8 Contracts

Three Phases	*Ten Elements*
I. Program Planning	**1. Defining Reproductive Health Supply Requirements**
	2. Specifications
	3. Assessment of Procurement Options
	4. Budget, Funding, and Procurement Requisition
II. Procurement Process	**5. Procurement Planning**
	6. Developing Bidding Documents and Inviting Offers
	7. Selecting Suppliers
	8. Contracts
III. Performance	**9. Contract Performance and Monitoring**
	10. Delivery of Goods

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A. Introduction

This module covers Element 8 of the reproductive health (RH) supply process. It describes the activities that begin after a supplier has been selected (Element 7) and concludes when a contract is signed by both the purchaser and the seller, and payment guarantees are in place. It is the final step in the procurement process phase of the RH supply process.

The signed contract is important because it becomes the legally binding document between the purchaser and the seller that identifies:

- Product specifications.
- Delivery requirements.
- Performance obligations of both parties.
- Legal recourse for the parties involved in case of lack of performance or disputes.

This module includes information on the contract types that can be used in public-sector procurement, special contract provisions for RH commodities that help ensure high-quality products are provided by the seller, and the contract award process and payment methods.

B. Learning Objectives

At the end of this module, the reader will be able to:

- Identify basic contract types, their key features, and conditions under which they are used.
- Describe the purchaser's responsibilities in selecting and preparing contracts.
- Describe the purchaser's responsibilities in awarding contracts and arranging payment.

C. Components, Considerations, and Challenges

1. Components

Element 8 consists of two main components: selecting the contract type appropriate to the procurement circumstances, and processing the contract award and payment requirements. Some activities are carried out by the RH purchaser; others are performed by the seller (supplier).

a. Primary Activities Required by the Reproductive Health Purchaser in Element 8 Include:

- Selecting and preparing the contract type appropriate for the procurement.
- Awarding the contract (under the direct procurement option).
- Reviewing the supplier's contract (under the indirect procurement option).
- Making payment arrangements.

b. Components of Element 8 Dependent on the Seller Include:

- Contract signature.
- Contract award (under the indirect procurement option).
- Performance security submission (if required).

2. Considerations

The main considerations for Element 8 are:

a. Overarching Principles of Quality and Timeliness

- Contract should include quality assurance (QA) provisions to help ensure that quality RH commodities are procured.
- Contract should include delivery requirements to support RH program implementation.

b. Critical Component: Signed Contract

Without a contract signed by both parties, the production and supply of RH commodities will not proceed.

c. Required Input From Other Elements

- Product specifications, as determined in Element 2.
- Delivery requirements and terms and conditions from bidding documents developed in Element 6.
- Selection of the supplier, as determined in Element 7.

d. Key Decision Points

- Type of contract to use.
- QA provisions to add to the contract in addition to those included in the solicitation exercise.

e. Expected Output

- Signed contract.
- Payment guarantee in place.

3. Challenges

The main challenges inherent in Element 8 are:

- Determining the contract type that is appropriate for the procurement.
- Ensuring the contract contains the necessary provisions required to obtain a high-quality product and adequate protection against a supplier's lack of performance.
- Timely contract award.
- Timely contract payment arrangements.

D. Contract Types and Use

There are a wide range of contract types available to the purchaser that provide varying degrees of flexibility in procuring products and supplies. These contract types are generally grouped into two broad categories: fixed-price contracts and cost reimbursement contracts. The key features of each contract category are listed below.

1. Fixed-Price Contract

- The commodity price is not subject to any adjustments.
- Maximum risk and full responsibility for all costs and resulting profit rest on the supplier.
- Provides maximum incentive for the supplier to control costs and perform effectively.
- Used when a sealed bid process is implemented and when procuring commercial commodities and supplies. Often, the preferred method of contracting for large public-sector procurements.

2. Cost Reimbursement Contract

- Provides for payment of allowable incurred costs to the extent allowed in the contract.
- Establishes an estimate of total cost and a cost ceiling the supplier may not exceed.
- Places the least cost and performance risk on the supplier.
- Suitable for use when uncertainties in contract performance do not permit accurate cost estimates. Not used for procuring commercial commodities.[1]

See Section I.2 for websites that provide additional information on fixed-price and cost reimbursement contracts.

[1] See http://www.ohiou.edu/ptac/downloads/Contract_Types.pdf, page 1: Contract Types.

E. Contract Selection and Preparation

As discussed in Module 3, the two basic procurement options available to the purchaser are a direct approach to procurement and an indirect approach to procurement. The type of contract the purchaser will use (fixed-price or cost reimbursement) will depend to a large extent on the procurement option and procurement method chosen by the purchaser. Under most procurement methods, given the commercial nature of RH commodities, a fixed-price contract is traditionally used, as illustrated in the following table.

Procurement Options			
Direct Procurement		Indirect Procurement	
Procurement Method	***Contract Type***	***Procurement Organization***	***Contract Type***
International competitive bidding	Fixed-price	International supply service	Fixed-price
Private procurement agency	Fixed-price or cost reimbursement	Private supply organization	Fixed-price
Sole source	Fixed-price	International procurement agency	Fixed-price or cost reimbursement
Request for Quotation	Fixed-price		
Shopping	Fixed-price		

The following sections discuss contract type and contract preparation under these procurement options and methods.

1. Selecting the Contract Type for the Direct Procurement Approach

Under a direct procurement approach, the purchaser contracts directly with a supplier or the supplier's formal sales network to purchase RH commodities. Fixed-price contracts are most commonly used for RH commodity procurement. However, variations to this contract type, such as an indefinite quantity contract, can be considered for special circumstances.

a. Fixed-Price Contract

RH commodities are commercially manufactured items, and the supplier is able to determine production costs and profit margins at different quantity levels with reasonable certainty. This allows the manufacturer to offer fixed prices for RH commodities with minimal risk. In the procurement example provided in the preceding modules—large-volume

RH commodity procurement through international competitive bidding (ICB)—a fixed-price contract is used.

