

# Procurement Seminar

February 24, 2017



**World Food Programme**

# AGENDA

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## Topic

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Global Supply Chain

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Procurement

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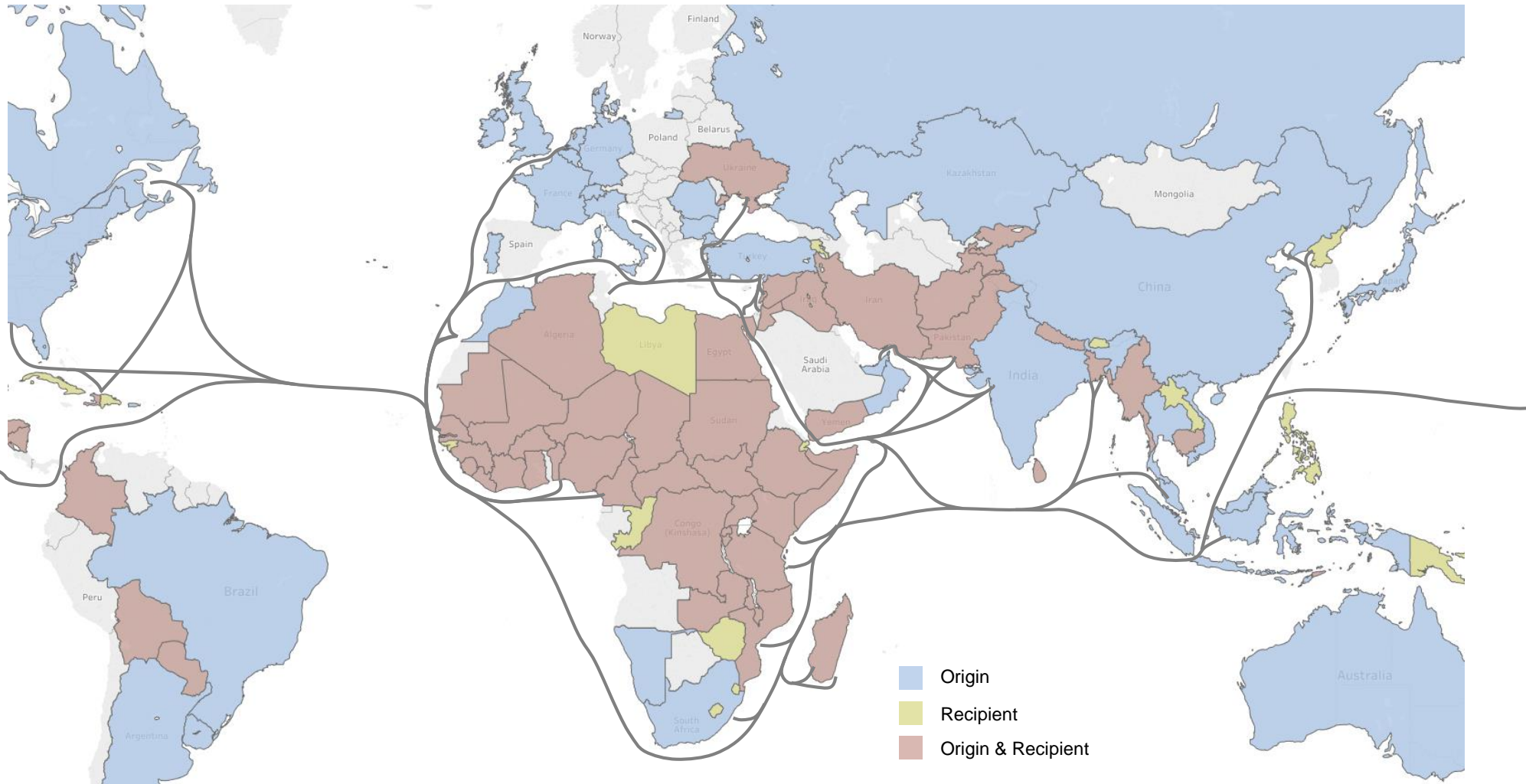
# WFP GLOBAL SUPPLY CHAIN

UN

WFP



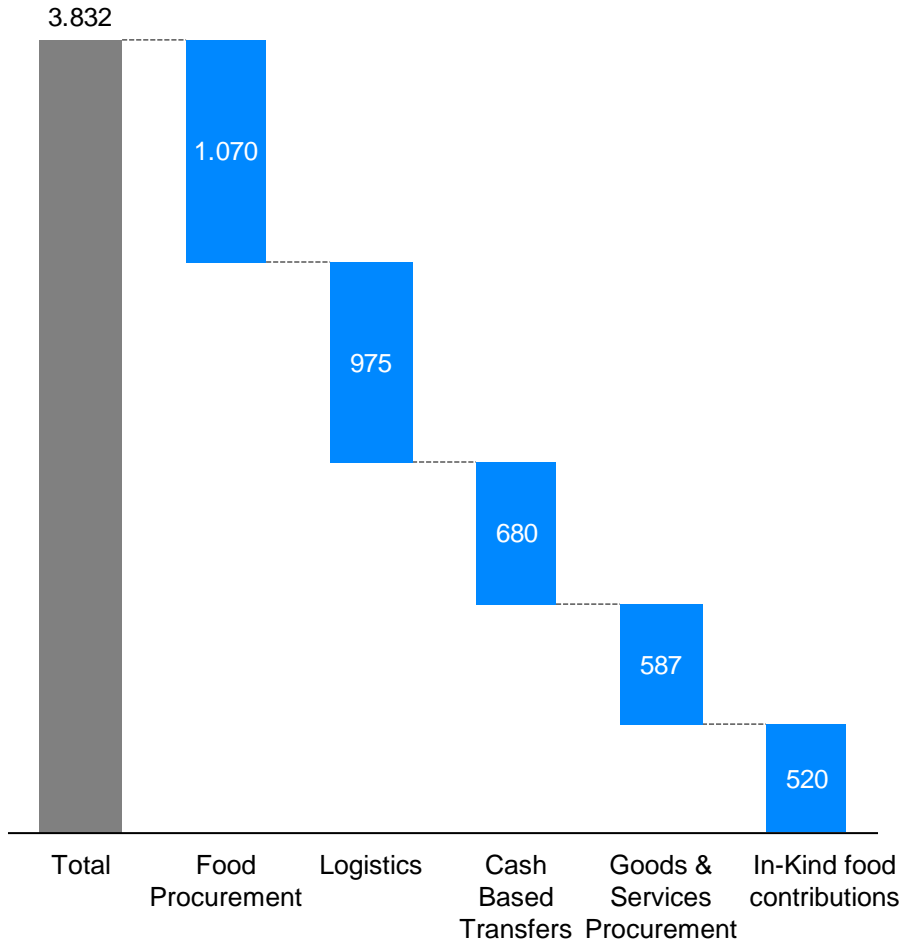
# Global Supply Chain – Origin and recipient countries



# SUPPLY CHAIN

# KEY FACTS & FIGURES

## Operational spend (in M. USD)



## Key facts & figures

### GLOBAL REACH

- 80 million** beneficiaries assisted globally in over 80 countries
- 60-70%** budgets in L3 emergencies

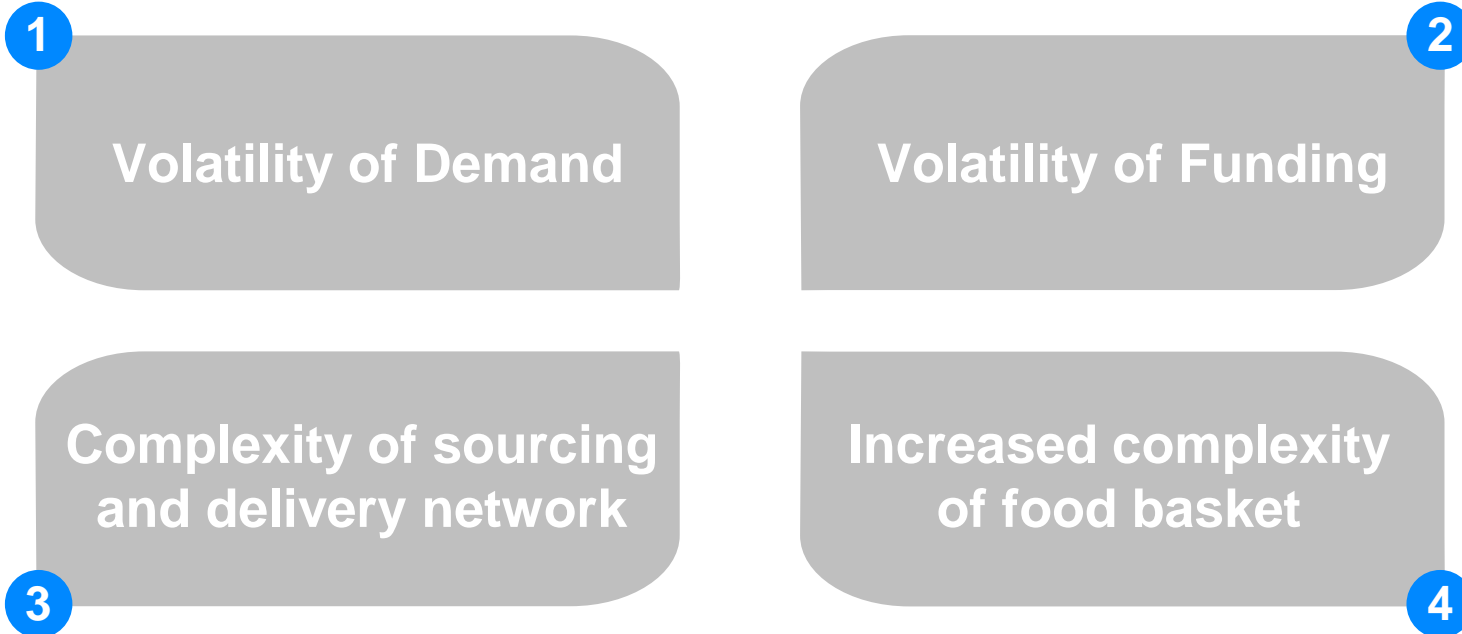
### GLOBAL NETWORK

- 650** Warehouses
- 6** Humanitarian Response Depots
- 800** WFP-owned trucks
- 287,000** Humanitarian workers transported by air in 19 countries

