

**Principles of Purchasing**  
**Lecture 5**  
**Methods Of Procurement of Goods, Works and Services**  
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**Lecture Learning outcomes**

At the end of the lecture, you will be able to:

1. Understand the procurement thresholds
2. Identify different procurement methods
3. Apply different procurement evaluation criteria's

**Introduction**

In procurement Methods for Goods, Services and Works there is thresholds that are followed. The threshold for procurement methods is the established maximum or minimum financial limits that must not be exceeded when applying a particular procurement method for goods services or works. Procurement threshold represents approximate tender value in monetary terms for purposes of guiding the choice and use of appropriate procurement method for the solicitation of offers from the suppliers.

In public procurement practice, the procurement threshold is normally designed in a tabular format called threshold matrix.

In the private sector, the procurement threshold varies across different organizations and is normally contained in the individual procurement manual of the organizations. It allocates responsibility of high tender value procurement to senior officers and low-value procurement to junior officers.

**Procurement Methods**

Procuring entities can select a variety of procurement methods for solicitation of bids for goods, works or services. The broader objective is to select the most appropriate method that can best fulfill the requirements of the buying entity efficiently and economically.

The selection of a procurement method may be based on many of factors that may include the following:

- a) The nature of goods, works or services needed.
- b) The urgency of the need.
- c) The value of the goods, works or services needed.

- d) The complexity of the need; and
- e) The regulatory framework governing the procurement practices.

Commonly used procurement methods for goods, works or services may include any of the following —

- ✓ open tender.
- ✓ Restricted tendering.
- ✓ Direct procurement.
- ✓ Request for quotations.
- ✓ Low value procurement.
- ✓ Request for proposals.
- ✓ Framework agreements.

An accounting officer of a procuring entity where applicable, may conduct a pre-qualification procedure as a basic procedure prior to adopting an alternative procurement method other than open tender for the purpose of identifying the best few qualified firms for the subject procurement. Pre-qualification shall be for complex and specialized goods, works and services. In conducting a pre-qualification procedure an accounting officer of a procuring entity shall publish an invitation notice to candidates to submit applications to be pre-qualified.

### **OPEN TENDER METHOD**

Open tendering is the preferred method of procurement and is used by both the private and public sectors to maximize on economy and efficiency, promoting competition and fairness, enhancing transparency and accountability, whilst increasing public confidence in the process.

It is done through advertisement on the daily newspapers, journals, company websites etc. The time for preparing tenders, which is the period between advertising and tender opening, is a minimum of seven (7) days for public organizations.

During the tender invitation period, the procuring organization will: -

- i. Open a register for bidders participating on the tenders;
- ii. Respond in writing to any clarifications sought by tenderers within the stipulated duration;
- iii. Amend the tender document at any time before the deadline for submission of tenders by issuing an addendum in its website. Such addendum should be communicated to the bidders in the most effective way.
- iv. Designate a tender box where bid documents will be received or an e-box tender box;

- v. Open tenders according to procedures provided in the tender document and organization guidelines;

Tenders will be evaluated using the evaluation criteria as was set in the tender document and a report prepared. The evaluation team/committee recommends award of tender based on the award criteria in the tender document.

The following are primary principles of open tendering method:

- Bidding is open to all eligible prospective suppliers/bidders;
- Advertised on the appropriate media platform to reach the target market whether locally or internationally;
- Based on some objective qualification criteria which must be communicated to all bidders;
- Have clear, fair and objective evaluation criteria applicable to all bidders; Forms of open tender method
- An award-criteria based on the most economically advantageous bid (lowest cost tender); and
- Based on a clear specification communicated to bidders through tender documents.

### **The following are the forms of open tender method**

a) **International open tender.** This is where the scope of competition is open to international suppliers, contractors or service providers. International open tender is used when the tender value is normally huge and the requirement is meant to meet international standards or where there is limited local expertise in the works, goods or service needed. For instance, the construction of international airport or a regional rail road meant to meet international standards may necessitate the use of international open tender method so as to attract the best possible bidders with sufficient expertise and experience.

b) **National open tender:** This is used when the scope of competition is restricted within the country, i.e., the requirement can be provided by the companies domiciled within the country. In some cases, it may be used as a preference and reservation scheme to protect local companies from international market and help build the capacity of the local suppliers.

c) **County specific open tender:** This is when the open tender competition is restricted within a specific county i.e., only the market operators registered within a certain county are allowed to participate in the bidding process. The intention is to protect the suppliers within a certain county from national competition and to economically empower and build capacity of county suppliers.

d) **Special groups' specific open tender:** This is where open tender competition is restricted to a specific group, e.g., women, youth or the people with disabilities (PWDs). This common

approach of using procurement as a tool for economic empowerment to uplift the less fortunate in the society.

