**Transactional Procurement Strategies & Procurement Planning**

**TRANSACTIONAL PROCUREMENT STRATEGIES**

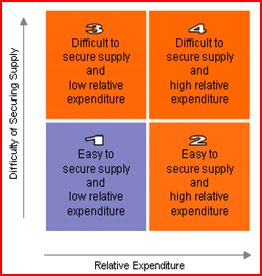
1. First and foremost, **any procurement activity needs to be aligned with the UNDP Strategic Plan**.
2. Based on the information gathered, potential buying strategies should be identified and evaluated.

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| 1. All procurement activities require procurement strategies. However, activities designated as “significant purchases” will require special attention. 2. We can define **significant purchases** as those that are of *high relative expenditure and/or for which supply is difficult to secure*. |

1. The relative expenditure of goods and services is defined as their cost relative to the total purchasing expenditure of the business unit or agency. *For UNDP, a transaction of 100,000 USD or more is considered a significant purchase*.

1. The criterion “*difficult to secure supply*” will be based on the following factors:

* The degree to which the goods or services being purchased present a risk or are critical to the agency; as well as
* The extent to which there exists a competitive market



1. Significant purchases are:

* High in relative expenditure and easy to ensure supply
* Low in relative expenditure and difficult to secure supply; and
* High in relative expenditure and difficult to secure supply

1. Based on the information gathered, an understanding of the nature of the procurement activities, a knowledge of the market and an understanding of existing risks, UNDP will **develop unique procurement strategies for each project**. Potential strategies include:

* A purchase high in relative expenditure and easy to ensure supply may require a strategy with the aim to ensure that total cost (including the cost of processing large numbers of low value transactions) are reduced (i.e., demand aggregation).
* A purchase low in relative expenditure and difficult to secure supply may require a strategy seeking to ensure an ongoing supply, in order to reduce exposure (i.e., carrying an emergency stock or developing alternative sources of supply).
* A purchase high in relative expenditure and difficult to secure supply may require special supplier relationship management.

1. Procurement strategies will seek to meet identified project goals and to mitigate existing risks. For example, in the case of a procurement transaction where quality is critical, UNDP procurement strategies will not only include clear specifications reflecting national and international standards, but could also include supplier pre-qualifications, factory visit(s), sampling and independent laboratory testing, or pre-shipment inspection, among other actions.

1. In the case of a project were delivery is critical (i.e., elections), potential strategies could include early ordering (if proper planning has been conducted), pre-qualification of suppliers (to ensure that with all suppliers being considered are reputable and capable), developing alternative sources, checking manufacturing capacity, requesting performance security and including extra assurances in the contract as liquidate damages clauses, among others.
2. Procurement is an important function to ensure that UNDP meets its organizational goals. While Procurement is a support function for the organization, it is nevertheless a core function and critical to enhancing programme/project delivery. UNDP does not conduct procurement in isolation, but rather as part of the process of achieving development project outcomes. Therefore all UNDP procurement activities are framed in the context of UNDP programmes and projects.

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| 1. **Understanding procurement as a managerial discipline** (and not an administrative one) implies the need to acquire and enhance certain managerial skills and tools, including:  * Procurement Risk Management * Procurement Strategies Development * Procurement Planning |

**Understanding…**

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| What do we procure?  (Spend Analysis) | In which markets do we operate?  (Market Analysis) | What are the associated risks?  (External, internal, project risks) |

**We will develop…**

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| Risk Procurement Management | Procurement Strategies | Procurement Plans |

1. When we talk about procurement, is it necessary to broaden the concept to include Supply Chain Management (SCM), as procurement is one of the elements of the Supply Chain.
2. Management of the supply chain also includes:

* Product selection
* Forecasting or quantification
* Procurement, including Quality Assurance
* Inventory management, including Storage (if applicable)
* Distribution (if applicable)
* Return (if applicable)

1. As a working principle, we always need to take into consideration all steps of Supply Chain Management (SCM) when analyzing procurement risks, defining procurement strategies and planning. The complexity and length of the supply chain will vary from project to project.

1. Supply Chain Management risk analysis, procurement strategies development and planning are essential tools to ensure that **procurement activities support project outcomes**, are conducted in a timely manner and at a reasonable cost. Early and accurate planning is critical to avoid last minute procurement, which is contrary to open, efficient and effective procurement.

