

UN Procurement Practitioner's Handbook



United Nations



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Acknowledgements

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Preface

The UN Procurement Practitioner's Handbook has been prepared by the "Common Procurement Certification Scheme for the United Nations (UN)" project Task Force and Steering Committee. The latter is part of the Inter-Agency Procurement Working Group (IAPWG) Training and Certification Sub Working Group.

This Handbook is based on the following publications and documented practices:

- UN Procurement Competence Baseline
- Common Guidelines for Procurement in the UN System¹
- existing procurement manuals among the various UN organizations
- known procurement practices in the UN system of organizations
- third party literature on procurement in the public sector.

Procurement in the UN system is governed by the established regulations and rules of each UN organization. While such regulations and rules may differ in matters of detail, all organizations are guided by the Common Guidelines for Procurement. These Common Guidelines cover procurement stages from sourcing activities that precede a requisition to the execution of a procurement contract. They do not cover either the details of procurement, logistics or contract implementation matters that may be particular to each UN organization concerned. In addition to the Common Guidelines for Procurement this Practitioner's Handbook was developed. The idea is to provide a broader picture of the different ways of doing procurement within the UN system. Therefore the authors consider it a descriptive synopsis of good practices within the UN system rather than a prescriptive document such as the Common Guidelines or existing UN procurement manuals.

Purpose

The authors hope that the handbook will serve the following purposes:

- reference material for the Common Procurement Certification Scheme for the UN
- description of the guiding principles which govern UN procurement activities
- overview of the UN procurement cycle, including certain transverse themes like risk management, sustainable and e-procurement, logistics, and ethics
- basis for development of training material
- basis for further development of UN procurement reform
- basis for further development of UN Common Guidelines to adopt good practices in procurement.

Target audience

The target audience for the handbook is:

- procurement practitioners in the UN system of organizations
- trainers and facilitators developing UN procurement educational programs
- requisitioners, clients and end-users that are part of the UN procurement process.

¹ See General Business Guide, Annex 1, Common Guidelines for Procurement (www.iapso.org)

Chapter 1: Procurement in the UN System of Organizations

In this chapter

This chapter covers the following topics:

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1.1 The UN System of Organizations

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

- the objectives of the UN organizations concerned
- fairness, integrity and transparency, through competition
- economy and effectiveness
- best value for money.

While all organizations of the UN system have agreed on the above guiding principles, their individual procurement is governed by the established regulations and rules of each organization, which may differ in matters of detail.

The "UN system of organizations" covers a wide variety of organizational units (centres, agencies, organizations, commissions, programmes, etc.) with different institutional and functional structures. The principal organs and subsidiary bodies of the UN Secretariat are included under the regular budget of the UN, as authorized by the General Assembly. Other agencies of the UN system, however, have their own regular budgets or are financed solely from voluntary contributions. These latter two categories, moreover, possess a certain degree of autonomy (see Annex 1 for an overview of the UN system of organizations).

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

1.2 UN Procurement as a Tool to Advance UN Policy Goals

The Millennium Declaration² and the Millennium Development Goals (MDGs)³ provide a framework for the broader goals of individual organizations of the UN system. The Millennium Development Goals are:

1. Eradicate extreme poverty and hunger.
2. Achieve universal primary education.
3. Promote gender equality and empower women.
4. Reduce child mortality.
5. Improve maternal health.
6. Combat HIV/AIDS, malaria and other diseases.
7. Ensure environmental sustainability.
8. Develop a global partnership for development.

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

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

- UN organizations may develop policies promoting increased opportunities for priority categories of suppliers. Such policies vary by organization, but the most frequent ones are to limit the number of suppliers from any single nation and to provide opportunities to suppliers from a diverse mix of nations; to provide increased opportunity to offer to suppliers based in the country/region where the UN implements its projects. In most cases, such policies provide the respective category of suppliers with greater tendering opportunity, but do not provide any preference in the evaluation process. Nonetheless, some organizations have adopted procedures to explicitly provide a margin of preference for some factors, for example paralleling World Bank guidelines permitting up to 15% price preference for local suppliers.
- UN organizations may seek to support the focus of the MDGs on poverty reduction, gender equality, women empowerment and child education by stipulating in the solicitation documents, clauses to this effect and by providing greater representation on shortlists for suppliers respecting such goals. For example, contract clauses that prohibit child labour.

² Resolution of the UN General Assembly (A/RES/55/2): United Nations Millennium Declaration, 8 September 2000

³ United Nations Millennium Development Goals on <http://www.un.org/millenniumgoals/>

- UN organizations may accept to implement programmes with funds that include constraints on the origin of suppliers or supplies (e.g. some bilateral tied assistance as well as most multilateral development loans and grants). Such offers should generally be reviewed to ensure that the funds can still be managed according to the general procurement principles otherwise applied, and that the eventual procurement will provide an economic and effective solution to the requirement for which it has been offered.

The UN actively promotes good governance in Member States, with particular attention to procurement processes and technical assistance. The UN is aware that it also needs to practice good governance.

1.3 Guiding Principles

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

Stewardship

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

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

Procurement officers are the guardians of the integrity of the procurement process. They have to ensure the funds they have been entrusted with are spent in a professional, correct, fair, timely and transparent manner (see Chapter 4, 4.4 Ethics for further details).

Guiding Principles

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

- promotion of UN objectives
- fairness, integrity and transparency through competition
- economy and effectiveness
- best value for money.

Promotion of UN objectives

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

- maintain the highest image and reputation of the organization through execution of the procurement process in full conformity with the Financial Regulations and Rules;
- promote the public good as specified in the mandate of the organization.

Fairness, integrity and transparency, through competition

Competition conducted in a fair and transparent manner is the heart of procurement in the UN. In order for competition to work best, it must guard against collusion and be conducted on the basis of clear and appropriate regulations, rules and procedures that are applied consistently to all

potential suppliers. The procurement process should be carried out in a manner that gives all interested parties, both inside and outside the organization the assurance that the process is fair.

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

Economy and effectiveness

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

Best value for money

Best value for money means selecting offers which present the optimum combination of factors such as appropriate quality, life-cycle costs and other parameters which can include social, environmental or other strategic objectives which meet the end-user needs. Best value does not necessarily mean the lowest initial price option, but rather represents the best return on the investment, taking into consideration the evaluation criteria in the specified solicitation documents.

Potential conflicts among the guiding principles

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

- The “interest of the organization” may be more emphasized than the principles of competition and economy in a particular procurement transaction, for example, during humanitarian emergencies. In fact, organizations involved in emergency relief are often faced with the limitations of procedures originally established to control standard office procurement, and have sought to develop procedures better adapted to unforeseen emergency situations. This involves overriding some standard processes to enable urgent action. It is essential that steps taken and reasons for taking them are well documented. Procurement officers should assume that such decisions are reviewed and audited after the fact, and ensure they will stand up to scrutiny.
- The interest of the organization may also cause the UN to explicitly consider factors which are otherwise extraneous to the immediate procurement: geographic distribution, support to small and medium enterprises, support to women-owned businesses, environmental sustainability, curbing child labour and production of landmines, etc. This may require additional resources and effort to qualify potential suppliers.
- UN goals of broadening participation in solicitations, particularly to disadvantaged groups, may benefit from smaller lots to increase local interest. It may require use of additional

procurement resources for active market research, including outreach to find appropriate potential suppliers not previously on the roster, and evaluation of extra offers. This should be accepted as part of the normal process.

- Open competitive tendering for an international organization may conflict with economical use of administrative resources and effectiveness of completing solicitations in a reasonable period. Organizations may address this through short listing procedures, whereby the higher the expected contract value the larger the number of invitees on the shortlist. In addition, advertisement of tendering opportunities is done in an open and international manner so to still be able to address the principle of openness in competition.
- Open competition may conflict with recommended practice of establishing strategic long term partnerships. The competitive principle is normally understood to argue for placing each requirement out to tender solicitation, risking disruption when changing suppliers. Some UN organizations have concluded that their Financial Regulations and Rules (FRR) permit entering in to long term framework agreements on a non-exclusive basis as the result of a competitive solicitation. This permits assurance of uninterrupted supply at competitive prices and the development of a closer quality assurance and working relationship.
- Transparency in UN procurement may require added effort by preparing solicitation documents with detailed criteria for evaluation and the tender process. Also the fairness and competition principles require broad advertisement which increase costs and supplier preparation resulting in transparency and fairness that may go against effectiveness.

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

1.4 Administrative Framework: Financial Regulations and Rules (FRR) and Procurement Procedures

Introduction

The Financial Regulations and Rules (FRR) of each organization provide the framework for the administrative context within which procurement is carried out, as specified in its respective procurement procedures.

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

While the general principles are similar, FRR wording differs as do the organizations' procurement procedures and thresholds for their application. Differences are being reduced through the UN procurement reform process.

Content of FRR

The FRR and procurement procedures (which some agencies have assembled into procurement manuals) specify the solicitation procedures for supply of goods, services, or works. They include appropriate methods for evaluating and selecting awardees and possible contracts. FRR clearly state the principle of selection through competitive tendering. They also indicate conditions which might justify waiving the competitive tendering process in favour of direct contracting where that would be in the interest of the organization, so long as justification is supported by clear evidence that tendering would not provide an effective solution. FRR may permit a UN organization to procure on a collaborative basis, i.e. on the basis of solicitations and arrangements established by another UN organization.

No financial commitment without budget availability

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

Segregation of duties

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

Delegation of authority

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

Level	Delegations up to a maximum level...
1	Of petty expenditure for small purchases.
2	For which RFQ procedures apply.
3	Not requiring review by the organization's Contracts Review Committee.
4	Requiring review by the organization's Contracts Review Committee.
5	Of higher financial authority in very large programmes with experienced staff.

Note: Not all UN organizations use all levels.

1.5 UN Procurement Reform

Introduction

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

Reform initiatives

Specific reform initiatives include:

- Increased opportunities to suppliers from developing countries and countries with economies in transition; wider participation of suppliers from all Member States in general; and improvement of communication with suppliers; improvement of system for registration of suppliers.
- More transparent, open, impartial and cost-effective procurement process, based on competitive tendering.
- Increased use of modern electronic means of communication to disseminate information regarding requests for proposals, invitations to bid and requests for expression of interest;
- Assurance that bids received through electronic means are not compromised.
- increased transparency of procurement decisions; and maintenance of the principle of separation of responsibilities of the requisitioning and approving officers.
- Improved use of acquisition planning.
- Enhanced professionalism of procurement practitioners through increased training.
- Improved cooperation and common rules and regulations.
- Increased field support.
- Enhanced accountability through greater delegation of authority.

Working groups

Procurement reform is supported from the highest level, and carried out at both the organizational and inter-agency level. The following two working groups have been established to harmonize and streamline procurement practices and to increase efficiency in procurement throughout the UN system of organizations:

- Inter-Agency Procurement Working Group (IAPWG)
- Common Services Working Group on Procurement.

The IAPWG was established in 1976 and is an informal group of senior procurement officers. Twenty-six organizations participate in the meetings, including a representative from the

UN/OLA. The IAPWG leadership mechanism is through a rotational Chair/Vice-Chair. UNDP, through IAPSO, is the permanent Secretariat of the IAPWG.

The Common Services Working Group on Procurement forms part of the Task Force on Common Services, chaired by the Assistant Secretary-General for Central Support Services, and was created within that forum in 1997. Based in New York, its members are the UN Secretariat, UNDP, UNFPA, UNOPS, UNICEF, WFP and a representative from OLA. Initiatives of the Working Group are disseminated to Geneva, Copenhagen and Vienna and other offices away from Headquarters.

Achievements

In addition to strengthened cooperation in procurement among the UN organizations, the following achievements have been reached:

- Development of Common Guidelines on Procurement (incorporated within the Secretary-General's reform initiative into common financial regulations and rules on procurement); including the adoption of a new procurement principle: best value for money.
- Common financial regulations and rules on procurement (adopted by UNDP, UNFPA and UN).
- Improved communications; Communities of Practice Network on specific procurement themes where members exchange procurement information.
- Common training initiatives and agreement on the common training and certification programme to promote procurement professionalism.
- Establishment of the United Nations Global Marketplace (UNGM) as a common electronic portal for supplier registration and procurement opportunities, including a simplified common registration form to all UN entities who are members of the UNGM.
- Mechanism for sharing Long-Term Agreements or system contracts; and provision of procurement services between the different organizations.
- Enhanced procurement hardware and software systems within UN organizations and in some cases new joint ERP procurement modules have been implemented.
- UN organizations have embraced the practice of "lead agencies" for certain commodities, entering into global and local "lead agency" agreements and engaging in "lead agency" supplier evaluations.

Benefits

Lead agency cooperation has provided UN organizations with the following benefits:

- improved individual organization's specialisation
- improved discounts based on combined volume
- reduced cost due to economies of scale
- reduced maverick buying
- increased control over the procurement process
- eliminated non value added tasks
- reduced long purchase-to-pay cycle time
- reduced transaction cost; and, increased total procurement.

These and other procurement reform efforts were validated by independent reviews in 2005. In 2006 the Secretary General has ordered a comprehensive review of internal and financial controls to further identify reform opportunities in procurement.

1.6 Procurement as a UN Profession

Introduction

Procurement is an internationally recognised profession. It has evolved from a simple buying function to become recognised as a professional role within the UN as well. Procurement officers and those acting in, or supporting that function, are in a special position of trust and are held to high standards of professionalism. Development of professional and ethical competencies of UN procurement officers is recognised as an important component of the UN procurement reform process.

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

UN common procurement certification programme

The UN Common Procurement Certification Programme was created by several UN organizations. its aim is to clarify the professional nature of the procurement function, and to provide the basis for systematic training in technical and procedural knowledge as well as professional and ethical behaviour for UN procurement officers.

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

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

Chapter 2: Organizational Procurement Strategy

In this chapter

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2.1 Responsibilities and Process

Introduction

In all UN organizations, procurement has an impact on the overall organizational outcomes and results. It is therefore good practice to undertake strategic planning of procurement at the organizational level in order to link procurement activities and priorities to the overall priorities of the organization. Strategic planning is also important in order to manage the risks and the total costs involved in procurement, including use of resources.

Responsibility

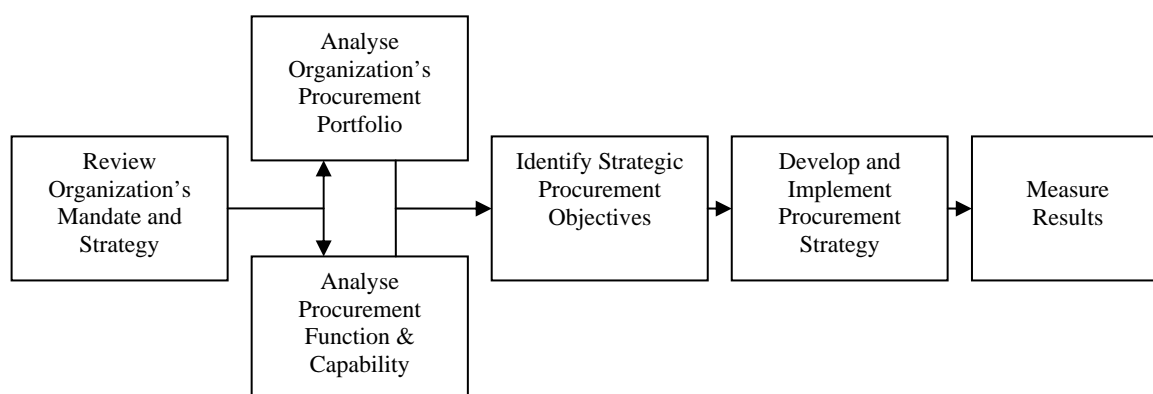
Development of organizational procurement strategy is normally the responsibility of senior management of the organization, in particular, the Chief Procurement Officer. However it would be done in collaboration with other senior management and with the support of procurement and other officials in undertaking the various analyses. Usually it is in line with the normal organizational business planning cycle. For most organizations this process is performed on either an annual or biennial basis.

Process

An organizational procurement strategy is developed through a process of reviewing and analysing the organization's:

- mandate, strategic direction and objectives
- procurement portfolio
- procurement function and capability.

On the basis of this review and analysis the strategic procurement objectives for the organization can be identified and an organizational procurement strategy developed and implemented. The final stage would be to measure the results to see if the objectives have been achieved. Each stage in the process is shown in the flow chart below.



2.2 Reviewing the Organization's Mandate and Strategy

The ultimate objective of procurement is to add value to the organization in fulfilling its goals and objectives. Procurement activities support organizational mandates on a daily basis by obtaining the necessary inputs for the organization to do its work.

The guiding principle in developing the procurement strategy is to ensure that it is fully aligned with the overall mandate and strategy of the organization. Therefore, before embarking on the development of a procurement strategy, it is important to review the organization's mandate and strategy. The form of the strategy varies from organization to organization and in some cases may involve reviewing a variety of material and documents including business plans, strategic communications from senior management and so on.

2.3 Analysing the Procurement Portfolio and Developing a Procurement Profile

Introduction

The purpose of analysing the procurement portfolio is to develop a full and comprehensive picture (procurement profile) of the procurement needs of the organisation. The first step is to analyse past and projected procurement expenditure or spend for goods, services and works (spend analysis). The next step is to analyse the difficulty and risk associated with securing these goods, services and works (risk analysis). The third step is to develop a procurement profile that identifies past and projected procurement expenditure and associated levels of risk in form of a matrix. Finally, appropriate strategies can be developed for each of the categories of this procurement profile.

Spend analysis

The first question to ask when preparing a spend analysis is whether historic spending data is a good indicator of future spends. To establish this it is necessary to ask various questions such as:

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

If, as a result of this analysis the conclusion is the historic spend will provide a reasonably accurate prediction of future spend, the next step is to undertake a 'spend analysis'.

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

- spend and number of transactions per commodity or category
- number of suppliers per commodity or category
- average purchase order value
- total expenditure per supplier
- transaction distribution by dollar range (e.g. less than USD 1000, USD 1000 – 2500 etc)
- spending distribution between main clients
- spend and number of transactions per procurement officers

- number of procurement officers involved in the transaction per commodity group.

Special factors

Where special factors may indicate that the historic spend analysis will not be a good predictor of future spend, in most circumstances it would still be relevant to conduct a spend analysis and then adjust the results taking into consideration the special factors.

If there are factors involved that imply that the historic data does not provide any relevance in predicting future data, then the procurement profile would need to be constructed by analysing as much data as possible from information on the future strategies, and activities of the organization such as project plans, budgets and so on.

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

- what goods, services and works are purchased and how much is spent on them
- comparison of historic spend on each item with the projected spend
- how the goods, services and works are purchased
- who the goods, services and works are purchased from
- the geographical location of suppliers e.g. local, regional, international.

Risk analysis

Risk analysis should look at the following issues:

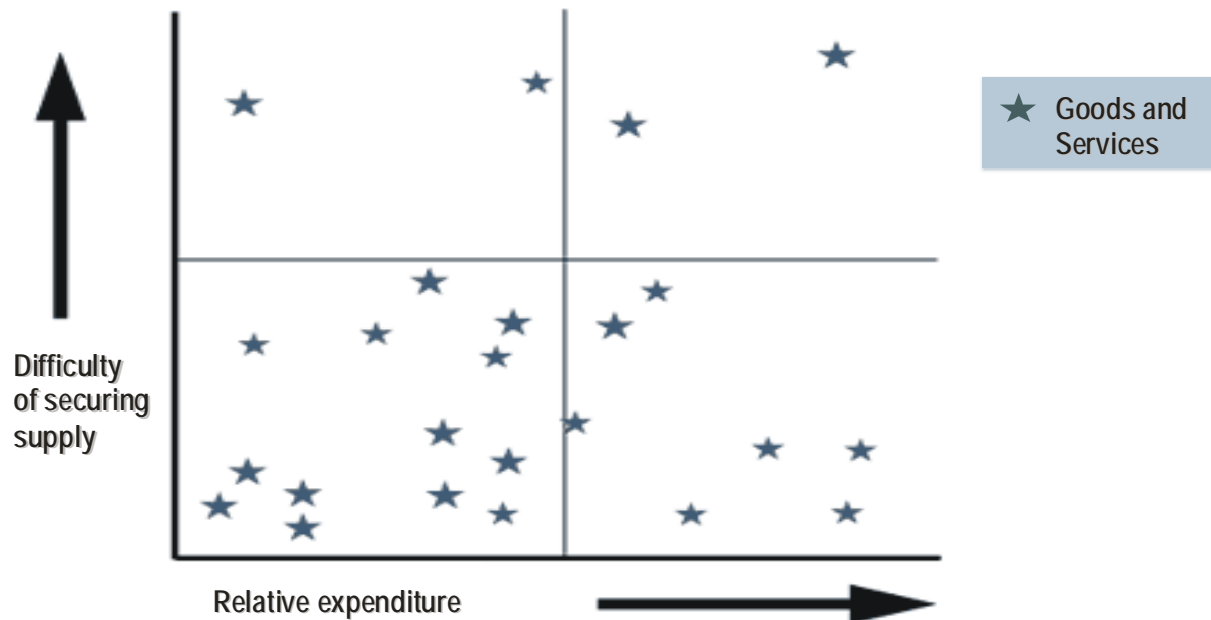
- how critical the goods, services or works are to the organization
- The difficulty and risk associated with securing the goods, services and works.
- the risk associated with each commodity or category based on:
 - risk specific to the goods, services or works
 - organization related risk
 - supplier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

When analysing supply risk the following key risk factors need to be analysed for each commodity or category:

- nature of the supply market
- probability of supply failure
- strategic importance to the organization
- impact on the organization of supply failure
- complexity of the procurement relationship.

Developing the procurement profile and related strategies

Based on the identified level of risk and the relative expenditure for each commodity or category of spend, the procurement portfolio can be plotted on a supply procurement matrix as follows:



The figure¹ below shows the four categories of this procurement profile including the main characteristics of each of these categories.

Supply Risk High Low	3. Difficult to secure supply and low relative expenditure “Bottleneck Items”	4. Difficult to secure supply and high relative expenditure “Strategic Products”
	1. Easy to secure supply and low relative expenditure “Routine Products”	2. Easy to secure supply and high relative expenditure “Leverage Products”
	Low	High
	Relative expenditure (\$)	

¹ The Purchasing Portfolio, Kraljic, 1983.

Characteristics of risk level, spend categories and possible strategies

The typical characteristics of each of these categories and possible strategies for dealing with them are highlighted in the table below:

Category	Typical characteristics	Possible strategies
Routine (Low risk and low spend)	<ul style="list-style-type: none"> • Usually low value and low volume items. • Represent routine procurement processing. • Typically represent up to 90% of the organization's suppliers • Often the suppliers are small businesses. • Transaction costs can be greater than the value of the items themselves. • Generally competitive local supply markets for these items. 	<p>Minimize administrative efforts by:</p> <ul style="list-style-type: none"> • Procurement at the lowest practical level (decentralized). • Encouraging local suppliers to view the organization as a valuable client resulting in lower transaction costs. • Focussing ordering and payment terms with suppliers on transaction efficiency (direct debiting, aggregation of orders, monthly accounts, payment cards, etc).
Leverage (Low risk and high spend)	<ul style="list-style-type: none"> • Commodities commonly used across the entire organization with high volume. • Represent commodities where there is potential for reduction of inventory management, handling and storage costs. • Mature and competitive supply markets. • Markets are served by a few suppliers with extensive distribution networks. 	<p>Total cost reduction and high service levels from suppliers by:</p> <ul style="list-style-type: none"> • Establishing automated supplier interfaces to minimize process related costs for high volume standard goods; • Ensuring regular management information reports on the nature of this expenditure to keep strategic focus; • Establishing long term agreements to simplify procurement, coupled with automated paying systems • Regionalising supply by using local suppliers that are agents for centralized arrangements; • Forming collaborative initiatives with other organizations to build leverage, target off-peak periods in supply markets.
Bottleneck (High risk and low spend)	<ul style="list-style-type: none"> • Highly specialized goods, services or works. • Procurement is often undertaken by technical experts rather than procurement professionals. • Technical specifications are inappropriately detailed and limit the supply base. • Often there are only a few potential suppliers 	<p>Reduce the organization's market vulnerability and to secure ongoing supply by:</p> <ul style="list-style-type: none"> • Identifying alternative sources of supply and/or substitute goods or services. • Holding extra stock where possible reduces risk. • Developing supplier capabilities and/or changing demand requirements.

Category	Typical characteristics	Possible strategies
	<ul style="list-style-type: none"> • Usually there are only a few transactions in this category. 	<ul style="list-style-type: none"> • Ensuring long term agreements may secure supply from key suppliers. • Encouraging new supply participants into the market; • Considering local supplier development strategies. • Developing contingency plans to deal with potential disruptions to supply. • Developing performance or functional specifications to ensure a wider sourcing base. • Developing a mixture of technical expertise and procurement skills to manage supply.
Strategic (High risk and high spend)	<ul style="list-style-type: none"> • Represents goods, services or works that are critical to the organization. • It is often a complex “bundle” or “package” of goods and associated services • Requires innovative solutions and high level expertise from suppliers. • The suppliers’ attitude to the organization (whether or not they consider the organization valued customers) had a high impact on the value and quality of the goods, services or works delivered. • The category represents very few transactions and there are often very few suppliers available. • The costs in offering contracts are substantial for both the procuring organization and the supplier. 	<p>Manage relationship and performance through regimes and systems which are essential to secure value for money and reduce risk by:</p> <ul style="list-style-type: none"> • Encouraging effective supplier relationship management for complex and costly bundles of goods and services. • Understanding correctly supplier needs and agree to performance management criteria and interfaces. • Maintaining regular communication with suppliers to ensure innovation and continuous service level improvements. • encouraging local suppliers with an incentive to deliver long term value rather than suppliers for which the business is not significant. • Helping to develop suppliers’ performance levels.

Note: Procurement falling into the leverage, bottleneck and strategic categories would be considered “significant purchases”. Once this stage in the process is completed, there will be a clear picture of the organization’s procurement portfolio.

2.4 Analysing the Organization's Procurement Function and Capability

Introduction

To complete the analysis it is also necessary to look at the procurement function and capability in parallel to the analysis of the procurement portfolio. This analysis includes:

- roles, responsibilities, structure and reporting
- procurement systems and processes
- procurement skills and capacities.

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

Aspects of procurement functions

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

Aspects	Features to be analysed
<ul style="list-style-type: none"> • Roles • Responsibilities • Structure • Reporting 	<ul style="list-style-type: none"> • Are roles and responsibilities clearly defined? • Who is involved in procurement and what is the reporting line? • Is there high level responsibility for the function? • To what extent is procurement delegated and/or decentralized? • To what extent do decentralized procurement authorities coordinate their procurement of common items? • Do procurement officers share information about markets, suppliers and products? • How is the performance of the procurement entity measured?
<ul style="list-style-type: none"> • Systems • Processes 	<ul style="list-style-type: none"> • How is procurement conducted for the various types of goods, services and works and what are the associated transaction costs? • Are e-procurement systems used – electronic catalogues, e-tendering, inventory management, payment systems etc? • How are centralized procurement arrangements managed, i.e. long-term agreements, pre-qualified suppliers, coordinated procurement of common items? • Is procurement management information (procurement profile, supplier performance information) captured and easily available? • What tools exist and how are they used e.g. standard solicitation documents, procurement manuals, good practice guides, etc.? • What are the recent audit results and recommendations? • What issues and trends appear in contracts committee minutes?
Skills Capacities	<ul style="list-style-type: none"> • Do the levels of procurement skills match the procurement portfolio? • Are skill levels evaluated on a recurrent basis? • Are skills for procurement developed systematically? • Is there a long term strategy for recruitment, selection, training and certification of staff – does a policy for staff development exist?

2.5 Identifying Strategic Procurement Objectives

Once the analytical phase is completed the next stage in developing the procurement strategy is to identify strategic procurement objectives. These should include:

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

Objectives for each category of goods, services and works

Objectives for the procurement of each category of goods, services and works should be made based on the procurement portfolio using the four procurement categories. The full results of the earlier analyses should be used as input. The table below shows some typical/general objectives and examples of some solutions for each segment of the procurement matrix.

Category	Difficulty of supply	Relative expenditure	General objectives	Solutions
Routine	Easy to secure	Low relative expenditure	Minimize administrative effort.	Increase use of P-cards (Purchasing cards).
Leverage	Easy to secure	High relative expenditure	Reduce total expenditure.	Introduce more long term agreements.
Bottleneck	Difficult to secure	Low relative expenditure	Ensure continuity and quality of supply.	Increase outsourcing to UN lead agencies.
Strategic	Difficult to supply	High relative expenditure	Reduce risk and cost by managing supplier relationships.	Increase proactive supplier performance management.

Note: The solutions will vary from organization to organization depending on their procurement profile.

Objectives for significant purchases

Specific strategic objectives for significant purchases would be included if they were critical for the organization, e.g. the impending procurement of an organization-wide Enterprise Resource Planning (ERP) implementation or a high risk commodity critical to a core strategic objective of the organization. The process for developing objectives for significant purchases is covered in more detail in Unit 3.1 Individual Procurement Planning.

Procurement management objectives

Procurement management objectives should also be developed using the results of the analysis of the procurement function and capability. These should relate to the objectives defined for each category of goods, works and services and also for any specific, critical and/or significant

purchases. These objectives can relate to the roles, responsibilities, structure and reporting, the procurement systems and capacities and/or the procurement skills and capacities. These objectives therefore will vary from organization to organization and also within a specific organization and can vary from year to year. Examples of specific objectives could be:

- increase coordination of common user items across the organization
- introduce new e-procurement system(s)
- implement ISO 9001
- increase numbers of procurement officers with Certification.

2.6 Developing and Implementing the Organization's Procurement Strategy

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

2.7 Measuring Results

A framework needs to be put in place to measure whether the procurement strategy objectives have been met. Performance measurement is important in order to aid probity and accountability and also to identify strengths and weaknesses in the procurement function, and therefore areas for development. Measures or key performance indicators (KPIs) should be developed that are relevant, specific, agreed with relevant stakeholders, and within the control of the organization. Performance measures should also relate to specific strategies or key processes.

Benchmarking

Benchmarking with other procurement organizations either within or outside the UN system can be useful for collecting data and measuring performance. However there are difficulties with implementing benchmarking such as, sharing confidential information and ensuring that like is compared with like. For example, comparing the number of procurement officers per procurement volume or cost per order between organizations would not normally be relevant unless both organizations had identical procurement portfolios.

Performance measures

Examples of performance measures are listed in the table below:

Performance measures	Including
Efficiency of the competitive process	<ul style="list-style-type: none"> • Number of compliant bids and proposals. • Number of suppliers involved in the competition. • Suppliers feedback on process.
Cost reduction / containment	<ul style="list-style-type: none"> • Level/amount of savings/cost reductions achieved. • Reduction of stockholdings. • Reduction in demand. • Number of “stock-outs”. • Number of goods rejected. • Increased use of alternatives.
Supplier management	<ul style="list-style-type: none"> • Number of “new” suppliers involved in competition. • Number of late/damaged/inadequate deliveries. • Level of quality achieved.
Efficiency of internal systems and processes	<ul style="list-style-type: none"> • Volume of low value transactions. • Usage of aggregated arrangements or long term agreements. • Reduction in transaction cost. • Internal customer satisfaction.
Procurement management	<ul style="list-style-type: none"> • % of procurement officers certified. • Number of staff days for training.

Tools

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

Chapter 3: Procurement Process

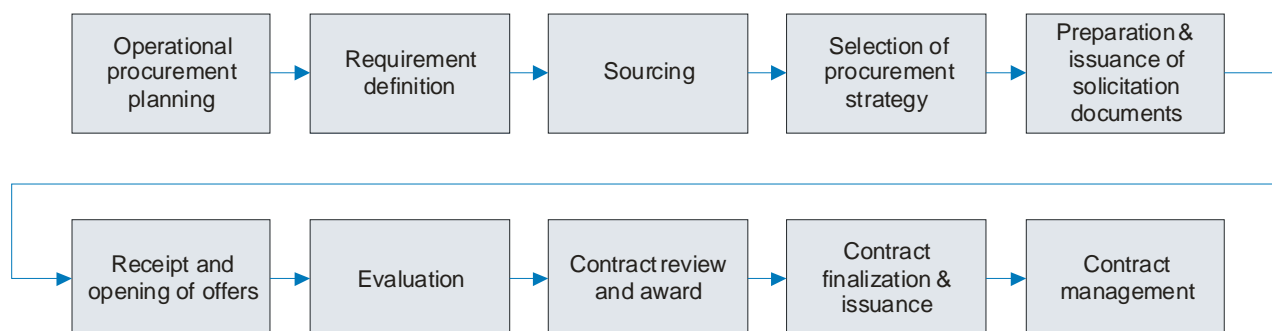
In this chapter

This chapter covers the following topics:

Topic	See Page
3.1 Operational Procurement Planning	3-2
3.2 Requirement Definition	3-7
3.3 Sourcing	3-23
3.4 Selection of a Procurement	3-30
3.5 Preparation and Issuance of Solicitation Documents	3-42
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Process

The flowchart below shows each of the stages in the procurement process.



3.1 Operational Procurement Planning

Introduction

The ultimate goal of procurement planning is coordinated and integrated action to fulfil a need for goods, services or works in a timely manner and at a reasonable cost. Early and accurate planning is essential to avoid last minute, emergency or ill-planned procurement, which is contrary to open, efficient and effective – and consequently transparent – procurement. In addition, most potential savings in the procurement process are achieved by improvements in the planning stages. Even in situations where planning is difficult such as emergencies, proactive measures can be taken to ensure contingency planning and be better prepared to address upcoming procurement requests. For example:

- Advance identification of suitable suppliers of potential products frequently requested in emergency operations, including confirmation by suppliers on willingness to respond on short notice.
- Development of standard specifications/TOR/SOW for products/services/works requested in emergency operations.

Good procurement planning is essential to optimize the contribution of the procurement function towards achieving the overall goals of the organization. It supports:

- Transparency.
- Development of Key Performance Indicators (KPIs) according to milestones and accountabilities set in the procurement plan, and use of the same to monitor performance.
- Effective and timely solicitation of offers, award of contracts and delivery of the goods, services and works required.
- Early requisition to reduce any delays in procurement and timely delivery to project sites.
- Early identification of right commodities and quantities to meet programme needs.
- Sourcing the right suppliers on time to avoid cutting corners under rush procurement to meet deadlines or budget expenditure.
- Effective supply strategy and timely programme and project implementation.
- Avoidance of unnecessary exigencies and urgencies, enabling full competition and full compliance with standard rules and procedures.
- Sufficient time to fully explore alternative procurement approaches, such as joint bidding with other organizations and use of LTAs of others.
- Strengthened procurement power vis-à-vis suppliers.
- Obtaining best prices for aggregate requirements.
- Establishment of criteria to measure effectiveness of the procurement function.
- Systematic and procedurally correct procurements.
- Development of long term agreements.

Procurement planning clarifies what is needed and when it is needed to both user and buyer. Effective procurement planning enables the UN organization and its staff to work smoothly to achieve the organization's goals with the right quality and quantity of inputs in place; ineffective procurement planning may result in failure to achieve those goals, putting in jeopardy the FRR and procurement principles and causing damage to the credibility of the organization.

In this unit

This unit describes the following two types of procurement planning:

- consolidated procurement plans
- individual procurement planning.

Consolidated procurement plans

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

Responsibility

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

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

Information sources

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

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

- expected requirement for goods/services/works
- quantities
- delivery time requirements
- estimated budget.

Consolidation

Once this data has been collected from all the appropriate sources it should be consolidated into the overall procurement plan. Analysis of the plan provides an opportunity to identify potential consolidation of procurements to achieve economies of scale, to better utilize resources, and to provide an overview of the magnitude of the procurement activity. In addition, when used as a management tool, plans can identify periods of time in which a large percentage of procurement actions are required. This information can assist in planning and distribution of workload between various projects and operational units.

Good practice

It is good practice to publish these consolidated procurement plans, for example on the organization's website. This provides advance information to the outside world of upcoming procurement activities and advances the key principle of transparency in procurement.

Individual procurement plans

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

Responsibility

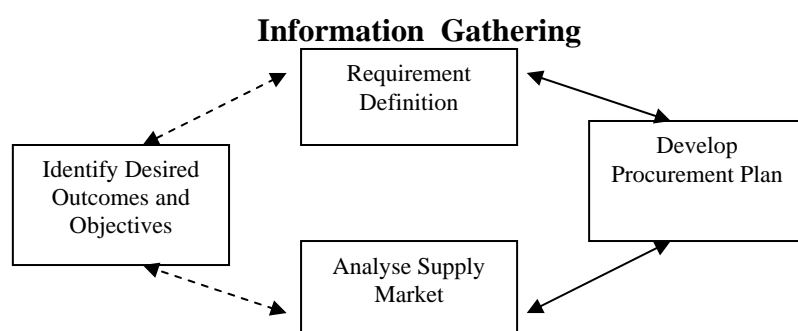
It is the responsibility of the procurement officer to ensure that an appropriate level of procurement planning is conducted depending on the particular requirement.

Significant purchases

Particular focus needs to be made in developing plans for "significant purchases". Significant purchases are those goods, services or works that have been identified as being of high relative expenditure and/or are difficult to secure (see Unit 2.5 for details on objectives for significant purchases). An example of a significant purchase could be one annual purchase valued at USD 1 million, such as a complex consulting assignment. Alternatively it could be a large number of low value purchases within one year, which could be more economically addressed through an LTA.

Process

The diagram below shows each of the stages in the individual procurement planning process.



Identification of desired procurement outcomes and objectives

The first step in the planning process is to identify the desired outcomes and objectives of the procurement. However the process is not necessarily linear. In some cases information obtained in the informational gathering stage will also have an impact on the identification of objectives. For example, an analysis of the supply market shows that there are limited sources of supply which means that a key objective is to identify suppliers who can develop alternative products. This, in turn, will have an impact on the requirement definition stage of the process.

The complexity of this process will vary from case to case. In some instances, for example where the requirement is for a commodity used across the organization with high volume, e.g. vehicles, the objectives and the desired outcomes of the procurement action may already be clearly defined in the organization's procurement strategy. In other instances, such as the procurement of a complex and high value solution that is critical to the organization or the client, then there may be a complex network of stakeholders each with their own ideas of objectives and desired outcomes.

Stakeholders

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

Specific objectives of key stakeholders may relate to:

- delivery times
- adherence to specific regulatory frameworks
- sourcing from specific groups of suppliers
- use of specific brands, if justified.

These stakeholder objectives need to be combined with the information gathered during the requirement specification and supply market analysis and the organization's overall procurement strategy. Then, if necessary through a collaborative process, the objectives and outcomes for the procurement should be agreed. At this time performance measures and indicators should also be agreed which will enable the procurement officer to determine whether the agreed procurement objectives have been met.

Information gathering

The Information gathering stage relates to collecting and analysing two types of information:

- definition of requirement
- analysis of the supply market.

The information gathered in both cases will provide input into the identification of the objectives and outcomes and development of the procurement plan.

Note: Further details on information gathering are provided in Unit 3.2 Requirement Definition and 3.3 Sourcing.

Development of the procurement plan

Once the objectives have been set and the relevant information on the requirement definition and the supply market has been gathered the next stage is to develop the “procurement plan”. A key element of this is selection of the procurement method. This is covered in detail in Unit 3.4 Selection of a Procurement Strategy.

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

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

3.2 Requirement Definition

Introduction

Requirement definition involves defining and describing what is needed and will be procured, collecting information, identifying appropriate solutions and specifying these in specifications for goods and equipment, terms of reference (TOR) for services, or statement of works (SOW) for works.

Specifications, TOR and SOW constitute the technical basis for the solicitation and the evaluation of offers to determine if they satisfy the requirements as stipulated in the solicitation documents. They become the “heart” around which the eventual contract is written and later administered. They have an effect on the procurement that lasts its entire lifetime—from planning, through bid evaluation, award and contract performance up to completion and post-contract evaluations. A clear and appropriate definition and description of the need is of utmost importance.

Purpose

Requirements should be defined with the aim of opening up competition, i.e. no use of brand names or other unnecessary restrictions. Requirement definition should identify the exact need (technical and quality), aiming at avoiding over-specifications (as this may increase the cost) or under-specifications (where needs will not be met), as well as the “when” it is needed (timing), in order to avoid progress delays or losses for example due to extra storage and handling charges if delivered earlier than required.

Responsibility

Requirement definition is formally the responsibility of the requisitioner. However, the procurement officer is responsible for ensuring the technical description provided by the requisitioner is free of ambiguities, is clear and generic, and promotes fair competition among the suppliers.

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

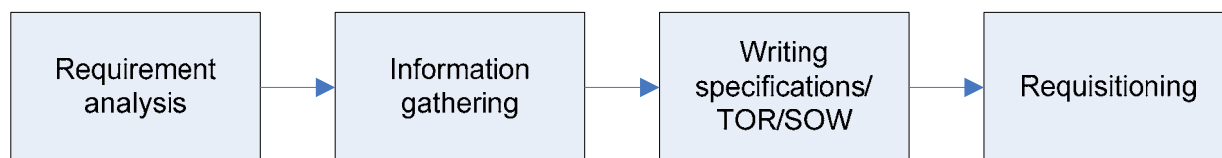
- Provide information on previous, current and upcoming procurement activities for similar products or services.
- Review of the requisition for completeness and ensure that the specifications or descriptions are not restrictive or biased towards a specific supplier.
- Assist in market studies to identify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

Defining the requirement starts when a need is identified and is an integral part of the individual planning activities described in Unit 2.2. A systematic and team approach between programme/project and procurement officers is recommended to develop a generic technical description. Early involvement of the procurement officer can add value due to experience with similar types of requirements. At the conclusion of this process, the requisitioner should review the finished description to ensure that it responds to the need identified. The final requirement

definition should then be submitted including funds certification as part of a requisition to the procurement function.

Process

The flowchart below shows each of the stages in the requirement definition process.



Requirement analysis

During this phase the requisitioner will identify the requirements, i.e. what is the list of functions, performances, and technical characteristics needed to be included in the Specification/TOR/ SOW. For example, the requirements for buying a generating set include: Where will it be used? Under which weather conditions? What is the minimum power requirement in KVA (Kilo Volt-Ampere)? Is a local representative needed? etc. For services the objectives should be identified. For works, what should be constructed, where, and for what purpose, should be defined.

Information gathering

Once the requirement has been defined, information needs to be gathered on what is available on the market, to define the specification/TOR/SOW. For services, information should be sought on the current situation, which activities and outputs are required to achieve the objectives defined, what input is required to perform the activities etc. For works, information should be sought on the construction site, soil conditions, access to the site, materials to be used, possible drawings, local conditions that must be adhered to, permissions that need to be sought etc. Developing specifications/TOR/SOW require consultation with the requisitioner, and with procurement officers who have been buying similar products or services, technical specialists, other users of similar goods, etc.

Request for information

A specific inquiry, called 'request for information' (ROI), can be used to obtain information from potential suppliers on specifications of their latest products, price indications, or any other information that could be used. This tool is mostly used in the sourcing process, but can also be used specifically to obtain information for developing specifications/TOR/ SOW. It is not used to design specifications which suit a specific supplier, but rather to learn and broaden the knowledge of what is available on the market. Policy on contact with suppliers may differ between organizations, and procurement officers should follow the respective guidelines of their organizations.

Standard specifications in the UN system of organizations

Technical descriptions of products require developing product specifications. However, before writing technical descriptions and developing product specifications, requisitioners and procurement officers are advised to check whether generic or other product specifications already exist by consulting other UN organizations in the system likely to procure these items on

a regular basis. Sometimes a standard specification has already been developed for the requirement. For example, an organization such as UNHCR, which buys plastic sheeting in high volume for its refugee camps, may have developed a standard for this product which could be used system wide. In some cases, standard specifications exist for recurring products, such as those determined in the compendium of generic specifications for emergency relief items published by IAPSO (http://www.iapso.org/pdf/erc_vol1.pdf). These standard specifications limit the variety of types, grades, and sizes of products that are often used to allow interchangeability and inventory control. They also inform potential suppliers of product standards used by the UN organizations which allows suppliers to adapt their products to meet these standards. Standard stock item descriptions, for example in the UNICEF stocked items catalogue, are a valuable source of information.

Writing specifications/TOR/SOW

Based on the requirement analysis and information gathering, the requisitioner must write up the specifications/TOR/SOW. It is important to use clear language and be accurate in all descriptions, to minimize misinterpretation risks. It is good practice to engage a specialist to review and proof the specifications/SOW/TOR before finalising.

A common mistake is to include information that should not be part of the specifications/TOR/SOW. Because the specifications/TOR/SOW are incorporated into the contract, they should NOT address, for example, the following:

Pre-award issues

Pre-award issues are not included in the contract (even though such issues might have a significant effect prior to award). These belong in the solicitation, but not in the specifications/TOR/SOW. The entire specifications/TOR/SOW will become a part of the contract. The most obvious example of pre-award-related documentation is the evaluation criteria that appear in the RFP/ITB.

Terms and conditions

Contract terms and conditions determine the rights and responsibilities of each contracting party. They are included in the solicitation and in the contract, but not in the specifications/TOR/SOW. If any terms and conditions are included in the specifications/TOR/SOW, there are two risks: Being repetitious, which can lead to an unnecessarily lengthy document, and risk of contradictions/ambiguities, which can lead to contract disputes.

The process for writing specifications/TOR/SOW is the same for all procurement activities. However, the details differ for procurement of goods, services and works. The following guidelines could be used to prepare specifications/TOR/SOW for each of these situations:

Preparation of specifications for goods

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

Specifications may be stated as one or a combination of the following:

Specification	Description
Functional	Concentrates on what a product is to do and is less interested in materials and dimensions. <i>Example:</i> dry erase markers for use on porcelain and dry erase boards, glass, unpainted metal, and glazed ceramics.
Performance	Describes what is to be achieved rather than providing a fixed description of how it should be done. To ensure the quality, a reference to the concerned product standards (e.g. ISO) and environmental requirements (e.g. Energy Star), should be made. <i>Example:</i> fine tip dry erase markers; durable tip will not soften or spread; quick-drying ink; wipes off easily; certified non-toxic by marker industry (AP) standards.
Technical	Defines exact design and details of a good (i.e. the physical attributes, material to be used, power input and output, the manufacturing process required, or in the case of a service, the working methods to be used). Due to its uniqueness, design specifications may limit competition because of differences in engineering practices.

All three specification types can be combined. It is better, whenever possible; to use performance and functional specifications rather than technical specifications as this allows suppliers to offer alternative and innovative ideas and solutions to problems, which often results in a more cost effective use of the resources. However, depending on the products and end-user needs, certain requirements may not be adequately defined in functional and performance terms alone.

In addition, minimum requirements should be stated. The supplier should never be put in the position of having to decide on which physical attributes are essential and which are not. Instead of minimum requirements, the requisitioner may accept equipment within a limited range of specifications.

Use of brand names

Brand names or similar references should be avoided. If it is necessary to cite a brand name, the words “or equivalent” should be included (e.g. Expo® Fine Tip Dry-Erase Marker or equal dry-erase marker).

It is sometimes more practical to specify a brand name for the purpose of defining acceptable functional, performance and/or technical standards. However specifying brand names should be avoided as much as possible. Whenever brand names are used to define functional, performance and/or technical requirements, remember that:

- Nomination of these products should only be used to define the required product standard.
- Brand names should never be used without also specifying the minimum requirements that are considered essential. The supplier should not be put in the position of having to decide which characteristics are essential and which are not.
- The specification should clearly invite offers of equivalent products, i.e. products meeting similar functional, performance and/or technical standards by adding the wording “or equivalent”. For example, “self propelled crab steering type crane with telescopic boom

equivalent in performance to Terex PPM model no XYZ, or equivalent brand from reputable manufacturers are acceptable”.

- The specification should clearly indicate that no particular preference will be given to the specified brand names when evaluating the offers.

In some unique circumstances, restrictive specifications or even particular brand names may be needed. For example, restrictive specifications may be needed to ensure that the product is compatible with existing equipment at the equipment installation site. If restrictive specifications are needed, justification should be documented. Procurement officers are required by their FRR to obtain such justification and document it on file.

Use of samples and drawings

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

Samples may also be requested from the supplier to demonstrate what they are offering, to be used for the evaluation (see Units 3.5 Solicitation documents and 3.7 Evaluation for further details). It should be made clear in the solicitation documents that samples must be free of charge and whether they will be returned to suppliers or not.

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

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

- Providing a sample or drawing of a specific product can be like specifying a brand name, i.e. it might limit the competition.
- If the supplier manufactures the products as per the drawing provided and there was a mistake in the drawing, the buyer is responsible for the mistake.
- This limits innovative thinking as suppliers are limited to offering a product which conforms to the sample/drawing.
- Always check whether it is allowed to include a sample/drawing in a specification as the use of the sample/drawing could be restricted due to copyright.

Content of specifications

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

Topic	Guidelines
Title	<ul style="list-style-type: none"> • Use a simple and broad description of the specified goods for the title. For example, “Steel Reinforcing Bar”. • Potential suppliers may decide not to make an offer only on the basis of the title.
Background information	A well-written introduction usually increases potential suppliers’ interest in the invitation and help them understand the needs. Further, an understanding of the purpose can be useful to ensure that offered products are “fit for purpose”.
Standards	<ul style="list-style-type: none"> • Standards are the most common document referred to in a specification. Refer as much as possible to international standards such as ISO, EN, etc. rather than national standards as this might limit the competition. • If national competition is foreseen, national standards might be the appropriate solution. • If a specific standard is not mandatory, indicate “or equivalent standards”.
Specific constraints and limitations	<p>Some examples of specific constraints and limitations are:</p> <ul style="list-style-type: none"> • Operating conditions e.g. maximum and minimum temperatures, noise, pressure, humidity, wind velocity, altitude, dust, etc. • Physical space available for installing equipment. • Compatibility with existing equipment, systems, etc. • Availability of power supply. • Servicing or maintenance requirements or limitations etc.
Requirements	<p>This describes the requirement in detail. There are 3 types of specification types: functional characteristics, performance characteristics and technical characteristics.</p> <p>Usually the requirement is a combination of the three types of specifications.</p>
Marking	<p>Possible marking requirements (to be agreed with end-user or project coordinator) are:</p> <ul style="list-style-type: none"> • identification marking • manufacturer’s name • model number • manufacturing standard • warnings (e.g. if fragile equipment).
Packing	<p>Items may need to be packed before delivery to protect them from damage during shipment and storage.</p> <ul style="list-style-type: none"> • If special packing is needed this must be specified: cartons, wooden box, wooden crates, containers, etc. • If a particular size or condition of the container is required, this must be specified (see Unit 4.3 Logistics). • If the organization wants to keep the containers, pallets or other packing material, this should also be specified.
Packaging	<ul style="list-style-type: none"> • Some goods may be available with different packaging options such as the size & composition of the container.

Topic	Guidelines
	<ul style="list-style-type: none"> Where different possibilities exist, specify what is required, for example, “computer screen cleaning fluid in 100ml plastic bottles”.
Quality	Specifying quality requirements reduces risks associated with the goods. For example, “only goods produced by suppliers adhering to the ISO 9000 quality system are acceptable”.
Testing	<p>For some goods, testing might be required:</p> <ul style="list-style-type: none"> By the supplier (the buyer should specify the test requirements). By a third-party organization. If testing is specified, the provision of test results should be specified as well.

Good practice

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

- State the requirement clearly, concisely and logically in functional and performance terms unless specific technical requirements are needed.
- Include enough information for suppliers to identify what is required and to cost it accordingly.
- Provide equal opportunity for all potential suppliers to offer goods which satisfy the user's needs, including alternative solutions.
- Do not over-specify requirements as this might limit the number of responses.
- Do not include unnecessary features that might prevent some suppliers from offering.
- Indicate requirements regarding delivery and after sales service etc.
- Whenever possible, indicate the final use (e.g. pipes: for construction of buildings, for water supply, gas supply etc).
- Do not allow the product requested to be covered by sole patent rights.
- Challenge the requisitioner if they request one particular product brand or manufacturer. Ask for valid reasons as they should be prepared to accept any brand that fully meets the specifications and requirements.
- For technical equipment, with specifications originating from a particular manufacturer or brand provided by a requisitioner ready to accept other manufacturers or brands, neutralise and make the specifications generic to allow for similar products of other brands. Check specifications of products originating from other known suppliers to ensure that the minimum requirements included in the invitation to bid will allow other suppliers to quote as well.
- For goods or equipment not previously procured and lacking specifications from the requisitioner, ask suppliers commonly used for similar equipment, to provide their specifications as input for drafting the specifications with acceptance by the requisitioner. Buyers should be careful not to reveal too much information to the contacted supplier in order not to give a potential advantage to this supplier. For example, do not reveal the intention to issue an invitation to bid very soon, do not reveal the country of destination, the quantity to be purchased, etc.
- Where there is a lack of specifications, it may be challenging to define what is important for the goods and equipment. When such a situation occurs, there are several potential options:
 - Consult with colleagues who have experience and background within the specific area and who will be able to guide the requisitioner to define what is required.
 - Check the internet.
 - Consult existing brochures and catalogues.

- Consult with suppliers or manufacturers specialized in the type of products. However, be careful not to reveal too much advanced information (see paragraph above)
- In exceptional cases, use consultants to help prepare specifications.

Preparation of terms of reference (TOR) for services

The terms of reference (TOR) for services should define the scope of work required and respective supplier and stakeholder responsibilities. Adequate and clear TOR are imperative for an understanding of the assignment, and to minimize any risk of ambiguities during the preparation of suppliers proposals, negotiations and execution of services.

The TOR, often the supplier's first and main introduction to the assignment, form the basis for the supplier's preparation of the technical and financial proposals, and also eventually become an integral part of the contract between the supplier and procuring entity. Clear and unambiguous TOR will force the supplier to prepare clear and detailed proposals, leading to successfully implemented projects and limiting the risks of disputes and claims.

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

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

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

Content of the TOR

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

Section	Content guidelines	Purpose
Background	Briefly describe the national context in which this specific consultancy will operate, e.g. the sector concerned and its major characteristics, the country's plan or strategy for the sector, prior or ongoing assistance within the sector,	Sufficient information for someone not familiar with the context to be able to form a clear picture of the setting for the consultancy.

Section	Content guidelines	Purpose
	socio-economic context and the institutional and organizational framework (responsible counterpart and other stakeholders involved) for the consultancy.	
Justification for consultancy	Include a description of the problem to be addressed (the present situation), the expected situation at the end of the consultancy, target beneficiaries and reasons for the donor's assistance (relation to donor's policies and involvement in the sector).	To explain the reasons for undertaking the assignment and why it is designed the way it is.
Development objective	Preferably formulated to include time, place and quantity. Serves to check on the economic, political and social relevance of the immediate objective, and helps to clarify the concept of the consultancy, for example: 1) Consolidation of the democratic process in XX country, in particular strengthening of human rights and related legislative reforms within the next two years. 2) Quantifiable greenhouse gas emission reduction and conservation of forest resources in YY country within the next five years.	Represents the overall development goal at sub-sector or sector level to which the consultancy is contributing. The consultancy itself cannot achieve the development objective.
Immediate objective(s)	<ul style="list-style-type: none"> Express future situations and not activities or processes leading to the objective. Preferably be SMART (Specific, Measurable, Accurate, Realistic, Time-bound) indicating time (when), location (where), quantity (numbers), quality and target group (who). For example: 1) By the end of 2003, 75% of the dental personnel in xx (city/country) are capable to inform patients in prevention methods related to HIV/AIDS. 2) In order to enable the government of xx country to formulate a policy on renewable energy, the various renewable energy resources have been assessed and recommendations made on sustainable energy options. 	To state what the consultancy itself is designed to achieve and for whom, and the situation that is expected to prevail at the end of the consultancy or shortly thereafter when activities have been successfully completed.
Outputs	<ul style="list-style-type: none"> Support every immediate objective by at least one output. Ensure all outputs necessary for the achievement of the immediate objective are described. If possible, describe outputs in time, location, quality, quantity (when, where, of what quality, how much). An output is stated as an end result and can be for example: 	The results that can be guaranteed by the consultancy as a consequence of its activities and which are necessary in order to accomplish the immediate objective(s).

Section	Content guidelines	Purpose
	Output types	Examples
	Report	Feasibility study report for the division of power on the possible development of sustainable off-grid rural electrification systems in remote and isolated areas of YY country within a period of zz years, including analysis of socioeconomic aspects, detailed load forecasting of the potential sites and assessment of currently available local and international technologies.
	Project document	Preparation of a full-fledged project document including proposals for a) amendments to the draft legislation for a National Human Rights Centre b) an organizational structure for the Centre c) staffing requirements of the Centre and d) strategy for an IT system in support on the Centre's database on human rights, web site and the Centre's financial and administrative management-system.
	Training	Workshop or training course on xx (topic) carried out for xx number of persons.
	Needs assessment	Assessment of training needs in xx (topic) for employees in yy ministry
	Cooperation	Cooperation established with xx country's general AIDS programme and other authorities dealing with HIV/AIDS.
Activities	<ul style="list-style-type: none"> • Describe activities typically starting with a verb (to assess, to identify, to prepare, to conduct, to review etc.). • Normally start with the following sentence: "Activities include but are not necessarily limited to the following tasks". • Based on technical experience, suppliers add other relevant activities to achieve the objectives. 	Necessary tasks to be carried out to achieve the objectives.
Inputs	Could be divided into contribution from the beneficiary and supplier's input as shown in the table below.	The "raw material" necessary to produce the intended outputs.
	Contribution from	Includes
	Beneficiary	All resources and support the recipient government/institution and local authorities/agencies can provide to the supplier free of charge (e.g. personnel available to assist the supplier, office facilities, equipment, local transportation, workshop facilities as well as background information/information material).
	Supplier	All international and national experts part of the suppliers team (described by areas of specialisation, previous experience, language requirements etc. If possible, state the expected total number of working days/ weeks required for each team member including time for preparation, mobilisation, and reporting in home office).

