PROCUREMENT MANAGEMENT

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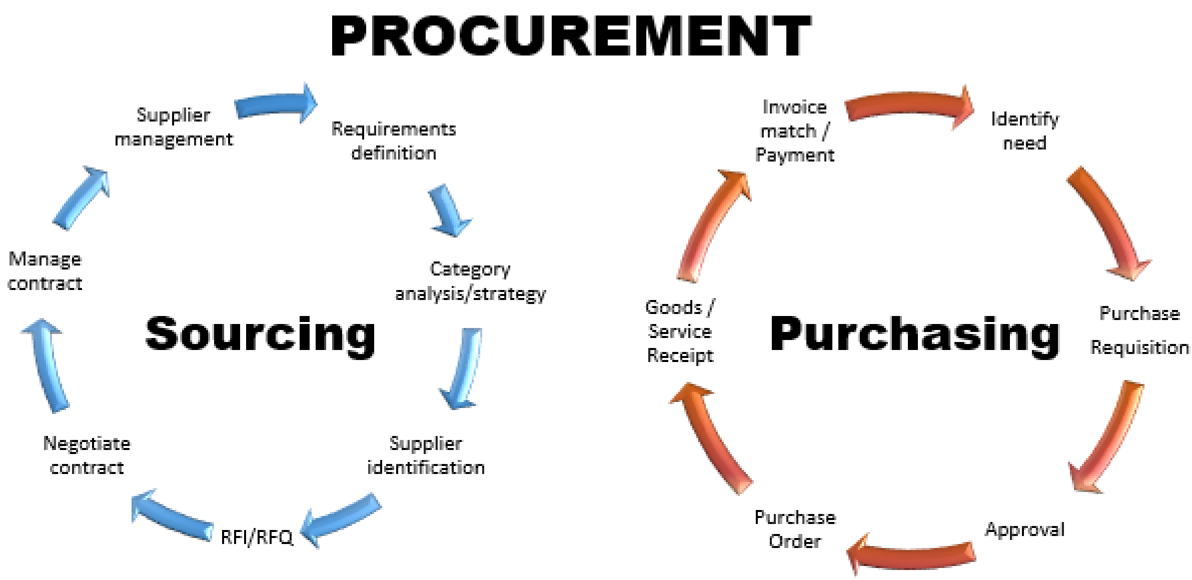


Purchasing and **procurement** have become of strategic importance to firms, in helping them achieve their goals and objectives. This is only possible if the proper purchasing and disposal procedures are followed. This course will introduce students to the basic concepts in procurement and the processes involved in both public and private sectors thus exposing them to the aspects that will enable them appreciate the importance of procurement management in today's competitive environment.

INTRODUCTION

Procurement

Procurement is the process of acquiring goods, services and works through purchasing, lease, rental, hire-purchase or other legal means of contracting.

Purchasing

This is an organizational function which involves the acquisition of supplies or inputs (raw materials, components, goods and services) to the organization's activities (conversion, consumption, or resale).

Purchasing is a simple transaction, when companies pay for and receive goods or services. Purchasing can be considered a subset of procurement. For a small business with no procurement department, this may mean a phone call to an office supply store when the supply of pens runs low or a new computer is needed. Small businesses often lack the purchasing power of a major enterprise and have no leverage with which to negotiate.

A simple purchasing process is generally performed on a transactional basis with little strategy

✓ *Placing the order*

Without strategy, goods and services are ordered as needed. Reactive purchasing comes with a host of money-wasting issues. Businesses that buy on demand without approved purchase orders (PO) typically lack oversight and budget control.

✓ *Supplier communications*

Most companies have a established list of suppliers they work with to purchase supplies.

✓ *Receiving of goods or services*

Purchasing requires receipt of goods and services. Good purchasing strategy includes protocols for recording and tracking purchases.

✓ *Invoice receipting*

In companies with no procurement department, invoices are usually sent to accounts payable. With no automated tracking system, each invoice recording must be verified by hand, an inefficient and time-consuming process prone to error.

✓ *Supplier payment*

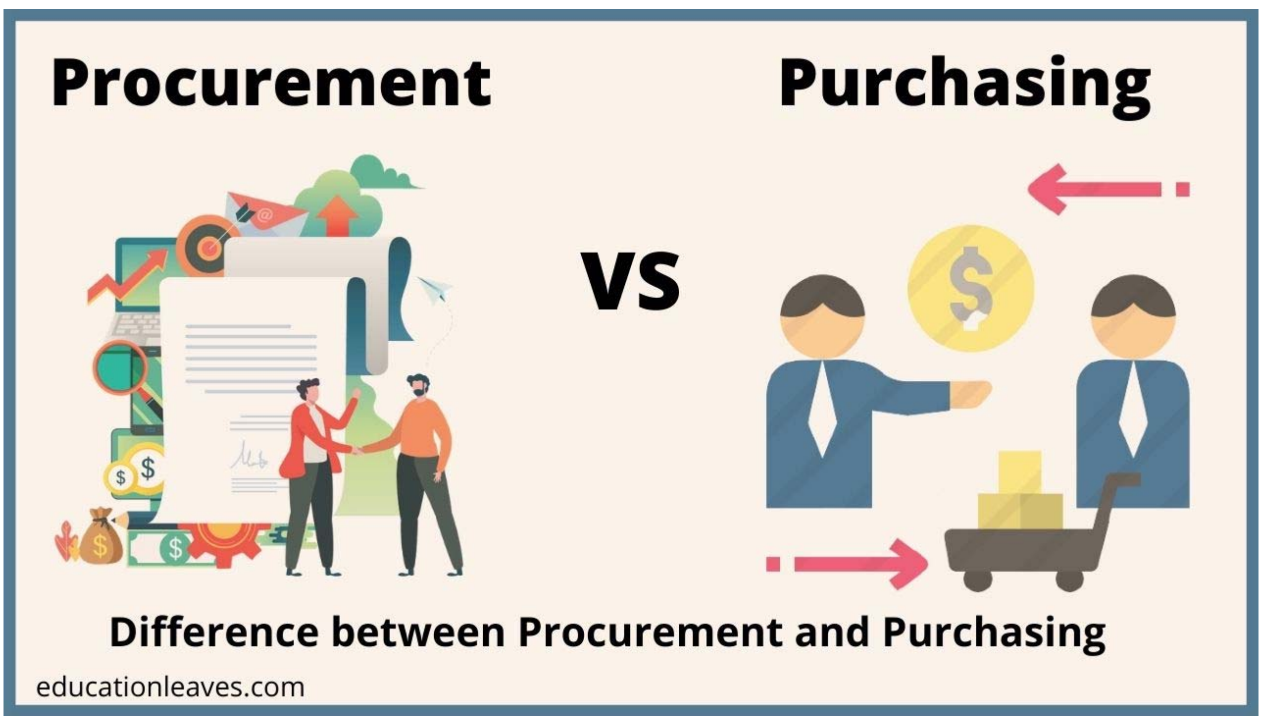
Invoices are typically paid without completing the 3-way match to verify the invoice against the PO and packing slip. Common results of poor strategy include late payments; over-payments for items not delivered, and duplicate payments.

