

**Procurement reforms in the United Nations system**

*Prepared by*

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## EXECUTIVE SUMMARY

### Procurement reforms in the United Nations system JIU/NOTE/2011/1

The objective of the present study was to assess the efficiency, effectiveness, transparency and coherence of procurement policies, practices and reform initiatives adopted by United Nations system organizations, and identify potential good practices and areas for improvement.

The present note on procurement reform covers the following areas: procurement strategy development; the supply chain management approach; sustainable procurement; procurement from developing countries; ethics management; vendor sanctioning and procurement challenge mechanisms; a common coding system; risk management; monitoring, reporting and performance management; and inter-agency coordination and collaboration.

#### **Main findings and conclusions**

For many years procurement was considered a transaction-oriented back-office function, and was often fragmented and managed in a haphazard manner. Between 2004 and 2009, the total procurement volume of United Nations organizations jumped from \$6.5 billion to \$13.8 billion, and the variety and complexity of procurement activities have increased tremendously. Prompted by the dramatic increase in procurement volumes, most United Nations organizations, especially large ones, have become more aware of the strategic importance of procurement in achieving the broader goals of the organizations. This situation has led organizations to initiate many reforms in the past five years.

On the basis of the review, the present note establishes 18 recommendations for implementation by the organizations. The recommendations should be considered as benchmarks towards achieving best practices rather than strict criticism. Many recommendations have already been implemented or are in progress in many organizations. If a recommendation is addressed to an organization for implementation, it does not necessarily mean that the organization has not put in place any reform efforts; rather, it should be seen as encouragement for further improvements towards the achievement of best practices.

#### ***Organizational structure, human resources capacity and training***

Procurement needs to be considered as a profession and recognized as an important function on a par with other important functions, such as finance and human resources management. Thus procurement function needs to be structured, and resources provided on a par with its importance. The number and professional qualifications of procurement staff is of the utmost importance in ensuring effective and efficient procurement processes.

The dynamic nature of procurement, including the expansion of activities and increasing technical complexity, calls for regular professional training of procurement staff. Staff without proper training should not be placed in positions of responsibility over procurement matters. Staff employed in key procurement posts should have completed or should be working towards advanced certification on procurement. Executive heads should consider increasing procurement staffing and training opportunities as an

investment capable of providing a relatively quick payback in terms of financial savings and best value for money. To that effect, organizations should assess their procurement capability on a regular basis and develop strategies to ensure that their procurement capacity can achieve best value for money.

### ***Information systems***

Greater use of information technology in all procurement operations has a range of benefits. It can reduce transaction costs, facilitate better internal control and monitoring, and provide managerial information for decision-making. A procurement information system has to include basic integrated back-office transactions and contract management, as well as monitoring and data collection capabilities. Some other important advantages offered by information technology, such as paperless electronic requisitioning, ordering and invoice reconciliation, e-procurement and on-line catalogues, should be considered.

United Nations system organizations do not yet have adequate capabilities for procurement function. However, most of the organizations are about to implement new information systems. Organizations should take this opportunity to integrate necessary processes and data collection and monitoring capabilities into their new information systems.

### ***Procurement strategy***

United Nations organizations have some elements of procurement strategies but they generally do not have a documented consolidated procurement strategy and planning process. This situation may lead to uncoordinated buying, limited possibilities to aggregate volume, duplicated efforts and inefficient use of resources. The organizations need to develop and implement a dynamic strategy to guide their procurement activities. To this effect they should build adequate human resources and information management capacity for data collection, procurement analysis and strategy development.

### ***Sustainable procurement***

Although sustainable procurement includes economic, social and environmental aspects, in the United Nations system sustainable procurement is mostly associated with environmentally friendly or green procurement. Even so, the organizations lack clear policies for environmentally friendly procurement. Although there is no one-size-fits-all policy for all the organizations and all goods and services, there is a need for a general policy to direct efforts towards more environmentally friendly procurements.

The review also found that the social aspect of sustainable procurement is fragmented and not consistent among organizations. Organizations need to improve the social aspects through a consolidated, coherent and focused approach. Procurement from developing countries has increased over the years but there is room for further progress, which could be supported through the adoption of a more proactive approach to using procurement as a strategic tool to further organizational objectives.

### ***Ethics management***

The organizations have made great progress in the area of ethics in procurement, but some policies and methods of implementation differ among organizations. Some policies and methods of implementation can be considered best practices. Organizations should review their policy and practices in the light of identified best practices, with a view to making necessary alignments in their practices. There can be clearer policies and guidelines on a range of ethics issues, such as financial disclosure, post-employment restrictions, blacklisting and vendor complaints.

***Monitoring, reporting and evaluation***

Procurement involves a substantial amount of resources and also affects the achievement of organizational objectives. Therefore monitoring and performance evaluation is key to improving efficiency and effectiveness and maintaining accountability in procurement activities. The review found that the monitoring of procurement activities needs to be improved. Organizations should integrate necessary modules and capabilities into their information systems for effective monitoring. In order to facilitate proper oversight, there should be regular reporting to senior management and governing bodies on procurement activities.

***Knowledge sharing***

Knowledge sharing is an important element in improving the quality of procurement activities and promoting consistency and correctness of implementation across the organizational units. The identification and effective sharing of lessons learned and best practices and the facilitation of easy communication would help expand the knowledge of the procurement staff. Therefore organizations should invest in this area by introducing necessary means, such as best-practice databases, intranet networks, on-line libraries and discussion platforms.

***Inter-agency coordination, harmonization and collaboration***

Inter-agency collaborative procurement practices offer great opportunities to achieve financial savings and improve procurement practices. Greater use of collaborative methods will allow the organizations to reduce transaction costs, and benefit from negotiated lower prices and better delivery and warranty conditions for the procurement of many goods and services. Collaborative approaches should not be limited to procurement itself but should also include collaboration throughout the supply chain.

The review found that organizations headquartered in Geneva, Rome and Vienna collaborate significantly in the purchase of commonly used goods and services such as travel, office supplies, cleaning, energy and catering. There is also good collaboration among several organizations in the procurement of pharmaceuticals and vaccines. There are good examples of collaboration in the system; however there is room for further progress. Organizations need to take a more strategic approach to the issue by analysing major procurement items in the system and introducing common consolidated procurement strategies and joint common long-term agreements.

***Recommendations***

The present note includes 18 recommendations. As explained above, these recommendations should be seen as benchmarks towards the achievement of best practices. Of the recommendations, 16 are addressed to the executive heads of the organizations and 2 are addressed to the United Nations System Chief Executives Board for Coordination (CEB). It is expected that as chairman of CEB, the Secretary-General should pursue the implementation of these recommendations. The Inspectors suggest that organizations take stock of the issues, establish a plan and allocate the necessary resources to speed up the full implementation of the recommendations. Annex IV to this note contains a table identifying the recommendations relevant for each organization reviewed.

The organizations have broad mandates but limited resources. In recent years the financial crisis has aggravated the resource problem across the system, obliging the organizations to look at further options to achieve savings. **The Inspectors believe that procurement**

**activities could allow for significant savings and, to this end, urge the organizations to invest in their procurement functions to speed up procurement reforms.**

The procurement volume of four large United Nations organizations (the United Nations, the United Nations Development Programme, the World Food Programme and the United Nations Children's Fund) makes up the bulk of the total procurement volume in the United Nations system. These organizations should therefore lead reform efforts across the system, particularly in the area of effective inter-agency collaboration and harmonization of practices, by undertaking further responsibilities, providing resources and introducing a more systematic and coordinated approach to speed up reform efforts.

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## ABBREVIATIONS

ARB	Award Review Board
CEB	United Nations System Chief Executive Board for Coordination
CIPS	Chartered Institute of Purchasing and Supply
CPT	Common Procurement Team
ECLAC	Economic Commission for Latin America and the Caribbean
ERP	enterprise resource planning
ESCWA	Economic and Social Commission for Western Asia
FAO	Food and Agriculture Organization of the United Nations
GCC	general conditions of contract
HLCM	High-level Committee on Management
IAEA	International Atomic Energy Agency
IAPSO	Inter-Agency Procurement Services Office
ICAO	International Civil Aviation Organization
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMO	International Maritime Organization
ITC	International Trade Centre
ITU	International Telecommunication Union
JIU	Joint Inspection Unit
LCC	local committee on contracts
LTA	long-term agreement
MWDBEs	minority-, women- and disabled-owned business enterprises
OIOS	Office of Internal Oversight Services
PAHO	Pan American Health Organization
UNCCS	United Nations Common Coding System
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNGM	United Nations Global Marketplace
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNOPS	United Nations Office for Project Services
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNSPSC	United Nations Standard Products and Services Code
UNWTO	United Nations World Tourism Organization
UPU	Universal Postal Union
WFP	World Food Programme
WHO	World Health Organization
WMO	World Meteorological Organization
WIPO	World Intellectual Property Organization

## I. INTRODUCTION

### A. Objective, methodology and scope

1. As part of its programme of work for 2010, the Joint Inspection Unit (JIU) conducted a system-wide review of procurement policies and practices in United Nations system organizations from July 2010 to May 2011. During the preparation of the JIU work programme the subject topped the list of topics that organizations wished to see in the JIU programme of work (11 organizations rated procurement as a matter of priority). The review had been suggested by the United Nations Children's Fund (UNICEF).

#### **Objective**

2. The objective of the study was to assess the efficiency, effectiveness, transparency and coherence of procurement policies, practices and reform initiatives adopted by United Nations system organizations and identify potential good practices and areas for improvement.

3. United Nations system organizations purchase a large variety of goods and services, and are considered to comprise one of the world's largest international trade platforms. Between 2004 and 2009 procurement jumped from \$6.5 billion to \$13.8 billion, primarily due to a nearly \$4.7-billion growth in the procurement of services.<sup>1</sup> Procurement is not only a major expenditure item, but also an important element in the achievement of the organizational goals. In addition, considering the large volume of financial resources involved and the increasing complexity of procurement operations, governance of the procurement process constitutes a critical risk area.

4. Spurred into action by a sharp increase in procurement volumes and the ever more complex nature of procurement operations, United Nations system organizations have embarked on reforms aimed at improving the efficiency and operational effectiveness of their procurement activities. It is timely to assess the status of these reform initiatives and to identify best practices and lessons learned, with a view to making recommendations on how to improve the efficiency and effectiveness of the process, further harmonize procurement policies and practices and deepen inter-agency cooperation.

#### **Methodology**

5. At the beginning of the present study a desk review was carried out, which included a review of publicly available procurement-related information, procurement policies, plans and strategies, manuals and the organizations' financial regulations and rules. Questionnaires were sent to all JIU participating organizations and, on the basis of the responses received, the Inspectors conducted interviews with officials of the participating organizations in person, or via video and telephone conferences.

6. The Inspectors also conducted interviews with key officials of several other international organizations, including the World Bank, the Organization for Economic Cooperation and Development and the European Commission and Council.

7. Comments from participating organizations on the draft note have been taken into account in finalizing the note. In accordance with article 11, paragraph 2, of the Statute of the Joint Inspection Unit, this note has been finalized after consultation among the Inspectors so as to test its conclusions and recommendations against the collective wisdom of the Unit. The Inspectors wish to express their

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<sup>1</sup> United Nations Office for Project Services (UNOPS), *2005 Annual Statistical Report on United Nations Procurement* (2006), p. 5, and *2009 Annual Statistical Report on United Nations Procurement* (2010), p. 3.

appreciation to all who assisted them in the preparation of this note and to those who participated in the interviews and so willingly shared their knowledge and expertise.

8. Annex IV of this note contains a table indicating whether the note is being submitted to the organizations concerned for action or for information. The table also indicates the recommendations relevant for each organization.

### **Scope**

9. The scope of this review is system-wide and covers all JIU participating organizations. In terms of topic, the review included a wide range of reform issues. These issues/topics have been identified through a review of General Assembly resolutions and relevant documents in United Nations system and other international organizations.

10. The procurement reform process is a regular item on the agenda of the General Assembly, and numerous resolutions have been adopted to facilitate this process (General Assembly resolutions 65/261, 62/269, 61/246, 59/288, 57/279, 61/276, 60/266, 54/14 and 52/226). In the resolutions introduced, the General Assembly called on executive heads of the funds and programmes to improve the efficiency of procurement by reducing duplication and harmonizing procurement processes across the United Nations system. In his report “Investing in the United Nations: for a stronger Organization worldwide” (A/60/692), the Secretary-General also identified a series of actions for procurement reform. Over the years the High-level Committee on Management (HLCM) Procurement Network has emerged as a major platform for the discussion and development of many procurement reform issues at the inter-agency level.

11. In the JIU note “Corporate consultancies in United Nations system organizations” (2008),<sup>2</sup> a number of procurement and contract management reform issues were reviewed in detail. The note included detailed assessments regarding best value for money, waiver of competition, contract management, vendor performance evaluation, conflict of interest, and inter-agency knowledge sharing. The note identified significant room for improvement and made 22 recommendations.

12. The scope of the present note is reform areas not covered by the above-mentioned JIU note on corporate consultancies. The issues covered in this note are: procurement strategy development; supply chain management approach; sustainable procurement; ethics management; vendor sanctioning and procurement challenge mechanisms; a common coding system; risk management; monitoring, reporting and performance management; and inter-agency coordination and collaboration.

### **Limitations**

13. The field of procurement is vast and multilayered. Collaboration and harmonization of procurement in the field is of major importance in the context of the One United Nations pilot programmes. However, due to budgetary and time constraints, the present review did not cover procurement at the field level in the context of Delivering as One. This is a recognized limitation of the review.

14. Due to the wide scope of issues covered, unfortunately it was not possible to include in this note details of all reform efforts implemented by various organizations. Recommendations addressed to the organizations do not necessarily mean that organizations have not made progress in that area. For many organizations it means that, although progress has been made, further actions can be taken to enhance their work towards best practice in a particular area, and that organizations should not be complacent with what has been implemented.

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<sup>2</sup> JIU/NOTE/2008/4.

**Recommendations**

15. The note includes 18 recommendations. As explained above, these recommendations should be seen as benchmarks towards the achievement of best practices. Of the recommendations, 16 are addressed to the executive heads of the organizations and 2 are addressed to the Secretary-General as the chairman of the United Nations Chief Executives Board for Coordination (CEB) to be implemented through the HLCM Procurement Network. The Inspectors suggest that organizations take stock of the issues, establish a plan and allocate the necessary resources to speed up the full implementation of the recommendations.

16. The organizations have broad mandates but limited resources. In recent years the financial crisis has aggravated the resources problem across the system, obliging organizations to look at further options to achieve savings. The Inspectors believe that procurement activities could allow for significant savings and, to this end, urge the organizations to invest in their procurement functions to speed up procurement reforms.

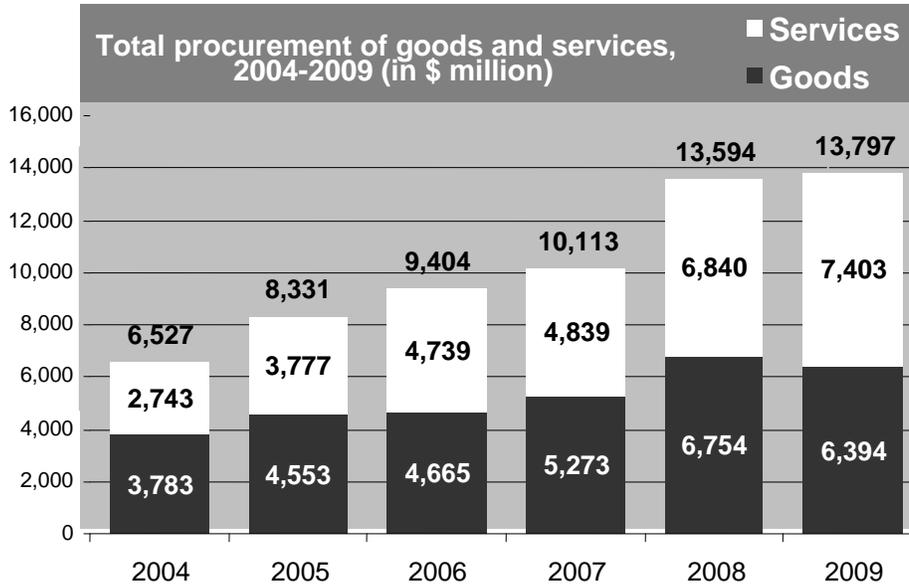
17. The procurement volume of four large United Nations organizations (the United Nations Secretariat, the United Nations Development Programme (UNDP), the World Food Programme (WFP) and the United Nations Children's Fund (UNICEF)) makes up the bulk of the total procurement volume in the United Nations system. These organizations should therefore lead reform efforts across the system, particularly in the area of effective inter-agency collaboration and harmonization of practices, by undertaking further responsibilities, providing resources and introducing a more systematic and coordinated approach to speed up reform efforts.

## B. Procurement trends

### Procurement volume and type

18. Between 2004 and 2009 total procurement in the United Nations system jumped from \$6.5 billion to \$13.8 billion, mostly due to an increase in the procurement of services (from \$2.74 billion in 2004 to \$7.4 billion in 2009).<sup>3</sup> As seen in figure 1, the procurement of services exceeded the procurement of goods in 2008. It should be noted that services are typically more complex to purchase than goods and that procurement operations increasingly require specialized knowledge and expertise.

**Figure 1**



### Distribution of procurement activities

19. The 10 United Nations entities with the largest procurement volume and the 5 with the smallest procurement volume in 2005 and 2009 are listed in table 1.<sup>4</sup> In 2009, the United Nations had the largest procurement volume, amounting to US\$ 3.5 billion (including procurement for peacekeeping operations), of which 69 per cent was for the procurement of services. As can be seen, the top 10 agencies have remained more or less the same, with the exception of the World Health Organization (WHO) and the Inter-Agency Procurement Services Office, whose procurement volume was exceeded by the Office of the United Nations High Commissioner for Refugees (UNHCR) and the United Nations Educational, Scientific and Cultural Organization (UNESCO) in 2009.

<sup>3</sup> UNOPS, 2005 Annual Statistical Report and 2009 Annual Statistical Report (see footnote 1).

<sup>4</sup> This includes both regular budget and extra budgetary funds.

Table 1

<b>Top 10 organizations/entities with high procurement volume (millions of United States dollars)<sup>5</sup></b>			
<b>2005</b>		<b>2009</b>	
1. WFP	2,180.41	1. UN/PD <sup>6</sup>	3,488.42
2. UN	1,555.71	2. UNDP <sup>7</sup>	2,610.93
3. UNDP	1,143.20	3. WFP	2,568.62
4. UNICEF	1,135.05	4. UNICEF	1,829.12
5. UNOPS	719.43	5. UNOPS	871.48
6. UNFPA	253.48	6. UNHCR	406.53
7. PAHO	205.84	7. PAHO	384.90
8. IAPSO	193.30	8. UNFPA	357.93
9. WHO	149.83	9. UNRWA	265.27
10. UNRWA	115.02	10. UNESCO	185.67
<b>Five organizations/entities with lowest procurement volume</b>			
ECLAC	5.54	WMO	8.01
ITC	4.25	ITC	5.29
ESCWA	3.16	WTO	4.92
UNCTAD	1.81	ESCWA	2.95
WTO	0.18	UPU	0.37 <sup>8</sup> (5.26 including non-TC figures)

<sup>5</sup> UNOPS, *Annual Statistical Report on United Nations Procurement*, 2005 and 2009.

<sup>6</sup> United Nations Procurement Division, listed as United Nations under 2005 column.

<sup>7</sup> Includes UNDP Headquarters procurement, national execution and direct execution.

