

Purchasing and Supply Management Level II Based on month March, 2022, Curriculum Version I,



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Acronyms

SBD	Standard bid Document
RFP	Request for proposal
RFQ	Request for quotation
TOR	Terms of reference
PO	purchase order
PR	purchase requisition
EOI	Expression of Interest
ICT	Information communication Technology
BAFO	Best and Final Offer
FAR	Fixed Asset Register

Purchase goods and services

Purchasing and supply affects the strategic capabilities of the organization in many ways. Where in the past many viewed it as a standalone function, it is now seen as a set of value-adding processes that link directly to the market and the organization's ability to innovate and deliver value in the marketplace.

The new presence of major consulting firms is one of the hallmarks of the growth and evolution of the field. This stems from senior managements who now recognize the importance of each expenditure and related impacts and opportunities of purchasing and supply upon their organizations. The major consulting firms have the scale and breadth of scope to develop insights on strategic and macro levels. The three chapters in this section set the stage for the field from the top of the organization.

Module units

- Principles of purchasing
- Purchasing policies and procedures
- Receiving purchased goods

Learning objectives of the Module

At the end of this session, the students will be able to:

- Understand purchasing and own requirements
- Understand purchase policies and procedures and Make purchases
- Receive purchases

Module Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described below.
3. Read the information written in the information Sheets
4. Accomplish the Self-checks
5. Perform Operation Sheets
6. Do the "LAP test"

Unit one: principles of purchasing

This learning unit is developed to provide the trainees the necessary information regarding the following content coverage and topics:

- Basics of purchasing
- Procurement objectives and policies
- Procurement process
- Procurement strategies
- Procurement principles

This unit will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Understand procurement objectives and policies
- Understand Procurement process
- Describe procurement strategies
- Know and apply procurement principles

1.1. Basics of Purchasing

Purchasing describes the process of buying. It is the *learning of the requirement, identifying and selecting a supplier, negotiation price*. Purchasing is an element of the wider function of procurement and it includes many activities such as ordering, expediting, receipt and payment. Purchasing is responsible for obtaining the materials, parts, supplies and services needed to produce of a product or provide a service. (Joyce, 2006) Purchasing can be divided into two broad categories, large and small purchases, based on seven characteristics of purchased product – volume, specificity, technological complexity, essentiality, fragility, variability, and economic value. (Parikh, 2005)

Purchasing is a managerial activity that goes beyond the simple act of buying, and it includes the planning and policy activities covering a wide range of related and complementary activities

1.1.1 Definition of Related terms

A. Purchasing

Purchasing describes the process of buying. It covers the knowledge of the requirements, identifying and selecting a supplier and negotiating price.

B. Procurement

It is a broader term. It includes purchasing products required for production, stores, traffic, receiving, inspection and salvage.

C. Materials Management

It includes planning, organizing, communicating, directing and controlling of all those activities mainly concerned with the flow of materials into an organization. Material Management views material flows as a system.

D. Logistics Management

It is the planning and controlling of the flow of raw material in a cost effective manner from the suppliers or point of origin to the manufacturing and then flow of finished goods for consumption in the customers' hands.

E. Purchasing Management

Purchasing management is concerned with the planning and controlling of the acquisition of suppliers' goods and resources, to fulfill the administrative and strategic objectives of the organization.

1.1.2 Purchasing as a function of business

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Purchasing is one of the basic functions common to all types of business enterprise. These functions are basic because no business can operate without them. All businesses are administered or managed by coordinating and integrating these six functions:

1. Creation, the idea or design function.
2. Finance, the capital acquisition and financial planning and control function.
3. Personnel, the human resources and labor relations function.
4. Purchasing, the acquisition of required materials, services and equipment.
5. Conversion, the transformation of materials into economic goods and services.
6. Distribution, the marketing and selling of goods and services produced.

1.2. Purchasing objectives and policies

1.2.1 Objectives of purchasing

The objectives of purchasing and materials management can be viewed from three levels:

- A very general managerial level,
- A more specific functional or operational level, and
- A detailed level at which precise strategic buying plans is formulated.

a. From a top managerial perspective, the general objectives have traditionally been expressed as the five rights which management expects the department to achieve the acquisition of materials:

- Of the right quality
- In the right quantity
- At the right time
- From the right supplier
- At the right price

A sixth factor implied in these items includes the desired services necessary for optimal supply

b. From an operating or functional perspective, eight basic objectives of purchasing and materials management are identified below.

- Uninterrupted flow of materials and services
- Buying at competitive prices
- To buy wisely: search for better values that yield the best combination of price, quality, and service, relative to the buyer's needs.
- To keep inventory investment and inventory losses at a practical minimum

- To develop reliable and effective sources of supply
 - To develop good relationships with the vendor community and good continuing relationships with suppliers
 - To achieve maximum integration with the other departments of the firm
 - To administer the purchasing and materials management function in a professional, cost-effective manner
- c. A detailed level at which precise strategic buying plans is formulated. The precise set of objective for each material typically varies because the usage requirements, the operating conditions, and the markets in which each material is purchased usually are different.

1.2.2 General Feature Of public procurement policies legal Frame work

- Public Procurement and Property Administration Proclamation No 649/2009 issued in Sept.2009
- Public Procurement Directive issued in June 2010
- They have been prepared in line with UNCITRAL Model Law, The World Bank Guideline and COMESA Regulation and Directive
- Various Standard Bidding Documents including SBD for Framework Agreement and Public Procurement Manual have already been prepared and disseminated to Procuring Entities
- The Public Procurement and Property Administration Regulatory functions are now administered by Public Procurement and Property Administration Agency
- It is clearly stated on the Proclamation and Directive that Open Bidding is a default method in public Procurement.
- Advertising the bid opportunities in widely circulated National Newspaper at least once is a mandatory Requirement by law Procuring Entities can also advertise more than once and by using other Medias (Television, Radio, Websites)

1.3. Purchasing process

For companies of all sizes, from local small businesses to global mega corps, the purchasing cycle begins with needs analysis and ends with payment and record keeping. The process follows a fairly straightforward series of events:

- a. **Needs Analysis:** - is dedicated to identifying the need to be met, whether it's a reorder, raw materials for a new product produced by the company, or office supplies.
- b. **Needs Clarification:** Once the need's been identified, the variety (e.g., brand), amount required, and delivery schedule need to be established?
- c. **Purchase Requisition and/or Purchase Order:** - Without the authority to approve direct *purchase orders* will first create and submit a purchase requisition, which is an internal document requesting that approved parties obtain goods and services. Upon approval, the purchase requisition is used to create a purchase order, which is the actual order sent to the supplier for the goods and services required.
- d. **Authorization:** - Once you have prepared purchase order, the next step is to get a purchase authorization, also called budget approval.
- e. **Supplier Review:-** each candidate must be reviewed for compliance, performance, and reliability.
- f. **Supplier Selection;** At this stage, the purchaser chooses the supplier who'll be filling the order, either from the pre-vetted list in their software catalog or through other means.
- g. **Price and Term Negotiations:** team will need to sit down with the vendor to negotiate payment terms and conditions.
- h. **Order Placement:-** At this point, the buyer officially places the order and creates a binding purchase agreement between your business and the vendor.
- i. **Receiving and Inspection:** For material goods, arriving shipments are inspected for completeness and integrity, with any shortages and broken goods marked to be credited back to the buyer.
- j. **Payment:-** The invoice is reviewed for accuracy against the purchase order, invoice, and other documentation. Depending on the terms established for the supplier and the approval of the reviewing party, payment is issued (usually within 30, 60, or 90 days).
- k. **Records Management:** Businesses still using manual systems follow up by updating their inventory totals and purchasing ledger.