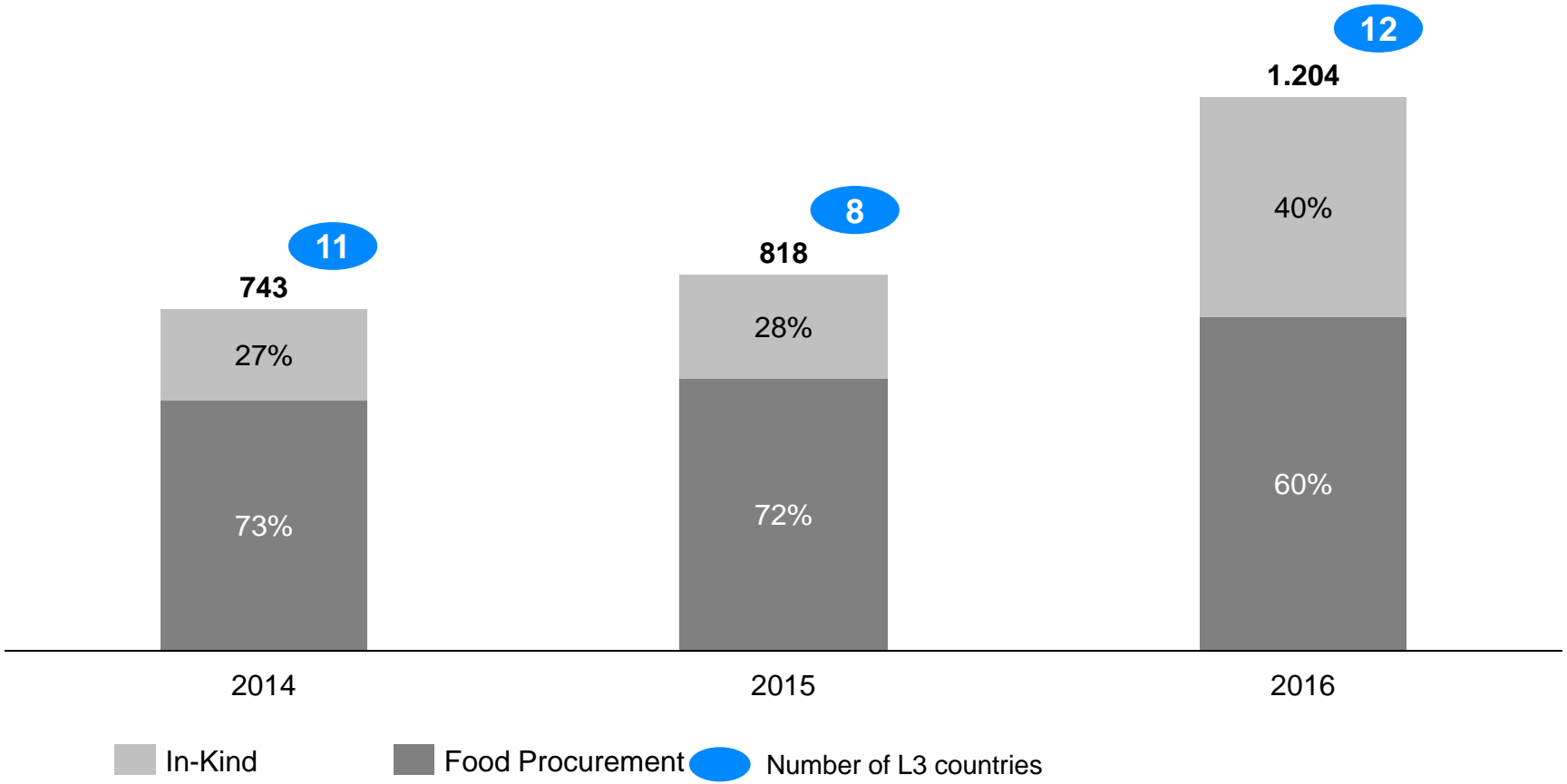
### DAILY LOGISTICS

- 5,000** Trucks
- 40** Ocean shipments
- 70** Aircrafts

## WFP operating risks that impact WFP's supply chain



L3 emergencies ('000 mt)



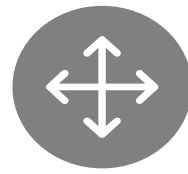
# MANAGING SC RISKS

# SC OBJECTIVES

'Traditional'  
private sector  
Supply Chain  
objectives



Reliability &  
Cost Efficiency



Agility



Safety & Quality

WFP  
specific  
objective

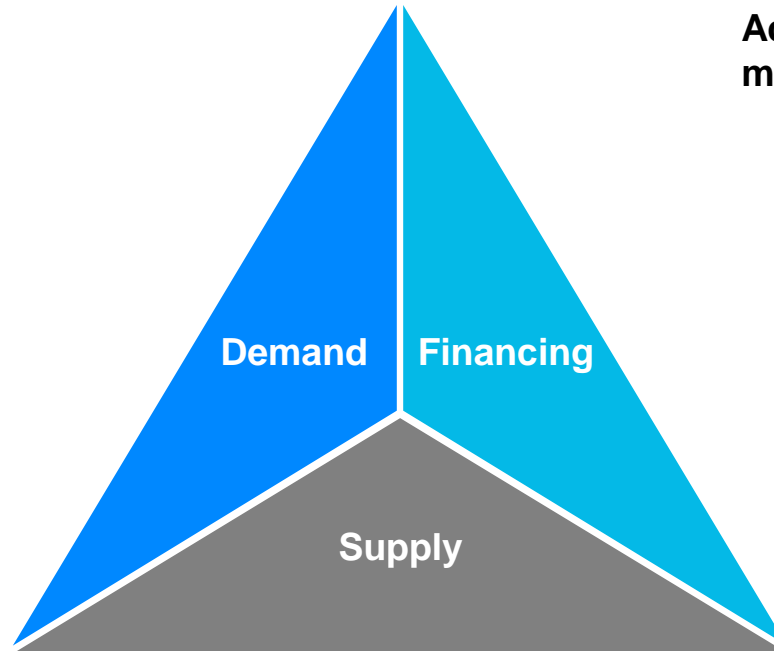


Strengthen National Markets  
and Capacities

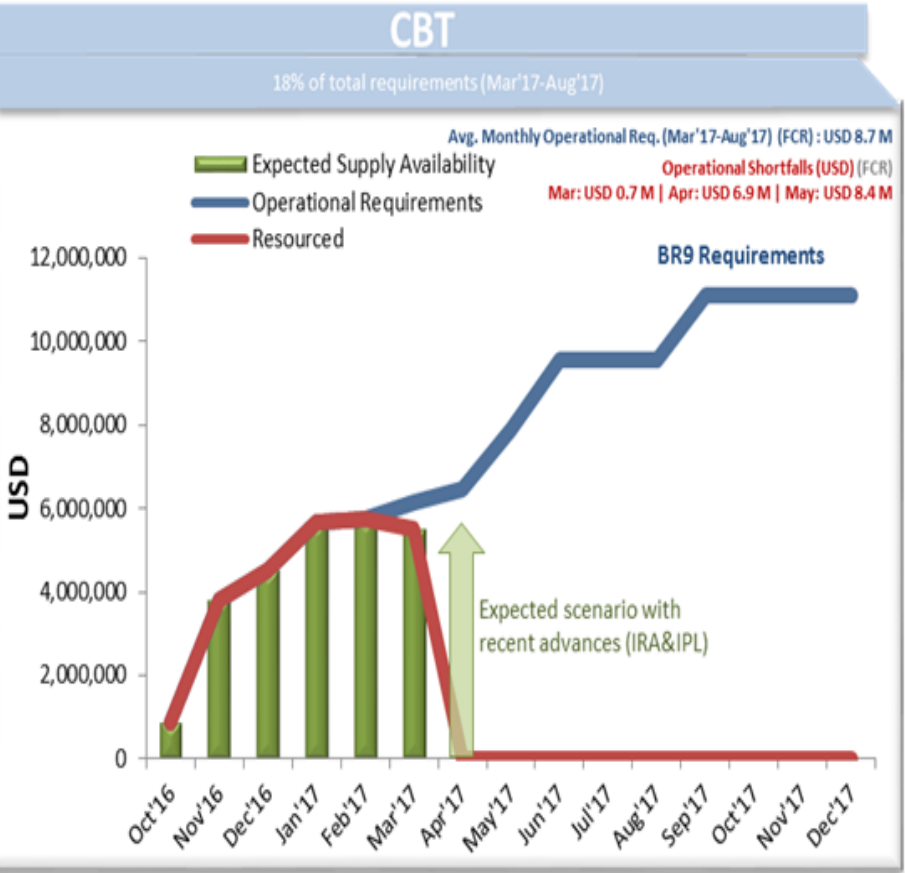
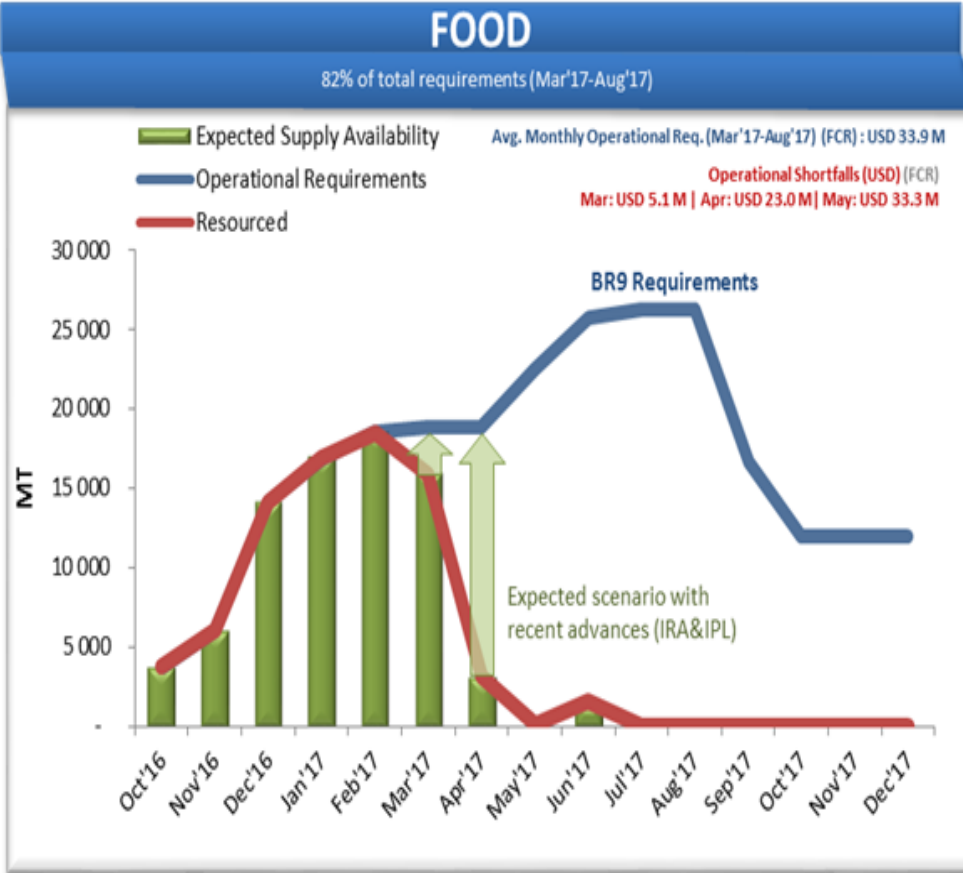


