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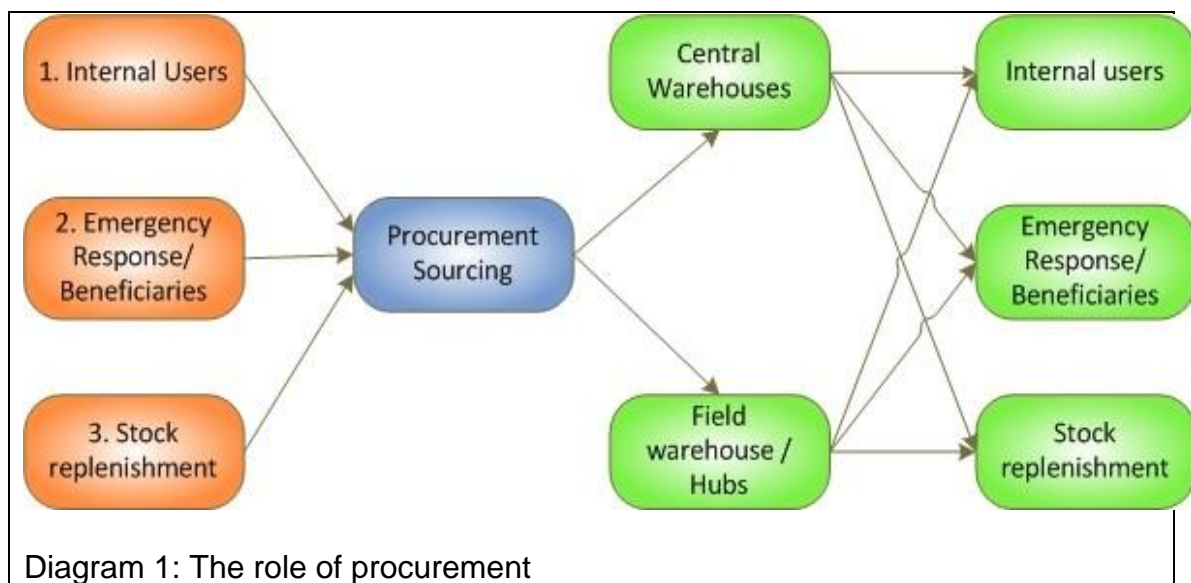
# Procurement

# Introduction

Procurement is a key activity in the supply chain. It can significantly influence the overall success of an emergency response depending on how it is managed. In humanitarian supply chains, procurement represents a very large proportion of the total spend and should be managed effectively to achieve optimum value. Procurement works like a pivot in the internal supply chain process turning around requests into actual products/commodities or services to fulfill the needs. It serves three levels of users:

1. The internal customer.
2. Programs in response to emergencies and ongoing programs.
3. Prepositioning of stocks, for both internal customers and program needs.

In collaboration with the warehouse function, products/commodities are mobilised and delivered.



Diagram 1: The role of procurement

Procurement is a large subject area and bridges the fulfillment of identified needs. The objective of this topic is to highlight the key areas, provide tools, templates and hyperlinks to additional information such as donor guidelines should that is required.

Note: It is NOT the intention to recommend process in this chapter. Process, in the context of procurement, is organization specific and based on organizational policies and donor requirements. The intention here is to provide industry best practice that can be replicated or used to complement what is already in existence or adopted in totality where no guidelines exist.

# Definition

**Procurement** is the process of identifying and obtaining goods and services. It includes sourcing, purchasing and covers all activities from identifying potential suppliers through to delivery from supplier to the users or beneficiary;

**Purchasing** is the specific function associated with the actual buying of goods and services from suppliers; and

**Sourcing** is simply: "Identifying and working with appropriate suppliers".

Source: Mangan, J., Lalwani, C. and Butcher, T. 2008, "*Global Logistics and Supply Chain Management*", Hoboken, NJ, USA, John Wiley and Sons, Inc.