<sup>8</sup> UPU clarified that the figure given in the *Annual Statistical Report on United Nations Procurement* included only procurement under technical cooperation funds. If non-technical cooperation (non-TC) funds are added to the budget, UPU estimates their total volume to be SwF 5,260,000.

## II. GOVERNANCE, POLICIES AND PRINCIPLES

### A. Governance structure

20. The dynamism of procurement and the financial resources involved make it a vulnerable area where sound policy and rigorous internal controls are essential. A strong governance structure is essential in minimizing risk and ensuring an efficient procurement function that also furthers the strategic aims of the organization.

#### Critical success factors

21. Critical success factors for the governance of the procurement function in an organization are:

- An overall organizational structure in which the procurement function is recognized as a high priority operation. It requires a dedicated procurement function and staff.
- An adequately staffed procurement function in terms of resources and skills and where enhancement of those resources and skills is perceived as an investment providing better efficiency and effectiveness.
- The availability of a sound policy and practices that fully address the complexity and criticality of procurement activities and transactions.
- The existence of effective information systems supporting the procurement operation and assisting its performance, including the ability of internal users to access an information system at their workplace to request goods and services, the collection of analytical procurement data for decision-making<sup>9</sup> and key performance indicators to measure performance.

22. The following subsections of the present chapter present findings on the success factors relating to organizational structure, human resources and information systems. Policies and practices will be reviewed in subsequent chapters.

#### Organizational structure

23. Good procurement governance requires an organizational structure and staffing levels commensurate with the procurement volume and its relative importance for each organization. Procurement plays a strategic role in helping organizations achieve their goals; thus, organizations should ensure that they have a dedicated and adequately staffed procurement unit. The Director of Procurement should report to a senior official at the highest level of the organization, or, in the case of large organizations, to the executive head (as is the case in the United Nations).

24. A good organizational structure is important, but not sufficient, for good governance. Heads of organizations should understand the importance of the procurement function and treat it accordingly. The procurement function and its chief should be considered as equally important as other major functions such as finance and human resources. **Procurement should be an integral part of the corporate decision-making and planning of each organization.**

25. The review found that most of the organizations have a dedicated procurement function and a procurement chief at the P-5 level or above reporting to a higher-level official. Although there are no major problems with respect to the structural location of the procurement function, there are concerns regarding the recognition of its importance and access to top-level officials and meetings. In most of the

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<sup>9</sup> John F. McClelland, *Review of Public Procurement in Scotland: Report and Recommendations* (Edinburgh, 2006), p. 6.

organizations, the procurement units are housed under Management and Administration or are considered a Central Supply Services function. The procurement functions are generally divided into purchasing and contracts, by funding sources (regular budget and technical cooperation), or by type of goods (WHO has eight procurement clusters, such as: drugs, biological and laboratory equipment).

26. One of the problems identified in the procurement function is the disconnection between procurement and contract management. Lack of a clear definition of duties exacerbates the situation. The International Atomic Energy Agency (IAEA) informed the Inspectors that it has tried to address the disconnection by requiring that contract performance measures are considered in the planning for significant/critical procurements, and by introducing an amendment to the Administrative Manual that requires contract management to be conducted in coordination with the Office of Procurement Services.

*Procurement committees/committees on contracts*

27. One of the key elements of procurement governance is the existence of procurement committees/committees on contracts. United Nations organizations with significant procurement volume have established procurement committees in their headquarters. These committees play advisory roles in reviewing procurement cases above certain thresholds. In UNESCO and UNHCR, the headquarters committees on contracts also play a decision-making role. This situation is not in line with best practices, as it undermines accountability for procurement activities. Consequently the role of committees should be considered purely advisory, and final decision-making and accountability should be assigned to the chief of procurement in the operational line.

**Decentralization and delegation of authority**

28. Depending on the nature of the organizations' work and their internal structures, the procurement functions are either centralized in headquarters or decentralized to field offices. As part of their decentralization efforts, UNDP, WFP, UNHCR, the Food and Agriculture Organization of the United Nations (FAO) and the United Nations have increasingly decentralized their procurement functions, establishing dedicated procurement officer positions in the field.

29. Decentralization and delegation of authority pose a significant operational and financial risk that needs to be addressed through proper strategies, such as capacity development and training in the field and better monitoring by headquarters. The organizations must complement their decentralization reforms with adequate staffing levels and provide proper training for staff to take on new tasks. The organizations should consider establishing regional procurement offices where they can provide significant added value, or utilizing the capacity of other organizations where possible. UNICEF operates a number of regional procurement centres (Nairobi, Pretoria, Beijing and New Delhi), and their role is to support other offices in the acquisition of supplies that are difficult to source through the local markets, but also to establish regional long-term agreements (LTAs) for supplies with substantial procurement spend.

30. Delegation of authority with respect to procurement in the field varies substantially. This situation affects the ability of the organizations to "Deliver as One" in the field. In efforts to counteract this, the Joint UN Procurement Guideline was established in 2009/2010 under the HLCM-Procurement Network and the United Nations Development Group/Development Operations Coordination Office; it provides country offices with guidance on how to conduct joint procurement. As part of all these efforts, including the harmonization of rules and regulations, the organizations should, as a matter of priority, also align the delegation of authority and processes to "procure as one" at the field level.

## **Human resources capacity and training**

### *Staffing level*

31. Over the years, a dramatic increase in procurement volume raised the profile of procurement as an important organizational function that should be treated on a par with other organizational functions, such as finance and human resources management. Therefore the importance of adequate human resources capacity in procurement cannot be stressed enough. The number and professional qualifications of procurement staff are of utmost importance in ensuring effective and efficient procurement processes. Competent staff are key to improving the procurement function. The complex nature of procurement operations requires staff to have a broad range of generic procurement skills and special expertise in many technical areas.

32. In the organizations there are problems with staffing level and skills to handle complex procurement operations and workload peaks and to support reform initiatives. There are capacity problems in data collection, analysis, planning, strategy development and monitoring. During the interviews there were complaints that the staffing level does not match the dramatic increase in procurement volumes and complexity. Without adequate staffing and skills, it will be difficult to achieve best value for money.

33. The number of procurement staff varies among the organizations. For instance, at the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), the United Nations, and the United Nations World Tourism Organization (UNWTO) there are 10, 150 and 2 procurement staff, respectively. The question of how many staff are needed in the procurement function is not easy to answer. Work load, processes, and the diversity, complexity and volume of the procurement activities, as well as the availability of sound enterprise resource planning (ERP) systems, are all factors determining the required staffing levels. Organizations need to assess their staffing needs based on these indicators. The assessment of procurement staffing needs should not be restricted to procurement units; it should also include the needs of substantive departments, for they must be closely involved with the preparation, evaluation and implementation processes. The HLCM Procurement Network could consider undertaking a specific study to establish benchmarks in this area, taking into consideration the specific concerns/volume/business models of the organizations.

### *Training*

34. Increasing procurement knowledge and expertise across the organizations could be one of the most effective ways to improve the procurement function. Staff need regular training to update their knowledge and capabilities in order to be able to cope with fast-developing procurement challenges in a dynamic environment. Given that procurement involves substantial amounts of resources and complex situations that require competencies in a wide variety of areas (i.e. market and cost-benefit analysis, evaluation, negotiation, quantitative and qualitative methods, ethics, etc.) it is necessary to have highly qualified staff so as to avoid any unnecessary waste of resources.

35. Rapid changes in the type and complexity of procurements call for regular professional training of procurement staff. To that effect organizations should have a dynamic training plan based on a training needs assessment, and it should be regularly updated. **Executive heads should consider increasing procurement staffing and training opportunities as an investment capable of providing a relatively quick payback in terms of financial savings and best value for money.**

36. The review found that in all large organizations, and some small ones, necessary funds have been provided for training, and a wide range of training activities has been organized. In many other organizations, procurement-related training was insufficient and conducted on an ad hoc basis. In addition, available training courses mostly targeted procurement officials only; training for staff in other departments and offices was inadequate. The amount of resources allocated for procurement training

differed widely from organization to organization. In some organizations no fixed budget was available and the procurement-specific training budget was earmarked on an ad hoc basis, depending on the availability of regular funds (e.g. at the International Civil Aviation Organization (ICAO) and UNESCO) or extra-budgetary inflows (UNRWA). The International Labour Organization (ILO) informed the Inspectors that the procurement bureau sets aside 2 per cent of its regular budget per biennium for staff training. FAO managed to receive training funds by including procurement training in its organizational reform efforts.

37. The organizations also need to design more training programmes covering ethics, corruption and anti-fraud issues. Only the United Nations, UNICEF and UNDP offer specific training on ethical issues in procurement. E-learning, such as the initiative of the United Nations Procurement Division's online training campus, should be widely encouraged and emulated. Training programmes should focus not only on the headquarters level, but also on the country/regional levels, where specific environments may expose staff members to a greater risk of fraud. It is important that both requisitioners and procurement officials participate in these training programmes.

38. UNDP has started a certification scheme with the Chartered Institute of Purchasing and Supply (CIPS), which is widely considered to be the leading certification body dealing with purchasing issues. UNDP/CIPS courses are open to all staff in the United Nations system and are a good resource that United Nations system organizations can use to help professionalize staff involved in procurement. The United Nations Office for Project Services (UNOPS) is a leading agency in the area of procurement training. All procurement staff at UNOPS must complete CIPS level 4, and a higher level<sup>10</sup> will soon become mandatory for all procurement officials at the P-3 level and above. Each level takes from 12 to 18 months to complete and consists of an on-line self-study course with tutor support. In addition, UNOPS has its own internal training at the country and regional levels. UNHCR, the ILO and the World Intellectual Property Organization (WIPO) informed the Inspectors that they have individualized training plans for procurement staff, to create "specialists" in certain areas of importance to their organizations.

39. IAEA has set out to conduct mandatory UNDP/CIPS training sessions for all staff involved in procurement, including requisitioners. Furthermore, it is planning to implement procurement training with a focus on ethics. UNICEF has introduced a five-day mandatory introductory training course on procurement. FAO and IAEA procurement officials informed the Inspectors that they had also conducted training courses for their requisitioner units and that, as a result, collaboration between staff of the procurement and requisitioner units had improved significantly. The UNICEF Supply Division established an annual training plan, including courses such as Introduction to Procurement, Procurement Strategies via Category Management, Quality Management System, Construction Contracting, and Procurement of Services.

40. The United Nations in its 2010-11 result-based budgetary framework affirmed its commitment to complete the development of an online procurement training module and procurement certification programme and implement best procurement practices throughout United Nations Headquarters and peacekeeping missions.

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<sup>10</sup> M-CIPS, which is equivalent to a master's degree.

### United Nations practice

In the context of procurement reform, the United Nations Procurement Division was granted a budget of \$833,000 from the support account in 2006-2007, to develop and deliver basic procurement training for over 1,200 staff members at Headquarters and external offices. The staff trainees include procurement staff, requisitioners, certifying officers, auditors, directors/chiefs of mission support, and a cross section of General Service staff. In each successive year substantial funding has been received from the General Assembly for procurement training and an average of more than 1,000 staff have been trained on an annual basis. This training has included workshops, on-line training, and training through internationally recognized procurement entities such as the National Institute for Governmental Purchasing.

In addition, the United Nations Procurement Division engaged a consultant to conduct a training needs analysis in 2008 and, based on the report, a road map charting three phases of training was prepared. In Phase I of the online learning management system, the procurement training campus was launched in 2010. It includes four courses focusing on the fundamentals of procurement: Fundamentals of Procurement, Ethics and Integrity, Best Value for Money, and the Overview of the Procurement Manual.

In Phase II, 10 advanced procurement courses are being developed and will be rolled out by the end of 2011. This will target procurement staff as well as non-procurement staff such as requisitioners, contract managers and auditors, and will include the following modules: Procurement Strategy; Acquisition Planning; Risk Management and Fraud Prevention; Requisitioner Responsibilities; Development of Requirements; Development of Technical Evaluation Criteria; Development of Commercial Evaluation Criteria; Contractual Issues in Purchasing; Negotiation Skills; and Contract Management.

41. Whereas adequate recruitment practices should be a standard in ensuring that qualified staff are employed in the procurement function, training is imperative in order to maintain and develop skills, based on needs assessment. **Staff without proper training should not be placed in positions of responsibility over procurement matters. Staff employed in key procurement posts should have completed or should be working towards advanced certification on procurement.**

42. Training opportunities should be available to all staff who have procurement responsibilities. Given its strategic role, procurement training should also be included as a core skill in training programmes for managerial staff. **The organizations should assess their procurement capability on a regular basis and develop strategies to ensure that their procurement capacity can achieve best value for money.**

### UNICEF practice

UNICEF has over 900 supply and logistics staff and opted to invest its limited budget to provide training to as many staff as possible. Certification programmes are often expensive and thus the cost of making them available to all staff members can be prohibitive. Therefore UNICEF established a professional development plan for its supply community. It is a combination of classroom-type workshops, online learning and certification schemes (in Humanitarian Logistics and in Supply Chain Management). The learning events are designed for both procurement staff and requisitioners.

43. As can be seen from the examples given above, training programmes are developed and implemented mostly by the larger organizations. These organizations should open up their programmes to the smaller organizations that may not have the resources to develop their own training packages. This would facilitate both the efficient use of resources and also communication and cooperation among procurement staff of the organizations.

**Information systems**

44. Greater use of information technology in all procurement operations has a range of benefits. It can reduce transaction costs, facilitate better internal control and monitoring, and provide managerial information for decision-making. A procurement information system should include basic integrated back-office transactions and contract management, as well as monitoring and data collection capabilities.

45. Most United Nations system organizations have information systems that are fragmented and do not have adequate capabilities. The information contained in their financial management systems are geared towards financial and budgetary control. Some other important advantages offered by information technology, such as paperless electronic requisitioning, ordering and invoice reconciliation, e-procurement/e-tendering and online catalogues, are yet to be used widely and effectively.

46. The information systems of UNDP, the United Nations Population Fund (UNFPA), UNESCO, UNOPS and FAO are relatively more effective for electronic contract management. UNDP officials reported that the contract management component in its ERP system will be launched in the fourth quarter of 2011. The UNFPA contract management system tracks the various stages of a procurement contract and serves as a data repository. UNESCO uses the material management module of its ERP system, which permits it to follow up on contracts with clear delivery. FAO purchased an e-Tendering system that includes an electronic contract management component that allows the capturing and monitoring of data, such as signature and expiry dates, receipt of the performance bond/bank guarantee and relevant expiry dates, amendments and all relevant documents required under the contract (completion of the works certificate, maintenance certificate, insurance policy, etc.).

47. The United Nations Secretariat informed the Inspectors that it is implementing a fully fledged comprehensive e-procurement solution to support its procure-to-pay process, including a contract management solution. This ERP-based solution will be integrated with other corporate processes, such as human resources and finance, but also with the United Nations Global Marketplace (UNGGM) as the main United Nations portal for vendor registration. The UNICEF ERP offers paperless electronic requisitioning, order and invoice reconciliation, online catalogues, and electronic archiving of invoices and other documents. Some organizations note that additional developments in ERP systems require large sums of money and that, in the light of resource constraints, it may seem that the investment is not worth the cost, especially when the investment represents a disproportionate amount of overall procurement spend. The Inspectors are of the opinion that the integration of necessary modules at the initial design stage of ERP would reduce cost.

48. It is generally accepted that the associated transactions in traditional procurement (low-value purchasing) may be more costly than the actual price of the items. Information technology can effectively be used to reduce transaction costs through various methods. For example, e-solutions that fully integrate back-office systems into a supplier's platform and catalogues, or a virtual "shopping mall" that brings together a number of suppliers electronically, can help reduce transaction costs. IAEA has already introduced purchasing cards for commonly used low-value items.

### IAEA practice

The average cost to IAEA for processing each of the low-value orders was estimated at €191 in 2010. A training programme commenced in October 2010, and by 31 March 2011 purchasing cards had been issued to 72 staff that had been trained and provided with delegated low-value purchasing authority.

Since 15 December 2010, all of the low-value goods or services for delivery at all IAEA locations (excluding items purchased for field projects) that are under €3,000 and are not available through a catalogue have been purchased using the direct charge method or a credit card. Based on 2010 figures, it would be expected that about 2,500 processed orders would be avoided under the low-value purchasing regime in 2011. This results in a theoretical savings of €477,500 in costs (2,500 x €191).

49. E-procurement/tendering offers the potential for faster buying and more reliable, up-to-date information to obtain better prices. Moreover, it offers scope to aggregate purchasing across organizations and facilitates better compliance with rules and good practices. However, caution is required in using e-tendering, as it may exclude vendors from developing countries from participating in procurement bids.

50. In the United Nations system there is an Internet-based procurement application called UN WebBuy, which allows clients to order commonly used items that can be delivered worldwide. Its user-friendly Web interface provides easy access to a range of commodities available under long-term agreements between UNOPS and various suppliers. Items on UN WebBuy include four-by-four vehicles, motorcycles, trucks, ambulances, armoured vehicles and radios.<sup>11</sup> Although UN WebBuy is a good tool, its product range is limited and its volume does not reflect the true potential of the system.

#### *Common coding system*

51. The availability of a modern product coding system, its integration into information systems and coherent use of codes are important management, monitoring and reporting issues. Such a coding system would allow organizations to register and report on the type and value of goods and services they acquired. In UNGM, vendors register in an online database and can choose specific goods and service codes. The organizations need to use specific codes in the database in order to find vendors for their specific goods and services. Without a modern coding system that includes codes for all available goods and services in the market, it would be difficult to locate the best vendors and establish a good management information system.

52. The United Nations Common Coding System (UNCCS) has been used by United Nations organizations for more than 20 years. It is available in English only and is not fully integrated into the organizations' information systems. Interviewees noted that UNCCS was outdated and new technological items were not listed. About 10 years ago, UNDP adopted another coding system: the United Nations Standard Products and Services Code (UNSPSC). UNSPSC is being used outside the United Nations by commercial industries worldwide and the code exists in 10 languages, including four official United Nations languages.

53. The United Nations Procurement Division commissioned a study to look at the use of UNCCS and UNSPSC and make recommendations for a common coding system. The study recommended the use of UNSPSC as it was found to be modern and better adapted to the context of the United Nations system. At its spring session (29 March–1 April) the HLCM Procurement Network members endorsed the switch to UNSPSC in UNGM and noted that this would be implemented in August 2011. The implementation of the code in internal processes and ERPs is subject to a decision by each member organization following a

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<sup>11</sup> See [www.unops.org](http://www.unops.org).

cost study to be conducted by each organization. **The Inspectors invite organizations to consider the internal adoption of this modern coding system, including its integration into their information systems.**

#### *ERP systems*

54. Many of the organizations have already started introducing new ERP systems. It should be noted, however, that a new ERP system by itself will not be sufficient to capture all necessary information and that there are often significant problems in its implementation. Some reasons for the problems are inadequate changes in business processes when adopting new system, lack of integration of necessary functionalities into the ERP system in the design phase, and lack of training on how to use the new system. Procurement units should identify the prerequisites for an effective and efficient procurement function and ensure that they are incorporated into their information systems.

55. The integration of internal procurement processes, contract management and data collection capability into information systems should be a prerequisite. The use of e-tendering, online catalogues, purchasing cards and a “virtual shopping mall” can be developed and implemented progressively in the context of a procurement strategy.

56. It is expected that the implementation of the following recommendations 1 and 2 will enhance efficiency, and 3 will improve effectiveness in procurement activities.