**Programme and needs-driven forecasting based on CO Plans**

**Advance financing mechanisms**



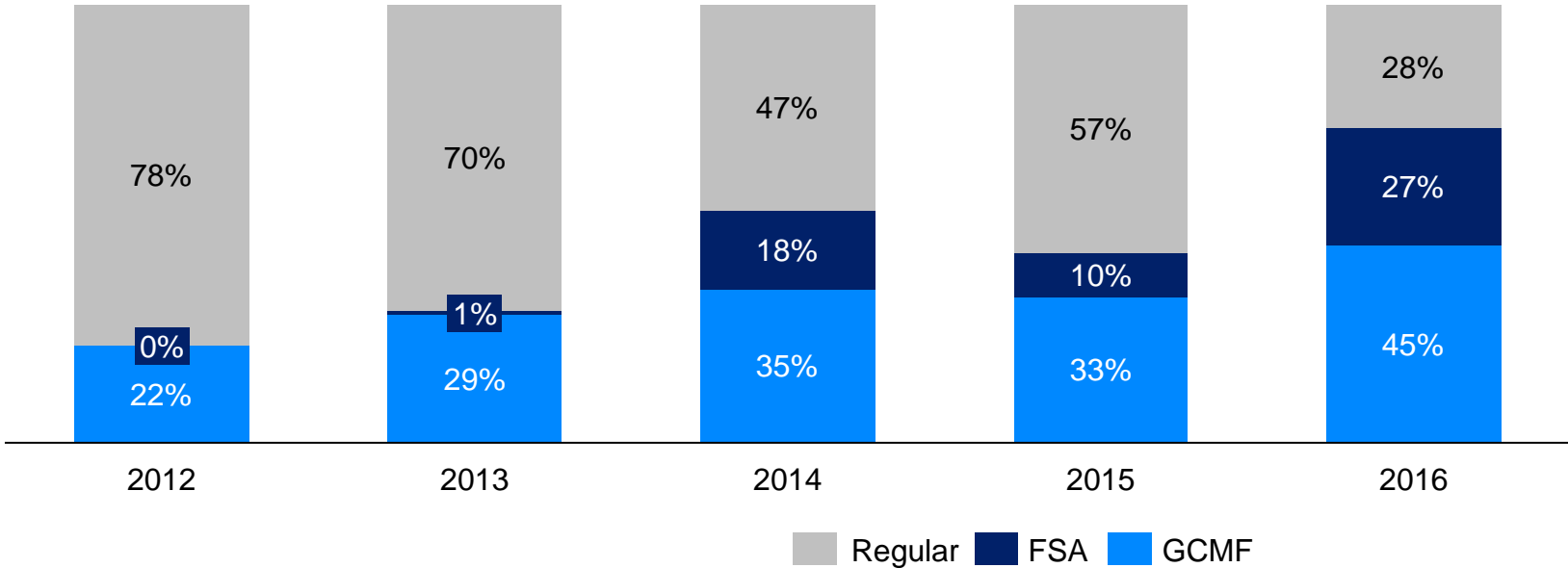
**Supply-driven forecasting based on market and delivery network opportunities & constraints**



# MANAGING SC RISKS

# ADVANCE POSITION SUPPLY CHAIN

Global Commodity Management Facility (GCMF) & Food Supply Agreements



**45%**

Of total procurement value through GCMF in 2016

**27%**

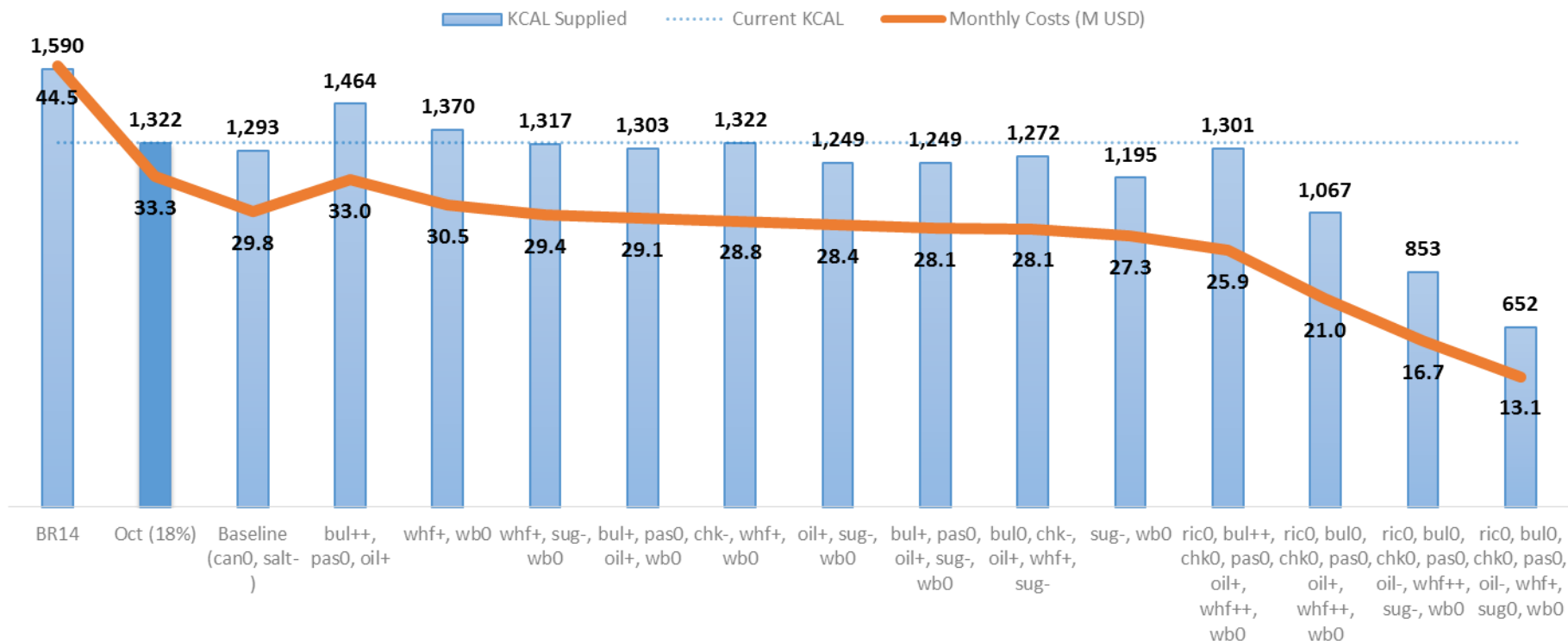
Of total procurement value through Food Supply Agreements in 2016

# MANAGING SC RISK

## Analysis Question:

How can we reduce the cost of our food basket without compromising its nutritional value?  
How do different interventions impact the cost and kcal of the basket?

