

# Procurement

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## Common Terms

<b>Evaluation Committee/ Panel</b>	A committee made up of an odd number of members (at least three) with the necessary technical and administrative expertise to give an informed opinion on tenders or grant applications.
<b>BVM</b>	Short for “Best Value for Money”; the best combination available of monetary and non-monetary requirements that an organization can get from its selection of suppliers.
<b>HPCs</b>	Short for “Humanitarian Procurement Centers”. Are not-for-profit organizations specialized in the technical and commercial management of supplies and services necessary for the implementation of humanitarian actions. They can provide technical assistance in procurement or supply pre-established stocks, purchasing or logistics capacity
<b>ISO</b>	Short for “International Organization for Standardization”. An independent entity that has been thinking and standardizing the formulas that describes the best way of doing something.
<b>Certification</b>	Guarantee that a product and/or company has followed a quality process.
<b>Lead time</b>	The time between initiation of the acquisition of the goods and services up to the time of delivery.
<b>Market Analysis</b>	An essential component of context analysis, collecting information that will be useful to program the intervention and how to implement it.
<b>Market Research</b>	Activities and means to identify suppliers in a specific market.
<b>Negotiated Procedure</b>	Procedure without prior publication of a procurement notice, in which the Contracting Authority consults the candidate or candidates of its choice and negotiates the terms of the contract with one or more of them.

<b>Procurement</b>	The process of identifying and obtaining goods and services
<b>Purchase</b>	The specific function associated with the actual buying of goods and services from suppliers.
<b>QA</b>	Short for "Quality Assurance"; A procedure to ensure the quality of products or services by preventing mistakes and defects in manufactured products and avoiding problems when delivering products or services to beneficiaries.
<b>QC</b>	Short for "Quality Control"; checks to ensure quality in a product or a service.
<b>Quality</b>	All the elements and characteristics which constitute the product and which contribute to its compliance with the defined technical specifications.
<b>Sourcing</b>	Identifying and working with appropriate suppliers.
<b>Services</b>	Intellectual and non-intellectual services.
<b>Segregation of Duties</b>	Principle by which must have more than one person to complete a procurement activity.
<b>TCO</b>	Short for "Total Cost of Ownership"; Cost involved in buying and using a product over time.
<b>Tender Procedure</b>	The overall process of putting a contract out for tender, starting with the publication of a procurement notice and ending with the award of the tendered contract.
<b>Works</b>	The design and/or the execution of a rehabilitation, construction, etc. in accordance with the previously specified requirements.

## Introduction to Procurement

It is common to see the procurement as a bottle neck and a time-consuming activity, usually associated with delays and strict bureaucracy. However, procurement activities can be agile and practical if agencies understand the roll that procurement plays, why it exists, what the guiding principles are, and how to manage procedures. Through procurement activities agencies acquire the needed supplies and service to perform our daily organizational activities.

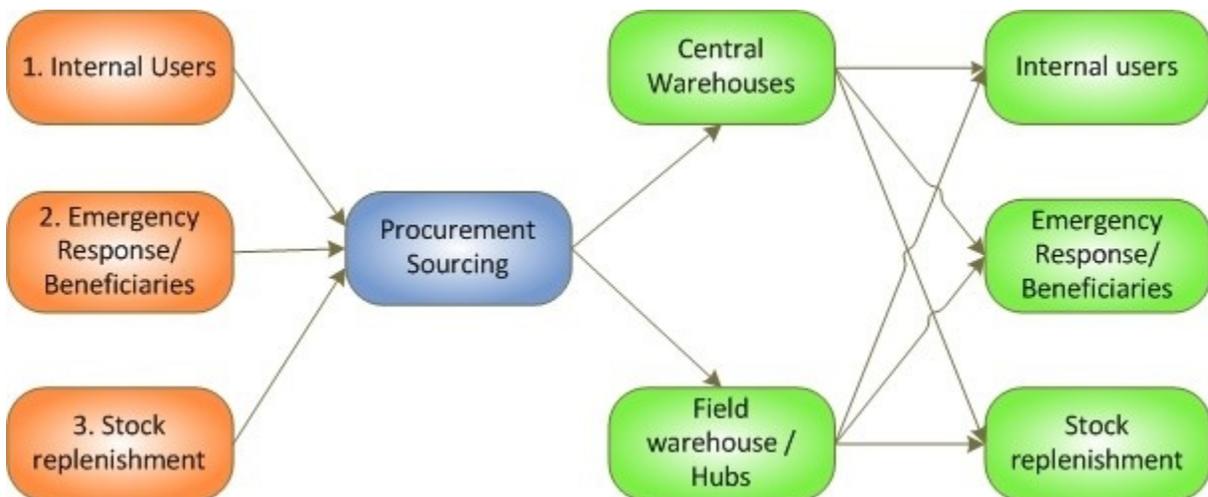
### Definition

**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 [1].**

It's important to note that *Procurement* is not a single action but a *Process*. A series of activities aimed at meeting the needs of humanitarian projects as well as our operation in general. This process is standardized in such a way that it can be replicated it regardless of the place, time or context. At the same time it is flexible enough to encompass each of the different challenges that the purchasing manager faces.

The process is guided by principles, policies and procedures. Viewing all the aspects of procurement as a guiding path instead of a checklist, the person or team responsible for procurement will be able to anticipate, be prepared, and respond to demands in a practical and diligent way.

The words *Purchase* and *Procurement* are frequently used interchangeably; though this may be common this is not necessarily accurate. Purchasing is just a part of the procurement process, an important one, but only the specific function associated with the actual buying of goods and services from suppliers. For the sake of this guide, procurement and purchasing will be defined thusly.



# Procurement Principles in the Humanitarian Context

There are certain principles that will govern the way in which a procurement activity is carried out. These principles are not random or chosen by chance; they are the result of many experiences and lessons learned, established after several discussions and revisions. Humanitarian actors can have a great financial impact in the context they work, and procurement plays an important role since it has to do with the exchange of money, selection of providers, distributions in insecure contexts, and constant exposure to various risks that need to be mitigated for the correct program implementation.

A general series of principles have been developed that govern the procurement actions, to which the procuring entities are strongly advised to adhere. The ultimate goal of these principles enacting an economic and efficient intervention with the best quality-price ratio.

## Best Value for Money

**Best Value for Money (BVM) refers to the best combination available of monetary and non-monetary requirements that an organization can get from its selection of suppliers. It does not mean to achieve the cheapest offer but to balance the attributes such as quality and availability according to the organization needs [2].**

The *Combination* of which this definition speaks are those of cost, quality and sustainability that best meets the organization's requirements.

- **Cost** understood as those of the entire life cycle of the product or service, which is known as Total Cost of Ownership (TCO) that takes into consideration not only the price but all the cost involved in buying and using a product over time.
- **Quality** understood as sufficient specifications to meet the organization requirements, which in part can be summarized in the term Fit for Purpose.
- **Sustainability**, taking into account the economic, social and environmental impacts.

Those responsible for procurement will look for the lowest overall cost to get the best return of investment.

## Competition

Supplier selection - and therefore the procurement of products and services - is based on a competitive process. That means that solicitation documents should be issued to several and different suppliers enabling an effective competition to achieve the BVM while respecting the local market. Competition entails:

- Promoting a culture of neutral specifications (avoiding over/under-specification).
- Providing suppliers with adequate notification to ensure that there is sufficient time to participate in the procurement processes.
- Ensuring the comprehensive, impartial and timely evaluation of offers.

It is a good practice to give feedback to the non-successful bidders, explaining them the reasons for not being selected to allow them to improve their processes.

## Transparency

Purchases are part of the joint action of many actors - headquarters, project managers, technical services, field staff, suppliers and communities. It is key, therefore, that each party know separately at any time the means and processes implemented to achieve procurement objectives. Both inside and outside the organization, procedures should be shared and available to ensure that each person or group can know and question the steps taken for each of the processes. Transparency does not mean that a humanitarian organization loses independence, but rather that it can reason the actions and clarify the principles that have guided it, accrediting the decisions made in the purchase of goods or services.

Transparency is also an important part of security management, since a perception of partiality or lack of transparency could lead to threats or increase risk for the teams in the ground.

## Proportionality

In the search for efficiency, aid agencies must diligently ensure principles guide procurement activities. It is strongly advised that there should be increases in control measures and procedures proportional to the value the contract or procurement. The higher that value, the more measures, resources, and stricter procedures will be required. In the same way, if the value is reduced, procedures should be more lax. This principle is the base of the different Procurement Procedures.

## Fairness

Humanitarian aid organizations are generally important economic actors in the places in which they operate, due to the high volume of products and services involved in humanitarian operations. Normally aid organizations operate in very small or disrupted markets, so it is helpful to pay attention to the market assessments and keep it in mind in each context analysis.

Humanitarian organizations need to be aware of the local market composition and who are the different actors involved. When designing and implementing interventions, there is a need to assess and analyze local markets and supporting supply chains, in order to facilitate their recovery. This principle is intended to ensure that all potential suppliers have the same tools and information to compete fairly; agencies must be clear in the requirements and the criteria that we are going to use to award the contracts.

The equal treatment of suppliers does not mean that market categories that exclude or include certain suppliers cannot be made, but agencies must ensure that all of them have the same opportunities to be awarded.