#### **Recommendation 1**

**Executive heads should assess and identify the importance of the procurement function for organizational activities at their respective organizations, position this function appropriately in the managerial hierarchy and provide the required human resources for procurement activities based on an analysis of volume, complexity and workload involved.**

#### **Recommendation 2**

**Executive heads should develop a procurement training policy based on the assessment of the competencies needed in procurement, with a view to ensuring that staff dealing with procurement are well trained and provide highly professional services.**

#### **Recommendation 3**

**Executive heads should ensure that the procurement process, contract management and data collection capabilities are integrated into the information systems of their organizations.**

## **B. Procurement principles**

57. The procurement principles are important since they establish a foundation for detailed policies and practices. The review of procurement principles in the United Nations system found many similarities, but also some important differences. Most of the organizations refer to the following principles (see annex I for a summary):

- Fairness, integrity and transparency
- Effective competition
- Best value for money
- Best interest of the organization

### Competition principle

58. Significant differences between the organizations are most evident in the case of effective competition. While some use “effective international competition”, others use “competition” as a principle. Many interviewees questioned the necessity of the international nature of competition, explaining that not all procurement notices were advertised internationally. For instance, while small procurements are based on local competition, larger ones are based on international competition. Also, some procurement can be location bound. The United Nations, UNDP, UNHCR and the World Meteorological Organization (WMO) cite specifically international competition whereas most organizations simply require effective competition without mentioning whether competition should be local or international. A good definition of the principle of effective competition is found in the procurement manual of UNOPS, which states that **effective competition is “competition on as wide a geographic basis as is practicable and suited to market circumstances.”**<sup>12</sup>

59. The Inspectors believe that in order for real competition to exist the organizations must endeavour to attract the best vendors through both advertisement and thorough, proactive market research. Without active market research and analysis capability, competition may exist on paper but may not include the best competitors in the market, thus compromising the achievement of best value for money.

### Procurement in emergency situations

60. Cases where waivers for competition may be justified are those granted in emergency situations (e.g. a humanitarian crisis). UNDP, WFP, FAO and UNHCR have relatively clear procedures for emergency procurement. WFP officials stated that even in emergency situations they followed the principle of competition, except that the tender advertising period is shortened so that urgent purchases are made for the immediate term, while competition is launched for the long term. Since December 2010, the chief of procurement in the United Nations can, in specific emergency situations,<sup>13</sup> enter into contracts on behalf of the Organization without prior review by the Headquarters Committee on Contracts.<sup>14</sup>

### Donor restrictions

61. The Inspectors are concerned that in some cases waivers and geographic limitations for bids were imposed by donor countries that provided funds for technical cooperation projects. In terms of costs and benefits, the Inspectors understand that the organizations are reluctant to forego such funding, but believe that they should do their utmost to discourage donors from restricting competition as a condition for using their funds.

### Best value for money

62. Most of the organizations have moved away from the notion of “lowest cost, technically acceptable” to “best value for money” in their procurement principles. Of the 18 procurement manuals surveyed, only the UNFPA manual did not refer to best value for money as a principle, but to “maximizing economy and efficiency”.<sup>15</sup> The ICAO Procurement Code refers to best value for money only for services.

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<sup>12</sup> UNOPS, *Procurement Manual* (Rev.4, 2010), p. 9.

<sup>13</sup> Defined as follows, “...where the United Nations faces a disaster and/or where lives of United Nations personnel and/or United Nations properties are in danger. Such situations would have an urgent need to immediately perform rapid deployment of life supporting goods and services, therefore, the need to ensure timely acquisition and delivery of requirements”. Memorandum from the Assistant Secretary-General, Office of Central Support Services to the Chief of Procurement Operations Service, 2 December 2010, Delegation of Procurement Authority for Emergency Situations, United Nations, Reference PD/PCMS.

<sup>14</sup> Depending on the amount of the award (between \$500,000 and \$10 million, the award process will be submitted to the Headquarters Committee on Contracts for review on an ex post facto basis.

<sup>15</sup> UNFPA Procurement Procedures, section A.4, p. 3.

63. Although most of the organizations cite best value for money as one of their main principles, it is not easy to implement in practice without good guidelines and training. The United Nations, UNICEF and IAEA have relatively better guidance on best value for money. The United Nations included training on best value for money in its online training campus and issued additional guidelines for its implementation. The UNICEF Supply Manual provides guidance on the determination of best value for money. IAEA includes guidance in its administrative manual and also includes proactive supply market research and analysis as part of its procurement planning process, in order to support the development of a procurement strategy per good/service aimed at achieving best value for money.

64. The Inspectors agree with interviewees who notified them that there are dangers in not having clear guidance and training on this principle. Even minor variations to assigned weightings in evaluation criteria can radically alter the calculation results. Procurement staff, requisitioners and evaluators should be selected for their knowledge of best-value-for-money calculations, and sound written explanations of the evaluation results should accompany final decisions on procurement bids.

### **Best interest of the organization**

65. Finding a precise definition of “best interest of the organization” in the procurement manuals proved a difficult exercise. This principle seems to be one of the most self-evident, but without a clear explanation it can lead to misunderstandings and a biased evaluation of bids. There is a need for a clear definition and instructions on how this principle should be applied in evaluating bids. Most importantly, in the case that best interest affects an award decision which otherwise would have been different; it should be documented clearly to justify its use.

### **Procurement manuals**

66. The review found that UNWTO, the Universal Postal Union (UPU), ILO and WMO did not have stand-alone procurement manuals, but instead embedded procurement-related issues into their other administrative manuals or circulars. The Inspectors were informed that UNWTO was in the process of adopting principles and preparing a procurement manual. At the time of writing, the ILO was also developing a stand-alone procurement manual. The executive heads of UNWTO, UPU and WMO must ensure that their organizations have rules, regulations and manuals on procurement.

### III. PROCUREMENT STRATEGY, SUPPLY CHAIN AND RISK MANAGEMENT

#### A. Procurement strategy development

67. For too long, procurement has been seen as a basic processing function. Procurement staff are tasked with helping operational units undertake procurements, often at the last minute. Consequently, this function is often fragmented throughout each organization, without any systematic and planned approach being adopted. Over the years the volume and diversity of procured items have increased substantially in the United Nations system, a situation which requires organizations to carry out procurements in a proactive and planned way as part of a well-thought procurement strategy.

#### Smarter buying principles

68. With substantial financial resources at stake, procurement activities pose significant financial, reputational and operational risks for the organizations. The fragmented approach inevitably leads to a waste of resources and lost opportunities in achieving best value for money. It is therefore important that the organizations adopt a consolidated analytical approach to carry out procurements effectively. Smarter Buying Principles<sup>16</sup> (figure 2) can provide a good framework for the analysis and design of procurement strategies:

**Figure 2: Smarter buying principles**



#### Procurement strategy development process

69. A procurement strategy would provide a common framework for all procurements and help the organizations meet their strategic objectives and priorities, achieve best value for money and ensure transparency. It requires a comprehensive analysis and planning of procurement activities which should define, inter alia, goods and services to be procured at the corporate and local levels; goods and services to be procured through common use agreements such as central/long-term/framework contracts or

<sup>16</sup> Government of Western Australia, "Procurement beyond the reforms (2008-2012)", p. 9, September 2008. [www.dtf.wa.gov.au](http://www.dtf.wa.gov.au).

regional contracts; how procurement policy elements such as sustainable procurement should be integrated into the overall plan; and what procurement methods should be used for different groups of goods and services.

70. Procurement strategy/planning would provide opportunities to substantially improve efficiency. For instance, it would allow aggregated procurement of commonly used items, leading to economies of scale, reduced transaction costs through volume leverage and a single procurement operation instead of many. The HLCM Sub-Committee on Improved Efficiency and Cost Control Measures recently identified seven areas in procurement which would lead to greater cost savings in United Nations organizations.<sup>17</sup> The Inspectors consider this initiative to be a good step. However, there is a need for a more systematic and proactive approach to exploit the savings potential in the system. **The Inspectors believe that in order for this to be achieved, organizations need to develop capacity for procurement analysis, forecasting, planning and strategy development.**

71. Procurement plans and strategies can be prepared based on the analysis of historical procurement spend and future procurement needs assessments across each organization. Best practices require that procurement strategies be dynamic and updated on an ongoing basis. Based on the analysis of procurement data, organizations should devise strategies to improve the efficiency and effectiveness of their acquisition plans. The strategies should identify how procurement-related resources should be spent efficiently and effectively, and how risks and opportunities should be managed to achieve best value for money while serving the best interest of the organization.

72. A procurement strategy development process should include:

- Historical procurement data and needs assessment for planning
- Analysis of the procurement portfolio
- Procurement profiling, and risk and value analysis of planned procurements
- Detailed analysis of key goods and services and their cost structure
- Demand and supply market analysis
- Segmentation of procurement goods and services
- Understanding the organization's market impact in specific items
- Development of procurement objectives and their link with strategic corporate objectives
- Detailed procurement strategies based on analysis of procurement segments and individual goods and services
- Measurement of performance and outcomes

73. Main strategy documents can include the summary of analysis, general strategy and specific methods in the implementation. As part of procurement portfolio management, goods and services to be procured can be classified according to their relative risk and value.

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<sup>17</sup> CEB/2011/HLCM/14, p. 3 (2011). The seven areas are: (1) maximization of use of long-term agreements, for significantly lower procurement-related costs through economies of scale and reduced transaction costs associated with contract extensions/renewal; (2) increased procurement from the same suppliers for basic common products and services (telephone carriers, supplies, computers, vehicles, etc.) in order to leverage volume to obtain better prices; (3) centralized (either with a United Nations organization or a non-United Nations partner) provision of basic common services (cars/drivers, travel, supplies, cleaning, building maintenance) for different United Nations agencies, locally and at Headquarters; (4) accelerated implementation of the harmonization of business solutions proposed by HLCM and UNDG; (5) Common Procurement Teams (pilot currently operational between FAO, the International Fund for Agricultural Development and WFP) to operate the procurement function under harmonized rules and procedures for joint tendering of commonly procured Headquarters goods, works and services; (6) joint/shared processing of travel claims and administration of various types of insurances (professional liability, travel, health, etc.) and long-service agreements; and (7) aggregation of translation and printing volumes.

### *Segment analysis*

74. Figure 3 contains an analytical framework for the segmentation of procurements for further analysis and development of specific procurement strategies<sup>18</sup>

**Figure 3: Procurement segmentation framework**

Low value and high risk	High value and high risk
Low value and low risk	High value and low risk

75. As can be seen in figure 3, each category of goods and services forecasted and planned to be procured in the coming years is assessed and categorized according to its relative risk and value. The resulting procurement portfolio includes four segments, each with a range of goods and services. This type of analysis would allow the organizations to establish different procurement strategies for each segment and identify and use the best methods in different procurement areas, such as:

- Aggregation of demand for consolidated procurements
- Use of framework/long-term agreements
- Piggybacking on another agency's contract
- Introducing purchasing cards

76. The benefit of procurement strategy/planning is not restricted to the development of procurement methods. It is also useful in many aspects, such as ensuring market research to find the best competitive vendors for tendering, better research to identify quality and evaluation criteria, better compliance with rules and regulations, and fewer waivers for competitive biddings.

### *Practice in United Nations organizations*

77. The review found that many organizations attempted to develop acquisition plans at the country and project levels without explicit reference to the headquarters level or to consolidated acquisition planning and strategy development. UNICEF, the United Nations Industrial Development Organization (UNIDO), the United Nations, UNDP, ILO, UNRWA, UPU and UNOPS are developing acquisition plans, and the first four organizations also advertise acquisition plans on their public websites.

78. UNOPS officials explained that they went one step further by not only asking for procurement plans to be developed at the country and regional levels but also consolidating those plans into one plan at the headquarters level in order to identify procurement patterns for goods and services throughout the organization. This helps to establish either general terms of reference/technical specifications or global LTAs.

79. Although many of the organizations undertake acquisition planning, it is mainly at the field level, and consists mainly of financial planning, budgeting and time scheduling. There is no consolidated analysis or strategy document at the headquarters level to identify opportunities and risks in procurements across the organization. None of the organizations had a documented, consolidated procurement strategy except IAEA. UNICEF has documented strategies for most of its major product categories, both as part of the effort to maintain a quality management system, and as a step in implementing category management.

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<sup>18</sup> Office of the Auditor-General, New Zealand, *Procurement Guidance for Public Entities*, (2008, Wellington), p. 29. Available from [www.oag.govt.nz/2008/procurement-guide](http://www.oag.govt.nz/2008/procurement-guide).

80. Officials of the United Nations informed the Inspectors that although they do not have a consolidated paper on strategy, they have different facets in place: (a) nature and value: based on the nature of the requirement, and its value and complexity, they have identified several commodities as “special requirements” to be centrally procured at Headquarters level, and other commodities have been identified as “core requirements”, which by nature lend themselves to local procurement; (b) analysis of spend throughout the field missions to decide on items suitable for consolidated procurement (system contracts); (c) low-value procurement conducted at the requisitioner level; and (d) analysis of spend throughout the field missions to identify recurring low-value purchases with a view to establishing long-term contracts for such purchases.

81. The Inspectors were informed that UNDP has established a procurement road map that identifies many areas and actions for improvement. UNDP is also executing a project in the area of strategic sourcing, which includes a needs assessment of common procurement items to establish various LTAs so that the organization can attain an optimal balance of centralized procurement at the country-office level. Furthermore, in order to enhance procurement efficiency at the country level, UNDP is reassessing the threshold level of micro-purchasing.

82. The Inspectors recognize that elements of procurement strategies are evident in the practices of the organizations, but a consolidated analysis and strategy development is lacking. The Inspectors would like to emphasize that a consolidated procurement strategy developed on the basis of the comprehensive analysis of the spend will improve the achievement of best value for money in the totality of procurement activities. Therefore organizations should develop a consolidated procurement strategy to guide their procurement activities and present it to Member States for their oversight on this strategic issue. **There is a need for a more systematic and structured approach to gathering and analysing procurement information and translating it into procurement strategies.**

#### IAEA practice

IAEA made a comprehensive analysis of its procurement needs and methods. The procurement department adopting a portfolio management approach to procurement segmented procurements according to their value and risk level. Based on this analysis, it was found that 75 per cent of procurement activities consisted of procurements under \$3,000. This represented only 4 per cent of the overall spend but was taking most of the procurement staff's time. In order to address this issue, IAEA decentralized all procurements up to the \$3,000 threshold to designated staff in the technical units and introduced framework agreements and corporate cards. The Office of Procurement Services has developed and provided training courses for staff responsible for procurement in the technical units. Thus, the central procurement function is able to dedicate time to the remaining 25 per cent of high-risk, high-value and highly complex procurement actions.

In the preparation of procurement plans for significant procurements, the Office of Procurement Services works together with the requisitioner divisions to analyse procurement requirements, the associated supply markets and stakeholders' needs and issues. Such analysis supports the development of a specific procurement strategy that is formally agreed between the Director of the Office of Procurement Services and the director of the requisitioner division.

83. IAEA developed an organization-wide procurement strategy for 2010. It was based on a portfolio management approach to procurement where the categories of goods and services to be procured by the agency were segmented according to their relative risk and value. The strategy addresses both general practice improvements and the specific alignment of objectives, systems, policies, procedures and

capabilities with the risk and opportunities inherent in each segment of the organization's procurement portfolio.<sup>19</sup> The objective of the strategy was to achieve best value for money in each segment (figure 4).

**Figure 4**

Segment	General strategy applied to obtain best value for money
Low risk/low value	Transaction-cost reduction through efficiency in the purchase-to-pay cycle
Low risk/high value	Cost and transaction-cost reduction through efficient and effective arrangements with suppliers to aggregate and leverage demand
High risk/low value	Risk reduction through effective risk assessment and management
High risk/high value	Optimization of costs over the life of an acquisition or the making of appropriate trade-offs between quality and cost through careful supplier selection and relationship management. <sup>20</sup>

84. Based on an analysis of goods and services by segment, the procurement department prepared specific strategies to reduce cost and achieve best value for money. For instance, in order to reduce transaction costs of procurements in the low risk/low value segment, IAEA considered introducing the following strategies:

- Use of purchasing cards
- Use of standing-offer arrangements and other forms of basic supply agreements
- Use of consolidator basic supply agreements, UNDP and local purchase in the recipient's country under Technical Cooperation projects

85. IAEA aims to make low-value/low-risk purchasing as close as possible to the point of requisition without the intervention of the procurement department. To facilitate this policy and make it effective, the procurement department decided that responsibility for low-value/low-risk purchasing cannot be delegated to any staff member before he or she completes basic procurement training workshops. IAEA has also developed a demand aggregation strategy which includes aggregation principles, analysis of the IAEA purchasing and aggregation structure, categories, items and areas of aggregation, and possible contractual arrangements. **The Inspectors identify the comprehensive and analytical approach of IAEA to strategy development as a best practice.**

*A case from the private sector*

86. Procurement strategy development is not limited to public sector organizations; it is also used in the private sector. A case in the private sector that indicates a comprehensive approach for strategy development to improve financial efficiency can be seen in box 2.

<sup>19</sup> IAEA Agency-wide procurement strategy 2010.

<sup>20</sup> IAEA, Secretariat directive, Procurement Governance, p. 9, January 2011.

## A private sector case: BP<sup>21</sup>

### BP practice (2008)

BP formed a market intelligence team comprising qualified staff with a master's degree in business administration. It was tasked with improving strategy development and gathering information that would help the company make fact-based decisions, minimize supply chain risks, identify new opportunities and improve cost-management.

BP reduced its operating cost significantly by renegotiating its supplier contracts, implementing more efficient procurement procedures and restructuring. A key factor in cost saving was a programme designed to use the total buying power of BP across entire regions. The objective was to leverage spend to optimize deals. BP moved away from negotiations based on current costs to how much services and goods should cost. The concept of working more closely with suppliers became a core part of the future strategy of BP as it sought to achieve savings from the entire supply chain.

BP continued to invest in its procurement function during the economic downturn. It increased the number of staff and provided training ranging from foundational training to purchasing and supply chain management programmes.

### Long-term agreements/system contracts/framework contracts

87. Although most organizations do not have a documented procurement strategy, many have devised strategies for the procurement of certain goods and services. The use of LTAs and common service procurements are increasing across the system. LTAs are increasingly used by the organizations for the purchase of numerous goods and services, particularly office items such as computers, furniture, stationery and licences.

88. LTAs are established at different levels, such as at the organization-wide, regional or country levels. Based on estimated future demand, the organization goes for a single consolidated procurement, and requisitioner units place their orders based on this single contract without having to start another procurement process. LTAs are generally established as multi-year umbrella agreements and the organizations do not guarantee the volume to be purchased, but provide vendors with an estimation of how much is to be spent.

89. Unfortunately, there is a lack of statistics and analysis regarding the use and performance of LTAs. According to information available on the UNGM web page, only seven organizations had LTAs in 2011, and the total number of LTAs with an expiry date beyond 1 June 2011 was 91. UNICEF informed the Inspectors that in 2010, only 11.4 per cent of UNICEF international procurement was performed outside LTAs and it had 679 active LTAs. The United Nations reported over 180 LTAs as being in place for a total of \$8.9 billion estimated value (over multiple years). These statistics seem to imply that many LTAs are not posted on the UNGM web page, which raises a question about the effectiveness of sharing LTAs in the system.

90. Optimizing benefits from LTAs depends on good forecasting, better standardization, the continuous collection and analysis of market data, smart articulation of provisions in contracts, and persuading the best vendors to participate in a bid. The Inspectors would like to point out that the use of LTAs alone does

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<sup>21</sup> Source: Nick Martindale, "Fuel's gold", CPO Agenda (Winter 2009-2010). Available from [www.cpoagenda.com/previous-articles/winter-2009-2010/features/fuels-gold/](http://www.cpoagenda.com/previous-articles/winter-2009-2010/features/fuels-gold/).

not necessarily ensure efficiency and provide savings. There is a risk that while LTAs are utilized mainly to avoid frequent procurements, they may end up being more costly in the absence of proper standardization, market monitoring and utilization of renegotiation opportunities. There must be regular assessments of the use of LTAs.

