**Procurement**

Procurement is the purchase of works, assets, goods and services for the organisation.

Procurement is one of the most risky areas in NGO financial management, often abused by kick backs, paying too much for sub-standard goods, and buying from related parties.

This page covers the following areas:

* [Objectives of a procurement policy](https://www.humentum.org/free-resources/guide/procurement#Objectives)
* [What are the different stages?](https://www.humentum.org/free-resources/guide/procurement#Different%20staged)
* [Who should be involved?](https://www.humentum.org/free-resources/guide/procurement#Who%20involved)
* [Ethical procurement](https://www.humentum.org/free-resources/guide/procurement#Ethical)
* [Paperwork required](https://www.humentum.org/free-resources/guide/procurement#Paperwork)

**Objectives of a procurement policy**

A good procurement process ensures that:

* The correct goods or services are purchased, in terms of the correct quality and specification
* Best value for money is achieved
* The process is safe, ie risk of fraud is minimised
* The process is fast enough to meet programme needs
* Grant conditions are complied with

Because of the high risks, some organisations fall into the trap of making the process so bureaucratic that programmes suffer and people are tempted to find shortcuts. Balancing speed and safety is key.

**What are the different stages?**

The steps to go through for a particular purchase depend very much on the type of purchase:

* One off (eg consultancy service) or repeat (eg office stationery)
* Low, medium or high value
* Budgeted or not budgeted
* Subject to grant conditions or not
* Cash or credit purchase
* Fixed asset or consumable
* Routine or emergency

In developing a procurement policy, it is good to consider processes for these different options, because that enables any given purchase to have the right level of safety without too much bureaucracy.

The figure below describes a typical process for the purchase of a high value item on credit.

**Who should be involved?**

Ideally, key tasks in the procurement should be done by different people.  This ‘segregation of duties’ reduces the risk of fraud.  In smaller organisations, it may be necessary to compromise if there are not enough staff to fill all the roles.

* **Governing Body**
The Governing Body would normally only get involved with authorising high value purchases, or significant items that were not budgeted for.
* **Tender Board / Procurement Committee / Purchasing panel**
The tender committee usually consists of representatives from the programme and finance departments, the CEO, and the key users and budget holders.  They  select suppliers for the authorised supplier list for standard and repeat purchases. They also review individual purchases, choosing the best option from the quotes supplied to them.
* **User**
The ‘user’ needs the goods or services and makes a request for purchase. This could be a field officer, an office worker or a budget holder or manager. Sometimes the user may be involved in sourcing suppliers or obtaining quotes, and checking the goods on arrival.
* **Budget holder**
The budget holder is responsible for managing the project and delivering objectives within budget.  If the budget holder did not raise the purchase requisition, they should always authorise it. They should also approve the payment requisition.
* **Procurement / logistics officer**
The procurement or logistics officer may be responsible for sourcing suppliers and obtaining quotes, or advertising bids for large procurements. They should not normally sit on the Tender committee. They are usually responsible for going out to do the buying, or receiving the goods if they are delivered. (A dishonest person in this position may collude with suppliers to carry out frauds that are very difficult to prevent and detect – so consider segregation of duties carefully, and take care that they do not influence tender committee decisions unduly).
* **Finance Manager / Accountant / Bookkeeper**
The finance team needs to be represented on the tender committee. They authorise purchase requests and Local Purchase Orders (for making credit purchases), and payment requests. They write the cheques or issue the cash, record the transactions in the books of account and ensure that all the paperwork is properly filed.

**Ethical procurement**

Ethical procurement involves consideration of other factors apart from just cost and quality. For example, would you want to buy a good quality, cheap product that had been manufactured using child labour? Or timber that had been illegally logged, or taken from an unsustainable source? Would you prefer to buy local goods rather than imported ones? Thinking about the environment, you might need to consider transport distances, energy efficiency of electrical products, fuel efficiency and cleanness of vehicles etc

NGOs often form a significant part of the economy in developing countries and their purchasing decisions have a knock on impact, which may be negative if they perpetuate unsustainable, abusive, illegal, or polluting practices.

Creating an ethical procurement policy is important as it gives the tender committee a justification for selecting an option apart from the cheapest one, if that would be a more responsible and ethical choice.

**What paperwork is required?**

There is a lot of paperwork associated with procurement, which needs to be kept and properly filed so that it can be easily retrieved for audit purposes.

**STANDARD DOCUMENTS (INTERNALLY GENERATED)**

* Purchase requisition
* Local Purchase Order
* Goods Received Notes
* Payment Requisition
* Payment Voucher
* Purchase decision record (or equivalent)

**SOURCE DOCUMENTS (FROM SUPPLIERS)**

* Quotations and pro/forma invoices or records of telephone quotes obtained
* Proposals (eg for consultancy services)
* Contracts (eg for services )
* Invoices
* Goods Delivery notes
* Receipts

**OTHER DOCUMENTS NEEDED FOR REFERENCE**

* Budgets
* Grant agreements
* List of authorised suppliers
* Ethical procurement policy
* Minutes of Governing Body and Tender Committee meetings