Sourcing is defined as a technical activity with the purpose of identifying existing suitable products and services on the market and qualified suppliers available to provide those products and services. Sourcing also aims at collecting and analysing information about capabilities within the market to satisfy the organization’s requirements, such as obtaining updated cost information, determining the appropriate technology and alternative products, as well as identifying appropriate supplier qualification criteria.

A thorough sourcing process, leading to identification and invitation of relevant suppliers, ensures maximised competition, by allowing the most relevant and suitable companies to compete. Sourcing also leads to a better understanding of the market. This knowledge helps to:

- assist in a make or buy or lease decision
- determine when to buy
- establish realistic delivery schedules
- review sole/single source justifications
- identify price and non price evaluation factors
- identify special terms and conditions for the solicitation and resulting contract that are customary in special markets
- establish realistic budgets, pricing arrangements and economic ordering quantities [6].

Sourcing is often conducted in parallel with requirement definition (see Unit 3.2). An issue procurement officers
should keep in mind is that while requisitioners are preparing specifications/TORs/SOW, they are informally performing technical market research by discussing forthcoming procurement action with prospective suppliers. This communication, although an important part of the needs assessment process, is sensitive, as it can give rise to biased specifications or perception of favouritism. Procurement officers should advise the requisitioner on the risk associated, and should explain that it is important that no supplier be given an advantage through upfront information, and that care should be taken to ensure that no supplier gets the impression that they have an increased opportunity to be awarded a contract.

### 3.3.2. Process

The flowchart below shows each of the stages in the sourcing process.

Sourcing is conducted differently in the various UN organizations. The tools applied and means used vary according to the product/service to be procured as well as the budget, strategic importance of the market etc. Each stage in the sourcing process and a selection of possible tools and means are detailed below.

### 3.3.3. Market research
Market research should identify relevant suppliers and products that could meet the needs of the organization. The amount of effort required for market research depends on the value/risk of the requirement. For small standard procurement activities research may be limited to searching existing rosters and previous contracts. For larger or more complex procurement, extensive market analysis is required.

**Advertisement of business opportunities**

Procurement activities should be made widely known to all potential suppliers. This can be achieved through various means, for example by advertising:

- Procurement plans, information on specifications for standard products, specifications of sole source products, etc. in order to provide suppliers with the opportunity to express interest.
- Request for expression of interest, request for information, pre-qualification exercises.
- Open tenders as a means to reach out broadly to the supplier community.

In some organizations, advertising is mandatory above certain thresholds. The most frequently used means for advertising business opportunities are the:

- Organization’s website
- United Nations Global Marketplace (UNGM)
- Development Business (website or journal)
- websites of donors or end-users (governments)
- local newspapers, or other media (e.g. radio) depending on the local media infrastructure.
Note: These tools are further described below, and in Unit 3.4 for open tenders. Advertising contract award notices also fosters transparency and competition for future procurement opportunities (for further details see Unit 3.9 Contract Finalization and Issuance).

United Nations Global Marketplace
The Inter-Agency Procurement Working Group (IAPWG) has developed the UN Global Market Place, UNGM (www.ungm.org) as the main procurement portal for both suppliers and procurement officers in the UN system of organizations. The UNGM is accessible for all procurement officers in the UN system of organizations and provides a user friendly interface with extensive search capabilities, as well as short-listing and export facilities. It can be used both in terms of a “yellow pages” approach and as a register of eligible suppliers for particular commodities. The facilities available in the UNGM are being continually updated. UNGM is considered the main global roster of suppliers for the UN organizations and is a natural starting point for any market research to be undertaken. More information on UNGM is provided under Pre-Qualification as well as Supplier Management (see below).

Other sources of information for market research
The table below lists other available sources of information for market research.