Section	Content guidelines	Purpose
	Other inputs that could be required from the supplier such as maps, pictures, workshop facilitation, training material, etc.	
Timing	State the proposed timing of the mission(s) as well as the total consultancy duration.	
Reporting	<p>List the reports and time wanted</p> <p>Include requirements such as contents, number of copies, language, who should receive the reports and whether they should be submitted electronically, in hard copy, or both. Some useful reports are:</p> <ul style="list-style-type: none"> • Inception Report • Mission Reports (if any) • Technical Reports • Draft Final Report • Final Report • Training material (if training is on the list of activities) • Presentation material (if any) • Workshop /training evaluation report (if any). 	

Review budget

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

- Suppliers' fees (international and national), listed as number of working months/weeks/days x fee per working month/week/day.
- Daily subsistence allowance (DSA) multiplied by the number of days.
- International transportation costs (number of round trips between destination x price)
- Local transportation costs (if any – minor costs are included in the DSA, but if the suppliers are to do major travelling within the country, this should be budgeted).
- Other relevant costs such as communication and printing costs, costs for translation of reports and interpreter services, costs in relation to workshops and/or training courses (rental of facilities and equipment, production of material, beverages and other costs in relation to participants) and other specific inputs required to carry out the consultancy.

The budget can be for internal purposes only (and not be included in the TOR). This ensures competition also on the price and not only on the technical part of the proposal from consulting companies. However, in certain cases, in particular if it is very difficult to estimate the input needed in terms of working days etc. or the TOR is a little vague, it can be useful to provide the total budget as an indication to the suppliers on what level the consultancy is on.

Preparation of SOW/BoQ/technical specifications for works

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

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

The unique nature of works requires that detailed design specifications be provided and a complete description and specification of all goods, materials and works to be included in the delivery, including detailed drawings and the requirement that the supplier possesses the necessary qualifications with respect to capacity and experience and financial strength necessary to carry out the type of job requested.

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

Content of statement of works (SOW)

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

Section	Include	
Background	Describe the project, its purpose and functionality. This should include any relevant information that would help someone not familiar with the current situation to form a clear picture of what is required. This is also important as implied warranties for “fit for purpose” can be derived from detailed background provided to suppliers as the overall scope of the project.	
General Information	Give all necessary general information, including but not necessarily limited to the following:	
	Topic	Guidelines
	Location	<ul style="list-style-type: none"> • Give precise information and a brief description of site accessibility and availability of major services such as electricity and water. • Location of sources of rough materials such as sand and stones might be helpful.
	Legal status	Check the legal status of the titles for the plot where the construction will take place.
	Site ownership	Clarify ownership of the site.
	Designs/drawings	<ul style="list-style-type: none"> • Indicate whether the designs are being provided or should be elaborated by the supplier. • Check that the designs have been registered and comply with local regulations, and clarify who is responsible for what in that respect.

Section	Include	
	Right of way	Check if right of way is needed (for locations where access is through other properties) and clarify who is responsible for what in that respect.
	Budget	Check available budget.
	Deadline	Check if there is a deadline for the execution of the works and indicate it accordingly in the solicitation documents.
	Supervision	Define supervision costs that should be borne by the supplier (e.g. office space at the site, telephone, electricity, mobility, PCs and other equipment, lodging if needed).
Supplier requisites	Request information about the bidding company. This is used to assess the capacity and quality of suppliers during evaluation. Consider the following topics.	
	Topic	Request information about
	Experience	<ul style="list-style-type: none"> • Number of similar works (by nature and size measured by contract's value) undertaken in last ten years. • Client references.
	Minimum personnel	Function and qualifications required by each key personnel (for example, chief resident, residents for electricity/ civil works, specialists).
	Financial capability	<ul style="list-style-type: none"> • The balance sheet to shows debt ratios, and working capital demonstrating free availability equivalent to the estimated value of two/three monthly payment certificates. • For major construction works, an estimated investment curve is usually included in the feasibility study from where the working capital can be derived.
	Minimum equipment	<ul style="list-style-type: none"> • Minimum number and characteristics of equipment needed to undertake the works. • During the evaluation process, age of equipment is often taken into consideration.
	Construction methods	<ul style="list-style-type: none"> • Construction methods/approach. • Programme of works, presentation, mobilisation, in what order various steps will be made etc.

Bill of quantities

The bill of quantities (BoQ) is the list of all main components of the project (buildings, roads, sidewalks, lighting, equipment, etc) including estimated quantities for each line item (soil movements/ excavations, structures, roofing, floors, sanitation, etc) and information on the way it will be paid (e.g. lump sum or unit price).

The preparation of the BoQ is the most difficult part because it should be complete and exhaustive especially in contracts based on unit prices. Even though less detail or fewer items are needed in lump sum contracts, such contracts require good technical specifications and careful supervision.

Technical specifications

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

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

Sign off on final version of specifications/TOR/SOW

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

Requisitioning

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

After researching, planning, and describing what is needed, it must be documented that all necessary UN financial and administrative requirements have been met. Together this is generally considered to be a requisition package. Such packages vary in terms of both the preparation time and the documentation required. Typical information that could form part of the requisition package can be:

- funds allocation and source
- budget breakdown, including freight, clearing and contingency cost
- mode of shipment

- information on destination/consignee
- written justification support memo for sole source (if applicable)
- delivery time/schedule
- late delivery consequences, performance incentives
- specifications/TOR/SOW
- drawings, if applicable
- design change/deviation options, if applicable
- required quality standards
- inspection and quality assurance information
- specific test requirements.

Requisition splitting

Some requisitioners intentionally “split” requirements by processing them under several lower monetary requirements. They reason that by staying under a specific monetary threshold on each requisition, they are benefiting their organization by cutting processing time. By remaining under certain monetary thresholds, they avoid requirements associated with those thresholds, such as requirements for competitive solicitations, contracts reviews, and so forth. In reality, the practice of splitting a requirement is a short-sighted business approach that is generally counter-productive, and undermines the integrity of the whole system.

Splitting a requirement actually hinders the procurement process because it:

- Contravenes the spirit of the UN financial rules which require “best value for money”.
- Is not cost effective, increases the procurement office’s administrative workload, and increases monitoring problems.
- Subjects the procurement process to possible criticism from auditors and members of the international community for paying too much for goods and services while restricting competition.
- Prevents the UN from procuring supplies by the most advantageous order quantity and other volume discount practices offered by commercial suppliers.

Required review and approvals of requisitions

Procurement officers regard requisition approval by an appropriate authority as confirmation that a need exists for the goods or services specified and that the funding has been made available. In some organizations the review and approval of requisitions forms part of the review and approval of the project document.

Some organizations allow solicitation to be undertaken before formal approval of the requisition and even at times before the approval of the project document, especially in cases of extreme urgency. Due to the increased risk of cancellation of solicitation processes, such practices should be used with caution as this might influence supplier handling of future tenders.

Consequences of incomplete requisition packages

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

Acknowledging receipt of a requisition

Some organizations have adopted the practice of acknowledging receipt of the requisition. This increases requisitioners awareness of and satisfaction with the procurement process. It is also helpful to acknowledge receipt of requisition by letter or e-mail to the requisitioner confirming accuracy of requisition including realistic delivery period requested and any need for change. Acknowledgement should take place as soon as possible after receipt of requisition.

3.3 Sourcing

Introduction

Sourcing is defined as a technical activity with the purpose of identifying existing suitable products and services on the market and qualified suppliers available to provide those products and services. Sourcing also aims at collecting and analysing information about capabilities within the market to satisfy the organization's requirements, such as obtaining updated cost information, determining the appropriate technology and alternative products, as well as identifying appropriate supplier qualification criteria.

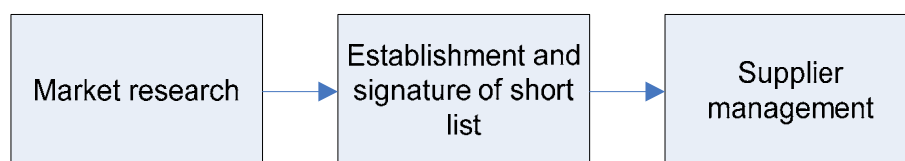
A thorough sourcing process, leading to identification and invitation of relevant suppliers, ensures maximised competition, by allowing the most relevant and suitable companies to compete. Sourcing also leads to a better understanding of the market. This knowledge helps to:

- assist in a make or buy or lease decision
- determine when to buy
- establish realistic delivery schedules
- review sole/single source justifications
- identify price and non price evaluation factors
- identify special terms and conditions for the solicitation and resulting contract that are customary in special markets
- establish realistic budgets, pricing arrangements and economic ordering quantities¹.

Sourcing is often conducted in parallel with requirement definition (see Unit 3.2). An issue procurement officers should keep in mind is that while requisitioners are preparing specifications/TORs/SOW, they are informally performing technical market research by discussing forthcoming procurement action with prospective suppliers. This communication, although an important part of the needs assessment process, is sensitive, as it can give rise to biased specifications or perception of favouritism. Procurement officers should advise the requisitioner on the risk associated, and should explain that it is important that no supplier be given an advantage through upfront information, and that care should be taken to ensure that no supplier gets the impression that they have an increased opportunity to be awarded a contract.

Process

The flowchart below shows each of the stages in the sourcing process.



¹ source : NIGP

Sourcing is conducted differently in the various UN organizations. The tools applied and means used vary according to the product/service to be procured as well as the budget, strategic importance of the market etc. Each stage in the sourcing process and a selection of possible tools and means are detailed below.

Market research

Market research should identify relevant suppliers and products that could meet the needs of the organization. The amount of effort required for market research depends on the value/risk of the requirement. For small standard procurement activities research may be limited to searching existing rosters and previous contracts. For larger or more complex procurement, extensive market analysis is required.

Advertisement of business opportunities

Procurement activities should be made widely known to all potential suppliers. This can be achieved through various means, for example by advertising:

- Procurement plans, information on specifications for standard products, specifications of sole source products, etc. in order to provide suppliers with the opportunity to express interest.
- Request for expression of interest, request for information, pre-qualification exercises.
- Open tenders as a means to reach out broadly to the supplier community.

In some organizations, advertising is mandatory above certain thresholds. The most frequently used means for advertising business opportunities are the:

- Organization's website
- United Nations Global Marketplace (UNGM)
- Development Business (website or journal)
- websites of donors or end-users (governments)
- local newspapers, or other media (e.g. radio) depending on the local media infrastructure.

Note: These tools are further described below, and in Unit 3.4 for open tenders.

Advertising contract award notices also fosters transparency and competition for future procurement opportunities (for further details see Unit 3.9 Contract Finalization and Issuance).

United Nations Global Marketplace

The Inter-Agency Procurement Working Group (IAPWG) has developed the UN Global Market Place, UNGM (www.ungm.org) as the main procurement portal for both suppliers and procurement officers in the UN system of organizations. The UNGM is accessible for all procurement officers in the UN system of organizations and provides a user friendly interface with extensive search capabilities, as well as short-listing and export facilities. It can be used both in terms of a "yellow pages" approach and as a register of eligible suppliers for particular commodities. The facilities available in the UNGM are being continually updated. UNGM is considered the main global roster of suppliers for the UN organizations and is a natural starting point for any market research to be undertaken. More information on UNGM is provided under Pre-Qualification as well as Supplier Management (see below).

Other sources of information for market research

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

Source	Including
Internal	<ul style="list-style-type: none"> • Locally established rosters. • Former contracts. • Previous short-lists within same field. • Consultation with colleagues. • Sourcing support. Some organizations have a central support function for sourcing.
UN system	<ul style="list-style-type: none"> • Consultation with colleagues from other organizations who have bought similar products. • Through the IAPWG, procurement organizations of the UN are currently developing the concept of lead agency. When fully developed this can provide useful information in terms of who has expertise on which products. • The General Business Guide provides information on who buys what. A link to the guide can be found at http://www.ungm.org/.
Internet references	<ul style="list-style-type: none"> • External suppliers rosters with references to products and services. • DACON, a database of consulting companies maintained by the World Bank and the Inter-American Development bank (www.dgmarket.com/dacon/). • Online communities of consulting and professional service providers. • Regional trade directories. • Yellow Pages for local suppliers. • Country and product specific directories <p>Some directories are free of charge, others require a subscription.</p>
Other	<ul style="list-style-type: none"> • Commercial/specialized journals. • Chambers of Commerce, Trade Delegations, Permanent Missions, Government procurement organizations. • Business seminars. • Financial reports on companies prepared by financial service providers.

Request for information (ROI)

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

Request for expression of interest (REOI)

Request for expression of interest (REOI) is an instrument used to broadcast the need widely, and allows suppliers to present themselves for consideration for inclusion on a short list. An REOI is a cost effective method for identifying potential suppliers for particular goods, services or works. An expression of interest (EOI) consists of a written communication prepared by a supplier providing information about its products, services, resources, qualifications and

experience. A procurement officer can solicit an EOI by advertising the need on websites, in newspapers or by other means adapted to the local context. The resulting responses can be used to populate a roster for future use or directly for a specific procurement action. If relevant, the REOI can include specific short listing criteria. Some organizations (in particular those that apply mandatory pre-qualification of suppliers) could issue an REOI to all pre-qualified suppliers for a product range, and would use the result to develop the short list.

Pre-qualification as part of market research

Pre-qualification is a method whereby suppliers of particular goods, services or works are assessed against pre-determined qualification criteria, and only those suppliers who comply with the criteria are invited to tender. A pre-qualification of suppliers will ensure that bids are only received from suppliers which are able to comply with the requirements.

Some organizations apply mandatory pre-qualification for all suppliers. For more information see Supplier Management below. Pre-qualification is recommended when:

- Complex or specialized goods or services are procured (e.g. civil engineering or mine clearance services or equipment).
- A particular type of good or works or service is procured on a regular basis (e.g. for long term agreements).
- High degree of risk is involved in the procurement (e.g. security and safety equipment and services).
- Importance of the goods or services for the project is high (e.g. late delivery or the delivery of a wrong product or service would have costly implications).

If pre-qualification is required, each of the stages in the table below should be followed.

Stage	Description
1	Definition of criteria for pre-qualification.
2	Preparation of invitation for pre-qualification.
3	Advertisement of pre-qualification on websites or other appropriate media.
4	Evaluation of received pre-qualification applications.
5	Preparation of short-list of suppliers (ref. below preparation of short list).

Analysis of the supply market

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

Proper supply market analysis is especially important for the lead agency commodities, and is highly recommended in order to gain solid understanding of strategically important markets.

Establishment and signature of short list

Unless a rule prescribes or a decision is made to proceed with an open tender, or market research justifies a waiver of competitive bidding, a short list of suppliers to be invited should be prepared based on the market research findings.

Many aspects should be taken into account when selecting the suppliers for the short list. The overall goal is to increase competition to a maximum, provide a fair chance to a vast number of serious companies in the market, and at the same time ensure economy and efficiency of the procurement process by limiting competition to the most relevant suppliers.

Short list criteria

Short listing criteria can include, for example:

- Monetary value of the procurement activity. The higher the value, the higher number of companies should be short listed. Most organizations have specific requirements in this regard.
- Share of potential markets and geographic distribution.
- Specific requirements for the procurement action (e.g. ISO certification/quality standards, representation of supplier in the recipient country and/or donor specific requirements as per the agreement with donor).
- Legislative requirements (e.g. registration under existing regulation in the supplier's country, registration with a professional body, required insurances etc.).
- Technical capacity and experience (i.e. relevant past experience, experience from the geographic area in question, availability of after sales service, availability of required equipment etc.).
- Appropriate financial capacity compared with the value of the contract. In general, if information about the supplier is insufficient they should be contacted and asked for further information, and if the procurement officer is not confident that the supplier can meet the requested needs, the supplier should not be invited.

Pre-qualification

Where pre-qualification has been undertaken, only those suppliers who have passed the pre-qualification criteria should be invited to bid.

Where pre-qualification has not been undertaken, some organizations still perform an eligibility check of each supplier before adding it to a short list. Eligibility is defined by a set of minimum requirements that suppliers must comply with, such as:

- Legal capacity to enter into a contract, including registration of the supplier in a country eligible for contracting.
- Ethical principles (no child labour, involvement in production and distribution of land mines, adherence to supplier code of conduct).
- Product specific requirements (ISO certification etc.).

Requirements for eligibility are determined by the organization's policy and/or the funding organization/donor.

Some organizations only short list pre-qualified suppliers, or require suppliers to register and pass set qualification criteria before an award can be made. Further some organizations have a policy to short list all pre-qualified suppliers for a product/service.

Signing a short list

Short lists should be signed by the procurement officer as well as by appropriate authority as per the organization's policy.

Supplier management

UN organizations strive to continuously identify new suppliers which could broaden the market for products and services procured. Some organizations give particular attention during market research to suppliers from developing countries or rapidly growing new markets, not to favour these suppliers as such but in order to broaden the source range of suppliers.

Pre-qualification as a strategic tool for supplier management

Some UN organizations undertake systematic pre-qualification of all potential suppliers. Various approaches exist, from requiring pre-qualification/registration with the organization to be completed before any contract award (i.e. upfront or in parallel with a tender process), to only short listing pre-qualified companies. Pre-qualification of all suppliers can be time consuming, but useful in particular for products/services bought on a regular basis.

Through IAPWG, organizations are developing a lead agency concept, whereby each organization will be defined as lead agency for certain products or services. One of the next steps being considered is that the lead agency should undertake pre-qualification of suppliers for UNGM, however, the idea is still being discussed between UN organizations and no final conclusion has been reached yet.

Use of rosters

It is common practice to collect information on suppliers in a supplier roster that provides easily accessible information on suppliers and the goods and services they provide. The UNGM is used by 15 UN organizations as their roster for international procurement.

Supplier registration in UNGM is conducted entirely on-line and suppliers are required to complete extensive registration information including details of the goods or services they provide. In some instances suppliers may be required to provide additional information to facilitate the eligibility check. Supplier information in UNGM is continually updated by automatic requests to suppliers. Suppliers who do not update their information within a specified time become inactive on the roster. Suppliers may also be removed from the roster if they consistently fail to reply to solicitation of offers, submit false information, become bankrupt, or have a criminal conviction or civil judgment against them for any offence indicating a lack of business integrity etc.

Procurement units may also decide to maintain a separate roster of suppliers, for example, local suppliers for particular local needs. It is essential to invest time and effort to maintain the database by reviewing new applications, deleting inactive suppliers and updating information on current suppliers. For information about the content of a supplier database, check www.ungm.org. Some organizations have established their own supplier evaluation groups or committees. They meet on a regular basis and approve new suppliers.

Performance evaluation

To promote economical and efficient procurement, the performance of existing suppliers should be evaluated on an ongoing basis. Data should be recorded, and non-performance should be flagged in existing rosters/information systems.

Some organizations have developed specific performance evaluation criteria, and use, for example, a point system to record performance in various categories. Typical categories can be:

- quality of good and services supplied
- compliance with delivery times/deadlines
- after sales service provided
- accuracy of documentation
- speed of response and general cooperation.

Ensure that performance evaluation is fed back into future sourcing processes, that are made available to procurement officers through rosters or other information systems used in the sourcing process.

3.4 Selection of a Procurement Strategy

Introduction

Once a fully funded and approved requisition is accepted by the procurement unit and appropriate sourcing has been conducted, the procurement officer's role is central in determining the appropriate procurement strategy.

The purpose of identifying and selecting an appropriate procurement strategy is to find the best way to obtain the solution/result to satisfy the needs of the end user for goods, works and services by obtaining the most advantageous pricing and contractual conditions through a competitive process that will best deliver what is required in a timely manner while ensuring achievement of the UN guiding procurement principles.

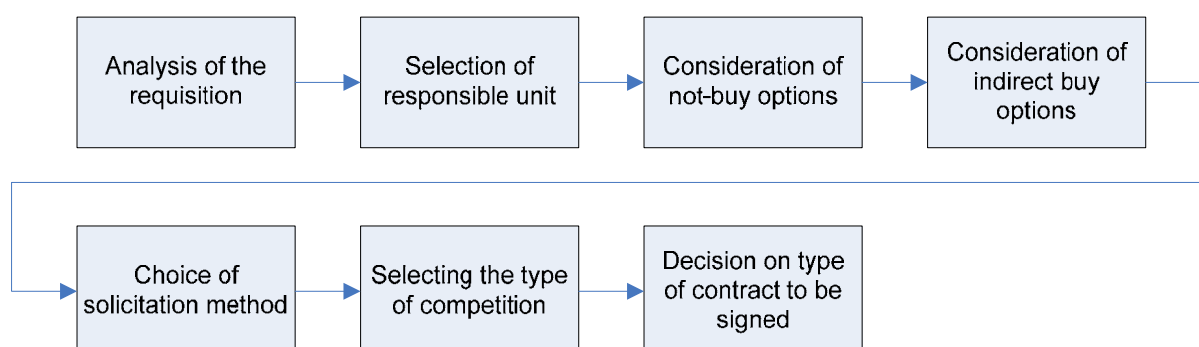
A procurement strategy includes:

- choice of the type of arrangement and/or contract to be concluded
- choice of the procurement method
- type of competition to be adopted to purchase the required goods/services/works.

To select a procurement strategy, the procurement officer will have to consider factors such as the FRR, procurement procedures of the organization, delegation of authority, financial thresholds, internal clearance/approval procedures and corresponding administrative time frames, the type of procurement (goods, services or works), the complexity or the specificity of a requirement, the market conditions, already existing arrangements and/or contracts (e.g. LTAs) and the potential for collaborative procurement.

Process

The process of identifying and selecting the appropriate procurement strategy can best be described as a series of decisions, rather than sequential stages that need to be followed in strict order. Normally, the procurement officer would only complete the most relevant stages based on organizational practice, and the procurement officer's experience. To fully understand this process and the results, however, each of the logical stages in the selection of a procurement strategy process is provided in the flowchart below.



Selecting a procurement strategy first involves analysing the requisition and determining the:

- nature and specifications of the requirement
- expected value of the procurement action.

Once the above have been determined, then the following decisions can be taken:

- which unit within the organization should conduct the action
- whether to procure the item or to make/lease/rent it
- whether to procure through an existing long term agreement (LTA)
- whether to conduct a new competitive solicitation process
- which solicitation method to be used (RFQ, ITB, RFP)
- which competition should be chosen (limited, open or waiver).

Analysis of the requisition

During the analysis of the requisition, each of the actions below should be considered in order to determine the nature of the requirement, the specifications and the expected value of the procurement action.

- Identify crucial information in the requisition as well as the requirement definition which could have an impact on the procurement strategy (e.g. urgency, specific local requirements which must be met, target arrival date etc.).
- Identify generic versus branded specifications.
- Double check that the technical specifications provide a sufficiently high minimum level such that any product meeting the requirements is acceptable
- Ascertain the feasibility of requested delivery date and provide feedback on lead times to the requisitioner.
- Determine whether factors other than technical compliance should be included in the evaluation.
- Determine whether technical and other factors are all suitable for “yes/no” threshold conditions or whether any should be given weight.
- Consider expected value of the requisition, in relation to relevant financial thresholds for procedures and delegations.
- Consider whether requisition can be packaged with other similar requests awaiting procurement or identified during the organization-wide needs analysis.

Selection of responsible unit

The framework, the structure and the delegations of authority will determine who should respond to the end-user requirements within an organization. This decision may depend in part on whether the supply is expected to be available locally/regionally. Central and decentralized units are sometimes authorized to operate in different markets, depending on the organization. Capacity of each unit might also be considered.

Consideration of not-buy options

It is important to consider options other than buying, including:

- make versus buy
- lease versus buy
- incorporate in other procurement versus buy.

The decision to make, buy, lease or incorporate in other procurement should be made jointly by the procurement officer and the requisitioner. Some factors to consider in these decisions are provided below.

Make versus buy

A make or buy analysis will result in the decision to provide the good or service by using internal organizational resources or to contract out for similar support to meet a given need. For example, such decisions may arise as an internal consideration when a large programme considers setting up its own maintenance and repair shop versus contracting for the service outside; such decisions may also be appropriate where a government entity could provide the services using its own resources versus procurement on the open market; development of own software versus buying off the shelf.

When comparing costs between the UN organization and the market, the following principles should be followed:

- All cost comparisons should be based on an “apples with apples” approach.
- The costs for maintaining the same service levels and quality should be considered.
- Time required to produce and deliver the same product or service internally or externally should be considered.
- Likely availability of internal expert resources to produce, deliver and maintain (as appropriate).
- Impact on the programme/project if internal resources cannot deliver on time or with equivalent quality.
- All costs should be included in the calculation, including e.g. administrative cost to the organization for both options.

Lease versus buy

The procurement officer should compare the cost of leasing with the cost of buying an identical item. If the terms of the lease include other services, such as operation and maintenance, then the cost of obtaining these services separately should be added to the purchase price for the purpose of this analysis. The residual value of the item at the end of the period should also be considered.

Each of the steps identified below should be considered in order to determine whether to lease or buy.

Step	Action
1	Add up all lease payments for the expected useful life of the equipment.
2	Add to the proposed purchase price of the equipment any of the following costs that would apply: <ul style="list-style-type: none"> • Installation costs (one-time). • Maintenance costs anticipated over the expected useful life of the equipment (cumulative). If the leased equipment includes operator costs, then the procurement officer should add to the Buy option the actual costs of operation as could be paid by the end-user. • Any warranty costs not included in the purchase price (one-time). • Estimated delivery charges not included in the purchase price (one-time).
3	Subtract the resale value, if any.
4	Compare the total lease cost (option 1) to the total proposed purchase cost (option 2). See the example below.
5	Select the lower total cost of the two options as the most advantageous acquisition method.

Example

In the example provided in the table below, option 1: leasing, would provide better value. The procurement process would therefore change from buying the particular item to leasing.

Option 1:	Lease	Option 2:	Buy
Useful lifetime	5 years	Purchase price	\$10,750
Monthly lease	\$170	Maintenance cost (400/year)	\$2,000
		Warranty cost	0
		Delivery charge	\$150
		Resale value	(\$1,500)
Total cost to lease	\$10,200	Total cost to buy	\$11,400

Note: If the procurement value is substantial, then Net Present Value (NPV) calculations are needed to discount future costs in years 2, 3, 4, etc. to their present value, using the prevailing interest rates. This is necessary to compare the present value of the investment in both options and select the option that provides the lower NPV.

Consideration of indirect buy options

Some indirect buy options that should be considered are:

- use existing long term agreements (LTAs)
- use other organization's LTAs
- develop new LTA
- buy from other UN organizations
- incorporate in other procurement.

Long Term Agreements (LTAs)

Long term agreements (LTAs) exist in many forms and go under various names in the different UN organizations, including: long term arrangements, long term agreements, framework arrangements, systems contracts, requirements contracts, and possibly others. LTAs are usually based on the result of a competitive tender exercise.

An LTA is a written agreement between a UN organization and a supplier covering all the commercial terms applicable to the orders that may be issued against them for pre-selected goods or services: pricing, discounts, payment, delivery and packaging and any other relevant special as well as the general terms and conditions.

Depending on the nature of the requirement and the policies of the organization, LTAs are typically established on a non-exclusive basis for a specified period of time (e.g. two years) and a maximum amount corresponding to a ceiling of aggregate demand volume. LTAs may be with a single supplier or several suppliers and may contain one or many line items of products or services. In some cases the solicitation may result in immediate placement of an order, or commitment to place a specified level of orders, while in others it may only establish the framework.

LTAs have been applied to a wide range of requirements, including basic office supplies (paper, computers), travel, common field equipment (vehicles, communications), air charter services, programme inputs (pharmaceuticals, fertilizers, agricultural commodities and condoms), and standard specialized equipment (mine detection equipment).

Some LTAs can only be used by the organization which established them, while others have been developed as collaborative procurement arrangements whereby more than one UN organization can benefit from pricing arrangements for goods and services established with a single supplier. UN organizations are currently strengthening the role of lead agency for products that are important for one organization and relevant for others. Lead agencies will have responsibility to pre-qualify suppliers for their products and eventually to establish LTAs when relevant, and other UN organizations will use those pre-qualifications and LTAs for their own procurement.

LTAs are developed through a complex solicitation process, which must consider not only the quality of the goods/services under consideration, but also the capability of the selected supplier to fulfil orders for the full period of coverage. Due to the added complexity, such solicitation processes are normally conducted from headquarters of the organization concerned, and then orders may be placed by the various offices around the world. Some organizations allow decentralized offices to establish LTAs as well, in particular for goods and services available locally/regionally.

While the relevant FRR and procedures vary, most UN organizations make use of long term framework agreements (LTAs) to stabilise supply/costs, achieve economies of scale and avoid duplication of procurement processes for many goods and services that are required on a regular basis but have uncertain quantity and delivery requirements.

The benefits of long term agreements include:

- streamlined acquisition process for both the UN organization and supplier
- fixed prices and conditions based on consolidation of needs and volume, for a certain period of time
- ease of access to goods and services
- lower transaction costs because of time and resources saved to obtain offers, evaluate offers and awarding a contract for each requirement (i.e. eliminates requirement for repeated bidding).

The challenges of using LTAs are:

- They may include a premium to cover the fact that they establish fixed prices, and are non exclusive. This can be partly overcome by requesting staircase pricing.
- Risk to become less attentive to performance monitoring and quality inspection

Use own LTA

Based on the analysis of the requisition, if the specific requirement fits within the framework covered by an existing LTA of the organization, the expedited procedure for procurement under the LTA should be followed. Each organization and LTA has its own specific procedures, and the order should be placed with any necessary reporting according to the applicable procedures. LTAs should be made widely known and/or accessible within the respective organization.

Organizations should decide whether LTAs are to be used as a matter of normal procedure whenever they apply, or if this is an option to be decided in each case by the procurement officer. LTAs are established to ensure stability of supply and price while economising on use of procurement officers time; the decision to not use an LTA is a decision to expend more staff time on the individual requirement and should be justified in the procurement file. On the other hand, it may be appropriate to go outside the LTA in some cases, e.g., when procuring a large quantity in comparison to that of the LTA, or when substantially lower unit prices can be obtained due to changes in the supply market since conclusion of the LTA. It is good practice for each organization to have guidelines for such determinations.

Use other UN organization's LTA

While in some cases two organizations may have LTAs for the same goods or services (e.g. office supplies), which could be unified in a common services framework, more often the LTAs of an organization reflect its mandate and programme requirements. When another organization faces the same requirement, it may wish to utilize the existing LTA. A list of LTAs open to be used by other UN organizations is available at the UNGM website.

There are specific procedures to follow for the use of the LTA of another organization, and these should be fully complied with. Organizations vary in their policies of accepting the LTAs of others, and in accepting the use of their LTAs by others. There are many reasons for this, but key among them are concern that:

- The LTA may be based on specific requirements (higher than normal quality standards, shorter delivery time etc), and if this is not required, value for money could be lost. Particular care should be taken for large value contracts, where bidding may get a better result.
- LTA created for specific requirements and purposes by one organization could be exhausted and no longer available when required, due to the action of the second organization.

- Production capacity of suppliers could be taken to its limit by the second organization resulting in delays.
- Procedures and relations with suppliers built up over time could be damaged by inadvertent actions of second organization.

While UN organizations have generally agreed to accept and promote collaborative procurement, it is still challenging. Reasons like the above influence the willingness of UN organizations to cooperate in procurement, and are discussed on a bilateral basis between procurement officers of the respective organizations interested in specific procurement requirements, and reviewed as a system-wide policy concern within the framework of the IAPWG.

Develop new LTA

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

Buy from other UN organizations

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

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

Incorporate in other procurement

Specific requests could appropriately be included within another solicitation for the same requisitioner (e.g. including in the SOW for an extended contract that the supplier provide own vehicles and communications devices, according to standards of the organization in the country) or grouped with other similar requisitions. The procurement officer, in consultation with the requisitioner, should determine whether this is appropriate.

This option may be chosen to reduce the administrative burden on the unit concerned and to make the supplier fully responsible for their own effectiveness, especially if it is believed that likely suppliers of the service have ready and low cost access to the required goods/services.

Choice of solicitation method

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

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

The selection of the appropriate method is determined by the expected cost of the procurement action, the feasibility of preparing complete specifications at the outset of the requirement definition, and whether or not price alone or price plus other criteria such as quality should determine the selection among qualified suppliers.

Request for quotations (RFQ)

Request for quotations (RFQs) are used for low dollar value purchases and well defined products and services. As the name suggests, this involves requesting a price for the supply of basic standard goods, simple services or works. There may be a requirement to obtain three quotations, although the process is not sealed and there is normally not a rigid deadline for submission of quotations. The basis of award is normally to the lowest price, fully responsive and compliant bid. Policy and exact wording can vary between organizations.

Depending on the organization, for very low dollar value procurement (below the first threshold for procurement, typically in the USD 100 to USD 2,500 range), the RFQ may be sent to only one or two suppliers and their price confirmed by the procurement officer against past purchases. The RFQ is used by all organizations for procurement up to the financial threshold for ITBs/RFPs, in most cases below USD 20,000 and USD 30,000.

Invitation to bid (ITB) and request for proposal (RFP)

Invitation to bid (ITB) and request for proposal (RFP) are two distinct methods of soliciting offers. The following sections focus on the similarities and differences between these two methods.

ITBs and RFPs similarities

Although ITBs and RFPs represent two distinct methods of soliciting bids and proposals, they do have much in common. Both methods can be used for procurement of any value whatsoever. Both are formal methods of soliciting competition. Although organizations do vary in their procedures and practice, both methods generally involve the submission of sealed/secure submissions due by a publicly announced deadline. Both methods aim for a contractual agreement between buyer and seller. Each method should incorporate a draft/sample contract in the solicitation documents as well as the solicitation provisions.

ITBs and RFPs differences

While there are similarities between ITBs and RFPs, the differences are extremely important. The differences help determine which would be the more appropriate procurement method for a given solicitation.

ITB

The essential characteristic of the ITB is that technical requirement can be clearly and completely specified in a qualitatively and quantitatively manner, and the award is normally made on the basis of lowest cost, among commercially and technically compliant bids. Offers are normally provided in a single envelope, and the price can be read out at a public bid opening.

This necessitates (and assumes) that:

- Negotiations are not foreseen to be required.
- No premium is to be given for bids that exceed the specified technical requirement (only RFP can consider different qualities of responsive proposals).
- Other requirements can be specified in yes/no form as threshold qualifying conditions.

- Delivery requirements can be specified in a manner to adjust price (e.g. 0.5% increase or decrease per week) if relevant.
- Some organizations allow weighted scoring to be used to determine compliance. In such case good practice would be to use a two-envelope system to prevent knowledge of the price from influencing the technical evaluation.

RFP

The essential characteristic of the RFP is that proposals are submitted against requirements that are not fully definable at the time of solicitation and where innovation and the specific expertise of the proposer is being sought to better meet the procurement requirement. Proposals are usually submitted with technical and financial components in separate sealed envelopes, therefore there is normally no public bid opening.

This implies that proposals will be evaluated technically:

- prior to opening the financial offer
- on several factors, with a final weighted score for the overall technical offer. This score will then be weighted again with the financial score.

In summary

- In an ITB, suppliers submit an offer to provide a product or service strictly as it is described in the solicitation documents. ITBs are used by UN organizations for most competitive procurement of goods and standard works.
- In an RFP, suppliers may offer alternative approaches to providing the required product or service. In other words, suppliers have an opportunity to be innovative in their proposals, and the RFP should make this opportunity clear. RFPs are used by UN organizations for competitive procurement of services, complex goods and complex works.
- In some organizations, the use of negotiations following a competitive process is linked to the choice of methodology. Please see Unit 3.7 Evaluation for more information.

Selecting the type of competition

In addition to selecting the solicitation method to be used (described above), selecting the type of competition for a procurement activity is an important step. Depending on the value of the procurement, the market conditions as well as knowledge of the market, various types of competition can be used. A choice must be made whether to use 'open competition' where any supplier can participate, or 'limited/restricted competition', where a short list and specific invitation is provided to selected suppliers. Further, a decision should be made on geographic sourcing and whether international competition is to be used, or whether to limit competition to local or regional suppliers.

While some organizations (e.g. the World Bank) require open competition for all solicitations over specified thresholds, most UN organizations often apply a process of limited/restrictive competition based on short lists. UN organizations generally have the following concerns which need to be balanced:

- Obtaining best value offers from a sufficient number of qualified suppliers.
- Fairness to all suppliers from all countries.

- Avoiding additional administrative burden beyond the level of likely improvement in the results of the competitive process.

The procurement procedures of each organization will indicate the expected number of invitees to be short listed for different thresholds of procurement value, as well as the policy for when open tender is required or recommended.

Open international competition

Open international competition intends to provide all eligible and qualified suppliers adequate and timely notification of the requirements, and to provide them equal access and fair opportunity to compete for contracts of required goods, works, or services.

Open international tenders is the preferred mode of conducting competitive tender processes in some organizations. Other organizations find that the need for openness and transparency can be covered by publishing procurement plans, frequent use of REOI and notice of pre-qualification etc (see Unit 3.3 Sourcing for further information).

Open tenders are usually advertised on the organization's website, along with other appropriate means. It is important to consider which means would reach the right suppliers in a broad way. A combination of several means is often useful.

For further information on advertising in general, please refer to Unit 3.3 Sourcing.

Limited international competition

Limited international competition allows only the participation of selected suppliers in the solicitation. Limited international competition restricts competition to a short list of suppliers selected in a non-discriminatory manner from rosters, pre-qualifications, EOI, market research, etc.

Local/regional competition

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

- when works are scattered geographically or spread over time, and the works would therefore typically not be of interest to international companies
- when goods are available locally at prices below the global market price
- if knowledge of the local/national system is a requirement
- if justified by the requisitioner and/or client, or specified in the project agreement.

It is, however, essential to ensure competitiveness in the process, thus, local/regional competition should only be used if there are enough suppliers of the goods/services in the area to ensure competition, whether through open or limited local/regional competition.

Waiver of competitive bidding

The FRR of all UN organizations stipulate that competition is normally the most effective method to ensure best value for money. Nonetheless, the FRR also recognise that exceptions may be made for circumstances in which competitive bidding would not provide an adequate response for the organization and its clients.

The requisitioner and/or procurement officer should provide a justification for the waiver of competitive bidding in line with the FRR and procurement procedures of the specific organization. In most organizations, this justification can only be approved by the Chief Procurement Officer, typically with the advice of the contracts committee. In some organizations, authority to approve waivers for procurement actions below a certain threshold may be included in some delegations of authority.

Justification for waivers

While specific organizational policies and procedures vary, a waiver of competitive bidding must be approved for one of a limited number of formally established reasons. The range of such justifications may include the ones listed in the table below, although some organizations may not recognise all of the reasons indicated. In all cases and organizations, the allowable justifications must be supported in writing and approved at the appropriate level. The justification for some reasons should be provided by the requisitioner (standardization, procurement from government entity, exigency, procurement of essential professional services and continuation of services), and by the procurement officer for the justifications based upon market conditions.

Reason	Explanation
Low value	Most organizations recognise that purchases valued less than a certain threshold (varies, e.g. \$100, \$500, \$1,000, \$2,500) may be conducted without formal bidding, although there is a professional responsibility for due diligence to ascertain prices are reasonable.
No competitive market place	This may be due to supply by an officially recognised monopoly; prices fixed by government legislation/regulation; requirement involves a proprietary service or product; underlying project documents identify a sole provider to be contracted.
Procurement from Government entity	Some organizations consider this a sufficient reason to waive competitive solicitation. This is particularly applicable when the purpose of the project is to support the entity.
Standardization	The end-user has standardized on a certain brand (it may still be possible to select competitively among alternate suppliers of that brand).
Cooperation with other UN organization	Some organizations consider this to be a waiver of competitive bidding, while others consider it to be a product of competitive bidding.
Piggy backing on recent competition	Offers for identical requirements were recently obtained competitively (e.g., within a certain number of months), prices and conditions are unchanged and remain competitive.
Recent competition failed	Effort to obtain identical requirements through competition failed to provide satisfactory results
Purchase or lease of real property	Real estate property is recognised as discrete and unique and thus not suitable for competitive bidding.
Exigency, urgency, emergency	A genuine exigency for the requirement, in which serious adverse impacts would result from delivery delays normally associated with competitive solicitation. Most organizations do not accept that the rationale of "emergency" applies if the situation is the result of poor planning by project management or procurement officers.

Reason	Explanation
Professional services that cannot be objectively evaluated	Relates to research, development and other strategic professional services.
Follow-on to existing services	When single responsibility for the output is required and any change in supplier would be detrimental.
Formal solicitation will not give satisfactory results	The Chief Procurement Officer determines that formal solicitation will not give satisfactory results. This should normally be for one of the preceding reasons, but there could be others.

Procurement process for waivers

Even if only one supplier will be invited to present an offer, a formal solicitation should be issued. Good practice is to adapt one of the standard solicitation documents to the required purpose, and use this to request an offer. This means that the same considerations should be made in terms of sample contract, general and special conditions, evaluation method etc. For more information see Unit 3.5 Preparation and Issuance of Solicitation Documents. Furthermore, evaluation, negotiation and contract formulation is equally or even more important in waiver situations.

Decision on type of contract to be signed

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

3.5 Preparation and Issuance of Solicitation Documents

Introduction

Solicitation documents are the documents used to request potential suppliers to offer a quotation, bid or proposal to provide the required goods, services or works.

Preparation of solicitation documents covers the process of assembling and formalising the information and documentation necessary for potential suppliers to prepare responsive and easily comparable offers, consistent with the requirement and procurement strategy.

Procurement officers should ensure that the solicitation documents create a “level playing field”, i.e. all potential suppliers receive the same information at the same time, to prepare offers; measurable evaluation criteria that will allow suppliers the same chances to receive the contract award; ensure that commercial risks are fairly distributed between the UN organization and eventual supplier; ensure that the terms of the eventual contract are clearly expressed and thus suppliers understand the rights and obligations they will be expected to enter into. All requirements should be clearly expressed in terms that are conducive to receive a sufficient number of responsive offers so that the outcome will best meet the organization's needs. Procedures should be clearly expressed to avoid unnecessary procurement officer's time in explanations.

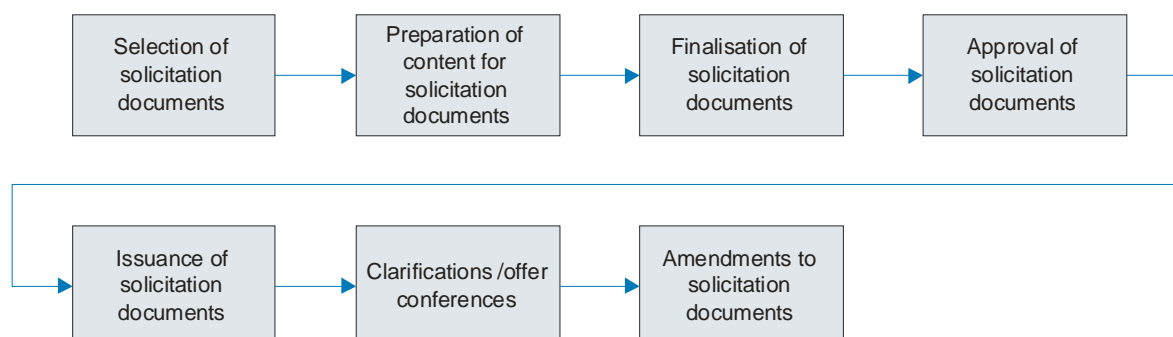
During this stage, evaluation criteria are developed and formulated to obtain the best value in the specific case. This includes informing the potential suppliers regarding:

- Administrative rules for the solicitation process, including the evaluation criteria and method (Instruction to Suppliers).
- Function, performance requirements and/or physical characteristics of the goods/works/services needed, including a clear statement of minimum quality requirements (schedule of requirements and technical specifications).
- Commercial, legal and other conditions prescribed by the buyer (contract terms and conditions).

Note: Preparation of the evaluation criteria – the basis upon which all offers will be compared to achieve the best result for the organization and fair treatment of all candidates – requires special attention.

Process

The flowchart below shows each of the stages in the preparation and issuance of solicitation documents process.



Each stage in the process includes review and decisions intended to guarantee the effectiveness of the specific procurement process. On the basis of the selection of the procurement method, this phase starts with review of standard documents and past experience from similar cases in this field of procurement.

Selection of solicitation document

Organizations have different standard documents. It is good practice to have at least separate standard solicitation documents for each procurement method i.e. RFQ, RFP and ITB. In some organizations the choice of standard solicitation document automatically implies a choice of general conditions, contractual terms, etc. It is important to ensure that all parts of the standard document fit the requirement (e.g. appropriate general terms and conditions). The use of standard documents achieves the following:

- ensures consistency from one transaction to another
- avoids repetition and omissions
- streamlines the process.

Standard solicitation documents must be customised to reflect the specific nature of the requirement. Special attention should be given to the following areas:

- clarity and completeness of requirements and delivery terms and any particular conditions governing the supply to the destination
- evaluation and selection method and criteria
- special terms and conditions
- contract type.

Preparation of content for the solicitation documents

The content of solicitation documents varies from one organization to another and according to the procurement method and complexity of the requirement. The document structure, however, generally includes some or all of the following items:

- Letter of invitation.
- Instruction to suppliers.
- Schedule of requirements.
- Technical description (specifications, TOR, SOW including design/drawings/BoQ and technical specifications for works).
- General terms and conditions.
- Special terms and conditions.
- Sample contract and other forms.

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

ITBs and RFPs normally include each of the above items separately identified. In some solicitation documents the letter of invitation and the instruction to suppliers is combined. The following documents should be part of the solicitation documents:

- Letter of invitation/instruction to suppliers
- Schedule of requirements/requirement definition
- Contractual terms (general conditions, special conditions, sample contract)
- Offer submission form.

Letter of invitation/instruction to suppliers

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

Topic	Information and/or instructions should include...
Invitation to offer	Reference to the specific procurement (title and tracking number), and a list of supporting documents issued.
Deadline for submission offers	<ul style="list-style-type: none"> • The date, time and place for submission, together with the location, date and time for the opening of offers (if public). • Sufficient number of days for all suppliers to prepare and submit an offer.
Information on pre-offer conference	Location, date and time.
Instruction for preparation and	<ul style="list-style-type: none"> • All relevant guidelines governing the preparation and submission of offers.

Topic	Information and/or instructions should include...
submission	<ul style="list-style-type: none"> • A list of documents required to form a complete offer, as well as notice to Suppliers that offers may be rejected unless responsive/compliant/ acceptable. A responsive/compliant/acceptable offer is one that conforms to all the terms, conditions and specifications included in the solicitation documents. Always include: <ol style="list-style-type: none"> a) mode of submission (electronic, hand-delivered, mail, fax), b) address/fax number/email, and c) instructions on how the offers should be packaged (e.g. sealed, number of copies, one or two-envelope system etc.).
Description of the procurement need	Information necessary to prepare a responsive and meaningful offer: <ol style="list-style-type: none"> a) the context of the procurement b) the intended purpose of the procurement.
Instructions on content of offer	How technical and financial offer should be structured incl. e.g. cost breakdown.
Currency	<ul style="list-style-type: none"> • The currency or currencies in which offers should be submitted. • The exchange rate used for evaluation. • That the contract will be issued in the currency of the offer. • Payment will be made in the currency of the contract.
Language	<ul style="list-style-type: none"> • The language of solicitation, offers and contract. • Translation of the solicitation documents into local language is sometimes advisable; however, a UN language is usually required to be used for contracting in order to facilitate procurement review and audit.
Instructions on offer validity	Instructions requesting the suppliers to keep their offers valid for a specific number of days, (typically a period of 60 or 90 days, but less if the price of the procured product fluctuates rapidly (e.g. raw materials, petroleum products, etc.) allowing time for evaluation of offers, and award of contract.
Method of evaluation and evaluation criteria	Method including order of importance and weight of each major criterion and how it will be applied.

Method of evaluation and evaluation criteria

The purpose of establishing correct evaluation criteria is to:

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

Pass/fail criteria

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

Weighted criteria

Variable factors (weighted scoring) evaluate the quality or extent to which offers meet the requirement. When a competitive solicitation seeks the best value from submitted offers, it is appropriate to evaluate the degree to which each offered product or service contains preferable characteristics. The higher the degree, the more advantageous it is. Variable factors may be expressed in terms of numerical ratings, such as a scale of 1 through 5, with 5 being the highest rating. A variable factor can have a pass/fail aspect, with a required minimum and points for exceeding the minimum.

Weights should be determined by importance for award. As an example, a weighted scoring (technical/financial) for selection of professional services in which price has been given a weight of 25%, means that if a technical proposal is 12.5% better than the lowest cost one (one-sixth the total possible technical points), it would justify 100% higher price. Whereas, if price has a 40% weight, it would require a 20% difference in technical scores (one-third of the total possible) to justify a price twice as high as the lowest. Greater weight to price requires larger difference in technical scores to justify the proportionate higher cost.

When weighted criteria are used for technical evaluations, the weighting ratio between various criteria should be disclosed in the solicitation documents. The level of detail should enable suppliers to understand on which grounds their offer will be judged, and indicate which areas they should explore in their offers.

Characteristics of successful evaluation criteria

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

- valid
- objective
- measurable
- impartial.

Valid criteria

Valid criteria are related to the required performance, i.e. the feature being evaluated will be critical in the execution of the contract; for example the selected supplier will have to have certain language capabilities because of the country where the assignment will take place. Valid criteria result in the assignment of a higher ranking to those suppliers who actually have a relatively high probability of successfully performing the work. If criteria do not clearly relate to the requirements in the solicitation, they are probably not valid. If it is reasonable to assume that all suppliers will score well on a factor, then it would not be a valid significant differentiator and its inclusion may not serve any useful purpose, except for evaluating a pass/fail requirement.

Objective criteria

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

Measurable criteria

Measurable criteria allow evaluators to assign rankings or make pass/fail judgements effectively. For example, honesty would not be a measurable factor because it is impossible to verify it in a

reliable manner. Measurable criteria can be assigned points against degrees of achievement, for example, one point per year of experience or, one point per similar project in the region, up to a set maximum of points.

Impartial criteria

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

Letter of invitation/instruction to suppliers, *continued*.

Further topics and instructions to be included in the letter of invitation/instruction to suppliers are listed in the table below.

Topic	Information and/or instructions should include...
Discrepancies and errors in the price component.	How discrepancies and errors in the price component will be handled. E.g. errors in total price: The unit prices should govern, when errors in totalling have been made. Where there is discrepancy between the amounts in figures and in words, the amount in words will govern.
Payment terms.	The payment terms, usually Net 30 days upon receipt of invoice as well as receipt and acceptance of goods or services or upon receipt of required shipping documentation, depending on the Incoterm used (see Unit 4.3 Logistics). Standard solicitation documents usually also request suppliers to indicate discounts offered for shorter payment terms. Shorter payment terms can also be practice for certain commodities and large value purchases. UN organizations usually do not make advance payments, except when deemed regular practice in the industry or for reasons specifically justified in the particular context. The policy should be outlined in the solicitation documents. Progress payments is common practice for services and works.
Modifications	<ul style="list-style-type: none"> Any additional information, clarification, correction of errors or changes made to solicitation documents will be distributed to all suppliers prior to the deadline for receipt in order to enable suppliers to take appropriate actions. Information to suppliers concerning the right to modify or make corrections to offers, provided that any such modification or corrections are received in writing prior to the time specified for submission of offers.
Offer security and offer security form	<p>If applicable, offer securities that can be requested to ensure that the supplier is willing to enter into contract on the basis of the offer it has submitted. Offer securities reduce the risk of frivolous offers.</p> <p>Offer securities are used when there is reason to expect that offers may be submitted by a supplier unable to fulfil the offer in the terms made, for example when there is an experience of initial costs being revised. The amount of the offer security should be set at a lump sum figure equivalent to between 2% and 3% of the expected cost. The amount should not be posed as a percentage of the offer price as the value of the offer security would give an indication of the value of the unopened offer. When required, offer</p>

Topic	Information and/or instructions should include...
	security is specified in the solicitation documents and submitted with the offer.
Performance security	<ul style="list-style-type: none"> • Performance securities can be requested from the selected supplier to ensure performance by the supplier in terms of delivery of all equipment, services rendered, and works completed as per the contract. • Performance securities are typically requested in works contracts and highly sensitive consulting contracts and are typically set at 10% of the value of the contract, but can also be requested for the full contract value with certain criteria for cashing. • It is used in complex procurement where the cost of establishing a contract is high and the impact of non performance by supplier could inflict serious damage to the UN. • Specify the deadline for submission of performance securities, e.g. 2 weeks from receipt of contract. In case an offer security is used, it is important to ensure that the performance security is received before the offer security expires. • Any requirements to the wording of the security.
Alternative offers	<ul style="list-style-type: none"> • Alternative offers are offers that do not comply with the exact requirements of the solicitation, but which may be proposed by suppliers as an optional way of fulfilling the needs of the end-user. • Policies that can be used when dealing with alternative offers, such as: <ul style="list-style-type: none"> – alternative offers are not accepted – alternative offers can be considered only if they are alternative offers to the lowest compliant offer – suppliers who believe that they can satisfy the organization's needs by offering alternative products or services that differ from the required specifications should inform the buyer thereof before the submission deadline. If the UN organization believes that the proposed alternative products/services are acceptable, the organization should change the mandatory requirements of the solicitation documents and inform all invitees accordingly. • Taking into account the policy of the organization, the solicitation document should specify which policy is applicable for the specific solicitation. • For the procurement of services undertaken through RFP processes, alternative offers are commonly acceptable.
Contacts	Contact information for queries.
Other	For example, need for samples, where to submit, how, whether they will be returned or not etc.

Schedule of requirements/requirement definition

Review specifications and other requirements to ensure they are complete. Organize and present the following content in a logical format for clear supplier understanding and response.

1. Technical specifications, terms of reference (TOR), or statement of works (SOW), and bill of quantities (BoQ).

The requirements must be clearly defined in the solicitation documents. Depending on the nature of the procurement, the requirements are stated in the form of technical specifications, TOR, or SOW/BoQ (for guidance on writing requirements see Unit 3.2).

A clear and detailed description of the performance expected is important in order to prevent misunderstandings and disagreements with suppliers at the time of contract execution.

Ambiguous performance requirements may also lead to increased costs as suppliers may have to factor into their offer a contingency or risk buffer reflected in the price.

2. Delivery date for goods or starting/completion dates for deliveries of services/works where there are specific requirements or time is critical.

If early delivery is considered to warrant a premium, this can be done through specifying a target delivery period, within an acceptable earliest and latest permissible range of delivery dates, and then applying a percentage adjustment to the price for each day/week/month of delay from the optimal delivery date, but within the permissible range of dates. Offers outside the prescribed delivery period should then be rejected as non responsive. To the extent possible, the adjustment factor should be considered against the cost implications of delay, such as equipment rental for the period. When delivery is a factor in the evaluation, consider a performance bond and closely monitor actual delivery during the contract management phase, with appropriate remedies applied. The remedies have to be specified in the terms and conditions, and in no case can be less than the price advantage specified in the evaluation criteria for early delivery.

3. Destinations/locations/mode of transport. When procuring goods, the destination(s), and mode of transport(s), should be included. When procuring services the exact location(s) should be specified.
4. Delivery terms. Incoterms 2000 should be used to specify the delivery of goods procured. (see Unit 4.3 Logistics for more information).

The scope of Incoterms is limited to matters relating to the rights and obligations of the parties to the contract of sale with respect to the costs and risks related to the delivery of goods sold. They specify where the seller delivers the goods, what costs the seller pays, and when the seller passes the transit risk to the buyer. Procurement officers may request suppliers to quote supply under more than one Incoterm, for example when considering whether to contract freight through the supplier or independently.

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

The table below provides information and instructions on what contractual terms and conditions should include.

Item/topic	Information and/or instructions should include...
General conditions	<ul style="list-style-type: none"> • A copy of the relevant general conditions either with the solicitation documents, or refer to the general conditions available on the organization's website (an easy option of access for suppliers who cannot access the internet should always be provided). • Which conditions the suppliers are expected to accept if signing a contract with the UN organization. • Note: See to Unit 3.9 Contract Finalization for more information on the General Conditions.
Special terms and conditions	<ul style="list-style-type: none"> • Particular contractual requirements linked to the special circumstances of the specific procurement. These often constitute exceptions to the general terms and conditions or further deliberation on some of the conditions. • Note: When preparing solicitation documents for LTAs intended for sharing with other organizations, a clause stating that other UN organizations may use the LTA should be included.
Model contract	<ul style="list-style-type: none"> • A copy of the relevant model contract (i.e. purchase order, contract for services, contract for works etc.) with the solicitation documents. • Some organizations have specific model contracts for e.g. air charter, cleaning, travel, security for specific types of services/goods/works. • The standard contract allows suppliers to understand the type of contract they would be expected to sign if selected as a supplier (no surprise rule).
Packing and shipping instruction	<p>A copy of the relevant packing and shipping instruction with the solicitation documents when procuring goods.</p> <p>Note: The packing and shipping instructions is of essence to the supplier when offering, as it includes instructions to the supplier about packaging, marking and numbering of the shipment, notification of shipment, documentation required for custom clearance and payment purposes.</p>
Contract pricing	<ul style="list-style-type: none"> • The type of contract pricing, i.e. fixed price/lump sum or cost reimbursable, or a combination thereof. • The UN usually prefers lump sum contracts, as this modality reduces the risk for the buyer. However, in exceptional cases, cost reimbursable contracts are required or preferable. • The use of cost reimbursable contracts increases the need for control and monitoring of the supplier. • A formula for price escalation should be established, if needed. This can be relevant in cases where the supplier needs to use raw material where the market price is known to fluctuate, e.g. oil. Then there should be a pre-established formula for how the price should be calculated at a future time in the contract. Formula for price escalation might also be needed for long term contracts in high inflation countries.
Insurance policies	<p>The scope of various insurance policies (materials, equipment, personnel, supervisors and visitors, buildings (as they are being erected)) as outlined in the general conditions of the organization.</p> <p>Note: Care should be taken to check that they are appropriate for the specific procurement activity and ensure that special conditions are added if</p>

Item/topic	Information and/or instructions should include...
	required in the particular context.
Penalty clause/liquidated damages	<ul style="list-style-type: none"> • A clause stating the consequences of non-performance or late performance, if necessary. • For example, if the supplier fails to complete the works within the time specified in the contract, the supplier should pay the procuring entity liquidated damages for each calendar day of delay (define a percentage) of the price of the contract, up to a maximum percentage of the final price of the contract. The procuring entity should be entitled to deduct any liquidated damages from the supplier's outstanding invoices, if any.