For a growing business, purchasing without procurement strategy has distinct disadvantages. Lack of control, purchasing rules, preferred vendor relationships, and accurate metrics leaves companies vulnerable to fraud and overpayment. Well defined procurement processes helps minimize spend, even for a small business.

Objective of purchasing

- To buy materials of the right quality, in right quantity, delivered to the right place at the right time at the right price. *(five rights of purchasing)*
- Securing and converting inputs from suppliers into outputs that will satisfy customers.

Differences between old purchasing and modern purchasing



i. Purchasing is '***reactive***'- responding to requests from user department, as opposed to modern purchasing which is increasingly '***proactive***' – often developing purchasing policies and defines requirements.

ii. Purchasing is '***transactional'*** –processing purchase orders and contracts to secure the best deal , as opposed to modern purchasing which is increasingly '***relational' –*** long term best value is from long term collaborative relationships with selected suppliers

iii. Purchasing is '***tactical' –*** focused on making efficient deals for that moment, do not care about a long term vendor relationship as opposed to modern purchasing which is ***'strategic'-*** focused on contributing to the achievement of long term, high level organizational objectives such as profitability, competitive advantage etc based on **win-win** situation

iv. Purchasing is all about '***buying'*** in return to payment. Whereas procurement embraces a number of ways in which goods and services are increasingly obtained e.g hiring, leasing, borrowing

v. Procurement gives more importance to an item's ***value*** than how much it costs where as Purchasing focuses more on the ***cost*** than the value it possesses

vi. In procurement, every stage involves a ***big number of people***; each of them contributing to one of the parts of the whole process where as purchasing involves a smaller number of people.

Note

Traditional definition = purchasing

Modern definition = procurement

Current Trends in procurement

Global competition, changing economies, and new supply chain challenges, have brought into focus the need for procurement leaders to develop strategies that will yield sustainable competitive advantage.

In response to these challenges, procurement has evolved from organizations focusing on buying goods from suppliers with lowest price quotations, to harnessing the power of big data analytics and cloud computing, to make better decisions. Here are some of the trends that are affecting procurement today:

- *Next General Spend Analytics:* Spend analytics has moved beyond aggregating and analyzing transactional data, to gathering strategic intelligence. Supplier performance & risk information must be integrated into spend analysis to present a truly holistic view of an enterprise's spend behavior. This is achieved by taking advantage of 3rd party information sources, such as local news media coverage.
- *Digital Capabilities Adoption for Indirect Spend***:** Companies have begun to realize that reducing indirect spend, offers a huge opportunity, by affecting its cost structure. To drive maturity in indirect spend; companies have incorporated cloud based technologies to create an "amazon-like" experience, with real time market view for buyers.
- *Best Cost Country Sourcing***:** There has been a steady shift in strategy around low-cost country sourcing to best-cost country sourcing. Companies have understood that source choice should be based, not only on a static view of total cost of ownership (TCO), but on future costs, alternative growth markets, and approaches to implementing greener and leaner supply chains.
- *Supply Chain Sustainability***:** Consumers are becoming aware of how products are sourced and manufactured. Supply chain sustainability has therefore, become an important factor today with more companies pushing towards positive social change and environmental protection.

Evolution of procurement

i. **1970**, highly transactional with focus on lowest supplier costs.
ii. **1980**, Supplier consolidation and spend analysis of key commodities
iii. **1990**, Indirect spend analysis and customer relationship management
iv. **1995**, focus on supplier relationship management
v. **2000,** strategic sourcing, automated spend analysis systems
vi. **Present**, digital procurement (transparency, visibility analytics): supplier innovation and collaboration

Procurement Challenges

As supply chains are becoming more global and agile, newer challenges are affecting procurement organizations today that provide opportunities for further innovation. Innovative techniques include

- ✓ **Use of Big Data -** Procurement organizations today are inundated with huge amounts of data. It is essential that procurement leaders understand exactly what data is needed employ tools that analyze the data, and employ people with the right skills.
- ✓ **Drying up of cost-savings -** The successful employment of strategic sourcing initiatives, since the early 2000's, has dried up cost savings for procurement professionals. The challenge now is to search for the next set of strategies that help improve cash flow, reduce time to market and other new streams of innovation.
- ✓ **Manage Global Supply Chain Risk -** In today's globally connected supply chain, it is essential for procurement organizations to plan for droughts/floods, terrorist activities, political instability, and the lack of safety regulations.
- ✓ **Track Exchange Rate Fluctuations -** With companies procuring goods from all over the world, it is essential to assess the impact of exchange rate volatility. It is essential to look at what is the short term and long term impact of fluctuations on the procurement contract and make strategic decisions based on the degree of exposure.
- ✓ **Risk mitigation,** Supply risk is always a major challenge in the procurement process. Market risks, potential frauds, cost, quality, and delivery risks, health risks constitute the most common type of risks. Additionally, compliance risks like anti-corruption, policy adherence, and more keep your procurement leaders up all night.