## Segregation of Duties

Segregation of duties is a core principle of internal control and must be preserved in all procurement actions. According to the principle of segregation of duties, no single individual or team shall control all the stages of procurement process [3].

For the sake of quality and control, segregating responsibilities during the purchase process helps not only to identify errors by adding review and oversight steps, but also limits the possibility of fraud, adding clarity and confidence in the process. Having more than one person involved in the process also helps to protect those with procurement responsibilities from vague accusations.

The best result of duties segregation is the involvement of different points of view, knowledge and ideas, making decisions more likely to be successful while everyone is informed and in agreement. The table below shows different examples on how to ensure the Segregation of duties:

The person to:	Should not be the <u>only</u> person to:
Request an article and/or fill the PR	Approve the Purchase Order (PO)
Execute the contracting/acquisition procedure	Approve the Purchase Order or the Contract / Framework Agreement
Select the supplier	Approve the Purchase Order or the Contract / Framework Agreement
Approve the Purchase Order (PO)	Receive the goods / services, e.g., Approve a Goods Receipt Note
Execute the contracting/acquisition procedure	Receive the goods / services, e.g., Approve a Goods Receipt Note
Receive the goods / services, e.g., Approve a Goods Receipt Note	Create payment request / Prepare Payment Package / Authorize payment

Save the Children International. Procurement Manual 2.0 01.01.2020.

## Ethics

Humanitarian action has its own defacto code of conduct, which has been and continues to be the object of a great internal debate. This set of principles has led to the development of multiple norms, or even rules, that agencies should observe in the implementation of programs. A good compendium and example of those is the [Sphere Project](#), both for its depth and for the high consensus achieved. This is based on the need to contribute to improving the humanitarian response, to assert the rights and meet the needs of the affected people in a dignified way.

There are - for example - codes of conduct, which are understood and signed by all employees which may include rules that humanitarian staff

- Do not use their authority or status for personal gain.
- Maintain a high level of integrity and ethics in business relationships.
- Use the resources and assets of the organization responsibly.
- Do not accept personal gifts from suppliers or engage in any other anti-competitive conduct.
- Act and behave in a professional manner as representative of the organization and donors, and avoids anything that could bring discredit to the organization or donors.

When possible is a best practice to include the ethical component when tenders are published, and use its compliance as part of the selection criteria even though it is not always easy to evaluate against ethics as a criteria. There could be suppliers that do not have standard certifications - nor they are used to pay attention to this kind of policies. That's when it becomes more important to have a good Market Analysis and pay regular visits to our suppliers, in order to be able to evaluate their way of working.

## Standards, Protocols and Controls

Each organization will establish controls, including disciplinary procedures, to manage any misconduct. Applying the aforementioned standards and protocols in relevant ways and in specific operational contexts is an ongoing challenge for humanitarian organizations. The organizations, bound by these standards, have developed over the years a framework that enables their leaders and collaborators on the ground to act in accordance with these principles while applying tailored solutions and pragmatic approaches. These principles of action are usually understood as a guide, and may include the following:

- **Humanitarian responsibility.** "Do not harm" (prevention of negative impacts, we are guests, respect local cultures).
- **Protection of victims.** Presence with the victims as protection.
- **Collaboration with stakeholders (local, international):** exchange know-how, optimization of resources, empowerment, sustainability.
- **Commitment to improve the education and training of our teams (national staff) and beneficiaries.**
- **Prioritization of the most vulnerable groups.** Women, the elderly and children.
- **Maximum beneficiary participation.** Search for their autonomy, listening mechanisms.
- **Respect for the environment.** Environmentally friendly technical solutions, research and development, impact analysis, community awareness.
- **Integrated approach** to interventions/Coordination with other organizations.

To guide and enforce these principles, specific policies have been drafted, addressing each issue in depth, explaining the why and how, and establishing corrective measures. Among the most common internal policies are:

- **“Whistle-blower” Protection Policy:** Protection against retaliation for reporting misconduct and for cooperating with duly authorized audits and investigations.
- **Policy on Harassment, Sexual Harassment and Abuse of Authority:** ensuring that all its workplaces are free from abuse, offensive behavior, harassment, abuse of authority and discrimination. Promoting a work culture in which every employee understands, and is able to carry out, his /her personal responsibilities for maintaining the dignity of work colleagues.

It is not necessarily enough to ensure that those principles are respected internally; they have to be enforced them in the relations with third parties. To facilitate this, it is common to include in the contracts or agreements specific policies making these third parties to be adhered to, by signing them.

Example of those policies are:

- Anti-Fraud and anti-corruption policy

- Prevention against child-labor
- Prevention against modern slavery
- Waste management best practices
- Antiterrorism

These policies are included, or referenced as well, in the Terms and Conditions (TC) attach to any PO where should inform as well, about the feedback mechanism in place, allowing the suppliers to inform about any potential misuse or deviation perceived.

## Conflicts of Interest

Conflict of Interest can be defined as any actual, perceived or potential incompatibility between an Organization employee's private interests and either his /her official duties or the interests of the organization. It includes, but it is not limited to, circumstances in which an organization employee, directly or indirectly, would appear to benefit improperly, or allow a third party to benefit improperly, from his/her association in the management or the holding of a financial interest in an enterprise that engages in any business or transaction with the organization.

Examples of Conflicts of Interest:

- Accepting gifts from individuals or external entities with which the organization has a relationship, including vendors, consultants and governments.
- Accepting entertainment from individuals and organizations which seek to do business with the organization or influence it.
- Supporting an external organization through your work, major financial donations, or by lending your name or reputation to an effort.
- Using the reputation of the organization for personal benefit.
- A direct financial or family relationship with individual or external entities with which the organization has a relationship.

## Best Practices

Aid agencies are encouraged to introduce and follow best practices throughout the procurement process. A general table of accepted best practices can be seen below:

Ares of Best Practice	Example
<p><b>Individual Behavior.</b></p>	<ul style="list-style-type: none"> <li>• Respect organization's rules and regulations</li> <li>• Always bear organization's interest in mind</li> <li>• Apply principles of professionalism, efficiency and integrity</li> <li>• When managing a contract, balance the need to get the supplier' trust with the one of keeping distances</li> <li>• Refrain from sharing confidential information</li> <li>• Act in the interest of the organization but taking into account rules and procedures</li> <li>• Try to understand the "spirit of the law" and what the rationale behind the rules is</li> <li>• Be alert about potential "red flags"</li> <li>• Openly discuss whenever facing difficulties</li> <li>• Share procurement knowledge within your unit</li> <li>• Increase the awareness of ethical values in your unit</li> <li>• Ensure compliance with correct procurement procedures.</li> <li>• Increase your knowledge of procurement rules and procedures</li> <li>• Be aware that there are many documents that might help you to deal with "grey areas"</li> <li>• Be sure to document and file any deviation from the correct rules</li> <li>• Set a good example</li> <li>• If in doubt: ask!</li> </ul>
<p><b>Working Practices with Suppliers.</b></p>	<ul style="list-style-type: none"> <li>• Business should be conducted during normal working hours</li> <li>• Meetings with suppliers should be with minimum two organization staff members</li> <li>• Suppliers should not be invited to organization staff offices but to the cafeteria or meeting room</li> <li>• Meetings should have an agenda and minutes</li> <li>• Ensure sufficient distance when working with suppliers, especially when the same one for many years</li> <li>• Make sure you are aware of relevant policies and how to apply organization's ethical principles in your work</li> </ul>

<p><b>Avoid excuses among team and employees.</b> Ethics is about doing the "right thing" even beyond the workplace. It is important to be vigilant and not relax working behavior.</p>	<ul style="list-style-type: none"> <li>• "I have to cut corners to meet my goal."</li> <li>• "I lack the time/resources to do what is right."</li> <li>• "My peers expect me to act this way."</li> <li>• "My superiors want results."</li> <li>• "I don't think it is really wrong or illegal."</li> <li>• "Others would think that it is a good choice."</li> <li>• "No one will ever know the difference."</li> <li>• "I am afraid to do what I know is right."</li> <li>• "This is how it has always been done."</li> <li>• "Let's be practical."</li> </ul>
<p><b>Watch for Red Flags.</b> look for possible symptoms of unethical behavior and watch out for.</p>	<ul style="list-style-type: none"> <li>• Deviations from correct procedures</li> <li>• Poor record keeping / Missing files</li> <li>• Excessive secrecy</li> <li>• Reluctance to delegate</li> <li>• Protective of certain suppliers</li> <li>• Resistance to audit</li> <li>• Unnecessary meetings with suppliers</li> <li>• Overcharging by the supplier</li> </ul>

## Procurement Planning

### Market Categories

In the humanitarian sector is common to work with the concept of market categories, to organize the set of rules that applies to the different procurements processes all along a project or intervention.

Basically, market categories are a convention that allows a more structured way of compiling and combining purchases due to their nature and specificities, and to ensure that the procurement principles are followed while facilitating the procurement process by establishing standards and tools. In addition, it is possible that the different categories could have different thresholds. In general, there are four main categories or "markets" humanitarian organizations work with, however variations and additional categories can and do exist.

