



**Governing Council  
of the  
United Nations  
Development Programme**

Distr.  
GENERAL

DP/1987/19  
18 March 1987

ORIGINAL: ENGLISH

Thirty-fourth session  
26 May-19 June 1987, New York  
Item 4 (c) of the provisional agenda

**SUPPORT**

IMPLEMENTATION OF DECISIONS ADOPTED BY THE GOVERNING COUNCIL  
AT PREVIOUS SESSIONS

Procurement of equipment and services with special reference to  
procurement from developing countries

Report of the Administrator

SUMMARY

This report is submitted pursuant to Governing Council decisions 86/25, paragraph 6 and 86/47, paragraph 3.

This document was initially prepared for the September 1986 meeting of the Working Group of the Committee of the Whole, but was considered by the Working Group in February 1987. The document gives the legislative background to the subject of procurement, including increased procurement from developing countries; lists the constraints being faced; discusses the steps being taken by the UNDP and the executing agencies and lists ways in which developing countries themselves could promote this effort.

Following discussions in the Working Group, the Administrator plans to supplement this report by an addendum.

## INTRODUCTION

1. This paper is being presented to facilitate continuation of the debate held during the thirty-third session of the Governing Council on increased procurement from developing countries.
2. Procurement of goods and services under programmes financed by UNDP is done subject to the financial rules and the decisions of the legislative bodies. The financial rules of UNDP were established effective 1 January 1985 pursuant to regulation 14.1 (a) adopted by the Governing Council in decision 81/28 in June 1981.
3. Financial Rule 114.17 (d) states "in carrying out procurement functions, the Assistant Administrator or his authorized delegate may request an executing agency to take procurement action on behalf of UNDP. In such cases, the agency's action shall be governed by the financial regulations and rules of the agency concerned, unless otherwise agreed by the agency and UNDP". (As indicated in para. 11 of DP/1986/24 in respect of procurement from all sources of funds, agency shares were 90 per cent for 1982, 95 per cent for 1983 and 96 per cent for 1984. For UNDP-financed programmes, it has been calculated from the Administrator's reports that the agencies' share of procurement was 86, 1/ 96 and 97 per cent respectively for the years 1982, 1983 and 1984.)
4. Financial Rule 114.18, which lists general principles of procurement, states under paragraph (e) that preferential treatment is "to be accorded to sources of those supplies indigenous either to the country being assisted or to other developing countries".
5. A number of decisions have been taken by the UNDP Governing Council and the United Nations General Assembly on the subject. These include:
  - (a) General Assembly resolution 2688 (XXV) of 11 December 1970, on the capacity of the United Nations development system which states that maximum use should be made of national institutions and firms, if available, within the recipient countries;
  - (b) General Assembly resolution 3405 (XXX) of 28 November 1975, on new dimensions in technical co-operation, which requests UNDP to diversify sources of supply, including particularly those from developing countries; and to procure as much equipment and as many services as possible on a preferential basis, in accordance with United Nations practice, from local sources or from other developing countries;
  - (c) Governing Council decision on technical co-operation among developing countries adopted at its 589th meeting on 30 June 1977 (document E/6013/Rev.1), which requests the Administrator of UNDP and the participating and executing agencies to grant, with the approval of a recipient country, preferential treatment up to 15 per cent of the purchase price in respect of local procurement of indigenous equipment and supplies of developing countries;
  - (d) General Assembly resolution 32/182 of 19 December 1977, on technical co-operation among developing countries, which requests the Administrator of UNDP,

the executive heads of participating and executing agencies and regional commissions to formulate for approval, as appropriate, by the intergovernmental bodies concerned, suitable changes in rules, regulations, procedures and practices for recruiting experts and consultants, placing fellows, awarding subcontracts and procuring equipment and supplies in order to utilize fully the capacity of and develop the potential existing in developing countries;

(e) Governing Council decision 25/29 of 3 July 1978 which requests the Inter-Agency Procurement Services Unit (IAPSU) to take into account subsidiary objectives to increase procurement from the developing countries;

