Summary

As requested by the Governing Council at its twenty-sixth session (decision 79/45), the Administrator is submitting this report on the activities of the Inter-Agency Procurement Services Unit (IAPSU) since the last Council session.

The report contains data on cost savings for the United Nations system achieved through standardization of equipment and co-ordination of procurement efforts of the executing and participating agencies. It also gives a brief account of progress made in the fields of increased procurement from developing countries; improved geographical distribution of procurement; utilization of accumulated non-convertible currencies, and other areas.

In view of the IAPSU programmes orientation towards the objectives stated by General Assembly resolutions 32/197 and 35/81, the Administrator recommends that the Governing Council approve the continuation of IAPSU's activities under the auspices of UNDP.
I. INTRODUCTION AND BACKGROUND

1. The Governing Council decision 25/29 (1978) requested that IAPSU have as its primary objective "to procure equipment at the lowest possible cost consistent with the maintenance of adequate standards" and further requested that the following subsidiary objectives be taken into account: (i) to increase procurement from the developing countries; (ii) to increase utilization of non-convertible currencies; and (iii) to achieve a wider geographical distribution of procurement. In its decision 79/45 (1979) the Governing Council approved the continued work of IAPSU and requested that particular attention be given to: (iv) providing advance information on UNDP-financed projects in a timely and reliable fashion; (v) unifying procurement rules and procedures by UNDP and the participating and executing agencies; and (vi) giving adequate weight, in efforts to standardize equipment procurement, to the life-cost of an item, its durability and its adaptability to the local conditions of recipient countries. The Governing Council in decision 80/53 (1980), approved the continued movement of IAPSU towards the achievement of the objectives outlined in Governing Council decision 79/45 as well as (vii) the strengthening for work related to increased procurement from developing countries.

2. The Administrator wishes to emphasize again that the effort to achieve common procurement advantages can succeed only to the extent that the various organizations in the United Nations system give their fullest support and assistance to the concept. The Administrator is therefore pleased to note that participating and executing agencies have responded to IAPSU requests for information and data and that some have seconded the services of technical experts as required for the various IAPSU studies. IAPSU has established working contacts with the majority of organizations in the system, including the international funding organizations.

II. SYSTEM-WIDE BENEFITS ACCRUED FROM IAPSU'S WORK PROGRAMME

3. The benefits of IAPSU's activities fall into two main categories: (a) activities which have direct and measurable economic benefits, and (b) activities which are mainly service-oriented. The latter category is either deemed necessary to improve the United Nations organizations' operational efficiency, or required to meet specific requests of the Governing Council.

Category A: Direct and measurable economic benefits

Standardization of common-user items

4. The most visible IAPSU activity has been the distribution of descriptive technical bulletins on motor vehicles. This exercise has been completed with information on a wide variety of makes and models made available. The IAPSU objective is to improve further the current UNDP motor-vehicle standardization list through the issuance of recommendations of specific makes and models for each recipient country/region. Accordingly, IAPSU has initiated "country standards", each including descriptive bulletins on preferred motor vehicles and, in addition, listing individual prices, estimated freight, insurance charges, and delivered
costs for comparison and budgetary purposes. Work is continuing on distribution of IAPSU bulletins for other common-user items such as office equipment, laboratory supplies and hand tools.

5. Total value of system-wide procurements of common user items is estimated at better than $200 million per annum. On the basis of savings of 5-10 per cent through preferential discounts based on economy of scale, which has been IAPSU's experience to date, substantial savings could thus be found. However, statistical data relating to procurement are presently inadequate to verify actual savings. The number of copies of purchase orders received by IAPSU in 1980 is more than double the number received in 1979, indicating growing recognition by the agencies of the bulletins as procurement aids. Specific examples of savings are:
   (a) motor vehicles - some 50 vehicles offered at total savings of $100,000;
   (b) office equipment - over 400 typewriters of a common make procured at total savings of $250,000;
   (c) laboratory equipment - a single agency order of $US 60,000 was discounted by 15 per cent for a savings of $9,000;
   (d) computer hardware - a single order holds potential of savings in the $10-20,000 range.

