



RDTL - MINISTRY OF FINANCE

BEST PRACTICE GUIDE 1 PROCUREMENT PLANNING

This Best Practice Guide is for Government Procurement Managers and senior officers. It explains how a Ministry of the Government of Timor Leste is to develop a profile of planned expenditure and a Strategic Procurement Plan.

BACKGROUND

A procurement project is similar to other large and complex projects consisting of a number of discrete tasks to be completed within pre-planned time frames. Planning and co-ordination will provide the opportunity to establish a framework for cost minimisation and certainty of delivery.

The success of the project will be enhanced if people with relevant knowledge and skills are involved at the beginning and throughout all processes, e.g. internal customers, solicitors and commercial and technical experts.

There are **two forms of planning** that should be undertaken by a Ministry: (1) **a planning profile** and (2) a **Strategic Procurement Plan for high value purchases (\$5M)**

As stated in the Decree Law on the Procurement Legal Regime, at the commencement of each financier year Ministries are to develop a **planning profile** of planned expenditures for their portfolio, including a profile of procurement projects within the value ranges \$1 - \$50,000; \$50,000 - \$100,000; \$100,000 - \$250,000; \$250,000 - \$500,000; \$500,000 - \$1,000,000; \$1,000,000+.

The second form involves planning for high value or high risk procurements. These are known as **Strategic Procurement Plans**. Strategic Procurement Planning involves developing a strategic plan before the procurement process commences. Strategic Plans may involve one or a number of associated contracts, and **must** be completed for all procurement with a **value over \$5,000,000**. Strategic Plans are also desirable for acquisitions of goods and services, and construction which have a **high degree of risk or complexity**.

Benefits

Both forms of Procurement Planning provide many benefits. In particular the Strategic Plan benefits:

- Draw a strategic connection between the higher level project planning and implementation through the procurement process;
- Provide the Government of Timor Leste/ government procurement officers the opportunity to focus on the procurement process at the earliest stage of a project, and enable consideration of high level issues before a contract is under way;
- Use project management methodology to add value in planning, contractor selection, reporting and review;
- Encourage debating and settling of issues early in the planning stage rather than later at contract approval stage, when it might be too late to change the course of the procurement;
- Ensure that a valid business case and project plan supports the proposed acquisition before the procurement cycle commences;
- Gather stakeholder commitment and support at the earliest possible stage of the procurement process;
- Establish direction and goals for the procurement for all parties involved in the procurement process;
- Ensure that a framework is established for monitoring and review of performance and application of sanctions where appropriate;
- Provide early advice to industry of the tender;
- Provide a core source document for other procurement and contracting documentation;
- Provide the primary source of information for contract management planning to ensure that the original intentions are met; and
- Ensure that the procurement team formed has the knowledge, skills and qualifications to carry out the task.

(1) PLANNING PROFILE

Attached at A is an example of a profile that Ministries should use as a guide.

(2) STRATEGIC PROCUREMENT PLAN CONTENT

The content of the Strategic Procurement Plan (SPP) would typically include the following matters:

- Proposal
- Scope of requirement
- Estimate of value
- Background
- Business case analysis
- Budget / financial considerations
- Policy matters affecting the procurement
- Market analysis
- Stakeholder expectations
- Evaluation criteria and methodology
- Procurement methodology
- Procurement timeframe
- Risk management issues
- Procurement team details
- Contract management arrangements
- Reporting and monitoring arrangements
- Transitional issues
- Asset disposal arrangements

AT ATTACHMENT B IS A DISCUSSION OF PROCUREMENT PLANNING AND RELATIONSHIP TO RISK AND VALUE QUADRANTS

AT ATTACHMENT C IS A TEMPLATE SPP.

APPROVAL OF PROCUREMENT

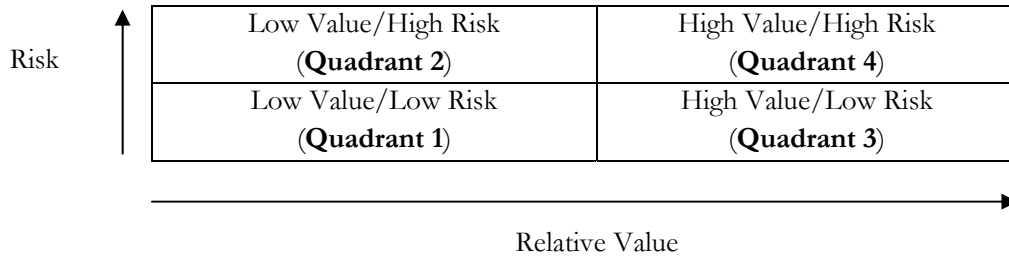
Ministries may undertake acquisitions up to their accreditation level. For further information, refer to *Best Practice Guideline on Accreditation*.

If, as part of the procurement planning process, it is determined that the proposed acquisition will be outside of

ATTACHMENT B

The relationship of risk and value is a technique that considers the nature of the purchase, level of risk and relative value of procurement transactions and plots these into four quadrants.

The risk value quadrant (see diagram) into which the procurement falls is important to developing the SPP and determining the procurement approach according to the level of time and effort required.