In this environment, the fixed-price contract is the preferred contract type for the purchaser to use since it places full responsibility for all costs on the supplier and provides the most incentive for the supplier to control costs and perform effectively, thus maximizing its profit.

If a purchaser knows there is potential for additional quantities in the future, but the budget is not yet available, an option may be structured in the contract. An option is an additional quantity or period in a contract that can be exercised or executed at the buyer's discretion. An option in a fixed-price contract identifies the RH commodity, quantity, fixed price, exercise date, and the delivery date. The key to the option is the exercise date; the exercise date identifies the latest date on which the option needs to be executed for it to become effective. In selecting an exercise date, the purchaser should take into account the date when funds will be available and the lead time of the supplier. If the purchaser attempts to execute the option after the exercise date, then the fixed pricing may be subject to change, as well as the supplier's lead time.

An option is advantageous for the purchaser because the price is fixed, allowing for more accurate budget planning and the avoidance of price fluctuations. However, if the market price for the commodity has decreased or the supplier has not been meeting its contractual commitments, then executing the option may not be in the best interest of the purchaser.

b. Indefinite Quantity Contract (Framework Contract)

This type of contract allows the purchaser to order an indefinite quantity of a product within a fixed period. The fixed period can be for 1 year or multiple years. The contract usually specifies a minimum and a maximum quantity the purchaser may order and stipulates the product price at different quantity order levels. The indefinite quantity contract, also referred to as the framework contract, has established terms and conditions that are applicable to each order a purchaser places with the supplier during the fixed period of the contract. An indefinite quantity contract is often used when the purchaser cannot predetermine, greater than the minimum amount, the precise number of commodities that will be required during the contract period.

2. Contract Preparation for Direct Procurement Methods

Under the direct procurement approach, the process of preparing fixed-price contracts can vary depending on the procurement method chosen.

a. International Competitive Bidding

Contract preparation for this procurement method occurs during the process of developing the bidding documents, when product specifications, delivery requirements, general and special contract conditions, and QA requirements specific to the RH commodity are assembled.[2] While this is often the most complex preparation process, bidding documents provide the bidder with all the pertinent contract information and requirements so that come contract award time, the contract is in place and the winning bidder has only to sign the contract agreement form. This method also provides the purchaser with nearly complete control in establishing the contract terms and conditions.

b. Private Procurement Agency

The purchaser may hire a private procurement agency to conduct the bidding process while retaining its right to issue the contract directly. In such a case, either a fixed-price or cost reimbursement contract may be appropriate. A fixed-price contract is used in circumstances in which the agency has quoted a flat fee for handling the bidding process. A cost reimbursement contract is used in circumstances in which the cost of the goods is fixed but the services of the agency are variable dependent on the amount of time spent conducting the bidding process.

c. Other Direct Procurement Methods

Contract preparation for other direct procurement methods, such as Request for Quotation, sole source, and shopping is generally not as complex as developing bidding documents required for ICB. In many cases, the purchaser will have preexisting standard contract forms or documents, such as purchase orders, that can be used for these other direct procurement methods. While existing contract forms can provide strong, standard language and serve as the foundation for the contract to be awarded, it is important for the purchaser to review standard forms and modify or add requirements and conditions that reflect the unique nature of the procurement and incorporate appropriate QA requirements for the RH commodity being procured.

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[2] **See Module 6 for additional information on preparing bidding documents.**

In preparing a fixed-price contract for use on other direct procurement methods, the purchaser should ensure that key requirements and contract provisions from the following categories are included in the contract as needed:

- Product requirements.
- Title and risk of loss.
- Delivery requirements.
- Certification requirements.
- Inspection and testing rights.
- Invoice and payment terms.
- Special QA conditions appropriate to the commodity.
- Funder requirements (if required).
- Warranty clauses.
- Termination clauses.
- Default and remedy clauses.
- Supplier performance monitoring criteria.

See Exhibit 8-1 in Section 1.1 for a more comprehensive checklist of the General and Special Conditions of Contract most often included in fixed-price contracts.

Under the direct procurement approach, the purchaser initiates the contracting process by issuing an Invitation for Bids or requesting quotes. This places the purchaser in a stronger position to establish the contract requirements, terms and conditions, and deliverables of the contract. For some requirements, such as supplier performance monitoring criteria, it is recommended that the purchaser share information on the key performance indicators with the supplier. An open environment helps build supplier commitment to the performance monitoring system.

In some circumstances, the supplier may respond to the purchaser's request for pricing by providing commodity pricing and delivery information and a copy of its standard contract, with the requirement that the supplier's contract must be used for the transaction. The purchaser is free to negotiate with the supplier on this issue. If the supplier insists on using its own contract form, the purchaser must review the contract carefully and ensure that key requirements and information from the categories identified above are included in the contract in order to protect the purchaser's interests.

3. Selecting the Contract Type for the Indirect Procurement Approach

Under an indirect approach, the purchasing activity is carried out through an intermediate organization. The purchaser is one step removed from the commercial marketplace, and the contract is between the purchaser and the intermediate organization.