91. The Inspectors would like to point out the following risks in the use of LTAs:

- Due to the lack of standardization and demand aggregation, LTAs are not used at an optimal level. Thus total buying power in the organization is not leveraged effectively.
- LTAs are placed according to funding rather than market cycles. They do not have a mechanism to reduce the cost when market conditions change favourably. There are problems in the articulation of the basis on which price increases will be negotiated when the market price changes. The lack of relevant provisions can result in acrimonious discussions and potentially contract failure.
- There is often an assumption that an LTA continues to provide good value for many years. This may lead to a lack of effort to monitor the market and test LTAs regularly against market conditions with a view to either re-tender or renegotiate should opportunities arise to reduce costs.
- One of the key benefits of LTAs, besides lower costs, is the ability to secure supplier commitments to provisions of maintenance, replacement, warranty, training and technical support. These add considerable value to the downstream utilization of assets bought using LTAs. These provisions are neglected or badly articulated in contracts.

92. In order to benefit from the advantages offered by LTAs the organizations should not only know their procurement portfolios, but should also standardize products and services to the greatest extent possible. The lack of standardization jeopardizes the opportunity for volume leverage. Standardization is a major problem in the organizations and requires a concerted effort that will yield significant savings. Particularly when standardization of needs is not managed properly, actual use of LTAs can be lower than the estimation. Thus the ability of the organizations to negotiate major discounts for future orders is compromised.

93. Organizations should consider aggregating similar products or variations of the same product under one umbrella LTA to utilize volume leverage. LTAs in similar groups of products can be combined for a single bidding. Prices of products can fluctuate over months and years and organizations need to carefully study market trends in order to renegotiate prices, or undertake a new procurement when opportunities arise. In order to utilize opportunities it is important that the contracts include the necessary flexibility clauses.

#### *Obstacles to planning*

94. Obstacles to an effective procurement planning are manifold in United Nations system organizations. These include lack of modern information systems, lack of predictability in funding, insufficient human resources, underestimation of procurement, and lack of ownership of the task. Indeed, many organizations face unstable funding, which makes forecasting difficult. However, they can forecast their regular budget better. Organizations should strive to plan procurement on the basis of funding patterns and estimations so that when funding becomes available they will be ready to implement time-sensitive externally funded programmes and projects.

95. Another problem is that organizations do not consider the procurement analysis and strategy development tasks as an explicitly procurement function. In addition, the procurement function does not have sufficient human resources capacity to focus on these tasks. The result is that the procurement departments work reactively rather than proactively, without having the necessary lead time to plan and strategize. The lack of modern information systems with the required procurement data collection capability is a major challenge, particularly for large organizations.

## Conclusion

96. Although United Nations organizations implement procurement strategies, most of them do not have a defined, documented procurement strategy based on the comprehensive analysis of procurement activities. This situation may lead to a lack of coordinated buying, limited capture of aggregation possibilities, and duplication of effort and inefficient use of resources. Unguided procurement efforts would inevitably result in fragmentation, confusing communication and lack of accountability.

97. Regardless of the size of their procurement function, organizations should include in their policies instructions and guidance on:

- How the procurement plan and strategy should be developed
- Who should have overall responsibility for planning and strategy development
- Who should be involved in the process and when
- How the procurement strategy should be linked to the organization's broader goals and strategic planning<sup>22</sup>

**98. Organizations should adopt a team-based approach in the development and implementation of their procurement strategy by requiring staff from various departments to work together. The procurement department cannot be expected to be the only department responsible for developing a procurement strategy and making it a success. This task should be accomplished with the aid of top management, which regrettably often shows a hands-off attitude in procurement matters, and with the collaboration of other departments.**

**99. Organizations need to develop adequate human resources and information system capacities for systematic and continuous data collection, analysis and strategy development.** The process should be an ongoing one and provide analytical information on the various aspects of procurement, including actual spend breakdown and future demand forecasting; possible standardization and demand aggregation for LTAs; high-quality suppliers for key items; existing suppliers and their performance; cost to administer the spend; cost breakdown of each step in the procurement process and lead time; the performance of procurement function; contract types and their performance; efficiency gains from LTAs; market trends in key goods and services; renegotiation opportunities to lower prices; and market information on key items.

100. Most procurement transactions in United Nations organizations might be for low-value and low-risk items, with a high proportion of resources used to support them. The organizations should therefore strive to standardize these items and aggregate procurement through system/framework/LTA contracts, purchasing cards and streamlined procedures. These measures will increase leverage and allow the organizations to drive prices down and lower transaction costs. They will also enable procurement staff to concentrate on areas where they can add most value – i.e. procurement of complex goods and services that require project development and management skills rather than traditional purchasing skills.

101. LTAs are an important method to improve efficiency in the organizations. However, without an analytical approach there is a risk that LTAs could end up being simple contracts without any additional efficiency value. Organizations should have clear objectives and criteria regarding the establishment and use of LTAs and should systematically assess their performance in order to maximize benefits. Besides increasing the number of items subject to LTAs, organizations should consider making the use of LTAs compulsory where feasible.

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<sup>22</sup> Office of the Auditor-General, New Zealand, *Procurement Guidance* (footnote 18 above), p. 28.

102. The implementation of the following recommendations is expected to increase efficiency in procurement activities.

**Recommendation 4**

**Executive heads should develop and maintain a dynamic procurement strategy based on the comprehensive analysis of procurement spend with a view to ensuring the achievement of optimum effectiveness and efficiency for all procurement activities in their organizations.**

**Recommendation 5**

**Executive heads should regularly review the performance of LTAs and try to maximize their use by collecting and analysing relevant statistics and seeking more standardization and demand aggregation in the procurement of goods and services.**

**Recommendation 6**

**Executive heads, as part of their strategy development, should use techniques such as low/high-risk and low/high-value matrices to identify areas where procurement resources can have the most impact, with a view to ensuring that these areas get adequate attention.**

### **B. Supply chain management approach**

103. The supply chain approach considers end-to-end processes for the purchase and use of goods, and cuts across departmental lines to ensure the achievement of best value from the whole chain. It includes planning/forecasting, procurement, production, financing, transportation, inventory storage, internal distribution, maintenance and disposal. In other words, supply chain management is the management of procurement, goods and logistics in an integrated manner with a view to achieving optimum value from the whole chain. It requires organizations to identify risks and opportunities in these processes and encourages the individual segments of the supply chain to work together to ensure the success of the whole process.

104. UNICEF, UNHCR and UNRWA have brought their procurement and logistic functions under one umbrella in order to ensure more effective supply chain management. UNICEF has developed specific strategies for product categories, logistics, partnership and performance benchmarking, viewing the whole supply chain as one integrated process. It has also trained staff in the end-to-end supply chain approach.

#### **Report of the Advisory Committee on Administrative and Budgetary Questions**

105. In its procurement-related report (A/64/501) of 2009, the Advisory Committee on Administrative and Budgetary Questions called on the Secretary-General to develop an integrated supply chain approach to the procurement function, stating that:

The Committee is of the view that there is a need to improve the functioning of the end-to-end supply chain at the Secretariat. The Committee encourages the Secretary-General to develop an integrated supply chain approach to the procurement function in the United Nations. This approach

would cut across departmental lines, overcoming structural obstacles, so as to ensure that the products reach the client in a timely manner while meeting all other requirements.<sup>23</sup>

106. The United Nations Secretariat has recognized the importance of integrating supply chain management into its peacekeeping procurements, with the Secretary-General noting in 2007 that:

Integrating procurement into the supply chain management system and simplifying the line of authority and accountability for procurement would also help address the underlying weaknesses in controls ... by simplifying and strengthening the chain of responsibility, authority and accountability.<sup>24</sup>

107. Recently, efforts have been made in the United Nations to improve the supply chain management functions by harmonizing regulations and rules, streamlining processes and fostering a clearer division of labour.<sup>25</sup> The Inspectors are of the opinion that supply chain management is beneficial, particularly for the large amount of goods that the organizations must purchase, store and distribute. **Executive heads should consider adopting an integrated supply chain approach for procurement activities, particularly for large-volume items.** Organizations that have separate departments should develop a team approach to ensure that the supply chain management approach is adopted for the purchase of key goods. Supply chain management should be integrated into procurement planning and strategy development, particularly in organizations with major procurement portfolios.

108. United Nations organizations that procure the same/similar items can consider integrating their supply chains for these items in order to achieve higher value from the whole chain. This would be easily possible for organizations that have similar programmatic activities. Given the total value of procurements in the system, supply chain management could provide immense opportunities for higher efficiency, for example by establishing interagency warehouses and delivery systems.

### C. Risk management

109. Procurement activities carry high inherent risk and therefore require proper risk management (risk identification, assessment and mitigation) procedures. Risk management should be an integral part of day-to-day operations and a key element in monitoring procurement activities. The use of risk management in procurement function takes several forms. First, the organizations should undertake periodic risk assessments of their procurement departments/units. Second, risk management should be used as an important tool in the analysis of procurement activities. Third, risk management should be an integral part of the tendering, contract preparation and management processes, particularly in the case of medium- to high-value procurements.

110. The review found that most organizations do not have proper risk management practices. They do not exercise risk-based analysis of their procurement activities; and risk assessment is not integrated into the preparation and implementation of individual procurements and contract management. Many organizations undertaking large projects use risk management, but only because of the requirements of project management rather than that of procurement rules and procedures. Since ERM has not been fully

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<sup>23</sup> Para. 22.

<sup>24</sup> “Comprehensive report on strengthening the capacity of the United Nations to manage and sustain operations” (A/61/858), para. 109.

<sup>25</sup> Report of the Secretary-General on simplification and harmonization of the United Nations development system (E/2011/88), para. 11.

operational in many organizations, risk assessment and management have not yet become an integral part of the activities.

111. IAEA and the ILO require risk assessment for individual procurements over a certain threshold. In IAEA this applies to each procurement action exceeding €25,000. Where a tender is to be conducted, the ILO requires that a risk register be completed by the requisitioner. The Inspectors would like to emphasize that risk assessment should be built into the procurement process and analysis of procurement activities.

112. The implementation of the following recommendation is expected to enhance accountability.

**Recommendation 7**

**Executive heads should integrate risk management into the procurement process. This should include the operation of procurement units, analysis of procurement activities and the implementation of individual procurements.**

#### IV. SUSTAINABLE PROCUREMENT

113. The HLCCM Procurement Network defines sustainable procurement as practices that “integrate requirements, specifications and criteria that are compatible and in favour of the protection of the environment, of social progress and in support of economic development, namely by seeking resource efficiency, improving the quality of products and services and ultimately optimizing costs”.<sup>26</sup>

114. The definition of sustainable procurement includes three aspects: economic, social and environmental. While economic factors include the costs of products and services over their entire life cycle, social factors include social justice and equity, safety and security, human rights and employment conditions. Environmental factors include emissions to air, land and water, climate change, biodiversity and natural resources.<sup>27</sup> In the United Nations system, however, sustainable procurement is mostly associated with environmentally friendly or green procurement, with discussions and efforts focusing mainly on this area.

115. The economic factor is a fundamental pillar of procurement and has been integrated into the procurement policies of the organizations through the adoption of the best value for money principle. The review found that the organizations had not reached a consensus regarding the adoption and integration of policies with respect to the two other pillars. Therefore this section of the present note will focus on the social and environmental aspects of procurement policies.

116. The Inspectors are of the opinion that in order to draw adequate attention to both issues and prevent social issues from being pushed off the agenda; it would be advisable to tackle environmental and social aspects of procurement separately during the policy-development stage. There is no denying that there is a close connection between these two issues, but this should not be a reason for “mixing” them, causing attention to be diverted away from the social aspects. It is noteworthy that the websites of the World Bank and Asian Development Bank have separate sections with information on their policies on environmentally and socially responsible procurement.

##### A. Environmentally responsible/friendly/green procurement

117. The JIU report entitled “Environmental profile of the United Nations system organizations” (JIU/REP/2010/1) found that most of the organizations had developed an awareness of sustainable procurement. Some ad hoc initiatives related to sustainable procurement had been launched, but policies and practices were yet to be adopted. Although inter-organizational collaboration under the lead of the United Nations Environment Programme (UNEP) had produced several initiatives, the United Nations system had no system-wide sustainable procurement policies and guidelines. The report found that one reason for this situation is the concern of some Member States about the potentially limited access for their suppliers to the United Nations market, as a result of the inclusion of sustainability criteria in the procurement processes. It has been argued that sustainable procurement would amount to a de facto non-tariff barrier to trade that would impede access to markets for developing countries (JIU/REP/2010/1, para. 118). In the report, the Inspectors recommended that the executive heads of the United Nations

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<sup>26</sup> UNOPS, *2008 Annual Statistical Report on United Nations Procurement: Sustainable Procurement Supplement* (2009), p. 4; United Nations Environment Programme, *Moving Towards a Climate Neutral UN* (2011), p. 23.

<sup>27</sup> Comprehensive report of the Secretary-General on United Nations procurement activities (A/64/284/Add.2), para. 7.

system organizations involved in field activities establish in-house sustainable procurement policies and guidelines, taking account of the local conditions of the host country and the needs of field offices.<sup>28</sup>

118. Decisions have been taken over the years on the international forums to encourage environmentally friendly policies in many aspects, including procurement. The Governing Council of UNEP recently adopted decision 26/11, in which it encouraged the Environment Management Group:

To continue supporting the implementation of the United Nations climate-neutral strategy and advancing the sustainability of policies, management practices and operations in the United Nations system, including sustainable procurement, and the establishment of an agreement to put in place a process for environmental impact assessment and the use of environmental and social safeguards in respect of projects taken up directly by the organizations of the United Nations system.<sup>29</sup>

119. Although most organizations have adopted some practices relating to environmental procurement, these practices are not underpinned by a clear policy. In its resolution 62/269, the General Assembly requested the Secretary-General to prepare a comprehensive report on the sustainable procurement issue to be discussed at its sixty-fourth session. The Secretary-General presented his report on sustainable procurement (A/64/284/Add.2) in 2009. The General Assembly in its procurement review considered a number of procurement-related reports, including the sustainable procurement report of the Secretary General, and adopted resolution 65/261 at its sixty-fifth session. In the resolution, the General Assembly decided to consider further those reports, including the sustainable procurement report, at the first part of its resumed sixty-seventh session (2013), and requested the Secretary-General to submit an updated comprehensive report on United Nations procurement activities for its consideration at the same session. A possible policy decision of the General Assembly on sustainable procurement would be an important signal across the system.

### Concerns

120. Some concerns identified regarding green/environmentally responsible procurement are as follows:

- Absence of an environmentally responsible procurement framework/policy which is broadly accepted by the United Nations system organizations
- It may exclude suppliers from developing countries and countries with economies in transition from participating in bids; as such, it can be perceived as a disguised barrier for the suppliers of these countries
- It is difficult to balance the trade-offs between environmental, social and economic considerations
- It may lead to an increase in the cost of procurement.

121. These concerns are legitimate, but should not prevent the adoption of environmental policies. Rather, policies should be developed and implemented gradually, taking into account these concerns. Assumptions regarding the inability of vendors from developing countries to produce environmentally friendly products and services may not be necessarily correct in many cases. All countries, including developing countries, have in recent years been moving towards establishing standards and regulations to protect the environment and climate. Vendors from developing countries are also integrating environmental standards into their exported products when required by the regulations of importing countries, such as member countries of the European Union.

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<sup>28</sup> Ibid., p. 30, recommendation 10.

<sup>29</sup> *Official Records of the General Assembly, Sixty-sixth Session, Supplement No. 25 (A/66/25)*, annex.

122. The cost of environmentally friendly products can be higher or lower depending on their origin. In some cases, if the whole life-cycle cost is taken into account, the cost of a green product can be lower than that of a conventional one. For example, according to a UNEP study, the results of taking a life-cycle approach in purchasing electrical appliances indicate that green products may cost less than traditional ones.

123. It is important to keep in mind that the pillars of sustainable procurement can complement each other in many cases. For instance, local procurements in developing countries can support economic and social development, and help reduce energy consumption and the total cost of products because of lower transportation costs. Many officials stated that, by applying the total life-cycle cost criteria of best value for money, staff were already implementing green procurement without identifying it as such.

124. Some organizations in the United Nations system have already made progress in adopting environmentally friendly procurement policies. UNDP has developed a practice guide and policy. UNOPS has incorporated a chapter on sustainable procurement in its procurement manual and has developed guidelines. It considers that sustainable procurement should play a pivotal role in every organization's procurement and supply chain management strategy. UNEP has developed eight sets of guidelines for the sustainable procurement of specific products and services, including information technology, cleaning, stationery, furniture, vehicles, catering and generators.<sup>30</sup> These guidelines have been endorsed by the HLCCM Procurement Network and are available through the UNGM knowledge centre.

125. Many organizations are implementing green procurement in the areas of building construction and maintenance, office equipment and cleaning/catering services. They are also integrating green requirements in their product specifications and evaluation criteria. Depending on the case, UNEP provides an additional weighting of 10 per cent to favour green requirements in its evaluations. UNEP is the only organization found to add a set weight to green elements.

126. FAO, WIPO, the United Nations and UNFPA follow UNEP guidelines in procurement for headquarters and include environmental factors in the procurement of construction materials, energy, information and technology equipment, paper and stationery. The LTAs of UNICEF contain elements of sustainable/green procurement in the area of cleaning services, where bids are issued with the requirement of using exclusively environmentally friendly cleaning products. UNICEF also issues bids on generators where 20 per cent of the evaluation criteria is dedicated to environmental issues, e.g. air and noise pollution, fuel consumption, ISO certification, packing cartons and material. The Common Procurement Activities Groups in Rome and Geneva consider incorporating on a case-by-case basis green procurement elements in their tender documents for goods and services such as cleaning products, catering and office supplies.

127. There is no one-size-fits-all green procurement policy that can apply to all the organizations and all goods and services. Green procurement of some goods can be easily implemented when it does not entail extra costs or limit the participation of vendors, but it tends to become controversial when it means higher costs and the exclusion of suppliers from developing countries. That said, it is possible and necessary for the organizations to develop a general policy framework that establishes good practices and encourages progress in green procurement.

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<sup>30</sup> UNEP, report of the Executive Director on enhanced coordination across the United Nations system, including the Environment Management Group, document UNEP/GC.26/15, para. 54.

128. UNEP has already started developing green policy guidelines for specific areas. These provide basic and advanced green criteria and establish a good basis on which to develop specific implementation policies. For example, organizations can choose to apply advanced criteria in developed countries and basic criteria in developing countries. The establishment of such guidelines and criteria must be based on market research and close dialogue with vendors, who should be informed well in advance of any policy changes so as to allow them to make the necessary adjustments.

129. Cognizant of the complexity and importance of the issue, several organizations have already started providing training in green procurement. UNEP has trained 120 staff. UNFPA has set up a green team and has been offering training on how to calculate carbon dioxide emissions and other related aspects of green procurement. UNOPS is conducting sustainable procurement training for procurement staff at headquarters and at its operations centres in the field. The Sustainable United Nations initiative has delivered practical training in some countries on how to implement green procurement.

130. The World Bank has taken steps to integrate green procurement into its corporate procurement and to monitor the supply chain to ensure adherence to environmental requirements. For instance, before the World Bank concluded a contract for the procurement of office paper, officials visited suppliers' mills and looked at their manufacturing processes, including lumber and transportation methods, and received environmental information for each step of the supply chain.