1.4. Purchasing strategies

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A purchasing strategy defines how your company buys things. Its primary goal is to reduce the bottom line and maximize cost savings by reducing inefficiencies, establishing approval workflows, and forming a tactical buying plan to get desired results.

Purchasing is a strategic issue so that, the executives must be dynamic, innovative, creative and must have analytical decision making to increase competitive advantage of purchasing capital goods.

1.4.1 Purpose of Purchasing Strategies

Companies implement purchasing strategies in order to make cost effective purchasing decisions from a group of efficient vendors who will deliver quality goods on time and at mutually agreeable terms.

- Maximizing quality
- Ensuring that quality products are delivered on time.
- Minimizing costs,
- In manufacturing industry more than 60 percent of the cost of finished goods comes from purchased parts and materials. Furthermore, the percentages for purchased inventories are even higher for retail and wholesale companies, sometimes exceeding 90 percent.



Figure 1.1 the price/cost Iceberg

Some purchasing strategies may include such choices as making procurement savings by using centralized purchasing which is concentrating the entire procurement activities within one principal location & source of authority.

A. Single Source Procurement

For example some companies may decide to undertake a single source procurement strategy that involves obtaining excellent dedicated service from a single vendor. These strategies are predominant when sourcing for IT or indirect purchasing such as office supplies and cleaning.

B. Purchasing Cycle

Other companies may use a procurement strategy of using a core purchasing cycle. This is where they order from a group of regular vendors and use outsourcing procurement for their larger and ad hoc purchases.

C. Procurement Auctions

A procurement auction or a reverse auction is when a number of sellers compete with one another to win the business of one buyer.

A procurement auction usually requires suppliers to pre-qualify, before they can take part in the auction. In a procurement auction, the activities will be targeted towards finding new suppliers and ensuring that any existing suppliers have the opportunity to propose keener prices and better terms. The procurement auction is usually held via e-procurement and has the following activities:

1. A buyer contracts with a market maker – which is usually a web site that specializes in this work. Some companies such as Mars have their own sites. Some market maker sites specialize in government contracts, others in freelance staff.
2. A RFP (Request for Proposal) is issued on the reverse auction site, for a group of products or a service. The RFP lasts a set time.
3. Potential suppliers will visit the site and input their quotes to supply these products or services.
4. This short time period and dynamic bidding ensures that prices rapidly move downwards.
5. The buyer then awards the supplier contract to the bidder that they prefer. They do not have to choose the lowest price and it is better that they look at the total package of terms, quality and prices.

Most common purchasing strategies implemented by all businesses regardless size are listed as follows

1. Supplier Optimization & Relationship Building

The company chooses an optimum mix of vendors who can provide the best prices and terms. This process usually means that the less able suppliers who cannot provide a quality service at the terms and prices required are discarded. This is by far the most common of the various purchasing strategies.

2. Total Qualify Methods (TQM)

Total Quality Methods; require the vendors to provide an ever increasing quality service with zero errors. The supplier ensures purchasing best practices using a number of tools such as six sigma.

3. Risk Management

As more companies obtain their supplies from countries such as China and India, they are more concerned with the risk management of this supply chain. Whilst these countries can supply products at very advantageous prices, these advantages can be soon negated by a natural or human disaster.

- Japan's Fukushima Nuclear Disaster
- Covid-19 Risks Reversed

4. Global Sourcing

Large multinational companies see the world as one large market and source from many vendors, regardless of their country of origin. Implementing a global strategic sourcing strategy means efficiently sourcing goods and services from any country that can manufacture the goods or provide the service more economically.

5. Vendor Development

Depending on the scale and depth of services or goods a vendor provides, it might be necessary to work closely with such vendors. Helping in developing processes that assist these vendors to come with better or cheaper products, helps companies to reduce costs.

Or in cases where a company is dependent upon just one supplier for their products & the supplier is unable to perform to the required standards, the purchaser may assist the vendor in improving their service or implement processes to improve their procurement cycle. This ultimately would help the purchaser/buyer have a reliable supplier and product deliveries.

6. Green Purchasing

This is one of the more common purchasing strategies for governments and local governments. This strategy champions the need for recycling and purchasing products that have a negative impact on the environment.

1. Building & Training People's Procurement Skills

While training people is the soft-side of purchasing & procurement strategies, this is probably the most important strategy - all the other strategies above would have to be implemented by people, and if they don't have the necessary skills to deliver the procurement strategy, the strategy delivery will fail.

1.5. Procurement principles

In public-sector organizations, the procurement process is generally similar to the process in private-sector organizations — but with a few important differences. Because the people involved handle public funds, they generally must follow rigorous principles during the procurement process. These principles can be regarded as an ethical code of conduct that holds public servants accountable for their purchases. Some of the principles may also be beneficial to private-sector organizations.

The principles vary somewhat depending on the organization. Here are seven of the most common procurement principles:

1. **Value for money:** The organization must manage funds efficiently and economically when procuring goods and services. This may include conducting cost-benefit analyses and risk assessments. It's worth noting that low cost does not necessarily equate to greater value; characteristics such as quality and durability also factor into determining whether the purchase represents value for money.
2. **Fairness:** Procurement should not provide preferential treatment to individuals or suppliers. All bids should be assessed objectively, based on how well they meet the organization's needs.
3. **Competition:** Organizations should seek competitive bids from multiple suppliers, unless there are specific reasons not to do so, such as a sole-source provider where the good or service is only available from a single vendor.
4. **Efficiency:** Procurement processes must be carried out efficiently to help maximize value and avoid delays.
5. **Transparency:** Organizations should make relevant procurement information available to everyone, including the public as well as suppliers. Information should be kept confidential only when there are legal or other valid reasons to do so.
6. **Integrity:** Those who practice public procurement should always strive to be perceived as trustworthy, reliable, honest and responsible. Funds must be used for their intended purpose and in the public interest.
7. **Accountability:** People involved in the procurement process are accountable for their actions and decisions. They are required to report procurement activities accurately, including any errors.

1.5.1 Duties and responsibilities of the procurement unit

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- Identify procurement need and prepare purchase plan
- Make purchases from registered suppliers
- Prepare and submit bidding documents to procurement endorsing committee
- Make corrections to the bidding documents for conformity with recommendations
- Disclose to the public on website and in news paper
- Avail bidding document for sale
- Prepare bid box and manage same
- Ensure bid documents are signed
- Deliver copies of bid document to bid evaluation Committee
- Follow-up and coordinate execution of outsourced procurements
- Negotiate procurement contracts
- Select candidates to be executed by request for quotation
- Keep procurement documents properly

Self-check-1

Direction 1: Write true if the statement is correct and false if it is wrong

1. Purchasing is primarily a clerical activity.
2. The final step in the typical purchasing cycle for materials is to audit the invoice.

