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P O L I C Y

FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

UNDP FINANCIAL REGULATIONS

Guidelines for the procurement of equipment, supplies and services

Note by the Administrator

Summary

This document provides a brief summary of consultations held and actions taken in response to financial regulation 15.4 and Governing Council decisions concerning guidelines on procurement. The report refers to the meeting of the Inter-Agency Procurement Working Group (IAPWG) held in April 1984 and gives a summary analysis of the questionnaire which was completed by the agencies, and describes the result of the first meeting of the sub-group formed by IAPWG to discuss this analysis. A further oral report will be provided to the Council following subsequent meetings of the sub-group and IAPWG.

1. At the twenty-eighth session of the Governing Council in June 1981, the Administrator was requested to submit to the twenty-ninth session guidelines regarding the procurement of equipment, supplies and services in accordance with the principles approved by the General Assembly and in particular the Consensus of 1970 (resolution 2688 (XXV), annex, paras. 41, 42 and 44 and resolution 3405 (XXX), annex).
2. In the follow-up to this request, the Administrator conducted extensive and detailed consultations with both executing agencies and the Office of Legal Affairs at the United Nations, and reported on the difficulties encountered to the Governing Council in 1982 (DP/1982/56) and in 1983 (DP/1983/47). The Governing Council was also informed of a comprehensive questionnaire on agency procurement practices which was being prepared by the Inter-Agency Procurement Working Group (IAPWG), and which might provide a basis for an alternative approach to the problem of creating greater transparency and a more equitable geographical distribution of procurement through practical measures. In its decision 83/34, the Governing Council, inter alia, urged the Administrator "to pursue vigorously with the executing agencies the study on their procurement practices to be carried out by the Inter-Agency Procurement Working Group with the assistance of the Inter-Agency Procurement Services Unit."
3. In the note by the Administrator (DP/1984/59) and in his oral report to the Governing Council in 1984, the Assistant Administrator, Bureau for Special Activities, informed the Council that the final questionnaire had been distributed on 3 November 1983 with submission of data requested by mid-January 1984. Twenty-eight agencies ultimately completed and submitted the questionnaire, although after some delay, which reflected the complexity of the issues involved. The questionnaire concentrated on procedures governing the procurement of equipment because most agencies had little or no procurement of contractual services. Apart from UNDP's Office of Projects Execution, the United Nations system traditionally provides expert services mostly through the recruitment of individuals, rather than by subcontracting with companies or institutions providing a broader range of services. Subcontracting for professional services is generally more complicated than the purchase of equipment, involving as it does a more demanding evaluation of capabilities and technical solutions. It is hoped that this particular problem area, to the extent that it requires, and will lend itself to a common approach, could be dealt with by IAPWG and thus be part of the oral report to the Governing Council at its thirty-second session.
4. The initial findings were presented to the ninth IAPWG meeting in April 1984, at which time the agencies reached a consensus that unification of procurement procedures was welcome, desirable and necessary in the long-term interest of facilitating increased transparency of the procurement process of the United Nations system. It was further acknowledged that some differences in individual agency rules and practices would continue to exist in light of

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the varying degrees of specialization and of the procurement volume as well as operational requirements. The IAPWG meeting decided to set up a special sub-group of representative United Nations agencies with the mandate to prepare specific recommendations on unified procurement procedures on the basis of the replies to the questionnaire. While recognizing the desirability of increasing procurement from developing countries and from underutilized major donor countries, it was emphasized that no country had the right to, nor would expect, preferential treatment, apart from the Governing Council decision (EGO/3/Rev.1 of June 1977) to allow, with the approval of the recipient country, a 15 per cent price preference in the case of local procurement of indigenous equipment and supplies of developing countries. A more equitable geographical distribution of procurement would be achieved, inter alia, by providing better opportunities for these countries to provide bids. In this context, the importance of retaining the overall principle of international competitive bidding was generally agreed upon.

6. In its decision 84/37, the Governing Council requested the Administrator to make available to the Council for consideration at its thirty-second session the analyzed results of the study on agency practices; and further requested that the Council receive a report on developments in this regard at its next session.

7. Analysis of the questionnaire sent to the agencies has now been completed. The first section of the questionnaire dealt with the nature of procurement requests, their origin, the role of procurement officers in the preparation of technical specifications, procedures followed when technical specifications were found inadequate, timely action on procurement requests, the financial ceilings for non-competitive biddings, and the authorized level for purchases by the procurement officer at headquarters and by the field staff. Analysis of this section has revealed a marked uniformity of approach among the agencies and where there are minor deviations (usually among the larger agencies) these appear to be due to the varying nature of the concerned agency's field establishment. In one third of the agencies, which are mainly of a regulatory or advisory character and have very little field activity, procurement requests originate at their respective headquarters, and cover, inter alia, housekeeping and secretariat services requirements. In monetary terms, more than 50 per cent of the total value of such procurement is initiated at the headquarters level. In 11 of the 12 largest agencies, the procurement request is approved at headquarters, with liaison being maintained with the field staff as necessary. In one third of the agencies, the procurement officer is involved in the preparation of the technical specifications; however, this is not the case with the largest agencies. Most agencies do not authorize procurement by field offices; for the remaining agencies the ceiling is \$30,000. The ceiling for non-competitive bidding varies from \$3,000 to \$5,000 for most agencies; however, four agencies have higher ceiling of \$10,000; and one agency, for proprietary items, has a ceiling of \$20,000.