Offer submission form

The supplier's offer must be signed by a duly authorized signatory, in order for the offer to be legally binding.

Solicitation documents should contain a standard offer submission form to be signed and returned with the supplier's offer.

Finalization of solicitation documents

Solicitation documents should be finalized by crosschecking the draft components for consistency and completeness, confirming that sufficient time has been allowed to suppliers, and preparing the final solicitation package to facilitate supplier submission and offer evaluation.

At this point it is important to ensure that all terms and conditions applicable to the purchase activity are included, as no additional clauses can be added after bid closure (no surprise rule).

The solicitation package should be completed by attaching the appropriate series of forms that allow the suppliers to submit offers in a consistent fashion, and confirm their acceptance of the type of contractual arrangements proposed by the UN, for example, include forms to:

- confirm intent to submit offer and/or provide reason for declining to participate
- submit offers for:
 - technical offer
 - financial offer
 - acceptance of terms under which the contract will be issued, noting any exceptions (if allowed).

Approval of solicitation documents

The solicitation documents must be approved by the appropriate authority.

Issuance/distribution of solicitation documents

The solicitation documents should be issued and distributed simultaneously to all suppliers, either by mail, courier, fax, or email, or be made available electronically on the Internet, in case of open tender.

In a limited competitive process, where only selected suppliers may participate in the solicitation, the solicitation documents should solely be made available to the suppliers on the shortlist. The shortlist must be approved by the appropriate authority prior to issuance of solicitation documents.

Confidentiality of the short list

In the case of a limited competitive bidding where the solicitation documents are only being made available to a shortlist of selected suppliers, the names of any short listed supplier should not be disclosed, in order to safeguard the principle of competition that the solicitation process is aimed at satisfying; i.e. to avoid collusion. For services and works, it may be good practice to inform the short listed suppliers of the number of short listed suppliers, to encourage their participation.

Clarifications/offer conference

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

Queries from suppliers

During the solicitation period, no communication regarding the contents of the solicitation documents or the offers should take place between the recipients of the solicitation documents and the UN organization, except through the methods of handling queries described below.

Queries from suppliers should be handled by written correspondence and/or by a pre-offer conference.

Any supplier requiring clarifications to the solicitation documents should submit their queries in writing. The UN organization should prepare and dispatch written replies to such queries, and make all replies known, together with the text of the queries, to all suppliers, without disclosing the source of the queries.

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

1. Agree a time for the conference, allowing sufficient time for all suppliers to plan attendance of the conference.
2. Inform suppliers in the solicitation documents if participation in the pre-offer conference is mandatory.
3. Written queries from suppliers may be forwarded to the organization prior to the conference responses to the written questions be given orally during the conference.
4. Send all suppliers within a reasonable time after the conference, whether present at the conference or not, a full set of minutes, recording all queries and formal replies. The minutes should prevail over any oral responses provided during the conference.

5. If the clarifications given in the meeting alter the requirements, consider the offer closure time.

Amendments to solicitation documents

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

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

Amendments of solicitation documents containing changes, or giving clarifications, or additional information, should be made available simultaneously in writing to all invited suppliers, to provide all suppliers with the same fact base. By providing one or more suppliers with additional information unavailable to other suppliers during the procurement process, they may gain an unfair advantage. This is not in line with the principle of fairness and must therefore be avoided at all cost.

Substantial changes to the requirements may call for re-tendering, especially in cases where the change could potentially mean that your short list is no longer appropriate. Amendments to solicitation documents should be subject to the same approval by the appropriate authorities as the solicitation document itself.

3.6 Receipt and Opening of Offers

Introduction

After the solicitation process, offers are received, registered, handled, opened and stored by authorized staff members.

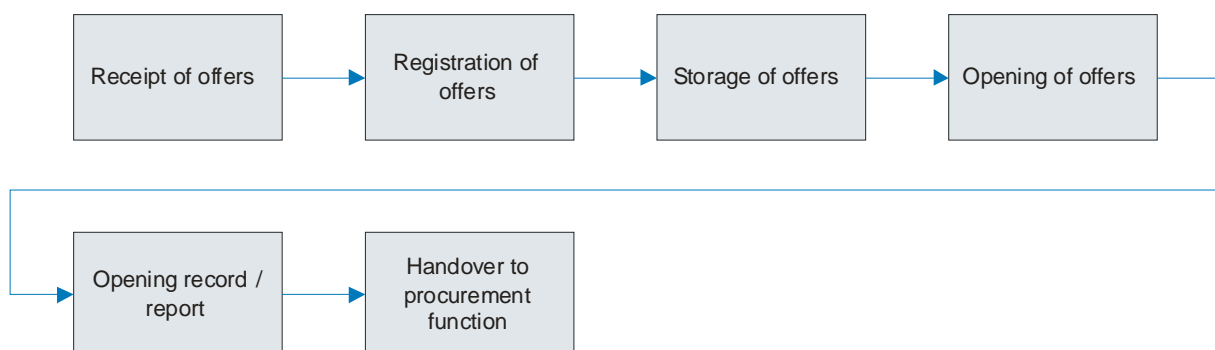
The purpose of this formal process is to ensure that offers are received, handled and opened according to the instructions provided in the solicitation documents and that transparency and confidentiality is maintained as specified in the relevant regulations, rules and procedures of the organization.

This process is usually handled by an independent authority within the organization normally not directly involved in the procurement function (e.g. the unit responsible for quality assurance).

There may be differences in the way quotations, bids and proposals are handled. Some of the differences are highlighted in this Unit.

Process

The flowchart below shows each of the stages in the receipt and opening of offers process.



Receipt of offers

Receipt of offers is normally performed by an individual not directly involved in the procurement function. In some organizations it is the same authority that is in charge of opening the offers. For quotations, it is usually the procurement officer in charge who receives them. As specified in the solicitation documents, offers should be received:

- at the correct place, date and time
- in writing
- via mail, courier service, hand delivery, fax or e-mail.

For offers received by fax or e-mail, this must be on a 'secure' fax machine or e-mail address dedicated for the purpose of receipt of offers. The fax machine must be safely secured, i.e. locked or in a lockable room. The e-mail address must be safely secured, i.e. password protected. Both, the 'secure' fax and e-mail address should only be accessible by the person responsible for the receipt of offers. The offers should be sealed, except in case of quotations.

Registration of offers

Upon receipt, the responsible person should properly record the date and time of delivery and issue a receipt to the supplier. The offers received should be recorded against the short list, who received the solicitation documents, provided by the procurement officer.

Storage of offers

Offers received by fax or e-mail should be sealed in individual envelopes and kept in a secured place with the other sealed offers. The secured place should be accessible only by personnel duly authorized by the relevant authority until the date and time specified for opening. Some e-procurement systems may not require paper storage.

Opening of offers

The type of solicitation and the solicitation documents used will determine whether the opening of the submissions will be conducted in public and which type of information will be disclosed. For example:

- Quotations are normally opened internally.
- Bids are normally opened in a public bid opening.
- Proposals are usually submitted using a two envelope system, i.e. one envelope for the technical proposal and another separate envelope for the financial proposal. Financial proposals will only be opened after technical evaluation has been completed. Therefore, a public opening of financial proposals received is not conducted at the point of receipt of proposals. In some cases a second opening takes place at a later stage in order to open the financial proposals publicly.

For public opening of offers it is recommended that only those suppliers who have submitted offers or their authorized representatives (e.g. their local agent, the concerned embassy, etc.) should attend the opening. Attendance of supplier representatives participating in the public opening is normally recorded with the following information, using short list of potential suppliers as a reference:

- name of the prospective supplier/local agent/embassy
- name, signature and title of the representative
- date of opening of offers.

During the public opening there should be no immediate rejection of any bid, except for late offers where the procedures prescribe so.

Formal process

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

The offer opening process is normally conducted by an authorized opening official/panel. There should be a minimum of two people present at the opening, i.e. the designated official plus one designated witness. In some organizations the opening official/panel is independent from the procurement function / officer handling the solicitation. In some organizations the procurement officer participates in the opening of offers.

Offer envelopes are opened one by one, and the opening official/panel should check that the offers meet the procedural requirements of the solicitation documents, for example, that there is one original offer, the right number of copies, that there is an offer form properly signed by the supplier and that the offer is submitted with an offer security, where requested. It is good practice to open the offers in the order listed in the short list of potential suppliers of the solicitation document. With a two envelope system, technical proposals should be checked to ensure that no price information is included.

During the offer opening the following information is usually read out loud:

- supplier's name and place of business
- price and discounts, including currency of the offer (same for alternative offers)
- delivery time
- delivery terms
- offer validity.

Good practice

It is good practice that:

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

In some organizations a tabulation/abstract of the offers is used to record prices, as well as delivery terms, etc. in order to facilitate the evaluation process. This tabulation/abstract is done as soon as possible after the opening of the offers or as part of the opening record/report. The offers after they have been opened, dated and signed by the opening official/panel, together with the opening record/report and a tabulation/abstract of the offers, if applicable, are delivered to the procurement officer in charge of the evaluation.

Opening record/report

The opening official/panel is in charge of filing an opening record/report, which provides a record of the offer opening process and normally contains the following information:

- offer submission deadline (date, time and extensions, if any)
- offers received: name and country of origin of the supplier
- type of submission (mail, fax, telephone, etc.)
- date and time of the beginning and end of the opening of offers
- price and currency of the offers, and price of alternative offers, if applicable
- offer securities, if requested
- discounts, if any proposed by the suppliers
- offer validity period (and extensions, if any)
- names of supplier or suppliers' representative present at public opening of offers, where relevant
- list of offers rejected for various reasons: e.g. late submissions, incompleteness, etc.

Handover to procurement function

Once offers have been formally opened, they should be handed to the procurement function for proper handing. Detailed below are some possible situations that may occur once offers have been opened with guidelines on how to handle offers in these situations.

Withdrawal of offers

Offers may be withdrawn in writing prior to the closing date of the solicitation.

After the closing date, the UN organizations should not honour withdrawal of offers. In certain cases the UN organizations may be entitled to collect the offer bond, which guarantees the validity of the offer submitted by the supplier.

Alteration to offers

Offers may be modified in writing prior to the solicitation closing date. The latest offer is the binding one. After the closing date, suppliers should not be requested or permitted to alter their offers. In certain cases the UN organizations may be entitled to collect the offer bond, which guarantees the validity of the offer submitted by the supplier.

Multiple offers/alternative offers

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

Unsolicited offers

Unsolicited offers should be dealt with according to the rules of the organization. In some organizations they are normally rejected, unless specific circumstances established by the rules of each organization, allow for their acceptance, for example where the unsolicited offer was submitted by a supplier who is representing a supplier who was originally invited. Care should be taken to identify how the company obtained information relating to a solicitation. It is important to ascertain that the company is a bona fide supplier and meets all the prerequisites

such as registration, financial viability, capacities, quality, delivery etc. Full records of the verification should be kept in the supplier's profile.

Inadvertently opened offers

Any offers inadvertently opened prior to the due time must be brought to the attention of the appropriate authority for further action, i.e. the opening official/panel. The fact that this happened should be recorded in the opening record/report.

Offers received at wrong destination

The procurement officer or any other officer who may receive an offer in error must make all efforts to deliver it immediately to the opening official/panel unopened and by hand. In cases where an offer is received on a fax / e-mail address other than the secured fax / e-mail, the opening official/panel should immediately be informed, and the offer should usually be rejected as confidentiality and transparency can no longer be guaranteed.

Late offers

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

3.7 Evaluation

Introduction

The evaluation process consists of the preliminary examination and evaluation of the offers received, and considered to be valid, to assess their responsiveness to specifications and requirements as defined in the solicitation document, analyse their cost and benefit, and determine their price and value. Evaluation, together with the requirement definition and the evaluation criteria and method specified in the solicitation document, is the basis for the subsequent selection of the offer that provides the best value for money for the organization.

Best value for money in the context of evaluation of offers, means that price alone is not always the only criterion factored into an evaluation method. Other criteria such as quality, availability, time, compliance, cost for maintenance and support, life cycle cost, etc. are part of the equation to determine the best return on investment of the procurement of goods, services or works.

Evaluation is conducted by a designated evaluation team and in accordance with the relevant regulations, rules and procedures, using the evaluation criteria and method pre-determined in the solicitation document in order to conduct a fair and unbiased evaluation. The evaluation process also needs to be transparent, and therefore each step of the process documented in an evaluation report which subsequently is the basis for the recommendation of award.

Evaluation pre-requisites

The pre-requisite tasks for evaluation include:

- establishing an evaluation team
- developing a plan
- using the pre-established criteria and methods
- ensuring transparency.

Establishing the evaluation team

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

The team usually consists of two to five members, depending on the nature, complexity and value of the procurement activity. The evaluation team may include other procurement officers and/or technical experts. Technical experts may be external suppliers hired for this particular purpose. It is good practice that requisitioners or end-users should only be allowed in the evaluation team as observers, and only in exceptional cases. However, there may be cases where the requisitioners need to be involved in the evaluation, i.e. to ensure technical compliance of the offer with the requirement definition for example during an RFP. In such cases it is recommended that requisitioners are only involved in the technical and not the commercial evaluation process. Where requisitioners participate in an evaluation team, it should be ensured that they do not have the majority vote in the team.

It is recommended that everybody involved in the evaluation process signs a declaration of confidentiality, impartiality, and no conflict of interest regarding each particular evaluation.

Good practice

It is also good practice that members of the evaluation team are briefed by the procurement officer about their role during the evaluation process, for example, members of the evaluation team should:

- Indicate immediately if in a potential conflict of interest situation with one of the suppliers and ask to be replaced.
- Study the requirement definition, the evaluation criteria and method.
- Understand that the deliberations of the evaluation committee are strictly confidential and that they cannot discuss the content of the evaluation with colleagues and/or outsiders.
- Clarify or direct questions for suppliers in writing to the procurement officer who in turn will communicate with the concerned supplier(s).

Confidentiality

All staff members involved in evaluating offers should be careful to observe confidentiality of the offers and ascertain that information about the content of the submissions or the evaluation process is not revealed outside the group involved in the procurement process.

The procurement officer ensures the confidentiality of the process. In order to do so, it is good practice to channel all clarifying questions intended for suppliers through the procurement officer.

Developing the evaluation plan

It is good practice and a useful internal tool to establish an evaluation plan along with the preparation of the solicitation documents. It should detail the timeframe and responsibilities of the evaluation team members during the evaluation process, the evaluation criteria and the evaluation method that will be applied.

Depending on the complexity of the procurement, the evaluation plan may be summarized in a few lines, or consist of long and precise descriptions of each stage in the evaluation process. The evaluation plan, like the evaluation criteria and method should not be changed after the solicitation document has been issued.

Using the evaluation criteria and method

Upon the receipt and opening of offers, evaluation must be conducted according to the set of evaluation criteria and method, which have been established during the preparation of the solicitation documents. Once established in, and issued with the solicitation documents the evaluation criteria and method must not be altered unless by amendment of the solicitation documents before the closing of the solicitation. This provides the basis for an objective and transparent evaluation approach.

Depending on the complexity of the procurement, the evaluation criteria may be summarized in a few lines, or consist of long and precise descriptions of the steps of the evaluation necessary to ensure best value for money for the organization.

Evaluation criteria can be divided into the following categories:

- formal
- technical
- financial.

Formal criteria

Offers are checked for their compliance with any formal criteria stated in the solicitation documents. Offers not meeting the formal criteria are rejected. Examples of formal criteria are:

- offers have been properly signed
- offers are accompanied by the required securities, if applicable
- supplier is eligible, e.g. duly registered if pre-registration is a requirement
- offers are accompanied by the required documentation
- offers are complete, etc. (solicitation documents must clearly state whether partial bids for a given component or lot are accepted).

Technical criteria

Technical evaluation criteria are derived from the specifications, TOR or SOW. Depending on the nature and complexity of the procurement to be undertaken, technical evaluation criteria may be summarized in a few lines or consist of a long and precise description.

Depending on how clearly the requirements are defined, evaluation criteria are developed for evaluation according to compliance/non-compliance or a weighted scoring (see evaluation methodologies below). When using the weighted scoring methodology, technical evaluation criteria are related to the approach and methodology proposed to reach the expected results or solve the identified problem as described in the requirement definition (TOR or SOW).

Technical criteria can also include requirements to the supplier, such as:

- previous experience in similar field and with same type of requirements
- experience from the region
- available capacity and equipment to undertake the assignment
- qualification and experience of proposed personnel.

Financial criteria

Price is an important evaluation criterion but the weight of the price depends on the chosen evaluation methodology (see below). It is important to clearly state in the solicitation documents which price factors will be included in the price used for evaluation. Various factors such as freight cost, operational cost, incidental or start-up costs, as well as life cycle costs could be taken into consideration. For services and works a template for breakdown of cost should be provided, e.g. in BoQ for works. In all cases, required breakdown as well as evaluation criteria must be clearly stated in the solicitation documents.

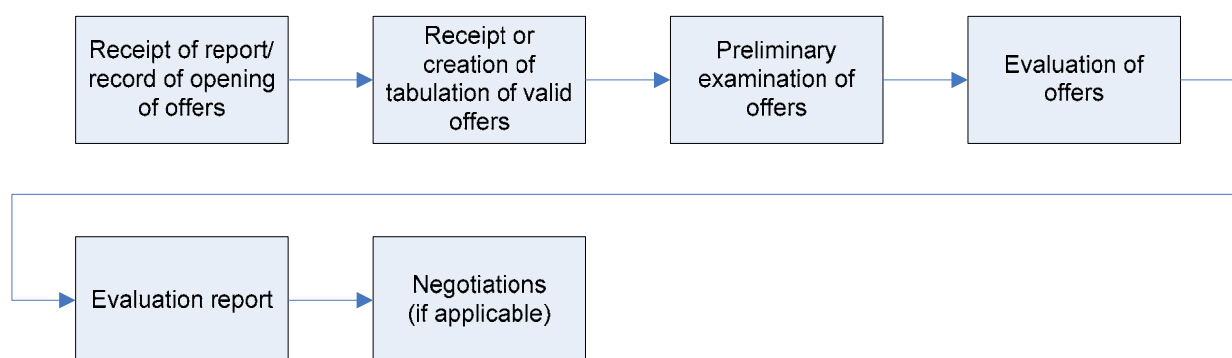
Ensuring transparency

To ensure the integrity of the process and to provide a proper audit trail, all stages in the evaluation process should be documented in writing to verify that the process has been conducted in accordance with the regulatory procurement framework and principles of the

organization. All evaluations must be done without favouritism for or bias against any supplier to ensure a fair and transparent process for all participants.

Process

The flowchart below shows each of the stages in the evaluation process.



Receipt of report/record of opening of offers

The opening official/panel delivers the opening record/report, together with the (copies of) the offers, to the procurement officer responsible for the evaluation of the offers.

Receipt or creation of tabulation/abstract of valid offers

A tabulation/abstract provides an overview of all the offers that meet the procedural requirements (e.g. sealed offer) of the solicitation document and which, after the opening of the offers, were considered valid offers for further evaluation. Where alternative offers are allowed according to the solicitation document, they should also be tabulated if considered valid, i.e. meeting the procedural requirements.

Preliminary examination of offers

The preliminary examination of offers excludes offers from further consideration that do not meet the mandatory criteria specified in the solicitation documents. Some examples of mandatory requirements are offers:

- have been properly signed
- are accompanied by the required offer securities
- are accompanied by the required documentation
- are complete
- validity period conform with requirements
- terms and conditions of the organization are accepted etc.

This is a pass/fail exercise. Submissions that do not meet the mandatory requirements are not acceptable and are rejected and therefore will not be considered further in the evaluation process.

The rejection of offers should be documented in writing and depending on the organization's procedures; further consideration may be subject to the approval of the relevant section chief/procurement chief.

Once offers that are ready to be evaluated have been identified, the procurement officer may prepare a listing of those offers that should be evaluated first. For example, where the sole evaluation criterion is the lowest price, the evaluation should start at the lowest offer.

Evaluation of offers

Offers which have passed the preliminary examination are evaluated based on the evaluation criteria and method stipulated in the solicitation document. Usually each evaluation follows the steps listed in the table below:

Step	Action
1	Conduct technical / quality evaluation (including evaluation of samples).
2	Conduct financial / commercial evaluation.
3	Conduct supplier evaluation.
4	Clarify offers.
5	Draft synopsis of evaluation reports and comparative analysis of results.
6	Determine the most advantageous offer.

Technical /quality evaluation (including evaluation of samples)

Technical Evaluation is the process of comparing the offers with the technical and quality requirements as specified in the specifications, TOR or SOW of the solicitation document.

In addition, quality may be evaluated by obtaining samples of the product or by conducting an inspection at the manufacturing facility. The sample evaluation or inspection is undertaken against the specifications as stated in the solicitation document.

Usually the technical evaluation is done independently from and prior to the evaluation of prices to keep the evaluation process objective.

It is good practice to summarize the results of the technical / quality evaluation in a technical/quality evaluation report. The responsible evaluation team should sign the report and forward it to the procurement officer/evaluation team responsible for the financial/commercial and supplier evaluation.

Financial /commercial evaluation

Financial evaluation of the proposals involves comparing the offers with the financial and commercial requirements stipulated in the solicitation document. During this step prices should be reviewed against prevailing market conditions, and whether they are reasonable in view of the requirements. It is also important to identify whether they are within the available budget for the project.

It is good practice to summarize the results of the financial/commercial evaluation in a financial/commercial evaluation report. The responsible evaluation team should sign the report.

Supplier evaluation

Before making a recommendation of award, the procurement officer should make sure that the supplier whose offer has been evaluated as the most advantageous one is also qualified to effectively carry out the contract. It is good practice to consider past performance and to check their financial soundness and the currently available resources to perform under the contract.

If pre-qualification has not preceded the solicitation process, the selected supplier's qualification should be checked prior to contract award. This is usually called post-qualification. The post-qualification process should be performed based on the qualification criteria set out in the solicitation documents. Such qualification criteria may be, for example, all or some of the following:

- financial strength
- performance record
- integrity and business ethics record
- experience and technical capacity
- production capacity.

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

If a pre-qualification procedure has preceded the solicitation, only suppliers considered qualified would be allowed to submit offers. At this stage, before making an award recommendation, it is necessary only to check whether any condition on the part of the supplier has changed since the pre-qualification took place (financial difficulties, company structure changed, etc).

In some UN organizations, the contract award is subject to the condition that the selected supplier successfully completes the supplier registration process as this also constitutes a form of qualification in those organizations (see Unit 3.3 Sourcing).

Clarification of offers

Taking into account the principle of equality and fair treatment of prospective suppliers, discussions with potential suppliers may take place in complex cases, where clarifications from the suppliers may be required in order to finalize the evaluation. The key condition when seeking clarifications of offers from suppliers is that neither the substance nor the price of the offers should be allowed to be changed. All discussions should be in writing and properly documented in the respective file. No information obtained from one supplier should be shared with the other competitors.

For discussions with suppliers over the phone or in person it is good practice to have a witness present from the evaluation team. Discussions should preferably be conducted at UN premises. During the discussion, suppliers are usually asked to make a presentation about their offer and, in

order to ensure fairness, the same questions should be asked of all suppliers. All discussions with suppliers during these visits should be recorded in writing and properly documented.

For high value or strategic procurement, a site visit of the supplier's premises may be necessary prior to finalising the evaluation. In these cases, the solicitation documents should inform suppliers that a site visit may be conducted during the evaluation process. All discussions with suppliers during these visits should be recorded in writing and properly documented. The procurement officer should ensure that all technically qualified suppliers are given an equal opportunity to be visited.

Synopsis of evaluation reports and comparative analysis of results / determination of the most advantageous offer

After the individual evaluations have taken place, the procurement officer/evaluation team has to determine which of the offers meets all requirements of the specifications / TOR / SOW and offers the best price or the best value for money. There are various evaluation methods for obtaining such results. The evaluation method to be followed is the one that has been stipulated in the solicitation document. The different evaluation methods are further discussed below. As a result, all acceptable offers can be ranked and a decision made as to which is the most advantageous / responsive / acceptable one.

Evaluation report

The last step in the evaluation process is the preparation of an evaluation report, which will later be used as the basis for the recommendation of award. An evaluation report typically contains an executive summary of the evaluation process and its individual steps as outlined above. Any invalidation, rejection, non-compliance, and clarification of offers should be stated, including a list with the final ranking of the offers and the reasoning on how the best offer was selected. It is good practice to have the evaluation team sign the evaluation report. In addition, the evaluation report should include a standard declaration of non conflict of interest of the members of the evaluation team.

Negotiations (if applicable)

Negotiations (if applicable) are an interactive process of discussions between the buyer and the supplier regarding the terms and conditions of a contract. In principle, negotiations are usually not undertaken after a competitive selection process. In some organizations and in exceptional circumstances negotiations may be permitted with the supplier of the offer that has been identified, as the result of an evaluation, as the preferred offer. In some organizations it also depends on the type of solicitation as to whether negotiations are allowed or not. For example, some organizations do not allow negotiations when the solicitation method is an ITB. While most organizations agree that negotiations are allowed for RFP and where competition has been waived. In any case, negotiations should only take place after the evaluation has been successfully completed and a supplier has been selected. Negotiations are to be with the selected supplier only.

It is good practice to provide proper written justification for any negotiations. When negotiations take place it should be ensured that the requirements (specifications, TOR, SOW) and quantities

are not changed substantially as this would require cancellation of the tender process and initiation of a new one.

Negotiations during an invitation to bid (ITB)

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

- Marginal budget constraints, where the available budget is not sufficient to purchase the requested item(s) and the supplier agrees to reduce the price.
- The offer contains additional equipment or services which were not required in the solicitation document.
- Marginally higher quantity required compared to original quantity in the solicitation document leading to a potential quantity discounts.

Negotiations during a request for proposal (RFP)

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

Best and final offer (BAFO)

A method of competitive negotiations with a short list of selected suppliers during an RFP is the so called best and final offer (BAFO). The BAFO is an optional step in the selection of offers with the objective of enhancing competition, and thus ensuring best value for money.

Upon completion of the overall evaluation, the procurement officer/evaluation team may decide to engage in competitive negotiations with all suppliers passing the threshold of the technical evaluation.

Under the BAFO concept, the purpose of these discussions and negotiations is to clarify ambiguities, correct obvious mistakes, point out weaknesses and deficiencies, and generally seek improvements in both the technical and financial aspects of the offers, for example regarding lower prices, prolonged warranties, additional discounts, or shorter delivery time, etc.

All suppliers chosen to submit a BAFO should be provided with information about the deficiencies in their proposal, and be asked in writing to submit a decisive and final offer as a follow up to their proposal by a certain deadline. The suppliers should be informed that price increases will not be accepted, however, they may decline to alter the terms of their original proposal, and that such decision will not render them unacceptable.

The request to submit a BAFO should not contain any information regarding the evaluation, or any information on the chances for contract award.

Upon receipt of the BAFOs from the suppliers, the evaluation committee should reconvene and include the new proposals in the technical and financial evaluation, as necessary, and should make a final comparison of the competing offers.

Negotiations in situations where competition has been waived

Negotiations can prove very effective in situations where competition has been waived ensuring competitive prices, terms and conditions.

Evaluation methods

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

- Lowest responsive/compliant/acceptable offer
- Weighted scoring system.

Lowest responsive/compliant/acceptable offer is typically used for RFQs and ITBs, while weighted scoring system is used for RFPs. However, this is changing and weighted scoring system can also be used for ITBs and RFQs. In some cases a combination of the two are used.

Lowest responsive/compliant/acceptable offer

When using this method, the award of a contract should be made to the supplier whose offer has been evaluated and determined as both:

- a) responsive/compliant/acceptable, and
- b) offering the lowest price/cost.

“Responsive/compliant/acceptable” can be defined as fully meeting the specifications/TOR/SOW required, or reaching a pre-defined threshold of a maximum attainable score based on the requirements stated in the specifications /TOR/SOW.

The level of responsiveness/compliance/acceptability may be measured using straightforward pass/fail criteria or more complex approaches like a weighted scoring system.

There is a difference between price and cost. While price is the amount of money you pay to procure a certain product or service, cost is the amount of money you pay to operate the equipment over its lifetime or for the duration of a contract or project taking all price and related cost factors into account. The latter is also called the “total cost of ownership (life cycle costing)”.

When applying the concept of lowest cost, cost means price plus other related cost factors such as freight cost, operational cost, cost of disposal, etc. Concepts like “landed cost” or “lowest total cost of ownership (life cycle costing)” fall under this category.

Landed cost

The calculation of hidden landed costs requires acknowledgement of the expenses necessary to purchase goods from one country and import them into another. Determining the total landed cost of an item involves three main elements: the actual cost of the goods, transportation and insurance costs, and all duties, taxes and governmental fees assessed on the goods.

Lowest total cost of ownership/life cycle costing

“Lowest total cost of ownership” considers several components of price quantified and tabulated over the life expectancy of the supply such as purchase price, operational costs, cost of disposal and other considerations.

The “lowest responsive/compliant/acceptable offer” is the simplest method of evaluating offers whereby non responsive/compliant/acceptable offers are rejected as soon as this becomes apparent. Among the remaining responsive/compliant/acceptable offers the lowest one is selected.

This method may be used for procurement where:

- specifications/TOR/SOW are clear
- responsiveness/compliance/acceptability is easy to determine
- price/cost is the overriding evaluation criterion compared to other aspects of value for money.

Some examples are, standard goods such as e.g. cars, office equipment, communication equipment, chemicals, simple machinery or raw materials or for the procurement of services and works when the requirements can be quantitatively and qualitatively defined.

The lowest responsive/compliant/acceptable offer methodology consists of the following steps:

Step	Action
1	<ul style="list-style-type: none"> • Determining which offers are responsive/compliant/acceptable, and reject non responsive/compliant/acceptable offers. • Only bids offering goods/works/services meeting or exceeding the requirements in the specifications should be considered responsive/compliant/acceptable.
2	<ul style="list-style-type: none"> • Choosing the lowest cost offer among the responsive/compliant/acceptable offers.

Normally, a one-envelope system where suppliers submit one offer including all technical and financial information is used when applying this method of evaluation. However, a two-envelope method where technical and financial offers are sealed separately may also be used if it is deemed necessary to complete the technical evaluation without knowing the price of the respective offers, typically when responsiveness / compliance / acceptance is determined by a minimum threshold (point system).

Weighted scoring method

When using the weighted scoring method, the award of a contract should be made to the supplier whose offer has been evaluated and determined as:

- responsive / compliant / acceptable, and
- having received the highest score out of a pre-determined set of weighted technical and financial criteria specific to the solicitation.

This method may be used for more complex procurement where:

- evaluation criteria cannot easily be quantified
- different aspects of value for money (e.g. price and quality) need to be considered and balanced
- different types of scales need to be used for the various factors.

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

Under this evaluation method, price is rendered as one of the evaluation criteria. In general, the more complex the requirement, the more significant the end product, and the less comparable the proposals, the less influence price should have on the selection, and the points allocated to the financial offer would be lower. For more straightforward requirements, price can play a significant part in the selection process, provided that the other criteria are also met. The total number of points allocated for the technical offer is normally higher than the total number of points allocated to the financial offer. This way the risk of selecting a non-performing supplier is reduced, and the saving achieved by selecting the lower priced offer is not outweighed by the implications caused by a non-performing supplier. Thus, the financial offer is typically given between 15 and 50 percent importance.

Financial offer

The financial offer should be opened only for those proposals where the technical evaluation scores above a stated threshold, usually above 60 percent of the points allocated to the technical offer. For those proposals where the technical offer does not reach the minimum specified score, the corresponding financial offer is not eligible for further consideration, and the financial offer should be returned to the supplier unopened, accompanied by a letter notifying the supplier.

The maximum number of points allocated to the financial offer is given to the lowest priced proposal. All other financial offers receive points in inverse proportion, e.g. according to the following formula:

$$p = y \cdot \mu / z$$

where:

p = points for the financial offer being evaluated

y = maximum number of points for the financial offer

μ = price of the lowest priced proposal

z = price of the proposal being evaluated

The proposal obtaining the overall highest score after adding the score of the technical offer and the financial offer is the proposal that offers best value for money.

Some disadvantages of weighted scoring methods are:

- Time consuming — decision factors and evaluation scales must be developed, and each alternative must be compared against each evaluation scale.
- Decision factors may be linked, which may result in double counting.
- Quasi objectivity due to many subjective decisions (i.e. scoring, weighting factors, etc.), especially where criteria cannot easily be quantified.

Price/cost analysis

The evaluation methods described above show techniques for attaining competitive and best value procurement. When there is no competition, the procurement officer must still ensure that the price the organization is paying is fair and reasonable. This can be done by performing a price/cost analysis. There are a few methods that can be used to determine that the price being paid and the conditions of the offer are fair and reasonable. They are, for example:

- market price, e.g. via consulting market publications

- catalogue or list price
- discounts
- historical price, i.e. obtain information on how the current price compares to a price paid in the past for the same or similar goods or services by the organization or by another UN organization
- is the offer the same as for another comparable customer
- obtain breakdown of cost information from the supplier.

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

Relationship between type of solicitation and evaluation methods

The table below shows the relationship between type of solicitation and evaluation methods.

Type of solicitation	Chosen evaluation method
Request for Quotation (RFQ)	Lowest responsive / compliant / acceptable offer.
Invitation to Bid (ITB)	Lowest responsive / compliant / acceptable offer. Where the weighted scoring system is used for the evaluation of the technical part of an ITB, a two envelope system should be in place for the submission of those ITBs, and subsequently also for the evaluation. (See below under RFPs).
Request for Proposals (RFPs)	<ul style="list-style-type: none"> • A two envelope system, i.e. the technical and the financial proposals are submitted in two separate envelopes. • The technical proposal is evaluated first and independently from the financial proposal. • Only proposals meeting the mandatory and minimum requirements are considered further, i.e. their financial proposals are evaluated. The other financial proposals remain unopened.

3.8 Contract Review and Award

Introduction

Contract review is an essential step in the contracting process. It provides for independent written advice on the acceptability of the procurement process undertaken, and the proposed commitment of funds by the highest level procurement authority or officer with the appropriate delegated authority, through contracts or purchase orders (awarding authority).

Award is the formal decision and approval to establish a contract, e.g. services contract or purchase order, or an LTA, with a successful supplier, based on independent review of the procurement process within the limits of awarding authority. The award phase marks the:

- successful conclusion of the procurement process
- starting point for contract finalization and execution.

Purpose

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

- Provide an independent and unbiased review of recommendations for contracts or purchase orders.
- Ensure that the procurement process was fairly conducted and followed the appropriate policies and procedures.
- Confirm the necessary budget for the contractual commitment is available.
- Confirm that the recommendation for award and terms of contract represent best value for money and that it is in the interests of the UN to select the chosen supplier.
- Seek approval from the appropriate authority to contractually commit the UN to procure the goods, services or works.

Requirement

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

Responsibility

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

UN organization. Therefore, only those staff members can actually make a purchase. Normally the extent of the delegation of authority is based on the level of the procurement officer.

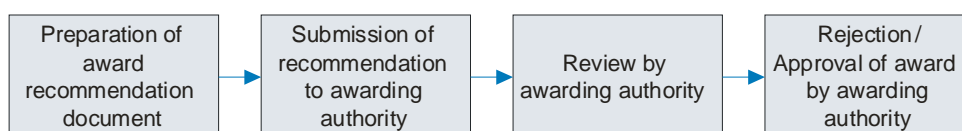
UN organizations have established different levels of delegation of authority to implement their procurement activities with regards to the responsibility of the procurement, review, recommendation and award process. Delegations are usually set using financial thresholds. Recommendations for and approval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

- Review and award below threshold, i.e. no review by the contracts committee required
- Review and award above threshold for review by the contracts committee.

Process

The flowcharts below show each of the stages in the 'below' and 'above' threshold procurement review and award processes.

Below threshold for review by Contracts Committee



Above threshold for review by Contracts Committee



Preparation of award recommendation document

The procurement officer's main responsibility in this phase is to prepare an award recommendation document, based on an evaluation report, for submission to the appropriate person or committee for review and subsequent approval in accordance with established organization procedures and delegation of authority.

The procurement officer makes sure that the award recommendation documents are written in a clear, precise and honest manner and reflect all necessary information that lead to the recommendation of award. Proper procurement processes should be followed, for example:

- Minimum number of valid offers have been obtained, and if not, reasons are recorded as part of the award recommendation to confirm why this is considered acceptable under the circumstances.

- If there is no tendering, the lowest acceptable offer has been rejected, or there are other exceptions, the reasons must be recorded and explained as part of the award recommendation quoting the relevant financial rule.
- A supplier evaluation recommendation has been received, or due diligence has been completed ensuring that the supplier is acceptable and able to fulfil the purchase order or contract.
- The procurement process and evaluation have been carried out in a fair and proper manner.
- The procurement is in accordance with the relevant FRR.
- Other information considered important for the review has been factored in.
- There is a summary of recommendation for award.

Below threshold: submission of recommendation to awarding authority

For the remaining stages in the below threshold process, the award recommendation document is usually submitted to the officer with the appropriate awarding authority for review and approval of award. Before a commitment is entered into the awarding authority then reviews the submission in terms of:

- compliance with procurement regulations, rules, and procedures
- availability of funds
- compliance with proper documentation processes.

The awarding authority then rejects or accepts the award recommendation. Acceptance constitutes the approval of award.

Above threshold: submission of request for award to contracts committee

For the process above the threshold, a contracts committee independently reviews the procurement process to ensure that regulations, rules and procedures were followed and funds are available for the subsequent approval.

Above threshold: review by contracts committee

The contracts committee should be independent from the officials involved in the procurement process to avoid conflict of interest when reviewing and recommending the award. A contracts committee is usually composed of the following voting members:

- chairman
- at least two senior staff members.

In addition and where required, other staff members (e.g. representative of the legal department, project managers, chief of procurement, etc.) are called to participate in the meeting as advisors. It is good practice that procurement officers are non-voting members of a contracts committee in order to preserve the impartiality of the review and decision making process and to avoid conflict of interest.

The contracts committee should meet on a regular basis and follow established procedures for review, recommendation, and recording of minutes of the committee's meetings. It is the responsibility of the contracts committee to ensure that:

- appropriate authority has been obtained for the commitment of funds
- the interests of the UN organization are protected
- the procurement activities are carried out in conformity with FRR, instructions and directives and are in accordance with best business practices.

Some contracts committees may invite the procurement officers into the meeting of the committee to present their submission and to clarify questions.

After the completion of the meeting, minutes are prepared by the contracts committee secretary.

The minutes should record the deliberations of the committee and the recommendations in a brief but fully explanatory manner. All members, or their alternates, present at the meeting will accept / approve the minutes and this will serve as recommendation to the awarding authority that a contract should or should not be entered into.

Recommendation of award to awarding authority

Minutes should be submitted to the awarding authority in the organization who should review the contracts committee recommendations.

Rejection/approval of award by awarding authority

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

No-objection from clients

In some organizations, and without impairing the segregation of duties principle, the results of the award are forwarded to the client. Only once the client has confirmed its "no objection" to the result of the procurement process, contracts can be entered into with the supplier who received the award. The purpose of this no objection is to ensure that the procured products and services do indeed meet the requirements of the client.

In some organizations "no-objection" is required before the award.

3.9 Contract Finalization and Issuance

Introduction

Contract finalization is the process followed by the procurement officer to form a written contract with a supplier. The purpose of contract finalization is to ensure that all proper elements are in place to conclude a written agreement that protects the interests of the UN organization and reflects the offer made by the supplier in response to the requirement presented by the UN organization.

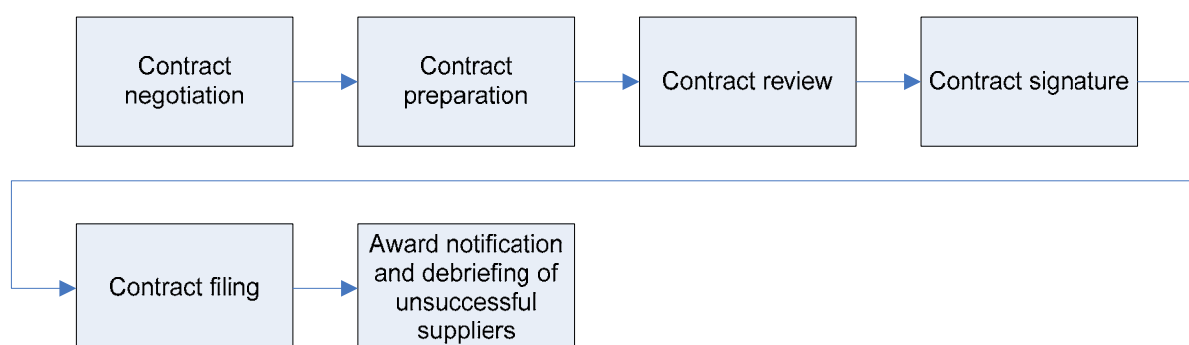
A contract is formed on the basis of an “offer” and an “acceptance” and in the context of procurement in the UN system of organizations, is a written document, containing the agreement, and the terms and conditions, between the UN organization and the supplier, and which serves as proof of the obligation. Contractual instruments common among UN organizations are POs, contracts for services and works, LTAs, system contracts, blanket purchase orders, lease agreements, etc. for goods, services and works.

In the UN system of organizations contracts are based on competitive solicitation processes. However, under certain circumstances (e.g. direct contract, sole source or complex contracts), in order to proceed to form a contract with the selected supplier, the procurement officer may need to clarify and negotiate terms and conditions.

Proper procedures should be followed to ensure that no negotiations take place with respect to issues already agreed at the solicitation stage and that the parties are clear about their respective rights and responsibilities. In certain cases, negotiations may be carried out with the selected supplier regarding payment terms, supplementary terms and conditions, delivery, etc. Negotiations nonetheless should result in a clear understanding of responsibilities under the contract. In this context, negotiation is the process of arriving at an agreement on the terms and conditions of a contractual agreement through discussions between the UN organization and the supplier.

Process

The flowchart below shows each of the stages in the contract finalization and issuance process.



Contract negotiation

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

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

The following elements could be negotiated prior to contract signature.

Elements	Including, for example...
Technical aspects	Warranties, after sale service, life cycle support maintenance agreements, quality output issues.
Remedies	Liquidated damages
Special terms	Type of bonds, guarantees, insurance, payment schedule.
Management information	Frequency and content of reports; acceptance criteria for certain milestones.
Time frames	Duration of contract, key milestones, delivery dates, response times.
Performance incentives	Cost incentives, delivery incentives and quality incentives.
Personnel	Key team members and focal points, subcontracting arrangements.

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

Good practice

Examples of good negotiation practice are:

- In case of negotiations engaged prior to contract formation, the procurement officer should ensure that a solicitation document has been sent to the supplier and that a written offer has been submitted by the supplier, and an Evaluation Report or an approval of award exists.
- Negotiations should not be conducted when they may distort competition.
- Negotiations should preferably be in writing.
- Where negotiations take place in person, via telephone, videoconference or at the site of the supplier or the UN organization, a minimum of two staff members of the UN organization should be present. In unusual situations, or where there are high legal implications, involve a lawyer or the legal office in negotiations.

- The members of the negotiation team need to be selected carefully to combine the right blend of negotiation experience and contractual, financial and/or technical skills. As the value and complexity of the contract increases, so will the need for skilled negotiators.
- During the negotiation process all procurement officers must ensure no conflict of interest arises and no gifts or hospitality are accepted from the supplier.

Process

To conduct successful contract negotiations, it is suggested that the procurement officer follows each of the stages and corresponding steps listed in the table below:

Step	Action
<i>Stage 1: Pre-negotiate</i>	
1	Assemble the internal team (including other procurement officers, the requisitioner, other potential stakeholders and other departments of the UN organization whose activities may be impacted by certain clauses such as legal, accounts payable, insurance, security, etc.).
2	<ul style="list-style-type: none"> • Identify and prioritise key issues and concessions that can be made. • Develop an agenda. • Prepare the location. • Identify a person to take notes and minutes.
3	Invite the other party to negotiate.
<i>Stage 2: Meet the other party</i>	
4	<ul style="list-style-type: none"> • Make appropriate introductions. • Review the agenda. • Confirm that the supplier's representative has authority to negotiate and commit on behalf of his/her organization. • Ensure that all the items to be discussed are tabled.
<i>Stage 3: Negotiation</i>	
5	Develop a basis for agreement on all issues by using trade offs and concessions.
6	Prepare detailed minutes of the meeting and plan of action for both parties.
<i>Stage 4: Post negotiations</i>	
7	Develop a contractual document and seek required internal approvals.

Documentation

To ensure that the contract finalization process is fully documented and that a proper audit trail is kept, and also in case of future disputes with the supplier, written negotiations with the supplier should be kept on the file. Minutes of telephone conversations or meetings must be kept on file. It is also important to keep documentation to show that the negotiation was justified and approved. The minutes should include:

- date time and location of the meeting
- names of attendees
- agenda items discussed
- items where an agreement was reached, including outlining the agreement
- items where agreements have not been reached.

Contract preparation

Procurement officers are encouraged to refer to existing templates or model contracts. If the contractual documents cannot be based on available templates, the procurement officer should ensure proper approvals and review by the appropriate officers before drafting new clauses.

Contractual documents should be based on the:

- solicitation document and subsequent amendments and/or clarifications
- offer from the supplier and any subsequent amendments and/or clarifications
- award recommendation
- recommendations of the contracts committee, if applicable
- final decision taken by the awarding authority.

Contract review

For complex contracts, a copy of the draft contract should be shared with the supplier. It is recommended that the supplier is given sufficient time to review the draft contract and request that any proposed changes or modifications to the text be provided in writing and are justified. If at this stage the supplier raises a legal issue, the procurement officer should ensure that proper consultation takes place.

The supplier may request that its contractual template and/or additional or different terms and conditions are used. As a general rule, the procurement officer should always use the UN organization's templates. This ensures consistency, that UN organization's standard clauses are included, etc. If this is not acceptable to the supplier, especially in the case of sole source requirements, the UN organization, as an exception may have to agree to use the supplier's contract template and amend it to ensure that the UN organization's interests are protected, especially with respect to the UN organization's Privileges and Immunities and other essential UN organization specific clauses, such as the arbitration clause, child labour, etc.

The procurement officer should review the changes proposed by the supplier to determine that they do not conflict with the original requirement and the offer and that they are acceptable to the UN organization. After internal consultation and discussion with the successful supplier, the UN organization revises the draft until the text is acceptable to both parties.

Care should be taken to ensure that the final text represents the offer from the supplier, as the UN organization accepted it, and that it remains in compliance with the final decision by the Head of Office.

Finally, the procurement officer should ensure that the contract/purchase order (PO) is complete, that all the elements agreed by the parties and all appropriate annexes are included, and that the UN organization's general and special terms and conditions are part of the contract/PO.

In particular the procurement officer should ensure that:

- No contract is entered into by the organization contrary to its general conditions of contract. For example, procurement officers should always ensure that the contractual documents neither include a choice of law clause, nor refer to the jurisdiction of the courts of any particular country. These types of clauses would impair the UN organization's privileges and immunities

as an international organization. All contractual documents clarify that the UN organization is exempt from taxes.

- The Incoterm included in the contractual documents is the same as the one requested in the solicitation document.
- A performance bond is presented by the supplier, if required as per the solicitation document, in a form acceptable to the UN organization; performance bonds should be kept in a safe and secured environment.
- All essential elements of the PO or contract are included in the document.
- The name, title and address of the parties are clearly reflected in the document.

Contract signature

Once the contract has been completed to the satisfaction of the UN organization, the procurement officer should seek all required internal approvals and print two (in some organizations three or four) copies of the contract and ensure that all pages are numbered and initialled by the procurement officer. The contract should be signed by an authorized representative of both the supplier and the UN organization. In case of purchase orders the supplier should send back an acknowledgement copy of the order to establish acceptance of the contract. The procurement officer should also ensure that proper securities are in place, e.g. performance bond.

Procurement officers and requisitioners should always remember that any change or modification to an existing signed contract can only be documented by a written amendment, reviewed by the contracts committee as appropriate, and duly signed by the authorized representative of the parties.

Contract filing

The procurement officer should ensure that an original copy of the contract is filed and that the file is complete before proceeding with any other internal procedures, i.e. providing a copy to the requisitioning office, the freight forwarder where appropriate, the office's administration unit for (digital) archiving of the contract, etc.

Award notification and debriefing of unsuccessful suppliers

Once the purchase order, contract or LTA has been legally established, i.e. only after proper signatures have been received from all parties concerned, an award notification should be published and the unsuccessful suppliers notified and de-briefed.

Usually the UN organizations publish the award notifications on their internet site. Normally this includes the:

- reference number of the solicitation
- type of goods/services procured
- name of the awarded supplier
- total award value.

In addition, unsuccessful suppliers may be notified via fax or email. Where a debriefing has been arranged, this should be a “lessons learned” experience for the unsuccessful supplier, enabling the supplier to respond better to future solicitations. Therefore, the debriefing should focus on the supplier’s offer. Some of the ‘dos’ and ‘don’ts’ of debriefings include:

Do	Do not
Identify the unsuccessful supplier’s significant weaknesses and deficiencies.	Compare the unsuccessful offer to the other offers, including the successful offer.
Explain the general basis of the UN organization’s award decision.	Disclose the relative merits or technical standings nor prices of other offers.
	Provide any other information related to the successful offer other than the total price.

Elements of a contract

With the exception of low value purchases (thresholds vary between organizations), a written contract is required to formalize an obligation. This is usually stipulated in the FRR of each organization. However, some organizations are now discussing e-contracts and e-procurement (see Unit 4.2 on E-Procurement).

Legal elements of a contract

The following are considered essential legal elements of a contract.

Legal element	Explanation
Intent to contract	An agreement must be deliberate or seriously intended. In business, it is presumed that the parties intend to contract.
Offer and acceptance	An offer is an indication by one person to another of their willingness to contract on certain terms without further negotiations. A contract is then formed if there is express or implied agreement; acceptance may be by performance. A contract is said to come into existence when acceptance of an offer has been communicated to the supplier by the offeree.
Consideration	This is the “price” the buyer must pay to buy the promise made by the supplier, e.g. payment of money or exchange of services.
Capacity to contract	This is the competency of a (legal) person to enter into a contract.
Legality of purpose	A contract will be void and unenforceable if its purpose involves an act which is illegal or contrary to public policy.
Certainty of terms	This requires a meeting of minds (consensus) regarding terms and conditions of the proposed contract. The terms must be reasonably specific or ascertainable. Contracts are composed of clauses collectively referred to as “terms and conditions”.

Basic structure of a contract

A contract usually includes the following parts:

- clear and complete description of the work
- price, basis of payment; method of payment
- schedule of activities; delivery date
- reference to solicitation documents
- specific terms and conditions
- general terms and conditions
- other documents may be incorporated as necessary, e.g. written records of bid conferences, email/mail correspondence, samples, etc.

Terms and conditions of a contract

A contract is composed of "clauses" (or numbered paragraphs) collectively referred to as "terms and conditions".

- A "term" is a statement that deals with a specific topic, i.e. price, delivery, payment, inspection, warranty, etc.
- A "condition" is a statement that activates or suspends a term if a certain situation develops or given parameters are met (e.g. revision to the unit price if the quantity varies by a certain ratio).
- General and specific terms and conditions are intended to provide legally enforceable provisions for securing satisfactory performance of the parties, the supplier and the UN organization.
- General terms and conditions pertain to a type of contract, such as service contracts, purchase orders for goods, software license agreements, rental or lease of office space, etc.
- Specific terms and conditions pertain to an individual contract.
- Special terms and conditions may impose on prospective suppliers new and potentially unnecessary cost elements that they must incorporate in the pricing of goods and services they will have to deliver. For this reason, special terms and conditions must be chosen with care since they could affect the price the UN organization pays for its goods and services. The general terms and conditions of contract, read in conjunction with the special terms and conditions of contract, should be a complete document expressing all the rights and obligations of the parties.

Every contract for the purchase or rental / lease of goods, services, and other requirements should include the appropriate standard form of the organization's general terms and conditions of contract. As they are standard legal documents of the organization, as a general principle, they should not be modified without prior consultation with the responsible legal authority within each organization. The UN organizations are currently working on a common set of such terms and conditions, called the UN General Conditions of Contract (UNGCC). The appropriate version to be used depends upon the deliverables to be acquired.

The UN suggests that the following different types of UNGCC should exist:

- contracts for the provision of goods only
- contracts for the provision of services only
- contracts for the provision of works only
- contracts for the provision of goods and services
- simple contracts primarily concluded in the field, for goods and / or services up to a certain value, level of complexity, or level of liability exposure.

For all the documents forming part of contractual instruments the order of precedence is very important. It is usually the terms and conditions of the specific purchase order/contract which prevail over the general terms and conditions and the rest of the documents.

Examples of general terms and conditions of a contract

Some examples of general terms and conditions of a contract are detailed below.

Legal status

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

Source of instructions

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

Contractor's responsibility for employees

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

Assignment

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

Sub-contracting

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

Officials not to benefit

This clause determines that the supplier warrants that no official or representative of the United Nations has received or will be offered by the supplier any direct or indirect benefit arising from or related to the performance of the contract or the award thereof.

Purchase of goods

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

Indemnification

This clause states that, "the contractor shall indemnify, hold and safe harmless, and defend, at its own expense, the UN organization from and against all suits, claims, demands, and liability of any nature or kind, arising out of acts of omission of the contractor".

Insurance and liabilities to third parties

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

Encumbrances / liens

An encumbrance is a claim attached to real property, such as a lien, mortgage or unpaid taxes. A lien is a legal claim against the property of another as security for the payment of debt. A lien gives the lienholder the right to sell the property to satisfy the debt if it is not otherwise paid. On the other hand, a lien is removed when a contract is paid.

This clause prevents the supplier to cause or permit any lien, attachment or other encumbrance against any monies due or to become due for any work done or materials furnished under the contract, or by reason of any other claim or demand against the supplier.

Title to equipment

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

Copyright, patents and other proprietary rights

This clause recognizes the principle that if intellectual property is created for a UN organization, "it shall own" such property.

Use of name, emblem or official seal of the United Nations organization

This clause prohibits the supplier to disclose its contractual relationship with a UN organization for commercial purposes.

Confidential nature of documents and information

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

Force majeure; other changes in condition

This clause excuses delays or failure to perform that would otherwise constitute a contract breach and that are beyond the control or influence of the contracting parties.

Termination

This clause gives the right to terminate for any cause to each contracting party provided a notice of impending termination is given to the party being terminated within a specific time frame that varies according to the type of requirement and duration of contract. This minimizes the risk to a UN organization and the supplier by providing a means to ending its obligations in view of unforeseen circumstances while providing a means for the terminated party to cover its requirements or find other useful employment for its resources.

Settlement of disputes

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

Privileges and immunities

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

Tax exemption

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

Observance of the Law

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

Authority to modify

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

Conduct of contractors

The following three elements should be subject to control through general terms and conditions:

- prohibiting the supplier from using child labour
- ensuring that the supplier does not manufacture or distribute anti-personnel mines, or components thereof
- ensuring that the supplier has put measures in place to prevent sexual exploitation and abuse.

Gifts and hospitality

This clause states that “Suppliers shall not offer gifts or hospitality to UN staff members. Recreational trips to sporting or cultural events, theme parks or offers of holidays, transportation, or invitations to extravagant lunches or dinners are also prohibited”.

Examples of special terms and conditions

Some examples of special terms and conditions of a contract are detailed below.

Liquidated damages

Liquidated damages are a form of redress to be paid by the supplier to the buyer in case of non performance or delayed delivery. For example, a fixed sum or percentage for each day the supplier is late delivering the equipment to the port. The sum is usually an estimate of the loss likely to be suffered by the client as a result of non performance.

Method of payment

The standard payment term for all UN organizations is 30 days net. However, the payment method may be negotiated with the supplier. Normally, UN organizations do not accept advance payments. For further information on the different payment methods see Unit 3.10 Contract Management.

Performance securities / bonds

A bond is a written financial instrument executed by a supplier and a second party (the surety or sureties) to ensure fulfilment of the principal's obligations to a third party (the obligee or buyer), identified in the bond. The UN organizations require bonds to be unconditional and irrevocable. If the principal obligations are not met, the bond ensures payment, to the extent stipulated, of any loss sustained by the obligee. Bonds fill the role of insurance policy for the buyer to mitigate risk of frivolous offers or non performance by the supplier. Just like any insurance policy, the cost of the bond is a percentage of the face value of the policy and it is a cost borne by the supplier.

Performance securities/bonds ensure the UN organization against non performance by the supplier. Performance bonds are used, for example, in works contracts and highly sensitive consulting contracts and are typically set at 10% of the value of the contract.

These instruments are used in complex procurement where the cost of putting contracts together are high and the impact of non performance by the supplier could inflict serious damage to the UN organization. When required, performance bonds are a condition of the contract, and typically must be properly issued and accepted as a condition of effectiveness for the contract.

Incoterms

In the case of equipment, goods and commodities, the purchase order or contract must clearly indicate the point of transfer of responsibility for freight and risk from the supplier to the buyer. The International Chamber of Commerce Incoterms – short for "International Commercial Terms" – are standard trade definitions most commonly used in international sales contracts to address these important issues, with distinct divisions of responsibility for the following functions:

- packing goods for shipment
- export clearance
- transport from factory to port/airport of shipment
- international transport
- transport from port of arrival to final destination
- handling
- insurance during transport
- import clearance

- import duties.

The scope of Incoterms is limited to matters relating to the rights and obligations of the parties to the contract of sale with respect to the costs and risks related to the delivery of goods sold. They specify where the supplier delivers the goods, what costs the supplier pays, and when the supplier passes the transit risk to the buyer. The UN organizations typically use only a few of the Incoterms for the vast majority of its purchase of equipment, goods and commodities. See Unit 4.3 Logistics for further details on Incoterms.

Contractual instruments

The different UN organizations use different types of contractual instruments. The most commonly used ones are:

- letter of intent
- purchase order (PO)
- contract for services/works
- contract for individual consultants/service agreements
- long term arrangement/agreement/system contract, frame agreement, blanket purchase order
- reimbursable loan agreements
- amendments to contractual instruments.

It is good practice to have model documents for each contractual instrument, differentiating the type of procurement, For example, purchase order for goods and PO for services.