### COST vs KCAL comparison of alternative food baskets



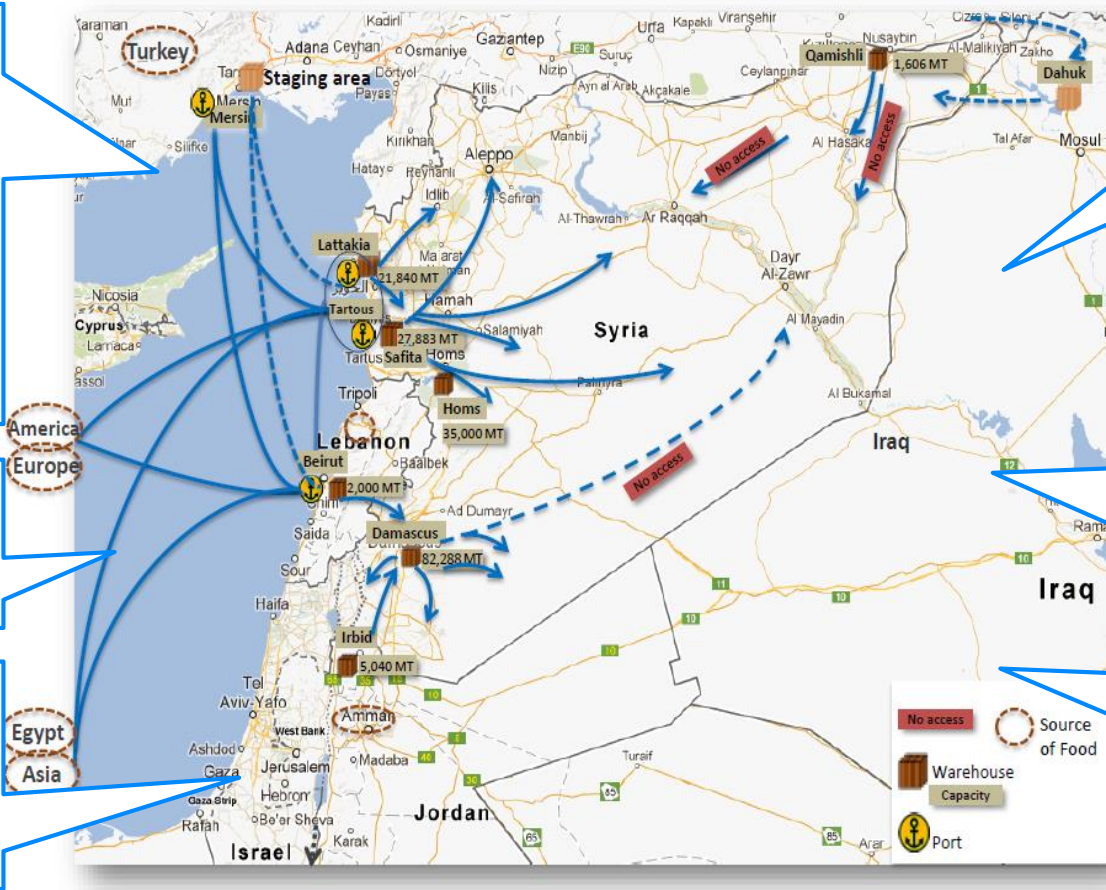
# SUPPLY CHAIN

# BENEFITS

**Agility and reliability gains** with food supplier agreements and shipping combined system (LTAs for containers/Charters)

Average Lead Time **reduced by 40 days**

**USD 2 M saved** through logistics network optimization ('14)



**USD 23 M saved** with food basket & sourcing optimization

**Advance financing** mechanisms maximized (USD 579 M advanced since 2013; 41 times)

**90% of beneficiaries reached** and **no major pipeline breaks**



# WFP PROCUREMENT

**2.63 Million mt**

Volume procured in 2016

**\$1.36 Billion**

Value procured in 2016

**85%**

competitive  
(15% waived)

**67**

Purchasing Offices

**138**

Commodities

## Global Food Procurement Facts

**1,082**

Tenders

**2,118**

Contracts

**93 / 71**

Origin countries / Recipient countries

**692**

Vendors

**85**

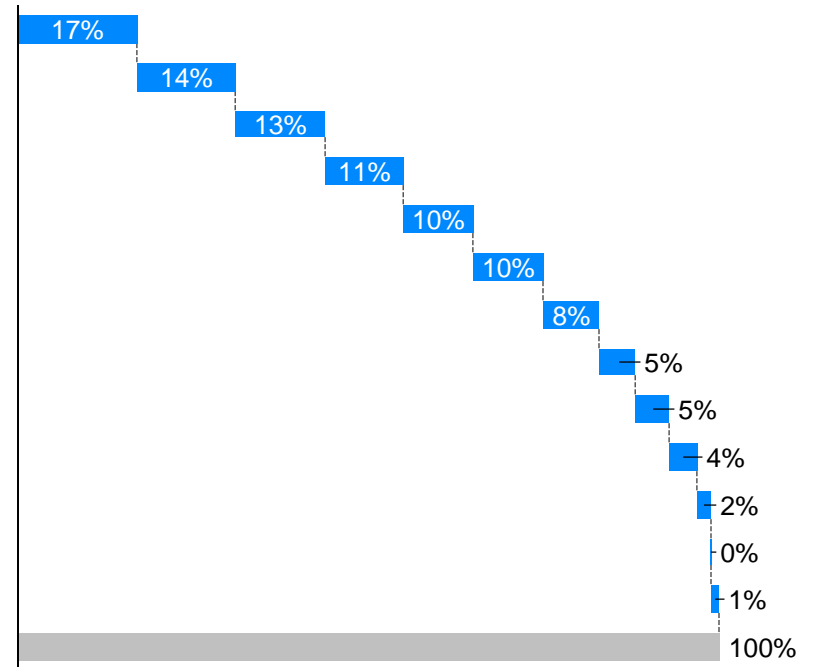
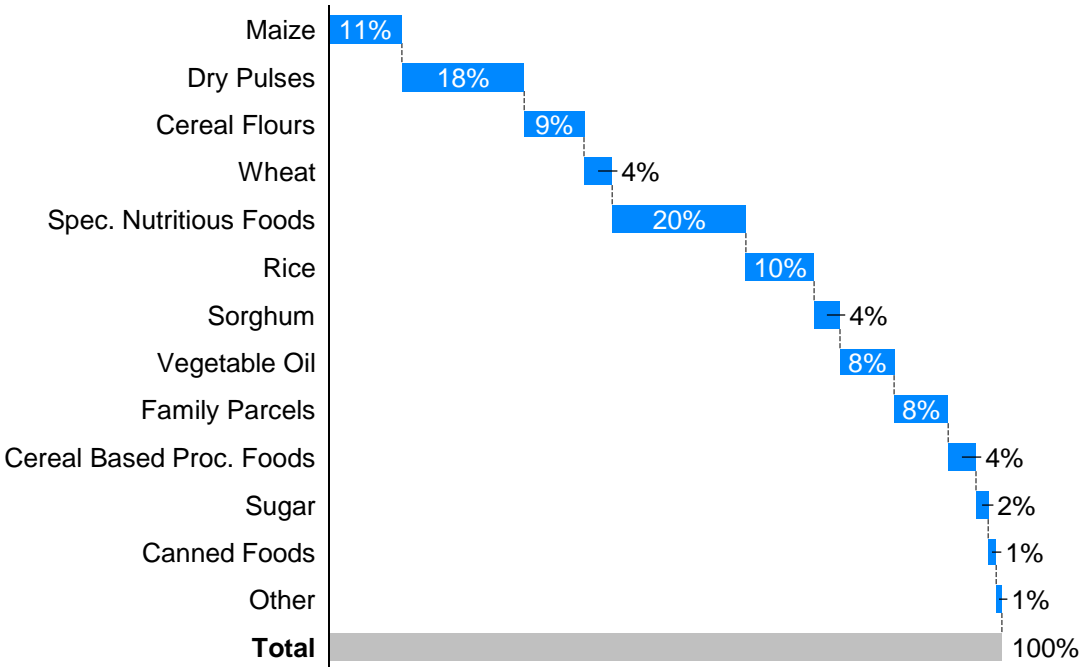
Vendor countries

