WHO procurement strategy

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1. INTRODUCTION
1.1 THE WHO MANDATE AND THE CURRENT REFORM PROCESS

The World Health Organization (WHO) is a specialized United Nations agency with a mandate based on the WHO Constitution as the “directing and coordinating authority on international health work”. Much like its sister United Nations agencies, WHO has adopted a results-based management framework for delivery and oversight of all programme and non-programme functions of the Organization to focus attention on delivering the desired results within allocated budgets and set time frames. In 2010, the World Health Assembly, the supreme decision-making body of WHO representing all Member States, approved a programme for overall WHO reform in recognition of the Organization’s need to continually demonstrate results in addressing the increasingly complex challenges of health in the 21st century, ranging from persisting problems to new and emerging public health threats. The reform programme has three objectives:

- **improving health outcomes**, with WHO meeting the expectations of its Member States and partners in addressing agreed global health priorities, focused on the actions and areas in which the Organization has a unique function or comparative advantage and funded in a way that facilitates this focus;
- **improving coherence in global health**, with WHO playing a leading role in enabling the many different actors to play an active and effective role in contributing to the health of all peoples; and
- **achieving an Organization that pursues excellence**: one that is effective, efficient, responsive, objective, transparent and accountable.

These reform objectives have direct implications for the procurement function of WHO. This strategy document was conceived in response to the need to enhance the preparedness and ability of the procurement function of WHO, at the three levels of the organization, to more effectively contribute towards achieving these overall objectives.

1.2 CURRENT CONTEXT FOR PROCUREMENT AT WHO

Procurement is a critical function in support of the effective discharge of the WHO mandate. The first World Health Assembly in 1948 recognized the need for establishing a procurement service at WHO, recommending setting up an office “to give advice on the procurement of essential drugs, biological products and other medical supplies”. The procurement function of WHO was initially centralized at headquarters, with the regions and country offices having a low level of delegated authority for undertaking procurement transactions. The delegation of procurement authority at WHO has changed significantly over the years, in accordance with its decentralized mode of operation, in which the six regions have significant autonomy, with corresponding delegated authority granted by the Director-General to the regional directors.

The procurement function at WHO is complex and wide-ranging in scope. It is organically linked to the success of the delivery of WHO’s programme priorities and requires close and constant collaboration with various technical and administrative disciplines within the Organization (technical, such as for planning demand, prequalifying products and manufacturers of vaccines and other critical biological and antiviral treatments; and administrative, such as for budgetary and payment procedures). Externally, WHO is also involved in several harmonization initiatives with sister United Nations agencies in areas of common interest and in emergency preparedness in addition to continual interaction and outreach with key manufacturers of health products and medical supplies. Although WHO primarily procures for its

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own programme needs, it may also procure for government health programmes implementing WHO priorities and occasionally for parallel activities undertaken by United Nations agencies and nongovernmental organizations to further WHO initiatives. The procurement expenditure of WHO represents its second largest cost item after staff costs, and this explains the heightened focus on the optimal performance of this function in the current results-based management framework of WHO.

In assessing the current performance of the WHO procurement function and identifying its strengths and weaknesses, a risk-based approach was adopted and the strategy developed accordingly. The risks encountered by the Contracting and Procurement Service of WHO were comprehensively analysed in relation to:
- the nature and scope of its procurement operations and its governing policy framework;
- the implementation structure;
- the internal control framework;
- the comments and assessments received from key external stakeholders and the auditors; and
- internal assessment within WHO.

Subsection 1.2.1 succinctly diagnoses the current status of the WHO procurement function and the key challenges it encounters. Subsection 1.2.2 synthesizes the risks and challenges identified by external stakeholders and the auditors as well as the outcome of internal assessments (based on extensive analysis of data and processes plus users’ feedback undertaken in-house). In overcoming the challenges and risks mapped through the combined analysis of these two subsections, this procurement strategy was developed by crystallizing a vision and mission for WHO’s procurement function and defining the necessary key output for realizing it with a corresponding time frame for implementation.

1.2.1 Procurement scope, annual expenditure, implementation and oversight structures

1.2.1.1 Procurement scope and annual expenditure
The scope of procurement as defined by WHO’s current procurement policy and eManual incorporates “acquisition, by purchase or lease, of real property, goods, works or professional services”. In 2013, the cumulative value of WHO’s expenditure under procurement was US$ 1490 million. However, much of this expenditure relates to direct financial contribution to government programmes implementing WHO priority initiatives, imprest account expenditure and fellowship grants, which would normally fall outside the scope of procurement and are more financial and programmatic transactions or arrangements than core and universally acknowledged procurement undertakings. If these amounts are excluded, then the overall volume of WHO procurement in 2013 would be US$ 875 million. (See Annex 1 for procurement amounts in 2013 and related breakdown among the categories.)

This strategy document therefore focuses on core procurement transactions for acquiring goods and services that exclude the previously mentioned financial arrangements such as direct financial contributions, grant letters of agreement, internal services, imprest expenditures and non-staff contracts such as individual consultants, individual agreements for performance of work and fellowships, which actually have their business ownership outside the procurement function. The scope of this procurement strategy as such is in accordance with the recent decision of the Programme, Budget and Administration Committee of the Executive Board that the procurement strategy “will focus on pure procurement transactions such as procurement of goods, agreements for performance of work, technical services agreements, non-grant letter of agreement and procurement of general external services”.

into the overall procurement strategy”. This is particularly the case for non-staff contracts, accounting for US$ 124.2 million (or 5.4% of the total expenditure of the Organization) in 2014.