- ✓ **Dark purchasing,** Purchases that are made outside the defined procurement process fall under dark purchasing. Such uncontrolled spending can ultimately be expensive for businesses. When items purchased cannot be justified using capital outlay or material inventory, the resulting loss of revenue and control is a significant challenge for organizations of all sizes to tackle.
- ✓ **Long process cycle,** most often, products and services are procured with a sense of urgency in the last minute. As a result, the actual lead times and the procurement cycle

tends to be considerably longer than that anticipated or scheduled. Listed below are the common reasons for delays in the procurement process:

  - Delays in preparing technical specifications/TOR/SOW
  - Overlooking the procurement schedule
  - Extending the timeline to submit bids/proposals
  - Failure to start the evaluation process on time
  - Setbacks in contract negotiation

- ✓ **Inaccurate data**, In order to make sound procurement decisions, organizations need accurate and reliable data. Making purchases based on inaccurate procurement data can lead to inventory shortages, excess inventory, and other additional procurement challenges that have the potential to impact an organization's bottom line directly.
- ✓ **Strategic procurement, as** the procurement process continues to become more strategic and collaborative, organizations are starting to realize the benefits of having a solid procurement strategy in place. However, understanding the strategic implications of every step and figuring out a way to implement it across all functional units of business is a distinct challenge.
- ✓ **Supplier-related issues**, one of the greatest challenges in procurement is supplier management. From identifying the right supplier to keeping track of vendor performance and ensuring a stable supply of quality products, the whole process is filled with complications.
- ✓ **Political interferences**
- ✓ **Limited transparency**

Roles/ functions of procurement

i. Supply market monitoring, and identifying potential sources of supply

ii. Supplier evaluation and selection

iii. Processing procurement or stock replenishment requests (requisitions)

iv. Providing input to the preparation of specifications (definition of requirements) for new purchases

v. Negotiation , buying and developing contracts

vi. Contract management – ensuring that suppliers deliver according to contract

vii. Record keeping, report generation, processing of documentation through all the above activities

Operational Objectives of procurement

i. *Obtaining the right inputs,* the general objective of purchasing is to obtain the inputs required by an organization for its operations. The organization can be seen as an open system which takes in inputs from the environment (including those obtained by the procurement function on its behalf) and processes them in some way to create outputs to the environment. These inputs should be of right quality, right quantity, delivered to the right place, at the right time, for the right price.

ii. *Internal customer service,* procurement provides inputs to organizational processes. The units/departments responsible for those processes eg production, operations etc are therefore seen as internal customers.

iii. *Risk management,* the organization cannot function without inputs, particularly those which are essential to its production or service provision processes. If inputs become scarce, or a source of supply fails suddenly eg a major supplier goes out of business, the organization will be faced with problems and losses: production delayed or shut down, customers lost, extra costs incurred to get emergency supplies and so on. One of procurement's overall objectives is therefore to ensure that risks of supply failure or disruption are minimized and or covered by contingency plans ie minimizing over dependency on single suppliers and developing relationships with dependable suppliers.

iv. *Cost control and reduction,* in order to make a profit or to provide services cost effectively, an organization will need to control its costs and a significant proportion of any organisation's overall costs will be the inputs it buys in. Therefore procurement should consistently buy the right quantity at the right price and reducing or eliminating wastage in purchasing and supply procedures

v. *Relationships and reputation management,* procurement is an important 'interface' or touch point between the organization and the outside world. One of the overall objectives is therefore to maintain constructive relationships with suppliers and to conduct its activities in an ethical, socially responsible and environmentally friendly way, so as to promote and protect a positive reputation for the organization

Procurement and other terms and concepts

- ***Maintenance, Repair and Operation (MRO)***

  MRO are all goods and services (other than capital equipment) necessary to transform raw materials and components into end products eg paint, lubricants, packing materials, cleaning products and industrial clothing.

- ***Non – stock procurements***

  This is where most of the organization's outputs consist of products made in direct response to customer orders. The major supplies are devoted to particular projects, and are therefore procured when the project requires them on demand rather than being procured for stock.

  It is also a feature of **JIT** with a philosophy, "*inventory is evil*"

  However many organizations have taken a shift towards "*agile*" supply (the ability to respond swiftly and flexibly to changes in customer demand*)*

- ***Stock to order***

  This is a non-stock procurement policy whereby the organization only procures materials as required to fulfil orders received from customers.

  A major challenge with this approach is the need to ensure reliable swift performance from the supply chain against tight delivery schedules.

- ***Stock to forecast***

  This policy is based on forecasting or estimating demand for finished products (for sale to customers) and for supplies (for operations), and planning inventory quantities and timing on this basis.

- ***Stock procurement***

  In this policy, items are procured and placed into storage in advance / anticipation of future need or demand

  Circumstances of stock procurement

- *In situations of independent demand* Where the demand is independent of or in isolation from, the demand for any other item e.g consumables
- *In situations of predictable demand*, For low – value , non-perishable items (especially if these do not take up too much warehouse space)
- Where there is a *long lead time* for obtaining stock from suppliers
- Where *items are critical* for operations and running out of them or not getting them in time would disrupt production
- Where there is a *legal requirement* to hold stock eg health and safety equipment
- Where inventory appreciates in value over time eg wine timber
- Where prices are expected to rise and it will be more cost effective to stock while prices are still low.
- Where demand is seasonal and the organization lacks the capacity to cope with peaks of demand

Costs of Inventory/ Holding Costs

- Cost of tied up capital
- Cost of storage space
- Cost of insurance
- Cost of stock waste due to deterioration or obsolescence

Ways of minimizing costs of stockholding

- The use of economic order quantities (optimal size order for each material)
- Improving the process of demand forecasting so that stock procurements are more accurately related to requirements
- Use of vendor managed inventory
- The use of management information systems to support inventory management

✓ **Capital Procurements (Cap Ex)**

X-tics of cap ex

i. ***Length of lifecycle.*** The procuring organization use the item for a long time (several years)

ii. ***High acquisition cost.*** A capital item is a large -value asset

Examples

- Buildings
- Manufacturing plant
- Vehicles

Distinctive features of capital procurement

i. Purchase or leasing price is one element, and sometimes not the most important element in the total costs of owning the asset. Other costs e.g maintenance are also relevant.

ii. The monetary value of the asset is high, and raises procurement and financing issues of whether buy or lease.

iii. Negotiations are usually more extended and complex than in other procurements because of the high value and complexity of the total package of benefits being sought over the asset's life cycle.

iv. The procurement of capital items tend to be non-recurrent and usually each new acquisition must be evaluated afresh.

v. Specifications for capital equipments are usually more difficult to draft because of the technical complexity of the item and the service elements which are usually included.

vi. The benefits to be obtained from the procurement are often difficult to evaluate for example a machine replaced with a superior model for ease of use is hard to express ease of use in monetary terms

Evaluating and justifying capital procurement options

The benefits and costs of any capital procurement should be analyzed in advance, in order to present a business case or justification for the exercise.

i. ***Discounted cash flow (DCF)***

This is the process of evaluating future cash flows, by applying this technique to all the costs and benefits associated with capital assets, net present value (NPV) can be calculated and compared.