131. Although the United Nations system has integrated some elements of environmentally friendly procurement practices, most organizations do not have clear policies and guidelines in this area. Implementation is mostly ad hoc and fragmented. Given the importance of environmental issues and worldwide efforts to protect the environment and the climate, United Nations organizations cannot avoid integrating environmental concerns into their procurement policies. The Inspectors recognize that this issue is complex and that changes cannot be made overnight and therefore recommend that environmentally friendly procurement policies be introduced gradually, taking into account local conditions and requirements. **The policies should make sure that effective competition is secured and that vendors from developing countries are not excluded. Executive heads should inform their governing bodies of their policies and related impact evaluations and seek their guidance. In order to facilitate process and have a consistent approach, the HLCM Procurement Network should develop a general policy framework for the adoption and implementation of the organizations.**

132. The implementation of the following recommendation is expected to enhance the effectiveness of environmentally responsible procurement practices.

**Recommendation 8**

**Executive heads should, with the guidance of governing bodies, develop and gradually implement environmentally responsible procurement policies and guidelines in compliance with the principle of competition and with all due respect for the access of developing countries and countries in transition to procurement.**

## **B. Socially responsible procurement**

133. The Inspectors found that United Nations system organizations do not have a consolidated approach to socially responsible procurement. Their approach is selective, fragmented and varied, and depends on the specific interest of each organization. In general, elements of socially responsible procurement can be found in the organizations' general conditions of contracts (GCCs), such as prohibition of the use of child labour and sexual exploitation and the exclusion of vendors who manufacture anti-personnel mines (UNDP, UNFPA, UNHCR, UNICEF, the United Nations, UNOPS and UNRWA). The 1998 ILO Declaration on Fundamental Principles and Rights at Work, which includes freedom of association and the effective recognition of the right to collective bargaining, the elimination of forced or compulsory child labour; the abolition of child labour, and the elimination of discrimination in respect of employment and occupation, is included in the GCCs of FAO, the ILO and UNOPS.

134. The GCC of ILO includes references to the ILO conventions on wages, working hours, safety at work and other working conditions. UNHCR includes a prohibition of the exploitation of refugees and other persons of concern to the organization. These are good illustrations of organizations using procurement to further their strategic objectives. It should be stressed, however, that incorporating these principles into GCCs, although important, is not sufficient. Specific policies should be developed on how to verify and monitor the compliance of the vendors with the terms and guidelines, to help staff members weigh such concerns consistently in each phase of the procurement process.

135. One tool for promoting socially responsible procurement could be the Global Compact Initiative, which directly incorporates the ILO Declaration on Fundamental Principles and Rights at Work. The Global Compact sets out 10 universally accepted principles, encompassing four areas (human rights, labour, environment and anti-corruption), that businesses must adhere to and embed in their labour practices and supply chains worldwide.

136. A recent JIU report on the role and functioning of the Global Compact<sup>31</sup> found that although the procurement function of the United Nations supported the principles, these were not applied or enforced in procurement. On the advice of the Legal Division, the United Nations Procurement Division had taken the position that "the Global Compact should be viewed as a learning tool and something to aspire to, and not a concept to be enforced, as the Secretariat has neither the proper mechanism nor resources to monitor compliance by vendors".<sup>32</sup> Although vendors are asked whether they are party to the Global Compact when registering through UNGM, it is currently not being used by the organizations to enforce the implementation of its standards.

137. Considering the lowest procurement cost as the sole objective can promote bad social practices. Suppliers who use child and forced labour, who do not provide social benefits (retirement and health insurance) or who pay less than the legal minimum wage are, of course, likely to offer the lowest price in procurement tenders. In some cases the contracting supplier may offer good employment conditions but its subcontractor may not apply those good practices. Organizations therefore need to identify all the elements required for socially responsible procurement and integrate them into a single legally binding document, preferably in GCC. This document should become an integral part of all procurement tender documents from the beginning of the process, including requests for proposals and invitations to bid. Secondly, the organizations need to develop further guidelines to sensitize staff and provide methods of implementation.

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<sup>31</sup> United Nations corporate partnerships: the role and functioning of the Global Compact (JIU/REP/2010/9).

<sup>32</sup> *Ibid.*, para. 36.

138. Although there is no active approach in implementing socially responsible procurement practices, some organizations have taken steps in this regard. UNICEF officials explained that they conducted inspections of factories of vendors that supply the organization with key goods, in order to ensure compliance with principles related to child labour, anti-personnel mines and waste management.

139. The Inspectors were informed that **at the latest HLCM Procurement Network meeting it was announced that the new United Nations sustainable procurement guide was at the final draft stage and that the social component has been covered in considerable detail, with input from the ILO. Organizations should review their policies in the light of the present Note and the work of the HLCM Procurement Network, with a view to ensuring that their policy and practices are in line with best practices.**

#### **The World Bank practice**

140. The socially responsible procurement policy of the World Bank states that “as a socially responsible organization, the Bank Group, through its corporate procurement practices, endeavours to integrate socially responsible suppliers into its supply chain”.<sup>33</sup> The World Bank’s policy on sustainable procurement covers areas such as wages and benefits, health and safety at the workplace and accessibility issues. Bank officials state that this policy is fully reflected in the requests for proposals, requests for quotations, and invitations for bids, included as evaluation criteria in technical evaluations and considered in the cost analysis of all quotations, bids, and proposals received in identifying the best bidder.<sup>34</sup>

141. The World Bank also has a policy on supplier diversity. It states that the World Bank provides opportunities for the access and growth of minority-, women-, and disabled-owned business enterprises (MWDBEs) with an emphasis on measurable results and continuous improvement. The primary objective is to increase the participation of MWDBEs in contracts it awards. The World Bank has a set of targets, of which a certain percentage must be from MWDBE vendors. Bank officials reported an increase in MWDBE participation, which they credited to the proactive attitude and market research of contract officers, who contact MWDBE vendors and encourage them to bid. If their offer is rejected they are given feedback on the quality of their bid. Officers expect that market research, sensitization and vendor education will lead to a diversified vendor base.

142. The implementation of the following recommendation is expected to enhance the effectiveness of socially responsible procurement practices.

#### **Recommendation 9**

**Executive heads should review the social aspect of their procurement policy and practices with a view to ensuring that their policy includes all important social elements, and that guidelines are provided for effective implementation.**

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<sup>33</sup> World Bank, “Socially Responsible Procurement”, para. 1.1, available from <http://go.worldbank.org/AORDIQYRF0>.

<sup>34</sup> Ibid., para. 1.4.

### C. Procurement from developing countries and countries with economies in transition

#### Share of developing countries in the total procurement of the United Nations system

143. Procurement from developing countries and countries with economies in transition (henceforth cited as developing countries) is an important aspect of socially responsible procurement repeatedly endorsed by the General Assembly in its resolutions on procurement reform.<sup>35</sup>

**Table 2**

Year	Procurement share of developing countries and countries with economies in transition <sup>36</sup>		
	Procurement from developing countries (millions of United States dollars)	Total procurement (millions of United States dollars)	Share of developing countries (percentage)
2004	2,291	6,526	35.1
2005	3,594	8,331	43.1
2006	5,166	9,404	54.9
2007	5,425	10,113	53.6
2008	6,972	13,594	51.3
2009	7,576	13,797	54.9

144. As can be seen in table 2, organizations have increased the procurement volume from developing countries substantially. The volume of procurement from developing countries more than tripled between 2004 and 2009, jumping from US\$ 2.3 billion to \$7.6 billion. The share of total procurement of countries in this category increased around 20 percentage points in the same period (from 35 to 55 per cent). However, considering the large number of these countries, the fact that their share of total procurement is just over half indicates there is still room for improvement. Given that promotion of development is a major objective of the organizations and that procurement is considered one of the tools to this end, organizations should strive to further increase procurement from developing countries.

145. The total procurement volume of four United Nations organizations (the United Nations, UNDP, WFP and UNICEF) makes up the bulk of overall procurement in the system. In 2009 their procurement accounted for 76 per cent of the total procurement volume across the system. Any change in their procurements from developing countries significantly affects the total share of procurements from those countries. The share of developing countries in the total procurement of these organizations between 2006 and 2009 is indicated in table 3.

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<sup>35</sup> See General Assembly resolutions 59/288, 61/246 and 62/269.

<sup>36</sup> UNOPS, *Annual Statistical Reports*, 2004-2009.

**Table 3**

**Procurement share of developing countries and countries with economies in transition in the top four United Nations organizations (percentage)<sup>37</sup>**

	2006	2007	2008	2009
UN	44.5	40.6	33.8	28.7
UNDP	88.0	80.6	81.0	79.9
WFP	38.9	43.6	46.0	78.3
UNICEF	45.4	47.2	42.3	40.5

146. As can be seen, UNDP is the leading organization, procuring most of its goods and services (80 per cent) from developing countries. However, the share of developing countries declined from 88 per cent in 2006 to 79.9 per cent in 2009. In WFP, the share of developing countries jumped from 38.9 to 78.3 per cent, preventing a fall in the total share of developing countries across the system in 2009. WFP explains that the large increase in its procurement from developing countries is partly attributable to its Purchase for Progress initiative, which aims to help local economies through local purchases following the principle of best value for money.

#### **Diversification of vendor base: top 10 countries in procurements**

147. A review of the top 10 countries supplying goods and services to United Nations organizations in 2004 and 2009 showed that the same countries remain on the list and that the developed countries continue to be in the majority. Of the top 10 countries, 8 that figured on the list of 2004 were also on the list in 2009.<sup>38</sup> The total share of the top 10 in total procurement volume was around 46 per cent both in 2004 and 2009. This situation shows a longstanding concentration of procurements in a limited number of countries, reflecting a lack of improvement in the diversification of the procurement base.

148. Despite calls for the diversification of vendor sources and vendor geographic diversification, it seems that the same countries continue to dominate the supply market for the United Nations system. Out of four developing countries joining the list in 2009, Afghanistan and Sudan made it onto the list mainly due to transportation and construction work being carried out in these two countries, which may not reflect a genuine diversification of the vendor base. Moreover, no African countries are represented in the top 10 apart from Sudan.

#### *Reliability of data: problems of definition*

149. The statistics in table 3 were taken from the UNOPS annual statistical reports on procurement. During the finalization of the present note, the United Nations officials informed the Inspectors that the figures in the table do not match their calculation. According to the United Nations Procurement Division the correct percentages for the United Nations in 2006, 2007, 2008 and 2009 were 54.2, 52.2, 46.4 and 40.5 per cent, respectively. The Procurement Division explains that the reason for the discrepancy between the figures on its website and those in the UNOPS reports is the list of countries considered as developing and transition economies. The officials further explained that the Procurement Division uses

<sup>37</sup> UNOPS, *Annual Statistical Report on United Nations Procurement (2006 to 2009)*.

<sup>38</sup> The top 10 countries in 2004: United States of America, Belgium, France, Italy, United Kingdom of Great Britain and Northern Ireland, India, Afghanistan, Switzerland, Russian Federation and Denmark. Top 10 countries in 2009: United States, Switzerland, India, Sudan, Russian Federation, Afghanistan, United Kingdom, France, Italy and Belgium. UNOPS, *Annual Statistical Reports of United Nations Procurement (2004 and 2009)*.

the list obtained from the Department of Economic and Social Affairs, while UNOPS uses UNDP as the basis for its criteria, which excludes the Russian Federation and Israel as developing and transition economies.

150. Differences in the countries included in the lists, and hence the inconsistency in statistics, represent a serious problem for real analysis and conclusions. **The Inspectors suggest that organizations agree on a common definition of statistics and introduce them consistently. The Inspectors further suggest that UNOPS publish statistical tables showing the procurement shares of developing countries and countries with economies in transition separately to allow better analysis and monitoring.**

151. The data seems to confirm significant levels of procurement from developing countries and countries with economies in transition. It is unclear, however, whether this data reflects country-of-origin certificates or simply the registered location of the vendor. The lack of clear guidelines regarding the identification and reporting of data on procurements from these countries raises questions about its reliability. **The Inspectors suggest that organizations discuss and agree on what constitutes procurement from this group of countries.**

152. The data needs to be more transparent, consistent and relevant. For instance, can a vehicle purchased from a local dealer of a multinational company be considered procurement from the country of the local dealer? **The Inspectors suggest that HLCM Procurement Network come up with a definition of “procurements from developing countries and countries with economies in transition” to serve as a guideline for the organizations to correctly and consistently identify and report procurements from developing countries.**

#### *Problems with UNGM*

153. Key factors identified throughout the interviews that hinder more procurement from developing countries were the complexity of registering with UNGM, and that UNGM currently functions only in English. It is difficult for smaller vendors from developing countries to comply with the requirement to submit numerous documents when registering online. In the field, the use of the local language will obviously increase the understanding and participation of local vendors. The Inspectors would like to remind the organizations that due respect must be given to all six official languages of the United Nations. Officials stated that they were aware of the problems, and were trying to solve them by introducing more languages and simplifying the registration requirements for small vendors. They further explained that UNGM is adopting a new coding system and it will be available in 10 languages, including four United Nations official languages.

154. The Inspectors were informed that the United Nations Procurement Division has recently financed the translation of UNGM into French and Spanish. It is expected that UNGM will be available in three official United Nations languages in 2012. It is also expected that at the next HLCM Procurement Network meeting, members will be requested to set up a working group to review the registration procedures of each organization in order to simplify the UNGM registration procedure. It is envisaged that if the results are endorsed by the membership, a concept paper will be prepared for assessment and funding. **The Inspectors understand that further improvements require financial resources and urge the executive heads of the organizations to allocate the necessary resources for improvement.**

#### *UNHCR and UNICEF practices*

155. Most of the organizations do not have specific incentives to increase procurement from developing countries. UNHCR states in its “Report on Sustainable Procurement” that the objectives of sustainable procurement should be improving the livelihood of local communities and incomes within

national markets, while combating child labour. UNHCR allows for a 15 per cent price differential for local suppliers in selected cases where there are direct benefits to the community or considerable value added elements.<sup>39</sup> ILO has issued a specific circular stating that “if after evaluation and comparison, two offers are equal under all criteria, preference should be given to equipment manufactured in a developing country and/or to works and services to be carried out/performed by a firm of a developing country”.<sup>40</sup> The United Nations Procurement Division is making efforts to diversify its vendor base by conducting business and vendor registration seminars in developing countries.

156. UNICEF has unique policies for the procurement of its strategic products, such as vaccines, syringes and therapeutic food. Its procurement objectives include increasing the number of local suppliers for key products and their global availability. For instance, its procurement strategy for therapeutic food is to increase the number of companies in the country of use. UNICEF calls its strategy “market shaping”. Officials explained that in order to promote local production of certain products, they encourage local suppliers to enter the market by allowing them a price differential of up to 25 per cent. They hope that these policies will help expand their vendor base and help local industries in developing countries to flourish, which will ultimately result in a more competitive market and lower prices. They also expect that these policies will promote sustainability and reduce the risk of product shortages in times of surging demand.

157. UNICEF officials explained that for one specific product, there was initially only one supplier, which was from a developed country. Thanks to the implementation of the market shaping strategy, the number of suppliers of that product has increased over the years to 13. Although the targeted strategy of UNICEF is commendable, it has not adopted a policy document to guide these efforts, and no public information about suppliers and prices applied is available. This creates a lack of transparency and poses a risk for the organization. Still, the strategy provides a good example of positive discrimination in cases where the manufacturing of certain goods in developing countries can promote sustainable development and ultimately increase competition and lower prices.

158. The Inspectors were informed that the HLCM Procurement Network was also looking into the issue of promoting procurement from developing countries and supporting capacity development for procurement in countries where United Nations organizations operate. A working group on the subject was looking at increasing the number of training courses and business seminars to potential vendors in different regions in an effort to increase the supplier base from developing countries.

159. United Nations organizations have made progress over the years to increase their vendor base and procurement from developing countries. However, there is further room for progress in these areas. **The organizations need to be proactive in finding ways to use procurement, which makes up a large part of their spend, as a strategic tool to further their development objectives, rather than focus on short-term efficiency gains. Aligning procurement objectives with their broader goals requires increasing the participation of suppliers from developing countries.** The executive heads of the organizations should pursue such an approach based on an analysis of their procurement portfolio and the broader objectives of their organizations. This approach can include establishing targets to increase procurement from developing countries, sensitizing staff with training, allowing price differentials in some cases, and holding more workshops or seminars for vendors from developing countries.

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<sup>39</sup> UNHCR, “Report on sustainable procurement: initiatives taken and suggested next steps”, p. 22.

<sup>40</sup> ILO Circular No. 8/58, Procurement and Contracting General, para. 5.9.4.

160. The implementation of the following recommendation is expected to enhance the effectiveness of efforts to increase procurement from developing countries.

**Recommendation 10**

**Executive heads should pursue proactive and pragmatic policies to increase procurement from developing countries and countries with economies in transition. This should include, inter alia, a clear definition of relevant data, the introduction of selective incentives, the use of multiple languages and the sensitization of staff.**

## V. ETHICS MANAGEMENT AND VENDOR ISSUES

### A. Ethics management

161. The JIU report entitled “Ethics in the United Nations system” noted that “unethical behaviour and corrupt practices on the part of a few continue to mar the work and reputation of United Nations system organizations”.<sup>41</sup> This statement applies in particular to procurement, with several cases in the past leading to extensive negative media coverage. Thus, ethics and transparency are crucial aspects which need to underpin all procurement actions.

162. With the increasing importance of ethics, United Nations organizations have issued a myriad of policies relating to the different aspects of ethical procurement (see annex II for a summary). In the context of the present study, the following aspects of existing policies and practices have been reviewed:

- Conflict of interest
- Financial disclosure
- Gifts, favours and hospitality
- Post-employment restrictions
- Vendor/Supplier Code of Conduct
- Whistleblower protection.

163. The main reference in the United Nations system for a code of conduct is the Standards of Conduct for the International Civil Service. Most organizations refer to these standards in their procurement manual or on their procurement websites. Some organizations have taken it a step further and have developed specific guidance in sections or chapters of their procurement manuals. UNIDO, UNDP, FAO, ILO, the International Maritime Organization (IMO), the International Telecommunication Union (ITU), the United Nations, UNDP, UNESCO, UNIDO, UNOPS, UNRWA, WFP, WIPO and WMO have all embedded ethical issues into their procurement regulations and manuals.

164. UNRWA has developed specific standards for a procurement code of conduct and UNOPS has detailed guidance for all staff involved in procurement actions. WIPO added a section entitled “Code of Conduct of Procurement staff” to its general code of conduct. The ILO and UNIDO deserve special mention, in that these two organizations require staff involved in procurement processes to sign a declaration to uphold ethical standards in all stages of the procurement process. This declaration focuses on ethical issues and the code of conduct during procurement.

### ILO and UNIDO experience

ILO procurement staff sign a declaration of principles and a requirement for ethical conduct. In addition, members of evaluation panels sign a declaration of confidentiality. In UNIDO, each participant in the procurement process is expected to be familiar with procurement ethics and professional responsibility and is required to fill out a declaration form of compliance with UNIDO procurement ethics and professional standards.

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<sup>41</sup> JIU/REP/2010/3, para. 2.

### Conflict of interest

165. Perceived conflict of interest situations are just as important as real ones, and staff involved in the procurement process (both requisitioners and procurement unit staff) must err on the side of caution in declaring even the slightest perceived conflict of interest. In many organizations, once a staff member declares a conflict of interest in a given activity, the Ethics Office has to decide whether that official should excuse himself or herself from that activity. Practice regarding the declaration of conflict of interest varies within the system.