<p><b>Goods /Supplies</b></p>	<p>The goods or supplies category includes the purchase of tangible items and/or its interrelated sets. In general, a market is considered as goods /supplies when there is a transfer of ownership of tangible products.</p> <p>A product is defined by two elements:</p> <ul style="list-style-type: none"> <li>• Technical specification or detailed description (including images if necessary)</li> <li>• Purchase Unit (Kg, Lt, piece, etc)</li> </ul> <p>The <i>Total Cost of Ownership</i> - All the costs associated to production, preparation, installation, maintenance and disposal - related to the purchased products, can be considered as part of goods market if the additional services have been procured, delivered and invoiced together and as long as these costs remain lower compared to the total purchase cost.</p> <p>The typical purchases in the goods market are include food, tools, construction materials, office supplies, equipment, etc.</p>
<p><b>Construction /Maintenance</b></p>	<p>Construction/maintenance is a market category that includes the design of the work and/or its execution in accordance with the previously specified requirements.</p> <p>It usually implies visiting the place where the works should be performed with potential contractors, allowing them to better understand what is needed and the requirements in order to make a more accurate offer. As the works usually takes some time to be finalized, an execution timeline must to be included in the plans as well as moments where inspection visits have to be performed.</p> <p>Common examples are; a building rehabilitation (in full or part), any kind of construction, road sections, etc.</p>
<p><b>Services</b></p>	<p>Services is a market category that includes the intellectual and non-intellectual services that do not fit in goods and works markets definitions. Evaluations, technical assistance, or any other activity not implying the transfer of a tangible product are considered as a service.</p> <p>Under this market its possible to hire the services of dispatchers, lawyers, consultants, translation services, transport, etc.</p>

<b>Property/Rental</b>	Property/Rental markets refer to the rental of real state, whether land or buildings, regardless of their purpose.
	<p>This market possesses certain characteristics that makes the sourcing and selection process slightly different from the other markets.</p> <ul style="list-style-type: none"> <li>• There are no suppliers or provider but landlords</li> <li>• There no transfer of ownership but right of use for a period of time</li> <li>• There are specific laws applying to property</li> </ul> <p>However, what really makes this market category different is the difficulty to measure two or more premises exactly by the same criteria. While there are some similar comparable, aspects such as the location, the structure, the internal distribution, security considerations, makes the selection process more complex. The logistician has to evaluate the local market (actively) and choose the more economical option that could fit as much initial requisites as possible.</p>
<b>Hybrid Markets</b>	<p>There are cases where a procurement implies a combination of two markets. In these cases, the market rules that applies are defined in base of the market with the highest cost.</p> <p>For example, a procurement that implies goods (timber) and services (transport by land) will be defined as goods if the cost of timber is highest then the transport. However, If the transport cost exceeds the timber cost the rules that applies are the ones stated for the services market.</p>

## Procurement Strategy

It is fundamental to develop a strategy for the successful acquisition of everything needed to facilitate the organization's operations. This strategy must observe the core procurement principles and should be the result of the different procurement plans prepared for any action, program or project where the needs are identified.

A strategy will be based on market and context analysis results, knowledge from where organization's can build the best approaches to manage the acquisitions. Knowing what and where supplies are needed, agencies can better choose the supply strategy, paying attention to the total cost of ownership (e.g., initial purchase, shipping, operation, maintenance and disposal costs), the special field conditions and the real possibilities to acquire (or ship) the materials and services needed.

In other words, if agencies do not approach procurement strategically, they run the risk of not being able to accommodate all needs (or can't do it in accordance with our budgets restrictions) which can lead to financial, reputational or even security risks.

A strategy has to be flexible and ready to be revised each time a new condition arises, either in the requirements or in the context surround the organization. For this reason, each intervention must have a procurement plan, as the tool that reflects the minimum information on the anticipated needs, allowing:

- Improve sourcing and thereby increase competition.
- Mitigate the risk of redundancy, reducing transaction costs and prices through the consolidation of procurement actions.
- Increase the efficient use of resources by avoiding last minute actions.
- Prevent non-compliance with regulations, rules and procedures due to oversight or time constraints.

Procurement plans are the base and precondition to launch any procurement process. They must be prepared before the start of any action, program or project, and must be based on analysis of budget, beneficiary numbers and activities. The exercise is a common effort among all the participants, including the who identify the needs, who will procure and that will control the budget to concretize the details of:

- Description of goods/services to be procured.
- Estimated costs and quantities of the needed goods and services.
- Categories of goods and services.
- solicitation methods.
- Target delivery dates (timeline/schedule).

It is possible that aid organizations cannot not foresee all needs throughout the project duration, and that any given plan may undergo slight or deep modifications due the volatile situations on the ground. However, there are always recurring requirements that can be anticipated, or at least reasonable estimates based in past experiences from where we can extract information to assure that the activities could be done in a timely manner.

It is key to clearly define the requirements for every needed good or service at the planning phase. This enables persons enacting procurement to better understand the function, performance and technical specifications that will be required to cover the requester needs, and how to determine the best solution to fit them, and how to stablish the evaluation criteria to assure the quality standards.

## Documentation

### Common Documents in Procurement

The following documents can have different names in each organization.

Procurement Process Step	Acronym	Document's Name	Definition
Sourcing	BOQ	Bill Of Quantities	A document used in tendering in the construction industry in which materials, parts, and labor (and their costs) are itemized.

	<b>EOI</b>	<b>request for Expression Of Interest</b>	A formal notification aimed at determining the capacity, interest, and availability of potential suppliers in the market to deliver the goods and services required.
	<b>RFI</b>	<b>Request For Information</b>	Is used to supplement the writing of the technical annexes to the solicitation documents and ensure those are accurate and have a comprehensive set of requirements.
<b>Requisition</b>	<b>PR</b>	<b>Purchase Request</b>	The standard and official form to request a purchase.
	<b>SOW</b>	<b>Scope of Work</b>	Is used in all types of civil, mechanical, electrical or other engineering/installation services for works, as well as the supply of construction materials and equipment included therein. It provides all information required to allow the contractor to undertake the works.
	<b>TOR</b>	<b>Terms of Reference</b>	A description of the work to be performed, the level of quality and effort, the timeline and the deliverables, used to define the performance requirements for services that cannot easily quantified.
	-	<b>Technical Specifications</b>	A document drawn up by the contracting authority setting out its requirements and/or objectives in respect of the provision of supplies, specifying, where relevant, the methods and resources to be used and/or results to be achieved.
<b>Solicitation</b>	<b>RFQ</b>	<b>Request For Quotation</b>	A written request made to suppliers for the purchase of goods or services, up to a maximum value established by the organization.
	<b>ITB</b>	<b>Invitation To Bid</b>	A letter sent to selected candidates in a restricted procedure or competitive negotiated procedure inviting them to submit a bid. This term is use interchangeably with "RFQ" in this guide.
	<b>RFP</b>	<b>Request For Proposal</b>	A written request made to suppliers for complex purchase exceeding the maximum value established by the organization. This term is use interchangeably with "Tender Dossier" in this guide.
		<b>Tender Dossier</b>	The dossier compiled by the Contracting Authority and containing all the documents needed to prepare and submit a tender.
<b>Evaluation</b>	<b>ET</b>	<b>Evaluation Table</b>	Tool aimed to compare the different bids received and present them in a Comparative Table.
	-	<b>Tender Report</b>	Document where present every detail about a tender process, including a comparative table and a reasoned proposition to award the contract
<b>Ordering and Contracting</b>	<b>PO:</b>	<b>Purchase Order</b>	A financial commitment that confirms the purchase details (Units, quantity, price, delivery time and Location, etc), officializing the Order
	<b>TC</b>	<b>Terms and Conditions</b>	The applicable rules governing the purchase of a product, service or works.
	-	<b>Contract</b>	Legally binding agreement between the organization and the supplier. It defines the Terms and Conditions for the good and services provision, as well as the signatories related rights and obligations. (see Contracts).
	<b>LTA or FWA</b>	<b>Long-Term or Framework Agreement</b>	A contract concluded between a Contracting Authority and an economic operator for the purpose of laying down the essential terms governing a series of specific contracts to be awarded during a given period, in particular as regards the duration, subject, prices, conditions of performance and the quantities envisaged. ( see LTAs)
<b>Reception</b>	<b>DN</b>	<b>Delivery note</b>	Documentary proof that the supplier commitments have been fulfilled.
	<b>RN</b>	<b>Reception note</b>	Documentary evidence of the transfer of responsibility of a cargo.
	-	<b>Commercial Invoice</b>	A document that state the parties involved in the transaction, describe the goods purchased and indicate their value.

## Documentation Management

Each specific purchase will need to be analyzed from the perspective of the organization's own procurement procedures, as well as from that of the funding agency's requirements. Every procurement process must be justified and thoroughly documented, having its own dossier containing all the documents related to a procedure, whether simple or complex. A procurement dossier can be defined as a set of documents that justifies the steps taken in a particular procedure. Not all dossiers will be the same in volume and complexity. (see [Most Common Procurement Procedures](#)). At the same time, dossiers have to be preserved for later use (see [Documentation Management](#), Files).

A filing system can be defined as the procedures and means necessary to ensure that the records are properly maintained during a fixed period of time for internal and external use.