ii. ***Cost benefit analysis***

If benefits exceed costs, the procurement can be justified as worthwhile – while if costs exceed benefits, the procurement proposal will be rejected, if benefits are approximately equal to costs then further investigations are needed

Procurement's role in capital procurements

i. Performing research to identify potential vendors and to obtain relevant data about them
ii. Requesting quotations and evaluating bids
iii. Organizing and managing discussions and negotiations with suppliers and finalizing agreed terms and conditions
iv. Awarding the contract and placing the order
v. Checking supplier's compliance with agreed terms
vi. Monitoring installation and post installation performance
vii. Working with the manufacturer and maintenance service providers to extend the useful life of the asset and to maintain its value

- ✓ ***Direct procurement (DP)***

  Refers to the procurement of inputs and consumables for the primary revenue earning activities of the enterprise

  This is when items are either procured for resale eg goods purchased by a retailer, OR for incorporation in goods for sale eg materials purchased by a manufacturer

- ✓ ***Indirect procurement (IP)***

  Refers to the procurement of inputs and consumables for the support activities

Difference between DP and IP

1. Quality of DP directly affect the quality of goods produced.eg increased waste as a result of poor DP	1. Quality of IP does not generally impact on the production process
2. DPs frequently need to be held in stock to ensure continuous production	2. IPs are usually made as and when required, minimizing stock and its associated costs .
3. DPs are more likely to be made via long - term , more collaborative supplier relationships in order to secure continuity of supply	3. IPs are frequently made on one – off transactional relationships in order to take advantage of price competition since priority is cost efficiency
4. DPs are more carried out by procurement and supply chain function because of their specialized nature.	4. IPs are more carried out by end users as they represent relatively straight forward re-buy
5. Cost of DP is included in the organizations cost of goods	5. Cost of IP is included in the organizational overheads

Basic Principles of Public Procurement

Public procurement principles are the foundation of public procurement and should be addressed in the public procurement rules. They govern the management of public procurement, and also set the framework for a code of conduct for public procurement practitioners and all other officials directly or indirectly associated with the public procurement process.

As a practitioner you must have a clear understanding of public procurement principles, and know how to apply them to guide your day-to-day decision-making process. By integrating these principles into your work ethic, the outcome of your decisions will always be in line with the goal of public procurement.

As a public procurement practitioner you are a public servant. You manage public funds, are bound by an ethical code of conduct, and are accountable for what you do or fail to do when managing those funds.

Transparency, integrity, economy, openness, fairness, competition and accountability are some of the fundamental principles of public procurement. They are briefly discussed below.

- ✓ ***Transparency***

Transparency in public procurement is important. Information on the public procurement process must be made available to all public procurement stakeholders: contractors, suppliers, service providers, and the public at large, unless there are valid and legal reasons for keeping certain information confidential. Examples of confidential information are: proprietary information belonging to companies or individuals participating in the solicitation process, and certain military and defense-related procurements, to mention a few.

When a public procurement requirement is announced, electronically, through press release, the internet, and other venues, the announcement must include sufficient details for interested contractors, suppliers and service providers to determine if they are qualified to compete. The solicitation documents, particularly, must be available at a reasonable price, if not free of charge.

After reading the solicitation documents, interested contractors, suppliers and service providers should also be able to determine:

- the nature of the requirement and its scope
- the closing date for submission of offers or information
- the evaluation and selection criteria
- how and where offers should be submitted
- the number of copies to be submitted, and point of contact for additional information and response to queries (clarifications)
- the deadline for submission of queries
- the schedule of pre-bid meetings and site visits (if applicable), and any other pertinent details

Additionally, if there is a change to the solicitation documents, all stakeholders should be notified using the same publications that were used for the initial notification, so interested contractors, suppliers or service providers can take necessary and timely actions to comply with the change.

- ✓ ***Integrity***

In public procurement integrity is twofold. There is the integrity of the procurement process, and that of public procurement practitioners.

Integrity of the Public Procurement Process

Integrity is essentially **reliability**. Bidders, and all other stakeholders, must be able to rely on any information disseminated by the procuring entity, formally or informally. The integrity of the procurement process assures confidence in the public procurement system. When solicitation documents are made publicly available, the information they contain must be dependable and free of ambiguities or bias.

When reviewing solicitation documents, prospective bidders should be able to determine if they are qualified to undertake the assignment. They also should be able to assess the need for association with other bidders and the type of association they would need to form given their qualifications and the requirements of the assignment.

Bidders should have a clear understanding of the requirement, and know how they will be evaluated. Evaluation and selection criteria must be clearly stated in the solicitation documents. These criteria should remain unchanged unless there is need to modify them. If modification is required, the solicitation documents should be amended, published and made available to all prospective bidders. Any changes in the offer submission date, should allow bidders sufficient time to adjust their offers accordingly to meet the new submission deadline.

Integrity of Public Procurement Practitioners

Practitioners working within procuring entities, and other government officials involved in the public procurement process, must display personal and professional integrity. Ideally there shouldn’t be any inconsistency between the two.

Public servants involved in the public procurement process should, at all times, be perceived as honest, trustworthy, responsible and reliable. They must always keep the purpose of the procurement requirement in mind, and strive to ensure that they responsibly manage public procurement as mandated by the public procurement rules.

- ***Economy***

  Synonymous with efficiency, value for money, and commercially reasonable price, the principle of economy emphasizes the need to manage public funds with care and due diligence so that prices paid for goods, services and works are acceptable and represent good value for the public funds expended on them.

  Everyone associated with the public procurement process or directly responsible for facilitating the acquisition of goods and services with public funds, should strive to avoid ***fraud, waste and abuse of public resources***; whether it is the result of over specifications of required goods, paying unreasonably high prices for substandard goods, collusion with other bidders, or other forms of unacceptable practices.

- ***Openness***

  Public procurement requirements should be open to all qualified organizations and individuals. The public should also have access to information pertaining to public procurement requirements. Access to public procurement information is not absolute. ***Confidential and proprietary*** information belonging to organizations and individuals participating in process should not be available publicly, and the extent of their disclosure should be detailed in the procurement rules or other relevant regulation.

  There are also procurement methods, such as ***restricted*** or ***selective bidding***, that limit the availability of solicitation documents to only those firms meeting certain qualifications. The request for quotations (or shopping), and direct contracting (sole source) also present certain limitations on competition given that the request for offers is limited to a certain number and type of organizations or individuals.

The ***evaluation of offers*** received is always kept confidential until the evaluation panel reaches a final conclusion and after the evaluation report is cleared by a designated approving authority. This would be defined in the procurement rules.