1.2.1.2 Selection and employment of individual consultants, special services agreements and other non-staff contracts

Although contracting non-staff services is an important and integral part of procurement of services, some important characteristics and risks are involved, which justify a separate business process to handle these transactions. Subsequently, a separate strategy will be developed to cover these types of contracts, based on the notion that individuals holding non-staff contracts are part of the human resources of the Organization, assisting in the delivering WHO’s programme of work.

As part of the move to a more flexible organization, and in accordance with the principles of WHO managerial reform, there has been a shift in the balance between the continuing or fixed-term appointments, temporary appointments and non-staff contracts in which about 40% of the human resources of the Organization are currently employed through non-staff arrangements.3 This poses risks to the Organization in terms of representation, intellectual property and the safety of personnel with inappropriate insurance coverage. Further, this creates an incongruity whereby human resources reports to Member States on the statistics on personnel under the various non-staff arrangements, whereas the business ownership for these contractual arrangements lies in another area of work, currently procurement.

Regarding policies and processes for non-staff contracts, whereas human resources processes already clearly define the recruitment of staff under temporary appointments, the procedures for procuring the services of individuals under non-staff contracts (consultants, agreements for performance of work with individuals and special services agreements) remain unclear in terms of business ownership, accountability and reporting. In this regard, it is increasingly recognized that human resources expertise is required to effectively review the suitability of curriculum vitae, terms of reference and appropriateness of the contractual modality or to assess the actual needs for required services in relation to the current staffing.

In order for the Organization to be able to fully monitor its human resources, carry out comprehensive human resources planning and reporting and mitigate the risks linked to the current arrangements for non-staff contracts, it is proposed that the human resources function take over the business ownership for managing and monitoring non-staff contract arrangements. This is in accordance with the vision of increasing the flexibility and adaptability of the Organization to meet changing demands while ensuring that the appropriate controls are in place to mitigate the identified risks.

Although a more detailed strategy paper will be made available on this subject, the following list summarizes the proposed changes that will concern individual agreements for performance of work, consultant contracts and special services agreements.

- Business ownership for these contracts will be moved to human resources for review, assessment, planning and monitoring.
- Recruitment of consultants will be based, as much as possible, on rosters developed and maintained with the support of human resources. If a required profile is not within the existing roster, then individual advertisement for the particular terms of reference should be made.
- It should be clarified under which circumstances a special services agreement is granted: either the definition of the special services agreement is to be changed or a new contract modality for certain

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3 According to the human resources annual report (A68/44), the number of non-staff contracts represented the following full-time equivalents in 2014: agreements for performance of work (298), consultants (230) and special services agreements (4200).
functions, currently delivered by special services agreements, which do not fit with the existing
definition, is to be developed (such as individuals providing cleaning services, security guards etc.).

The recruitment process to be followed for special services agreements needs to be elaborated and
maintained at the country level, with a mandatory clearance of the terms of reference and of the selection
by the regional human resources function, in accordance with the procedures already in place in some
regional offices. The aim is to increase the transparency in the selection process for both types of
contracts and ensure that the Organization contracts highly qualified and skilled individuals.

In accordance with the above, the contractual modalities for the non-staff should be reviewed, clarified
and where possible, simplified.

1.2.1.3 Current structure for implementing WHO procurement
The WHO procurement function is highly decentralized. Its involvement in most procurement of services
(about 75% of the overall annual procurement expenditure in 2013) is marginal and often limited to the
final stage of issuing the contract (purchase orders) based on the outcome of bidding and an adjudication
process in which the procurement function is not involved. This state of affairs is currently conditioned by
the perception that the bulk of contracted services fall under programme activities that are delegated to
health programme units across the Organization. Further, the category of service procurement is loosely
defined in WHO procurement policy and includes recruiting various types of individual consultancy
services for which specific knowledge is required in the fields of human resources or finance. In contrast,
the procurement of goods is mainly handled by procurement specialists across the Organization in a
manner that better uses the centralized knowledge and expertise available within the procurement
function and requires its hierarchical oversight (including for contracts cleared by the regional contract
review committees and submitted to the procurement function for the centralized process of issuing the
purchase orders). In addition, consolidated procurement of goods and catalogue items is carried out under
the auspices of the centralized procurement function as well as the set-up and negotiations of
Organization-wide long-term agreements or framework agreements. The procurement function also
centrally undertakes procurement on behalf of requesting units from the regions if so commissioned under
a specific request.

1.2.1.4 Current WHO procurement compliance and oversight structure
WHO has highly decentralized operations, with major offices having a significant degree of autonomy for
implementing programmes under the direction and oversight of the regional committees and the overall
governance mechanisms at headquarters and the Member States through the World Health Assembly.
Although financial procedures and internal and external audit arrangements apply across all three levels
of WHO (headquarters, regions and country offices) differences in implementation might exist among the
various offices. In the context of the procurement function, a more harmonized approach towards
installing and enforcing internal controls needs to be adopted. Evidently, such recommendations need to
be compatible with the enhancements to the internal control framework being made under the current
extensive reform agenda, in which WHO is seeking to put in place a more effective oversight and
compliance function at all levels of the Organization.¹

¹ Programme, Budget and Administration Committee of the Executive Board. Internal control
framework: implementation update, including proposals on direct financial cooperation. Report by the
1.2.2 Risks and challenges identified by external stakeholders, auditors and WHO’s internal assessments

1.2.2.1 Risk exposure and challenges identified by Member States and external and internal auditors

Annex 2 outlines the current challenges and weaknesses and risks facing WHO’s procurement function as observed or mapped by several Member States as well as by internal and external auditors at each step of the procurement cycle for goods and for services.