# Procurement in the Humanitarian Context

The three important principles of humanitarian logistics procurement are:

- transparency – all phases in the procurement process are fair and accurately documented;
- accountability – accountability to donors who may require certain rules to be followed when using the money they have provided;
- efficiency and cost effectiveness – meeting the six rights of supply; price, right time, right quantity, quality services, delivery to the required places and from the most cost effective source.

The principles and their importance stem from three key facts:

- that the resources utilised are usually funded by donor;
- that transparency contributes to the establishment of sound and reliable business relations with suppliers; and,
- that efficiency and cost effectiveness has a direct impact on operations and ultimately on beneficiaries.

The Procurement function must guard and mitigate against risk, understand the market, build relationships with suppliers, meet needs in a timely manner and constantly monitor performance to improve service provision. Hence the need for an organisation to have clearly defined policies that are well understood.

# Procurement Objectives

The aim and objective of procurement is to carry out activities related to procurement in such a way that the goods and services so procured are of the

right quality, from the right source, are at the right cost and can be delivered in the right quantities, to the right place, at the right time.

Meeting the following objectives of procurement enables the Logisticians to fulfil the "Six Rights":

- buy quality materials, items and services economically from reliable sources;
- ensure timely delivery through the selection of capable and efficient suppliers;
- continuously locate, evaluate and develop economical and reliable supply sources;
- identify the most reliable sources of supply through either open tender, multi-stage tendering (pre-qualifying suppliers and retaining only those that are capable of meeting the organization's requirements - strategic sourcing) and limited tendering.
- investigate the availability of new materials and monitor trends in market prices;
- buy in accordance with organisations policies;
- estimate, position and monitor appropriate levels of stocks based on estimated needs, operational policy, objectives and priorities, estimated time for replenishment and availability of funds; and
- participate in planning and coordinating purchasing needs across all central procurement teams and the field in order to reduce administration and make the best use of money spent.

It is important to recognize that the 'Six Rights' are interrelated and may influence each other but do not carry the same weight depending on the situation. For example, in an emergency situation it may be possible to obtain the right quantity but not at the right price. There may be competition for certain goods, so to get the quantities required may mean paying a slightly higher price.

# Procurement Policies

Procurement policies will vary from organization to organization but are the organizational rules and regulations governing the procurement function. The policies determine how different aspects of procurement will be carried out in the organization and how people working in procurement should behave. In summary, they;

- provide general and specific guidelines for managing the buying of items and services;
- establish a purchasing criteria and decision making process, ensure that implementing staff are well trained;
- provide specific guidelines for establishing and managing relationships with external entities in relation to procurement;
- encourage and enhance internal control measures;

- act as a management tool for better decision-making and better stewardship of the resources entrusted to organizations by its donors.

## Policy Inclusions

As a guide, a typical procurement policy should include, but not necessarily be limited to the following subjects:

- role of procurement in the organization and its structure;
- procurement professional ethics;
- sourcing strategy;
- donor guidelines; special purchasing requirements on grants;
  - USAID guidelines: Grant Regulations Admin Requirements
  - ECHO guidelines: grant agreement, general conditions to grants agreements, agreement guidelines, framework partnership agreement, Annex 1: single form guidelines, single form for humanitarian aid action, Fact Sheets, financial guidelines, rules and procedures applicable within the framework - Annexe 4, New Consolidated Humanitarian Aid Regulation.
- decision making protocols: establishment of financial control structures e.g. expenditure limits and guidelines, approval/decision making levels, constitution of procurement committees, etc;
- when to buy locally or Internationally (procurement strategy);
- ethical practices:
  - conflict of interest
  - integrity
  - confidentiality
  - declaration of Interests
  - supplier relations and ethical practices
- special purchasing requirements on grants;
- purchasing requirements for items with special storage needs;
- pre-determined sources of supply. Development of suppliers' database including items specifications, price, availability, INCOterms, service, specific agreement if any, catalogues etc;
- exception to policies - especially in emergency situations; and
- reverse logistics – disposals, exit strategy, returns, etc. inclusion of return and replacement processes to be adopted for expired stock to vendors.

