e.g., Expo®Fine Tip Dry-Erase Marker or equivalent dry-erase marker). Specification should clearly indicate that no particular preference will be given to the specified brand names when evaluating the offers.

In some unique circumstances, restrictive specifications or even particular brand names may be needed. For example, restrictive specifications may be required to ensure that the product is compatible with existing equipment which has already been purchased or installed (standardisation). If restrictive specifications cannot be avoided, full justification should be provided and approval sought by the procurement officer, in line with the applicable Financial Regulations and Rules (FRR) of his or her organization

Use of samples and drawings
For some products, it may be necessary for the UN organization to provide a sample of the item required together with the specifications, asking suppliers to propose goods in accordance with the sample. Samples should always be accompanied by specifications. Using samples complicates logistics and increases cost as samples must be sent to all suppliers invited to bid.

Suppliers may also be requested to provide samples as part of their offer, to be used for evaluation purposes (for more information see Chapter 6, Section 6.3: Solicitation and 6.4: Evaluation). The

[27] For further information on use of brand environmental or social labels refer to Chapter 14 on Sustainable Procurement.

solicitation documents should clearly state that samples must be submitted free of charge and indicate whether the (buying) organization intends to return them to suppliers or not.

Drawings can be used in a specification document to provide guidance to suppliers. Drawings are useful, for example, to describe a site where products are to be installed. Drawings also help suppliers understand how the various products will interact. For example, if buying pipes, fittings, valves, tees, elbows, meters, etc. used for a water distribution system, it might be a good idea to include a drawing showing what the distribution system will look like.

Use of samples and/or drawings in specifications involves the following risks:

- Providing a sample or drawing of a specific product can be like specifying a brand name, i.e., it might limit the competition
- If the supplier manufactures the products as per the drawing provided and there was a mistake in the drawing, the buyer is responsible for the mistake and associated costs
- It limits innovative thinking as suppliers are limited to offering a product which conforms to the sample/drawing
- There could be a copyright issue if a sample/drawing in a specification is used, so this should first be checked out

Content of specifications

The table below provides a list of information that may be included in a specification document and some guidelines and examples on what they should contain.

TOPIC	GUIDELINES
Title	Use a simple and generic description of specified goods for the title. For example, “Steel Reinforcing Bar”.
Background Information	• A well-written introduction usually increases potential suppliers’ interest in the invitation and helps them understand the requirement in the context of your organizational setting • An understanding of the purpose can be useful to ensure that offered products are “fit for purpose”
Standards	• Refer to international standards such as ISO, EN, eco and social labels when applicable, rather than national standards as this might limit the competition • If national competition is foreseen, national standards might be the appropriate solution • If a specific standard is not mandatory, indicate “or equivalent standards”
Specific constraints and limitations	Some examples of specific constraints and limitations are: • Operating conditions e.g., maximum and minimum temperatures, noise, pressure, humidity, wind velocity, altitude, dust, etc. • Physical space available for installing equipment • Compatibility with existing equipment, systems (e.g., availability of power supply, servicing or maintenance requirements or limitations, etc.)

Requirements	• Description of the requirement in detail. There are three types of specification types and often the requirement is a combination of the three:
	  • functional characteristics
	  • performance characteristics
	  • technical characteristics

Timing of Delivery	Particular requirements for the timing of delivery to the end-user should be specifically mentioned and included as an evaluation criterion. If “time is of the essence” this should be clearly stated and bidders made aware that the inability to deliver within the required timeframe will lead to disqualification of their bid.

Marking	Possible marking requirements (to be agreed with end-user or project coordinator.
Packing/Packaging	Type of packing required, size or condition of container required, and if the organization wants to keep containers, pallets or other packing material this should all be specified.
Quality	Specifying quality requirements, e.g., "only goods produced by suppliers adhering to the ISO 9000 quality system are acceptable".
Testing	For some goods, testing might be required by the supplier or third party and test results submitted.

Good practice
It is good practice to develop robust specifications. Some guidelines on how to achieve this are:

Stating the Requirement:

- State it clearly, concisely and logically in functional and performance terms unless specific technical requirements are needed.
- Include enough information for suppliers to identify what is required and to cost it accordingly, but do not over-specify or include unnecessary features which could potentially limit the number of responders.
- Provide equal opportunity for all potential suppliers to offer goods which satisfy the user's needs, including alternative solutions.
- Do not allow the product requested to be covered by sole patent rights, specifications shall be generic in nature and allow for and stimulate competition among a range of similar products/services.
- Challenge the requisitioner if they request one particular product brand or manufacturer. Ask for valid reasons as they should be prepared to accept any brand that fully meets the specifications and requirements.
- Whenever possible, indicate the final use (e.g., pipes: for construction of buildings, for water supply, gas supply etc.).
- Indicate requirements regarding delivery and after-sales service, etc.

Preparation of terms of reference (TOR) for services

The TOR for services should define the scope of work required and respective supplier and stakeholder responsibilities. Comprehensive and clear TOR are imperative for an understanding of the assignment, and to minimize any risk of ambiguities during the preparation of suppliers' proposals, negotiations and execution of services. The TOR are often the supplier's first and main introduction to the assignment, forming the basis for the supplier's preparation of the technical and financial proposals. Eventually they become an integral part of the contract between the supplier and procuring entity. Clear and unambiguous TOR will force the supplier to prepare clear and detailed proposals, leading to successfully implemented projects and limiting the risks of disputes and claims.

Unclear TOR require suppliers to make assumptions. When various suppliers make different assumptions, comparing technical proposals becomes very difficult, and the procurement officer will have problems evaluating the proposals in a fair and transparent way. Unclear TOR can also lead to less successful projects, as the winning supplier might not provide what is really needed. Further, there is a risk of disputes and claims as it might not be clear who is responsible for what.

Services are by nature more intangible, produced by people for people, and there is a much higher degree of subjectivity involved in the development, delivery and assessment of services. For instance, "how clean is clean"? What is a "well prepared and healthy meal"? Effective TOR should attempt to reduce the level of subjectivity and try to quantify requirements as much as possible.

Therefore, it is important that the end-user actively participates in the preparation of the TOR. The process of developing the TOR requires detailed knowledge of the background, the current situation and possible constraints (political situation, cultural or environmental constraints, etc.). At the same time, preparation of the TOR creates an important awareness of the future consultancy to be provided, and a sense of ownership, which is important when a supplier is to cooperate with an end-user. The process of preparing the TOR often reveals unrealistic expectations as to what can be achieved in the current situation and how soon it can be achieved. As such, preparation should be as participatory as possible to ensure agreement on the level of expectations.

At the same time, end-users usually need assistance in the preparation of the TOR, as this is a complex matter=, which requires experience and methodology. Further, it can be useful to have somebody (e.g., the procurement officer) who is not fully familiar with the requirements of the consultancy, to ask questions, to clarify issues which might be self-evident to the end-user, but which might need to be clarified for the supplier.

Standards in writing of TOR can vary between organizations. To be as clear and precise as possible, the TOR should include the sections and information shown in the table below. This structure is most useful for review or preparation of TOR for consultancy services for development projects. However, the structure can also be used for more simple services, e.g., service contracts for maintenance of equipment, etc.

Background	The general information must describe the background and context of the requested services including: • Rationale and key aspects of the overall context of the assignment • History of activities to date including sector concerned, country's strategy for the sector and prior assistance given • Project/assignment related data, e.g., relevant studies, geographical data target groups, category of services to be rendered and basic documents • Socio-economic context and the institutional and organizational framework (responsible counterpart and other stakeholders involved for the consultancy)
Justification for Consultancy	Description of the problem to be addressed: • Present situation and expected situation at the end of the consultancy • Target beneficiaries • Reasons for the donor's assistance (relation to donor's policies and involvement in the sector
Development Objective	Preferably formulated to include time, place and quantity such as: Consolidation of the democratic process in XX country, in particular strengthening of human rights and related legislative reforms within the next two years • Quantifiable greenhouse gas emission reduction and conservation of forest resources in YY country within the next five years
Immediate Objective(s)	• Specific details of the envisioned project/assignment; the framing and presentation of the objectives, purposes, expected outputs, and results to be achieved • Objectives should be SMART: Specific, Measurable, Achievable, Realistic and Time-bound
Description of the Assignment	A concise, specific and realistic description of the requested services, including the time frame and resources available for implementation.
Outputs	• Description of all outputs necessary for the achievement of the immediate objective with at least one input per objective • If possible, ensure that the outputs are described using the SMART acronym as mentioned above - an output is stated as an end result and can be for example: a report; a project document; a training workshop or course; or a needs assessment

Inputs	Describe the contribution from the beneficiary and supplier's inputs as follows:
	<u>Beneficiary (Client Support)</u>
	• All resources and support the recipient government/institution and local authorities/agencies can provide to the supplier free of charge such as:
	  • Personnel available to assist the supplier
	  • Office facilities
	  • Equipment
	  • Local transportation
	  • Workshop facilities
	  • Background information/information material
	<u>Supplier:</u>
	• All international and national experts on the supplier's team (described by areas of specialization, qualifications, previous experience, language requirements, etc.
	• If possible, expected total number of working days/ weeks required for each team member including time for preparation, mobilisation, and reporting in home office)
	• Other inputs that could be required from the supplier such as maps, pictures, workshop facilitation, training material, etc.

Location and Duration	• Duration of assignment • Indicative activity schedule with specific timelines and milestones for individual activities • Location(s) and schedule of the assignment: how many missions are anticipated throughout the contract duration (if required)

Reporting	• List the types of reports and dates for submission including any specific requirements
	• Some useful reports are:
	  • Inception Report
	  • Mission Reports (if any)
	  • Technical Reports
	  • Draft Final Report
	  • Final Report
	  • Training material (if training is on the list of activities)

Review budget
In parallel to the development of TOR, the budget should be reviewed to ensure that the budget and the TOR are aligned. The budget should include the following breakdown of costs:

- Suppliers' fees (international and national), listed as number of working months/weeks/days x fee per working month/week/day
- Daily subsistence allowance (DSA) multiplied by the number of days. Bidders should be informed in the bidding documents that the DSA quoted in their proposals may not be higher than the applicable UN DSA rate at the time of submission.
- International transportation costs (number of round trips between destination x price)
- Local transportation costs (if any – minor costs are included in the DSA, but if the suppliers are to do major travelling within the country, this should be budgeted for)
- Other relevant costs such as communication and printing costs, costs for translation of reports and interpreter services, costs in relation to workshops and/or training courses (rental of facilities and equipment, production of material, beverages and other costs in relation to participants) and other specific inputs required to carry out the consultancy

The budget is most often used for internal purposes only and is not normally revealed in the TOR. This ensures competition on the financial as well as y on the technical part of the proposal from bidders. However, in certain cases, in particular if it is very difficult to estimate the input needed in terms of

working days or the TOR are vague, it can be useful to provide the total budget as an indication to the suppliers of the level of the consultancy.

Preparation of SOW/BoQ/technical specifications for works

The SOW, including design/drawings, Bill of Quantities (BoQ) and technical specifications, should describe the works in sufficient detail to identify the location, nature and any complexities involved. The term "works" generally includes all types of civil, mechanical, electrical or other engineering/installation services (other than consulting services), as well as the supply of construction materials and equipment included therein.

Expected construction period and time in weeks or months, or where alternative time schedules are permitted, the range of acceptable construction periods, should be defined. In addition, information should be provided on the topography, geotechnical conditions, access to site, transportation and communication facilities, project layout, services to be provided by the UN organization, method of measurement and payment of completed works.

The unique nature of works requires that detailed design specifications be provided and a complete description and specification of all goods, materials and works to be included in the delivery, including detailed drawings and the requirement that the supplier possesses the necessary qualifications with respect to the necessary capacity, experience and financial strength to carry out the type of job requested. It is also important that there is a focus on sustainability during the development of the design specifications, which is discussed in more depth in Chapter 14: Sustainable Procurement. There should be a special emphasis on national capacity building and sustainability, which contributes to the ability of countries to design, construct and maintain infrastructure, and to integrate and balance social, environmental and economic considerations. For that reason, there are specific requirements that should be considered prior to the procurement process in order to provide infrastructure works with added value for clients and partners, including:

- Site (impact, surveys, access, etc.)
- Elements material selection
- Structure
- Fire safety
- Access and egress (disability considerations)
- Health and amenity
- Services and equipment
- Security
- Green technology
- Climate change and disaster risk reduction

It is common practice to use the services of a consulting engineer to help in the completion of technical specifications for large and/or complex works. In cases where an external consulting engineer is used, this person/company could also be asked to prepare the details of the solicitation documents. However, in the following table some general tips on the suggested content of the SOW/BoQ/technical specifications are provided. In cases where a consulting engineer is used, these general tips can be used to check/follow-up on the work of the engineer.

Content of statement of works (SOW)

The SOW provides background and detailed information for the construction works. To be as clear and precise as possible, the SOW should include the sections/information shown in the table below.

<table>
<tr><th>SECTION</th><th>INCLUDE</th></tr>
<tr><td>Background</td><td>Describe the project, its purpose and functionality including relevant information that would help someone not familiar with the current situation to clearly understand what is required.</td></tr>
<tr><td>General Information</td><td>Give all necessary general information, including but not necessarily limited to the following:
<table>
<tr><th>TOPIC</th><th>GUIDELINES</th></tr>
<tr><td>Location</td><td>Give precise information and a brief description of site accessibility and availability of major services such as electricity and water.</td></tr>
<tr><td>Legal status and site ownership</td><td>Check the legal status of the titles for the plot where the construction will take place and clarify ownership of the site.</td></tr>
<tr><td>Designs/drawings</td><td>• Indicate whether designs are being provided or should be elaborated by the supplier
• Check that designs have been registered and comply with local regulations, and clarify responsible party</td></tr>
<tr><td>Right of way</td><td>Check if right of way is needed (for locations where access is through other properties) and clarify the responsible party.</td></tr>
<tr><td>Budget</td><td>Check available budget.</td></tr>
<tr><td>Deadline</td><td>Check if there is a deadline for the execution of the works and indicate it accordingly in the solicitation documents.</td></tr>
<tr><td>Supervision</td><td>Define supervision costs that should be borne by the supplier.</td></tr>
</table></td></tr>
<tr><td>Supplier requisites</td><td>Request information about the bidding company. This is used to assess the capacity and quality of suppliers during evaluation. Consider the following topics.
<table>
<tr><th>TOPIC</th><th>REQUEST INFORMATION ABOUT</th></tr>
<tr><td>Experience</td><td>Number of similar works (by nature and size measured by contract’s value) undertaken in last ten years and client references.</td></tr>
<tr><td>Minimum staff</td><td>Function and qualifications required by each key staff members (e.g., chief resident, residents for electricity/ civil works, specialists).</td></tr>
<tr><td>Financial capability</td><td>Balance sheet demonstrating financial stability. For major construction works, an estimated investment curve is usually included in the feasibility study from where the working capital can be derived.</td></tr>
<tr><td>Minimum equipment</td><td>Minimum number and characteristics of equipment needed to undertake the works.</td></tr>
<tr><td>Construction methods</td><td>• Construction methods/approach
• Programme of works, presentation, mobilisation, in what order various steps will be taken</td></tr>
</table></td></tr>
</table>

Bill of quantities
The bill of quantities (BoQ) is the list of all main components of the project (buildings, roads, sidewalks, lighting, equipment, etc.) including estimated quantities for each line item (soil movements/excavations, structures, roofing, floors, sanitation, etc.) and information on the way it will be paid (e.g., lump sum or unit price). The preparation of the BoQ is the most difficult part of the SOW because it should be complete and exhaustive, especially in contracts based on unit prices. Even though less detail or fewer items are needed in lump sum contracts, such contracts require good technical specifications and careful supervision.

Tecnical specifications
In addition to the BoQ, technical specifications need to be developed. These describe in detail the specification for each construction item e.g., type of cement mix, type of iron rods, bricks, etc. The technical specifications should follow the order of the main components as described in the BoQ for easy reference. The following items should be defined:

- Laboratory methods for "quality control" of each item, when relevant
- Rules to accept or reject materials or works
- Methods for measurement and payment of each item (what works, materials, etc., are included in each item and the criteria to measure them)
- Environmental conservation policies and responsibility of supplier to adhere to them.
- Quality assurance programme

Sign off on final version of specifications/TOR/SOW
It is good practice to ensure that the requisitioner signs off on the final version of the specifications/TOR/SOW. In some organizations, this is ensured by signing the complete requisition package (see below). The purpose is to ensure that all parties agree to the final document in order to avoid subsequent changes and ensure acceptability of offers that are evaluated according to the requirement definition.

Unclear requirement definition
For goods, services or works not previously procured, that are very complex and technical in nature and/or when there is a general lack of specifications or requirement definition from the requisitioner, there are several potential options to assist the requisitioner in defining what is required.

The procurement officer can consult colleagues from within his or her own organization or from other organizations as well as suppliers/manufacturers who have experience and background within the specific area of expertise; brochures, catalogues and the internet can be consulted; and, in exceptional cases, consultants can be engaged to help prepare the requirements document. When reaching out to suppliers and manufacturers who are specialized in the required type of products or services, it is important not to reveal any advance information on the upcoming tender which may give them an unfair competitive advantage.

Whenever it is decided to engage a consultant to assist with the development of the specifications, procurement officers should remember that the consultant will also need to be engaged through a procurement process. Such a process will require clearly formulated terms of reference. To protect the integrity of the procurement process, the consultant, or the company the consultant is representing, will not be allowed to take part in any resulting tender exercise that will based on the specifications the consultant has been engaged to develop.

Requisitioning
When the specifications/TOR/SOW have been finalized, a formal requisition can be created. Most UN organizations use a formal requisition process for all procurement activities. Requisitions can be submitted by clients to the organization, programme staff to procurement officers, or field staff to centralized procurement support staff. Requisitioning is conducted in different ways in various organizations depending on the set-up, business structure and internal control framework of the organization. In general, the following applies if a requisition process is used.

After researching, planning, and describing what is needed, it must be documented that all necessary UN financial and administrative requirements have been met. This is generally considered to be a

requisition package. Such packages vary in terms of both the preparation time and the documentation required. Typical information that could form part of the requisition package can be:

- Funds allocation and source
- Budget breakdown, including freight, clearing and contingency cost
- Mode of shipment and information on destination/consignee
- Written justification support memo for waiver/exception (if applicable)
- Delivery time/schedule, late delivery consequences, performance incentives
- Specifications/TOR/SOW including drawings, if applicable
- Design change/deviation options, if applicable
- Required quality standards, inspection and quality assurance information
- Specific test requirements

Requirements splitting

Some requisitioners intentionally split or disaggregate requirements by processing them under several lower value requisitions. They may claim that by staying below a specified monetary threshold on each of their requisitions, they are benefiting their organization by cutting processing time. However, by doing so they are deliberately avoiding organizational requirements associated with these thresholds, such as requirements for competitive solicitations and submission to a contracts committee for review and award prior to contract issuance. In reality, the practice of splitting a requirement is a short-sighted business approach that is generally counter-productive and undermines the integrity of the procurement process.

Furthermore, splitting a requirement actually hinders the procurement process because it contravenes the procurement principles prescribed by the FRR. Neither is it cost effective because it can prevent the UN from achieving economies of scale and other volume discount practices offered by commercial suppliers. In addition, splitting procurement requirements into several requisitions subjects the procurement process to possible criticism from auditors and other members of the international community for circumventing the organization's internal control mechanisms centred around segregation of duties, delegated authorities and the procurement review and award process. Potentially an organization may also pay too much for the goods and services procured in this manner while at the same time limiting competition. Finally, having to issue multiple tenders also increases the procurement officer's workload.

Required review and approvals of requisitions

Procurement officers regard requisition approval by the designated authority as confirmation that a need exists for the goods or services specified and that the required funding has been made available. In some organizations, the review and approval of requisitions forms part of the review and approval of the related project document. Some organizations allow solicitation to be undertaken before formal approval of the requisition and even, at times, before the approval of the project document, especially in cases of extreme urgency. Due to the increased risk of cancellation of solicitation processes, such practices should be used with caution as they might negatively influence supplier motivation for future tenders, since participation in a tender is an investment on the part of the supplier, in terms of resources, meaning it comes at a price. If suppliers can see that their efforts have been in vain when a tender is cancelled they may lose interest in participating in similar opportunities in the future.

Consequences of incomplete requisition packages

When a requisition package is incomplete, a procurement officer will identify the deficiencies and request correction and resubmission. Timely submission of these corrections is critical because the procurement process does not normally begin until there is submission of a complete procurement request package.

Acknowledging receipt of a requisition

Some organizations have adopted the practice of acknowledging receipt of the requisition in writing. This increases requisitioners' awareness of and satisfaction with the procurement process. It is also helpful to acknowledge receipt of requisition by letter or email to the requisitioner confirming accuracy of the requisition, including how realistic the requested delivery period is and whether any changes are necessary. Acknowledgement should take place as soon as possible after receipt of the requisition. In

addition, it is good practice to have some kind of performance metrics/indicators, such as estimated timelines and related deliverables, in place for each step of the procurement process upon receipt and acknowledgement of the requisition. This enables the requisitioner to know how long each step in the process should take, what will be required from whom and by when. Working together towards a common goal, based on agreed timelines and deliverables, may help instil a stronger sense of ownership, accountability and predictability in the procurement officer, the requisitioner and other parties involved in the procurement process.

Chapter 6

Procurement Process

This chapter covers the following topics:

6.1	Market Research	86
6.2	Procurement Strategy	89
6.3	Solicitation	97
6.4	Evaluation	103
6.5	Contract Award Review and Approval	110
6.6	Contract	112

6.1 Market Research

Introduction

An important element of the procurement process is market research. Market research is an activity to find suitable products and services on the market and qualified suppliers who are available to provide those products and services. It also aims at collecting and analysing information about capabilities within the market to satisfy the organization's requirements, such as obtaining updated cost information, determining the appropriate technology and alternative products, as well as identifying appropriate supplier qualification criteria. A thorough market research, leading to identification and invitation of relevant suppliers, ensures maximized competition, by allowing the most relevant and suitable suppliers to compete. Market research leads to a better understanding of the market. This information helps to:

- Assist in make, buy or lease decisions
- Determine when to buy
- Establish realistic delivery schedules
- Review justifications for waiver/exception
- Identify price and non-price evaluation factors, such as quality and sustainability factors (for more information see Chapter 14: Sustainable Procurement)
- Identify special conditions for the solicitation and resulting contract that are customary in special markets
- Establish realistic budgets, pricing arrangements and economic ordering quantities

Market research is often conducted in parallel with requisitioners preparing procurement plans and/or requisitions (for more information see Chapter 5: Planning the Procurement Process). Procurement officers should provide requisitioners with ongoing advice as to the rules and procedures associated with this step in the procurement process. It is important that no supplier be given an advantage through upfront information, and care should be taken to ensure that no supplier is given the impression that they have an increased opportunity of being awarded a contract.

Market research should identify relevant suppliers and products that could potentially meet the needs of the organization. It also helps promote diversity of suppliers to be invited. Some organizations pay particular attention during market research to suppliers from developing countries or rapidly growing new markets, not to favour these suppliers as such, but in order to broaden the range of suppliers. The amount of effort required for market research depends on the value/risk/complexity of the requirement. For small standard procurement activities research, may be limited to searching existing rosters and referring to similar previous contracts. For larger and/or more complex procurement that may also carry more risk, extensive market analysis is required.

Sources of information for market research
The table below lists available sources of information for market research.

SOURCE	INCLUDING
Internal	• Locally established rosters • Former contracts • Previous shortlists within same field • Consultation with colleagues and requisitioners • Sourcing support - some organizations have a central support function for sourcing
UN system	• United Nations Global Marketplace (UNGM) – where information can be found on what other agencies are buying and a comprehensive global roster of suppliers can be accessed (for more information see Chapter 10: United Nations Global Marketplace) Consultation with colleagues from other organizations who have bought similar products
Internet references	• External supplier rosters with references to products and services • DACON, a database of consulting companies maintained by the World Bank and the Inter-American Development bank (www.dgmarket.com/dacon/) • EU Tenders Electronic Daily, TED (https://ted.europa.eu)
Other	• Chambers of Commerce, Trade Delegations, Permanent Missions, Government procurement authorities • Research and advisory organizations such as Gartner, Forrester, IDC, Procurement Leaders, CEB • Financial reports on companies prepared by financial service providers

United Nations Global Marketplace (UNGM) www.ungm.org
The UNGM is the common procurement portal of the UN system of organizations, bringing together UN staff and the vendor community on one platform. The UNGM acts as a single window through which potential vendors may register their interest to do business with 29 UN Agencies maintaining a vendor roster on the portal. The UNGM also serves as the primary vendor sourcing tool for UN procurers.

The objective of the UNGM is to:
- Provide the global vendor community with a single point of entry to the UN procurement market and most agencies eProcurement systems
- Provide a global vendor sourcing portal for the UN procurement system
- Consolidate UN agencies' vendor rosters into one common vendor database accessible to all UN staff
- Facilitate due diligence by automatically screening vendor profiles against UN agency, UN Security Council and World Bank sanction lists
- Provide a knowledge centre to host procurement related information and knowledge for both vendors and UN staff

UNGM has a United Nations General Assembly mandate to:
- Enhance transparency and increase harmonization of UN procurement practices
- Simplify and streamline the registration process for vendors
- Increase procurement opportunities for vendors from developing countries
- Create one common UN global procurement portal

For more information see Chapter 10: United Nations Global Marketplace

Use of rosters

It is a good and established practice to collect information on suppliers in a roster that provides easily accessible information on companies and the goods and services they provide. The United Nations Global Marketplace (UNGM) hosts the largest consolidated supplier roster used by and accessible to UN organizations worldwide, with specific supplier search and vendor management functionalities. Procurement units may also decide to maintain a separate roster of suppliers at organizational level outside of the UNGM, for example, a roster of local suppliers for particular needs in a certain region. It is essential to invest time and effort to maintain and keep the database up-to-date by reviewing and evaluating new supplier applications, deleting inactive suppliers and updating information on current suppliers, including their performance assessment. As such, UN organizations are strongly encouraged to use the UNGM as their main and central supplier database (for more information see Chapter 10: United Nations Global Marketplace).

Analysis of the supply market

For more complex procurement requirements, extensive market research or a proper supply market analysis should be undertaken. This enables the procuring unit to understand how a market works, the direction in which a market is heading, the competitiveness of a market, the key suppliers and the value that suppliers place on the organization as a customer. Background research can be done using a variety of tools which could include search engines, supplier websites and annual reports and statistical data. In addition, surveys of and interviews with key people can be conducted, as long as they are comprehensive enough to not create any perceived favouritism. Analysis of the collected data can provide insight on how to approach the market in order to source in an appropriate way.

Request for Information (RFI)

Some organizations issue an RFI as part of market research. This tool can be used to request information on anything from technical developments and supply availability to price indications. The request can be openly advertised, or can be sent to known suppliers, depending on the type of information to be obtained and the level of market knowledge. An RFI should always be written as a non-binding inquiry.

Request for Expression of Interest (REOI)

An REOI is a cost-effective method for broadcasting the requirements widely and for identifying potential suppliers for particular goods, services or works. An Expression of Interest (EOI) consists of a written communication prepared by a supplier providing information about its products, services, resources, qualifications and experience. The resulting responses can be used to populate a roster for future use or directly for a specific procurement action. If relevant, the REOI can include specific shortlisting criteria. Some organizations, in particular those that apply mandatory pre-qualification of suppliers, may use an REOI to develop the shortlist.

Pre-qualification

Some UN organizations undertake systematic pre-qualification of all potential suppliers. Various approaches exist, from requiring pre-qualification/registration with the organization to be completed before any contract award (i.e., upfront or in parallel with a tender process), to only shortlisting pre-qualified companies. When using the pre-qualification method prior to issuing a specific solicitation, suppliers of particular goods, services or works are assessed against predetermined qualification criteria, and only those suppliers who comply with the criteria are invited to tender. Usually, all suppliers that pass this formal pre-qualification need to be invited to participate in the resulting tender exercise. A pre-qualification of suppliers will ensure that the solicitation documents are sent to, and bids are only received from, suppliers which are able to comply with the core requirements of the specific solicitation process. Pre-qualification is recommended when:

- Complex or specialized goods, services or works are being procured (e.g., civil engineering or mine clearance services or equipment)
- A particular type of goods, services or works is procured on a regular basis (e.g., for Long Term Agreements)
- A high degree of risk is involved in the procurement (e.g., security and safety equipment and services)
- There are very specific requirements (general or technical) attached to the upcoming procurement exercise that are easily measurable, such as the supplier's certification by some technical institution or other authority, a certain proven capacity or output or a clear track record of a minimum number of years relevant experience

6.2 Procurement Strategy

Introduction

A procurement strategy is a detailed plan for ensuring the timely supply of goods, services and works that are critical to an organization's ability to meet its core business objective and should ideally be aligned with the organizational corporate procurement strategy (for more information see Chapter 4: Organizational Procurement Strategy). The purpose of identifying and selecting an appropriate procurement strategy is to find the best way to satisfy the needs of the end-user by obtaining the most advantageous pricing and contractual conditions through a competitive process. The results of market research and analysis of the requirements contained in the requisition are key factors that need to be considered when developing the procurement strategy.

It is the procurement officer's responsibility to carry out an analysis of the procurement requirements in order to identify information that could have an impact on the procurement strategy, such as the urgency of the requirement, or specific local conditions or a target delivery date, which must be met. The analysis should consider the type of procurement (goods, services or works), the complexity or the specificity of the requirement and the expected value of the procurement action. The procurement officer should also double check that the technical specifications are generic and provide sufficient detail to evaluate any product or service being offered (for more information see Chapter 5: Planning the Procurement Process). There will also be a need to determine whether factors other than technical compliance should be included in the evaluation; whether the proposed technical and other factors are all suitable for pass/fail type evaluation criteria; or whether any of the factors should be more heavily weighted. In addition to that, the procurement officer will have to ascertain the feasibility of the requested delivery date and provide feedback on lead times to the requisitioner.

Once the requirement has been reviewed and the market analysis completed, the procurement officer needs to develop a procurement strategy. In formulating the procurement strategy, the procurement officer will have to consider several factors such as the organization's Financial Regulations and Rules (FRR) and its procurement policy and procedures; delegations of authority and financial thresholds; as well as internal clearance/approval procedures and corresponding administrative time frames. And finally, the procurement officer will have to determine if there are already arrangements and/or contracts for the same or significantly similar requirements in place in his or her organization or across the UN, including Long Term Agreements, and whether there is the potential for collaborative procurement (for more information see Chapter 9: Cooperation).

After reviewing all of these issues, the procurement strategy should include:

- Results of the market research
- Purchasing and sourcing options
- Selection of solicitation method (RFQ, ITB or RFP)
- Selection of type of competition (limited, open or waiver/exception)
- Lead organization unit responsible for conducting the procurement exercise, and with which partners (in the event of joint procurement)
- Evaluation approach/method and criteria
- Timeframes
- Delivery terms
- Estimated purchase amount
- Type of Contract/Agreement

Once the procurement strategy has been documented and approved, the solicitation process can commence.

Purchasing and sourcing options

As part of the procurement strategy preparation, it is important to also consider other options than regular purchasing for obtaining goods, services or works, such as those listed below:

- Make versus buy
- Lease versus buy
- Combine with another procurement action
- Use an existing Long-Term Agreement (LTA)
- Use another UN organization's LTA
- Develop new LTA
- Buy from another UN organization

The procurement officer and the requisitioner should make the decision jointly on which purchasing option to choose. Some factors to consider in these decisions are provided below.

Make versus buy

A make or buy analysis will result in the decision to provide the goods or services by using internal organizational resources (make) or to contract out for similar support to meet a given need (buy). For example, a large programme needing maintenance and repair facilities for a large fleet of cars will need to decide if it is more cost effective to set up its own repair shop or whether it would be better to outsource the service. Another example would be when a government entity needs a particular software; it could develop the software in-house or it could purchase off-the-shelf on the open market.

When comparing costs between the UN organization (make) and the market (buy), all cost comparisons should be based on an "apples with apples approach" which means comparing like with like (and not apples with oranges). The costs for maintaining consistently high service levels and quality; and the time required to develop, produce and deliver the same product or service internally or externally should be considered. It is also important to take into account whether internal resources can consistently deliver on time or with adequate quality so as not to negatively impact the programme/project.

Lease versus buy

The procurement officer should compare the cost of leasing against the cost of buying an identical item. If the terms of the lease include other services, such as operation and maintenance, then the cost of obtaining these services separately should be added to the purchase price for the purpose of this analysis (total cost of ownership). The residual value of the item at the end of the period should also be considered. Examples of items the organization could decide to lease versus buy would be vehicles and office equipment, such as computers, printers (managed print services (MPS)). Internet cloud for data storage is another example.

Combine with another procurement

There may be instances when there are multiple requests for procurement for the same or significantly similar goods or services from different units within the organization. Instead of the procurement function carrying out separate procurement processes, it is considered good practice to combine the procurement of these similar/same items.

Long Term Agreements (LTAs)

Another option for procuring goods, services or works is through an LTA. An LTA is a written agreement between a UN organization and a supplier, setting out all the commercial terms applicable to the orders that may be issued against the LTA for pre-selected goods or services, i.e. pricing, discounts, payment, delivery and packaging and any other relevant special as well as general terms and conditions. While an LTA is binding to the supplier in terms of price and all other contract conditions, the UN organization typically is under no obligation to exclusively use a specific LTA for the requirement stipulated therein, nor is it under any obligation to use the LTA at all. However, in order to avoid supplier fatigue, LTAs are usually entered into with the intention of being used as outlined in the solicitation.

LTAs exist in many forms and have various names in the different UN organizations, including: framework agreements, systems contracts, requirements contracts, and possibly others. Depending on the nature of the purchase requirement and the policies of the organization concerned, LTAs are typically established on a non-exclusive basis, without mandatory minimum purchases, for a specified period of time (e.g., two or three years, sometimes with the possibility of extensions) and, if applicable, for a maximum amount corresponding to a ceiling of aggregate demand volume.

While the relevant Financial Regulations and Rules (FRR) and procedures vary, most UN organizations make use of LTAs to stabilize supply/costs, achieve economies of scale and avoid duplication of procurement processes for many goods and services that are required on a regular basis but have uncertain quantity and delivery requirements. LTAs are developed through a complex solicitation process, which must consider not only the quality of the goods/services under consideration, but also the capability of the selected supplier to fulfil orders for the full period of coverage. Since LTAs are not exclusive in nature, they may be established with a single supplier or several suppliers.

Some LTAs can only be used by the organization which established them, while others have been developed as collaborative procurement arrangements whereby more than one UN organization can benefit from pricing arrangements for goods and services established with a single supplier. UN agencies are encouraged to publish general information about their LTAs on the UNGM website www.ungm.org.

LTAs have been applied to a wide range of often standard requirements, including basic office supplies and equipment (paper, computers, toner), travel, common field equipment (vehicles, communication equipment), air charter services, programme inputs (pharmaceuticals, fertilizers, agricultural commodities and condoms), and standard specialized equipment (mine detection equipment). They are particularly useful at the country level where there are a number of common supplies and services required by all UN organizations on the ground.

LTAs can have many benefits. Based on the consolidation of needs and volume, an LTA gives the organization leverage with suppliers to negotiate preferential terms and rates (lower prices) and better service levels. It also leads to lower transaction costs because of time and resources saved from repeated bidding. Furthermore, LTAs enable an organization to have easier access to goods and services and provide reduced delivery lead times, which are especially important when procuring for emergency situations.

However, LTAs can also pose some challenges. In some cases, the prices offered by suppliers may include a concealed premium or price hedging to cover the fact that they establish fixed prices over multiple years and are non-exclusive. This can be partly overcome by requesting price breaks or staircase pricing, i.e., discounts applied for larger quantities in one purchase order or on aggregate volume bought under the agreement over the duration of the agreement. LTAs may also lead to dependency on suppliers and the risk of organizations becoming less attentive to performance monitoring and quality inspection. Since LTAs are an important modality for UN organizations to use for their procurement requirements, it is important for these challenges to be recognized and addressed so that the full benefits of LTAs can be realised.

Use own existing LTA

Based on the analysis of the requisition, if the specific requirement is covered under an existing LTA of the organization, the expedited procedure for procurement under the LTA should be followed. LTAs should be made widely known and/or accessible within the respective organization. Organizations should decide whether LTAs are to be used as a default option whenever they apply, or if this is an option to be decided in each case by the procurement officer. As explained above, LTAs are established to ensure stability of supply and price while economising on the use of the requisitioner and the procurement officer's time. The decision not to use an LTA is a decision to expend more staff time on an individual requirement and should be justified in the procurement file. On the other hand, it may be appropriate to go outside the LTA in some cases, e.g. when procuring a larger quantity/award value in comparison to what is foreseen in the LTA in form of the not-to-exceed maximum contract value, or when substantially lower unit prices can be obtained due to changes in the supply market; or when the specifications required are not totally in line with the LTA. It is good practice for each organization to have policies and guidelines for such determinations.

Use another UN organization's LTA

While in some cases two organizations may have LTAs for the same goods, services or works in place (e.g., office supplies), which could be unified in a common services framework, more often than not many of the technically more specific LTAs of an organization tend to reflect its mandate and programme requirements. When another UN organization faces the same requirement, it may wish to utilize an existing LTA established by another UN organization, leveraging that organization's expertise in procuring certain goods, services or works. A UN organization may decide to use such an LTA if the specifications for the goods, or terms of reference for the services required are substantially similar to those included in the LTA**.** UN organizations have varying policies for accepting the LTAs of other organisations and for accepting the use of their own LTAs by others, also referred to as '*piggybacking*'. Specific procedures may apply to the use of the LTA of another organization and these should be fully complied with.

It is also important to note that it requires the supplier's approval if a UN organization other than the initial contracting party wishes to piggyback on the terms and conditions of an existing LTA. To pre-empt a possible approval process with the supplier each time a UN organization wishes to use another organization's LTA, some LTAs contain a caveat that the supplier shall make available the specified goods and services under the same terms and conditions to other UN organizations as and when requested to do so. Procurement officers should always contact and verify with the main contracting UN organization the possibility of using of one of their LTAs, thereby ensuring that all parties stay informed, that possible discount schemes will kick in and that the LTA is utilized in line with the supplier's capacity as stipulated in the LTA.

For further information on the sharing and use of LTAs, please refer to the document "Best practices of sharing LTAs among UN Agencies" which can be found in the Knowledge Centre on the UNGM website www.ungm.org.

Develop new LTA

There may be situations where the procurement officer concludes that supply of a certain commodity or service would benefit from being organized through an LTA. With appropriate internal consultation, the organization may conclude that it wishes to develop an LTA or collaborate with another UN agency in its development.

Buy from other UN organizations

In addition to using the LTA of another organization, it is possible to procure from other UN organizations as suppliers such as from the UNICEF catalogue or to outsource procurement to them (e.g., UNDP Procurement Support Unit, UNFPA and UNOPS). Such arrangements are subjected to an added fee charged by the supplying organization, which may be offset by more rapid response, possibly lower product costs, and less administrative time spent on procurement by the organization (internal saving).

There is significant variation in approach to this process among the different organizations. For some, this may be considered the subject of an inter-agency agreement outside of procurement; others may consider it a competitive procurement process; others may require that the UN organization submit a bid as part of the solicitation process and be selected according to standard criteria. Procurement officers should know and follow the policies of their own organization regarding procurement to be undertaken by other organizations.

Selection of solicitation method

There are the following three main solicitation methods used in the United Nations:

- Request for Quotations – RFQ
- Invitation to Bid – ITB
- Request for Proposal – RFP

The selection of the appropriate method is determined by the expected value of the procurement action; the complexity of the requirement and whether or not the evaluation criteria will be based on price alone or price plus other criteria such as quality.

Request for Quotation (RFQ)

Request for Quotation (RFQ), an informal method of solicitation, are used for ordinary and routine purchases of well-defined products and services of low value and complexity.

Under RFQs, quotations are requested for the supply of basic standard goods, simple services or works. There may be a requirement by some organisations to obtain a minimum number of quotations and to use a certain RFQ template. Overall the RFQ process is considered informal, often with no requirement for sealed bids.

Depending on the organization, the basis of award is normally lowest priced responsive/compliant/ technically acceptable quotation. While the wording may vary, the principle for award under RFQ is similar across the UN.

Also, depending on the organization, an RFQ may be sent to only one or two suppliers; or it may even suffice that the procurement officer obtains a written price confirmation from a supplier based on past purchases or from market research. The RFQ is used by all organizations for procurement up to the financial threshold where the requirement to apply formal methods of solicitation (ITB/RFP) is mandated. This threshold varies from organization to organization.

Invitation to Bid (ITB) and Request for Proposal (RFP)

Although ITB and RFP represent two distinct methods of soliciting bids and proposals, they have much in common. Both are formal methods of solicitation and are mandatory above a certain award value, which varies depending on the organization. Since they also provide for a certain level of risk mitigation and more clarity in terms of supplier obligations than the RFQ, procurement officers may opt to use formal methods of solicitation for high risk and complex requirements even though the aggregate value may not reach the defined threshold that would make the use of formal methods of solicitation mandatory.

Although organizations do vary in their procedures and practices, both the ITB and RFP generally involve the secure receipt of submissions (sealed, sent to a secure email address or through an eTendering system), due by a publicly announced deadline. Both methods aim for a formal contractual agreement between buyer and seller. Each method should incorporate a specification/TOR/SOW, a draft/sample contract and relevant general conditions in the solicitation documents.

ITB

The essential characteristic of the ITB is that the technical requirement can be clearly and completely specified in a qualitative and quantitative manner, and the award is normally made on the basis of lowest cost, among commercially and technically compliant bids, lowest priced substantially compliant or similar criteria.

Bids are normally submitted in a single envelope (or email), or, if available, electronically by using the organization's eTendering system, and the price can be read out at a public bid opening. This necessitates (and assumes) that negotiations are not foreseen and that no premium is to be given for bids that exceed the specified technical requirements. It also assumes that other requirements can be specified in pass/fail form as threshold qualifying conditions, and that delivery time requirements can be specified in a manner to adjust price (e.g., 0.5% increase or decrease per week of delay), if relevant**.**

RFP

The essential characteristic of the RFP is that proposals are submitted against requirements that cannot be fully defined and/or quantified at the time of solicitation and where innovation and the specific expertise of the proposer is being sought, often in form of performance requirements (for more information see Chapter 5: Planning the Procurement Process), to better meet the procurement requirement.

Proposals are usually submitted with technical and financial components in separate sealed envelopes, electronic submissions or separate emails, therefore there is normally no public bid opening. This implies that proposals will be evaluated technically prior to the opening of the financial offer and will be based on several criteria outlined in the solicitation documents with a weighted score allocated for the overall technical proposal. The technical score is then combined with the financial score to determine best value for money.

In an RFP, proposers may offer alternative approaches to providing the required product or service. In other words, suppliers have an opportunity to be innovative in their proposals, and the RFP should make this opportunity clear. RFPs are used by UN organizations for competitive procurement of services, complex goods and complex works. In some organizations, the use of negotiations following a competitive process is linked to the selection of methodology (for more information see Section 6.4: Evaluation).

Throughout this handbook, the term “bidder” and “bid” will be used to also mean “proposer” and “proposal”.

Selection of type of competition

In addition to selecting the solicitation method to be used, selecting the type of competition for a procurement activity is an important step. Depending on the value of the procurement, the market conditions as well as the procurement officer’s knowledge of the market, various types of competition can be used. A choice must be made whether to use open competition where any supplier can participate, or limited/restricted competition, where a shortlist is created, and invitations are sent to selected suppliers only. Furthermore, a decision should be made on geographic sourcing and whether international competition is to be used, or whether to limit competition to local or regional suppliers. The procurement policies and procedures of each organization will indicate when open tender is required or recommended, as well as the expected number of invitees to be shortlisted for different thresholds of procurement value.