166. UNOPS, UNRWA, UNFPA, UPU, WIPO, WMO, the United Nations, IMO, ILO and FAO have a policy stating that staff should report any conflict of interest as soon as it arises. The Inspectors note that these policies rely on staff making a voluntary declaration, rather than being a requirement for each and every significant procurement action in which staff are involved. ICAO, ILO, IAEA, WHO, the United Nations and UNIDO practices can be considered more effective, as they all go a step further and oblige staff to declare no conflict of interest either annually or per significant procurement action.

### Good practices in conflict of interest

**ICAO:** Conflict of interest declaration is signed by all procurement staff along with the financial disclosure form. The documents are submitted to the Legal Office in a sealed envelope on an annual basis.

**ILO:** Procurement staff complete a declaration attesting that they have no conflict of interest in participating in a procedure and will maintain the confidentiality of information during the procurement process.

**IAEA:** Requires the submission of a Declaration of Impartiality and Confidentiality by all participants for significant procurements.

**UNIDO:** Procurement staff fill out, per procurement action, a Declaration of Compliance with UNIDO Procurement Ethics and Professional Standards. The Declaration includes the following clause: "I shall not have a financial interest in any suppliers responding to a UNIDO solicitation, and am prohibited from any involvement in the procurement action if I have such an interest...My actions in the procurement process shall be transparent so that it can be verified that these standards have been upheld."

**United Nations:** United Nations Terms and Conditions include clauses dealing with confidentiality, collusive bidding and other anti-competitive conduct, improper assistance, use of former United Nations employees in the preparation of proposals and process, corrupt practices and conflict of interest. Further, bidders are requested to abide by these clauses in their submissions. In cases where a violation of the terms and conditions is identified, the United Nations will have the right: to reject a proposal; to declare a company ineligible, either indefinitely or for a stated period of time, to become a United Nations registered vendor; and/or to terminate any contract entered into with such a vendor.

**WHO:** Designated staff fill in a declaration of interest form (covering also financial disclosure) which provides guidance on what kind of conflict of interest situations may arise.

167. Among the organizations, UNFPA, UNDP, ILO, IMO, ICAO and FAO require vendors to sign a conflict of interest declaration. For instance, the ILO requires suppliers to sign a declaration that covers conflict of interest and confidentiality issues and to declare whether they are included in the United Nations Security Council sanction list or whether they are subject to sanctions imposed by another agency in the United Nations system, including the World Bank.

168. **An ideal practice could be to require all staff involved in procurement to fill out a declaration of no conflict of interest per procurement action over a certain threshold and require suppliers/vendors to do the same,** as is the practice at the European Commission. The Inspectors are of

the view that these practices create better awareness and increase accountability. UNFPA and WIPO have included in the declaration form possible consequences for staff and vendors in case of failure to disclose a conflict of interest. Although signing a conflict of interest declaration may imply accountability, the integration of an explicit provision for consequences can increase its impact and legal power.

### Good practices in conflict of interest

**UNFPA:** If found in breach of the conflict of interest rules, the vendor will be criminally liable and UNFPA has the right to cancel the contract and to demand that the vendor pay for any loss or damage resulting from the cancellation.

**WIPO:** Officials involved in a procurement action shall disclose in advance any possible conflict of interest that may arise in the course of carrying out their duties. Failure to do so may result in appropriate disciplinary action or other appropriate civil and/or criminal action.

### Financial disclosure

169. The Inspectors found that all the organizations have adopted a financial disclosure policy except IMO, ITU and UNWTO. In all cases this policy covers officials at the D-1 level and above, procurement staff, staff who exercise financial authority or investment of organizational funds and, in some instances, ethics officers. From the procurement perspective, the Inspectors are of the opinion that inclusion of only procurement staff lacks the necessary coverage.

170. A distinction should be made between “staff in procurement” and “staff engaged in procurement”, the latter covering also requisitioners, who may be tasked with drawing up specifications and conducting evaluations, sensitive phases which inherently carry critical risks in terms of possible irregularities. Therefore **organizations should review the scope of the financial disclosure policies to ensure that they apply to all staff involved in procurement (requisitioner units, consultants, procurement committees, etc).** UNICEF and UNHCR have a comprehensive definition of “officials engaged in procurement”<sup>42</sup> which other organizations may consider adopting.

171. The present review found that financial disclosures were made on an annual basis and were usually filed with the organization’s ethics office (United Nations, UNDP, UNFPA, UNICEF and WFP). In 2010, the United Nations had over 4,100 financial disclosure statements to process. The Inspectors are of the opinion that the organizations should continue to require staff to fill in financial disclosure forms in sealed envelopes and, as recommended by the JIU report on ethics,<sup>43</sup> randomly verify a sample of declarations.

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<sup>42</sup> The UNICEF definition of “officials engaged in procurement” covers “personal, significant and substantive involvement in any of the following activities: (a) drafting, reviewing or approving specifications or statements of work; (b) preparing or developing solicitations; (c) identifying potential contractors or vendors; (d) managing the contractor or vendor database or the registration of new contractors or vendors; (e) evaluating bids or proposals or selecting a source; (f) negotiating price of terms and conditions of the contract; (g) reviewing and approving the award of the contract; (h) signing the contract; (i) certifying, approving and making payments under the contract; (j) managing the contract; (k) reviewing contractor or vendor performance; (l) handling contractor’s or vendor’s protests or disputes; (m) auditing the procurement process.”

<sup>43</sup> JIU/REP/2010/3, p. 18, recommendation 13.

### **Gifts, favours and hospitality**

172. Staff involved in procurement necessarily interact with potential suppliers and vendors, which exposes them to situations where they may be offered gifts, favours and hospitality. The acceptance of even nominal value gifts, favours and hospitality may lead to a perception of conflict of interest or bias in favour of a particular vendor. Current practice in United Nations system organizations ranges from no stated policy (UNWTO and WMO), to allowing the acceptance of gifts of a nominal value (UNRWA, WFP, WHO, UNESCO, ITU, IAEA, ILO, UNFPA and UPU), or zero tolerance for any gift or hospitality (FAO, IMO, United Nations, UNICEF, UNDP, UNIDO, UNOPS, UNHCR and WIPO).

173. One problem with a policy of accepting gifts of only nominal value is that it does not take into account the cumulative amount overtime. Furthermore, the definition of “nominal” varies. For instance, UNHCR sets the bar at US\$ 20; IAEA at €50; and UPU at SwF 300, the highest in the United Nations system. Despite differences in amounts, the definitions of nominal gifts are similar across the organizations. These are usually specified as company calendars, key chains, pens and business diaries. In terms of value, nominal gifts may be insignificant, but when seen in offices by other persons they may lead to a perception of bias or favouritism. Staff engaged in procurements should therefore exercise caution in accepting and displaying such gifts.

174. A zero tolerance policy prohibiting the acceptance of any gifts, favours and hospitality, including drinks and meals may, in certain cases, prove impractical. The World Bank has come up with a good solution to this.

### **World Bank practice**

The World Bank does not allow the acceptance of gifts and hospitality. In cases where a staff member is unable to refuse offers of hospitality, he or she should attempt to reciprocate the hospitality. Any staff member who has received a gift is required to fill out a declaration form. The procurement unit is responsible for managing the gifts received. Upon external evaluation of the gift, the staff member is given the option of either buying the gift at the evaluated price or donating it to a charitable foundation.

### **Post-employment restrictions**

175. Only a few organizations have put in place clear policy instructions on post-employment restrictions of staff involved in the procurement process. The United Nations, UNDP and UNOPS have issued administrative instructions for staff involved in procurement, requiring them not to accept employment from any vendor who conducts or seeks to conduct business with the organization. IAEA officials stated that they have a policy of generally not doing business with suppliers that are represented in a marketing or sales capacity by former IAEA staff members. The World Bank practices a “cooling-off period” of three years during which former staff are prohibited from seeking employment with certain entities or exercising certain activities without prior authorization.

176. **In addition to internal staff, employment restrictions should also apply to suppliers.** Article 22 of the United Nations Supplier Code of Conduct includes post-employment restrictions for both staff and suppliers:

Post-employment restrictions apply to UN former staff members and to staff in service who participated in the procurement process, as well as to UN suppliers. For a period of one year following separation from service, former staff members are prohibited from seeking or accepting employment, from a UN supplier. Staff members in service must also refrain from accepting any future employment from a UN supplier, with whom they have been involved. In case of violations of these provisions, UN suppliers may be subject to having their registration as a qualified supplier with the United Nations barred, suspended or terminated.

177. Post-employment restrictions are important not only because they prevent possible abuses but also because they prevent misperception by the public. **Organizations that have not yet adopted a policy on post-employment restrictions for procurement staff and suppliers should do so without delay.**

#### **Vendor/supplier code of conduct**

178. It is essential that the organizations communicate their expectations to potential suppliers. The United Nations, WIPO, UNOPS, UNRWA, WHO, UNHCR, FAO, and UNDP have included the United Nations Supplier Code of Conduct in their procurement toolbox, and it is available in the six official languages on their public procurement websites. It includes many topics, such as forced labour, child labour, discrimination, working hours, anti-personnel mines, human rights, harassment, health and safety, the Global Compact and environmental protection. It sets general standards to create awareness and encourages suppliers to adhere to them.

179. The Code is not a legally binding document, but it gives a signal to suppliers that specific policies to enforce such standards are going to be introduced. The ILO informed the Inspectors that they have drafted a supplier code of conduct (pending internal clearance) that goes into further detail on the labour clauses. **The Inspectors recommend that United Nations organizations, through the HLCM Procurement Network, should agree on a common supplier code of conduct and apply it consistently.** Conveying expectations through a publicly available supplier code of conduct is a good practice. However, **the organizations should also incorporate corresponding policies in their GCCs so as to enforce compliance.**

#### **Whistleblower policy**

180. The aim of this policy is to protect staff from retaliation for reporting misconduct. The United Nations, UNICEF, UNFPA, UNOPS, UNDP, UNHCR, WFP, ILO and UNIDO have such a policy, whereas FAO, ICAO, UNESCO, UNWTO, WHO, WIPO and WMO do not.<sup>44</sup> Besides encouraging staff members to report misconduct, an effective policy should also make such reporting compulsory.

#### **Conclusion**

181. The review found that United Nations organizations in general have made great progress in developing and implementing ethics policies in procurement activities. However, there are some differences in the coverage, definition and method of implementation. Some practices can be considered relatively better than others. Certain organizations have adopted ethics policies directly related to procurement, the scope of which covers the responsibilities of staff engaged in procurement actions, suppliers and vendors. Their wide scope should be seen as acknowledgement that misconduct can occur at any stage in the procurement process, including outside the procurement units.

182. **The Inspectors recommend that organizations review their practices in the light of the experience of other United Nations system organizations and try to adopt best practices, particularly in the area of financial disclosure, conflict of interest and post-employment restrictions. The Inspectors also suggest that organizations, through the HLCM Procurement Network, should strive to harmonize their practices towards a single set of ethics policies applied across the system.**

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<sup>44</sup> JIU/REP/2010/3, para. 68.

183. The implementation of the following recommendation is expected to enhance transparency and accountability in procurement activities.

**Recommendation 11**

**Executive heads should review their ethics policies and practices on procurement with a view to aligning them with best practices.**

**B. Vendor issues**

**Vendor registration/management**

184. UNGM is envisaged as the main procurement portal of United Nations system organizations. It is used for vendor registration, tender notices and knowledge sharing. Currently, 19 system organizations are members of UNGM. Some organizations are not yet members due to cost implications. Member organizations utilize UNGM to varying degrees.

185. The major obstacles faced by UNGM, including registration and language barriers, were reviewed under chapter IV (section C) above. UNGM officials explained that regarding language, the problem was not only the translation of the website itself, but the translation of the coding system, which includes more than twenty thousand codes. Another problem is that the local roster functionality of UNGM has not yet been fully implemented; therefore many organizations still maintain their own local rosters.

186. Another important issue is the lack of integration between the information systems of UNGM and those of member organizations. UNGM officials stated that in order to facilitate better communication they aim to develop interfaces between the information systems of UNGM and member organizations. Another envisaged function is for UNGM to be used as a knowledge centre for the United Nations system. Its website includes information on sustainable procurement, tender notices, contract awards and LTAs. It is a good idea to develop UNGM as a system-wide knowledge centre.

187. The organizations should put in place a mechanism to identify and share best practices across the system. Contracts and tender documents should be deposited and shared through a common Intranet platform managed by UNGM. The Inspectors were informed that the HLCM Procurement Network has asked its members for feedback on the functionality and utility of UNGM, and results are to be presented to the Procurement Network before a decision is taken on improvements to be made. The Inspectors found that efforts for improvement have been slow, and suggest that organizations exert a more concerted effort by providing the resources necessary to speed up the process.

**Vendor eligibility/sanctions/blacklisting/debarment**

188. Vendor eligibility is based on the idea that organizations can accept only vendors who respect a set standard or code of conduct. Those who violate policies, standards or codes are to be disqualified either for life or until they demonstrate that they have changed their practices. Also known as blacklisting, vendor eligibility is an anti-corruption tool already being used in some countries and recommended by international/regional institutions such as the European Union and the World Bank.

## World Bank practice

The World Bank publishes a list of debarred firms on its website. The listed firms/individuals are ineligible for a World Bank-financed contract for the period indicated on the grounds that they have violated the fraud and corruption provisions of the Procurement Guidelines or Consultants Guidelines. The sanction is imposed following an administrative process that allows the accused firms/individuals to respond to the allegations made against them. In the case of a debarred firm, ineligibility extends to any firm that, or individual who, directly or indirectly controls the debarred firm or any firm that the debarred firm directly or indirectly controls. In the case of a debarred individual, ineligibility extends to any firm which the debarred individual directly or indirectly controls.

### *United Nations practice*

189. The United Nations is the only organization within the United Nations system to have compiled a list of debarred vendors, which it makes available on its extranet. In order to facilitate this process, the Secretariat has established the Senior Vendor Review Committee. The Committee renders independent advice to the Under-Secretary-General for the Department of Management regarding vendors under investigation, accused, convicted or involved in litigation concerning fraudulent, corrupt or unethical practices. The Committee may recommend that certain vendors be debarred, either permanently or for a specific period of time, or that no action be taken at all. Vendors are informed of the decision and given an opportunity to appeal. Officials stated that handling these issues is a complex matter that requires adequate capacity.

190. Other organizations do not have any debarment list and most do not use the list of the United Nations because of the lack of a clear policy on the issue. Officials also explained that the United Nations list did not specify the reasons for debarring given vendors, which made it difficult for them to apply the sanction. One official related that when the United Nations Procurement Division was asked to explain the reasons for blacklisting a certain vendor, it replied that the information could not be divulged on the grounds of confidentiality. However, it informed the Inspectors that additional information such as the reasons for debarment can be provided to other organizations upon formal request. **The Inspectors believe that blacklisting, and the accompanying information on sanctioning, should be shared among the organizations.**

191. The Security Council currently maintains a consolidated list of individuals and entities subject to sanctions.<sup>45</sup> During interviews, only five organizations (the United Nations, UNDP, ILO, UNHCR and UNOPS) stated that they consulted and complied with the Security Council list in their procurement activities. This is a matter of serious concern. **Organizations should ensure that there is a procedure to comply with the Security Council sanction list as a matter of urgency.**

192. The Inspectors were concerned to find that many organizations refrained from compiling blacklists or vendor debarment lists, or applying the lists of other organizations. Instead they prefer to exclude problematic vendors informally. Many officials interviewed explained that this was due to advice from their legal office. In the absence of a binding vendor-sanctioning policy, the legal offices consider legal risks and advise against establishing vendor debarment lists.

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<sup>45</sup> The List established and maintained by the Committee pursuant to resolutions 1267 (1999) and 1989 (2011) with respect to individuals, groups, undertakings and other entities associated with Al-Qaida (referred to as the 1267 List).

193. The Inspectors were informed that an HLCM Procurement Network working group has already developed a model policy framework for vendor eligibility, which was recently reviewed and agreed upon by the HLCM Legal Network and endorsed by the Procurement Network in March 2011. The policy needs to be adopted and consistently implemented by organizations across the system. The plan is for the debarment list to be uploaded onto the UNGM website so that it can be shared by all the organizations and complied with. The Inspectors recommend that executive heads should adopt, as a matter of priority, a vendor eligibility/debarment policy for their organizations. UNDP informed the Inspectors that its vendor sanction policy is scheduled to be released in the fourth quarter of 2011.

194. The implementation of the following recommendation is expected to enhance transparency and accountability in procurement activities.

**Recommendation 12**

**Executive heads should adopt a vendor sanction policy as a matter of priority so as to enhance transparency and accountability in procurement activities.**

**Procurement challenge/bid protest mechanism**

195. In the United Nations system, the United Nations, UNDP, UNOPS, UNHCR, UNICEF, UNIDO and UNRWA have put in place formal procurement challenge mechanisms, and the first four publish on their websites related information for vendors. The complaint mechanisms are similar in that, upon notification of a contract award, the unsuccessful vendors have the opportunity to lodge a complaint. Other United Nations organizations lack a formal mechanism that allows a vendor to challenge their procurement decisions. In the absence of such a mechanism, vendors may resort to a range of informal routes, including complaining to the chief of procurement or the head of the organization, or mobilizing the representatives of their Member State. The Inspectors disapprove of this practice and recommend that the organizations put in place a formal bid protest mechanism that is just, fair and transparent. In the absence of such a formal mechanism, the organizations are exposed to the risk of being perceived as partial, and of handling complaints depending on who the complainant was.

*UNDP practice*

196. UNDP established the Vendor Protest Review Committee, and the online vendor protest tracking system has been in use since 2010. The vendor protest procedure has been incorporated into the UNDP procurement manuals as well as all the tender documents. Under the system, vendors are allowed up to 10 working days following the date of the purchase order or contract award to submit a complaint/protest. The first contact is the project manager or procurement focal point. If the matter cannot be resolved at that level, the intervention of the resident representative or resident coordinator can be solicited. If the dispute still remains unresolved, the vendor may appeal to the Director of the Procurement Support Office in New York for a final decision.

*United Nations practice—convening an independent board*

197. The United Nations has recently established, on a pilot basis, the independent Award Review Board (ARB) in order to offer unsuccessful bidders the opportunity to challenge a contract award. The ARB consists of a single individual or a panel of three procurement experts, supported by a secretariat. The ARB renders independent advice to the Under-Secretary-General for the Department of Management, who takes the final administrative decision on the matter. The mechanism is unique in that it has a special board with external membership. This ensures objectivity and independence, though at a

financial cost. Large organizations with substantial amounts of procurement can benefit from this system, but for small ones it may not be cost-effective. The pilot, which began in 2009, was extended in November 2010 for another year. The Inspectors were informed that it is expected that the Secretariat will present an assessment and findings to the General Assembly at its sixty-seventh session.

### **United Nations pilot procurement challenge mechanism**

#### Steps in the pilot procurement challenge mechanism of the United Nations

Letters of regret to unsuccessful vendors are issued within 10 business days of the issuance of an award.

Unsuccessful vendors must request a debriefing in writing within 10 business days from the date of their letter of regret.

An invitation letter for debriefing is sent to vendors within 10 business days from the date of receipt of the request for a debriefing.

Vendors who have been formally debriefed and remain unsatisfied can file a procurement challenge with the ARB within 10 business days of the debrief meeting.

The ARB reviews the complaint and reports its advice to the Under-Secretary-General for a final decision.

#### *European Commission practice*

198. In the European Commission, vendors may complain to the relevant department within the Commission. If they are dissatisfied with the debriefing, they can submit their complaint to the Ombudsman and ultimately to the Court of Justice of the European Commission.