**When does (1) procurement risk analysis (2) procurement strategies and (3) procurement planning start?**

1. SCM cycle is an integrated part of the project cycle, and therefore needs to be aligned and synchronized with other project activities in order to contribute to achieving identified outcomes. To this end, the SCM cycle cannot run in isolation. On the contrary, it must be integrated into the overall project cycle.

1. This implies by definition the need for a **constant interaction between operations and programming**.

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| 1. In the project context, SCM risk assessment and procurement strategies development and planning should start as early as the project definition stage. |

1. At this point, important questions will need to be addressed, including:

* What will be the implementing modality? Who will be responsible for procuring and managing inputs?
* What are the existing risks? Are there risks associated with the nature of the
* products or services to be acquired? Are risks associated with the markets, the environment or the political context?
* What is the best procurement strategy for achieving the programme/project goals and to mitigate risk?
* What is the Procurement Plan and what are the associated resources?
* What are the main acquisition activities to be conducted that will contribute to the identification of project outputs? Among these activities, will there be acquisition of goods, services (professional or individual) or works?
* What is the procurement and product expertise required to successfully conduct the identified procurement activities? Does it exist in house or do we need to outsource it? Does UNDP or the implementing partner have the capacity to develop specifications/TOR/SOW, or do we need to hire specialized experts? What about the evaluation?
* What is the budget required to achieve the identified outcomes? All required activities, either goods to be procured (i.e., ballot boxes for an electoral project) or services (i.e., individual consultants to develop specifications) must be budgeted.

**What are the benefits of this approach?**

1. Together, procurement risk assessment, procurement strategies development and procurement planning serve as a bridge to cover the gap between programme and operations. They are also critical to programme delivery. Benefits of this approach include:

* Best value for money
* Timely procurement
* Avoid unnecessary and unjustifiable emergencies
* Better allocation of existing resources
* Sufficient time to fully explore alternative procurement approaches
* Possibility to aggregate demand

**What are the success criteria?**

* Joint Planning between programme and procurement in the early stages
* Good flow of communication
* Understanding of the procurement requirements
* Understanding of the market and associated risks
* Live process with structured revisions and feedback mechanisms

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| **TYPES OF PLANNING**   * Consolidated planning * Individual planning   **Consolidated Planning**     1. Based on the UNDP decentralized structure, consolidated procurement plans will be developed at different levels, including Corporate, Business Unit and Country Office.      1. *All Business Units and Country Offices shall develop Consolidated Plans*. They will normally be prepared annually, though it is a good practice to review them regularly.      1. Analysis of the consolidated Procurement Plan provides an opportunity to identify economies of scale and better uses of resources, providing an overview of the scale of the procurement activities.     **Individual planning**   1. Procurement planning will also take place at the project level or even at the activity level, depending on the complexity of the activity and the number of interrelated procurement actions.      1. *A Requisition Plan shall be developed at the project definition stage. It must be shared with the Procurement Unit.*      1. All “Significant Purchases” of a Requisition Plan (definition is provided in Section 4.2) are subject to the development of an Individual Procurement Plan. |
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Structure Element - Procedures

1. As SCM (and procurement in general) is a sub-process of the project cycle, different actions will need to be taken at each stage of this cycle.

**The UNDP Project Management Cycle** includes the following steps:

* Justifying the project
* Defining the project
* Initiating the project
* Running the project
* Closing the project

1. Below are some of the questions and issues that must be considered at different stages of the project.

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| **Project Cycle** | **Procurement Cycle/SCM** | **Main Documents** |
| Justifying a project | N/A | N/A |
| Defining a project | * Identify internal procurement resources * Identify external resources (if required) * Identify procurement risks and procurement strategies * Product/service selection or identification * Forecasting/Quantification * Budget * Identify SCM responsibilities * Assess SCM implementing partner capacities * Develop REQUISITION PLAN * Identify asset management strategy | PRODOC  PROCUREMENT RISK ASSESSMENT  PROCUREMENT STRATEGIES (including sourcing strategies)  REQUISITION PLAN  SUPPLY CHAIN MANAGEMENT PLAN (if applicable) |
| Initiating a project | * Development of a TRANSACTIONAL PROCUREMENT PLAN * Develop Specifications/ TOR/SOW | TRANSACTIONAL PROCUREMENT PLAN |
| Running a project | * Monitor and review Procurement Plan or the Procurement and Supply Management Plan * Source Suppliers * Select Suppliers * Award and Contracting * Monitor performance and manage contracts * Depending on the SCM obligations indentified during the definition of the project, UNDP will be responsible for storage, inventory management and distribution | MONITORING AND ADJUSTMENT OF THE TRANSACTIONAL PROCUREMENT PLAN/SUPPLY CHAIN MANAGEMENT PLAN |
| Closing a project | * Close project * Dispose/transfer assets * Identify procurement lessons learned | . |

1. **Procurement Risk Assessment, Procurement Strategies Definition and Planning** shall be integrated at the programming stage and not as a back-end process.