Under the indirect procurement approach, the three most common procurement methods used are:

- Procurement through an international supply service, such as the United Nations Population Fund (UNFPA).
- Procurement through a private supply organization, such as the IDA Foundation or Missionpharma.
- Hiring an international procurement agency (either not-for-profit or private commercial) to conduct the procurement exercise.

a. International Supply Service

The fixed-price contract type is most often used by international supply services. Unlike direct procurement methods, such as ICB, for which the purchaser has the ability to exercise control over contract terms and conditions, when contracting with an international supply service, the purchaser is required to accept the contract of the supply service. In the case of UNFPA, the purchaser signs UNFPA's memorandum of understanding, which contains the terms and conditions for reimbursable procurement. For UNFPA contracts, the fixed price is based on the cost of the RH commodities plus a fixed fee of 5 percent of the cost, insurance, and freight (CIF/CIP) price for the commodities. See Section I.2.c for website information on UNFPA's memorandum of understanding and ordering procedures.

b. Private Supply Organization

Private supply organizations, such as the IDA Foundation and Missionpharma, traditionally require the purchaser to accept their fixed-price contract for transactions. For new accounts, prepayment of the contract price is required. For established accounts with a history of prompt payment, the purchaser is often allowed to make a down payment with the balance due upon shipment of goods.

c. International Procurement Agency

Contract types for procurement agency services can range from cost reimbursement for the projected level of effort required to perform the procurement, to a fixed-price contract wherein the fixed fee is based on a percentage value of the commodities purchased.

4. Contract Preparation for the Indirect Procurement Approach

a. International Supply Service

As discussed above, the purchaser is required to use the contract of the international supply service; thus, there is no contract preparation effort on the purchaser's side. The purchaser can minimize the risks involved in not being able to prepare the contract, or add QA requirements to the contract by dealing with a reputable international supply service that has effective QA procedures in place. For example, UNFPA uses a product prequalification and testing program to ensure product quality when procuring contraceptives.

b. Private Supply Organization

Similar to contracting with an international supply service, no contract preparation is required on the purchaser's side since the contract of the private supply organization is used. As with an international supply service, the purchaser minimizes its risk by contracting with a reputable private supply organization that implements effective QA procedures in its procurement of products. The IDA Foundation, for example, operates its own quality control laboratory to independently test the products it procures for clients.

c. International Procurement Agency

If the purchaser conducts a competitive process to select a procurement agency by issuing a Request for Proposal, then performance requirements and terms and conditions of the contract will have been developed through the process of preparing the Request for Proposal documents.

The key document in a Request for Proposal is the terms of reference, which describes the services the purchaser requires and defines the performance requirements of the procurement agency. Upon selection of a procurement agency, the purchaser and agency negotiate the final terms of reference, proposed staffing, deliverables, and terms and conditions of the contract.

See Section I.2 for reference information on preparing terms of reference for service contracts.

In situations in which the procurement agency is selected on a sole-source basis, the procurement agency will usually propose use of its standard contract. The purchaser remains responsible for defining the services required, the performance requirements, and the contract deliverables, and proposing supplier performance evaluation criteria, which are then agreed upon through negotiation with the procurement agency and incorporated into the contract.

F. Contract Award

The purchaser's responsibilities in awarding the contract vary according to the procurement method used. Awarding a contract under an ICB process is not difficult because the key contract documents were previously prepared during the bidding document preparation process. Contract award in the case of an international supply service is also relatively straightforward. Contract award for the direct and indirect procurement approaches are discussed below.

1. Contract Award for the Direct Procurement Approach—International Competitive Bidding

a. Resolution of Minor Deviations

Once the supplier selection process has been completed and approved by the appropriate authorities, the purchaser must notify the successful bidder of its plan to award a contract. However, if the selected bidder's response contains minor deviations from the bidding requirements, these deviations need to be resolved before the contract award notification is released. In this situation, it is recommended that the purchaser:

- Draft a letter stating that the bid is conditionally accepted pending resolution of outstanding issues.
- List the outstanding issues and identify the next steps for resolution.
- Request written acknowledgement.
- Initiate negotiations with the supplier to resolve the deviations and document the Resolution Agreement.
- Obtain necessary approvals of the Resolution Agreement as required.
- Include the Resolution Agreement in the Contract Agreement.

b. Contract Review

Prior to releasing the official award notification documents to the supplier, the purchaser should conduct a final review of the contract documents to ensure that all necessary requirements, terms and conditions, and other key information have been included. Review of contracts resulting from an ICB process will be straightforward, as nearly all the required information will have been assembled in the process of preparing the bidding documents as discussed in Module 6. For other solicitation processes in which document preparation is

less extensive, such as Request for Quotation, the purchaser should allow sufficient time to conduct a thorough review of proposed contract documents.

In reviewing the contract documents, the purchaser should draw on any technical resource deemed necessary, such as legal support, to conduct a sufficient review.

c. Notification Documents

Once any minor deviations are resolved and a final review of the contract documents has been completed, reviewed, and approved, the purchaser prepares appropriate notification documents to issue to the supplier. In ICB exercises, notification often consists of three documents:

1. An award notification document

This document informs the successful bidder that it will be awarded a contract. It includes a brief description of the commodities, the price, and applicable INCOTERMS. It also identifies the other documents that will be included in the contract. See Exhibit 8-2 for a sample award notification document.

2. Two copies of the contract agreement form

The contract agreement form incorporates relevant sections of the bidding documents into the binding contract, including:

- Contract Agreement.
- General and Special Conditions of Contract.
- Technical Specifications.
- Schedule of Requirements.
- Supplier's bid and original price schedule.
- Purchaser's award notification document.
- Any other documents specified by the purchaser.

See Exhibit 8-3 for a sample contract agreement form. (For additional information on the contract agreement form, see Module 6.)

3. Performance security form (if required)

This is the same form as provided in the original bidding documents.

d. Release of Award Notification Documents

Award notification documents are traditionally sent to the successful bidder by registered post or courier or are hand-delivered. The purchaser should also ensure that copies of the notification documents are sent to the parties dictated by procedural and any funder requirements.

e. Successful Bidder Responsibilities

Sign contract

Upon receipt of the notification documents, the supplier reviews all documents and signs the contract agreement form. The contract form binds the supplier to the General and Special Conditions of Contract and the specifications contained in the original bidding documents.