- **Internally** - An adequate filing system increases efficiency and reduces wasted time during the preparation of reports and audits. The appropriate file reflects the principles of the Organization and provides Professionalism and Transparency.
- **Externally** - The organization is responsible for justifying the acquisition, use and disposal of materials, services, equipment, etc. to donors.

A proper filing system has no value if the documents are not duly completed and signed. Therefore, only employees to whom such responsibility has been formally assigned are authorized to sign documents. Those employees must understand the meaning of their signature in terms of their responsibilities and consequences for the Organization. Files must be kept for months or years, depending on donor requirements or internal audit guidelines.

## Standardization Tools

### Codes

Most of the forms handled by logistics personnel have or should have specific codes (references) that allow them to be connected and subsequently tracked. Typically, a form includes its "own" reference for easy identification, as well as one or more references to link it to the other documents. The forms are filed according to their references. Therefore, the proper use of references has a direct impact on the archive. When someone (internal or external) needs information about the history of our operations, the correct use references (encoding) facilitate access.

These codes might include information about the country, the office and the department requesting the purchase plus a running number.

**Labeling**

An emergency response produces a quite important number of documents and each procurement documentation can occupy a large volume, which can make it difficult to find a specific document when it is needed. Hence the importance of labeling each folder and/or box in the most harmonized way possible, thinking of those who will come after the initial response phase. The common archiving approach allows documents to be tracked more easily, while also allowing sensitive files to be identified faster in an emergency.

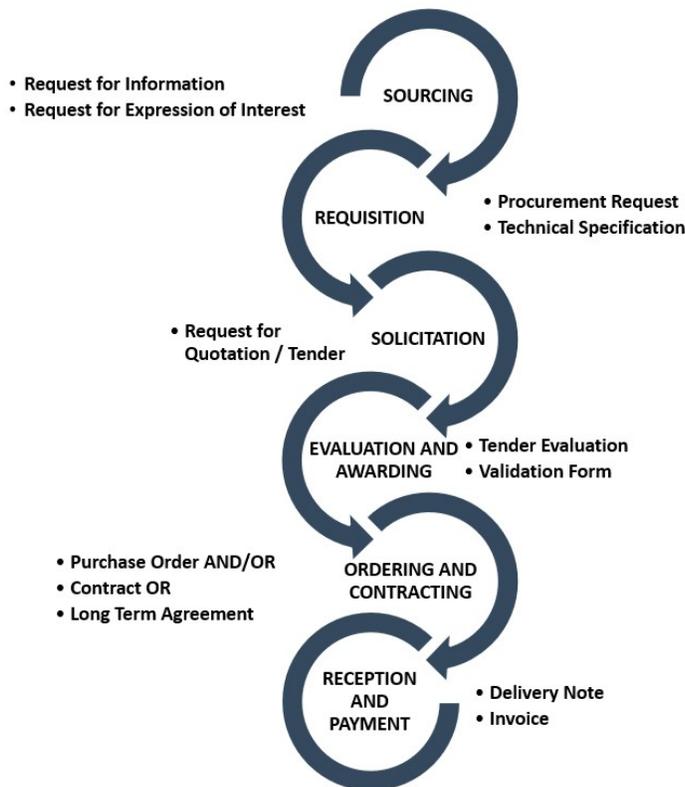
All related folders must be clearly labeled. A color, number, or pattern should be set to help determine what to do with those files based on the security level. This measure should also be applied by the other departments, especially finance and human resources.

## Procurement Process

Procurement is common - almost everyone does it automatically every day. However, for a procurement officer, procurement is a challenge in itself. Humanitarian logisticians purchase using funds provided by external donors to buy items and services defined by other colleagues with the aim to cover beneficiary needs. In order to align all those interests becomes essential to have some norms and tools.

In volatile context, with all the external and internal challenges and taking in consideration the capacity to impact the local market that the humanitarian aid has, is critical to have and implement standards over the whole process that could guide and ensure procurement principles are followed. Every coherent procurement process, regardless its aim or dimension, will have always six basic steps.

1. [Sourcing and Identifying Vendors](#)
2. [Product/Service Requisition](#)
3. [Solicitation](#)
4. [Evaluating and Awarding](#)
5. [Ordering and Contracting](#)
6. [Reception and Payment](#)



### Sourcing and Identifying Vendors

Procurement actions are based in a fair and transparent competition among different suppliers. Some form of market research should be done in order to collect information about the desired product and the potential suppliers that could potentially provide it.

Market research is used to identify suppliers, assist in the development of Technical Specifications, TORs and SOWs, ascertain freely available pricing information (e.g., company catalogues) and obtain information on available technology [4].

It is convenient to have a supplier database from which quotes are requested. If no such database exists, it is advisable to create one. A supplier database needs to be updated routinely, and agencies may look to platforms or sources of information such as:

- Specialized journals
- Chambers of Commerce
- Business meetings and seminars
- Professional associations
- External supplier rosters
- Online communities
- Yellow pages
- Search engine research
- Others

In the process of identifying suppliers, agencies may wish to follow a formal process. Many agencies issue official documents, including:

- Request for Information (RFI)
- Request for Expression of Interest (EOI)

These formal requests should be based on templates that will allow to build a more accurate opinion about the product or service that we pretend to acquire and its availability in the context we are working.

## Product and Service Requisition

Any procurement for goods or services should be built upon needs. Once the needs are identified measured and planned, by a team or individual within an agency, should be formally communicated to the organization’s procurement team, usually through a formally defined a Purchase Request specifying:

- The requesting unit.
- The requirements, including the criteria for evaluation.
- The quantity.
- The Estimated cost or the maximum authorized amount to be spent (If possible).
- The Delivery date and location.
- Confirmation that funds are available.

A key component of any purchase requisition should be the inclusion of technical specifications. There are many ways for suppliers to define technical specification. These might include:

<b>Physical Goods</b>	<ul style="list-style-type: none"> <li>• Photographs</li> <li>• material components</li> <li>• Performance needs (example: storage space of a computer, volume of a bucket)</li> <li>• Quality standards (example: ISO)</li> </ul>
<b>Construction</b>	<ul style="list-style-type: none"> <li>• Blueprints</li> <li>• Maps</li> <li>• Bill of materials / material construction components</li> </ul>

In other words, the requester should fill the format with the information agreed during planning. If a pre plan was not done, the request may have some delays while the feasibility is assessed.

The PR is usually the standard and official form to request a purchase. The PR is where the different members involved in the procurement process combine and validate the details, turning these into commitments:

- The requesting unit undertakes that all information included in the PR is accurate and sufficient. Attaching detailed specifications if necessary.
- The procuring unit undertakes to provide the requested goods or services as established in the PR respecting quality, price and lead time.
- The financial unit undertakes to release the available funds.

One of the best ways to assure that each request is well presented, understood and agreed among all the units involved in the process is to create a coordination space to do it. The usual coordination tool is the implementation of a recurrent meeting between requestors, heads of unit, and the procurement where the requests can be discussed and validated.

## Solicitation

Once potential suppliers have been selected (or before launching an open bidding process), solicitation documents must be carefully prepared. The way in which these offers are solicited and received conditions the rest of the process; there is an inverse and direct relationship between what is solicited and what is offered. Procurement teams will only choose from the options offered by the providers, but what is offered largely depends on how and what the providers have been asked to offer. That is why the specifications of required products or services must be clear, and the terms of the requested bid must be well defined.

Supplier selection criteria must be established and communicated clearly and in advance to suppliers, ensuring equal treatment. It is important to take time to establish and/or understand the selection criteria since the supplier selection criteria cannot be modified or changed, once communicated to the suppliers.

The documents involved in the solicitation process can be different depending on the type of competition that applies (see [Procurement Procedures](#)) and the nature and complexity of the good and services being procure. It is important that all documentation contains details on procedural, technical, financial and contractual components, which suppliers must follow when submitting their offers. They are build based on templates, customized to fit the specificities of the procedure undertaken and completed with the details applicable to each solicitation.

<b>In general, any Solicitation document, no matter the procedure, will contain:</b>	
<b><i>What is Required</i></b>	<ul style="list-style-type: none"> <li>Depending on the nature:               <ul style="list-style-type: none"> <li><b>For goods;</b> Technical specifications (Functional, conformance and performance Specifications for products)</li> <li><b>For services;</b> Terms of Reference (TOR) (background, objectives, deliverables, standards to be met, performance evaluation method, timelines, etc.)</li> <li><b>For construction works or services;</b> Statement of works (SOW) shall provide all information required to allow the contractor to undertake the works (e.g., location, time schedules for the execution of the works, relevant information about the construction site and other technical requirements that are deemed necessary).</li> <li>Quantities</li> </ul> </li> <li>Expected Delivery Conditions; means, times and place.</li> </ul>
<b><i>Instruction to suppliers</i></b>	<ul style="list-style-type: none"> <li>Instructions for preparation and submission, submission language.</li> <li>Timing: deadline for submission, offer validity and expected award times.</li> <li>Details of pre-bid where applicable. (meetings/site visits, and/or samples/ demonstrations)</li> <li>Method of evaluation and evaluation criteria.</li> <li>Payment terms.</li> <li>Contact information.</li> </ul>
<b><i>The applicable Terms and Conditions</i></b>	<ul style="list-style-type: none"> <li>Ethical policies to be adhered by the supplier</li> <li>Special conditions applicable as; Termination; Trade Terms; Inspection; Warranties; Rights and Obligations; Remedies; Subcontracting; etc.</li> </ul>

The solicitation document must be distributed simultaneously among the preselected suppliers with sufficient time to analyze and properly build offers. The solicitation document could contain a standard submission format facilitating the comparison among the offers during the evaluation phase.