The risks identified can be thematically grouped as gaps or weaknesses in:

- monitoring and governance;
- transparency;
- quality assurance;
- contract management;
- vendor relationship management; and
- cost–effectiveness.

Although the vast majority of stakeholders’ comments are internal to WHO and are connected with the efficiency, transparency and cost–effectiveness of the procurement function, many observations highlight the need for a more comprehensive outlook towards managing the relationship between WHO’s procurement function and its vendors. The interest of vendors in WHO’s procurement activities extends beyond winning WHO procurement competitions. Vendors, among other things, need a better framework for dialogue with WHO’s procurement function, recognizing the importance of WHO’s role in setting norms and standards and prequalifying medicines, vaccines, medical kits and cold-chain equipment. Vendors are also keen to receive valuable feedback from WHO on how adequate their products perform under field conditions. This strategy seeks to put in place a solid grounding in procurement policy and operational systems for dealing with vendors’ concerns while carefully managing related risks. Most actions that need to be taken to address vendors’ concerns must have a regulatory basis (or foundation) in WHO’s new procurement policy. These vendors’ concerns can be clustered as follows:

- the need to expand WHO’s pool of vendors by incorporating, in particular, vendors from low- and middle-income countries;
- the right to complain about irregularities in the bidding procedures;
- the right to timely access to WHO procurement opportunities;
- the right to debriefing about the outcome of the bidding process and the right to escalate their grievances within WHO;
- the opportunity to engage in dialogue with WHO; and
- the opportunity to have WHO prequalify their products.

This strategy will address vendors’ concerns in both procurement policy and the procurement process and systems, as outlined in later sections of this document.

1.2.2.2 Internal assessment of current constraints and challenges

An internal assessment was undertaken based on data on the goods and services WHO procured in 2013. This assessment examined the challenges and risks facing WHO in delivering the two categories of procurement: goods and services. It also examined cross-cutting issues related to the adequacy of the current operational systems and operational capacity. The results of the internal assessment can be summarized as follows.
1.2.2.2.1 Procurement of services

- Procurement of services constituted about 75% of the overall value of WHO’s procurement expenditure in 2013. Statistics show that 85% of service contracts fall below the mandatory bidding threshold and only 5% exceeded the contract review committee threshold. The statistics therefore indicate that contract review committee does not review the vast majority of the contracts, thus resulting in potential cases of non-compliance.
- Procurement specialists need to be involved upstream in designing and planning programmes to be able to collect critically needed procurement business intelligence data, enhance compliance with procurement rules, reduce the risk of conflict of interest and contain the costs.
- More harmonized, comprehensive and effective internal control efforts are needed across regions and offices in a decentralized management context.

1.2.2.2.2 Procurement of goods

- The current vendors’ base needs to be expanded, since 50% of total expenditure in 2008–2014 was awarded to 49 vendors.
- Strategic procurement planning needs to be improved to minimize low-value repetitive purchases, increase the benefits of economies of scale and reduce the transaction and transport costs.
- The ability to plan procurement needs to be further developed to make the best use of the capacity of internal procurement staff and boost the suppliers’ capacity to deliver.
- Items with similar functions increasingly need to be standardized to enable demand to be aggregated and thereby to reduce the cost and improve the quality and timely delivery of the goods.
- Transport costs for catalogue purchases need to be minimized (with shipping costs being twice those of non-catalogue items) by avoiding small-quantity orders, which often involve long transport routes. The average cost per purchase order for catalogue purchases is one third the cost of a typical non-catalogue purchase order. Catalogue purchase orders, although convenient, require more upstream planning and more strategic assessment of the range of catalogue items for consolidating demand.

1.2.2.2.3 Procurement systems and procurement operational capacity risks

- Current quality assurance systems (such as prequalification) need to be systematically extended to a wider range of suppliers with more diverse geographical spread and not just limited to a few highly technical areas.
- The procurement function needs to be increasingly involved in anticipating pipeline requirements through standing joint planning arrangements with the programme units, thus reducing delays and other supply risks for critical items with long delivery lead times, especially in emergency responses.
- Alternate measures should be explored to mitigate the risk of relying on external sources, especially in emergencies.
- Vendor and supplier management systems are currently incomplete despite being critical in screening vendors for capacity and reliability of supply. This would require a governing policy, standard qualification criteria and/or systematic approaches in registering and approving suppliers for the selection process, systematic monitoring and evaluation of the performance of vendors and suppliers as well as a mechanism to share vendors’ performance results in-house to serve as references for future purchases.
- The WHO procurement policy needs to be updated in response to the identified risks and to strengthen the regulatory basis for dealing with evolving issues such as environmental and
social considerations in procurement as well as setting the framework governing relationships with vendors and their rights and obligations.

- The procurement function has engaged fewer procurement specialists in recent years despite the growth in procurement volumes. The staff versus workload and the functional needs should be reassessed to strengthen the current WHO procurement organization and corresponding staffing levels.
- The systems need to be enhanced to support process transparency, streamlining and improved efficiency, such as a new e-Tendering system and existing process automation or system controls; generating useful statistical analysis to facilitate strategic and operational decisions; and serving as a platform for improved communication with external stakeholders, including increased usage of the United Nations Global Marketplace website or the WHO Internet web portal.

The combined analysis of the assessments made in this section of the strategy document, the observations of Member States and donors, the recommendations of internal and external audits and internal assessment findings within WHO indicate that WHO’s procurement function currently faces three categories of risks:

- procurement policy, compliance and oversight risks;
- cost–effectiveness risks; and
- operational capability risks.