Obtain performance security (if required)

The performance security form is a legal document in which the guarantor agrees to pay the purchaser the amount specified in the performance security if the supplier defaults on the contract. If a performance security is required, the supplier arranges for the form to be completed and signed by its guarantor (a bank or insurance company). See Exhibit 8-4 for a sample performance security form.

The successful bidder must submit the signed contract agreement form and completed performance security to the purchaser by the deadline identified in the original bidding documents. If the successful bidder fails to meet the deadline, any bid security it submits is forfeited, and the purchaser proceeds to award the contract to the next lowest evaluated cost qualified bidder.

f. Purchaser's Responsibilities Upon Receipt of Successful Bidder's Documents

Confirm performance security (if required)

Upon receipt of a required performance security, the purchaser contacts the issuing institution to confirm the validity of the performance security. The performance security must be confirmed before the purchaser can sign the contract form. See Exhibit 8-5 for a sample form for obtaining confirmation of a performance security.

Sign contract form

The authorized contracting person for the purchaser signs the contract agreement form received from the successful bidder. The purchaser distributes copies of the document to the required parties.

Notify unsuccessful bidders

The purchaser notifies unsuccessful bidders that the contract has been awarded to another candidate. If bid securities were required, these are returned to the unsuccessful bidders.

2. Possible Delays to Contract Award for the Direct Procurement Approach

a. Bidder Protests

Unsuccessful bidders may choose to protest a contract award, which can cause delays in issuing the contract and subsequent delays in product delivery. Protests can be based on the bidder's perception that the selection process was conducted in an unfair manner and not according to the criteria and process described in the bidding documents. Some bidders may have minimal justification for protesting an award but do so on the basis that if the bidding exercise is canceled, then they will have another opportunity to compete for the business.

The purchaser's best defense against a bid protest is to ensure that the supplier selection process is:

- Based on objective written evaluation criteria stated in the bidding documents.
- In accordance with selection procedures stated in national procurement regulations.
- Implemented in full compliance with the evaluation criteria stated in the bidding documents.
- Properly documented (that all decisions made by the committee are properly recorded).

The primary role of procurement personnel in a bid protest is to provide documentation to the committee responsible for reviewing bid protests.

b. Product Registration

Before a contract can be awarded, the purchaser must confirm that the product is registered by the national regulatory authority for distribution and use in-country. Documentation of the product's registration status is requested in the bidding documents. If the purchaser selects a supplier whose product is not yet registered, it must factor in the projected time required to register the product, which can often be substantial unless a fast-track registration mechanism is in place. Unanticipated delays in product registration can delay scheduled deliveries, which can negatively impact program implementation.

3. Contract Award for the Indirect Procurement Approach—International Supply Service

Contract award for the indirect procurement approach is handled by the international supply service, making it a straightforward process for the purchaser. The international supply service will provide the contract for the purchaser to sign. Upon receipt of the contract, the purchaser should review the terms and conditions before signing and returning the contract.

G. Contract Amendments

After signing the original contract, it may become necessary to amend the contract to address issues that were not foreseen during the initial drafting of the contract, or to incorporate changes in circumstances that have occurred since the contract was signed. In either event, a contract amendment must be processed to document the change. For a contract amendment to be effective, it must be signed by both parties to the contract. Regardless of the impact to the original contract value, there should always be a contract amendment to document the change. Common amendments to contracts are changes to the delivery schedule, quantities, and products.

The change to the contract may be initiated by the purchaser or the supplier. Both parties need to agree to the change; therefore, clear communication and documented agreement between the parties prior to issuing an amendment are important. There should also be internal communication with units that would be impacted by the change. For instance, if the contract value is increased, the purchaser needs to first ensure there is budget available to cover the adjustment before amending the contract. If the delivery schedule is impacted, the purchaser should notify the warehouse of the change in the schedule. Proper documentation of the change in the form of a contract amendment maintains the ability of the buyer to enforce the contract with the supplier.

H. Contract Payment

There are several payment options that can be used for contract payment. In most procurement methods, the supplier is in a stronger position to dictate contract payment terms, but the purchaser is free to negotiate. Regardless of the payment option used, it is important for the purchaser to complete the payment arrangement responsibilities in a timely manner, as many international suppliers and international supply services will not accept the risk of beginning production or procurement for a large order until they have received either a letter of credit (L/C) or a down payment or cash in advance. Delays in processing payment arrangements are likely to cause a delay in shipping.

The most complex contract payment arrangements are usually found in ICB, which is discussed next.

1. Contract Payment for the Direct Procurement Approach—International Competitive Bidding

Upon receipt of a signed copy of the contract agreement form from the supplier and confirmation of the performance security (if a performance security is required), the purchaser must make arrangements to pay the supplier. In large-volume international competitive procurements, an L/C or down payment method is generally used.

a. Letter of Credit

The L/C is a binding legal arrangement between banks for settling payments in commercial transactions. Specifically, it is a written guarantee by a bank given to the supplier in accordance with the instructions (and cash deposit) of the purchaser to pay up to a given sum of money within a prescribed time limit when and if the supplier presents specified documents that give evidence of its contract performance.

One of the key benefits of an L/C for the purchaser is that it can provide the purchaser with the ability to control and enforce contract conditions. For example:

- Quality requirements can be enforced by requiring the supplier to present documents to the paying bank that give evidence of successful product inspection and testing.
- Shipping dates, documentation, notification, and marking requirements can be enforced by requiring evidence of compliance.