# Procurement Process

Logistics staff participation in assessments provides logistics information and data that supports program/response implementation. This enables the logistics function to know and understand program or response needs. The organisation is then able to plan ahead for the provision of the goods and services. The assessment results feed into procurement plans. In an emergency situation, the

participation of logisticians will inform management on the feasibility of a response to physical needs.

For emergency response purposes the procurement process can be wrapped into four clear steps:

- needs identification;
- specify;
- sourcing, awarding and placing orders;
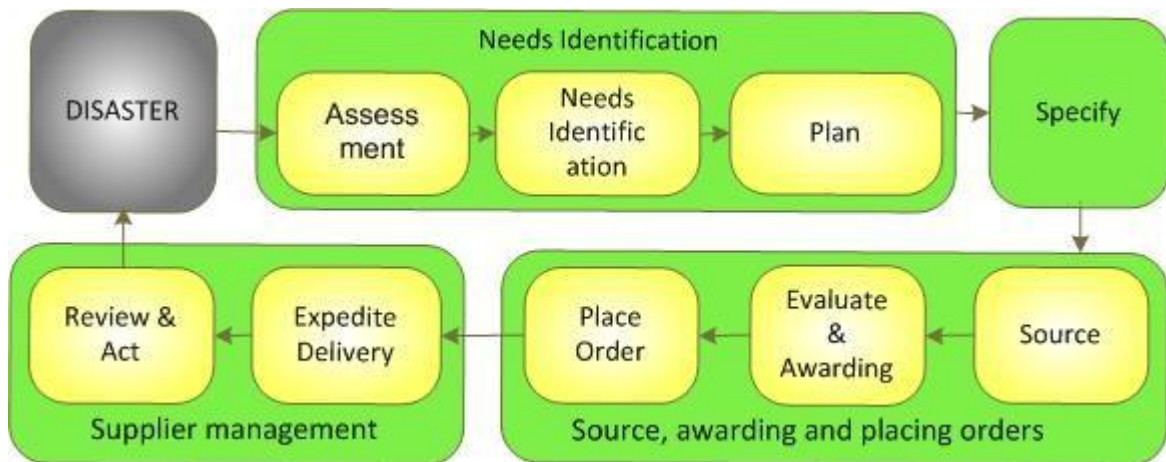- supplier management to facilitate timely delivery.



Diagram 2: Procurement Process

# Need

Requirements for goods and services originate from different users. In emergencies, the response teams in various sectors request for basic supplies to meet the needs of those affected. The needs range from blankets, mosquito nets, tents to food supplies, household items, etc.

The needs are communicated to procurement in the form of a "request". These requests may be electronic, hard copy or verbal, and may be very specific where the users know exactly what they need in terms of specification, quantities, and delivery details. Or they may be less specific where the users are not able to provide exact information.

In emergencies the requests are sometimes verbal or done on email communication.

In whatever form, the needs must be clear, unambiguous and confirmed by the originator of the request. The specifications should contain the essential features or characteristics of the requirements but must not be over or understated or contain non-essential features that might limit the sources of

supply or limit the number of potential suppliers. Assessments inform needs identification.

# Plan

Once the needs have been identified and forwarded to Procurement in a request form (see different purchase order requisition templates in the Annexes), the procurement department should develop or communicate a plan on how to deliver the service or goods required. But the plan must be developed in collaboration with the other functions within the organisation, so that it is integrated into the organisation's strategy and therefore provided for adequately.

# Specify

To be able to purchase the right goods or services, the specifications of what the user/beneficiary needs must be clear. These specifications are used to communicate to the supplier what is needed and what should be supplied. It is therefore important to have clear, precise and accurate specifications. Most organizations have standard specifications for the most regularly procured items and services such as medical and construction. One example is of Inter-Agxency working groups who have developed standards to facilitate the establishment of common framework agreements. (See Plastic Sheeting and Blankets specifications)

The customers determine the specification. There is, however, an important role to be played by those responsible for purchasing the goods or services.