(f) Governing Council decision 79/45 of 10 July 1979, which requests that special efforts be made to achieve a wide and more equitable geographical distribution of sources of supply, taking particularly into account the need to increase in a significant way procurement from developing countries, bearing in mind that the overriding concern of IAPSU should be to procure equipment at the lowest possible cost consistent with the maintenance of adequate standards and in accordance with normal procurement rules and procedures;

(g) Governing Council decision 80/53 of 30 June 1980, which approves the strengthening of IAPSU for work related to developing countries;

(h) Decision 3/4 of 6 June 1983 of the High-level Committee on the Review of Technical Co-operation among Developing Countries, which invites the United Nations system to continue to review its procurement policies and practices with a view to increasing procurement in developing countries within the existing financial rules and regulations for categories of equipment and supplies that meet required standards, and for which technological improvement might be stimulated through access to wider markets;

(i) Decision 4/1 of 5 June 1985 of the High-level Committee on the Review of Technical Co-operation among Developing Countries, which reiterates the need to utilize fully the capacities of developing countries, and, in this context, further invites the United Nations system actively to make increasing use of equipment, services, experts and consultants available in the developing countries, within existing rules and regulations, and to continue to review their procurement policies and practices in this regard; requests the Secretary-General to take the necessary actions within existing rules and regulations in order to increase procurement from developing countries by, *inter alia*, taking steps to overcome the lack of information about their procurement potential and practices in the United Nations system;

(j) Governing Council decision 85/39 of 29 June 1985, which requests an increase in efforts to expand geographical distribution of the sources of supply, including developing countries;

(k) Governing Council decision 86/25 of 27 June 1986, which urges the Administrator to take further appropriate steps to increase procurement from developing countries by UNDP itself and to impress upon the agencies to take urgent steps to implement fully the UNDP legislative provisions in this regard; urges the executing agencies to intensify efforts in this regard; and stresses that the

agencies should observe the 15 per cent price preference in favour of procurement from developing countries in all UNDP-financed projects;

(1) Governing Council decision 86/47 of 27 June 1986, which requests information on trends in procurement, inter alia, from developing countries and on further measures taken towards achieving equitable geographical distribution consistent with the principle of international competitive bidding.

6. The recent documentation submitted by the Administrator on this subject includes: (a) background paper 8 of 19 March 1986 on procurement practices submitted to the Working Group of the Committee of the Whole; (b) an informal paper on common procurement policies and practices - analysis of questionnaire on agency procurement practices, submitted to the thirty-third session of the Governing Council under agenda item 9 (d); and (c) the report of the Administrator to the thirty-third session of the Governing Council on procurement from developing countries (DP/1986/24), paragraphs 2 and 3 of which give the statistics on procurement from developing countries. A breakdown by country of procurement is found in A/40/698 of 22 October 1985.

#### I. CONSTRAINTS

7. Efforts to increase procurement from developing countries are beset with a number of constraints - some on the part of the United Nations system and the others in the developing countries. These are:

(a) Inadequate knowledge in the United Nations system and relative difficulty in identifying competent and experienced consulting engineering organizations and reliable manufacturers and vendors in the developing countries;

(b) Conditioning, attitudes and inertia of international project staff and procurement officers who have been accustomed to certain types of equipment and services from established sources and their reluctance to try out untested sources in developing countries;

(c) Limited experience of suppliers in the developing countries regarding requirements to be met in submitting bids or proposals;

(d) Inadequate interest by some suppliers from developing countries in overseas sales, given the size of the local markets, the internal price structure and/or the quality control requirements;

(e) Lack of information in developing countries on opportunities for the supply of equipment and services to projects undertaken by the United Nations system;

(f) Asking, in invitations for services, for international, regional or in-country experience, which the bidders from developing countries may not have, thus simultaneously eliminating them from current contracts and depriving them of the experience to qualify in the future;

- (g) Inadequate infrastructure and high transportation costs preventing the rapid and economical movement of goods between developing countries;
- (h) The changing content of the equipment component of projects reflecting their high-tech nature;
- (i) Attitudes in some developing countries that may favour goods and services from developed countries or maintain the traditional sources; and
- (j) Considerations concerning standardization, warranties, start-up, training and availability of after-sales service, including long-term arrangements for spares, which sometimes preclude participation of suppliers and manufacturers from developing countries.