# SUPPLY CHAIN

# WHAT WE BUY

Sourced commodities in Value

Sourced commodities in Volume

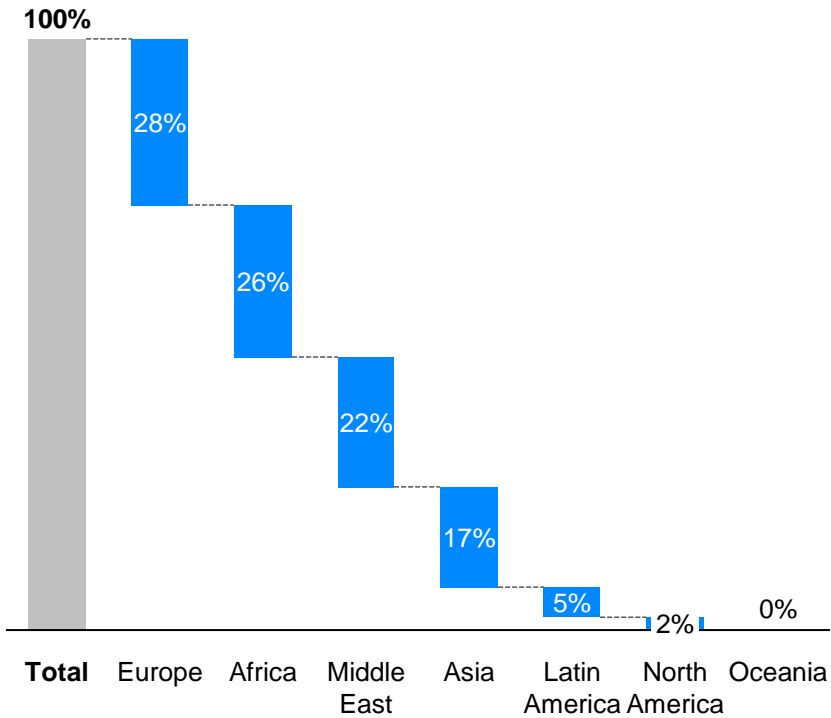




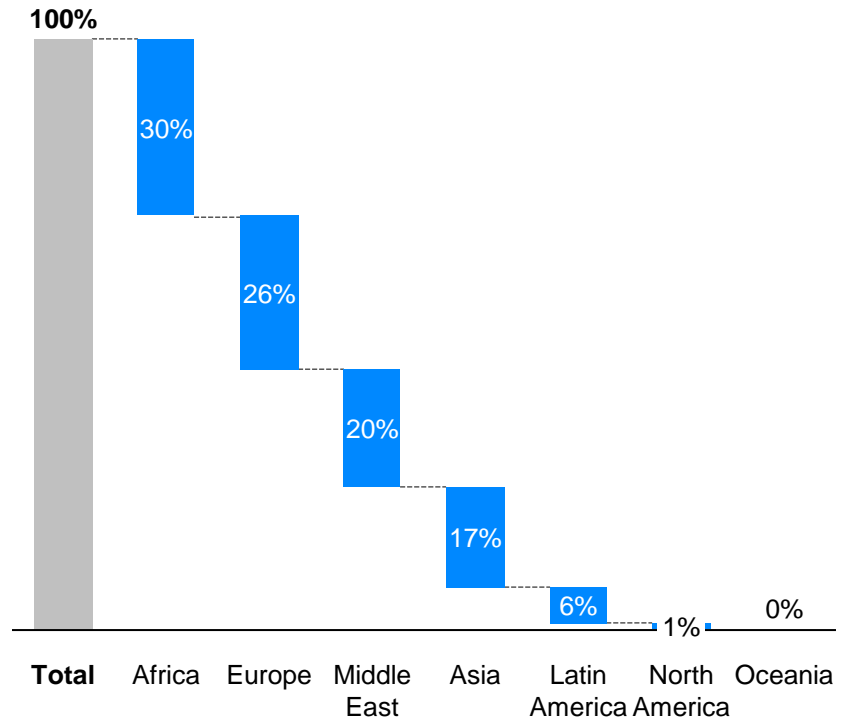
# PROCUREMENT


# SOURCING


Global sourcing footprint in Value



Global sourcing footprint in Volume



 In value, Europe is the main origin due to high sourcing of Specialized Nutritious Foods (SNF)

 In volume, Africa is the main origin due to high sourcing of cereals and pulses

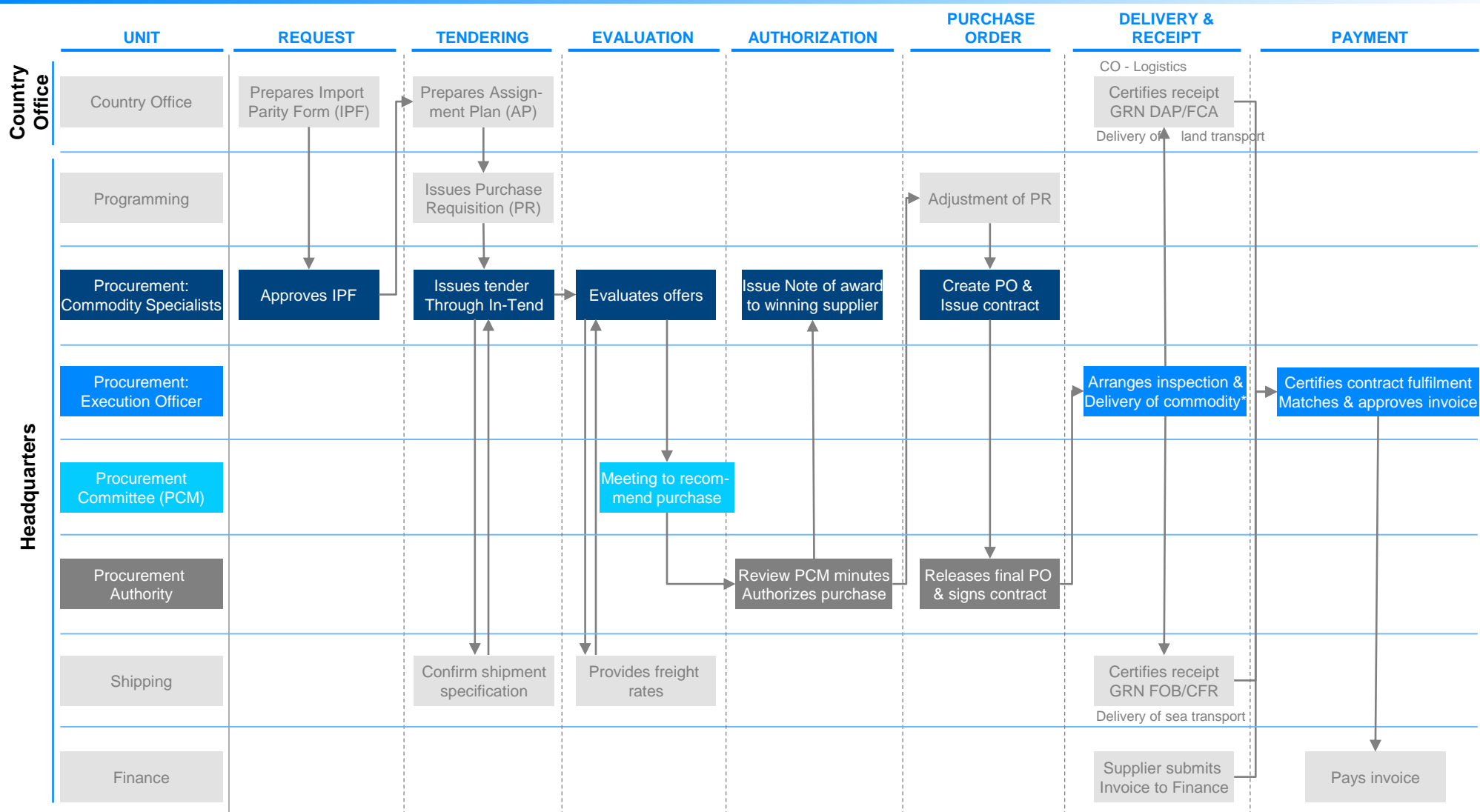


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# PROCESS RISK

# PROCESS RISK

# SEGREGATION OF DUTIES

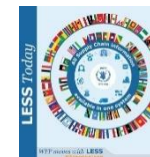


\*When inspection is not approved, Food Safety and Quality will be involved

# PROCESS RISK - SYSTEMS



in-tend  
e-Tendering System

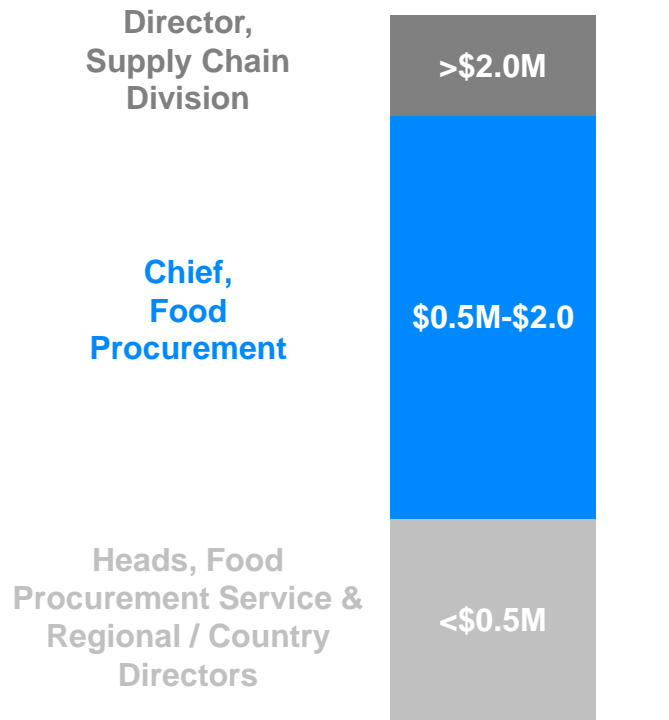


Logistics in WINGS (LESS)

