

1st Meeting

BACKGROUND NOTE ON INTERNATIONAL PROCUREMENT

I. INTRODUCTION

1. The objective of UNHCR's procurement activity is the timely acquisition of goods and services required by the organization. In pursuing this activity, in accord with UNHCR Financial Rules, emphasis is given to the following:

- the objectives of UNHCR;
- fairness through competition;
- transparency;
- maximum cost effectiveness.

II. ROLE OF THE SUPPLY AND TRANSPORT SECTION

2. The Supply and Transport Section (STS), part of the Division of Programmes and Operational Support, is responsible for procurement in UNHCR. In principle, it is responsible for all international procurement. International procurement is undertaken only after a survey has shown that the international products or services to be procured are not available under competitive conditions on local and regional markets; a further consideration is whether a large volume of local purchases would raise prices and create hardship for the local population.

3. From 1991, there has been a substantial increase in UNHCR's procurement activities. The table below gives the value of annual purchases by UNHCR Headquarters since 1990:

Year	Value	Number of orders	Average value
	(in millions of US dollars)		(in US dollars)
1990	38.9	963	40,310
1991	191.0	1,353	141,188
1992	151.9	1,484	102,401
1993	156.0	1,936	80,577
1994	150.8	1,895	81,118
1995 (to 31/11/95)	102.1	1,145	89,133

The distribution of amounts spent on purchase orders per vendor country/region from 1 January 1994 to 30 November 1995 is shown in Annex I. The sharp increase between 1990 and 1991 was due to the Persian Gulf Emergency. Since then, major emergency operations, primarily in former Yugoslavia and in Central Africa, have been responsible for maintaining high procurement levels.

III. PROCUREMENT BY UNHCR OFFICES IN THE FIELD

4. Although most of UNHCR's procurement is done from Geneva, UNHCR Field Offices also make a significant number of purchases. UNHCR establishes Regional Procurement Offices in major programme areas. These offices are responsible for making those purchases that can be made competitively in the local and regional markets. To date, three such offices have been set up. The oldest, in Nairobi, Kenya, dates from 1987. It is responsible for dealing with requests originating from the East and Central Africa region. The office in Zagreb, Croatia, was established in 1992 and satisfies requirements originating from the programmes that make up the High Commissioner's Special Operation for former Yugoslavia. The third office in Johannesburg, South Africa, was opened in 1993. This office covers the requests from UNHCR programmes in the southern Africa area. The repatriation of Angolan refugees will be an important task for this office in the coming years.

5. All UNHCR offices are also authorized to undertake local procurement within their area of operation where this can be done competitively or to achieve quicker delivery. Procurement in these instances may be undertaken either directly by UNHCR staff, or indirectly by implementing partners under sub-agreements.

6. To enable Field Offices to handle local purchases, clear procedures have been established, including guidelines for creating local purchasing committees that review all purchases above \$ 35,000. Selected offices have also been authorized to establish local contracts committees to consider and approve all purchases above (as of 1 January 1996) \$ 100,000. Contracts with a value in excess of \$ 200,000 must be referred to the Headquarters' Committee on Contracts unless higher authority is exceptionally delegated to a local committee.

IV. PROCUREMENT PRINCIPLES

7. Whether carried out locally or internationally, every purchase is subject to the financial rules and procurement procedures established by UNHCR in line with the Financial Regulations and Rules of the United Nations on competitive bidding and the Financial Rules for Voluntary Funds administered by the High Commissioner. This ensures that there is public accountability and control of financial transactions through internal checks and audits by internal and external bodies. Authority delegated to purchasing staff is clearly defined to enable them to act speedily in obtaining what is needed at the right time and in such a way as to obtain the best value for money in a fair and transparent manner.

8. Purchases of goods or services budgeted at \$ 20,000 or more are subject to formal competitive bidding. Below this amount, the purchasing staff are required to compare at least three offers in writing. Three tendering methods are commonly used by UNHCR: open international competition, limited international competition and local competition. Each of these methods is described below.