## II. EFFORTS BY UNDP AND THE AGENCIES

- 8. To implement the directives of the General Assembly and the Governing Council, UNDP has taken a number of steps to increase procurement from developing countries.
- 9. From the outset, UNDP, through IAPSU, has concentrated on overcoming the lack of knowledge within the United Nations system about supply sources in developing countries (see para. 7 (a)), creating and steadily expanding a roster of suppliers of common-use items, and sharing this roster with all agencies of the United Nations system. Missions have been undertaken to a number of countries to identify suppliers and that information is being produced in country-specific binders for distribution to the agencies; copies of one such binder have already been distributed and others are to follow. Consideration is being given to distributing the binders to UNDP field offices to enable international and national project personnel and others concerned to consult them.
- 10. Within its staffing and budgetary restraints, IAPSU is extending this service as opportunity occurs to more specialized equipment, and the information is being transmitted to relevant agencies. IAPSU is also putting its experience at the disposal of the system in assisting in identifying particular sources of supply on request.
- 11. To counteract the tendency of experts and procurement officers to rely on traditional sources of supply (see para. 7 (b)) UNDP has been discussing the subject of increased procurement from developing countries with the agencies in the Inter-Agency Procurement Working Group (IAPWG).
- 12. At its 11th meeting, held at Oslo in April 1986, IAPWG agreed that further improvement could and should be made by the appropriate application of the established incentives and means at the disposal of the agencies, i.e., the 15 per cent price differential, appropriate short-listing, and delegation of increased authority to field offices.
- 13. In UNDP, the Office of Projects Execution has adopted a new short-listing form, which requires officers preparing and reviewing it to look systematically for entries from developing countries. This form has also been shared with the agencies.

14. The UNDP Contracts Committee has been instructed to pay particular attention to offers from developing country suppliers and to apply the 15 per cent price preference wherever possible. UNDP experience is, however, that proposals for services from developing country firms are mostly competitive and do not need the 15 per cent advantage; for equipment and supplies, UNDP has had to use this provision only in five contracts that were awarded to firms from developing countries in 1985 and 1986.

15. The Administrator has written to the major agencies to emphasize that suppliers from developing countries be short-listed and otherwise considered, and has reminded them of the 15 per cent price preference to local procurement from developing countries. They have confirmed that most apply the UNDP general principles on procurement and the 15 per cent price incentive, and that the governing bodies of the majority are seized with this subject.

16. Based on this knowledge, the Administrator believes that there is a common agreement as to the objective and that through regular contacts and exchanges of experiences, including discussions within the framework of IAPWG, further improvements can be effected. As reported to the Governing Council in introducing document DP/1986/24, a consultant had found that the developing countries' share in the procurement of equipment in 1975 by the United Nations system was 2.5 per cent. As the document shows, by 1984 that share had risen to about 20 per cent. For future reporting, IAPSU is, however, trying to refine the data further to report, if at all possible, on the country of origin/manufacture rather than the country of purchase, since UNDP feels that earlier reports may not have reflected this accurately.

17. UNDP and the agencies have already taken steps directed at sensitizing the United Nations staff concerned to increased utilization of supply sources in developing countries and at promoting deliberate and conscious endeavours to include and consider firms from developing countries in their procurement processes.

