



LESSONS NOTE

October 2003

APPLYING BEST-PRACTICE PRINCIPLES IN PROCUREMENT - *A REFRESHER*

Lessons Notes report on best and replicable or avoidable practices in capacity building and development management by the African Capacity Building Foundation (ACBF), its grantees and partner institutions that undertake capacity building activities. The Notes are contributed by operations staff of the Foundation, beneficiaries of its support and partner institutions, and published periodically by the Knowledge Management and Program Support Department. Lessons Notes are essentially the views of the contributors and do not necessarily reflect the position of the Foundation.

October 2003

This Lessons Note is a refresher on procurement practice. It highlights best-practice principles in procurement by a development funding agency like the African Capacity Building Foundation and encourages lessons learning in the procurement of goods and services during the implementation of projects. The Note touches on some of the salient ground rules for satisfactory procurement, underlines the significance of procurement as a process and a function, and draws attention to existing provisions and principles relating to procurement practices. It elliptically contends that in project management, procurement plays a very significant role in determining the success or failure of a project. Good procurement practice ensures value for money as well as effective and efficient operation of projects. Good procurement practice very importantly strengthens institutional credibility and serves as an index of the quality of project supervision and monitoring. The cost of mis-procurement is extremely high and could, in an extreme case, result in project failure and closure. The Note thus presents elements of best practices in procurement and serves as a quick reference guide that project managers will find invaluable.

APPLYING BEST PRACTICE-PRINCIPLES IN PROCUREMENT - A REFRESHER

I. INTRODUCTION

Procurement is an important administrative and financial function and process that allow a project to obtain optimal value for financial resources expended on goods and services. The effective and efficient use of financial resources in a competitive and transparent manner through a sound procurement process

contributes to the achievement of the operational and strategic goals of a project. Efficient procurement practices generate savings on resources that would have been lost through mis-procurement. Such savings makes it possible for a project to raise the amount of financial resources that could be available for core operational activities of a project. This, in turn, has the potential of maximizing the impact of the project.

As a function and a process, procurement involves interaction with the external business environment. This explains why it very sensitive and could potentially be susceptible to abuse. What this implies is that a project's procurement practice tends to present a reflection of aspects of its administrative and financial management systems. These systems can be assessed by stakeholders in terms of their professionalism, fairness, reliability and transparency. Should a project cut a poor image as a result of questionable procurement practices, this can prejudice the project of resources, constrain successful implementation of its activities, and most significantly call to question the management of financial resources and the effectiveness of project supervision by the funding agency. All this explains why procurement is not only a process, but also, fundamentally, a function that requires considerable attention.

At the level of a development funding agency like the African Capacity Building Foundation, the Project Grant Agreement and the Procurement Manual deal with procurement issues as they relate to funded projects. These documents often provide comprehensive procurement guidelines to projects. They define the main features of sound procurement as - buying goods and services with due consideration for value for money (economy, effectiveness and efficiency) and without regard to political or other non-economic factors, in order to obtain the best value for money spent.

II. PROCUREMENT PRINCIPLES

The procurement of goods and services is guided by principles. To a large extent, these principles provide the guide to best practices in the procurement process when properly applied. Four of the core principles are: competition, separation of duties, transparency, and openness. I will take them in turn very briefly.

Competition

Procurement policy calls for competition among suppliers. For development funding agencies, competition is met if at least 3 suppliers are invited to submit quotations, proposals or bids for the supply of a good or service. However,

competition can be waived. The circumstances under which a waiver can occur are:

- i. When the project on the basis of competent technical advice uses approved and standardized equipment.
- ii. When the price is fixed pursuant to national legislation or by regulation or regulatory bodies.
- iii. When only one source of supply can meet the requirements.

In a project setting, the Procurement Officer will be required to provide written justification for waiver of competition for endorsement by management. When the item to be procured exceeds the limit stated in the Project Grant Agreement, a letter of “no-objection” must always be obtained from the agency funding the project through the Program Officer responsible for the project before the procurement action can proceed.