Open international competition

Open international competition aims to provide all eligible and qualified suppliers adequate and timely notification of the requirements, and to provide them with equal access to the information and fair opportunity to compete for contracts of required goods, works, or services. Open tenders are the standard practice for UN organizations in order to attract a broader range of firms from diverse geographical areas. When using open tenders, and to increase the number of potential bids or proposals, organizations may also simultaneously send the solicitation documents directly to suppliers that they know could provide the goods or services required.

Open tenders are usually advertised on the organization’s website, as well as on the UNGM and via other appropriate means. Other means of advertising solicitations and future business opportunities are websites of donor organizations or end-users (governments) and local newspapers or other media depending on the local media infrastructure. It is important to consider which means would reach the right suppliers in the broadest possible way. A combination of several means will reach more suppliers.

Limited international competition

UN organizations may decide to use limited international competition, which only allows for the participation of selected suppliers in the solicitation process. In these cases, the UN organization will establish a shortlist of qualified suppliers to invite to tender. The names of the shortlisted suppliers/prospective bidders should not be disclosed in order to safeguard the principle of competition (i.e., prevent collusion between any of the suppliers).

There are many considerations that should be considered when selecting suppliers for the shortlist. The overall goal is to increase competition to a maximum, provide a fair chance to a vast number of serious companies in the market and, at the same time, ensure economy and efficiency of the procurement process by limiting competition to the most relevant suppliers. UN organizations should select suppliers in a non-discriminatory manner based upon market research findings, rosters, pre-qualifications, EOI, etc. Some of the shortlisting criteria that should be considered include: specific requirements for the procurement action; technical capacity and experience; share of potential markets and geographic distribution; appropriate financial capacity compared with the value of the contract and ethical principles.

Local/regional competition

UN organizations aim at fostering the development of local markets, and if procurement requirements can be satisfactorily met within a local context, local/regional competition can be undertaken. Local/regional tenders are typically conducted in the following cases:

- When works are scattered geographically or spread over time and the works would therefore typically not be of interest to international companies
- When works or services are locally available at reasonable costs and there are a sufficient number of potential suppliers for a competitive bidding process
- When goods are available locally at prices below the global market price
- If knowledge of the local/national system, environment, language or culture is a requirement
- If justified by the requisitioner and/or client or specified in the project agreement

Irrespective of the type of competition, whenever prospective bidders are directly invited, the procurement officer should issue and distribute the solicitation documents simultaneously to all suppliers, either by email, fax, or courier, or, if available, via the organization's eTendering system.

Exception to the use of formal methods of solicitation (also known as direct contracting or waiver of competitive bidding)

The FRR of all UN organizations stipulate that open competition is normally the most effective method to ensure best value for money. Nonetheless, the FRR also recognize that exceptions may have to be made for circumstances in which competitive bidding would not provide an adequate response for the organization and its clients. The requisitioner and/or procurement officer should provide a justification for an exception to the formal methods of solicitation in line with the FRR and procurement policies and procedures of the specific organization. In most organizations, this justification can only be approved by a senior official, typically with the advice of the contracts committee. In some organizations, authority to approve exceptions for procurement actions below a certain threshold may be included in the delegation of authority framework.

Justification for exception to the use of the formal methods of solicitation

There are a limited number of formally established reasons justifying an exception to the use of formal methods of solicitations. While specific organizational policies and procedures vary, the range of such justifications may include the ones listed in the table below.

REASON	EXPLANATION
Low value	Most organizations recognize that purchases valued less than a certain threshold (varies by organization) may be conducted without formal bidding, although there is a professional responsibility for due diligence to ascertain prices are reasonable. In these cases, UN organizations often procure using corporate credit cards.
No competitive market place/ competition failed	• Supply by an officially recognized monopoly • Prices fixed by government legislation/regulation • Requirement involves a proprietary service or product • Underlying project documents identify a sole provider to be contracted • Recent competitive bidding did not provide satisfactory results
Procurement from Government entity	Some organizations consider this a sufficient reason to waive competitive solicitation. This is particularly applicable when the purpose of the project is to support the entity in building capacity.
Standardization/Follow-on to existing services	The end-user has standardized on a certain brand (it may still be possible to select competitively among alternate suppliers of that brand). When single responsibility for the output is required and any change in supplier would be detrimental.
Cooperation with another UN organization	Some organizations consider this to be a waiver of competitive bidding, while others consider it to be a product of competitive bidding conducted by another UN organization.

Using outcomes of recent competition	Offers for identical requirements were recently obtained competitively (e.g., within a certain number of months), prices and conditions are unchanged and remain competitive.
Purchase or lease of real estate	Real estate is recognized as discrete and unique and thus not suitable for competitive bidding.
Exigency, urgency, emergency	A genuine exigency for the requirement, in which serious adverse impacts would result from delivery delays normally associated with competitive solicitation. Most organizations do not accept that the rationale of "emergency" applies if the situation is the result of poor planning by requisitioners or procurement officers.
Professional services that cannot be objectively evaluated	Relates to research, development and other strategic professional services.

Procurement process for exceptions to formal methods of solicitation
Even if only one supplier is to be invited to present an offer, a formal or informal solicitation should be issued, depending on the total contract value or the level of complexity and/or risk involved. Good practice is to adapt one of the standard solicitation documents to the required purpose and use this to request an offer. This means that the same considerations should be made in terms of sample contract, general and special conditions, evaluation method etc., (for more information see Section 6.3: Solicitation). Furthermore, evaluation, negotiation and contract formulation are equally or even more important in cases where exceptions to formal methods of solicitation are used.

Decision on type of contract and evaluation methodology
One crucial element to address during the strategy phase is to determine the type of contract to be used, in particular whether it should be a purchase order (PO) or a contract. Other issues such as whether the contract should be fixed price (lump sum) or cost reimbursable are also considered at this stage. The type of contracts and availability of standard contracts varies between organizations (for more information see Section 6.6: Contract).

In addition, as part of the procurement strategy, the procurement officer must determine the type of evaluation method and criteria that will be used. The solicitation documents must clearly state the method of evaluation and the evaluation criteria. They cannot be decided after proposals/offers have been submitted nor can they be changed from what was originally described in the solicitation documents. It is therefore very important that the procurement officer gives appropriate thought when selecting both the method and the criteria. The purpose of establishing correct evaluation criteria is to:

- Compare the merits of offers that can vary widely in form and substance, in other words develop the ability to compare apples with apples, meaning like with like
- Minimize the UN's risk that the selected supplier will not be able to perform the contract satisfactorily
- Identify the best match to the requirement

Characteristics of successful evaluation criteria
The evaluation criteria spell out the rules by which all offers will be compared and ensure fair treatment of all suppliers. Good evaluation criteria should possess the following qualities:

- Valid
- Objective
- Measurable
- Impartial

Valid criteria
Valid criteria are related to the actual required performance, i.e. the feature being evaluated will be critical for the successful execution of the contract; for example, the selected supplier must have certain language capabilities because of the country where the assignment will take place. Valid criteria result

in the assignment of a higher score to those suppliers who actually have a relatively high probability of successfully performing the work. If criteria do not clearly relate to the requirements in the solicitation, they are probably not valid and may be based on what is desirable rather than a true need. If it is reasonable to assume that all suppliers will score well on a factor, then it would not be a valid significant differentiator and its inclusion may not serve any useful purpose, except for evaluating a pass/fail requirement.

Objective criteria

Objective criteria ensure that offers are evaluated consistently, even if they are evaluated by different evaluators, and that a third party can ascertain that the offer or the supplier has certain features; for example, after-sales service in the country.

Measurable criteria

Measurable criteria allow evaluators to assign rankings or make pass/fail judgements effectively. For example, honesty would not be a measurable factor because it is impossible to verify it in a reliable manner. Measurable criteria can be assigned points against degrees of achievement, for example, one point per year of experience or, one point per similar project in the region, up to a set maximum of points.

Impartial criteria

Impartial criteria do not give an unfair advantage to one supplier over another, nor are they tailored around the attributes of favoured suppliers or products. For example, if an incumbent supplier has 10 years' experience in offering a specific service in a particular country or to the UN, it may be inappropriate to use such a criterion as a pass/fail minimum. Doing so would exclude other established suppliers who have a more limited track record of dealing with the country or the UN but are/were perhaps successful in delivering a number of even larger consignments/services in the region and to various buying organizations. The evaluation criteria should be impartial and facilitate the inclusion of new providers with reliable performance records.

6.3 Solicitation

Introduction

Solicitation is the process of notifying prospective suppliers of the organization's need to procure certain goods, services or works. Solicitation documents are the documents used to request potential suppliers to offer a quotation, bid or proposal to provide the required goods, services or works, i.e., RFQ, ITB and RFP. Preparation of solicitation documents covers the process of assembling and formalising the information and documentation necessary for potential suppliers to prepare responsive and easily comparable offers, consistent with the requirement and procurement strategy.

Procurement officers should ensure that the solicitation documents create a level playing field, i.e., all potential suppliers should/are to receive the same information at the same time, to enable them to prepare their offers; measurable evaluation criteria that will allow suppliers the same chance of being awarded the contract should be developed; commercial risks fairly distributed between the UN organization and selected supplier; and the terms of the eventual contract should be clearly expressed so that suppliers understand the rights and obligations they will be expected to commit themselves to. All requirements should be clearly expressed in terms that will encourage a sufficient number of responsive offers so that the outcome will best meet the organization's needs. Procedures should be clearly expressed to avoid the procurement officer spending unnecessary time providing explanations. During this stage, the evaluation criteria identified during the development of the procurement strategy are further developed and formulated to obtain the best value in each specific case. This includes informing the potential bidders regarding:

- Administrative rules for the solicitation process, including the evaluation criteria and method (instructions to bidders)
- Functional and performance requirements as well as physical characteristics of the required goods, services or works, including a clear statement of minimum quality requirements (schedule of requirements and technical specifications)

- Commercial, legal and other conditions (proposed contract general conditions, including special conditions)

Content of the solicitation documents

The mandatory content of solicitation documents varies from one organization to another and according to the procurement method and complexity of the requirement. It is good practice to have at least separate standard solicitation documents for each procurement method i.e., RFQ, RFP and ITB. In some organizations, the selection of a particular standard solicitation document automatically implies specific general conditions, contractual terms, etc. It is important to ensure that all parts of the standard document fit the requirement (e.g., appropriate general conditions of contract). The use of standard documents ensures consistency from one transaction to another, helps pre-empt errors, avoids repetition and omissions and generally streamlines the process. Notwithstanding the above, standard solicitation documents must normally be customised to a certain degree to appropriately reflect the specific nature of the requirement.

In the case of ITBs and RFPs, the document structure typically includes some or all of the following items which will be described in more detail below:

- Letter of invitation
- Instructions to bidders
- Schedule of requirements
- Technical description (specifications, TOR, SOW including design/drawings/BoQ and technical specifications for works and materials)
- General conditions of contract
- Special conditions
- Sample contract and offer submission form

For an RFQ, the above items are often reduced to a letter of request, a short description of the requirement, and a reference to the applicable general conditions of contract of the particular UN organization.

Letter of invitation/instructions to bidders

The letter of invitation provides key information to enable suppliers/prospective bidders to decide whether they might be interested in participating. The instructions to bidders should be drafted to reflect the specific requirement of the solicitation. As shown in the table below, the letter of invitation/instructions to bidders should convey all relevant guidelines to govern the preparation, submission and evaluation of responsive offers, in accordance with the requirements of the organization. It should indicate all documents required to constitute a complete submission, and the warning that submissions may be rejected unless substantially responsive.

TOPIC	INFORMATION AND/OR INSTRUCTIONS SHOULD INCLUDE…
Letter of Invitation	Reference to specific procurement (title and tracking number) and list of supporting documents issued. Context and intended purpose of the procurement.
Deadline for submission offers	Date, time, place and mode of submission, together with location, date and time for the opening of offers, if public.
Instruction for preparation and submission	• List of documents required to form a complete offer, as well as notice that offers may be rejected unless responsive/compliant/acceptable • Instructions on how the offers should be submitted/packaged (e.g., sealed, number of copies, one or two-envelope method, sent by email, fax, courier, eTendering)
Instructions on content of offer	How the technical and financial offer should be structured including cost breakdown.
Instructions on offer validity	Period of time that suppliers need to keep their offers valid (typically a period of 60 or 90 days).
Method of evaluation and evaluation criteria	Method including order of importance and weight of each major criterion and how it will be applied.
Discrepancies and errors in the price component	How discrepancies and errors in the price component will be handled, e.g., errors in total price: • Unit prices should govern, when errors in totalling have been made • Where there is discrepancy between the amounts in figures and in words, the amount in words will govern
Payment terms	Usually net 30 days upon receipt of invoice as well as receipt and acceptance of goods or services or upon receipt of required shipping documentation, depending on the Incoterm used. Policy on advance payments should be outlined in the solicitation documents. Progress payments are a common practice for services and works.
Modifications	Any additional information, clarification, correction of errors or changes made to solicitation documents will be distributed to all suppliers prior to the deadline for receipt in order to enable suppliers to take appropriate actions.
Offer security or bid security	If applicable, solicitation documents shall indicate that bidders are required to submit an offer/bid security together with their offers. This is to reduce the risk of an offer being withdrawn or modified after the deadline for submission of offers, or failure by the winning bidder to sign the contract or to provide the required performance security following contract award, or any other conditions precedent to signing the contract which was specified in the contract. Failure to provide the offer/bid security will result in disqualification of the offer.
Performance bond	Performance securities can be requested from the selected supplier to ensure performance by the supplier in terms of delivery of all equipment, services rendered, and works completed as per the contract (typically used in complex procurement for works).
Alternative offers	Specify whether alternative offers would be acceptable (for the procurement of services through an RFP, alternative offers are commonly acceptable).

Schedule of requirements/requirement definition

The solicitation documents must clearly define the requirements. Depending on the nature of the procurement, the requirements are stated in the form of technical specifications, TOR, or SOW/BoQ. A clear and detailed description of the performance expected is important in order to prevent misunderstandings and disagreements with suppliers at the time of contract execution. Ambiguous performance requirements may lead to increased costs as suppliers may have to factor into their offer a contingency or risk buffer which will then be reflected in the price. It is also important to clearly state the delivery date for goods or starting/completion dates for deliveries of services/works where there are specific requirements or when time is critical. When delivery time is a factor in the evaluation, the procurement officer should consider requesting a performance bond and, should there be any concerns about the reliability of the bidder community and/or their commitment to the resulting duties and responsibilities after contract award, an offer or bid security may also be requested. Procurement officers should bear in mind that the more risk they impose on the bidder and the more demanding they are in terms of requiring a bid security or a performance bond, the more likely it is that the contract prices will be higher. While useful tools when truly needed, especially for complex requirements or as good practice in the procurement of major construction projects, the potential risk of tender and contract/performance failure should be analysed.

When procuring goods, the destination(s) and mode of transport should be included, and when procuring services, the exact location(s) where the services shall be provided should be specified. Incoterms should be used to specify the delivery terms of goods procured. The scope of Incoterms is limited to matters relating to the rights and obligations of the parties to the contract of sale with respect to the costs and risks related to the delivery of goods sold. They specify where the seller delivers the goods, what costs the seller pays, and when the seller passes the transit risk to the buyer (for more information see Chapter 12: Logistics).

Contractual terms (general conditions, special conditions, model contract)

The table below provides information and instructions on what contractual terms and conditions should be included or referred to in the solicitation documents.

ITEM/TOPIC	INFORMATION AND/OR INSTRUCTIONS SHOULD INCLUDE…
General conditions of contract	A copy of the relevant general conditions of contract (e.g., goods, services or works) either with the solicitation documents, or referred to on the organization's website.
Special terms and conditions	Particular contractual requirements linked to the special circumstances of the specific procurement. These often constitute exceptions to the general conditions of contract or further deliberation on some of the conditions.
Model contract	A copy of the relevant model contract (sample contract) so that suppliers understand the type of contract they would be expected to sign if selected.
Packing and shipping instructions	A copy of the relevant packing and shipping instructions when procuring goods (for more information see Chapter 12: Logistics).
Contract pricing	Firm fixed price/lump sum or cost reimbursable, or a combination thereof.
Insurance policies	Scope of various insurance policies (materials, equipment, personnel, supervisors and visitors, buildings (as they are being erected) as outlined in the general conditions of the organization.
Penalty clause/liquidated damages	A clause stating the consequences of non-performance or late performance i.e., liquidated damages and how they will be applied.

Some UN organizations have solicitation documents that contain a standard offer submission form that must be signed by a duly authorized signatory and returned with the supplier's offer in order for the offer to be legally binding.

Clarifications/bidders' conference

The time period between the issuance of solicitation documents and the deadline for submitting offers is referred to as the solicitation period, when a formal method of solicitation is used.

During the solicitation period, no communication regarding the contents of the solicitation documents or the offers should take place between potential bidders and the UN organization, except through the methods of handling queries described below. Queries from bidders should be handled through written correspondence and/or by having a bidders' conference. Any bidder requiring clarifications to the solicitation documents should submit their queries in writing. The UN organization should prepare answers to each question and then share the answers with all bidders without disclosing the source of the queries.

For technical, complex acquisitions, a bidders' conference (also called pre-bid or pre-bidding conference) between the organization and the bidders could be held, in addition to issuance of written clarifications. Such a conference may be in the form of a meeting, a site survey or an inspection. When conducting a bidders' conference, it is recommended that the following guidelines are adhered to:

- Inform bidders in the solicitation documents that there will be a bidders' conference and whether participation is mandatory.
- Indicate the date and time for the conference, allowing sufficient time for all bidders to plan attendance at the conference and to then have sufficient time to prepare their bids/proposals.
- Written queries from bidders may be forwarded to the organization prior to the conference; responses to the written questions should be given orally during the conference.
- Send all bidders within a reasonable period of time after the conference, whether present at the conference or not, a full set of minutes, recording all queries and formal replies. The minutes should prevail over any oral responses provided during the conference.
- If the clarifications given in the conference alter the requirements, communicate this is in writing to all bidders at the same time and consider extending the offer closure date.
- In the event that the solicitation has been advertised on UNGM (open competition), and participation in the bidders' conference has not been mandatory, the minutes and clarifications given in the conference should also be published on UNGM under the concerned procurement notice.

Amendments to solicitation documents

At any time before the deadline for submission of offers, the organization may, for any reason, whether on its own initiative or following a request for clarification from a bidder, modify the solicitation document. An example of a modification would be the extension of the deadline for submission of offers.

Amendments to solicitation documents should be made well in advance of the deadline for submission of offers in order for bidders to address changes in their offers. In certain cases, amendments will justify an extension of the submission deadline. This should be assessed on a case by case basis.

Amendments of solicitation documents containing changes, or giving clarifications, or additional information, should be made available simultaneously in writing to all invited bidders, to provide all of them with the same fact base. By providing one or more bidders with additional information unavailable to others during the procurement process may provide them with an unfair advantage. This is not in line with the principle of fairness and must therefore be avoided at all cost. In the event that the solicitation has been advertised on UNGM, the amendments should also be published on UNGM under the concerned procurement notice.

When solicitation documents have been published using the open announcement method, where no shortlist has been established, the documents should advise potential bidders to regularly visit the website(s) where the tender has been published, to check whether any clarifications or amendments have been posted.

Substantial changes to the specifications/SOW/TOR and the solicitation documents may call for re-tendering, especially in cases of limited competition and where the changes could potentially mean that

the shortlist of suppliers is no longer appropriate. Amendments to solicitation documents should be subject to the same approval by the appropriate authorities as the solicitation document itself.

Cancellation of Solicitation

The UN organization should include in the solicitation documents that it reserves the right to cancel a solicitation without recourse at any time during the solicitation and evaluation process and prior to contract award. Conditions that may give rise to a cancellation are:

- Justification for the initial solicitation is no longer valid
- Requirements require material revision
- A substantial variance exists between the lowest bid and cost estimates

Receipt and Opening of Offers

After the solicitation process, offers are received, registered, stored, opened, and handed over by authorized staff members. The purpose of this formal process is to ensure that transparency and confidentiality are maintained.

Receipt of offers is normally performed by an individual not directly involved in the procurement function. For quotations, it is usually the procurement officer in charge who receives them. For offers received by fax or email, this must be on a 'secure' fax machine or email address specifically dedicated to the purpose of receiving offers. The fax machine must be safely secured, i.e., locked or in a lockable room. UN organizations have increasingly established an official email account for bid submissions which is communicated to the bidders in the solicitation documents. This address must be protected to ensure that emails containing offers are kept unopened until the bid opening. In the case of hard copies, the offers should be received and remain sealed until the formal opening time, except in the case of RFQs.

Offer opening is a formal process of opening, reading and recording in writing all offers received in response to the solicitation, at the date, time and place stipulated in the solicitation documents. It is recommended that the offer opening takes place immediately after the deadline for receipt of offers. Apart from being efficient, it will reduce any risk of manipulating offers received or accepting late bids. The offer opening process is normally conducted by an authorized opening official/panel.

The type of solicitation and the solicitation documents used will determine whether the opening of the submissions will be conducted in public and which type of information will be disclosed. Quotations are normally opened internally whereas bids are normally opened in a public bid opening. Since proposals are usually submitted using a two-envelope system, i.e., one envelope for the technical proposal and another separate envelope for the financial proposal, the financial proposal will only be opened after the technical evaluation has been completed and not at a public opening. In some cases, upon completion of the technical evaluation financial proposals are opened publicly.

The opening official/panel is in charge of completing an opening record/report, which provides a record of the offer opening process. The report normally contains information on the offers received (name and country of origin of the supplier); date and time of the beginning and end of the opening of offers; price and currency of offers; offer validity periods, names of supplier or supplier's representative(s) present at the public opening, where relevant, and a list of offers rejected for various reasons: e.g., late submissions, incompleteness, etc. Once offers have been formally opened, they should be handed to the procurement function for processing.

Good practice
It is good practice that:

- Information on other competitors is not provided outside of or prior to the bid opening.
- Discussions on a bid or an award are not entered into with one or more participating suppliers at the time of opening.
- All information related to the opening, records of attendees, records of all offers, including returned offers, is recorded in an opening record/report, and read aloud to the attendees of the public tender opening.
- Opening official/panel and appropriate witnesses will certify the opening process by signing the opening record/report. The report must be kept on file.

Offers may be withdrawn or modified by bidders in writing prior to the closing date of the solicitation. In the case of altered offers, the latest submitted offer is the binding one. After the closing date, UN organizations should not honour withdrawal of offers or permit an offer to be modified. In certain cases, UN organizations may be entitled to collect the bid security, which guarantees the validity of the offer submitted by the supplier.

Some organizations allow multiple offers. Where suppliers have submitted more than one offer, the offer that provides the most advantageous terms to the organization should be considered. If the solicitation document allows for alternative offers, these should be treated like any other offer received.

Offers received after the closing date should not be accepted, except where there is reasonable evidence that late delivery of an offer was caused by factors beyond the control of the supplier. In such cases, and only if received before the official opening takes place, may these offers be considered, depending on each organization's internal policies and procedures.

When a shortlist of suppliers has been used, unsolicited offers should be dealt with according to the rules of the organization. In some organizations, they are normally rejected, unless specific circumstances established by the rules of the organization allow for their acceptance; for example, where the unsolicited offer was submitted by a supplier who is representing a supplier who was originally invited. Care should be taken to identify how the company obtained information relating to the solicitation. It is important to ascertain that the company is a bona fide supplier and meets all the prerequisites such as registration, financial viability, capacities, quality, delivery, etc.

Wherever offers are received through an automated eTendering system, the role of the opening official/panel may be automated in whole or in part while the principles of preserving the integrity of submissions and protecting open and fair competition in the way the eTendering system has been configured remain unchanged. How this is put into practice depends on the eTendering system implemented and the procurement policy and procedures of the respective organization (for more information see Chapter 13: eProcurement).

6.4 Evaluation

Introduction
The evaluation process consists of the preliminary examination and evaluation of the offers received, establishment of their general and formal validity, and assessment of responsiveness to specifications and requirements and compliance therewith, all as defined in the solicitation document. The evaluation process analyses each offer's cost and benefit and determines the price and value of each. Evaluation, together with the requirement definition and the evaluation criteria and method specified in the solicitation document, are the basis for the subsequent selection of the offer that provides the best value for money for the organization.

Best value for money in the context of evaluation of offers, means that price alone is not always the only criterion factored into an evaluation method. Other criteria such as quality, availability,

sustainability, time, compliance, risks, cost of maintenance and support, TCO, etc. are also part of the equation to determine the best return on investment of the procurement of goods, services or works.[28] The evaluation criteria and method must be provided in the solicitation document to enable bidders to understand what will be the focus of the evaluation, e.g., whether price or cost, together with compliance, are the only factors that will be considered or whether the technical aspect of a proposal will weigh more than the financial component.

When utilizing formal methods of solicitation, i.e., ITB and RFP, evaluation is conducted by a designated evaluation team and in accordance with the relevant organizational regulations, rules and procedures. The evaluation team must apply the evaluation criteria and method pre-determined in the solicitation document in order to conduct a fair and unbiased evaluation. The evaluation process also needs to be transparent. To ensure the integrity of the process and to provide a proper audit trail, all stages in the evaluation process will be documented by the procurement officer in charge of the relevant procurement case file in writing in an evaluation report, which subsequently forms the basis for the recommendation of award. All evaluations must be completed without favouritism for or bias against any supplier, to ensure a fair and transparent process for all participants.

Establishing the evaluation team

Evaluation of offers received in response to an ITB or RFP is usually overseen and coordinated by the procurement officer who conducts the evaluation together with an evaluation team. The task of the evaluation team is to ensure that the suppliers and their offers satisfy the requirements of the solicitation documents and to evaluate the offers according to the predefined evaluation criteria.

Each UN organization may have its own criteria for the appointment and composition of the evaluation team. It usually depends on the nature of the procurement, the complexity of the technical specifications, TOR or SOW and the value of the procurement activity. In order to conduct a fair and unbiased evaluation of offers, the evaluation team should be comprised of a minimum of three members and normally not more than five. The team may include procurement officers, technical experts and requisitioners. Technical experts may include staff from other UN organizations and external consultants hired for this particular purpose. In addition, if sustainability requirements included in the tender documents are complex, assessing compliance could require the inclusion of a subject matter expert in the technical evaluation team.

[28] In order to analyse which purchasing option to choose, a recommended approach is the Total Cost of Ownership (TCO) analytical technique, which contemplates the costs related to the relevant stages in the life cycle of a product, service or work, such as purchase, set-up, maintenance, operating and disposal, always including future costs into present costs. For further information on other types of life cycle assessments that can be applied during procurement process such as those concerned with sustainability parameters, please refer to Chapter 14 on Sustainable Procurement.

Good practice
It is also good practice for members of the evaluation team to be briefed by the procurement officer about their role during the evaluation process, the procurement requirement and the tendering process. Members of the evaluation team should:

- Indicate immediately if there is a potential conflict of interest situation between them and one or more of the suppliers and ask to be replaced
- Sign confidentiality and no conflict of interest statements prior to commencing the evaluation process
- Study the requirement definition, the evaluation criteria and method
- Understand that the deliberations of the evaluation committee are strictly confidential and that they cannot discuss the content of the evaluation with colleagues and/or outsiders
- Clarify or direct questions for suppliers in writing to the procurement officer who in turn will communicate with the concerned supplier(s)

Evaluation methods
UN organizations usually use one or a combination of the following evaluation methods:

- Lowest priced technically responsive/compliant acceptable offer method
- Weighted scoring method (combining cost and quality)

Lowest priced technically responsive/compliant acceptable offer method
When using this method as typically is the case for ITBs (and in a simpler form, also for RFQs), the award of a contract should be made to the supplier whose offer has been evaluated and determined as both:

- Responsive/compliant/technically acceptable
- Offering the lowest price/cost

"Responsive/compliant/technically acceptable" can be defined as fully meeting the specifications/TOR/SOW required, or reaching a pre-defined threshold of a maximum attainable score based on the requirements stated in the specifications/TOR/SOW. The level of responsiveness/compliance/acceptability may be measured using straightforward pass/fail criteria or more complex approaches like a weighted scoring system which is further explained below.

When an evaluation factor requires an attribute that is not conducive to varying degrees of superiority or inferiority, a pass/fail factor is appropriate. When a factor merely requires an acceptance or rejection, it is termed pass/fail (or compliant/non-compliant), or a threshold condition. In principle, an offer that "fails" would be disqualified, while an offer that greatly exceeds the requirement would be ranked the same as one that just meets that same requirement.

There is a difference between price and cost. While price is the amount of money you pay to procure a certain product or service, cost is the amount of money you pay plus other related cost factors such as freight costs, operational costs, disposal costs, etc. over its lifetime or for the duration of a contract or project. The latter is also called the "total cost of ownership (life-cycle costing)" (for more information see Chapter 14: Sustainable Procurement).

Weighted scoring method
When using the weighted scoring method, which is typically the case for RFPs, the award of a contract should be made to the supplier whose offer has been evaluated and determined as:

- Responsive/compliant/technically acceptable
- Having received the best combined score out of a pre-determined set of weighted technical and financial criteria specific in the solicitation
- This method may be used for more complex procurement where:
    - Evaluation criteria cannot easily be quantified

- Different aspects of value for money (e.g., cost/price and quality) need to be considered and balanced
- Different types of scales need to be used for the various factors

The weighted scoring method is typically used for procurement of services, where the relative importance of each evaluation criterion needs to be weighted. It can also be used for the evaluation of offers for complex goods, services and works requiring the evaluation to be based on a number of criteria other than price in order to ensure best value for money, and where it is difficult to evaluate an offer on the compliant/non-compliant scale only.

Under this evaluation method, price or cost is rendered as one of the evaluation criteria. For more straightforward requirements, price can play a significant part in the selection process, provided that the technical criteria are also met. In general, the more complex the requirement, the more significant the end product, and the less comparable the proposals, the less influence price should have on the selection of the recommended proposal, meaning that the points allocated for the technical offer is normally higher than the number of points allocated to the financial offer. This way the risk of selecting a potentially non-performing but low-price supplier is reduced, while the potential savings to be achieved by selecting the lower priced offer are, in such case, not considered to outweigh the possible implications and costs caused by a non-performing supplier. Thus, the financial offer is typically given between 15 and 50 percent importance. The less weight given to the financial aspects of an offer, the smaller a difference in technical scores is needed to justify a proportionately higher price or cost.

The technical proposals are opened and evaluated first. The financial offers should be opened only for those proposals where the technical evaluation scores above a stated threshold. Each UN organization sets its own threshold. For those proposals where the technical offer does not reach the minimum specified score, the corresponding financial offer is not eligible for further consideration.

Some UN organizations open both the technical and financial offers at the same time, but only the technical proposals are shared with the evaluation team. This enables the technical and financial evaluation to be completed in parallel by different teams. Once the technical evaluation is completed, the financial details are shared with the technical evaluation team.

After scoring both the technical and price or costs components, UN organizations often use the formula below to calculate the total number of points in order to identify the winning proposal. There are situations, however, when a UN organization may use other formulae depending on the type of procurement.

Rating the Technical Proposal (TP):

TP Rating = (Total Score Obtained by the Offer / Max. Obtainable Score for TP) x 100

Rating the Financial Proposal (FP):

FP Rating = (Lowest Priced or Cost Offer / Price or Cost of the Offer Being Evaluated) x 100

Total Combined Score:

(TP Rating) x (Weight of TP, e.g., 70%)

+ (FP Rating) x (Weight of FP, e.g., 30%)

Total Combined and Final Rating of the Proposal

Evaluation of offers

Upon the receipt and opening of offers, the evaluation must be conducted according to the set of evaluation criteria and method, which have been established during the development of the procurement strategy and the preparation of the solicitation documents. Once established, and also reflected in the solicitation documents, the evaluation criteria and method must not be altered unless the solicitation documents are amended before the closing deadline. This provides the basis for an objective and transparent evaluation approach. Depending on the complexity of the procurement, the evaluation criteria may be summarized in a few lines, or consist of long and precise descriptions of the steps of the evaluation necessary to ensure best value for money for the organization. Evaluation criteria can be divided into three categories: formal, technical and financial.

Preliminary examination (formal evaluation)

Offers are first checked for their compliance with any formal criteria stated in the solicitation documents. Examples of formal criteria are:

- Offers have been properly signed, if requested
- Offers are accompanied by the required securities, if applicable
- Offers are accompanied by the required documentation
- Offers are complete (solicitation documents must clearly state whether partial bids for a given component or lot are accepted)
- Supplier is eligible, e.g., duly registered if pre-registration is a requirement
- Validity period conforms with requirements
- Terms and conditions of the UN organization are accepted

The preliminary examination of offers is a pass/fail exercise. Submissions that do not meet the mandatory requirements as stated in the solicitation documents are not acceptable and are rejected and therefore will not be considered further in the evaluation process. However, it is important to differentiate between material and non-material deviations. It is recommended that bids are rejected only when the deviation to the requirements is material. A material deviation is one that:

- Would affect in any substantial way the scope, quality, or performance of the goods and related services specified in the contract.
- Would limit in any substantial way, inconsistent with the bidding documents, the organization's rights or the bidder's obligations under the contract.
- If rectified would unfairly affect the competitive position of other bidders presenting substantially responsive offers.

Any other deviation should not be considered as material, i.e., clarifications may be requested by the evaluation team through the procurement officer and missing documents may be submitted by the bidder if they are historical. The term historical refers to those documents such as general company and product information including catalogues, audited annual financial statements and similar documents that have not been created for the specific purpose of the solicitation but were already in existence, while non-historical documents are specifically related to a tender and are documents that the bidder could not be expected to possess before the solicitation document was issued; e.g. a bid security.

Any rejection of offers should be documented in writing and, depending on the organization's procedures, further consideration may be subject to the approval of the head of procurement. Offers which have passed the preliminary examination will be evaluated based on the evaluation criteria and method stipulated in the solicitation documents.

Technical/quality evaluation

Technical evaluation is the process of comparing the offers with the technical and quality requirements as specified in the specifications, TOR or SOW of the solicitation document. Depending on the nature and complexity of the procurement to be undertaken, technical evaluation criteria may be summarized in a few lines or consist of a long and precise description. Depending on how clearly the requirements are defined, evaluation criteria are developed for evaluation on a pass/fail or a weighted scoring basis (see evaluation methodologies described above). When using the weighted scoring methodology, technical evaluation criteria are related to the approach and methodology proposed to reach the expected results or solve the identified problem as described in the requirement definition (TOR or SOW). In addition, there may be technical criteria related to the reputation of the bidder, its staff, certification/accreditation (as applicable), credibility, reliability and industry standing. Typically, an RFP requires the supplier to provide the following information:

- Company profile
- Previous experience in similar field and with same type of requirements
- Experience in the region
- Available capacity and equipment to undertake the assignment
- Audited financial statements for a specified number of years
- Qualification and experience of proposed personnel

As part of the technical evaluation for goods, quality may be evaluated by obtaining samples of the product or by conducting an inspection at the manufacturing facility. The sample evaluation or inspection is undertaken against the specifications as stated in the solicitation document. Usually the

technical evaluation is completed independently from and prior to the evaluation of prices to keep the evaluation process objective. It is good practice to summarize the results of the technical/quality evaluation in a technical/quality evaluation report. The responsible evaluation team should sign the report and forward it to the procurement officer/evaluation team responsible for the financial/commercial and supplier evaluation.

Financial/commercial evaluation

Financial evaluation of the proposals involves comparing the offers with the financial and commercial requirements stipulated in the solicitation document. The financial offer is an important evaluation criterion, but the weight of the financial criterion depends on the selected evaluation methodology. It is important to clearly state in the solicitation documents which financial factors will be included in the evaluation. Various factors in addition to price alone, such as freight cost, operational cost, incidental or start-up costs, as well as TCO could be taken into consideration. For services and works, a template for breakdown of costs should be provided, e.g., in BoQ for works. In all cases, required breakdown as well as evaluation criteria must be clearly stated in the solicitation documents.

During the financial evaluation, the financial offer should be analysed against prevailing market conditions, and it should be established whether prices and other cost elements are reasonable in view of the requirements and the market situation. It is also important to identify whether the financial offer is within the available budget for the project. The results of the financial/commercial analysis are summarized in a financial/commercial evaluation report. The responsible procurement officer or evaluation team should sign the report.

Clarifications from suppliers during the evaluation

In complex cases where clarifications from the suppliers may be required in order to finalize the evaluation, discussions with potential suppliers may take place. The key condition when seeking clarifications of offers from suppliers is that neither the substance nor the price of the offers should be allowed to be changed. All discussions should exclusively be handled by the procurement officer in charge in writing and be properly documented in the respective file. No information obtained from one supplier should be shared with the other competitors.

For discussions with suppliers over the phone or in person it is good practice for the procurement officer to have a witness present from the evaluation team. Discussions should preferably be conducted on UN premises. During the discussion, suppliers are usually asked to make a presentation of their offer and, in order to ensure fairness, the same opportunity will then be given to all suppliers. All discussions with suppliers during these visits should be recorded in writing and properly documented.

For high value or strategic procurement, a site visit of the supplier's premises may be necessary prior to finalising the evaluation. In these cases, the solicitation documents should inform suppliers that a site visit may be conducted during the evaluation process. All discussions with suppliers during these visits should be recorded in writing and properly documented while no financial aspects of offers may be discussed. The procurement officer should ensure that all technically qualified suppliers are given an equal opportunity to be visited.

Supplier evaluation

Before making a recommendation of award, the procurement officer should make sure that the supplier whose offer has been evaluated as the most advantageous one is also qualified and has the capacity to effectively carry out the contract. For complex procurements the supplier's past performance, financial stability and available resources to perform under the contract should be checked as well. If pre-qualification has not preceded the solicitation process, the selected supplier’s qualifications should be checked prior to contract award. This is usually called post-qualification. The post-qualification process should be performed based on the qualification criteria set out in the solicitation documents. Such qualification criteria may be, for example, all or some of the following:

- Financial strength and stability
- Performance record
- Integrity and business ethics record
- Experience and technical capacity
- Production and/or staffing capacity

- General eligibility (not sanctioned)

A potential supplier who does not meet the required qualifications will be rejected. However, rejection of suppliers based on supplier qualification should be exceptional at this stage, as this would limit the value of the shortlisting process, if applicable. Shortlists should be composed of companies that can reasonably be expected to meet the criteria. Justification for rejection should be recorded on file. If rejected, the procurement officer should consider the supplier with the next most advantageous offer.

If a pre-qualification procedure has preceded the solicitation, only suppliers considered qualified would be allowed to submit offers. At this stage, before making an award recommendation, it is necessary only to check whether any condition on the part of the supplier has changed since the pre-qualification took place (financial difficulties, company structure changed). In some UN organizations, contract award is subject to the condition that the selected supplier successfully completes the supplier registration process as this also constitutes a form of qualification in those organizations (for more information see Section 6.1: Market Analysis).

Evaluation report

The last step in the evaluation process is the preparation of a consolidated evaluation report, which will later be used as the basis for the recommendation of award. An evaluation report typically contains an executive summary of the evaluation process and the individual steps as outlined above. Any invalidation, rejection, non-compliance, and clarification of offers should be stated, including a list with the final ranking of the offers and the reasoning on how the best offer was selected. The evaluation team should sign the evaluation report.

Negotiations during evaluation (if applicable)

Negotiations are an interactive process of discussions between the buyer and the supplier regarding the terms and conditions of a contract. Negotiations shall only take place with the winning bidder, i.e. bidder that submitted the best offer or when only one offer has been received.

It is good practice to provide proper written justification for any negotiations. When negotiations take place, it should be ensured that the requirements (specifications/TOR/SOW) and quantities are not changed substantially as this would require cancellation of the tender process and initiation of a new one.

Negotiations during an Invitation to Bid (ITB)

In principle negotiations during an ITB are not allowed. They may, however, be allowed with the lowest priced technically compliant supplier after the selection process has been completed and prior to award, but only in very exceptional cases, such as:

- Marginal budget constraints, where the available budget is not sufficient to purchase the requested item(s) and the supplier agrees to reduce the price
- Offer contains additional equipment or services which were not required in the solicitation document
- Marginally higher quantity required compared to original quantity in the solicitation document leading to potential quantity discounts
- If there is only one compliant bid and the evaluation team has concluded that the offered price is not reasonable

Negotiations during a Request for Proposal (RFP)

Negotiations during an RFP are in principle allowed, if provided for in the solicitation document and selection of the preferred supplier has been completed.

A method of competitive negotiations called Best and Final Offer (BAFO) can be used during the final evaluation phase of a procurement process/activity using an RFP when at least two qualified suppliers remain within a competitive range. It is a term that indicates to the supplier that the buyer does not intend to negotiate after offers are received so the supplier should submit final pricing and deliverables. The objective of using the BAFO is to enhance competition, and thus ensure best value for money.

Under the BAFO concept, the purpose of the negotiations is to clarify ambiguities, correct obvious mistakes, point out weaknesses and deficiencies, and generally seek improvements in both the technical and financial aspects of the offers. All suppliers chosen to submit a BAFO should be provided with information about the deficiencies in their proposal and be asked in writing to submit a decisive and final offer as a follow up to their proposal by a certain deadline. The suppliers should be informed that price increases will not be accepted, however, they may decline to alter the terms of their original proposal, and that such decision will not render them unacceptable. Upon receipt of the BAFOs from the suppliers, the evaluation committee should reconvene to make a final comparison of the competing offers.

Negotiations in situations where competition has been waived/exception to formal methods of solicitation has been approved

In situations where an exception to formal methods of solicitation has been used, negotiations are important to ensure competitive prices, terms and conditions. Since there hasn't been a competitive solicitation process, the UN organization has not had the opportunity to compare prices and quality offered. The organization therefore needs to make every effort to justify the selection and ensure the reasonableness of price by attempting to obtain the most favourable terms and conditions for every aspect of the supplier's offer. Proper costing studies, market research, expert consultations, and verification of client references are key activities to be performed prior to such negotiations.

This can be done by performing a price/cost analysis. There are a few methods that can be used to determine that the price being paid, and the conditions of the offer are fair and reasonable as outlined below:

- Market price, e.g. via consulting market publications
- Catalogue or list price and discount applied
- Historical price (i.e., obtain information on how the current price compares to a price paid in the past for the same or similar goods or services by the organization or by another UN organization)
- Use the assessment made previously on the basis of the TCO as a benchmark
- Verify whether the offer is the same as for another comparable customer
- Compare price or cost to similar goods, services or works procured based on competitive bidding
- Obtain breakdown of cost information from the supplier and determine if cost elements are reasonable, such as unit prices for components and labour rates

If, after analysis, the procurement officer does not feel the price to be paid is fair and reasonable, competition or negotiation may be sought with the supplier to lower the price.

6.5 Contract Award Review and Approval

Introduction

Contract award review is an essential step in the contracting process. It provides for independent written advice on the acceptability and accuracy of the procurement process undertaken, and the proposed commitment of funds by the highest-level procurement authority or officer with the appropriate delegated authority (awarding authority). Award is the formal decision and approval to establish a contract, e.g., services contract or purchase order, or an LTA, with a successful supplier, based on independent review of the procurement process within the limits of awarding authority. The award phase marks the successful conclusion of the procurement process and the starting point for contract finalization and execution.