18. The UNDP Office for Projects Execution is in the process of revising its criteria for the evaluation of proposals to remove the bias in favour of industrialized countries inherent in the requirement of international, regional or in-country experience (see para. 7 (f)), and is considering other steps mentioned in document DP/1986/24, i.e., pre-determining interest and ability of potential suppliers from developing countries; restricting short-lists to local and regional firms when warranted; and giving preference to firms that undertake activities in association with local or developing country firms. As indicated in paragraph 10 of document DP/1986/24, the United Nations Financing System for Science and Technology for Development (UNFSSTD) has embarked on a project to help to establish a consortium of African and non-African technical consultancy firms with the objective of giving African groups meaningful opportunities for consulting contracts. Subject to the availability of funding, UNDP will undertake pilot projects in continuation of work already initiated by IAPSU, to give advice and training to national suppliers in identifying business opportunities and in preparing and submitting bids and proposals that meet the bidding requirements (see para. 7 (c) and (d)). This would be combined with the issuance of country-specific binders reflecting verified information on suppliers from selected countries. Based on the experience gained in this exercise, the coverage would be expanded.

19. To counteract the lack of information in developing countries (see para. 7 (e)), IAPSU issues the General Business Guide in English, French and Spanish, and updates it annually. This gives broad information to potential suppliers on how to approach the United Nations system, what practices the United Nations system pursues in procurement and contracting for services and the major areas of business opportunities that each agency presents, etc. IAPSU is also advertising upcoming projects in Development Business in order to give interested suppliers better opportunities to signify their interest and prepare their bids.

### III. SUPPORT OF THE DEVELOPING COUNTRIES

20. As will be clear from paragraph 7 (g) and (h), there are some constraints that are beyond control. Other constraints on which UNDP will have limited influence are predominantly within the area of responsibility of national authorities. The most important of these is the question of attitudes. Developing country personnel who play a part in specifying project requirements and selection of services and equipment are not immune to the inertia and/or conditioning in favour of traditional sources of supply that influences United Nations staff (see para. 7 (b)), and that may take the form of a certain lack of confidence in goods and services from other developing countries and also in domestic capabilities (see para. 7 (i)). This not only prevents procurement in the first instance, but also hampers local and other developing country suppliers from gathering experience under the discipline of the market place. It is important that Governments make every efforts to change such attitudes where they may exist.

21. National personnel may also in some instances contribute to assuring that project requirements are defined in some detail at the project design stage itself so that procurement processes do not have to be hastened, which tends to restrict bidding to known suppliers. The Administrator hopes that as more projects are implemented under Government-execution arrangements, Governments will resort more to local procurement or procurement from other developing countries.

22. The Governments of developing countries could also assist, in whatever manner possible, in identifying potential suppliers so that they can be included in the rosters of UNDP and the agencies, in disseminating information on business opportunities and by encouraging local firms actively to seek United Nations business. The suppliers themselves have to show more interest in securing United Nations business by, inter alia, becoming more knowledgeable about opportunities, sending timely responses to invitations to bid, and assuring quality control and after-sales service. They could, if and as necessary, do this by associating with suppliers from other developing or developed countries.

### CONCLUSION

23. UNDP is committed to the goal of increased procurement from developing countries and the Administrator believes that the agencies also share in this commitment. Both have taken a number of steps to expand such procurement. Further steps are also planned to strengthen those efforts. By the very nature of the problem, the constraints and the possible remedies, rapid spectacular increases are unlikely and yearly fluctuations may occur. UNDP, however, will diligently pursue

the subject to achieve the maximum results. The Administrator believes that the efforts of the United Nations system to improve the situation need to be supplemented by those of the developing countries themselves in working on those constraints that are wholly or in part external to the United Nations system. The Administrator has already contacted the agencies for their reports on implementation of decision 4/1 of the High-level Committee on the Review of Technical Co-operation among Developing Countries concerning utilization of the capacities of the developing countries in programmes and projects of the United Nations development system. A report on this subject will be submitted to the High-level Committee at its fifth session, and to the Governing Council at its thirty-fourth session.

24. Following discussions in the Working Group in February 1987, the Administrator plans to submit to the Council an addendum to this document.

#### Notes

1/ This figure is low because the UNDP share included contracts for major global projects, a cyclical phenomenon.

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