- (a) *Open international competition* is initiated by an advertisement requesting interested suppliers to express their interest in offering for specified commodities. Notices of such opportunities are published in United Nations' *Development Business* and the UNDP/Inter-Agency Procurement Services Organization's (IAPSO) *Procurement Update*. The Permanent Missions to the United Nations in Geneva are also normally notified to enable them to target their national

suppliers. Suppliers who are already registered with UNHCR for the commodity receive direct notification from STS. Qualification documents are sent to all suppliers expressing interest. The documents outline the complete product specifications and all the necessary requirements for the suppliers to be registered and their products to be qualified. Only suppliers thereby qualified are invited to participate in the subsequent bidding process. As this process is extremely time consuming, UNHCR has limited its application to the long term Frame Agreements (see below) for major relief items that it will shortly enter into for 1996.

- (b) *Limited international tendering* is the most common method of tendering used by the Supply and Transport Section. This method is based on a UNHCR register of suppliers (see paras. 9, 10 and 11 below). Registered suppliers are short-listed on the basis of established criteria from a roster of vendors selected from a computerized database. This method is well suited to achieving economical and efficient procurement of goods and services in emergency situations.
- (c) *Local competition* is similar to (b) above except that solicitation of offers is restricted to suppliers located in the country or region where the goods or services will be used. This technique is commonly employed by the Regional Purchasing Officers or UNHCR Branch Offices for their purchases. Exceptionally, it may also be applied where a donor has limited the purchase of a commodity to a specific region. Local competition places special emphasis on developing supply sources in countries of asylum.

V. COMPUTERIZED PURCHASING SYSTEM

9. The Supply and Transport Section procurement process is largely computerized. The heart of the system is the vendor database, which contains basic information such as contact and banking details and a catalogue of items that the vendor can supply. A vendor evaluation function is also being developed. The register of suppliers is constantly updated. Manufacturers, brokers or general traders dealing in commodities of current interest are encouraged to apply. Those meeting a range of objective criteria are registered for an initial period of three years. The inclusion in the register of any company that wins a contract will automatically be renewed for a further period of three years. Those which fail to win a contract are deleted from the system after three years. Registration by UNHCR only means that the company has been added to the list of potential suppliers; there is no other commitment by UNHCR.

10. Potential suppliers are encouraged to register through a number of different avenues. A number of companies approach UNHCR directly to request registration. UNHCR also maintains contact with the trade missions and embassies of a number of Member States who facilitate contact by national suppliers. Frequently, the organization's staff will attend business contact seminars organized by these same bodies or UNDP/IAPSO that provide suppliers an opportunity to understand the organization's requirements and meet directly with the purchasing staff. UNHCR also attempts, within its limited budget, to travel to underutilized regions to make contact and develop local suppliers. (While STS staff are encouraged to participate in meetings with potential suppliers that are organized and funded by Governments, UNHCR does not accept such invitations and funding from companies unless there is a compelling justification. The reasons for any such exceptions must be documented by the Chief of STS.) The vendor database currently contains 1,550 suppliers from 82 countries. A breakdown of vendors by country is attached as Annex II. As the register is continually renewed the percentage of suppliers that have been consulted is very high. To date, STS has invited or actually placed an order with 93 per cent of all the suppliers registered prior to 31 December 1994. The overall figure, which includes suppliers who were only registered in November 1995, is higher than 89 per cent.

11. The vendor database is linked to a product database that contains detailed specifications of all the goods purchased by UNHCR. The database is continually updated to reflect current

requirements and technology. Access from a product code leads into all suppliers who can provide the item and access from a supplier code leads into the products that a given supplier can provide. The system has been reviewed and upgraded regularly to take account of the operating experience and the evolving needs of the Office. Comprehensive reviews of STS purchasing procedures took place in 1991 and 1993. System changes arising from their recommendations have been implemented. The latest significant development, the electronic purchase requisition, went on-line on 1 December 1995. This function will give the requisitioners (e.g., Programme Officers) direct access to the computerized purchasing system thereby permitting them to budget purchases based on the latest price paid.

VI. THE PROCUREMENT PROCESS

12. The Supply and Transport Section can only make purchases at the request of and with budgets provided by other units in UNHCR. Requisitions are made on the Purchase Authorization (PA) form that provides the necessary information for STS to proceed with the purchase, e.g., item, quantity, budget and budget code and where, when and how it is to be delivered. The availability of funds for the purchase is confirmed prior to the document being formally accepted by STS. The confirmation blocks the funds in the respective budgets, thereby guaranteeing their availability when the invoices fall due. The computerized purchasing system will block the creation of a Purchase Order that is inadequately funded.