**FPROCUREMENT RISK ASSESSMENT AND RISK MANAGEMENT**

1. UNDP needs to proactively and systematically monitor and manage risks (defined as both threats and opportunities). Among other risks, UNDP must identify and manage any risks associated with the conduct of its procurement activities. UNDP must not only be aware of and monitor the procurement risks it faces, but it must also proactively anticipate and assess those risks. This chapter deals exclusively with “transactional” procurement risks. Therefore it does not elaborate on Corporate Procurement risks, which are part of UNDP Corporate Procurement Strategies.

1. UNDP has adopted an Enterprise Risk Management strategy which provides the frame to deal with all risks, including procurement risks. For further information about ERM, please see

* [ERM Policy](https://popp.undp.org/node/10716)
* [ERM Business Process](https://popp.undp.org/taxonomy/term/326)

1. The Risk Management Cycle includes the following steps:

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| 1. Risk Identification | What are the key risks and opportunities? |
| 2. Risk Assessment | How does the potential impact relate to our risk tolerance? What is the likelihood of a risk event and what would be the impact? |
| 3. Risk Prioritization | What are the most critical risk issues that demand our attention? |
| 4. Taking Action | What is the best course of action? What are our strategies? How will we know that our mitigating actions are effective? |
| 5. Monitoring and Reporting | Are action plans being implemented? Are they effective in mitigating risk? How are we monitoring their implementation? |

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| 1. **A number of procurement risks must be taken into consideration when defining procurement strategies**. These can be clustered in three main groups:  * *Environmental risk*, including the political environment, natural environment or delivery infrastructure environment, among others * *Programme risk*, including but not limited to the risk of operating in the market, the complexity of the Supply Chain Management, or the risk associated with the nature of the service or goods to be acquired, among others * *Implementation risk*, or risk associated with the implementation unit capacity |

1. In the table below you will find some examples of potential risks and mitigation activities. Please note that this list is for reference purposes only and is not exhaustive.