The purpose of conducting a review prior to recommending award is to:

- Provide an independent and unbiased review of recommendations for award of contracts or purchase orders
- Ensure that the procurement process was fairly conducted and followed the appropriate policies and procedures
- Confirm that the necessary budget for the contractual commitment is available

- Confirm that the recommendation for award and terms of contract represent best value for money and that it is in the interests of the UN organization to select the chosen supplier
- Seek approval from the appropriate authority to contractually commit the UN organization to procure the goods, services or works.

Thorough preparation of the contract recommendation and approval documents is necessary to facilitate the award process; the explanations provided should be transparent, clear and include precise justifications of the process leading to the award recommendation. Transparency and due diligence are key at this stage. Deliberate omission of relevant information is as unethical as deliberately submitting wrong information; shortened submission documents to cut corners are neither efficient in the long term nor in line with the UN procurement principles. To avoid delays and omissions, standardized templates and check lists should be used for quality control. When delays arise, they are usually a symptom of poorly executed planning or the result of attempted short cuts to speed up the process.

Usually the highest ranking official in a UN organization is the executive source of all procurement authority, and as such provides approval of contract awards, and purchases. Through organization specific FRR, this official re-delegates that authority to senior-level officials. Those officials may appoint individuals within their organizations as procurement officers with limited awarding authorities to approve awards. Only these procurement officers and other designated UN staff have authority to enter into contracts on behalf of the respective UN organization. Therefore, only those staff members can actually make a purchase. Normally the extent of the delegation of authority is based on the level of the procurement officer.

UN organizations have established different levels of delegation of authority to implement their procurement activities with regards to the responsibility of the procurement, review, recommendation and award process. Delegations are usually set using financial thresholds. Recommendations for and approval of award above a predefined threshold are typically subject to independent review by a contracts committee and approval by the highest procurement authority within an organization. This results in the following two process scenarios:

- Review and award below threshold (no review by the contracts committee required) or
- Review and award above threshold for review by the contracts committee

Award recommendation

The procurement officer's main responsibility in this phase is to prepare an award recommendation document, based on the solicitation process and the evaluation report, for submission to the appropriate person or committee for review, recommendation and/or subsequent approval in accordance with established organization policy and procedures and levels of delegation of authority. The procurement officer makes sure that the award recommendation documents are written in a clear, precise and honest manner and reflect all necessary information that lead to the recommendation of award. Proper procurement processes should be followed, for example:

- Overall, the procurement has been conducted in accordance with the relevant FRR, policies and procedures
- A minimum number of valid offers has been obtained, and if not, justification has been recorded as part of the award recommendation to confirm why this is considered acceptable under the circumstances
- If there has been no tendering, the lowest acceptable offer has been rejected, or there have been other exceptions, including those to formal methods of solicitation, the reasons must be recorded and explained as part of the award recommendation, quoting the relevant financial rule
- A supplier evaluation recommendation has been conducted, or due diligence has been completed ensuring that the supplier is qualified and able to fulfil the purchase order or contract
- Procurement process and evaluation have been carried out in a fair and proper manner
- Summary of recommendation for award

Review and approval

For submissions below a certain threshold designated by the UN organization, the award recommendation document is usually submitted to the officer with the appropriate awarding authority for review and approval. Before a commitment is entered into, the awarding authority reviews the submission in terms of: compliance with the FRR and the procurement policies and procedures; availability of funds; and compliance with proper documentation processes. The awarding authority then rejects or accepts the award recommendation. Acceptance constitutes the approval of award.

For submissions above a certain threshold designated by the UN organization, the organization's contracts committee independently reviews the procurement process to ensure that regulations, rules, policies and procedures have been followed and funds are available for the subsequent approval. The contracts committee should be independent from the officials involved in the procurement process to avoid conflict of interest when reviewing and recommending the award. The contracts committee should meet on a regular basis and follow established procedures for review, recommendation, and recording of minutes of the committee's meetings. It is the responsibility of the contracts committee to ensure that:

- Procurement activities are carried out in conformity with the FRR, procedures and directives and are in accordance with best business practices
- Appropriate authority has been obtained for the commitment of funds and that the funds are available in the budget which is usually done through the Enterprise Resource Planning (ERP) system of the organization
- Best value for money is achieved

In case an organization does not have its own contract review committee at the local level or does not have sufficient contract review capacity at its HQ, review by another UN organization's local or HQ contracts review committee can be sought, provided there is mutual agreement between the two organizations.

Minutes should be submitted to the awarding authority in the organization who should review the contracts committee recommendations. The awarding authority can reject or approve the recommendations. Where the awarding authority decides not to accept the advice of the contracts committee, the reasons should be recorded in writing and forwarded to the chairperson of the contracts committee.

Although it is not a regular practice, there are some organizations, such as the World Bank, that require the results of the award to be forwarded to requestors for their "no objection". Only once the requestor has confirmed its "no objection" to the result of the procurement process, can contracts be entered into with the supplier who is recommended for the award. The purpose of this "no objection" is to ensure that the procured products and services do indeed meet the requirements of the requestor. In some organizations "no-objection" is required before the award.

6.6 Contract

Introduction

A written contract is required to formalize an obligation, with the exception of low value purchases (thresholds vary among organizations). This is usually stipulated in the FRR of each organization. A contract is formed on the basis of an "offer" and an "acceptance" and in the context of procurement in the UN system of organizations, is a written document, containing the agreement, and the terms and conditions, between the UN organization and the supplier, and which serves as proof of the obligation. Contractual instruments common among UN organizations are purchase orders, contracts for services and works, LTAs, system contracts, blanket purchase orders, lease agreements, etc. In the UN system contracts are based on competitive solicitation processes. However, under certain circumstances (e.g., direct contract, sole source or complex contracts) in order to proceed to form a contract with the selected supplier, the procurement officer may need to clarify and negotiate terms and conditions. Proper procedures should be followed to ensure that no negotiations take place with respect to issues already agreed at the solicitation stage and that the parties are clear about their respective rights and responsibilities. In certain cases, negotiations may be carried out with the selected supplier regarding payment terms, supplementary terms and conditions, delivery, etc. Negotiations nonetheless should result in a clear understanding of responsibilities under the contract. In this context, negotiation is the

process of arriving at an agreement on the terms and conditions of a contractual agreement through discussions between the UN organization and the supplier.

Contract negotiation after award of contract

In a competitive solicitation process, it is good practice to select the appropriate contractual instrument and to include a sample copy of a contract as part of the solicitation documents. This will ensure any issues the supplier may have with the special and general terms and conditions of the contract are addressed in their response to the solicitation documents and are considered during the evaluation of proposals. In these cases, in general, very limited negotiations should need to take place after the evaluation/award and prior to the signature of the contract.

Where required, negotiations have the potential to improve the procurement outcome by reducing uncertainties, risks and costs. However, as a rule, at this stage of the process negotiations with the supplier should not touch upon issues agreed to during the solicitation process. The procurement officer must also ensure that no appearance of impropriety or conflict of interest arises.

The following examples describe items that can be negotiated prior to contract signature.

ISSUE	EXAMPLE
Technical Aspects	Warranties, after-sales service, life-cycle support, minor quality issues
Special Terms	Types of bonds, guarantees, insurance, payment schedule, advance payments and retention amounts
Management information	Frequency and content of reports, acceptance criteria for agreed milestones
KPIs	The applicable KPIs and how these will be measured and by whom
Time frames	Duration of contract, key milestones, delivery dates, response time
Performance Incentives	Delivery and quality incentives
Personnel	Key team members and focal points, subcontracting arrangements

In certain cases, the UN organization may not be able to impose on the supplier all their conditions of contract but may need to negotiate certain special conditions of contract. Especially in those cases where the supplier owns a proprietary product, the negotiating power of the organization may be reduced.

Good practice
Examples of good negotiation practice are:

- Negotiations should not be conducted when they may distort competition
- Negotiations should preferably be in writing
- Where negotiations take place in person, via telephone, videoconference or at the site of the supplier or the UN organization, a minimum of two staff members of the UN organization should be present. In unusual situations, or where there are high legal implications, involve a lawyer or the legal office in negotiations
- Members of the negotiation team need to be selected carefully to combine the right blend of negotiation experience and contractual, financial and/or technical skills. As the value and complexity of the contact increases, so will the need for skilled negotiators
- The negotiation team must exercise due diligence and prepare adequately prior to conducting the negotiation
- During the negotiation process, all members of the negotiation team must ensure no conflict of interest arises and no gifts or hospitality are accepted from the supplier

Documentation of the Negotiation Process
In order to ensure that the contract finalization process is fully documented and that a proper audit trail is kept, minutes/reports of all written and oral negotiations with the supplier should be kept on file. Documenting negotiations are also important in the case of future disputes with the supplier. It is also important to keep documentation to show that the negotiation was justified and approved. At a minimum, the following information should be considered in documenting a negotiation process and must be kept in the procurement file:

- Justification for conducting the negotiation, including the objectives
- Brief description of the negotiation strategy
- Minutes of the negotiations, indicating date, time and participants from both parties
- Written exchanges between the parties negotiating and other written communications that form part of the negotiation
- Final agreement between the parties
- All minutes of the negotiations, written correspondence and final agreements shall form an integral part of, and annexed to where appropriate, the contract that will be signed by the parties

Contract definition
A contract is a written, legally binding agreement between an organization and a supplier, which establishes the terms and conditions, including the rights and obligations of the organization and the supplier. A contract may take many different forms, e.g., LTA, purchase order, or Memorandum of Understanding. A contract usually includes the following parts:

- Clear and complete description of the work (specifications/SOW/TOR/BoQ)
- Price, basis of payment, method of payment
- Schedule of activities, milestones
- Delivery date
- Applicable Incoterm
- Reference to order of precedence of the documents forming part of the contract
- Specific terms and conditions
- General conditions of contract
- Other documents may be incorporated as necessary, e.g., offer, written records of bid conferences, email/mail correspondence

A contract is composed of "clauses" (or numbered paragraphs) collectively referred to as "terms and conditions". A "term" is a statement that deals with a specific topic, i.e., price, delivery, payment,

inspection, warranty, etc. A "condition" is a statement that activates or suspends a term if a certain situation develops or given parameters are met (e.g., revision to the unit price if the quantity varies by a certain ratio). General and specific terms and conditions are intended to provide legally enforceable provisions for securing satisfactory performance of the supplier and the UN organization.

UN organizations have developed General Conditions (GC) for goods, services and works (depending on the nature of the procurement) establishing a legal framework that forms part of every contract. As these are standard legal documents of the organization, as a general principle, they should not be modified without prior consultation with the responsible legal authority within each organization. They are either attached as an annex to the contract or are incorporated by reference-citing the relevant UN website where they are accessible. The appropriate version to be used depends upon the deliverables to be acquired.

In addition to the GC, the organization may want to include special conditions in the contract. These may impose new and potentially unnecessary cost elements that suppliers must incorporate in the pricing of goods and services they are proposing to deliver. For this reason, special terms and conditions must be chosen with care since they could affect the price the UN organization pays for its goods and services.

General conditions (GC)

GC are considered standard clauses that should be in every type of contract or purchase order issued by a UN organization. Some examples of GC are detailed below.

Legal status

This clause defines the legal status of the UN organization as well as the other parties of the contract. For example, a supplier to a UN organization is defined as being an “independent supplier” and not an employee of a UN organization. It also defines the status, privileges and immunities of a UN organization.

Source of instructions

This clause defines that “the contractor shall neither seek nor accept instructions from any authority external to the UN organization concerned in connection with the performance under the concerned contract”. This clause ensures that “the interest of the UN organization is protected, and that the contractor shall refrain from any action that may adversely affect the UN organization”.

Contractor’s responsibility for employees

This clause requires that the contractor takes responsibility for its employees under the respective contract, and that only competent and reliable personnel who have high ethical standards and respect local customs are selected. It also reserves the right for the UN organization to screen and remove contractor staff.

Assignment

This clause prevents the supplier from assigning, transferring, pledging or making other dispositions of the contract, parts thereof, or any rights, claims or obligations under the contract to another party. The clause is intended to minimize the risk for the UN organization in cases where financial failure or changes in the legal status of the supplier would have an imminent effect on the contract performance.

Subcontracting

This clause prescribes that, “the contractor shall obtain the prior written approval of the UN organization in case the contractor wants to subcontract parts or all of the contractual obligations to a third party”. This is in line with the clause on the supplier’s responsibility for employees and intended to ensure transparency regarding the parties to the contract.

Officials not to benefit
This clause determines that the supplier warrants that no official or representative of the UN has received or will be offered by the supplier any direct or indirect benefit arising from or related to the performance of the contract or the award thereof.

Purchase of goods
There is usually a set of clauses that defines the delivery, inspection, packing, transportation, warranties, acceptance, rejection, title and export licensing of goods. They are usually designed so that the terms and conditions of a main contract or a purchase order would supersede them, in whole or in part. Nevertheless, these provisions otherwise provide a safety net of legal terms concerning the UN organization's rights and remedies with respect to the acquisition of goods. Warranties, for example, offer the UN organization remedies when manufacturing, workmanship or latent defects are discovered after products and services have been accepted.

Indemnification
This clause states that, "the contractor shall indemnify, hold and safe harmless, and defend, at its own expense, the UN organization from and against all suits, claims, demands, and liability of any nature or kind, arising out of acts of omission of the contractor". This means that the contractor will compensate the UN organization in the event of incurred harm, loss, damage or expense incurred.

Insurance and liabilities to third parties
This clause requires the supplier to maintain liability insurance for its equipment and property, and workmen's compensation for its workers. The clause aims to protect the UN organization against possible claims as the result of injury or damages that might result from performance under the contract.

Encumbrances/liens
An encumbrance is a claim attached to real property, such as a lien, mortgage or unpaid taxes. A lien is a legal claim against the property of another as security for the payment of debt. A lien gives the lien holder the right to sell the property to satisfy the debt if it is not otherwise paid. On the other hand, a lien is removed when a contract is paid. This clause prevents the supplier from causing or permitting any lien, attachment or other encumbrance against any monies due or to become due for any work done or materials furnished under the contract, or by reason of any other claim or demand against the supplier.

Title to equipment
This clause prescribes that, "the property right for any equipment or supplies that may be furnished by the UN organization shall rest with or be returned to the organization at the conclusion of the contract or when no longer needed by the contractor".

Copyright, patents and other proprietary rights
This clause recognizes the principle that if intellectual property is created for a UN organization, "it shall own" such property.

Use of name, emblem or official seal of the United Nations organization
This clause prohibits the supplier to disclose its contractual relationship with a UN organization for commercial purposes.

Confidential nature of documents and information
This clause constitutes a non-disclosure agreement between the parties to the contract for any data compiled by or received by any of the parties under the contract.

Force majeure; other changes in condition
This clause excuses delays or failure to perform that would otherwise constitute a contract breach and that are beyond the control or influence of the contracting parties.

Termination
This clause gives each contracting party the right to terminate the contract provided a notice of impending termination is given to the party being terminated within a specific time frame, which varies depending on the type of requirement and duration of the contract. This minimizes the risk to the UN organization and the supplier by providing a means to ending its obligations in view of unforeseen circumstances while providing a means for the terminated party to cover its requirements or find other useful employment for its resources. This clause also allows for the UN organization to terminate without cause (also called for "convenience") at any time within a specific time frame, in which case it shall reimburse the contractor for all reasonable costs incurred prior to the receipt of the notice of termination.

Settlement of disputes
This clause requires the resolution of disputes through UNCITRAL arbitration when good faith negotiation, i.e., amicable settlement, fails to achieve agreement.

Privileges and immunities
This clause protects the privileges and immunities a UN organization has and states that, "nothing in or related to the contract shall be deemed a waiver to such privileges and immunities".

Tax exemption
This clause states that the UN organization is exempt from all direct taxes and custom duties as stated in the Convention on the Privileges and Immunities of the UN.

Observance of the Law
This clause stipulates that, "the contractor shall comply with all laws, ordinances, rules and regulations bearing upon the performance of its obligations under the terms of the contract".

Authority to modify
Such a clause defines the way a contract may be modified, if appropriate.

Conduct of contractors
To some extent, social and environmental aspects of sustainable procurement are considered in procurement decisions, through clauses in the UN organization's general conditions of contract such as: prohibiting the contractor from using child labour; ensuring that the contractor does not manufacture or distribute anti-personnel mines, or components thereof; and ensuring that the contractor has put measures in place to prevent sexual exploitation and abuse and conditions obliging the supplier not to engage in discriminatory practices based on gender.

Specialized agencies, who have their own general contractual conditions of contract, might have additional provisions to address sustainability. For instance, the International Labour Organization's (ILO) general conditions contain a labour clause that requires adherence to a range of principles concerning international labour standards of the ILO.

Gifts and hospitality
This clause states that "Suppliers shall not offer gifts or hospitality to UN staff members. Recreational trips to sporting or cultural events, theme parks or offers of holidays, transportation, or invitations to extravagant lunches or dinners are also prohibited".

Examples of special conditions

Special conditions do not apply to every type of contract or purchase order issued by a UN organization and are usually included to describe commercial arrangements between the parties for the particular type of goods, services or works being procured. These types of clauses are negotiated with the supplier/contractor. Some examples of special conditions of a contract are detailed below.

Liquidated damages

Liquidated damages are a form of redress to be paid by the supplier to the buyer in case of non-performance or delayed delivery. For example, a fixed sum or percentage for each day the supplier is late delivering the equipment. The sum is usually an estimate of the loss likely to be suffered by the organization as a result of non-performance.

Method of payment

The standard payment term for all UN organizations is 30 days net. However, the payment method may be negotiated with the supplier. Normally, UN organizations do not accept advance payments. For further information on the different payment methods see 'Types of Contracts Based on Payment' below.

Performance securities/bonds

A bond is a written financial instrument executed by a supplier and a second party (the surety or sureties) to ensure fulfilment of the principal's obligations to a third party (the obligee or buyer), identified in the bond. The UN organizations require bonds to be unconditional and irrevocable. If the principal obligations are not met, the bond ensures payment, to the extent stipulated, of any loss sustained by the obligee. Bonds fill the role of insurance policy for the buyer to mitigate risk of frivolous offers or non-performance by the supplier. Just like any insurance policy, the cost of the bond is a percentage of the face value of the policy and it is a cost borne by the supplier. Performance securities/bonds protect the UN organization against non-performance by the supplier. Performance bonds are used, for example, in works contracts and highly sensitive consulting contracts and are typically set at 10% of the value of the contract.

These instruments are used in complex procurement where the cost of putting contracts together are high and the impact of non-performance by the supplier could inflict serious damage to the UN organization. When required, performance bonds are a condition of the contract, and typically must be properly issued and accepted as a condition for effectiveness of the contract.

Use of Incoterms

In the case of equipment, goods and commodities, the purchase order or contract must clearly indicate the point of transfer of responsibility for freight and risk from the supplier to the buyer. The International Chamber of Commerce Incoterms are standard trade definitions most commonly used in international sales contracts to address these important issues, with distinct divisions of responsibility for the following functions:

- Packing goods for shipment
- Export clearance
- Transport from factory to port/airport of shipment
- International transport
- Transport from port of arrival to final destination
- Handling
- Insurance during transport
- Import clearance
- Import duties

The scope of Incoterms is limited to matters relating to the rights and obligations of the parties to the contract of sale with respect to the costs and risks related to the delivery of goods sold. They specify where the supplier delivers the goods, what costs the supplier pays, and when the supplier passes the transit risk to the buyer. The UN organizations typically use only a few of the Incoterms for the vast majority of its purchase of equipment, goods and commodities (for more information see Chapter 12, Section 12.4: Incoterms).

Contractual instruments

The different UN organizations use different types of contractual instruments. The most commonly used ones are:

- Letter of intent
- Purchase order (PO)
- Contract for services/works
- Contract for individual consultants/service agreements
- Long Term Agreement/systems contract, framework agreement, blanket purchase order
- Modifications to contractual instruments.

It is good practice to have model documents for each contractual instrument, differentiating the type of procurement.

Letter of intent

This is a pre-contractual document, usually in the form of a letter issued by the UN organization to a prospective supplier, which is sometimes signed by both parties, and used to express the expectation that both parties will enter into a contract in the future. This pre-contractual instrument entails substantial risk and must therefore be used only after careful risk assessment and authorized by the relevant delegated authority. It should only be used in exceptional cases and where time does not allow for a definitive contract to be finalized, but exigency requires an immediate binding agreement so that the supplier can initiate contract performance before signing the contract by all parties. The most important principle is that a letter of intent must never be sent before an approval of award has been received from the highest-ranking procurement officer in the organization or the respective delegated authority. If a letter of intent is used, it is good practice to use a standard format for the letter of intent and to include clauses limiting the organization's responsibilities and allowing it to withdraw with minimum legal and financial obligations.

Purchase order (PO)

A purchase order (PO) is a contract sent to suppliers to document the purchase of goods. Suppliers are required to send back an acknowledgement copy of the order to establish acceptance of the contract. POs are the most commonly used contract type and, compared to other contracts, are a more simplified/standardized document. They are usually only used for the purchase of goods, but may specify related services such as installation, training and maintenance. They should always include or refer to the organization's general conditions of contract for goods or services. POs can also be used to draw upon Long Term Agreements.

Contract for services/works

A contract for services/works establishes a set of terms and conditions and legal obligations between the contractual parties for the procurement of services or works. This contract instrument is better suited to complex services or work, or mutual obligations between the parties, and should always include or refer to the organization's general conditions of contract for services or works.

Where goods and services are combined, or quality levels are linked to product performance, or for large and complex projects, the trend is to use "performance-based contracts". This means that the whole acquisition is structured around the purpose and the outcome of the work to be performed and not the manner in which the work is to be performed. Performance based contracts:

- Describe the requirements in terms of performance results required, rather than the methods of performance of the work
- Give the supplier greater freedom to determine how to achieve the required outcome
- Use measurable performance standards and a quality assurance surveillance plan
- Include incentives and disincentives for when services exceed or do not meet contract requirements and specify procedures for handling those situations

Contract for individual consultants/service agreements

Service agreements are contracts whereby the organization enters into an agreement with a commercial company for the services of an individual. Service agreements are different from service contracts. Service contracts define the scope of work to be completed, whereas service agreements define specific terms of reference for an individual.

Long Term Agreement (LTA)/system contract, frame agreement, blanket purchase order

An LTA is a written agreement between a UN organization and a supplier setting out all the commercial terms applicable to the orders that may be issued against the LTA for pre-selected goods or services i.e., pricing, discounts, payment, delivery and packaging and any other relevant special terms as well as the general terms and conditions (for more information see Chapter 6, Section 6.2: Selection of Procurement Method).

Types of contracts based on payment

The most common types of contracts provide for payments based on:

- Firm fixed price, such as lump sum contracts
- Time and material (T&M) contracts
- Cost-reimbursement contracts
- Combinations thereof

Lump sum contracts

With a lump sum contract, the supplier agrees to perform the work for a fixed lump sum price, regardless of the ultimate cost, which minimizes the risks for the UN organization. These contracts are used mainly for assignments in which the content and the duration of the services and the required output of the supplier are clearly defined. They are widely used for simple planning and feasibility studies, environmental studies, detailed design of standard or common structures, preparation of data processing systems, provision of services with clear milestones, etc. Payments are linked to outputs (deliverables or milestones), such as reports, drawings, bills of quantities, completion of specific activities or outputs etc. These contracts are easy to administer because payments are due upon completion of clearly specified outputs. It is recommended that a detailed scope of services or BoQ be defined.

Time and material contracts

A T&M contract is a contract where the supplier agrees to supply goods/services/works at fixed unit prices/rates and the final price is dependent on the quantities needed to carry out the work. Large quantity changes can lead to decreases or increases in unit prices/rates. This type of contract is suitable when it is impossible, due to the nature of the goods/services/works, to determine with sufficient precision the quantity of goods/services/works required from the supplier. In this case the buyer and the supplier share the risk concerning time and cost. The UN organization carries the risk of the final total quantities, i.e., the final cost is not known as the total quantities are is not known from the outset, and the supplier carries the risk of the fixed unit price/rate.

Cost-reimbursement contracts

Cost-reimbursement contracts are recommended only in exceptional circumstances such as conditions of high risk or where costs cannot be determined in advance with sufficient accuracy. Such contracts should include appropriate incentives to limit cost, e.g., not-to-exceed a ceiling price. The risk of cost-reimbursable contracts is carried by the UN organization, as the supplier has no incentive to control costs or to finish early or on time. The UN organization should closely monitor and manage the contract.

Contract preparation and signature

Procurement officers are encouraged to refer to existing templates or model contracts as discussed above. If the contractual documents cannot be based on available templates, the procurement officer should ensure proper approvals and review by legal officers before drafting new clauses. Contractual documents should be based on the:

- Solicitation document and subsequent amendments and/or clarifications
- Offer from the supplier and any subsequent amendments and/or clarifications
- Award recommendation
- Recommendations of the contracts committee, if applicable
- Final decision taken by the awarding authority

For complex contracts, a copy of the draft contract should be shared with the supplier. It is recommended that the supplier is given sufficient time to review the draft contract and request that any proposed changes or modifications to the text be provided in writing and are justified. If at this stage the supplier raises a legal issue, the procurement officer should ensure that proper consultation takes place.

Ideally a copy of the draft contract should be provided during a bidding stage as a part of soliciting package what will allow to reduce a contract preparation stage.The supplier may request that its contractual template and/or additional or different terms and conditions are used. As a general rule, the procurement officer should always use the UN organization's templates. This ensures consistency and that UN organization's standard clauses are included. If this is not acceptable to the supplier, especially in the case of sole source requirements, the UN organization may exceptionally have to agree to use the supplier's contract template. This should be amended to ensure that the UN organization's interests are protected, especially with respect to the UN organization's Privileges and Immunities insurance and settlement of disputes. In all cases a supplier's contract template needs to be reviewed the legal office.

The procurement officer should review the changes proposed by the supplier to determine that they do not conflict with the original requirement and the offer, and that they are acceptable to the UN organization. After internal consultation and discussion with the successful supplier, the UN organization revises the draft until the text is acceptable to both parties. The procurement officer should ensure that the contract/PO order is complete, that all the elements agreed by the parties and all appropriate annexes are included, and that the UN organization's general and special conditions of contract are part of the contract/PO. In particular, the procurement officer should ensure that:

- No contract is entered into by the organization contrary to its general conditions of contract (i.e., all contractual documents, in particular the supplier's proposal, should not include a choice of law clause, nor refer to the jurisdiction of the courts of any particular country).
- All contractual documents clarify that the UN organization is exempt from taxes.
- The Incoterm included in the contractual documents is the same as the one requested in the solicitation document.
- A performance bond is presented by the supplier, if required as per the solicitation document, in a form acceptable to the UN organization; performance bonds should be kept in a safe and secured environment.
- The name, title and address of the parties are clearly reflected in the document.

All contracts must be signed by an authorized official of the UN organization, and by a duly authorized individual on behalf of the supplier. The contract must be issued in two original copies, both signed, one for the supplier and one for the procurement case file. Each UN organization will have its own specific filing procedures for its contracts and POs but good practice is for the procurement officer to ensure that a signed copy of the contract, also called an acknowledgement copy, is returned by the supplier for the file and that the file is complete before proceeding with any other internal procedures, i.e., providing a copy to the requisitioning office or the freight forwarder, where appropriate.

Award notification and debriefing of unsuccessful suppliers

Once the purchase order, contract or LTA has been signed, an award notification should be published and the unsuccessful suppliers notified and de-briefed, if requested by the supplier. Usually the UN organizations publish the award notifications on UNGM and/or their internet site. Normally this includes the following:

- Reference number of the solicitation
- Type of goods/services procured
- Name of the awarded supplier
- Total award value

Where a debriefing has been arranged, this should be a "lessons learned" experience for the unsuccessful supplier, enabling the supplier to respond better to future solicitations. Therefore, the debriefing should focus on the supplier's offer. When giving the debriefing, the UN organization should identify the unsuccessful supplier's significant weaknesses and deficiencies and explain the general basis of the organization's award decision. The UN organization should not compare the unsuccessful offer to other offers, including the successful offer. It should also not disclose the relative merits or technical standings nor prices of other offers.

Protest by vendors

Suppliers perceiving that they have been unjustly treated in connection with the solicitation or award of a contract or purchase order may lodge a complaint with the appropriate person within the UN organization. Each UN organization will have its own procedures for handling protests. If UN organizations have a formal process for this, the details should be available on the organization's website, including the option to bring the case to the attention of the Office of Internal Oversight. Under no circumstances will the staff involved in the procurement activity under complaint be allowed to participate in the review of the protest.

A protest process in general involves a designated senior official or a review board who will make an initial assessment of the complaint and who may, at his/her discretion, seek clarification from the authorized official responsible for the procurement process or any other staff, as necessary. The senior official or review board will issue a response to the supplier. This response will reflect the final formal position of the organization on the matter. Suppliers filing complaints may be granted clarification meetings in order to better understand the rationale for the organization's final decision on the subject. The protest process is a delicate matter that shall always be handled in accordance with the organization's established process. Any allegations of fraud or staff misconduct shall be brought to the attention of the Office of Internal Oversight or handled in accordance with the organization's whistle-blower policy.

Chapter 7

Contract Management

This chapter covers the following topics:

7.1	Introduction to Contract Management	123
7.2	Enabling Contract Management	123
7.3	Contract Performance Monitoring and Control	124
7.4	Change Management	129
7.5	Remedies	131
7.6	Dispute Resolution	133
7.7	Financial Management/Payment	135
7.8	Contract Completion and Closeout	136

7.1 Introduction to Contract Management

The terms "contract management" and "contract administration" are often used synonymously. However, "contract management" is commonly understood as a broader and more strategic concept that covers the whole procurement cycle including planning, formation, execution, administration and closeout of a contract and goes beyond the day to day "administrative" activities in the procurement cycle. Contract management includes managing the relationship between the supplier, the procuring unit, the requisitioner and/or the end-user, as well as providing feedback to the supplier regarding its performance and dispute resolution, if necessary.[29]

Contract administration includes administrative actions undertaken after the award of a contract such as contract amendment, closure, maintenance of the contract file and record retention, and the handling of security instruments (e.g., performance security).[30] Because it is difficult to draw the line between the two terms, and because the majority of the UN organizations commonly use "contract management" when describing the contract administration phase, "contract management" will be used in this chapter.

The purpose of contract management is to ensure that all parties to the contract fully meet their respective obligations as efficiently and effectively as possible, delivering the business and operational outputs required from the contract and providing value for money. It is based on the idea that the contract is an agreement, a partnership with rights and obligations that must be met by both sides to achieve the goal. It is not aimed at finding fault, but rather at identifying problems and finding solutions together.

Contract management is similar to project management as each contract can be considered as a mini-project. It has a unique goal, consumes resources, has a beginning and end date, requires coordination and planning of relevant activities, monitoring as well as documentation in a contract file throughout the process. Contract management includes documenting performance. Depending on the organization and goods or services being procured, daily/regular monitoring of the contract may be primarily the responsibility of the requisitioner.

7.2 Enabling Contract Management

In the first phase of the contract management process, the procurement officer ensures that there is a shared understanding, distribution of responsibilities and systems and procedures in place to monitor and control contract performance and effectively deal with potential changes and disputes. The supplier should be considered a member of the project team, with all members striving for success. Upon signature of the contract, several steps should be taken to ensure that roles, responsibilities and obligations are clearly allocated among the parties and proper systems and procedures are put in place to monitor performance and keep efforts well focused.

[29] UN Glossary of Procurement Terms found at the end of the Handbook.
[30] UN Glossary of Procurement Terms found at the end of the Handbook.

Contract file and documentation

The contract file should be opened by the procurement officer, and the contract should be carefully analysed, taking note of the rights and obligations of each party. Any issues requiring clarification or change of the contract should be fully documented in this file. (The requisitioner will normally have a separate file, with a copy of the contract, as part of the project management files). Although practice may vary among organizations, the following documents normally are part of the contract file:

- Original of contract and all amendments
- All related oral and written communications with the supplier (electronic, internal and external correspondence, notes of phone conversations and minutes of meetings)
- Copy of the winning offer and award documents
- Definition of requirements (e.g., requisition)
- Reports (e.g., pre-shipment inspection reports)
- Proof of receipt of goods and acceptance report from requisitioner/client
- Supplier assessment report

Other related documents preceding contract finalization, such as, solicitation document, offers received, tender evaluation report, etc. are usually part of other related files (e.g., bid file). Invoices, proof of payment and other payment related documents would be kept in a finance file, and documents related to shipment/transportation would be kept in a shipping file.

It is important to carefully document contract performance because it constitutes proof of performance and evidence in the event of disputes. Its contents also contribute to institutional memory and are used for audit purposes.

Contract analysis

As soon as possible, the responsible UN staff member (programme manager, requisitioner, or procurement officer) should analyse the terms and conditions of the prospective contract and develop a contract work breakdown structure (contract management plan) that reflects both the technical and administrative aspects of contract performance. The requisitioner and the procurement officer should reach agreement on intermediate performance goals based on contract performance obligations. Intermediate goals will enable the UN organization to measure progress, detect significant performance variances, take corrective action, and follow up.

7.3 Contract Performance Monitoring and Control

Pre-performance conference

Before performance begins on large or complex contracts, usually for services or works, the procurement officer and the requisitioner should meet with the supplier's team to discuss their understanding and joint administration of the contract. The meeting should be formal with an agenda distributed in advance and minutes should be taken and agreed to by the parties. Each party should appoint a person who will be the organization's official voice during contract performance.

During the pre-performance conference, the parties should review a series of topics so that there is a full understanding by the organization and the supplier as to the contract terms and conditions and the key elements of the contract. The project/programme plan should be updated with the involvement of both parties to reflect the actual date of effectiveness as well as milestones/deliverables of the contract and any changes which may have occurred since it was planned.

The organization should review the performance assessment plan with the supplier, so that both parties know the basis upon which performance will be established. These should be understood as milestones for joint monitoring and not as contractual obligations. The parties should also discuss how and when to measure and report actual performance. The techniques, timing, and frequency of measurement and reporting should reflect the nature and criticality of the work. A reasonable balance must be struck between no measurement/reporting of any kind and excessive reporting. The parties should also clarify any remaining ambiguities and discuss procedures for managing change and resolving differences. And finally, it is important to have a good communications plan so that issues that arise can be addressed as soon as possible.

In the case of simple services or goods/equipment purchase orders, a telephone or email contact is often sufficient to launch activities, supported by regular expediting and monitoring.

Effective communication

Successful contract management, including compliance with contract terms and conditions, requires that organizations maintain effective communication about, and control over, contract performance. Relations between the two parties should be based on an open flow of communication and willingness to take actions necessary for correction and improvement, and is facilitated by:

- Each party to the contract establishing clear communication procedures to ensure their staff are fully aware of their roles and responsibilities, as well as compliance procedures to monitor and ensure performance.
- Fostering an attitude of teamwork, seeking to get the best results from joint efforts, willingness to discuss problems without immediate recourse to recriminations and to make the immediate adjustments that may be necessary to correct problems.
- Well organized oral and written reporting system highlighting progress and problems and measuring them against expected performance and results.
- Contract performance and progress review meetings at appropriate intervals.

For procurement of goods, contract monitoring and control is largely covered by expediting, pre-shipment inspection and final receipt and acceptance.

As performance proceeds and events unfold, the parties will find that they may have to modify their original expectations and plans to adjust to real events. As they do so, they will have to modify the terms and conditions of their contract so that it reflects the current status of their agreement. This is an inevitable part of contracting, because no one can predict the future with perfect accuracy. However, it is important that the parties do this consciously and openly, and with an attitude of teamwork, so that they remain in agreement about what they are doing. If they do not communicate, they could end up mitigating a dispute over what their obligations really are under the contract.

Monitoring

Once the contract has been awarded, the responsible procurement officer, or the requisitioner, monitors performance, collects information and measures actual contract achievement. This is essential for effective control. The resources devoted to these tasks, and the techniques used to perform them, will depend on the nature of the contract work, the size and complexity of the contract, and the resources available.

For small, simple, non-critical contracts, an occasional telephone call may be all that is needed to assure the responsible UN staff member that everything is proceeding according to plan. However, for large, complex contracts, the responsible UN staff member may require extensive reports, regular progress meetings, formal testing, and technical reviews and audits to ensure adherence to service level agreements. In performance-based contracts, performance indicators developed in the planning stage and agreed to in the contract are used to monitor performance. In some cases, the proposed supplier's quality assurance plan may be used as a basis for monitoring the supplier's performance.

Observations are made in order to collect information related to those aspects of performance that, when measured, will describe the progress of the work. The reason for observing, collecting information, and measuring progress is to have a basis for comparing actual achievement with planned achievement in order to exert control. Each party must direct its attention internally to ensure that it is fulfilling its own obligations, and externally to ensure that the other party is fulfilling its obligations.

Observing and collecting information should be directed at four general control points. These include: cost control; schedule control; compliance with specifications, terms of reference, statement of work (quality assurance and control); and compliance with terms and conditions, paperwork requirements and administrative aspects of performance. There are two different monitoring methods, direct observation and indirect observation that are described below.

Direct observation

Direct observation means personal, physical observation. The responsible UN staff member, or a field representative, is physically present at the work site during its performance to see how it is progressing.

This approach is most practical when the work is physical in nature and performed at a limited number of sites.

Construction projects are examples of work readily subject to direct observation. The inspector goes to the site and visually inspects the work, comparing observations to the construction specifications and drawings to the schedule to determine the progress of the job. Direct observation by the responsible UN staff member or field representative is of limited use, however, when the work is largely intellectual in nature, or when it is too complex for physical inspection alone to provide enough information to measure progress. In these cases, direct observation should be supplemented or replaced by indirect observation.

Indirect observation
Indirect observation refers to testing, progress reports from many observers, technical reviews, performance indicators and audits. Indirect observation is appropriate whenever direct observation would provide insufficient or ambiguous information. For example, projects involving an intellectual effort like infrastructure analysis where personal observations at the offices where the work is performed are unlikely to reveal whether the work is ahead of schedule, on schedule, or behind schedule.

Receipt, inspection and acceptance procedures
Inspection involves examining or testing a product or service to ensure that it conforms to contract requirements. Where quantities of goods are involved, inspection also means verifying that the correct number of items has been delivered. Some organizations may have LTAs or one-off contracts with inspection agents, while others may have in-house experts who undertake plant visits and inspections. Generally, there are the following types of inspection methods:

- Sensory and dimensional checks
- Physical performance checks
- Destructive tests

Sensory and dimensional checks
Sensory and dimensional checks are examinations by an inspector using his or her eyes, ears, and other senses. The inspector exercises a good amount of personal judgment. For a commercially available automatic pencil sharpener, for example, this method reveals surface defects, missing pieces, noisy operation, and parts out of alignment. For cleaning services, visual inspection detects surfaces that are not clean.

UN organizations typically use sensory and dimensional checks to perform inspections. When using this method, UN staff at the receiving point (that is, the UN office or field mission using the item) should make a visual examination to verify that the proper type and kind of product has been delivered, and that it conforms to the specifications outlined in the order or contract. There should also be a visual inspection to determine if the packing, packaging, marking and labelling comply with the contract's requirements. Any signs of damage, such as dents and tears should be documented. UN staff should also conduct a physical count to ensure that the correct quantity of the product has been delivered by comparing the quantity received with the quantity ordered. Depending on the type of item, it may also be necessary to check the condition of the product to ensure that it has not spoiled, rusted, or deteriorated. Any items that do not conform to appropriate standards should not be accepted, and a receipt and inspection report should be submitted, noting any non-conforming item.

Physical or performance tests
Physical or performance or operability tests provide actual performance data that are compared with required performance or physical characteristics or a range of what is considered acceptable according to the contract. Requiring that a motor runs or an operating system performs at a certain level for a specific period of time is an example of a performance test. Testing materials for their chemical composition or density against parameters in the specification are examples of physical tests. On a bus service contract, waiting at a particular bus stop to see whether the bus arrives on time is a performance test to check compliance with the required schedule. Performance tests for labour-intensive services are often done as a random sample.

Destructive tests
Destructive tests require that end products meet certain reliability standards or withstand a specific level of stress. For example, heating a product until it burns tests the fireproof characteristics of an end product. Scratching through newly applied coats of paint shows the number of coats applied by a painting supplier.

Acceptance or rejection standards
Acceptance or rejection of products or services must be based on the standards identified in the contract or purchase order. Generally, the UN organizations rely on two types of standards:

- Strict compliance standards: Requirements based on specific UN technical descriptions.
- Subjective standards: Requirements based on a broader, more judgmental, criterion as applied by the inspector. Examples of subjective standards might be "comfortable fit" or "easy operation.

It is not unusual to have both types of standards apply to different aspects of one purchase. In such cases, both strict compliance standards and subjective standards must be enforced. However, if both standards apply to a single aspect of the purchase, they typically are inconsistent with each other and, therefore, unenforceable. Both types of standards can be applied to different aspects of service requirements as well. For example, a contract for grass-cutting services may state that the grass will be cut once a week – which is a strict compliance standard – or that the grass must always be neat and trimmed – which is a subjective standard. The basis for acceptance or rejection must be in accordance with the contract's stated requirements as shown in the table below.

REQUIREMENT TYPE	REFERS TO…
End-item requirement	• A measurable product of work, such as a management analysis report or the manufacturing of a product. • States a specific time for delivery or completion. Rejection, or other remedies, may be appropriate if the end item is deficient or delivered late.
Level-of-effort requirement	• The amount of work required to provide a specified level of effort over a stated period of time, on work that can be stated only in general terms. • Supplier is paid a fixed dollar or applicable currency amount. • Suitable for investigation or study in a specific research and development area. • Supplier's obligation to provide the level of effort ends when the contract expires. The only basis for rejection or application of remedies (i.e., liquidated damages or not paying in full, etc.) is the manner in which the effort was applied during contract performance (i.e., supplier did not spend the time agreed to or did not use the time productively resulting in sub-standard work, etc.)

Inspection and acceptance or rejection of products and services, determine whether the UN organization should make payment to the supplier.

Types of reports

Receipt and inspection documentation
Inspections may be interim or final and receipt may be in full or partial. Organizations usually use standard forms/reports to acknowledge that the inspection has been performed and to record whether products/services have been accepted or rejected. UN organizations now increasingly use the organization's ERP procurement software to record delivery and related aspects of contract completion electronically. (For further information see Chapter 13: eProcurement)

Progress meetings
Progress meetings can simply be oral progress reports. They provide some advantages and disadvantages over written reports. An advantage is that the listeners can ask questions about the information, analysis, and conclusions reported and can have discussions with the reporter. A disadvantage is that the listeners may not have time during the meeting to consider the information and make their own analysis before the meeting ends.

Written reports
Written reports rarely provide "real time" information. They do not tell the reader how things are now; they only provide the reader with a picture of some point of time in the past. How old the information is depends on the nature and frequency of the reports and on the reporter's capabilities. A cost/schedule performance report that is submitted on 1 June, and which depends on accounting information, may actually describe a cost/schedule status as of 30 April, or earlier, depending on the capabilities of the seller's accounting system. Report conclusions about project status are valid only if the information on which they are based is accurate and the analyst is competent, realistic, and honest.

In deciding to rely, wholly or in part, on reports (including meetings), the responsible UN staff member also needs to decide what information each report must contain. Some of the issues that should be considered according to the contract reporting guidelines of the organization are:

- What information should the report include: conclusions about performance, analysis, raw information, or some combination of these?
- How frequently must the report be submitted, and at what points in time?
- What is the cut-off point ("as of" date) for information to be included in the report?
- In what format should the report be submitted?
- To whom should the report be submitted, and to whom should copies be sent?