13. After receipt and acceptance of a Purchase Authorization, it is assigned to a buyer within STS who is responsible for the purchase up to the point of delivery -- normally to the point of discharge. The three most commonly used tendering methods have been described above. For the bulk of UNHCR purchases, i.e., limited international tendering, STS selects suppliers from the list of those registered according to the Office's experience. The guidelines that have been provided include selecting the most competitive suppliers from previous orders. Due consideration is also given to geographical proximity. STS also includes newly registered suppliers, a list of whom, broken down by commodity, is periodically circulated to all purchasing staff.

14. UNHCR Quotation Requests are transmitted almost exclusively by telex and fax. The length of time allowed for receiving offers is based on the complexity of the item, whether it is to be supplied ex-stock, whether suppliers have to cost and manufacture to given specifications and, increasingly, on the degree of urgency of the requirement. In practice, suppliers are generally given approximately two weeks to reply, although, when required, the lead time may be reduced to as little as 24 hours. All invitations to bid budgeted at \$ 20,000 or more must be addressed to the Secretary to the Committee on Contracts and transmitted to the fax or telex numbers especially set aside for the purchasing purposes. The Secretary is not a staff member of STS. After the closing date and hour stipulated in the invitation, the Secretary will open and register the offers in front of a witness before forwarding them to STS. STS staff have no access to or knowledge of the offers prior to the closing.

15. The salient points of each offer, including price, delivery and if the offer meets the specifications for quality are compared on the Bid Tabulation Form. Contracts are awarded on the basis of the lowest evaluated offer. This is the offer best meeting the objective criteria of price, specifications and delivery. While the commitment to quality remains uncompromised, the relative weight given to price and delivery will vary in function of the urgency of the purchase. The rules of the Committee on Contracts also provide that the Committee may, on a case-by-case basis, give preferential treatment to supplies originating from under-utilized markets of major donors to UNHCR.

16. If the proposed purchase contract is valued at (as of 1 January 1996) \$ 100,000 or more, the award must be approved by the UNHCR Committee on Contracts. The purpose of the Committee is to ensure that the procurement procedures have been strictly followed and that the interests of the organization are protected. The body is chaired by the Controller and its ex-officio

members include the Chiefs of Fund Raising, the Programme Coordination and Budget Section, the Programme and Technical Support Section and the Senior Legal Counsel. The United Nations Internal Audit is also present as an observer.

VII. PROCUREMENT IN AN EMERGENCY SITUATION

17. UNHCR operates on an annual budget. Programmes are frequently not fully funded at the start of the year; funds are commonly made available only near the time the material inputs are required in the field. Thus, the advantages of long procurement lead times, desirable under optimum conditions, are not enjoyed by STS. Emergencies which, by definition, cannot be planned well in advance and yet require an immediate response exacerbate this problem. One of the important functions of STS is therefore to assure, regardless of current market conditions, that UNHCR has the capacity to respond in a timely and appropriate manner to the majority of its material requirements. To achieve this, UNHCR has established two working tools - emergency stockpiles and frame agreements.

1. Emergency stockpiles

18. UNHCR has established centrally controlled emergency stockpiles in Amsterdam, Iskenderun (Turkey) and Dubai to meet at least the initial requirements of any emergency operation. Over the years, these arrangements have reduced the organization's response time from weeks to days; literally the time it takes to organize a charter flight. It is anticipated that emergency stockpiles will become a complement to some of the frame agreements (see below) when they come into effect in early 1996. This will permit better stock rotation, reduce costs and allow for quicker delivery of the major relief items, even for regular programmes.

2. Frame agreements

19. In 1993, UNHCR entered into emergency supply schemes (frame agreements) with a number of suppliers for blankets and cooking sets, two of the major relief items. The schemes were described in an information paper on international procurement presented to the UNHCR Executive Committee in 1993 (EC/1993/SC.2/CRP.24). These arrangements were entered into following a limited international competitive bidding process described above, and with the agreement of the Committee on Contracts. The approved suppliers agreed to keep at their risk and expense a level of inventory that would be available to UNHCR in emergencies. The rationale behind these arrangements was to speed up the procurement process during emergencies, when time is truly of the essence. At that stage, it was not the intention of STS to rationalize all procurement of these items under these agreements. This process of rationalization started in 1994, when the organization undertook to update the technical specifications for a number of the major relief items. The purpose of this exercise was to confirm that the specifications described the performance and the technical requirements of the item in a commercially neutral fashion.