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8. The next section of the questionnaire dealt with pre-registration of potential suppliers of equipment, the question of equitable distribution of procurement, improvements that could be made in this respect, increased procurement from developing countries, and the mechanism of control, i.e., the minimum number of bidders, disqualification of companies and the maintenance of the supplier/vendor performance register. The uniformity of approach between agencies was considerably less in this section. The analysis revealed that pre-registration of potential equipment suppliers was considered essential by only three of the largest agencies. In respect of equitable distribution of procurement, one agency (which is decentralized) left the matter up to its regional offices, a practice which tends to create a wider spread in the pattern of procurement; one third of the agencies left this aspect to the discretion of the procurement officer; and the remaining agencies had no clear policy. More than three quarters of the agencies did not disqualify firms; those that did so, used repeated non-compliance or unsatisfactory service as the criteria; recommendation of the procurement officer was usually the basis for a company's reinstatement. As for the supplier/vendor performance register, only one agency maintained it.

9. The third section of the questionnaire dealt with the procurement process in general, i.e., waiving of the competitive bidding, invitation to bid, disclosure of bidders, bid opening, bid evaluation, contract committees and notification to unsuccessful bidders. The analysis revealed that, in a majority of cases, competitive bidding was waived only under such very clearly defined circumstances as provided for in the Financial Regulations and Rules of the United Nations:

(a) The proposed contract is for an amount for which the individual agency considers it would be uneconomical to proceed with competitive bidding;

(b) The prices or rates for the required equipment or services are fixed pursuant to national legislation or regulation, thus making competitive bidding unproductive;

(c) Established standardization of equipment to be procured renders competition impracticable;

(d) Exigencies do not permit delays resulting from issuance of invitations to bid;

(e) The proposed contract is for purchase of proprietary articles or perishable supplies;

(f) The agency concerned determines that competitive bidding will not give satisfactory results. In this event, appropriate reasons must be recorded in writing.

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Two thirds of the agencies do not disclose information on the nationality or names of the firms receiving invitations to bid; bids are usually invited by letter, rather than through advertisements, and the agencies are evenly divided on whether to disclose the names of firms submitting bids, and on public opening of bids. In virtually all agencies, the procurement officer evaluates bids under a specified financial ceiling which varies among agencies but is normally \$20,000 or less; the lowest price and the meeting of specifications are the common criteria for selecting the winning bid. One half of the agencies allow some form of involvement by the recipient Government in the selection of firms, usually by suggesting names of possible firms to be included in the long list. Only 10 of the agencies, including about one half of the larger ones, take life-cycle costing into consideration in the evaluation of bids. Contract committees normally consist of senior staff members. In one half of the agencies, committees function in an advisory capacity; in those cases in which their advice is binding, compliance is the responsibility of the office of the Comptroller, the Chief of Administration or the equivalent. Those agencies which have regional or field offices have subsidiary bodies responsible for contractual matters. There is no common policy on notifying the unsuccessful bidder; when specifically requested, most agencies limit their notification and information to general comments on the weakness of the bid (these comments being conveyed orally both to prevent a given firm from possibly obtaining proprietary or confidential information on bids from other participating firms and due to a lack of available manpower to provide more elaborate details); records are not open to unsuccessful bidders.

10. The final part of the questionnaire dealt with inspection, quality control, warranties, guarantees, supervision and responsibility for delivery and acceptance of goods, shipping, transportation, insurance, etc. There seemed to be little variance among the agencies on their approach to questions in this part of the questionnaire.

11. In those areas in which a large degree of commonality already exists among the agencies, there should be few problems in developing a common approach. In the areas where firm agency rules do not exist a need for greater commonality is evident:

(a) Pre-announcement of business opportunities in cases where there is no invitation by advertisement, to enhance equitable geographical distribution and competition;

(b) A common approach to preparation of technical specifications to ensure non-brand orientation;

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(c) A rostering system which would facilitate orderly bidding by qualified companies;

(d) A public bid-opening system which would allow companies to have access to the bidding process;

(e) Standard commercial practices for equipment deliveries;

(f) Internal mechanisms which would oversee the procurement procedures;

(g) Uniform rules and procedures for such matters as the date for currency conversion, price escalation and life-cycle costing;

(h) Dissemination of information to all agencies on companies with poor performance records.

12. The first meeting of the sub-group set up by IAPWG (see para. 4) was held in New York on 5 and 6 June 1984. The sub-group decided to deal first with procurement practices of interest to potential suppliers of goods and services, which would enhance the transparency of the United Nations system procurement process to the international business community. It was agreed to take up subsequently in-house operational procedures solely of interest to the United Nations system.

13. The sub-group discussed the subject of inequality of access to procurement opportunities, which affects adversely the underutilized major donor and developing countries. The sub-group identified the following factors in this respect:

(a) The difficulties experienced by the United Nations procurement system in communicating available opportunities to the manufacturers/suppliers in the underutilized major donors and developing countries;

(b) The lack of sufficient awareness in these countries of how the United Nations procurement system functions, in spite of the information disseminated through seminars, printed materials, etc.;

(c) The traditional, pre-independence, procurement practices which the United Nations system tends to follow;

(d) The location of the headquarters of the agencies which tends to favour procurement from the host or immediately adjacent countries;

(e) The traditional reliance on experience and known sources of supply by field staff of the agencies.

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14. At the time this document was being drafted, arrangements had been made to hold the second meeting of the sub-group at the end of January 1985, and the meeting of IAPWG in April. The Administrator will inform the Council of the results of these meetings in an oral report.