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3. Supplier relationship management includes motivation, assistance, incentives, cooperation, collaboration and on occasion, penalties.

Directions 2: choose the best alternative answer from the given options

1. Which of the following statements do you think has greatest validity?
 - A. Purchasing has a broader meaning than procurement
 - B. Procurement is broadly equivalent to purchasing.
 - C. Procurement has a broader meaning than purchasing.
 - D. None of the above
2. Which sequence is most typical of the procurement process?
 - A. Originator to buyer to approver to supplier.
 - B. Supplier to originator to approver to buyer.
 - C. Originator to approver to buyer to supplier.
 - D. Approver to originator to buyer to supplier.
 - E. None of the above
3. One aim of e-procurement is increasing savings by sourcing items _____.
 - A. from the right source
 - B. of the right quantity
 - C. at the right price
 - D. of the right quality
 - E. none of the above

4. The purchasing supply responsibilities and activities, becomes more important as the function becomes responsible for supply and value network chains
- A. Buying supply management
 - B. Executive management
 - C. Strategic planning and research work
 - D. Contract and relationship management
 - E. Supplier liaison work

Direction 3: Answer all the questions listed below.

1. Write your own Definition for the term purchasing.
2. Explain the five rights of purchasing.
3. Briefly describe purchasing strategies

Unit Two: Make purchases

This learning unit is developed to provide the trainees the necessary information regarding the following content coverage and topics:

- Purchase specifications
- Purchasing methods and conditions to use
- Approvals for purchases
- Obtaining quotations from suppliers
- Supplier selection
- Purchase order
- Making purchases

This unit will also assist you to attain the learning outcomes stated in the cover page.

Specifically, upon completion of this learning guide, you will be able to:

- Prepare purchase specifications
- Know and Select procurement methods
- Understand the approval process of purchases
- Know about suppliers quotations
- Understand supplier analysis and supplier selection
- Prepare purchase orders
- Make purchases

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2.1. Procurement procedures

In a well-run purchasing department there is always a set of purchasing procedures. This is usually a formal document or manual that sets out each person's responsibilities in the purchasing cycle as well as detailing each of the specific purchasing procedures.

There are a number of standard purchasing procedures that you will find in most purchasing departments these are:

- Purchase from Key Suppliers. This is where you are purchasing from your normal set of suppliers that all have Master Agreements. This is a fairly painless procedure that can often be done automatically by your computer system.
- Ad hoc Purchases. In times of unusual selling activity or when an unusual item is required there may not be an agreement with a supplier to supply these items. This procedure allows you to make these unusual requests.
- Large Purchases. There may be a time when a large piece of machinery or computer system is required. In this case the purchase is usually put out to tender and several companies are requested to bid for the opportunity to meet this requirement. This procedure is not used often but is usually very well defined due to the potential risk to the company and the high costs involved.
- Change of Purchase. Sometimes purchases are made but then have to be changed for some reason. This is particularly true when standard orders are placed and some change in the market demand or manufacturing process happens.
- Goods Received. There have to be procedures to ensure that the requested goods are received, counted and stored in the correct manner.
- Goods Damaged or Short. There are times when the order you receive is not that which was ordered, there may be damages or shortages. Obviously the amount you pay must be changed; the supplier notified and damaged goods returned.
- Payment. Obviously your suppliers want paying and whilst your computer system can deal with the actual payment, the canny business does not pay until they have to.
- Stock. It is important that the purchasing department ensure that they are not over or under ordering and that all purchased items actually reach the stock room.

- Contracts and Contract Renewals. All suppliers provide their best terms when there is a contract in place. This can often be dealt with by the Master Agreement, but these have to be put into place and renewed.

2.2. Receiving and reviewing Specification, TOR and BOQ

2.2.1. Terms of reference (TOR)

Terms of reference (TOR) are used for contracting technical, consultancy and other services, packages of services and equipment, where services play a defining role, semi-turnkey and turnkey operations, etc. TOR should be sufficiently clear and precise to describe the scope and nature of the required.

TOR should include information including but not limited to:

- Objective, background, and expected overall impact of the required services;
- Enumeration of all tasks and activities required to be performed by the contractor;
- Description of required deliverables and outputs by task/activity level;
- Expected start and completion dates of activities;
- Reporting requirements/timelines and payment schedules (where relevant);
- Performance characteristics, i.e. to define what performance levels are required from the contractor in terms of services and related personnel;
- Any other requirements and criteria as may be appropriate for a particular procurement case

2.2.2. Bill of quantity (BOQ)

Bill of Quantities (BoQ) is a detailed and itemized pricing document. It is a reflection of the work to be done abstracted from the design team's drawings, specification and any other documentation in respect of. It is set out in accordance with a standard method of measurement. BOQ is created and issued as part of the tender documentation, thus providing detailed information for the tenderer to submit an accurate estimate. It provides sufficient information for the tenderer to price everything necessary to carry out the works, e.g. manufacturing and delivery of materials, plant, labor and any other associated costs on top of this.

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Process of preparing Bill of Quantity

The process includes:

- Obtaining the design team's drawings and specifications.
- Understanding the type of contract to be used and all the associated terms and conditions.
- Taking off quantities from the drawings.
- Draw up a Bill of Quantities using the information from the specification and measurements from the drawings.
- The Bill of Quantities should be set out in accordance with a standard method of measurement.

2.3. Approval of Procurement Method

Approvals will be completed at different times within the requisition, change order, and voucher business processes. The processes below illustrate where the approval process occurs in the requisition, change order, and voucher lifecycles. Approvals at this point in the lifecycle can be just departmental approval or could include multiple approvals such as ad hoc, prior, and/or central.

2.3.1 Procurement methods and conditions to use

In the preparation of their procurement plan, Public bodies have to select and indicate the appropriate procurement methods to be used in respect of each type of procurement.

In preparing its procurement plan, a private and public institution's has to insure that the plan is inclusive of all of their identified procurement needs and the appropriate procurement method is selected for each procurement.

The determination of the most appropriate procurement method is not made solely on the basis of whether the item to be procured is a good, work or service. Instead, consideration should also be given to the circumstances of the specific requirement and to maximizing competition to the extent that this is practical.

The selection of procurement method depends on:

- The organization's mandates and business needs
- The characteristics of the item(s) to be procured
- The market situation

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- The degree to which the procurement is urgent
- The appropriate level of technology required to carry out the procurement
- The procurement method and/or technique that would be most suitable for
 - ✓ simple low-value items that are easily obtainable
 - ✓ more specialized or complex procurements
 - ✓ The capacity (professional judgment, experience and skill) of the procurement office to select and to successfully operate complex procuring methods

Clear justification must be provided by the procuring officer for the procurement method and/or technique selected for all procurements. These methods must be approved by the Accounting Officer and/or Chief Executive Officer and included in the record of the procurement proceedings.

According to article 33 of the Ethiopian Federal procurement Directive the following six procurement methods are approved to be used by government organizations.