Most ***defense procurements*** are confidential, restricting relevant information to a "need-to-know" basis only.

Except for ***confidential defense procurements***, the results of the public procurement process should be published and made available on relevant websites. In addition, public procurement information (except for confidential/proprietary information) should be open to all on a restricted access basis.

✓ ***Fairness***

There are different interpretations of fairness in public procurement, so rather than define fairness as treating all bidders equally, better to mention how fairness is achieved in public procurement.

To achieve fairness in the public procurement process:

- *Decision–making and actions* must be unbiased, and no preferential treatment should be extended to individuals or organizations given that public procurement activities are undertaken with public funds.
- *All offers must be considered on the basis of their compliance* with the stipulations of the solicitation documents, and offers should not be rejected for reasons other than those specifically stated in the solicitation documents and the procurement rules.
- A contract should only be signed with the supplier, contractor or service provider whose offer is compliant and best responds to the objectives of the requirement in terms of technical capability and price.
- Suppliers, contractors or service providers should have the right to challenge the procurement process whenever they feel they were unfairly treated or that the procuring entity failed to carry out the procurement process in accordance with the public procurement rules. Such challenges must be based on the solicitation documents and/or the public procurement rules.

- ✓ ***Competition***

  The public procurement process should not be manipulated for the benefit of any organization or individual. Given that public procurement is funded primarily with tax payers' money, all eligible organizations and individuals should be allowed to participate by submitting offers in response to a specific requirement for which they are qualified.

  Public procurement requirements should be widely disseminated to increase the chances of a good market response, leading to the award of competitively-priced contracts.

  Despite this principle, not all contracts are awarded using a competitive process because this sometimes depends on the urgency of need and the resulting procurement method used to fulfill a specific requirement.

  The use of non-competitive procurement methods, although justified under certain conditions, should be kept to a minimum. Examples of non-competitive procurement methods are: shopping (also called request for quotations or invitation to quote) and direct contracting (single/sole sourcing). Each of these non-competitive procurement methods have their purpose and should not be misused.

- ✓ ***Accountability***

  Accountability in public procurement means that anyone involved in the procurement process is responsible for their actions and decisions with respect to the public procurement process.

  As public servants, procurement practitioners, and others involved in the public procurement process, are accountable and exposed to sanctions as a remedy for any behavior that contravenes the public procurement rules. You also have an obligation to report and/or answer to a designated oversight entity, and the public, on the consequences of your actions and decisions.

Best practices in procurement

PUBLIC PROCUREMENT METHODS

According to the PPDA act 2003 subsection 79, A procuring and disposing entity shall in respect of— (a) the procurement of goods, works and non-consulting services, use any of the methods in sections 80, 81, 82, 83, 84, 85 and 86 and the conditions for their use specified in the Fourth Schedule to this Act; and (b) the procurement of consulting services, use section 88A and the conditions for procuring consultancy services specified in the Fourth Schedule to this Act. (2) The choice of a procurement or disposal method shall first be approved by the Contracts Committee. (3) A procuring and disposing entity shall first obtain the consent of the Authority before it uses any other method than the ones set out in this Part of the Act

i. ***Open domestic bidding***

Open domestic bidding is a procurement method which is open to participation on equal terms by all providers both local and international through advertisement of the procurement opportunity. Open domestic bidding shall be used to obtain maximum possible competition and value for money. Open domestic bidding shall be open to all bidders following a public advertisement of a Bid Notice in at least one widely read national newspaper.

ii. ***Open international bidding***

Open international bidding is the procurement method which is open to participation on equal terms by all providers both local and international, through advertisement of the procurement opportunity and which specifically seeks to attract foreign providers. Open international bidding is used to obtain the maximum possible competition and value for money, where national providers may not necessarily make this achievable. Open international bidding shall be open to all bidders following the public advertisement of a Bid Notice in a publication of wide international circulation.

iii. ***Restricted domestic bidding.***

Restricted domestic bidding is the procurement method where bids are obtained by direct invitation without open advertisement. Restricted domestic bidding is used to obtain competition and value for money to the extent possible, where the value or circumstances do not justify or permit the open bidding procedure. Restricted domestic bidding may be used where the supplies, works or services are available only from a limited number of providers; or there is insufficient time for an open bidding procedure in an emergency situation; or the estimated value of the procurement does not exceed the threshold.

iv. ***Restricted international bidding.***

Restricted international bidding is the procurement procedure where bids are obtained by direct invitation without open advertisement and the invited bidders include foreign providers. Restricted international bidding shall be used to obtain competition and value for money to the extent possible where the value or circumstances do not justify or permit an open bidding method and the short listed bidders include foreign providers. Restricted international bidding may be used where the supplies, works or services are available only from a limited number of providers and there is insufficient time for an open bidding procedure in an emergency situation; or the estimated value of the procurement does not exceed the threshold stated in the procurement guidelines

v. ***Quotation method***.

The quotation method is a simplified procurement method which compares price quotations obtained from a number of providers. The quotation method shall be used to obtain competition and value for money to the extent possible, where the value or circumstances do not justify or permit open or restricted bidding procedures. The quotation method shall be used in works and supplies.

Quotations or proposal procurement may be used where there is insufficient time for an open or restricted bidding procedure such as in an emergency situation; or where the estimated value of the procurement does not exceed the threshold stated in the procurement guidelines.

vi. ***Direct procurement.***

Direct procurement is a sole source procurement method for procurement requirements where exceptional circumstances prevent the use of competition. Direct procurement shall be used to achieve efficient and timely procurement, where the circumstances do not permit a competitive method. Direct procurement may be used where there is insufficient time for any other procedure such as in an emergency situation; or the works, services or supplies are available from only one provider; or an existing contract could be extended.

vii. ***Micro procurement*.**

Micro procurement is a procurement method which shall be used for very low value procurement requirements. Micro procurement shall be used to achieve efficient and timely procurement where the value does not justify a competitive procedure. A procuring and disposing entity shall use the micro procurement method for unforeseen requirements whose estimated value is below the prescribed threshold.