What makes a good specification?

Specification is a detailed description of the design, the service, or materials. It describes in detail the requirements to which the supplies or services must conform. The basic requirement of a good specification is to clearly identify the service or product to stakeholders. The specifications must be clear to all parties. That is the user, Procurement and the supplier.

Factors to consider in specifying a product:

- physical attributes
- technical specification
- intended use
- technical specifications

*Care must be taken not to specify a specific product so as to limit competition.*

# Source

## Method

Some of the methods of purchasing or obtaining goods and services for an emergency are:

- drawing from existing stocks within the organization;
- cash purchases on approval;
- calling-offs from existing - supply/framework agreements/long term agreements;
- ordering from a sole/single source, multiple sources, supplier, alliances/partnerships; these could be local or international purchasing;
- purchasing from the open market on a quick request for quotation with request for short turn-around;
- in preparation for slow-on-set or for complex emergencies, purchase from the open market through an open invitation to tender;
- other agencies'/organizations' donations; and
- borrowing from stock held by other agencies/organizations in the UNHRD network.

## Process

Sourcing is the process of identifying sources of supply that can meet the organizations immediate and future requirements for goods and services. In an emergency situation the immediate needs would be priority consideration. Under the circumstances, identifying sources of supply and accessing supplier capabilities will either be carried out as users' place their requests to Procurement or once a request has been received.

The sourcing process adopted will depend on the situation and on the time available to carry out sourcing.

In response to a slow onset emergency, stock-piling may take place before specific requests are made.

In a sudden on-set emergency the need to respond quickly to the emergency will mean there is no time to gather sourcing information and approve suppliers before customers start to place requisitions. The organization would then call-off on existing stocks or purchase short term requirements off the local market for the initial days or order from existing agreements.

Some sources of supply information are:

- catalogues and brochures;

- trade directories;
- the internet, exhibitions, trade journals, government offices;
- other people involved in procurement;
- other organizations, other humanitarian organizations;
- supplier records, request for information/requests of expression of interest;
- existing approved supplier databases; and
- procurement agents.

## Vendor performance

Vendor rating and supplier performance monitoring are applicable to all scenarios for quality service delivery. These aspects should be built into on-going business. For emergencies, performance monitoring is limited to delivery and quality of goods. Though vendor rating is applicable in emergencies, the criteria may vary from one that is used in the long term arrangements. For example, ability to deliver immediately may carry more weight than the price, provided the price variation is not too big.

Factors to consider in vendor rating:

- vendors' legal status;
- price and cost;
- quality of goods;
- service record;
- availability of goods;
- ability to deliver in time;
- good communication; and
- availability of a clearly identified focal point.
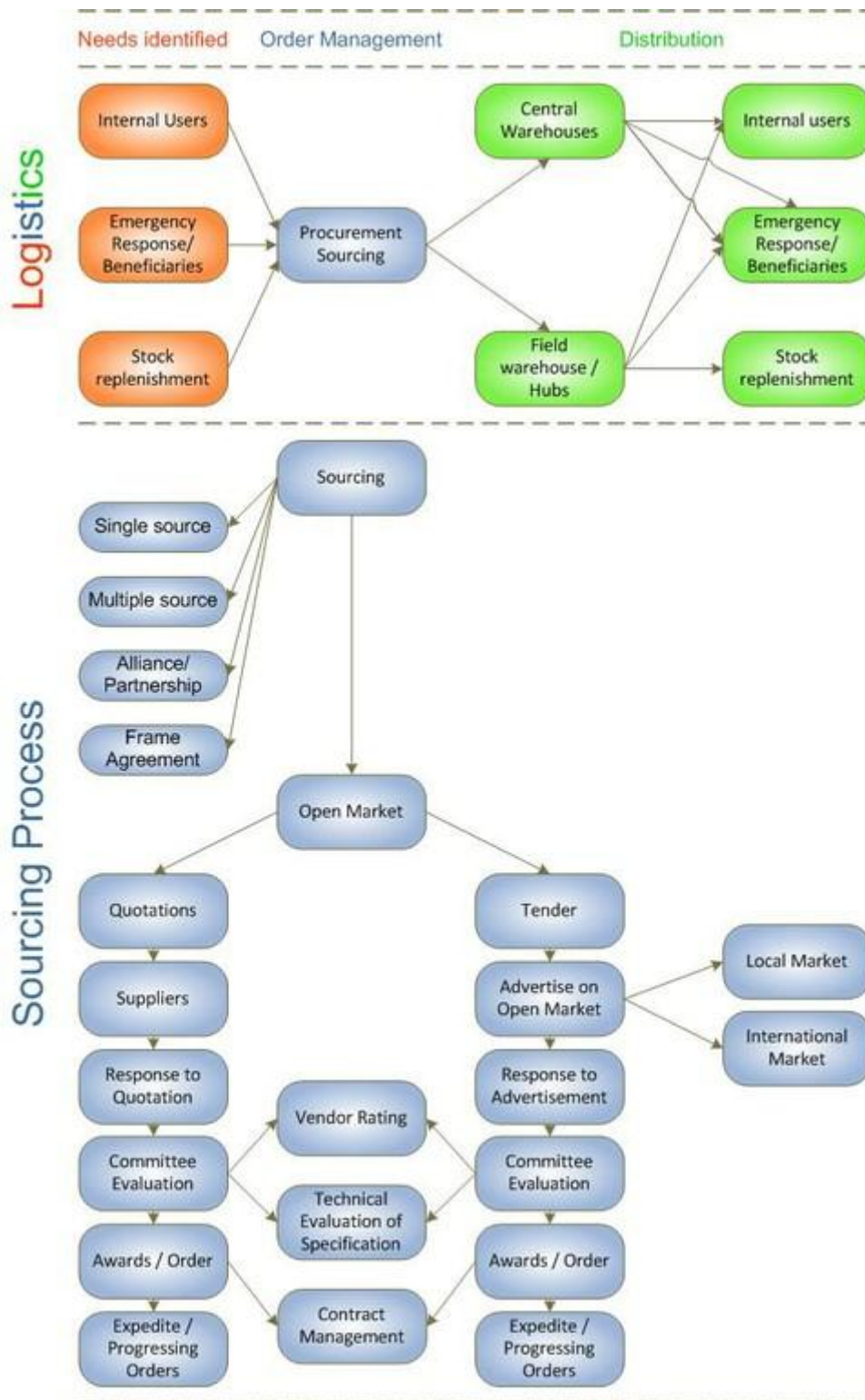
## Steps in the sourcing process

Diagram 3: Sourcing Process.

## Market Enquiry

The process of inviting and evaluating tenders or quotations will vary depending upon an organization's own internal procedures. But the following are considered 'best practices'.

| Inviting and receiving quotations | Inviting and receiving tenders |
|---|---|
| • A limited number of vendors are invited to bid for supply of products/services.<br>• Bids are returned within a specified deadline.<br>• Receiving sealed bids depending on the limits provided by the organization.<br>• Use of locked box or lock fax machine for receipt of bids. | • Advertising in local and international channels.<br>• Setting deadline for response.<br>• Receiving sealed bids.<br>• Opening and registering receipt of the tenders.<br>• Use of locked box or lock fax machine for receipt of bids. |

Documents used:

- invitation to tender forms;
- advertisements;
- Request for information (RFI)
- Request for quotation (RFQ)
- Request for proposal (RFP)
- Request for bid.
- Technical specification documents.

## Evaluation and Awarding

The evaluation of tenders and awarding of contracts to suppliers is an important phase of the procurement process. It is this process that determines the actual quality, reliability, delivery, etc. of the goods and services. The procurement department coordinates the following:

- analyzing and evaluating the bids against set criteria, specification requirements and presenting the analysis to an appointed committee; this process is applicable for both quotations and tenders;
- verification of supplier capability and quality control/assurance processes;
- reviewing product inspection results where necessary;
- verification of technical evaluation reports where applicable;
- negotiates with vendors where it is recommended by the committee; and
- places orders and expedites the delivery.