<table>
<thead>
<tr>
<th>Source</th>
<th>Including</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal</td>
<td>• Locally established rosters.</td>
</tr>
<tr>
<td></td>
<td>• Former contracts.</td>
</tr>
<tr>
<td>Source</td>
<td>Including</td>
</tr>
<tr>
<td>----------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
|                      | - Previous short-lists within same field.  
|                      | - Consultation with colleagues.  
|                      | - Sourcing support. Some organizations have a central support function for sourcing.                                                                                                                                                                                     |
| UN system            | - Consultation with colleagues from other organizations who have bought similar products.  
|                      | - Through the IAPWG, procurement organizations of the UN are currently developing the concept of lead agency. When fully developed this can provide useful information in terms of who has expertise on which products.  
|                      | - The General Business Guide provides information on who buys what. A link to the guide can be found at www.ungm.org.                                                                                                                                                         |
| Internet references  | - External suppliers rosters with references to products and services.  
|                      | - DACON, a database of consulting companies maintained by the World Bank and the Inter-American Development Bank (www.dgmarket.com/dacon/).  
|                      | - Online communities of consulting and professional service providers.  
|                      | - Regional trade directories.  
<p>|                      | - Yellow Pages for local suppliers.                                                                                                                                                                                                                                        |</p>
<table>
<thead>
<tr>
<th>Source</th>
<th>Including</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Country and product specific directories</td>
</tr>
<tr>
<td></td>
<td>Some directories are free of charge, others require a subscription.</td>
</tr>
</tbody>
</table>

| Other  | • Commercial/specialized journals. |
|        | • Chambers of Commerce, Trade Delegations, Permanent Missions, Government procurement organizations. |
|        | • Business seminars. |
|        | • Financial reports on companies prepared by financial service providers. |

**Request for information (ROI)**

Some organizations issue a request for information (ROI) as part of market research. This tool can be used to request information on anything from technical developments, supply availability to price indications. The request can be openly advertised, or can be sent to particular suppliers known to the procurement officer, depending on the type of information to be obtained and the knowledge of the market. An ROI should always be written as a non-binding inquiry.

**Request for expression of interest (REOI)**

Request for expression of interest (REOI) is an instrument used to broadcast the need widely, and allows suppliers to present themselves for consideration for inclusion on a short list. An REOI is a cost effective method for identifying potential suppliers for particular goods,
services or works. An expression of interest (EOI) consists of a written communication prepared by a supplier providing information about its products, services, resources, qualifications and experience. A procurement officer can solicit an EOI by advertising the need on websites, in newspapers or by other means adapted to the local context. The resulting responses can be used to populate a roster for future use or directly for a specific procurement action. If relevant, the REOI can include specific short listing criteria. Some organizations (in particular those that apply mandatory pre-qualification of suppliers) could issue an REOI to all pre-qualified suppliers for a product range, and would use the result to develop the short list.

**Pre-qualification as part of market research**

Pre-qualification is a method whereby suppliers of particular goods, services or works are assessed against pre-determined qualification criteria, and only those suppliers who comply with the criteria are invited to tender. A pre-qualification of suppliers will ensure that bids are only received from suppliers which are able to comply with the requirements. Some organizations apply mandatory pre-qualification for all suppliers. For more information see Supplier Management below. Pre-qualification is recommended when:

- Complex or specialized goods or services are procured (e.g. civil engineering or mine clearance services or equipment).
A particular type of good or works or service is procured on a regular basis (e.g. for long term agreements).

- High degree of risk is involved in the procurement (e.g. security and safety equipment and services).
- Importance of the goods or services for the project is high (e.g. late delivery or the delivery of a wrong product or service would have costly implications).

If pre-qualification is required, each of the stages in the table below should be followed.

<table>
<thead>
<tr>
<th>Stage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Definition of criteria for pre-qualification.</td>
</tr>
<tr>
<td>2</td>
<td>Preparation of invitation for pre-qualification.</td>
</tr>
<tr>
<td>3</td>
<td>Advertisement of pre-qualification on websites or other appropriate media.</td>
</tr>
<tr>
<td>4</td>
<td>Evaluation of received pre-qualification applications.</td>
</tr>
<tr>
<td>5</td>
<td>Preparation of short-list of suppliers (ref. below preparation of short list).</td>
</tr>
</tbody>
</table>