Thresholds for Procurement Methods

In accordance with Regulation 6(4) of the Public Procurement and Disposal of Public Assets (Rules and Methods for procurement of supplies, works and non- consultancy services) Regulations, 2014 and Regulation 6 of the Public Procurement and Disposal of Public Assets (Procurement of Consultancy Services) Regulations, 2014, the following thresholds shall apply to the procurement methods detailed below:

Thresholds for procurement of works

i. *Open Domestic Bidding or Open International Bidding* shall be used if the estimated value of the works exceeds *UGX 500,000,000.*

ii. *Restricted Domestic Bidding or Restricted International Bidding* shall be used if the estimated value of the works is greater than *UGX* 200,000,000 but does not exceed *UGX 500,000,000.*

iii. *The Quotation Method* shall be used if the estimated value of the works is greater than *UGX* 10,000,000. But does not exceed *UGX 200,000,000.*

iv. *Micro Procurement·* shall be used if the estimated value of the works does not exceed *UGX 10,000,000.*

Thresholds for Procurement of Supplies and Non-Consultancy Services

i. *Open Domestic Bidding or Open International Bidding* shall be used if the estimated value of the supplies or the non-consultancy services exceeds *UGX* 200,000,000.

ii. *Restricted Domestic Bidding or Restricted International Bidding* shall be used if the estimated value of the supplies or the non-consultancy services is greater than *UGX* 100,000,000 but does not exceed *UGX 200,000,000.*

iii. *The Quotation Method or the Proposals Method* shall be used if the estimated value of the supplies or the non-consultancy services is greater than UG*X* 5,000,000 but does not exceed *UGX 100,000,000.*

iv. *Micro Procurement* shall be used if the estimated value of the supplies or the non-consultancy services does not exceed *UGX 5,000,000.*

Thresholds for Procurement of Consultancy Services

For Procurement from consultancy firms

i. *Publication of a notice inviting expression of interest and* developing a short list shall be used if the estimated value of the consultancy services exceeds UGX 200,000,000.

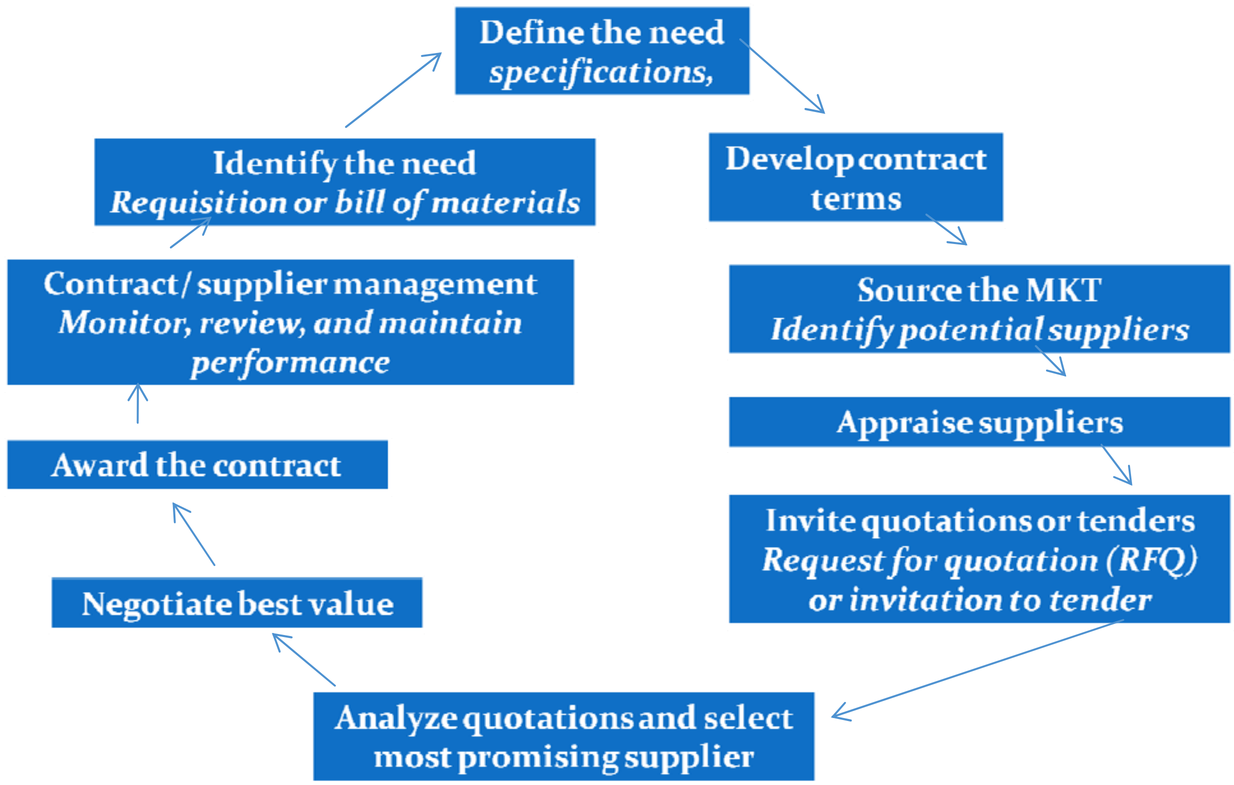
ii. *Short listing without publication of expression of interest* shall be used if the estimated value of the consultancy services does not exceed UGX 200,000,000.

For Procurement of individual consultants:

i. *Publication of a notice inviting expression of interest and developing a shortlist* shall be used if the estimated value of the consultancy services exceeds UGX 50,000,000.

ii. *Short listing without publication of expression of interest* shall be used if the estimated value of the consultancy services does not exceed UGX 50,000,000.

PROCUREMENT MANAGEMENT CYCLE



Generic procurement cycle

A generic procurement process comprises all of the procurement activities that typically take place from the initial identification of need to the final satisfaction of the need in a simplified chronological sequence.

Note

Not every procurement will follow every stage of this generic process basing on the different procurement situations;

- ✓ *Straight re-buy,* if the items have already been sourced from the supplier, it will not be necessary to follow the process again.
- ✓ *Modified re-buy,* if some requirement have changed, it will be important to specify the need but the same supplier may be used
- ✓ *New buys,* this is more likely to conform to the full procurement process

PROCUREMENT PLANNING

Procurement planning is the process of identifying and consolidating requirements and determining the timeframes for their procurement with the aim of having them as and when they are required.

A good procurement plan will describe the process in the identification and selection of suppliers/contractors/consultants.