## Evaluation and Awarding

Many agencies may choose to use what is known as a *Bid Evaluation Committee/Panel* to properly facilitate the process of analyzing and scoring incoming offers in a fair and transparent way. After properly recording every step undertaken during solicitation process, and before bids are open, the Evaluation Committee/Panel will join together to study the offers. The Evaluation Panel composition could be as simple as two people (requester and purchaser) performing an informal evaluation or be regulated formally and integrated by teams of different departments. No matter the value of the procurement or procedure followed, there should always be a set of people to respect the segregation of duties principle. In the case of the most restrictive procedure, is common to form it at the very beginning of the process, officializing it by signing a "Declaration of Objectivity and Confidentially" and /or a "Disclosure of Conflict of Interest".

The offers should be evaluated using the criteria and weight of each previously communicated. Common offer evaluation criteria might include:

- Competitive prices.
- Ability to meet specifications and standards.
- Product availability and ability to meet the requested delivery date.
- Product and service quality.
- Performance and durability of products.
- Reliable delivery methods.
- Quality control methods and practices.
- Technical and leadership skills.
- Ability to provide niche or unique products and / or to design concepts.
- Financial stability and credit.
- Payment conditions / requirements.
- Compatibility with existing products.
- Distribution / storage facilities and adequate resources.
- Availability of spare parts.
- Guarantee, insurance, and supply commitment.
- Proven ability and experience.
- Availability of service support resources.

- Previous experience and demonstrated performance in supplying the products / services to be purchased (to be verified in previous certificates of compliance. So, "bad past experiences" must be documented).
- Security.

All evaluation criteria should be:

- **Objective** - criteria that are verifiable and designed to measure facts rather than assumptions and promises from the supplier. Objective criteria are tangible, with little likelihood of being construed differently by different suppliers.
- **Unambiguous** - there should be no confusion or overlap in the criteria selection, description and evaluation.
- **Reliable** - clear and measurable criteria that can be evaluated consistently across multiple submissions and evaluators.
- **Fair** - criteria that do not unduly exclude suppliers from the procurement or give undue advantage to a specific supplier.
- **Balanced** - criteria with appropriate and defensible weightings when viewed objectively in the context of the procurement action.

During the evaluation process, it is necessary to balance various tangible and intangible factors, some of which may conflict with each other. Methods for determining the extent to which a potential supplier can meet the criteria include:

- Visits to the supplier by the management and/or evaluation team (to visit the factory, warehouse, stock, production equipment and supplier equipment).
- Confirmation of the status of the quality system, either through an on-site assessment, a written report, or by requesting a quality system registration certificate as ISO certification or any other.
- Conversations with/recommendations from other NGOs served by the provider.
- Obtaining financial reports available to the public (available in some countries) and checking negative files.
- Evaluation (through laboratory tests or validation tests, for example) of samples obtained from the supplier. (see Quality Assurance)

To be able to present the evaluation results, is common practice to make a summary document, either in the form of a comparative table or a full report that has been signed by all the member of the Evaluation Panel. In any case, any summary document must have a reasoned recommendation on the supplier selection and contain as many explanations as necessary about this selection.

Once the proposal to award a supplier has been validated, the selection of the suggested supplier should be validated by the requisite internal approval process of the agency. The award decision should be communicated to the winning supplier, and unsuccessful suppliers shall be notified establishing a mechanism able to debrief them and take note of any possible complaint.

## Ordering and Contracting

Each order has to be formalized by modifying the standard templates for this purpose, the contract or the simpler Purchase Order(PO).

- **POs** are a financial commitment that confirms the purchase details (Units, quantity, price, delivery time and Location, etc), officialising the Order. The PO is used for simpler orders, one-off purchase and smaller amounts, where there is no need to define any complex situation, and the purchase represent low risks for the organization.
- **Contracts** are legally binding agreements between the organization and the suppliers. They define the Terms and Conditions for the good and services provision, as well as the signatories related rights and obligations. (see Contracts). Contracts are used when there is a need to specify the conditions in a complex order (partial deliveries, different timings or location, special conditions of the product, high financial volume or potential risk for the organization, etc) and always for a work or a specialized service.

Some agencies may prefer the use of some form of a Long-Term Agreement (LTA), where by a supplier is pre-vetted using the standard solicitation process, but has an open-ended contract for delivery of goods and services. Requesting agencies can use the PO as the confirmation to use the conditions applicable to it and concretizing, units, quantities, delivery details, etc.

The organization must establish a threshold beyond which the relationship can no longer be formalized through a PO and a contract becomes necessary. However, each organization's Terms and Conditions (TC) applies in any case, therefore, a simplified TC must be communicated (attached to the PO) and respected by both parties. The act of signing the PO - and the organization's TC- by the supplier makes the PO become a simplified contract.

## Reception and Payment

The order documents (PO or contract) must clearly indicate the delivery conditions, who will assume responsibility for moving goods, when and where it is intended to transfer responsibility for the products and all the necessary details to plan accordingly and put in place any necessary means in terms of transport and logistics.

Delivery planning involves the review and consideration of all logistics related aspects of the procurement process. It starts at the needs assessment phase by considering the desired result of the Requesting Unit and the end user and identifying the actions needed to ensure the successful completion of the activity. [5]

The transfer of responsibility between the seller/carrier and the agency is a key moment in the procurement process. The transfer of responsibility can be done in the manufacturer/seller premises, or be undertaken fully by the supplier who will be responsible transporting the cargo to the agreed destination, either the agency premises, warehouse or other and in special cases directly to the beneficiaries. The most standard used method of defining the method and location of the transfer of responsibilities is through [defining Incoterms](#) in the procurement contract. Incoterms are only applicable for international procurements however, so the transfer of responsibility in domestic procurement may need to be spelled out explicitly. In every case, the transfer of responsibility has to be clearly recorded through [the standard set of shipping documents](#).

For simpler deliveries, in addition to the above, or when the Supplier is in charge to delivery at final destination, is common to use a Delivery Note that must contain at least:

- The name and contact details of the seller.
- Name and contact details of the purchaser.
- Date of issue.

- Date of delivery of the goods.
- A description of the goods contained in the order.
- The quantity of each type of goods.

When goods are delivered, the recipient should perform a physical inspection of the packages against all delivery documents to ensure that they fully conform to the requirements of the contract, by checking:

- **The Quantity** - That the number received is the same as the one written in the documents and correspond to number requested in the PO.
- **The Quality** - That the product received is in the conditions mentioned in both the shipping documents and matches what was defined in the procurement contract, has not received any damage and corresponds to the ordered specifications.

If any deviation is found in either of these two elements, it is crucial that it is mentioned in writing in the delivery documents, since otherwise it will be very difficult to claim later the deviations or damage suffered.

The transfer of responsibility becomes effective when the representative of the organization signs the Delivery Note. The signed Delivery Note, the PO and the Commercial Invoice will be the minimum mandatory documents to process payment. In the case that the supplier/carrier is not able to provide any delivery document nor even a Delivery Note, agencies may wish to create and sign a Reception Note, officializing the transfer of responsibility over the cargo and stating any potential deviation.

## Procurement Procedures

A procurement procedure is an internal process established by every organization to set up the minimum requirements to ensure that the purchases made are compatible with the basic principles of responsibility, accountability, transparency, equal treatment of suppliers and proportionality, while guaranteeing the best value for money. The procurement procedures ensure objectivity during the supplier awarding process. However, the awarding criteria themselves will be adapted to the context, program needs and donor regulations.

A standard procurement procedure involves the following major steps:

- Suppliers' survey and /or publication (tender, Expression of Interest).
- Collection of technical/financial offers.
- Internal review of survey (offers analysis and comparison).
- Approval of the supplier selection.
- Review of the documentation and financial commitment authorization.
- Publication/Communication of results.
- Order and/or contract's signature.
- Receipt/transport of the purchase.
- Payment to the supplier (based on previously agreed conditions).
- Final update, review of purchase dossier and its archiving.

Purchases are accompanied by significant cash flows, so agencies must take into account the impact they generate in the contexts where they work, and the effect they may have on the beneficiaries.

## Most Common Procurement Procedures

For normal operations (not first phase of an emergency response), the procurement method is chosen based on a defined framework with value thresholds. The framework includes, as a minimum, levels for Direct Purchase, Competitive Quotations and Tendering. The levels of the thresholds are based on the context, taking into account monetary values; frequency of transactions; lead time to process the procurement and organization's risk tolerance. The threshold set is continuously respected throughout the normal operations and reflects donor and INGO requirements. [6]

Although each organization and/or donor uses different names to the different purchasing procedures, they all share the same logic and basic principles. In this guide we are going to name the different procedures as follows.

- [Direct Purchase](#)
- [Competitive, Negotiated procedure](#)
- [Tendering](#)

## Direct Purchase or Single Quotation Procedure

The direct or single quotation procedure is the most relaxed one in terms of documentation, evaluation and requirements, as it is done for purchases with a low total value. Its main characteristic is that the goods or services are acquired without prior documented comparison of prices or purchase conditions, which makes the purchasing process relatively quick and easy.