Variance analysis
It is not enough to observe and collect information about performance; that information should be analysed to determine whether or not performance is satisfactory. The analysis compares actual performance to performance goals to determine whether there are variances. The responsible UN staff member who discovers a variance between actual and expected performance should determine several things: Is it significant? What was its cause? Was it a one-time failure, or is it a continuing problem? What type of corrective action would be most effective?

Variance analysis should be timely, especially when the information is obtained through reports. That information is already old by the time it has been received. Delays in analysing its significance may allow poor performance to deteriorate further, perhaps beyond hope of effective corrective action. It is especially important to act promptly during the early phases of contract performance when corrective action is likely to have the greatest effect. In cases of negative contract performance, a review of information in the contract file frequently shows that there were warning signs – reports, meeting minutes, letters, memos – that were unnoticed or ignored. When the responsibility for monitoring performance is delegated, the responsible UN staff member must take steps to ensure that those persons promptly analyse the information, report their findings, and take corrective action.

Taking corrective action
When the requisitioner or the procurement officer discovers significant variance between actual and expected performance, they should take corrective action if possible. They should identify the cause of the problem and determine a solution that will not only eliminate it as a source of future difficulty, but correct the effect it has already had, if possible. If the effect cannot be corrected, then the parties may need to negotiate a change to the contract, with compensation to the injured party, if appropriate.

Follow up
Once corrective action has been taken or is under way, the procurement officer and the requisitioner should determine whether it has had or is having the desired effect. If not, then further action may be needed. Throughout this process of corrective action and follow-up, all the parties must keep each other informed. Effective communication between the parties is essential to avoid misunderstandings and disputes when things are not proceeding according to plan. The party taking corrective action must

make every effort to let the other party know that it is aware of the problem and is addressing it seriously. Sometimes this is more important than the corrective action itself.

7.4 Change Management

Change management is the process of both avoiding unwanted changes and incorporating necessary changes into the contract. Effectively controlling changes entails establishing formal procedures for changing the contract and limiting the number of people who are entitled to make changes.

It is natural for staff in one contract party to work directly with their counterparts in the other contract party's organization, people who speak their language and understand their policies and customs. These colleagues often bypass formal channels of communication, and such relationships can lead to informal, undocumented agreements that depart from contract terms and conditions. Such informal agreements often lead to situations of unauthorized commitment or forbearance caused by apparent authority communicated involuntarily by the requisitioner. It is important that all parties bear in mind that the written contract is the agreement, until it has been formally modified – such modification is not simply a formality.

"Constructive change", used to describe a contract change, is derived from the verb "to construe" and not from the verb "to construct." So, a constructive change is a situation that can be construed as having the effect of a bona fide contract change. A constructive change occurs when the procurement officer, or other duly authorized official, changes the contract without applying proper legal and regulatory procedures. A constructive change can result from either a specific action or a failure to act. Constructive changes need not have a cost impact; unauthorized commitments always do.

The possibility of a constructive change places the UN organization in a poor negotiating position when re-negotiating price or cost or other contract term or condition. Therefore, discussion with the supplier on constructive changes should be avoided. Unless changes are documented in a contract modification, a misunderstanding between UN staff and supplier staff is likely to result.

Modifications to contractual instruments

A modification to a contractual instrument (also known as "contract amendment") is a written record of changes to the original terms and conditions. It is executed to reflect changes to the original requirement, to reflect the resolution of performance problems or to comply with formal administrative considerations. Either the UN organization or the supplier may wish to amend the contract for a variety of reasons. It is important to note that not all amendments result in an increase or decrease in the value of the contract, but a written amendment is still required if any of the terms of the contract have changed. There may be, for example, a modification to the statement of work (SOW) that does not have a financial impact, but it would need to be documented to ensure that it is treated as a formal obligation under the contract. Should an amendment increase the value of the contract, the case may first need to be approved by the organization's contracts review committee before an amendment can be signed. Each UN organization may have different thresholds for when an increase in value of a contract needs to be reviewed. In some cases, it is when the value increases by more than a certain percentage.

When the organization receives a request from a supplier to modify a contract, it should review the request and analyse its impact on the schedule of completion, price, quantity and quality. The organization should consult with the requisitioner or end-user on all aspects of the request and determine whether the request may best be executed through the current contract or, if substantial changes in scope are called for, through new procurement. A contract amendment may cover the following matters:

- Extension of time to complete the contract
- Change in specifications
- Changes in price
- Change in key personnel
- Administrative changes like change of name, legal status, address, etc.

Only an authorized UN staff member can officially change a contract. Unofficial changes, in the form of constructive changes or unauthorized commitments, can be as detrimental to the UN organization's procurement process as purchases originally made without appropriate delegated authority. Requisitioners are required to provide requisition amendments when changes in price, type, or quantity

of items to be purchased are needed. As appropriate, requisitioners should also provide additional documentation to support the need for the modification.

Documentation requirements

Documentation to support contract modification includes:

- Revised specifications/SOW/TOR
- Justification as to why the modification is necessary
- Performance evaluation report covering the supplier's performance to date
- Revised cost estimate accounting for increases and decreases in the products or services and associated costs made by the modification if relevant
- Statement that the modification is within the current expenditure authority, or fully approved increase in the current expenditure authority to cover any costs above the current expenditure authority
- Requisition number (and obligating number, if relevant)
- Approval date of initial requisition
- Brief description of the amendment

Good practice

It is good practice to:

- Use standard formats for contract modifications (also known as 'amendments') to introduce changes to the original contract, and any previous amendments, by referencing the clauses of the original contract and its amendments
- Do not, under any circumstances, execute a contract modification by corrections or deletions on the original contract document
- Always make any modification to a contractual instrument in writing
- Always document modifications in the contract file

Financial changes

Financial changes include cost overruns and cost growth. Cost overruns occur when the cost of carrying out an agreed activity is greater than the agreed amount. This can occur due to currency rate fluctuations, underestimation of the level of effort required; underestimation of the costs of materials or an increase in the costs of materials or labour. The UN organization seeks to avoid this situation by, e.g., using lump sum contracts where payments are made in accordance with the achievement of specific milestones. In this case, the supplier bears the risk of cost overruns.

Cost growth is defined as a change in the scope of work or new terms and conditions that have been requested by the buyer that normally result in added costs. The supplier may be allowed cost growth provided the contract change is documented and that the contract is amended accordingly. Careful planning and choice of language should reduce the frequency of this situation, but it is still likely to occur in complex construction and services contracts.

Delays and variations

Handling claims of delays and variations involves dealing with circumstances where a supplier makes a claim for additional unforeseen work or costs, or where the UN organization has varied their requirements from the supplier. Typical delays and variations which should be handled include: delays (excusable, non-excusable); and minor variations to the scope of work or execution conditions.

Excusable delays

Excusable delays are delays beyond the control of the supplier and without any fault or negligence on the supplier's part. These include delays caused or authorized by the UN organization and delays caused

by acts of God or other events beyond the supplier's control, such as fire, flood, acts of war, and so on. This is the only type of delay for which extending the period of performance without obtaining consideration from the supplier is appropriate. Some excusable delays do entitle the supplier to monetary compensation in the form of an increase to a fixed-price/lump-sum contract. This could be an increase in the ceiling price of a time-and-materials contract. In addition, a time adjustment may be appropriate if the UN organization caused or could have prevented the delay.

Non-excusable delays

Non-excusable delays are delays that are not authorized by the UN organization and are, in some way, the supplier's fault. Even delays that may be excusable are deemed non-excusable if the supplier could have controlled the effects of the delay in some way and failed to do so.

7.5 Remedies

A "contract remedy" is a means of relief that either party can pursue to compensate for the other party's non-performance or non-compliance with a contract term or condition. In order to determine the appropriate remedy, it is good practice to:

- Identify the non-conformance
- Consider the cause (negligence from supplier or the UN organization, force majeure, etc.)
- Consider the contract/type of requirement (goods, services or works)
- Consider the context (e.g., sole source, competition, emergency)
- Consider the beneficiary/end-user requirements
- Apply the principle of proportionality

The remedies must be specified in the terms and conditions of the contract. The contract should ensure that the supplier is responsible for rectifying the defective goods at its own cost. It should also ensure that the UN organization has the right to have the defective goods repaired or replaced at the expense of the supplier if the supplier fails to act under the warranty provision within a specified period of time. Unless there is an explicit statement in the contract, the supplier may decline paying for the cost of shipment when returning the goods for repair.

When considering any contract remedy, seeking feedback from the supplier is prudent. As a good business practice, the supplier should be given the opportunity to provide evidence against pursuing the remedy. That evidence might point to an excusable delay or impossibility of performance. Such evidence can lead to a remedy that is fair and just for both the UN organization and the supplier.

The remedies available to a UN organization are described below:

Minor deficiency

When the organization determines that the deficiency does not jeopardize the intended use of the goods, it may accept the goods "as is" against a reasonable reduction in the price commensurate with the cost of rectifying the deficiency.

Warranties

A contract for the sale of goods typically provides for a warranty clause in the specific terms and conditions of the contract or in the UN organization's standard contract terms and conditions. Warranties offer the buying organization remedies when defects are discovered after products and services have been accepted. The UN organization's rights under warranty are founded on either "standard warranties" for off-the-shelf commercial goods or on "specific warranties" for custom-made equipment. They may also be founded on the "implied warranty" that the goods must live up to the representations made by the supplier. The administration of warranties is primarily the responsibility of the requisitioners or end-users. Because end-users often are the first to identify defects in products that are covered under warranty, it is essential that they are familiar with any required procedures.

Commercial warranties provided by manufacturers and services contain strict notification procedures that the UN organization must follow. If these procedures are not followed, the supplier is not obliged to honour the warranty terms. Consequently, the UN organization should put in place general steps to

follow when problems with accepted items arise. Normally, the advice of the organization's legal advisor may be required.

When problems with accepted items occur, and before the supplier is notified, the end-user or requisitioner should:

- Identify the UN's specific rights under the warranty
- Verify that the defect is covered under the warranty and that it applies to the specific incident of failure, by answering these questions:
  - Has the UN organization officially accepted the product or service?
  - When does the warranty expire, and what does it cover?
  - Does the UN organization have any obligations under the warranty, and have those obligations been met?
  - Do the facts support invoking the warranty?

Once the information has been gathered, the UN organization can notify the supplier and obtain the supplier's position and its reasons for taking that position; reach agreement on how and when the warranty will be applied; and document the notification. Regardless of when the defect was discovered, there will be less room for argument if UN staff members notify the supplier before the warranty period expires.

Notice of rejection of non-conforming goods

The UN organization should notify the contractor in writing of a rejection of the goods as soon as an inspection determines that deviations from the specifications exist and when the deviation or deficiency is not considered minor. This is especially important for civil works because interim inspections are required at different stages and a delayed inspection or notification could be considered as an event justifying additional financial compensation to the contractor.

Liquidated damages

The parties to a contract may explicitly agree, in advance, to a sum that will be payable as damages for any breach. In the majority of cases this applies to a delay in performance. These liquidated damages are an estimate of actual loss that would be incurred and are not considered a penalty. Provisions for liquidated damages are normally included in the general conditions of the organization's standard contracts. When delays result in extra costs, or loss of revenue or other benefits to the organization, they are covered by liquidated damages paid by the supplier to the organization and are normally calculated as a percentage of the contract value up to a maximum amount.

Liquidated damages for late delivery normally accrue for each day, or other period, calculated to account for late delivery. UN organizations often require that the liquidated damages clause be in addition to other remedies.

Performance security

This is a written financial instrument issued by a bank or an insurance company in favour of the UN organization to assure fulfilment of the supplier's obligations such as performance bonds. Performance securities are used in complex procurement where the cost of putting contracts together are high and the impact of non-performance by the supplier could inflict serious damage to the organization (for example, in works contracts and highly sensitive consulting contracts), and are typically set at 10% of the value of the contract. They fill the role of an insurance policy for the UN organization to mitigate the risk of non-performance by the supplier.

Set-offs in service or works contracts

Most service contracts include a clause stating that "payment is only made upon completion of certain tasks". Payments under a service contract are normally broken down into progress payments upon completion of certain tasks by the supplier and accepted and approved by the UN organization. The organization has the right to withhold payment of invoices received for non-performance or delays in achieving milestones specified in the contract. The organization can also deduct or "set-off" costs incurred by the organization resulting from the contractor's non-performance or delays.

Termination

Notice of intention to terminate
When the UN organization considers that the problem is serious enough to jeopardize the performance of the contract, it notifies the contractor of its intention to terminate and gives the contractor a given period of time to solve the problem. Termination is the most serious remedy available to a UN organization. It is the exercise of the UN organization's right to completely or partially discontinue contract performance.

Termination of contract for goods and services
Cancellation occurs when one party ends the contract for breach by the other. The remedies for that breach normally include damages that indemnify the non-breaching party for any loss suffered due to breach and such damages are generally compensatory. In all cases of termination, prior consultation and advice must be sought from the designated official in the organization. An example of such a breach would be when the supplier is incapable of rectifying or refuses to rectify the non-conforming goods or services. In this case, the UN organization may either terminate the contract for default, engage an alternate supplier to rectify the non-conforming goods, to re-procure the goods or to provide the required services. The UN organization may proceed with calling the performance security. Costs are at the expense of the original supplier.

Termination for breach of general conditions
Some UN organizations have a clause that entitles them to terminate the contract immediately in the event of breach of the general conditions regarding ethical standards, e.g. mines, sexual exploitation and/or fundamental principles and rights at work, upon notice to the supplier and without any liability of any kind. However, if procurement officials are made aware of such circumstances in relation to the organization's suppliers, advice on how to handle the case must be immediately sought from the designated official in the organization.

Termination of works
A UN organization's contracts for works include specific sub-clauses detailing the conditions under which the organization (the employer) may terminate the works, the procedures that should be followed and the subsequent valuation of works completed to the point of termination. It should be noted that the supplier also has the right to terminate the contract or suspend the works under certain specific conditions, related mainly to payment delays by the UN organization. Again, specific sub-clauses detail the circumstances under which the supplier may terminate the contract, the procedures that should be followed and the subsequent valuation of works completed. It is therefore important that the organization complies with all its contractual obligations.

7.6 Dispute Resolution

Contracts should be clear and should always include the respective UN organization's General Terms and Conditions; the responsibilities and obligations of both the supplier and the UN organization must be clearly defined in order to minimize the possibility of disputes and disagreements. However, no matter how well a contract is drafted and its performance managed, the dynamic nature of contract relationships contributes to the potential for disputes to arise between the parties. In fact, disagreements, like changes, are virtually inevitable. They are to be expected by all involved and are considered a normal aspect of contract management. The larger and more complex the project, the greater is the potential for misunderstandings and disagreement.

Contract management planning should include agreement on the procedure to follow to resolve disagreement between parties regarding responsibilities and interpretation of the contract. Differences of opinion will arise among qualified professionals in the course of execution. Claims/requests for changes are part of normal contract execution, and the procedure to review and escalate them when necessary should be established from the beginning. There should also be an agreed procedure for escalating the concern to a higher level of authority. Nonetheless, the contract should indicate which party has responsibility for a given decision, and the other party should respect that responsibility.

The parties must not allow disagreements and disputes to prevent the execution of the contract. They must commit themselves to the amicable resolution of the inevitable disputes that will arise between

them. Contract claims and disputes cannot be avoided entirely, but they can be resolved effectively, fairly, and without rancour and litigation. Experienced parties to a contract will anticipate claims and disputes and recognize that they are not necessarily indicative of incompetence or ill-will, but merely reflect the fact that human foresight, planning, and performance are not perfect. Since it is difficult to avoid the injection of personalities into disputes, disputes should be resolved promptly, before they fester and infect the entire contractual relationship.

Many contractual disagreements stem from ambiguities in the language of contracts. For this purpose, the procurement officer should follow commonly accepted rules developed by judges and arbitrators to resolve ambiguities in contract language. As discussed earlier in this chapter, it is important for there to be a pre-performance conference where both parties review the contract to ensure that each side understands its role and responsibilities and take minutes of the meeting to document the discussions. Some basic rules for resolving ambiguous contract language include:

- Respect established order of precedence of documents
- Interpret the contract as a whole and, wherever possible, consistently
- Apply dictionary definitions to everyday words and a law dictionary for legal terms
- Apply standard trade or technical definitions to technical words, unless the context or usage indicates a different meaning
- When conflict occurs between two sections of the contract and no directions to the contrary exist, assume that:
  - Handwritten text takes precedence over typed text
  - Typed text takes precedence over pre-printed text on a standard form
  - Specific clauses take precedence over general clauses

Additional rules

For the purpose of resolving ambiguous language, the basic rules apply first. When the basic rules fail to provide an answer, then the UN organization needs to look at other ways to find resolution to the problem. If the words themselves do not resolve the ambiguity, the procurement officer should find evidence as to the intent of both parties when they entered into the contract. For example, evidence might be found in the minutes of the pre-proposal conference or in progress meetings.

If evidence cannot be found of the intent of the parties, then the surrounding circumstances should be examined. Arbitration proceedings may hold a contracting party to interpretations that it held, or at least did not challenge, prior to the dispute. Inconsistencies with past interpretations by either the UN organization or the supplier are examined, e.g., a UN organization's interpretation of language in the SOW at a kick off meeting with the supplier after award will prevail over a later, contradictory, UN organization's opinion. Similarly, when the organization can show that the supplier originally calculated certain work as required by the contract and is now trying to claim that the work is extra, the work will be considered as part of the basic contract and not additional work. If resolution is not evident, consider risk allocation principles.

Normally ambiguous language in a contract is interpreted against the party who drafted it. For example, an ambiguity in the SOW of the solicitation, incorporated into the contract, would be interpreted against the UN organization. Likewise, an ambiguity in the supplier's proposed technical approach, incorporated into the contract, would be interpreted against the supplier. And finally, if the ambiguity is obvious, and the non-drafting party does not request clarification before contract award, then that party would be viewed as having the last opportunity to correct the ambiguity. In which case, the interpretation is against that non-drafting party.

Keys to effective dispute resolution

Before escalating a dispute, consider using the following keys to effective dispute resolution:

- Recognise that contract documents are not perfect
- Keep larger objectives in mind
- Focus on the facts
- Depersonalize the issues
- Be willing to make reasonable compromises

Negotiation and Mediation

The preferred means of commercial dispute resolution is negotiation. Amicable settlement is the first step in a dispute resolution process. All negotiations undertaken to reach amicable settlement are based on openness to compromise since this is often less costly than alternative methods of dispute resolution. The UN organization must strive to always solve disputes through negotiation. Where negotiation is not possible or fails, more formal means of dispute resolution are available. Mediation is a private method of dispute resolution by submission to an agreed impartial third party that has a non-binding authority.

Arbitration

Arbitration is also a mutually agreed method of dispute resolution and is the last recourse in settling a dispute. Arbitration, like court litigation, is time-consuming and costly. In arbitration, the parties agree to submit their dispute to a panel of arbitrator(s) who are given authority to render a binding judgement. The arbitration process is more formal than ordinary negotiations between the parties (who may be represented by attorneys), but it is less formal than court proceedings. The standard arbitration clause of UN contracts recognizes that efforts will be made to settle disputes through negotiation, including mediation or conciliation, which sometimes can be considered as a less formal stage before formal arbitration.

The United Nations Commission on International Trade Law (UNCITRAL) has developed an internationally accepted arbitration process which is also favoured by UN organizations. All UN contracts/purchase orders state that in the event of arbitration, the arbitration will be conducted according to the UNCITRAL Arbitration Rules. The process can be described as a set of generally accepted principles for international arbitration. Many national and international arbitration institutions have declared themselves willing to act as appointing authorities under the UNCITRAL arbitration rules. The cost of arbitration is shared evenly between each party to the dispute. The location of the arbitration panel is a country that can enforce the decision of the arbitration panel.

Each party to the dispute will appoint an arbitrator and the two chosen arbitrators will then select a third panel member. The parties in dispute will then prepare their case and present it to the arbitration panel. After careful review of all facts the arbitration panel makes a decision which is binding on the parties.

7.7 Financial Management/Payment

Among the rights of the supplier is the right to be paid in a timely matter for successfully delivered goods/services/works, according to the terms of the contract. Among the obligations of the UN organization is to make payment to the supplier on a timely basis and not cause undue cost to the supplier by unreasonable management of that financial obligation. While the responsibility for management of financial aspects of the contract varies among organizations, it includes:

- Processing payments due according to the contract and upon certification of the requisitioner if required in the contract.
- Reviewing financial implications of contract changes, in terms of original costs/outputs and available budget.
- Liquidating financial securities – release of bid bonds, performance bonds, advance payment bonds once the reason for requesting them has become moot.

A payment made to a supplier may be one of the following five types:

- Advance
- Partial
- Progress
- Final
- Holdback / retention (withholding payment)

Advance payment

An advance payment is a sum of money paid to the supplier upon signature of the contract, in anticipation of identified early expenses. Usually the UN organizations do not provide advance payments. However, sometimes advance payments may be necessary for such things as rent, tuition,

insurance premiums, and expenses for work performed in particular countries. An advance payment needs to be justified and requires special approval before the procurement officer can include it in a contract and if it is agreed to, all reasons therefore need to be documented. Above certain thresholds, suppliers receiving advance payments must provide guarantees such as bank guarantees.

Partial payment

A partial payment is based on the acceptance of a particular product or service. To process a partial payment, a document must be on file that confirms the UN's acceptance. This confirmation usually is in the form of an invoice or delivery ticket detailing the goods or services and signed by a UN staff member authorized to accept the product or service.

Progress payment

A progress payment, also referred to as an instalment payment, is a form of contract financing made before final work or deliverables are accepted. The UN organization uses this form of payment for long term service work that involves an end item, such as a report. If progress payments are authorized, they should normally be tied to a milestone in contract performance, such as the delivery and acceptance of a draft report for a UN organization's approval or delivery of an outline of initial findings for review by the UN organization. Service work for which the service itself is the deliverable (for example, courier service, cleaning services, and so on) would not need progress payments but would use partial payments for services rendered during the billing period.

Final payment

A final payment is a payment made in acknowledgement/approval of the completion of all contract performance. The payment office may make payment based on the supplier's invoice and its receipt of a receiving report or delivery docket from another UN office. For on-site services at their own office, requisitioners may play a more active role.

Holdback

Holdback payments are used in works and complex consulting assignments to ensure completion of the contract or compliance with the warranty provisions and in some construction contracts to ensure that the general supplier has paid its subcontractors. The holdback payments are retained by the UN organization until the supplier has provided proof it has discharged itself of all its obligations under the contract. This contract provision allows the UN organization to withhold a portion of payment, usually 10-15% of each invoice sent by the supplier.

7.8 Contract Completion and Closeout

Contract closeout activities are generally fairly straightforward, especially for lower value contracts and purchase orders. However, in complex and high value contracts involving progress payments and/or securities, the procurement officer ensures that the contract file is properly closed out. The required activities to complete and close out a contract are described below.

The closeout process ensures that all contractual obligations have been met, and that residual obligations – such as warranties, guarantees and after-sales service and support – are clearly defined in terms of responsibility, liability, procedures and time frames. Contract close-out occurs once all contractual obligations have been fulfilled by the supplier. It includes the following key steps:

STEP	ACTION
1	Review and confirm appropriate action taken according to contract closeout checklists
2	• Prepare final contract performance report (usually done by the requisitioner with input from the procurement officer as required), including lessons learned, if any • Depending on the organization, this report may be purely internal or may be shared with the supplier for their knowledge and comment
3	Prepare supplier assessment form and forward for appropriate action

4	Issue final acceptance on the basis of the requisitioner's report
5	Make final financial settlements
6	Liquidate/return bonds and/or securities, as required
7	Record any residual obligations (warranties, etc.) and advise requisitioner of procedures
8	Close out contract file

UN organization supplied equipment and material

Prior to closing a contract, assets provided to the supplier by the UN organization during the contract must be returned to the UN organization. A report confirming receipt of this material and equipment should be prepared and placed on the contract file. Unused furnished material provided by the UN organization must also be returned by the supplier. A report is prepared by the supplier detailing the amount of material consumed during contract execution and the quantity and quality of the material returned to the UN organization. A copy of the report should be placed in the contract file.

Liquidation of securities

Performance bonds, holdback payments and guarantees must be returned to their owners once the supplier has fulfilled its contractual obligations. Securities must be liquidated at the time and in the manner described in the contract. In the case of works and capital equipment, the securities are typically held and kept safe by the finance department until they have expired.

Supplier performance report

After each PO or contract has concluded, the performance of the supplier should be evaluated. Supplier performance reports are completed by the requisitioners/end-users with input from the procurement officer, as required. They are used to document satisfactory or poor performance of suppliers. Once completed, a copy should be kept on the contract file and on the supplier's file (for more information see Chapter 6, Section 6.1: Market Research). The following issues should be addressed in a supplier performance report:

- Fulfilment of delivery schedule/timely delivery
- Compliance with contractual terms and conditions
- Adherence to warranty provisions
- Quality of goods or services provided in accordance with the contract
- Timely response to the organization's requests
- Undue delay of the performance under the contract
- Any frivolous claims against the organization
- Failure to disclose information relevant to performance (e.g., bankruptcy, ongoing litigation, etc.)

Supplier performance reports alert the UN organization to patterns in performance problems and identify suppliers who might present high performance risks. The procurement officer may seek appropriate management review and action when the supplier performance report is particularly negative, according to the policies and procedures of the individual organization.

Claims

A claim is a request from either party for entitlement under the contract that is not being fulfilled. Claims might result from unforeseen costs; disputes over the interpretation of contract clauses, disputes over what is included within the contract price; or breaches of contract. Any claim (whether issued by the UN organization or the supplier) should include a full explanation of the problem as well as its causes and the contract clause under which the claim is being submitted. Claims should only be considered from suppliers that are contracted directly by the UN organization. Those submitted by a supplier's subcontractor should be rejected since there is no contract between the subcontractor and the UN organization. The supplier may, however, wish to make a claim against the UN organization on the basis of a claim made against it by its subcontractor. Contracts cannot be closed out until all claims are settled.

Lessons learned

The requisitioner and the procurement officer may be expected to complete a lessons-learned report. This is good practice and allows the organization to gather and use information to improve chances of success of future procurement actions. It covers as a minimum the following questions and topics:

- Was the requirement adequately defined?
- Were the evaluation method and criteria appropriate?
- What kinds of suggestions were brought forward by suppliers?
- What problems were encountered?
- Recommendations to avoid similar situations.

Chapter 8

Emergency Procurement

This chapter covers the following topics:

8.1	Emergency Situations	139
8.2	Emergencies and Procurement	140

8.1 Emergency Situations

All UN organizations must undertake their procurement activities in compliance with their respective procurement frameworks (relevant regulations, rules, manual/s and other issuances). Due to the role of many UN organizations in post-conflict and post-crisis areas, but also to be prepared for unforeseen emergencies and urgencies occurring in any area of operations, many UN organizations have their own procurement procedures for emergencies in place. Those are typically established by the highest procurement authority within an organization, often as provided for in the Financial Regulations and Rules (FRR). This will allow the organization to simplify its procurement process in one way or another to facilitate rapid response during an emergency situation, without compromising compliance with applicable procurement principles.

The use of procurement procedures for emergencies should be limited to situations identical or similar to the ones described in this chapter. All other situations in a procurement context that are of importance or urgency should be dealt with by each UN organization through the application of its regular procurement procedures.

Emergency Definition and Emergency Situations

The UN Glossary of Procurement Terms defines an exigency or emergency as:

"An exceptional, compelling, emergent need or situation of force majeure not resulting from poor planning or management or from concerns over the availability of funds, that will lead to serious damage, loss or injury to property or persons, if not addressed immediately."

Different UN organizations have developed and interpreted this definition further and in line with their respective mandates whereby the essence remains the same across the board. In a UN environment, an emergency event or a series of events will typically comprise any or all of the following:

- Sudden calamities such as earthquakes, floods, locust infestations and similar unforeseen disasters.
- Human-made emergencies such as war, hostilities (whether war is declared or not), civil war, rebellion or revolution or any similar event or events that imminently threaten human life or livelihoods and cause disruption in the life of the community on an exceptional scale and/or result in an influx of refugees or the internal displacement of populations or in the suffering of otherwise affected populations.
- Drought, crop failures, pests, and diseases that result in an erosion of communities and vulnerable populations' capacity to meet their basic needs.
- Sudden economic shocks, market failures, or economic collapse resulting in an erosion of communities' and vulnerable populations' capacity to meet their basic needs.
- Complex emergencies for which the government of an affected country or the Head of Agency of a UN organization within its respective mandate has requested support.

Additional guidance

Governed by their respective mandates and in the development, peace-building or humanitarian context, some UN organizations have added another dimension to their approach to emergencies and that is strategic and time-critical and/or risk mitigation imperatives.

Here, the term "strategic" is used to describe situations where an organization's involvement in a crisis, or rapid expansion of its programmes in a specific context, is considered essential for delivering development results, to remain relevant and to maintain or build the organization's reputation.

"Time critical" is used to denote the need to deliver development results in a very short or medium-term timeframe within which a specific organization must make a contribution or impact in order to remain a relevant player in the development arena.

"Risk" means identification of security risk(s) that would expose a UN organization's personnel, assets, works or operations to increased vulnerability requiring urgent action in order to lower those risks to an acceptable level.

If applicable to their organization, procurement officers will find reference to these imperatives in the respective policy document.

When facing a situation where application of procurement procedures for emergencies is suggested, before seeking approval from the respective authority (normally senior management), the procurement officer should always try to evaluate and verify the legitimacy of any such request and be aware of whether there is a general higher-level emergency protocol in place in his or her organization. As appropriate, the procurement officer may identify alternative solutions for operational urgencies that do not constitute an emergency according to his or her organization's definition. In the absence of a definition of emergency at the organizational level, the definition provided in this chapter may be used as guidance to assess which situations would typically qualify as an emergency and which would not.

8.2 Emergencies and Procurement

Approaches to Emergency Procurement within the UN

Depending on a UN organization's mandate and its area(s) of operation, the procurement procedures for emergencies may range from an enabling chapter in the procurement manual to a detailed and separate framework, catering not only for emergencies but also other types of acknowledged urgencies; and all/most situations in between. Procurement officers are expected to be familiar with the procurement procedures for emergencies of their respective organizations.

Both UNDP and UNFPA have dedicated Fast Track Policies and Procedures for operational functions in place which cater for emergencies in procurement but also cover financial, human resources and programme management. These procedures are rather broad and generally provide for special situations where greater overall delegation of authority and flexibility may be required in specific programme and operational areas for a time-bound period. They represent a holistic modification to the standard policies and procedures and are designed to facilitate an overall rapid response to country demands within a clearly defined framework and are applied primarily at the regional or country level. In the procurement context; for example, delegation of procurement authority at the local level may be increased under Fast Track Policies and retroactive submission to the procurement review committee may be permitted.

The UN Secretariat, UNRWA, UNHCR, UNOPS and other UN organizations have incorporated procurement procedures for emergencies in their respective procurement manuals. These may range from quite detailed procedures to highlighting the possibility of accelerated review and award process through the respective procurement review committee in an emergency situation.

At UNICEF, during emergencies, Country Offices have the authority to procure supplies locally, regardless of value, except for a series of highly-technical and strategic products and services that require a special Local Procurement Authorization. This means that UNICEF encourages local

procurement, which should be prioritized in emergency situations over offshore procurement, where possible, to potentially improve delivery times and ensure appropriateness of supplies.

Additionally, organizations such as UNHCR or WFP, that are more likely to carry out part or most of their operations in an emergency environment, may have a policy framework in place containing the organization's overall emergency preparedness and response procedures, with a clearly defined mechanism and criteria for activation and deactivation. Emergency procurement in such organizations may also be tied to this overarching policy and to whether and where the organization is operating in a declared emergency.

Whatever the level of detail and complexity a UN organization may have opted for, emergency procurement procedures do not by default represent a general waiver of competition or an exception to the use of formal methods of solicitation. This means that the use of procurement procedures for emergencies is distinct from an exception to the use formal methods of solicitation. Should competition need to be waived in an emergency situation, the procurement officer will additionally need to request an exception to the use of formal methods of solicitation from the respective authority, as would be the case in a non-emergency situation and as per the applicable procedure in his/her organization (for more information see Chapter 6, Section 6.2: Procurement Strategy)

Furthermore, procurement procedures for emergencies shall not serve to bypass the involvement of the procurement function. Rather, their aim is to provide a framework for the procurement officer within which, in clearly defined and acknowledged situations and under defined terms, he or she will be able to accelerate the procurement process as much as possible while still ensuring an agreed, although sometimes reduced, level of competition suitable for the situation.

A good example of shortening and simplifying the solicitation process in an acknowledged emergency situation is the current UNOPS practice where permission may be granted to procurement officers to apply informal methods of solicitation to all procurements regardless of total estimated value, namely, a rather flexible Request for Quotation (RFQ) process especially developed for emergencies. The use of shortened or simplified procedures, as outlined above, may lead to increased responsibility being placed on the staff tasked with undertaking procurement in response to an emergency situation. Therefore, it is important that planning and preparedness activities take due account of the staffing levels required to adequately and effectively operationalise emergency procurement procedures.

Strategic Planning and Emergencies

As is the case with the regular procurement process, while emergencies are often caused by unforeseen events, the procurement officer can carry out proactive measures at any time to be prepared for possible emergency situations. Some of the proactive measures that can be taken have been outlined below:

- Advance identification and registration of suitable, also regional suppliers of products frequently requested in emergency operations, including confirmation by suppliers of willingness to respond to solicitations at short notice.
- As may be required under existing policy, pre-qualification of suppliers of products frequently requested in emergency operations.
- Encouragement of such suppliers to register on the United Nations Global Marketplace www.ungm.org and/or the eTendering system used by the relevant UN agency.
- Development of standard specifications for goods, services, or works typically required in emergency situations.
- Where possible, consider applying, total cost of ownership (TCO) and life-cycle costing (LCC) concepts that integrate disposal prescriptions with the aim of mitigating the environmental impact. (For more information see Chapter 14: Sustainable Procurement)
- If feasible, establishment of Long-Term Agreements (LTAs)[31] with suppliers of products typically requested in emergency situations. (For more information see Chapter 6, Section 6.2: Procurement Strategy)

[31] An LTA is a written agreement between an organization of the United Nations system and a supplier that is established for a defined period of time for specific goods or services at prescribed prices or pricing provisions and with no legal obligation to order any minimum or maximum quantity.

- Specification in relevant LTAs of the need for stock availability and emergency preparedness (sometimes referred to as white stocks).
- Identification of relevant LTAs from other UN organizations and prior assurance that any such LTAs can be utilized. (For more information see Chapter 9: Cooperation)
- Make possible procurement requirements and procedures in emergencies a topic in the context of cooperation with other UN organizations in the spirit of Chapter 9 on Cooperation, especially at the regional or country level. Ideally develop and implement a common procurement strategy (joint LTAs for emergency products, etc.).
- Initiation of the solicitation process prior to funds being made available in organizations where no procurement process can currently be initiated without confirmation of availability of funds. In this context, it is recommended that solicitation documents contain a clear provision allowing the solicitation to be cancelled at any stage prior to award. Here, the severe possible impact of delays may justify commencement of the procurement process prior to confirmation of availability of funds. However, no order should be placed prior to the receipt of funds or, in the absence thereof, without the written approval by the authorised official.[32]
- Engage with other UN agencies to understand their procurement needs and whether there is an over-reliance on a specific vendor.
- Identify all potential delivery modalities together with related timelines, potential costs and possible bottlenecks (for emergency related goods, services and works)
- Seek details on any variations to import permits and customs clearance procedures for humanitarian cargo in the event of an emergency occurring. Ensure that procurement staff, suppliers/vendors and client units are aware of any special provisions and related timelines.

Examples of possible Flexibilities in Emergency Situations

In emergency situations, a general level of compromise is considered permissible and justified during the procurement process. When it comes to procurement method, solicitation, evaluation, review and award, an accelerated approach in line with that which other UN organizations have in place should be considered. Some other approaches to procurement in an emergency situation may be:

- Product branding, use of existing albeit not identical requirements documents for similar goods or services (previous solicitations or LTAs), product descriptions or instructions (manuals), and purchasing ex stock (often more expensive) may be considered.
- Priority could be given to suppliers experienced in supplying the UN system in emergency operations in order to reduce lead-times and the risk of contract failure.
- Existing LTAs (including LTAs of other UN entities) can be used if feasible.
- Existing rosters or other lists of suppliers can be used.
- Consider purchase of second-hand equipment; supply from existing stock; re-deployment of goods from other operations; borrowing goods from another UN organization; diversion of goods under delivery for another project; or renting equipment until ordered goods are delivered.

If not already in place, before being applied, any of the above approaches should be formalised and become part of the respective organization's procurement framework.

Documentation

Proper documentation of the procurement process in a procurement file is a requirement for each procurement exercise. The procurement procedures for emergencies often allow for more flexibility in the process than regular procurement cases/activities. This increases the responsibility of procurement officers, as well as involved managers, to document that the procurement has been conducted in compliance with the applicable procurement framework (relevant regulations, rules, manual/s and other issuances). It is crucial that the procurement officer include all documentation usually required in the procurement file. In addition to that, he or she will document any justifications and approvals given

[32] Authorized officials are normally personnel within the organization that have the authority to approve procurement actions and enter into contractual obligations for the procurement of goods, works and/or services on behalf of the organization.

to use the applicable procurement procedures for emergencies and any other measures taken in relation thereto.

Each UN organization needs to assess for itself to what degree it requires designated procurement procedures for emergencies, as described in this chapter. An organizational risk analysis is recommended in order to evaluate the likelihood of an emergency occurring and the impact any such emergency would have on the organization. The organization's mandate, area/s of operation and the importance of the procurement function to the organization's continued operations in an emergency situation should be included in the risk analysis, as well as considerations such as access to the market and expected or different actual procurement requirements in case of an emergency.

Chapter 9
Cooperation

This chapter covers the following topics:

9.1	Cooperation with UN Organizations	144
9.2	Alternative Methods of Cooperation	148

9.1 Cooperation with UN Organizations

Introduction

UN organizations can save money, time and effort if they decide to work together on common procurement requirements. The potential benefits of cooperation among UN organizations in procurement can result in more beneficial prices and lower overall costs due to the opportunity for obtaining economies of scale. Procurement officers can also avoid unnecessary repetition of solicitation exercises by cooperating with other organizations on similar requirements. During joint procurement activities, the exchange of purchasing experience, information, and subject matter expertise among organizations are also good opportunities for knowledge sharing and learning for all involved: the procurement officers, requisitioners and subject matter experts at the operational level, as well as the managers who will support and promote joint procurement initiatives at the strategic level.

Examples of joint procurement initiatives and collaboration within the UN

In recent years, there has been increased emphasis on establishing and driving forward joint procurement initiatives and activities within the UN. Examples of such initiatives can be found on the Knowledge Centre of the United Nations Global Marketplace (UNGM) website www.ungm.org, along with more detailed information, research results and guidance:

- Common (joint) Procurement Teams.
- Communities of Practice (e.g. on eProcurement).
- Various Working Groups (WG) of the HLCM[33] Procurement Network: the Harmonization WG (Procurement Process and Practice Harmonization in Support of Field Operations), the Strategic Vendor Management WG (best practices on Vendor Assessment, Performance Evaluation, Business Seminars and Vendor Sanctions), the Professional Development WG (training and professional development of procurement staff), and the Sustainable Procurement WG (integration of Sustainable Procurement interventions in procurement activities).
- Various initiatives on Collaborative Procurement, such as the HLCM Procurement Network's High Value Commodities Project, and the Collaborative Vehicle Procurement and Fleet Management Project.

To learn more, go to https://www.ungm.org/Shared/KnowledgeCenter/Pages/Index.

There are many benefits to joint procurement among UN organizations and the UN system has been making significant efforts to harmonize its procurement rules and procedures in order to facilitate collaboration. Furthermore, the issuance of the "Mutual Recognition Statement"[34] in 2019 formalizes the commitment of UN entities to use or rely on other entities' policies, procedures, system contracts and related operational mechanisms for the implementation of activities without further evaluation checks or approvals being required, to the greatest extent practicable.

[33] United Nations High Level Committee on Management
[34] See here for more information https://www.unsystem.org/content/mutual-recognition

To best capitalize on the benefits of joint procurement, the procuring organizations should commit to harmonization and be willing to cooperate with other organizations as follows:

- Assign procurement officers to work on joint procurement activities who are convinced of the possible merits of the activity
- Identify similar procurement requirements which lend themselves to joint procurement activities
- Prioritise open and frequent communication and commit to keeping all stakeholders informed
- Establish competent procurement sections with sufficient resource capacity
- Ensure management support at all levels

"Delivering as One" and other UN reform initiatives have accelerated efforts among UN entities to collaborate and cooperate on Supply Chain Management, including procurement.

To further collaboration between UN entities and in support of UN initiatives, it may be determined that cooperation with other organizations, agencies or programmes of the United Nations system is appropriate to meet an agency's requirements. Procurement cooperation may be considered appropriate to, inter alia, obtain volume pricing or achieve process or operational efficiencies and may take the following forms or modalities:

- Using LTAs or system contracts of other UN entities (piggy-backing);
- Reuse of UN Entity solicitation results;
- Establishing and using joint LTAs and contracts (joint solicitation);
- Using procurement services of other UN entities (outsourcing);
- Procuring from another UN entity;
- Using a joint procurement unit.

Moreover, Supply Chain Management collaboration further encompasses the following range of activities and is encouraged wherever appropriate:

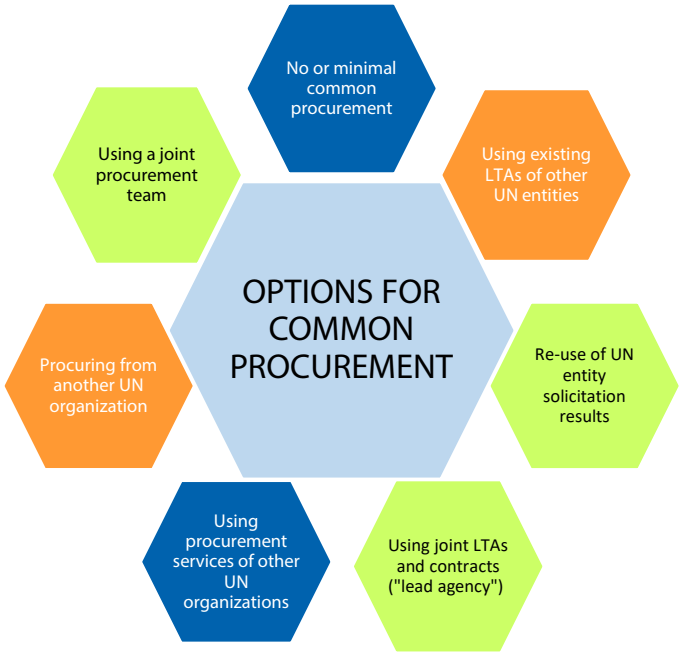
- Sharing technical requirements (specifications, terms of reference, statement of works) or developing common technical and performance requirements
- Leveraging technical expertise of other UN organisations and non-UN partners to collaborate on quality assurance of products and services
- Joint forecasting, logistics and warehousing with UN and non-UN partners for the purpose of market shaping activities or Joint assessments of manufacturers' capacity with UN and non-UN partners
- Joint strategies with UN and non-UN partners, e.g., to stimulate and create product development and markets, to ensure product tracking, etc.

Prior to committing their organization to cooperative procurement activities, procurement officers will consult on the subject matter with their own organization's authorised official and propose collaborative procurement activities in line with the relevant regulatory framework (regulations, rules, manual(s) and other issuances) of their organization. This will be done to ensure their approach is fully compliant internally and follows the proper processes and procedures.