Risk - Which quadrant does the procurement fall into?

A high-level assessment of the procurement’s level of risk is the first step to answer this question. This will ascertain what SPPning requirements are appropriate to undertake for the potential procurement. This step is not intended or designed to be a comprehensive risk assessment but is undertaken for the purpose of deciding on an appropriate risk/value quadrant, as each quadrant has different SPPning requirements (discussed later in this Guideline).

For government procurements, potential areas of risk typically relate to supply availability and continuity, quality standards, safety and political issues. To determine if a potential procurement is to be assigned to a low risk quadrant, consider the following questions:

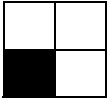
- Is the supply market competitive and has it the capacity to meet the requirements of demand?
- Can the Ministry readily continue to function (meet all key customer needs) if supply is interrupted?
- Is there a low probability that the goods/services will be superseded or become obsolete during the life of the contract?
- Is provision and ongoing use of the good/service considered to be highly safe?
- Is stakeholder and public interest in the purchase low?

If the answer to all of the above questions is **YES**, the procurement is to be assigned to a low risk quadrant (quadrant 1 or 3). However, if the answer to any of the above questions is **NO**, the procurement is to be considered in a high-risk quadrant (quadrant 2 or 4). A more detailed risk assessment will be undertaken as part of the high-risk quadrant SPPning requirements.

Value

For the purposes of this guideline, it is expected that public authorities will apply the requirements outlined in the SPPning guideline high value quadrants 3 and 4 to all procurements greater than \$100,000

RISK AND VALUE QUADRANTS



Quadrant 1 — Low Value/Low Risk

Aim: to minimise effort

General Characteristics

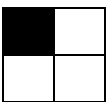
- routine purchases of standard services or ‘off the shelf’ type items
- common use items with security of supply
- no unusual or unique quality, safety or reliability implications
- competitive supply market, many suppliers
- high volume transaction of relatively low value

Eg: cleaning equipment and supplies, uniforms, stationery, hardware.

Thresholds within Quadrant 1

Threshold	Process
Up to \$100,000	Three written quotes (<i>Refer to Best Practice Guideline on Tender Process</i>)

For the majority of low value procurements up to \$100,000, the level of potential risk associated with the transaction is likely to be low. However, it is still very important to consider and understand if there is an element of risk in the proposed low value procurement.



Quadrant 2—Low Value/High Risk

Aim: to ensure supply and reduce risk (refer to Strategic Procurement Plan in Annex A)

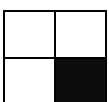
Thresholds within Quadrant 2

\$1 - \$100,000

General Characteristics

- could have unique or unusual quality, safety or reliability requirements
- critical to the operation of the business even though low in relative cost
- limited supply market or product availability, security of supply is important
- possible monopoly supplier

Eg: specialist chemicals, safety equipment, waste disposal/treatment, electrical services.



Quadrant 3 — High Value/Low Risk

Aim: to drive value for money (refer to Strategic Procurement Plan in Annex A)

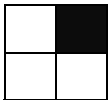
Thresholds within Quadrant 3

\$100,000 - \$1,000,000

General Characteristics

- widely used across the Public Service and/or government
- no special quality, safety or reliability implications
- simple specifications or common standards
- competitive supply market, many suppliers
- often high volumes of transactions

Eg: personal computers, printing services, travel facilitation, office equipment.



Quadrant 4— High Value/High Risk

Aim: to manage supplier (refer to Strategic Procurement Plan in Annex A)

Thresholds within Quadrant 4

\$1,000,000 +

General Characteristics

- complex or specialised goods/services, one off/large value transactions
- difficult market conditions
- few suppliers or supplies
- critical to the operation of the Ministry

Eg: major IT projects, outsourced services, specialist medical equipment.

-

the Ministries' accreditation level, approval must be sought from the Procurement Service, Ministry of Finance.

TOOLS AND TEMPLATES

Annex C – Strategic Procurement Plan (SPP)

		Quadrant 1 Low Value/ Low Risk	Quadrant 2 Low Value/ High Risk	Quadrant 3 High Value/ Low Risk	Quadrant 4 High Value/ High Risk
1	Understanding and Defining the Procurement Need				
	<p>Provide a summary overview of the requirement appropriate given the nature of the procurement e.g.</p> <ul style="list-style-type: none"> • background and description of requirement; • key stakeholders; • procurement objectives; • linkages with other projects; • timeframes and logistics; • estimated cost; and • current supply arrangements/transition implications. 	✓	✓		
	<p>Define in detail, the requirement appropriate given the nature of the procurement e.g.:</p> <ul style="list-style-type: none"> • background and description of requirement; • key stakeholders; • procurement objectives; • linkages with other projects; 			✓	✓