2.3.2 Open Tender

Open bidding is a procurement method that is based on an invitation to bid that is advertised publicly either nationally, or in appropriate cases regionally or internationally. Open bidding procedures support the achievement of the objects of the Act, including transparency, value for money and public confidence.

Under the open bidding procedures, individuals, companies or joint ventures that are legally constituted and that are suitably qualified, experienced and resourced to supply the goods, works or services being sought shall be given an equal opportunity of submitting bids.

To achieve the objective of local industry development under the Act, however, the open bidding procedures can also be applied to relatively low risk and low value procurements that are reserved by the public body to various geographical locations, namely the Municipal and Regional Corporations.

The fundamental requirements of open tendering are that they should:

- Be open to all qualified and interested bidders,
- Be advertised locally (and internationally, when required),
- Have objective qualifications criteria,

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- Have neutral and clear technical specifications,
- Have clear and objective evaluation criteria, and
- Be awarded to the least-cost provider, without contract negotiations.

According to the Federal procurement directive 2010 of Ethiopia procurement may be made by means of ICB/ international competitive bid/ if the value of the contract exceeds the threshold indicated below in respect of each type of procurement:-

- For Works above birr.....50,000,000.00
- For goods above birr10,000,000.00
- For consultancy service2,500,000.00
- For services above birr.....7,000,000.00

Procedure of National Competitive Bidding

- Draft the procurement notice
- Publish the advertisement (e.g. in local, regional and/ or international newspapers, trade magazines, appropriate websites and/ or via social media) (in accordance with the procuring entity's advertisement policy) (minimum standards to be developed).
- Issue procurement documents upon request (electronic or paper-based payment) (Standard bidding documents for the procurement of goods and works and consulting services are provided here).
- Receive and evaluate bids
- Prohibition of negotiation with suppliers or contractors.
- Award of contract

Pre- conditions to use open bid

- Ascertain that the required objects of procurement can only be procured from local suppliers and the value of the procurement is below the threshold established for international competitive bidding
- The required object of procurement is available only locally

Invitation to bid

- The invitation to bid has to be published at least once in a newspaper that has nationwide circulation to ensure participation of as many bidders as possible.

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- A procuring body may advertise bids at any time, as many times and by any means of its choice.

Contents of invitation to bid

- The name and address of the Procuring Body publicizing the invitation to bid
- The quantity and place of delivery of the goods or services
- The nature and the site of the construction to be effected, or the type of the consultancy service to be rendered and the place where such service is rendered.
- The criteria to be satisfied by the candidates
- The place where the bidding documents can be obtained,
- The amount of the bidding security
- The price of the bid document and the means of payment
- The place and deadline of submission of bids, and the place, date and hour of the bid opening
- A statement that the Public Body reserves the right to reject any or all bids
- Other matters that the Public Body deems necessary for bidders to know
- The invitation to bid shall be prepared in the language in which the bid proceeding is to be conducted as provided.

Standard Bidding Document/SBD/

The Standard Bidding Document for Procurement of Goods reflects the structure and the provisions of the Master Procurement Document for the Procurement of Goods, except where specific considerations within the World Bank have required a change.

Contents of Standard Bid Document

a) Instruction to bidders

The instruction to bidders is an integral part of the standard bidding document, and the bid data sheet which is an extension of the instruction to bidders, as parts of the standard bidding document.

The instruction to bidders it prepares Contains the following:-

- General description of the goods, works, consultancy services or other services to be procured

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- The full name and address of the procuring body
- The source of finance of the procurement.
- The criteria that bidders are expected to fulfill
- Submit business organization registration certificate or trade license
- Address and time for submitting requests of clarification on the bidding document
- statement that such Request has to be made in writing
- The content of bid documents to be submitted by candidates
- The Language in which bid documents have to be submitted
- The type and number of necessary documents and complementary forms described in the bidding documents.
- An indication that the bidder has to sign on Anti bribery pledge form

b) Technical Specification

The procuring unit must consider the following guidelines to fit with purchasing principles

- A technical specification shall be prepared in accordance with the need of end users
- It should allow wider competition on the basis of performance, function, technical or design characteristics depending on the type of the procurement.
- Shall be used to verify the conformity of the supply with the stated technical requirement.
- For the procurement of high cost and/or complex goods or services, public bodies may seek the advice and assistance of experts outside the Public Body or higher consultants.
- Shall not prescribe a particular product, brand or service Provider.
- However, where it is difficult to draw up a specification giving an accurate description of the requirement, where the procurement is for spare parts for a particular item of proprietary plant or equipment, or where there is known to be only one manufacturer or provider of the goods or services in question, the name of the manufacturer or service provider and the term “Or Similar” may be incorporated in the specification.
- Incorporate standards set by Ethiopian Quality and Standard Authority or by other similar institutes depending on the type of procurement and as appropriate

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c) Bid form and Price Schedule

- The bid form and the price schedule should be prepared by procuring unit to be filled by bidders, and other forms the incorporation of which in the standard bidding document is deemed to be necessary.
- It prompts bidders to clearly indicate price, tax and other issues related to price and facilitates transparent and efficient bid evaluation.
- The bid form shall enable the candidates to present clear proposal, understand the bid procedure, warns against acts of disruption of the bid process and informs candidates that they take full responsibility for the bid proposal they put up.

d) General and Special Conditions of Contract

- Bidders shall get copies of the general and special conditions of contract as parts of the standard bidding document.
- The special conditions of contract may however be modified depending on the type and nature of the procurement with reference to the provisions of the general conditions of contract.
- The special conditions of contract drawn up by public bodies shall contain the following:-
 - a) A clear indication of the duties and responsibilities of the buyer and prospective supplier, and legally sustainable and attainable obligations of the buying entity.
 - b) provisions for the important terms of the contract such as time of delivery, packing, responsibility for transportation, price adjustment, payment, delivery and inspection, security and others as the case may be.

e) Criteria for bid evaluation

- Clearly indicates the bid evaluation criteria in the evaluation and qualification criteria section of the standard bidding document.
- Selection of a successful bidder shall be carried out in either of the following two methods

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- a. Setting the minimum technical requirement and selecting the bidder with the lowest evaluated bid from among the bidders meeting such minimum technical requirements, or
- b. Indicating clearly in the bidding document the criteria to be applied to determine the functional or economic value of the procurement and the relative weight to be ascribed to each criterion and selecting the bidder with the highest cumulative result by conducting evaluation based on these criteria.

Bid floating periods

In the preparation of a bidding document, a Public Body has to set the deadline for bid submission taking into consideration the following points:-

- a) The time it takes for bidders to obtain the bidding document, to prepare responsive bids, to gather information, to analyze the information, to establish joint venture as necessary, to obtain certificate of
- b) Manufacturer's authorization including the power of attorney to sign and to fulfill other pre-conditions to participate in the bid.
- c) In case of international competitive bidding, the time necessary for the submission of bid document to the designated place.
- d) In case of procurement of works in particular, the time necessary to visit the construction site and for pre-bid meeting.