**Conditions favoring the use of open tender method:**

- a) The tender value (value of the purchase) should be large enough to justify the cost of this method in line with the threshold matrix.
- b) Competitive market conditions-i.e., there must be an adequate number of suppliers in the market.
- c) There should be sufficient time to allow the application of tendering process to be completed i.e., no agency of the need
- d) The specifications should be clear enough to give the bidders/tenderers a clear idea of what is expected of them and the cost involved.
- e) The suppliers should be technically qualified and willing to do business.

**Situations in which open tender method should not be used:**

- a) Where there is urgent need of the goods, works or services
- b) In a monopolistic market e.g., only one known supplier
- c) Situations where it is impossible to estimate the cost of the goods, works or a service
- d) Where there are other considerations other than the cost and technical qualifications.

**Demerits of open tendering**

- a) Requires lengthy time frame therefore not suitable for urgent needs
- b) Expensive in terms of advertisement costs .
- c) May require highly qualified staff or technical staff to come up with technical specification.
- d) Excessive procedures may discourage some competent suppliers participating in the process.
- e) The possibility of building long term relationship with the suppliers is limited

**RESTRICTED TENDERING METHOS**

In the design competition procedure in the public sector, the best assessed designs normally receive honorarium prices as provided for by the internal policies of the procuring entity subject to the guidelines set out in the regulations governing procurement. This is a procurement method used by the buying entities when participation in the tendering process is limited to a few suppliers or a qualified list of suppliers, i.e., the tendering process is restricted and therefore not open to all the bidders who may wish to participate. In public procurement practice, the procuring entity may only apply restricted tendering method provided the following conditions are satisfied:

- ✓ If the time and cost required to examine and evaluate a large number of tenders/bids would be disproportionate to the value of goods, works or services to be procured;
- ✓ If there is evidence to the effect that there are only a few known suppliers in the market (oligopolistic market) of goods or services to be procured; and
- ✓ If the competition for a contract is restricted to prequalified suppliers because of complex and specialized nature of the goods, works or services being procured.

The buying organization maintains a list of suppliers for the different categories of goods works and services it may need from time to time. Alternatively, the buying organization may maintain and keep updating a list of registered suppliers for various categories of goods works and services from where to draw the participants in the restricted tendering process. The procedure followed for restricted tendering is same as that of open tender method.

## **DIRECT PROCUREMENT**

This is a procurement method where a buyer or a buying organization identifies a single supplier for the goods, services or works it requires and awards the contract to the supplier.

The supplier may be chosen purposefully for strategic consideration (single sourcing), or the supplier may be the sole supply available in the market (sole sourcing). In public procurement practice, direct procurement is the least preferred procurement method as it may be used to avoid competition and favour certain economic operators/suppliers.

Direct procurement method is only used under any of the following circumstances:

**1. In a monopolistic market**, i.e., if the goods, works or services are available only from a particular supplier/contractor or in a situation where the dealer has exclusive rights in respect of the goods, works or services and no reasonable alternative or substitute exist.

**2. Urgency**- there is an urgent need for the goods, works or services, making it impractical to use other methods. The urgency may be due to war, natural disaster, and disorder.

**3. Compatibility and standardization**-this where an entity having procured goods, equipment, service or technology from a supplier may be forced to use direct procurement method from the same supplier for additional supplies for compatibility and standardization with already existing goods, equipment or technology. For instance, getting a spare part from the same dealer.

**4. Public entity supplier**- for acquiring goods, works or services provided by a public entity provided the prices are of goods works are fair and compares well with the prevailing market prices.

In addition to the conditions set above, a public entity in using direct procurement method should ensure that the necessary approvals have been granted and make the resulting contract in writing and signed by both parties. In cases where tenders are issued by use of direct

procurement, an ad hoc evaluation committee may be appointed to evaluate the tender and where necessary, post-tender negotiation should apply.

## **REQUEST FOR QUOTATIONS**

- ❖ In this procurement method, the buying organization sends out a bidding document known as a request for quotation (RFQ) to a specific number of registered suppliers seeking an itemized list of prices. This document contains the description of the goods, works or services and the quantities of goods, works or the service levels required. Request for quotation method has the effect of generating different quotes and supplier with the best price offer wins the bid.
- ❖ The buying organization may use RFQ where goods, services and works are readily available and for which there is an established market.
- ❖ When using RFQ method, the suppliers are drawn from the approved list of suppliers. The buying organization invites suppliers from its list to quote for the requirement. The selection of the suppliers from the list is done on rotation basis to ensure all suppliers are given equal chances. The suppliers are given adequate time to prepare their quotations and submit.
- ❖ It clearly states the conditions to be met by the suppliers. The RFQ is considered responsive where all conditions have been met by the supplier and the price is considered to be within the prevailing market price. At least three (3) quotations shall be received for evaluation process to take place. All RFQ are to be opened as specified in the solicitation document.
- ❖ Where the Procurement Unit is of the view that the successful quotation is higher than the prevailing market price, it shall reject the quotations and repeat the process by giving fresh request to a set of new suppliers.