The strategy in this document aims to address these risks confronting the WHO procurement function by putting in place the necessary measures and systems to overcome the negative effects of these three categories of risk. Section 2 presents the guiding vision of this strategy.
2. THE VISION, MISSION AND STRATEGY OF THE PROCUREMENT FUNCTION

In addressing the context of WHO’s procurement function and in analysing the challenges and risks it confronts, as presented above, this strategy puts in place a vision and mission that meet the desired standards of operation of WHO’s procurement function.

The vision of the procurement function is:

*To be a leading procurement system for public health work*

The mission of the procurement function is:

*To deliver optimal procurement solutions to support the effective delivery of the WHO mandate*

The mission will be achieved through effective competition among qualified suppliers and service providers based on a vendor management framework, transparency and equal treatment with due consideration for environmental and social responsibility and overall accountability.

This strategy seeks to transform WHO’s procurement operations into a proactive strategic function that is key for realizing WHO’s overall objectives. It will elevate the procurement function to become an integral part of overall WHO corporate planning and strategy development in the context of current reform.

The strategy to realize the proposed vision and to operationalize the mission of WHO’s procurement function is based on mitigating the three identified risks facing WHO’s procurement function. The enhanced procurement policy regulatory framework and the three strategic pillars corresponding to the three identified risks will form the basis of directions and principles governing the conceptual framework of this strategy, which is further elaborated in sections 3 and 4.
3. WHO PROCUREMENT POLICY

WHO procurement operations for goods and services need to be conducted under an enhanced framework for regulating procurement policy that considers the existing principles of value for money, effective competition based on equal treatment, transparency and accountability while reinforcing WHO’s commitment to environmentally responsible and socially responsible procurement. It also lays the groundwork for efficient interface with the community of vendors.

The procurement policy will redefine the scope of procurement in WHO by sharpening the definition of services, thereby excluding the existing services that are financial, such as those for grant schemes, or that are related to human resources, such as non-staff contracts for individual consultants, special services agreements etc. The new procurement policy framework will mandate a definitive role for the procurement function in selecting and tendering professional services provided by firms (with a WHO team of experts). Further, the new procurement policy framework will provide clear guidance on the procurement of goods by applying the principles of category management or product positioning. The principle of category management means grouping products exhibiting similar supply risks and value by determining the appropriate buying techniques and tactics for each product category. In the first phase of implementing the WHO procurement strategy, the procurement policy’s regulatory framework for services will focus on mitigating risk and ensuring compliance, whereas that for goods will focus on achieving cost–effectiveness. The policy regulatory framework for both services and goods will be expanded in the second phase to ensure that the main thrusts of risk mitigation, compliance and cost–effectiveness are covered.

The procurement policy is needed to intensify competition among qualified suppliers and providers with value for money as the key objective by selecting the most advantageous bid based on a combination of factors related to price, quality, timely delivery, environmental performance, compliance with social and labour norms while considering life-cycle costing whenever feasible. Such prescription is of utmost importance to promote firm adherence within WHO’s procurement function to sustainable procurement (environmentally and socially responsible procurement without compromising value for money). The new policy also needs to provide the basis for continually refining and monitoring its effectiveness by prescribing the creation of a function of procurement policy and strategy analysis. This function will monitor the effects of implementing the procurement policy framework without being involved in actual procurement transactions, therefore eliminating any perception of conflict of interest.

The revised procurement policy is needed to give a solid regulatory foundation for the proposed strategic initiatives under strategic pillars 1, 2 and 3.

Annex 3 lists the policies to be enhanced and developed.
4. STRATEGIC PILLARS

4.1 The three strategic pillars

**Strategic pillar 1: enhancing risk mitigation and compliance** – To reduce the financial and reputational risks associated with procuring services by limiting the opportunity for fraud or misconduct and preventing deficiencies in quality through a risk-mitigation model

In the first phase of implementation, strategic pillar 1 will mainly emphasize the procurement of services. Based on WHO’s internal assessment, a more centralized approach in the procurement of services reduces the risk of non-compliance. Further, the procurement of services comprises 75% of WHO procurement expenditure. With this in mind, the recommended approach is to implement a strategy that would mitigate risk and enhance compliance in the first phase of implementation. The procurement of goods presents minimal risk, since purchasing is centralized through procurement officers in major offices.

**Strategic pillar 2: increasing cost–effectiveness** – To further reduce costs and manage supply risk in the procurement of goods and in logistics through product category management

In the first phase of implementation, strategic pillar 2 will mainly focus on the procurement of goods, since goods are homogeneous and therefore allow for more opportunities for standardization and consolidation at the global level. The supply of goods depends strongly on external capacity (such as production and transport capacity), and this increases supply risk, especially in emergency operations. Product category management will allow WHO to group goods with the same characteristics, such as value and supply risk. Procurement tactics have been developed based on these product groups to ensure that the Organization attains best value for money.

**Strategic pillar 3: enhancing operational excellence** – To enhance operational capability by developing and improving systems and developing staff

Strategic pillar 3 focuses on strengthening operational capability, effectively managing suppliers, optimizing the supply chain, comprehensive quality assurance and reinforcing the procurement foundation (such as structure, process, system tools, skills and knowledge). Strategic pillar 3 is essential to effectively execute and support strategic pillars 1 and 2.

4.2 Strategic pillar 1: enhancing risk mitigation and compliance

**Objective:** To reduce the financial and reputational risks associated with procuring services by limiting the opportunity for fraud or misconduct and preventing deficiencies in quality through a risk-mitigation model

4.2.1 Issues

A decentralized structure for procuring services is the fundamental challenge. This structure has resulted in practices and internal controls not always consistent across the major offices. In addition, decentralizing the procurement of services increases the risk of localized practices, different interpretations and application of rules. Further, although the segregation of duties is ensured within each unit, the requesting unit is currently responsible for initiating, sourcing, bidding, evaluating and approving the purchasing decision. In addition to this, the requesting unit is responsible for approving the delivery of services.
The top part of Fig. 1 summarizes the current challenges of a decentralized structure.