Some points to note:

- assess and consult on any big price variations;
- avoid potential conflict of interest, undue influence, price fixing and favoritism etc;
- ensure consultative decision making and sharing of responsibilities. The tender box should not be opened by one person only;
- the criteria used to evaluate bids should be tested and validated by the committee before reception of bids; and
- different steps of the process, results and choice should be documented (minutes, adjudication report…etc).

## Placing Orders and Contracting

The next step in the process involves placing orders for the goods or services with the supplier, or establishing contracts which need to be sent to suppliers. In emergency situations the approval levels and limits are adjusted, based on an approved process, to speed up the process of acquiring goods and services. Under normal circumstances, the approval processes may be more elaborate. The orders establish contractual relationships between the organization and the supplier. Depending on the organizations guiding policies, this contractual relationship can be represented in various forms (see attachments in Annexes):

- Purchase Orders 1, 2, 3
- Service Order
- Service Contract
- Frame agreement
- General Delivery Contract

Important features of a contract or agreement:

For information on international trade, see International Commercial Terms used in international contracts of sale: INCOTERMS 2000 , INCO terms explanation, INCOTERMS narrative, INCOTERMS practical application chart.

- cost
- specification/description
- quantity
- lead-time / delivery time
- approvals
- date of issue

- serial number
- terms and conditions (including penalties)
- INCOTERMS  / place of delivery

**Progressing/Expediting**

Once the order is placed and the supplier has confirmed receipt and agreed to the contract terms and conditions, the role and the amount of work that staff in procurement have to undertake will be affected by the performance of the suppliers. It is necessary therefore, for the procurement staff to monitor the progress of orders and the performance of the suppliers. Supplier performance will determine the amount of time and money that has to be spent in expediting orders and the managing of suppliers. To ensure an uninterrupted flow of goods and services, expediting should be a continuous process, especially in emergencies. The continuous monitoring enables the organization to pick out break-down points in the system and quickly identify solutions.

# Delivery and Return

Procurement only facilitates delivery through expediting for timely delivery and trouble-shooting returns. The physical receipt and inspection of goods takes place at the delivery point. Procurement only needs to know that delivery has taken place and that the supplier has delivered in accordance with the purchase order and complied with delivery contract requirements.

Whoever is responsible for accepting delivery and inspecting the goods should understand the procedure to follow in the event that there are any problems or discrepancies. For certain goods or commodities an independent inspection company may be used to check the quality of the goods.

# Payment

When goods or services are received and accepted into stock, Procurement then facilitates payment of the supplier by providing necessary documentation to Finance.