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| **Risk** | **Possible Consequences** | **Possible Solutions** |
| **Critical procurement activity** |  |  |
| Failure to secure ongoing supply critical to the organization  (i.e., elections) | Failure to achieve key organizational results  Total costs of procurement too high | Develop market knowledge  Identify alternative sources and extra due diligences to check he capacity of suppliers  Plan in advanced  Work closely with beneficiary/ partner to be aware of rapid changes of needs  Apply contractual penalties and remedies |
| **Selection of procurement Strategy** |  |  |
| Selection of inappropriate procurement strategy | Inadequate or inappropriate results  Not achieving best value for money  Damage project implementation | Agree on desired outcomes/objectives and have a clear understanding of the project objectives  Develop a good understanding of associated risks in order to incorporate them into procurement strategies development |
| **Planning** |  |  |
| Lack of planning | Delay in project implementation  Inadequate supplier response  Procurement process shortcuts  Higher prices | Early involvement of procurement officers in project planning  Develop and communicate an accurate Requisition Plan |
| Insufficient lead-time | Inadequate supplier response  Procurement process shortcuts  Higher prices | Involve procurement officers in the project planning phase |
| Delay requisitions to create false emergencies | Claims of unethical or unfair dealings  Delay of project implementation  Higher total cost of acquisition  Not achieving Best Value for Money | Early involvement of procurement officers in project implementation  Seek proper justification of emergencies  Training of requisitioners |
| **Requirements definition** |  |  |
| Restrictive specifications/TOR/SOW | Claims of unethical or unfair dealings  Inadequate suppliers response  Limits competition  Unfair treatment of suppliers  Lack of transparency | Developed market and product understanding  Include generic functional and performance specifications  Apply relevant international standards where applicable |
| Inadequate specifications/TOR/SOW | Significant variety in offers received  Insufficient responses  Offer of goods/services that do not meet needs  Difficulty in evaluating competing offers | Become familiar with requirements of the specification/TOR/SOW  Developed market and product understanding  External support (consultant) to developed specifications/TOR/ SOW linked to clear deliverables and target time |
| Do not include quality requirements in specifications/TOR/SOW | Impossibility to achieve best value for money  Difficulty in comparison and overall evaluation  Poor quality of the procured items, which may lead to a waste of funds | Include quality in the specifications/TOR/SOW, using international and national standards  If quality is a critical issue, extra due diligence must be used (i.e., check manufacturing process and standards, factory visits, sampling and independent laboratory analysis, pre-shipment inspection, etc.) |
| **Sourcing** |  |  |
| Wrong approach to market | Inadequate or inappropriate supplier response  Higher prices  Selection of inappropriate approach | Analyze supply market  Develop sourcing strategies |
| Identify wrong sourcing strategy or do not have sourcing strategy | Inadequate or inappropriate supplier response  Limit competition | Proper application of the pre-qualification or post-qualification, depending on the identified complexity and risk |
| Misrepresentation of facts by potential suppliers | Contract with unsuitable companies  Claims of unethical or unfair dealing  Breach of contract | Independently verify suppliers’ qualifications  Conduct supplier reference check and due diligences |
| Outdated information on potential suppliers | Inadequate suppliers response  Limit competition | Maintain suppliers roster |
| Advertisement of procurement notices in inappropriate media | Lack of sourcing strategy  Limit competition  Contract with unsuitable companies | Identify relevant media to post procurement notices |
| **Preparation and issuance of solicitation documents** |  |  |
| Use of inappropriate evaluation criteria | Inadequate or inappropriate results  Not achieving best value for money  Re-tendering (time/ cost) | Have clear goal to be achieved as a result of the procurement process  Consider implications of evaluation criteria |
| Unacceptable requirements to suppliers | Loading the cost in offers  Limits competition  Too few bids  Re-tendering (time/cost) | Develop strong understanding of market and industry practices  Develop commercially acceptable terms  Check that responsibility for risks is not allocated to suppliers for factors outside their control |
| Provisions of inadequate information | Loading cost in offers  Great variation in offers  Create confusion among potential suppliers  Re-tendering (time/cost) | Review documents before issue  Know the market |
| **Receipt and Evaluation** |  |  |
| Failure to observe effective evaluation procedures | Lack of fair treatment of suppliers  Inconsistency in evaluation of offers  Subjectivity in outcome of the evaluations | Composition of the evaluation team in line with the project scope and complexities  For high tech/highly complex procurement activities, ensure technical expertise  Ensure staff are suitably trained and experienced |
| Failure of offers to meet project needs | Need to re-tender | Ensure that specifications are understandable, generic, and in line with what exists in the market  Know the marketplace |
| Failure of evaluation to identify a clear winner, leading to subjective discussions or development of “new criteria” | Claims of unethical and unfair behavior  Need to re-tender | Ensure that selection criteria are appropriate and aligned with the project needs |
| Selection of inappropriate supplier | Failure of the supplier to fulfill the contract  Waste of funds  Contract disputes  Re-tendering (time/cost) | Reject offers from unacceptable suppliers and document rationale for the rejection  Develop clear evaluation criteria aligned with the project needs  Perform technical and financial checks on suppliers before awarding the contract |
| Select inappropriate goods/ service | Failure of goods/services to meet the project needs  Waste of funds  Re-tendering (time/cost) | Develop proper specifications/ TOR/SOW  Have the right technical expertise during the evaluation process  Ensure users are involved |
| Insufficient number of responses | Need to start the procurement again  Delays to procurement schedule  Lack of value for money due to limited competition | Develop strong understanding of market  Foster international competition  Develop supplier rosters  Allow for sufficient time for suppliers to prepare offers |
| **Procurement Review and Award** |  |  |
| Contract approval not obtained | Delay in the contract award  Need to re-bid (time/cost)  Undermine business community trust | Proper procurement risk analysis  Proper procurement strategies (including sourcing strategies)  Market understanding  Proper procurement planning  Clear, generic and complete specifications/TOR/ SOW  Foster international competition  Ensure adherence throughout process to rules, regulations and procedures  Ensure adequate documentation of process and submission |
| **Contract management** |  |  |
| Unstructured or nonexistent contract management function | Not achieving best value for money  Poor performance of suppliers  Delivery delays  Possible cost variation  Contract disputes | Identify resources for contract managements  Develop structures for contract management, including clear roles and responsibilities  Identify the right profile and competences for contract management  Develop contract management plans |
| Failure by either party to fulfill the conditions of the contract | Contract disputes  Failure or partial failure to satisfy the project needs  Delays  Legal actions | Ensure proper contract management  Contract monitoring, including regular inspections and progress reports  Review past performance records  Be proactive  Maintain accurate records and documentations |