2.3.3 Restricted Bid

A procuring entity engages in limited bidding when it does not publicly advertise the procurement opportunity, as in the case of open bidding. In this regard, invitations to bid are issued directly to a selected number of bidders, either through market research, the Procurement Depository, or from the database of prequalified suppliers and contractors maintained by the Office.

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Conditions for Use:

Limited bidding restricts the number of bidders invited to bid and is appropriate where:

- The goods, works or services, by reason of their highly complex or specialized nature, are available only from a limited number of suppliers or contractors.
- The time and cost required to examine and evaluate a large number of bids would be disproportionate to the value of the goods, works or services to be procured.

Procedures in Restricted Bid:

- The solicitation documents shall be issued directly to the selected bidders.
- In all other respects, the procedures listed on open bid would apply.

2.3.4 Request for Proposal

RFP are a formal invitation from a procuring entity to a supplier or contractor to propose a solution to resolve a stated problem. It is a process whereby the evaluators base the award decision not solely on price, but on a variety of factors such as qualifications of the firm and its key personnel, methodology and approach, and prior experience.

The following sections include a variety of RFP processes.

a. Requests for Proposals (RFPs) Without negotiation

RFP without Negotiation is formal invitation from a procuring entity to a supplier or contractor to propose a specific solution (methodology and work plan) to fulfilling a specific requirement. The award decision in this process is based on price and non-price factors (qualifications, past experience, methodology).

Conditions for Use:

RFPs without negotiation are appropriate under the following conditions:

- 1) When the commercial aspects of proposals are considered separately and only after completion of examination and evaluation of the technical, quality and performance characteristics of the proposals; and
- 2) Where the subject matter of the procurement is of a relatively standard nature, where all aspects of the proposals can be evaluated without resort to discussions, dialogue or negotiations with contractors, suppliers or consultants.

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Procedures:

1. Invite proposals

RFPs may be issued as follows:

- a) By publishing the RFP publicly in accordance with the procedures provided at Section
- b) Directly to prequalified or preselected bidders.

2. Manage the solicitation process

- a) Host pre-submission meeting and/ or site visit
- b) Respond to requests for clarification from bidders, and issue addenda

3. Receive and open proposals

- a) Open technical proposals only
- b) Store commercial proposals, unopened, in a secure location

4. Evaluation of bids and award of contract

- a) Evaluate and rank the technical proposals in accordance with the pre-established criteria specified in the RFP.
- b) The technical proposals that fail to meet the relevant minimum requirements shall be considered non-responsive and shall be rejected on that ground. A notice of rejection and the reasons for the rejection, together with the unopened commercial envelope shall be dispatched to each respective bidder.
- c) The technical proposals that meet or exceed the relevant minimum requirements shall be considered responsive and those bidders shall be invited to the opening of their commercial proposals.
- d) The procuring entity shall award the contract to the bidder with the highest combined score, except in the case of least-cost selection.

Requests for Proposals (RFP) with Dialogue

This is a process in which bidders assist in defining the statement of needs to obtain the most satisfactory solution to its procurement activity, resulting in a Best and Final Offer (“BAFO”).

BAFO includes a phase where the procuring entity engages in private concurrent dialogues with responsive bidders during an RFP process. Under the BAFO concept the purpose of these discussions and negotiations is to:

- Clarify ambiguities

- Correct obvious mistakes
- Point out weaknesses and deficiencies
- Generally, seek improvements in both the technical and commercial aspects of the offers for example, regarding lower prices, prolonged warranties, additional discounts or short delivery time etc.

Conditions for Use

RFP with dialogue is appropriate where:

- a) It is not feasible to formulate a detailed description of the goods, works or services and dialogue with suppliers or contractors is required to obtain the most satisfactory solution to its procurement needs.
- b) A contract is sought for the purpose of research, experiment, study or development.
- c) Open bidding was engaged in, but no bids were submitted, or the procurement was cancelled. Additionally, engaging in new open-bidding proceedings or limited bidding, RFQs and RFPs without negotiation would unlikely result in a procurement contract.

Procedures

1. Invite proposals

RFPs may be issued as follows:

- By publishing the RFP publicly in accordance with the procedures or
- Directly to prequalified or preselected bidders.

2. Manage the solicitation process

- Host pre-submission meeting and/or site visit.
- Respond to requests for clarification from bidders, and issue addenda.

3. Receive and open proposals

- Open technical proposals only.
- Store commercial proposals, unopened, in a secure location.

4. Evaluation of bids and award of contract

- Evaluate and rank the technical proposals in accordance with the pre-established criteria specified in the RFP.
- The technical proposals that fail to meet the relevant minimum requirements shall be considered non-responsive and shall be rejected on that ground. A notice of rejection

and the reasons for the rejection, together with the unopened commercial envelope shall be dispatched to each respective bidder.

- The technical proposals that meet or exceed the relevant minimum requirements shall be considered responsive and those bidders shall be invited to participate in dialogue.
- The dialogue shall be conducted by the same representatives of the procuring entity on a concurrent basis.
- Invite responsive firms to submit a BAFO following the dialogue.
- No negotiations shall take place after submissions of BAFOs.
- Award the contract to the bidder that best meets the needs of the procuring entity as determined in accordance with the evaluation criteria.

Request for Proposals (RFP) with Consecutive Negotiations

Is a process by which a two (2) envelope system known as “rank and run” where consecutive negotiations with responsive bidders are required in order to ensure that the commercial terms and conditions of the procurement are acceptable.

Conditions for Use:

Is advisable where consideration of the commercial proposals is done separately and only after evaluation of the technical proposals, and consecutive negotiations with responsive bidders is required in order to ensure that the commercial terms and conditions of the procurement are acceptable.

Procedures:

1. Invite proposals

RFPs may be issued as follows:

- By publishing the RFPs publicly in accordance with the procedures
- Directly to prequalified or preselected bidders.

2. Manage the solicitation process

- Host pre-submission meeting and/ or site visit
- Respond to requests for clarification from bidders, and issue addenda.

3. Receive and open proposals

- Open technical proposals only
- Store commercial proposals, unopened, in a secure location

4. Valuation of bids and award of contract

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Evaluate the technical proposals in accordance with the pre-established criteria specified in the RFP.

- The technical proposals that fail to meet the relevant minimum requirements shall be considered non-responsive and shall be rejected on that ground. A notice of rejection and the reasons for the rejection, together with the unopened commercial envelope shall be dispatched to each respective bidder.
- The technical proposals that meet or exceed the relevant minimum requirements shall be considered responsive and ranked in accordance with the criteria for evaluating proposals as set out in the RFP.
- Inform the other responsive bidders that their commercial proposals may be considered for negotiation if negotiations with the higher-ranking bidder does not result in a procurement contract
- If required, invite the other responsive bidders for negotiations on the basis of their ranking until arriving at a procurement contract or until all commercial proposals are rejected
- Do not reopen negotiations with any supplier or contractor with which it has terminated negotiations

Competitive Negotiations

The procuring entity engages in negotiations with a sufficient number of qualified suppliers or contractors to ensure effective competition.

Conditions for Use

There is an urgent need for the goods, works or services, and engaging in any other competitive method of procurement, because of the time involved in using those methods, would therefore be impractical, provided that the circumstances giving rise to the urgency were neither foreseeable nor the result of delaying tactics on its part.