A listing of preferential discounts offered by a major regular supplier to the United Nations system for audio-visual and laboratory equipment was issued in the fall of 1980 and the savings accrued, not quantifiable at this time, would appear considerable.

6. Agencies are increasingly using the IAPSU bulletins as procurement aids and accordingly their scope will be widened. The continued use of short-term specialists seconded by agencies is anticipated. A total number of 250 IAPSU bulletins on common-user items have been issued to date.

   Increased procurement from developing countries

7. The importance of this task has been repeatedly demonstrated. The UNCTAD/GATT International Trade Centre (ITC) has prepared a joint proposal with IAPSU for a work programme implementing the request of the Governing Council for special efforts to increase procurement from developing countries.

8. The Governing Council has expressed a desire to enhance development efforts by supporting local production with its beneficial influence upon employment and national economy. The United Nations system benefits by lower prices, improved delivery times through shorter transport distances, and in some instances, products supplied and manufactured in developing countries are better suited for local needs (appropriate technology). A first listing of common user items available in developing countries has been issued by IAPSU, and some agencies have included these new sources on their procurement roster. As an example of what can be accomplished, 31 vehicles manufactured in a developing country have been ordered by several agencies at cost savings of approximately $125,000 compared to costs for the comparable model delivered from western Europe. The agencies involved have expressed satisfaction with all aspects of the arrangements.

9. Identification of procurement sources is a prerequisite for increased procurement from developing countries. A major effort is necessary to research, on the local level, capabilities, prices, and delivery terms. A joint work
programme UNCTAD-GATT/ITC and IAPSU has been designed to meet agency needs. IAPSU will be able to progress in this area if requested resources are made available. It is anticipated that this task can be completed in two years.

Increased utilization of accumulated non-convertible currencies

10. Identification of common user items for payment in non-convertible currencies is continuing with particular emphasis on suitable motor vehicles being offered. Prices and quality of goods are competitive and bulletins on these motor vehicles and trucks have been issued. Fifty-four units of a specialized vehicle produced by a prominent firm based in a major donor country and assembled in a country with non-convertible currency holdings, have been ordered by several agencies. Negotiations are currently under way to pay the firm one third of total cost in non-convertible currency, which represents the exact cost of local input of the assembled vehicles. The total utilization of non-convertible currency made possible through this particular transaction would amount to approximately $160,000.

11. This continuing mandate is probably best implemented through the dissemination of bulletins stressing availability of goods and services from countries with accumulated non-convertible currencies. IAPSU will continue to serve as a focal point for information on availability of common-user items and to obtain agency recommendations for effective utilization of procurement sources in these countries. Some agencies, notably ILO, UNIDO, IAEA, and UNICEF, have reported good progress in utilization of accumulated currencies.

Equitable geographical distribution of procurement

12. Members of the Council have previously indicated concern on achieving a more balanced distribution of United Nations procurement. Inadequate information regarding the procurement activities of the United Nations system has apparently been a reason for inadequate procurement in some countries with good economic and technological potential. Accordingly, at request of various national groups, IAPSU has been conducting seminars, on both country and regional bases, on 'How to do Business with the United Nations System'. IAPSU has also been acting as a clearing house to assist nationals from different geographical locations seeking to obtain information on business opportunities. The response to these IAPSU activities has been favourable.

13. The maintenance of reliable statistical records of geographical origin of United Nations procurement would be a means of encouraging new procurement sources. Information bulletins on 'life-cost' (para. 22) may be helpful in achieving wider and more equitable geographical distribution. A continuing task of IAPSU is the identification of common-user items available from under-utilized procurement sources.