The unit or person responsible for procurement will buy from the most advantageous supplier identified in the supplier catalogue. If the ordered article is not listed in the supplier catalogue or is the first time to purchase a specific item or service, is mandatory or at least a good practice to ask a supplier for an RFI that will help to decide and plan the purchase more accurately and make an informal survey of the market. The unit or person responsible for procurement has to contact the supplier to confirm the price and assure the criteria of satisfactory quality, delivery times, competitive market prices and correspondence with the available budget.

A purchase dossier would contain:

- The Purchase Order signed by the relevant persons.
- Copy of the invoice.
- Proof of delivery of the items might include one of the following:





process. All members of the evaluation committee and the employees involved in the bidding process have the obligation to understand and sign the Declaration of Objectivity and Confidentiality or a similar document.

All documents necessary for the tender must be prepared and have been verified before the start of the tender. These documents are generally sent to headquarters for approval prior to the publication of the tender. An open national tender might consist of:

- Creation of the evaluation committee.
- Definition of the supplier selection criteria.
- Tender Notice publication in the media.
- Sending the Tender Dossier/RFP to interested suppliers who have requested it.
- Complete the List of Applicants and Bidders.
- Evaluation of all bids received using the Bid Evaluation Report.
- Complete the Report to look for validations.
- Award the contract to the chosen provider and inform those not chosen.
- Sign the contract.

A Purchase Dossier would include:

- Declarations of objectivity and confidentiality.
- The HQ's Tender Dossier Validation.
- Any waiver (ex. nationality and provenance of the goods).
- Copy of the newspaper/ website carrying the Call for Tender.
- Participation requests.
- Tender dossier.
- Opening Session minutes.
- Offers received.
- Tender Evaluation report with comparative table.
- Tender Report.
- The HQ's authorization of the award.
- Signed contract and any subsequent addenda.
- Report of acceptance of goods or completion of services and/or works.
- Commercial invoice.
- Delivery notes.
- Payment.
- Payment receipt.

The tenders could have a different geographical scope, allowing only local economic operators to see and submit and offer, or allow anyone nationally or internationally to present their offer. Principles to take in consideration while choosing between these two options are the support of local economies, the efficiency in the process, the ethical standards and environmental care while assuring the availability of the product/service in the terms that are needed by the organization.

It is possible as well, to make tenders Open where all interested suppliers may submit a tender or do it Restricted, where only suppliers within a pre-defined scope or category may take part.

## Setting Thresholds

The concept of "thresholds" is key to determine the appropriate procedure to apply. The notion of thresholds is essential to ensure the principle of proportionality between the purchase market cost and the effort dedicated to obtaining the best purchase conditions.

Thresholds work by defining a dollar value at which higher levels of signature or approvals are required. The higher the value of the procurement, the higher the approval authority and the more detailed the procedure to be applied.

As an example, an agency may wish to set a threshold at \$500 USD:

- Below \$500 USD, only a local logistic officer and requestor are required to sign off, and only a PO is require.
- Above \$500 USD, the head of base/mission and/or the head of finance may be required, and a competitive bid may be required.

The nature and limit of each threshold will be determined by individual agencies, based on their own financial oversight needs and guided by:

- Donor regulations
- Country/national level requirements
- Internal organizational audit procedures

The level of thresholds and the required procedures should be included in each agencies procurement manual or procurement policies.

### Comparative Table Different Procedures

Following the proportionality principle, it is advised to increase the publicity and complexity if the total amount is higher that the value of the proposed procurement.

	Direct Purchase or Single Quotation	Competitive, Negotiated Procedure	Tender Value
<b>Threshold:</b>	Low value	Medium	High
<b>Level of publicity:</b>	None	Medium (min. 3 suppliers contacted)	High (publication in media, public opening of offers, public award notice)
<b>Evaluation:</b>	Light, one person	Medium (Logistician + Requester)	High (Tender Evaluation Committee, min. 3 people)

<b>Documents:</b>	Few (PR, PO, Invoice)	Medium (PR, QR, Qs, ET, PO, Invoice, DN)	High (13 templates)
<b>Validation:</b>	Field level	Country Level + HQ (in some cases)	Country + HQ for Tender Dossier and supplier selection

## Bid Splitting

Bid splitting is when several smaller purchases are done instead of a single large purchase, artificially splitting a bid within a budget in order to avoid a relevant procedure. Bid splitting is considered a bad practice, and may constitute fraud.

Bid splitting becomes fraudulent when the objective is to apply a less restrictive procurement procedure than what best practice or agency wide procurement procedures might advise. Splitting a bid may not always be fraudulent when circumstances necessitate it for security, cost-effectiveness, and other justifiable reasons. Any decision to split a bid must be clearly explained and documented.

## Donors and Grant Funds

Donors are entities, institutions or individuals that finance the projects that an organization implements. Procurement procedures must guarantee that all goods, services and works are obtained in accordance with their procurement policies, as well as all the laws applicable to these expenses.

Any person or team responsible for procurement must be familiar with donor procurement-related regulations at all stages of the project cycle and ensure that the Organization fulfills its contractual obligations to the donor. Among other actions, the procurement unit must verify if the donor has specific rules on thresholds and procurement procedures, as well any specific regulation applicable to the acquisition of medical or agricultural products, equipment, etc.

1. General Regulations of the Donor:
  - a. Donor thresholds.
  - b. Obligation about the Nationality and/or origin of the purchase product.
  - c. If they have to approve the ToR or the purchasing process (evaluations, audits, etc.).
  - d. Specific regulations for some type of products (medicines, medical supplies).
  - e. Possibility of using HPCs (Humanitarian Procurement Centers).
2. Specific regulations pertaining to the contract signed with the donor.
3. Expense eligibility or contract start and end dates – allowing time enough for the procedure to take place and the goods/service to be delivered.

## Market Analysis

*"Market analysis is a key component of response analysis; it informs the design and implementation of appropriate interventions using and supporting local markets"[7]*

In a crisis context the humanitarian sector has an enormous capacity to impact the local market, hence it is necessary to act based on humanitarian principles and values, having in mind the concept of "Do not Harm". For this reason, it is essential to analyze the market in which we operate and thus be able to better control the role the organization plays in it.

Key factors in a market analysis:

- Nature and origin of the products offered.
- Local manufacturing capabilities.
- Main local products.
- Storage capacities of suppliers
- Transportation routes and potential risks to the stock
- Knowledge of the relationships between the different agents
- External, political, meteorological factors.

Market analysis is an essential component of context analysis, collecting information that will be useful to program the intervention and how to implement it. It is also a critical element of contingency planning and preparedness.

[IFRC introduction to Market Analysis Video](#)

## Tools

There are several key tools from where the information about the market can be extracted. As an agency or individual conducts procurement, there is a quite important amount of information that will help to analyze the market that surrounds the organization. Humanitarian agencies should to conduct market assessments and revise them with an analytical look when is needed.

- **List of suppliers** - For many reasons it is likely that the number of people who handle purchases throughout a project is high, so it is highly desirable that there be a catalog of suppliers where basic information about the products they offer can be found, as well as past experiences or any other relevant information.
- **Request for Information (RFI) and Expression of Interest (EOI)** - RFI and EOI are Documents through which information will be requested from suppliers to make their offers official, but also through which can be carry out the market analysis of a specific product.
- **Purchase Tracking and** - Used to track the current status of procurement, be able to inform other departments about the status of their requests and in general.
- **Price list** - Used to track historical procurement costs, inform planning assumptions, and track the evolution of the costs of goods and services on the market.

## Supplier Analysis

Sometimes it is difficult to get an idea of a supplier only through their official bid documents. It may be key to visit the suppliers in their workplace, especially when agencies intended to start a lasting relationship with the supplier. Do not underestimate the power of an in-person conversation, or the details that can be learned by knowing their facilities.



Helpful steps to follow:

- Establish a first contact with the supplier.
- Analyze supplier capacity and professionalism: number of workers, work methods, general cleaning, etc.
- Analyze the products or services available. Where does the supplier buy, how do they bring them. Can they import better/cheaper products?
- Understand the supplier's business model, its challenges, its sources, its problems.
- Gather information that would never otherwise be reflected on paper.
- Identify other possible selection criteria in addition to price.

### Supplier Ineligibility

Bidders must be excluded from any procurement procedure in any one of the following cases:

- They are bankrupt or are ceasing activities.
- They have been found guilty of serious professional errors.
- They have not fulfilled the obligations related to payment of social contributions or as per legislation of the country or in the country benefiting from the contract.
- They have been tried and finally convicted for fraud, corruption, participation in criminal organizations or any other illegal activity.
- They have been declared seriously in default for failing to observe contractual obligations in other purchase procedures made with the organization.

As evidence proving that potential supplier does not come under one of the above-mentioned situations, the candidate shall submit at least one of the following documents:

- A recent extract of judicial records.
- An equivalent document issued by a judicial authority.
- An affidavit testifying that the candidate respects basic social rights and working conditions and does not exploit child labour.
- Affidavit sworn by the company's legal representative before an administrative or legal officer, an auditor or a qualified body in the country of origin or provenance.
- Self-certification on the above-mentioned judicial status.

