

# UNICEF PROCUREMENT SERVICES BRIEFING NOTE

1 May 2007, Supply Division

The purpose of this document is to provide clarity on the objectives of UNICEF's Procurement Services (PS), as well as to announce the new handling fees and buffer.

The recent external Evaluation of the Supply Function has reaffirmed Procurement Services as a key channel through which government counterparts and partners can gain access at scale to a range of essential supplies for women and children. The Evaluation, which included a survey of PS partners, confirmed that:

- UNICEF Procurement Services have a global reach and a clear focus on essential supplies for women and children.
- Governments, donors, NGOs and other partners value UNICEF PS.
- Procurement Services is a secure mechanism to provide continued access to essential supplies for women and children at good market prices.
- PS supplies are supporting the achievement of national objectives and global MDGs.
- PS supplies can strengthen the programme work of UNICEF when they are closely coupled with UNICEF-supported programmes.
- The quality of supplies procured via Procurement Services is appropriate.

The Evaluation also noted areas for improvement:

- Increase transparency on the basis for and use of the PS handling fee.
- Increase the capacity-building component in PS activities.
- Continue to improve the operational efficiency of PS.

## Objective of Procurement Services

The objective of Procurement Services is to offer UNICEF's knowledge, purchasing capacity and logistics expertise to our development partners. One of its aims is to transfer capacity to Governments, so they can progressively assume procurement undertaken by UNICEF.

By using PS, counterparts increase their access to essential supplies at more affordable prices than through their own independent channels.

With the emergence of and growth in new funding mechanisms (e.g. GAVI, Global Fund, SWAPs), governments can use UNICEF PS to procure supplies, utilising the Donor Funds that they receive bi-laterally, in a way that is consistent with the Paris Declaration on Aid Effectiveness.

## Revision of Handling Fees, Buffers and Insurance Charges

### Handling Fees

UNICEF is required to recover its cost from providing PS. Therefore, the organisation charges a handling fee to recover the direct and indirect costs of the work performed.

The handling fee is established at the minimum amount UNICEF reasonably concludes is required to meet the costs of providing PS, including staff, travel, communication, equipment, administrative and other overhead costs associated with offering and executing PS (including responses to requests for Cost Estimates, implementation of agreements, and processing, monitoring and reporting on PS arrangements). The fee is also used to support the supply of quality assured goods and services. UNICEF does not take part in competitive bidding.

In addition to the recommendations from the Evaluation, a significant increase in the volume of Procurement Services has prompted the review of its handling fees and buffer levels. UNICEF has been able to reduce the handling fees for several commodities through economies of scale and reduction of costs as a percentage of unit prices.

The two major changes are that 1) the handling fee for Least Developed Countries<sup>1</sup> (LDCs) is 0.5% lower than the one for non-LDCs, and 2) the handling fee varies depending on the commodity group. The fee structure below is now applicable:

<b>Commodity groups</b>	<b>Handling fee LDCs %</b>	<b>Handling fee non-LDCs %</b>
Vaccines EPI *	4	4.5
New Vaccines **	3	3.5
AD Syringes	4	4.5
Cold Chain	8	8.5
Bednets	3	3.5
Antimalarials	4	4.5
Antiretrovirals	4	4.5
Diagnostic test kits	4	4.5
Laboratory	8	8.5
Medical equipment/kits	8	8.5
Pharmaceuticals	8	8.5
Nutrition	8	8.5
Transport	8	8.5
Education	8	8.5
Printing	8	8.5
Water, Sanitation, Hygiene	8	8.5
Communication	8	8.5

\*EPI vaccines: BCG, DT, DTP, measles, MR, MMR, OPV, Td, TT.

\*\*New vaccines: DTP-HepB&Hib; DTP-HepB; DTP&Hib, IPV; upcoming vaccines such as Pneumo, Rota virus and Flu vaccines.

### **Warehouse handling fees**

A flat handling fee of 6% is applied for all warehouse items, unless the supplies belong to a commodity group with a handling fee below 6% (e.g. bednets)- in which case the regular handling fee applies (e.g. 3 or 3.5% in the case of bednets).

### **Volume discount**

If a PS order in a single commodity group, basket of commodities or a multi-year agreement exceeds \$100 million, a lower handling fee may be considered.

### **Buffer**

The buffer is used to protect UNICEF from fluctuations in the commodity market and foreign exchange as some goods are procured in currencies other than the US Dollar. It is also used to cover other unforeseen events that might occur. When a Procurement Services transaction is closed, the unused portion of the buffer is returned to the partner or re-programmed for future transactions, as decided by the partner.

The current standard buffer level for non-warehouse goods is 10% (5% for ARVs) on the cost of the goods. The buffer does not apply to goods stored in and issued from the warehouse.

### **Continuous improvement**

A review of the above changes and improvements will be conducted in 2007 and 2008 to assess their effectiveness and impact and to determine if future adjustments are required.

### **Feedback/enquiries/contact**

Do not hesitate to contact us through your usual contact person or at [psid@unicef.org](mailto:psid@unicef.org) if you have any question or comment.

<sup>1</sup> The list of Least Developed Countries, as defined by the United Nations, is available at: [www.un.org/special-rep/ohrls/lidc/list.htm](http://www.un.org/special-rep/ohrls/lidc/list.htm)