20. UNHCR started the process of new frame agreements early in 1995. Over 500 vendors responded to the call for expressions of interest for the blankets, plastic sheeting, cooking sets, generators and the registration material. The quotation requests for all these materials have already been floated to qualified vendors. The bids will be received in the weeks to come. It is anticipated that agreements will be concluded for all the items in the first quarter of 1996. Agreements will have an initial validity of one year with the possibility of extending them into a second year at the same terms. These agreements have been developed with a view to their universal application, reduction of lead times for all purchases of these products and standardization of prices and qualities.

21. Strategic purchasing arrangements have been entered into for other products. Limited international tendering was used due to the relatively low value of these purchases:

- An agreement has already been concluded for the provision and deployment of emergency staff and office accommodation in hardship duty stations. The supplier has provided camps that UNHCR has stockpiled in Amsterdam and will supervise their erection on site. This project has an initial two year validity.
- UNHCR has also entered into long term price agreements during 1995 for items that are repetitive in nature. Products included in this category are computers, power units, printers, field, office and travel kits, radio and telecommunications equipment, photocopiers, Polaroid films and cameras, bullet proof vests and helmets, and United Nations flags and pouch bags. The duration of these agreements range from six months to two years in function of the market cycle of the commodity.

22. In addition to these changes in procurement strategies, UNHCR is also restructuring the Supply and Transport Section to reflect the higher emphasis given to procurement and logistic performance at the field level (including also implementing partners). The new structure includes a new unit in charge of systems, procedures and training; it also reinforces the field logistics function, while streamlining the procurement and transport activities. Training in procurement and logistics will primarily focus on UNHCR and non-UNHCR staff in Field Offices. At the same time, STS is taking measures to improve services to its customers, both internal and external.

VIII. INTER-AGENCY COOPERATION

23. UNHCR plays an active role in inter-agency procurement cooperation. The work is coordinated by UNDP/IAPSO.

24. The overall objective of this work is to harmonize and standardize, to the extent possible, the United Nations procurement entities' tools and activities in order to procure equipment and services at the lowest possible cost, consistent with the maintenance of adequate standards.

25. A result of this cooperation UNDP/IAPSO has, on behalf of all agencies, entered into world-wide price agreements for major commodities such as vehicles, office equipment and generators.

26. The Inter-agency Working Group has just finished a document for common generic specifications for emergency relief items. The standard specifications to be used by United Nations agencies and non-governmental organizations will facilitate the acquisition of available relief items from as many qualified suppliers as feasible in a cost efficient manner. UNHCR is the lead agency responsible for shelter, housing, storage and kitchen equipment.

27. At present the Inter-agency Working Group is working on a document that will describe the United Nations Common Principles for Procurement. The purpose of the Common Principles is to communicate the basic principles of procurement within the United Nations system to users such as suppliers, and to guide the procurement activities and facilitate the harmonization of the procurement procedures in the United Nations system.

Annex I

UNHCR Supply and Transport Section

Amount spent per vendor country/region
from 01/01/94 to 30/11/95

Vendor country/region	US Dollars
GERMANY	38,466,157.26
JAPAN	22,851,793.16
UNITED KINGDOM	21,528,183.31
SWITZERLAND	16,541,703.83
NETHERLANDS	13,153,123.20
REP. OF KOREA	11,904,765.70
DENMARK	11,525,881.35
KENYA	10,469,954.62
BELGIUM	10,214,973.58
FRANCE	10,188,501.37
PAKISTAN	9,564,575.25
ITALY	9,281,834.52
SOUTH AFRICA	8,990,750.45
SWEDEN	8,566,111.11
EGYPT	6,631,463.30
NORWAY	5,367,157.23
ZIMBABWE	5,107,628.48
AUSTRIA	4,713,112.02
UNITED STATES OF AMERICA	4,534,299.03
BULGARIA	3,378,432.00
CANADA	2,475,826.00
OMAN	2,420,235.01