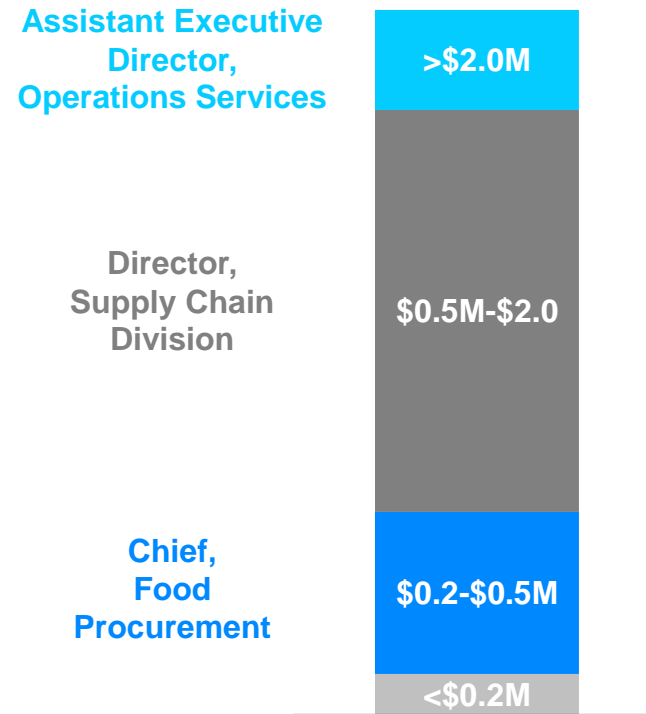
# PROCESS RISK

# DELEGATION OF AUTHORITY (FOOD)

## Limits of authority for contracting following competitive tendering



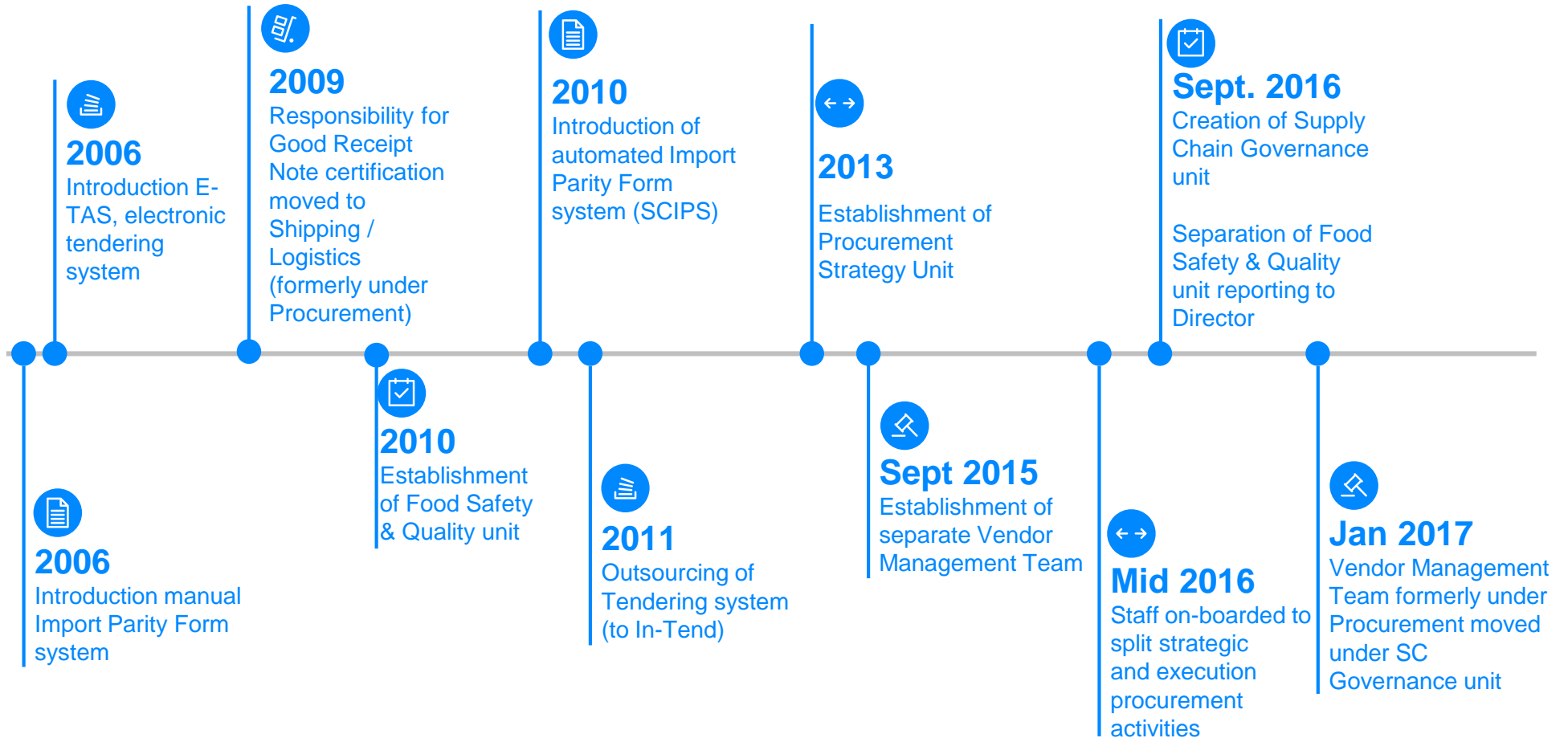
## Limits of authority for contracting following waiver of competition



Note: Procurement Officers do not have delegated authority

# PROCESS RISK

# IMPROVEMENTS



## Improvement themes

-  E-tendering
-  Import Parity Form
-  Vendor management
-  Segregation of duties
-  Goods Receipt Note certification
-  Food Safety & Quality

# PROCESS RISK

# COMMITTEES

— Committee in place —

— Description of committee —

**Vendor Management Committee**



- Chair, voting members and secretariat are outside Procurement Function
- In RB and CO function may be performed by Food Purchase Committee



- Vetting new suppliers
- Suspension of vendors

**Procurement Committee / Food Purchase Committee**



- Members are at a senior level
- Chair, voting members and secretariat are outside Procurement Function



- Recommendation on award made to the Procurement Authority
- Procurement Authority reviews and decides

**Committee on Commodity, Transport, Insurance (CCTI)**



- Chaired by Deputy Executive Director



- Quarterly post factum review of contracting and procurement processes based on inputs such as a randomly generated sample of POs

\*All personnel involved in the procurement process is subject to an annual financial disclosure investigation