Formulation and development of procurement plans is not just a good practice that must be embraced by Procuring Entities but it is also a legal requirement

PPDA act requires a procurement plan to be prepared for each financial year as a part of the annual budget preparation process. It is the responsibility of the head of department to submit an annual departmental procurement plan to the accounting officer, at least 30 days before the close of the financial year. A procurement plan should include a detailed breakdown of goods, works and services required and completion or delivery dates. Multi-year procurement plans may be prepared and integrated into the medium term budgetary expenditure framework. The Procurement Unit integrates and consolidates the plans submitted by various departments and sections of the entity to one consolidated procurement plan.

Reasons for procurement planning

- ✓ It helps to decide what to buy, when and from what sources.
- ✓ It allows planners to determine if expectations are realistic; particularly the expectations of the requesting entities, which usually expect their requirements to be met on short notice and over a shorter period than the application of the corresponding procurement method allows.
- ✓ It is an opportunity for all stakeholders involved in the processes to meet in order to discuss particular procurement requirements. These stakeholders could be the requesting entity, end users, procurement department, technical experts, and even vendors to give relevant inputs on specific requirements.
- ✓ It permits the creation of a procurement strategy for procuring each requirement that

will be included in the procurement plan. Such strategy includes a market survey and determining the applicable procurement method given the requirement and the circumstances.

- ✓ Planners can estimate the time required to complete the procurement process and award contract for each requirement. This is valuable information as it serves to confirm if the requirement can be fulfilled within the period expected, or required, by the requesting entity.
- ✓ The need for technical expertise to develop technical specifications and/or scope of work for certain requirements can be assessed, especially where in-house technical capacity is not available or is non-existent.
- ✓ Planners can assess feasibility of combining or dividing procurement requirements into different contract packages.

The Procurement Plan is important because:

- It lists all requirements expected to be procured over a period of time.
- From it the procurement schedule is developed, which establishes the timelines for carrying out each step in the procurement process up to contract award and the fulfillment of the requirement.
- It allows for the consolidation of similar requirements under one contract or the division of a requirement into several contract packages for economies of scale.
- From the number of requirements on the procurement plan, the procuring entity can determine beforehand any need for additional staffing, including external assistance for the purpose of completing all procurement requirements listed on the procurement plan.
- It allows for the monitoring of the procuring process to determine how actual performance compares with planned activities, and thus to alert the pertinent departments and adjust the procurement plan accordingly.
- It enhances the transparency and predictability of the procurement process.

Procurement planning process

Steps and content of a procurement plan

- ✓ Assess/list the needs or requirements.
  - Collect the list of needs from the user departments
  - Research the local market for the prices and availability of goods
- ✓ Determine the quantities and estimated costs
- ✓ Determine when the requirements shall be needed for use
- ✓ Identify the inter-relationships between and among the requirements
- ✓ Consolidate similar requirements
- ✓ Identify appropriate procurement methods and processes
- ✓ Schedule lead times for each process
- ✓ Prepare an implementation table and/or a bar chart identifying key dates for each process

BID EVALUATION

Evaluation is an independent assessment of bids to determine compliance with Statement of requirements, Ability to perform the contract and Ability to meet the objectives of the contract

Bid evaluation is the organized process of examining and comparing bids to select the best offer in an effort to acquire goods, works and services necessary to achieve the goals of an organization. The best offer recommended as a result of bid evaluation is referred to as the lowest responsive evaluated bid. It may also be called the most economically advantageous tender (MEAT).

Stages / Types of Evaluation

1. *Preliminary evaluation*

   This stage is conducted to determine

   - Responsiveness
   - Eligibility
   - Bidders qualifications and
   - Administrative compliance

   The above criteria are evaluated on Pass/Fail basis. Only those that meet all the preliminary requirements are considered for the next stage.

2. *Technical / Detailed evaluation*

   Purpose:

   - To determine technical compliance with the specification in the bid document
   - The bid must pass a minimum score to proceed to the next stage e.g 70%
   - The minimum score must be stated in the SBDs and adhered to
   - Detailed shall only be carried on bids that passed preliminary examination
   - To assess the commercial responsiveness as per terms and conditions in solicitation document (SD)

3. *Financial evaluation*

   Financial comparisons shall be conducted for eligible and administratively compliant and substantially commercially and technically responsive bids to determine:

- The best evaluated price
- Correct any arithmetic errors
- Convert all bids to a single currency
- Apply any margin of preference as per BD
- Make adjustments for non-material omissions, determine total evaluated price.
- Award financial scores or ranks bids in accordance with evaluation methodology and criteria

4 Technical + Financial Evaluation

- To ascertain the best evaluated bid, both technical and financial scores must be combined:
- The combination ratio is one that was stated in the SBDs e.g 70: 30, 80:20 or 90:10, depending upon the level of quality or technical competence required;
- The best evaluated bid is one that gets the best combined (weighed) score

Evaluation methodologies

- Quality and Cost Based Selection (QCBS)
- Quality Based Selection (QBS)
- Fixed Budget Selection (FBS)
- Least Cost Selection (LCS)
- Technical Compliance Selection(TCS)

Challenges in evaluation

- Maintaining confidentiality by members of evaluation committee
- Issues of conflict of interest and favoritism
- Awarding of marks / scoring may be subjective

DISPOSAL

PUBLIC DISPOSAL PROCESS

Meaning of disposal

The PPDA Act defines disposal as the divestiture of public assets, including intellectual and proprietary rights and goodwill, and any other rights of a PDE by any means, including sale, rental, lease, franchise, auction, or any combination.

Purpose of disposal

1. The asset may no longer be required by the section/department or entity due to changes in operational requirements
2. Surplus to needs: the asset may be in excess of the needs of the entity
3. Part of the assets replacement programme: the asset has reached the point at which it is most economical to dispose it off (from age, usage, mileage etc) thus minimizing through life costs
4. Unserviceable, or beyond reasonable repair: such assets constrain revenues of an entity and therefore need to be disposed
5. Technologically obsolete and operationally inefficient, or incompatible with other assets
6. Continued possession or use of asset contravenes occupational health and safety standards, or the asset contains hazardous materials and so forth
7. The costs of capital tied up, storage, handling etc cannot be justified when compared with the cost of alternatives, such as rental, just in time procurement etc

Disposal process

Disposal methods

1. Public auction
2. Public bidding
3. Sale to public officers
4. Direct negotiation
5. Trade-in
6. Transfer to another procuring and disposing entity or organization
7. Conversion or classification of assets into another form

8. Destruction of assets
9. Donation

General principles of disposal

1. Assets for disposal should normally be sold at a fair market value in a manner that maximizes revenue and minimizes expenses
2. Assets with little or no market value may be transferred gratuitously or may be scraped in an environmentally acceptable manner when in the opinion of the entity, it is the most cost effective means of disposal and will withstand public security
3. To the greatest extent feasible, the general public should have the opportunity to purchase the assets being disposed
4. No discrimination
5. Promote transparency, accountability and fairness
6. Secure economy and efficiency in disposal
7. Keep confidentiality until successful bidder is notified of award
8. Follow the existing code of ethical conduct in business
9. Allow for competition in asset disposal
10. Award the highest offering (priced) bidder
11. Public accessibility

CONTRACT ADMINISTRATION AND MANAGEMENT

Contract life cycle management "is the process of systematically and efficiently managing contract creation, execution and analysis for maximising operational and financial performance and minimising risk" (CIPS).