Orders are normally generated in Procurement. As the goods are delivered in the warehouses and transported to final distribution points, additional documents are generated in the process to support transactions. All these documents are finally consolidated to support vendor payments. In the diagram below, the entities on the left generate the documents. On the right are examples of some of the documents used to support payment.
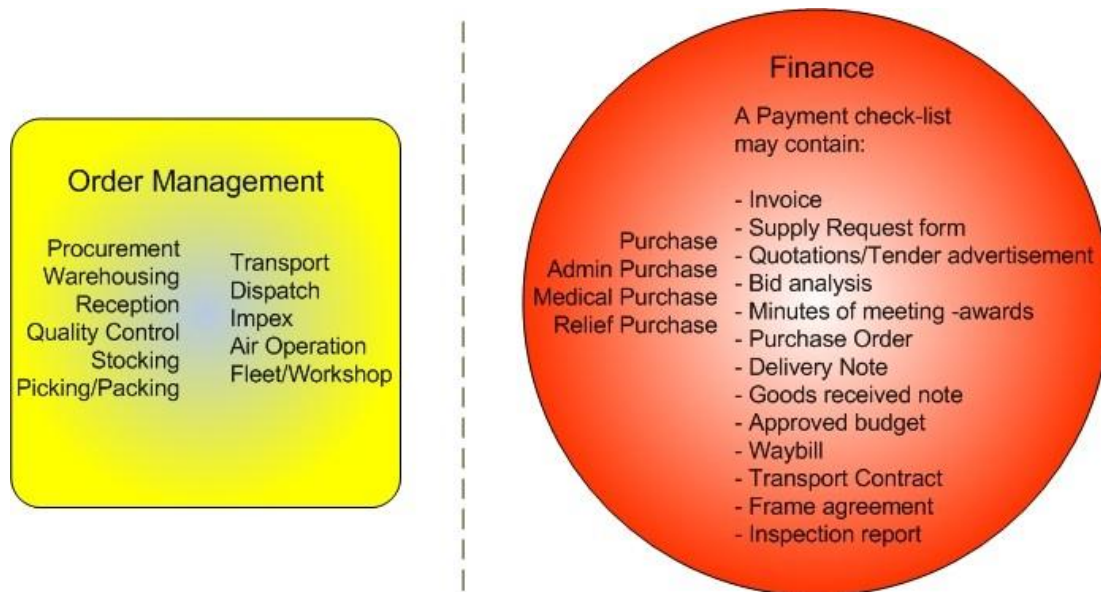
Order Management

Procurement
Warehousing
Reception
Quality Control
Stocking
Picking/Packing

Transport
Dispatch
Impex
Air Operation
Fleet/Workshop

Finance

A Payment check-list
may contain:

Purchase
Admin Purchase
Medical Purchase
Relief Purchase

- Invoice
- Supply Request form
- Quotations/Tender advertisement
- Bid analysis
- Minutes of meeting -awards
- Purchase Order
- Delivery Note
- Goods received note
- Approved budget
- Waybill
- Transport Contract
- Frame agreement
- Inspection report

Diagram 4: Example of necessary documentation used to support payments.

# Review

It is very easy to forget the review stage, particularly when there is a lot of procurement activity taking place as in the case of an emergency. The review stage has got three main objectives:

- a review with the original user or beneficiary on whether the original needs they had have been met;
- a review of the performance of procurement in carrying out the procurement process; and
- a review of the supplier performance.

In emergency situations, the review step happens much later in the emergency. Emphasis during the emergency is focused on obtaining the goods and services and meeting the needs.

# Procurement Tools and Documents

Different humanitarian organizations will have their own systems and documentation that they use during the procurement process. These are used to enable people to carry out the procurement process efficiently and consistently. Historically, the procurement process has been paper based and has required the use of a range of documents. In the initial days of an emergency, it is difficult to introduce a new system but easy to apply an existing one with minimum guidance to facilitate the speed of response.

# Procurement System

In this context a standard procurement systems (SPS) is a software suite providing front office services to procurement professionals. It is intended to provide standard business processes and data management across a wide range of procurement communities. Procurement in emergencies is very complex, necessitating procurement of relief supplies from multiple worldwide sources. An SPS provides a paper-less transaction trail for better accountability, facilitates order tracking and reduces the opportunity for fraud. There are many SPS available on the open market, from which an organization can select one that is suitable to their needs. There are also service providers on the open market who have the capability to develop an SPS specifically tailored to meet individual needs.

# Conclusion

Procurement must be seamlessly integrated with the other aspects of Logistics and functions within the organization, such as Warehousing, Distribution, Finance, HR, etc. An integrated approach to service delivery will no doubt contribute to the timely, efficient and effective delivery of humanitarian assistance. Clear communication lines, timely flow of documentation and constant feedback will facilitate the procurement process. The involvement of the Logistics function in assessments will enable Logistics to plan for the delivery of services, but for Logistics to succeed, the procurement plan must be well integrated and visible in the overall response plan. In emergency situations, easily accessible logistics preparedness and response guidelines will help to fast track the development of a response plan, tailored for a specific situation.