Separation of Duties

Separation of duties in the procurement process is an important financial control principle. No one individual in a procurement process should be responsible for requesting a procurement action, writing the specification of the item or scope of work, soliciting bids or proposals, approving awards and payment, and taking delivery of the items procured. The beneficiaries of a project fund should heed the need to separate duties. It is the responsibility of the Executive Director of the project to ensure that the principle of separation of duties in the procurement process is maintained at all times. In cases where there are staffing constraints, it may be difficult to have effective separation of duties. However, the project should organize the procurement process in a manner that does not give control to one individual and should provide for frequent independent reviews by higher authority.

In most ACBF-funded projects, for instance, the procurement function is usually carried out by an Administrative and Finance Officer for small procurements, the limit of which is clearly defined by the Grant Agreement, and a Procurement Committee for larger procurements, the procedure for which is clearly outlined in the Grant Agreement. The procurement authority remains with the Executive Director of the project who endorses the recommendations made to him by the Procurement Officer/Committee and approves the purchase order/contract.

Transparency and Openness

Transparency and openness are key principles that should govern any procurement action. One way to ensure transparency in the procurement

process is to establish a Procurement Committee that will evaluate tenders/ proposals/bids and award contract to the most responsive bidder. A Procurement Committee can be ad-hoc or permanent, depending on the nature of the goods or services to be procured, frequency of the procurement and the technical competence of the staff involved. The principle of separation of duties also reinforces transparency of the procurement process. Openness is effective when all suppliers are treated equally and receive the same amount of information. The information related to any procurement should be readily available for consultation and the procurement authority should be ready to provide any additional information as required.

Most ACBF-funded projects have a Procurement Committee in place to deal with high value procurements.

III. MODE OF SOLICITATION IN COMPETITIVE PROCUREMENT

There are basically three methods by which a Project can solicit proposals for the procure of a good or service in a competitive procurement environment. These are Request for Quotations (RFQ), Request for Proposals (RFP) and Invitation to Bid (ITB).

Request for Quotations (RFQ)

This mode of solicitation is used for the procurement of low value goods or services the value of which is below the limit requiring the meeting of a Procurement Committee. The specifications of such goods and services are usually clearly and precisely defined (standard goods and services).

In a request for quotations, solicitation is evaluated and awarded based on the quotation that meets the technical specifications (including required delivery time) at the lowest price without any negotiation with the suppliers. Thus, an RFQ is ideally used to procure standard goods and services such as office supplies; furniture; simple and less expensive communication equipment (telephone, fax); and security services, among others. RFQs may be faxed, mailed or collected from the buyer or project that seeks to make the procurement.

An RFQ contain, at least, the following information:

- The address of the suppliers/vendors.
- The address of the project and contact person.

- Date the quotation was requested.
- The list of the items requested.
- The expected delivery date.

Request for Proposals (RFP)

A request for proposals (RFP) is ideally used in a competitive or direct procurement of non-standard goods and services independent of the amount involved. The RFP allows the project to enter into negotiations with the suppliers.

RFPs are always used in cases of direct procurement (waiver of competition). They can also be used in competitive procurement when only a short list of suppliers is invited to submit proposals. In such cases the Procurement Committee must approve the short list of suppliers before the solicitation takes place. The Procurement Committee assesses the financial and technical proposals on the basis of “value for money” and awards the contract to the supplier whose proposal gives the project the most value. Further discussions may be held with the selected supplier for a refinement of the final offer.

The criteria for evaluation of the proposals, including weights for each criterion, must be determined in writing by the Procurement Committee before the solicitation takes place. The RFP is commonly used for the procurement of non-standard goods and services such as network installations, renovations, PBX systems, consultant services, audit services, goods that require after sales services not covered by a warranty, among others.

The RFP must go through the Procurement Committee for all procurements over the limit stated in a Project’s Grant Agreement. In the event that the direct procurement (waiver of competition) is used, prior approval by the Procurement Committee must be obtained in addition to a “no-objection” letter from the funding agency, like ACBF.

An RFP should contain, at least, the following information:

- Date the RFP was made.
- RFP number.
- Name, address of the potential suppliers.
- Instructions on how to submit proposals.
- Closing date.
- Brief instructions concerning the format of the proposals (technical and financial).

- Evaluation criteria where competition has not been waived stating the basis on which the award will be made.
- Scope of work or description of the goods or services to be procured or terms of reference.
- Any other relevant information.