- If the beneficiary of the L/C (the supplier) does not comply with the L/C requirements, the bank will not release payment.

From the perspective of the supplier as well, an L/C is beneficial. If the supplier complies with all the contractual requirements and submits the appropriate documents to the bank, then the bank is required to release payment to the supplier. This reduces the supplier's risk of late or no payment after performing according to the contract terms. This supplier benefit means if an L/C is offered as the method of payment, a wider range of prospective suppliers is likely to be interested in doing business, increasing competition, and potentially lowering prices.

b. Purchaser's Responsibilities in Issuing a Letter of Credit

The process described below is a common practice; however, there may be variations from country to country.

1. Prepare instruction sheet for an L/C application

If an L/C is required, the purchaser initiates the process for opening the L/C by developing an instruction sheet. The instruction sheet draws information from the contract, giving clear instructions about documents required for payment, shipping schedules, contract amounts, payment schedules, etc. The instruction sheet helps to ensure that the L/C will be issued correctly and without delay and that all intended controls are in place. See Exhibit 8-6 for a sample instruction sheet for L/C application.

2. Prepare draft L/C application

The purchaser obtains an L/C application form from the designated bank and completes a draft application.

3. Submit request to the finance unit for opening an L/C

The purchaser submits the L/C instruction sheet and the draft L/C application to the finance unit responsible for coordinating L/C activities and requests that the L/C be opened with the designated commercial bank.

4. Follow up with the finance unit on the status of the L/C opening

The purchaser should work closely with the finance officer responsible for issuing the L/C request to the bank to provide any additional information or assistance that may be needed for the bank to issue the L/C. As mentioned above, delays in issuing an L/C can cause corresponding delays in the shipment of RH commodities.

5. Verify L/C

The purchaser should obtain verification that the L/C has been issued. A copy of the issued L/C should be requested and reviewed to confirm that the terms and conditions of the L/C match the instructions and information provided in the instruction sheet and draft application.

c. Letter of Credit Amendments

If mistakes are found in the L/C, an amendment will need to be requested. The purchaser must notify the issuing bank and request the amendment. Typically, only a few days are allowed after an L/C is issued to make corrections without incurring amendment costs, so the purchaser's review of the L/C and request for any necessary amendments must be processed in a timely manner.

If the supplier requests a change to the L/C, then further negotiations are usually required. If the purchaser agrees with the supplier's request, or a settlement is negotiated, the purchaser requests the issuing bank to amend the L/C to reflect the change.

For more information on L/Cs, see Supplementary Topics, Section C: Letters of Credit.

d. Down Payment

If the contract requires a down payment, the purchaser must issue a request to the appropriate financial unit to allocate funds and process the down payment. The purchaser provides the financial unit with information needed to complete the transaction, which includes:

- Supplier's name and address.
- Supplier's bank, account number, and bank address.
- The procurement contract number and any other transaction tracking information required.

For additional information on down payment and other payment options available to the purchaser, see Supplementary Topics, Section D: Payment Terms and Methods of Funds Remittance.

2. Contract Payment for the Indirect Procurement Approach—International Supply Service

To minimize risk, international supply services will frequently require full contract payment in advance before proceeding to order RH commodities for the purchaser. For example, UNFPA requires deposit of the full contract amount (including the 5 percent administrative fee) to a designated UNFPA account before initiating its ordering process. While there are some situations in which a supply service may allow a purchaser with an established relationship and reliable payment record to pay less than the full contract amount in advance, the purchaser should always be prepared to pay the full contract amount or a significant down payment percentage in advance.

Once a contract has been signed by both parties and payment arrangements are in place, the purchaser is responsible for monitoring the supplier's or intermediate organization's performance of its contract obligations. This activity is discussed in Module 9.

I. Reference Material

1. Documents

Exhibit 8-1

General and Special Conditions of Contract

General Conditions of Contract	
Definitions	
Application	
Contract Documents	
Corrupt, Fraudulent, Collusive, or Coercive Practices	
Country of Origin	
Specifications and Standards	
Interpretation	
Documents Forming the Contract and Priority	
Use of Contract Documents and Information	
Inspection and Audit	
Eligibility	
Gratuities and Agency Fees	
Joint Venture	
Confidential Information	
Certification of Goods in Accordance with Laws of the Purchaser's Country	
Patent and Intellectual Property Rights	
Copyright	
Supplier's Responsibilities	
Purchaser's Responsibilities	
Scope of Supply	
Performance Security	
Inspections and Tests	
Packing and Documents	
Delivery and Documents	
Acceptance	
Insurance	
Transportation	
Incidental Services	
Warranty	
Terms of Payment	
Prices	
Change Orders and Contract Amendments	
Assignment	
Subcontracts	
Delays in the Supplier's Performance	

Extensions of Time	
Liquidated Damages	
Force Majeure	
Termination for Insolvency	
Termination	
Resolution of Disputes	
Limitation of Liability	
Governing Language	
Applicable Law	
Notices and Communications	
Taxes and Duties	
Changes in Laws and Regulations	
Clauses Requiring User Input	

Special Conditions of Contract	
Nature of Goods to be Supplied	
Purchaser's Country	
Purchaser's Name, Address, etc.	
Project Site/Final Destination	
End User	
Applicability	
Applicable Edition of INCOTERMS	
Supplier's Name, Address, etc.	
Documents That Are Also Part of the Contract	
Registration of Goods and Other Certification	
Ineligible Countries for Suppliers and Subcontractors	
Ineligible Countries for Goods and Related Services	
Standards	
Assignment	
Language	
Purchaser's and Supplier's Contact Information for Notices	
Governing Law, Language	
Patent Rights	
Packing List Requirements	
Packing, Markings, Documentation	
Details of Shipping and Other Documents to be Furnished by Supplier	
Prices Subject to Adjustment or Not	
Incidental Services	
Change Orders and Contract Amendments	
Method and Conditions of Payment	
Penalty for Late Payment by Purchaser	
Insurance Coverage Requirements	
Transport of Goods	
Performance Security	
Inspections and Tests	
Warranty Period	
Repair/Replacement Period	
Delays in Supplier's Performance	
Liquidated Damages' Percentage and Maximum	
Termination	
Force Majeure	
Arbitration Place/Rules	
Limitation of Liability	
Taxes and Duties	