**Analysis of the supply market**

For more complex procurement actions, extensive market research or proper supply market analysis should be undertaken. This enables the procuring model to understand how a market works, the direction in which a
market is heading, the competitiveness of a market, the key
suppliers and the value that suppliers place on the
organization as a customer. Background research can be
done using a variety of tools which could include an ROI
invitation, on-line databases and search engines, supplier
websites and annual reports, statistical data and the like.
In addition surveys of and interviews with key people can
be conducted, as long as they are comprehensive enough to
not create any perceived favouritism. Analysis of the
collected data can provide insight on how to approach the
market in order to source in an appropriate way.
Proper supply market analysis is especially important for
the lead agency commodities, and is highly recommended
in order to gain solid understanding of strategically
important markets.
3.3.4. Establishment and signature of short list
Unless a rule prescribes or a decision is made to proceed
with an open tender, or market research justifies a waiver
of competitive bidding, a short list of suppliers to be
invited should be prepared based on the market research
findings.
Many aspects should be taken into account when selecting
the suppliers for the short list. The overall goal is to
increase competition to a maximum, provide a fair chance
to a vast number of serious companies in the market, and
at the same time ensure economy and efficiency of the
procurement process by limiting competition to the most
relevant suppliers.
**Short list criteria**
Short listing criteria can include, for example:
- Monetary value of the procurement activity. The higher the value, the higher number of companies should be short listed. Most organizations have specific requirements in this regard.
- Share of potential markets and geographic distribution.
- Specific requirements for the procurement action (e.g. ISO certification/quality standards, representation of supplier in the recipient country and/or donor specific requirements as per the agreement with donor).
- Legislative requirements (e.g. registration under existing regulation in the supplier’s country, registration with a professional body, required insurances etc.).
- Technical capacity and experience (i.e. relevant past experience, experience from the geographic area in question, availability of after sales service, availability of required equipment etc.).
- Appropriate financial capacity compared with the value of the contract. In general, if information about the supplier is insufficient they should be contacted and asked for further information, and if the procurement officer is not confident that the supplier can meet the requested needs, the supplier should not be invited.
**Pre-qualification**
Where pre-qualification has been undertaken, only those suppliers who have passed the pre-qualification criteria should be invited to bid. Where pre-qualification has not been undertaken, some organizations still perform an eligibility check of each supplier before adding it to a short list. Eligibility is defined by a set of minimum requirements that suppliers must comply with, such as:

- Legal capacity to enter into a contract, including registration of the supplier in a country eligible for contracting.
- Ethical principles (no child labour, involvement in production and distribution of land mines, adherence to supplier code of conduct).
. Product specific requirements (ISO certification etc.).

Requirements for eligibility are determined by the organization’s policy and/or the funding organization/donor. Some organizations only short list pre-qualified suppliers, or require suppliers to register and pass set qualification criteria before an award can be made. Further some organizations have a policy to short list all pre-qualified suppliers for a product/service.

**Signing a short list**
Short lists should be signed by the procurement officer as well as by appropriate authority as per the organization’s policy.

**3.3.5. Supplier management**
UN organizations strive to continuously identify new suppliers which could broaden the market for products and
services procured. Some organizations give particular attention during market research to suppliers from developing countries or rapidly growing new markets, not to favour these suppliers as such but in order to broaden the source range of suppliers.

**Pre-qualification as a strategic tool for supplier management**

Some UN organizations undertake systematic pre-qualification of all potential suppliers. Various approaches exist, from requiring pre-qualification/registration with the organization to be completed before any contract award (i.e. upfront or in parallel with a tender process), to only short listing pre-qualified companies. Pre-qualification of all suppliers can be time consuming, but useful in particular for
products/services bought on a regular basis.
Through IAPWG, organizations are developing a lead agency concept, whereby each organization will be defined as lead agency for certain products or services. One of the next steps being considered is that the lead agency should undertake pre-qualification of suppliers for UNGM, however, the idea is still being discussed between UN organizations and no final conclusion has been reached yet.

Use of rosters
It is common practice to collect information on suppliers in a supplier roster that provides easily accessible information on suppliers and the goods and services they provide. The UNGM is used by 15 UN organizations as their roster for international procurement.
Supplier registration in UNGM is conducted entirely on-line and suppliers are required to complete extensive registration information including details of the goods or services they provide. In some instances suppliers may be required to provide additional information to facilitate the eligibility check. Supplier information in UNGM is continually updated by automatic requests to suppliers. Suppliers who do not update their information within a specified time become inactive on the roster. Suppliers may also be removed from the roster if they consistently fail to reply to solicitation of offers, submit false information, become bankrupt, or have a criminal conviction or civil judgment against them for any offence indicating a lack of business integrity etc.
Procurement units may also decide to maintain a separate roster of suppliers, for example, local suppliers for particular local needs. It is essential to invest time and effort to maintain the database by reviewing new applications, deleting inactive suppliers and updating information on current suppliers. For information about the content of a supplier database, check www.ungm.org. Some organizations have established their own supplier evaluation groups or committees. They meet on a regular basis and approve new suppliers.

Performance evaluation
To promote economical and efficient procurement, the performance of existing suppliers should be evaluated on an ongoing basis. Data should be recorded, and non-performance should
be flagged in existing rosters/information systems. Some organizations have developed specific performance evaluation criteria, and use.