Invitation to Bid (ITB)

As a mode of solicitation, the Invitation to Bid is used in formal competitive procurement of goods and services whose value exceeds a defined limit in the Project's Grant Agreement. This mode of solicitation is used when the specifications of the goods and services are very clear and precise. Publication of the ITB is made in major newspapers.

An ITB is used for the purchase of standard goods or services such as computer equipment, radio equipment, office equipment, etc. The ITB must go through the Procurement Committee, which will approve the form of bid, the mode of publication, the criteria for the evaluation of the bids, open the bids once received, and announce the winning bid on the basis of the lowest price and most technically acceptable offer. No negotiations with suppliers are undertaken.

An ITB should contain the following information, among others:

- Name and contact address of the Project procuring the good or service.
- Bid invitation reference number.
- List of the items required (specification and quantity).
- Name of the contact person.
- The delivery terms
- Warranty period.
- Terms of payment.
- Origin of the goods, if necessary.
- The required delivery time.
- Criteria for evaluation of bids.
- Instructions on how to submit bids.
- Closing date for submission of bids.
- Brief instructions concerning the format of the proposals (technical and financial).
- Terms of reference or scope of the work.
- Any other relevant information.

IV. CHOOSING THE RIGHT MODE OF BIDS SOLICITATION

The main consideration in deciding whether to use an RFP or an ITB for a high value purchase is the nature of the goods or services to be procured. Where the goods or services are standard in terms of specifications, the ITB is the more appropriate mode of solicitation to be employed. An RFP suits non-standard goods and services. The main factor to consider in the choice between an RFQ and an ITB in the procurement of standard goods or services is the value of the procurement.

The matrix below summarizes the deciding factors on the mode of solicitation to be used.

Amount	Low Value	Nature of Goods or Services	
		Standard	Non-Standard
		RFQ	RFP
	High Value	Invitation to Bid	RFP

V. RESPECT FOR PROCUREMENT PRINCIPLES

Irrespective of the mode of solicitation used, procurement should always be competitive, open and transparent. Competitiveness is achieved when, at least, three responsive offers are received from suppliers with due consideration for value for money (economy, effectiveness and efficiency) and without regard to political or other non-economic factors. The comparability of the offers is an important factor that should also be taken into consideration.

Transparency is usually achieved when the principle of separation of duties is strictly observed and when a Procurement Committee is set up to manage the procurement process.

Openness is satisfied when every supplier without regard to political or other non-economic factors receives the same amount of information from the purchaser and is allowed to submit an offer. There should be fairness when comparing offers. Procurement information should be readily available and the procurement authority should take responsibility for its decisions. All information related to procurement, advertising, terms of reference or scope of work, minutes of the Procurement Committee's meetings, criteria for evaluation of the bids, offers received, and copies of contracts awarded should be readily available.

VI. PROCUREMENT DOCUMENTATION

For a development funding agency like ACBF, the minimum documentation to be maintained for every item that is procured is a procurement file consisting of:

- Purchase Requisition Request.
- Justification for waiver of competition and approval, if applicable.
- List of sources solicited, if applicable.
- A copy of each quote, bid or proposal.
- Specified conditions for acceptance or rejection of late quotes, bids or proposals.
- Evaluation criteria.
- Report of the Procurement Committee on the procurement process, where applicable.
- Authorized/signed purchase orders or contracts.
- Amendments and supporting documentation, if applicable.
- Any other pertinent purchase information.

Available information has shown that in most ACBF-funded projects, the foregoing documentation is readily available. However, more effort has to be made to make them readily accessible.

Purchase Request/Requisition

A purchase request should be maintained in all projects and used to initiate the process of procuring goods and services. The purchase request earmarks funds for the procurement and must be approved by the appropriate authority and certified by the finance department. A purchase request cannot be certified, if funds under the grant categories are insufficient to cover the cost of the purchase. The Requesting Officer, in collaboration with the Procurement Officer, prepares the purchase request.

The purchase request should, at least, include:

- Technical specifications of the goods or services.
- Estimated cost of the goods or services to be procured.
- Certification of availability of funds for the procurement.
- Budget line and cost center.
- Approval by the Procurement Authority.

“No-Objection” Letter

Notwithstanding the mode of solicitation, for any purchase over the limit stated in a Project’s Grant Agreement, a project should seek and obtain a “no-objection” letter from its funding agency as is the case with ACBF before the purchase action can proceed. A “no-objection” letter from ACBF, for instance, is a confirmation that procurement procedures have been duly followed and that the Foundation agrees with the final recommendation of the Procurement Committee to procure goods or services from a given supplier.