The purpose of this chapter is to provide the policy and procedures for an organisation's procurement cooperation with other entities of the UN System. It should be used in conjunction with the document **"Common UN Procurement at the Country Level"** [35] (https://www.ungm.org/Shared/KnowledgeCenter/Pages/HWG_GUIDE) which was published by the United Nations High Level Committee on Management (HLCM) Procurement Network in March 2012. The document lays out the modalities of common procurement and provides assistance to UN teams in identifying and developing strategies to implement common procurement initiatives in which several

[35] The mandate for developing these Guidelines was provided by the UN General Assembly's Comprehensive Policy Reviews of 2004 and 2007, progress reports from the Delivering as One pilot countries, and various decisions and agreements related to system-wide coherence. Further, the General Assembly's Resolutions A/RES/59/250 and A/RES/62/208 highlight the need to lower transaction costs and to improve efficiency. At its 11th meeting in March 2012, the HLCM Procurement Network recommended its members to use, consistent with their regulations and rules, the modalities of the document "Common UN Procurement at the Country Level" in their organization-specific operational framework and to encourage organizations to apply them.

UN organizations are involved. It specifically offers support to UN Operations Management Teams (OMTs) with their common procurement initiatives at the country level. By supporting common procurement initiatives, the document "Common UN Procurement at the Country Level" promotes harmonization of business practices and contributes to improving both the effectiveness and the efficiency of UN procurement activities.[36]



Using LTAs or system contracts of other UN entities (piggy-backing)

UN agencies may use an LTA or system contract created by another UN entity, even if not concluded through a joint solicitation exercise, provided that the LTA satisfies the agency's requirements, specifically in terms of value for money and fit-for-purpose. Such an assessment should be determined and guided by the following:

- The value of the agency's call-off is less than or equal to the intended single call-off volume (if indicated in the LTA) or is not more than the total value of the LTA, and the LTA vendor offers goods or services to the agency with the same terms and conditions. An LTA should not be used to order disproportionately higher volumes than intended, especially for goods/services with volume discounts not reflected in the LTA.
- The agency's requirements are equivalent to those included in the LTA.
- The LTA set-up in terms of type and configuration, especially in respect of geographical coverage and conditions of usage for multiple vendor LTAs, serve the agency's purposes.

If the LTA has been approved according to the procedures established by the respective UN entity, a separate review of the LTA by the agency's review committee shall not be required, provided the following is met:

- The LTA is still valid and has not been cancelled or terminated.
- The UN entity that created and owns the LTA permits its use by another agency and has confirmed this in writing. In obtaining the written approval, it is recommended to obtain from the other UN entity information about the LTA by using the HLCM-endorsed LTA Information Summary Form, which includes details about the LTA type, duration, ceiling amount (if applicable), reporting requirements for its usage by other UN agencies,

[36] The document's Guidelines are also offered as an EPUB file, which is a free and open e-book standard by the International Digital Publishing Forum (IDPF). You can use EPUB files with the majority of current e-book readers.

guidance note for usage of the LTA, etc. In addition, the agency must obtain a signed copy of the UN entity's LTA.
- The LTA-holder (vendor) is eligible with respect to the agency's requirements on vendor eligibility.
- The vendor accepts the agency's General Conditions of Contract.

A separate agreement, typically in the format of a Purchase Order or Memorandum of Agreement, must be signed between the vendor and the agency.

LTAs of other UN entities are available at www.ungm.org. All LTAs available in UNGM are considered to be available for use by other UN entities.

If a UN entity utilizes another entity's LTA they must fulfil the reporting requirements established by the entity that created it in the first place, in terms of value of orders placed against the LTA, performance of the supplier, etc. utilizing the UNGM functionality for this.

Best Practices for sharing LTAs including the LTA Information Summary Form are available at: https://www.ungm.org/Shared/KnowledgeCenter/Pages/CollabProc

Re-use of UN entity solicitation results

For a single or related series of planned procurement actions, an agency may rely on the competitive selection process of another UN entity, when, in the agency's estimation, the potential benefits of undertaking a new selection process would not justify the associated administrative costs. The agency may re-use the tender results to procure goods, works or services without undertaking a separate selection process, provided that:

- The award is made within a twelve (12) month period after the contract signature date.
- The requirements for the goods, works or services are substantially the same and the quantities originally tendered were similar or greater.
- The vendor agrees to offer the goods, works or services at the same terms and conditions and that these are considered reasonable for the market.
- The vendor accepts the agency's terms and conditions.
- The case is submitted to the appropriate contract review committee based on the value of the engagement and approval is obtained from the appropriate procurement authority.

Establishing and using joint LTAs and contracts (joint solicitation)

An agency may elect to undertake joint procurement activities with one or more UN Entities, based on the estimated total value of a single or related series of planned procurement actions. Generally, the cooperating organizations will choose one organization to lead the procurement process under the procurement rules and regulations of that UN entity. Cooperating UN entities will jointly agree on the solicitation documents and evaluation criteria and will jointly evaluate the offers submitted. The solicitation documents should clearly specify the expected contractual form for effecting the procurement. Joint solicitations are subject to the review requirements of the lead UN entity only, except in those cases where the applicable evaluation criteria or the resulting award differs from that of the Lead UN entity. The Lead UN entity it may provide for representation by the other participating UN entities on the relevant committee responsible for reviewing the procurement activity. The outcome of the Lead UN entity's committee review should be shared with participating organizations.

Using procurement services of other UN entities including joint procurement units (outsourcing)

Under certain circumstances it may be appropriate or necessary to request another UN entity to carry out certain procurement activities on behalf of an agency. UN entities will enter into an appropriate legal instrument for outsourcing of the relevant procurement activity. Outsourcing may be considered in the following situations:

- **Expertise** – when an agency recognizes particular expertise of another United Nations entity in the procurement of specific goods, works or services, it may authorize outsourcing for the specific goods, works or services and designate the UN entity as the procurement agent.
- **Procurement / Administrative Capacity** - when an agency does not itself have the necessary procurement and/or administrative capacity in a country, procurement actions may be undertaken on its behalf by a representative of another UN entity with the necessary procurement and administrative capacity (e.g. representative of the local United Nations Development Programme), in accordance with the rules and regulations of that UN entity.
- **Shared Services** - when, in a given location, a joint UN activity has been established to provide certain administrative services to all partner organizations (e.g. Delivery as One UN initiatives) and has the necessary procurement capacity to achieve economies of scale or to increase effectiveness and efficiency, an agency may authorize the outsourcing of certain or all procurement actions for any period and designate the joint UN activity as the procurement agent for the agency. The rules and procedures established jointly by the participating UN entities for that activity or for joint procurement activities, including review requirements, will be applicable.

Procuring from another UN entity

If a UN entity has goods in stock or delivers certain services, an agency may procure goods, works or services from that UN entity, through the establishment of an appropriate legal instrument with the UN entity. Procurement from another UN entity must be approved by an authorized official within the agency on the basis of adequate justification.

9.2 Alternative Methods of Cooperation

Cooperation with governments - outsourcing to a government, NGO or other Public International Organization

In support of capacity building or in connection with partnership arrangements or agreements, the authorised official may determine that it is appropriate to request a government, non-governmental organization or other non-United Nations system public international organization to carry out certain procurement activities on behalf of the UN organization for a specific programme or project. A senior official designated by the UN organization will be responsible for review and approval of the request, after considering the recommendations of the organization's relevant officers and any available assessment undertaken of the administrative and/or financial management capacity of the relevant organization.

Chapter 10

United Nations Global Marketplace

This chapter covers the following topics:

10.1	About United Nations Global Marketplace	149
10.2	Functionalities on UNGM for UN Procurement Staff	149

10.1 About United Nations Global Marketplace

The United Nations Global Marketplace (UNGM) website (www.ungm.org) was established in 2003 in response to the General Assembly's resolutions related to Procurement Reform in 2003, 2005 and 2007, addressing vendor registrations and management, as well as a call for 'one common United Nations global procurement website'.

The UNGM is the portal used by 29 United Nations organizations as their vendor database for the registration of potential vendors, as well as for the publication of tenders and contract awards, sharing Long Term Agreements (LTAs), best practices and general procurement-related information. UN staff have access to the site, where between 2,500 and 3,500 new companies or individuals register their interest in doing business with organizations of the UN every month.

10.2 Functionalities on UNGM for UN Procurement Staff

UN staff interested in using the UNGM, need to register under their own agency at https://www.ungm.org/Account/Registration/OrganizationUser

Once registered, UN staff have access to the following functionalities:

- Search for vendors based on company names, UNSPSC code[37], countries and a range of additional criteria
- View the status of vendors in terms of eligibility and sanctions from Vendor Search and View Ineligibility links
- Record vendor performance using the Vendor Search as a starting point
- Search for LTAs created by UN sister organizations in order to piggyback
- Use the Knowledge Centre to access information on the Model Policy Framework for Vendor Sanctions, Procurement Categories, the HLCM Procurement Network and its Working Groups, Other Collaborative Initiatives, Annual Statistics and much more
- Find extensive information to guide potential vendors on the UN system, procurement procedures and registration with UNGM under the Knowledge Centre on www.ungm.org

With special rights assigned (request from registry@ungm.org) UN staff can also:

- Create tender notices, contract awards and LTAs
- Assist vendors with limited internet access to register with their UN organization(s)

About Vendor Registration

For the vast majority of UN organizations using the UNGM as their vendor database, registration with UNGM is a requirement for potential vendors to participate in a tender process, as these organizations have their vendor database integrated with an eTendering/eSourcing platform. (For more information see Chapter 13: eProcurement)

A simple Basic registration procedure is common for all organizations participating in UNGM. Vendors/individuals that meet all the requirements and complete all required information are automatically accepted at Basic Level.

[37] Product coding used to classify goods and services on the UNGM

Some organizations may have up to two additional levels of registration for high-value bidding processes. For organizations that have additional levels of registrations, vendors are required to complete a simple qualification procedure at any time after the initial Basic registration, by providing additional information and documents that will be stored in a common repository of documents, protected by access rights.

UN organizations can configure their preferences in terms of the types of vendors they would like to accept based on UNSPSC codes selected and/or country filters, ensuring a relevant vendor database.

Organizations and their field offices also have the option of 'Assisted Registration' for vendors with limited capacity, e.g. for small business enterprises from developing countries and economies in transitions or vendors with limited or no access to the Internet. UN staff can request the assignment of the rights to assist vendors in registering with their specific organization from registry@ungm.org.

About tender notices, contract awards and LTAs

In addition to hosting the vendor databases of UN entities, UNGM also allows for the publishing of tender notices and contract awards. A number of UN organizations have implemented UNGM's web services or use a Web API (Application Program Interface) to automatically publish tender notices, contract awards and/or LTAs on their own and on the UNGM website.

About Vendor Eligibility

The UNGM features a fully integrated vendor eligibility system that screens potential vendors against the sanction lists of the agencies of the UN, the UN Security Council Sanction Lists and the World Bank Debarred Firms and Individuals List. Vendors and individuals are screened against these lists upon registration and the entire database is screened periodically. Sanctioned vendors and individuals are flagged ensuring that UN staff are aware of their sanction status.

For more information on the United Nations Global Marketplace, contact registry@ungm.org or visit www.ungm.org.

Chapter 11

Vendor Sanctions

This chapter covers the following topics:

11.1	Proscribed Practices	151
11.2	The Model Policy Framework on Vendor Sanctions	153

Introduction

All UN organizations strive to provide goods, services and works in support of their work in the respective areas of operations, and as governed by their mandates. They do so by spending public resources. As such, in spending those resources, the UN organizations aim to meet the highest standards of integrity, transparency, fairness and competency, and demand no less from those who wish to work with them in carrying out their activities. UN organizations, therefore, will not accept to work with any entity that does not meet the standards that the UN organizations promulgate in their policies and operational frameworks.

The UN is a steward of public funds and therefore both the UN organizations and their suppliers must adhere to the highest ethical standards, both during the bidding process and throughout the execution of a contract. In this chapter, procurement officers will be able to find more information about what constitutes proscribed practice, which is a term widely used to describe unacceptable or prohibited acts or omissions that may take place at any time during the procurement process. Procurement officers should be vigilant about the risks of proscribed practices and manage the procurement process to mitigate such risks.

When it comes to their own personal obligations with regards to ethically correct and appropriate behaviour and actions taken, procurement officers are encouraged to consult Chapter 2 on Ethics in Procurement.

11.1 Proscribed Practices

UN organizations have adopted policies and standards for suppliers, along with a common framework for sanctions (see section 11.2: Model Policy Framework) to reduce the risk of suppliers engaging in proscribed practices during the procurement process and beyond. The UN Supplier Code of Conduct moreover informs suppliers that they may not engage in proscribed practices; they must disclose any situation that may appear to be a conflict of interest. The UN has a “zero tolerance” policy regarding acceptance of gifts or hospitality; and there are restrictions on employment of former UN organization staff members. (For more information see Chapter 2: Ethics)

The following are the agreed overarching types and definitions[38] of conduct or behaviour within the UN that constitute proscribed practices, and which may take place at any time during the procurement process, including contract execution or beyond.

- ***A corrupt practice*** is the offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party.
- ***A fraudulent practice**** is any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation.
- ***A coercive practice*** is an act or omission that impairs or harms, or threatens to impair or harm, directly or indirectly, any party or the property of the party to improperly influence the actions of a party.
- ***A collusive practice*** is an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party.

[38] Source: the Model Policy Framework on Vendor Sanctions as published on UNGM (https://www.ungm.org/Shared/KnowledgeCenter/Pages/MPF)

- ***An unethical practice***: Conduct of behaviour that is contrary to the conflict of interest, gifts and hospitality, post-employment provisions or other published requirements of doing business with the organization concerned, in line with the UN Supplier Code of Conduct or similar UN agency specific normative framework.
- ***Obstruction****:* Acts or omissions by a supplier that prevent or hinder the affected organization when gathering data in a particular case, as described herein.

*An even more specific definition of fraud, with the introduction of the concept of presumptive fraud, was endorsed by the HLCM at its session in Budapest in March 2017 and is applicable and binding across the UN:

- ***Fraud*** is any act or omission whereby an individual or entity knowingly misrepresents or conceals a fact (a) in order to obtain an undue benefit or advantage or avoid an obligation for himself, herself, itself, or a third party, and/or (b) in such a way as to cause an individual or entity to act, or fail to act, to his, her or its detriment.
- ***Presumptive fraud is*** allegations that have been deemed to warrant an investigation and, if substantiated, would establish the existence of fraud resulting in loss of resources to the organization.

In addition to the above, there may be other manifestations of proscribed practices and unethical behaviour that procurement officers should be aware of. Some common patterns may be the ones listed below, but by far do not constitute the only ones. Procurement officers should be aware that suppliers who have the necessary criminal energy will not tire from trying to manipulate the system to gain an undue advantage.

- ***Bid suppression***: One or more suppliers who otherwise would be expected to bid, or who have previously bid, agree to refrain from bidding or withdraw a previously submitted bid so that the designated winning competitor's bid will be accepted.
- ***Complementary bidding***: An agreement between suppliers whereby at least one of them agrees to submit a bid that is either too high to be accepted or contains special terms and conditions that will not be acceptable to a UN organization.
- ***Bid rotation***: Suppliers submit bids but agree to take turns being the low bidder.
- ***Subcontracting***: Suppliers agree not to bid or to submit a losing bid in exchange for subcontracts from the successful bidder.
- ***Market division***: Suppliers divide markets among themselves allocating specific customers, products or territories to themselves.

Additional guidance

Sustainability and eligibility

If a vendor is suspected of social and/or environmental malpractice, any such occurrence should be addressed within a UN organization. It may be decided for such occurrences to fall under the mandate of an established vendor review body that would normally be concerned with proscribed practices as defined under the UN Model Policy Framework (MPF). Social and environmental malpractice should be determined in relation to the local context of operations and to the degree and persistency of the malpractice. Examples of social malpractice may include violation of basic health and safety provisions; failure to pay salaries; and harassment and discrimination. Examples of environmental malpractice may include persistent failure to abide by regulations on discharges to water, air and soil and repeated instances of breaching waste disposal provisions. Where such malpractice occurs, UN organizations should consider working with suppliers to address situations that are outside contractual obligations. Failure by suppliers to take appropriate action may lead to contract termination. (For more information see Chapter 2: Ethics)

Additionally, in some environments where a dimension of government procurement is involved, the "sustainable" suitability of prospective suppliers has become a mandatory requirement where minimum pass/fail criteria as a precondition to access the bidding process are foreseen. Here, it is especially important that evidence of supplier compliance with local legislation is sought by the procurement officer and that no breach thereof has been reported in relation to past incidents. (For more information see Chapter 14: Sustainable Procurement)

Reporting of proscribed practices

Any UN staff member, consultant or other contractor, or other individual involved in the procurement process who becomes aware of supplier misconduct or wrongdoing, including but not limited to proscribed practices, is under the obligation to report any such occurrence immediately to the respective authority within his or her organization as designated in the specific normative framework.

11.2 The Model Policy Framework on Vendor Sanctions

The Model Policy Framework on Vendor Sanctions (MPF) is a suite of agreed policies and guidelines related to the sanctioning of vendors found to have been involved in proscribed practices (fraud, corruption, collusion, coercion, unethical practices and obstruction, as defined in 11.1). The MPF also provides UN organizations with the procedures to disclose, through the United Nations Global Marketplace (UNGM), the names of entities and individuals that may have committed, through their actions or omissions, proscribed practices. One of the main goals of the MPF is the creation of strong agency-specific systems that meet each agency's needs, that respond to its policies and capabilities and that is able to harmonize with similar efforts throughout the UN system. To this end, it is expected that the MPF is incorporated into agency procedures and that, in due course, it will establish clear guidelines for their boards or committees to interpret and implement them.

The MPF was developed in 2009-2010 under the Project on Vendor Sanctions, which was funded by the UN High Level Committee on Management (HLCM). The Project was led by UNDP and the resulting framework was mainly inspired by the World Bank model.

The Structure of the MPF

The MPF is comprised of three parts:

- Guiding Principles: these are the principles that inspired the creation of the MPF. They can be fully or partially adopted at the discretion of the agency in accordance with its rules and needs. Overall, there are 11 recommended guiding principles proposed in the MPF, among which one can find individual agency ownership, flexibility, dynamism, business orientation, rehabilitation and separation of duties.
- Suggested Model Policy Framework (MPF) procedures: this is the core of the MPF, it is the suggested model of policy that agencies should consider when defining a Vendor Sanction Policy.
- Additional Important Matters: this section deals with important legal concerns, such as privileges and immunities, exercise of discretion and actions concerning agency staff, which by their nature must be addressed individually by each participating agency in the MPF.

For more information, procurement officers are encouraged to visit the UNGM page "Vendor Sanction Systems in UN Agencies" found at https://www.ungm.org/Shared/KnowledgeCenter/Pages/MPF

Flagging and Administration of Sanctioned Vendors

Each organization that has adopted and implemented the MPF, under the framework may have to sanction a vendor or vendors for applying proscribed practices. To ensure all organizations using the UNGM in support of their procurement activities are made aware of the vendor sanctions that other participating organizations have imposed, the UNGM is hosting the consolidated vendor sanctions list which is called the United Nations Ineligibility List (UNIL). The UNGM system compares the details of vendors registering and already registered on UNGM with the details of companies or individuals on lists such as the Consolidated United Nations Security Council Sanctions List (CUNSCSL), the World Bank's Listing of Ineligible Firms & Individuals, and the United Nations Ineligibility List (UNIL) - which is the aggregated list of sanctioned/suspended vendors maintained by UN organizations that have adopted the MPF.

There are different types of sanctions that may be imposed on vendors under the MPF, subject to the severity of the findings of the investigations and the proscribed practice applied; and depending on whether or not a vendor already is a UNGM-registered vendor at the time of sanctioning. Each type of sanction or flag (colour coding) is subject to different viewing and editing rights on UNGM both for the vendor and the UN user respectively, to protect the integrity of the sanctioning process and to reflect the seriousness of the respective sanction.

- Ineligibility or debarment
- Ineligibility for registration
- Censure
- Other sanction
- Vendor performance issues

With the exception of vendor performance issues, all other sanctions will be visible on the UNGM dashboard. Sanctioned vendors on UNGM are visible to all UN users.

To ensure that the UNIL provides real time information on sanctioned vendors on UNGM, it is important that each organization that has adopted the MPF appoints an administrator who reflects his or her organization's vendor sanctions on UNGM and keeps this information updated at all times. In the UNGM area dedicated to UN staff, procurement officers can find the "UNGM Guide - Instructions on Ineligible Vendors, Role of the ILA and Sanctions". This document provides hands-on information on how the MPF has been implemented across the UN and how its results have been reflected in the UNGM. It is also a manual for procurement officers that provides step-by-step guidance on how they can administer sanctioned vendors and reflect the relevant sanctions flag using UNGM. In addition, it illustrates how procurement officers can search for sanctioned vendors on UNGM.

Chapter 12

Logistics

This chapter covers the following topics:

12.1	Logistics Planning Process	156
12.2	Selection of Mode of Transportation	157
12.3	Packing	159
12.4	Incoterms 2020	162
12.5	Insurance During Transportation	169
12.6	Shipping Documents	170
12.7	Receipt of Consignments	171
12.8	Restrictions on the Export or Import of Goods	172

Logistics address the essential transport link between consignor (sender) and consignee (receiver) with the aim of receiving the goods when and where they are needed and in good condition. This necessitates close collaboration between procurement, the supplier and the transporter and a consideration of the terminology and documentation used. The transportation involved, whether over land, sea and/or air, may introduce certain costs and risk that can be mitigated by appropriate methods of dispatch, insurance coverage, suitable packaging instructions and by considering the roles and responsibilities of the parties involved in the chain of transport events up until final delivery to the clients.

Definition of Logistics

The Council of Logistics Management (CLM) has defined logistics as:

"… that part of the supply chain process that plans, implements, and controls the efficient, effective flow and storage of goods, services, and related information from the point of origin to the point of consumption in order to meet customers' requirements."

This chapter provides only a summary of logistics seen from a procurement perspective. Specialists in logistics will have a more advanced approach, and some UN organizations treat logistics as a separate field of expertise. In its broadest sense, the scope of logistics entails transportation, shipping and receiving, warehousing and import/export operations. Sometimes, the additional areas of inventory management, procurement, production planning and client services can also fall under the umbrella of logistics. In addition, some UN organizations use warehouses as a strategic tool in supply chain management.

In short:

- Logistics is a "service unit" whose efforts must be devoted to help end-users
- The target is to receive supplies in good order
- A successful insurance claim does not compensate the inconvenience caused to end-users by arrival of supplies in a poor or unacceptable condition and, therefore, managing risks comes before cost
- Use container services, full load, whenever possible, as this offers the best protection
- Give clear shipping instructions to secure the best possible handling
- Do not send any supplies, even post parcels, without a timely notification and supporting documents being issued to the end-user.

12.1 Logistics Planning Process

Proper logistics planning entails considering logistical aspects throughout the various stages of the procurement process. It contributes to efficient procurement processes and reduces the risk of incurring problems that may lead to additional costs and delay. Logistics planning starts at the needs assessment phase of procurement by considering objectives or the desired result of the requisitioner and the end-user and, from there, working backwards to determine what will lead to a successful completion of the activity. Ideally this process should begin even before the requisition is placed, through close cooperation and efficient communication between the operational unit requesting the purchase and procurement officers.

There are many aspects of logistics planning that should be considered during the various stages of the procurement process. They are detailed below:

1. Understanding the operational context of the required product and, if possible, assisting in developing specifications suitable to local conditions.

2. Evaluating the procurement activity and the time and financial resources available in order to determine urgency of the requirement. Urgency may determine location of the purchase and thereby also the mode of transport.

3. Determining the type of sourcing.

   When determining the type of sourcing, the procurement officer needs to decide if the goods should be purchased locally/regionally or internationally, or through established LTAs. In some organizations, goods may also already be available in a warehouse as surplus stock from another project. They may also be in the pipeline of already purchased goods for another purpose but available for diversion to cover a more urgent need. Goods may even be borrowed from a sister organization or be available as a donation in kind. There are some UN organizations that pre-position certain goods as part of an emergency stockpile policy, either globally, regionally or on a local level. These options should also be considered when determining whether to purchase, and how and where to purchase, the required product, in order to meet the end-user's needs in a timely and cost-efficient manner.

4. Determining which markets are best positioned to respond to the end-user's delivery requirements.

   The procurement officer also should decide which markets are best positioned to respond to the end-user's delivery requirements by evaluating total delivered costs as well as lead times, in addition to conformity with technical and performance criteria. For example, equipment from one region is not necessarily the most suitable for another region, even though it may be competitively priced. There is usually a trade-off between the purchase price of a product and their transport costs and delivery lead-time. The relative importance of these factors will determine where the goods are purchased and how they are transported. It should be noted that geographic distance does not necessarily determine the cost and delivery time. Trade lanes and feeder vessels will also have an impact.

   Accepting a more expensive offer in order to conform to the requested delivery date should be carefully assessed and discussed with the requisitioner and end-user in order to ensure the most effective use of funds. When the delivery date is the primary factor in awarding a contract and made a mandatory evaluation criterion, it should be clearly stated in the solicitation document. In such a case, any offer not in compliance with the requested delivery schedule must be rejected.

5. Reviewing the delivery and transport requirements, as well as the budget, and ensuring that they are complete and realistic.

   The cost of transportation is a significant component in the cost of goods procured and delivered to the designated site. Procurement officers should therefore ensure proper logistics planning and make every effort to keep the transportation costs down. However, in logistics planning, the cheapest alternative may not always be the one that offers the lowest overall cost. A low-cost, but poor delivery strategy may result in delays, damaged or stolen goods, excessive port charges, etc. All factors should therefore be assessed when choosing the appropriate logistical solution.

6. Determining and comparing total lead time, including logistics activities.

   Different logistics corridors incur different costs, but also have an impact on total lead times. One route may, for example, be cheaper but experiences many difficulties and delays in clearing transit goods. An alternate route may cut transport time. In some source countries, for example, export processing may take longer, or ports may experience much congestion. Total supply chain lead times should be considered.

7. Determining the most cost-effective means of contracting transport.

   Determining the most cost-effective means of contracting transport, i.e., either from the supplier of the goods and included in the same purchase order or contracted to an independent freight forwarder. Some organizations also allow transportation with their own resources (e.g., transportation of goods in project vehicles by project personnel).

   In cases where the organization decides it is more cost effective to contract the transport, the procurement officer should check the availability and competitiveness of a long-term agreement (LTA) for freight services. For large consignments where more favourable rates can possibly be obtained, spot tenders may be considered.

8. Insuring a consignment in accordance with the policy of the organization (see 'insurance during transportation' below).

9. Ensuring that shipping documents received from the supplier and freight forwarder are complete and accurate and that the consignee has received their set (see 'shipping documents' below).

10. Keeping the end-user informed of expected and actual delivery dates for them to account for it in their local planning.

11. Ensuring that necessary arrangements are in place to clear cargo on arrival.

12. Arranging for acceptance of goods upon arrival by the receiving unit and ensure that claims are initiated within the time frame stipulated in the cargo insurance to secure the interests of the organization in the case of missing or damaged cargo.

13. Obtaining acknowledgement from the consignee that the shipment has been received in good order.

Logistics requirements for goods

The following logistical requirements should be considered for the shipment of goods:

- Selection of mode of transportation
- Forwarding agents
- Packing
- Containerization
- Packing & Shipping instructions
- Labelling and shipping marks
- Incoterms
- Insurance during transportation
- Shipping documents
- Receipt of consignment
- Restrictions on the export or import of goods

Each task will be elaborated more in detail in the following sections.

12.2 Selection of Mode of Transportation

There are four basic modes of freight transportation that are used, either individually or in combination: *sea, rail, road*, and *air*. Procurement officers should consider both economy and efficiency when choosing the mode of transport. In general, air, rail and road transport costs are comparatively higher than freight by sea, thus in general sea transport is recommended. Maritime freight typically counts for 15-20 percent of the costs of the goods while airfreight may represent up to 100 percent. International shipments by sea average three to five weeks (but can be considerably longer), while air shipments

usually take less than a week. The balance of operational parameters such as time and financial resources should determine the mode of transportation.

Selection of the methods of dispatch

1. The ability to decide on the right method of shipment depends on various factors, including urgency, nature of the goods, cost, need for cautious handling, weight and volume, value of the goods, frequency/regularity of delivery and reliability of the method.

Several factors must be taken into consideration when planning the dispatch of any item, and these factors may be conflicting. For instance, an urgent consignment may not be sent by air because of insufficient funds or because the type of goods precludes air dispatch.

Rule of thumb:

- Relatively high value/volume: use air freight
- Relatively low value/volume: use sea freight

The following should be carefully considered:

Type of supplies

In many instances, there are several choices. In some cases, however, there is no choice. For example, perishable goods should be sent by air, and large quantities of fertilizers, insecticides, and sewer pipes, for instance, will be sent by surface and/or sea (dangerous goods may not be allowed by airfreight).

Geography

Origin and destination determine distance and therefore type of transportation required. Surface shipment may be logical in certain cases, while airfreight might otherwise be required. Related factors include transport infrastructure, safety, security, weather conditions, etc.

Time element

Except for emergencies or where the top priority is the delivery of supplies within the shortest possible time, procurement should be made to allow dispatch by the most economical/rational means. It is therefore of great importance that supply programmes are planned with shipping in mind to avoid expensive rush shipments or purchasing from a source that is not especially rational when shipping time is factored in.

Cost

There is no rule to indicate the percentage cost of transportation as compared to the value of supplies. Except for clear cases where only air or surface can be selected, airfreight should automatically be compared to surface. Small and medium-sized consignments can often be sent at approximately the same cost by air as surface, when transhipment and onforwarding would be required in surface transport. A golden rule: group small orders for joint shipment, as repeated small dispatches become very expensive, especially when the cost of customs clearing the goods is added.

Safety

Fragile/sensitive high-valued equipment is best sent by air, even if there is no special urgency in their dispatch. In the same manner, cargo at risk of being pilfered which is shipped by sea should be containerized, such as automotive spare parts, office machinery and stationery, pharmaceuticals and medicines, etc. Remember that a successful insurance claim is, at best, a financial compensation; it will never compensate for the inconvenience caused to the consignee by the arrival of supplies in bad condition.

Forwarding agents

Forwarding agents, also known as freight forwarders or freight brokers, are contracted by the UN organization, or the supplier, to carry out the formalities and operations of consignment. The forwarding agent can also be employed by the organization to receive goods where UN staff members may not be physically present in order to engage in the prompt clearance and collection of goods vulnerable to loss

or pilferage. The use of an appropriate freight forwarder with experience and specialized knowledge reduces the risk of the procurement operation. Procurement officers should ensure that the respective forwarding agent has all the necessary documents for the release of goods in transit (see 'shipping documents below).

Summary

In summary, procurement officers should prioritize transport preferences in accordance with the following criteria:

- Cheapest means of transport that meets delivery requirements.
- Scheduling through the fewest number of trans-shipment points.
- Shipping via preferred trans-shipment points and customs.
- Using dedicated freight forwarders wherever possible.
- Applying a 1:4 ratio rule for air shipment (ship by air if less than 25 percent of cost of goods).
- Shipping by air if weight is less than 200 kg.
- Shipping by air when a cold chain is required.
- Shipping by land or sea if dangerous goods are involved.

Finally, procurement officers should make a prioritized list of all technically feasible solutions. If a priority solution falls within the predefined budgetary framework, the plan should be executed. If the best solutions fall outside the framework or if no solution is feasible, procurement officers should present the existing options to the requesting operational unit and ask for a decision.

12.3 Packing

The nature of the goods together with the mode of shipment and the required climatic conditions during transit and at the destination, determine the required packaging.

The durability, size and weight of the packages should be considered in relation to the planned means of transportation. It should be ensured that the equipment, warehouse facilities, operators and labourers involved in the shipment of the goods have the capacity to handle the goods in the chosen packaging. For instance, some port facilities can only handle 20 foot containers so 40 foot containers should not be used. Further, axle weight road restrictions should be considered for certain road shipments and maximum vessel draught allowed for shallow ports. Climatic conditions both at the end destination and in transit, should be considered to ensure the packaging can withstand heat, cold, rain, humidity, mould, dust, salt water spray, etc., if required. Certain types of goods require a constant temperature and air shipment, cold chain equipment and temperature monitoring.

To be on the safe side, always assume that shipments will be handled roughly and loaded and offloaded numerous times before reaching the destination.

The type of packaging selected should factor in the following issues:

Type of product

Use crates for large and heavy objects like machines, bags for powder like cement, plastic drums or containers for liquids, wooden cases for small and heavy items like nails, and bales for bulky materials like cotton.

While many items – i.e. printers, office machines, household appliances – are delivered in moulded polystyrene packs and then placed within good cartons which offer excellent protection, many orders for composite pieces of equipment cannot be packed in the same manner. In addition to outside packaging, this type of freight should be secured inside its packaging to prevent movement during shipping. It is important on such occasions to instruct suppliers specifically to pack for airfreight, for ocean freight or for container shipment.

Mode of transportation

Generally, airfreight requires less packaging than ocean and land freight, and containerized shipments require less packaging than non-containerized shipments due to lower risks of loss or damage.

Route and final destination

In areas with higher incidence of loss or damage due to mishandling, theft and pilferage, more and stronger packing is necessary.

If several transfers are required along the way, for example from vessel to rail, rail to lorry and finally, to a 4-wheel drive vehicle, the packing should be especially strong and carefully made. The internal packing must be made to prevent movement inside the boxes – instructions to this effect should be included in the tender document and the purchase order.

In addition, suppliers should be instructed to avoid delivering very heavy individual packages, as these may create problems at the destination. For examples, it may be very difficult to load a case weighing 250kg onto the back of a pick-up with the absence of lifting gear but loading three smaller cases would present no problem. Suppliers may therefore be requested to deliver their goods in packages not exceeding 50-80 kg. each whenever the cargo can be split accordingly.

Climatic conditions

Desiccants (drying agent made from silica or a form of clay which is packed as granules into bags) and/or other special packing materials such as waxed paper and laminated foil may be required in areas with high humidity levels. Other packaging materials utilized to protect consignments from adverse climatic conditions include: paper, cardboard, filling and cushioning material, containers and inserts, corrugated cardboard folding boxes, corrosion protection films, stretch and shrink films, etc.

Customs duties and freight rates

Lighter and less packing material is preferred in cases where the specific duty or the freight rate is based on weight.

Cost of packing materials

The cost of wooden cases has increased considerably, so in some cases, suppliers may be invited to quote separately for the cost of packing. Bidding documents or Purchase Orders quoting “export packing” are not explicit enough. Suppliers should be clearly instructed what sort of export packing is required as their standard packaging may not be adequate.

Pallets

Pallets were conceived for easy handling of all types of stackable items such as small cases, cartons or bags; they consist of wooden boards as a floor on which goods are placed, a wooden top, and the whole being securely strapped to constitute a compact unit. The floor itself is nailed onto wood blocks which allows for passage of the prongs of a forklift. Standard EuroPallets have the following dimensions: 120 x 80 cm and US pallets 120 x 100 cm. Pallets are ideal for loading into containers and facilitate easy handling by forklift.

It is highly recommended that each carton, case or unit of goods loaded on pallets be clearly marked to facilitate identification, in case a pallet is lost in transit. For instance, a consignment should be described as “three pallets of each 40 cartons”, instead of just “three pallets”. Endless difficulties, loss of time and loss of supplies can occur at destination when the number of parcels on the bill of lading (B/L) and invoices does not agree with the quantity received because the pallet wrapping has broken.

Sustainable packaging

In addition to the mentioned criteria, packaging should finally address sustainability concerns such as the following:

- Is beneficial, safe & healthy for individuals and communities throughout its life cycle
- Meets market criteria for both performance and cost
- Is, as far as possible, sourced, manufactured, transported and recycled using renewable energy
- Optimises the use of renewable or recycled source materials
- Is manufactured using clean production technologies and best practices
- Is made from materials healthy throughout the life cycle
- Is physically designed to optimize materials and energy

- Is effectively recovered and utilised in biological and/or industry closed loop cycles[39]

Containerisation

Unless the goods are shipped in 20-foot/40-foot containers (see the table below), the organization should specify that it should be shipped below deck in order to avoid damages during transport (e.g., risks of rust, humidity or spray from the sea).

Containerisation could be considered for extra protection and to handle the shipment more effectively, however, this may increase cost. If containers are used, it is recommended to try to make full use of space and ship only full containers in order to save costs, as the rate for shipment usually does not depend on weight. The use of LCL (less than container load) containers that consolidates consignments from different clients, will expose the shipment to the risks of loss and delays if one or several consignments should experience difficulties in clearing customs. Further, small consignments risk waiting for weeks in order to make up a full container load. It is therefore recommended, where possible, to plan loads that fill the container.

It should be noted that containerization will not reduce the need for appropriate packing, as part of the journey usually takes place outside of the container and because the containers themselves may be handled roughly by port operators or experience high seas.

CONTAINERS DIMENSIONS (SIZE, VOLUME AND PAYLOAD)	**20 FT CONTAINER**	**40 FT CONTAINER**
Inner length	5.90 m	12.02 m
Inner width	2.33 m	2.33 m
Inner height	2.21 m	2.21 m
Door width	2.30 m	2.30 m
Door height	2.14 m	2.21 m
Payload (approx.)	18-19.5 metric tons	28 metric tons

CONTAINER TYPE There are different types of containers, which can be used depending on the size and type of products to be shipped as described in the table below:	**FEATURES**
Dry	Most common type of container.
Open top	No hard top for tall cargo
Flat racks	No top and no sides for wide cargo
Refrigerated	For the transport of perishable items.
Super	Higher than standard dry type containers.

Packing and shipping instructions

Standard packing and shipping instructions are documents specifying how the goods are to be packed and shipped, and who to notify upon shipment. They list all the documents required for customs clearance and for payment purposes.

[39] For more information refer to the definition of the Sustainable Packaging developed by the Sustainable Packaging Coalition, GreenBlue found at www.sustainablepackaging.org

Packing and shipping instructions should form part of all purchase orders as an annex. The packing and shipping instructions are linked to the specific Incoterms 2010 used. Procurement officers should refer to the standard documents available in the organization.

Labelling and shipping marks

To facilitate the identification of goods and handling whilst in transit, suppliers should be instructed to provide clear and complete labelling and shipping marks on all packages. The labelling and shipping marks should include:

- Consignee
- Destination
- Port of unloading
- Project identification
- Order number
- Case number

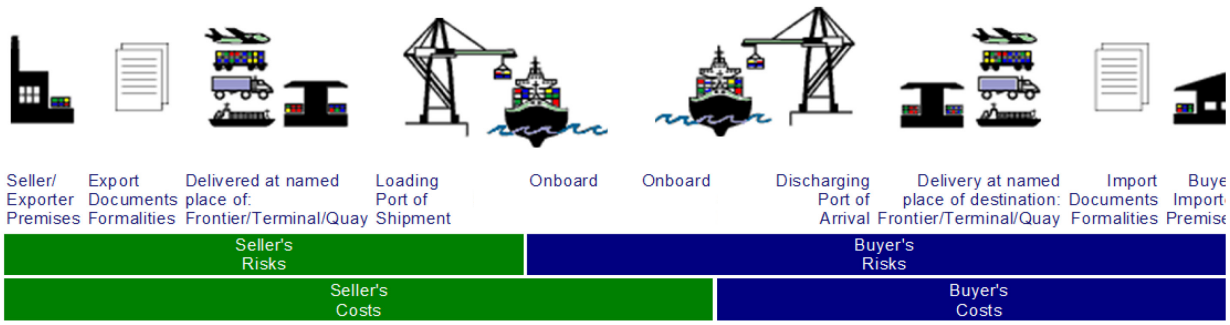
Additionally, goods need to be labelled regarding special requirements, such as dangerous goods, temperature-sensitive cargo etc.

Contents of the packages should not be included in the marking to discourage theft and pilferage.

12.4 INCOTERMS 2020

Incoterms define the obligations of the buyer and seller and explain a set of three-letter trade terms reflecting business-to-business practice in contracts for the sale of goods. Conflicts and disagreement can be avoided if buyers and sellers have a common understanding of the terms and conditions under which they trade. The Incoterms rules describe mainly the tasks, costs and risks involved in the delivery of goods from sellers to buyers, and when they transfer, which is illustrated in figure 1.

Figure 1: Change of bearer of risk and cost during transportation



The upper line illustrates the different stages of the transportation chain where risk transfers from seller to buyer. The bottom line presents when the transportation costs transfer from the seller to the buyer.

The complete content of Incoterms 2020 constitutes a book, and it would be difficult to incorporate all of it into this handbook. Only the most commonly used terminology will be examined, along with a summary of the respective obligations of seller and buyers.

The Incoterms have been established by the International Chamber of Commerce (ICC). The ICC reviews the Incoterms every ten years to ensure they are appropriate and contemporary. The version released in 2020 is the one that is presented here. Procurement officers need to be familiar with Incoterms in order to understand the division of responsibilities and risks between the buyer and the seller.

The ICC offers an arbitration service whose interpretation is widely accepted. Further information can be found on the ICC website at www.iccwbo.org.

Difference between Incoterms 2010 and 2020

The three main differences between Incoterms 2010 and 2020 are:

1. **Different levels of insurance coverage in CIF and CIP**

   According to Incoterms 2010 rules the seller is obliged to obtain cargo insurance complying at least with the minimum coverage as provided by Clauses (C) of the Institute Cargo Clauses. In the CIP Incoterms 2020 rule, the seller must obtain insurance coverage complying with Institute Cargo Clauses (A), whereas the minimum coverage remains Institute Cargo Clauses (C) for CIF delivery.

2. **Change in the three-letter initials for DAT to DPU**

   Delivered at Terminal (DAT) has changed to Delivered at Place Unloaded (DPU). This offers buyers the flexibility to have the cargo unloaded at a delivery place of choice as opposed to at the Terminal. DPU complements Delivered at Place (DAP) where the cargo is delivered loaded, and unloading is at the cost and risk of the buyer.

3. **Inclusion of security-related requirements within the carriage obligation and cost**

   The Incoterms 2010 rules were the first revision of the Incoterms rules that come into force after security-related concerns became relatively prevalent at the beginning of the 2000s. Those concerns, and the associated shipping practices, have since become better established. The Incoterms 2020 rules allocate the cost related to security requirements within the carriage obligation and cost.

Other changes introduced with the Incoterms 2020 rules are (a) Bills of lading with an on-board notation with FCA delivery. The buyer and the seller can agree that the buyer will instruct its carrier to issue an on-board bill of lading to the seller after the loading of the goods, (b) Better clarity on costs and how they are explained by listing all the costs allocated by each Incoterms rule in article A9/B9, (c) Arranging for carriage with seller's and buyer's own means of transport in FCA, DAP, DPU and DDP by allowing for a 'contract of carriage' to be made, or by simply 'arranging for the necessary carriage'.

ANY MODE OF TRANSPORT		SEA/INLAND WATERWAY TRANSPORT ONLY	
EXW	- Ex Works		
FCA	- Free Carrier		
CIP	- Carriage and Insurance Paid	FAS	- Free Alongside Ship
CPT	- Carriage Paid To	FOB	- Free On Board
DAP	- Delivered at Place	CFR	- Cost and Freight
DPU	- Delivered at Place Unloaded	CIF	- Cost, Insurance and Freight
DDP	- Delivered Duty Paid		

Validity of Incoterms

Incoterms apply only if incorporated in the contract of sale or if they are for example mentioned in the offer, the sales conditions, the purchase order, the confirmation of an order, or if they are stipulated by the parties in a separate agreement. Parties wishing to use Incoterms 2020 should clearly specify that their contract is governed by Incoterms 2020.

