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Procurement Best Practice for Civil Society Organisations

DFID is committed to deliver better value for money (VFM) for both its corporate and programme requirements and to influence the organisations we work with to procure more effectively and innovatively as a contribution towards the achievement of the MDGs. Buying goods and services more efficiently can release funds that can be used either to procure more goods and services or deliver other outputs that contribute to our Mission.

The aim of this note is to provide the key VFM messages and best procurement practice principles for civil society organisations (CSOs) receiving DFID grants. CSOs receiving higher levels of funding will be subject to more rigorous requirements to demonstrate that they have appropriate procurement capacity and capability to deliver VFM.

What is Value For Money (VFM)?

VFM is achieved by obtaining the **right goods and services** of the **right quality**, at the **right time**, to be delivered at the **right place** and at the **right cost**.

VFM can also be more formally defined as the optimum combination of whole life cost, quality (fitness for purpose) and service delivery to meet a user's requirement. VFM increases aid effectiveness by allowing resources to stretch further and for savings gained to be used to further alleviate poverty.

DFID has an increased focus on VFM, to ensure it maximises the impact of every pound spent to improve poor people's lives. The purpose of DFID's VFM drive is to develop better understanding (and better articulation) of costs and results so we can make more informed, evidence-based *choices*. It is vital for us improve understanding of what is driving costs and making sure that we get the necessary quality at the lowest price. This is a continuous process not a 'one-off'. Where DFID works through partners such as CSOs, there is an increasing emphasis on pro-actively working with them to do the same.

VFM and Civil Society

This paper focuses on the procurement aspects of VFM. For a civil society organisation to demonstrate it is using DFID funds to maximum effect, it should secure and document continuous procurement improvements. This will include setting procurement savings targets and ensuring these are monitored and reported. Procurement plays a key role in achieving VFM, and the principles of transparency and the ability to demonstrate delivery of VFM, rather than simply refer to the existence of VFM 'policies', are central to the procurement role. This is reflected in a

key responsibility for fund managers to assist CSOs to strengthen their systems, in agreement/setting of savings targets, and subsequent monitoring delivery of this.

What is procurement?

Procurement is the acquisition of goods and services at the best possible total cost of ownership at the appropriate quality, and at the right time. The benefits of the goods or services are then utilised by an organisation, group or individual, generally via a contract.

Any procurement activity will have a number of key decisions/stages within it to ensure a successful outcome is reached. A typical procurement cycle involving competition includes the following eight stages:-

- Determination of Need,
- Terms of Reference or Specification are: specific, measurable, achievable, realistic and time bound.
- Competition,
- Evaluation,
- Negotiation,
- Contract Award,
- Contract Management,
- Evaluation of success/lessons learnt,

If you have decided not to go to formal competition because of the low value of services/goods then you can miss out stage three.

Procurement Strategy

It is important that CSOs undertaking significant procurement have an effective Procurement Strategy which clearly differentiates between procurement of support goods and services (such as support staff and office supplies), from those required to deliver the overall aims and objectives (including operational staff and payments to third parties for service delivery) of the organisation.

The Procurement Strategy should describe the contribution that effective procurement will make to the fulfilment of the organisation's vision and objectives. It should also aim to identify the procurement approach to be followed for various categories of goods and services required. It should reflect the comparative buying power that the organisation possesses, compared to the strength of the market. It

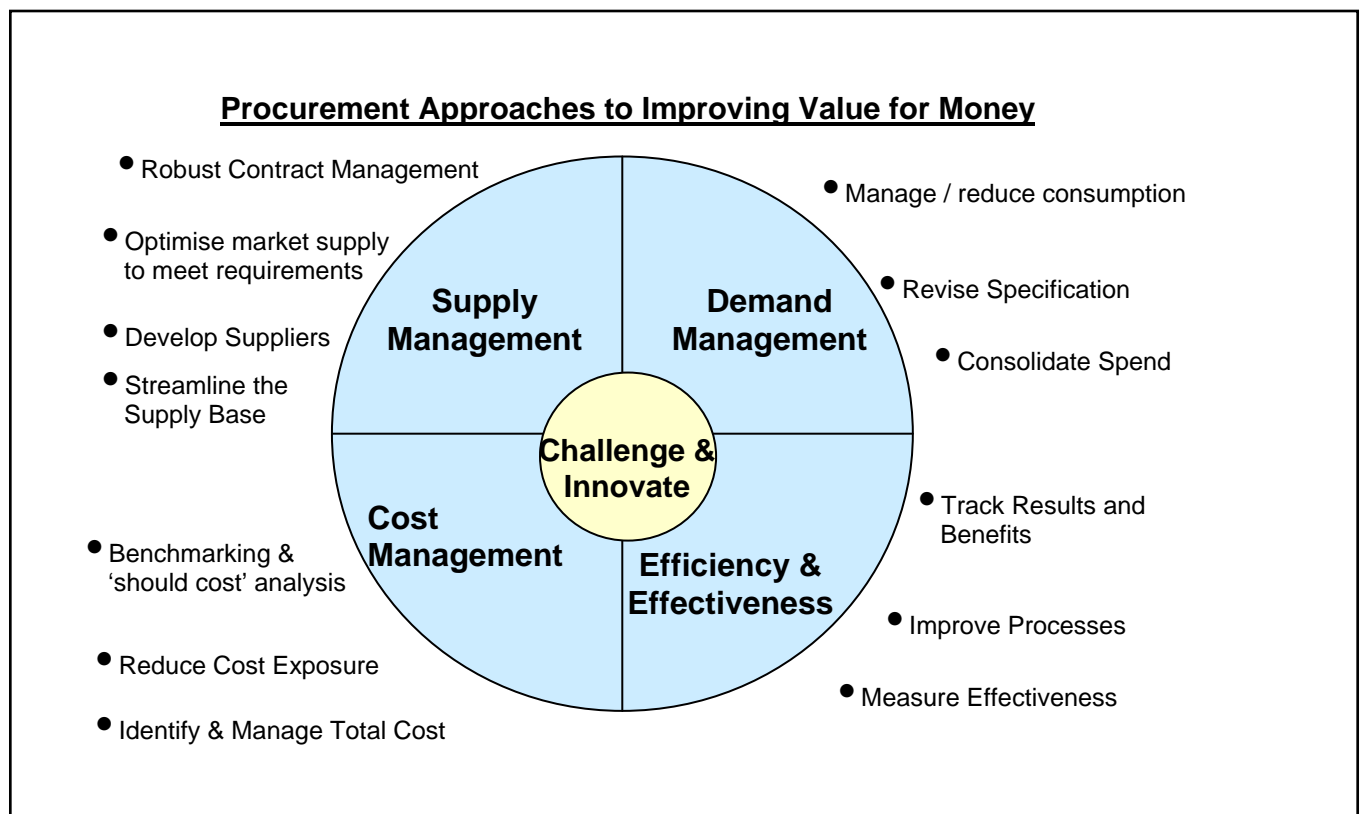
should determine the procurement approach to be taken for specific types of goods/service, ranging from simple shopping, and obtaining three quotes to formal competition.