Transport

14. A special study was carried out in 1980 on agencies' experience with freight-forwarding agents and related arrangements. Fifteen agencies participated in the study which revealed a potential saving on freight expenditures in the order of
$150-200,000 per annum for cargo that presently is carried at full freight rates. Regarding possible discounts for air travel, available information indicates a wide range of discounts, including those available to government employees under certain circumstances. If comparable arrangements could be made with airlines through the International Air Transport Association (IATA) considerable savings could be realized. The United Nations system's total air fare expenditure amounts to better than $60 million annually. Accordingly, even a modest discount would represent a substantial benefit.

15. IAPSU has offered its assistance to agencies which wish to approach shipping lines to obtain freight rate discounts. IAPSU would prepare documentation and also participate in negotiations with the carriers as requested. In respect of air travel, IAPSU is prepared to conduct an in-house study with a view to present a request to IATA.

Category B: Non-quantifiable benefits

Information activities

16. An ever-increasing number of enquiries regarding business opportunities have been directed to IAPSU. Important steps towards satisfying the need for such information include: (a) establishment of an IAPSU Liaison Office in Geneva, and (b) issuance of administrative instructions to the UNDP resident representatives for the reporting of advance notices on business opportunities emanating from UNDP-assisted development projects (UNDP Programme Policy Manual (PPM), item numbers 4610, 4710). In addition, a revised edition of the "United Nations System General Business Guide" has been published and distributed to all national trade missions and interested organizations and in response to enquiries from potential suppliers of goods and services. This general business guide contains data on all organizational units in the United Nations system which are involved in procurement of goods and services. The circulation of a general business guide describing the procurement procedures and requirements of the United Nations system has been filling a long-awaited need. The Guide is an informative useful manual for individuals or organizations seeking to do business with the United Nations system.

17. IAPSU Liaison Office in Geneva has been operational since late 1980 and has produced these positive results: (i) representatives of Governments and commercial circles now have a readily available focal point for assistance in doing business with the United Nations system, and (ii) new potential sources of procurement are increasingly being introduced to the United Nations system.

18. Advance notices on UNDP-assisted business opportunities are expected to be generated as a result of the administrative instructions issued in early 1981. As experience is gained and the resident representatives become familiar with the new routine, it is anticipated that these notices will achieve increasing prominence in the Development Forum/business edition. These notices will also be transmitted to national trade missions.

19. IAPSU's role as a focal point for information on business opportunities facilitates and simplifies the task of the potential suppliers and reduces the
work-load of the United Nations organizations. The stated objective of the Governing Council for more "transparency" in the procurement processes is being implemented. An integral part of information activities includes preparation of system-wide statistics on procurement.

Unification of procurement rules and procedures

20. IAPSU, in response to Governing Council decision 79/45, prepared a preliminary report which was discussed at the fifth session of the Inter-Agency Procurement Working Group, (IAPWG). The matter was brought to the attention of the CCAQ (FB) and a draft report submitted to its 53rd meeting in September 1980. On the basis of comments received both from members of CCAQ (FB) and members of the IAPWG a final report was presented to the sixth session of IAPWG and submitted to CCAQ (FB) for its 54th meeting in March 1981. The Administrator will, as recommended by IAPWG, continue consultation with CCAQ (FB) in order to decide on further action.

21. The IAPSU study on procurement rules and procedures represents the initial step towards improving the clarity of procurement methods within the United Nations system. Taking IAPSU's work into consideration, the CCAQ (FB) is giving priority to its examination of financial regulations and rules as they relate to procurement as the next step in its work on an inventory of regulations capable of standardization. IAPSU is prepared to continue its co-operation with the CCAQ (FB) so that work on procurement matters may proceed simultaneously.