Procedures:

1. Engage in negotiations with a sufficient number of suppliers or contractors to ensure effective competition.
2. Ensure that any information communicated to a supplier or contractor before or during the negotiations shall be communicated at the same time and on an equal basis to the other suppliers or contractors

3. Upon completion of negotiations, request all bidders to submit a BAFO with respect to all aspects of the proposal.
4. No negotiations shall take place between the procuring entity and bidders with respect to their BAFOs.
5. Award the contract to the bidder that best meets the needs of the procuring entity as determined in accordance with the evaluation criteria.

2.3.5 Two stage bidding

Two-stage bidding is a phased process in which responsive bidders are engaged in refining the statement of needs to obtain the most satisfactory solution to the procuring entity's activity. The first stage invites prospective bidders to have discussions to refine the statement of needs and at the second stage, issue an RFP against one revised specification.

Two-stage bidding is similar to RFPs as the technical and commercial proposals are submitted separately. However, they are different to RFPs because the technical and commercial proposals are submitted one before the other and not simultaneously.

Multi-stage bidding is where the two-stage bidding is preceded by an expression of interest (EOI) and/ or request for qualifications. This method is mainly used in complex plants, large complex facilities design and builds works and turnkey ICT contracts.

Conditions to use

Two-stage bidding is appropriate where:

- It may be impractical to prepare complete technical specifications in advance of the procurement.
- Discussions with suppliers or contractors are required to refine the TOR/ technical specification to obtain the most satisfactory solution to its procurement needs.
- Open bidding was engaged in, but no bids were submitted, or the procurement was cancelled. Additionally, engaging in new open-bidding proceedings or limited bidding, RFQs and RFPs without negotiation would be unlikely to result in a procurement contract.

Procedure of Two-stage Bidding

Procedure one:-

First stage

- Invite prospective bidders to submit technical proposals on partially developed technical specifications
- The procuring entity shall evaluate and score the technical proposals, inviting the highest ranked bidder to agree on a proposed technical solution.

Second Stage

- The procuring entity shall invite the highest ranked technical proposal to submit a commercial offer based on agreed technical solution.

Procedure Two:

First stage

- Invite prospective bidders to submit technical proposals on partially developed technical specifications contribute to the completion of the technical specifications and provide a methodology and work plan for carrying out the assignment.
- Evaluate and score the technical proposals, inviting all responsive bidders to clarification and discussions meeting to finalize the technical requirements.

Second Stage

- Invite responsive bidders to submit technical and commercial proposals based on the amended technical requirements
- Evaluate technical proposals first, and keep the commercial proposals sealed and secured
- Firms achieving the minimum technical qualifying mark or greater are invited to the opening of their commercial proposals
- Commercial proposals are evaluated, and the firm achieving the highest combined score (technical and commercial) is invited to contract negotiations
- If negotiations fail, the next highest ranked firm is called for contract negotiations.

2.3.6 Request for quotation

A means by which the procuring entity seeks to solicit prices, and basic terms and conditions such as delivery timeframe and payment terms from providers of basic standard goods, simple services or works. Direct solicitation refers to the issue of the solicitation documents to suppliers or contractors identified by the procuring entity and are applicable for the procurement methods listed below:

- Limited bidding
- RFQs
- Competitive negotiations, and

- Single-source procurement

Conditions for Use

RFQs are appropriate for the procurement of readily available, relatively low priced, goods or services that are not specially produced or provided to the particular description of the procuring entity and for which there is an established market.

Procedures

- Quotations should be requested in writing from as many bidders as practicable, but from at least three bidders, using standard documents prepared by the procuring entity. Where only two bidders are available, justification for inviting less than the minimum three bidders shall be provided in the record of the procurement proceedings.
- The written RFQs shall contain a clear statement of the procuring entity's requirements as to quality, quantity, terms and time to delivery, as well as any other special requirements.
- Bidders should be given adequate time, no fewer than five (5) working days, to prepare and submit their quotations, but each bidder is permitted only one quotation which may not be altered or negotiated.

The successful quotation shall be the lowest-priced quotation meeting the needs of the procuring entity as set out in the RFQ.

2.3.7 Direct Procurement / Single Source Procurement

A non-competitive procurement method used to acquire goods, works and services from only one supplier or contractor.

Both single and sole source procurement require engaging only one supplier or contractor. However, single source procurement refers to engaging one selected supplier or contractor, even though there are other suppliers or contractors providing that good, work or service, whereas, sole source procurement refers to an engagement where there is only one supplier or contractor that provides the good, work or service.

Conditions for Use:

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This method is appropriate in the following exceptional circumstances:

- The goods, works or services sought are available only from a particular supplier or contractor.
- Owing to a catastrophic event, there is an extremely urgent need for the goods, works or services, and engaging in any other method of procurement would be impractical because of the time involved in using those methods.
- Additional supplies must be procured from a particular supplier or contractor for reasons of standardization or because of the need for compatibility with existing goods, equipment, technology or services.

Procedures

- a) Gain approval, sufficiently detailing the justification of the need for fulfilling a procurement requirement from a single source.
- b) Request a bid proposal or price quotation from the single supplier or contractor.
- c) Engage in negotiations with the supplier or contractor unless such negotiations are not feasible in the circumstances of the procurement.

2.4 Purchase orders

A purchase order, or PO, is a legal document a buyer sends to a supplier or vendor to authorize a purchase. Purchase orders outline what the buyer would like to purchase and how much of it they would like to receive. These agreements help both the buyer and seller document transactions. Purchase orders are beneficial for both the buyer and seller. By issuing purchase orders, small businesses can specify what goods and services are needed from their suppliers and when it's needed by. This keeps business operations efficient and organized. It also allows the seller to ensure it can provide the goods and services requested before committing to fulfillment, giving the buyer time to plan accordingly.

2.4.1 Benefits of Purchase Orders

- Shows the details of ordered items
- Avoids duplicate orders
- Keeps track of incoming orders
- Serves as legal document in receiving goods and processing payment

2.4.1.1 Contents of purchase order

- Internal purchase order number for linking the transaction to other relevant documents, communication, and data sets in the system.
- Detailed and complete vendor information
- A detailed description of the type of goods or services to be purchased, and their quantity
- Quality specifications
- Full pricing information as agreed upon between vendor and purchaser
- Delivery terms and conditions
- Payment terms and conditions

2.4.2 Types of purchase orders

1. Standard or single-use purchase orders

A standard purchase order is the most common type of PO. They're used for one-off purchases. If you're ordering 500 pens from a vendor in preparation for a pop-up shop, for example, you'd use a single-use purchase order.

2. Planned purchase orders

A planned purchase order is created when you have repeat or regular orders with a vendor. Let's say you plan to buy 1,200 units from a manufacturer, but instead of purchasing them all at once, they're broken down into orders of 200 units for the next six months. You'd have six planned purchase orders.