There are a number of other definitions of contract management, the majority of which refer to post-award activities. Successful contract management, however, is most effective if upstream or pre-award activities are properly carried out.

Contract administration

This activity is concerned with the practicalities of the relationship between the organisation and the supplier and the operation of the routine administrative and clerical functions.

Contract management process

The contract management process is the interaction between the vendor and the purchaser that ensures that both parties meet their respective obligations in any procurement relationship. The aim is to meet the operational, functional and business objectives required by the contract and provide a profitable interaction.

The contract management process includes:

- *Managing Service Delivery*

  To ensure that the products are delivered as and when they are ordered.
- *Managing the Relationship*

  This is the communications between the vendor and the purchaser.
- *Managing the Contract*

  This is the ongoing contract administration to ensure that the day-to-day procurement activities follow the spirit and sections of the contract.
- *Seeking Improvements*

  Improvements within a procurement environment mean greater efficiencies and an increase in profits.
- *Ongoing Assessment*

  The entire procurement activities are assessed on a continual basis to ensure that the contracts are adhered to and the purchasing processes followed.

- *Managing Change*

  In a long term procurement relationship, there are sometimes changes in activities, requirements or products available. All of these changes need to be noted and handled effectively.

Procurement contractual relationships are fundamental to the ability of a company to deliver their services and/or provide products to their customers. If deliveries are late the company may be unable to serve their customers.

Types of contracts

i. Lump sum contracts

A lump sum contract is the traditional means of procuring construction, and involves a single 'lump sum' price for all the works being agreed before the works begin.

It is generally considered a beneficial contract agreement if the work is *well defined* when tenders are sought and *significant changes to requirements are unlikely*. This means that the contractor is able to accurately price the works they are being asked to carry out.

Payments are linked to outputs (deliverables), such as reports, drawings, and bills of quantities, bidding documents, and software programs. Lump sum contracts are easy to administer because payments are due on clearly specified outputs and they put the client at a less risk.

They are widely used for services and works based contracts e.g. simple planning and feasibility studies, environmental studies, detailed design of standard or common structures, preparation of data processing systems, construction contracts

ii. Time based contract

This type of contract is appropriate when it is difficult to define the scope and the length of services, either because the services are related to activities by others for which the completion period may vary, or because the input of the consultants required to attain the objectives of the assignment is difficult to assess. Payments are based on agreed hourly, daily, weekly, or monthly rates for staff (who are normally named in the contract) and on reimbursable items using actual expenses and/or agreed unit prices

This type of contract is widely used for complex studies, supervision of construction, advisory services, and most training assignments.

iii. ***Admeasurement contract***

In this type of contracting, items of work are specified in Bills of Quantities or Schedule of Rates. The contractor then specifies rates against each item. The rates include risk contingency. Payment is paid monthly for all work completed during the month. The contract offers a facility for the client to introduce changes in the work defined in the tender documents. The contractor can claim additional payment for any changes in the work content of the contract. Claims resolution is very difficult because the client has no knowledge of actual cost or hidden contingency. Tender price is usually increased by variations and claims. Two forms of admeasurement contract are usually used: bill of quantities and schedule of rates.

Bill of Quantities Contract: Tenderers enter rates against each item of the estimated quantities of work. The quantities are re-measured during the course of the contract, valued at the tendered rates and the contract price adjusted accordingly

Schedule of Rates Contract: It contains inaccurate quantities of work, possibly with upper and lower probable limits. Therefore, it is common for separate rates to be quoted for labour, plant, and materials. The contract price is derived by measuring the man-hours, plant-hours and the quantities of materials actually consumed, and then pricing them at the tendered price. This contract is best suitable for repetitive works.

iv. ***Framework contract***

This is an arrangement between two parties which commits one to buying at least a certain volume of particular goods or services from the other over a specified period.

A framework contract, is a schedule of rates or an indefinite delivery contract and shall be used

- where a requirement is needed "on call" but where the quantity and timing of the requirement cannot be defined in advance; or

- to reduce procurement costs or lead times for a requirement which is needed repeatedly or continuously over a period of time by having them available on a “call off” basis.(PPDA)

v. Percentage based contract

Percentage contracts directly relate the fees paid to the Consultant on the estimated or actual project construction cost. The contracts are negotiated on the basis of market norms for the services and/or estimated staff-month costs for the services, or competitively bid

These contracts are commonly used for architectural services

vi. Cost reimbursable contract.

A cost reimbursable contract (sometimes called a cost plus contract) is one in which the contractor is reimbursed the actual costs they incur in carrying out the works, plus an additional fee.

A cost reimbursable contract might be used where the nature or scope of the work to be carried out cannot be properly defined at the outset, and the risks associated with the works are high, such as, emergency work (for example, urgent alteration or repair work, or if there has been a building failure or a fire requiring immediate reconstruction or replacement of a building so that the client can continue to operate their business). Tendering may proceed based on an outline specification, any drawings and an estimate of costs.

This is a high risk form of contracting for the client as the final cost is not known when the contract is entered into (i.e. there is no contract sum).

The costs for which the contractor is entitled to be reimbursed must be set out very clearly in the contract. This is a complex procedure that needs to be carefully considered, as whilst some direct costs may be relatively straight forward to determine, whilst other ‘shared’ costs, might not.

vii. Target price contract

A target price contract may be used instead of a cost reimbursable contract where a target price can be agreed and cost savings may be achieved by offering an incentive payment to the provider for any cost savings below the target price.

viii. ***Retainer contract***

A retainer contract is used to retain a provider to provide services over a prescribed period of time, without defining the level and actual amounts of services required

ix. ***Success fee contract.***

Success fee contract are used to link the fees of a provider to an achieved objective to provide an incentive to the successful completion of a particular task, event or action.

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