#### **Conclusion**

199. In conclusion, the Inspectors believe that United Nations system organizations should have clear policies and guidelines on modalities for filing and processing complaints against procurement decisions. This should not be an ad hoc issue, with one vendor choosing to complain to the procurement staff and another to take it up with the representative of its Member State, which in turn complains to the executive head. To ensure that all vendors receive the same treatment, the organizations should develop a formal mechanism to review complaints and make them public on their websites. The Inspectors recognize that for smaller organizations with lower procurement volumes the mechanism need not be a sophisticated system with independent bodies, but at a minimum a formal process should be established. The complexity of the mechanism should depend on the volume and importance of procurement in each organization.

200. The implementation of the following recommendation is expected to enhance transparency and accountability in procurement activities.

#### **Recommendation 13**

**Executive heads should develop a formal mechanism to review vendor complaints in order to enhance objectivity, fairness, transparency and consistency in the procurement process.**

## VI. MONITORING, REPORTING, EVALUATION AND KNOWLEDGE SHARING

### A. Monitoring, reporting and evaluation

#### Monitoring and reporting

201. Procurement activities require proper monitoring, performance evaluation and reporting. Lack of monitoring and evaluation weakens the effectiveness of internal control and encourages irregularities. Effective monitoring is key to reducing waste and improving effectiveness. Monitoring, through collection and analysis of information, allows for proactive management of the procurement process.

202. Many organizations lack effective monitoring, evaluation and reporting mechanisms for procurement activities. Existing reporting concerns mainly general procurement data such as procurement volume and main procurement items. The lack of relevant, reliable and timely information compromises analysis and monitoring, thus weakening internal controls and increasing the likelihood of efficiency loss, fraud and mismanagement. Organizations that have decentralized procurement to the field are more exposed to these risks.

203. IMO, ITU, WHO, ILO and WIPO do not have a system of reporting on procurement activities to senior management or their governing bodies. UPU, UNOPS, the United Nations, FAO, UNWTO, UNIDO, UNRWA and UNICEF report to senior management or internal auditors. United Nations officials informed the Inspectors that they generate 23 automated reports covering a wide range of issues. These reports are sent to various recipients on a daily, weekly, monthly and exception basis. Summary versions of these reports are also sent to the Section Chiefs, as well as to the Director of the Procurement Division and requisitioner units. The UNESCO procurement division produces reports on its activities only upon request from senior management. Only the United Nations, WFP and UNDP report regularly to their governing bodies on procurement activities.

#### *JIU questions*

204. The JIU questionnaire sent in the context of the present review included two proxy questions to test the monitoring and information gathering capabilities of the organizations. The questions were:

- Please provide statistics on competitive and non-competitive procurement carried out by your organization in the last five years.
- What is the average length of the procurement process, from the publication of the Request for Proposals (RFP), Request for Quotes (RFQ) and Invitation to Bid (ITB), to the contract award?

205. In response to the first question, WFP, UNESCO, UNRWA, ICAO, UNWTO, UNIDO, WHO, ITU and UNHCR responded that they were unable to provide this information either due to a lack of a centrally managed information system, or because the data was captured only by local/regional offices and was not aggregated at the headquarters level. ILO was able to provide statistics on procurements at headquarters only. UNDP and UNOPS were able to provide statistics on procurement at headquarters and procurements reviewed by their Headquarters Committee on Contracts.

#### **Non-competitive procurements**

206. Non-competitive procurement carries a high risk in terms of fraud and mismanagement. Monitoring should also include the capture of cumulative awards to vendors, which would help management to identify cases where large procurements had been broken down into smaller units/pieces in order to avoid having to be reviewed by the committee on contracts. A recent Office of Internal Oversight Services (OIOS) audit found that there had been splits in contracts in order to reduce the monetary value of the contracts and avoid review by the Headquarters Committee on Contracts. The

report noted that, in general, local committees on contracts were not sufficiently monitored by the central procurement units at headquarters.<sup>46</sup>

#### *European Commission practice*

207. The Inspectors would like to highlight a good practice regarding waiver of competition followed by the European Commission. The Commission publishes in its annual reports a list of procurements for which the competitive bidding requirements were waived with the names of the suppliers who were awarded contracts and the justifications for the waivers. Officials explained that the practice promoted transparency and discouraged the requisitioner units from resorting to unjustified waiver requests.

**208. The Inspectors recommend that United Nations organizations emulate this practice. The organizations should provide detailed information in their internal reports, including the list of waivers and justifications. Reports to governing bodies should contain summarized information on waivers, such as waiver trends, a list of waivers for amounts above a given threshold, types of goods and services usually granted waivers, and the geographic locations where waivers are generally granted, with the accompanying justifications.**

#### **Average length of procurement process**

209. The organizations responded to the second question either by stating that the information was not collected systematically, or by providing ranges based on personal estimates rather than actual data. The Inspectors recognize that the average length of the procurement process is not a perfect performance indicator. However, the ability to identify and monitor the time taken for the various steps in the process, to identify potential bottlenecks and steps taking longer than expected, is essential in devising effective strategies to improve the whole process. Based on the monitoring and analysis of the processes, organizations can establish a target time frame for each step for different groups of procurements.

#### **Obstacles**

210. Organizations face three types of obstacles in conducting a thorough monitoring and evaluation of procurement activities. The first is an implicit assumption that oversight, monitoring and evaluation are the purview of the audit body. It should be clear that while oversight bodies should exercise the oversight function, the responsibility for internal control and monitoring mechanisms rests with management. Monitoring should take place as an ongoing process and as a part of normal managerial and supervisory activities. The second and third obstacles are a shortage of human resources capacity and an insufficient data collection capability. Officials interviewed explained that the absence of integrated information systems adversely affected the organizations' ability to oversee procurement operations, especially in the field. The absence of a consistent and reliable data flow hampers analysis and effective decision-making.

211. The issue of the shortage of human resources and information systems is reviewed in detail in the governance section of the present note. There is a need for organizations to assess their human resources and information system needs, and mobilize resources to that end. The purchase of off-the-shelf modern information systems does not automatically solve the monitoring problem. The Inspectors found that monitoring and reporting practices are not adequate even in organizations that introduced ERP systems relatively early. The procurement units must identify the monitoring and reporting requirements for procurement activities and mobilize senior management to ensure that these requirements are taken into account in the design and implementation of ERP systems.

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<sup>46</sup> OIOS Audit of procurement management in the Secretariat, AH2008/513/01.

### **Performance evaluation**

212. Performance measurement and evaluation are crucial to any core activity of the organizations. When performance of a function/activity is not measured, it cannot be managed effectively. The procurement units should be able to measure their performance in areas such as the efficiency of operations, customer satisfaction, benchmarking against other organizations, cost-effectiveness, and the contribution procurement makes to achieving the objectives of the organization. Furthermore, without key performance indicators it is difficult to create an environment where performance can be objectively evaluated and improved.

213. The review found that most of the organizations have not established performance indicators for procurement. A culture of achieving measurable results in terms of reduced costs, efficiency, or transaction costs is yet to be developed. The OIOS audit of procurement management in the United Nations Secretariat found that the Secretariat had failed to adopt key performance indicators.<sup>47</sup> The OIOS audit of the United Nations Organization Mission in the Democratic Republic of the Congo found that vendor payments had been delayed by up to 700 days.<sup>48</sup> The lack of effective coordination among key players in the payment process, and the failure of senior management to monitor delays were among the reasons cited. The audit noted that such delays might tarnish the image of the United Nations, and that the high cost of doing business with the United Nations risked being factored in by vendors and result in increased costs for the Organization.

214. The United Nations Procurement Division, however, informed the Inspectors that a recent study it had commissioned had come up with 23 key performance indicators and that it was considering ways to implement these indicators. UNICEF notified the Inspectors that it has performance indicators, and that it considers the most relevant to be the indicator on the timeliness of delivery, which is published every month on its Intranet.

215. Officials interviewed stated that it was difficult to establish performance indicators that truly reflect the efficiency and effectiveness of procurement processes. The Inspectors note that there are many ways to measure procurement performance, including benchmarking, establishing indicators relating to the processes, periodic satisfaction surveys, the monitoring of overhead costs and quality management tools. Organizations need to identify what works best in measuring the current performance of their procurement functions, and establish a baseline from which to measure progress.

#### *UNDP practice*

216. UNDP informed the Inspectors that it has developed a procurement dashboard listing the various procurement performance indicators and risks associated with procurement, so that both management and procurement practitioners can analyse procurement performance. The data produced from the dashboard has also been used for the approval process of the delegated procurement authority of each country office. UNDP is working to enhance the dashboard to provide not only key oversight, and transactional and procurement capacity information, but also information on supplier performance metrics, sourcing cycle times, and procurement of goods and services by country office, region, etc.

### **Conclusion**

217. The Inspectors found that effective oversight over procurement is the missing element in managing procurement activities in the United Nations system. The organizations, in general, do not have adequate monitoring, performance evaluation and reporting mechanisms and tools to properly manage

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<sup>47</sup> Report of the OIOS on the audit of procurement management in the Secretariat (A/64/369), para. 17.

<sup>48</sup> OIOS, audit report on procurement management in MONUC, Assignment No. AP2009/620/13 (2010), para. 24.

their procurement activities. This reduces efficiency and increases the likelihood of procurement mismanagement, fraud and abuse going undetected. The Inspectors cannot stress enough the importance of day-to-day monitoring and capturing of relevant data to ensure proper management and monitoring of the procurement function.

218. Internal reporting to senior management should be done frequently and capture all essential information, to facilitate analysis and decision-making. It would serve to alert management to procurement activities that call for additional analysis and monitoring. Procurement should be a regular item on the meeting agenda of senior management committees. Furthermore, the executive heads of the organizations should report to their governing bodies on their procurement activities so as to facilitate these bodies' proper oversight. While internal reports should be detailed, frequent and analytical in nature, external ones can be submitted annually and should contain information such as procurement by category and location, contractual arrangements, non-competitive bids and accompanying justifications, main risk areas and related mitigation measures, procurement capacity, efficiency gains, inter-agency collaboration, reform agenda and achievements.

219. The implementation of the following recommendations is expected to lead to enhanced controls and compliance in procurement activities.

**Recommendation 14**

**Executive heads should ensure that their organizations have in place proper procurement monitoring and performance-evaluation mechanisms.**

**Recommendation 15**

**Executive heads should ensure that there is regular internal (to senior management) and external (to governing bodies) reporting with respect to procurement activities.**

## **B. Knowledge sharing**

220. Knowledge sharing is important to consistently achieve best value for money throughout the procurement process. It is often argued that one of the best ways to improve the procurement function is to increase procurement knowledge, expertise and professionalism, and effective knowledge sharing practices can contribute substantially to this.

221. Many of the organizations have made efforts to decentralize and increase the delegation of authority for procurement activities. The result is that their procurement activities are spread across the globe. This situation makes knowledge sharing even more important, to ensure correct and consistent implementation across the organization. Many officials stated during the interviews that they uploaded the procurement policy and instructions, including templates, onto their information system. This is a good practice, provided that all staff in all locations can access the information systems and that information is updated continuously. It should be pointed out, however, that most staff do not have equal or sufficient experience in many aspects of the procurement process. Organizations should therefore encourage and support staff to share experience by establishing mechanisms to identify and disseminate lessons learned and best practices.

222. The United Nations Procurement Division has developed and implemented the Procurement Network Community of Practice. This website is available anywhere in the world via the United Nations Intranet or the global Internet. It is aimed at sharing documents, including policy, procedures, guidelines,

templates and best practices, and acts as a means and repository for communications. UNICEF has established a comprehensive knowledge management strategy, which includes the extensive use of an interactive Intranet (supply community) where news and updates are posted, including online discussions on a range of supply and logistics issues. UNDP has an internal knowledge-sharing network, and informed the Inspectors that its officials have been working to produce more effective communication tools to attain the effective dissemination of lessons learned, best procurement practices and policy guidance.

223. **The adoption of such knowledge-sharing practices would improve the quality of procurement documents, enhance consistent and accurate implementation across the organizational units and, most importantly, facilitate the achievement of best value for money for all procurement activities.** When monitoring implementation, the procurement units can also facilitate the identification of lessons learned and best practices by creating, for example, a database containing good examples of requests for proposals and terms of reference, and information on evaluation methods used to achieve best value for money for complex goods and services. Furthermore, an online communication and discussion platform dedicated to procurement issues would be an invaluable instrument in improving common knowledge and sharing lessons learned and best practices across the organization.

224. The implementation of the following recommendation is expected to lead to better dissemination of lessons learned and best practices.

**Recommendation 16**

**Executive heads should ensure the development and implementation of knowledge mechanisms to identify, share and disseminate lessons learned and best practices in procurement activities across their organizations.**

## VII. INTER-AGENCY HARMONIZATION, COOPERATION AND COLLABORATION

### Harmonization

225. In 2009, the Guidelines for Harmonized UN Procurement at the Country Level were prepared by the United Nations Development Group, supported by the United Nations Development Operations Coordination Office Task Team on Common Services and Procurement, and in cooperation with the HLCM Procurement Network. In 2010, the Development Operations Coordination Office prepared a booklet<sup>49</sup> in which it discusses, inter alia, two examples of common procurement experiences in the field. The first refers to a common procurement plan that has been introduced in Tanzania for joint programmes, and which is expected to lower procurement costs. In the second experience, from Mozambique, harmonized procurement procedures and LTAs are expected to cut procurement costs by up to 89 per cent.<sup>50</sup>

226. The HLCM Finance and Budget Network has been working on the harmonization of financial regulations and rules across the United Nations system. The Inspectors were also informed that the HLCM Legal Advisers Network had been working on the harmonization of GCCs, and that an HLCM Procurement Network working group on harmonization had been established to work exclusively on United Nations procurement reform as it related to simplifying and harmonizing procurement procedures across the system. The working group is expected to develop toolkits for harmonized procurement at the country level and create a common framework for harmonizing processes. The group is expected to deliver its results in 2012. The full implementation of International Public Sector Accounting Standards is also expected to facilitate further harmonization of practices.

227. The Inspectors recognize that efforts are being made to harmonize rules and procedures. However, progress is slow. The organizations need to unify their efforts and focus on the issues at stake and establish clear deadlines. Some officials interviewed stated that it was not the lack of fully harmonized regulations and rules that impeded greater collaboration, but rather the mindset of organizations that preferred to work individually on procurement. The Inspectors also believe that lack of harmonization should not block further collaborative procurement efforts. However, the Inspectors also recognize that the harmonization of procurement procedures would greatly facilitate collaboration and cooperation in the system, and therefore recommend that the HLCM Procurement Network should speed up the system-wide harmonization of procurement procedures.

### Collaboration

228. The top 20 major goods and services procured by the organizations in 2009 are listed in annex III of the present note.<sup>51</sup> The top 4 items made up 45 per cent of the total procurement volume in the system, the top 10 items made up 65 per cent and the top 20 items made up 78 per cent. This shows that the bulk of the procurement volume consists of a limited number of items, and gives a sense that collaboration among organizations is possible and would certainly lead to significant savings.

229. A quick review of the major procurement items shows that it should be possible to have closer collaboration in the procurement of pharmaceuticals, motor vehicles, textiles, petroleum and fuel products, computer and information technology equipment, furniture, and telecommunication equipment. Interviews reflected that collaboration is not sufficient in many of these areas. However, there is good collaboration in pharmaceuticals with joint procurements. In many other items, although large

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<sup>49</sup> “How delivering as one adds value – stories and testimonies from eight programme pilot countries”.

<sup>50</sup> Ibid., pp. 26-27.

<sup>51</sup> Extracted from UNOPS, *2009 Annual Statistical Report on United Nations Procurement*, pp. 111-122.

organizations have LTAs and allow other organizations to piggyback on them, they are not based on inter-agency collaborative efforts and common strategies. Organizations, instead of choosing to establish individual LTAs, should develop LTAs based on inter-agency collaboration and common commodity strategies.

230. Given the fact that the organizations are working towards broader common goals worldwide, cooperation and collaboration, where possible, is a must. Cooperation and collaboration in procurement takes several forms in the system: (a) joint procurement of commonly used items in headquarters (common services); (b) piggybacking on LTAs/system contracts of other organizations; and (c) joint procurement of some major goods by several organizations<sup>52</sup>

#### **Common procurement services at headquarters**

231. The review found that organizations headquartered in Geneva, Rome and Vienna collaborated closely in the procurement of commonly used goods and services such as travel, office supplies, cleaning, energy and catering. Other items/services commonly include warehouse and shipping insurance, transportation contracts and vehicles.<sup>53</sup> In his report to the Economic and Social Council, the Secretary-General noted that the Geneva offices reported approximately SwF 37 million in cost avoidance attributable to the collaborative procurement of services in 2010.<sup>54</sup>

#### *Practice of the Rome-based organizations*

232. A common procurement approach recently adopted by three Rome-based agencies—WFP, FAO and the International Fund for Agricultural Development—stands out as a best practice in terms of planning, clear objectives, saving targets and key performance indicators.

233. These organizations started a common pilot procurement practice early in 2010. They established the Common Procurement Team (CPT), comprising dedicated procurement staff from the organizations and tasked with working on the following objectives: (a) improvement of procurement planning, (b) harmonization opportunities, (c) alignment of contract expiry dates for future tenders, and (d) joint bidding activities. The CPT occupies one common office in FAO. Procurement for headquarters items has been planned and carried out together following the FAO procurement rules. The CPT has identified key performance indicators to measure progress in terms of efficiency, effectiveness, quality and sustainability. Team members set the goal of becoming a centre of excellence in procurement practices for the three agencies in Rome, taking the best from the experience of each.

234. The CPT has defined an annual plan of joint tenders, which is constantly updated as new opportunities and requirements emerge. A plan is prepared for each joint tender and the divisions concerned are requested to agree on milestones, the procurement method, evaluation strategy, contract alignment and tender documentation. The joint bidding activities of the CPT include 19 common tenders<sup>55</sup> valued at some US\$ 28 million in 2010, with a 3 per cent estimated saving on average. For instance, according to the CPT, compared to previous contracts, savings on desktop computers, laptops and stationery were 5, 10 and 8 per cent, respectively.

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<sup>52</sup> As indicated in the introduction section of the present note, procurement practices in the context of Delivering as One in the field is not included in this review.

<sup>53</sup> E/2011/88, para. 12.

<sup>54</sup> Ibid.

<sup>55</sup> Common tenders include a range of goods and services, such as re-mailing services, information and communications technology consultancy services, petrol cards, mobile services, multi services (cleaning, waste disposal, etc.), office stationery and furniture, computers, software, training, gas, electricity, vehicles, actuarial valuation, etc.

*Issues*

235. Although the Rome-based organizations identify common needs and publish a single tender for specific goods or services, each organization is required by its own financial regulations and rules to revert back to its Committee on Contracts for final approval of the contract award. In the case of FAO, its procurement manual exempts from Procurement Committee review procurement actions awarded on the basis of the rules and procedures of another United Nations entity.

236. Another issue is that common contracts are umbrella contracts that require each organization to sign separate contracts with vendors based on its specific volume and conditions. This can reduce negotiation power and the total efficiency of the process due to ambiguity in full volume leverage and increasing individual transactions. There are many reasons for this, such as a lack of standardization of products, separate general conditions of contracts and difficulty in estimating volumes due to lack of planning.

237. Unfortunately, analytical data for common service procurements was unavailable. However, interviews revealed that there was room for achieving further efficiency in common service procurements through broader coverage, improved standardization of products and harmonized conditions of contracts. In order to measure progress, common services teams should collect and publish data regarding the use and performance of common contracts.