TURKEY	2,395,575.46
SINGAPORE	2,132,052.68
SLOVENIA	1,792,384.08
SWAZILAND	1,674,682.36
FINLAND	1,315,523.28
MOZAMBIQUE	1,139,883.67
UNITED ARAB EMIRATES	1,113,057.10
THAILAND	975,333.61
SENEGAL	767,046.46
GIBRALTAR	650,899.92
KAZAKSTAN	508,041.76
GREECE	271,084.80
ETHIOPIA	266,000.00
SPAIN	151,799.78
CHINA	60,350.00
INDIA	54,846.00
SRI LANKA	44,000.00
BOTSWANA	42,400.00
LUXEMBOURG	34,680.00
NEW ZEALAND	34,350.20
CYPRUS	21,388.22
MALAYSIA	9,112.00
HONG KONG	8,949.42
BRAZIL	3,188.19
TAIWAN	2,140.00
Total all countries/regions	253,345,230.77

Annex II

UNHCR Supply and Transport Section

Vendor Count - by country/region

ALGERIA	1
EGYPT	5
ARGENTINA	2
AUSTRALIA	3
AUSTRIA	8
BELGIUM	50
BANGLADESH	1
BOTSWANA	2
BENIN	1
BRAZIL	2
BULGARIA	6
CANADA	9
TAIWAN	1
CHINA	4
CAMEROON	1
CYPRUS	4
CZECH REPUBLIC/SLOVAKIA	5
DENMARK	69
DJIBOUTI	1
ETHIOPIA	3
FINLAND	40
FRANCE	96
UNITED KINGDOM	234
GERMANY	108

GHANA	2
GIBRALTAR	2
GREECE	2
HONG KONG	6
CROATIA	2
HUNGARY	20
ICELAND	1
COTE D'IVOIRE	2
INDIA	35
IRELAND	7
IRAN (ISLAMIC REP. OF)	2
ISRAEL	1
ITALY	49
JAPAN	26
KAZAKSTAN	2
KENYA	22
REPUBLIC OF KOREA	8
SRI LANKA	1
LUXEMBOURG	3
MACAU	1
MARTINIQUE	1
MALAYSIA	1
MALAWI	4
MOROCCO	1
MOZAMBIQUE	2
MAURITIUS	2
NAMIBIA	1

NEPAL	1
NETHERLANDS	76
NORWAY	37
NEW ZEALAND	2
OMAN	4
PAKISTAN	15
PANAMA	1
PHILIPPINES	1
POLAND	1
PORTUGAL	6
SOUTH AFRICA	61
RUSSIAN FEDERATION	1
SAUDI ARABIA	1
SENEGAL	7
SINGAPORE	12
SPAIN	7
VIET NAM	1
SAO TOME AND PRINCIPE	1
SLOVENIA	5
SWAZILAND	5
SWEDEN	57
SWITZERLAND	226
UNITED REP. OF TANZANIA	1
THAILAND	7
TUNISIA	1
TURKEY	11
UNITED ARAB EMIRATES	23

UNITED STATES OF AMERICA	64
YUGOSLAVIA (SERBIA AND MONTENEGRO)	9
ZAMBIA	3
ZIMBABWE	41
Total number of vendors:	1550

Annex III

DRAFT DECISION

The Standing Committee,

OP1 Notes the substantial increase in UNHCR's procurement activity over the last five years and improvements made in procurement practices, procedures and systems;

OP2 Urges UNHCR to take all necessary measures to ensure efficient, fair and cost-effective procurement both at Headquarters and in the field, whether such procurement is undertaken directly or through implementing partners.

OP3 Welcomes, in this context, the reintroduction into UNHCR's programming instructions of the requirement to establish annual purchasing plans covering a greater range of commonly used articles;

OP4 Calls on UNHCR to continue to expand the scope of frame agreements with suppliers to cover purchases of frequently required goods and equipment and urges the Office, in establishing such agreements, to continue its efforts to secure maximum possible competitive offers through publicity for invitations to bid;

OP5 Calls also on the Office to continue to improve systems of vendor rating and performance evaluation;

OP6 Expresses concern at the low level of receiving reports issued while acknowledging ongoing efforts to improve supply chain management;

OP7 Asks to be kept informed of progress made in respect of this decision at the forty-seventh session of the Executive Committee.