Exhibit 8-2

Sample Format for Award Notification

Sample Format for Award Notification to Successful Bidder

Memo No.: _____ Date: _____

Government of the People's Republic of Dharma *[fictitious name]*
Directorate General of Family Planning
[address]

To: Manufacturer/Supplier *[name and address of the bidder]*

Subject: Award Notification Against Bid Package No. _____ for Supplying *[short description of goods]*

Dear Sirs:

We are pleased to award you the contract for Bid Package No. _____ for the goods and price as mentioned below:

Bid Package No. and Short Description of Goods	Total Contract Price with Currency	Basis of Contract
		[note CIF or CFR or EXW contract or otherwise]

CIF: Cost, insurance, and freight.
CFR: Cost and freight.
EXW: Ex-works.

Please note that the contract will include, among others, the following documents:

i) Contract agreement form.
ii) Bid form and price schedule submitted by the bidder.
iii) Schedule of Requirements (offered by the bidder and accepted by the purchaser).
iv) Technical Specifications (offered by the bidder and accepted by the purchaser).
v) General Conditions of Contract.
vi) Special Conditions of Contract (duly filled in).
vii) Performance security submitted by the bidder.

Two copies of the contract form are enclosed herewith for your signature and return to us. Please also submit a performance security in the amount not less than *[percentage]* of the contract price within *[number of days]* of receipt of this award notification.

Signature: _____

Title: _____

Exhibit 8-3

Sample Contract Agreement Form

Sample Contract Agreement

THIS CONTRACT AGREEMENT is made

this *[insert: **number**]* day of *[insert: **month**]*, *[insert: **year**]*.

BETWEEN

1. *[insert: **Name of Purchaser**]*, a *[insert: **description of type of legal entity*** (for example, an agency of the Ministry of ....)*]* of the Government of *[insert: **country of Purchaser**]*, or corporation incorporated under the laws of *[insert: **country of Purchaser**]*, and having its principal place of business at *[insert: **address of Purchaser**]* (hereinafter called the "Purchaser"), and

2. *[insert: **name of Supplier**]*, a corporation incorporated under the laws of *[insert: **country of Supplier**]* and having its principal place of business at *[insert: **address of Supplier**]* (hereinafter called the "Supplier").

WHEREAS the Purchaser invited bids for certain goods and ancillary services, namely *[insert: **brief description of goods and services**]*, and has accepted a bid by the Supplier for the supply of those goods and services in the sum of *[insert: **contract price in words and figures**]* (hereinafter called the "Contract Price").

NOW THIS AGREEMENT WITNESSETH AS FOLLOWS:

1. In this Agreement, words and expressions shall have the same meanings as are respectively assigned to them in the Conditions of Contract referred to.

2. The following documents shall constitute the Contract between the Purchaser and the Supplier, and each shall be read and construed as an integral part of the Contract:

a. This Contract Agreement.

b. General Conditions of Contract.

c. Special Conditions of Contract.

d. Technical Specifications (including Functional Requirements).

e. Schedule of Requirements.

f. The Supplier's bid and original price schedule.

g. The Purchaser's award notification.

h. *[add here: **any other documents**].*

3. In consideration of the payments to be made by the Purchaser to the Supplier as hereinafter mentioned, the Supplier hereby covenants with the Purchaser to provide the Goods and Services and to remedy defects therein in conformity in all respects with the provisions of the Contract.

4. The Purchaser hereby covenants to pay the Supplier in consideration of the provision of the Goods and Services and the remedying of defects therein, the Contract Price or such other sum as may become payable under the provisions of the Contract at the times and in the manner prescribed by the Contract.

For and on behalf of the Purchaser:

Signed: _____

in the capacity of *[insert: **title or other appropriate designation**]*

in the presence of _____

For and on behalf of the Supplier:

Signed: _____

in the capacity of *[insert: **title or other appropriate designation**]*

in the presence of _____

CONTRACT AGREEMENT

dated the *[insert: **number**]* day of *[insert: **month**]*, *[insert: **year**]*

BETWEEN

*[insert: **name of Purchaser**],* the “Purchaser”

and

*[insert: **name of Supplier**],* the “Supplier”

Exhibit 8-4

Sample Performance Security Bank Guarantee

Sample Performance Security Bank Guarantee
(unconditional)

Date:	*[insert: **date**]*
Loan/Credit Number:	*[insert: **loan or credit number from Invitation for Bids**]*
Invitation for Bids:	*[insert: **name or number of Invitation**]*
Contract:	*[insert: **name or number of Contract**]*

To: *[insert: **name and address of Purchaser**]*

Dear Sir or Madam:

We refer to the Contract Agreement (the "Contract") signed on *[insert: **date**]* between you and *[insert: **name of Supplier**]* (the "Supplier") concerning the supply and delivery of *[insert: **a brief description of the goods**]*. By this letter, we, the undersigned, *[insert: **name of bank**]*, a bank (or company) organized under the laws of *[insert: **country of bank**]* and having its registered/principal office at *[insert: **address of bank**]* (hereinafter, the "Bank"), do hereby jointly and severally with the Supplier irrevocably guarantee payment owed to you by the Supplier, pursuant to the Contract, up to the sum of *[insert: **amount in numbers and words**]*. This guarantee shall be reduced or expire as provided for by the General Conditions of Contract, Subclause 8.4.