VII. TIPS TO AVOID DELAYS IN PROCUREMENT

In order to avoid delays in the procurement of goods and services, a project should ensure the following:

- Timely request from its funding agency for a “no-objection” letter for the procurement of goods and services above the limit stated in the Project’s Grant Agreement.
- The goods and services should be eligible under the Project’s Grant Agreement.
- Availability of adequate funds under the budget line to cover the cost of the goods and services.
- Timely request for budget reallocation for overrun budget categories.
- Availability of consistent procurement documentation.
- Application of a competitive procurement process.
- Adherence to the funding agency procurement procedures.

VIII. TIPS TO AVOID MIS-PROCUREMENT

It is in the interest of both the funding agency and the beneficiaries of a project fund for procurement to be as effective and efficient as possible. The procurement process should respond to the specific needs of the beneficiary at the lowest

effective cost. To achieve this objective, the beneficiaries should pay particular attention to the following:

- Describe clearly the goods and services to be procured.
- With respect to consultants, write clear and detailed terms of reference.
- Clearly indicate the inco-terms, CIF (Cost, Insurance, and Freight) for non-local purchases is recommended.
- State precisely the currency of payment.
- Indicate the terms of payment to the suppliers, vendors or contractors.
- Ensure clarity of the bidding documents.
- Use clear and unambiguous language in the bidding documents.

IX. LOCAL VERSUS INTERNATIONAL PROCUREMENT

Although development funding agencies like ACBF are favourably disposed to local procurement, it might sometimes be advantageous for a project to consider international procurement. This may become unavoidable when the local market is not competitive or when the required goods are not immediately available from the local suppliers. The project should assess the opportunity cost of buying internationally vis-à-vis buying locally and take the appropriate decision in view of the advantages and disadvantages of each option.

The matrix below summarizes the pros and cons of local and international procurement.

	Local Procurement	International Procurement
Advantages	<p>Creates income for the national economy.</p> <p>Contributes to developing the local businesses and employment</p> <p>Resources granted to a country remain in the country.</p>	<p>Wider range of products and services (various quality)</p> <p>Latest technology available</p> <p>More competitive prices</p>

	<p>Creates visibility for the project</p> <p>After sales service immediately available</p>	
Disadvantages	<p>Less choice of goods and services</p> <p>Technology can be obsolete</p> <p>Cost of the products and services are less competitive (higher prices)</p>	<p>After sales service not always available</p> <p>Delivery delays could be longer</p> <p>Creates income for a foreign economy</p> <p>Payment of customs duty may be required to clear goods. This increases costs.</p>

Other factors that a project might also take into consideration when assessing the costs of buying locally are:

- Exemption from taxes and customs duty that is enjoyed by beneficiaries of development funding agency grants.
- Impact of currency fluctuation on the actual cost of the project.
- Quality of the equipment ordered as regards compliance with local regulations or standards.

X. CONCLUSION

The aim of this Note has been to highlight some of the major issues relating to procurement process and function, especially in the context of operations of a development funding agency like ACBF, and provide project managers a refresher on elements that constitute best practices in procurement. Thus far, the

standard of procurement practice by the projects supported by ACBF has remained very high and efforts are being made to maintain this level of performance. Beneficiaries of the Foundation's grants are therefore urged to consult regularly the Procurement Manual and provisions of their Grant Agreements. The Foundation's Disbursement Officers are readily available to provide desk and field support upon request.

10 October 2003

CONTRIBUTIONS TO LESSONS NOTES

As part of its knowledge management program, the African Capacity Building Foundation encourages contribution of Lessons Notes by its professional staff, beneficiaries of its interventions and partner institutions. Issues and questions relating to this Lessons Note should be addressed to the contributor:

Abdoulaye Kane
Finance and Accounts Department
The African Capacity Building Foundation
7th Floor Intermarket Life Towers
Cnr. Jason Moyo Avenue/Sam Nujoma Street
Harare
Zimbabwe

Tel: (263-4) 702931/2, 790398/9
Fax: (263-4) 702915, 738520
E-mail: a.kane@acbf-pact.org