3. Blanket purchase orders

A blanket purchase order is the vaguest type. It's an agreement between a buyer and vendor to exchange goods in return for payment, but the specifics are to be confirmed. You might use a blanket PO with a trusted manufacturer. With a blanket purchase order, a buyer places multiple orders at one time to negotiate discounted pricing. For example, if the same company can negotiate a better deal by agreeing to place multiple orders of printer cartridges and paper from a single supplier, it would consider using a blanket purchase order to acquire these items. In this scenario, here's what a purchase order could look like.

4. Contract purchase orders

A contract purchase order isn't necessarily an official PO; it doesn't contain any specific information relating to products being purchased. It's more a blanket agreement between a buyer

and vendor that clarifies delivery, tax, and payment terms for any future orders. Another type of PO—is that a planned, single-use, or blanket PO—will follow.

5. Digital Purchase Orders

Having a set process in place for purchase orders can help the procurement process move efficiently and be mutually beneficial for both buyers and sellers. One easy way to create and share a digital purchase order is in Microsoft Excel or Open Office. You can find pre-existing templates when you open a new spreadsheet and click on More Templates and search “invoice.”

Table 2.1 sample purchase order format

<Company Name>

<Address>

<Address>

<Contact Number>

<Default Email Address>

<Website URL>

PURCHASE ORDER

P.O. NUMBER	DATE
23781	mm/dd/yyyy

VENDOR	CUSTOMER
NAME	NAME
<Sales Person>	John Smith
COMPANY NAME	COMPANY NAME
<Company Name>	Redline Auto Center
ADDRESS	ADDRESS
<Address>	16040 S. US 27 Lansing, Michigan 48906
PHONE	PHONE
<Phone>	517-367-7010
EMAIL ADDRESS	EMAIL ADDRESS
<Email Address>	johnsmith@redline.com

SHIPPING TERMS		SHIPPING METHOD		DELIVERY DATE
Freight on Board		Air & Land		mm/dd/yyyy
Code	Product Description	Quantity	Unit Price	Amount
304-98632	Brake Discs, Pads & Calipers	4	111.36	445.44
501-35587	Control Arm	2	60.93	121.86
886-19386	Suspension Lift Kit	2	399.83	799.66
Note:		Subtotal (\$)		1,366.96
Payment shall be 30 days upon receipt of the items above.		Discount (%)		10 136.70
		Sales Tax (%)		12 164.04
		Other Cost (\$)		500.00
		Shipping & Handling (\$)		800.00
		Total Amount (\$)		2,694.30

Self-check 2

Direction 1. Write true if the statement is correct and false if it is wrong

1. Single sourcing is always the best procurement type for any type of business.
2. Supplier selection is the first step in the procurement process.
3. Purchase order and purchase requisition are the same documents.
4. In two-stage bidding financial analysis comes before technical analysis

Direction 2. Choose the best alternative answer from the given alternatives.

1. The type of bid performed through invitation of selected suppliers is:
 - A. Open bid
 - B. Two – Stage bidding
 - C. Restricted bid
 - D. Single sourcing
2. If there are only eight suppliers of a specific product which one is appropriate method?
 - A. Request for quotation
 - B. Restricted bid
 - C. Open bid
 - D. Single sourcing

Direction 3. Match items under Column “B” with items under column “A”

Column “A”

1. Open Tender
2. Restricted Tender
3. RFQ
4. RFP
5. BEQ

Column “B”

- A. Request for proposal
- B. Request for quotation
- C. Bill of quantity
- D. Publicly invites all eligible candidates
- E. Invitation for limited number of vendors

Operation sheet-1

Operation Title: prepare purchase specification and invitation for bid

Instruction: prepare specification for stationary materials

Purpose: to conduct purchase of stationary for user departments

Required tools and equipment: Computer, printer, paper, pen, pencil, rulers

Precautions: Follow the government and organizational policies and procedures

Procedures:

Step 1. Identify user department's needs

Step 2. Prepare specification

Step 3. Select procurement method

Step 4. Prepare invitation for bid

Quality criteria:

6. Meet user department's needs specifications which can satisfy the 5Rights of procurement in accordance with the procurement policies and procedures.

LAP Test	Practical Demonstration
----------	-------------------------

Name: _____

Date: _____

Time started: _____

Time finished: _____

Instruction I: Given necessary templates, tools and materials you are required to perform the following tasks within 3 hours.

Task 1: Identify user departments needs

Task 2: Prepare Purchase Specification

Task 3: Select appropriate procurement method

Task 4: Prepare invitation for bid

Unit Three: Receiving purchased Goods

This learning unit is developed to provide the trainees the necessary information regarding the following content coverage and topics:

- Inspection of Purchased goods
- Shortages, Overage, and Rejection of goods and services
- Documents required to receive incoming goods
- Registering purchased goods in Fixed Assets Register (FAR)

Keeping Purchase Records This unit will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Know and apply inspection of purchased goods
- Understand variations from purchase
- Document received goods
- Register received goods in Fixed Asset Register

3.1. Overview of receiving purchased goods

Receiving is the act of taking possession of products in order to stage them for inspection, place them into inventory, or deploy them to end user (Requester) for immediate use. A receiving procedure is needed to properly inspect all incoming goods, mark them with tags, and record them as having been received. If this is not done correctly, a business will find that its inventory records are inaccurate. When these records are inaccurate, it is impossible to fulfill customer orders or run manufacturing operations in an efficient manner.

The Objectives of Receiving process

- Check correct amount.
- Observe quality at the correct time with correct supplier services.
- View edible-portion cost.
- To minimize any fraud between buyer and the receiver.

All incoming material should be received by the receiving department. This department performs the functions of unpacking the goods received and verify their quantities and conditions. The quantity is checked against the purchase order copy and the supplier's advice note which is normally received along with the goods.

Preparation for receiving goods

- Competent Personnel: assign a knowledgeable full-time or part-time employee.
- Proper Receiving Equipment: scales, temperature probes are appropriate for smaller operations.
- In larger operations conveyer belts, hand trucks and technology to read bar codes may be necessary.
- Proper Receiving Facilities: a “proper” facility includes areas that are well lit, big enough to work comfortably in, reasonably secure, and convenient for both delivery people and receivers.
- Appropriate Receiving Hours: deliveries should be staggered so that the receiver is not rushed and can be done by as few people as possible. There are benefits to one stop shopping.
- Available Copies of All Specifications: decisions must be made quickly to determine whether substitute products meet specification.

- Available Copies of Purchase Orders: purchase order copies are necessary for the receiver to know what is going to be delivered each day

Goods received note serves the following purposes:

- It informs the store keeper or other requisitions of the receipt of materials.
 - It notifies the accounting department that the materials have been received and that a voucher can be prepared.
 - When it includes columns of cost, it can serve as a source of entry in the stores ledger.
- Original copy of this goods received note is sent to the purchase department to be marked completed. Second copy is sent to the store keeper. Third copy is sent to the accounting department for entry in the stores ledger and last copy is retained by the receiving department for its own file.

Table 3.1. Goods Receiving Note Sample format

Goods Received Note					
Supplier Name:			Date & Time
Order Number:			Delivery Location
Sr. No	Goods Description	Size	Quantity		Comments
1					
2					
3					
4					
	Total:				
Received By:			Checked By:

3.2. Inspection of Purchased goods

1. Upon receipt of a delivery, match the received items to the description stated on the accompanying bill of lading, as well as the description on the related purchase order. Major discrepancies can lead to rejection of the delivered goods.
2. If there is no authorizing purchase order and the purchasing manager does not issue a waiver, reject the delivered goods.