**PROCUREMENT PLANNING**

1. Procurement planning entails more than the selection of a procurement method for various goods, civil works and services or when to schedule activities. It is highly dependent the legal and institutional frameworks in which procurement must be carried out.

**REQUISTION PLAN**

1. During the definition stage of the project cycle, all relevant activities will need to be identified and budgeted. Among these activities, considerations must be taken for the acquisition of goods, services and works in order to achieve the project objectives. Required services identified should also include any individual consultant services necessary for the successful implementation of the project (including services for complex/highly technical specifications development, if applicable). This information will be the groundwork for the establishment of the Requisition Plan.

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| 1. The Requisition Plan shall be developed at the project definition stage and recorded in Quantum as part of project activities. The plan will be updated regularly as required. 2. The requisitioner is responsible for developing the Requisition Plan, including the following minimum information:  * Description of goods, services or works * Quantities * Estimated budget * Expected completion date of activity |

1. *Low-priority procurement categories* can be quantified and budgeted in the Requisition Plan as a lump sum. For example, “stationary lot” (pens, pencils, pad, other) – *QTY 1* – Budget *2,000 USD*

1. *High/medium priority procurement categories* should be carefully quantified and accurately budgeted.

1. The Requisition Plan is based on estimates of procurement operations to be carried out. While some procurement needs cannot be anticipated, *a Requisition Plan based on estimates is always better than no planning at all.*

**SUPPLY CHAIN MANAGEMENT PLAN**

1. At the planning stage, it is always necessary to take into consideration the entire SCM, including the project requirements and UNDP’s roles and responsibilities in terms of the SCM.

1. However, it is only under certain circumstances, and normally due to the extension and complexity of the SCM, that the Country Office or Business Unit will need to develop a SCM Plan in writing.

1. For some projects with an extended and complex SCM, we recommend the development of a SCM Plan before moving into the development of the transactional Procurement Plan. An example of such a project is voter registration support or electoral assistance support, in which the quantification process, logistics, storage, transportation and distribution are highly demanding and critical for the overall project success.

1. In these cases, it is important to analyze each step of the SCM, identify roles, responsibilities, existing infrastructures, potential bottlenecks and actions to be taken.

1. Examples include:

* Inventory management
  + Is sufficient storage space available at all level of the distribution chain (central/regional/ district)?
  + Provide estimates of the total storage space that exist. If there is no sufficient space indicate alternative solution.
  + Are there any items that require special storage conditions?
  + What are the security conditions? How would sensitive items be treated?
  + Who is responsible for coverage against theft, damage, etc.?
  + Does any inventory management system exist?
  + Does there exist a clear process and procedure for the receipt of goods?
* Distribution
  + To approximately how many points are products distributed? Distinguish between distribution points; for example, central storage, regional, and site storage.
  + Are there any significant challenges in distributing to the sites (e.g. lack of roads, conflict zones, very long distances, seasonal rains, etc.)?
  + What are the estimated distribution lead times from central to regional locations (each) and from regional locations to sites (each)?
  + Will a pull or push system be used?
  + Who is responsible for the risks encountered during distribution? If UNDP, does insurance exist?

**TRANSACTIONAL PROCUREMENT PLAN**

1. Based on the received Requisition Plan and after taking into consideration the market situation and associated risks, the project and procurement personnel willproceed to develop a **Procurement Plan in Quantum**.

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| 1. All Requisition Plans for significant procurement shall be converted to a Procurement Plan. 2. When developing Consolidated or Individual Procurement Plans, it is important to take into consideration any existing long-term or other arrangements. The minimum information included in the Procurement Plan should be:  * Type of goods/services/works to be provided * Method of procurement * Estimated cost (unitary and total) * Expected date for specification/TOR/SOW to be finalized * Sourcing period * Bidding period * Evaluation period * Award (CAP or ACP if applicable) * Delivery time |

Structure Element - Templates and Forms