What do Incoterms regulate...?

Incoterms must be understood as being part of the sales contract. The scope of Incoterms is limited to matters relating to the rights and obligations of the parties to the contract of sale (seller and buyer) with respect to the delivery of goods sold, questions of delivery, documents, export/import formalities, transfer of risk from seller to buyer and division of costs between seller and buyer.

What Incoterms don't apply to

All questions relating to the transfer of ownership, property rights of the goods, breaches of contract and its consequences, exclusions of liabilities in certain circumstances, limitation period and conditions of payment are not subject to the Incoterms. These should be clarified in the sales contract.

Commonly used Incoterms 2020

This guide introduces the obligations of the seller and the buyer for the 8 most commonly used Incoterms. The handbook 'Incoterms 2020 by the International Chamber of Commerce (ICC)' is recommended reading and explains the Incoterms 2020 in much greater detail.

TERM	MEANING	FOR PROCUREMENT WHERE…
FOB	Free on Board	The supplier of the goods does not arrange international transportation but is obligated to arrange export clearance.
FCA	Free carrier	
CPT	Carriage Paid To	The supplier delivers FCA/FOB but arranges international transportation.
CFR	Cost and Freight	
CIP	Carriage and Insurance Paid To	The supplier delivers FCA/FOB but arranges international transportation and insurance on the buyer's behalf.
CIF	Cost, Insurance and Freight	
DAP	Delivered at Place	The supplier arranges transport and assumes the risk and cost all the way to the place of delivery.
DPU	Delivered at Place Unloaded	
Note: All the terms referred to above should be followed by the name of the destination point (For example, CPT UN Warehouse, Baku, Azerbaijan).		
Note: Instead of DAP the use of CPT and the very good, all-risk insurance coverage offered under the insurance programme negotiated globally by various UN organizations may be considered.		

Use of Incoterms

FOB, CFR and CIF

SEA/WATER TRANSPORT	FOB	CFR	CIF
Use	Sea/water transport only. Commonly used for general cargo, oversized, bulky or overweight cargo that will not fit into an ocean freight container (such as oil or bulky grain).		
Export/Import clearance	The seller must carry out and pay for all export clearance formalities required by the country of export. The buyer must carry out and pay for all formalities required by any country of transit and the country of import.		
Risk	Seller assumes the risk of delivering the goods onto the ship at the port of export. Once placed on board the vessel (in the country of export) the risk of loss or damage transfers to the buyer.		
Transport	Seller pays the costs of delivering the goods onto the ship. Sea transport to be arranged by the buyer.	The seller delivers the goods on board the ship in the country of export and pays the sea transport to the named port of destination.	
Insurance	Buyer insures.		Seller insures on the buyer's behalf.
Example	FOB Gdansk, Poland	CFR, Port-au-Prince, Haiti	CIF Hong Kong Seaport

Note:

- Once goods are on board the vessel, the seller may invoice the buyer.
- Payment to seller may be due before the cargo is made available for inspection at the destination.
- For quality assurance purposes pre-shipment inspection in the country of export may be considered.
- The risk of any loss or damage passes from the seller to the buyer at the 'FOB point' in the country of export when the goods are placed on board the vessel.
- Do not use FOB, CFR or CIF for containerised shipments. Instead use FCA, CPT or CIP.

FCA, CPT and CIP

<table>
<tr><th>ANY MODE OF TRANSPORT</th><th>FCA</th><th>CPT</th><th>CIP</th></tr>
<tr><td>Use</td><td colspan="3">Sea, land and/or air transport typically for cargo delivered on pallets, crated, boxed or cargo transported in an ocean or air freight container.</td></tr>
<tr><td>Export/Import clearance</td><td colspan="3">The seller must carry out and pay for all export clearance formalities required by the country of export. The buyer must carry out and pay for all formalities required by any country of transit and the country of import.</td></tr>
<tr><td>Risk</td><td colspan="3">Seller carries the risks until the goods have been delivered to the main carrier in the country of export, loaded. Once the cargo is made available to the main carrier, the buyer assumes the risk of loss or damage.</td></tr>
<tr><td>Transport</td><td>Seller pays the costs of making the goods available at the agreed place in the country of export. The main carriage is arranged and paid for by the buyer.</td><td colspan="2">Seller is responsible for arranging transport and for paying costs associated with transporting the goods to the named place of destination.</td></tr>
<tr><td>Insurance</td><td colspan="2">Buyer insures.</td><td>Seller insures on the buyer’s behalf.</td></tr>
<tr><td>Example</td><td>FCA A-Z Freight Forwarder, Tokyo, Japan</td><td>CPT Kampala Airport, Uganda</td><td>CIP UN Kabul Warehouse, Afghanistan</td></tr>
<tr><td colspan="4">Notes:
Once the cargo is delivered by the seller to the main carrier (in the country of export) the seller may invoice the buyer. Payment may be due before the cargo is made available for inspection at the destination.
For quality assurance purposes pre-shipment inspection in the country of export may be considered.
The risk of any loss or damage passes from the seller to the buyer at the ‘FCA point’ in the country of export when the goods are made available to the main carrier, loaded.
The buyer pays the Terminal Handling Charges (THC) in the port of export.</td></tr>
</table>

Use of FOB versus FCA

FREE ON BOARD (FOB) NAMED PORT OF SHIPMENT

The FOB rule is used for sea or inland waterway transport only where the parties intend to deliver the goods by placing them on board a vessel. FOB is not appropriate for where the cargo is handed over to the carrier before it is placed on board the vessel, for example where the cargo is handed over to a carrier at a container terminal. If this is the case use the FCA rule instead of the FOB rule.

The seller must deliver the cargo either by placing it on board the vessel nominated by the buyer at the loading point, if any, indicated by the buyer at the named port of shipment. The buyer must give the seller enough notice of any transport related security requirements, the vessel name, loading point, if any, and the selected delivery date within the agreed period.

Depending on the flexibility desirable in naming a vessel or specific port the buyer may request delivery to 'FOB UK port' rather than 'FOB London port' as it enables shipment from alternative ports if more convenient to the buyer. 'FOB North Continental port' instead of 'FOB Hamburg port' can be specified for the same reason and depends on the terms of offers received and can only be specified in contracts with the seller's agreement.

FREE CARRIER (FCA)

Free Carrier (FCA) is designed to meet the requirements of modern transport, particularly multimodal and containerised transport. This term may be used for any mode of transport.

Delivery is completed either:
(a) If the named place is the seller's premises, when the goods have been loaded on the means of transport provided by the buyer; or
(b) In any other case, when the goods are placed at the disposal of the carrier or another person nominated by the buyer on the seller's means of transport ready for unloading.

When the word 'Containerised' is added to the FCA rule, i.e. 'FCA Hamburg Port Containerised', the supplier is responsible for container stuffing which is the process of loading and securing cargo inside an empty container which is then sealed and transported to the port.
Please note:

a) The buyer assumes the cost of unloading the container from the supplier's truck and moving the container around the port and lifting it onto the container ship in the country of export. These costs are known as Terminal Handling Charges (THC) and shall be paid for by the buyer.
b) In the port of export the buyer assumes the risk of loss or damage to the cargo during the process of unloading the container from the supplier's truck, any movement around the container terminal and lifting the container onto the container ship.

FCA can be used for local delivery, i.e. when the buyer and the supplier are in the same country, i.e. 'FCA UN Warehouse Djibouti, Ethiopia'. Delivery takes place when the supplier's truck is parked outside the UN warehouse and ready for unloading.

DAP and DPU

ANY MODE OF TRANSPORT	DAP	DPU
Use	Can be used for all modes of transport air, sea and land for all types of cargo; bulky or not, cargo delivered on pallets, bagged, crated, boxed or containerised.	
Import/Export clearance	The seller must carry out and pay for all export-clearance formalities required by the country of export. The buyer must carry out and pay for all formalities required by any country of transit and the country of import.	
Risk	Seller carries the risks of loss or damage until the goods have been delivered to the named place, loaded. Buyer assumes the risk of unloading.	Seller carries the risks of loss or damage until the goods have been delivered to the named place, unloaded.
Transport	Seller pays the costs of delivering the goods to the agreed place of delivery, loaded. Buyer assumes the cost of unloading.	Seller pays the costs of delivering the goods to the agreed place of delivery, unloaded.
Insurance	Seller insures.	
Example	DAP UN Warehouse Harare, Zimbabwe.	DPU Maputo Airport, Mozambique.

Notes:

- The seller cannot invoice the buyer until the cargo is delivered to the named place.
- Payment is due after the cargo is made available for inspection.
- Pre-shipment inspection in the country of export may still be considered for quality assurance purposes.
- DAP/DPU is generally more expensive as the supplier assumes additional risk.
- Unlike the F and C terms the supplier's cash-flow is adversely affected as invoicing is delayed until the goods are delivered at the named place.

12.5 Insurance During Transportation

During transportation and storage, all cargo is vulnerable to a range of risks, such as damage, pilferage and theft, breakage, non-receipt of part of or an entire consignment. Cargo insurance provides protection against potential financial losses resulting from such risks.

It is important to ensure protection for goods subject to risks, including war, strikes, riots and civil commotion. Further, the duration of insurance coverage should be sufficient for the period of transportation, from warehouse-to-warehouse, including storage at the destination site. Goods are insured for the cost, insurance and freight value plus an agreed percentage to reflect the indirect cost of replacing goods.

For *maritime* transportation, it is useful to know the meaning and coverage of the three different types of the "Institute Marine Cargo Clauses" A, B and C. Institute cargo clauses can cover everything from the cargo itself to the container that holds it to the mode of transportation used to ship it. These clauses were developed by the International Chamber of Commerce as a means of insuring cargo while it is being shipped from the original location to its destination.

RISK COVERED AND THE EXCLUSIONS	**INSTITUTE CARGO CLAUSES**		
	(A)	(B)	(C)
Fire or explosion	●	●	●
Vessel or craft stranded, sunk, burnt or capsized	●	●	●
Land conveyance overturned or derailed	●	●	●
Collision or contact of vessel, craft or conveyance with any external object except water	●	●	●
Earthquake, lightning or volcanic eruption	●	●	●
Vandalism	●	●	●
Theft	●	●	●
Wilful misconduct of the assured	●	●	●
Jettison	●	●	●
Washing overboard	●	●	●
Entry of sea, river or lake water into vessel, craft, conveyance, container or place of storage	●	●	●
Total loss of any package lost overboard or dropped whilst loading on to, or unloading from, vessel or craft	●	●	●
Piracy	●	●	●
War	●	●	●
Strikes, riots and civil commotions, includes terrorists or any persons acting from a political motive	●	●	●
Insufficiency or unsuitability of packing	●	●	●

The widest insurance coverage is provided under 'Institute Cargo Clause A', a more restrictive coverage under 'Institute Cargo Clause B', and the most restrictive coverage under 'Institute Cargo Clause C.' Please see the table above for the risks covered and the exclusions.

In addition to transport insurance a warehouse-to-warehouse clause in an insurance policy provides for coverage of cargo in transit. A warehouse-to-warehouse clause usually covers cargo from the moment

it leaves the warehouse of origin until the moment it arrives at the destination-warehouse. Separate coverage is necessary to insure the cargo while it is being stored in either warehouse.

A warehouse-to-warehouse clause assures a buyer that the goods are covered, not only at the port-of-destination, but also at the final destination warehouse. A warehouse-to-warehouse clause mitigates the financial risk of losing a shipment at any point along the journey of the cargo to its final warehouse destination.

In view of the above, most UN organizations have negotiated a global cargo insurance contract that all offices are encouraged to use. The insurance is usually an all-risk insurance with worldwide coverage, except for war risk. War risk can be covered by an extra premium (sea and air transport). War risk on land is often a different coverage and might have to be contracted separately. If in doubt, procurement officers should consult whoever is responsible within the organization for more information on the coverage.

In the event of a claim, or event likely to give rise to a claim, notice should be given as early as possible, following the internal procedures of the organization. Note that insurance policies might have short deadlines for submission of claims.

12.6 Shipping Documents

Complete and appropriate shipping documents are of critical importance for the timely delivery of goods. The supplier needs documents to move the order from its premises and to receive payment from the buyer. The freight forwarder requires documents to contract carriage; the consignee requires documents to claim the goods at arrival; and the consignee or notify party requires documents to handle customs clearance. Each stage of the shipment generates documents that may even be required once the equipment is in the country, for instance to register a vehicle or radio equipment.

The exact contents of a set of shipping documents depend on the type of goods being shipped, the means of transport, who is shipping the goods (freight forwarder, supplier, etc.), and any special requirements of the receiving country.

While the documents required vary from case to case, every shipment should have documented evidence of:

- Contents of the shipment
- Weight and volume of contents
- Origin of goods (if required)
- Price of the goods
- Evidence of transport of the goods.

The following shipping documents are common to all shipments:

SHIPPING DOCUMENT	PURPOSE
Bill of Lading (B/L) (for sea shipment) Waybill (other modes of transport)	• The contract of carriage between the shipper and the carrier, indicating how goods are being shipped and when they will arrive. • Evidence that the carrier has received the goods for shipment and conclusive evidence that the goods were shipped as stated. • Documents showing ownership of the goods specified (a document of title). It is recommended to specify that the B/L be marked 'clean on board and freight prepaid' (especially when using the CPT Incoterm).
Commercial Invoices and Pro Forma Invoices	Describes the goods and indicates their value.
Packing lists	Describes the content, total number of packing units, markings, weight and volume of each unit.
Certificates of Origin	• Indicates the country of origin or manufacture of the goods and are always issued by a local Chamber of Commerce. • Required for importation and also used for statistical purposes.

Gift Certificate	• Replaces the commercial invoice and certificate of origin in the case of goods from warehouse or in-kind donations. • Proves the value of the goods.
Additional documents required when using a freight forwarder	
Forwarder's Certificate of Receipt	Proof that the supplier has handed over goods to the freight forwarder.
Freight Invoice	Indicates shipping details and charges.
Additional documents	
Certificates certifying quality	• May be required to certify quality. • Usually provided by the supplier.

Responsibility

The supplier or the freight forwarder (depending on who is organizing the transport) is responsible for consolidating the shipping documents received and should be instructed to courier one original set of documents to the consignee and the remaining two sets to the procuring entity. Documents should be checked to ensure that all information is correct and consistent in all the documents. Further, procurement officers should ensure that the documents have been received by the consignee.

Terms used in shipping documents

The following terms are frequently used in shipping documents:

Consignee

The consignee is the receiver of the goods, usually, but not necessarily, an office of a UN organization. The consignee may be, but is not necessarily, identical to the delivery address. The consignee should always receive a copy of the shipping documents. The consignee may take care of customs clearance and other government formalities upon the request of the individual responsible for the procurement activity in question, however this may also be handled by a notify party. Consignee details, such as address, country, name, phone/fax, email, and contact person should be included in the purchase order and in the labelling of the packages.

Notify party

A notify party may be engaged by procurement officers (or the consignee) in order to arrange customs clearance of goods and other government formalities. In such case, shipping documents are also to be forwarded to the notify party.

Delivery address/final destination

The delivery address or final destination is the address of the end-user where the goods are to be physically delivered.

12.7 Receipt of Consignments

When a consignment is delivered to the consignee, it is common practice for the carrier to request a receipt. At the same time, the consignee should perform a cursory inspection of packages against all shipping documents. If, the shipment is in apparent good order, it is recommended that an endorsement be given (e.g., "received in good external condition – contents unchecked"). If, however, signs of tampering are visible, the receipt should state necessary reservations (e.g., "cases broken", "contents lacking", "cartons opened with signs of pilferage"). Where possible, packages should be weighed to determine differences between declared and actual weights, documenting any discrepancies on the delivery notes.

Insurance normally extends its coverage to include a period from 30 to 60 days in storage at destination. There can be ambiguity here as sometimes it means days in warehouse at destination to allow clearance and collection and/or stopping after delivery to site, or it means days at site after delivery has taken place. If this is not clear from the documents in hand or not clearly understood in a standing arrangement, then it should be clarified with the party who negotiated the coverage. Even if the

coverage includes 60 days at site, however, it is always preferable to check supplies as soon as possible after delivery has taken place. Carriers and/or suppliers may be involved in a claim, but they are not party to the 60 days agreement. It always weakens the case when a claim is submitted with a delay.

In summary:

- Forwarding agents experienced in local conditions of the country can assist with arranging retrieval/customs clearance/onward forwarding
- Timely inspection of goods received is important
- Proper documentation and reporting of damages or missing consignments, if any, is important

12.8 Restrictions on the Export or Import of Goods

Exporting countries may restrict the shipment of certain classes of goods to certain countries or ban their export altogether. Equipment that has a dual civilian/military use or high-end computer and telecommunications technology are commonly considered. The procurement officer should be aware of these restrictions so that lead time required for authorization can be calculated and the sourcing strategy modified if necessary.

Importing countries may also impose restrictions. Telecommunications equipment and pharmaceuticals typically require prior authorization from the concerned ministry that will issue a licence. Other equipment, such as used vehicles older than a certain age, may be banned outright. Some countries ban goods of certain origins for political reasons. Obtaining permits is generally a protracted exercise. The receiving office must confirm that the relevant permit is in hand before the supplier is authorized to ship the goods. The likely consequence of shipping without the permit is that the receiver will be required to pay the cost of storage in the port and applicable liner charges until the authorization is issued. There is also the considerable risk that the cargo will deteriorate or go missing during this period.

There are also UN restrictions applicable to some countries. For more information, please refer to the UN Committee on Sanctions webpage www.un.org/sc/suborg/en.

Chapter 13

eProcurement

This chapter covers the following topics:

13.1	Introduction	173
13.2	eProcurement Tools and Applications	174
13.3	eTendering	175

13.1 Introduction

The UN Glossary of Procurement Terms defines eProcurement as "electronic procurement that occurs when the activities of the purchasing process are conducted electronically, typically over the internet, to shorten the cycle time and lower the transaction costs of the acquisition process." In its broadest sense, eProcurement involves electronic data transfers to support operational, tactical and strategic procurement. Therefore, eProcurement has been around for much longer than the term itself, which first came into use after the establishment of the internet in the 1990s. From the 1960s until the mid-1990s, eProcurement primarily took the form of electronic data interchange (EDI). Nowadays, eProcurement is often supported by web-based internet technologies and is becoming more and more prevalent.

Those involved in the procurement function need to understand the different eProcurement concepts and tools to provide input into their development, use, evaluation and refinement as a means of improving procurement efficiency and effectiveness. In this chapter, procurement officers will be able to learn about the different aspects of eProcurement at various levels of complexity. This may range from UN organizations electronically posting their tenders and using email for the receipt of offers to fully integrated electronic procurement systems which include an electronic tendering (eTendering) tool through which prospective bidders can, via a platform, communicate with an organization, obtain solicitation packages and submit their offers electronically.

Benefits and constraints

The possible benefits of the different concepts of eProcurement do not only come in the form of technical and administrative improvements. They can also manifest themselves as achievements of a political dimension. eProcurement can enhance the fairness, transparency and traceability of the solicitation process, thus discouraging proscribed practices[40]. It also reduces human interaction during the procurement process which lowers possible opportunities to apply any proscribed practices in general. Moreover, eProcurement tools can offer broader market access to suppliers, promoting competition and easier supplier participation, ideally resulting in more competitive offers received. The adoption of even a comparatively modest level of eProcurement can be equally helpful in reducing environmental waste and implementing a more sustainable process through paperless workflow.[41]

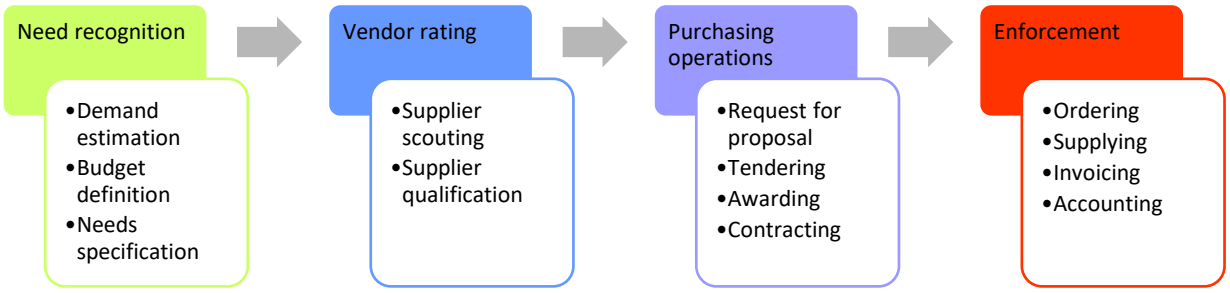
It is also important to take into consideration the logistical, technological and financial challenges inherent in the implementation of eProcurement tools. Firstly, reliable access to the internet is not a global reality, adversely impacting the principle of equal competition for suppliers, especially in a local or regional context. Also, there may be problems related to infrastructure deficiencies and unavailable technology on the supplier's part which can result in a market access constraint for them. Regarding financial matters, some eProcurement systems can be too expensive for consideration; however, one possible option may be to cooperate with another UN organization by, for example, acquiring the rights to use their system. Furthermore, some complex software interfaces have proven to be a challenge to the implementation of eProcurement platforms in the past, creating difficulty for users on all sides. These challenges highlight the importance of high-level institutional buy-in and support for

[40] Proscribed practices may be corruption, fraud, coercion, collusion, obstruction and unethical practice. Source: the Model Policy Framework on Vendor Sanctions as published on UNGM (https://www.ungm.org/Shared/KnowledgeCenter/Pages/MPFTEXT#_ftnref1), status 06 Feb 2017.

[41] For further information on the benefits derived from eProcurement see: UNCITRAL. Guide to Enactment of the UNCITRAL Model Law on Public Procurement (part 1, General Remarks, pp. 26-29). Vienna: United Nations, 2014. Available at: <http://www.uncitral.org/uncitral/en/uncitral_texts/procurement_infrastructure/2012Guide.html>. Accessed on: 03 Feb 2017.

eProcurement solutions, in order to assist in the implementation of rules, policies and good practices for eProcurement.[42] When considering introduction of any tool or method as presented in this chapter (or any other electronic tool available to support the procurement process), each UN organization should ensure that its procurement framework enables, especially the more progressive tools such as eReverse Auction and dynamic purchasing systems, and amend its policies accordingly prior to rollout and implementation of any such solution.

The chart below summarizes the main activities that can be processed with the help of an eProcurement system with the objective to ensure more flexibility, transparency, competitiveness and sustainability.



13.2 eProcurement Tools and Applications

Within the very wide spectrum of what eProcurement can entail and represent, and which is continuously developing and evolving, the main examples of tools and applications, either to conduct or support electronically the procurement process, are the following:

Traditional eProcurement tools

- Electronic mail (email)
- World Wide Web (www)
- Internet tools and platforms like the United Nations Global Marketplace (UNGM) and UN organizations' websites

UN organizations have increasingly been moving from physical receipt of paper bids or offer by fax to accepting electronic submissions from bidders. Also, the significance of the internet and internet-based tools has increased tremendously over the past years. The posting of tenders on the UN organizations' websites and the evolution of the UNGM as a key tool for procurement professionals and suppliers alike are only two examples (for more information see Chapter 10: United Nations Global Marketplace and the below section on electronic receipt of offers).

Enterprise Resource Planning Systems (ERP), hosted or cloud-based

ERP systems are management information systems that integrate and automate many of the business practices, processes and work flows associated with the operations of a company or organization. ERP systems typically handle the manufacturing, logistics, and distribution, inventory, shipping, invoicing, and accounting for a company or organization. ERPs aid in the control of many business activities, such as sales, delivery, billing, production, procurement, inventory management, and human resources management. Typically, within a procurement environment, ERP systems include the procure-to-pay process which usually covers the workflow and approval process from requisition to approved purchase order and ends with the payment of the invoice, i.e., the entire life cycle of a transaction.

Electronic tendering (eTendering) or electronic sourcing (eSourcing), hosted or cloud-based

eTendering is an electronic system that enables procurement officers and suppliers to manage the tender process online. eTendering tools may be integrated with the UNGM for tender and supplier management. Within many UN organizations, eTendering tools are integrated with the electronic

[42] For further information on the challenges faced for the implementation of eProcurement tools see: UNCITRAL. Guide to Enactment of the UNCITRAL Model Law on Public Procurement (part 1, General Remarks, pp. 30-32). Vienna: United Nations, 2014. Available at: <http://www.uncitral.org/uncitral/en/uncitral_texts/procurement_infrastructure/2012Guide.html>. Accessed on: 03 Feb 2017.

procurement system that is often part of an ERP solution (for more information see the below section on eTendering).

Combinations of the above may exist within a UN organization.

Electronic receipt of offers

Receipt of offers by email may be a good first step in an electronically managed procurement process which would cover interaction with the supplier community. Feasibility depends on the actual area of operations and access to a robust and secure internet connection, meaning that for some organizations that still rely on receipt of paper originals of offers by mail, courier or fax, it may be possible to give bidders the opportunity to submit their offers by email. This can help improve efficiency and effectiveness of the procurement process as well as improve the environmental impact of the bidding process.

For electronic submissions via email, a dedicated email address must be set up, and it must be clearly stipulated in the solicitation documents that offers sent to any other email address will be rejected. This email address must be protected to ensure that emails are kept unopened until the bid opening. Ideally, individuals not directly involved in the procurement process, and duly authorized, must have sole access to the secure email.

It is important to note that the deadline stated in the solicitation document applies equally to hard copy and electronic tender submission. In the case of bid submission by email, the receipt time stamp should be the date and time when the submission has been received in the dedicated email inbox. A UN organization shall never be responsible for any delays caused by network problems, etc. It is the sole responsibility of bidders to ensure that their bid is received in the dedicated inbox on or before the prescribed bidding or tender deadline.

Also, the distribution of solicitation documents may be performed electronically. Here, one guiding principle applies: the fair treatment of all suppliers and bidders, i.e., invitees must receive the same information at the same time.

If the solicitation documents do not allow electronic submissions, any submission received by electronic means may be rejected. Any requirement for documentation of the solicitation process shall not be interpreted to restrict the use of any electronic means of data interchange, provided the electronic media upholds the procurement principles and allow for adequate audit trail of the procurement process.

13.3 eTendering

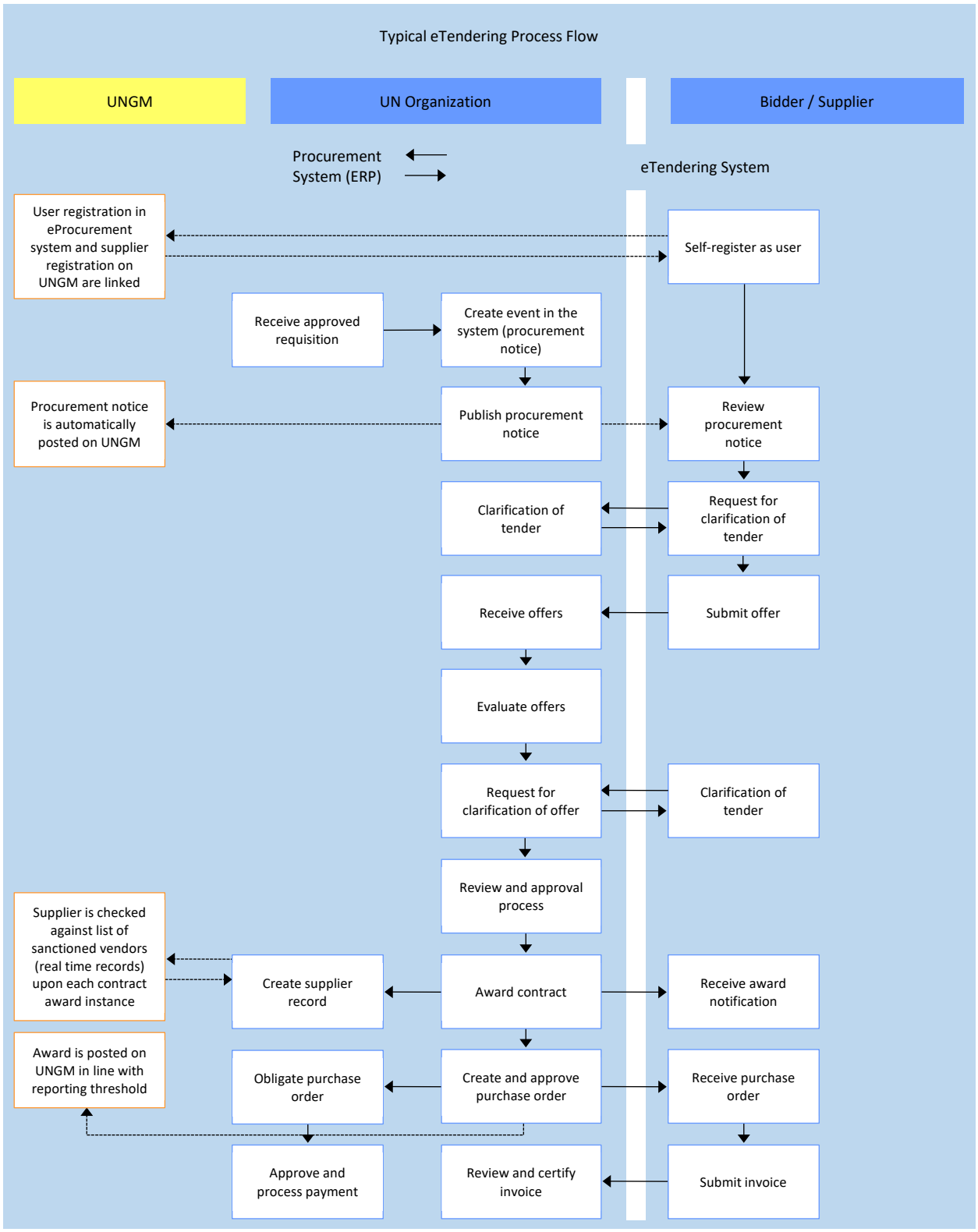
Normally, eTendering or eSourcing is a stand-alone system which is often integrated with an organization’s existing ERP system, or is a module thereof, that enables procurement officers and suppliers to manage the tender process online from their respective side. It may be integrated with various steps of an organization's ERP system and can link to other steps in the procurement process as well, such as requisition workflow, supplier creation and purchase order workflow. eTendering tools may be integrated with UNGM for tender and supplier management as well. If well designed and implemented, eTendering can bring considerable benefits to users within a UN organization and the supplier community alike.

While the individual steps within the flow may vary from system to system and organization to organization, there will always be a limited and managed interaction, including possible communication by tracked messaging, between the UN organization and the bidder throughout the process while all other activities in the same system remain completely apart from each other (segregation of functions) to protect the integrity of the procurement process for both sides, i.e., the UN organization and the bidder/supplier.

The below process flow can be considered typical of an eTendering system used by a UN organization. Depending on organization and selected eProcurement solution, there may be fewer functionalities or more, like a procurement planning or a contract administration and management tool, while the overall principle of how it works remains the same.

There will ideally be integration points with the UN organization’s internal electronic procurement system which in many places would be part of an ERP system. In the below graph, possible integration

points with the UNGM platform have also been shown to illustrate how an eTendering system, subject to each organization's internal requirements and technical constraints, may also serve as a tool to automate certain routines related to the UNGM and the tools and data available there.



Some of the advantages of an eTendering tool may be any of the below, especially when this tool has been integrated with the organization's electronic procurement system (procure-to-pay) or has been made part of its ERP solution.

- Facilitate, support and manage the sourcing and solicitation process, ideally from identification of procurement requirement to contract award/purchase order creation
- Easier and more intuitive day-to-day working experience for procurement officers and all other system users
- Consistent procurement practice across a UN organization
- Demonstrated fairness and transparency of the procurement process towards bidders, partners and auditors alike
- Easy and real-time availability of auditable procurement records and files
- Stronger reporting capabilities
- Efficiencies gained through a system that supports the procurement officer's daily work and facilitates the related workflows
- Better monitoring and management of procurement exercises
- Workload management for managers
- Increased compliance with procurement policy through guided and automated processes (on global, regional and national level)

It should be noted that if all the above-mentioned aspects are included in such a tool, these can be complex and will involve deep changes in the way procurement is executed. A step-by-step introduction, roll-out and implementation should be considered along with a solid change management strategy and the requirement of training for involved staff and suppliers alike.

Approaches to eTendering and more advanced tools

There are different approaches UN organizations have taken in their selection of an eTendering tool or system. There are various commercial solutions available in the market. Also, some organizations have decided to build their own eTendering tool using in-house expertise, capacity and resources.

Additional electronic tools, such as eCatalogue, eReverse Auction and dynamic purchasing systems, may be selected as stand-alone options or to supplement and expand an eTendering tool. UN organizations should make their choice in line with their procurement profile, based on a needs analysis and in accordance with their existing technological level and capacity. Moreover, they will consider the relevant system(s) already in place and the related integration requirements. The additional tools available may automate and integrate one or various additional phases of the procurement process.

eReverse Auction

An electronic reverse auction (eRA) may also be a stand-alone procurement tool and encourages competition among bidders through an online and real-time trading system. During a specific period of time, that is normally short, a bidder can present electronic offers in this electronic system, automatically competing with other bidders' offers. An eRA makes offers for goods, services and works, where prices and values submitted by the bidders are presented electronically and visible to all bidders participating. To avoid collusion sometimes the final part of the bidding process in ERA may be kept non-visible, meaning that the bidders will submit their best and final offer (BAFO) without knowing their own ranking in the bidding or that of the other bidders in the process.

For instance, UN organizations may use ERA in order to procure commodities, standardized services and small works for its Headquarters, for Regional Offices or for local projects. After the successively lowered bids that occur online, the procuring organization may elect the best submission based on cost optimization, quality, sustainability and risk factors.[43]

eCatalogue

eCatalogue, often used in government procurement, is an electronic tool for the organization and presentation of tenders after qualification of suppliers has been concluded successfully. It is used in order to display products/services/works to the procuring organizations, with clear details of the anticipated purchases. Usually, technical specifications and the format of the eCatalogue are determined by the procuring organization in a standardized template in order to facilitate the evaluation of different products.

[43] For more information on eReverse Auction see: UNCITRAL. Guide to Enactment of the UNCITRAL Model Law on Public Procurement (Chapter VI: Electronic Reverse Auctions). Vienna: United Nations, 2014. Available at: <http://www.uncitral.org/uncitral/en/uncitral_texts/procurement_infrastructure/2012Guide.html>. Accessed on: 02 Feb. 2017.

Under the eCatalogue tool, the procuring organization can have access to a list of items offered by the supplier, with supporting information. The procurement can be processed through direct order or request for quotation. The electronic purchasing process can also involve more steps, such as placing orders and checking orders, designating transportation specifications, issuing invoices, requests for payment and monitoring approval. The acquisition of furniture, reprographic equipment, training and education services and office cleaning services are the most common examples of procurement under eCatalogue.

Dynamic Purchasing System

As an eProcurement tool, the Dynamic Purchasing System (DPS) is a process that facilitates the procuring organization in purchasing goods, services and works electronically within a longer timeframe. DPS extends beyond the limitations of LTAs or framework contracts and more or less rigid sourcing processes. It is meant for faster-moving markets, where suppliers come and go, and prices may fluctuate. DPS can help ensure a UN organization obtains the best value for money in the market at any given point in time.

In this system, procuring organizations will publish a tender notice, specifying the type and an estimated quantity for purchase, the technical and administrative requirements, the expected technology, the social and sustainable prerequisites for eligibility and other specifications regarding the purchase. After procuring organizations have set their requirements, prospective bidders/suppliers can participate at any time in an e-competition for tenders. The time frame is longer and can correspond to timing set for an LTA. This electronic process remains open throughout the above-mentioned defined period of validity for prospective bidders/suppliers that meet the requirements to compete. Procuring organizations may also demand that offers are presented in an eCatalogue format. Successful stories of procuring through DPS can be found in the health sector concerning the procurement of pharmaceuticals.

Business to business (B2B)

With the advancement of technologies and the change in buying behaviours, as appropriate, eProcurement development strategies could also aim to look ahead and connect with the adoption of consumer driven platforms, two of which are business to business (B2B) and business to consumer (B2C) platforms (e.g. Amazon and Alibaba), and the leverage of social media.

On the B2B platforms, eProcurement integration with buying portals such as Amazon and Alibaba can accelerate the implementation of a full supply chain solution for many organizations, including not only the requisitioning, order processing and delivery modules, but also the upstream supplier selection, contracting and cataloguing efforts and lead times. Traditional eProcurement portals can be integrated with these B2B providers and thus improve usability in terms of speed and choice (mobile device click to buy process), whilst maintaining the controls (approvals, reporting, audits).

In terms of social media opportunities, consumer behaviour is now proven to be the power of instant buyer feedback (online reviews). For both private and public organizations, the ability to accelerate market research for new suppliers and vendors, benchmark and reference checking their credibility, and for ongoing performance monitoring and feedback collection, social media has now made it possible to provide buyers with far more accurate real time assessments for decision making. One fundamental ingredient is the broad base data from a diverse user base.

Chapter 14

Sustainable Procurement

This chapter covers the following topics:

14.1	Sustainable Procurement	179
14.2	United Nation Global Compact	202

14.1 Sustainable Procurement

Introduction

Sustainable Procurement[44] is about taking social and environmental factors into consideration alongside economic factors in making procurement decisions. The HLCM Procurement Network (referred to in Chapter 1, Section 1.5) has defined SP as procurement that "*integrates requirements, specifications and criteria that are compatible and in favour of the protection of the environment, of social progress and in support of economic development, namely by seeking resource efficiency, improving the quality of products and services and ultimately optimizing costs".*

The underlying principles of the procurement process are achieving value for money on the basis of analysing and evaluating the life-cycle costs of goods, services or works. This generates long-term benefits not only to the organisation but also to society, to the economy and to the environment.

Sustainable procurement forms a key part of an overall push for sustainable development by governments and UN organizations. It also falls under one of the new Sustainable Development Goals discussed in Chapter 1: Goal 12 – Ensure Sustainable Consumption and Production Patterns. Among the specific targets for achieving Goal 12 is target 12.7, which states "*promote public procurement practices that are sustainable, in accordance with national policies and priorities.*"

A key motivation for the UN's commitment to sustainability has been the potential to realize efficiencies and invest the resultant savings into increased programming. This has required a dramatic change in how UN organizations regard procurement. In the past, many UN organizations viewed sustainability as a financial burden, rather than a smart means of doing business. With economic downturns, UN organizations saw their overall budgets being reduced which resulted in a reluctance to spend more money to achieve sustainability. Over the years, UN organizations have realized that short-term commitments to sustainability will bring about long-term savings.[45]

Sustainable procurement in UN procurement rules, procedures, contracts and initiatives.

The practice of Sustainable Procurement has been highly successful within the private sector. It has also been growing both at country level and at local level, which can serve as a best practice for international organizations. Within the UN system, implementation of sustainable procurement criteria and processes is more complex, primarily due to the existing regulations and rules governing competitive bidding, particularly on an international basis.

While engaging in promoting and integrating sustainability throughout the entire procurement cycle, UN organizations shall comply with distinct policies, requirements, regulations and rules such as the UN Financial Regulations and Rules[46], UN General Conditions of Contract[47], Supplier Code of Conduct[48] and

[44] This chapter has borrowed from few existing guidance on SP, especially the UN specific guide "Buying for a better world: a guide on sustainable procurement for the UN System (2011)" available at http://greeningtheblue.org/resources/procurement. Please refer to it for more details

[45] UNITED NATIONS. *A Vision of a Sustainable UN 2020*. Stockholm: UNEP, 2012.

[46] See specifically Financial Regulation 5.12 under Chapter 1, Section 1.3 on: UNITED NATIONS. *United Nations Procurement Manual: Revision 7.* Department of Management Office of Central Support Services Procurement Division, 2013, p. 8. See also Chapter 1, Section 1.4 of this handbook on Regulatory Framework.

[47]Clauses that prohibit child labour, sale or manufacture of landmines, engaging in sexual exploitation and unethical behaviour can be found among the UNITED NATIONS. *General Conditions of Contract: contracts for the provision of goods and services.* UN Procurement Division, 2012. For further information, please refer to Chapter 6, Section 6.6 on Contract.

[48] UNITED NATIONS. *UN Supplier Code of Conduct.* UN Procurement Division, 2013. For a list of issues, including sustainability ones, addressed in the Supplier Code of Conduct, please refer to Chapter 2, Section 2.8 on Ethics at the Supplier Level.

UN organizations' procurement policies and manuals[49], many of which have been revised to incorporate additional provisions to address sustainability factors, focusing on social and environmental issues.

Despite the strong emphasis on purchasing prices, lack of data on life-cycle costing of products, uncertainty of assumptions regarding discount rates, focus on annual procurement budgets and the general complexity involved in environmental and social variables, current procurement policies and procedures promote balancing the weight of sustainability factors in procurement decisions. Some UN organizations have been piloting mandatory sustainability criteria[50] in tenders, and preliminary conclusions indicate that there is no evidence to suggest that sustainability always leads to higher prices being offered or that suppliers from developed economies would be favoured.

Sustainable procurement is consistent with current business best practices and with existing UN system procurement principles and rules. The UN does not require new rules but simply a refined approach to implementation that is more sensitive to sustainability principles.

The various voluntary and individual initiatives promoted by different organisations across the UN also play an important role in advancing Sustainable Procurement in the UN system.

Key UN Initiatives in Sustainable Procurement

Sustainable procurement has made very clear progress in the past few years within the UN system. According to the 2018 Annual Statistical Report on United Nations Procurement, 39 UN organizations reported an increasing trend in adopting sustainable procurement practices. A core focus of these efforts is on the development of an organizational policy or the development of an organizational procurement strategy that includes sustainability considerations as well as the establishment of measurable targets and objectives. In addition, significant use and integration of sustainability criteria and total cost of ownership in procurement operations has been recorded[51].

These positive developments are a testimony of how the United Nations system is shifting towards a more concrete integration of sustainable development principles in its key functions and how procurement is considered a strategic element of such a shift.

Key enablers for change in the context of Sustainable Procurement have been the UN Climate Neutral strategy and the support provided to its implementation by the UN Environment Programme via the Sustainable UN initiative and its networks of sustainability focal points in UN organisations[52]. In parallel, the UN Office for Oversight Services (OIOS) and the Joint Inspection Unit (JIU) clearly urged UN organisations to use their buying power to reach the declared goals of climate neutrality and overall sustainability management.[53]

In May 2019, the UN's Chief Executive Board endorsed the first Strategy for Sustainability Management (2020-2030) for the UN system, focusing on internal environmental sustainability covering five environmental impact areas (GHG emissions, waste, water, air pollution and biodiversity). The Strategy identifies procurement function among the key ones to be transformed in support of sustainability management and calls out UN organizations to systematically integrate sustainability considerations into their procurement by 2030. Progress is to be measured by: (i) percentage of UN entities with an SP policy and (ii) percentage of tenders with sustainability criteria at entity and system-wide levels.

[49] For detailed information visit www.ungm.org

[50] For instance, UN Women has introduced in its general conditions clauses that require suppliers to take appropriate measures to avoid discriminatory practices, including expanding this obligation to the supply chain of which the supplier is part. For further information refer to the "UN Woman General Conditions of Contract: contracts for the provision of goods and services" found at http://www.unwomen.org/en.