Background checks are strongly advised prior to contracting with an agency:

- Where possible, agencies should conduct background checks on vendors and suppliers using the available local means.
- Some donor agencies require screening of vendors against additional international lists pertaining to criminal activity or terrorism.

- Aid agencies should always ask for references from other known sources who may have procured goods or services from the identified supplier in the past.

Contracts will not be awarded to bidders who during the procurement procedures:

- Are subject to a conflict of interests.
- Have omitted to supply the information requested by the organization as a condition of participation in the procurement procedures or they have supplied untruthful information.
- Are guilty of corrupt practices, fraud, collusion or coercion.

## Supplier Management

Supplier management is a set of principles, processes, and tools that can help organizations to maximize the value of supplier relationships, minimize risks, and manage overheads throughout the entire relationship lifecycle. It entails creating closer and more collaborative relationships with key suppliers to achieve greater value and reduce risks.



It is important to know what are the specifications of the products or services needed, the legal framework for their acquisition and the existence of these in the market. Not taking these three concepts into account increases the risk of not finding what are expected, procuring something not needed, or not respecting local norms and behaviors when purchasing them.

The objectives of an effective supplier relationship management are to:

- Foster long-term relationships and joint value creation.
- Prioritize resources and interaction with suppliers that can provide the greatest value for money.
- Ensure measurement of quality and service levels.
- Develop a consistent mode of interaction with suppliers across the organization.
- Ensure fairness, integrity and transparency.

## Process

### Supplier Registration

Once identified, the suppliers must meet some requirements in order to be register, to assets the compliance with them the suppliers will be requested to assure that:

- They have legal personality and legal capacity to enter into a contract.
- They shall have sufficient financial capacity (where required, the last two years audited accounts) to successfully undertake a contract awarded by the organization.
- The products or services offered must be of interest to the organization and the supplier must have the necessary professional and technical competence.
- The supplier must not be on any sanctions list and has not performed fraudulent, unethical or illicit acts.
- The supplier shall have the adequate experience.

For certain categories of goods and services, or in certain country specific contexts, suppliers may be required to meet additional/different criteria in order to be registered.

## Supplier Catalogue

The registration will be the base of the supplier catalogue, a tool where to insert every supplier registered and all the information about the relationship between them and the organization.

<b>Supplier Qualification</b>	Pre-Qualification is generally used to preselect suppliers for the provision of complex/strategic goods and services based on very specific needs. This selection can be from the Supplier Catalogue or include other providers. Only invited suppliers that meet established criteria are then invited to bid. This ensures that only companies with a high level of quality and/or expertise are invited to the solicitation.
<b>Supplier Monitoring</b>	The monitoring of supplier activities with the organization, are in most cases done through the <a href="#">Procurement Documents</a> . Each procurement step has to be explained and justified; therefore, all the official communication has to be documented. It is a best practice to create and update a tool that could record key indicators in the procurement process. Such a tool might record of all the interactions with the suppliers allows the agency to analyze and monitor the relations through the time. Key indicators might include, but are not limited to response rates, records of evaluated proposals, number of contracts awarded, POs managed, and expenditures.
<b>Supplier Performance Evaluation</b>	Measurement the performance of suppliers in support of an organization's needs is important. Supplier evaluation in turn influences the identification of suppliers as past performance of suppliers may influence the process of drawing up shortlists.  Surveys are an important source of information, that could facilitate the analysis of the supplier and procurement unit performance. The requesting unit should be asked about their opinion about the supplier performance (in a standardized and official manner) and that should be included in the Supplier Catalogue, to be referenced when new procurement actions are being planned.

## Supplier Management Tools

Once the supplier(s) are identified, and it is time to establish a negotiation, it is useful to:

- Define exactly the needs and what you want to negotiate.
- Understand exactly the offer.
- Know your supplier and the market.
- Manage the times.

The objective of any negotiation is to achieve a "win to win" situation. If one of the parties does not feel benefited in some way, the relationship tends to break down.

When entering negotiation, it is important to have at least two real possible outcomes to choose from; this will make the negotiation more efficient by having a margin of safety and not feeling/establishing a dependency relationship.

The agreements the two entities reach must be formalized, clearly establish the obligations of each party, detail what can be expected from the relationship and not least, be able to have tools in case of non-compliance that will be of great help if there is a conflict. The best way to improve working practices in your supply chain is to work hand-in-hand with your suppliers to help them to implement achievable improvements

There are two main tools to manage the relation with a supplier, the Contract and the more flexible Long-Term Agreement (also called Framework Agreement).

### Contracts

A contract is an agreement with specific conditions between two or more people or entities in which there is a commitment to do something in exchange for an economic benefit known as consideration. The existence of a contract generally requires the following elements:

1. An offer.
2. The acceptance of that offer.
3. A commitment to carry out.
4. A consideration (which may be a promise to pay in some form).
5. The moment or the situation in which this commitment has to be carried out.
6. The terms and conditions of execution, including the fulfillment of the commitment.

Included in these six points are all the demands and expectations that the different parties may have. From the technical quality of the product or service, through the form and conditions of payment, to details about compliance. Everything that is worth mentioning must be included in the contract, since what is not in it cannot be enforced. Hence, it is advisable to dedicate enough time to build a good contract and properly agree with the supplier on it.

It is advisable to build a template, with a structure as fixed as possible and with simple and direct language. It is common to review the signed contracts to resolve doubts and knowing the structure of our contracts helps to save time.

A good practice is to have this template reviewed by a local lawyer, who in addition to ensuring that our contracts are in accordance with the law, could advise us on local customs and practices.

In the event of any contract dispute, the agency must communicate with the supplier in question. If necessary, a friendly discussion is always preferable. Most conflicts with a provider are resolved with dialogue and the commitment to resolve small details, but this discussion should be formal, including a lawyer if necessary.

Going to court should be avoided whenever possible, anticipating this possible situation and remedying it before reaching these extremes. Hence, having good contracts that anticipate how possible breaches will be resolved is key. The use of financial penalties is useful during negotiation and a tool in case of conflict.

### Long Term Agreements (LTAs)

A Long Term Agreement, known as well as Framework Agreements, establish the commercial terms and conditions that will govern between the supplier and the procuring agency in the event that there is a firm order for the goods or services established in the agreement. An LTA aims to define the commercial conditions that will apply to the purchase of specifically determined goods and for a pre-established period of time. It is especially relevant for small, low-value and less complex items purchased on a regular basis, such as office supplies, most spare parts, cement, prepaid mobile phone service, etc.

An LTA is applicable when several deliveries are expected, but neither specific quantities nor delivery dates can be foreseen. It is important to understand that a LTA is **not** in itself considered a purchase commitment, but simply sets out the conditions that would apply **if** the organization decided to place an order; there is no commitment or exclusivity.

To avoid confusion and possible conflicts, it is essential to make it very clear to suppliers from the beginning of the bidding process that the objective is to sign a LTA and not a regular purchase contract. It is important to ensure that bidders understand the mechanism. Since there is no exclusivity, a Long-Term Agreement can be signed with two or three different suppliers of the same products, under identical terms.

There are certain advantages inherent in the LTA that make it useful in any agency purchasing strategy, such as avoiding the repetition of processes and the corresponding paperwork for the same item throughout a project. Being by definition a larger purchase, organizations can get the best product/service at the best price in the shortest amount of time.

As a lasting relationship is established with the supplier, it is possible for agencies to work on the quality of the products/services that they offer to organizations, since agencies will be able to develop the relationship with suppliers to better understand needs and ways of working. In addition, sometimes LTAs are the only way to follow the correct procedures when only a short time is available. Organizations can follow all the procurement process without any requisition, being in a position to respond to requests in less time.

## Quality Assurance

*The quality of a product refers to all the elements and characteristics which constitute the product and which contribute to its compliance with the defined technical specifications.[8]*

Quality assurance (QA) is a procedure to ensure the quality of products or services by preventing mistakes and defects in manufactured products and avoiding problems when delivering products or services to beneficiaries. It is based in two principles:

- **Fit for purpose** - The product should be suitable for the intended purpose.
- **Right first time** - Mistakes should be eliminated before they happen.

QA focuses on improving a process and making it efficient and effective as per pre-defined quality standards. QA plays a role in the ability of an organization to self-assess and ensure that internal processes are efficient and effective. It also ensures the existence of mechanisms and tools to ensure suppliers and products meet agencies needs.

For internal and external evaluation, the QA complete process has a defined cycle called P.D.C.A. The phases of this cycle are:

- **Plan** - Organization should plan and determine the processes that are required to deliver a high-Quality end product.
- **Do** - Development and testing of processes and also "do" changes in the processes.
- **Check** - Monitoring of processes, modify the processes, and check whether it meets the predetermined objectives.
- **Act** - Implement actions that are necessary to achieve improvements in the processes.

Sometimes organizations do not have the capacity to assess in these terms each supplier, however there are audit companies and standard certification organizations that can. Agencies should seek these third party agencies out and/or include those certifications as criteria for vendor selection.

### Standard Certifications

There is a wide range of quality certifications, from seals applicable to an entire sector or to a specific product to, those that certify the quality of a process or those that focus on compliance with ethical and environmental standards. Some have great added value, others have more to do with marketing. They can have a national value or be internationally recognized. Although each stamp can be useful at a certain moment, International Organization for Standardization (ISO) standards are the considered the recognized international best practice.