4.2.2 Strategic directions

Implementing strategic pillar 1 will ensure that practices across all major offices are consistent, and this will be further reinforced by partly centralizing controls, such as having procurement officers perform sourcing and bidding. In addition, procurement expertise or neutral parties would be emphasized in the high-risk procurement processes to ensure compliance and segregation of duties. To ensure improved transparency and accountability in the procurement of services, the various measures will be implemented as illustrated in Fig. 1.

The proposed model (Fig. 1) focuses on enhancing control in key processes by limiting the number of people involved and engaging a neutral party in the procurement processes. The controls are required at the stage of the high-risk critical process. For example, a vendor management mechanism is required for addressing shortcomings related to supplier shortlisting.

Fig. 1. Risk-mitigation model for the procurement of services
4.2.3 Implementing strategic pillar 1

To support strategic pillar 1, the following principles and supporting measures will be implemented for each procurement process.

4.2.3.1 Segregation of duties

A best-fit policy regulatory framework and an enhanced structure of procurement with segregation of duties and responsibilities are critical to prevent conflicts of interest between vendors’ registration approval and the shortlisting of vendors for tender and between tender evaluation and approval. The roles and responsibilities of these functions will be clearly defined to enforce the accountability of the respective functions.

This can be achieved by establishing a vendor management mechanism involving a neutral party to conduct due diligence process before approving the prospective vendors, and this vendor registration role will be segregated from the personnel who shortlist suppliers for tender. For the tender evaluation process, an obligatory policy will be established and enforced to segregate the role of the tender evaluator or recommender from the tender approver to assure objectivity and fairness of decision as well as the accountability of respective roles. Potential system control would be explored to support the above strategy.

4.2.3.2 Fair competition

Fair competition and equality are the important principles to mitigate fiduciary, financial and reputational risks in procurement. A poorly written specification is the main cause of flawed procurement, which must be prevented, since specification is the scope of work and terms of reference, which should clearly define procurement needs and yet be sufficiently generic and objective to promote fair competition. Excessive or insufficient specification can result in unnecessary costs or poor quality. Moreover, clear, fair and contractually oriented terms of reference are also essential to ensure value for money, to minimize the risk of ambiguity and to set objective key performance indicators for evaluating award and post-delivery performance evaluation. Henceforth, WHO will engage procurement experts to assist requesting units in developing clear, adequate and fair specifications for tender at the early stage of the procurement life cycle.

4.2.3.3 Transparency

The use of an e-tendering system in WHO would drastically improve the transparency and consistency of the bidding process and secure the confidentiality of bids, which contribute to mitigating the risk of fraud, misconduct and failure to achieve best value for money. An e-tendering system has the ability to lock bids until the tender due date to prevent manipulation, coupled with security features for bid opening by committee and audit trails. Involving procurement experts in the bidding and evaluation process using the e-tendering system for transactions above a specific risk-centric threshold would therefore provide added assurance of transparency.

4.2.3.4 Control

Based on WHO’s internal assessment, it is recommended to introduce a check before purchasing decisions are made and enhance the final checks before issuing the contracts. We recommend that the check before purchasing decisions are made be performed by a neutral party such as the compliance unit or the office of a director of administration and finance (DAF office). The shared service centre will continue to handle the enhanced validation before issuing the contracts.

4.2.3.5 Monitoring

Monitoring quality and delivery is a critical process in the procurement of services. The main change will be introducing two distinct roles: (1) the receipt focal points verifying evidence of receipt and (2) the
appropriate authority who is technically capable of evaluating and responsible for accepting and confirming quality and delivery. Limiting the number of receipt focal points is also essential, since this will provide greater focus and visibility in accountability, responsibility and training.

The risk-mitigation model for the procurement of services will be tailor-made during the implementation stage to address the specific risk profiles currently in operation in the various offices.

4.3 Strategic pillar 2: increasing cost-effectiveness

Objective: To further reduce costs and manage supply risk in the procurement of goods and in logistics through product category management

4.3.1 Issues
The current practice for purchasing goods would require an enhanced planning effort and a close assessment of the level of risks and financial exposure linked to the various products. This would increase the opportunities to achieve the best value for money and reduce the supply risk for the Organization. In addition, this approach will reduce administrative and transport costs, promote more effective competition and strategic partnerships.

4.3.2 Strategic directions
Product category management will allow WHO to group goods with the same characteristics such as cost and supply risk. Procurement tactics have been developed based on these product groupings to ensure that the Organization attains best value for money and secures supply.

Fig. 2 illustrates this method using some of the key goods purchased by the Organization (see Annex 4).

In applying product category management, Fig. 2 illustrates that the procurement of goods at WHO can be segregated into critical, strategic, tactical and leverage categories based on the cost and supply risk. The statistics incorporated in Fig. 2 were compiled during 2008–2014 and are representative of the spectrum and average expenditure levels undertaken by WHO in procuring goods.
The basic characteristics of the four product categories in Fig. 2 are briefly defined with the appropriate procurement strategies to be implemented as shown below.

### 4.3.2.1 Strategic category (high risk and high cost)

This category covers cumulative high-value goods with high supply risk. The preferred strategy is to reduce supply risks and costs by effectively managing supplier relationships and managing contracts and to establish strategic partnerships and global collaboration with limited suppliers with the aims of sharing expertise, minimizing supply risks and secure best value for money for the goods purchased.