Letter of intent

This is a letter from a UN organization to a prospective supplier acknowledging willingness and ability to enter into a contract. This contractual instrument entails substantial risk, and must therefore be used only after careful risk assessment and authorized by the relevant delegated authority. It should only be used in exceptional cases and where time does not allow finalizing a definitive contract but exigency requires an immediate binding agreement so that the supplier can initiate contract performance before signing the contract by all parties. The most important principle is that a letter of intent must never be sent before an approval of award has been received from the highest ranking procurement officer in the organization or the respective delegated authority. If a letter of intent is used, it is good practice to:

- use a standard format for the letter of intent
- include clauses limiting the organization's responsibilities and allowing it to withdraw with minimum legal and financial obligations.

Purchase order (PO)

A purchase order (PO) is a contract sent to suppliers to document the purchase of goods. POs are the most commonly used contract type, and compared to other contracts sometimes they are more simplified/standardized document. They are usually only used for the purchase of goods but may specify related services such as installation, training, and maintenance. They should always include or refer to the organization's general terms and conditions for goods. POs can also be used to draw upon long term arrangements.

Contract for services/works

A contract for services/works establishes a set of obligations between the contractual parties for the procurement of services or works. This contract instrument is better suited to complex services or work, or mutual obligations between the parties and should always include or refer to the organization's general terms and conditions for services or works.

Where goods and services are combined, or quality levels are linked to product performance, or for large and complex projects, the trend is to use "performance based contracts". This means that the whole acquisition is structured around the purpose and the outcome of the work to be performed and not the manner in which the work is to be performed. Performance based contracts:

- Describe the requirements in terms of performance results required, rather than the methods of performance of the work.
- Give the supplier greater freedom to determine how to achieve the required outcome.
- Use measurable performance standards and a quality assurance surveillance plan.
- Include incentives and disincentives for when services exceed or do not meet contract requirements and specify procedures for handling those situations.

Contract for individual consultants / service agreements

Service agreements are contracts whereby the organization enters into an agreement with a commercial company for the services of an individual. Service agreements are different from service contracts. Service contracts define the scope of work to be completed, whereas service agreements define specific terms of reference for an individual.

Long term agreement / system contract, frame agreement, blanket purchase order

For further information about LTAs, see Unit 3.4 Selection of Procurement Method.

Reimbursable loan agreements

In some organizations reimbursable loan agreements are used to contract a government institution, university, or other legal entity (minimum three staff), to engage consultancy services of selected individuals to undertake specific services for a specific time period.

Amendments to contractual instruments

An amendment to a contractual instrument ("contract amendment") is a written record of changes to the original terms and conditions. It is executed to reflect changes to the original requirement, to reflect the resolution of performance problems or to comply with formal administrative considerations.

When the organization receives a request from a supplier to modify a contract, it should review the request in order to analyse its impact on the schedule of completion, price, quantity and quality. The organization should consult with the client on all aspects of the request and determine whether the request may best be executed through the current contract or, if substantial changes in scope are called for, through new procurement. A contract amendment may cover the following matters:

- extension of time to complete the contract
- change to specifications

- change to price
- administrative changes like change of name, legal status, address, etc.

Only an authorized UN staff member can officially change a contract. Unofficial changes, in the form of constructive changes or unauthorized commitments can be as detrimental to the UN organization's procurement process as purchases originally made without appropriate delegated authority.

Requisitioners are required to provide requisition amendments when changes in price, type, or quantity of items to be purchased are needed. As appropriate, requisitioners also should provide additional documentation to support the need for the modification.

Documentation requirements

Documentation to support contract modification includes:

- revised statement of work (SOW)
- justification as to why the modification is necessary
- revised cost estimate accounting for increases and decreases in the products or services and associated costs made by the modification, providing either:
 - a statement that the modification is within the current expenditure authority, or
 - a fully approved increase in the current expenditure authority to cover any costs above the current expenditure authority
- requisition number (and obligating number, if relevant)
- approval date of initial requisition
- brief description of the amendment.

Good practice

It is good practice to:

- Use standard formats for contract amendments to introduce changes to the original contract, and earlier amendments, by reference to the clauses of the original contract and of its amendments.
- Not, under any circumstance, execute a contract amendment by corrections or deletions on the original contract document.
- Always make any amendment to a contractual instrument in writing.
- Always document amendments in the contract file.

Types of contracts

The most common types of contracts provide for payments on the basis of:

- fixed prices, such as lump sum or a unit price contracts, or
- reimbursable cost, or
- combinations thereof.

Lump sum contracts

With a lump sum contract, the supplier agrees to perform the work for one fixed price, regardless of the ultimate cost.

Lump sum contracts are used mainly for assignments in which the content and the duration of the services and the required output of the supplier are clearly defined. They are widely used for simple planning and feasibility studies, environmental studies, detailed design of standard or common structures, preparation of data processing systems, and so forth. Payments are linked to outputs (deliverables), such as reports, drawings, and bills of quantities, etc. Lump sum contracts are easy to administer because payments are due on clearly specified outputs. It is recommended that a detailed scope of services or BoQs be defined.

Unit price / unit rate contracts

A unit price / unit rate contract is a contract where the supplier agrees to supply goods/services/works at fixed unit prices / rates and the final price is dependent on the quantities needed to carry out the work. Large quantity changes can lead to decreases or increases in unit prices/rates.

This type of contract is suitable when it is impossible, due to the nature of the services/work/goods, to determine with sufficient precision the quantity of services/works/goods required from the supplier.

In this case the buyer and the supplier share the risk for time and cost as follows:

- The buyer is at risk for the final total quantities, i.e. the final cost is not known.
- The supplier is at risk for the fixed unit price / rate.

Cost-reimbursable contracts

Cost-reimbursable contracts are recommended only in exceptional circumstances such as conditions of high risk or where costs cannot be determined in advance with sufficient accuracy. Such contracts should include appropriate incentives to limit cost, e.g. ceiling price.

The risk of cost-reimbursable contracts is carried by the buyer as the supplier has no incentive to control costs, or to finish early or in time. The buyer has to closely monitor and manage the contract.

3.10 Contract Management

Introduction

The terms “contract management” and “contract administration” are often used synonymously. However, “contract management” is commonly understood as a broader and more strategic concept that covers the whole procurement cycle including planning, formation, execution, administration and close out of a contract and goes beyond the day to day “administrative” activities in the procurement cycle. Because it is difficult to draw the line between the two terms and because the majority of the UN organizations commonly use “contract management” when describing the contract administration phase, “contract management” will be used in this Unit.

The purpose of contract management is to ensure that all parties to the contract fully meet their respective obligations as efficiently and effectively as possible, delivering the business and operational outputs required from the contract and providing value for money. It also protects the rights of the parties and ensures required performance when circumstances change.

Contract management is similar to project management. Each contract is a mini-project. It has a unique goal, consumes resources, has a beginning and end date, and requires coordination and planning of relevant activities, as well as documentation in a contract file throughout the process.

Contract management includes monitoring and documenting performance. Depending on the organization and goods or services procured, daily/regular monitoring of the contract may be primarily the responsibility of the requisitioner.

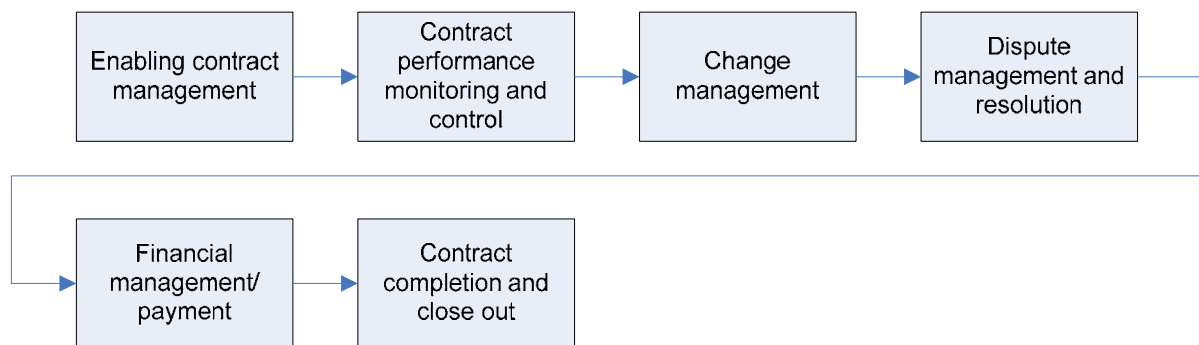
In all situations, the procurement officer is responsible for following up and ensuring that the actions of the supplier and the UN organization are in line with the contractual responsibilities, that the contract is amended to reflect agreed changes in circumstances, and that any claim or dispute is resolved amicably according to the terms of the contract.

Payment for the goods or services should be handled independently from the procurement function, while contract close out again is the responsibility of the procurement officer.

The stages of contract management are intended to ensure that the parties work together to achieve the objectives of the contract. Contract management is based on the idea that the contract is an agreement, a partnership with rights and obligations that must be met by both sides to achieve the goal. Contract management is aimed not at finding fault, but rather at identifying problems and finding solutions together with all contracting parties involved.

Process

The flowchart below shows each of the stages in the contract management process.



Enabling contract management

In this phase the procurement officer ensures that there is a shared understanding, distribution of responsibilities and systems and procedures in place to monitor and control contract performance and effectively deal with potential changes and disputes.

The supplier should be considered a member of the project team, with all members striving for success. Upon signature of the contract, several steps should be taken to ensure that roles, responsibilities and obligations are clearly allocated among the parties and proper systems and procedures are put in place to monitor performance and keep efforts well focused:

Contract file and documentation

The contract file should be opened by the procurement officer, and the contract should be carefully analysed, taking note of the rights and obligations of each party. Any issues requiring clarification or change of the contract should be fully documented in this file. (The requisitioner will normally have a separate file, with copy of the contract, as part of the project management files.)

Although practice may vary among organizations, the following documents normally are part of the contract file:

- original of contract and all amendments
- all related communication with the supplier (electronic, internal and external correspondence)
- copy of the winning offer
- award documents
- minutes of meetings
- notes of phone conversations
- reports
- pictures, video films
- proof of receipt of goods
- proof of payment
- supplier assessment report
- acceptance report from requisitioner/client.

Other related documents preceding the contract finalization, such as Requisition, solicitation document, offers received, evaluation report, etc. are usually part of other related files.

It is important to carefully document contract performance for the following reasons:

- It constitutes proof of performance.
- It constitutes evidence in the event of disputes.
- Its content forms the institutional memory.
- It is used for audit purposes.

Contract analysis

As soon as possible, the responsible UN staff member (programme manager, requisitioner, or procurement officer) should analyse the terms and conditions of the prospective contract and develop a contract work breakdown structure that reflects both the technical and administrative aspects of contract performance. The requisitioner and the procurement officer should reach agreement on intermediate performance goals based on contract performance obligations. Intermediate goals will enable the UN organization to measure progress, detect significant performance variances, take corrective action, and follow up.

Pre-performance conference

Before performance begins on large or complex contracts, the procurement officer and the requisitioner should meet with the supplier's team to discuss their understanding and joint administration of the contract.

The following is considered good practice:

- the meeting should be formal
- an agenda should be distributed in advance, minutes should be taken and agreed by the parties.
- each party should appoint a person who will be the organization's official voice during contract performance.

The following topics should be covered by the parties:

- Review the contract terms and conditions and other key elements and explain who will do what.
- Update the project/programme plan with the involvement of both parties, to reflect the actual date of effectiveness as well as milestones/deliverables of the contract and any changes which may have occurred since it was planned.
- Review the performance assessment plan with the supplier, so that both parties know the basis upon which performance will be established. These should be understood as milestones for joint monitoring and not as contractual obligations.
- Discuss how and when to measure and report actual performance. The techniques, timing, and frequency of measurement and reporting should reflect the nature and criticality of the work. A reasonable balance must be struck between no measurement/reporting of any kind and excessive reporting.
- Clarify any remaining ambiguities and discuss procedures for managing change and resolving differences.
- Clarify the communication plan.

For simple goods or equipment purchase orders, a telephone or email contact is often sufficient to launch activities, supported by regular expediting and monitoring.

Effective communication

Successful contract management is based on an open flow of communication and willingness to take actions necessary for correction and improvement, and is facilitated by:

- Attitude of teamwork, seeking to get the best results from joint efforts, willingness to discuss problems without immediate recourse to recriminations and to make the immediate adjustments that may be necessary to correct problems detected through routine inspection.
- Well organized oral and written reporting system, which highlights progress and problems and measures them against expected performance and results.
- Contract performance and progress review meetings at appropriate intervals. For complex works and services contracts, such meetings could be as frequent as every two weeks or as infrequent as every two months. For goods procurement, it may be sufficient to have an email or telephone follow-up every few weeks.

For procurement of goods, contract monitoring and control is largely covered by expediting, pre-shipment inspection and final receipt and acceptance.

The policy of compliance with contract terms and conditions requires that organizations maintain effective communication about, and control over, contract performance. Each party to the contract should establish communication procedures to ensure that people within their organization know what they must do, and each party should establish controls to ensure that they do it.

It is equally important that the parties to the contract communicate with each other, as often as may be necessary. A contract is a “meeting of the minds” made at a prior point in time. Like all human relationships, contracts are dynamic; the original “meeting of the minds” may have been inaccurate or frustrated by events.

As performance proceeds and events unfold, the parties will find that they may have to modify their original expectations and plans to adjust to real events. As they do so, they will have to modify the terms and conditions of their contract so that it reflects the current status of their agreement. This is an inevitable part of contracting, because no one can predict the future with perfect accuracy. However, it is important that the parties do this consciously and openly, and with an attitude of teamwork, so that they remain in agreement about what they are doing. If they do not communicate, they could end up mitigating a dispute over what their obligations really are.

Contract performance monitoring and control

Once the contract has been awarded, the responsible procurement officer, or the requisitioner, monitors performance, collects information, and measures actual contract achievement. This is essential for effective control. The resources devoted to these tasks, and the techniques used to perform them, will depend on the nature of the contract work, the size and complexity of the contract, and the resources available.

For small, simple, non-critical contracts, an occasional telephone call may be all that is needed to satisfy the responsible UN staff member that everything is proceeding according to plan.

However, for large, complex contracts, the responsible UN staff member may require extensive reports, regular progress meetings, formal testing, and technical reviews and audits.

In performance based contracts, performance indicators developed in the contract are used. In some cases, the proposed supplier's quality assurance plan may be used as a basis for monitoring the supplier's performance.

Observations are made in order to collect information related to those aspects of performance that, when measured, will describe the progress of the work. The reason for observing, collecting information, and measuring progress is to have a basis for comparing actual achievement with planned achievement in order to exert control. Each party must direct its attention internally to ensure that it is fulfilling its own obligations, and externally to ensure that the other party is fulfilling its obligations.

Control points

Observing and collecting information should be directed at four general control points. These include:

- cost control
- schedule control
- compliance with specifications, terms of reference, statement of work (quality assurance and control)
- compliance with terms and conditions, paperwork requirements, and administrative aspects of the performance.

Monitoring methods

There are two different monitoring methods: direct observation and indirect observation.

Direct observation

Direct observation means personal, physical observation. The responsible UN staff member, or a field representative, is physically present at the work site during its performance to see how it is progressing. This approach is most practical when the work is physical in nature and performed at a limited number of sites.

Construction projects are examples of work readily subject to direct observation. The inspector goes to the site and visually inspects the work, comparing observations to the construction specifications and drawings to the schedule to determine the progress of the job.

Direct observation by the responsible UN staff member or field representative is of limited use, however, when the work is largely intellectual in nature, or when it is too complex for physical inspection alone to provide enough information to measure progress. In these cases, direct observation should be supplemented or replaced by indirect observation.

Indirect observation

Indirect observation refers to testing, progress reports from many observers, technical reviews, performance indicators and audits. Indirect observation is appropriate whenever direct observation would provide insufficient or ambiguous information. For example, projects involving an intellectual effort like infrastructure analysis where personal observations at the offices where the work is performed are unlikely to reveal whether the work is ahead of schedule, on schedule, or behind schedule.

Receipt, inspection and acceptance procedures

Inspection involves examining or testing a product or service to ensure that it conforms to contract requirements. Where quantities of goods are involved, inspection also means verifying

that the correct number of items has been delivered. Some organizations may have LTAs or one-off contracts with inspection agents, while others may have in-house experts who undertake plant visits and inspections. Generally, there are the following types of inspection methods:

- sensory and dimensional checks
- physical performance checks
- destructive tests.

Sensory and dimensional checks

Sensory and dimensional checks are examinations by an inspector using his or her eyes, ears, and other senses. The inspector exercises a good amount of personal judgment. For a commercially available automatic pencil sharpener, for example, this method reveals surface defects, missing pieces, noisy operation, and parts out of alignment. For custodial services, for example, visual inspection detects surfaces that are not clean.

The UN organizations typically use sensory and dimensional checks to perform inspections. When using this method, UN staff at the receiving point (that is, the UN office or field mission using the item) should check the following:

- Make a visual examination to verify that the proper type and kind of product has been delivered, that is, that the product or service conforms to the specifications outlined in the order or contract.
- Conduct a physical count to ensure that the correct quantity of product has been delivered by comparing the quantity received with the quantity ordered. Variations in quantities authorized by the order or contract may be accepted. Quantities accepted must be documented; payment is based on quantities accepted.
- Check for signs of damage, such as dents and tears. Any damage should be documented.
- Perform an operability check to ensure that the product performs or operates properly, if applicable.
- Check the preservation of the product to ensure that it has not spoiled, rusted, or deteriorated, if applicable.
- If applicable, check packaging and labelling to ensure that they comply with the contract's requirements.
- Check packing to ensure that it is adequate, if applicable.
- Check marking to ensure that it properly identifies packages, if applicable.

Any items that do not conform to appropriate standards should not be accepted. A receipt and inspection report should be submitted, noting any non-conforming item.

Physical or performance tests

Physical or performance tests provide actual performance data that are compared with required performance or physical characteristics or a range of what is considered acceptable according to the contract. Requiring that a motor runs or an operating system performs at a certain level for a specific period of time is an example of a performance test. Testing materials for their chemical composition or density against parameters in the specification are examples of physical tests. On a bus service contract, waiting at a particular bus stop to see whether the bus arrives on time is a performance test to check compliance with the required schedule. Performance tests for labour-intensive services are often done as a random sample.

Destructive tests

Destructive tests require that end products meet certain reliability standards or withstand a specific level of stress. For example, heating a product until it burns tests the fireproof characteristics of an end product. Scratching through newly applied coats of paint shows the number of coats applied by a painting supplier.

Acceptance or rejection standards

Acceptance or rejection of products or services must be based on the standards identified in the contract or purchase order. Generally, the UN organizations rely on two types of standards:

- **Strict compliance standards:** Requirements based on specific UN technical descriptions.
- **Subjective standards:** Requirements based on a broader, more judgmental, criterion as applied by the inspector. Examples of subjective standards might be “comfortable fit” or “easy operation.”

It is not unusual to have both types of standards apply to different aspects of one purchase. In such cases, both strict compliance standards and subjective standards must be enforced. But if both standards apply to a single aspect of the purchase, they typically are inconsistent with each other and, therefore, unenforceable.

Both types of standards can be applied to different aspects of service requirements as well. For example, a contract for grass-cutting services may state that the grass will be cut once a week – which is a strict compliance standard – or that the grass must always be neat and trimmed – which is a subjective standard. The basis for acceptance or rejection must be in accordance with the contract’s stated requirements as shown in the table below.

Requirement type	Refers to...
End-item versus level-of-effort requirement	Contract terms which may require delivery of end items, which may include finished services, or may require a stated level of effort over a specified period of time.
End-item requirement	A measurable product of work, such as a management analysis report to be delivered in camera-ready form or the manufacturing of a product as required by technical descriptions. This type of requirement states a specific time for delivery or completion. Rejection, or other remedies, may be appropriate if the end item is deficient or delivered late.
Level-of-effort requirement	An amount of work, a level of effort, applied toward a specific objective or performed during a specified period of time. The level of effort itself is the deliverable. A supplier’s obligation to provide the level of effort ends when the contract expires, even if the objective is not met. The only basis of rejection or application of remedies is the manner in which the effort was applied during contract performance.

Inspection and acceptance or rejection of products and services, determine whether the UN organization should make payment to the supplier.

Types of reports*Receipt and inspection documentation*

Inspections may be interim or final and receipt may be in full or partial.

organizations usually use standard forms/reports to acknowledge that the inspection has been performed and to record whether products/services have been accepted or rejected. UN organizations now increasingly use the organization's ERP procurement software to record delivery and related aspects of contract completion electronically.

Progress meetings

Progress meetings can simply be oral progress reports. They provide some advantages and disadvantages over written reports. An advantage is that the listeners can ask questions about the information, analyses, and conclusions reported and can have discussions with the reporter. A disadvantage is that the listeners may not have time during the meeting to consider the information and make their own analyses before the meeting ends.

Written reports

Written reports rarely provide "real time" information. They do not tell the reader how things are now; they provide the reader only a picture of some point of time in the past. How old the information is depends on the nature and frequency of the report and on the reporter's capabilities. A cost/schedule performance report that is submitted on 1 June, and that depends on accounting information, may actually describe cost/schedule status as of 30 April or earlier, depending on the capabilities of the seller's accounting system.

Report conclusions about project status are valid only if the information on which they are based is accurate and the analyst is competent, realistic, and honest.

In deciding to rely wholly or in part on reports (including meetings), the responsible UN staff member also needs to decide what information each report must contain. Some of the issues that should be considered according to the contract reporting guidelines of the organization are:

- What aspect(s) of performance should the report address?
- What information should the report include: conclusions about performance, analyses, raw information, or some combination of these?
- How frequently must the report be submitted, and at what points in time?
- What is the cut-off point ("as of" date) for information to be included in the report?
- In what format should the report be submitted?
- To whom should the report be submitted, and to whom should copies be sent?

Variance analysis

It is not enough to observe and collect information about performance; that information should be analysed to determine whether or not performance is satisfactory. The analyst compares actual performance to performance goals to determine whether there are variances. The responsible UN staff member who discovers a variance between actual and expected performance should determine several things: Is it significant? What was its cause? Was it a one-time failure, or is it a continuing problem? What type of corrective action would be most effective?

Variance analysis should be timely, especially when the information is obtained through reports. That information is already old by the time it has been received. Delays in analysing its significance may allow poor performance to deteriorate further, perhaps beyond hope of effective corrective action. It is especially important to act promptly during the early phases of contract performance, when corrective action is likely to have the greatest effect. In case of negative contract performance a review of information in the contract file frequently shows that

there were warning signs – reports, meeting minutes, letters, memos – that were unnoticed or ignored. When the responsibility for monitoring performance is delegated, the responsible UN staff member must take steps to ensure that those persons promptly analyse the information, report their findings, and take corrective action.

Taking corrective action

When the requisitioner or the procurement officer discovers significant variance between actual and expected performance, they should take corrective action if possible. They should identify the cause of the problem and determine a solution that will not only eliminate it as a source of future difficulty, but correct the effect it has already had, if possible. If the effect cannot be corrected, then the parties may need to negotiate a change to the contract, with compensation to the injured party, if appropriate.

Follow up

Once corrective action has been taken or is under way, the procurement officer and the requisitioner should determine whether it has had or is having the desired effect. If not, then further action may be needed.

Throughout this process of corrective action and follow-up, all the parties must keep each other informed. Effective communication between the parties is essential to avoid misunderstandings and disputes when things are not proceeding according to plan. The party taking corrective action must make every effort to let the other party know that it is aware of the problem and is addressing it seriously. Sometimes this is more important than the corrective action itself.

Change management

Change management is the process of both avoiding unwanted changes and incorporating necessary changes into the contract.

Effectively controlling changes entails establishing formal procedures for changing the contract and limiting the number of people who are entitled to make changes.

It is natural for staff in one contract party to work directly with their counterparts in the other contract party's organization, people who speak their language and understand their policies and customs. These colleagues often bypass formal channels of communication, and such relationships can lead to informal, undocumented agreements that depart from contract terms and conditions. Such informal agreements often lead to situations of unauthorized commitment or forbearance caused by apparent authority communicated involuntarily by the requisitioner. It is important that all parties keep in mind that the written contract is the agreement, until it has been formally modified – such modification is not simply a formality.

“Constructive change” used to describe a contract change, derives from the verb “to construe” and not from the verb “to construct.” So, a constructive change is a situation that can be construed as having the effect of a bona fide contract change. A constructive change occurs when the procurement officer, or other duly authorized official, changes the contract without applying proper legal and regulatory procedures. A constructive change can result from either a specific action or a failure to act. Constructive changes need not have a cost impact; unauthorized commitments always do.

The possibility of a constructive change places the UN organization in a poor negotiating position when renegotiating price or cost or other contract term or condition. Discussion with the supplier of constructive changes should be avoided as constructive changes destroy any possibility of pre-pricing and put the UN organization in a poor negotiating position. Unless changes are documented in a contract modification, a misunderstanding between UN staff and supplier personnel is likely to result.

Financial changes

Financial changes include in particular:

- Cost overruns, in which the cost of carrying out an agreed activity is greater than the agreed amount. The UN organization seeks to avoid this situation, and selects outputs and payment methods to make it less likely to occur.
- Cost growth, when activities not included in the original contract are added, they usually bring accompanying costs. Careful planning and choice of language should reduce the frequency of this situation, but it is still likely to occur in complex construction and services contracts.

Cost overruns versus cost growth

When accepting a contract, a supplier intends to make it profitable by ensuring it can control its costs. Failure to do so will undermine the contract's profitability. The supplier will manage its business risk in a manner that will eliminate wherever possible potential for cost overruns. UN organizations also seek to structure contracts and administration to avoid responsibility for cost overruns.

Cost overrun

Examples of sources of potential cost overruns are:

- currency rate fluctuation
- underestimation of level of effort
- underestimation of costs of material
- increase in cost of materials or labour
- undocumented cost growth.

Cost growth

Cost growth is defined as a change in the scope of work or new terms and conditions that have been requested by the buyer. The supplier may accept cost growth provided the contract change is documented and that the contract is amended accordingly.

Delays and variations

Handling claims of delays and variations involves dealing with circumstances where a supplier makes a claim for additional unforeseen work or costs, or where the UN organization has varied their requirements from the supplier. Typical delays and variations which should be handled include:

- delays (excusable, non-excusable, shared/concurrent)
- minor variations to scope of work or execution conditions.

The three most significant types of contract delays can be grouped as follows:

- excusable delays
- non-excusable delays
- shared or concurrent delays.

Excusable delays

Excusable delays are delays beyond the control of the supplier and without any fault or negligence on the supplier's part. These include delays caused or authorized by the UN organization and delays caused by acts of God or other events beyond the supplier's control, such as fire, flood, acts of war, and so on. This is the only type of delay for which extending the period of performance without obtaining consideration from the supplier is appropriate. Some excusable delays do entitle the supplier to monetary compensation in the form of an increase to a fixed-price/lump-sum contract. This could be an increase in the ceiling price of a time-and-materials contract. In addition, a time adjustment may be appropriate if the UN organization caused or could have prevented the delay.

Non-excusable delays

Non-excusable delays are delays that are not authorized by the UN organization and are, in some way, the supplier's fault. Even delays that may be excusable are deemed non-excusable if the supplier could have controlled the effects of the delay in some way and failed to do so.

Remedies

When the contract is not being performed properly, there are certain remedies that may be applied by the procurement officer. These include:

- invoking contract remedies
- processing/holding payments, as per contract
- contract termination (for default or convenience).

It is also possible that the situation requires dispute resolution (see below). Any of these actions must be approved by the appropriate authority representing each of the parties.

Good practice

Good practice for choosing the appropriate remedy is to:

- identify the non-conformance
- consider the cause (negligence from supplier or the UN organization, force majeure, etc.)
- consider the contract/type of requirement (goods, services or works)
- consider the context (e.g. sole source, competition, emergency)
- consider the beneficiary/end-user requirements
- apply principle of proportionality.

When considering any contract remedy, seeking feedback from the supplier is prudent. As a practical business matter, the supplier should be given an opportunity to provide evidence against pursuing the remedy. That evidence might point to an excusable delay or impossibility of performance. Such evidence can lead to a remedy that is fair and just for both the UN organization and the supplier.

When performance problems are the result of supplier deficiencies, the legal terms and conditions of the contract provide remedies. Such deficiencies may be related to late delivery or

to other variances from contract requirements. In case of late / delayed delivery an example would be to accept the late / delayed delivery and to invoke a Liquidated Damages Clause.

A typical clause in service contracts would be, “payment upon completion of certain tasks”. Progress payments would only be made once the task has been completed by the supplier and accepted and approved by the UN organization. In case of performance delays (time or quality) the UN organization could withhold payment until the performance failure is cured.

Termination is the most serious remedy available to a UN organization. It is the exercise of the UN organization’s right to completely or partially discontinue contract performance.

Dispute management and resolution

The inherent shortcomings of language as a medium of communication, the organizational nature of the contracting process, and the dynamic nature of contract relationships all contribute to the potential for disagreements between the parties. In fact, disagreements, like changes, are virtually inevitable. They are to be expected by all involved and are considered a normal aspect of contract management. The larger and more complex the project, the greater is the potential for misunderstandings and disagreement.

Contract management planning should include agreement on the procedure to follow to resolve disagreement between parties regarding responsibilities and interpretation of the contract. Differences of opinion will arise among qualified professionals in the course of execution. Claims/requests for changes are part of normal contract execution, and the procedure to review and escalate them when necessary should be established from the beginning. There should be an agreed procedure for escalating the concern to a higher level of authority. Nonetheless, the contract should indicate which party has responsibility for a given decision, and the other party should respect that responsibility.

The parties must not allow disagreements and disputes to prevent the execution of the contract. They must commit themselves to the amicable resolution of the inevitable disputes that will arise between them. Contract claims and disputes cannot be avoided entirely, but they can be resolved effectively, fairly, and without rancour and litigation. Experienced parties to a contract will anticipate claims and disputes and recognise that they are not necessarily indicative of incompetence or ill-will, but merely reflect the fact that human foresight, planning, and performance are not perfect. Since it is difficult to avoid the injection of personalities into disputes, disputes should be resolved promptly, before they fester and infect the entire contractual relationship.

Many contractual disagreements stem from ambiguities in the language of contracts. For this purpose, the procurement officer should follow commonly accepted rules developed by judges and arbitrators to resolve ambiguities in contract language. These include:

Basic rules

Some basic rules for resolving ambiguous contract language are:

- Respect established order of precedence of documents.
- Apply dictionary definitions to everyday words and a law dictionary for legal terms.
- Apply standard trade or technical definitions to technical words, unless the context or usage indicates a different meaning.

- Define words in accordance with the contract definition.
- Presume that the same word used in different places means the same thing.
- Do not interpret or define contract language in such a way as to render it meaningless or to render the rights and obligations of one party unrealistic.
- Interpret the contract as a whole and, wherever possible, consistently.
- Where the public interest is affected, apply an interpretation that favours the public.
- When conflict occurs between two sections of the contract and no directions to the contrary exist, assume that:
 - hand-written text takes precedence over typed text
 - typed text takes precedence over pre-printed text on a standard form
 - specific clauses take precedence over general clauses.

Additional rules

For purposes of resolving ambiguous language, the basic rules apply first. When the basic rules fail to provide an answer, the following additional rules apply:

- The intent of the parties. If the words themselves do not resolve the ambiguity, the procurement officer should find evidence as to the intent of both parties when they entered into the contract. For example, evidence might be found in the minutes of the pre-proposal conference. If resolution is not evident, consider circumstantial evidence.
- The circumstances. If evidence cannot be found of the intent of the parties, examine the surrounding circumstances. Arbitration proceedings may hold a contracting party to interpretations that it held, or at least did not challenge, prior to the dispute. Inconsistencies with past interpretations by either the UN organization or the supplier are examined, e.g., a UN organization's interpretation of language in the SOW at a kick off meeting with the supplier after award will prevail over a later, contradictory, UN organization opinion. Similarly, when the UN organization can show that the supplier originally calculated certain work as required by the contract and is now trying to claim that the work is extra, the work will be considered as part of the basic contract and not additional work. If resolution is not evident, consider risk allocation principles.
- Ambiguous language in a contract is interpreted against the party who drafted it. For example, an ambiguity in the solicitation's SOW, incorporated into the contract, would be interpreted against the UN organization. Likewise, an ambiguity in the supplier's proposed technical approach, incorporated into the contract, would be interpreted against the supplier.
- If the ambiguity is obvious, and the non-drafting party does not request clarification before contract award, then that party would be viewed as having the last opportunity to correct the ambiguity. In which case, the interpretation is against that non-drafting party.

Keys to effective dispute resolution

Before escalating a dispute, consider using the following keys to effective dispute resolution:

- recognising that contract documents are not perfect
- keeping larger objectives in mind
- focusing on the facts
- depersonalising the issues
- being willing to make reasonable compromises.

Mediation

Mediation involves the intervention of an impartial third party to solve a contract dispute. Although quicker and cheaper than formal arbitration, the UN organization does not usually resort to a mediator to solve its contractual disputes.

Escalation process

Contractual disagreements and disputes can be solved using the following escalation process.

Stage	Description
1	End user and/or requisitioner discuss an amicable solution and implemented it promptly. In this stage, the requisitioner and/or end-user are advised to carefully update the contract file stating exactly what was discussed and how the dispute was resolved.
2	Procurement officer reviews the situation and enforces the contractual terms.
3	Arbitration.

Note: At each stage in the escalation process, the procurement officer should contact the organization's legal advisor for guidance and approval.

Arbitration

Arbitration is the last recourse. Arbitration, like court litigation, is time-consuming and costly. In arbitration, parties agree to submit their dispute to a panel of persons who will apply the same laws that would have been applied by regular courts. However, the arbitrators can use simplified procedures, conduct the arbitration in the language of choice of the parties, and need not be judges or even lawyers.

No one can ever be entirely sure of its result. It rarely results in a truly satisfactory resolution of a dispute, and it sours commercial relationships. For these reasons, it is to be avoided, if possible. One of the goals of the responsible UN staff members should be to resolve disputes without arbitration whenever possible.

The arbitration process is more formal than ordinary negotiations between the parties (who may be represented by attorneys), but it is less formal than court proceedings. The standard arbitration clause of UN contracts recognises that efforts will be made to settle disputes through negotiation, including mediation or conciliation, which sometimes can be considered as a less formal stage before formal arbitration

The United Nations Commission on International Trade Laws (UNCITRAL) has developed an internationally accepted arbitration process which is also favoured by the UN organizations. The process can be described as a set of generally accepted principles for international arbitration. Many national and international arbitration institutions have declared themselves willing to act as appointing authorities under the UNCITRAL arbitration rules. The cost of arbitration is shared evenly between each party to the dispute. The location of the arbitration panel is a country that can enforce the decision of the arbitration panel.

Each party to the dispute will appoint an arbitrator and the two chosen arbitrators will then select a third panel member. The parties in dispute will then prepare their case and present it to the arbitration panel. After careful review of all facts the arbitration panel makes a decision. For a UN organization, the decision by the arbitration panel is binding.

Financial management / payment

Among the rights of the supplier are the right to be paid in a timely matter for efforts completed, according to the terms of the contract. Among the obligations of the UN organization are to make payment to the supplier on a timely basis and not cause undue cost to the supplier by unreasonable management of that financial obligation. While the responsibility for management of financial aspects of the contract varies among organizations, it includes:

- Process payments due according to the contract and upon certification of requisitioner if required in the contract.
- Review financial implications of contract changes, in terms of original costs/outputs and available budget.
- Liquidate financial securities – release of bid bonds, performance bonds, advance payment bonds once the reason for requesting them has become moot.

A payment made to a supplier may be one of the following five types:

- advance
- partial
- progress
- final
- holdback / retention (withholding payment).

Advance payment

An advance payment is a sum of money paid to the supplier upon signature of the contract, in anticipation of identified early expenses. Usually the UN organizations do not undertake advance payments. However, sometimes advance payments may be necessary for such things as rent, tuition, insurance premiums, and expenses for work performed in particular countries. An advance payment needs to be justified and requires special approval before the procurement officer can include it in a contract and if it is agreed to, all reasons therefore need to be documented. Above certain thresholds, suppliers receiving advance payments must provide guarantees, e.g. bank guarantees.

Partial payment

A partial payment is based on the acceptance of a particular product or service. To process a partial payment, a document must be on file that confirms the UN's acceptance. This confirmation usually is in the form of an invoice or delivery ticket detailing the goods or services and signed by a UN staff member authorized to accept the product or service.

Progress payment

A progress payment, also referred to as an instalment payment, is a form of contract financing made before final work or deliverables are accepted. The UN organization uses this form of payment for long-term service work that involves an end item, such as a report. If progress payments are authorized, they should normally be tied to a milestone in contract performance, such as the delivery and acceptance of a draft report for a UN organization's approval or delivery of an outline of initial findings for review by the UN organization. Service work for which the service itself is the deliverable (for example, courier service, cleaning services, and so on) would not need progress payments but would use partial payments for services rendered during the billing period.

Final payment

A final payment is a payment made in acknowledgement / approval of the completion of all contract performance. The payment office may make payment based on the supplier's invoice and its receipt of a receiving report or delivery docket from another UN office. For on-site services at their own office, requisitioners may play a more active role.

Holdback

Holdback payments are used in works and complex consulting assignments to ensure completion of the contract and in some construction contracts to ensure that the general supplier has paid its subcontractors. The holdback payments are retained by the UN organization until the supplier has provided proof it has discharged itself of all its obligations under the contract. This contract provision allows the UN organization to withhold a portion of payment, usually 10 to 15% of each invoice sent by the supplier.

Contract completion and close out

Contract close out activities are generally fairly straightforward, especially for small dollar value contracts and purchase orders. However, in complex and high dollar value contracts involving progress payments and/or securities, the procurement officer ensures that the contract file is properly closed out. Each of the required activities to complete and close out a contract are described below.

The close out process ensures that all contractual obligations have been met, and that residual obligations – such as warranties, guarantees and after-sales service and support – are clearly defined in terms of responsibility, liability, procedures and timeframes. Contract close-out occurs once all contractual obligations have been fulfilled by the supplier. It includes the following key steps:

Step	Action
1	Review and confirm appropriate action taken according to contract close-out checklists.
2	Prepare final contract performance report (jointly by requisitioner and procurement officer), including lessons learned. Depending on the organization, this report may be purely internal or may be shared with the supplier for their knowledge and comment.
3	Prepare supplier assessment form and forward for appropriate action.
4	Issue final acceptance on the basis of the requisitioner's report.
5	Make final financial settlements.
6	Liquidate/return bonds and/or securities.
7	Record any residual obligations (warranties, etc.) and advise requisitioner of procedures.
8	Close out contract file.

UN organization supplied equipment and material

Prior to closing a contract, assets provided to the supplier by the UN organization during the contract must be returned to the UN organization. A report confirming receipt of this material and equipment should be prepared and placed on the contract file.

Unused furnished material provided by the UN organization must also be returned by the supplier. A report is prepared by the supplier detailing the amount of material consumed during contract execution and the quantity and quality of the material returned to the UN organization. A copy of the report should be placed on the contract file.

Warranty performance

Warranties must be spelled out in the specific terms and conditions of the contract or in the UN organization's standard contract terms and conditions. Warranties offer buyers remedies when defects are discovered after products and services have been accepted. The administration of warranties is primarily the responsibility of the requisitioners or end-users. Because end-users often are the first to identify defects in products that are covered under warranty, it is essential that they are familiar with any required procedures.

Commercial warranties provided by manufacturers and services contain strict notification procedures that the UN organization must follow. If these procedures are not followed, the supplier is not obliged to honour the warranty terms. Consequently, the UN organization should put in place general steps to follow when problems with accepted items arise. Normally, the advice of the organization's legal advisor may be required.

When problems with accepted items occur, and before the supplier is notified, the end-user or requisitioner should:

- identify the UN's specific rights under the warranty
- verify that the defect is covered under the warranty and that it applies in the specific incident of failure, by answering these questions:
 - Has the UN organization officially accepted the product or service?
 - When does the warranty expire, and what does it cover?
 - Does the UN organization have any obligations under the warranty, and have those obligations been met?
 - Do the facts support invoking the warranty?

With the information gathered, the UN organization can notify the supplier and do the following:

- obtain the supplier's position and its reasons for taking that position
- reach agreement on how and when the warranty will be applied
- document the notification.

Regardless of when the defect was discovered, there will be less room for argument if UN staff members notify the supplier before the warranty period expires.

Liquidation of securities

Performance bonds, holdback payments and guarantees must be returned to their owners once the supplier has fulfilled its contractual obligations. Securities must be liquidated at the time and in the manner described in the contract. In the case of works and capital equipment, the securities are typically held and kept safe by the finance department until they have expired.

Supplier performance report

In addition to the remedies, procurement officers document deficiencies on a supplier performance report. Such reports are to be prepared by the requisitioner or the contract manager and then sent to the appropriate procurement officer. Supplier performance reports alert the UN

organization to patterns in performance problems and identify suppliers who might present high performance risks. The procurement officer may seek appropriate management review and action when the supplier performance report is particularly negative, according to the policies and procedures of the individual organization. Supplier performance reports are completed by the requisitioners/end-users. They are used to document satisfactory performance of suppliers and document the poor performance of the suppliers to eventually eliminate them from the organization's supplier roster. Once completed, a copy should be kept on the contract file and on the supplier's file (see Unit 3.3 Sourcing for further details).

Claims

A claim is a request from either party for entitlement under the contract that is not being fulfilled. Claims might result from:

- unforeseen costs
- disputes over the interpretation of contract clauses
- disputes over what is included within the contract price
- breaches of contract.

Any claim (whether issued by the UN organization or the supplier) should include:

- full explanation of the problem as well as the causes of the problem
- the contract clause under which the claim is being submitted.

Claims should only be considered from suppliers that are contracted directly by the UN organization. Those submitted by a supplier's sub-contractor should be rejected since there is no contract between the sub-contractor and the UN organization. The supplier may however wish to make a claim against the UN organization on the basis of a claim made against it by its sub-contractor. Contracts can not be closed out until all claims are settled.

Lessons learned

The requisitioner and the procurement officer may be expected to complete a lessons learned report. This is good practice and allows the organization to gather and use information to improve chances of success of future procurement actions. It covers as a minimum the following questions and topics:

- Was the requirement adequately defined?
- Were the evaluation criteria appropriate?
- Was the evaluation method appropriate?
- What kinds of suggestions were brought up by suppliers?
- What problems were encountered?
- Recommendations to avoid similar situations.

Chapter 4: Transverse Procurement Themes

In this chapter

This chapter covers the following topics:

Topic	See Page
4.1 Risk Management	4-2
4.2 E-Procurement	4-11
4.3 Logistics	4-18
4.4 Ethics in Procurement	4-28
4.5 Sustainable Procurement	4-41

4.1 Risk Management

Risk is exposure to loss as a consequence of uncertainty. There are a variety of risks faced during the procurement process. There are global risks and risks in every phase and stage of the process, with certain risks of greater importance during each stage. Understanding the main categories of risk faced in the procurement process assists in risk assessment and planning practical management and operational measures that should be taken to mitigate those risks.

Risk analysis and management

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

Risk analysis

Risk analysis is a planning stage which seeks to identify the origin, probability and magnitude of the risks. It helps direct attention to which risks warrant close attention and have the greatest potential for reducing exposure. There are distinct risks at each stage of the procurement process. Risk analysis should form part of each stage of procurement planning and be regularly updated.

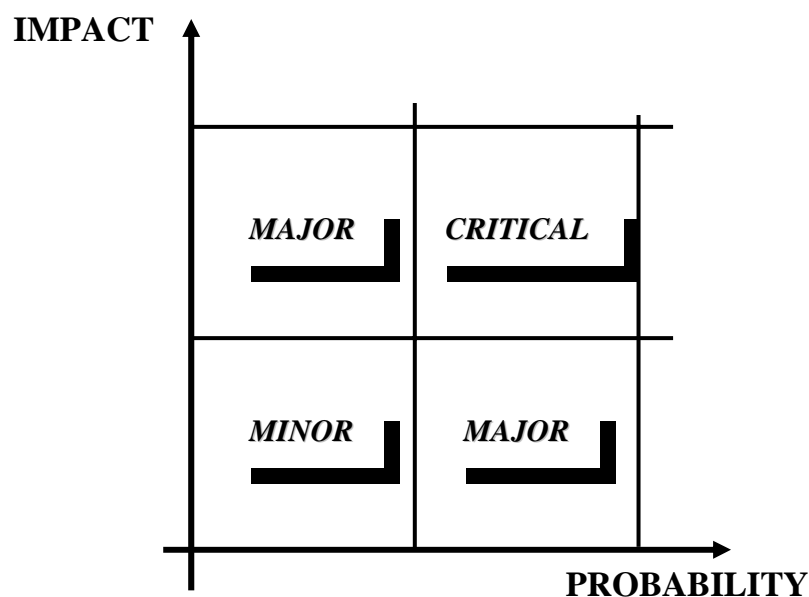
Risk management

Risk management seeks to mitigate the impact of the risk by reducing the likelihood of its occurrence and/or reducing avoidable consequences through planning, monitoring and other appropriate actions. Whether in general or in the specific case, procurement officers should identify and analyse all risk factors that are likely to occur on a project, and then decide on the most appropriate management response for each risk/combination of risks. Responses may include:

- ignore
- reduce
- transfer
- manage, and
- decide which party is most appropriate to manage each of the risks identified.

Neither in the business world nor the public sector can risk be avoided entirely, rather it is part of the normal work environment within which we operate. It can to some extent be managed. Some measures to manage risk are based on the quality of the procurement process applied across all activities, while other measures may be targeted to specific risks inherent in certain categories of procurement.

A useful tool to analyse risk and focus management attention is the risk analysis and management matrix. During procurement planning, activities are placed on a risk continuum from “low” to “high” and an impact continuum from “low” to “high” as shown in the figure below.

Risk analysis and management matrix*Benefits of risk management*

The benefits of effective risk management include:

- Greater confidence of right supply at right time, to further specific activity goal
- better control of uncertainty
- reduced impact of risk
- improved decision making
- realistic estimates less likely to be exceeded
- stronger team communication
- lower probability of damage to the image of the organization.

In managing risk, it is important to understand the extent to which a party has control over the risk and the ability to do something about it. Responsibility for risk should be allocated according to the ability each party has to manage the risk. Efforts to make a party responsible for risks over which it has no control are likely to lead to dispute and additional costs in time or money. In fact, such “risk avoidance” leaves the risk in place, when it is in the interest of the organization that it be managed.

Sources of risks

Risks to successful procurement can come from several types of sources, namely:

- external factors
- project complexity
- project planning
- procurement process
- fraud, corruption and unprofessional conduct.

External factors can include political, economic, and even nature. Among the more frequent external factors are the UN organization and partner government decision making processes that are used to approve activities and their budgets. While political and budgetary factors are generally outside the control of the procurement officer, to reduce the risk of late supply, it is

appropriate to begin the procurement process with sufficient lead time, and include appropriate caveats to potential suppliers when a solicitation is issued in advance of authorisation, ensuring that it will not lead to binding commitments until and if such authorisation is received.

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

Where project planning not properly carried out, this can contribute to each of the negative outcomes referred above, as well as to friction in relations among colleagues. The risks can be best reduced through early involvement of procurement officers in planning respective activities to ensure that requirements for and of procurement are properly integrated.

The procurement process contains in each of its stages, multiple specific risks and consequences. Managing these risks is part of the professional responsibility of each procurement officer.

Fraud, corruption and unprofessional conduct can enter into any stage of the procurement process, producing the risk of loss of organizational resources and budget for inappropriate supply, with corresponding great damage to the image of the organization. Key among the measures to mitigate these risks are:

- transparent process
- competition
- separation of functions
- clear rules and procedures
- standard documents
- professional training of staff
- effective control systems
- accountability.

Competition, transparency and separation of functions are the foundation of risk mitigation, since they ensure any fraudulent or corrupt behaviour will not go unnoticed. These need to be linked to senior management that does not tolerate such behaviour, provides training, systems, authority and controls so staff may carry out the procurement function correctly (see Unit 4.4 Ethics).

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

Risk and risk management in the procurement process

There are risks in each phase of the procurement process, and there are organizational and commercial measures that can be taken to mitigate those risks. Examples of typical risks, possible consequences and what to do at each stage are listed in the tables below:

Strategic organizational procurement analysis and planning

Risk	Possible Consequences	What to do
Failure to secure ongoing supply critical to the organization.	<ul style="list-style-type: none"> • Failure to achieve key organizational results. • Total costs of procurement too high. 	<ul style="list-style-type: none"> • Analyse organization's procurement portfolio, function & capability and undertake strategic procurement planning.

Planning of a procurement activity

Risk	Possible Consequences	What to do
Insufficient lead-time.	<ul style="list-style-type: none"> • Inadequate supplier response. • Higher prices. 	<ul style="list-style-type: none"> • Involvement of procurement officers in project planning phase.

Requirement definition

Risk	Possible Consequences	What to do
Biased or restrictive specifications/ToR/SoW.	<ul style="list-style-type: none"> • Claims of unethical or unfair dealings. • Inadequate supplier response. 	<ul style="list-style-type: none"> • Use functional performance specifications. • Apply relevant international standards where available.
Inadequate specification/ToR/SoW.	<ul style="list-style-type: none"> • Significant variety in offers received. • Insufficient responses. • Offer of goods/services that do not meet needs. • Difficulty in evaluating competing offers. • Possibility that evaluation process may not stand up to audit scrutiny. 	<ul style="list-style-type: none"> • Follow advice in the organization's Procurement Manual. • Be familiar with the requirements of the specification/ToR/SoW. • Get training in writing specifications/ToR/SoW. • Allow industry to preview requirements. • Seek offers again and incur extra management effort.
Requisition splitting.	<ul style="list-style-type: none"> • Claims of unethical or unfair behaviour. • Inability to achieve economies of scale. • Higher total cost of acquisition. 	<ul style="list-style-type: none"> • Training requisitioners in procurement. • Separation of functions to ensure possible breaches are identified and prevented.

Sourcing

Risk	Possible Consequences	What to do
Wrong approach to market.	<ul style="list-style-type: none"> • Inadequate or inappropriate supplier response. • Higher prices. • Selection of inappropriate procurement method. 	<ul style="list-style-type: none"> • Analyse supply markets.
Misrepresentation of facts by potential suppliers.	<ul style="list-style-type: none"> • Claims of unethical or unfair dealing. • Breach of contract. 	<ul style="list-style-type: none"> • Independently verify supplier qualifications.
Outdated information on potential suppliers.	<ul style="list-style-type: none"> • Inadequate supplier response. 	<ul style="list-style-type: none"> • Maintain supplier rosters.

Risk	Possible Consequences	What to do
Informal commitments to suppliers by requisitioners	<ul style="list-style-type: none"> • Claims of unethical or unfair dealing. 	<ul style="list-style-type: none"> • Train requisitioners. • Separation of functions.

Selection of procurement strategy

Risk	Possible Consequences	What to do
Delayed requisitions to create false emergencies.	<ul style="list-style-type: none"> • Claims of unethical or unfair dealings. • Higher total cost of acquisition. 	<ul style="list-style-type: none"> • Early involvement of procurement officers in project planning. • Training of requisitioners • Seek justification of emergencies. • When not justified follow regular procurement process.
Selection of inappropriate procurement strategy.	<ul style="list-style-type: none"> • Inadequate or inappropriate result. • Not achieving best value. 	<ul style="list-style-type: none"> • Agree on desired outcomes & objectives with client. • Seek offers again and incur extra management effort.

Preparation and issuance of solicitation documents

Risk	Possible Consequences	What to do
Use of inappropriate evaluation criteria.	<ul style="list-style-type: none"> • Inadequate or inappropriate result. • Not achieving best value. 	<ul style="list-style-type: none"> • Consider implications of the evaluation criteria. • Seek offers again and incur extra management effort.
Terms and conditions unacceptable to suppliers.	<ul style="list-style-type: none"> • Loading of costs in offers. • Many qualifications to tenders. • Too few bids. 	<ul style="list-style-type: none"> • Check with the market. • Develop commercially acceptable terms. • Use standard conditions of contract. • Check that responsibility for risks is not allocated to suppliers for factors outside their control.
Uncertainty among suppliers because of new and unusual conditions of contract.	<ul style="list-style-type: none"> • Loading of costs in offers. • Disruption. • Adverse impact on the organization's professional recognition. 	<ul style="list-style-type: none"> • Use standard conditions. • Seek the legal office's approval to conditions of contract. • Allocate risks appropriately.
Provisions of inadequate information.	<ul style="list-style-type: none"> • Loading of costs in offers. • Great variation in offers. • Difficulty in clarifying and closing offers because of extensive requests from suppliers for clarification 	<ul style="list-style-type: none"> • Ensure that staff is suitably trained. • Review documents before issue. • Know your market.
Actual or perceived favouritism in	<ul style="list-style-type: none"> • Supplier complaints. • Political intervention. 	<ul style="list-style-type: none"> • Implement standardized procedures for responding to

Risk	Possible Consequences	What to do
providing information.	<ul style="list-style-type: none"> • Withdrawal of offers. 	inquiries. <ul style="list-style-type: none"> • Advise all suppliers of all responses to inquiries received.

Receipt and opening of offers

Risk	Possible Consequences	What to do
Actual or perceived breach of confidentiality.	<ul style="list-style-type: none"> • Supplier complaints. • Political intervention. • Mistrust by suppliers. 	<ul style="list-style-type: none"> • Establish formal security procedures. • Perform regular security audits and reviews. • Advise suppliers of security measures. • Train staff.

Evaluation

Risk	Possible Consequences	What to do
Failure to observe effective evaluation procedures.	<ul style="list-style-type: none"> • Inconsistency in evaluation of offers. • Potential for ethical dilemmas. • Subjectivity in outcome of evaluations. 	<ul style="list-style-type: none"> • Perform regular audits of procedures. • Ensure that staff are suitably trained and experienced.
Failure of offers to meet needs.	<ul style="list-style-type: none"> • Need to re-tender. 	<ul style="list-style-type: none"> • Ensure that the specification is understandable. • Know the marketplace.
Failure of evaluation to identify a clear winner, leading to selection on subjective grounds or new criteria.	<ul style="list-style-type: none"> • Claims of unethical or unfair behaviour. 	<ul style="list-style-type: none"> • Ensure that selection criteria are appropriate, well defined, and measurable before tenders are called.
Selection of inappropriate supplier.	<ul style="list-style-type: none"> • Failure of supplier to fulfil contract. 	<ul style="list-style-type: none"> • Perform financial and technical checks on suppliers before awarding the contract. • Reject offers from unacceptable suppliers. • Improve evaluation procedures.
Selection of inappropriate goods/services.	<ul style="list-style-type: none"> • Failure of the goods/services to meet the need. 	<ul style="list-style-type: none"> • Ensure that users are involved with the evaluation. • Improve technical evaluation procedures responsibility for handling in-confidence documents.
Insufficient number of responses.	<ul style="list-style-type: none"> • Need to start procurement again. • Delays to procurement schedule. • Poor value for money due to limited competition. 	<ul style="list-style-type: none"> • Use a proven and recognised way to notify the suppliers of the requirement. • Allow for sufficient time for

Risk	Possible Consequences	What to do
		suppliers to prepare offers. • Consider publishing two to three-year forward estimates of major purchase budgets.
No response from known high-quality suppliers.	• Failure of offers to meet needs. • Greater uncertainty about suppliers' capabilities.	• Seek early industry participation. • Know your market. • Request tenders from selected suppliers.

Procurement review and award

Risk	Possible Consequences	What to do
Contract approval not obtained.	• Delays in contract award.	• Ensure adherence throughout process to rules and procedures. • Ensure adequate documentation of process.

Contract finalization and issuance

Risk	Possible Consequences	What to do
Masking, by apparent agreement, of different expectations of buyer and supplier.	• Contract disputes. • Delivery delays. • Possible cost variation.	• Define terms carefully. • Record each party's obligations. • Clarify all ambiguities, before signing the contract • Keep full and accurate documentation.
Deadlock on details of agreement.	• Delays in delivery. • Need to restart the procurement. • Increase in costs because of legal action.	• Investigate better ways of sharing risks. • Distinguish between essential and non-essential goals and requirements for negotiations.
Undue concession to suppliers	• Reduction in value for money. • Claims of unethical and unfair practices. • Purchase of less suitable product. • Inefficiency and misuse of resources.	• Negotiate on commercial terms. • Ensure that negotiators are adequately trained.
Failure to secure mandatory conditions.	• Inability to finalize contract. • Delays in delivery. • Possible variations in cost. • Inefficiency and misuse of resources.	• Distinguish between essential requirements and others before negotiating. • Consider variations in the contract. • Refuse the offer.
Grossly unfair or onerous requirements on the supplier in the contract conditions.	• Contract disputes. • Invalidity in the contract. • Legal action. • Poor working relationship with the supplier.	• Negotiate on commercial terms. • Consider fairness and reasonableness of terms. • Ensure that negotiators are adequately trained.
Failure to reflect	• Contract disputes.	• Make a final check of the draft

Risk	Possible Consequences	What to do
the terms offered and agreed in the contract.		contract with the supplier. • Keep records of all negotiations and agreements.
Inadvertently creating a contract without appropriate prior approval.	<ul style="list-style-type: none"> • Increased expense to negotiate out of the contract and paying damages. • Committing other associated work before main contract exists or falls through. 	<ul style="list-style-type: none"> • Ensure that staff is appropriately trained. • Establish procedure to ensure that appropriate approval is obtained first.

Contract management

Risk	Possible Consequences	What to do
Variations in price and foreign exchange.	<ul style="list-style-type: none"> • Cost overruns. 	<ul style="list-style-type: none"> • Agree on prices and the basis of prices. • Determine the basis and formula for calculating variations in the solicitation document.
Unwillingness of the supplier to accept the contract.	<ul style="list-style-type: none"> • Delays in delivery. • Need to restart the procurement. 	<ul style="list-style-type: none"> • Seek legal redress if non-acceptance causes loss. • Negotiate the concerns of the supplier but ensure that the integrity of the contract remains.
Failure by either party to fulfill the conditions of the contract.	<ul style="list-style-type: none"> • Contract disputes. • Failure or partial failure to satisfy the needs. • Delays. • Inability of anyone to work on the project or procurement. • Legal action. 	<ul style="list-style-type: none"> • Review Past Performance Record. • Ensure proper contract management. • Hold regular inspections and get progress reports. • Ensure that all staff working on the project know the contract conditions and the buyer's responsibilities. • Establish appropriate record-keeping systems. • Maintain accurate records and documentation.