Committee composition



Committee responsibilities

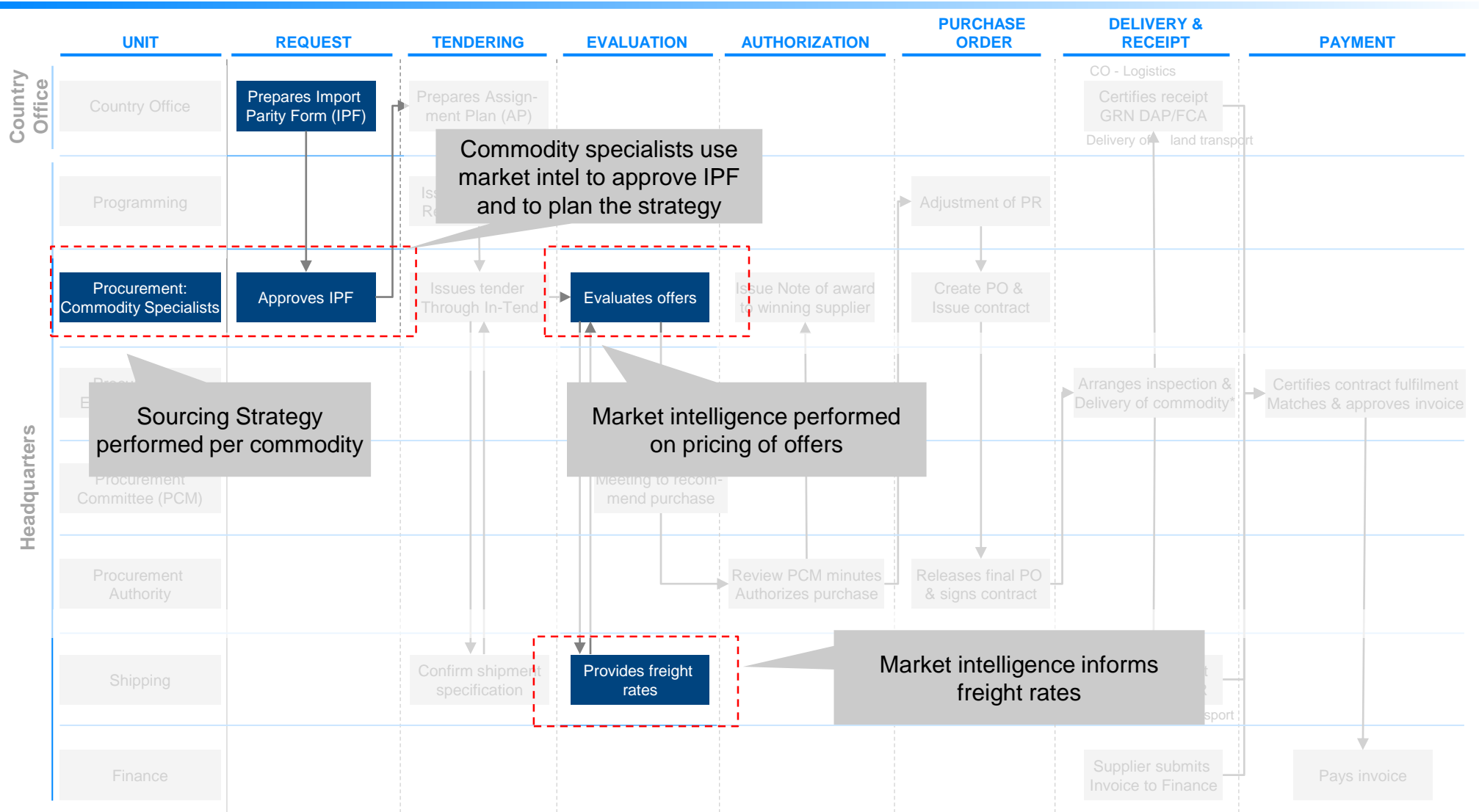


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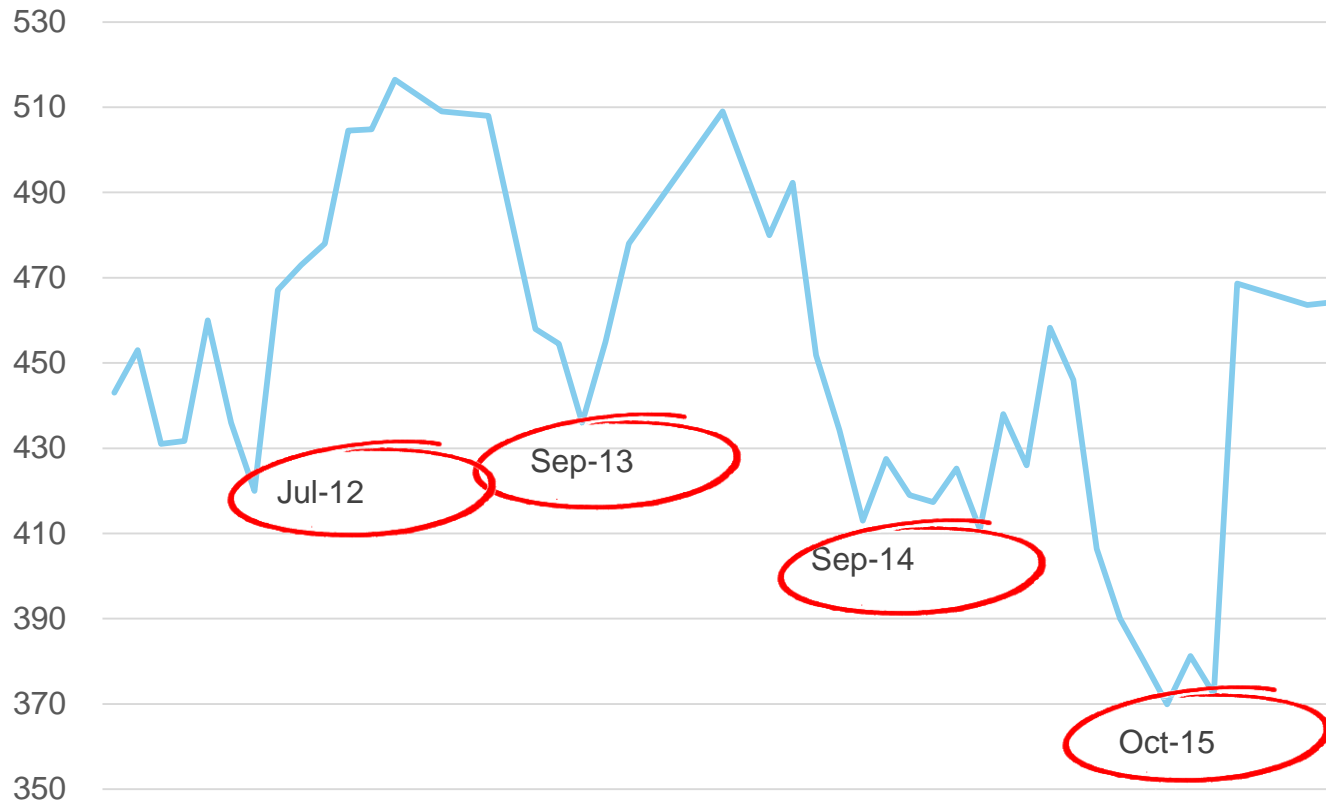
# PRICE RISK

# PRICE RISK

# MARKET INTELLIGENCE



Example: Price Variation of Yellow Split Peas (YSP)



# PRICE RISK

# DIFFERENTIAL

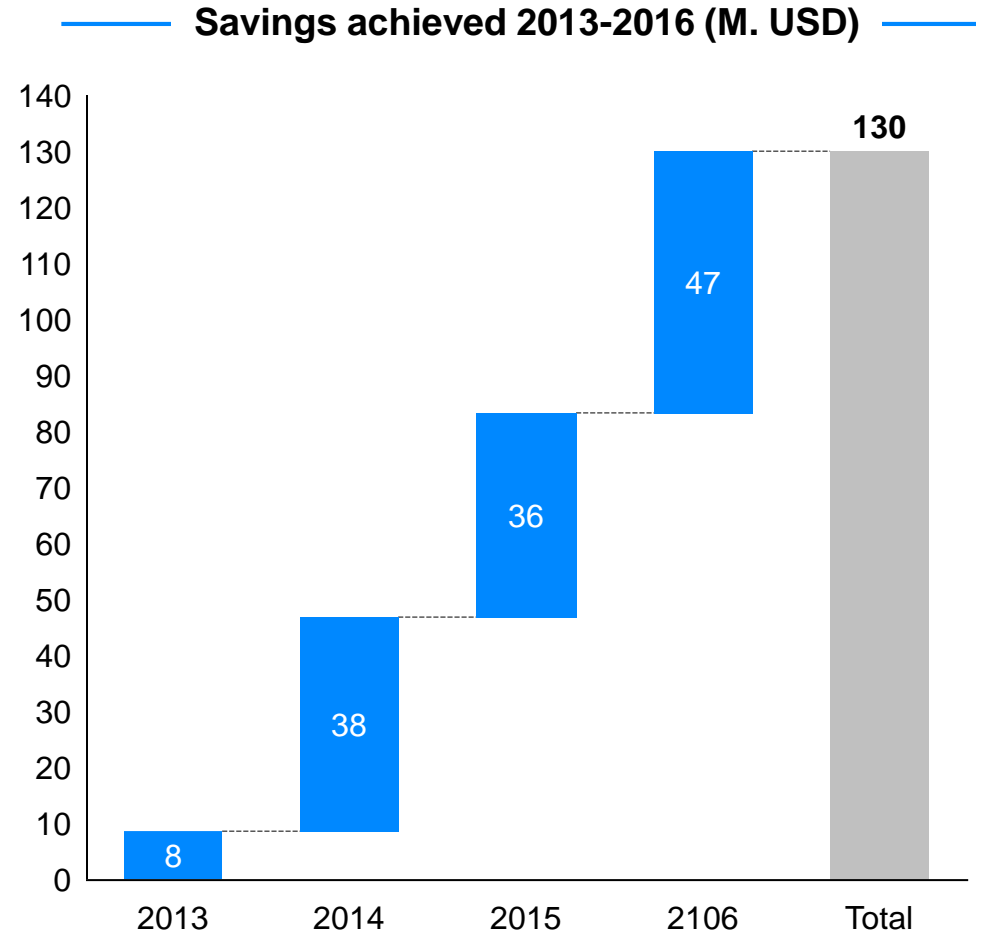
| ISSUE  | REGULAR TENDER   | DIFFERENTIAL FSA                                  | RESULT  |
|--|--|---|---|
| AVERAGE PREMIUM PAID PER SUGAR MT IN 2015<br>(EU Origin)   | \$40/MT  | \$25/MT   | ✓ \$15/MT (37.5%)<br>Savings on Premium                     |
| CAPITAL NEEDED TO ISSUE 10,000 MT SUGAR<br>TENDER          | \$6,000,000  | Zero  | ✓ Capital employed<br>only when demand is<br>confirmed (PR) |
| ROLLING STOCK/WASHOUT COST                                 | High cost / Physical stock issues<br>(expiry date, quality issues,<br>working capital, space...) | Virtual stock at Zero Cost<br>Free washout clause | ✓ Higher scalability at<br>low cost                         |
| DAYS BETWEEN REQUEST (PR) AND CARGO<br>READINESS (FOB/FCA) | 70 Days  | 47 Days   | ✓ -33% Response delay                                       |
| DAYS BETWEEN REQUEST (PR) AND COMMODITY<br>PRICING         | 7 - 14 Days  | 1 Day   | ✓ Possible to assess<br>market opportunities<br>promptly.   |

# PROCUREMENT

# SAVINGS

## Savings principles

- Savings achieved only when the food is delivered: a) on time and b) of right quality.
- Savings achieved only when Procurement staff proactively recommend and implement "changes" in the outcome from the planned demand i.e. "change in outcome"
- Definition distinguishes between cost avoidance and cost savings