### 4.3.2.2 Critical category (high risk and low cost)

This category covers goods that have high supply risk but relatively lower cost than the strategic category. These goods are critical in supporting WHO’s programmes and operations. The preferred strategy is to secure supply capacity and reduce the Organization’s market vulnerability, especially in emergency situations.

### 4.3.2.3 Leverage category (low risk and high cost)

This category covers goods that are generally less technical and specialized. In addition, these goods have broad supplier base with a high cumulative expenditure and have a high potential for cost savings. The preferred strategy is to consolidate demand to leverage economies of scale and promote competition.
4.3.2.4 Tactical category (low risk and low cost)

This category covers standard routine goods that typically have low value and low supply risk. The preferred strategy is to improve the efficiency of the purchasing process to reduce administrative efforts and transaction costs.

4.3.3 Implementing strategic pillar 2

The following measures will be implemented to support one or more of the product categories illustrated in Fig. 2. Table 1 shows that similar measures can be applied across different product categories.

4.3.3.1 Forming an expert committee and involving the procurement service early in the programme design to increase product standardization, consolidate the procurement plan and expand the numbers of prequalified products and suppliers

To improve the current approach to procuring goods, this strategy proposes involving procurement experts from an early stage of the procurement life cycle. Introducing an expert committee with strong technical and procurement expertise is recommended to review and advise on product specifications and standardization to ensure that demand can be consolidated with procurement and acquisition planning at the local, regional and global levels. For highly technical items with scarce supply, expanding prequalified products and suppliers is vital to secure high-quality supply.

These measures will achieve economies of scales for the leverage category and secure supply capacity and minimize supply risk for strategic and critical categories.

4.3.3.2 Increased collaboration with other United Nations agencies

The updated procurement policy will encourage expanding the United Nations collaborative spectrum for joint tendering with sister United Nations agencies. Joint tendering aims to strengthen United Nations bargaining power for strategic and critical products that have high supply risks. This modality would also leverage on economies of scale and contribute to greater cost savings. Piggybacking on other United Nations agencies’ long-term agreements would capitalize on the technical competence and volume advantage of other agencies that have better competitive posture than WHO for specific products, and this approach would permit WHO to enjoy the discounted rates under long-term agreements with simplified procedures to save tendering efforts and transaction costs. For non-core products of WHO with low risk and low cost, outsourcing to sister United Nations agencies would be a more efficient option.

4.3.3.3 Strategic partnerships with manufacturers

Establishing strategic partnerships and global collaboration with key suppliers in industry would allow leverage on technical expertise from manufacturers in product development, determining specifications, access to the latest technology and market intelligence; secure supply capacity or the Organization’s pipeline by obtaining privileged production capacity to cope with emergency or pandemic outbreak; and increase cost savings by eliminating intermediaries.

4.3.3.4 Broaden the supplier base

Continual effort to identify new prospective suppliers to broaden the supplier base for WHO procurement is crucial to (1) facilitate competition for products in the leverage category and (2) mitigate the supply risk for the critical category by securing reliable alternative suppliers. WHO would also consider developing local suppliers as an approach to mitigate the supply risk for the critical category by developing reliable and responsive sources of supply locally.
4.3.3.5 Using long-term agreements
WHO will increase the use of corporate long-term agreements and encourage expanding to regional or local long-term agreements to benefit from volume discounts for the leverage category and will serve as the simplified modality for purchasing tactical routine low-value products to save repetitive tendering and transaction costs. In addition, the use of long-term agreements will assist WHO in mitigating supply risk through partnership with selected vendors to ensure secured supply at the best value and scalability in production capacity for critical products that have limited suppliers on the market. Such an approach is critical for emergency operations.

4.3.3.6 Simplified procedures or modality
WHO will develop a simplified procedure to manage low-value purchases. In addition, regional and local procurement will be highly promoted to improve process efficiency and reduce logistics costs, especially for leverage and tactical products, which are the commodities with broad supplier bases at the local level.

4.3.3.7 Reverse auctions
Implementing reverse auctions will be explored in the future as a transparent mechanism to obtain the best market price via an online portal in which fair competition is strongly encouraged, with bidders being able to see the lowest market offer in real time. This transparency will increase competition among bidders and result in greater cost savings to the Organization, which will be appropriate for the leverage category, since the value of the goods is relatively high, which will attract industry actors entering the competition.
Table 1. Summary of strategic measures for strategic pillar 2

<table>
<thead>
<tr>
<th>Category and tactics</th>
<th>Strategic: high risk and high cost</th>
<th>Critical: high risk and low cost</th>
<th>Leverage: low risk and high cost</th>
<th>Tactical: low risk and low cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint procurement planning</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procurement involvement and collaboration with technical units (expert committee)</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standardizing products</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Planning acquisition and consolidating demand</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Expanding prequalification products and suppliers</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic partnerships with manufacturers</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased collaboration with other United Nations agencies</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Joint tendering and long-term agreements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Piggyback</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Outsourcing</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Use of long-term agreements</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Broaden the supplier bases</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reverse auctions</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Developing local suppliers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Simplified procedures and modality – light purchasing modality</td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>– promote regional and local procurement</td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
4.4 Strategic pillar 3: enhancing operational excellence

Objective: To enhance operational capability by developing and improving systems and developing staff

4.4.1 Issues

The internal analysis has highlighted the need for improving the procurement and logistics practices at various points of the entire supply chain, thus reducing the lead time for procuring and delivering goods and services and lowering the supply risks for the Organization, especially in emergency situations. In addition, the current quality assurance mechanisms focus on a few highly technical areas such as prequalification, but optimally mitigating all reputational risk to WHO, an agency known for its technical competence, would require a more systematic approach.