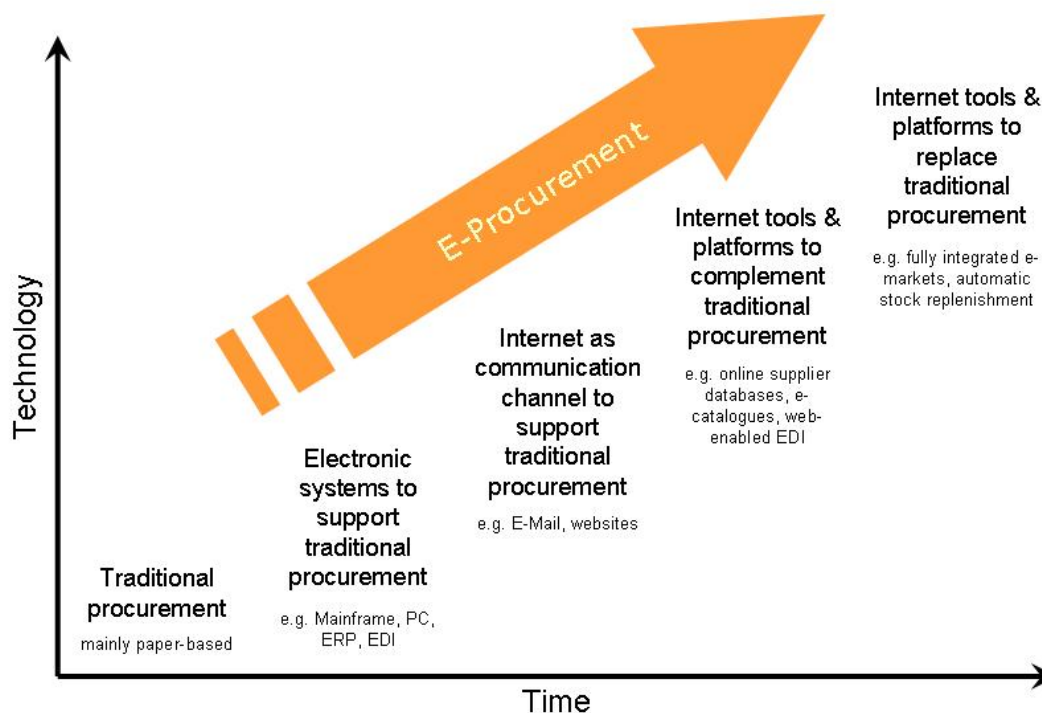
Logistics

Risk	Possible Consequences	What to do
Leaving the choice of the freight forwarder to the suppliers.	<ul style="list-style-type: none"> • Many different freight forwarders handling the organization's transport of goods. • No control over performance of freight forwarders in case of delays. 	<ul style="list-style-type: none"> • Choosing the right Incoterm so that control of Freight Forwarder is under the control of the organization. • Long Term Agreements with prequalified freight forwarders.
Shipping of certain goods without having the recipient government's permit of importing these goods.	<ul style="list-style-type: none"> • Goods arrive at the country of destination but cannot enter. • Recipient may be required to pay the cost of storage in the port and applicable liner charges until the permit / authorisation is issued. • Cargo may deteriorate or go missing during this waiting period. 	<ul style="list-style-type: none"> • Knowledge of which countries require which licenses for which goods. • Request such licenses already in advance, i.e. as early as possible during the procurement process.

4.2 E-Procurement

Introduction

In its broadest sense, e-procurement involves electronic data transfers to support operational, tactical and strategic procurement. E-procurement has therefore been around for much longer than the term itself which first came into usage after the establishment of the internet in the 1990s. From the 1960s until the mid 1990s, e-procurement primarily took the form of electronic data interchange (EDI). Nowadays, e-procurement is often supported by internet technologies and is becoming more prevalent. The historic context is demonstrated in the chart below:



Those involved in the procurement function need to understand the e-procurement concepts and tools to provide input into their development, use, evaluation and refinement as a means of improving procurement efficiency and effectiveness.

Procurement officers and managers can make a contribution to decisions about investments in, and configuration and use of e-procurement tools by:

- having a general understanding of the various e-procurement applications
- identifying the procurement processes that are effectively supported by e-procurement
- understanding the sources of benefit of e-procurement
- identifying the risks associated with the adoption of e-procurement
- contributing to the development of e-procurement tools through identifying scope for e-commerce supported process improvement.

E-procurement tools and applications

Some e-procurement tools and applications include:

- electronic systems to support traditional procurement
- EDI (electronic data interchange)
- ERP systems
- internet as a support or complement to traditional procurement
- electronic mail (e-mail)
- web enabled EDI
- extensible markup language (XML)
- world wide web (www)
- internet tools and platforms that replace traditional procurement

Electronic systems to support traditional procurement

These include mainframes and personal computers (PC), Electronic Data Interchange (EDI) and Enterprise Resource Planning (ERP).

EDI (Electronic Data Interchange)

EDI is an application whereby electronic messages can be exchanged between computer programs of two separate organizations. Some features of EDI include:

- Messages are exchanged in groups, known as batches.
- Messages can automatically be sent, transmitted and stored between computers without retyping or keying data.
- EDI has to be implemented by each pair of organizations (sender and receiver) who wish to use it. This means that the implementation costs of EDI are relatively high.
- EDI is mostly used where the messages exchanged concern such matters as orders, confirmations, transport information and invoicing.
- EDI traditionally runs on so-called, “Value Added Networks”, which are closed networks (unlike open networks like the Internet).

ERP systems

ERP systems are management information systems that integrate and automate many of the business practices associated with the operations of a company or organization. ERP systems typically handle the manufacturing, logistics, distribution, inventory, shipping, invoicing, and accounting for a company or organization. ERPs aid in the control of many business activities, like sales, delivery, billing, production, procurement, inventory management, and human resources management.

Internet as a support or complement to traditional procurement

There are various types of internet based applications that serve different purposes. Some well-known applications that use the internet are described below:

Electronic mail (e-mail)

Email is an Internet based application through which electronic messages are exchanged between people.

Web enabled EDI

web enabled Edi is like traditional EDI (see above), but run on the Internet; also known as EDI-INT.

Extensible Markup Language (XML)

XML is used to allow for the easy interchange of documents on the World Wide Web.

World Wide Web (WWW)

The WWW is a major service on the Internet. The World Wide Web is made up of "Web servers" that store and disseminate "Web pages," which are "rich" documents that contain text, graphics, animations and videos to anyone with an Internet connection.

The figure below illustrates the categories of electronic communication exchange between people and computers.

<div> <div>Communication Party 1</div> <div>Communication Party 2</div> </div>	Person	Computer Programme
	Person	World Wide Web
Computer Programme	World Wide Web	Web enabled EDI / XML

Internet tools and platforms that replace traditional procurement

Some internet tools and platforms that replace traditional procurement include:

- E-sourcing
- E-tendering
- E- auctioning
- E-ordering and web-based ERP
- E-information

E-sourcing

E-sourcing supports the specification phase; it can be used to pre-qualify suppliers and also identifies suppliers that can be used in the selection phase. For suppliers the benefit is: "marketing" and for the buying organizations the benefit is facilitating the sourcing of suppliers. The UN Global Market Place (UNGM www.ungm.org) is an example of an E-sourcing tool.

E-tendering

E-tendering supports the selection stage and acts as a communication platform between the procuring organization and suppliers. It covers the complete tendering process from REOI via ITB/RFP to contracting, usually including support for the analysis and assessment activities; it does not include closing the deal with a supplier but facilitates a large part of the tactical procurement process. It results in equal treatment of suppliers; transparent selection process; reduction in (legal) errors; clear audit trail; more efficiency in the tactical procurement process and improved time management of tendering procedures. Some UN organizations such as UNDP-IAPSO and UNHCR have used E-tendering in the formulation of long-term agreements for vehicles, tents, motorcycles and pharmaceuticals through an in-house developed tendering portal.

E-auctioning

E-auctioning supports the contract stage. It enables the closing of a deal with a supplier if parties agree on price. They operate with an upward or downward price mechanism e.g. e-auctioning with upward price mechanism for the selling organization and e-reverse auctioning with a downward price mechanism for the buying organization. They can be made in accordance with traditional ITB/RFP. They are internet based using open or closed systems.

E-ordering and web-based ERP

E-ordering and web-based ERP is the process of creating and approving procurement requisitions, placing purchase orders, as well as receiving goods and services ordered, by using software systems based on the Internet.

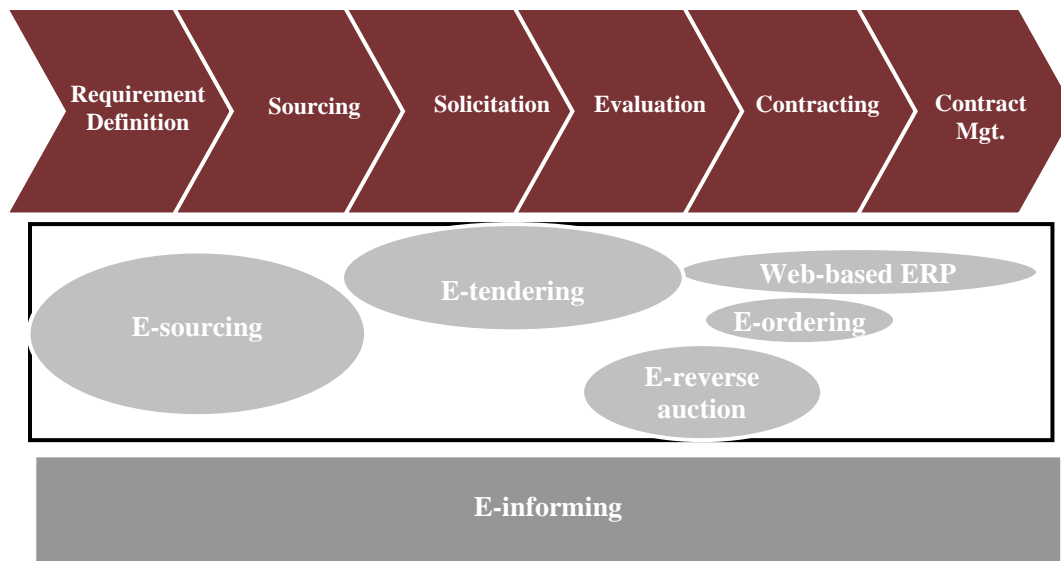
System	Usually used...
E-ordering	<ul style="list-style-type: none"> • For indirect (facility) goods and services. • By all employees of an organization. • For ad-hoc ordering.
Web-based ERP	<ul style="list-style-type: none"> • For direct (product related) goods and services. • By a procurement department. • For planned ordering.

E-informing

E-informing is not directly associated with a stage in the procurement process; it is the process of gathering and distributing procurement information both from and to internal and external parties using Internet technology.

E-procurement in the procurement cycle

The figure below shows the six forms of e-procurement plotted in the procurement process



Each of these forms can be explained as follows:

- E-sourcing supports the specification phase; it identifies suppliers that can be used in the selection phase.
- E-tendering supports the selection phase; it facilitates the REOI and ITB/RFP activities, usually including support for the analysis and assessment activities.
- E-reverse auctioning supports the contract phase; it enables closing a deal with a supplier;
- E-ordering and web-based ERP is the process of creating and approving procurement requisitions, placing purchase orders, as well as receiving goods and services ordered, by using a software system based on the Internet.
- E-informing is not directly associated with a phase in the procurement process; it is the process of gathering and distributing procurement information both from and to internal and external parties using Internet technology.

E-procurement strategy – costs, benefits and risks

Business cases aimed at adopting or enhancing e-procurement tools are often prepared by information technology and/or finance specialists. However, some of the most successful e-procurement implementations have been driven by those who best understand the procurement processes and outcomes to be achieved. Because of their understanding and proximity to procurement processes, those involved in the procurement function have a key role to play in identifying and assessing the costs and benefits of e-procurement tools and in providing input into how existing tools may be enhanced.

The following costs and benefits as identified by de Boer, Harink et al. (2002), can be influenced by e-procurement:

- The cost of expenditure on goods/services related directly to the production/service delivery.

- The cost of non-production of goods and services.
- The cost of operational procurement activities – e.g., requisitioning, ordering, expediting and administrative support.
- The cost of tactical procurement activities – e.g., formulating specifications, selecting suppliers, negotiating with suppliers, contracting, disposals etc.
- The costs of strategic procurement activities – e.g., spend analysis, transaction analysis, market analysis, planning, developing procurement policies etc.
- Internal benefits arising from investments in particular inter-organizational relationships.
- The contribution of investments in particular inter-organizational relationships to revenues.

These costs and benefits should be assessed in relation to each e-procurement tool. While it is usually assumed that e-procurement will automatically deliver benefits, the actual benefits will depend on many factors including: cost of required investment, ability to convert associated savings to cash, nature of the procurement process being automated, particular supply market and the extent to which the organization supports its implementation.

Benefits

Particular benefits of e-procurement in the public sector are thought to include greater transparency in procurement through electronic publishing of tender notices and contract awards. This in turn is likely to enhance accountability and reduce the instances of corruption.

When developing a business case for adopting or enhancing an e-procurement tool, it is important to assess the baseline benefits and costs associated with the process or processes to be automated in order to understand the probable outcomes of e-procurement adoption or enhancement. In essence, it is important to understand what will change and how it will change when an e-procurement tool is implemented.

Risks

The implementation of e-procurement tools carries certain risks. One of the primary risks is missing opportunities to implement strategies that improve procurement management without the need for investment in e-procurement. This is because many of the benefits ascribed to e-procurement may be achieved simply by improving procurement practice. For example, it is often said that e-procurement reduces “maverick buying”. However, other measures, including the implementation of corporate buying strategies that offer value for money, do not need electronic tools.

Another risk is over-investment in e-procurement tools that do not deliver the expected benefits. This risk arises when there has been inadequate evaluation of the implications of the adoption or enhancement of e-procurement tools. The risk that users will not accept an e-procurement tool is another common risk. This risk often arises where users have not been adequately consulted about the adoption or enhancement of particular tools.

On the supply side, there is a risk that suppliers will not cooperate with the use of e-procurement tools. For example, some suppliers are sufficiently powerful to insist on the use of paper-based systems. Others may not have access to affordable internet based technology that would give them access to the e-procurement tools of purchasers. In markets that are already competitive with low profit margins, suppliers may choose not to participate in e-reverse auctions.

Normal methods of risk assessment and management (see Unit 4.1 Risk Management) should be applied during the development of business cases for e-procurement development or enhancement.

Legal aspects of e-procurement

The accepted legal framework guiding e-procurement is the UNCITRAL Model Law on Electronic Commerce which states:

“In the context of contract formation, unless otherwise agreed by the parties, an offer and the acceptance of an offer may be expressed by means of data messages.”

“Where a data message is used in the formation of a contract, that contract should not be denied validity or enforceability on the sole ground that a data message was used for that purpose.”

Good practice in the UN system adopts this approach, for example, the UN revised FRR take into account the feasibility of electronic contracting. As per UN Financial Rule 105.18 (b) which states:

“The requirement for written procurement contracts shall not be interpreted to restrict the use of any electronic means of data interchange. Before any electronic means of data interchange is used, the Under-Secretary General for Management shall ensure that the electronic data interchange system is capable of ensuring authentication and confidentiality of the information”.

In the UN Secretariat, this authority has been delegated to the UN controller, who determines whether in a particular case, electronic contracting may be possible, for example by an electronic exchange of information without the need to issue a traditional purchase order. Electronic contracting may only be agreed with a supplier in specific cases where prior written authorisation has been obtained.

In adopting or adapting any e-procurement systems, the practical issues around these legal aspects need to be taken into consideration during the planning and implementation stages.

4.3 Logistics

Introduction

Logistics is defined as the process of planning, implementing and controlling the efficient and cost-effective flow and storage of raw materials, goods, equipment and personnel from the point of origin until the completion of an activity, in accordance with end-user's requirements.

In its broadest sense, logistics includes all the elements that constitute a delivery infrastructure, however, in this context, focus will be on the aspects of logistics that are relevant to the procurement process. This Unit provides only a brief summary of logistics seen from a procurement perspective. Specialists in logistics will have a more advanced approach, and some UN organizations treat logistics as a separate field of expertise. Further, some UN organizations use warehouses as a strategic tool in supply chain management. Management of warehouses is not included in this Unit.

Logistics planning process

Proper logistics planning entails considering logistical aspects throughout the various stages of the procurement process. It contributes to efficient procurement processes, and reduces the risk of incurring problems that may lead to additional costs and delay.

Logistics planning starts at the needs assessment phase of procurement by considering the desired result of the requisitioner and the end-user and from there working backwards to determine what will lead to a successful completion of the activity. Ideally this process should begin even before the requisition is placed, through close cooperation and efficient communication between the operational unit requesting the purchase and procurement officers.

The aspects of logistics planning that should be considered during the various stages of the procurement process (planning, requirement definition, sourcing, and evaluation) are detailed below:

- 1) Understanding the operational context of the required product, and, if possible, assist in developing specifications suitable to local conditions.
- 2) Evaluating the procurement activity and the time and financial resources available in order to determine urgency of the requirement. Urgency may determine location of the purchase and thereby also the mode of transport.
- 3) Determining the type of sourcing.

Goods may be purchased locally/regionally or internationally, or through established LTAs. However, in some organizations, goods may also already be available in a warehouse, as surplus stock from another project, or in pipeline already purchased for another purpose, but available for diversion in order to cover a more urgent need. Goods may even be borrowed from a sister organization, or be available as a donation in kind.

Goods may also have been pre-positioned as part of an emergency stockpile policy, either globally, regionally or on a local level.

These options should be considered when determining whether to purchase, and how and where to purchase, the required product, in order to meet end-user's needs in a timely and cost efficient manner.

- 4) Determining which markets are best positioned to respond to the end-user's delivery requirements by evaluating total delivered costs as well as lead times, in addition to conformity with technical criteria, for example, tractors from one region are not necessarily the most suitable for another region, even though they may be very competitive and reasonably priced.

There is usually a trade off between the purchase price of a product and their transport costs and delivery lead-time. The relative importance of these factors will determine where the goods are purchased and how they are transported. It should be noted that geographic distance does not necessarily determine the cost and delivery time. Trade lanes and feeder vessels will have an impact.

Accepting a more expensive offer in order to conform to the requested delivery date should be carefully assessed and discussed with the requisitioner and end-user in order to ensure the most effective use of funds. When the delivery date is the primary factor in awarding a contract, it should be clearly stated in the solicitation document. In such a case, any offer not in compliance with the requested delivery schedule must be rejected.

- 5) Reviewing the delivery and transport requirements, as well as the budget, and ensuring that they are complete and realistic.

The cost of transportation is a significant component in the cost of goods procured and delivered to the designated site. Procurement officers should therefore ensure proper logistics planning in making every effort to keep the transportation costs down. However, in logistics planning, the cheapest alternative may not always be the one that offers the lowest overall cost. A low-cost, but poor delivery strategy may result in delays, damaged or stolen goods, excessive port charges, etc. All factors should therefore be assessed when choosing the appropriate logistical solution.

- 6) Determining and comparing total lead time, including logistics activities. Different logistics corridors incur different costs, but also have an impact on total lead times. One route may, for example, be cheaper but experiences many difficulties and delays in clearing transit goods. An alternate route may cut transport time. In some source countries, for example, export processing may take longer, or ports may experience much congestion. Total supply chain lead times should be taken into account.
- 7) Determining the most cost effective means of contracting transport, i.e. from the supplier included in the purchase order, or contracted to independent freight forwarder. Some organizations also allow transportation with their own resources (e.g. transportation of goods in project vehicles by project personnel).
- 8) Tendering for freight services, if determined under aspect number 6 listed above, and checking availability and competitiveness of an LTA for freight services. For large

consignments where more favourable rates can possibly be obtained, spot tenders are advisable.

- 9) Insuring a consignment in accordance with the policy of the organization (see 'insurance during transportation' below).
- 10) Ensuring that shipping documents received from the supplier and freight forwarder are complete and accurate and that the consignee has received their set (see 'shipping documents' below).
- 11) Ensuring that necessary arrangements are in place to clear cargo on arrival. Depending upon the procedures in the country, the consignee could be responsible for custom clearance of the goods, however, customs clearance is part of the procurement procedure, and thus the responsibility of procurement officers.

Arrange for acceptance of goods on arrival by the receiving unit and ensure that claims are initiated within the time frame stipulated in the cargo insurance to secure the interests of the organization in the case of missing or damaged cargo.

- 12) Obtaining acknowledgement from consignee that the shipment has been received in good order.

Throughout this process, the requisitioner and/or end-user should be kept informed of expected and actual delivery dates in order for them to account for it in their local planning.

Logistics requirements for goods

The following logistical requirements should be considered for the shipment of goods:

- packing and containerization
- packing & shipping instructions
- labelling and shipping marks
- modes of transportation
- forwarding agents
- Incoterms
- insurance during transportation
- shipping documents
- receipt of consignment.

Packing

The nature of the goods together with the mode of shipment and the climatic conditions during transit and at the destination, determine the required packaging.

The durability, size and weight of the packages should be considered in relation to the planned means of transportation. It should be ensured that the equipment, warehouse facilities, operators and labourers involved in the shipment of the goods have the capacity to handle the goods in the chosen packaging. For instance, some port facilities can only handle 20ft containers so 40ft containers should not be used. Further, axle weight road restrictions should be considered for certain road shipments and maximum vessel draught allowed for shallow ports, etc.

Climatic conditions both at the end destination, but also in transit, should be considered to ensure the packaging can withstand heat, cold, rain, humidity, mould, dust, salt water spray, etc., if required. Certain types of goods require a constant temperature and air shipment, cold chain equipment and temperature monitoring.

To be on the safe side, always assume that shipments will be handled roughly and loaded and offloaded numerous times before reaching the final destination.

Containerization

Unless the goods are shipped in 20 foot/40 foot containers (see the table below), the organization should specify that it should be shipped below deck in order to avoid damages during transport (e.g. risks of rust, humidity, etc.).

Containerization could be considered for extra protection and to handle the shipment more effectively, however, this may increase cost. If containers are used, it is recommended to try to make full use of space and ship only full containers in order to save costs, as the rate for shipment usually does not depend on weight. The use of LCL (less than container load) containers that consolidates consignments from different clients, will expose the shipment to the risks of abuse and delays if one or several consignments should experience difficulties in clearing customs. Further, small consignments risk hanging around for weeks in order to make up a full container load. It is therefore recommended, where possible, to plan loads that fill the container.

It should be noted that containerization will not reduce the need for appropriate packing, as part of the journey usually takes place outside of the container.

Containers have the following approximate size, volume and payload (note sizes can vary slightly depending on the manufacturer).

Dimensions	20 ft container	40 ft container
Inner length	5.90 m	12.02 m
Inner width	2.33 m	2.33 m
Inner height	2.21 m	2.21 m
Door width	2.30 m	2.30 m
Door height	2.14 m	2.21 m
Payload (approx.)	18-19.5 metric tons	28 metric tons

There are different types of containers, which can be used depending on the size and type of products to be shipped as described in the table below:

Container type	Features
Dry	Most common type of container.
Open top	No hard top.
Flat racks	No top and no sides.
Refrigerated	For the transport of perishable items.
Super	Higher than standard dry type containers.

Packing and shipping instructions

Standard packing and shipping instructions are documents specifying how the goods are to be packed and shipped, and who to notify upon shipment. They list all the documents required for customs clearance and for payment purposes.

Packing and shipping instructions should form part of all purchase orders as an annex.

The packing and shipping instructions are linked to the Incoterms used. Procurement officers should refer to the standard documents available in the organization.

Labelling and shipping marks

To facilitate the identification of goods and handling whilst in transit, suppliers should be instructed to provide clear and complete labelling and shipping marks on all packages. The labelling and shipping marks should include:

- consignee
- destination
- port of unloading
- project identification
- order number
- case number.

Contents of the packages should not be included to discourage theft and pilferage.

Modes of transport

Four basic modes of freight transportation are used, either individually or in combination: sea, rail, road, and air.

Procurement officers should consider both economy and efficiency when choosing the mode of transport. In general, rail, road and air transport costs are comparatively higher than freight by sea, thus in general sea transport is recommended. Maritime freight typically counts for 15-20 percent of the costs of the goods, and airfreight may represent up to 100 percent. International shipments by sea average three to five weeks (but can be considerably longer), while air shipments usually take less than a week. The balance of operational parameters such as time and financial resources should determine the mode of transportation.

Procurement officers should prioritize transport preferences in accordance with the following criteria:

- 1) The cheapest means of transport that meets delivery requirements.
- 2) Scheduling through the fewest number of trans-shipment points.
- 3) Shipping via preferred trans-shipment points and customs.
- 4) Using dedicated freight forwarders wherever possible.
- 5) Applying a 1:4 ratio rule for air shipment (ship by air if less than 25 percent of cost of goods).
- 6) Shipping by air if weight is less than 200 kg.
- 7) Shipping by air when a cold chain is required.
- 8) Shipping by land or sea if dangerous goods are involved.

Finally, procurement officers should make a prioritized list of all technically feasible solutions. If a priority solution falls within the pre-defined budgetary framework, the plan should be executed.

If the best solutions fall outside the framework or if no solution is feasible, procurement officers should present the existing options to the requesting operational unit and ask for a decision.

Forwarding agents

Forwarding agents, also known as freight forwarders or freight brokers, are contracted by the UN organization or the supplier to carry out the formalities and operations of consignment.

The forwarding agent can also be employed by the organization to receive goods where UN staff members may not be physically present in order to engage in the prompt clearance and collection of goods vulnerable to loss or pilferage.

The use of an appropriate freight forwarder reduces the risk of the procurement operation, since part of the risk is transferred from the organization to the selected forwarding agent. Further, the choice of an appropriate forwarder in itself reduces risk due to the forwarder's experience and specialized knowledge.

Procurement officers should ensure that the respective forwarding agent has all necessary documents for the release of goods in transit (see under 'shipping documents').

Incoterms

Incoterms (The International Commerce Terms) are standard terms defining the obligations of both the buyer and seller relating to the shipment of goods. They are used world wide in both international and local trading. Incoterms have been established by the International Chamber of Commerce (ICC).

The clear definition of trade terms reduces the risk of misunderstanding and, as the ICC offers an arbitration service, their interpretation is widely accepted.

Incoterms 2000 should govern shipment terms of all contracts and reference to an appropriate Incoterm should be made in all contracts requiring shipment. The Incoterm should always refer to a named place (city, country, etc.).

Procurement officers need to be familiar with Incoterms in order to understand the division of responsibilities and risks between the buyer and the seller. Further information can be sought through the ICC website at www.iccwbo.org.

Use of Incoterms

The table below lists the Incoterms most commonly used by UN organizations, and in which situations they should be used:

Term	For...
FCA (Free Carrier)	International procurement where the supplier of the goods does not arrange transportation.
CPT (Carriage Paid To)	International procurement where the supplier arranges transportation.
DDU	Local procurement use.

Term	For...
(Delivery Duty Unpaid)	<p>International procurement where the UN organization elects the supplier to bear all risks and costs associated with the transport of goods to the country of destination. However, considering the very good all-risk insurance coverage offered under the insurance programme negotiated globally by various UN organizations, it is highly recommended to purchase CPT for all international procurement and have the goods insured under the global insurance programme of the organization.</p> <p>Note: DDU for international procurement is justified in very few countries where the insurance programme does not provide full coverage (e.g. it excludes war risk).</p>

Note: All the terms referred to above should be followed by the name of the destination point (for example CPT Baku, Azerbaijan).

Insurance during transportation

During transportation and storage, all cargo is vulnerable to a range of risks, such as damage, pilferage and theft, breakage, non-receipt of part of or an entire consignment. Cargo insurance provides protection against potential financial losses resulting from such risks.

It is important to ensure protection for goods subject to risks, including war, strikes, riots and civil commotion. Further, the duration of insurance coverage should be sufficient for the period of transportation, from warehouse to warehouse, including storage at the destination site. Goods are insured for the cost, insurance and freight value plus an agreed percentage to reflect the indirect cost of replacing goods.

In view of the above, most UN organizations have negotiated a global cargo insurance contract that all offices are encouraged to use. The insurance is usually an all-risk insurance with world wide coverage with the exception of war risk. War risk can be covered by an extra premium (sea and air transport). War risk on land is often a different coverage and might have to be contracted separately. Procurement officers should consult whoever is responsible within an organization for more information on the coverage, if in doubt.

In the event of a claim, or event likely to give rise to a claim, notice should be given as early as possible, following the internal procedures of the organization. Note that insurance policies might have short deadlines for submission of claims.

Shipping documents

Complete and appropriate shipping documents are of critical importance for the timely delivery of goods. The supplier needs documents to move the order from its premises, and to receive payment from the buyer. The freight forwarder requires documents to contract carriage, the consignee requires documents to claim the goods at arrival, and the consignee or notify party requires documents to handle customs clearance. Each stage of the shipment generates documents that may even be required once the equipment is in the country, for instance to register a vehicle or radio equipment.

The exact contents of a set of shipping documents depend on the type of goods being shipped, the means of transport, who is shipping the goods (freight forwarder, supplier, etc.), and any special requirements of the receiving country.

While the particular documents required vary from case to case, every shipment should have documented evidence of:

- contents of the shipment
- weight and volume of contents
- origin of goods (if required)
- price of the goods
- evidence of transport of the goods.

The following shipping documents are common to all shipments:

Shipping document	Purpose
Bill of Lading (B/L) (for sea shipment) Waybill (other modes of transport)	<ul style="list-style-type: none"> • The contract of carriage between the shipper and the carrier, indicating how goods are being shipped and when they will arrive. • Evidences that the carrier has received the goods for shipment, and is conclusive evidence that the goods were shipped as stated. • Documents ownership to the goods specified (a document of title). It is recommended to specify that the B/L be marked 'clean on board and freight prepaid' (especially when using the CPT Incoterm).
Commercial Invoices and Pro Forma Invoices	<ul style="list-style-type: none"> • Describes the goods and indicates their value. • Proves the value of the goods.
Packing lists	Describes the content, total number of packing units, markings, weight and volume of each unit.
Certificates of Origin	<ul style="list-style-type: none"> • Indicates the country of origin or manufacture of the goods and are always issued by a local Chamber of Commerce. • Required for importation and also used for statistical purposes.
Gift Certificate	<ul style="list-style-type: none"> • Replaces the commercial invoice and certificate of origin in the case of goods from warehouse or in-kind donations. • Proves the value of the goods.
<i>Additional documents required when using a freight forwarder</i>	
Forwarder's Certificate of Receipt	Proof that the supplier has handed over goods to the freight forwarder.
Freight Invoice	Indicates shipping details and charges.
<i>Additional documents</i>	
Certificates certifying quality	<ul style="list-style-type: none"> • May be required to certify quality. • Usually provided by the supplier.

Responsibility

The supplier or the freight forwarder (depending on who is organising the transport) is responsible for consolidating the shipping documents received, and should be instructed to courier one original set of documents to the consignee and the remaining two sets to the procuring entity.

Documents should be checked to ensure that all information is correct and consistent in all the documents. Further, procurement officers should ensure that the documents have been received by the consignee.

Terms used in shipping documents

The following terms are frequently used in shipping documents:

Consignee

The consignee is the receiver of the goods, usually, but not necessarily, an office of a UN organization. The consignee may be, but is not necessarily, identical to the delivery address. The consignee should always receive a copy of the shipping documents.

The consignee may take care of customs clearance and other government formalities upon the request of the individual responsible for the procurement activity in question, however this may also be handled by a notify party.

Consignee details, such as address, country, name, phone/fax, email, and contact person should be included in the purchase order and in the labelling of the packages.

Notify party

A notify party may be engaged by procurement officers (or the consignee) in order to arrange customs clearance of goods and other government formalities. In such case, shipping documents are also to be forwarded to the notify party.

Delivery address/final destination

The delivery address or final destination is the address of the end-user where the goods are to be physically delivered.

Receipt of consignments

When a consignment is delivered to the consignee, it is common practice for the carrier to request a receipt. At the same time, the consignee should perform a cursory inspection of packages against all shipping documents. If, in apparent good order, it is recommended that an endorsement be given (e.g. “received in good external condition – contents unchecked”). If, however, signs of tampering are visible, the receipt should state necessary reservations (e.g. “cases broken”, “contents lacking”, “cartons opened with signs of pilferage”). Where possible, packages should be weighed to determine differences between declared and actual weights, documenting any discrepancies on the delivery notes.

Restrictions on the export or import of goods

Exporting countries may restrict the shipment of certain classes of goods to certain countries or ban their export altogether. Equipment that has a dual civilian/military use or high-end computer and telecommunications technology are commonly considered. The procurement officer should be aware of these restrictions so that lead time required for authorisation can be calculated and the sourcing strategy modified if necessary.

Importing countries may also impose restrictions. Telecommunications equipment and pharmaceuticals typically require prior authorisation from the concerned ministry who will issue a licence. Other equipment, such as used vehicles older than a certain age, may be banned

outright. Some countries ban goods of certain origins for political reasons. Obtaining permits is generally a protracted exercise. The receiving office must confirm that it is in hand before the supplier is authorized to ship the goods. The likely consequence of shipping without the permit is that the receiver will be required to pay the cost of storage in the port and applicable liner charges until the authorisation is issued. There is also the considerable risk that the cargo will deteriorate or go missing during this period. There are also UN restrictions for countries. For more information please refer to the UN Committee on Sanctions web-page <http://www.un.org/Docs/sc/committees/INTRO.htm>.

4.4 Ethics in Procurement

Introduction

There are two definitions of ethics as follows:

- The moral principles governing or influencing conduct.
- The branch of knowledge concerned with moral principles (*The concise Oxford dictionary of current English*).

Ethics is the basis on which most of the procurement related principles, such as fairness, integrity, and transparency, are based.

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

- Behave honourably in all aspects of work and professional activity.
- Conduct oneself in such a manner as to maintain trust and confidence in the integrity of the acquisition process.
- Avoid “clever” practices intended to take undue advantage of others or the system.
- Uphold the organization’s standards and policies and all relevant legislation.
- Avoid conflicts of interest.

Codes of conduct

Organizations and professions often seek to address standards of conduct through the adoption of codes of conduct. Professional codes of conduct generally are written in broad conceptual terms rather than in specific situational or descriptive terms. They leave room for interpretation and often may seem ambiguous. Procurement professionals cannot abide merely by the letter of the law or the specific words in any code, but rather, they are guided by the spirit of the law or the broader concept that the code is intended to express. One reason why many procuring organizations avoid detailed and specific codes is these may give the impression that anything not prohibited is permitted or that anything not specifically addressed is not important. People in other professions who have not been trained in or are not appreciative of procurement ethics may not realize that a situation not specifically identified in the code may still be vitally important. Those who do not understand the foundation of a general requirement may not be able to apply a code in a specific situation.

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

The primary UN system regulations and rules on ethics and behavioural standards are contained in the Secretary-General’s Bulletin, “Status, Basic Rights and Duties of United Nations Staff Members,” ST/SGB/2002/13, as well as in the “Standards of Conduct for the International Civil Service” (Jan 2002). See Annexes . The United Nations Oath of Office (see Annex 4) clearly

expresses the UN's values, principles, rules and regulations and how procurement officers should regulate their conduct and perform their duties within the interests of the UN.

The respective FRR guiding the procurement process of the UN organizations also address several ethical values such as fairness, integrity, transparency and equal treatment.

Stewardship

According to *The concise Oxford dictionary of current English*, a steward is “a person employed to manage another's property.” When the steward is a UN staff member, the “person” whose property the steward is managing consists of the entire world's population - an immense responsibility.

Spending money that comes from all Member States and a variety of other public sources is a special kind of stewardship with which international procurement officers are entrusted. They must spend UN money only in the way that it is meant to be spent and must not deviate from the procedures to suit their own convenience.

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

UN procurement officers can face highly competing pressures. The pressure to satisfy the demands for quicker turnarounds, better quality, and lower prices in procurement can compete with the pressure to fulfil their duties with the utmost responsibility and ethical standards.

It is therefore the main role of each UN procurement officer to execute their procurement function according to the highest standards of professionalism and in the respect of the values, objectives and interests of the organization. This implies the procurement officer must adhere to the principles of fairness, impartiality, transparency, stewardship, to avoid conflict of interest and any impropriety, and to respect and apply the organization's relevant policies, rules and procedures.

Ethical concepts and principles

Some ethical concepts and principles that relate to the procurement process are:

- loyalty and respect for rules and regulations
- integrity
- impartiality and fairness
- transparency
- confidentiality
- avoidance of appearance of impropriety
- due diligence.

Loyalty and respect for rules and regulations

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

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

Article 100 of the United Nations Charter requires UN staff members to, “refrain from any action which might reflect on their position as international officials responsible only to the organization.”

Article 101, Para. 3, of the United Nations Charter states: “the paramount consideration in the employment of the staff and its determination of the conditions of service shall be the necessity of securing the highest standards of efficiency, competency, and integrity...”

In summary, the UN procurement officer should:

- Stand by decisions that are in the organization's interest even if they are unpopular.
- Understand the rules and regulations pertaining to his or her profession and organization.
- Know why the rules and regulations are necessary.
- Know what caused the rules and regulations to be enacted.
- Respect the need for the formality of rules and regulations.
- Interpret and apply rules in accordance with their intent.
- Be able to perform procurement responsibilities effectively and efficiently and still abide by the pertinent rules.

Permitted exceptions to requirements should be kept to a minimum and be fully justified and documented. If a rule or regulation must be reconsidered or changed, the procurement officer should pursue the appropriate process to submit the recommended revision through established channels and include complete documentation to explain and justify the proposed change.

During this process, the existing regulations, rules and procedures must be followed. The procurement officer must perform regulated tasks consistently according to the specified procedures and take a leadership role to help co-workers and stakeholders understand and follow them as well.

Integrity

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

“Integrity, while perhaps not subject to exhaustive and precise definition, must be judged on the basis of the total behaviour of the person concerned. Such elementary personal or private qualities as honesty, truthfulness, fidelity, probity and freedom from corrupting influences, are clearly included. For the international official, however, the Charter also requires integrity as a public official, and especially as an international public official.”

Perhaps the clearest expression of this is the fact that he has dedicated himself to regulate his conduct with the interests of the international organization only in view. It follows that he must subordinate his private interests and avoid placing himself in a position where those interests would conflict with the interests of the organization he serves.”

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

Cultural differences including nationality, ethnicity, industry or profession, must be set aside. Generic principles of integrity that extend beyond and rise above such differences must be allowed to prevail, especially in connection with the business transactions conducted by UN procurement officers.

Integrity, to a procurement officer in the international marketplace, means believing that the public trust is so important that it cannot be compromised. A procurement officer should therefore demonstrate integrity by:

- Upholding the principles of the United Nations Charter.
- Demonstrating the values of the UN, including impartiality, fairness, honesty, and truthfulness, in daily activities and behaviours.
- Acting without consideration of personal gain.
- Resisting undue political pressure in decision making.
- Not abusing power or authority.
- Taking prompt action in cases of unprofessional or unethical behaviour.

Impartiality and fairness

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

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

According to *The concise Oxford dictionary of current English*, “fair” is defined as “just, unbiased, and equitable; in accordance with the rules”. In the context of impartiality and fairness and accordance with the definition above, the procurement officer should:

- Set aside all personal and organizational biases.
- Apply the same standards of evaluation to all the suppliers (equal treatment).

For example, if one supplier requests additional information, all suppliers should receive that information at the same time. Or, if one offer is disqualified in the evaluation process and the award placed with the next highest priced offer, the reason for disqualifying the lower offer must be applied to all evaluations uniformly.

Fairness implies being reasonable as well as impartial, and treating the UN's trading partners with professional, businesslike courtesy, as well as with strict adherence to the policies and procedures for conducting the transaction.

Transparency

Transparency means unimpeded visibility. Because public procurement involves the use of and accountability for public funds, transparency is, perhaps, paramount in all procurement activities.

All transactions are subject to scrutiny but not all organizations experience such scrutiny to the degree of the UN. Therefore, procurement officers and assistants must always conduct themselves in such a way that any scrutiny would not damage the UN or its leaders, member organizations, staff, or programmes.

There are two degrees of transparency:

- internal scrutiny
- external scrutiny.

Internal scrutiny

Internal scrutiny is transparency within the UN, such as examination conducted by internal auditors. It seeks to ascertain compliance with the UN's own standards by the UN's own compliance officers.

External scrutiny

External scrutiny is transparency outside the UN, such as examination by Member States, the press, external auditors, or other outside observers. It refers to the notion that almost anyone can observe UN activities and watch how the UN conducts its business.

Only when something is truly of a confidential nature, such as proprietary data belonging to a supplier, or proposals being evaluated prior to contract award, should confidentiality be given a higher priority over transparency while still maintaining an overall transparent process.

Even though details of pricing data or trade secrets may be held confidential, procurement officers should always assume that how they do their work is available to the public.

Confidentiality

Confidentiality needs extra consideration in UN procurement, due to the delicate nature of the information that is handled in procurement processes, such as pricing of products, marketing strategies, etc. A breach in the confidentiality of the data handled in the procurement process could result in discredit of the UN and distrust from governments, partners or suppliers.

The concept of confidentiality is repeated in several instances in the Code of Conduct documented in the Standards of Conduct in the International Civil Service 2001; ST/SGB/2002/13, Regulation 1.2 (i) and V, 35. It states that:

“Staff members shall exercise the utmost discretion with regard to all matters of official business. They shall not communicate to any Government, entity, person or any other source of information known to them by reason of their official position that they know or ought to have known has not been made public except as appropriate in the normal course of their duties or by authorisation of the Secretary General. These obligations do not cease upon separation from service.”

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

Confidentiality might seem in contradiction with transparency, but what this means is, the way the overall procurement process is conducted needs to be clear and transparent, while truly proprietary data needs to remain confidential.

Avoidance of the appearance of impropriety

In the private sector, appearances are tempered by the wishes or standards of the organization's leadership. Employee behaviour is judged according to legality and the satisfaction of owners or customers. However, international public-sector procurement officers must adhere to more conservative standards.

UN procurement officers must be constantly aware of how their actions appear to outside observers. Observers may not understand the pressures of their profession. UN procurement officers should always behave in such a way that observers could not misconstrue their actions as improper.

This added dimension of the appearance of impropriety places an extra responsibility on procurement professionals. What people think on observing a UN staff member is not trivial. What people think of the procurement officer's behaviour can be the basis of major scandals based on misunderstandings and erroneous information that can damage an organization's effectiveness in achieving its mission. In an international arena, the damage can be immense and even unthinkable.

Acting properly in a “technical” sense is not enough; avoiding even the appearance of impropriety is also necessary. This appearance must be anticipated in the most conservative terms considering how varied the cultures are of those who observe UN activities.

UN staff members in almost all environments are strongly advised to avoid such appearances. The newspapers are full of stories about people who did not avoid appearances of impropriety.

Not all societies have the same standards or traditions about what is proper and what is not. It is important to recognise cultural differences in appearances and to anticipate, in the most conservative terms, what might be perceived as improper conduct (“conservative” does not mean the same thing to staff from different cultures).

Due diligence

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

- check the references of potential suppliers
- develop impartial evaluation criteria
- carefully analyse the offers received
- not cut corners for the sake of convenience.

Ethical risks and actions to manage them

Some of the common ethical risks in the procurement process include:

- conflict of interest
- fraud
- corruption
- coercion
- collusion.

Conflict of interest

A very common risk situation related to ethics in procurement is the risk of a conflict of interest. Conflict of interest can be defined as a direct or mutually exclusive clash between the interest of the UN and the private or personal interest of a UN procurement officer. The Standards of Conduct in the International Civil Service (standards of conduct) states that:

“Staff members shall not use their office or knowledge gained from their official functions for private gain, financial or otherwise, or for the private gain of any third party (...).”

“Staff members shall not be actively associated with the management of, or hold a financial interest in any profit-making business or other concern, if it were possible for the staff member or the profit-making, business or other concern to benefit from such association or financial interest by reason of his or her position with the United Nations”

“A staff member who has occasion to deal in his or her official capacity with any matter involving a profit-making business or other concern in which he or she holds a financial interest, directly or indirectly, shall disclose the measure of that interest to the Secretary-General and, except otherwise authorized by the Secretary-General, either dispose of that financial interest or formally excuse himself or herself from participating with regard to any involvement in that matter which gives rise to the conflict of interest.”

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

- Declare with immediate effect any potential conflict of interest.
- Not use information obtained for professional reasons for personal profit.
- Disclose and dispose the financial interest involved.
- Not participate in any conflicting procurement process.
- Excuse or withdraw from any procurement process where the procurement officer may have a conflicting interest.

Declaration

It is good practice to have officials involved in the procurement process, including those participating in offer opening panels, evaluation committees or contracts committees sign, in advance of their duties, a declaration of no conflict of interest.

Honesty, truthfulness, impartiality, and incorruptibility are to be applied whenever a conflict of interest or the appearance of conflict of interest arises in the course of conducting procurement.

Gifts and gratuities

A common conflict of interest situation UN procurement officers have to face is whether or not to accept gifts from suppliers, partners or governments.

Offering gifts to customers is a very common practice in the private sector. It is a marketing strategy based on the universal sense of reciprocity: if we receive something, we feel obliged to give something in exchange; i.e. there is no such thing like a “free lunch”. Suppliers often offer different types of gifts, for example perishable products, hospitality, free training courses or experiences like exhibitions, fair trades, and sometimes in kind donations, etc. that are related to the activity of the specific UN organization.

Identifying covert gifts is not always easy, especially when at times, for example, training activities may be seen as beneficial for the organization; however, very careful review of the impact should be taken into account: would receiving the gift benefit one company over the others? Would acceptance be fair to the competitors? In cases where the content of such training / events is deemed appropriate and beneficial for the organization in a technical sense, self financial support, i.e. for travel expenses should be considered.

It can be difficult to judge how to behave in a particular situation, and what would be the appropriate action. The table below provides some examples of good practice:

If the gift is...	Then...
Low value, e.g. chocolates, given at the end of the year	Accept it but tell suppliers it will be shared with all colleagues in your office.
High value, e.g. a gold watch	Return it, and thank the supplier but say you are not allowed to accept it.
Relatively high value, e.g. a good bottle of wine, given at the end of the year	Thank the supplier, but tell them it will be put in a lottery (if there is such a policy in your organization) where it will be drawn.
Sent to your private address	Immediately return it to the supplier, and tell the supplier it is unacceptable practice to send gifts to UN staff members' private addresses.

In the context of gifts and gratuities, the standards of conduct state that:

“No staff member shall accept any honour, decoration, favour, gift or remuneration from any Government.” “No staff member shall accept any honour, decoration, favour, gift or remuneration from any non-governmental source without first obtaining the approval of the Secretary-General”

A UN procurement officer should:

- Be able to identify covert gifts.
- Not accept any gift from governmental or non governmental sources, but reports them to the designated authorities.
- Be aware of the reasons for not accepting such benefits.
- Be aware of the impact on the organization if accepting such benefits.

While the UN Secretariat has a zero tolerance policy regarding accepting gifts and gratuities, other UN organizations may have their own guidelines in that respect. UN procurement officers are responsible to know and apply the respective guidelines of their organization.

Fraud

Fraud means the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his/her detriment, for example in order to influence the competitive selection process or the execution of a contract.

There are four common fraud scenarios in procurement. These are:

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

Corruption

Corruption means the practice of offering, giving, receiving, or soliciting, directly or indirectly anything of value to influence the action of a public official in the competitive selection process or in contract execution.

There are two common types of corruption:

Approach	Includes
Direct	<ul style="list-style-type: none"> • Cash paid to the procurement officer, to settle the buyer's personal debts or paid to a third party for the buyer's benefit. • Cheques paid directly to the buyer or members of his family, paid to businesses in which the buyer has an interest. • Cheques paid to settle the buyer's personal debts. • Shares and share options. • Free or discounted goods or services.
Indirect	<ul style="list-style-type: none"> • Employment of a member of the buyer's family, or employment of the buyer on a consultancy basis. • Future offers of the same. • Inside information which will benefit the buyer. • Threats of blackmail or violence. • Free travel and expenses to visit exhibitions or to visit suppliers' factories. • Invitation to entertainment events.

Coercion

Coercion means harming or threatening to harm, directly or indirectly, persons, or their property to influence their participation in the procurement process, or affect the execution of a contract.

Collusion

Collusion means a scheme or arrangement between two or more suppliers, with or without knowledge of the UN organisation, designed to establish prices at artificial, non-competitive levels.

Potential areas of risk in the procurement cycle

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

Area of risk	Explanation and examples
Budgeting	Fraud and corruption must be paid for from somewhere. Lack of proper budgetary control, for example when all funds are not allocated to a specific purpose, can provide the necessary funds.
Financial approval policy	Without regular audits and strict management controls, there are opportunities for fraudulent use of a person's own levels of authority, or of misusing someone else's.
Perceived need	Requirements can be invented or falsified.
Specification development	Specifications can be written to favour a specific supplier. Clarifications on specifications can be provided to one of the invitees only during the tendering process.
Evaluation criteria	Evaluation criteria can be written, or amended, after receipt of offers to favour a particular supplier.
Pre-qualification	This process can be used to limit the field of competition to give a favoured supplier an advantage.
Invitation to tender/sourcing	This process can be used to give the illusion of competition where it does not really exist by inviting tenders from companies who are known to be unsatisfactory, or by not sending out complete specifications to all tenders at the same time etc.
Offer evaluation	Fraud at this stage occurs mainly when objective evaluation criteria have not been agreed in advance. It can also occur where technical staff is able to use their specialist knowledge to mislead other members of the evaluation team.
Negotiation	Favoured suppliers can be assisted or given useful information during negotiations.
Contract award	There are opportunities for fraud by the supplier either through deliberately fraudulent acts or through buyer incompetence.
Post award changes to specifications	This allows suppliers to increase profits, particularly when awarded the contract on an attractively low offer price.
Goods receipt	Examples are: Allowing under-deliveries of goods or non-performance to specifications, or drafting false goods inward notes; deliberate over ordering; allowing inventory to dwindle so that emergency orders at a higher price will have to be processed.
Invoice certification	Deliberate overcharging, backdating orders to allow benefit from price changes, paying twice, failing to insist on or monitor retentions.
Decentralized procurement organization	In decentralized organizations the responsibilities are delegated to a large number of people, and it is difficult for the central procurement function to exercise total control and to be aware of what is going on in the decentralized units. Although decentralisation can often improve efficiency and reduce costs, it can also increase the risks of

Area of risk	Explanation and examples
	corruption.

Potential warning signs of unethical practices

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

- deviations from correct procedures
- overcharging by the supplier
- poor record keeping
- missing files
- poor or no separation of duties (for example, the same person issues the order and approves the payment)
- poor control (for example, only one person signs a contract)
- buyer's extravagant life style
- buyer's frequent absence from the office
- excessive entertaining by suppliers
- resistance to audit
- reluctance to delegate
- excessive secrecy
- dictatorial management style
- unnecessary meetings with suppliers
- not allowing other staff to deal with certain suppliers
- established suppliers' reluctance of entering competitive tendering
- supplier cartels.

Tools and mechanisms to prevent and detect unethical practices

Some tools and mechanisms that may be used to prevent and detect the occurrence of unethical practices are listed below.

Management responsibility

Management should maintain the highest standards of integrity in its everyday dealings. Where senior management behaves dishonestly, corruption and fraud will spread to all levels.

Management's responsibility is to set the highest standards of integrity and be an example for everybody in the organization to follow. Managers should also point out correct behaviour to employees and draw the line between acceptable and unacceptable behaviour.

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

Code of ethics

All organizations should develop a code of ethics for all staff to follow. A code of ethics is a formalized statement containing ethical codes of conduct for the organizations' members to

follow. The Code of Ethics will clearly state what type of behaviour is expected from the members, and what type of behaviour is unacceptable.

Organizational procedures

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

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

Personnel policies and procedures

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

Policies and procedures	Factors to consider
Job descriptions	Security responsibilities should be drafted into contracts and job descriptions to deter personnel from being dishonest.
Education and training	<ul style="list-style-type: none"> • Awareness training can clarify what is meant by ethical conduct, short cuts, and fraud and contribute to the prevention of fraud. • Training programs can be supported by booklets on the organization's business ethics and security policies, articles in internal newsletters or magazines, newsletters including reports on frauds discovered and the lessons learned from them, as well as films and videos. • New employee induction training can cover security.
Investigation	<ul style="list-style-type: none"> • Set down organizational rules for conducting investigations into suspected or reported incidents of fraud or breaches of security, including employee obligations to assist in such investigations. • Criminal offences or reasons for disciplinary action should be brought to the attention of all staff.

Accounting controls

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

Levels of authority to approve accounting transactions should be clearly defined and regularly audited. Each system should define who will be held responsible for losses, errors and

concealment. Areas of responsibility should be identified and enforced. Books and records should be protected in the same way as all of the assets of the organization.

Segregation of duties

This is the most basic and one of the most effective ways of preventing fraud, since it removes the possibility of 'closed loops', that is, one person having the authority to budget, provision, order and pay. Each transaction should be divided into a number of stages and no one person should ever have the authority to handle all of the stages.

Control systems

Control systems in procurement protect honest buyers and suppliers from false accusations of dishonesty, encourage them to work honestly and effectively, and prevent and detect corruption.

It is often difficult to get the right balance between under- and over-control and many organizations have control systems which are either too restrictive or too lax. An effective and well-balanced control system needs to be flexible, allowing honest buyers and suppliers to operate efficiently, while at the same time minimising the risks of dishonesty.

Controls in procurement

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

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

Financial approval policy

The policy on financial approval for procurement actions should be clearly communicated to all relevant staff. The consequence of abuse should be defined. Approval levels should not be set artificially low, but at a realistic level sufficient to enable employees to do their jobs efficiently. Standard terms and conditions of contract, and standard forms should be included in all solicitation documents as well as in all contracts and purchase orders. Standard forms used in procurement should be developed.

Control over goods and services received

Controlling the receipt and storage of goods is a vital aspect of eliminating opportunities for fraud.

4.5 Sustainable Procurement

Introduction

Sustainable procurement (SP) is about taking social and environmental factors into consideration alongside financial factors in making procurement decisions. It involves looking beyond the traditional economic parameters and making decisions based on the whole life cost, the associated risks, measures of success and implications for society and the environment. Making decisions in this way requires setting procurement into the broader strategic context including value for money, performance management, corporate and community priorities.

Sustainable procurement is the process by which organizations buy assets, supplies or services by taking into account a number of factors including:

- Value for money considerations such as, price, quality, availability, functionality.
- The entire life cycle of products.
- Environmental aspects; the effects on the environment that the assets, supplies and/or services have over the whole lifecycle ("green procurement").
- Social aspects: effects on issues such as poverty eradication, inequality in the distribution of resources, labour conditions, human rights, Fair-trade.
- Sustainable or recycled materials/products.

Aim and challenge

Traditional procurement has focused upon value for money considerations. The aim and challenge of sustainable procurement is to integrate environmental and social considerations into the procurement process, with the goal of reducing adverse impacts upon health, social conditions and the environment, thereby saving valuable costs for public sector organizations and the community at large. Sustainable procurement forms a key part of an overall push for sustainable development by governments and UN organizations¹.

Potential benefits

Potential benefits of sustainable procurement include:

- long-term efficiency savings
- more efficient and effective use of natural resources
- reducing the harmful impact of pollution and waste
- reducing the impact of hazardous substances on human health and the environment
- encouraging innovation
- providing strong signals to the sustainable products market
- practical expression of organizations' commitment to sustainable development.

¹ The Yorkshire & Humber Assembly: Towards Sustainable Procurement: A guide for public sector organizations. January 2004.

Procurement as a mechanism to further economic, social and environmental development

Procurement can be used as a mechanism to further the economic, social and environmental development of recipient countries and/or regions. As such, sustainable procurement should incorporate a number of safeguards and checks in the procurement process to positively assist in the following areas:

- human rights
- labour rights
- environmental impacts
- local entrepreneurship
- empowerment women
- poverty eradication
- governance.

Human rights

Human rights are increasingly being seen as a business issue. They are inextricably linked to corporate risk and reputation management. By continuously expanding supplier sourcing strategies, as well as by increasing sourcing from developing countries procurement officers are increasingly exposed to companies operating in countries with repressive governments, ethnic conflict, and weak rule of law or poor labour standards. The procurement function must include processes that are designed to identify companies that flaunt their responsibility to uphold universal human rights towards their employees and toward the communities in which they operate.

Labour rights

With globalization and increasingly extending global supply chains, procurement officers have the unique opportunity as well as responsibility to ensure that the procurement function serves to protect workers rights. Companies operating in global markets are increasingly expected to assume some level of responsibility for labour practices along their supply chains. This responsibility can and should also form an integral component of the procurement function, by ensuring that contracted companies operate within the universally accepted International Labour Organization's (ILO) core conventions on labour standards. Procurement officers should be aware of a potential supplier's performance in the following areas:

- freedom of association and the right to collective bargaining
- child labour
- non-discrimination
- bonded or forced labour
- achieving decent working conditions.

Adverse environmental impacts

Procurement can play an integral role in promoting sustainable production and consumption patterns. It is widely recognised that industrial development will only be truly sustainable if it is built on firm ecological foundations. The growing attention to issues of sustainable production and consumption is a natural outcome of decades of work on cleaner production and eco-efficient industrial systems. It represents the final step in a progressive widening of the horizons of pollution prevention; a widening which has gone from a focus on production processes

(cleaner production), to products, (eco-design), then to product-systems (incorporating transport logistics, end-of-life collection and component reuse or materials recycling) and to eco-innovation (new products and product-systems and enterprises designed for win-win solutions for business and the environment). Procurement is in the unique position to help influence industry by encouraging it to develop and adopt policies and practices that:

- support a precautionary approach to environmental challenges
- are cleaner and safer
- make efficient use of resources
- ensure adequate management of chemicals
- incorporate environmental costs
- reduce pollution and risks for humans and the environment.