[51] The Annual Statistical Report on UN Procurement is available on https://www.ungm.org/Shared/KnowledgeCenter/Pages/asr_report

[52] The Chief Executives Board endorsed three key decisions, proposed by the Environment Management Group via the High-Level Committee of Management in 2009; 2013 and 2015, in support of a Climate Neutral and overall more environmentally sustainable UN facilities and operations by 2020. The decisions commit all CEB members to a) measure their environmental footprint (GHG emissions, waste, water and staff awareness); b) reduce impacts as much as possible via the integration of environmental sustainability goals in the programming of facilities and operations (via action plans or environmental management systems for instance); and offset the unavoidable GHG emissions at the latest by 2020; details of such decisions can be found on the CEB website under the November 2007; April 2013 and April 2015 meeting reports. http://www.unsystem.org/content/reports

[53] A report from the Office of Internal Oversight Services in 2009 analysed the efforts among organizations to reach the climate neutrality commitment. The report pointed out the need to involve the procurement function in these efforts and in particular recommended that organizations develop better strategies for improving environmental management and sustainability in general, of which SP would be a component. A report from the UN Joint Inspection Unit was released in March 2010 titled the "Environmental profile of the United Nations system organizations: Review of their in-house environmental management policies and practices". On SP the report recommends that: "The executive heads of the United Nations system organizations involved in field activities should establish in-house Sustainable Procurement policies and guidelines, taking account of the local conditions of the host country and the needs of field offices"

Sustainable Procurement is increasingly being addressed as a key element of other new strategies and processes. As such, SP is featured in both the recently developed (2019) UN Disability Inclusion Strategy[54] as well as the UN Youth Strategy[55].

External pressure is also a key driver, such as requests from Member States in the context of the United Nations Conference on Sustainable Development in Rio de Janeiro in June 2012 demanding "UN system organisations to integrate principles of sustainable development in the management of facilities and operations"[56] and lately the Sustainable Development Goals promoting public procurement practices that are sustainable, in accordance with national policies and priorities (SDG Goal 12 targets).

Sustainable Procurement practices are also growing because of the increase in environmental and social considerations in internal management at all levels. As of autumn 2017, over 29 UN organisations are implementing environment management systems that require mandatory environmental considerations also be included in the procurement process[57]. The use of international building standards is growing steadily amongst UN facility managers and that requires sustainability considerations to be included in the purchasing of any equipment or service that serves the certified building.

The Supplier Code of Conduct (refer to Chapter 2, Ethics in Procurement, Section 2.7) expresses expectations that the UN has regarding the behaviour of its suppliers. Among other commitments, the Code expects suppliers to conform with the ILO international labour standards. Examples of some of these clauses include: the right to collective bargaining; prohibition of forced or compulsory labour; equal remuneration for men and women for work of equal value; equal opportunity and treatment in respect of employment; and adequate health and safety conditions in the workplace. The Code also encourages suppliers to register with the UN Global Compact initiative[58].

Mainstreaming of gender responsiveness in procurement is part of this general trend, and best practices are growing. As billions of dollars are spent on procurement of goods, services and civil works in the UN system annually and less than 1 % of the contracts are awarded to women-owned businesses[59]. The fifth SDG embodies the objective to achieve gender equality and empower women and girls. This is not a standalone goal, but it has a significant importance in achieving the other goals as well (e.g. eliminating poverty and hunger, ensuring good health and education for all people). UN Women has taken the lead to integrate gender considerations in their procurement and producing guidance that can be applied also by other UN organisations[60]

Procurement by the UN, with a purchasing power of US $18.8 billion in 2018[61] and a typical spend of 60%-80% of its total expenditure on goods, services and works, could be used as leverage to encourage sustainable business practices as well as send an important signal to the global market. In this respect, UN procurement could play a role in shaping the future business culture of its suppliers. This will complement existing efforts by procurement officers in the public and private sectors. To accelerate the implementation of SP and to make it more effective, a sustained effort is needed to raise awareness and build the capacity of procurement officers, requisitioners and, if necessary, that of suppliers.

Acknowledging the need for a common definition and a streamlined approach that will enable the UN system to track, measure and report on SP implementation in a more systematic way, a framework for

[54] https://www.un.org/en/content/disabilitystrategy/

[55] https://www.un.org/youthenvoy/youth-un/

[56] General Assembly Resolution A/RES/66/288*, 11 September 2012

[57] www.greeningtheblue.org

[58] The Ten Principles of the UN Global Compact cover issues such as human rights, labour rights, bribery and corruption as well as expectations on environmental management. For further information, please refer to: https://www.unglobalcompact.org/; For more information on ILO International Labour Standards visit: http://www.ilo.org/global/standards/lang--en/index.htm

[59] A women-owned business is defined as a legally registered business in any sector at least 51% owned, managed and controlled by one or more women.

[60] UN Women has implemented a mandatory registration of the gender profile of ownership among suppliers in its internal ERP system (ATLAS) and has introduced specific fair and transparent mechanisms to allow contract awards to women owned businesses. Planning for gender-responsiveness also takes place at the level of the individual procurement process and at the broader departmental and eventually organizational level of UN Women. At the level of the individual process gender-responsiveness is integrated into specific decisions concerning sourcing, requirements definition, solicitation process, and contract award and management. At the organizational level, aggregated planning and forecasting allows for identification of demand for commodities that can be considered for deliberate gender-responsive procurement processes. UN Women has also drafted a guidance paper on Gender Responsive Procurement as well as the report "The power of procurement: How to source from women-owned businesses", that can be found at: http://www.unwomen.org/en/digital-library/publications

[61] Sustainable Procurement in the UN System, 2018, Annual Statistical Report on UN Procurement

identifying a tender as “sustainable” has been endorsed in March 2019 during the 25th session of the HLCM PN in Vienna. The Framework is based on a set of 12 SP indicators - encompassing environmental, social and economic criteria referring to the solicitation stage of the procurement process - and an associated methodology setting the minimum indicator requirements for tenders to qualify as sustainable.

The indicators framework will be an integrated element within UNGM and will enable procurers to select and report which sustainability elements have been included in the tender. Those tenders which meet the minimum requirements will be identified and communicated as sustainable tenders to UN suppliers. Based on the methodology a tender is defined as sustainable when:

1. At least 3 criteria /indicators are integrated in the tender.
2. The integrated consideration corresponds to at least one criterion in each of the three pillars of sustainability (Environmental, Social, Economic). In other words, when SP consideration included in a tender cover all three pillars of sustainability.

Environmental Indicators	1	The tender incorporates considerations for the prevention of polluting emissions to air, solid waste to land and discharges to water (e.g. EMS, waste and waste management etc.)	**Prevention of pollution**
	2	The tender incorporates considerations promoting the sustainable use of resources (e.g. energy saving, recycling etc.)	**Sustainable resource use**
	3	The tender incorporates considerations for preventing or minimizing damage associated with climate change (e.g. energy efficiency, greenhouse gas reporting and offsetting, etc.)	**Climate change mitigation and adaptation**
	4	The tender incorporates considerations related to the protection of the environment, biodiversity and restoration of natural habitats (e.g. sustainable/organic agriculture, fishing or forestry, etc.	**Protection of the environment, biodiversity and restoration of natural habitats**
Social Indicators	5	The tender incorporates considerations related to human rights and the fundamental principles and rights at work (e.g. freedom of association/collective bargaining, elimination of child/forced labour and discrimination at work, health and safety, fairly traded goods, etc.)	**Human rights and labour issues**
	6	The tender incorporates considerations addressing gender equality and women's empowerment (e.g. gender mainstreaming, women-owned businesses, etc.)?	**Gender issues**
	7	The tender incorporates considerations promoting health and general well-being of consumers/recipients of the good/service (e.g. hazardous chemicals, labelling of chemicals, etc.)?	**Social health and well-being**
Economic indicators	8	The tender incorporates considerations of the whole life cycle cost of the service or product you are purchasing?	**Whole life cycle cost**
	9	The tender incorporates considerations for local SMEs, local communities or/and disadvantaged groups (e.g. reserved labour, local materials)?	**Local communities and SMEs**
	10	The tender incorporates considerations promoting sustainability through the entire supply chain (e.g. sustainability of tier 2 suppliers)?	**Promoting sustainability throughout the supply chain**
General indicators	11	The tender incorporates considerations promoting vendors' participation to the UN Global Compact	**Global compact**
	12	The tender incorporates contract conditions/KPIs that stipulate verification of suppliers' environmental and social claims through “spot checks” and audit provisions	**Suppliers’ monitoring and auditing**

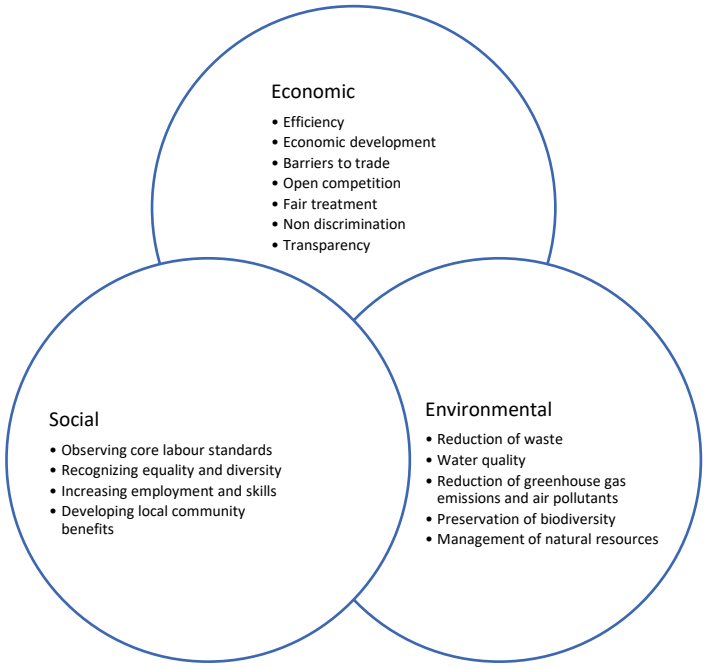
Similarly, the UN Harmonized Solicitation Documents that were endorsed by HLCM PN in October 2019, now incorporate important elements and provisions related to SP Indicators Framework[62].

Updates on progress in environmental sustainability initiatives across the UN system can be found on http://www.greeningtheblue.org and, more specifically on sustainable procurement, in the Knowledge Centre on www.ungm.org

Sustainability factors

Sustainability factors include economic, social and environmental concerns. The diagram below illustrates many of the issues that relate to these three factors.[63]

Figure 1 - The Three Pillars of Sustainable Development



Economic factors include the cost of goods, services and works over their entire life cycle (price, maintenance, operations and disposal), but also many other factors such as local economic development, employment, effectiveness and good governance.

Social factors relate to the potential contributions of procurement decisions to the eradication of poverty, aspects such as the distribution of resources, the respect of fair working conditions and human rights by companies as well as to aspects such as gender balance, developing local communities, employment and economic securities for whole families. While the literature available on sustainable procurement has often been weighted towards environmental aspects of sustainable procurement, the social aspects are gaining increased importance, in part due to governmental policy objectives of increasing the access to procurement opportunities among minority and vulnerable groups such as women, youth, or persons with disabilities. There has been more international focus on social factors over the past few years giving it more visibility and making organizations aware of its importance.

Environmental factors relate to the contribution of products, services and works over their whole life cycle (from raw material extraction to disposal) to aspects such as greenhouse gas emissions, resource depletion (water, energy, raw material) and to the release of environmentally harmful chemical substances into the environment. Different methodologies and techniques are available today to

[62] For more information visit: https://www.ungm.org/Shared/KnowledgeCenter/Pages/HWG_GUIDE

[63] UN specific guide "Buying for a better world: a guide on sustainable procurement for the UN System (2011)" available at http://greeningtheblue.org/resources/procurement

conduct a proper assessment of the impact that each procurement decision does have on the environment, also by monetizing its value in terms of costs that each organization should be ready to pay.

Sustainable procurement implementation

The following section provides additional details on sustainable procurement implementation and differentiates between embedding SP at a strategic level within an organization's procurement function and implementing at the level of individual procurement processes.

Sustainability at the organizational procurement strategy level

Procurement strategy is a crucial phase for the effective achievement of sustainability through procurement and for advancing the UN's organizational overarching goals and objectives, such as the Sustainable Development Goals.

Implementing SP requires both high-level commitment and a well-structured approach. High-level commitment can be generally expressed through a policy document that sets out organizational aspirations and key targets or objectives in relation to SP. Many organizations complement the use of a policy with the development of a procurement strategy that also incorporates sustainability criteria. SP can be especially facilitated by the development of an SP Action Plan.

SP Strategy

Developing an SP Strategy can provide a solid, coherent and well-coordinated approach to SP within an organisation, and can also help to define the mechanisms for implementing and monitoring SP. An SP Strategy:

- Provides clear practical steps on how SP will be delivered
- Provides time scales within which SP will be delivered
- Assigns responsibilities to individuals and groups within the organization
- Defines key risk areas and opportunities to be addressed
- Sets out SP objectives and targets as well as milestones for achievement of these objectives and targets
- Provides information on measurement, monitoring and auditing of performance over a set time frame (e.g. the period covered by the Strategy)

The process for developing an SP Strategy should be as inclusive as possible in order to take advantage of the internal expertise as well as to achieve buy-in on SP at all levels within the organization.

Prioritization

A key approach to achieving effective sustainability through procurement is to set priorities, ensuring that they are not only relevant and significant for the organization itself, but that they are realistic and achievable. Conducting a prioritization exercise can help gradually increase focus on SP implementation rather than attempting to achieve everything immediately.

Different factors can and should be considered when prioritizing the product/service categories to be impacted. These include:

- The environmental and social risks of key products and services categories (and industry sectors)
- The priorities of the organization itself
- The importance of the purchasing entity in terms of spend and the scope for action
- The market's capacity to provide sustainable alternatives or solutions
- The level of effort required from staff involved
- Compliance with regulations and rules, international standards and best practices
- The potential for influencing the behaviour of suppliers and other stakeholders
- The opportunities for "quick wins" i.e. options easily implemented (e.g. reduced packaging, recycled paper, etc.)

Usually, the process of SP prioritization follows a structured four-step approach:

Step 1: Mapping expenditure

Mapping expenditure patterns can help identify potential sustainability impacts and gain knowledge of the organization's leverage to address them. It relates to examining the organization's procurement portfolio; that is what and how much is purchased from whom, where and how; including studies of key supply markets, procurement profiles, risk analysis and an assessment of the organization's impact on its key supply markets (for details on how to conduct a procurement spend analysis please refer to Chapter 4, Section 4.4).

Step 2: Identifying priorities

This relates to agreeing on the priorities in the top three fields of action of Sustainable Development and the key sustainability problems that the organization aims to tackle. Considering that organizations might have different priorities and objectives in the area of Sustainable Development, an SP Strategy should be aligned and reflect the specific commitments, objectives and organizational goals that individual organization have set in the field of sustainability. Hence, an SP Strategy should provide the action plan for managing the procurement aspect of organizations' sustainability policies and strategies.

Step 3. Mapping sustainability risks

Evaluating the possible economic, environmental and social risks for the goods, services and works that an organization systematically procures is a crucial step in understanding the relevance of SP and identifying the related challenges and opportunities while integrating sustainability factors in procurement operations. For example, there are known social vulnerabilities in labour conditions in some developing countries where products are made very cheaply at the expense of its employees receiving very low wages and often working in adverse or even dangerous conditions. Similarly, it is known that although child labour is illegal, it is still often used in certain parts of the world.

Such a mapping exercise can take the form of a simplified sustainability risk exercise or can be more elaborate based on the capacities of each organization (for more information please see chapter 3 on Risk Management). At the same time, organizations should focus on key categories that are considered strategically important or that entail high sustainability risk. It is good practice for the procurement officer to actively collaborate and share information with other UN agencies and to engage with research organisations studying sustainability issues in the environmental and social sectors in order to stay abreast of lessons learned and new developments.

Below are some examples of the key risk factors to consider and themes/sub-themes to assess while undertaking a sustainability risk assessment:

Environmental risk indicators (such as emissions to air and water, waste to landfill, resource use and environmental quality) include the following themes that can be assessed:

- Air emissions/pollutants
- Wastewater discharge
- Waste generation
- Non-renewable resources
- Vulnerable renewable resources
- Hazardous materials/chemicals
- Fossil fuel consumption
- Water consumption
- Ecosystem/landscape impact
- Transport and logistics

Socio-economic risk indicators (such as labour, gender, community and governance) include the following themes that can be assessed:

- Human rights risks
- Forced labour
- Child labour
- Freedom of association
- Discrimination
- Unfair remuneration
- Occupational health and safety
- Gender equality

- Negative community impact
- Limited local participation
- Corruption risks

After carrying out the risk assessment, the procurement officer should be more aware of any specific environmental, social and economic issues associated with a product's production process or with the services to be provided, and can draft social, economic or environmental criteria in accordance with the SP action plan for inclusion in the procurement process (i.e. specifications, evaluation criteria and final contract).

Step 4. Mapping scope of improvement and leverage

This step relates to evaluating the scope for improvement for each procurement category in relation to the environmental and social risks and priorities identified in the previous step. It also refers to assessing the leverage that the organization has on key suppliers in the market in relation to driving improved sustainability performance.

At the end of the prioritization exercise, the aim is to develop an SP Action Plan which will incorporate a list of the key product/service procurement categories for which there is a potential for SP improvement and hence efforts should intensify to incorporate sustainability considerations when actual procurement operations are going to take place. Considering the organization's circumstances, minimum sustainability criteria for inclusion in each procurement exercise for these prioritized product/service categories and specific SP targets can be agreed upon. Such a process should be gradual and any intentions should be communicated well in advance to the market in an effort to ensure that the supplier base will be ready to respond to the elevated sustainability performance.

The prioritization exercise is normally conducted at the highest level of the procurement function in the organization. It can also be undertaken during the annual planning of foreseen procurement operations by prioritizing categories of goods, services and works that would be suitable for sustainability and including social and environmental criteria in the procurement process.

The same four-step approach should be conducted to assess the risk involved for each of the internal and the external factors that have been identified in the prioritization exercise. For example, the market's capacity to provide sustainable alternatives or solutions requires assessment on how actors throughout the supply chain will be able to fulfil the sustainability requirements (please also refer to Chapter 4, Organizational Procurement Strategy).

Resource allocation

Good procurement depends on the appropriate allocation of an organization's limited resources to meet its operational requirements. In this respect, SP is good procurement, since it seeks to deliver the maximum outcome from a limited amount of input over the longest period of time. There is a tendency in many organizations to focus on short-term payback rather than long-term value. Sustainable products and services can have a higher initial purchase price, however, when their entire lifetime is examined, they often prove to be more cost-effective. Organizations should also consider the potential need for longer term budgeting, as current short budget cycles tend to encourage short- term solutions.

Sustainable procurement at the individual procurement operation level

The diagram below highlights the stages at which sustainable procurement interventions should be integrated in the procurement cycle, and each stage is further explained below. It is important to note, however, that the integration of sustainability factors into the procurement process should not be burdensome by adding unnecessary requirements but should be specifically linked to meeting the objectives of the organization as well as its procurement requirements.

In this regard, it is worth highlighting the importance of choosing the subject-matter of the contract precisely, since it will not only serve as reference for drafting specifications and other criteria but will also avoid unnecessary purchasing or market distortion. For instance, when procuring a sustainable product or service the evaluation criteria should strictly focus on the nature, performance or

functionality of the item to be purchased and cannot relate to any other element considered to be external or in excess of the expected consumption[64].

More details can be accessed in the UN specific SP guide "Buying for a better world" and product specific guidelines.[65]

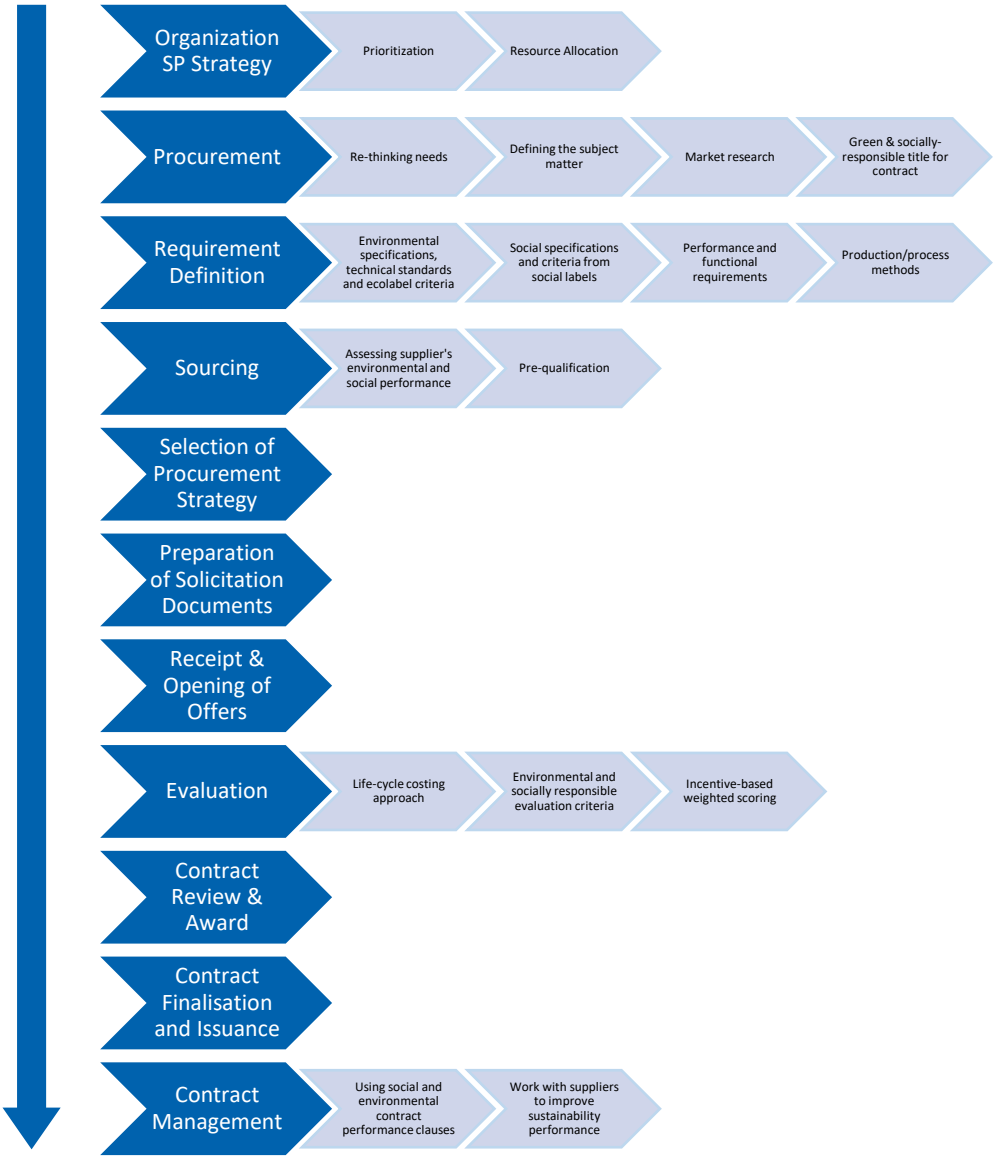


Figure 2: The Procurement Process with Indications of Sustainability Interventions

Procurement Planning

Procurement planning and forecasting is vitally important for sustainable procurement, just as it is for the traditional procurement process. This is assisted by a number of analyses, such as sustainability risk assessment, supply market analysis, organization and stakeholder's needs analyses, demand analyses, etc.

An important input to integrating sustainability in this stage is analysis life-cycle costs, which is described in further depth below. An assessment of the financial flows and sustainability impacts throughout the life cycle of the product/service is considered best practice and provides substantive information that

[64] In the EVN Wienstrom case, an award criterion relating to the amount of electricity produced from renewable sources in excess of the expected consumption of the contracting authority was ruled inadmissible, as it was not linked to the subject matter of the contract. In that case, the contracting authority was also not able to verify the criterion effectively. EUROPEAN COMMISSION. Buying Green! A Handbook on green public procurement. 3rd Edition. Luxembourg: Publications Office of the European Union, 2016, p. 51

[65] http://greeningtheblue.org/resources/procurement

will drive the sustainability interventions at later stages of the process. Keeping in mind the higher cost and time required for such assessments, a simplified assessment would best suit the needs of integrating sustainability, covering the key financial flows and impacts.

Analysis of Cost throughout the life cycle approaches

Every act aimed at avoiding or reducing consumption is, by definition, more sustainable. Consequently, relying on specifications aimed at extending the lifetime of procured objects, often resulting in lower costs over their useful life, is a good way of enhancing the sustainability profile of a procurement action.

Different techniques and methods for calculating the costs of goods, services and works throughout their life cycle are available to assist sustainable procurement practices and they do represent different degrees of complexity. Some of the potential benefits are described below:

- Provides guiding principles to achieve sustainability.
- Enables practitioners to organize complex environmental, economic and social information and data in a structured form.
- Reduces costs and increases productivity from more efficient use of resources and reduction of waste and in existing products and processes.
- Helps to clarify trade-offs of integrating sustainability criteria into the procurement process with purchasing cost-effectively by providing a more comprehensive picture of the positive and negative impacts along the product life cycle.
- Shows organizations how to become more responsible for their business by taking into account the full spectrum of impacts associated with their purchases of goods, services and works.
- Promotes awareness and stimulates innovation in value chain actors on sustainability issues.
- Supports organizations in finding more sustainable means of production and in designing more sustainable products.
- Provides access to supplier market innovation exploiting a rapidly expanding market for alternative materials, and lower cost technologies and products.
- Identifies strategic supply risks, in terms of continuity and cost.
- Implements good practice procurement techniques reducing potential exposure to financial, regulatory and reputation risks.

Total Cost of Ownership (TCO*)*

As explained in more detail in Chapter 5 on Planning the Procurement Process, the TCO is the methodology that helps separate hidden costs from the acquisition price and that identifies other cost the organization is subject to during different stages of the life of the procured goods, services or works.

As defined by ISO 20400:2017 TCO includes:

- Purchasing price and all associated costs (delivery, installation, insurance, etc.)
- Operating costs including energy, fuel and water use, spares and maintenance
- End-of life costs such as the decommissioning and disposal[66]

A procurement officer can, for instance, opt for the installation of high-quality solar lamps or LED technology lamps, which are more eco-friendly, highly energy efficient and require minimum maintenance. Even though these types of sustainable energy sources are usually costly, the long-term savings compensate for the higher price of the product. The procurement action can also be justified by calculating annual energy savings, for example for a period of four years, making it budget-neutral on its implementation.

[66] https://www.iso.org

Cost Considerations for lamps and luminaires[67].

The cost of providing lighting to a building tends to be dominated by energy costs. For example, a typical luminaire may cost 50-100 Euros. Over a 20-year life, operated 8 hours per day, such a luminaire would consume 400-500 Euros of electricity (assuming 10 cents/kWh). Accordingly, it is usually cost effective to use a more expensive luminaire even if it is only 10-20% more efficient. Using more efficient luminaires can sometimes allow fewer luminaires to be installed, saving capital outlay. Energy efficient lamps last longer than their tungsten and tungsten halogen counterparts, saving on maintenance costs as well as on energy consumed. Replacing a 35W tungsten halogen downlight with a high quality 11W LED equivalent may cost an additional 50-80 Euros at current prices. Over a 10-year period, used 8 hours per day, this will save around 70 Euros worth of electricity. But during the same period the LED will not have to be replaced, but the halogen lamp will need replacing 14 times. Although the lamps are cheap, the cost of staff to replace them is not.

Life-cycle costing (LCC)

While the Total Cost of Ownership is an economic evaluation of the possible direct costs involved during the life cycle of goods, services or works, the LCC goes further by also considering the environmental and social monetized costs and the positive and negative impacts both for the organization and for society.[68]

Life-Cycle Costing (LCC) is an analytical methodology for the systematic evaluation of environmental and social costs over the period of the life cycle analysis, as defined in the agreed scope. It can address a period of analysis which covers the entire life cycle, or selected stage(s) or periods of interest therein'.[69] Furthermore, during the analysis, both internal and external costs must be taken into account and monetized when assessing the life cycle of a product, considering also all actors involved in the supply chain. When engaging in LCC, internal costs such as purchase, set-up, maintenance, operating and disposal should be contemplated, also on a Net Present Value (NPV) basis by including future costs discounted to present day costs.[70] External environmental impacts, such as those related to climate change, acidification of soil or water, greenhouse gas emissions, etc. and social externalities such as employment creation or unemployment, conditions of work etc. can also be monetized and added to the overall cost.[71]

A typical example of LCC application is procurement of vehicles for transportation. In addition to direct costs for acquisition, maintenance and spare parts operation (use of alternative fuel consumption), disposal and other type of costs related to hazardous emissions can be taken in consideration. The latter refers to indirect costs borne by the community that bears the impact of emissions. Thanks to internationally recognised calculation techniques, this impact can be monetised and its cost can be taken into consideration when verifying that the minimum sustainability requirements are met during the evaluation stage[72].

Life cycle sustainability assessment (LCSA)

Life Cycle Sustainability Assessment (LCSA) refers to the evaluation of all e*nvironmental* and *social* along with economic negative impacts and benefits in decision-making processes towards more sustainable products throughout their life cycle, encompassing both monetized and non-monetized costs. In summary, it provides you with a combined and comprehensive assessment of the life cycle of a product.

For the evaluation of non-monetized environmental and social costs, there are some tools designed for measuring this, for instance by establishing indicators (or performance reference points) based on

[67] Indoor lighting in EU GPP Criteria published in 2012 found at http://ec.europa.eu/environment/gpp/eu_gpp_criteria_en.htm

[68] ISO/DIS 20400:2017 (E), p. 26.

[69] BS ISO 15685:5

[70] For further information on life cycle costing analysis please refer to the Life Cycle Initiative (LCI) launched by The United Nations Environment Programme (UNEP) and the Society for Environmental Toxicology and Chemistry (SETAC), available at: http://www.lifecycleinitiative.org

[71] A list of tools for the calculation of LCC includes: EXIOPOL, ExternE/NEEDS, LIME, EPS and ReCiPe. Other tools can be found on page 60 of the following report: EUROPEAN COMMISSION. *Buying Green! A Handbook on green public procurement.* 3rd Edition. Luxembourg: Publications Office of the European Union, 2016, p. 60.

[72] For more information refer to Transportation- EU GPP Criteria published in 2012 found http://ec.europa.eu/environment/gpp/eu_gpp_criteria_en.htm

international standards and conventions and testing them against given impact categories[73]. For example, when applying the LCSA to analyse the life cycle and external sustainability impacts of a computer, the indicators would be the *positive, light positive, indifferent, light negative and negative effects.* Meanwhile, the impact categories would be *water use, ozone depletion, working conditions, health and safety, human rights, indigenous rights (including cultural heritage), socio-economic repercussions and governance*. The assessment could show, for example, that the production phase of the computer has severe social negative impacts while the recycling phase is more environmentally and socially responsible, providing a comprehensive picture of where sustainability interventions are most needed while ensuring value for money.[74]

All the techniques presented above focus on four main phases of the life cycle that are assessed: raw materials, manufacture/service delivery, use of product/service, and disposal of the product/completion of the service. They represent critical tools that assist in planning, in identifying the needs and in defining the subject-matter of the contract and where possible also in the evaluation stage and in calculating the overall costs. In the planning stage the tools help answer questions such as what will be the economic outcome if the organization chooses to purchase a green product or a product manufactured in a socially responsible way; what will be the cost of doing so versus buying another product; and if the green or socially responsible product is more expensive, will there be long term savings? A common misconception of SP is that these products or services always cost more, however, this may not necessarily be true in many cases. The use of the techniques above during the evaluation stage shows that the higher initial price of the sustainable item is often more than compensated by the much lower usage and disposal costs. Likewise, purchasing socially responsible items can for instance encourage the social integration of vulnerable groups in society and enhance competitiveness of a certain sector in order to stimulate economic diversification and best value for money in the long run.

Demand management: Challenging Needs

Every product or service has some impact on the environment, on the economy and on people. Organizations that have made most progress in SP have often achieved success through 're-thinking' their needs. Instead of only considering an electric vehicle, or changing the specifications of their existing fleet, they have, for example, challenged transport needs. Where video-conferencing can replace the need for a meeting or where the number of vehicles purchased has been reduced, organizations have found their costs and sustainability impacts significantly reduced. Challenging our needs leads to an examination of what is essential to that delivery and helps to identify where there are inefficiencies and waste in the system, such as duplication of effort or over-ordering of materials as a safety net or buffer.

An effective needs assessment is an important step in achieving a positive sustainability impact in the procurement process. For instance, when procuring goods for the installation of energy-efficient stoves for rural communities, the procurement officer should consider first conducting a field visit and holding consultations with the local community members to evaluate their needs, issues and perspectives regarding the project. End-user input and buy-in is essential if a positive sustainability impact is to be achieved. In this case, the needs assessment may identify the need for purchasing two different types of stoves in order to meet two different needs. It may also indicate that picture-based instructions provided with the kits will ensure they are used properly. An additional consideration may also include sourcing more energy-efficient options[75].

Finally, the need for cost reduction should force requisitioners to identify more efficient solutions with clear benefits also concerning the use of natural resources. Efficiencies are then sought in the purchase of energy-smart devices (from computers, to air conditioning systems) or services (from canteen services including provisions for reduction of food waste or increase of locally sourced and seasonal food, to cleaning services including the efficient use of product quantities and the use of products with reduced toxic content). By changing management practices – including via the procurement of more

[73] One of the life cycle assessment tools for the evaluation of external sustainability impacts is the ReCiPe2016 used by the Dutch National Institute for Public Health and the Environment (RIVM). For further technical details and examples on how to apply this tool, refer to: HUIJBREGTS, M.A.J. et al. *ReCiPe2016: A harmonized life cycle impact assessment method at midpoint and endpoint level, Report I: Characterization.* RIVM, 2016.

[74] For specific case studies on LCSA, please refer to the following report: UNEP. *Towards a life cycle sustainability assessment: making informed choices on products.* Life Cycle Initiative, 2011.

[75] UNOPS. Cleaner energy and improved lives for Peru's rural population. UNOPS Procurement Group's Sustainability Team, 2015.

efficient air conditioning systems, solar panels, elevators and other such measures – some organisations report savings of up to 100,000 USD annually.

Market analysis
Sustainability requirements need to be attuned to what the market can supply so as not to overburden suppliers with unrealistic objectives. It is important to remember that markets are better able to supply more sustainable products and services if these requirements are signalled well in advance and introduced over time. Good knowledge of the market will better allow procurers to achieve best value for money. Dialogue with key suppliers can also help build that understanding and increase procurement officers' awareness of sustainable products and services that might be available but have not been brought forward by suppliers because a specific request did not previously exist. This dialogue can take place through different means and in different formats such as face-to-face meetings, webinars, supplier capacity building courses, etc.

A dialogue among potential suppliers and financing institutions can also be promoted in order to help local suppliers access the necessary capital required to improve their operations over time, or in some cases to meet the procurement officer's demands. This is especially true in the case of small, medium and traditionally disadvantaged businesses. By establishing financial channels for local suppliers, the procurement officer's needs will not only be attuned to the market, but it will also contribute to local economic development, to broader market access and a better participation process.

Sustainable title
A good way to send an early and consistent signal to the marketplace is to highlight the sustainability aspects of the procurement activity in the title. This can be done by including relevant keywords such as "energy efficient", "gender responsive", "ethically sourced", "local", or other. Care should be taken to use keywords that are clear and specific, rather than selecting words that can be considered vague or misleading such as "sustainable" or "green". As suppliers may initially use the tender title to determine whether or not they will submit a bid, using specific keywords will help to reduce confusion and ensure that the right bidders submit the right bids. For example, a tender for facilities management services has a higher chance of delivering better standards of environmental and social performance if it is titled 'Procurement of energy-efficient facilities management services', 'Procurement of non-toxic cleaning chemicals/services'. The title should allow suppliers to understand clearly that such tenders and contracts will include specific sustainability requirements and the message that sustainability is an important consideration for the procuring organization will be reinforced.

Other examples of suitable titles could be:

- Request for Proposal for cleaning services would be environmental cleaning services including selective waste collection
- Request for Quotation for the supply of recycled paper for writing, printing and copying purposes
- Request for Proposal for the design and construction of an energy efficient building[76]

Requirement definition
Defining requirements is a key factor in ensuring best value for money and the most sustainable outcome. They are formulated by determining if there is a specific technical feature or certain demands in terms of performance or functionality, or a combination of these. It is also critical at this stage for the sustainability criteria to be strictly related to the subject matter of the contract and to be specific and objectively quantifiable. The sustainability criteria are in fact defined and stated in the solicitation documents as mandatory requirements in order s to ensure transparency (for more information, please see Chapter 5 on Planning the Procurement Process). During this stage, social and environmental factors should be translated into instructions that meet specific requirements of the defined outcome, desired by the procurement action. The procedure for the verification of requirements should also be defined in this stage.

When preparing the requirement definition and the sustainability criteria within it, it is important to consider:

[76] UNDP Environmental Procurement: Practice Guide Vol. 1. UNDP Practice Series, 2008

- Key success factors for the tender (i.e., what is the need the tender intends to fulfil? And, from a sustainability perspective, what are the minimum requirements that must be fulfilled if the result of the procurement action is to be considered successful?)[77]
- Results of the life- cycle assessment of the required product or service.

Below are some examples of factors to consider when determining potential environmental and social criteria of goods, services and works[78] during the requirement definition stage.

Environmental Criteria

Biodegradability

- For products that may be suitable for composting, ensure that materials can break down speedily and safely.

Design for disassembly

- When products are made up of thousands of different types of materials, particularly plastics and metals, it helps if they are designed to be easily disassembled so that the materials can be recycled. This is particularly relevant for electronic and electrical products such as fridges, televisions, personal computers and printers.

Resource, energy and water efficiency

- Running costs are often overlooked when procuring products. Seek equipment that is energy efficient, such as Energy Star rated products. Also, check that the product does not have a 'knock-on' effect by using more resources, e.g., specifying paper towels over hand-driers may increase the volume of paper you dispose of, which also has a cost.

Minimum packaging

- Most products are bought with excessive levels of packaging, either to add cosmetic value or to protect the product from poor handling. Packaging has to be disposed of once it has performed its task and, in most cases, the cost of disposal falls on the customer not the supplier.

No (or reduced) polluting with minimum use of toxic chemicals, CFCs, ozone and other pollutants

- Choosing low-polluting alternative products not only helps reduce environmental impact, but often means avoiding lengthy Control of Substances Hazardous to Health (COSHH) assessments and training, e.g., cleaning staff or lab technicians.
- Chemical and hazardous materials must be adequately and safely handled, stored, recycled or go through a sustainable disposal process.

Social Criteria

Health and safety standards

- These should never be overlooked, and it is sensible to evaluate many products with a qualified health and safety officer. Examples include, electrical equipment, vehicles, cleaning chemicals and furniture.
- It is equally important to establish that the modalities of the service to be provided complies with all national legislation related to health and safety at work.

Local production

- Sourcing purchases from local suppliers means that economic benefits can be felt in local communities. This local investment helps ensure the ongoing economic sustainability of the area through job creation.

[77] Information can be obtained from colleagues in other parts of the organization, from external stakeholders and from catalogues of SP best practices existing in the UN system. Guidance is available in the "Sustainable Procurement Guidelines" at http://www.greeningtheblue.org/resources/procurement

[78] Source: Purchasing for Sustainability, Forum of the Future.

Ethically sourced

- Local laws and customs should also be respected when establishing standardized ethical and moral conducts.

Labour

- Freedom of Association and right to collective bargaining; Workers' free association and open communication with management regarding working conditions must be recognized without fear of harassment or any type of reprisal.
- Elimination of all forms of forced or compulsory labour.
- Abolition of child labour, protecting children from performing any type of work that can interfere in their education or that can be hazardous to their health or physical, mental, spiritual, mental, spiritual, moral or social development.
- Elimination of discrimination based on race, gender, religion, sexual orientation and in respect of employment and occupation.
- Compliance with all laws regarding wage and working hours. Workers compensations must be guaranteed in accordance with national applicable laws and regulations.

Mines

- Ensure that suppliers are not involved in economic activities related to the manufacture of mines or to the components primarily utilized for the production of mines.

Sexual exploitation and gender

- Guarantee the prevention of sexual exploitation or abuse of any person directly or indirectly related to the contract.
- The proportion of women in the leadership and ownership of a potential supplier.
- The proportion of female employees
- The degree to which the project Team is gender balanced
- The degree to which a supplier has policies in place that contribute to gender equality.
- The degree to which a supplier sources and subcontracts from women-owned or women-led businesses.
- Whether the supplier has signed up for voluntary agreements/frameworks/principles that support women's empowerment (e.g. the Women's Empowerment Principles (WEP).

Minimum sustainability criteria in the requirement definition

Specifying sustainability criteria at this stage involves making a decision on the minimum standards that all bids must respect. Minimum requirements should be used to mitigate sustainability risks that can jeopardize the success of the procurement project. Minimum sustainability standards are influenced by both market availability and the sustainability agenda of the purchasing organization: for instance, UN organizations having a climate neutral or environmental policy should simply refuse to consider goods, services and works that do not meet minimum energy efficiency levels; and all UN organizations should reflect their concerns with human rights, including labour and gender equality issues, by including relevant provisions (e.g., labour clauses) in their general conditions.

It is especially important that an early market analysis identifies the sustainability options available. Procurement officers will then be able to "set the bar" of their minimum requirements at a level that can be realistically matched by a sufficient number of offers. On the contrary, sustainability requirements that are excessively high for the market could have the unwanted effect of alienating suppliers and thus jeopardizing the tender through a lack of offers.

The UN Sustainable Procurement product sheets[79] can help in developing minimum and additional sustainability criteria. "Basic" and "advanced" criteria have been developed taking into account the availability of sustainable solutions in different regions, and the level of ambition of requisitioners and procurement officers.

When drafting technical specifications, consideration should be given to the type of specification that will be used, whether conformance to specific standards, performance or functional or some

[79] http://greeningtheblue.org/resources/procurement

combination. Both international standards or criteria from eco-labels and social labels can be use as reference when drafting sustainability requirements.

Possible techniques for drafting sustainable requirements that focus on technical features of a given good, service or work are:

- Specifying the material to define product requirements
- Indicating more sustainable production and process methods

When procuring furniture (chairs, tables, wardrobes, shelves, cupboards, etc.)[80]:

- At least 30% of the virgin wood or wood-based materials (including solid, laminated, veneer and wood used for the production of plywood) shall come from forests that are certified as being legally and sustainably managed.
- The products used for the surface coating of furniture shall:
- Not contain hazardous substances that are classified as carcinogenic, harmful to the reproductive system, mutagenic, allergenic when inhaled or harmful to the environment according to national or international classification standards.
- Not contain halogenated organic flame retardants, phthalates, aziridine and polyaziridines or lead, cadmium, chrome, mercury and their compounds.
- Not contain heavy metals.

In terms of social aspects, examples of requirements that can be included in a contract for works are:

- Measures to avoid accidents at work and specific conditions for managing of dangerous products in order to safeguard the health and safety of workers. The bidder shall demonstrate with proper documentation that they have in place and maintain a safety management system that is appropriate to the size and complexity of the operation in accordance with OHSAS 18001 Occupational Health and Safety Management Systems or equivalent standards.
- Requiring compliance with certain design standards in order to ensure access in the building for all categories of users, including disabled people.

Performance and functional specifications should refer to the desired results and outputs (such as quality, reliability or usefulness) that are expected from the procured good, service or work. Designing specifications through performance and functional requirements is the best way to achieve the optimal outcome in terms of sustainability. They allow procurement officers to test the market and provide suppliers with greater freedom to develop and present innovative and sustainable solutions. However, it should be recalled that excessively wide specifications could lead, for example, to a product not meeting the stated needs. Below is a list of specifications setting minimum environmental and social requirements with clear and explicit information on performance and functionality, related to sustainability:

When procuring a central heating service[81]*:*

- The indoor climate of the office building must be maintained between 20-22 Celsius and a relative humidity of 50%.
- The heating system must function with renewable sources instead of burning fossil fuels.