External stakeholders and WHO internal assessment show the need to improve the procurement foundation through a more cohesive policy, guidelines coupled with structures and processes aligned with system tools.

4.4.2 Strategic directions

Strategic pillar 3 addresses the procurement foundation, which will strengthen the operational capability to procure and deliver goods and services timely in the appropriate quality and in a reliable manner. Effectively executing and supporting strategic pillars 1 and 2 requires a strong procurement foundation. Managing suppliers is the key foundation to support the quality and timely delivery of goods and services. In addition to managing suppliers’ performance, mechanisms for quality assurance and optimizing the supply chain should be integrated to reinforce the effort. In addition, reinforcing the procurement foundation is essential to enhance the procurement competencies.

Fig. 3 illustrates the key components required to reach operational excellence. The optimum goal is to achieve timely and reliable delivery of goods and services in the right quality. An enhanced regulatory policy framework is the basis on which the implementation strategies will be developed.
4.4.3 Implementing strategic pillar 3

4.4.3.1 Effectively managing suppliers
This strategy aims to reduce the risks of dealing with unreliable suppliers and quality and delivery issues by managing the performance of suppliers.

A new vendor management framework will define the procedures and criteria for registering vendors, periodically assessing their qualifications based on evaluation of past performance against key performance indicators, technical competence, experience, production and delivery capacity as well as financial stability.

The framework will set the basis for expanding the current narrow base of suppliers, define a code of conduct for vendors, define mechanisms for punitive action (such as suspension or blacklisting), define risk-mitigation measures in the contract terms such as penalty clauses, liquidated damages and performance bonds against non-satisfactory performance, define a debriefing procedure for unsuccessful tenderers and the procedures to be followed if they wish to escalate their grievances to higher authorities within WHO, define a scheme for sanctions to apply to vendors in case of fraud or repeated contractual default, define a mechanism to implement these measures such as a vendor management committee and establish a mechanism to share the performance record of the suppliers across the organization (such as a suppliers’ scorecard).

It will also set in motion a mechanism for periodic interaction with key suppliers to keep current with evolving issues and innovations in public health.

4.4.3.2 Comprehensive quality assurance

This strategy aims to ensure that procurement activities achieve quality objectives.

Quality assurance measures start from the clear, fair and adequate terms of reference or specifications, the risk-mitigation measure in strategic pillar 1, and involving procurement experts early in project design, a risk-mitigation measure in strategic pillar 2. In addition, the existing profile of prequalified products and suppliers will be broadened to increase the number of prequalified products and suppliers through a set of
controlled quality evaluation processes managed by the prequalification experts. The quality of delivery will be assured by engaging independent inspection services to check the quality of delivered goods specifically for critical purchases, and suppliers’ operational capability will be verified through due diligence and/or prequalification by an independent party. Lastly, quality can be assessed through feedback from requesters to determine whether the deliveries or suppliers have achieved the quality objectives.

4.4.3.3 Optimizing the supply chain

This strategy aims to improve delivery lead time and enhance WHO’s preparedness and responsiveness in public health emergencies by streamlining the entire supply chain process.

WHO will also implement strategic prepositioning or stockpiling to secure the availability of emergency critical items. To do so, creating an integrated supply chain with suppliers to use supplier’s warehouse management capacity and technical competence will be an option, and capability for forecasting demand has to be further enhanced. An advance funding mechanism will be explored to support the strategic prepositioning.

In addition, WHO will establish an effective platform for monitoring delivery that provides estimated delivery and real-time delivery status to support regional pipelines. Lastly, WHO will collaborate with other agencies (such as the Logistics Cluster and the United Nations Humanitarian Response Depot) to capitalize on their infrastructure in response to emergencies.

4.4.3.4 Reinforcing the foundation of procurement

This strategy will be implemented through strategic interventions in the following three key areas:

- enhancing the structure;
- improving the processes and systems; and
- developing human resources.

4.4.3.4.1 Structure

To ensure the harmonized implementation of policy and strategy, WHO will create the function of procurement policy and strategy. The main benefit of this will be to clearly define the overall ownership and accountability with a dedicated procurement business owner. This will enable WHO to implement policies more easily and uniformly. It will further enhance the separation of the functions of policy-making and strategy analysis from responsibility for actual procurement operations transactions, which is critical, especially for an organization such as WHO, with relatively large procurement expenditure in a decentralized organizational structure. Such a new function will harmonize practices across regions and the exchange of experience.

The function will take responsibility for internal and external networking and will act as the convener of the procurement network to facilitate cross-fertilization of best practices across the Organization.
4.4.3.4.2 Processes and systems

Information technology tools and business processes must be in place to facilitate the implementation of these strategies. Information technology tools will be used for automation to improve efficiency and data analysis to facilitate strategic initiatives as well as effective communication with stakeholders. This will be achieved through the following tactics:

- reviewing and standardizing the mandatory bidding threshold to extend the coverage of effective control;
- effectively using the United Nations Global Marketplace to be explored as (1) an interface for registering vendors; (2) a media for publishing public tenders; and (3) a platform for sharing information;
- enhancing data analysis and reporting using the business intelligence module of the enterprise resource planning system to identify potential risks and opportunities for strategic procurement;
- improving the commodity coding structure to support the business intelligence with improved data quality, with the United Nations Standard Products and Services Code® (UNSPSC®) being recommended to be adopted;
- reducing manual interventions and judgement by imposing system controls to prevent non-compliance and oversight and to visualize exceptions; and
- further exercising the principle of transparency in procurement by publicly sharing information, such as tender results, procedures, codes of conduct and business opportunities.