Supporting local entrepreneurship

Strategic procurement can provide a framework to ensure that local content becomes an integral component of the procurement policies and practices. In this manner the procurement function can be adapted and utilized to achieve good practice in the goals of an organization in terms of:

- gender and the empowerment of women
- poverty eradication
- governance.

Gender and the empowerment of women

The Millenium Development Goals (MDGs) addressing this issue set a target for “the elimination of gender disparity in primary and secondary education preferably by 2005, and to all levels of education no later than 2015”. The procurement function can assist this issue by adopting practices that promote the contracting of minority businesses, particularly those owned by women. A straight forward and simple approach is to use an evaluation preference that favours minority business by a certain percentage (similar to the World Bank’s Domestic Preference policy).

Poverty eradication

The MDG calling for the eradication of extreme poverty and hunger set two targets that require the world to:

- 1) “Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day”.
- 2) “Halve, between 1990 and 2015, the proportion of people who suffer from hunger”.

International aid agency procurement has a role to play in the eradication of poverty, by providing capital investment through local and regional sourcing strategies in the respective economies. By ensuring that supplier sourcing takes place in the countries and regions where the outcome of the procurement function is to occur procurement is able to influence:

- job creation opportunities
- increases in income
- capacity in spend categories
- advances in economic opportunity within communities
- contribution toward economic development.

Governance

The procurement function plays an important role in achieving and ensuring good governance. It is an integral component of a government's capacity to provide the required goods and services. A well functioning procurement system ensures; better value for money, increased efficiency and effectiveness of delivery, reduces the potential for corruption, positive impact on a country's investment climate, non-discriminatory practices, transparency and accountability. Good governance encompasses a functioning regulatory system, as well as institutional set-up, well designed processes and proven capacity. Strategic approaches to procurement, as well as the knowledge transfer of good procurement practice and capacity building within procurement functions toward National government procurement entities assist in the development of good governance practices.

Benefits, barriers and drivers**Benefits**

The main benefits from sustainable procurement can be summarized as follows:

- controlling costs by adopting a wider approach to whole life costs
- achieving internal and external standards
- complying with environmental and social legislation
- managing risk and reputation of the organization
- creating new, vibrant markets
- ensuring security of sustainable supply for the future
- ensuring maximum community and financial benefits.

Barriers

The main barriers to achieving sustainable procurement appear to be:

- habit and the difficulty in changing procurement behaviour
- lack of suppliers of sustainable assets, suppliers or services
- complexity of comparing costing/value for money assessments
- the difficulty of including factors broader than environmental considerations
- a perception that the process and outcomes are more costly or time consuming.

Drivers

The main drivers towards achieving sustainable procurement are:

- effective organization wide policies to ensure that everyone is aware of the strategy
- training and guidance to help all of those involved in procurement to understand sustainable procurement and whole life costing;
- regular audits and monitoring to assess where your organization is in the context of sustainable procurement and where you could make further progress in this area
- commitment to sustainable development as an organizational policy
- supporting and educating suppliers/creating markets
- linking up with other organizations to learn from their experience
- pooling procurement by forming procurement consortium where relevant.

Sustainable procurement in the procurement process

The sustainable procurement process does not differ greatly from the traditional procurement process. It incorporates an initial stage to determine the effect of the procurement action in terms of a desired outcome that is both environmentally and socially benign, as well as an additional stage at the end of the process to monitor and assess, and if need be adjust the net effect of the desired outcome. Other sustainable interventions are incorporated throughout the various stages of the procurement process. Each of these stages is summarized in the following table and further in the text examined below.

Stage	Description
1	Planning and needs assessment of a procurement activity.
2	Planning the requirement.
3	Requirement definition.
4	Sourcing.
5	Solicitation
6	Evaluation and contracting.
7	Monitor and control.
8	Monitor and assess the desired 'outcome' achieved.

Note: For further detail refer to the UNDP/IAPSO 'Sustainable Procurement Guide'.

Planning and needs assessment of a procurement activity

Decisions are required on the sustainable outcome a procurement process is meant to achieve; these are assisted by a number of analyses, such as a sustainable procurement risk assessment, supply market analyses, stakeholder analyses, demand analyses, etc. The type of analyses used and the decisions will depend upon the sustainability issue(s) that may be affected by the procurement action.

Planning the requirement

Procurement planning involves the transformation of a stated requirement or organizational goals and objectives into measurable activities to be used to plan, budget and manage the procurement function within the organization. As with the traditional procurement process, procurement planning and forecasting is vitally important to ensure an effective, efficient, strategically viable and sustainable result.

Requirement definition

Developing and using generic specifications is as import in the sustainable procurement process as it is in the traditional procurement process. During this stage, human/labour rights and environmental performance criteria should be translated into specifications that meet specific requirements of the specified outcome, desired by the procurement action.

The specification stage is key to all types of contract. Building in environmental and social considerations at this early stage, provides a clear indication to suppliers that sustainability is important to the UN organization. Consider available alternatives which are less environmentally and socially damaging. Consider all the phases of a product's life cycle (e.g. production,

transportation, maintenance, disposal, etc) when determining its cost and environmental impact. Assess the overall environmental and social integrity of suppliers by looking at their policies and practices.

The table below provides some examples of criteria to consider when determining potential environmental and social impacts of goods, services and works²: during the requirement definition stage.

Criteria	Factors to consider
<i>Environmental</i>	
Fit for the purpose and provide value for money	Ensure that the product you are considering does the job you want it to do for all potential users, including groups with specialist needs where appropriate.
Biodegradability	Some products may be suitable for composting. Where that is the case, ensure that the materials can break down speedily and safely.
Design for disassembly	When products are made up of thousands of different types of materials, particularly plastics and metals, it helps if they are designed to be easily taken apart or disassembled so that the materials can be recycled. This is particularly relevant to electronic and electrical products such as fridges, televisions, personal computers and printers.
Minimum use of virgin and non-renewable materials	Wherever possible, the use of recycled or re-used materials should be encouraged, as these generally have a much lower impact on the environment. Examples include computer processor cases or road aggregate.
Resource, energy and water efficiency	Running costs are often overlooked when procuring products. Seek equipment that is energy efficient, such as Energy Star rated products. Also check that your product does not have a 'knock-on' effect of using more resources, eg specifying paper towels over hand-driers may increase the volume of paper you dispose of, which also has a cost.
Fault controls to prevent unnecessary waste	When specifying plant equipment, such as boilers, ensure that you specify metering and monitoring equipment. Whilst it might increase acquisition costs it will alert you to inefficient use and enable you to reduce running costs, spills or waste problems.
Maximum durability, reparability, reusability, recyclability and upgradeability	Essentially this is a quality issue. Seek long-life products, that will survive being mistreated, that can be repaired, reused and ultimately recycled. Importantly, seek products that enable you to upgrade them and improve performance over time rather than having to buy new equipment to do the same job.
Minimum packaging	Most products are bought with excessive levels of packaging, either to add cosmetic value, or to enable the product to survive poor handling. Packaging has to be disposed of once it has performed its task, and in most cases the cost of disposal falls to the customer, not the supplier.
Maximum use of post-consumer materials	There are many grades of recycled materials. Where possible seek materials that have been used once and are being reused to perform a repeat or new function, rather than materials that have

² Source: Purchasing for Sustainability, Forum of the Future.

Criteria	Factors to consider
	been reused from a manufacturing process waste which has never been used by the consumer.
No (or reduced) polluting with minimum use of toxic chemicals, CFCs, ozone and other pollutants.	Not only do these products help reduce your environmental impact, but choosing low-polluting alternatives often means you can avoid lengthy COSHH assessments and training, e.g. cleaning staff or lab technicians.
<i>Social criteria</i>	
Health and safety standards	These should never be overlooked and it is sensible to evaluate many products with a qualified health and safety officer. Examples include electrical equipment, vehicles, cleaning chemicals and furniture.
Local production	Sourcing your purchases from local suppliers means that the economic benefits can be felt in the communities in which you live and work. This inward investment can help ensure the ongoing economic sustainability of your local area through job creation.
Ethically sourced	You should seek to ensure that the products you buy are not exploiting child labour, or labour and economies in the developing world and that you meet recognised fair trade standards wherever possible.

The specification of a particular sustainable requirement may occasionally result in a purchase that costs more than a less sustainable preferable product or service, even after taking account of whole-life costs. There is no reason why this extra cost can't be justified on sustainable grounds, although care should be taken to ensure that a proper balance is struck between the cost and the perceived sustainable benefits. A justification of higher acquisition costs can be made through longer-term paybacks, or because your organization has made equally valid commitments to reducing waste to landfill or CO2 emissions, for example. Buying 'future-proof' equipment that will meet future sustainable standards can have significant long-term financial benefits, even if the acquisition cost may have seemed comparatively high.

There are a number of tools and approaches that can be used to determine the requirement criteria, these range from various standards, industry agreements, labels and approaches such as life cycle costing. For detailed information on these please refer to the 'Sustainable Procurement Guide'.

Sourcing

Supplier sourcing and evaluation strategy enables the procurement function to address gender and empowerment as well as poverty eradication issues. This can be achieved by including suppliers from identified minority groups and/or from specific geographic and demographic regions and ensuring local content and representation in the bidding process.

These environmental and social issues can be considered during supplier pre-qualification exercises. If assessment shows that the majority of impacts are in the raw materials stage, the focus should be on the supplier's own environmental supply chain management policies. If the impacts are in the manufacturing stage, then the focus should be on the supplier's environmental management system for their business.

A supplier's environmental performance should be one of the key criteria used in supplier selection. Equally, where relevant, the supplier's approach to managing its social impacts should also form part of the assessment. When reviewing the response to any questionnaire, of particular importance is that the supplier's environmental and social policies actually address the key impacts of their business. For example an environmental policy from a chemical manufacturer needs to deal with the environmental issues of making chemicals rather than looking at its paper consumption and car policy, which whilst valid are not the main impacts of this business.

For a sample questionnaire and assessment procedures please refer to Annex 5.

Solicitation

Solicitation documents should incorporate sustainability specifications and requirements designed in the previous stages. Potential suppliers must then be able to show they are able to meet those requirements.

Evaluation and contracting

The evaluation and contracting stage makes use of the standard evaluation methods; however, it should place specific emphasis on use of weighted and ranked criteria incorporating the specific performance criteria and specifications that address sustainable procurement factors. The evaluation process should also include a risk analysis, a cost analysis and modelling and a life cycle analysis (cradle to grave) particularly if the procurement process features environmentally sensitive issues.

Sustainability evaluation criteria

Assessment of a tender is a key part of the procurement process. The degree to which tenders are scored is dependent upon a number of factors. Tender assessment is the opportunity to go into more specific detail about how the supplier is going to deliver the requirements from a cost, quality and sustainability perspective. Through risk assessment, sustainability criteria may have been set that are so important that a supplier must have them in order to bid, typically these are addressed through the specification and are considered as pass/ fail criteria. Items that are important but not vital are dealt with through asking the supplier for information that is then scored, called sustainability criteria.

Sustainability evaluation criteria are key to undertaking thorough and consistent assessments of sustainability performance of suppliers' bids and proposals. UN organizations should determine environmental evaluation criteria to suit their own needs. Some recommended environmental evaluation criteria to consider in tenders are:

- **Air pollution** - to include measures taken to reduce emissions, particularly of key pollutants, and looking at efforts to exceed statutory requirements.
- **Biodiversity and habitats** - a specific aspect of land use, where biodiversity and important habitats are recognised and measures taken to protect and enhance them.
- **Climate change** - measures taken to monitor and reduce greenhouse gas emissions should be highlighted in this criterion.
- **Resource use and intensity** - to include energy, water, raw materials and land as resources, and to focus on the efficiency of their use. Linked to waste, air pollution and water pollution.
- **Transport** - to consider measures that reduce overall transport requirements, and to encourage a modal shift away from road transport (people and freight).
- **Waste** - to include measures to reduce, re-use and recycle wastes.

- **Water quality** - to include measures to reduce discharges, particularly of key pollutants, and looking at efforts to exceed statutory requirements, and rewarding efforts to meet water quality objectives and targets.

For further examples on evaluation criteria and procedures please refer to the 'Guide to Sustainable Procurement'.

Monitor and control

This stage involves monitoring suppliers' performance throughout the contracting period, meeting delivery deadlines and setting quality standards as well as installation, after sales services and warranty provisions. Where sustainability criteria have been set, these should be monitored during this stage.

Monitor and assess the desired 'outcome' achieved

The final stage of the sustainable procurement process, is measuring the results against the outcome that was initially set. The results and lessons learned should then be fed back into stage one. The outcome may be difficult to measure, or may need to be measured in intervals over a certain time period. Specific indicators may also need to be developed to facilitate meaningful measures.

Conclusion - environmental and social criteria

While the concept of sustainable procurement is becoming more widely accepted and practised in the private sector as well as the international public sector, it is still relatively new with its origins only emerging in the mid 1990's. As such, it is an approach that is under constant development. What began as green procurement incorporating only environmental product criteria has grown to encompass social performance criteria as well as economic goals to further the notion of sustainable development. The limited literature available on sustainable procurement is often weighted towards environmental aspects of sustainable procurement, as the social aspects of sustainable procurement are not yet as well developed.

Product and company environmental performance are readily quantifiable and measurable, but social aspects relating to human rights and labour standards are more difficult to include as quantifiable requirements within solicitation documents. Progress is however being made, standards such as the SA 8000 provide procurement officers with a means of integrating complex social issue criteria while providing a means to verify claims made by prospective suppliers. As more companies subscribe and abide by standards and agreements such as the Global Compact, ISO 14001, EMAS, SA 8000, OHSAS 18001, etc. the more readily the principles and criteria outlined by these will be able to be integrated into bidding documentation and processes.

Another important factor to consider in the implementation of sustainable procurement is the nature of the sector where it is being implemented, for instance, it is no great surprise that the advancement of sustainable procurement is greatest within the private and in some countries the local and national governmental sector. It is here where changes to procurement policy are relatively easily integrated and adopted. Within the intergovernmental sector such as the UN system of organizations, implementation of sustainable procurement criteria and processes becomes more complex, primarily due to the existing rules and regulations governing competitive bidding particularly on an international basis. Implementing changes to a procurement system that can be seen as favouring suppliers from particular countries or regions

simply because they are further advanced in the environmental and social performance proves to be a very difficult proposition. It is at this point that the integration of sustainable procurement has thus far been stilted within the UN procurement system. Work is however continuing to overcome this impasse.

Chapter 5: References

In this chapter

This chapter covers the following topics:

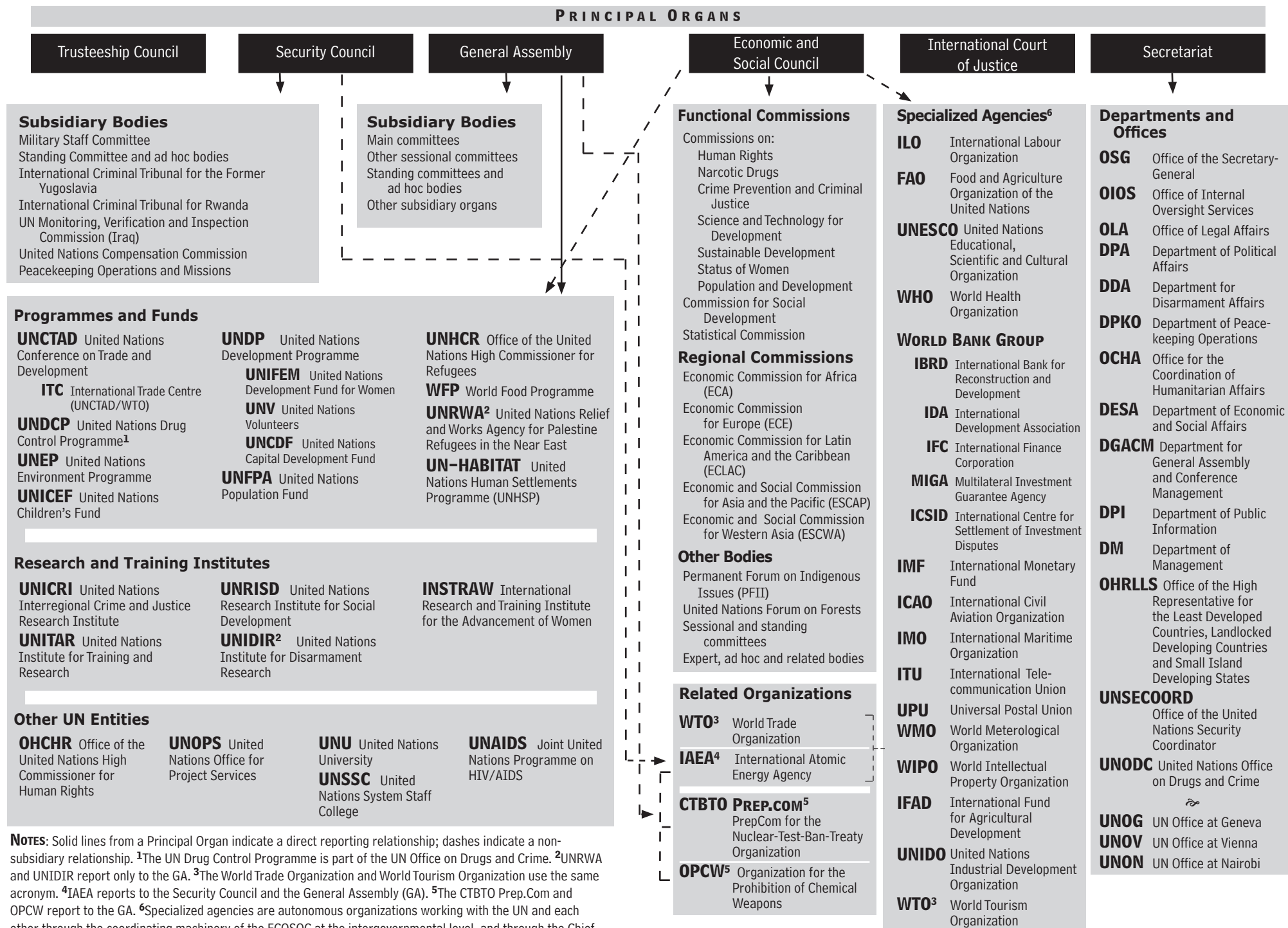
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Annex 1: Overview of the UN System of Organizations



The United Nations system

PRINCIPAL ORGANS



Annex 2: Status, Basic Rights and Duties of United Nations Staff Members

ST/SGB/2002/13



UNITED NATIONS

**Status, basic rights and duties of
United Nations staff members**

Secretary-General's bulletin

Status, basic rights and duties of United Nations staff members

The Secretary-General, pursuant to the request of the General Assembly in paragraph 8 of its resolution 52/252 of 8 September 1998, and in order to assist staff members in understanding their status, basic rights and duties as set out in the text of article IX of the Staff Regulations adopted by the Assembly in resolution 52/252 and of chapter I of the 100 series of the Staff Rules, taken note of in the same resolution, promulgates the publication set out in the annex to the present bulletin:

Section 1

Purposes

1.1 The purpose of the present bulletin is to ensure that all United Nations staff are made aware of the "Standards of conduct for the international civil service" that were adopted by the International Civil Service Commission in 2001 and welcomed by the General Assembly in its resolution 56/244 of 24 December 2001 ("the 2001 standards of conduct"), to replace the 1954 report of the International Civil Service Advisory Board entitled *Standards of Conduct in the International Civil Service* ("the 1954 standards"). The full text of the 2001 standards of conduct is set out in part V of the annex to the present bulletin.

1.2 The present bulletin also updates the text of the commentary on article 1 of the Staff Regulations and chapter 1 of the 100 series of the Staff Rules previously contained in document ST/SGB/1998/19 by replacing all former references to the 1954 standards by references to the 2001 standards of conduct.

Section 2

General provisions

2.1 The present bulletin with its annex is issued to every staff member who is subject to the Staff Regulations and Rules, including staff members of separately administered organs and programmes.

2.2 The provisions in the annex from chapter I of the 100 series of the Staff Rules are applicable only to staff members appointed under the 100 series of the Rules. Similar provisions are contained in chapter 1 of the 200 and 300 series, applicable to staff members appointed under these rules.

2.3 The role and status of the commentary to the provisions of the Staff Regulations and Rules and of the standards of conduct set out in the annex to the present bulletin are explained in the introduction to the annex.

Section 3

Final provisions

3.1 The present bulletin shall enter into force on 1 December 2002.

3.2 ST/SGB/1998/19 of 1 January 1999 is hereby abolished.

(Signed) Kofi A. Annan
Secretary-General

Annex

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I. Introduction

1. Article 101, paragraph 3, of the Charter of the United Nations establishes the universal standard for all staff members employed by the United Nations as the “highest standards of efficiency, competence and integrity”. It is thus axiomatic that these standards apply to all staff whose employment relationship derives from the authority vested by the Charter in the Organization to employ individuals as staff members. These basic standards are common to all staff, including those of the separately funded and administered organs. The revised text of article I of the Staff Regulations, adopted by the General Assembly in its resolution 52/252 of 8 September 1998, and of chapter I of the 100 series of the Staff Rules, noted in that same resolution, express in concrete terms the basic rights and obligations of staff members.

2. The statutory provisions set out in the present annex are an integral part of the Staff Regulations and Rules, with regulations being adopted by the General Assembly pursuant to Article 101, paragraph 1, of the Charter and with rules being promulgated by the Secretary-General pursuant to the authority granted to him or her by the scope and purpose provision of the Staff Regulations.

3. As the Staff Regulations apply to all staff, including the separately funded organs, the Secretary-General has amended the 200 series (Project personnel) and the 300 series (Short-term appointments and appointments of limited duration) of the Staff Rules to bring them into line with the 100 series.

4. The provisions of article I of the Staff Regulations are in most parts very general as they must apply to all staff. Similarly, the provisions of chapter I of the 100 series of the Staff Rules contained in the present annex are, for the most part, very general as they must apply to all staff appointed under the 100 series of the Staff Rules. Pursuant to the request of the General Assembly in resolution 52/252, it is envisaged that additional rules for particular groups of staff such as finance officers, procurement officers and staff of separately funded organs will be prepared and promulgated by administrative issuances dealing with their status, rights and obligations. It is not appropriate to deal with such specialized matters in the Staff Regulations and Rules.

Role of the commentary

5. Each provision of the Staff Regulations and Rules set out in the present annex is followed by a commentary. The commentary is designed to explain individual provisions and to help staff members understand each provision by placing it into context. It is not part of the Staff Regulations and Rules and so is not a legal “norm” or imperative, nor does it have the legal force of a rule. It is, however, an official guide published by the Secretary-General for the use of management and staff on the scope and application of the rules contained in this annex. Staff may thus safely rely on the commentary to guide their actions since management will use it in interpreting and applying those rules. The commentary will be updated from time to time in consultation with representatives of the staff in the Staff-Management Coordination Committee established under chapter VIII of the Staff Rules in the light of experience in applying the rules to specific instances.

6. In view of the importance of the revised text of article I of the Staff Regulations adopted by the General Assembly in resolution 52/252 and of chapter I of the 100 series of the Staff Rules noted in the same resolution, and in view of the need for staff to have a guide to their status, rights and duties conveniently at hand, the present annex contains extracts from the Charter and the Convention on the Privileges and Immunities of the United Nations, the text of article I of the Staff Regulations and the text of the related provisions of chapter I of the Staff Rules, together with the explanatory commentary, as well as the text of resolution 52/252 and of the “Standards of conduct for the international civil service” adopted by the International Civil Service Commission in 2001 and welcomed by the General Assembly in its resolution 56/244 (the 2001 standards of conduct).

Status of the “Standards of conduct for the international civil service”

7. The standards of conduct adopted in 2001 revised and updated the 1954 report of the International Civil Service Advisory Board entitled *Standards of Conduct in the International Civil Service* in order to assist staff members and executive heads of the organizations to understand better the obligations placed on staff conduct by the Charter and the Staff Regulations and Rules. The 1954 report has been continually cited by successive Secretaries-General and by the United Nations Administrative Tribunal when assessing conduct of staff. The revised text is reproduced in the present annex as an illustrative guide to expected standards of conduct. The standards of conduct do not have the force of law as they provide a discussion of expected standards to help staff understand their role as international civil servants rather than a set of binding rules. References to relevant paragraphs in the standards of conduct are made in the commentary.

II. General Assembly resolution 52/252 of 8 September 1998

Revisions to article I of the Staff Regulations and chapter I of the 100 series of the Staff Rules of the United Nations

The General Assembly,

Recalling Articles 97, 98, 100, 101 and 105 of the Charter of the United Nations,

Recalling also its resolution 52/12 B of 19 December 1997,

Noting with concern the limited time it had at its disposal to consider this matter,

Having considered the reports of the Secretary-General of 17 October 1997^a and 28 July 1998^b entitled “Proposed United Nations Code of Conduct”,

Taking note with appreciation of the comments provided by the International Civil Service Commission on the revised text of article I of the Staff Regulations

^a A/52/488.

^b A/52/488/Add.1.

and chapter I of the 100 series of the Staff Rules applicable to United Nations staff members,^c

Taking note of the views expressed by Member States in the Fifth Committee on this question,^d

Having heard the views expressed by staff representatives in the Fifth Committee^e in accordance with General Assembly resolution 35/213 of 17 December 1980,

1. *Adopts* the revised text of article I of the Staff Regulations, and takes note of the revised text of chapter I of the 100 series of the Staff Rules applicable to United Nations staff members, as set out in annex I to the report of the Secretary-General of 17 October 1997,^a and not to other organizations, subject to the following modifications:

(a) The provisions contained in new staff regulations 1.1 (c) and 1.2 (g), and in new staff rule 101.2 (h) of the original proposal as set out in the report of the Secretary-General of 17 October 1997, which deal with staff representatives, are deleted, as indicated in the report of the Secretary-General of 28 July 1998;^b

(b) The phrase “and in the relevant resolutions and decisions of the General Assembly” is inserted after “Staff Regulations and Rules” in new staff regulation 1.1 (c);

(c) The phrase “in the employment of staff and” is deleted from new staff regulation 1.1 (d);

(d) Article 99 is deleted from annex I, section A;^a

(e) At the end of new staff regulation 1.1 (f), the words “in accordance with the relevant instruments” are added;

(f) New staff regulation 1.2 (o) is replaced with the following:

“All staff members at the assistant secretary-general level and above shall be required to file financial disclosure statements upon appointment and at intervals as prescribed by the Secretary-General, in respect of themselves and their dependent children, including any substantial transfers of assets and property to spouses and dependent children from the staff member or from any other source that might constitute a conflict of interest, after knowledge of the appointment or during its tenure, to provide certification stating that there is no conflict of interest with regard to the economic activities of spouses and dependent children, and to assist the Secretary-General in verifying the above-mentioned certification on his special request. The financial disclosure statements will remain confidential and will only be used, as prescribed by the Secretary-General, in making determinations pursuant to staff regulation 1.2 (n);”

2. *Decides* to insert between the second and third sentences of the text of the “Scope and purpose” provision of the Staff Regulations, the following sentence:

^c See A/52/30/Add.1.

^d See *Official Records of the General Assembly, Fifty-second Session, Fifth Committee*, 53rd, 56th, 58th and 67th meetings (A/C.5/52/SR.53, 56, 58 and 67-69), and corrigendum.

^e *Ibid.*, 53rd meeting (A/C.5/52/SR.53), and corrigendum.

“For the purposes of these Regulations, the expressions ‘United Nations Secretariat’, ‘staff members’ or ‘staff’ shall refer to all the staff members of the Secretariat, within the meaning of Article 97 of the Charter of the United Nations, whose employment and contractual relationship are defined by a letter of appointment subject to regulations promulgated by the General Assembly pursuant to Article 101, paragraph 1, of the Charter of the United Nations.”;

3. *Decides also* that the amendments to the Staff Regulations adopted in the present resolution and the related amendments to the Staff Rules shall become effective on 1 January 1999;

4. *Emphasizes* that the implementation of new staff regulation 1.2 (b) should take into account also the definition of integrity provided in the 1954 report of the International Civil Service Advisory Board entitled *Standards of Conduct in the International Civil Service*, in accordance with paragraph 28 of the comments of the International Civil Service Commission;^c

5. *Also emphasizes* that the implementation of new staff rule 101.2 (d) should be in accordance with the definition provided in administrative instruction ST/AI/379 of 29 October 1992;

6. *Further emphasizes* that managers, as staff members, are bound by the duties and obligations set out in new article I of the Staff Regulations and chapter I of the 100 series of the Staff Rules, and that their higher-level functions and responsibilities entail increased accountability for the proper performance of all their duties in managing the human and financial resources entrusted to them;

7. *Requests* the Secretary-General to emphasize in the commentary on new article I of the Staff Regulations and chapter I of the 100 series of the Staff Rules that the higher level of responsibilities associated with managerial functions entails a commensurate increase in the accountability of managers;

8. *Stresses* the importance of the provisions governing the status and the basic rights and duties of staff members, requests the Secretary-General to issue to every staff member in separate form the text of Articles 97, 98, 100, 101 and 105 of the Charter of the United Nations and relevant extracts from the Convention on the Privileges and Immunities of the United Nations, adopted by the General Assembly in its resolution 22 A (I) of 13 February 1946, as well as the text of new article I of the Staff Regulations and chapter I of the 100 series of the Staff Rules, together with the explanatory commentary,^f the text of the present resolution and the 1954 report of the International Civil Service Advisory Board entitled *Standards of Conduct in the International Civil Service*;

9. *Requests* the Secretary-General to expedite the submission to the General Assembly, by its fifty-fourth session, of appropriate regulations and rules governing the status, basic rights and duties of the Secretary-General, officials other than Secretariat officials and experts on mission;

10. *Also requests* the Secretary-General to prepare, as a matter of priority, additional rules for particular groups of staff such as finance officers, procurement

^f See A/52/488, annex II and A/52/488/Add.1, sect. II.

officers and staff of separately funded organs, in accordance with paragraph 10 of his report;^a

11. *Further requests* the Secretary-General to prepare for consideration by the General Assembly at its fifty-fourth session a text of the Staff Regulations drafted in gender-neutral terms;

12. *Notes* that the Secretary-General will prepare amendments to the 200 and 300 series of the Staff Rules to reflect the amendments to article I of the Staff Regulations, and notes also that such amendments to the Staff Rules are subject to the requirements of staff regulations 12.2, 12.3 and 12.4;

13. *Notes further* that the International Civil Service Commission has decided to include in its work programme the updating of the 1954 *Standards of Conduct in the International Civil Service* of the International Civil Service Advisory Board in consultation with the Consultative Committee on Administrative Questions, and looks forward to the results of this review.

*92nd plenary meeting
8 September 1998*

III. Charter of the United Nations and the Convention on the Privileges and Immunities of the United Nations

Provisions relating to the status, basic rights and duties of United Nations staff members, with commentary

A. Charter of the United Nations

Chapter III Organs

Article 7

1. There are established as the principal organs of the United Nations: a General Assembly, a Security Council, an Economic and Social Council, a Trusteeship Council, an International Court of Justice, and a Secretariat.

2. Such subsidiary organs as may be found necessary may be established in accordance with the present Charter.

Article 8

The United Nations shall place no restrictions on the eligibility of men and women to participate in any capacity and under conditions of equality in its principal and subsidiary organs.

Chapter XV The Secretariat

Article 97

The Secretariat shall comprise a Secretary-General and such staff as the Organization may require. The Secretary-General shall be appointed by the General Assembly upon the recommendation of the Security Council. He shall be the chief administrative officer of the Organization.

Article 98

The Secretary-General shall act in that capacity in all meetings of the General Assembly, of the Security Council, of the Economic and Social Council, and of the Trusteeship Council, and shall perform such other functions as are entrusted to him by these organs. The Secretary-General shall make an annual report to the General Assembly on the work of the Organization.

Article 100

1. In the performance of their duties the Secretary-General and the staff shall not seek or receive instructions from any Government or from any other authority external to the Organization. They shall refrain from any action which might reflect on their position as international officials responsible only to the Organization.
2. Each Member of the United Nations undertakes to respect the exclusively international character of the responsibilities of the Secretary-General and the staff and not to seek to influence them in the discharge of their responsibilities.

Article 101

1. The staff shall be appointed by the Secretary-General under regulations established by the General Assembly.
2. Appropriate staffs shall be permanently assigned to the Economic and Social Council, the Trusteeship Council, and, as required, to other organs of the United Nations. These staffs shall form a part of the Secretariat.
3. The paramount consideration in the employment of the staff and the determination of the conditions of service shall be the necessity of securing the highest standards of efficiency, competence and integrity. Due regard shall be paid to the importance of recruiting the staff on as wide a geographical basis as possible.

Chapter XVI **Miscellaneous provisions**

Article 105

1. The Organization shall enjoy in the territory of each of its Members such privileges and immunities as are necessary for the fulfilment of its purposes.
2. Representatives of the Members of the United Nations and officials of the Organization shall similarly enjoy such privileges and immunities as are necessary for the independent exercise of their functions in connection with the Organization.
3. The General Assembly may make recommendations with a view to determining the details of the application of paragraphs 1 and 2 of this Article or may propose conventions to the Members of the United Nations for this purpose.

B. Convention on the Privileges and Immunities of the United Nations, adopted by the General Assembly by its resolution 22 (I) of 13 February 1946

Article V

Section 20. Privileges and immunities are granted to officials in the interests of the United Nations and not for the personal benefit of the individuals themselves ...

Section 21. The United Nations shall cooperate at all times with the appropriate authorities of Members to facilitate the proper administration of justice, secure the observance of police regulations, and prevent the occurrence of any abuse in connection with the privileges, immunities and facilities ...

Commentary

Staff members

1. *The Charter requires that staff members be “appointed” by the Secretary-General (or by those to whom this power has been delegated, either by the Secretary-General alone or by the Secretary-General at the direction of the General Assembly). The hallmark of a staff relationship is “appointment”, and this is done through a letter of appointment pursuant to staff regulation 4.1. The Staff Regulations, as revised by the General Assembly in its resolution 52/252, apply to all staff members of the Secretariat, within the meaning of Article 97 of the Charter, whose employment relationship and contractual link with the Organization are through a letter of appointment issued pursuant to regulations promulgated by the General Assembly.*

2. *To ensure that the revised Regulations apply to all staff members of the Organization, including all staff members of all its principal and subsidiary organs, even those with entirely separate administrations, the following sentence has been inserted between the second and third sentence of the “Scope and purpose” provision of the Staff Regulations:*

“For the purposes of these Regulations, the expressions ‘United Nations Secretariat’, ‘staff members’ or ‘staff’ shall refer to all the staff members of the Secretariat, within the meaning of Article 97 of the Charter of the United Nations, whose employment and contractual relationship are defined by a letter of appointment subject to regulations promulgated by the General Assembly pursuant to Article 101, paragraph 1, of the Charter.”

The entire text is shown in section IV of the present annex.

3. *Article 105 of the Charter empowers the General Assembly to make provisions for the privileges and immunities of the “officials” of the Organization. The Assembly did so by adopting the Convention on the Privileges and Immunities of the United Nations on 13 February 1946 (hereafter the “General Convention”). Article V of the General Convention provides for privileges and immunities for officials and article VII provides for the issue of United Nations laissez-passers to officials. By its resolution 76 (I) of 7 December 1946, the Assembly approved that the provisions in articles V and VII of the General Convention apply to all staff members of the United Nations with the exception of those “recruited locally and assigned to hourly*

rates". Thus all staff members governed by the Staff Regulations are officials of the Organization.

IV. Scope and purpose of the Staff Regulations of the United Nations

Article I of the Staff Regulations of the United Nations and related rules from chapter I of the 100 series of the Staff Rules, with commentary

Staff Regulations of the United Nations Scope and purpose

The Staff Regulations embody the fundamental conditions of service and the basic rights, duties and obligations of the United Nations Secretariat. They represent the broad principles of personnel policy for the staffing and administration of the Secretariat. For the purposes of these Regulations, the expressions "United Nations Secretariat", "staff members" or "staff" shall refer to all the staff members of the Secretariat, within the meaning of Article 97 of the Charter of the United Nations, whose employment and contractual relationship are defined by a letter of appointment subject to regulations promulgated by the General Assembly pursuant to Article 101, paragraph 1, of the Charter. The Secretary-General, as the chief administrative officer, shall provide and enforce such staff rules consistent with these principles as he or she considers necessary.

Article I Duties, obligations and privileges

Staff regulation 1.1 Status of staff

Regulation 1.1 (a)

Staff members are international civil servants. Their responsibilities as staff members are not national but exclusively international.

Commentary

1. It should be noted that the commentary uses the word "former" to refer to the regulations and rules in force when General Assembly resolution 52/252 was adopted (ST/SGB/1998/8 and ST/SGB/Staff Rules/1/9 and Amend.1). The word "new" is used to indicate language that was not in the former Staff Regulations and Rules.

2. Staff regulation 1.1 (a) essentially reproduces the text of the first two sentences of former staff regulation 1.1 (see paras. 3-14, 29 and 30 of the 2001 standards of conduct), reproduced in section V of the present annex.

Regulation 1.1 (b)

Staff members shall make the following written declaration witnessed by the Secretary-General or his or her authorized representative:

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

“I also solemnly declare and promise to respect the obligations incumbent upon me as set out in the Staff Regulations and Rules.”

Commentary

1. *Staff regulation 1.1 (b) contains the declaration of office of staff and its opening words incorporate the text of former staff regulation 1.9 insofar as it relates to staff members (see paras. 3-14 of the 2001 standards of conduct). The first part of staff regulation 1.1 (b) in substance reproduces the text of the declaration set out in former staff regulation 1.9, except that staff regulation 1.1 (b) codifies existing practice under which staff members subscribe to a written declaration but do not make a sworn statement, since the concept of a sworn statement depends upon the operation of local law.*
2. *The second paragraph of the declaration is new and refers specifically to the Staff Regulations and Rules.*
3. *A copy of the present bulletin and its annex will be distributed to all new and current staff members.*

Regulation 1.1 (c)

The Secretary-General shall ensure that the rights and duties of staff members, as set out in the Charter and the Staff Regulations and Rules and in the relevant resolutions and decisions of the General Assembly, are respected.

Commentary

1. *Staff regulation 1.1 (c) is new.*
2. *The regulation codifies an implicit duty that falls on the Secretary-General, that is, to ensure that the rights and duties of staff members are respected.*

Regulation 1.1 (d)

The Secretary-General shall seek to ensure that the paramount consideration in the determination of the conditions of service shall be the necessity of securing staff of the highest standards of efficiency, competence and integrity.

Commentary

1. *Staff regulation 1.1 (d) places on the Secretary-General an affirmative duty to seek to ensure that the criteria set out in Article 101, paragraph 3, of the Charter for the determination of the conditions of service of the staff are implemented. This*

provision is not intended to affect the role of legislative bodies involved in the process of establishing conditions of service. It does, however, seek to formulate the responsibility of the Secretary-General to advocate, in the appropriate forums, the adoption of what he or she considers to be the appropriate conditions of service to secure the recruitment and retention of staff possessing the highest standards of efficiency, competence and integrity.

2. The salaries of staff in the Professional category and above are determined by reference to the best paying national civil service under what is known as the Noblemaire principle. The salaries of staff in the General Service and related categories are established by the Secretary-General on the basis of the best prevailing conditions of employment in the locality where the United Nations office concerned is located under what is commonly referred to as the Flemming principle. The determination of the conditions of service of staff in the Field Service category follows the same pattern as the Professional category.

Regulation 1.1 (e)

The Staff Regulations apply to all staff at all levels, including staff of the separately funded organs and staff holding appointments under the 100, 200 and 300 series of the Staff Rules.

Commentary

1. Regulation 1.1 (e) makes clear that the Staff Regulations apply to all staff members of the Secretariat within the meaning of Article 97 of the Charter whose contractual link with the Organization is through a letter of appointment issued pursuant to regulations promulgated by the General Assembly.

2. While the Staff Regulations apply to all staff, applicable Staff Rules differ depending on the type of appointment held by the staff member. The 100 series of the Staff Rules applies to all staff except those engaged on technical assistance projects (200 series) and staff engaged for short-term service or for appointments of limited duration (300 series). Similar amendments to the 200 series and 300 series rules have been promulgated as appear in the 100 series, with appropriate modifications required to address the different circumstances of such staff.

Regulation 1.1 (f)

The privileges and immunities enjoyed by the United Nations by virtue of Article 105 of the Charter are conferred in the interests of the Organization. These privileges and immunities furnish no excuse to the staff members who are covered by them to fail to observe laws and police regulations of the State in which they are located nor do they furnish an excuse for non-performance of their private obligations. In any case where an issue arises regarding the application of these privileges and immunities, the staff member shall immediately report the matter to the Secretary-General, who alone may decide whether such privileges and immunities exist and whether they shall be waived in accordance with the relevant instruments.

Commentary

1. *Staff regulation 1.1 (f) essentially reproduces the substance of former staff regulation 1.8 (see the 2001 standards of conduct, paras. 39 and 40). It is placed at the end of staff regulation 1.1 as it defines the scope and extent of the privileges and immunities of the United Nations that are enjoyed by staff in the interest of the Organization.*
2. *Staff rule 101.2 (c) deals with the obligations on staff to honour their private legal obligations.*

Staff rule 101.1**Status of staff**

The declaration made by a staff member on appointment shall be placed in his or her official status file. A new declaration shall be made after a break in service that exceeds three months.

Commentary

1. *Staff rule 101.1 codifies the existing practice of placing written declarations in the official status file. The second sentence seeks to ensure that a new declaration is made after a break in service that exceeds three months unless the staff member is reinstated and the staff member's services are considered continuous under current staff rule 104.3 (b).*
2. *The Staff Regulations adopted by the General Assembly in its resolution 52/252 entered into force on 1 January 1999. They are binding on all staff in service on that date, as well as staff recruited on or after that date. The declaration previously made by staff already in service on 1 January 1999 at the time of their entry on duty remains in effect. Thus, it is not necessary that they sign the new declaration set out in staff regulation 1.1 (b).*

Staff regulation 1.2**Basic rights and obligations of staff****Core values****Regulation 1.2 (a)**

Staff members shall uphold and respect the principles set out in the Charter, including faith in fundamental human rights, in the dignity and worth of the human person and in the equal rights of men and women. Consequently, staff members shall exhibit respect for all cultures; they shall not discriminate against any individual or group of individuals or otherwise abuse the power and authority vested in them.

Commentary

This provision describes the basic values expected of international civil servants because of their status. At the heart of those values are the principles set out in the preamble to the Charter. The first sentence is a quotation from those opening words and the second sentence is the obligation on staff flowing from a

commitment to those values (see also the 2001 standards of conduct, paras. 2, 3, 6, 13, 14, 20 and 36).

Regulation 1.2 (b)

Staff members shall uphold the highest standards of efficiency, competence and integrity. The concept of integrity includes, but is not limited to, probity, impartiality, fairness, honesty and truthfulness in all matters affecting their work and status.

Commentary

1. *This provision describes more basic values expected of international civil servants because of their status. It is derived from Article 101, paragraph 3, of the Charter and affirmatively places on staff the obligation to uphold the highest standards of efficiency, competence and integrity after appointment to the Secretariat.*

2. *At the heart of those values is integrity, allied with a dedication to the values and principles set out in the Charter. As discussed in paragraph 5 of the 2001 standards of conduct, the concept of integrity “embraces all aspects of behaviour of an international civil servant, including such qualities as honesty, truthfulness, impartiality and incorruptibility”.*

3. *Various other provisions deal with particular manifestations of this set of basic values in different circumstances, for example, staff regulations 1.2 (d) to (i), (m) and (n).*

General rights and obligations

Regulation 1.2 (c)

Staff members are subject to the authority of the Secretary-General and to assignment by him or her to any of the activities or offices of the United Nations. In exercising this authority the Secretary-General shall seek to ensure, having regard to the circumstances, that all necessary safety and security arrangements are made for staff carrying out the responsibilities entrusted to them.

Commentary

1. *The opening sentence of staff regulation 1.2 (c) reproduces the first sentence of former staff regulation 1.2.*

2. *The obligations of Member States for the security of staff are set out in Article 105 of the Charter, which provides that the Organization and its officials shall enjoy such privileges and immunities as are necessary for the exercise of their functions.*

3. *The Secretary-General, as chief administrative officer, has an inherent responsibility to seek to ensure the safety of staff. This regulation recognizes that responsibility as a basic right of staff (see also the 2001 standards of conduct, para. 37).*

4. *In exercising his or her authority to assign staff to any of the activities of the Organization, the Secretary-General shall seek to ensure that, while assigned to*

hardship areas, staff are afforded reasonable conditions of life and work having regard to the existing conditions.

5. Furthermore, since staff are subject to assignment, measures should be taken to ensure that staff are properly advised, before departure, of conditions prevailing at the duty station to which they are assigned.

Regulation 1.2 (d)

In the performance of their duties staff members shall neither seek nor accept instructions from any Government or from any other source external to the Organization.

Commentary

1. Staff regulation 1.2 (d) reproduces the essence of former staff regulation 1.3 and flows from the first sentence of Article 100, paragraph 1, of the Charter (see the 2001 standards of conduct, paras. 8, 12 and 30).

2. The new regulation makes clear that directions or instructions to staff come from the Secretary-General, who must fulfil the legislative mandates of the Organization. This is true in all areas, including, for example, decisions relating to the appointment and promotion of staff, which are for the Secretary-General to make as chief administrative officer of the Organization.

Regulation 1.2 (e)

By accepting appointment, staff members pledge themselves to discharge their functions and regulate their conduct with the interests of the Organization only in view. Loyalty to the aims, principles and purposes of the United Nations, as set forth in its Charter, is a fundamental obligation of all staff members by virtue of their status as international civil servants.

Commentary

1. The first sentence of staff regulation 1.2 (e) sets out an idea that is in former staff regulation 1.1 and former staff regulation 1.9, which contains the oath or declaration of office, that is, that staff must regulate their conduct with only the interests of the Organization in view (see the 2001 standards of conduct, paras. 4 and 5). The second sentence of staff regulation 1.2 (e) is new and focuses on the concept of loyalty to the aims, principles and purposes of the Organization as set out in the Charter (which is alluded to in the declaration contained in staff regulation 1.1 (b)) (ibid., paras. 4, 7 and 30). It was considered important to highlight those obligations which arise from the very status of a staff member and which, at present, are set out only in the declaration subscribed to by staff upon their entry on duty.

2. The Secretary-General, and those to whom he or she has delegated decision-making authority, has the responsibility to make decisions as to whether the staff have complied with the provisions of the Staff Regulations and Rules. Since no set of rules, no matter how long or complex, can cover all situations, it is clear that there must be discretion in the application of the rules. This is common to all systems of administrative law. However, the discretionary authority of the Secretary-General is not unlimited and it has consistently been held by the Administrative Tribunal that

decisions cannot be tainted by prejudice, improper motive or mistake of fact. The Administrative Tribunal adjudicates claims by staff that decisions have not been properly taken.

Regulation 1.2 (f)

While staff members' personal views and convictions, including their political and religious convictions, remain inviolable, staff members shall ensure that those views and convictions do not adversely affect their official duties or the interests of the United Nations. They shall conduct themselves at all times in a manner befitting their status as international civil servants and shall not engage in any activity that is incompatible with the proper discharge of their duties with the United Nations. They shall avoid any action and, in particular, any kind of public pronouncement that may adversely reflect on their status, or on the integrity, independence and impartiality that are required by that status.

Commentary

1. *Staff regulation 1.2 (f) generally reproduces the essence of former staff regulation 1.4. The core idea of conduct befitting an international civil servant was considered by the International Civil Service Commission in 2001. The Commission indicated that:*

*"... international civil servants have a special calling: to serve the ideals of peace, of respect for fundamental rights, of economic and social progress, and of international cooperation. It is therefore incumbent on international civil servants to adhere to the highest standards of conduct; for ultimately, it is the international civil service that will enable the United Nations system to bring about a just and peaceful world."*⁸

(See the 2001 standards of conduct, para. 2; see also para. 5 on the integrity expected of international civil servants; paras. 4, 7, 21 and 33 on loyalty; para. 6 on tolerance and understanding; paras. 8-10 on impartiality; paras. 11 and 12 on independence; paras. 13 and 36 on international outlook; and para. 14 on freedom from discrimination.)

2. *The first sentence of regulation 1.2 (f) is a revision of the second sentence in former staff regulation 1.4, which provided that:*

"While they are not expected to give up their national sentiments, or their political and religious convictions, they shall at all times comport themselves with the reserve and tact incumbent upon them by reason of their international status."

The revision recasts this obligation in a more positive tone. In the 2001 standards of conduct, the Commission noted that:

"Impartiality implies tolerance and restraint, particularly in dealing with political or religious convictions. While their personal views remain inviolate, international civil servants do not have the freedom of private persons to take sides or to express their convictions publicly on controversial matters, either

⁸ *Official Records of the General Assembly, Fifty-sixth Session, Supplement No. 30 (A/56/30), annex II, para. 2.*

individually or as members of a group. This can mean that, in certain situations, personal views should only be expressed with tact and discretion.”^h

3. *As noted in the commentary to regulation 1.2 (e), it is for the Secretary-General to decide whether a staff member has met the standards set out in this provision. The Administrative Tribunal has consistently maintained that, while the Secretary-General has the responsibility and discretion to assess a staff member’s conduct, such discretion must be exercised reasonably, without improper motives and in accordance with the requirements of due process.*

Regulation 1.2 (g)

Staff members shall not use their office or knowledge gained from their official functions for private gain, financial or otherwise, or for the private gain of any third party, including family, friends and those they favour. Nor shall staff members use their office for personal reasons to prejudice the positions of those they do not favour.

Commentary

1. *Staff regulation 1.2 (g) builds on ideas in former staff regulation 1.5 and codifies principles set out in the 2001 standards of conduct (see paras. 21, 22, 25 and 34). The use of one’s office for personal gain is clearly unacceptable. This includes not only conducting business from a United Nations office, but also such things as using the United Nations facilities for a business, using the United Nations name, logo or address for a business or approving a contract for a family business without disclosure. It also reflects the principle set out in former staff regulation 1.5 that staff members shall not use information that has not been made public for the private advantage of the staff member or any third party.*

2. *Staff regulation 1.2 (g), for the sake of clarity, makes specific reference to the prohibition on a staff member favouring a third party, including family or friends, from profiting from a staff member’s position or the exercise of his or her functions. The term “friends” is broad and seeks to encompass not only friends as normally understood but also relationships that are not recognized by the Staff Regulations and Rules as creating a dependency.*

3. *The regulation also prohibits the use of office or knowledge gained from that office for personal reasons to prejudice or harm the careers of individual staff members or harm third parties.*

Regulation 1.2 (h)

Staff members may exercise the right to vote but shall ensure that their participation in any political activity is consistent with, and does not reflect adversely upon, the independence and impartiality required by their status as international civil servants.

^h Ibid., para. 9.

Commentary

1. *Staff regulation 1.2 (h) reproduces the essence of the text of former staff regulation 1.7 (see the 2001 standards of conduct, paras. 9, 10, 29, 44 and 45), but the provision is cast in a more positive form to ensure that the emphasis is on the need to ensure that political activities do not have an impact on the independence and impartiality of staff rather than suggesting that there is some problem with staff having political views.*
2. *The notion of consistency with the status of an international civil servant is to be determined by the Secretary-General in view of the necessity of staff being, and appearing to be, independent and impartial. Thus, it is clear that staff members cannot be candidates for political office. In case of doubt, inquiries could be made by staff pursuant to staff rule 101.2 (r).*
3. *Staff members, of course, have the right to form staff representative bodies in accordance with staff regulations 8.1 and 8.2 in order to ensure, in the words of staff regulation 8.1, “the effective participation of staff in identifying, examining and resolving issues relating to staff welfare, including conditions of work, general conditions of life and other personnel policies”.*

Regulation 1.2 (i)

Staff members shall exercise the utmost discretion with regard to all matters of official business. They shall not communicate to any Government, entity, person or any other source any information known to them by reason of their official position that they know or ought to have known has not been made public, except as appropriate in the normal course of their duties or by authorization of the Secretary-General. These obligations do not cease upon separation from service.

Commentary

1. *Staff regulation 1.2 (i) generally reproduces the text of former staff regulation 1.5. The text reflects the fact that official information cannot be used for private purposes, except with authorization. This flows from the idea that staff members should place the interests of the Organization above their own (see the 2001 standards of conduct, para. 4). It follows that permission must be obtained for disclosure to third parties of information that has not been made public, unless such disclosure is in the normal course of the staff member's duties, that is, that the staff member is either generally authorized to release information (for example, a press officer) or by a staff member specifically authorized to so do (see staff regulation 1.2 (r) for the duty of staff to cooperate with United Nations investigations).*
2. *The last sentence of the regulation provides that the obligations contained in the provision do not cease upon separation from service. It may be difficult to enforce such a provision but, at the very least, if a former staff member ignores the regulation, a note could be placed in his or her official status file to prevent re-employment.*

Honours, gifts or remuneration**Regulation 1.2 (j)**

No staff member shall accept any honour, decoration, favour, gift or remuneration from any Government.

Commentary

1. *Staff regulations 1.2 (j), (k), and (l) provide the basic provisions regulating the issue of acceptance by staff members of any honour, decoration, favour, gift or remuneration from outside sources (see the 2001 standards of conduct, paras. 46ⁱ and 47).*

2. *Former staff regulation 1.6 dealt with this issue in one provision, which prohibited the acceptance of any benefits from a Government, and severely restricted the acceptance of benefits from non-governmental sources. In proposing the language of staff regulation 1.2 (j), the Secretary-General believed that it would be appropriate for the General Assembly to stress the importance of the appearance of strict independence and impartiality of staff and thus to reaffirm the absolute prohibition on acceptance of benefits from Governments. The Secretary-General also believed that the prior exception in former staff regulation 1.6 and former staff rule 101.9 (b), which enabled a staff member to accept honours for war service prior to appointment with the United Nations, should be abolished. By General Assembly resolution 52/252, the Assembly abolished that exception.*

3. *Staff regulation 1.2 (j) contains the basic rule that staff may not accept any honour, decoration, gift or remuneration from any Government (ibid., paras. 46 and 47).^j This rule applies whatever the reason for the award, even if the award is unrelated to the staff member's service with the Organization, since it is imperative that an international civil servant be perceived as independent from any national Government.*

Regulation 1.2 (k)

If refusal of an unanticipated honour, decoration, favour or gift from a Government would cause embarrassment to the Organization, the staff member may receive it on behalf of the Organization and then report and entrust it to the Secretary-General, who will either retain it for the Organization or arrange for its disposal for the benefit of the Organization or for a charitable purpose.

Commentary

1. *Staff regulation 1.2 (k) is new and seeks to regulate a recurrent problem, namely, when a staff member is given an unanticipated honour, decoration, favour or gift, perhaps in public, by a minister or even a head of State. In such cases, a*

ⁱ Even though paragraph 46 envisages the possibility of authorization by the executive head of an organization of an honour, decoration, gift, favour or remuneration from a Government, this is precluded by staff regulation 1.2 (j), as explained in paras. 2 and 3 of the commentary.

^j Staff regulation 3.4 (c) envisages that staff members may accept child benefits from their Governments but that, in such a case, United Nations dependency benefits will be reduced. The United Nations has also accepted housing from Governments and when staff are assigned to such housing, rental deductions from emoluments are applicable.

public refusal could cause a needlessly unpleasant incident. In such cases, the new regulation states that the unanticipated honour, decoration, favour or gift may be received by the staff member, but on behalf of the United Nations. The honour, decoration, favour or gift must then be given to the Secretary-General for retention or disposal by the Organization. Remuneration from a Government must always be refused and such refusal, as staff are paid by the Organization, could hardly cause embarrassment.

2. The Secretary-General will write to all Member States to inform them of the Organization's policy on acceptance of honours, decorations, favours, gifts or remuneration so that incidents of this nature can be avoided to the largest extent possible.

Regulation 1.2 (l)

No staff member shall accept any honour, decoration, favour, gift or remuneration from any non-governmental source without first obtaining the approval of the Secretary-General.

Commentary

1. Staff regulation 1.2 (l) requires that a staff member not accept any honour, decoration, favour, gift or remuneration from a non-governmental source without first obtaining the approval of the Secretary-General (see also the 2001 standards of conduct, paras. 46 and 47). This provision is based on former staff regulation 1.6.

2. A non-governmental source means any intergovernmental organization, non-governmental organization or any private source.

Conflict of interest

Regulation 1.2 (m)

Staff members shall not be actively associated with the management of, or hold a financial interest in, any profit-making, business or other concern, if it were possible for the staff member or the profit-making, business or other concern to benefit from such association or financial interest by reason of his or her position with the United Nations.

Commentary

1. Staff regulation 1.2 (m) reproduces the essence of former staff rule 101.6 (b) and clarifies its scope. The provision was made a staff regulation because of its importance. Its purpose is to put staff on notice that they cannot be actively associated with a profit-making, business or other concern, if either the concern or the staff member is to profit by the association with the Organization. For example, a staff member working in the Office of Legal Affairs cannot act for outside clients (see also the 2001 standards of conduct, paras. 21 and 22). It will be for the Secretary-General to judge whether a particular act raises a conflict of interest situation.

2. This provision does not seek to affect the efforts of staff associations to raise funds for their activities from staff.

Regulation 1.2 (n)

All staff members at the Assistant Secretary-General level and above shall be required to file financial disclosure statements upon appointment and at intervals as prescribed by the Secretary-General, in respect of themselves and their dependent children, including any substantial transfers of assets and property to spouses and dependent children from the staff member or from any other source that might constitute a conflict of interest, after knowledge of the appointment or during its tenure, to provide certification stating that there is no conflict of interest with regard to the economic activities of spouses and dependent children, and to assist the Secretary-General in verifying the above-mentioned certification on his or her special request. The financial disclosure statements will remain confidential and will only be used, as prescribed by the Secretary-General, in making determinations pursuant to staff regulation 1.2 (m).