The aim of the Procurement Strategy should be to set out the planned approach of cost-effectively purchasing required goods and services, taking into consideration several factors such as the timeline for procurement, the funding and budget and the projected risks and opportunities. In most instances the Strategy will address the need to focus on the highest volume/value categories of goods/services purchased.

Developing an effective Strategy can be time consuming and the costs of managing subsequent implementation and monitoring compliance should be borne in mind. There are a number of options for managing compliance, ranging from all staff being responsible for procurement under central policy guidance, to a dedicated individual or team providing procurement support to operational staff. The latter approach can be justified by the benefits of strengthened procurement systems.

It may be useful to set out relative weighting of cost/benefit to reflect this (e.g. the cost of support goods and services may be less important compared to the quality required to deliver operational aims and objectives). It may be useful to consider developing a 'scoring matrix' or matrices in advance of assessing significant procurement decisions. The matrix may include standard elements, such as price, defined quality,, experience, track record, ability to deliver in the short/medium/long-term, but the weightings will differ for different services and goods

One way of improving value for money is to consider the procurement process using four approaches:



- **Supply Management** - focuses on the direct relationship with suppliers and emphasises the need for continuous contract management. It is about using the right suppliers and working with them to make their supply base ever more efficient. This approach has a strong emphasis on developing existing suppliers or identifying new ones. This could involve closer collaboration with other CSOs in procurement activities and information sharing. It also involves working effectively with existing suppliers to improve pricing agreements.
- **Demand Management** - relates to managing the requirements of customers to ensure that goods and services bought are needed rather than just wanted. This does not necessarily mean buying at least cost but buying the appropriate quality at the most economically advantageous price. Using travel as an example – this might involve working with customers to confirm whether they always need to use fully flexible tickets (rather than booking in advance and saving money by booking non-flexible tickets) or if they could use cheaper modes of transport.
- **Cost Management** - focuses on the overall cost of goods and services which may include both unit costs and discounts for bulk buying but should also include an assessment of the cost of an organisation's own internal procurement systems and processes. This involves making increased use of market intelligence and setting baselines for specific goods and services, that can help drive down costs or get better quality for the same price.
- **Effectiveness and Efficiency** - focuses on reviewing steps that can be taken to improve quality of both a CSO's own internal procurement systems and procedures, and those of its suppliers, to maximise impact achieved by the first three approaches. This could include focusing on reducing the transactional costs of internal procurement systems/procedures or those of sub-contractors. CSOs could also consider automating or simplifying their own systems and potentially rationalising the number of sub-contractors.

Procurement Planning

Advance planning and preparation are essential to achieve procurement objectives in an effective, economical and timely manner. Procurement planning and preparation include such steps as:-

- Defining the goods and services to be procured and using the appropriate approach for specific types of goods/services as highlighted in the procurement strategy;
- Formulating a specific procurement plan and schedule of key steps in the process and choosing the right method of procurement;
- Selecting appropriate specification and evaluation requirements;

- Performing market research to ascertain the availability of goods and services to be procured and the terms and prices or rates under which they have been procured in the past, and are normally procured in the commercial market;
- Conducting or obtaining preparatory or baseline studies.

General Procurement Principles to maximise VFM

- Transparency;
- Open and fair competition is generally the foundation for good procurement practice;
- Ensuring appropriate quality that is fit for purpose;
- Effective contract management that ensures clear accountability;
- Promoting integrity, combating corruption in procurement by maintaining a clear separation of duties and avoiding conflicts of interest.

Five practical steps to consider to achieve value for money through procurement:-

- When reviewing current procurement arrangements, think in terms of “**if this was my own money what would I do**”?
- Focus on buying what is **needed rather than what may be wanted** – this does not mean always buying the cheapest; but buying goods/services which are fit for purpose at the most economically advantageous price.
- Review range of items/services being purchased and **focus on top 80% of spend by value**;
- Look at the market and try to **determine realistic costing baselines**, and consider various options for either reducing cost of items/goods procured, or the costs of undertaking this procurement;
- **Be innovative:** consider potential for buying in different ways such as undertaking **collaborative procurement** with other organisations to obtain greater leverage from suppliers and to share the cost of the procurement transaction process.