	<ul style="list-style-type: none"> • timeframes and logistics; • estimated cost; and • current supply arrangements/transition implications. 				
	Consider the establishment of a strategic sole supplier contract at either an across Government, Ministry or agencies level where appropriate and beneficial to do so.	✓	✓	✓	✓
	Consider the establishment of a Standing Offer Agreement at either an across Government, Ministry or agencies level where appropriate and beneficial to do so.	✓	✓	✓	✓
2	Government Requirements				
	Approvals: <ul style="list-style-type: none"> • within Ministry accreditation level – refer to Authorised Officer; • outside of accreditation level – refer to Procurement Service, Ministry of Finance. 	✓	✓	✓	✓
	Where, in progressing the SPP, a process deviates from the plan, document the justification for that deviation and gain approval for the deviation from the original approval authority or from the appropriate authority approved in the SPP.	✓	✓	✓	✓
3	Decree Law				
	Ensure compliance with Decree – Law n. X/280 of the Procurement Legal Regime (PLR).	✓	✓	✓	✓
4	Procurement Process				
	Planning				
	Undertake, if required , informal discussions with potential suppliers.	✓	✓	✓	✓

Undertake, if required , an informal RFI for the purpose of market research and intelligence gathering.	✓	✓	✓	✓
Develop and document a knowledge of the supply market commensurate with the nature, complexity and level of risk of the purchase — this may include market structure, level of competition, availability of goods/services, capability of suppliers etc.	✓	✓		
Briefly describe the strategy for approaching the market— this may consider type of approach (e.g. tender, expression of interest), type and scope of contract, contract term etc.	✓	✓		
<p>Undertake market research and articulate key findings including:</p> <ul style="list-style-type: none"> • market structure, number of suppliers, manufacturers, importers, distributors, capability, capacity, market domination, market share; • level of competition, availability of alternatives, stability of the market; • supply chain and nature of relationships and dependencies within the supply market; and • consider supplier preferencing, size of acquisition in the marketplace, value of the Public Service’s business to the supplier. 			✓	✓
<p>Detail the strategy for approaching the market and discuss the linkages to market research findings:</p> <ul style="list-style-type: none"> • direct negotiation, limited (selective) tender, public tender, expression of interest, request for proposal; • type of contract (period or pane) contract); • scope of contract; • length of contract; and 			✓	✓

	• plan for a further market intelligence phase of the procurement if appropriate				
	Summarise the consultation undertaken for the acquisition, identify any opportunities to work with other Ministries who may be undertaking similar procurement activities.	✓	✓	✓	✓
	If appropriate , identify how other Ministries currently address the intended requirement and any opportunities for collaboration.	✓	✓	✓	✓
	Detail key activities and timeframes to monitor progress and achievement of key milestones.	✓	✓	✓	✓
5	Risk Management Strategy				
	Risk Identification: Identify the risks associated with the project.	✓	✓	✓	✓
	Risk Assessment: Assess the likelihood and magnitude of the risks.	✓	✓	✓	✓
	Risk Mitigation: Consider and develop strategies for pre-empting and treating the occurrence of a risk. To the extent necessary, consult with other Ministries in relation to how similar risks have been mitigated. Refer to Procurement Service, Ministry of Finance, for assistance if required.		✓	✓	✓
	Monitor and Control: Identify new risks as they emerge and develop a plan/strategy to control that risk after it has arisen.		✓	✓	✓
	Insurance: Determine the level of insurance required in order to address risks identified through the process above. Ensure specifications and tender documents accurately reflect these insurance requirements.		✓	✓	✓
6	Specification/ Bid				
	Identify specifications to be used — outcome, technical or performance based.	✓	✓	✓	✓

	<p>Identify the standard tender rules, and contract terms and conditions to be utilised in the procurement acquisition, incorporating:</p> <ul style="list-style-type: none"> • significant issues addressed in the specification; • focus on outcomes, performance requirements, standards; • where appropriate ensure specification allows for a range of options/solutions; • ensure the specification allows for the maximum field of suppliers being able to offer a solution; and • ensure business need and procurement objectives are reflected in the specification. 	✓	✓	✓	✓
	Identify summary evaluation criteria which reflect procurement objectives and Public Service needs.	✓			
	Identify detailed evaluation criteria which reflect procurement objectives and Public Service needs.		✓	✓	✓
7	Contract/Supplier Management				
	<p>Develop and summarise contract management objectives and requirements as appropriate. Include who the contract manager will be, performance measures where applicable, payments and stages, delivery, conflict resolution processes, variation management process etc.</p> <p>Refer to the <i>Best Practice Guideline on Contract Management</i> for further information.</p>	✓	✓		
	<p>Develop a contract management strategy, including the components set out in the <i>Best Practice Guideline on Contract Management</i> such as:</p> <ul style="list-style-type: none"> • name of contract manager; • key performance indicators and measurement; 			✓	✓

	<ul style="list-style-type: none"> • payment stages and terms; • delivery (timeframes, location, method, storage etc); • termination; • transition strategies; • service level agreements; • variation management process; • conflict resolution; • reporting arrangements; • penalties for non-performance; and • bonuses for good performance. <p>Refer to the <i>Best Practice Guideline on Contract Management</i> for further information.</p>				
	<p>Incorporate plans for undertaking a process review to implement continuous improvements and determine savings and value achieved.</p>			✓	✓
8	Other Relevant Information				
	<p>Provide any other relevant information or special circumstances that may not have already been covered in the SPP.</p>	✓	✓	✓	✓