Commentary

1. *Staff regulation 1.2 (n) requires all staff at the assistant secretary-general level and above to submit financial disclosure statements on appointment and at intervals as prescribed by the Secretary-General (see also the 2001 standards of conduct, para. 22). This requirement is designed to minimize the risk of officials being perceived as using their position for personal gain. The regulation makes it clear that these financial disclosure statements will remain confidential and will only be used by the Secretary-General in assessing whether a conflict of interest situation exists.*

2. *Staff regulation 1.2 (n) also gives to the Secretary-General the authority to prescribe the form of such disclosure statements and the periodicity of their filing and authorizes him or her to establish procedures to ensure that the statements remain confidential.*

Outside employment and activities**Regulation 1.2 (o)**

Staff members shall not engage in any outside occupation or employment, whether remunerated or not, without the approval of the Secretary-General.

Commentary

1. *Staff regulation 1.2 (o), which is based on former staff rule 101.6 (e), reflects the Organization's long-standing policy on outside occupation or employment, whether during or outside the work week (see also the 2001 standards of conduct, paras. 41-45).*

2. *The notion of occupation includes the practice of a profession (whether as an employee or an independent contractor). Employment is a legal relationship pursuant to which one person is providing work and skill at the control and direction of another.*

Regulation 1.2 (p)

The Secretary-General may authorize staff members to engage in an outside occupation or employment, whether remunerated or not, if:

- (i) The outside occupation or employment does not conflict with the staff member's official functions or the status of an international civil servant;
- (ii) The outside occupation or employment is not against the interest of the United Nations; and
- (iii) The outside occupation or employment is permitted by local law at the duty station or where the occupation or employment occurs.

Commentary

1. *Staff regulation 1.2 (p) is new and sets out in specific terms the Organization's long-standing requirements that have to be met before a staff member may be given permission to engage in an outside occupation or employment. The key factors in determining whether permission should be granted relate to the compatibility of that occupation or employment with the status and functions being discharged by the staff member and with the interest of the United Nations (see also the 2001 standards of conduct, para. 41). In addition, the occupation or employment must be permitted by local law. If the Secretary-General decides that permission for such occupation or employment should be denied, a reason will be given.*

2. *The first requirement is that there be no conflict with the staff member's official functions or with the staff member's status as an international civil servant. For example, it would not be appropriate for a member of the Office of Legal Affairs to be working part-time in an outside law firm.*

3. *The second requirement is that such occupation or employment not be against the interest of the United Nations, that is, that the occupation or employment does not reflect adversely upon the United Nations. For example, permission would not be granted for a staff member to work with an organization the goals of which are incompatible with those of the United Nations or to work in a capacity that could call into question the impartiality and independence of the staff member.*

4. *The third requirement is that the occupation or employment be permitted under the law of the duty station concerned. For example, in the United States of America, staff holding G-4 visas are not permitted under local law to accept outside employment, or to earn money from an occupation, so no permission would be granted.*

5. *It should be remarked that private non-remunerated activities that have nothing to do with a staff member's official functions would be at the discretion of the staff member (for example, the secretary of a stamp club) (see the 2001 standards of conduct, para 38).*

6. *Private activities that relate to the United Nations are regulated by staff rule 101.2 (p).*

Use of property and assets

Regulation 1.2 (q)

Staff members shall use the property and assets of the Organization only for official purposes and shall exercise reasonable care when utilizing such property and assets.

Commentary

1. *Staff regulation 1.2 (q) is new and makes explicit the duty to use reasonable care when utilizing the property and assets of the Organization, which duty is behind several provisions in the Financial Rules and the Staff Rules.*
2. *Management accountability for the way in which staff resources are utilized is discussed in the commentary to staff rule 101.3 (a).*

Regulation 1.2 (r)

Staff members must respond fully to requests for information from staff members and other officials of the Organization authorized to investigate the possible misuse of funds, waste or abuse.

Commentary

1. *Staff regulation 1.2 (r) builds on the obligation to supply information set out in current staff rule 104.4. This provision seeks to ensure that staff members clearly understand that they must cooperate with official investigations by the Organization and must supply information on their official actions to, for example, the internal or external auditors. Such requests are not in the nature of criminal inquiries where an individual may refuse to answer on the basis of self-incrimination. The issue in the employment relationship between a staff member and the Organization is whether the highest standards of competence, efficiency and integrity have been met.*
2. *The Secretary-General has the authority to request staff to supply information and the staff have a duty to respond. This is without prejudice to the rights of staff under chapter X of the Staff Regulations and Rules. It should be noted that, although the Secretary-General obviously has control of United Nations premises, any investigations that involve the staff member's home would require the consent of the staff member or would have to be conducted by the appropriate authorities in accordance with national law.*
3. *If, after investigation, a staff member is charged with misconduct, the staff member is entitled to all the due process protections set out in the Staff Regulations and Rules and administrative issuances promulgated thereunder. This includes the freedom to decide whether the staff member wishes to make any statements or submissions in response to the charge.*

Staff rule 101.2**Basic rights and obligations of staff****General****Rule 101.2 (a)**

Disciplinary procedures set out in article X of the Staff Regulations and chapter X of the Staff Rules may be instituted against a staff member who fails to comply with his or her obligations and the standards of conduct set out in the Charter of the United Nations, the Staff Regulations and Rules, the Financial Regulations and Rules and all administrative issuances.

Commentary

Staff rule 101.2 (a) is new. It will ensure that staff are held accountable through disciplinary procedures for failure to comply with their obligations and the standards of conduct, set out in the Charter of the United Nations, the Staff Regulations and Rules, the Financial Regulations and Rules and all related issuances. Administrative issuances refer to issuances promulgated by the Secretary-General, or by those who are delegated authority by the Secretary-General, in furtherance of the Staff Regulations and Rules and the Financial Regulations and Rules (see ST/SGB/1997/1).

Rule 101.2 (b)

Staff members shall follow the directions and instructions properly issued by the Secretary-General and their supervisors.

Commentary

1. *Staff rule 101.2 (b) deals with the obligation of staff to follow directions properly given by supervising officials (see the 2001 standards of conduct, paras. 17 and 18). The use of the word “properly” means that a supervisor who gives improper instructions will be held accountable since staff regulation 1.1 (c) introduces an affirmative duty on the Secretary-General to ensure that the rights and duties of staff are respected.*

2. *In the 2001 standards of conduct, the International Civil Service Commission noted that staff members have to follow the instructions they receive in connection with their official functions but also have a right to ask for written instructions if they have doubts as to the consistency of the instruction with the Charter or any other constitutional instrument, decisions of the governing bodies or administrative rules and regulations (ibid. para. 18). Although it is clear that staff must follow instructions, it should also be noted that staff have a right to appeal instructions that they consider infringe their rights pursuant to chapter XI of the Staff Rules.*

3. *Obviously, staff do not have to follow instructions that are manifestly inconsistent with their official functions or threaten their safety or have nothing to do with their official activities since such instructions are not proper. Such cases are rare and can usually be handled by seeking a review from the next level supervisor or by consulting the Office of Human Resources Management.*

Rule 101.2 (c)

Staff members must comply with local laws and honour their private legal obligations, including, but not limited to, the obligation to honour orders of competent courts.

Commentary

1. *Staff rule 101.2 (c) is really an amplification of staff regulation 1.1 (f) (formerly staff regulation 1.8), which provides that the privileges and immunities of the Organization afford no excuse to staff for non-performance of their private obligations (see the 2001 standards of conduct, paras. 39 and 40). The Secretary-General shall determine in any particular case whether such privileges and immunities exist and, if so, whether they shall be waived.*

2. *Staff rule 101.2 (c) makes clear to staff that they have an obligation to honour such private obligations. This provision will assist the Organization effectively to ensure that staff respect court orders relating to their private obligations. In the event that a plaintiff forwards to the Organization a court order against a staff member, the Administration will seek the views of the staff member before taking any action on the basis of that order. It is the responsibility of staff who have an order against them that they contest to avail themselves of all existing means under the applicable national law to appeal the order and/or obtain relief from the obligation to comply with the order pending its appeal.*

3. *Failure to honour such private obligations may be treated as a disciplinary matter under article X of the Staff Regulations and chapter X of the Staff Rules. In cases of non-compliance with family support court orders, deductions from staff members' salaries, wages and other emoluments may be made in accordance with the procedures set out in Secretary-General's bulletin ST/SGB/1999/4 as may be amended or replaced by another issuance on the subject.*

Specific instances of prohibited conduct

Rule 101.2 (d)

Any form of discrimination or harassment, including sexual or gender harassment, as well as physical or verbal abuse at the workplace or in connection with work, is prohibited.

Commentary

1. *Staff rules 101.2 (d) to (i) deal with specific instances of prohibited conduct.*
2. *Staff rule 101.2 (d) reproduces the core of the Secretary-General's bulletin of 29 October 1992 (ST/SGB/253), as may be amended or replaced by another issuance on the subject, which sets out United Nations policy on equal treatment of men and women in the Secretariat, and which also prohibits all forms of discrimination or harassment (see also the 2001 standards of conduct, paras. 14 and 20).*

Rule 101.2 (e)

Staff members shall not disrupt or otherwise interfere with any meeting or other official activity of the Organization, nor shall staff members threaten, intimidate or otherwise engage in any conduct intended, directly or indirectly, to interfere with the ability of other staff members to discharge their official duties.

Commentary

1. *Staff rule 101.2 (e) prohibits actions that threaten, intimidate or interfere with official functions and activities.*
2. *The rule is not intended to prevent permitted activities such as the right of staff to peaceful assembly, the right of representatives of staff representative bodies to address the Fifth Committee or other organs that have authorized such procedures or for staff to meet in authorized meeting rooms. What is prohibited are actions that prevent Member States, departments, offices, staff and other authorized persons from holding a meeting or carrying out an official activity. Ultimately the*

application of the rule will be judgemental but the test is reasonably clear in that conduct which prevents others from performing official functions is not permitted.

3. It is noted that at times staff representatives have for certain periods suspended participation in joint bodies. Withdrawal by staff representatives from joint bodies does not constitute interference with official functions since the Administrative Tribunal has ruled that, in such cases, the Administration may proceed without the consultation normally needed pursuant to article VIII of the Staff Regulations and chapter VIII of the Staff Rules.

Rule 101.2 (f)

Staff members shall not intentionally misrepresent their functions, official title or the nature of their duties to Member States or to any entities or persons external to the United Nations.

Commentary

Staff rule 101.2 (f) prohibits the intentional misrepresentation of official title or duties to outside parties, for example, by placing misleading titles on business cards, usually for private advantage. The use of the word "intentional" makes clear that this is not a careless or accidental act.

Rule 101.2 (g)

Staff members shall not intentionally alter, destroy, misplace or render useless any official document, record or file entrusted to them by virtue of their functions, which document, record or file is intended to be kept as part of the records of the Organization.

Commentary

Staff rule 101.2 (g) puts staff on notice that the intentional unauthorized destruction, alteration or misplacement of records, which were intended to form part of the official files of the Organization, department or office, is prohibited. This has been a problem from time to time in disciplinary cases when key documents are found to be missing from official files of the Organization. The use of the word "intentional" makes clear that this is not a careless or accidental act.

Rule 101.2 (h)

Staff members shall not seek to influence Member States, principal or subsidiary organs of the United Nations or expert groups in order to obtain a change from a position or decision taken by the Secretary-General, including decisions relating to the financing of Secretariat programmes or units or in order to secure support for improving their personal situation or the personal situation of other staff members or for blocking or reversing unfavourable decisions regarding their status or their colleagues' status.

Commentary

Staff rule 101.2 (h) reproduces provisions from the information circular of 2 February 1996 (ST/IC/1996/10) concerning conduct of staff members in relation to Member States (see the 2001 standards of conduct, paras. 23-25 and 27). The new

rule seeks to make clear that lobbying Member States by individual staff members against positions taken by the Secretary-General is not permitted.

Rule 101.2 (i)

Staff members shall neither offer nor promise any favour, gift, remuneration or any other personal benefit to another staff member or to any third party with a view to causing him or her to perform, fail to perform or delay the performance of any official act. Similarly, staff members shall neither seek nor accept any favour, gift, remuneration or any other personal benefit from another staff member or from any third party in exchange for performing, failing to perform or delaying the performance of any official act.

Commentary

The prohibition in staff rule 101.2 (i) applies to the staff member's relations with other staff members and to the staff member's relations with third parties. While the general proposition is that the practices described in the rule violate the highest standards of integrity required of staff members (see the 2001 standards of conduct, paras. 16, 46 and 47), the purpose of the new rule is specifically to deal with "détournement de pouvoir", "trafic d'influence" and other improper or even corrupt practices.

Honours, gifts or remuneration**Rule 101.2 (j)**

Acceptance by staff members of any honour, decoration, favour, gift or remuneration from non-governmental sources requires the prior approval of the Secretary-General. Approval shall be granted only in exceptional cases and where such acceptance is not incompatible with the interests of the Organization and with the staff member's status as an international civil servant. However, staff members may occasionally accept, without prior approval, minor gifts of essentially nominal value having regard to the duty station concerned, provided that all such gifts are promptly disclosed to the head of the office, who may direct that the gift be entrusted to the Organization or returned to the donor.

Commentary

1. *Staff rule 101.2 (j) implements staff regulation 1.2 (l). It provides guidance on what honours, decorations, favours, gifts or remuneration may be accepted from non-governmental sources (see the 2001 standards of conduct, paras. 46 and 47). In essence, advance approval is required unless the gifts are of essentially nominal value, having regard to the duty station concerned. Acceptance of such items of essentially nominal value would not seem to present any significant risk of undermining the integrity or independence of staff members. The rule thus permits the staff member to accept gifts of essentially nominal value in view of the significant cost and effort that would be involved if staff members were required to seek prior approval.*

2. *The assessment of what is of "essentially nominal value" must be left to the best judgement of the staff member and the head of the office in the light of circumstances at the duty station concerned, since what is considered a minor gift at*

a Headquarters duty station may take on a different significance in a small field office. The problem is regulated through a requirement for staff either to obtain permission in advance or to disclose what they have received to the head of the office. It will be up to the head of the office to determine what is acceptable and, if he or she is in doubt, higher authorities may be consulted. As a safeguard against possible abuse, all gifts received in this manner are to be disclosed to the head of the office, who will have authority to direct that gifts already received be returned.

Rule 101.2 (k)

The Secretary-General may authorize staff members to accept from a non-governmental source or a university academic awards, distinctions and tokens of a commemorative or honorary character, such as scrolls, certificates, trophies or other items of essentially nominal monetary value.

Commentary

Staff rule 101.2 (k) is based on former staff rule 101.9 (d) and permits the Secretary-General to authorize staff members to accept certain awards, distinctions and tokens from a non-governmental source or from a university. The rule provides that, for the purpose of the rule, universities are not considered government sources since, in many countries, they are not so considered and it would be incongruous for a staff member to be authorized to accept an honorary degree or certification from universities in some, but not all, countries. An honorary degree or certificate may therefore be accepted from universities in all countries.

Rule 101.2 (l)

Staff members, as part of their official functions, will be expected from time to time to attend governmental or other functions such as meals and diplomatic receptions. Such attendance is not considered receipt of a favour, gift or remuneration within the meaning of the Staff Regulations and Rules.

Commentary

Staff rule 101.2 (l) is new and deals with the issue of attendance at various official functions. It is clear that international officials are required, from time to time, to attend luncheons, dinners and diplomatic receptions. Such attendance will not be considered by the Secretary-General a favour or gift within the meaning of staff regulations 1.2 (j) to (l).

Rule 101.2 (m)

The Secretary-General may, in exceptional cases, provided that this is in the interest of the United Nations and not incompatible with the staff member's status, authorize a staff member to receive from a non-governmental source an honour, decoration, favour, gift or remuneration other than those referred to in staff rules 101.2 (j) to (l) above.

Commentary

Staff rule 101.2 (m) enables the Secretary-General, on an exceptional basis, to authorize a staff member to accept an honour, decoration, favour, gift or

remuneration from a non-governmental source that falls outside staff rules 101.2 (j) to (l) as long as such acceptance is in the interests of the United Nations and not inconsistent with the staff member's status. This provision flows from former staff rule 101.9 (c) since it is not possible to define in advance what may be accepted from a non-governmental source.

Conflict of interest

Rule 101.2 (n)

A staff member who has occasion to deal in his or her official capacity with any matter involving a profit-making business or other concern in which he or she holds a financial interest, directly or indirectly, shall disclose the measure of that interest to the Secretary-General and, except as otherwise authorized by the Secretary-General, either dispose of that financial interest or formally excuse himself or herself from participating with regard to any involvement in that matter which gives rise to the conflict of interest situation.

Commentary

1. *Staff rule 101.2 (n) is based on former staff rule 101.6 (c). However, the second part is new and deals with the consequences of a staff member disclosing to the Secretary-General that he or she has an interest, direct or indirect, in a profit-making business or other concern (whether profit-making or not-for-profit) with which the United Nations is dealing. In such cases, unless the Secretary-General has authorized the staff member to deal with a particular matter despite the disclosed interest, the staff member will be directed to dispose of the interest or will be excused from dealing with the matter (see also the 2001 standards of conduct, paras. 21 and 22).*

2. *This provision departs from former staff rule 101.6 (d), which provided that the mere holding of shares in a company did not constitute a financial interest that would require disclosure. That provision has been deleted in the interest of transparency and the need to avoid any appearance of conflict of interest. Staff rule 101.2 (n) requires that a staff member, with shares in a corporation with which he or she is to deal, would disclose that interest to his or her supervisor. Obviously whether there was a conflict would depend on the extent of the holding and on the nature of the staff member's duties. The object of the provision is to compel disclosure so that the Secretary-General can decide if there is a conflict situation before a problem arises.*

3. *If informal procedures are not sufficient to deal with questions that arise under this rule, under confidential clarification procedures established in administrative instruction ST/AI/2000/13 on outside activities, as may be amended or replaced by another issuance on the subject, staff can obtain advice on whether a planned outside occupation, employment or activity would conflict with their status. However, the common sense approach of excusing oneself from any dealings with an entity with which one has a financial interest would normally be appropriate.*

Rule 101.2 (o)

The Secretary-General shall establish procedures for the filing and utilization of financial disclosure statements.

Commentary

Staff rule 101.2 (o) provides that the Secretary-General will establish procedures to implement the filing and access to financial disclosure statements. These procedures will ensure that the confidentiality of such forms is respected.

Outside activities**Rule 101.2 (p)**

Staff members shall not, except in the normal course of official duties or with the prior approval of the Secretary-General, engage in any of the following acts, if such act relates to the purpose, activities or interests of the United Nations:

- (i) Issue statements to the press, radio or other agencies of public information;
- (ii) Accept speaking engagements;
- (iii) Take part in film, theatre, radio or television productions;
- (iv) Submit articles, books or other material for publication.

Commentary

1. *Staff rule 101.2 (p) is based on former staff rule 101.6 (e) (see also the 2001 standards of conduct, paras. 34 and 41).*
2. *The rule only requires that a staff member seek permission if the outside activities relate to the purpose, activities or interests of the United Nations. If a request is denied, a reason for that refusal will be given. No permission is needed for social or charitable activities or for activities that have no relation to the Organization.*
3. *Outside activities that are of benefit to the Organization or the achievement of its goals and contribute to the development of professional skills of staff members are usually not only permitted but also encouraged, for example, the publication of scholarly articles, participation in symposiums and limited teaching activities.*

Rule 101.2 (q)

Membership in a political party is permitted, provided that such membership does not entail action, or an obligation to take action, by the staff member contrary to staff regulation 1.2 (h). The payment of normal financial contributions to a political party shall not be construed as an activity inconsistent with the principles set out in staff regulation 1.2 (h).

Commentary

Staff rule 101.2 (q) reproduces the essence of former staff rule 101.8 (a) (see also the 2001 standards of conduct, paras. 44 and 45).

Rule 101.2 (r)

The Secretary-General shall establish procedures whereby staff may seek in confidence clarification as to whether proposed outside activities would conflict with their status as international civil servants.

Commentary

Staff rule 101.2 (r) is new and seeks to assist staff to determine if there are conflict situations by requiring the establishment of procedures to enable the staff to seek confidential guidance on these issues (see the 2001 standards of conduct, para. 44).

Travel and per diem for outside activities**Rule 101.2 (s)**

Staff members who are authorized by the Secretary-General to participate in activities organized by a Government, intergovernmental organization, non-governmental organization or other private source may receive from the Government, intergovernmental organization, non-governmental organization or private source accommodation and travel and subsistence allowance generally in line with those payable by the United Nations. In such cases the travel subsistence allowance that may otherwise be payable by the United Nations shall be reduced as envisaged in staff rule 107.15 (a).

Commentary

Staff rule 101.2 (s) is new and distinguishes the notion of gifts and so on from invitations routinely extended by Governments, intergovernmental organizations, non-governmental institutions or other private sources to the Secretary-General and staff members to attend conferences or meetings dealing with United Nations-related matters hosted by them. This is currently routinely authorized by the Secretary-General and the rule reflects that current practice. It also provides an opportunity for the Organization to save on allowances that may be payable by the Organization by having the accommodation or travel and subsistence allowance provided by the Government, intergovernmental organization, non-governmental organizations or private source and by reducing the travel subsistence allowance that may otherwise be payable to the staff member.

Staff regulation 1.3**Performance of staff****Regulation 1.3 (a)**

Staff members are accountable to the Secretary-General for the proper discharge of their functions. Staff members are required to uphold the highest standards of efficiency, competence and integrity in the discharge of their functions and their performance will be appraised periodically to ensure that the required standards of performance are met.

Commentary

1. *Much of staff regulation 1.3 deals with the standards of performance required of staff members and provides that they will be evaluated and held accountable to meet the required standards established by the Charter. Since the separately funded organs have systems of assessing performance that are adapted to meet their special needs, the provisions in staff regulation 1.3 (a) must remain very general. The regulation now explicitly places on managers the duty to make proper appraisals of performance, which reinforces the solid legislative basis for such procedures and practices.*

2. *Staff regulation 1.3 (a) makes it clear that staff members are required to uphold the highest standards of efficiency, competence and integrity in the discharge of their functions (see Article 101 of the Charter and the 2001 standards of conduct, paras. 3-14 and 48-50). The regulation introduces the concept of accountability for performance as a fundamental condition of service.*

3. *The relationship of integrity to performance is discussed in the commentary to staff rule 101.3 (a).*

4. *An integral part of the performance of managers is to manage properly the human, financial and other resources entrusted to them. It should be emphasized that the higher level of responsibilities associated with managerial functions of managers entails a commensurate increase in their accountability for the proper performance of all their duties in managing the human and financial resources entrusted to them.*

Regulation 1.3 (b)

The whole time of staff members shall be at the disposal of the Secretary-General for the performance of official functions; however, the Secretary-General shall establish a normal working week and shall establish official holidays for each duty station. Exceptions may be made by the Secretary-General as the needs of the service may require and staff members shall be required to work beyond the normal tour of duty when requested to do so.

Commentary

Staff regulation 1.3 (b) combines the last two sentences of former staff regulation 1.2 into one sentence to make it clear that, although staff normally work an ordinary working week, they must work in excess of that working week when directed (see the 2001 standards of conduct, para. 41). It is, of course, clear that any requests to work additional hours must be reasonable and must be related to the needs of the service. Appropriate compensation arrangements are included in appendix B to the Staff Rules. The new regulation abolishes the requirement that those working hours must be reflected in an appendix to the Staff Rules as opposed to being issued in a local instruction.

Staff rule 101.3
Performance of staff members**Rule 101.3 (a)**

Staff members shall be evaluated for their efficiency, competence and integrity through performance appraisal mechanisms that shall assess the staff member's compliance with the standards set out in the Staff Regulations and Rules for purposes of accountability.

Commentary

1. *Staff rule 101.3 (a) makes explicit that the efficiency, competence and integrity required of staff by the Charter and staff regulation 1.3 (a) will be evaluated and that they will be held accountable to maintain the required standards.*

2. *Generally speaking an appraisal relates primarily to efficiency and competence, but integrity is part of the essential characteristic of an international civil servant and may have an impact on the performance of official duties. For example, abusive conduct by a staff member to his or her colleagues is not excused even though the staff member is efficient. On the other hand, the staff member's personal life is generally of no concern to a supervisor unless there is an impact on the discharge of his or her functions or on the role of that person as an international civil servant. As noted in the 2001 standards of conduct:*

"4. International civil servants should share the vision of their organizations. It is loyalty to this vision that ensures the integrity and international outlook of international civil servants; it guarantees that they will place the interests of their organization above their own and use its resources in a responsible manner.

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

3. *It is important to note that competence and efficiency of staff include not only the way in which they perform their tasks but the way in which they interact with others. As noted in the 2001 standards of conduct, the obligations of staff to their supervisors, and of supervisors to their staff, is of crucial importance. Those duties and obligations bear repeating in this commentary:*

"15. Managers and supervisors are in positions of leadership and it is their responsibility to ensure a harmonious workplace based on mutual respect; they should be open to all views and opinions and make sure that the merits of staff are properly recognized. They need to provide support to them; this is particularly important when they are subject to criticism arising from the carrying out of their duties. Managers are also responsible for guiding and motivating their staff and promoting their development.

"16. It is natural for managers to be seen as role models and they have therefore a special obligation to uphold the highest standards of conduct. It would be quite improper for them to solicit favours, gifts or loans from their

staff; they must act impartially, without intimidation and favouritism. In matters relating to the appointment or career of others, no international civil servant should try to influence colleagues for personal reasons.

“17. It is naturally incumbent on managers and supervisors to communicate effectively with their staff and share information with them. International civil servants have a reciprocal responsibility to provide all pertinent facts and information to their supervisors and to abide by and defend decisions taken, even when these do not accord with their personal views.

“18. International civil servants have to follow the instructions they receive in connection with their official functions and if they have doubts as to whether an instruction is consistent with the Charter or any other constitutional instrument, decisions of the governing bodies or administrative rules and regulations, they should first consult their supervisors. If they cannot agree, the international civil servant may ask for written instructions. These may be challenged through the proper institutional mechanisms, but any challenge should not delay carrying out the instruction. International civil servants may also record their views in official files. They should not follow verbal or written instructions that are manifestly inconsistent with their official functions or that threaten their safety or that of others.

“19. It must be the duty of international civil servants to report any breach of the organization's rules and regulations to a higher level official, whose responsibility it is to take appropriate action. An international civil servant who makes such a report in good faith has a right to be protected against reprisals or sanctions.”

- 4. It should be emphasized that supervisors will be assessed not only on their technical competence but also on the way in which they utilize the staff placed under their direction.*

Rule 101.3 (b)

The Secretary-General shall seek to ensure that appropriate learning and development programmes are available for the benefit of staff.

Commentary

As staff are required to uphold the highest standards of efficiency and competence and integrity, it follows that during their careers the Secretary-General must seek to ensure that staff are provided with appropriate learning and development opportunities to assist them in meeting the challenges of responding effectively to the changing mandates of the Organization.

Rule 101.3 (c)

Performance reports shall be prepared regularly for all staff members, including at the assistant secretary-general level and above, in accordance with procedures promulgated by the Secretary-General.

Commentary

Staff rule 101.3 (c) replaces staff rule 112.6 and provides that appraisal will be pursuant to procedures promulgated by the Secretary-General.

V. Standards of conduct for the international civil service, 2001^k

1. The United Nations and the specialized agencies embody the highest aspirations of the peoples of the world. Their aim is to save succeeding generations from the scourge of war and to enable every man, woman and child to live in dignity and freedom.

2. The international civil service bears responsibility for translating these ideals into reality. It relies on the great traditions of public administration that have grown up in member States: competence, integrity, impartiality, independence and discretion. But over and above this, international civil servants have a special calling: to serve the ideals of peace, of respect for fundamental rights, of economic and social progress, and of international cooperation. It is therefore incumbent on international civil servants to adhere to the highest standards of conduct; for, ultimately, it is the international civil service that will enable the United Nations system to bring about a just and peaceful world.

Guiding principles

3. The values that are enshrined in the United Nations organizations must also be those that guide international civil servants in all their actions: fundamental human rights, social justice, the dignity and worth of the human person and respect for the equal rights of men and women and of nations great and small.

4. International civil servants should share the vision of their organizations. It is loyalty to this vision that ensures the integrity and international outlook of international civil servants; it guarantees that they will place the interests of their organization above their own and use its resources in a responsible manner.

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

6. Tolerance and understanding are basic human values. They are essential for international civil servants, who must respect all persons equally, without any distinction whatsoever. This respect fosters a climate and a working environment sensitive to the needs of all. To achieve this in a multicultural setting calls for a positive affirmation going well beyond passive acceptance.

7. International loyalty means loyalty to the whole United Nations system and not only to the organization for which one works; international civil servants have an obligation to understand and exemplify this wider loyalty. The need for a

^k *Official Records of the General Assembly, Fifty-sixth Session, Supplement No. 30 (A/56/30), annex II.*

cooperative and understanding attitude towards international civil servants of other United Nations organizations is obviously most important where international civil servants of several organizations are serving in the same country or region.

8. If the impartiality of the international civil service is to be maintained, international civil servants must remain independent of any authority outside their organization; their conduct must reflect that independence. In keeping with their oath of office, they should not seek nor should they accept instructions from any Government, person or entity external to the organization. It cannot be too strongly stressed that international civil servants are not, in any sense, representatives of Governments or other entities, nor are they proponents of their policies. This applies equally to those on secondment from Governments and to those whose services have been made available from elsewhere. International civil servants should be constantly aware that through their allegiance to the Charter and the corresponding instruments of each organization, member States and their representatives are committed to respect this independent status.

9. Impartiality implies tolerance and restraint, particularly in dealing with political or religious convictions. While their personal views remain inviolate, international civil servants do not have the freedom of private persons to take sides or to express their convictions publicly on controversial matters, either individually or as members of a group. This can mean that, in certain situations, personal views should only be expressed with tact and discretion.

10. This does not mean that international civil servants have to give up their personal political views or national perspectives. It does mean, however, that they must at all times maintain a broad international outlook and an understanding of the international community as a whole.

11. The independence of the international civil service does not conflict with, or obscure, the fact that it is the member States that collectively make up (in some cases with other constituents) the organization. Conduct that furthers good relations with individual member States and that contributes to their trust and confidence in the secretariat strengthens the organization and promotes its interest.

12. International civil servants who are responsible for projects in particular countries or regions may be called upon to exercise special care in maintaining their independence. At times they might receive instructions from the host country but this should not compromise their independence. If at any time they consider that such instructions threaten their independence, they must consult their supervisors.

13. An international outlook stems from an understanding of and loyalty to the objectives and purposes of the international organization itself as set forth in its legal instruments. It implies, *inter alia*, respect for the right of others to hold different points of view and follow different cultural patterns. It requires a willingness to work without bias with persons of all nationalities, religions and cultures; it calls for constant sensitivity to how proposals, events and statements may look to others. It requires punctilious avoidance of any expressions that could be interpreted as biased or intolerant. Working methods can be different in different cultures. International civil servants should not be wedded to the attitudes, working methods or work habits of their own country or region.

14. Freedom from discrimination is a basic human right. International civil servants are expected to respect the dignity, worth and equality of all people without

any distinction whatsoever. Assumptions based on stereotypes must be assiduously avoided. One of the main tenets of the Charter is the equality of men and women, and organizations should therefore do their utmost to promote gender equality.

Working relations

15. Managers and supervisors are in positions of leadership and it is their responsibility to ensure a harmonious workplace based on mutual respect; they should be open to all views and opinions and make sure that the merits of staff are properly recognized. They need to provide support to them; this is particularly important when they are subject to criticism arising from the carrying out of their duties. Managers are also responsible for guiding and motivating their staff and promoting their development.

16. It is natural for managers to be seen as role models and they have therefore a special obligation to uphold the highest standards of conduct. It would be quite improper for them to solicit favours, gifts or loans from their staff; they must act impartially, without intimidation and favouritism. In matters relating to the appointment or career of others, no international civil servant should try to influence colleagues for personal reasons.

17. It is naturally incumbent on managers and supervisors to communicate effectively with their staff and share information with them. International civil servants have a reciprocal responsibility to provide all pertinent facts and information to their supervisors and to abide by and defend any decisions taken, even when these do not accord with their personal views.

18. International civil servants have to follow the instructions they receive in connection with their official functions and if they have doubts as to whether an instruction is consistent with the Charter or any other constitutional instrument, decisions of the governing bodies or administrative rules and regulations, they should first consult their supervisors. If they cannot agree, the international civil servant may ask for written instructions. These may be challenged through the proper institutional mechanisms, but any challenge should not delay carrying out the instruction. International civil servants may also record their views in official files. They should not follow verbal or written instructions that are manifestly inconsistent with their official functions or that threaten their safety or that of others.

19. It must be the duty of international civil servants to report any breach of the organization's rules and regulations to a higher level official, whose responsibility it is to take appropriate action. An international civil servant who makes such a report in good faith has the right to be protected against reprisals or sanctions.

Harassment

20. Harassment in any shape or form is an affront to human dignity and international civil servants must avoid it. They should not engage in any form of harassment and must be above any suspicion of it. International civil servants have the right to an environment free of harassment. It is the responsibility of

organizations to explain their interpretation of the term and to establish rules and provide guidance on what constitutes harassment and how it will be dealt with.

Conflict of interest

21. It can happen that international civil servants are confronted with a question entailing a conflict of interest; such questions can be very sensitive and need to be treated with care. Conflict of interest includes circumstances in which international civil servants, directly or indirectly, would appear to benefit improperly, or allow a third party to benefit improperly, from their association in the management or the holding of a financial interest in an enterprise that engages in any business or transaction with the organization.

22. There can be no question but that international civil servants should avoid assisting private bodies or persons in their dealings with their organization where this might lead to actual or perceived preferential treatment. This is particularly important in procurement matters or when negotiating prospective employment. At times, international civil servants may be required to disclose certain personal assets if this is necessary to enable their organizations to make sure that there is no conflict. They should also voluntarily disclose in advance possible conflicts of interest that arise in the course of carrying out their duties. They should perform their official duties and conduct their private affairs in a manner that preserves and enhances public confidence in their own integrity and that of their organization.

Role of the secretariat

23. International organizations are constituted by member States, and their secretariats have the responsibility for providing services to them. The main function of the secretariat is to assist legislative bodies in their work and to carry out their decisions. The executive head is responsible for directing and controlling the work of the secretariat. Accordingly, when submitting proposals or advocating positions before a legislative body or committee, international civil servants are presenting the position of the executive head, not that of an individual or unit.

24. In providing services to a legislative or representative body, it goes without saying that international civil servants should serve only the interests of the organization. It would not be appropriate for international civil servants to prepare for government or other international civil service representatives any speeches, arguments or proposals on questions under discussion. It could, however, be quite appropriate to provide factual information, technical advice or assistance with such tasks as the preparation of draft resolutions.

25. It is entirely improper for international civil servants to lobby or seek support from government representatives or members of legislative organs to obtain advancement either for themselves or for others or to block or reverse unfavourable decisions regarding their status. By adhering to the Charter and the constitutions of the organizations of the United Nations system, Governments have undertaken to safeguard the independence of the international civil service; it is therefore understood that government representatives and members of legislative bodies will neither accede to such requests nor intervene in such matters. The proper method for

an international civil servant to address such matters is through administrative channels; each organization is responsible for providing these.

Staff management relations

26. Relations between management and staff should be guided by mutual respect. Elected staff representatives have a cardinal role to play in the consideration of conditions of employment and work, as well as in all matters of staff welfare. Freedom of association is a fundamental human right and international civil servants have the right to form and join associations, unions or other groupings to promote and defend their interests. Continuing dialogue between staff and management is indispensable. Management should facilitate this dialogue.

27. Elected staff representatives enjoy rights that derive from their status; this may include the opportunity to address legislative organs of their organization. These rights should be exercised in a manner that is consistent with the Charter, the Universal Declaration of Human Rights and the international covenants on human rights and does not undermine the independence and integrity of the international civil service. In using the broad freedom of expression they enjoy, staff representatives must exercise a sense of responsibility and avoid undue criticism of the organization.

28. Staff representatives must be protected against discriminatory or prejudicial treatment based on their status or activities as staff representatives, both during their term of office and after it has ended.

Relations with member States and legislative bodies

29. It is the clear duty of all international civil servants to maintain the best possible relations with Governments and avoid any action which might impair this; they should certainly not interfere in the policies or affairs of Governments. It is unacceptable for them, either individually or collectively, to criticize or try to discredit a Government. At the same time, it is understood that international civil servants may speak freely in support of their organizations' policies. Any activity, direct or indirect, to undermine or overthrow a Government constitutes serious misconduct.

30. International civil servants are not representatives of their countries, nor do they have authority to act as liaison agents between international organizations and their Governments. The executive head may, however, request an international civil servant to undertake such duties, a unique role for which international loyalty and integrity are essential. For their part, neither Governments nor organizations should place international civil servants in a position where their international and national loyalties may conflict.

Relations with the public

31. For an international organization to function successfully, it must have the support of the public. All international civil servants therefore have a continuing responsibility to promote a better understanding of the objectives and work of their

organizations. This requires them to be well informed of the achievements not only of their own organizations but of the United Nations system as a whole. The opportunity to provide information to the public can arise at any time.

32. There is a risk that on occasion international civil servants may be subject to criticism from outside their organizations; in keeping with their responsibility as international civil servants, they should respond with tact and restraint. They have the right to be defended by their organizations against criticism for actions taken in fulfilment of their duties and they should be confident that this will be done.

33. It would not be proper for international civil servants to air personal grievances or criticize their organizations in public. International civil servants should endeavour at all times to promote a positive image of the international civil service, in conformity with their oath of loyalty.

Relations with the media

34. Openness and transparency in relations with the media are effective means of communicating the organizations' messages, and the organizations should have guidelines and procedures for this purpose. Within that context, the following principles should apply: international civil servants should regard themselves as speaking in the name of their organizations and avoid personal references and views; in no circumstances should they use the media to further their own interests, to air their own grievances, to reveal unauthorized information or to attempt to influence policy decisions facing their organizations.

Use and protection of information

35. The disclosure of confidential information may seriously jeopardize the efficiency and credibility of an organization. International civil servants are responsible for exercising discretion in all matters of official business. They must not divulge confidential information without authorization. Nor should international civil servants use information that has not been made public and is known to them by virtue of their official position to private advantage. These are obligations that do not cease upon separation from service. It is necessary for organizations to maintain guidelines for the use and protection of confidential information, and it is equally necessary for such guidelines to keep pace with developments in communications technology. It is understood that these provisions do not affect established practices governing the exchange of information between the secretariats and member States, which ensure the fullest participation of member States in the life and work of the organizations.

Respect for different customs and culture

36. The world is home to a myriad of different peoples, languages, cultures, customs and traditions. It is self-evident that a genuine respect for them all is fundamental for an international civil servant. Any behaviour that is not acceptable in a particular cultural context must be avoided. However, if a tradition is directly contrary to any human rights instrument adopted by the United Nations system, the

international civil servant must be guided by it. International civil servants should avoid an ostentatious lifestyle and any display of an inflated sense of personal importance.

Security and safety

37. While an executive head must remain free to assign staff in accordance with the exigencies of the service, it is the responsibility of organizations to make sure that the health, well-being and lives of their staff, without any discrimination whatsoever, will not be subject to undue risk. The organizations should take measures to protect their safety and that of their family members. On the other hand, it goes without saying that it is incumbent on international civil servants to comply with all instructions designed to protect their safety.

Personal conduct

38. The private life of international civil servants is their own concern and organizations should not intrude upon it. There can be situations, however, in which the behaviour of an international civil servant can reflect on the organization. International civil servants must therefore bear in mind that their conduct and activities outside the workplace, even if unrelated to official duties, can compromise the image and the interests of the organization. This can also result from the conduct of members of international civil servants' households and it is the responsibility of international civil servants to make sure that their households are fully aware of this.

39. The privileges and immunities that international civil servants enjoy are conferred upon them solely in the interests of the organizations. They do not exempt international civil servants from observing local laws, nor do they provide an excuse for ignoring private legal or financial obligations. It should be remembered that only the executive head is competent to waive the immunity accorded to international civil servants or to determine its scope.

40. Violations of law can range from serious criminal activities to trivial offences, and organizations may be called upon to exercise judgement in the light of the nature and circumstances of individual cases. A conviction by a national court will usually, although not always, be persuasive evidence of the act for which an international civil servant was prosecuted, and acts that are generally recognized as offences by national criminal laws will normally also be violations of the standards of conduct for the international civil service.

Outside employment and activities

41. The primary obligation of international civil servants is to devote their energies to the work of their organizations. It is therefore improper for international civil servants to engage, without prior authorization, in any outside activity, whether remunerated or not, that interferes with that obligation or is incompatible with their status or conflicts with the interests of the organization. Any questions about this should be referred to the executive head.

42. Subject to the above, outside activities may, of course, be beneficial both to staff members and to their organizations. Organizations should allow, encourage and facilitate the participation of international civil servants in professional activities that foster contacts with private and public bodies and thus serve to maintain and enhance their professional and technical competencies.

43. International civil servants on leave, whether with or without pay, should bear in mind that they remain international civil servants in the employ of their organization and are still subject to its rules. They may, therefore, only accept employment, paid or unpaid, during their leave with proper authorization.

44. In view of the independence and impartiality that they must maintain, international civil servants, while retaining the right to vote, should not participate in political activities, such as standing for or holding local or national political office. This does not, however, preclude participation in local community or civic activities, provided that such participation is consistent with the oath of service in the United Nations system. It is necessary for international civil servants to exercise discretion in their support for a political party or campaign, and they should not accept or solicit funds, write articles or make public speeches or make statements to the press. These cases require the exercise of judgement and, where there is any doubt, should be referred to the executive head.

45. The significance of membership in a political party varies from country to country and it is difficult to formulate standards that will apply in all cases. In general, international civil servants may be members of a political party provided its prevailing views and the obligations imposed on its members are consistent with the oath of service in the United Nations system.

Gifts, honours and remuneration from outside sources

46. To protect the international civil service from any appearance of impropriety, international civil servants must not accept, without authorization from the executive head, any honour, decoration, gift, remuneration, favour or economic benefit of more than nominal value from any source external to their organizations; it is understood that this includes Governments as well as commercial firms and other entities.

47. It is not proper for international civil servants to accept supplementary payments or other subsidies from a Government or any other source prior to, during or after their assignment with an international organization if the payment is related to that assignment. Balancing this requirement, it is understood that Governments or other entities should not make or offer such payments, recognizing that they are at variance with the spirit of the Charter and the constitutions of the organizations of the United Nations system.

Conclusion

48. The attainment of the standards of conduct for the international civil service requires the highest commitment of all parties. International civil servants must be committed to the values, principles and standards set forth here. They are expected to take a positive and active approach in upholding them. They should feel

responsible for contributing to the broad ideals to which they dedicated themselves in joining the United Nations system. International organizations have a particular responsibility to ensure that the necessary guidance or rules are adopted to implement these standards. For their part, member States are expected, through their allegiance to the Charter and other constituent instruments, to preserve the independence and impartiality of the international civil service.

49. For these standards to be effectively applied, it is essential that they be widely disseminated, and that measures be taken to ensure that their scope and importance are understood throughout the international civil service, the member States and the organizations of the United Nations system.

50. Respect for these standards assures that the international civil service will continue to be an effective instrument in fulfilling its responsibilities and in meeting the aspirations of the peoples of the world.

Annex 3: Oath of Office

UNITED NATIONS



NATIONS UNIES

OATH OF OFFICE

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

Signature

For the Secretary-General

Date _____

Place _____

UNITED NATIONS



NATIONS UNIES

SERMENT

Je jure solennellement (je prends l'engagement solennel, je fais la déclaration, ou la promesse, solennelle) d'exercer en toute loyauté, discrétion et conscience les fonctions qui m'ont été confiées en qualité de fonctionnaire international de l'Organisation des Nations Unies, de m'acquitter de ces fonctions et de régler ma conduite en ayant exclusivement en vue les intérêts de l'Organisation, sans solliciter ni accepter d'instructions d'aucun gouvernement ou autre autorité extérieure à l'Organisation, en ce qui concerne l'accomplissement de mes devoirs.

Signature

Pour le Secrétaire général

Date _____

Lieu _____

Annex 4: Sample Questionnaire and Assessment Procedures

Sustainable Procurement Risk Assessment¹

This guide has developed a sustainable procurement risk assessment methodology that can be easily utilised by all procurement staff, within their daily procurement roles.

The social risk element is aimed specifically at identifying potential developing world supply chains. This has been focussed in this area as it is a key concern for organisational reputation. In addition, the subject of social issues in Procurement is complex and in potential conflict with European Public Procurement Directives. Therefore the issue of developing world supply chains has been identified as an area for initial focus as it is identifiable and an area where improvement can be made.

It is intended that this new environmental and social methodology will be “readily understood” by all staff and will eventually:

- Become part of the day to day procurement process
- Provide the individual organisation with a broad overview of the main environmental impacts and risks associated with the purchase, use and disposal of a product (or service) it consumes.
- Flag areas of social risk in developing world supply chains, linked to life cycle stages
- Identify areas of high environmental risk and “hot spots” that require active management
- Provide a platform for development

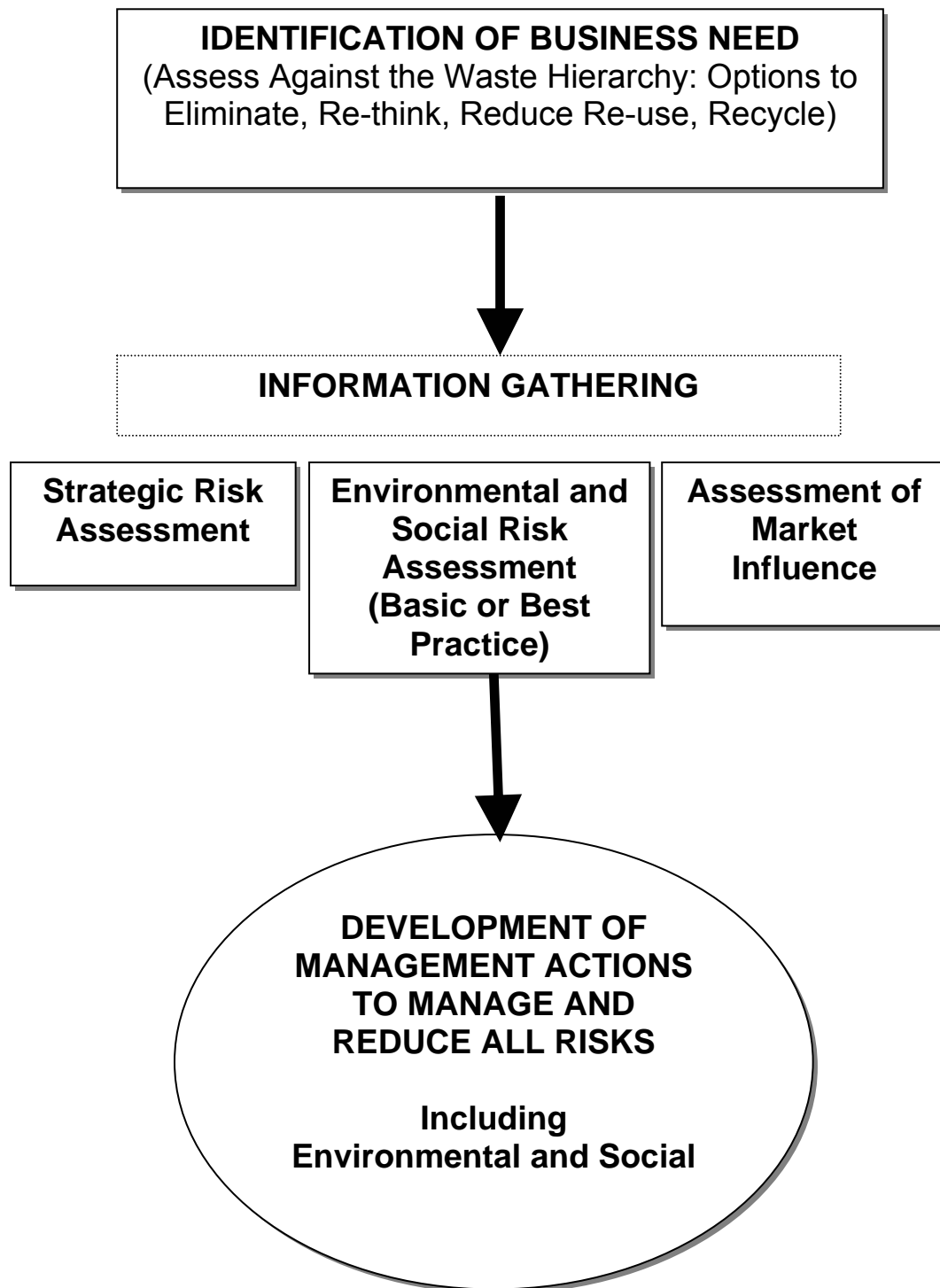
The methodology and subsequent individual risk assessments will act as the basis for staff to decide what actions are necessary and also possible that will reduce and manage the identified risks plus begin the process of incorporating environmental and social issues into the “value for money” paradigm.

Risk Assessment Methodology

To highlight the overall approach to risk assessment the following diagram has been developed. This diagram demonstrates the steps the Buyer needs to take in order to inform action within the contract to manage strategic, environmental and developing world social risk.

¹ Source: UK Environment Agency “Sustainable Procurement Guide” November 2002 on www.environment-agency.gov.uk/commondata/103599/spg_517077.doc,

Schematic of Risk Assessment Methodology



Basic risk assessment methodology

For organisations new to sustainable procurement principles it may be appropriate to begin with a basic risk assessment methodology prior to moving to the best practice template detailed later in this guide. The basic risk assessment is designed to be relatively simplistic and easy to complete and understand. Prior to developing an invitation to tender, and before awarding the final contract procurement teams should conduct three complimentary assessments on their contracts. These assessments should be used to inform contract strategy development. In terms of when to undertake this approach, it is recommended that a set of basic risk assessments are undertaken on all contracts. Some organisations may decide to set a deminimus for this reflecting resource constraints etc. For example the Environment Agency sets a threshold of £10k.

Basic strategic business risk assessment

Procurement should evaluate the commercial nature of the intended purchase in relation to the internal structure and objectives of the organisation by providing answers to the following five key questions:

- (1) Is the purchase core to the business?
(e.g. Stationery is not core, but pipe/ cables are core to the business)
- (2) Would recovery costs be high?
(e.g. If a poor quality joint was used in underground cables that then needed replacing the cost of delivering this would be high, as cables would have to be dug up etc)
- (3) Is there a limited number of suppliers?
(e.g. There is a limited number of companies that supply mobile telecommunication network services Orange, BT, Vodafone etc)
- (4) Do we have difficulty in describing and measuring what we want?
(e.g. Research and Development Contracting, often the client is not an expert in this area and can find it difficult to define their requirements)
- (5) Will the organisation suffer negative PR if supply fails?
(e.g. If an electricity company cannot get cables to replace damaged cables following a storm, leaving the public without electricity supply then negative PR will be seen)

These high level risk questions will begin to flag the commercial issues in the purchase being developed.

Basic Environmental and Social risk assessment

Procurement should then evaluate the significant environmental risks/impacts of the intended purchase by providing answers to the following six key questions. Procurement should then determine the likelihood of a developing world supply chain (developing world in this context is broadly defined as supply chains that enter South America, Asia, Africa and Australasia):

- (1) Does the purchase or the service provider have potential for high-energy consumption?
(e.g. A pump uses a significant amount of energy in its life)
- (2) Is the product made of, or does the service provider use unsustainable materials?
(e.g. Consider whether the materials regenerate themselves such as softwood timber whereas aggregates do not regenerate themselves etc)
- (3) Does the item or the service provider have potential to cause a pollution incident in the performance of our work?
(e.g. Plant working in or near a water course has the potential to cause pollution due to the amount of fuel/ hydraulic fluids contained in the machine)
- (4) Are excessive emissions (land, air, and water) caused during the manufacture of goods used directly or by service providers?
(e.g. Consider how processed and manufactured the goods/ service are, plastics are highly processed from oils with subsequent high energy inputs and emissions)
- (5) Is there a likelihood of a developing world supply chain?
(e.g. Consider if the materials that comprise the good or service typically originate from the developing world, also is manufacturing likely to be in the developing world. For example, electronic components are often made in the developing world. The majority of items that comprise rubber will typically have originated in the developing world etc)
- (6) Is there an environmental/ social PR risk to the organisation in purchasing the product or service?
(e.g. Any purchase of tropical hardwoods/ potential use of child labour can result in negative press)

This again will start to flag the degree of environmental and social risk present in the contract.

Basic Assessment of Market influence

Before risks can be assessed and a strategy determined Procurement must first identify the degree of influence it has with the supply base. The prime reason for this is to ensure that significant resources are not expended on detailed risk analysis where little scope exists to manage or influence the current marketplace.

To begin this assessment the procuring organisation should attempt to take a cold hard look at itself from the markets perspective. The objective of this inward examination is to determine how important your business is to the supplier and how easy your organisation is to do business with.

The degree of influence relates directly to your importance as a client and the nature of your business relationship. Generally, Buyers will only be able to make demands or transfer risk where they are a key client and/ or where a positive business relationship exists. There is not a prescribed model for this assessment, but detailed below are some points that a supplier would consider when looking at your business:

- Does this organisation brand/ reputation influence us?
- Is this organisation a customer that is easy to work with?
- Is this organisation an intelligent client that is informed in its dealings?
- Is this organisation efficient in its business dealings with us (does it meet time commitments)?
- Does this organisation pay on time?
- Is this organisation a key client we need to have in order for us to win other business with other organisations? (e.g. a pipe supplier must have water companies in its customer portfolio in order to have credibility with other clients)
- Does this organisations total yearly business represent more than 0.5% of our turnover?
- Of the products/ services that this customer buys, is it the main customer of those products within our portfolio?
- Is this organisation open to change to make itself easier to work with?
- By working with this organisation do we become better?
- Do we operate in a saturated market? (numerous suppliers or product choice?)
- Are low switching costs operative within this marketplace? (is it easy and cheap for buyers to switch from one supplier to another with minimal disruption?)

Influence rating mechanism

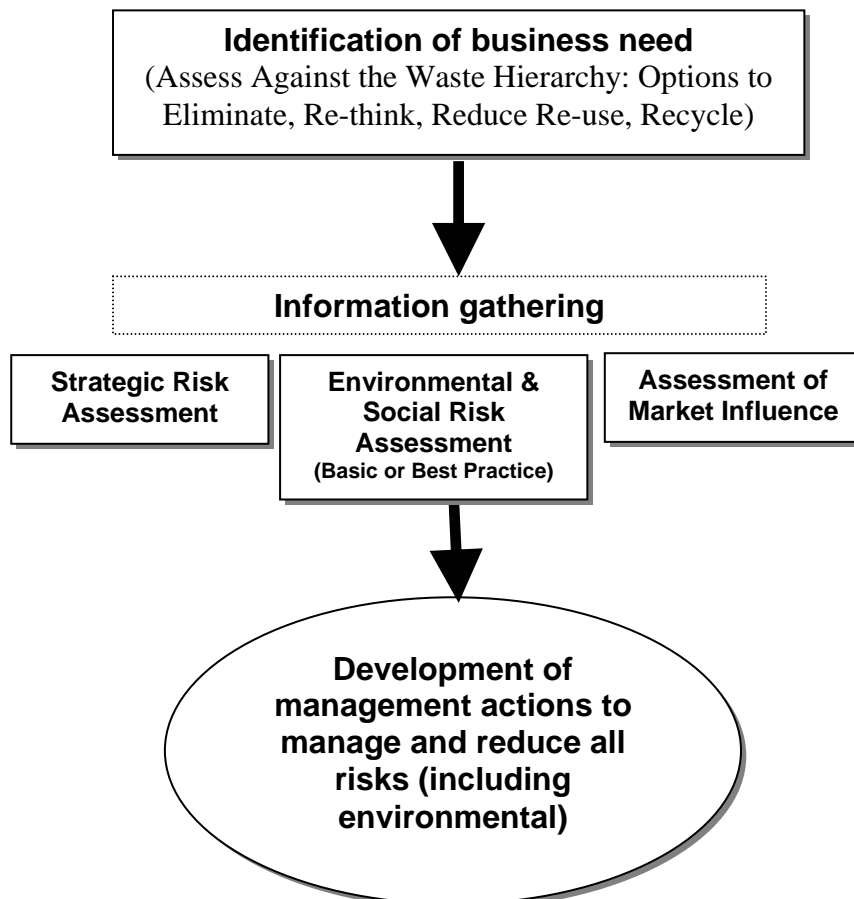
Based on research and considering the questions detailed above, Buyers should rate the degree of influence present in this market.

1 _____ 5 _____ 10
Low Moderate High

This assessment highlights to the Buyer the potential influence to facilitate change within the marketplace. This will have a direct link to how demanding the Buyer can be with the supplier in trying to manage risks. Where influence is high the Buyer can be demanding, if its moderate Buyers should target key areas and if it is low Buyers should either actively source alternative supplies or focus on supplier awareness.

Bring the Strategic, Environment and Influence assessment together

Having considered the strategic and environmental risks, with the degree of influence in the market. The buyer now has the background information from which to identify mitigation measures within the contract strategy to manage the risks. The diagram below demonstrates how the assessments are individually completed and then brought together.



The results of these three assessments are designed to:

- Inform procurement decision making
- Become instrumental in the development of procurement strategies, action plans and/or the identification of an alternative product or service

In other words, the results of these assessments inform procurement as to the nature and extent of management resource required to manage business, environmental and social risks and which of the following areas to focus resources into.

- Specification/tender requirements
- Supplier selection/appraisal
- Contract management and setting of (environmental) performance measures

Best Practice Risk Assessment Process

This approach builds upon best practice risk management and is based upon a life cycle approach for both environmental and social assessment. This form of assessment is naturally more complex than the basic assessment highlighted previously and should only be implemented by organisations who have a relatively sophisticated approach to environmental procurement. Alternatively new organisations should use this more detailed risk assessment on a targeted basis, focussing on high risk commodities first before using the process more widely for all procurement activity.

Best Practice Strategic Risk Assessment

Strategic risk to a business can result from a variety of areas. Examples of issues that can lead to this sort of risk are detailed below. Consider whether any of these risks apply to the product/service being procured. Any other risks specific to this requirement should also be identified.