We undertake to make payment under this Letter of Guarantee upon receipt by us of your first written demand signed by your duly authorized officer declaring the Supplier to be in default under the Contract and without cavil or argument any sum or sums within the above-named limits, without your need to prove or show grounds or reasons for your demand and without the right of the Supplier to dispute or question such demand. Our liability under this Letter of Guarantee shall be to pay to you whichever is the lesser of the sums so requested or the amount then guaranteed under this Letter in respect of any demand duly made under this Letter prior to expiry of this Letter of Guarantee, without being entitled to inquire whether or not this payment is lawfully demanded.

This Letter of Guarantee shall be valid from the date of issue until the date of expiration of the Guarantee, as governed by the Contract. Except for the documents herein specified, no other documents or other action shall be required, notwithstanding any applicable law or regulation. Our liability under this Letter of Guarantee shall become null and void immediately upon its expiry, whether it is returned or not, and no claim may be made under this Letter after such expiry or after the aggregate of the sums paid by us to you shall equal the sums guaranteed under this Letter, whichever is the earlier. All notices to be given under this Letter shall be given by registered airmail post to the addressee at the address herein set out or as otherwise advised by and between the parties hereto.

We hereby agree that any part of the Contract may be amended, renewed, extended, modified, compromised, released, or discharged by mutual agreement between you and the Supplier, and this security may be exchanged or surrendered without in any way impairing or affecting our liabilities hereunder without notice to us and without the necessity for any additional endorsement, consent, or guarantee by us, provided, however, that the sum guaranteed shall not be increased or decreased.

No action, event, or condition that by any applicable law should operate to discharge us from liability hereunder shall have any effect, and we hereby waive any right we may have to apply such law, so that in all respects, our liability hereunder shall be irrevocable and, except as stated herein, unconditional in all respects.

For and on behalf of the Bank:

Signed: _____

Date: _____

in the capacity of: *[insert:* ***title or other appropriate designation****]*

Common Seal of the Bank

Exhibit 8-5

Sample Format for Confirmation of Bid Security

Sample Format for Confirmation of Bid Security

Memo No.: _____ Date: _____

Government of the People's Republic of Dharma *[fictitious name]*

Directorate of Family Planning

(*address*)

Manager, Issuing Bank

[name and address of the bank branch as evident from the bid security]

Subject: Bank Guarantee/Pay Order/Cashier's Check *[no. and date]*

You are requested to kindly confirm issuance of the above-mentioned Bank Guarantee/Pay Order/Cashier's Check *[no. and date]*, submitted to us by *[bidder's name and address]* against Bid Package No. _____.

Salient information about the instrument is given below.

Type of Guarantee	Issued in Favor of	Amount and Currency	Validity
[Bank guarantee, pay order, or otherwise]	*[Bidder's name]*		*[Period]*

Your early response will be highly appreciated.

Signature: _____

Title: _____

Exhibit 8-6

Sample Instructions for Letter of Credit Application

Instructions for Letter of Credit (L/C) Application

Date: _____

Attention: _____ *[finance unit or department that handles L/C requests]*

Reference: _____ *[contract or purchase order number]*

Please instruct our bank to open an irrevocable, confirmed, documentary letter of credit as follows:

1. Beneficiary: _____ *[seller's name and address]*
   _____
   _____
   _____

2. Advising Bank: _____ *[bank's name and address]*
   _____
   _____
   _____

3. L/C Amount: _____
4. Shipping Terms: _____
5. Shipment Via: _____
6. Shipping Date: _____
7. L/C Expiration Date: _____
8. Shipment From: _____

9. Shipment To: _____
   [port or airport, city, and country of final destination]

10. Merchandise Description: _____
11. Merchandise Value: _____
    [include any down payments not contained in the L/C amount]

12. Partial Shipments: _____ not allowed _____ allowed
13. Trans-shipments: _____ not allowed _____ allowed

14. Documents Required:

[This requirement varies from country to country. Please review your country's import requirements, as well as your own agency's requirements.] **Typical shipping documents for** *air freight* **shipments are included below:**

Commercial invoice *[number of each required]*

_____ **originals** _____ **copies**

Packing list *[number of each required]*

_____ **originals** _____ **copies**

Original air waybill consigned to *[and number of each required]*:

_____

_____ **originals** _____ **copies**

Insurance certificate for 110% of CIP value *[state number of each required]*

[Insure for total cost of commodities, transportation, and insurance, plus minimum 10%. Total cost of commodities includes down payment to supplier not included in L/C amount.]

_____ **originals** _____ **copies**

Insurance payable to:

_____

Certificate of Conformity with contract specifications issued by:
_____ *[third party inspection agent]*

Beneficiary's signed certification that the following documents have been sent with the shipment *[list required documentation]*:

_____

_____

Beneficiary's signed certification that all the shipping boxes have been labeled with the following shipping marks:

15. Special L/C conditions:

16. L/C transmittal method: _____ Airmail _____ Full-Text Cable _____ Electronic

2. Websites

a. Contract Types

For definitions of specific contracts that fall under the two broad categories of fixed price and cost reimbursement, see http://www.dtc.dla.mil/dsbusiness/Info/contracts1.htm.