This procurement method is popular with private institutions for its cost-effectiveness as such requests are sent electronically to suppliers. However, in public procurement regulation, a buying organization may request for quotation method only on the following conditions:

- ✓ If the procurement is for goods, works or non-consultancy services that are readily available in the market;
- ✓ When there is an established market for goods works or services to be procured;
- ✓ When the estimated value of goods, works or non-consultancy services being procured is within the financial threshold as provided by the threshold matrix in the regulations;

To ensure competition and fairness, a buying organization using request for quotation method is expected to observe the following;

- ❖ Quotation request is sent to a list of registered suppliers for the identified category of requirement, i.e., the buying organization must have registered such suppliers under that category;
- ❖ The request is to be sent to as many suppliers as necessary to ensure effective competition and where possible at least three suppliers; and
- ❖ At least three quotations should be received before the commencement of evaluation.

## **LOW-VALUE PROCUREMENT**

Low value procurement is used where the items are not procured on a regular or frequent basis or are not covered under a framework contract.

In the public sector, only the Head of Procurement may procure low value items unless delegated in writing by the accounting officer to the user department. The thresholds are adhered to when conducting procurement using this method.

Money is drawn from petty cash for the purchase of the low value procurement. The goods are procured from well-known market suppliers at the prevailing market rate. Tax receipt is provided and signed by the person undertaking the procurement. The head of procurement authorizes all low value procurements.

## **FRAMEWORK AGREEMENT**

Framework contracts are contracting arrangements where one or more suppliers are engaged to supply goods, services or works for a period of one to three years at agreed prices among other contractual terms. Framework contracting approach is ideal in cases where it is difficult to estimate the exact quantities and the delivery schedule of the needed requirements. In such arrangements, users draw what they need from the supplier whenever a need arises.

Framework agreements are suitable for goods and services that are required regularly or consumables, e.g., foodstuff, maintenance and repair materials and any other items of routine nature. It is worth noting that framework contracting cannot be used for bid solicitation, i.e., it is not a procurement method that can be applied on its own but is a product of open tender method after which the winning supplier is contracted and framework agreement signed.

The maximum term of the framework contract is three years and for the agreements exceeding one year, a value for money assessment is undertaken annually to determine whether the terms prescribed in the contract agreement are competitive. All framework contracts should be entered into in writing and agreement signed by both parties.

In public procurement open tender is used as the primary procedure leading to a framework contracting, the tender documents must set out the following:

- The intention to form a framework contracting;
- Whether the framework is to be established with a single or multiple suppliers;
- The time duration of the framework;
- The total estimates of the value, volume/quantity or the scope work expected during the framework duration; and
- The type of the framework arrangement to be established

Alternatively, the buying organization may register qualified suppliers for different but specific categories of goods, services, and works. From the registered supplier list, a buying entity may then request quotations for the requirements which are routine and engage suppliers with the best quotations in the framework arrangement to provide the goods as and when needs arise.

### **Types of framework agreements**

1. **Known quantity but not delivery schedule (definite quantity-** indefinite delivery schedule). This is where a supplier or a set of suppliers are contracted to supply a known quantity of goods to be delivered as and when required during the framework duration.

2. **Indefinite quantity** -definite delivery schedule. Under this type, the supplier/suppliers are under a contract to supply an unknown quantity of goods to be delivered from time to time as the need arises.

3. **Indefinite delivery framework agreement.** This is when the need for supplies has been established but the exact delivery dates and exact quantities of future deliveries are unknown. This type of arrangement permits the procuring entity to keep minimal stock levels.

### **Conclusion**

In conclusion, procurement methods for goods, services, and works are guided by established thresholds that help organizations select the most appropriate approach based on factors like urgency, value, and complexity. The open tender method stands out for its transparency and competitiveness, while restricted tendering and direct procurement cater to specific circumstances where fewer suppliers are available, or urgency is paramount.

Other methods, such as requests for quotations and framework agreements, offer flexibility for managing low-value purchases and ongoing supplier relationships. Ultimately, adherence to the threshold matrix ensures that procurement practices are both efficient and aligned with regulatory frameworks, promoting fair competition and effective resource management.

### **Revision questions**

1. What is a procurement threshold, and how does it influence the selection of procurement methods?
2. Describe the primary principles and conditions under which the open tendering method is favoured in procurement.
3. In what scenarios is restricted tendering used, and what are the key differences between restricted tendering and open tendering?
4. What are the circumstances under which direct procurement is considered acceptable, and why is it the least preferred method in public procurement?
5. Explain the concept of framework agreements in procurement. How do they differ from other procurement methods, and what types of framework agreements exist?