When procuring paper for writing, printing and copying purposes, it must[82]*:*

- Have durability >100 years according to ISO 9706, DIN 6738 or equivalent.
- Be compatible with machinery meeting DIN 19309, AFNOR Q11-013 or equivalent.

When procuring from local suppliers to stimulate local production and job creation[83]*:*

- The bidder will reserve 95% of contracted labour opportunities for local communities, as defined by individuals with national status, living within 50 km of the project site.

[80] ICLEI. *Sustainable Procurement Guidelines: Furniture Product Sheet.* UNEP, 2009.
[81] UNDP Environmental Procurement: Practice Guide Vol. 1. UNDP Practice Series, 2008
[82] UNDP Environmental Procurement: Practice Guide Vol. 1. UNDP Practice Series, 2008
[83] UNOPS: Sustainable Procurement Criteria Checklist, 2016. Available at: https://www.unops.org

Use of labels – environmental or social[84,85]

When properly applied, eco/environmental or social labels can be useful in preparing technical specifications and award criteria. However, procurement officers and requisitioners should never require suppliers to register with a particular labelling scheme and should add the wording "or equivalent" whenever mentioning a specific label.

What procurement officers and requisitioners can do is to:

- Use criteria from labels to draft technical specifications
- Verify compliance through labels or their equivalent
- Benchmark offers at the award stage
- Use single issue labels for a progressive approach
- Ascertain the credibility of labels and the impacts that they address

They should, however, not:

- Require products to carry a label
- Use a label without verifying its credibility, independence and scientific basis
- Raise the level of sustainability requirements without first conducting a market analysis
- Use criteria that have not been published in advance

Choosing to base a procurement action on a label that covers several product and service categories, offers a holistic impact assessment over the life cycle and guarantees the impartiality of the scheme – is an assurance of the quality and reliability of the criteria[86].

For instance, while purchasing products made of wood the organization requires the material to be from a well-managed source such as sustainable forest management FSC or PEFC certified, and this requirement is to be included in specifications. Another example could be when procuring facilities management services, such as cleaning services, the sustainability requirements can demand that the firm uses at least a certain percentage of eco-friendly cleaning and disposable products that are procurement officer certified by standards such as environmental labels or that come from fair trade sources.

Though not as numerous as eco-labels, some social labels are beginning to emerge in a number of market sectors. Social labels can cover different types of socio-economic issues, such as human rights, workers' rights, women-owned business[87] child labour, payment of a fair price to developing country producers, etc. Some labels also incorporate both environmental and social aspects. As is the case with certain eco-labels, some social labels focus on a single issue, while others have a wider focus.

One of the most well-known social labels is 'Fairtrade'[88]. According to a European Parliament resolution on Fair Trade and Development[89] fair trade means, amongst other things:

- A fair producer price, which guarantees fair wages and covering of costs of sustainable production and living
- Part payments made in advance (if so requested by the producer)
- Transparency and traceability throughout the supply chain
- Capacity building and empowerment for producers

[84] This section is based on the UN Guide to Environmental Labels for Procurement Practitioners of the United Nations System. Executive Summary with links to the full document can be found at: https://www.ungm.org/Areas/Public/Downloads/Env_Labels_Guide.pdf

[85] Attention is drawn to the fact that, although certain social labels make express reference to some or all of the ILO fundamental Conventions, none of these is mandated, certified or otherwise authorized by the ILO.

[86] A list of eco-labelling programmes and the product categories they cover can be found in www.globalecolabelling.net In addition International Trade Centre has developed an online platforms is which enables its users to explore and compare over 210 Sustainability standards, and build their personalized business' roadmap towards sustainable trade found at http://www.intracen.org/itc/market-info-tools/voluntary-standards/standardsmap/

[87] Organizations as the Women's Business Enterprise National Council (WBENC) and WEConnect International certifies businesses owned, controlled and operated by women. Certification validates that the business is 51 % owned, controlled, operated, and managed by a woman or women. The organizations have created the "Women Owned" label, that aims to bring consumers' attention to products produced by a company that is owned and operated by women as certified by WBENC in the United States or WEConnect International globally

[88] www.fairtrade.net/

[89] EUROPEAN PARLIAMENT. European Parliament resolution on Fair Trade and Development (2005/2245(INI). Available at: http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+TA+P6-TA-2006-0320+0+DOC+PDF+V0//EN.

Sourcing

From the sustainability perspective sourcing criteria can assess the performance of bidders to ensure that only bids from 'eligible' companies are considered in the evaluation stage. The criteria can be used to assess the bidding company's operations (and the companies it subcontracts) as a whole, rather than only the end products purchased. The criteria included in this stage can address issues such as suppliers' commitment to sustainability and necessary technical sustainability capacity, i.e., previous experience, environmental management systems, labour, social and gender responsive policies, etc. The sourcing process can also be used to identify and reach out to suppliers from identified under-represented groups and/or from specific geographic and demographic regions and as a means of ensuring local content and representation in the bidding process[90].

When adopting a sourcing strategy, it should be done with the objective of achieving the best outcome for the project. The sophistication of the sourcing strategy will depend on the complexity of the procurement action. It is important to bear in mind that decisions made during the sourcing stage have a significant impact on the whole procurement process. It is therefore strongly recommended that decisions be well documented and supported by all key actors involved.

Compliance with environmental legislation: Bidders shall not be permitted to take part in a contract if they: have been found guilty of grave professional misconduct, including non-compliance with environmental legislation, proven by any means which the contracting authorities can demonstrate; or have not fulfilled obligations relating to the payment of social security contributions in accordance with the legal provisions of the country in which he/she is established or with those of the country of the contracting authority.

Bidders must provide a declaration that they meet this criterion. Upon request, they may be asked to provide documented proof to support this declaration.

Production according to international labour standards (self-declaration): The bidder shall provide proof that they and the manufacturers of the cleaning products comply with the international working standards (ILO Core Conventions) listed below throughout the whole supply chain. The supply chain includes producers and manufacturers of all cleaning products that are connected with this contract. Furthermore, it includes contracted labour (contract manufacturers) that may market, manufacture and/or provide goods and services that are used to manufacture and supply the final product.

Freedom of Association and Protection of the Right to Organise (No. 87)

Right to Organise and Collective Bargaining (No. 98)

Forced Labour (No. 29)

Abolition of Forced Labour (No. 105)

Discrimination (Employment and Occupation) (No. 111)

The bidder is required to submit appropriate proof that these requirements have been met, such as a written self-declaration (such as a current industry code of conduct declaration) that the requirements are met, together with documented support of the implementation and monitoring of measures

Through using the provisions in these Conventions as sustainable criteria, a procurement officer can specifically require suppliers to fully comply with remuneration, working conditions, social security and insurance contribution laws as laid out by national jurisdictions. Similarly, the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) defines what constitutes discrimination against women and commits signatories to work to end all forms of discrimination against women[91].

[90] For more information please see Chapter 6 on Procurement Process.

[91] When it comes to sourcing, UN Women clearly articulates and communicates its push for gender responsive procurement to potential suppliers. The UN Women corporate website has a page dedicated to gender responsive and prospective suppliers are also identified and invited to participate in procurement exercises based on their gender profile found at http://www.unwomen.org/en. The following practices can be applied in order to increase participation of women-owned businesses and other underutilized groups in the bidding process: Classify women-owned businesses based on ownership and control to enable preferred status and treatment; establish measurable targets, e.g. to award at least 20 % of all contract to women-owned businesses; introduce subcontracting requirements, e.g. suppliers awarded contracts over a certain threshold must submit plans for women-owned businesses to participate in their supply chains and conduct strategies for achieving set targets; provide proactive capacity-building and procurement skills development to eliminate the knowledge barrier and enable women-owned businesses to compete successfully in procurement markets (targeted financial and technical assistance); measure progress, monitor and evaluate (e.g. RBM) to ensure policy compliance and in order to make necessary adjustments and improvements.

Assessing the environmental and social performance of suppliers

To promote sustainable procurement practices, it is important to ensure that this requirement is clearly communicated to the market through a supplier engagement programme which emphasizes sustainability. Such a programme could involve supplier seminars, production of guidance materials for prospective suppliers, and any other means of communication that the organization uses[92].

During the sourcing stage, procuring organizations may want to emphasise the importance of the environmental and/or social qualifications of suppliers. The verification of the suitability can be assessed through reference to self-declarations as well as several social and environmental international standards and labels that have been verified by a third party. A particular type of self-declaration is the one referring to suppliers' organizational management systems, which exist to ensure that suppliers are qualified to fulfil their objectives for social and environmental performance[93].

Procurement officers should also bring to the attention of prospective and current suppliers the United Nations Supplier Code of Conduct (see Chapter 2 on Ethics in Procurement) and encourage them to sign up to the principles of the Global Compact[94]. For further details see Section 14.2 below.

Suppliers can upload on UNGM optional information on their environmental and social initiatives, such as evidence of corporate social responsibility programmes, occupational health and safety management systems, safety policies, environmental management systems and/or policies, gender profile ownership, adherence to standards (such as ISO 14001, OHSAS 18001), etc. Therefore, procurement officers can rely on this source in order to make sure they comply with any of the above-mentioned level of sustainability performance.

It is important to reiterate that, the term 'or equivalent' should always be stated when referencing a standard or label, and evidence and appropriate documentation provided by suppliers has to serve as proof of compliance.

Suppliers' appraisal and shortlisting

Many UN organizations source suppliers from approved lists. These lists could increasingly reflect the sustainability issues of importance to the UN by also reporting on the environmental and social performance of particular suppliers. In a situation where a shortlist of potential suppliers has been established, procurement officers could perform an initial screening of the sustainability qualifications of the suppliers concerned when including them on the list. A more detailed appraisal of particular suppliers is usually conducted during pre-qualification and the evaluation of bids arising from a tender.

Pre-qualification

Pre-qualification is a formal process by which potential suppliers are assessed against a set of pre-determined criteria, in order to establish a shortlist and determine which ones should be invited to tender. This method can help to reduce the potential for contract failure, especially in the case of complex, high risk, or highly technical procurement activities. From a sustainability point of view, it can also be used as a means to ensure that for a given procurement action minimum sustainability performance standards of selected vendors will be ensured.

Evaluating the sustainability experience of individual suppliers is normally done through the use of a prequalification questionnaire. Here, procurement officers can request and evaluate the sustainability practices of individual suppliers, and also help to sensitize the market to important sustainability requirements.

Pre-qualification questionnaires normally use a weighted scoring method to determine successful candidates and follow formal evaluation process. It is advisable to have technical subject-matter experts involved in the evaluation. Sustainability criteria included in questionnaires should represent the

[92] For instance, at the sourcing phase UNICEF signals the market toward more sustainable procurement through early supplier engagement and through consultation meetings prior to tenders.

[93] Relevant standards from ISO can be found at: https://www.iso.org/home.html; EMAS - EU Eco-Management and Audit Scheme is a premium management instrument developed by the European Commission for companies and other organizations to evaluate, report, and improve their environmental performance. found at http://ec.europa.eu/environment/emas/index_en.htm; OHSAS - Occupational Health and Safety Management Certification is an international occupational health and safety management system specification which is intended to help organizations control occupational health and safety risk, found at http://www.certificationeurope.com/ohsas-18001-occupational-health-and-safety-management/;

[94] The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption

minimum desired threshold and should be thoughtfully selected so as to reflect the most important and relevant aspects of sustainability for the procuring organization. It is important to highlight that pre-qualification criteria should refer to the performance of the vendor and its operations and not to the product/services that constitute the subject-matter of the contract. The latter will be reflected in the evaluation criteria of the tender.

Here are some examples:

- If the procuring entity is focused on the economic empowerment of women, it may choose to include questions on potential suppliers' internal policies and practices related to the promotion of women or gender equality.
- If the procuring entity is interested in child and human rights or labour practices it may choose to include a question on how potential suppliers track and trace the flow of materials through its supply chain to ensure that child labour is deterred.
- If the focus is on environmental issues, suppliers may be asked to include their environmental or quality management standards (i.e. ISO 14001), or their previous experience delivering similar projects (e.g. design and build green construction projects).

As is the case with developing sustainable requirements, procuring entities should focus on developing clear criteria. The use of third-party standards can be a useful support here. Procurement officers should familiarize themselves well with these standards prior to incorporating them in a pre-qualification exercise.

Given that pre-qualification processes can place an added requirement on both the suppliers and buyers, whether or not to use them should be given due consideration. Additional time and resources are required to conduct pre-qualifications properly. In the case where there are several qualified and eligible suppliers, such an exercise may ultimately reduce procurement costs over the longer term. This is especially true if several procurement actions are planned over a certain period. UN Agencies can use the pre-qualification results of other agencies (as is the case with WHO pre-qualified suppliers of pharmaceuticals).

It is highly recommended for procurement officers to notify and provide feedback to suppliers that have passed the pre-qualification process but were later deselected due to other aspects in their bids. This feedback can be a great opportunity to support the development of the market.

Evaluation

In the UN system, evaluation is increasingly made on the basis of best value for money. The evaluation process must provide a fair, transparent and accountable method for assessing supplier bids on the basis of balancing cost with sustainability and other non-financial factors (for more information please see Chapter 6 on Procurement Process, Section 6.4).

An effective way of advancing procurement sustainability is by using technical and sourcing criteria, focusing on the sustainable performance of the supplier, of the product, service or work and the relative production and delivery process.

Sustainability evaluation criteria are key to undertaking thorough and consistent assessments of sustainability performance of suppliers' bids and proposals. These criteria should reflect the preferred sustainable solution and be formulated in such a way as to reward higher performance in terms of sustainability. UN organizations should determine environmental and social evaluation criteria to suit their own needs. They can refer to:

- Quality, design, reparability, fitness for use and ergonomics
- Explanation of sustainability criteria regarding functional aspects and how the products, service and works are supplied and can be disposed of
- Environmental performance in terms of composition materials, production process, emission and resource efficiency management (energy, water, waste) etc.
- Social performance in terms of labour and working conditions, health and safety standards, employment opportunities to promote gender equality and diversity, training women's ownership and control in the firms, etc.
- Lowest evaluated cost (price, TCO, LCC and LCSA).

They can be formulated by setting:

the minimum or mandatory pass /fail criteria for requirements, for example;

- Environmentally friendly packaging: packaging materials are able to be separated into mono-material parts, and at least 80 percent of the packaging by weight consists of materials that are readily recyclable (with locally available recycling systems) or can be composted.
- The same can be taken in consideration when formulating social criteria in the case of procurement of rehabilitation works that require employment of disadvantaged categories of workers, such as youths or women.
- At least 30% of local workers must be women.

the numeric range for requirements (for the procurement of rehabilitation works), for example;

- Local workers must be between 18 and 26 years old – more than 26 years old should prove to be economically vulnerable.

The above types of formulations are suitable for the lowest technical responsive offer method (for more information please see Chapter 6 on Procurement Process, Section 6.4).

- Weighting the requirement. When the evaluation criteria cannot easily be quantified this approach is advisable and it ensures the rewarding of superior sustainable standards or performance[95]. Indeed, evaluation criteria can also be used strategically when procurement officers are unsure of the market's maturity in terms of sustainable procurement and to what extent prices will be higher. By applying a weighted scoring system for evaluation, procurement officers can assign extra points to those suppliers that meet the highest sustainability requirements. An example of how environmental evaluation criteria could be included in a tender is as follows:

the UN organization is procuring furniture for its offices and wants to support the reduction of waste and to promote recycling. In this scenario, the specifications could specify that the furniture be constructed with a minimum of 20% recycled wood, plastics or metals, and that up to "X" points will be given for offers with a higher percentage of recycled materials. In this way, the UN organization would be favouring bidders with the highest percentage of recycled components[96].

The same approach can be used when selecting SMEs that employ people with disabilities for cleaning services or that do take a gender-responsive approach[97]:

- SMEs with 1 employee with disabilities/year – 2 points
- SMEs with 2 employees with disabilities/year – 4 points
- SMEs with 3 employees with disabilities/year – 6 Points

Progressively, these evaluation criteria can be included as mandatory requirements in the subsequent procurement activities, as and when the market matures.

Another example of how social evaluation criteria could be included in a tender is as follows:

the UN organization is procuring textiles for one of its programs and wants to support fair labour practices and safe working conditions. In this scenario, the criteria for evaluation could state that those suppliers who provide documentation on salaries and benefits provided to their employees and proof that they are in compliance with international health and safety standards and guidelines, such as OHSAS 18000, ISO 45001 and the International Labour Organization's ILO-OSH Guidelines, will be allocated X additional points. In this case, the UN would be ensuring that the contract is awarded to a supplier that performs better in relation to labour, health and safety standards and that is most realistic considering its verification method (documentation from third parties that certify the above is more reliable than self-declaration).

All the above needs to be combined with the cost evaluation criteria and be structured in a way that can determine the best value for money offer over the life cycle of the product, service or works. The

[95] For more information on Weighting Scoring Method please refer to Chapter 6 on Procurement Process.
[96] Similar example is the procurement action taken by UNICEF, in which sustainability score made up thirty (30) percent of the overall commercial score for the 2017 tender for Safe Injection Equipment for vaccine, which focuses aspects of CO2 emission, fuel consumption and disposal of wastes associated with the product and shipment.
[97] When selecting SMEs with a gender-responsive approach, the following weighting scores can be applied: SMEs with gender equality policies – 2 points; SMEs with women in half of the executive positions – 4 points; SMEs with at least 51% women ownership – 6 points.

above can be included in tenders through application of TCO, LCC and LCSA whereby direct and indirect costs as well as relevant internal and external associated costs could be included.

Finally, it is possible to introduce sustainable criteria as a 'tie-breaker' between two suppliers that score the same in an evaluation process. Award in this case may be made based on women-ownership; in case all (or no) suppliers that are tied for the combined highest score from the evaluation are women-owned, the best and final offer approach may be applied.

Contract Management

From a sustainability perspective, contract management[98] ensures that suppliers meet their sustainability commitments and creates a mechanism to improve performance through the use of performance indicators.

Whilst all contracts need to be managed, it is particularly important to take this approach for contracts that have high sustainability impact, which are also often for essential purchases for the buying organization. Key issues are ensuring qualitative relationship with the suppliers, mutual awareness of the sustainability targets, forward planning, fair and balanced contract clauses and agreed Key Performance Indicators (KPIs).

Sustainability contract clauses

Including specific sustainability requirements in contract conditions is fair, open and transparent as every potential supplier competing for the contract will be aware from the very start of the process of the contractual obligations they will be required to meet. Sustainability contract clauses should be strictly linked to the subject matter of the contract and should also describe how the good, service or work being procured is going to be delivered or implemented. It makes sense to include sustainability criteria in the contract conditions to reduce the environmental and the social impacts of the procurement activity by also providing mechanisms for monitoring performance through KPIs, penalties, incentives or liquidated damages.

The General conditions of a number of UN organizations already contain some clauses addressing child labour, production and sale of anti-personnel mines, sexual exploitation and gender discrimination. These contractual conditions require compliance with a broad range of important international standards. Breach of these provisions entitles the organizations concerned to terminate a contract immediately.

A few examples of social and environmental contract clauses are listed below:

- The contractor shall calculate annually the amount of CO2 emissions caused directly by the transportation of products supplied for the contract and report this information to the contracting organization. By the end of the contract, the contractor shall demonstrate the efforts made to reduce the emissions of CO2 through transportation of products.[99]
- In the case of subcontracting, transport service providers should have sustainability arrangements with their subcontractors aligned with what has been agreed between the UN organization and the contractor. The bidder is required to submit appropriate proof that this requirement has been met, such as a written self-declaration.[100]
- The supplier shall comply with the ILO Core Labour Standards throughout the whole supply chain during the term of the contract. The contractor must ensure that subcontractors abide by the same obligations.
- The supplier shall respect at all times and in all circumstances relevant to the performance of the Contract and in relation to all its staff, and to ensure that its subcontractors respect: equality of opportunity and treatment in respect of employment and occupation without discrimination on grounds of race, colour, sex, religion, political opinion, national extraction or social origin and such other ground as may be recognized under the national law of the country or countries where the performance, in whole or in part, of the Contract takes place.[101]

[98] For more information please see Chapter 7 on Post-procurement.

[99] ICLEI. *Sustainable Procurement Guidelines: Vehicles Product Sheet.* UNEP, 2011.

[100] ICLEI. *Sustainable Procurement Guidelines: Freight Forwarding Product Sheet.* UNEP, 2011.

[101] ILO contracts contain this so-called "Labour Clause", referring to major ILO Conventions.

- The contractor shall recruit, for the execution of the contract, a number of persons with disabilities (e.g. 10% of the workforce)[102]
- The contractor shall include a formal plan to properly manage any waste or waste by-products created during the execution of the contract.
- The contractor shall provide one or all of the following[103]:
  - Documentation confirming the presence of a valid Environmental Management System such as ISO 14001 or equivalent.
  - A copy of the organization's sustainability policy.
  - A copy of the organization's latest corporate social responsibility report.
  - A signed statement from the President (or other executive officer) confirming the organization's commitment to sustainability.

Review of sustainability performance

It is important to establish Key Performance Indicators for the contract in order to monitor and evaluate supplier performance compliance related to social and environmental clauses, as well as to assess the impact of the procurement action upon the target area over a pre-determined time period. KPIs provide a framework for reviewing targets/objectives and feeding lessons learned back into the organization's SP strategy and for sharing the results with the business community and other stakeholders. Monitoring, including its frequency and methodology, is critical to achieving real change and improvement in the supplier's performance[104]. In addition, contract management milestones and indicators can be part of contract clauses, for example, by providing for regular meetings to review sustainability performance.

From a sustainability point of view, bearing in mind that contract clauses should be linked with the subject matter of the contract, it is good practice in contract management to require suppliers to deliver year-on-year (or more frequent) improvements in a number of sustainability-related aspects, including: greenhouse gas emissions reduction, reduction in water consumption and increasing proportion of recycled content in materials used. Setting continuous improvement plans and raising the bar for suppliers will help them improve their performance and will have the effect of raising the standard of sustainability performance across their sector.

Many of the sustainability impacts reflected in a contract will actually be present further down the supply chain. In this respect, of key importance in any supplier review, is how the supplier deals with its own suppliers and subcontractors. To ensure that sustainability commitments made in the contract are applied down the supply chain, procurement officers need to verify that 'back-to-back contracts' are in place between the main supplier and any subcontractors/suppliers they may have involved in delivering the contract. These will often include sustainability requirements. However, it must be recognized that back-to-back contracts are usually used for higher risk/value contracts as they are often not popular with suppliers.

Supplier audits are a very useful way of determining the extent to which suppliers can and do meet sustainability requirements, as well as ensure that responsibilities are cascaded appropriately along supply chains. However, resource constraints mean that it is not feasible for UN organizations to perform audits on all of their suppliers (or potential suppliers). Thus, the impact/risk assessment approach is applied, both to identify situations where audits are not only justified, but essential to ensuring security of supply, and where there is a risk of non-conformity related to the sustainability targets. Hence, when handling contracts with sustainability clauses, carrying out regular audits can be a valuable approach for of collecting evidence of conformity with the requirements as well as to update risks related to contract management and completion.

Corrective Action

Another important aspect of monitoring performance is requiring corrective action when the UN organization finds that the supplier is not meeting the sustainability requirements in the contract or if an audit reveals non-compliance. The UN organization should then require the supplier to develop a corrective implementation plan. This plan should include information on the area of non-compliance

[102] EUROPEAN COMMISSION. *Buying Social: A guide to taking account of social considerations in public procurement.* European Union, 2010.
[103] UNOPS. Sustainable Procurement Criteria Checklist, 2016. Available at: https://www.unops.org
[104] With regard to contract clause effectiveness and sustainability performance management, UNICEF monitors whether end user's satisfaction with the "greener" products is as high as with less "green" products for WASH and education supply. Results for reduction in CO2 emissions are also tracked on a six-monthly or annual basis using a published method for measurement of carbon off-sets. Following this approach, UNICEF offsets 100 tons of CO2 emission every year within WASH and education supply alone.

and its cause, the actions that the supplier will take to address and resolve the non-compliance and the time frame in which this will be accomplished. The procurement officer needs to closely monitor the supplier to ensure that the corrective measures agreed to are implemented in a timely manner. Finally, the outcomes of contract monitoring and taking corrective actions can serve to achieve better sustainability performance for future procurement activities.

14.2 United Nation Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights[105], labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate policies and practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with over 8,000 companies and 4,000 non-business signatories based in over 170 countries, and more than 70 Local Networks.

The UN Global Compact enjoys the support of the United Nations General Assembly. In December 2015, the UN General Assembly renewed the mandate of the Global Compact Office and the UN office that supports the initiative in its resolution 'Towards global partnerships: A principle-based approach to enhanced cooperation between the United Nations and all relevant partners (A/RES/70/224). Among other things, this resolution recognizes "the vital role the UN Global Compact Office continues to play with regard to strengthening the capacity of the United Nations to partner strategically with the private sector. It states that the UN Global Compact's activities are "in accordance with its General Assembly mandate to advance United Nations values and responsible business practices within the United Nations system and among the global business community".

The Ten Principles

a. Human Rights

Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2. Make sure that they are not complicit in human rights abuses.

b. Labour

Principle 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4. The elimination of all forms of forced and compulsory labour;

Principle 5. The effective abolition of child labour; and

Principle 6. The elimination of discrimination in respect of employment and occupation.

c. Environment

Principle 7. Businesses should support a precautionary approach to environmental challenges;

Principle 8. Undertake initiatives to promote greater environmental responsibility; and

Principle 9. Encourage the development and diffusion of environmentally friendly technologies.

d. Anti-corruption

[105] UN Human Rights Council endorsed in its resolution 17/4 in June 2011, a document entitled, "Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework" 2012, found at http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf .There are three main guiding principles: the State's obligations with regard to human rights; the role of business in complying with all applicable laws and respecting human rights; and the need for effective remedies to address breaches to these rights and obligations.

Principle 10. Businesses should work against all forms of corruption, including extortion and bribery.

More information can be found on www.unglobalcompact.org.

Corporate sustainability starts with a company's value system and a principled approach to doing business. This means operating in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption. Responsible businesses enact the same values and principles wherever they have a presence and know that good practices in one area do not offset harm in another. By incorporating the Global Compact principles into strategies, policies and procedures, and establishing a culture of integrity, companies are not only upholding their basic responsibilities to people and the planet, but they are also setting the stage for long-term success. The UN Global Compact's Ten Principles are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

The UN strongly encourages all its suppliers to actively participate in the UN Global Compact. To that end, the UN Supplier Code of Conduct has been developed with recognition of the importance of the Ten Principles of the UN Global Compact and is viewed as an important means of integrating these Ten Principles into the operations of the UN. The Code of Conduct addresses the issues included in the Compact in the areas of human rights, labour, environment and anti-corruption and interpretation of the Code should be undertaken in a manner consistent with the UN Global Compact. (For more details on the Supplier Code of Conduct see Chapter 2, Ethics in Procurement).

Glossary of Procurement Terms

All definitions herein, unless indicated otherwise, reflect the glossary of terms as approved at the Procurement Network meeting in Montreal in September 2012.

Arbitration

A method that is agreed to in advance by the parties to a contract to resolve a dispute by submission to one or more neutral third-party arbitrators for a binding judgement; arbitration is normally used to avoid litigation, i.e. court procedures.

Award

The action taken by the buyer based on the evaluation of offers, to approve the selection of the supplier for a specific contract.

Best and final offer

A tool that can be used during the final evaluation phase of a procurement using an RFP when at least two qualified suppliers remain within a competitive range. It is a term that indicates to the supplier that the buyer does not intend to negotiate after offers are received so the supplier should submit final pricing and deliverables.

Bid

An offer in response to an Invitation to Bid or an offer in response to an electronic auction.

Bid security (bid bond)

A security from a supplier securing obligations resulting from a contract award with the intention to avoid: the withdrawal or modification of an offer after the deadline for submission of such documents; failure to sign the contract or failure to provide the required security for the performance of the contract after an offer has been accepted; or failure to comply with any other condition precedent to signing the contract specified in the solicitation documents.

Bidder, Proposer, Offeror

An entity that submits an offer in response to a solicitation. Normally, the term bidder is used to refer to the entity responding to an ITB, RFQ or an electronic auction; the term proposer is used to refer to the entity responding to an RFP.

Bill of lading

A carrier's contract and receipt for goods it agrees to transport from one place to another and to deliver to a designated recipient (consignee).

Bill of quantities

A description and a quantitative estimate of all materials, and/or supplies, which will be required for a proposed construction project or production of equipment (usually custom designed), provided to bidders for pricing purposes.

Blanket purchase order

A special purchase order typically designed to leverage repetitive requirements and emergency repairs involving low value goods and services, while reducing the administrative workload.

Buyer

The individual or personnel designated by an authorized official to undertake all activities necessary for the procurement of goods, works, or services in accordance with the applicable regulations, rules, policies, and procedures. The term buyer is also used to denote the UN entity that is a party to the contract.

Catalogue

An organized list of goods or services specifying the description, price, unit of measure and other attributes. A catalogue may be available as a document or in electronic format.

Collaborative procurement, common procurement

A procurement arrangement in which several UN organizations combine their efforts to undertake procurement in cooperation or share the outcome of a procurement process, thereby achieving benefits for the group in its entirety. The objective of collaborative procurement is to achieve reduced price or better service through economies of scale and to reduce inefficiency and duplication across the UN organizations.

Competitive bidding, competitive solicitation

A procurement method in which offers from competing suppliers are invited by open advertisement and provided with the scope, specifications, and terms and conditions of the proposed contract as well as the criteria by which the offers will be evaluated. The objectives of competitive bidding are to obtain goods or services at the lowest cost or best value through open and fair competition.

Consignment

(1) An agreement with a supplier to stock goods at a customer's location with the goods remaining the property of the supplier until used or sold; (2) A shipment that is handed over to a common carrier for transport and delivery.

Contract

In the context of UN procurement, a contract is a written, legally binding agreement between the organization and a supplier, which establishes the terms and conditions, including the rights and obligations of the organization and the supplier. A contract may take many different forms, e.g. agreement, purchase order, memorandum of understanding, letters of assist.

Contract administration

All actions undertaken after the award of a contract relating to the administrative aspects of the contract, such as contract amendment, contract closure, record retention, maintenance of the contract file, and handling of security instruments (e.g., performance security).

Contract management

The ongoing monitoring and management of the supplier's performance regarding the promised goods or services, as well as assuring compliance with all other terms and conditions of a contract, such as price and discounts. It includes managing the relationship between the supplier, the procuring unit, the requisitioner and/or the end-user, feedback to the supplier regarding its performance, as well as dispute resolution, if necessary.

Contract modification, contract amendment

Any written change in the terms of the contract. Contract modifications only become effective when executed by both parties.

Contractor

Any party to a procurement contract with the organization. A contractor may take various forms, including an individual person, a company (whether privately or publicly held), a partnership or a government agency.

Cost estimate

An approximate calculation of charges or costs to supply goods or services.

Default

A failure by a contracting party to meet one or more of its obligations under the contract.

Delivery time

The time taken to deliver goods from the date of contract to the time when the supplier makes the goods available to the buyer at the agreed place as per the delivery terms.

Disposal

The process of removing something from a location, typically the removal of scrap, surplus, excess, obsolete and waste items from an organization's premises.

E-procurement

Electronic procurement that occurs when the activities of the purchasing process are conducted electronically, typically over the Internet, to shorten the cycle time and lower the transaction costs of the acquisition process.

Exigency

An exceptional, compelling, emergent need or situation of force majeure not resulting from poor planning or management or from concerns over the availability of funds, that will lead to serious damage, loss or injury to property or persons, if not addressed immediately.

Expression of interest

A response to a Request for Expression of Interest expressing interest in participating in a Solicitation.

Fixed price

A contract term which indicates that the price is set at a certain amount and is not subject to change unless the purchaser requests a change in specifications, delivery or term. Generally, a purchaser's request for a change to specifications, delivery or terms in a fixed price contract would only occur in response to an unexpected change in specifications or a critical circumstance that would impact the supplier's ability to fulfill the contract in accordance with the original terms.

Force majeure

A contract provision under which major (and usually uncontrollable) events may excuse a party, in whole or in part, from the performance of its contractual obligations; e.g., fire, war, or severe weather. This is a standard clause in contracts of the organizations of the United Nations Common System.

General conditions of contract

The General Conditions of Contract (sometimes referred to as 'general terms and conditions') are a set of standard contractual provisions which are incorporated into virtually every commercial contract that the UN, including its Funds and Programmes, concludes. The General Conditions cover a range of issues, including the contractor’s status vis-à-vis the Organization, the use of sub-contractors, indemnification, intellectual property rights, use of the name, emblem or seal of the United Nations, termination and events of force majeure, dispute settlement, privileges and immunities, standards of conduct, and amendments.

Global compact

The voluntary international corporate citizenship network initiated by the UN to support the participation of both the private sector and other social actors to advance responsible corporate citizenship and universal social and environmental principles to meet the challenges of globalization. It is based on 10 principles related to human rights, labour, environment and anti-corruption. See www.globalcompact.org for more information.

Goods

Objects of every kind and description including raw materials, products and equipment and objects in solid, liquid or gaseous form, and electricity, as well as services incidental to the supply of the goods if the value of those incidental services does not exceed that of the goods themselves.

Guarantee

A promise or a pledge, i.e. something given or existing as security such as to fulfil a future engagement or a subsequent condition (e.g. bank guarantee). It can also be a provision in a contract by which one person promises to pay the obligation of another person in case that person fails to pay debts or perform a specific duty.

Incoterms

Incoterms rules are standardized and widely-recognized trade terms, prepared by the International Chamber of Commerce (ICC), to be included in contracts for the sale of goods, providing standard contractual provisions that clarify the costs, risks and responsibilities of the parties to the contract, particularly in relation to the shipment and delivery of the goods from sellers to buyers. Refer to the ICC website (www.iccwbo.org) for information about these terms and their definitions which are copyrighted by the ICC.

Intellectual property

Creations or inventions of the mind, including, but not limited to, copyright (such as designs, artwork, software, data, original text, maps), trademarks (such as symbols and names) and patents (such as drug formulations, hardware).

Inventory

Any material, component or product that is held for use at a later time.

Invitation to bid

A formal method of solicitation where prospective suppliers are requested to submit a bid for the provision of goods or services. Normally used when the requirements are clearly and completely specified and the basis for award is lowest cost.

Invoice

Supplier's demand for payment setting out the amount for payment by the buyer in respect of goods delivered or services rendered.

Lead time

The time that elapses from placement of an order until receipt of the order for goods, services or works, including time for order transmittal, processing, preparation and shipping.

Letter of intent

A pre-contractual document, usually in the form of a letter and sometimes signed by both parties, used to express expectation of contract formation in the future and to ensure that certain basic agreements are clearly understood by both parties. When properly drafted, the LOI should create no binding obligation to either party

Liability

Any obligation incurred as a result of law, rule or agreement; being legally obliged and responsible; a debt or an obligation to another party.

Life cycle cost, whole life cost, total cost of ownership

The sum of all recurring and one-time (non-recurring) costs over the full life span or specified period of a good, service, structure, or system. It includes purchase price, installation cost, operating costs, maintenance and upgrade costs and remaining residual or salvage value at the end of ownership or its useful life.

Liquidated damages

A sum agreed upon during the formation of a contract which will be paid by the breaching party in the event of a defined breach of contract (such as non-performance or delay in delivery). The amount of Liquidated Damages must be arrived at in good faith and must be based on an estimate of the actual damage that will ensue from the breach.

Logistics

The process of planning, implementing and controlling the efficient, cost-effective flow and storage of goods and related information from point of origin to point of consumption for the purpose of conforming to customer requirements.

Long term agreement

A written agreement between an organization of the United Nations system and a supplier that is established for a defined period of time for specific goods or services at prescribed prices or pricing provisions and with no legal obligation to order any minimum or maximum quantity.

Market research

The process of collecting and analyzing information about capabilities within the market to satisfy the organization's needs, in order to identify suppliers, assist in the development of specifications, TORs and SOWs, ascertain pricing information, and obtain information on available technology.

Maverick buying

Buying goods or services 'off contract', i.e. without using contracts that have been put in place for the respective goods or services.

Memorandum of understanding

As used within the UN System, a Memorandum of Understanding is either (i) an informal agreement outlining the parties' expectations, commitment and longer-term goals in broader rather than specific terms or (ii) a legally binding contract, generally used when the contracting party is a non-commercial entity. The language of the MoU may determine whether it is legally binding on either party.

Net present value

Compares the value of a dollar today to the value of that same dollar in the future, taking inflation and returns into account. If the NPV of a prospective project is positive, the investment adds value and it may be accepted. If it is negative, the project should be rejected.

Offer, tender, submission

A generic term for bids, quotations and proposals, received from a Supplier in response to Solicitation Documents.

Option

A unilateral right in a contract, by means of which, for a specified time, the buyer may elect to exercise a right such as to purchase additional supplies or services called for in the contract, or to extend the term of the contract.

Outsourcing

The process of contracting out a business process, which an organization may have previously performed internally or which the organization deems necessary or important, to an independent company, supplier or contractor where the process is purchased as a service.

Performance security (performance bond)

A financial instrument that is intended to provide the UN with security against failure by a supplier to perform its obligations and serves as a source of compensation for a supplier's failure to fulfil the terms of a contract.

Procurement

The acquisition through purchase or lease of real property, goods or other products (including intellectual property), works or services.

Procurement review committee, review committees on contracts, or committee on contracts

Committee established for the independent review of proposed contracts over certain thresholds. The review is conducted to verify that all procurement rules, policies and procedures are met, and that the organization's interests are properly protected.

Proposal

An offer in response to a Request for Proposal

Purchase order

A type of contract that documents the purchase of goods and/or services.

Purchasing card

A payment method whereby requisitioners are empowered to deal directly with suppliers for low-dollar, high-frequency purchases by using a credit card issued by a bank or major credit card provider. The cards reduce paperwork and enable purchasing and accounts payable personnel to focus on more value-added activities.

Quotation

An offer in response to a Request for Quotation. However, if it is in response to an enquiry, it is simply a statement of price and availability.

Receipt of goods, goods receipt note

Official acknowledgement of receipt of goods

Regulatory framework (procurement)[106]

The existence of the appropriate structure necessary to support the establishment, implementation, control and direction of the procurement function, usually in the form of a system of regulations, rules, manuals and other related issuances that define and uphold the principles and values of public procurement; govern all procurement activities within an organization; and provide for the means to enforce them.

Remedy

A means of relief that either party can pursue to compensate for the other party's non-performance or non-compliance with a contract term or condition.

Request for expression of interest

An advertisement to identify suppliers that wish to participate in a forthcoming solicitation.

[106] This definition falls outside the PN agreed definitions and has been provided for the purposes of the PPH for ease of reference and understanding.

Request for information

An instrument to conduct a market survey in order to obtain information from the market that can be used to identify available or potential solutions for fulfilling identified needs which may include information on cost and delivery time.

Request for proposal

A formal method of solicitation where prospective suppliers are requested to submit a proposal for the provision of goods, works or services, based on the Specifications, Scope of Work, or Terms of Reference included in the solicitation documents. Normally used in cases where the requirements are complex; cannot be clearly or completely specified, where detailed technical evaluations are to be performed, and/or where pricing or cost may not be the sole basis of award.

Request for quotation

An informal method of solicitation whereby suppliers are requested to submit a quotation for the provision of goods or services. Normally used for standard, off-the-shelf items, where the value of the procurement falls below the established threshold for formal methods of solicitation.

Requisition

A written or computerized request from an internal user/customer for the fulfilment or procurement of goods, services or works.

Requisitioner

The person or personnel initiating a purchase requisition, i.e. a request for goods, works or services.

Residual value

The value of an item which has served its functional purpose but retains some value as in trade-in or scrap.

Sealed offer

An offer which has been submitted in a sealed envelope to prevent its contents from being revealed or known before the deadline for the submission and opening of all offers.

Security instruments

Financial instruments that are intended to provide the UN with security against expenses and losses that result from a failure by a supplier to perform its obligations. They are intended to ensure that funding is available to compensate the UN for such failure and are not intended as a punishment. The main Security Instruments are Bid Security and Performance Security. A security can take the form of bank guarantees, surety bonds, stand-by letters of credit, cheques on which a bank is primarily liable, and cash deposits.

Segregation of duties

An internal control mechanism used to assure that no single individual or organizational unit given responsibility for more than one related function.

Services

Work, duty or labour performed by a contractor pursuant to a contract. Rendering of services may involve the associated provision of utilities or facilities if specified in the terms of the contract. Typical examples of services include security, catering, cleaning, travel management, event management, IT services, training, freight forwarding, and consulting.

Single source

Procurement of products or services from one selected supplier, even though there are other suppliers that provide similar products or services.

Sole source

A procurement term employed when there is no competitive marketplace for the requirement, i.e. the product or service needed is available only from one source.

Solicitation

Generic term for a request to suppliers to offer a bid, quotation or proposal

Solicitation documents

Documents issued to describe procurement requirements and to invite Suppliers to submit a bid, quotation or proposal.

Sourcing

The process of identifying suitable suppliers that could provide required products or services for the acquiring organization

Specifications

A description of the technical requirements for a material, product or service. Usually referring to the defined requirements for materials or products, but can also relate to the requirements for services (Terms of Reference), or works (Statement of Work)

Standardization

The process of agreeing on a standard specification for a specific product or line of products. Usually conducted to achieve economies of scale, compatibility with other products, facilitation of operation, maintenance, and repair of already purchased goods, etc. Standardization could result in sole or limited source situations; this should be a consideration in the decision for standardization.

Statement of work

Requirement specifications for work assignments outlining the specific services a contractor is expected to perform, generally indicating the type, level and quality of service, as well as the time schedule required. Usually accompanied by a Bill of Quantities (BOQ) and/or drawings/designs.

Stewardship

The responsibility of an organization for managing the funds and resources entrusted to it by its member states and other donors in an ethical and transparent manner, and for the welfare and in the interest of the designated beneficiaries of the funds and resources entrusted.

Subcontractor

A party that carries out work for a contractor as part of a larger project.

Supplier, vendor

An entity that potentially or actually provides goods or other products (including intellectual property), services and/or works to the organization. A supplier may take various forms, including an individual person, a company (whether privately or publicly held), a partnership, a government agency or a non-governmental organization.

Sustainable procurement

Procurement is called sustainable when it integrates requirements, specifications and criteria that are compatible and in favour of the protection of the environment, of social progress and in support of economic development, namely by seeking resource efficiency, improving the quality of products and services and ultimately optimizing costs.

Terms of reference

A description of the scope of work for services generally indicating the work to be performed, the level of quality and effort, the timeline and the deliverables.

Transparency

A principle implying a process by which reliable, timely information about existing conditions, decisions and actions relating to the organization's activities is made accessible, visible and understandable

Vendor

See supplier

Warranty

A warranty is an assurance (expressed or implied) by the supplier that the material, product, or workmanship being sold is as represented or promised, e.g. free of defects, or will be repaired or replaced free of charge or according to conditions set out in the warranty.

Works

All activities associated with the construction, reconstruction, demolition, repair or renovation of a building, structure or activities such as site preparation, excavation, erection, building, installation of equipment or materials, decoration and finishing, as well as services incidental to construction such as drilling, mapping, satellite photography, seismic investigations and similar services provided pursuant to the procurement contract, if the value of those services does not exceed that of the works themselves



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