4.4.3.4.3 Human resources

Reinforcing human resources and enhancing the expertise of the personnel involved in procurement activities is essential to increase procurement capacity and rebuild capability to enable procurement experts to contribute to implementing robust procurement fundamentals. This will be achieved through the following tactics:

- developing standardized procurement training;
- implementing compliance network management to enhance communication among compliance functions (such as compliance units and contract review committees) in sharing experiences and best practices;
- increasing capacity and rebuilding capability in the procurement network to enable procurement experts to contribute to mitigating risk for the procurement of services and strategic procurement of goods; and
- reinforcing resources in the Shared Service Centre to strengthen control for post-decision validation and to enable proactive and strategic procurement and effective management of the supply chain, as proposed by Member States (such as Germany and the United Kingdom Department for International Development).
5 CONCLUSION

The first stage of implementation will be updating and developing the WHO procurement policy to support the three strategic pillars. These three strategic pillars will mitigate the existing challenges and align the Organization’s procurement practices to be comparable with those of similar organizations. The full benefits of each of these strategic pillars cannot be realized in isolation.

Fig. 4. Relationships between the three strategic pillars

Fig. 4 highlights the importance of implementing strategic pillar 3 to obtain optimum benefits from strategic pillars 1 and 2.

Once this strategy is endorsed, it is foreseen that a more detailed implementation plan, with a clear timeline, will be prepared.
Annex 1. WHO procurement expenditure for 2013

<table>
<thead>
<tr>
<th>Goods</th>
<th>214,064,204</th>
<th>Goods</th>
<th>214,064,204</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct financial cooperation (DFC)</td>
<td>304,313,805</td>
<td>LOA</td>
<td>298,912,054</td>
</tr>
<tr>
<td>Letters of agreement (LOA)</td>
<td>298,912,054</td>
<td>APW</td>
<td>177,114,292</td>
</tr>
<tr>
<td>Imprest purchase orders</td>
<td>281,885,277</td>
<td>General external services</td>
<td>157,468,238</td>
</tr>
<tr>
<td>Agreements for performance of work (APW)</td>
<td>177,114,292</td>
<td>TSA</td>
<td>27,164,472</td>
</tr>
<tr>
<td>General external services</td>
<td>157,468,238</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical service agreements (TSA)</td>
<td>27,164,472</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consultants</td>
<td>20,461,872</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal services</td>
<td>4,753,859</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fellows</td>
<td>3,653,521</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,489,791,594</strong></td>
<td></td>
<td><strong>874,723,260</strong></td>
</tr>
</tbody>
</table>

**Current Procurement Scope**

- Goods: 23%
- DFC: 11%
- LOA: 10%
- IMPREST: 0%
- APW: 14%
- GEN EXT SERV: 0%
- TSA: 2%
- CONSULTANT: 3%
- INTERNAL SERV: 0%
- FELLOW: 0%

All Categories Total USD 1,490 million

**Procurement Strategy Scope**

- Goods: 29%
- LOA: 18%
- APW: 20%
- GEN EXT SERV: 34%
- TSA: 9%

Excluding Financial/HR transactions Total USD 875 million
Annex 2. Observations of Member States and internal and external auditors

Fig. 1. The colour denotes the type of issue or risk, and the size and the number represent the frequency at which it occurred in the recommendations of external stakeholders.

The risks are concentrated in the following stages of WHO’s procurement cycle.

- **Planning and defining the procurement requirements for goods and services – 16 observations clustered around:**
  - gaps in strategic procurement planning in the earlier stage of the procurement cycle;
  - gaps in standardizing technical specifications for clarity and fair competition; and
  - deficiencies in preparing terms of reference for service contracts.

- **Bidding and selection process – 19 observations clustered around:**
  - deficiencies in the selection process;
  - inconsistent criteria used in shortlisting potential bidders; and
  - unclear segregation of duties and roles during bidding, evaluation, selection and approval of contract awards.

- **Approval of recommendations – 25 observations clustered around:**
  - divergences in the levels of delegated authorities across country offices and regional offices;
  - the approval threshold not effective (too high) for monitoring small-value purchases;
  - non-compliance with the requirements of adjudication reports; and
  - non-compliance with established guidelines for issuing waivers from competition and lack of tracking and monitoring of deviations in compliance.

- **Delivery and receipt – 9 observations clustered around:**
  - inadequate quality assurance procedures to verify successful delivery or completion of the object of the procurement (deliverables);
  - the receipt entry process is often disconnected from the actual physical delivery of goods and services; and
  - segregation of duties is unclear and sometimes non-existent between approvers and recipients.
Contract management and post-delivery review – 17 observations clustered around:
- inefficient process for closing purchase orders;
- lack of monitoring of cancellation of purchase orders; and
- weaknesses in vendor management practices: lack of mechanisms for evaluating vendor performance, policies on how vendors can escalate issues, etc.

The above assessments by stakeholders highlight WHO’s exposure to risk throughout the stages of the procurement cycle.

The issues identified can also be thematically grouped as follows:
- monitoring and governance – 37 observations;
- transparency – 25 observations; and
- quality assurance – 25 observations.
Annex 3. WHO procurement policy to be updated

New policies to be developed:

- long-term agreement policy;
- environmentally responsible procurement policy;
- vendor management policy;
- quality assurance policy; and
- policy for disclosure of information to the public (tender opportunities, tender awards, supplier code of conduct, escalation procedure, etc.)
Annex 4. Product category management (product segmentation)
Product category management
(product segmentation with WHO key products)