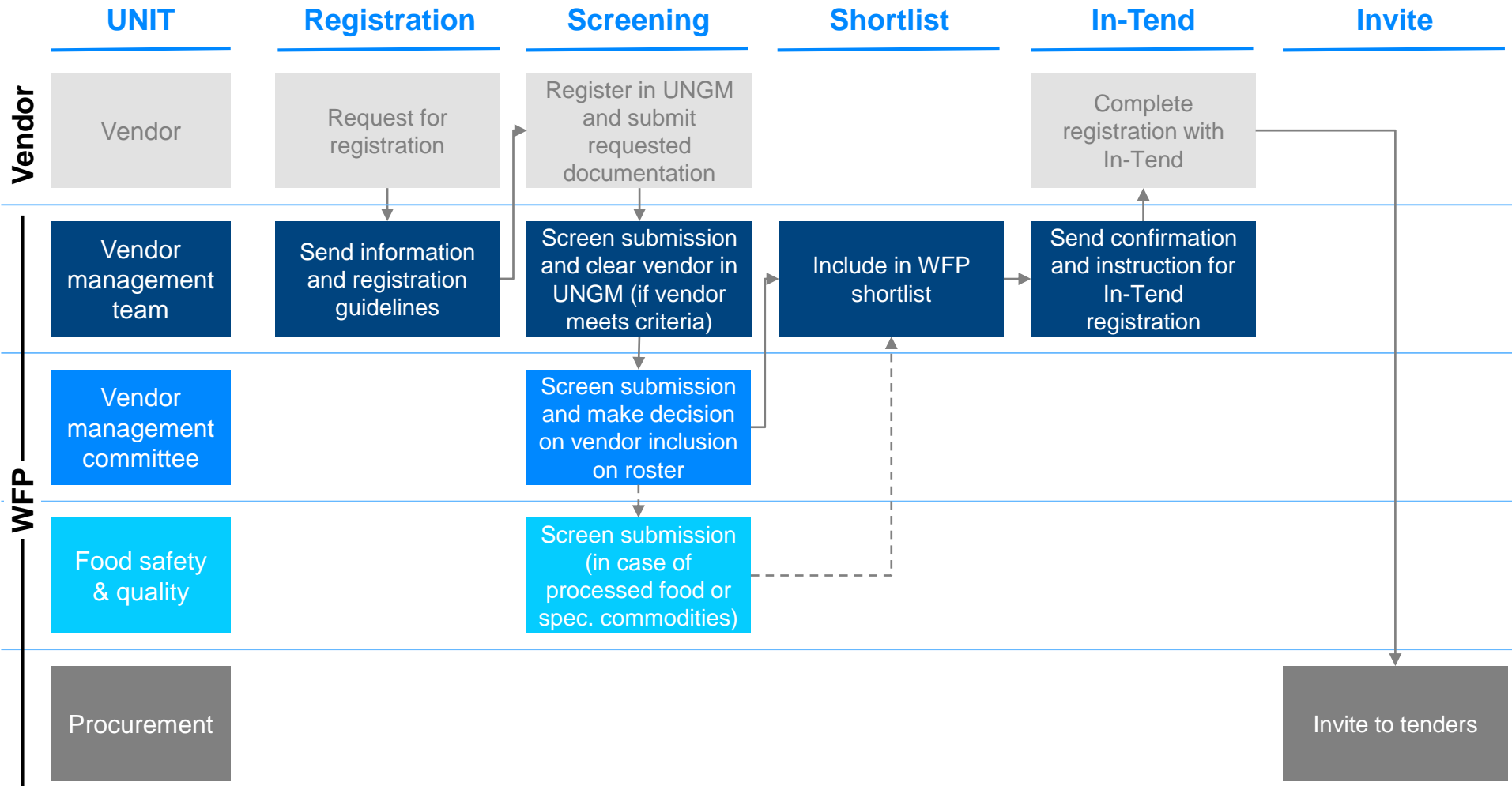


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# VENDOR RISK

# VENDOR RISK

# REGISTRATION



--> For processed food or specialized commodities only

# VENDOR RISK

## High Level Processes

### Anti-Fraud and Anti-Corruption (AFAC)

- Suspicion of fraud or corruption reported to the **Office of Inspector General**
- If further review necessary an **investigation is launched**
- Investigation results are presented to **Vendor Sanctions Committee\*** composed of senior level profiles **outside of Procurement**
- Based on the recommendation from the Vendor Sanctions Committee the **Assistant Executive Director OS makes a final decision**



Process, roles & responsibilities described in **Vendor Sanctions Framework** established in November, 2015

### Technical Non-Performance

- Supplier performance is **monitored and measured by Procurement** in accordance with the Food Procurement Manual
- Cases of technical non-performance are brought to the **Procurement Authority who makes a decision** if to enact sanctions, the length and type of sanction
- The decision is **based on severity, context, impact and supplier's willingness and ability to rectify** shortcomings
- The **Vendor Management unit implements** the sanction



WFP has recognized the need for a more **systematic approach to guide the Procurement Authority** in their decision making

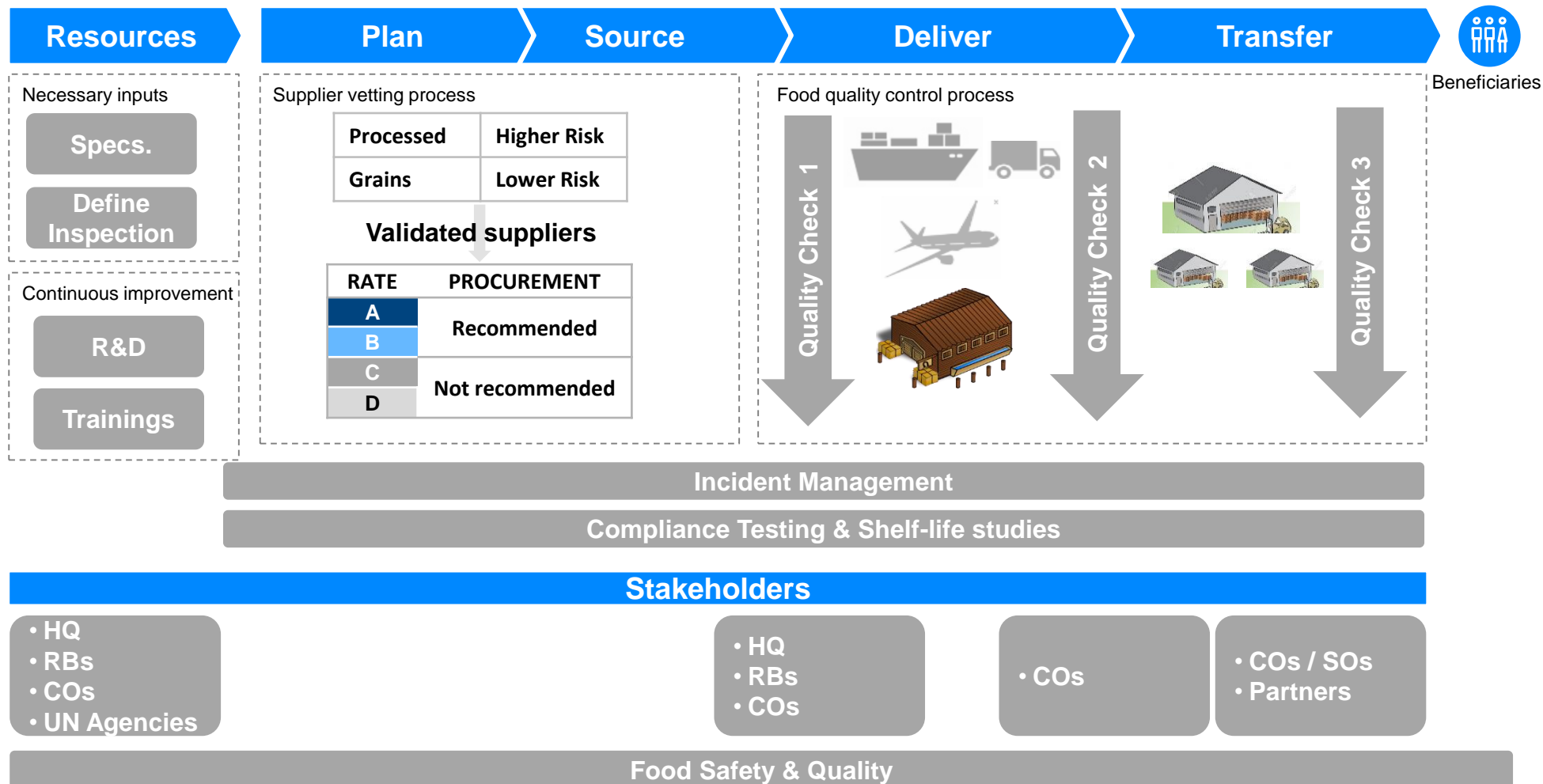
\*Since its inception the Vendor Sanctions Committee has not been assembled



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# FOOD SAFETY & QUALITY

# QUALITY AND SAFETY RISK MANAGEMENT



# RISK MANAGEMENT TOOL

# CONCEPT

| Country | Risk    | Type | Impact | Probability | Total | Rating  | Description   |
|---------|---------|------|--------|-------------|-------|---------|---|
| A       | Process | GS   | 10     | 7           | 70    | High    | 382% increase in spending to \$779k, all purchases below DOA  |
| B       | Quality | GS   | 8      | 8           | 64    | High    | 41% of 3.7MM of USD in Big material groups, 43% above DOA   |
| C       | Quality | GS   | 7      | 9           | 63    | High    | 48% of \$2.5MM of USD in Big 4 material groups, 30% above DOA   |
| D       | Process | Food | 9      | 10          | 90    | Extreme | 160% spike in spending to \$3.7MM, 15.8% of purchases above DOA   |
| D       | Quality | Food | 8      | 8           | 64    | High    | 37% of \$3.7MM of USD in processed food   |
| E       | Process | GS   | 9      | 9           | 81    | High    | 100% increase spending but still only \$1.5k total, no procurement staff, L2 emergency, all purchases below DOA |
| F       | Process | Food | 10     | 7           | 70    | High    | 78% increase in spending to \$23.8MM  |
| G       | Vendor  | GS   | 10     | 9           | 90    | Extreme | 56.2% (\$25MM) of USD to top Vendors, Aviation and Vehicle Fuel Purchases                                       |
| G       | Quality | GS   | 10     | 9           | 90    | Extreme | 54% of \$22.2MM of USD in Big 4 material groups, 23.3% above DOA  |
| H       | Vendor  | GS   | 8      | 9           | 72    | High    | 62.5% (\$2.9MM) of USD to Top Vendors, Rent for living accommodations.  |
| H       | Quality | GS   | 9      | 9           | 81    | High    | 47% of \$6.2MM of USD in Big 4 material groups, 58% above DOA   |
| I       | Process | GS   | 10     | 8           | 80    | High    | 202% increase in spending to \$170k, no procurement staff, all purchases below DOA                              |
| I       | Process | Food | 9      | 9           | 81    | High    | 100% increase in spending but still only \$47k total, L2 emergency, all purchases below DOA                     |
| J       | Vendor  | GS   | 9      | 8           | 72    | High    | 48.3% (\$4.3MM) of USD to Top Vendors, Rent for living accommodations   |
| J       | Vendor  | Food | 8      | 8           | 64    | High    | 40.7% (6.1MM) of USD to Top Vendors,  |

| Country | Risk    | Type | Impact | Probability | Total | Rating  | Description   |
|---------|---------|------|--------|-------------|-------|---------|---|
| D       | Process | Food | 9      | 10          | 90    | Extreme | 160% spike in spending to \$3.7MM, 15.8% of purchases above DOA |
| D       | Quality | Food | 8      | 8           | 64    | High    | 37% of \$3.7MM of USD in processed food                         |

# AREAS OF FOCUS

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- ◆ Formalize and institutionalize best practices
- ◆ Strengthen vendor management processes
- ◆ Embed a culture of risk management across procurement
- ◆ Systematize and automate the process where possible