ISO is an independent, non-governmental Organization created in 1946, and has been developing standards relating to making products, managing processes, delivering services or supplying materials.

Some of the most useful in the humanitarian sector are the following "families" standards:

- **Quality management** standards to help work more efficiently and reduce product failures. (ISO 9000 Family)
- **Environmental management** standards to help reduce environmental impacts, reduce waste and be more sustainable. (ISO 14000 Family)
- **Health and safety** standards to help reduce accidents in the workplace. (ISO 45001 Family)
- **Energy management** standards to help cut energy consumption. (ISO 50001 Family)
- **Food safety** standards to help prevent food from being contaminated. (ISO 22000 Family)
- **IT security** standards to help keep sensitive information secure. (ISO 27001 Family)

Buying a product with an ISO certification and/or to a company that has been ISO certified is a guarantee that the product or company has been followed a quality process. However, not all the suppliers have ISO or other kind of certifications, especially in disaster or conflict settings. Without these standards in place, agencies may need to look for other sources of information to assure the quality before or during establishing a relation with a supplier.

### Vendor Social/Financial Audit

A social/financial compliance audit, also known as an ethical audit, is an inspection of an external organization that verifies whether the supplier operations complies with social and ethical responsibilities, health and safety regulations, and labor laws. These audits help to judge if a supplier meets the organization code of conduct, assuring the ethical policies.

A Financial audit can be complemented with the country fiscal year declaration and/or with bank statements that will help to evaluate their solvency.

Due to the 'snapshot' nature of audits, and the fact that they are not designed to identify the causes or solutions of problems, they are limited in what they can tell about the suppliers' working practice. For that reason, getting maximum benefit from audits involves being aware of these limitations, and adding the right questions to complement them.

**Inspection and Quality Control**

Agencies should schedule time and resources to perform inspection during the product evaluation, before the order, or during reception. Quality Control (QC) is a continuous, standard and permanent process until the distribution/delivery to the beneficiaries, therefore must to be performed periodically while a product is in the warehouse or under the organization responsibility. Sometimes, QC is confused with the QA. Quality control is to examine the product or service and check for the result. Quality assurance is to examine the processes and make changes to the processes which led to the end-product.

- **Visual Inspection** – If a vendor is supplying a prototype sample prior to final delivery, organizations or specialists may wish to visually inspect and test the product, either at the vendor premise or at another off site location.
- **Laboratory Testing** – In addition to visual inspection, agencies may wish to employ third party laboratory testing. Lab testing may include testing for chemical composition (for durable construction materials or for pharmaceuticals), may test against pre-defined ISO standards (such as flame retardancy of NFIs) or even the quality of food stuffs.
- **Third Party Inspection** – Many agencies wish to employ third party inspection companies to carry out quality assurance. Third party inspection companies will generally conduct lab and visual product testing, but may also visit suppliers warehouses and production facilities throughout the production process to ensure full compliance. Organizations that utilize third party inspection services may want to include the obligation of suppliers to allow third party inspection companies into production sites without advanced notice to enhance the randomness of the process.
- **Provision of Certification** – Simpler than conducting independent laboratory testing, suppliers may be asked to produce certificates indicating conformity or quality. Typically, this pushes the cost and complexity of laboratory testing onto the vendor, but may also lead to forgery or fraud as the inspection process is out of the hands of the procuring agency.

It is strongly advised that product inspection must also be conducted once the procuring agency takes possession. Not only should products be inspected the first time they are delivered, they should be reviewed throughout the delivery process, especially for large orders. For large orders that may have multiple or ongoing deliveries, product substitution can be and is a real problem. Some vendors may unscrupulously swap legitimate products for false, inappropriate or incorrect products later down the line. Without ongoing vigilance, even fully tested and certified products may not actually show up.

## Fraud Prevention

Corporate fraud in any organization runs ethical risks and leads to waste. In the case of non-profit institutions dedicated to tasks such as development cooperation or humanitarian aid, it threatens basic elements of their programming and their credibility within the community. Consequently, fraud must be dealt with through a determined attitude, anticipating events and not only reacting once they have been perpetrated.

Various forms of fraud can be referred to as:

- **Fraud** is defined as any intentional act or omission, designed to harm others, with the result that the victim suffers loss or damage and / or the decedent makes a profit.
- **Corruption** is the misuse of a power entrusted by delegation, for private purposes, such as personal enrichment or that of a third party, a friend, a family member. It consists of refraining from doing, facilitating something, taking advantage of its function, in exchange for a promise, a gift, a sum of money, advantages of various kinds.
- **Misappropriation** consists of the theft or misuse by any means of a resource or material owned by a third party.

We can place these three at the same level - they are all improper conduct. This guide will refer to fraud and anti-fraud policies when referring to all three of the aforementioned categories. To deal with fraud, it is necessary for organizations establish an anti-fraud policy document. Likewise, the entity must periodically assess the exposure to the risk of fraud.

The anti-fraud policy must contemplate three elements:

<b>P r e v e n t i o n</b>	Through the appropriation of the organization's values by its workers, which in turn explains the possible consequences of fraud for the organization. Organizations should also seek to establish a code of Ethics and Conduct, which must be communicated and disseminated throughout the organization, including the appropriate communication channels and complaint formats. Staff should be trained in the identification, categorization and use of these channels and formats. Establish alert mechanisms that can anticipate and prevent the commission of fraud.
<b>C o n t r o l</b>	Creating an Anti-Fraud Commission whose responsibility is the investigation and verification of compliance with the policies of the institution, dedicated to the systematic or ad hoc examination of the practices observed by persons or bodies of the institution. This commission will be in charge of establishing a compliance program with the established policies and norms and their monitoring. For a good information base to exist, staff must feel safe when reporting, but at the same time, they must feel the responsibility to provide truthful information. Clear responsibilities must be established and due protection to the complainant and protection against false reports.
<b>R e a c t</b>	Displaying the principle of zero tolerance through quick and determined actions, always under strong evidence. This is only achieved with the collaboration of whistleblowers and in-depth investigations and the prior establishment of appropriate and consistent measures. Except for security risks that advise against it, these processes should be made public, and communicated among the staff or even with our donors and beneficiaries, so it will be necessary for there to be consistent in these actions. These communications are usually sensitive and should be studied and planned in advance.

It is important to be aware that fraud prevention regulations cannot by themselves guarantee the non-existence of situations or events that have the potential to harm the institution. The effectiveness of fraud prevention guidelines will be based on the definition of the moral tone and the transmission of an ethical culture, which reflect the interests of the organization and the individuals that comprise it.

Here are some examples of types of procurement fraud (this is not an exhaustive list):

- **Collusion between providers** - A group of suppliers work together to manipulate their bids in order to rotate winners.
- **Division of the offer** - Demand is split into multiple bids to pass through a lower threshold and therefore reduced due diligence supervision.
- **Adaptation of the offer** - Persons within the agency deliberately draft bid documentation to tailor it to the specific strengths of a specific supplier.
- **Price manipulation** - A supplier charges a price higher than the one agreed in the Contract / Framework Agreement.
- **Product substitution** - The organization obtains and pays for a certain specification, but the supplier provides a lower / different specification.

Key red flags to watch out for may include, but are not limited to:

Related to Suppliers
<ul style="list-style-type: none"> <li>• Undisclosed conflict of interest.</li> <li>• Winning suppliers outsource to losing bidders.</li> <li>• The last provider to submit a bid wins the contract.</li> <li>• Offers that look similar on paper, font, color, spelling errors, printing, etc. (collusive bid).</li> <li>• Inflated invoices or purchase orders.</li> <li>• The winning bid is higher than the rate from the market.</li> <li>• The winning bid is identical to the budget.</li> <li>• Fictitious suppliers or suppliers without existence or physical address</li> <li>• Turnover pattern of winners.</li> <li>• Partial delivery of goods or services</li> <li>• Substitution of goods when the quality of the delivered items differs from the supplied/proposed samples at the bidding stage.</li> <li>• Qualified contractors do not submit bids.</li> </ul>

Related to Personnel
<ul style="list-style-type: none"> <li>• Manipulation of the evaluation criteria after the opening of the tender to award the contract to a preferred supplier.</li> <li>• Contracts awarded by single source or non-competitive process.</li> <li>• Cancellation of large quantities of goods such as junk or obsolete merchandise.</li> <li>• Requirements defined in a way that only a specific manufacturer or supplier can meet.</li> <li>• Multiple purchase request started in close proximity for similar requirements to avoid boundaries threshold.</li> <li>• A staff member does not separate duties</li> <li>• Excessively narrow or wide specifications.</li> <li>• Officials do not delegate their responsibilities or they refuse to go on vacation.</li> <li>• There is no clear information on the presentation of offers.</li> <li>• Inadequate documentation (no PR, OC, CBA and GRN).</li> <li>• Overly friendly relationship between a provider and a Head of Procurement.</li> <li>• Unusually high exemption rate.</li> <li>• Tender announcements scheduled to match with holidays.</li> </ul>

## References

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[Template - Purchase Order.xlsx](#)

[Template - Purchase Requisition.xlsx](#)

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