**Piggybacking on LTAs**

238. Organizations with large procurement volumes frequently utilize LTAs/system contracts for some commonly used items, such as computers and vehicles, and make these LTAs available for other organizations to piggyback on instead of going through a separate tendering process. Smaller organizations in particular can benefit from the expertise and negotiating power of large organizations to make savings by using their LTAs. According to the list posted on UNGM, only seven organizations currently have LTAs, and the total number of LTAs with an expiry date beyond 1 June 2011 is 91. The use of LTAs both within an organization and by other organizations is voluntary. Unfortunately, no statistics are available on the actual use of LTAs in the system, i.e., total volume and lists of organizations that use each LTA.

239. In most cases, LTAs are prepared based only on the estimated need of the organization taking the lead in establishing the LTA. Therefore, although other organizations piggybacking on LTAs benefit from reduced transaction costs, total volume leverage is not utilized properly. There is room for organizations to improve collaboration in the preparation of LTAs, as regards, inter alia, standardization of products, aggregation of demands, and analysis of risks. The organizations with larger procurement volumes should use their position to this effect, in order to foster greater collaboration and cooperation in the system.

240. The organizations should therefore establish joint LTAs or communicate and aggregate their needs during the preparation of the LTAs of the leading agency, in order to increase volume leverage to reduce prices further. Due to the lack of a systematic collaborative approach in the preparation of LTAs, there may be lost opportunities for further savings and better technical support. In other words, the total buying power of the organizations is not leveraged effectively to realize the maximum benefit.

241. Currently, common commodity strategies are lacking in the system. This situation prevents the use of full potential in the system to establish effective common or joint LTAs system wide or on a multi-agency basis. **Organizations should move towards establishing common commodity strategies for major procurement items in the system. This would not only facilitate the leveraging of total buying power, but would also enable organizations to benefit from better logistics, quality, warranty, technical support and other maintenance opportunities.**

### **Joint procurements**

242. **Joint procurement of common goods and services is perhaps the most promising method of collaboration in the system to improve efficiency and effectiveness because it facilitates the development of a consolidated commodity strategy and full use of volume leverage. It also provides an opportunity to align procurement objectives with the broader objectives of the organizations.**

243. UNICEF, UNFPA, WHO and UNHCR make joint procurements of health products such as pharmaceuticals and vaccines. UNICEF officials stated that most of the health products of UNICEF were purchased jointly with other United Nations agencies (out of US\$ 1.7 billion spent on goods, US\$ 1.4 billion was spent on items purchased jointly with other organizations in 2009). Some examples of cooperation include warehousing and emergency training with WFP; joint procurement with UNHCR of hygiene kits, camp water supply and shelter equipment; health-product procurement with WHO; and the procurement of safe delivery kits with UNFPA.

244. UNDP used the services of UNFPA and UNICEF in the procurement of certain products, and UNICEF has also led a joint tender of international freight in Copenhagen. It was agreed that the organization procuring the largest volume of a specific product would lead the joint procurement of that product.

245. There is a growing realization that collaboration fosters more efficient procurement. Collaboration between organizations that have similar programmatic activities is now developing. However, there is a need for a more systematic and analytical approach in the identification of more procurement items and in the preparation of contracts. The 14 billion dollars spent annually on procurement across the system makes the United Nations system an important international client, and therefore calls for greater collaboration in procurements.

### *Vehicle procurements*

246. The procurement of motor vehicles is one of the areas where organizations can easily achieve savings through consolidated strategy and planning. This will create an economy of scale, establishing the organizations as a single major customer with better buying power. The review found that the organizations did not have a common system-wide commodity strategy for the purchase of vehicles. The Inspectors were informed that the HLCM Procurement Network has recently established a group, which includes UNDP, the United Nations, UNOPS, UNIDO, UNHCR, UNRWA, FAO and UNICEF, to look into the issue of collaborative procurement of vehicles.

247. In 2009, US\$ 478 million<sup>56</sup> was spent on vehicles and vehicle parts across the United Nations system. In this procurement, the United Nation's share was 35 per cent, while the UNOPS share was 21 per cent. The rest was procured by other organizations. Unfortunately, many organizations prefer to carry out the procurement of motor vehicles and related commodities on an individual basis, either by engaging in individual ad hoc tendering, establishing LTAs, or by piggybacking on existing LTAs. Thus, they miss the opportunity to act as one large customer by consolidating volume leverage to negotiate better prices, delivery and warranty terms.

248. Needs assessment and planning in the area of vehicle purchase is inadequate in the system. Purchases made at the last minute naturally drive prices higher. There are numerous LTAs and individual tenders for vehicle purchases, but no consolidated strategy to encourage competition and reduce prices. Due to this fragmented approach, the organizations end up paying different prices for the same vehicles.

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<sup>56</sup> UNOPS, *2009 Annual Statistical Report on United Nations Procurement*, p. 111.

Lack of standardization is a major issue, making it difficult to aggregate volume in order to negotiate better prices.

249. The review of vehicle purchases shows that organizations are not achieving optimum efficiency in the purchase of vehicles. Therefore **organizations should speed up their collaboration efforts to develop a consolidated common vehicle procurement strategy as a matter of urgency. Such a strategy should include the standardization of vehicle requirements and better planning and aggregation of demand.** The strategy should also devise ways of achieving effective competition through the diversification of the vendor base.

### **Conclusion**

250. Although there are good examples of coordination and collaboration between organizations, the Inspectors are of the opinion that further efforts should be made to adopt a more systematic and comprehensive approach. In order to speed up cooperation and the implementation of collaborative procurement approaches in the system, organizations should improve their needs assessments, planning, analysis and strategy development. Having command of their procurement activities, the organizations should systematically look for more joint procurements and other collaborative procurement arrangements across the system, including the development of common procurement strategies.

251. The Inspectors are of the view that organizations **should try to develop common commodity strategies based on the joint assessment of needs, standardization of specifications and aggregation of demands in major goods and services.** Thus, instead of introducing many LTAs on the same procurement item across the system, it should be possible to establish common (multi-organization or system-wide) LTAs that can leverage the total buying power of the system. It is very important that the **use of LTAs that have been utilized by more than one organization in the system be regularly assessed by the HLCM Procurement Network, and relevant statistics published in annual statistical reports.**

252. **Greater use of collaborative methods will allow the organizations to reduce transaction costs, and profit from negotiated lower prices and better delivery and warranty conditions in the procurement of many goods and services. Such a collaborative approach should not be limited to procurement itself, but also include the whole supply chain** (e.g. warehousing, distribution and transportation). Any collaborative effort to increase efficiency can bring a significant level of savings to the system. For example, a 3 per cent saving out of US\$ 14 billion of procurement would result in US\$ 420 million in savings for the system.

253. The Inspectors believe that the HLCM Procurement Network can facilitate more collaboration through its meetings and studies. The Inspectors were informed recently that the Procurement Network launched a new initiative on common/collaborative procurement. It is envisaged that the Procurement Network secretariat will identify goods or services that members might wish to procure jointly, and that whenever the organizations agree to undertake common procurement, a lead agency will be chosen to conduct a tender on behalf of the other organizations. The Procurement Network secretariat will maintain the list of past, open and potential future products and services under collaborative procurement. The secretariat will present this as a summary at each meeting and, with the Management Board, facilitate Procurement Network decisions on future collaborative procurement initiatives.

254. To date, the following collaborative projects have been initiated within the Procurement Network: cargo insurance, vehicle and freight forwarding.<sup>57</sup> The Inspectors consider this initiative to be a good step in the right direction, and suggest that the Procurement Network also commission a study to identify further areas for system-wide or multi-organization collaborative procurements.

255. It is expected that the implementation of recommendation 17 will enhance the efficiency of procurement activities; and that recommendation 18 will enhance transparency.

**Recommendation 17**

**CEB, through the HLCM Procurement Network, should proactively identify, initiate and maximize the development of collaborative procurements among the organizations with a view to leveraging the total buying power of the United Nations system. To this end, the Procurement Network should have a regular agenda item on discussing and identifying further opportunities.**

**Recommendation 18**

**CEB, through the HLCM Procurement Network, should regularly assess the use of collaborative procurement methods with a view to measuring progress, sharing good practices and improving contractual terms. To this end, the Procurement Network should collect and publish relevant statistics.**

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<sup>57</sup> CEB/2011/HLCM\_PN/9, April 2011, para. 131.

## Annex I

## GENERAL PROCUREMENT PRINCIPLES IN THE UNITED NATIONS SYSTEM

<u>Organization</u>	Source	General procurement principles						
<b>United Nations (UNHQ, UNOG, UNON)</b>	United Nations Procurement Manual (Rev. 6), chapter 1	<b>Fairness, integrity and transparency</b>	<b>Effective competition</b>	<b>Interest of the organization</b>	<b>Best value for money</b>	Other principles	Other principles	Other principles
<b>UNDP</b>	Procurement Manual and response to JIU Questionnaire 2010	Fairness, integrity, transparency	Effective international competition	Interest of UNDP	Best value for money			
	UNDP Financial Regulations and Rules, rule 114.18		International soliciting of proposals and competitive bidding to allow prospective bidders fair and equal opportunities	Interests of the UNDP programme	Economy and efficiency	Preferential treatment to be accorded to sources of those supplies indigenous either to the country being assisted or to other developing countries	Equitable geographical distribution consistent with maximum effectiveness	Utilization of currencies available to UNDP and which require special management
<b>UNICEF</b>	UNICEF Supply Manual, chapter 7, section 8, article. 3.2.	Transparent, honest and fair	Competition (to ensure competitive tendering)	UNICEF objectives	Best value for money (website)	Equal treatment (ensure the same conditions for all suppliers)	Customer service to ensure customer satisfaction	
<b>UNESCO</b>	UNESCO Administrative Manual, chapter 10.2, para. 3	Fairness, integrity and transparency	Competition	Interests of UNESCO	Best value for money	Economy and effectiveness		
<b>UNFPA</b>	UNFPA Policies and Procedures Manual, Procurement Procedures, article A.3.1., and Questionnaire 2011	Promoting integrity and fairness; maintaining transparency in the procurement process	Encouraging competition	Interests of UNFPA (Administrative manual)	Maximizing economy and efficiency	Encouraging and including sources of supply that are either indigenous to the country being assisted or from other developing countries	Encouraging and including sources of supply from underutilized major donor countries	Supporting sustainable and environmental procurement

<u>Organization</u>	Source	General procurement principles						
<b>UNHCR</b>	IP Procurement Guidelines: For Implementing Partners of UNHCR funded Programmes, article 1	Fairness, integrity and transparency of the process	International procurement to capitalize on global competition. This applies in particular to goods and services covered by UNHCR frame agreements (Quick reference booklet, chapter 8, and Doing Business with the United Nations High Commissioner for Refugees, revised 2007)	Mandate of UNHCR and the United Nations	Best value for money (“Doing business with UNHCR”, revised 2007)	Non-discrimination and equal treatment of vendors	Confidentiality	Sustainable procurement
<b>UNOPS</b>	UNOPS Procurement Manual, revised 2010; From response to JIU questionnaire	Fairness, integrity and transparency	Competition on as wide a geographic basis as is practicable and suited to market circumstances -Effective competition per From response to JIU questionnaire	The interest of UNOPS and its clients	Best value for money			
<b>FAO</b>	MS 502 from response to JIU questionnaire 2010	Fairness, integrity, transparency	Competition		Best value for money	Economy and effectiveness		
<b>IAEA</b>	Response to JIU Questionnaire 2010	Fairness, integrity and transparency, through competition	Competition	To achieve the programmatic goals and objectives of IAEA	Best value for money			

<b>Organization</b>	<b>Source</b>	<b>General procurement principles</b>						
<b>ICAO</b>	Procurement Code, article 1	Accountability	National, regional or international competition	Best interest of ICAO and/or assisted States	Economy, efficiency			
	From response to JIU questionnaire 2010		Competitive tendering		Lowest cost, technically acceptable for goods and best value for money for services			
<b>ILO</b>	Financial Rules, (2010 edition), chapter X	Transparency and accountability in the procurement process	Fair and open competition giving all qualified suppliers an opportunity to participate	Interests of ILO	Best value for money			
<b>IMO</b>	Procurement Manual (May 2007)	The process is completely open and transparent		The Organization's interests are protected and safeguarded from litigation	The Organization secures value for money.			
<b>ITU</b>	Procurement manual, 2010 (draft)	Fairness, integrity and transparency	Effective competition	The interest of ITU and its clients	Best value for money			
	Service Order No. 13 as referred in response to JIU questionnaire 2010		Effective international competition					
<b>UNRWA</b>	Procurement Manual 2009 and response to JIU questionnaire 2010	Fairness, integrity and transparency	Effective competition	Interest of the Agency and the Palestine refugees	Best value for money			

<u>Organization</u>	Source	General procurement principles						
<b>UNIDO</b>	Procurement Manual, 2008 and response to JIU questionnaire 2010	Fairness, integrity and transparency	Effective competition	The best interest of UNIDO	Best value for money			
<b>UPU</b>	UPU Financial regulations, article 13	Integrity, transparency	Favourable competition	Obvious interest of the Union	Best value for money	Non-discrimination and equal treatment of suppliers  Independence and impartiality of the organization  Quality  Sustainable development		
<b>WFP</b>	Response to JIU Questionnaire and Procurement Manual 2.2		Competition					
<b>WIPO</b>	OI 21/2006Rev para. 3 from response to JIU questionnaire 2010	Fairness, integrity, transparency	Effective and broad competition	The best interests of WIPO	Best value for money			
<b>WHO</b>	Response to JIU Questionnaire 2010	Fairness, integrity and transparency	Effective international competition	Interest of WHO	Best value for money	Environmental Concerns		
<b>UNWTO</b>	“We do not have adopted procurement principles” (response to JIU questionnaire 2010)							
<b>WMO</b>	WMO procurement webpage	Fairness, integrity and transparency	Open and international competition		Best value for money			

<u>Organization</u>	Source	General procurement principles						
<b>European Community</b>	<i>Financial Regulation and Implementing Rules Applicable to the General Budget of the European Communities</i> , Financial Regulation, article 89	Transparency  The banning of technical specifications liable to discriminate against potential foreign bidders  Application of objective criteria in tendering and award procedures	Community-wide advertising of contracts so that firms in all Member States have an opportunity to bid for them		Best value for money (art. 138, para. 1 (b) of the Implementing Rules, and art. 97, para. 2 of the Financial Regulation)	Transparency, proportionality, equal treatment and non-discrimination		
<b>World Bank</b>	World Bank Group Corporate Procurement Policy and Procedures Manual, article 1.1	Fairness, transparency	Open Competition	Interest of the Bank	Economy and efficiency		All eligible bidders from developed and developing countries are given the same information and equal opportunity to compete in providing goods, works, and non-consulting services financed by the Bank	
	Consulting Services Manual, chapter 3.1	Transparency	Competition among qualified consultants from all eligible countries		Economy and efficiency	High quality of services	Participation of national consultants	

## Annex II

## SUMMARY OF ETHICS POLICIES RELATED TO PROCUREMENT

	Financial disclosure	Conflict of interest	Security Council resolution 1267 (1999)	Whistleblower policy	Post-employment restrictions	Gifts and hospitality	Supplier code of conduct on website	Vendor complaint
<b>FAO</b>	Yes	Yes	No	No	No	Zero tolerance	Yes	No
<b>IAEA</b>	Yes	Yes	No	No	No	Nominal gifts allowed	No	No
<b>ICAO</b>	Yes	Yes	No	No	No	Nominal gifts allowed	No	No
<b>ILO</b>	Yes	Yes	Yes	Yes	No	Nominal gifts allowed	Yes	No
<b>IMO</b>	No	Yes	No	No	No	Zero tolerance	No	No
<b>ITU</b>	No	Yes	No	No	No	Nominal gifts allowed	No	No
<b>UN</b>	Yes	Yes	Yes	Yes	Yes	Zero tolerance	Yes	Yes
<b>UNDP</b>	Yes	Yes	Yes	Yes	Yes	Zero tolerance	Yes	Yes
<b>UNESCO</b>	Yes	Yes	No	No	No	Nominal gifts allowed	No	No
<b>UNFPA</b>	Yes	Yes	No	Yes	No	Nominal gifts allowed	No	No
<b>UNICEF</b>	Yes	Yes	No	Yes	Yes	Zero tolerance	Yes	Yes
<b>UNIDO</b>	Yes	Yes	No	Yes	Yes	Zero tolerance	No	Yes
<b>UNOPS</b>	Yes	Yes	Yes	Yes	Yes	Zero tolerance	Yes	Yes
<b>UNRWA</b>	Yes	Yes	No	Yes	No	Nominal gifts allowed	Yes	Yes
<b>UNWTO</b>	No	Yes	No	No	No	No policy	No	
<b>UPU</b>	Yes	Yes	No	Yes	No	Nominal gifts allowed	No	No
<b>WFP</b>	Yes	Yes	No	Yes	Yes	Nominal gifts allowed	No	No
<b>WHO</b>	Yes	Yes	No	No	No	Nominal gifts allowed	Yes	No
<b>WIPO</b>	Yes	Yes	No	No	Yes	Zero tolerance	Yes	No
<b>WMO</b>	Yes	Yes	No	No	No	No policy	No	No
<b>UNHCR</b>	Yes	Yes	Yes	Yes	Yes	Zero tolerance	Yes	Yes
<b>UN related/ associated</b>								
<b>IFAD</b>				Yes			Yes	
<b>World Bank</b>	Yes	Yes		Yes	Yes	Nominal gifts allowed	Yes	Yes
<b>EC</b>		Yes				Nominal gifts allowed	No	Yes
<b>OECD</b>		Yes				Zero tolerance	No	No

## Annex III

**MAJOR GOODS AND SERVICES PROCURED BY UNITED NATIONS AGENCIES  
(2009)**

**Major goods and services procured by United Nations agencies  
(2009)**

(Value in thousands of United States dollars)

	<b>Categories</b>	
1	Transport services	2,384,521
2	Construction, engineering and architectural services	1,375,953
3	Food and nutrition	1,307,826
4	Pharmaceuticals and vaccines	1,184,084
5	Human resources, consultants and project staff	519,962
6	Motor vehicles and parts, including other transport equipment	477,673
7	Textiles, including clothing, tents, blankets, mosquito nets, etc.	380,670
8	Medical laboratory and hospital equipment	367,640
9	Computer and IT equipment, including software	339,410
10	Building and machinery maintenance and repair	313,737
10	Petroleum and fuel products	299,643
11	Travel and tourism	285,768
12	Leasing and rental services	255,748
13	Books, paper, office stationary and supplies	195,322
14	Computer and IT services	184,328
15	Furniture	183,554
16	Financial services, insurance, accountancy/audit	163,016
17	Management services and consultancy	157,294
18	Politics, peacekeeping and mine action services	130,839
19	Telecommunication equipment, including radio and satellite	123,062
20	Pumps, engines, lifting and cold chain equipment	104,740
	<b>Total</b>	<b>10,734,790</b>



<b>Recommendation 13</b>	<b>a</b>		E	E	E	E				E		E		E	E	E	E	E	E	E	E	E	E	E		E			
<b>Recommendation 14</b>	<b>d</b>	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	
<b>Recommendation 15</b>	<b>d</b>		E	E	E	E	E	E		E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	
<b>Recommendation 16</b>	<b>b</b>		E	E	E	E	E	E		E		E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	
<b>Recommendation 17</b>	<b>g</b>																											E	
<b>Recommendation 18</b>	<b>o</b>																											E	

**Legend:**            **L:**        Recommendation for decision by legislative organ  
                          **E:**        Recommendation for action by executive head  
                          **█:**        Recommendation does not require action by this organization

**Intended impact:** **a:** enhanced accountability   **b:** dissemination of best practices   **c:** enhanced coordination and cooperation   **d:** enhanced controls and compliance  
**e:** enhanced effectiveness   **f:** significant financial savings   **g:** enhanced efficiency   **o:** other