Life cost study

22. Current agency practices regarding procurement of equipment is based on the concept of "lowest acceptable cost". In the majority of cases, this translates into lowest received bid commensurate with required specification. The question of after-sales cost is not taken fully into consideration since for the most part, this aspect may be borne by another budget. The life cost concept is applicable in automotive use and with increasing prices of fuel, operating costs are vital factors in the overall cost picture. Arrangements are presently underway to obtain feedback relative to the performance of equipment procured for use on UNDP-assisted projects with a view towards sharing this experience data on an interagency basis. IAPSU in consultation with the World Bank will prepare procurement guidelines which will include after-sales costs.

III. SIXTH SESSION INTERAGENCY PROCUREMENT WORKING GROUP

23. The sixth IAPWG session held at FAO headquarters, Rome, February 1981, recognized that IAPSU has a definite role in procurement matters, and urged that caution be exercised not to spread IAPSU activities too thinly. IAPSU should concentrate on high-priority areas with best potential for aggregate cost savings, particularly in view of its limited staff and resources. The members of the IAPWG found that IAPSU serves a useful purpose as a co-ordinating entity for interchange of information relating to agency procurement activities and the identification of new procurement sources in the developing countries and under-utilized donor countries.

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IV. FUTURE ROLE AND FUNDING OF IAPSU

24. IAPSU should stress activities perceived as being beneficial to the United Nations system procurement process. These can be grouped as: (i) informational services - including distribution of technical bulletins, advance notices of business opportunities, technical advisory services, distribution of the "General Business Guide", standardization of common-user items, distribution of the "General Business Guide", negotiation of preferential discounts and favourable delivery terms; and (ii) mandated services - those activities requested by the Governing Council including equitable geographical distribution of procurement, increasing procurement from developing countries, increasing utilization of accumulated non-convertible currencies, and unifying procurement rules and procedures. IAPSU is prepared to brief UNDP resident representatives to enhance their co-operation and assistance in achievingprocurement optimization.

25. On the basis of consultations with the executing agencies and the views expressed at the 6th Intergovernmental Procurement Working Group meeting, it is apparent that the agencies are not at this time in a position to participate directly in the financing of IAPSU's activities. However, the agencies have expressed readiness to continue providing assistance to IAPSU in kind, including the seconding of experts. Although IAPSU has demonstrated system-wide benefits, the cost savings obtained are mainly reflected in the reduction of project implementation costs, particularly those funded by UNDP. It is therefore in UNDP's and the participating Government's interest to ensure that these cost-saving activities be continued and more uniformity in procurement operations within the United Nations system of technical assistance is achieved, as stipulated in General Assembly resolution 32/197, paragraph 32. Substantial mutual benefits are possible through continuation of IAPSU's efforts and IAPSU intends to explore possibilities of further preferential prices and delivery times for goods and services procured by United Nations agencies, i.e. achieve the lowest possible cost consistent with the maintenance of adequate standards in accordance with the 1978 Governing Council decision 25/29. The Governing Council may wish to bear this in mind in its consideration of agenda item 9 (c) on UNDP Financial Regulations and Rules (article XIV) and invite the executing agencies to make greater use of information and recommendations on procurement made available by IAPSU.

26. IAPSU's future activities will be oriented towards the achievement of more practical results and efficiencies by way of further consolidating interagency co-operation in the field of procurement with the ultimate purpose of increasing the proportion of resources available to meet the estimated requirements of the developing countries (General Assembly resolution 35/81). The Administrator is of the opinion that IAPSU should continue to operate under the auspices of UNDP, and accordingly, the Administrator recommends that the Governing Council approve the continuation of IAPSU's activities and authorize its financing from UNDP funds, as submitted in document DP/548 (1982-1983 budget estimates).
DRAFT DECISION OF THE TWENTY-EIGHTH GOVERNING COUNCIL

27. The Governing Council notes with satisfaction that the executing and participating agencies continue to support IAPSU and decides that IAPSU shall continue to be funded under the heading of "Support services for UNDP-executed projects", to be financed from overheads received on projects executed by UNDP (see document DP/548, "Budget estimates for the biennium 1982-1983").