- Purchase specifically relates to your organisation's core business
- There is a limited number of suppliers
- Your organisation has difficulty in specifying what it wants
- There are major PR risks in failing to adequately source this product/service
- The Purchase represents significant environmental concern
- There is a likelihood of developing world supply chains and ethical issues
- There appears to be substantial Health and Safety concerns in this purchase
- The product/service is subject to swift technological change
- There are significant licensing or intellectual property issues with this product/service
- The market appears to be unstable
- The product/service requires a long term commitment from supplier
- The specification is limited by legal/statutory implications
- The purchase needs to integrate with existing product service

From this assessment Buyers should rate the degree of risk that your organisation faces in procuring this product/service.

Low _____ Medium _____ High

If the annual spend of the contract is in excess of £1,000,000 per annum this would be classified as high value. Therefore contracts that are:

HIGH VALUE AND HIGH RISK – Are STRATEGIC contracts, where Procurement needs to focus its effort to manage the real risks to the business

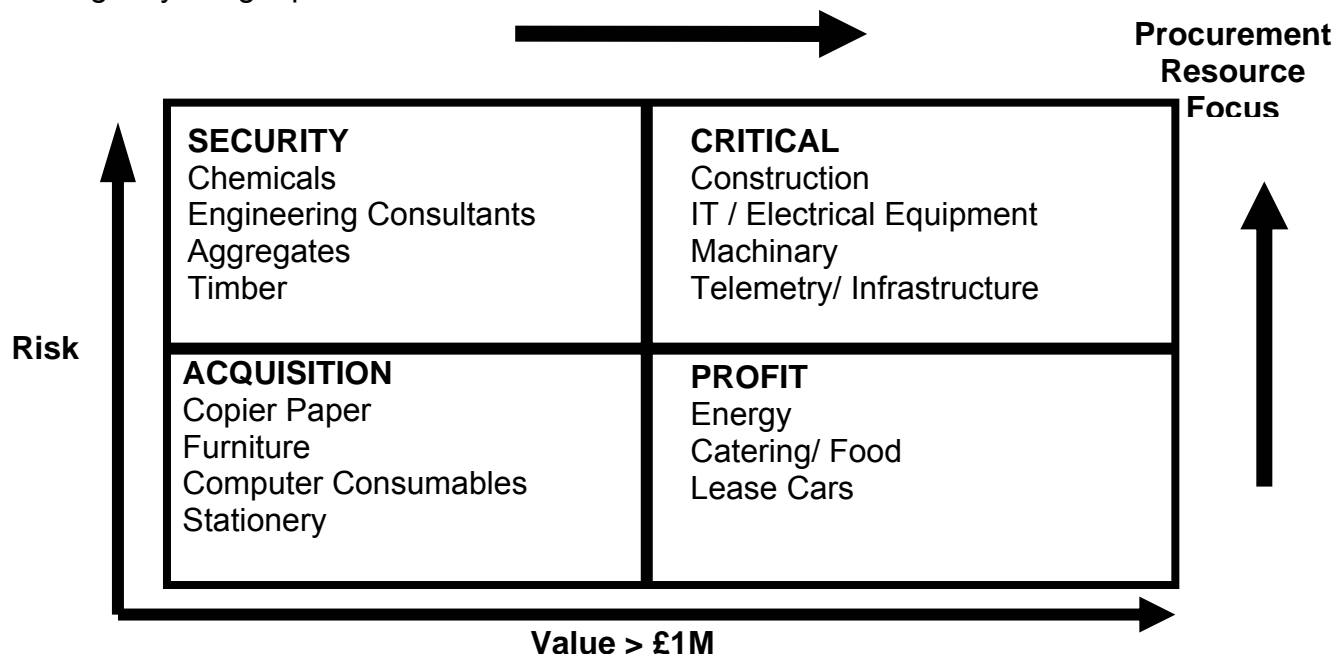
LOW VALUE AND HIGH RISK – Are SECURITY contracts, that whilst of low value are vital to the business and have a high potential for risk

HIGH VALUE AND LOW RISK – Are PROFIT contracts, where the focus is obtaining best value, risk is minimal so the focus will be on cost and quality

LOW VALUE AND LOW RISK – Are ACQUISITION contracts, where little focus is placed the emphasis here is on minimising the transactional cost of procurement

Mapping Products and Services to determine priority

Using this methodology products and services can be mapped onto a Boston Matrix to identify the areas Procurement should focus on to drive real value and strategic contribution to the business. See example below, based on typical Environment Agency bought products and services:



This exercise if completed at an organisation level for all commodities flags to Buyers and the wider organisation the activity to focus on and the areas to most closely manage.

Prioritising Strategic Risks using Vulnerability Assessment

To further augment and complete the strategic risk assessment an examination of areas where your organisation is vulnerable needs to be performed, particularly for high risk purchases. The vulnerability analysis needs to look at areas that are both internal and external to the organisation, e.g. internally you may be vulnerable due to fluctuating budgets, externally you may be vulnerable due to the risks identified in the best practice strategic assessment. The vulnerability areas are scored with high scoring 3, medium 2 and low 1. The areas are ranked to determine their priority in strategy formulation. Example:

Vulnerability	Likelihood	Impact	Duration	Score
1. <u>Fluctuating Budgets</u>	H (M) L	(H) M / L	H (M) L	7
2. <u>Resource Availability</u>	(H) M / L	(H) M / L	H (M) L	8
3. <u>Immature Market</u>	H (M) L	H (M) L	(H) M / L	7

This approach prioritises risks and focuses attention on the risks that need to be most closely managed to really address the strategic risks inherent in the contract.

Best Practice Environmental and Social Risk Assessment

Detailed below is a summary model of the Best Practice approach:

STEP 1: Assess Life Cycle using the Life Cycle Record

Raw material	Use/ Maintenance
•	•
•	•
Manufacture	Disposal
•	•
•	•



STEP 2: Use the Life Cycle Record to Map Impacts

Aspect/ Impact	Raw materials/ Pre manufacture	Manufacture	Use / Maint.	Disposal	Comments
Non renewable or natural resource use					
Energy					
Water use and pollution					
Air emissions/VOC					
Solid waste					
Hazardous Substances ²					
Packaging					
Noise					
Developing world supply chain ²					No score allocated at this time
Score	/7	/8	/8	/4	

Expanding the headline impacts in the life cycle prompt box.

Result: Evaluation of the type of impacts and the stage in the life cycle that they occur. (Leading to actions in contract management).



STEP 3: Undertake a Strategic Environmental/ Social Risk Assessment

	Scoring Mechanism	Source of answer
(1) Existing or forthcoming legislation or national strategy concerning product/service	YES OR NO	Agency Netregs site Envirowise website
(2) Industry subject to IPPC regulations	YES OR NO	Annex within IPPC Directive Agency Netregs site Envirowise website
(3) Commodity linked to or subject of 'green' pressure group campaign or reputational issue	YES OR NO	Main pressure group websites (Provided at end of report)
(6) Developing world supply chain	YES OR NO	Supplier benchmark survey and subjective market knowledge

Answers to high level questions yes or no



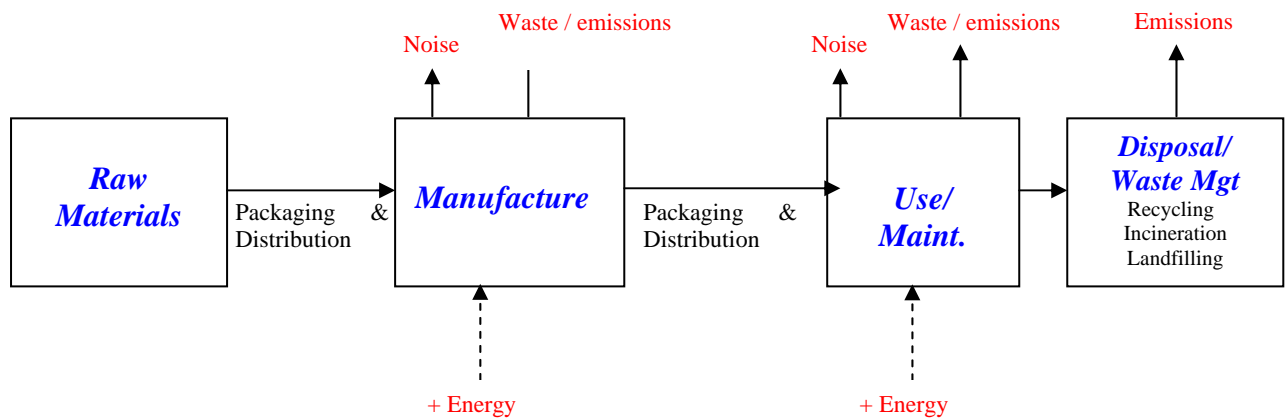
Result: The two scores added together will provide a definition of a commodity's overall environmental risk as High, Medium or Low

Life Cycle Approach

Many best practice approaches to environmental risk assessment include evaluation of the environmental impacts throughout the whole life of a product or service to ascertain where the environmental impacts occur in the life cycle of the commodity.

² As defined in the Restriction of marketing and use of hazardous substances directive

Simplified stages of the life cycle of a commodity



However, Life Cycle Assessment (LCA) as an environmental management tool consists of a detailed scientific assessment, which requires a substantial amount of time and very specific environmental expertise to complete. It is clear that many Buyers have neither the time to conduct such assessments on every product/ service, nor would it be cost effective or practical for all staff to complete the training required (minimum of at least a one-year course). Therefore conducting a full LCA on each product/ service would not be appropriate.

However, the logical approach is the introduction of a tool that promotes and encourages life cycle thinking. Thereby, encouraging Procurement to examine and think about the various lifetime environmental impacts of commodities. This approach will enable the organisation to identify the most significant environmental risks and impacts.

Main issues to consider include:

- Sustainability of raw materials
- Energy consumed in the manufacturing/ conversion process
- Hazardous substances used within the life cycle
- Environmental impact in "use"
- Biodegradability at the end of its useful life
- Likelihood of a developing world supply chain

The Environment Agency undertook research into learning methods for procurement staff on this approach, and, in the main this structure was well received. The research also showed that staff could readily identify with the particular stage in life cycle (i.e. raw materials, manufacture, use or disposal) that the environmental impact occurs. Also Procurement staff can link this to action within the contract. For example:

Environmental procurement actions linked to life cycle stages

Life Cycle Stage	Procurement Action
Raw Materials	Enhance Specification/ invitation to tender. Examine suppliers systems and approach to supply management focussing on their supply chain management principles and techniques
Manufacture	Manage through Supplier selection/ appraisal. Look for EMS/ Management Systems, ethical policies and how they actually manage sustainability issues in their manufacturing process
Use/provision of service/ Maintenance	Enhance Specification/contract terms/ contract monitoring and educate end user as to their role in minimising impacts e.g. through proper use of equipment to minimise energy use etc
Waste management/ End of life	Enhance Specification/tender requirement/ Contract terms/contract monitoring, consider options for supplier takeback, ensure end user is aware of any disposal legacy issues

NB: This list is a guideline and is not intended to be definitive; there may be occasions where a procurement action may be appropriate in more than one stage of the life cycle.

Step 1: Life cycle record of main inputs and Outputs

Generic Life Cycle “prompt box” to record main environmental impacts (to be completed for each commodity)

Raw material <ul style="list-style-type: none"> • • • • 	Use/ Maintenance <ul style="list-style-type: none"> • • • •
Manufacture <ul style="list-style-type: none"> • • • • 	Disposal <ul style="list-style-type: none"> • • • •

To develop this information further and to include evaluation of more specific impacts (particularly in relation to any EMS) the following more detailed assessment tools have been developed to act as an environmental evaluation methodology:

Step 2: Life Cycle Impact Mapping

<i>Aspect/ Impact</i>	<i>Raw materials/ Pre manufacture</i>			<i>Manufac- ture & assembly of finished article</i>	<i>Use</i>	<i>Disposal</i>	<i>Reason for Impacts</i>	<i>Actions to Take</i>
	Extraction of Base Material	Primary Processing	Manufacture of components				Principle ingredients, oils, solvents, chemicals, applicators (plastic/ metal based) and energy.	Specification and 1 st tier suppliers, supplier mgt and their own EMS
Non renewable or natural resource use								
Energy								
Water use and pollution								
Air emissions/ VOC								
Solid waste								
Hazardous Substances								
Packaging								
Social Impact: Noise								
Social Impact: Developing world supply chain								
Social Impact UK Contribution:	:/ ■	:/ ■	:/ ■	:/ ■	:/ ■	:/ ■		
Economic Impact UK Contribution:	:/ ■	:/ ■	:/ ■	:/ ■	:/ ■	:/ ■		

The aspects detailed in the left hand column should come directly from any environmental management system targets (example above based on Environment Agency internal Environmental Management System)

Explanatory Notes:

Energy has been blocked out in the raw material stage, as there are arguments to say that energy will always be a raw material and therefore a score here would provide a misleading overall score. Therefore if a process is energy intensive the box would be ticked in the manufacture column.

Disposal the four main environmental issues associated with landfill and incineration are available for staff to tick.

Developing world supply chains has been included in the tool because this is recognised as a key area to begin the process of integrating social issues into Procurement. Thereby broadening the approach into the sustainability arena.

Procurement people using the form would develop their initial ideas recorded in the Life Cycle Record to indicate with a “tick” if they thought the aspect was significant in a particular phase of the life cycle. Procurement can then come to their conclusions by also doing one or more of the following:

- brainstorming amongst themselves (including any internal environmental experts);
- conducting their own further research;
- consulting with supplementary additional product/ service briefing documents if available (see separate product/ service guidance)

The advantage of this approach is that it is designed to allow Buyers to systematically identify the significant environmental impacts, plus identify where in the commodities’ life cycle they actually occur. It is also a simple and quick assessment that can be used by anyone who has been trained in life cycle thinking and has a little knowledge about the commodity being evaluated.

In addition, as highlighted previously, the particular stage of the life cycle that the impact occurs can often determine the potential environmental procurement action required. Therefore this tool will be instrumental in helping staff develop their environmental procurement strategies for each commodity.

The sections on developing world supply chain have been excluded from the total scoring method as they need to be treated separately. Basically any tick at any stage of the life cycle that shows a potential of a developing world supply chain is evidence of corporate social and reputational risk. If developing world impacts are identified at numerous stages of the life cycle then the organisation has a high social risk in its supply chain that needs to be managed. The separate product/ service guidance gives examples of commodities that have particular high social impacts. (See fact sheets for electronic equipment, IT equipment, machinery etc)

Please note: The fact that the aspects are directly linked to any environmental management system means that the results of these assessments and any subsequent actions can also become part of any organisation wide environmental reporting mechanisms.

Step 3: Strategic Environmental and Social Risk

The Life Cycle Impact Mapping will be useful in assisting Buyers to identify environmental impacts of the product or service being purchased. However, life cycle impact mapping will not necessarily identify any strategic environmental risks to the purchasing organisation. In terms of environmental issues, the main strategic risks can be summarised into the following list.

- Avoiding or minimising the purchasing a commodity that deliberately contradicts a national environmental strategy for example, national waste strategies or climate change mitigation strategies.
- Identifying the commodities being purchased that are affected by existing or forthcoming legislation such as electronic products and the WEEE (Waste Electrical and Electronic Equipment) directive or the phase out of Halon commonly used in fire extinguishers.
- Identifying those commodities being purchased from industries that are actively being regulated as a priority by the Environment Agency. In other words subject to IPPC (Integrated Pollution and Prevention Control) regulations. (These industries are seen as high risk in terms of pollution incidents hence the specific guidance and regulations).
- Identifying those commodities that consist of hazardous substances and use significant amounts of non-renewable natural resources or energy.
- Identifying those commodities or suppliers that are the focus of pressure group campaign activity. This may lead to negative PR and reputational damage.

With these specific risks in mind the following question set has been developed that could be used in this strategic environmental and social risk assessment.

The questions are focused on the strategic environmental procurement risks facing organisations, rather than actual impacts identified in the “life cycle thinking”. The two assessment methods should be used on each commodity to provide the overall environmental risk assessment.

Strategic Environmental Risk Assessment Tool

	Scoring Mechanism	Source of answer
(1) Existing or forthcoming legislation or national strategy concerning product/service	YES OR NO	Environment Agency Netregs site Envirowise website
(2) Industry subject to IPPC regulations	YES OR NO	Annex within IPPC Directive Environment Agency Netregs website. See Appendix 2
(3) Commodity linked to or subject of “green” pressure group campaign or other reputational risks	YES OR NO	Main pressure group websites. See Appendix 3
(4) Developing world supply chain	YES OR NO	To be taken from life cycle impact mapping (developing world supply chain)

It is not feasible to determine an overall point score that places a product or service as being high or low environmental risk. However, if there are more than 10 ticks in the life cycle mapping model and/ or any yes statements to the above four questions then the Buyer needs to be careful.

Risk categorisation and potential mitigation measures

High environmental risk
<ul style="list-style-type: none"> • Reduce Consumption (Re-think the purchase) • Seek alternatives (based on cost benefit analysis) • Incorporate environmental credentials into supplier selection processes • Incorporate environmental design issues into specifications • Specification of eco-labelled product, if feasible • Development of environmental improvement plans and environmental performance measures, if appropriate • Include environmental issues in supplier auditing • Include environmental clauses in conditions of contract • Exercise caution regarding “green” marketing from suppliers • Investigate possibilities for collaboration on joint R&D, if appropriate
Medium environmental risk
<ul style="list-style-type: none"> • Reduce Consumption • Seek alternatives (based on cost benefit analysis)

- Incorporate environmental credentials into supplier selection processes
- Incorporate environmental design issues into specifications
- Specification of eco-labelled product, if feasible
- Provide supplier with supplier development CD
- Exercise caution regarding “green” marketing from suppliers

Low environmental risk

- Reduce Consumption
- Increase supplier awareness of issues
- Provide supplier with supplier development CD

The identification of any likelihood of a developing world supply chain needs to be treated with caution. However, to guide the approach.

High social risk = Risk in 3 life cycle stages

- Undertake more detailed research of the supply chain, map the social impacts
- Incorporate social credentials into supplier selection processes
- Specification of SA8000⁴
- Development of social improvement plans and social performance measures, if appropriate
- Include social issues in supplier auditing
- Include social clauses in conditions of contract (SA8000)
- Exercise caution regarding “ethical” marketing from suppliers
- Investigate how suppliers are managing the disposal of their equipment at the end of its life in the developing world
- Investigate possibilities for collaboration on joint R&D, if appropriate

Medium social risk = Risk in 2 life cycle stages

- Undertake more detailed research of the supply chain, map the social impacts
- Specification of SA8000
- Incorporate social credentials into supplier selection processes
- Incorporate social issues into specifications
- Include social clauses in conditions of contract (SA8000)
- Exercise caution regarding “ethical” marketing from suppliers

⁴ SA8000 – Social Accountability 8000 is a set of guiding principles for proactive ethical management of a business. It is designed to link into ISO14001

Low social risk = Risk in 1 life cycle stage
<ul style="list-style-type: none">• Investigate with first tier suppliers their supply chain and how they manage their social impacts• Specification of SA8000• Incorporate social credentials into supplier selection processes• Increase supplier awareness of issues

Best Practice Environmental and Social Risk Assessment

Detailed below is a summary model of the Best Practice approach:

Step 1: Assess Life Cycle using the Life Cycle Record

Raw material <ul style="list-style-type: none"> • • • 	Use <ul style="list-style-type: none"> • • •
Manufacture <ul style="list-style-type: none"> • • • 	Disposal/End of Life <ul style="list-style-type: none"> • • •



Step 2: Use the Life Cycle Record to Map Impacts

Aspect/ Impact	Raw materials/ Pre manufacture	Manufacture	Use	Disposal	Comments
Non renewable or natural resource use					
Energy					
Water use and pollution					
Air emissions/VOC					
Solid waste					
Hazardous Substances ⁵					
Packaging					
Noise					
Developing world supply chain ⁵					No score allocated at this time
Score	/7	/8	/8	/4	

Expanding the headline impacts in the life cycle record.

Result: Evaluation of the type of impacts and the stage in the life cycle that they occur. (Leading to actions in contract management).



Step 3: Undertake a Strategic Environmental/ Social Risk Assessment

	Scoring Mechanism	Source of answer
(1) Existing or forthcoming legislation or national strategy concerning product/service	YES OR NO	Agency Netregs site Envirowise website
(2) Industry subject to IPPC regulations	YES OR NO	Annex within IPPC Directive Agency Netregs site Envirowise website
(3) Commodity linked to or subject of "green" pressure group campaign or reputational issue	YES OR NO	Main pressure group websites (Provided at end of report)
(4) Developing world supply chain	YES OR NO	To be taken from prior life cycle evaluation tool

Answers to high level questions
Yes or No

The two scores added together will provide a definition of a commodity's overall environmental risk as High, Medium or Low. Meaning that "flags" can be assigned within any information technology systems such as Oracle/ SAP.

This combined methodology will provide 3 numerical scores for each assessed commodity

⁵ As defined in the Restriction of marketing and use of hazardous substances directive

1. A score relating to environmental and social impacts.
2. A score relating to strategic environmental/ social risks.
3. An overall sustainability score for environment and social risks combined.

This means that the organisation will be able to rank commodities according to:

- The overall severity of environmental and social impacts in terms of total number of individual impacts (using the “life cycle thinking”).
- Strategic environmental and social risk factors (using the high level questions).

This revised environmental risk assessment will provide the key information to facilitate future strategies concerning prioritisation of environmental procurement R&D, resources, training and management actions.

The product/ service guidance that accompanies this guide has been developed to assist procurement staff in the production of their contract strategies. Again providing a base to work from. See separate product/ service guidance.

Best Practice assessment of Market Influence

This approach is designed to provide an overview of the process that should be considered when researching a particular supply market and determining the degree of influence present. When letting a contract for a high risk requirement this approach is used to inform and develop a Procurement strategy. Therefore, Procurement should consider the following questions:

1. What product/ service is required, when is it required and in what likely volume
2. What information can be obtained from the Client and other Procurement Colleagues? Internal records, visit reports and questionnaires may be available to support this.
3. What is the size of the market for this product/service? You should start with a national model and then extend this if applicable to consider the global supply position. Market information may be available from, national trade associations, chartered institutes, Chambers of Commerce, CBI, DTI, National Statistics Office, Embassies, and Trade attaches. The Export Market information Centre based in London, also has a library containing all major international statistical sources. In addition private companies such as Economist Intelligence Unit and Keynote compile reports which can be purchased. Additionally, the Internet is also a valuable source of information. As with all data you need to verify the source and quality of the information.
4. How is the market structured,
 - Geographically? (i.e. are the suppliers predominantly local/ regional/ national/ global companies ?).
 - By customer type (i.e. do the suppliers target mainly public/private sector, or wholesale distributor/direct to end users)
 - Is the market currently a buyers or sellers market? This considers the particular general economic conditions at the time relating to the supply and demand for goods and services you intend to purchase. (i.e. the demand for software experts reached a premium in the run up to the millennium. Post millennium rates reduced dramatically.
5. Who are the major suppliers to this market? and how is the market serviced. i.e. Manufacturers, distributors, third party providers etc (This information is again likely to be available through the sources mentioned in section 3).

Supplier Name	Coverage (i.e. nat/regional)	Market Segment (i.e. pub/private)
_____	_____	_____
_____	_____	_____
_____	_____	_____

6. Who are the major customers in the market?

- a) _____
- b) _____
- c) _____
- d) _____

- Are forecasts available for the market?
- Who has produced these?
- How reliable have they been in the past and to what extent can you use these for the basis of future strategy?
- What are the key components of cost make-up for material, labour and overhead content
- What are the current market trends for?

Materials costs

Labour Costs

Over/undersupply in the market

Indicative market prices

It is likely that the National Statistics Office (NSO), The Supply Management Magazine, the National press, Trade journals, or a variety of internet sources could be useful in obtaining indices and qualitative reports. NSO publish:

- The annual and monthly abstract of statistics
- Economic trends
- The census of production
- The department of employment Gazette
- Business Monitor- the P series covers a wide range of industrial activities

7. Consider:

- Are there any restructuring trends evident in the market?
- Have there been, or are there likely to be any significant take-overs/mergers in the foreseeable future, and is this likely to influence price and availability?

This material is likely to be contained within trade and national press. Much of this information is speculative and therefore must be treated with caution.

It may be useful to conduct a SWOT analysis, Strengths, Weaknesses, Opportunities and Threat. This approach attempts to assess internal strengths and weaknesses of the buying organisation in relation to the external opportunities and threats relating to a particular supply market.

The following model may be of assistance in applying SWOT analysis to the formation of purchasing strategy applied to a market supply situation

SWOT Model for Developing Purchasing Strategy relating to Market Situation

Strengths Purchasing power Regular Demand Goodwill Association Image	Weaknesses Highly sensitive Imported Material Extended supply Chain Political unstable
Threats High demand by other users Few suppliers Exchange rate Volatility	Opportunities Alternative Materials Substitutes Design out

8. Consider any other relevant information that has been obtained during the process e.g. particular company strategies or other qualitative findings.

Action Plan

Document and develop a procurement strategy detailing how you intend to approach this market in light of the analysis performed above and explain the degree of influence you believe is present relevant to your planned expenditure.

Document data and reference sources

1. _____
2. _____
3. _____
4. _____

References:

Export information centre London: <http://www.tradepartners.gov.uk/text/visit.shtml>
The Economist Intelligence Unit: <http://www.eiu.com>

Focussing a Contract Development Programme on Sustainability Issues

Most Utility Sector organisations have a Contract Development Programme based on historic expenditure analysis and projected spend. It enables Procurement to effectively plan and prioritise the renewal of existing contractual agreements as well as planning new work areas. In order to efficiently manage the environmental risks inherent in a procurement teams portfolio, Procurement needs to identify and integrate contracts into this programme that address and mitigate the organisations main environmental and developing world social impacts. Thereby giving priority to managing contracts that present the greatest environmental and social risk. Unfortunately the tradition can be to focus on areas that are easy to address such as paper and stationery, but obviously these are not the contracts with the greatest environmental or social impact.

Therefore organisations should place effort to manage the contracts with the greatest environmental and social risk. As a start, focus should be placed on environmentally improving contract arrangements in the ten key areas of expenditure that represent the most significant environmental impacts. Mapping of the supply chain should also be undertaken to ascertain any developing world inputs to either the raw materials or manufacturing of the end components.

Risk categorisation is based on an assessment of the products or services using the best practice environmental and social risk assessment approach detailed earlier.

Developing World Social Risk

It should be recognised that many of the products and services that organisations procure have likely developing world supply chain. This is typically present in the raw materials phase where the raw material inputs such as rubber, plastics etc are sourced from the developing world. Information Technology and Electronics have rated highly because a number of raw materials originate in the developing world, often manufacturing of electronics is in the developing world and additionally disposal can often take place in the developing world. This is due to the fact that many organisations either sell or give away old information technology equipment which can often be either given to or bought by developing world countries. However, it must also be recognised that this in itself has a social benefit and should continue.

However, disposal will then take place in the developing world countries and are therefore outside of the proposed WEEE (Waste Electrical and Electronic Equipment Directives). Organisations therefore need to be cognisant of their developing world impacts in all the products and services detailed and take action to manage any inherent risk.

Managing Developing World Social Risk in the Supply Chain

Having identified the likelihood of a developing world supply chain the next question is what to do about it? Firstly, do not cancel contracts and source within the developed world. This approach just exacerbates the problems of the developing world and leads to even greater social problems within the supply chain. The key stage of this is deciding as an organisation what are the minimum social standards for doing business with you. For example, you may wish to base this around the SA8000⁷ standards which details the following principles:

- No children under the age of 14 (ILO Convention 38)
- No forced labour
- Safe and healthy working environment
- Right to form trade unions
- No discrimination
- Normal working week shall not exceed 48 hours
- All overtime to be reimbursed
- Pay to meet legal or industry minimum and sufficient to meet basic needs and give discretionary income
- Management System and review to manage these social issues

Before embarking on this approach your organisation needs to define what it believes is socially/ ethically acceptable in its supply chains based on its values, stakeholders etc. See Sustainable Procurement Strategy Model.

Having determined a minimum standard the next issue for the organisation is, what do we do with companies that do not meet this standard? The worst option is to cancel the contract as this will potentially lead to even greater social hardship.

⁷ Social Accountability International See Web site: <http://www.cepaa.org/SA8000%20Standard.htm>

Therefore the preferred approach is to work with suppliers to raise the standard. However, achieving this will involve funding and again your organisation will need to decide if it is willing to invest to improve its social record within the supply chain. A potential way of dealing with this is to use Procurement cost savings from other contracts to fund social improvement within the supply chain. Areas of such improvement may be buying protective equipment, raising wages or sponsoring education of workers. Again this needs to be the subject of a policy decision at an organisational level reflecting values, culture and financing, but it is only by addressing these issues that organisations can truly say they are becoming more sustainable.

Selection of Sustainable Suppliers

Understanding the market and a suppliers skills is a core role of Procurement. The methods for gathering information to begin the process of understanding the market has been outlined previously in section X. To augment market assessment Procurement may undertake a supplier pre-qualification assessment exercise. This exercise will focus on a range of issues from general business management, quality management, references etc and should also include both environmental and social issues. Linking back to the best practice risk assessment approach (section X), if the majority of impacts are in the raw materials phase the focus should be on the supplier own environmental supply chain management policies. If the impacts are in the manufacturing stage then the focus is on the suppliers own environmental management system for their business.

A supplier's own environmental performance should be one of the key criteria utilised in supplier selection. Equally where relevant the supplier approach to managing its developing world social impacts should also form part of the assessment.

When reviewing the response to any questionnaire, of particular importance is that the supplier's environmental and social policies actually address the key impacts of their business. For example an environmental policy from a chemical manufacturer needs to deal with the environmental issues of making chemicals rather than looking at its paper consumption and car policy, which whilst valid are not the main impacts of this business.

Example Questionnaire

Environmental Policy and Practice

1. Does your company have an environmental policy statement committing it to a programme of environmental improvement?
YES/NO (If Yes, please provide a copy.)
- 1a. Does the policy statement extend to all the products and services supplied?
YES/NO (If Yes, please indicate how. If No, please indicate which products and/or services are included)
2. In your company, who has overall responsibility for environmental performance of the organisation? (Please name and give job title.)
- 2a. Is there a Director or member of the board accountable? YES/NO
3. Has your company undertaken a review of its environmental impact?
YES/NO (If yes, please detail the top 5 environmental impacts of your company)
4. Does your Company have an environmental management system?
YES/NO (If Yes, please provide details, plus any evidence of accreditation.)

5. Does your company communicate environmental objectives to employees, suppliers and other interested parties?
YES/NO (If Yes, please provide details.)
6. Does your company set environmental performance targets and objectives against which performance is audited?
YES/NO (If Yes, please give examples that directly relate to the 5 environmental impacts identified in question 3)
7. Does your company formally report on progress towards meeting these objectives?
YES/NO (If Yes, please indicate how and to whom, and provide examples: if possible provide your Annual Environmental Report.)
8. Has your company been successfully prosecuted for infringement of environmental legislation in the past three years?
YES/NO (If Yes, please give details of prosecution.)

Social/ Ethical policy and practice

9. Do you have overseas operations? YES/NO

Europe	.....	ف
Asia	.....	ف
Africa	.....	ف
North America	.....	ف
South America	.....	ف
Australasia	.....	ف
No overseas operations	.....	ف

10. How do you comply with the local legal minimum age for employment?

11. Do you have a policy for managing your overseas operations. YES / NO

IF YES, What does it cover?

Working conditions	.....	ف
Age of employees	.....	ف
Pay	.....	ف
Trade Union membership for staff	.....	ف
Equality of employment opportunities	.....	ف
Use of natural resources	.....	ف

Emissions and waste	.....	”
Other	.....	”
No policy	.....	”

12. Do you purchase goods or materials from overseas? YES / NO

Europe	.....	”
Asia	.....	”
Africa	.....	”
North America	.....	”
South America	.....	”
Australasia	.....	”
No purchasing from overseas	.....	”

13. How do you ensure that your suppliers comply with the local legal minimum age for employment?

14. Do you have a policy for overseas sourcing. YES / NO

If YES, What does it cover?

Working conditions	.....	”
Age of employees	.....	”
Pay	.....	”
Trade Union membership for staff	.....	”
Equality of employment opportunities	.....	”
Use of natural resources	.....	”
Emissions and waste	.....	”
Other	.....	”
No policy	.....	”

15. How do you assess the effectiveness of your policy for overseas sourcing?

Don't assess	.....	”
Internal assessment	.....	”
Comply with SA8000	.....	”
Other independent assessment	.....	”

Assessing the completed Questionnaire

To assess the responses to the questionnaire an assessment methodology and scoring matrix has been developed.

Using the matrix

The elements of the matrix have been chosen to represent the key measures of the environmental and ethical maturity or capability of the supplier. Each statement in the matrix reflects a different level of environmental and ethical capability. The supplier can be sent a pack containing a copy of the matrix with which to assess their own capability (providing the necessary justification for the score assigned on a separate sheet).

The Buyer, together with the contract client and any environmental specialist as appropriate, will then assess the evidence provided, together with the statements made in support of the self-assessment. The result of the assessment should be a score for each element, which can then be transferred to a simple profile chart.

Categorising of suppliers

The Buyer can use the profile to determine where each supplier fits within our marketing strategy to target effort on environmental and social improvements to the supply chain.

Sustainably Unaware

A supplier who is assessed predominately at Level 1 will generally be seen as being UNWARE within the definition in the marketing plan.

This will usually mean that the company has made no real effort to consider the environmental impact of supplying the products or services. It is likely to be primarily price-focused or cost-focused in those areas that offer a direct return to the business (for example, energy consumption).

Any environmental or ethical benefits will only arise as a by-product of the cost or production changes implemented by the business to maintain its market competitiveness.

Sustainability Settler

A supplier who is assessed predominately at Level 2 or 3 will be seen as a SETTLER within the definition in the marketing plan.

The supplier will generally be aware of environmental and ethical issues associated with any product or service provided and will be looking to incorporate their impact into the production and purchasing activity.

The extent to which they are included will depend directly upon the individual's commitment to or influence over the business policy. The basis of any consideration will be either risk avoidance, in the case of pollution and potential prosecutions, or cost reduction, in the case of energy consumption and waste minimisation.

A reactive rather than pro-active approach is likely and there will be wide variations across the total business operation. The level of personal commitment to environmental and ethical issues is the key driver in determining the extent to which the business incorporates environmental issues into its everyday operations. Personnel in the business will probably give personal views on what is being done rather than referring to an organisational strategy. Initiatives will be specific to functions and their benefits will be uncoordinated.

Sustainable Pioneer

A supplier who is assessed predominately at Level 4 or 5 will clearly be seen as a PIONEER within the definition in the marketing plan.

The supplier will be fully familiar with the concept of environmental impact analysis and will always include appropriate environmental considerations in their own purchasing decisions. They will have a formal method of evaluating performance, possibly using a formal Environmental Management System (EMS), and the company will be either EN14000 registered or be working towards EN 14000 registration. Furthermore, when considering products sourced overseas, the supplier will consider the ethical impacts that this purchasing will have, for example, the exploitation of underage labour, the working conditions, use of natural resource and the like.

Each department will have its own internally developed targets aligned to an overall organisational target with clearly defined associations to the business objectives.

There will be a formal audit of performance, either internally or externally based, and a good system of communication of achievements and reporting methodology.

Scoring Matrix – Steps to Best Practice

The scoring matrix is designed to be used for two purposes:

1. To provide a structured and consistent approach to the assessment of suppliers environmental and ethical management of their business
2. To demonstrate to suppliers the steps needed to reach environmental best practice

Suppliers can use the matrix to score themselves and see the degree of the gap against best practice. The matrix then gives suppliers the steps they need to take in order to become a pioneer in this field.

Sustainability Scoring Matrix

	Level 1	Level 2	Level 3	Level 4	Level 5	Score
Environmental policy (1)	No policy	An unwritten set of guidelines	Un-adopted environmental policy set by departmental manager	Formal policy but no active commitment from top management	Environmental action plan and regular review with commitment from top management	
Organisation (2)	No environmental management or any formal delegation of responsibility for environmental impact	Environmental responsibility is the part time function of someone with limited authority or influence and no reporting requirement	Environmental responsibility post reporting to ad-hoc committee line management and authority unclear	Environmental manager accountable to environment committee chaired by a board member	Environmental management fully integrated into management structure with clear delegated authority	
Review of Impacts (3)	No review of impacts undertaken	Informal review of impacts in limited areas of the company	Review of organisational impacts undertaken, no follow-up actions taken	Formal review of all company operations, key impacts identified and actions plans agreed and supported by management	Formal review of key impacts undertaken on behalf of board, action plans signed off by board as part of integrated management plan	
Environmental Management Systems (EMS) (4)	No EMS in place	Processes in place for individual impact areas no co-ordinated systems	EMS available to all parts of company, but no requirement to implement, or report o specific areas	EMS in place across company reporting required, regular review of performance by top management	EMS fully integrated into business, regular review of performance by top management and supplier evaluation programme	
Communication programme (5)	No communications plan in place	Informal plan in place for company	Formal plan in place for company	Formal plan in place for company with ad-hoc communications with support	Comprehensive plan in place covering staff and suppliers	

Audit programme (6)	No audit programme	Informal review of processes as part of other audit regime	Formal audit of all compliance issues and general audit of other processes	Formal audit of EMS against policy and performance targets	Externally verified audit of EMS against policy and performance targets	
Reporting (7)	No external reporting	Annual report and accounts includes the company environmental policy statement	Annual report and accounts includes a review of environmental activity	Annual environmental report published as part of company external reporting	Annual environmental report published as part of company external reporting including external verification	
Operations Compliance with local minimum age for employment (10)	No compliance	An unwritten set of guidelines	Awareness of legal age laws, however process informal and un-adopted	Formal policy but no active commitment from top management	Local legal age for employment fully complied with	
Operations Ethical Policy (11)	No policy	An unwritten set of guidelines	Un-adopted ethical policy set by departmental manager	Formal policy but no active commitment from top management	Ethical policy covering all aspects of personnel and natural resource ethics. Regular review with commitment from top management	
Overseas Purchasing Compliance with local minimum age for employment (13)	No compliance	An unwritten set of guidelines	Awareness of legal age laws, however process informal and un-adopted	Formal policy but no active commitment from top management	Local legal age for employment fully complied with	

Overseas Purchasing Ethical Policy (14)	No policy	An unwritten set of guidelines	Un-adopted ethical policy set by departmental manager	Formal policy but no active commitment from top management	Ethical policy covering all aspects of personnel and natural resource ethics. Regular review with commitment from top management	
Policy Assessment (15)	No assessment	Informal review of policy as part of other assessment regime	Formal assessment of policy	Formal assessment of policy against performance targets	Externally verified assessment of policy against performance targets	

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UN/PS: Advanced Procurement Training, 2004
USAFA: Seven Steps to Performance-Based Services Acquisition http://www.arnet.gov/comp/seven_steps/index.html
WFP: Goods and Services Procurement
WB: Electronic Government: Procurement, http://wbln0018.worldbank.org/OCS/egovforum.nsf/main/home

Glossary of Acronyms, Abbreviations and Procurement Terms

The table below lists the acronyms, abbreviations and procurement terms used in this handbook. The descriptions and explanations apply only to procurement in the context of this handbook.

Term or acronym	Description or explanation
AGREEMENT	A manifestation of mutual assent between two or more parties. See also CONTRACT.
AIDS	Acquired Immune Deficiency Syndrome.
ANNUAL REPORT	A summary report of programme implementation, significant events, issues and recommendations issued annually by the heads of country or regional offices, HQ divisions, etc.
ARBITRATION	A method to resolve a contract dispute by submission to one or more arbitrators for a binding judgement; arbitration is normally used to avoid litigation, i.e. court procedures.
AUDIT	The process of examining and reporting on specific aspects of work and performance.
AWARD	The action taken by the buying organisation based on the evaluation of offers, to approve the selection of the supplier for the specific contract.
AWB	Air Waybill. See also WAYBILL.
B/L	Bill of Lading (for sea, lake, river or canal shipments). See also BILL OF LADING.
BAFO	Best and Final Offer.
BENCHMARKING	The practice of reviewing the performance of an organisation, department, function or activity, by assessing it against the performance of, "best in class" organisations, industry standards or internal departments.
BEST AND FINAL OFFER	A method of competitive negotiations with a short list of selected suppliers during an RFP.
BEST VALUE FOR MONEY	The optimum combination of factors such as appropriate quality, life-cycle costs and other parameters which can include social, environmental or other strategic objectives, which meet the end-user needs. It does not necessarily mean the lowest initial price option, but rather represents the best return on the investment, taking into consideration the evaluation criteria in the specified solicitation documents.
BID	An offer by a supplier in response to an invitation to bid.
BID BOND	See also OFFER SECURITY.
BILL OF LADING	The document under which cargo is carried on board vessels. It may be defined as a receipt for goods, signed by the Master or other duly authorised person on behalf of the ship-owner. It constitutes a document of title to the goods specified therein.
BILL OF QUANTITIES	A description and a quantitative estimate of all materials, and/or supplies, which will be required for a proposed construction project or production of equipment (usually custom designed).
BoQ	Bill of Quantities.
BRAND NAME	A product identified to a particular manufacturer. See also PROPRIETARY ARTICLE AND TRADE MARK.

Term or acronym	Description or explanation
BUDGET	A plan of the allocation of financial resources to a programme, project, department, organization etc.
BUFFER	A percentage of the total price added to a cost estimate to allow for market and foreign exchange fluctuations.
BUSINESS CASE	A document prepared to support a series of decisions. These decisions, over time, increasingly commit an organisation to the achievement of the outcomes or benefits possible as a result of a particular business change.
CARRIER	Entity which actually performs the transport, i.e. shipping line, airline, hauler, responsible for cargo in transit according to the various conventions governing the different transport modes. Also NVOCC (non-vessel operating common carrier), entities who do not own the means of transport but contract for carriage under the same conditions as would prevail if they were the owners.
CATALOGUE	An organised list of goods or services specifying the description, price, unit of measure and other information.
CERTIFICATE OF ORIGIN	A document which identifies the country of origin of imported goods – normally required by customs authorities.
CLASS	A range of similar items forming a section within a group.
CLIENT	Recipient of procurement services, which is normally the requisitioner of the goods, services or works to be procured.
COMPETENCE	Combination of skills, knowledge, and personal attitudes, demonstrated through behaviour that leads to effective performance on the job.
COMPETITIVE BIDDING	Procurement strategy in which offers are requested from multiple suppliers.
COMPONENT	Any material, ingredient, or part of a sub-assembly which is incorporated into a finished product.
CONSIGNEE	The warehouse or department to which a consignment has been despatched. Normally personified in address form by the insertion of the appointment of the departmental head i.e. The Chief Storekeeper, The Director, etc.
CONSIGNMENT	Goods or material prepared for, or in transit.
CONSORTIUM	Collected group of entities combining their efforts in procurement.
CONTAINER	Although a container can be anything designed to hold (contain) materials for storage or transport, the most common definition in logistics refers to specific types of containers used for inter-modal transportation often referred to as "Ocean Containers".
CONTAINERIZATION	Using standardized containers for the storage and transport of materials within a manufacturing facility as well as between vendors and manufacturers.
CONTRACT	A written document, containing the agreement, and the terms and conditions, between a buyer and a supplier. See also AGREEMENT and PURCHASE ORDER.
CONTRACT REMEDY	A means of relief that either party can pursue to compensate for the other party's non-performance or non-compliance with a contract term or condition.
CONTRACTS REVIEW	Committee established for the independent review of contracts

Term or acronym	Description or explanation
COMMITTEE	and purchase orders over certain ceilings. The review is conducted to verify that all procurement procedures and rules are met, and that the UN organization's interests are properly protected.
COST	A broader term than 'price', including everything a buyer may have to pay in association with an item.
COST ANALYSIS	A detailed analysis of the supplier's quoted price.
CRC	Contracts Review Committee.
CUSTOMER	The buyer of goods and/or services.
DAMAGES	Compensation for injury to goods, person or property.
DATA	Collected and stored facts, observations and data points.
DDU	Delivered Duty Unpaid. See also INCOTERMS.
DEADLINE	A definite date by which an action must be completed.
DEFAULT	A failure of the buyer or seller to live up to the terms and conditions of the contract.
DEFECT	Any imperfection or non-conformity of the product with the specification(s).
DELIVERY TIME	The time taken to deliver goods from the date of contract to the time when the title of goods passes between the purchaser and the supplier as per the delivery terms (INCOTERMS) used in the contract.
DISCOUNT	An allowance or deduction granted by the supplier to the buyer reducing the cost of the goods purchased.
DISPOSAL	The action taken to dispense with any material declared scrap or surplus to requirements.
DOCUMENT	Any form, voucher, record, register or schedule used in the procurement process.
DONATION IN KIND	Goods and services provided at no cost to the UN organization and/or its beneficiaries.
DONOR	A government, international or regional bank, NGO, individual or other entity that contributes resources as funds or commodities to UN organization programmes.
EDI	Electronic Data Interchange.
ELECTRONIC DATA INTERCHANGE	A dedicated electronic connection between a buyer and a supplier used to transfer procurement-related information.
END USER	The ultimate beneficiary/user of the goods, works, services object of the procurement action.
ENTERPRISE RESOURCE PLANNING	Software systems designed to manage most or all aspects of a manufacturing or distribution enterprise (an expanded version of MRP systems). ERP systems are usually broken down into modules such as Financials, Sales, Purchasing, Inventory Management, Manufacturing, MRP, DRP.
EOI	Expression of Interest.
ERP	Enterprise Resource Planning.
ESTIMATE	An approximate calculation of charges or costs to supply goods or services.
EXPRESSION OF INTEREST	A note received from a supplier in response to a request to express interest in an upcoming procurement activity.
FCA/FOB	Free Carrier/Free on Board. See INCOTERMS.

Term or acronym	Description or explanation
FIXED PRICE	An order placed on the agreement that no alteration in price will be permitted for the duration of the order.
FORCE MAJEURE	A French term (superior force) that refers to unexpected or uncontrollable events that may relieve the buyer and the seller from their obligations under a contract. Standard clause in all United Nations contracts.
FORECASTING	An estimation of future demand. Most forecasts use historical demand to calculate future demand. Adjustments for seasonality and trend are often necessary.
FREIGHT FORWARD (or FREIGHT COLLECT)	Freight payable by consignee on arrival of the goods.
FRR	Financial Rules and Regulations.
GENERIC TECHNICAL SPECIFICATIONS	Specifications that do not specify brand names, the products of one company, or features which are unique to the products of a particular supplier.
GLOBAL COMPACT	The voluntary international corporate citizenship network initiated by the UN to support the participation of both the private sector and other social actors to advance responsible corporate citizenship and universal social and environmental principles to meet the challenges of globalisation. It is based on 10 principles related to human rights, labour, environment and anti-corruption. www.unglobalcompact.org
GOOD PRACTICE	A process or methodology, which has been identified and is recommended as a model.
GUARANTEE	A promise or a pledge, i.e. something given or existing as security such as to fulfil a future engagement or a subsequent condition (e.g. bank guarantee). It can also be a provision in a contract by which one person promises to pay the obligation of another person in case that person fails to pay debts or perform a specific duty.
HANDLING	The operations involved in lifting and movement of goods in store and transit.
HIV	Human Immunodeficiency Virus.
IAPSO	Inter Agency Procurement Services Office.
IAPWG	Inter-Agency Procurement Working Group.
ICC	International Chamber of Commerce.
IDENTIFICATION	The means of establishing specifically what an item is and then giving it a unique identity.
ILO	International Labour Organization.
IMPORT	The act of bringing goods into a country from an external source.
INCOTERMS	International Chamber of Commerce commercial delivery terms which set out the obligations, costs and risks of the buyer and seller.
INSPECTION	The process by which goods are checked for quality, compliance with technical specifications and accuracy.
INVENTORY	The term applied to the total stocks held in store or in account. Can also be referred to as the holdings of stores and equipment in use.

Term or acronym	Description or explanation
INVITATION TO BID	A formal written invitation sent to suppliers for requirements of a certain value and over, using general and specific terms and conditions.
INVITEES	Potential suppliers invited to make an offer.
INVOICE	Supplier's bill listing goods shipped, indicating price against which payment should be made. This document is also necessary to clear shipment through customs.
ISO	International Organization for Standardization.
ITB	Invitation to Bid.
LCL	Less than container load.
LEAD AGENCY	An organization to which the UN system has entrusted responsibility, based either on mandate, technical expertise and/or procurement volume, to act as prime on behalf of the entire UN system in one or more of the following procurement activities: supplier pre-selection, product specification, or establishment of LTAs.
LEAD TIME	The time between placing an order and receipt of goods ordered as specified in the order/contract.
LETTER OF INTENT	A preliminary quasi-contractual arrangement by letter used in circumstances where the items, quantities, price and delivery are partly known but where contract provisions and/or final specification may require time consuming negotiations, before the formal final contract can be signed. Used to enter into interim agreements-usually subject to confirmation by an agreed date – so as to enable construction production or delivery of supplies to commence.
LIABILITY	When an organisation is answerable for or committed to pay for goods, services, property or losses.
LIFE CYCLE COST	Everything a buyer may have to pay in association with an item over its entire life-cycle, like training, running, maintenance and disposal costs.
LINE ITEM	An item on a requisition to be supplied in any quantity.
LIQUIDATED DAMAGES	A predetermined rate of compensation, specified in a contract, payable to the UN organization by the supplier against delay in performance.
LOAD	In manufacturing, describes the amount of production scheduled against a plant or machine. In warehousing, it describes the materials being handled by a piece of equipment. In transportation, describes the materials being transported.
LOGISTICS	The part of the supply chain management process that plans, implements and controls the efficient, effective forward and reverse flow and storage of goods, services, and related information between the point of origin and the point of consumption in order to meet customers' requirements.
LONG TERM AGREEMENT	Agreement to supply certain goods and/or services over a defined period of time.
LTA	Long Term Agreement.
MAINTENANCE	The process whereby stocks, machinery and other facilities are maintained to optimum level to retain working efficiency.

Term or acronym	Description or explanation
MANAGEMENT	The activity of planning, initiating and controlling the activities of people and processes (by objectives, by exception, etc.).
MAVERICK BUYING	Ordering goods and services 'off contract' - i.e. from unapproved suppliers.
MDGs	Millennium Development Goals.
MILLENNIUM DEVELOPMENT GOALS	Resolution of the UN General Assembly (A/RES/55/2): United Nations Millennium Declaration, 8 September 2000.
NET PRESENT VALUE	Method used in evaluating investments whereby the net present value of all cash outflows (such as the cost of the investment) and cash inflows (returns) is calculated using a given discount rate.
NPV	Net Present Value.
OFFER	Generic term for bids, quotations and proposals.
OFFER SECURITY	A guarantee (bond) from a supplier preventing the withdrawal or modification of an offer after the deadline.
OPTION	The right of choice, particularly in contracts, where an offer may be taken or not taken at the choice of the offeree.
ORDERING	The process of preparing purchase orders from provisioning data and submitting them to suppliers.
OUTSOURCING	Contracting someone outside of the organization to conduct some of the work normally conducted by the organization.
PACKING	The act of preparing items for storage, despatch or other movement by the use of measures suitable materials compatible with the item/method of transportation and the condition of storage.
PACKING LIST	Document provided by suppliers indicating the contents of each case to be shipped, its weight, measurements, and value.
P-CARDS	Purchase Cards.
PENALTY CLAUSE	A contractual clause defining supplier obligations in the event of default on its part.
PERFORMANCE BOND	See PERFORMANCE SECURITY.
PERFORMANCE SECURITY	A written instrument normally issued by a bank or an insurance company in favour of the buyer to assure fulfilment of the supplier's obligations.
PLANT	Equipment installed as a fixture.
PO	Purchase Order.
PRICE	The amount of money that will purchase a definite weight or other measures of a commodity.
PROCEDURE	A laid down sequence of actions to efficiently achieve the aim.
PROCUREMENT	The process of obtaining goods, services or works of the right quality, in the right quantity, at the right price, from the right source at the right time by various means such as purchase, donation or hire. See also PURCHASING.
PROCUREMENT OFFICER	A individual acting on behalf of the UN organization who performs the procurement function.
PROPOSAL	An offer by a supplier in response to a request for proposal.
PURCHASE CARDS	Business credit cards that are issued to buyers to purchase low cost goods. Purchase cards streamline the payment process and reduce costs by eliminating paperwork.

Term or acronym	Description or explanation
PURCHASE ORDER	See CONTRACT.
PURCHASING	Buying goods, services and works.
QUALITY ASSURANCE	The guarantee of goods and services meeting and maintaining specified quality standards.
QUALITY CONTROL	Involves the application of inspection techniques to products purchased to ensure they are of the correct specification, standard and condition.
QUOTATION	A statement of price, availability, etc., usually in response to an enquiry. Not to be confused with 'estimate'. Quotations are normally preferable because they should give an accurate price for goods or services offered, whereas estimates give an approximate calculation of the cost of goods or services.
RAW MATERIAL	Stock or items purchased from suppliers, to be inputted into a production process and transformed into finished goods.
RECEIPT	Either the function of receiving goods into store or the signature given confirming safe receipt.
RECEIPT OF GOODS	Official acknowledgement of receipt of goods by government or a procurement services customer.
RECORD	Any document that registers information related to the procurement process.
RELATIONSHIP MANAGEMENT	The relationship between buyer and seller that is central to the whole business of supply management.
REOI	Request for Expression of Interest.
REQUEST FOR PROPOSAL	A formal written solicitation seeking a solution to a complex requirement. This document is used mainly for services, but can be used in exceptional circumstances for non-standard items, where the selection will not necessarily be made on price alone, but rather on best value for money.
REQUEST FOR QUOTATION	A written request for requirements usually for low value procurement.
REQUISITION	An internal document which a functional department submits to obtain items from stock, or to initiate a procurement action. See also DEMAND.
RESIDUAL VALUE	The value of an item which has served its functional purpose but retains some value as scrap from material content.
RFP	Request for Proposal.
RFQ	Request for Quotation.
RISK ANALYSIS	The process of determining what the risks are and what the costs would be if they materialize.
SAMPLE	A representative example of a product. Or, a small portion taken from a quantity to give an idea of the quality of the whole lot.
SEALED OFFERS	A method of formal procurement where suppliers are instructed to submit sealed bids or proposals. This is standard practice when ITB and RFP solicitation processes are used.
SEGREGATION OF DUTIES	An operational mechanism to ensure that one individual does not own or control the whole process.
SERVICE CONTRACT	Used when a supplier is asked to provide certain deliverables. Applies to administrative, programme services or procurement

Term or acronym	Description or explanation
	services.
SHIPPING	The act of movement generally by sea, but can be applied to other methods of moving a consignment.
SHIPPING MARK	The marks stamped or otherwise shown on a package to enable it to be identified. Shipping marks show the package number and the port of destination and should remain legible until the end of the voyage.
SOLICITATION	Generic term for a request to suppliers to offer a bid, quotation or proposal.
SOLICITATION DOCUMENTS	The documents issued to request a potential supplier to offer a bid/quotation/proposal to provide the required goods, services or works.
SPECIFICATIONS	A description of the technical requirements.
STAKEHOLDERS	Anyone who has an interest in procurement activities delivering actual or perceived objectives. They can include development partners, clients, end-users, civil society, senior management, finance, technical experts, etc.
STANDARDIZATION	A policy decision to limit sourcing to only one particular brand / model of product or type of service instead of using generic specifications as the basis of the purchasing process. May be justified for economies of scale, compatibility with other products / services, facilitation of operation, maintenance, and repair of already purchased goods, etc.
STEWARD	Person employed to manage another's property.
STEWARDSHIP	The responsibility of a UN organization for managing the funds and resources entrusted to it by its member states and other donors in an ethical and transparent manner, and for the welfare and in the interest of the designated beneficiaries of the funds and resources entrusted.
STOCKHOLDING	The holding of stock.
STORAGE	Holding materials or equipment for future use.
SUPPLIER	A person or concern who supplies against a contract. In this handbook the term supplier is also used as someone who offers goods, services or works against a request for quotation, invitation to bid or request for proposal.
SUPPLY CHAIN	The total sequence of business process, within a single or multiple enterprises, that enables customer demand for a product or service to be satisfied.
SURPLUS STOCK	Items of supply in excess of known and anticipated requirements.
SUSTAINABLE DEVELOPMENT	A term coined in the Brundtland Report, as: "Giving equal weight to economic development and the preservation of the environment to ensure that the actions of one generation do not compromise the ability of future generations to have an equal quality of life."
SUSTAINABLE PROCUREMENT	A process whereby organisations meet their needs for goods, services and works in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organisation, but also to the society and the economy, while minimising damage to the environment.
TAD	Target Arrival Date.

Term or acronym	Description or explanation
TARGET ARRIVAL DATE	Requested date of arrival of supplies at port of entry, destination or delivery place as stated on the requisition.
TENDER	An offer to provide goods, services or works, in response to an invitation to bid or request for proposal.
TERMS	Statements (in a contract) that deal with specific topics, i.e. price, delivery, payment, inspection, warranty, etc.
TERMS OF CONTRACT	Stipulation made in contracts.
TERMS OF REFERENCE	Scope of work for services equivalent to specifications for goods. See also SPECIFICATIONS.
TOR	Terms of Reference.
TRANSPORTATION	The transit by any method of a consignment from one location to another.
UNCITRAL	United Nations Commission on International Trade Law.
UNDP	United Nations Development Programme.
UNFPA	United Nations Population Fund.
UNHCR	United Nations High Commission for Refugees (office of the).
UNICEF	United Nations Children's Fund.
UNOPS	United Nations Office for Project Services.
UNPS	United Nations Procurement Service.
USD	United States Dollars.
WAREHOUSE	A covered area, normally purpose built, in which supplies are received, held, and maintained prior to issue.
WARRANTY	A warranty is an assurance by the supplier that the material, product, or workmanship being sold is as represented or promised, e.g. free of defects, or will be repaired or replaced free of charge or according to conditions set out in the warranty. It might cover a longer period than a guarantee, and it might cover a wider range of issues.
WAYBILL	A carrier's document listing the loads being carried, their weight, size, etc. and their destination.
WFP	World Food Programme.