- Use a preprinted receiving checklist to inspect each delivery. Items likely requiring review are the quantity received, comparison to a quality threshold, and the date and time of receipt. Note any variances on the checklist. Initial the checklist when the review is complete. Sign a photocopy of the bill of lading to indicate that the delivery has been inspected and is accepted.

Table 3.2 Inspection Reporting format

Inspection Report			
Quantity Passed	Quantity Rejected	Reason for Rejection	Received by *****
Inspected by.....		Date.....	

3.3. Shortages, Overage, and Rejection of goods and services

Where materials received are damaged or are not in accordance with the specifications, these are usually returned to the supplier along with a debit note, informing him that his account has been debited with the value of materials concerned. When such a claim is accepted by the supplier, he signifies his acceptance by the issue of a credit note. The rejected materials may be returned to the supplier immediately or they may be held pending his instructions. The debit note may be prepared by the purchase department on the basis of the inspection report. Original copy is sent to the supplier one copy is sent to accounts department for adjustment entry and one copy is retained for purchase department file.

3.3.1 Acceptance of Delivery

Upon acceptance of the deliveries, the receiver usually places the items in the proper storage location or, in some cases, delivers to the production area. The receiver stamps the invoice with a formatted ink stamp that will then be initialed by the receiver, accountant or bookkeeper, the buyer, and the owner. After processing the invoice, the receiver may record the delivery on a “receiving sheet,” or “receiving log.” The receiving sheet is redundant to the invoice, and is useful in discovering mistakes and evaluating supplier past performance.

3.3.2 Rejecting delivery

Common carriers use request for credit memo because the driver has no authority to Alter the delivery. The receiver or buyer may want to do a follow-up call to the supplier, which serves as a check on the delivery persons, who, for ex., may have stolen the original item and substituted an inferior product. When a product differs slightly from standard it should not be rejected for two reasons Suppliers may not want to do business with a buyer that dwells on small details and sends back a reasonable substitute; and it leaves the receiver short.

3.4. Documents required to receive incoming goods

Procurement documents are an essential part of the procurement process. This article discusses some of the more common ones, what they're for and how they're used. Procurement documents can be paper or electronic but, today, are more commonly digital. They facilitate an equitable bidding process and protect the seller from claims of unfair procurement practices. In nearly every case, procurement documents require the signature of an authorized representative of the buyer and seller.

3.4.1. Common procurement documents

Below is a list of common procurement documents used in business today:

- **Request for Proposal (RFP):** This document invites suppliers or contractors to provide a proposal for goods or services. The RFP often includes plans, specifications, and other information needed for the supplier to prepare their bid.
- **Request for Information (RFI):** An RFI is used by both buyers and sellers. A buyer sends an RFI to prospective sellers to learn more about their product or service. In turn, a seller can use an RFI to get clarification about a buyer's RFP or RFQ.
- **Request for Quotation (RFQ):** This document is appropriate when a buyer knows precisely what they want to purchase. When you use an RFQ, there is usually little information included — other than quantity and part or model number — since no discussion or alternates are needed.
- **Letter of Intent (LoI):** An LoI is issued by the buyer to the seller, indicating that they intend to proceed with the purchase pending the seller meeting insurance or other requirements.
- **Invitation for Bid (IFB) –** Invitation for bid is a formal document that is used for inviting potential bidders to come and participate in the bidding process.

- **Request for Bid (RFB)** – RFB is used to solicit financial bids for specified purchases from a selected pool of suppliers.
- **Purchase Order (PO)** - A purchase order can be raised favoring a supplier for regular purchases. Generally, an organization will have a list of selected and preferred suppliers with a master agreement.
- **Contract or Agreement** – A contract or agreement is a mutual agreement between the buyer and the seller. A legal binding contract will have an offer, an acceptance and sufficient consideration for both the buyer and seller.
- **Seller Proposal** – A seller proposal is a detailed offer from the seller in response to the buyer’s request for a proposal or buyer’s request for a quotation.
- **Bill of exchange**- A bill of exchange is a negotiable instrument that carries an unconditional order to pay a specified amount of money. It is an unconditional order signed by maker to pay a certain amount to the bearer of the instrument.
- **Letter of credit:** A letter of credit is usually known as a documentary credit, banker’s commercial credit, or letter of undertaking.
- **Certificate of origin of goods:** It is a widely used document in international trade. Besides, It is a document that provides goods that comes from a specific region.
- **Inspection certificate:** A document which is issued by an independent third-party stated that the goods have been inspected sincerely and confirm the quality with the contractual terms.
- **Packing weight list:** It is stated the detailed information on the packaging of the goods. However, it contains product weight, quality, size, quantity, etc.
- **Consular invoice:** Consular invoice describes the goods being transported
- **Insurance document:** To protect goods from sudden accidents, it is important to make insurance for the goods. For this reason, the exporter makes insurance to protect goods.

3.5. Registering purchased goods in Fixed Assets Register (FAR)

A fixed assets register is a catalog of a business’s fixed assets, carrying details like their purchase price, depreciation values, and current location to document the course of their useful life accurately. It helps a business maximize the utility of its fixed assets such as machinery, building, vehicle, and the like.

Some typical assets included in the register are –

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- Building, land, and property owned by the business, such as factories, office buildings, retail outlets, and warehouses.
- Office tools and equipment like telephones, photocopiers, printers, and computers.
- Air-conditioning, furniture, water coolers, etc.
- Cars, trucks, vans, and other vehicles are used for operational purposes.

Benefits of Fixed Assets Register

- Provides Comprehensive Data
- Evaluates Maintenance Costs
- Provides precise information about each asset's cost, depreciation, and current value
- Accelerates the Audit Process

Table 3.3. Sample format of Fixed Asset Register

Fixed Asset Register

Registration of new identity						
Depreciation				Sales/Disposal		
Identification nr	Economic Life	Time	Depreciation Form	End Month	Sale Date	Sale Value Local
Part						
Description						
Acquisition cost local						
Acquisition cost group						
Acquisition date						

Identity not saved

Self-check- 3

Direction 1. Write true if the statement is correct and false if it is wrong

1. Inspection is the process of checking incoming goods for quality and quantity.
2. GRN is used for ordering goods from the supplier.
3. Any variation on incoming items with the purchased order should be automatically without notifying the vendor.

Direction 2. Choose the best alternative answer from the given alternatives.

1. The recording format used for registering purchased fixed Assets is:
 - A. Fixed Asset Register
 - B. Letter of Credit
 - C. Certificate of inspection
 - D. Insurance Certificate
3. If there are only eight suppliers of a specific product which one is appropriate method?
 - A. Request for quotation
 - B. Restricted bid
 - C. Open bid
 - D. Single sourcing

Direction 3. Write Brief answers for the following questions

1. Write at least three of the contents of goods receipt note
2. Describe the importance of fixed asset register.
3. Explain the documents used in the procurement process

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