For United States government definitions of contract types, applications, and limitations, see http://www.arnet.gov/far/current/html/FARTOCP16.html.

b. Contract Clauses

For information on contract clauses proposed by the World Bank for procurement of health-sector goods, see *Standard Bidding Document: Procurement of Health Sector Goods* (revised August 2008) at http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:21890171~menuPK:84284~pagePK:84269~piPK:60001558~theSitePK:84266~isCURL:Y,00.html and the accompanying *Technical Note* at http://siteresources.worldbank.org/PROCUREMENT/Resources/health-tn-ev2.doc.

c. United Nations Population Fund Memorandum of Understanding

For information on UNFPA as an international supply service, its memorandum of understanding, and its terms and conditions, see http://www.unfpa.org/procurement/about.htm.

d. Contracting for Services

See World Bank documents: *Standard Bidding Document: Procurement of Non-Consultant Services* (revised April 2007), at http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:21305355~isCURL:Y~menuPK:84284~pagePK:84269~piPK:60001558~theSitePK:84266,00.html, and *Standard Request for Proposals: Selection of Consultants* (revised March 2002), at http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:20061915~isCURL:Y~pagePK:84269~piPK:60001558~theSitePK:84266,00.html.

J. Learning Evaluation

1. What are the two basic contract types into which contracts are grouped?
2. What are the key features of each of these contract categories?
3. What are the conditions under which contracts in the two basic categories should be used?
4. What is the preferred contract type to use for direct procurement of RH commodities and why?
5. Which direct procurement method is considered the most complex for preparing contract documents and why?
6. When using a standard contract form, what additional measures should a purchaser take before releasing the contract?
7. Name two common indirect procurement methods for procuring RH commodities.
8. What are the purchaser's key responsibilities when awarding a contract issued under an ICB exercise?
9. What are the supplier's contract award responsibilities under ICB?
10. Name two reasons a contract award might be delayed.
11. What are the two most common payment methods used for contracts issued under ICB?
12. What are the purchaser's responsibilities in issuing an L/C?
13. What are the standard payment requirements for most international supply services?

Learning Evaluation Answers

1. The two basic types of contracts are fixed-price and cost reimbursement contracts. See Section D.

2. The key features of a fixed-price contract are:

    a. The commodity price is not subject to any adjustments.

    b. Maximum risk and full responsibility for all costs and resulting profit rest on the supplier.

    c. Provides maximum incentive for the supplier to control costs and perform effectively.

    The key features of a cost reimbursement contract are:

    a. Provides for payment of allowable incurred costs to the extent allowed in the contract.

    b. Establishes an estimate of total cost and a cost ceiling the supplier may not exceed.

    c. Places the least cost and performance risk on the supplier.

    d. Suitable for use when uncertainties in contract performance do not permit accurate cost estimates. Not used for procuring commercial commodities.

    See Section D.

3. The two conditions under which a fixed-price contract is used are when a sealed bid process is implemented and when procuring commercial commodities and supplies. A fixed-price contract is often the preferred method of contracting for large public-sector procurement. See Section D.

4. The preferred contract type for direct procurement is fixed price. This is because RH commodities are commercially manufactured items, and the supplier is able to determine production costs and profit margins at different quantity levels with reasonable certainty. This certainty allows the manufacturer to offer fixed prices for RH commodities with minimal risk. See Section E.1.

5. Under the direct procurement method, international competitive bidding is often the most complex preparation process because it requires assembly of product

specifications, delivery requirements, general and special contract conditions, and QA requirements specific to the RH commodity. See Section E.2.a.

6. It is important for the purchaser to review the standard contract forms and modify or add requirements and conditions that reflect the unique nature of the procurement and incorporate appropriate QA requirements for the RH commodity being procured. See Section E.2.c.

7. The three common indirect procurement methods are:

    a. Procurement through an international supply service, such as UNFPA.
    b. Procurement through a private supply organization, such as the IDA Foundation or Missionpharma.
    c. Hiring an international procurement agency (either not-for-profit or private commercial) to conduct the procurement exercise.

    See Section E.3.

8. The purchaser's key responsibilities when awarding a contract issued under ICB are resolving minor deviations, reviewing the contract, preparing award notification documents, and releasing the award notification documents. After the supplier has accepted the contract, the purchaser must confirm the performance security, sign the contract form, and notify unsuccessful bidders. See Section F.1.

9. The supplier's contract award responsibilities under ICB are to sign the contract and obtain the performance security, if required. See Section F.1.e.

10. The two reasons a contract award may be delayed are bidder protests and the registration of products. See Section F.2.

11. The two most common payment methods used for contracts issued under ICB are an L/C and down payment. See Section H.1.

12. The purchaser's responsibilities when issuing an L/C are preparing an instruction sheet for an L/C application, preparing a draft L/C application, submitting a request to the finance unit for opening an L/C, following up with the finance unit on the status of the L/C opening, and verifying the L/C. See Section H.1.

13. The standard payment requirement for most international supply services is full contract payment in advance. See Section H.2.

K. Performance Indicators

Performance indicators measure and evaluate success against a specific goal. The process begins by selecting performance indicators that are relevant for the procurement environment. This is followed by identifying and collecting appropriate data for each performance indicator to establish a baseline on the level of performance in the country. After training and corrective actions have been implemented, the same performance indicators are evaluated to determine the revised level of performance. Further information on conducting an assessment can be found in the Procurement Assessment Guide.

The following indicators can be used for monitoring and evaluating the performance of the contracting process described in this element.

1. Direct Procurement Methods

1. Percentage of contracts signed within the original bid validity period.
2. Percentage of contract files containing verification of product registration.
3. Percentage of contract files in which performance security is required that contain confirmation of the validity of the performance security from the issuing bank.
4. Percentage of L/Cs requiring amendments before release to the supplier.

2. Indirect Procurement Methods

1. Procedures in place to ensure appropriate QA requirements included in contracts issued by international supply services and private supply organizations.
2. Timely review and approval of contracts submitted by international supply services and private supply organizations.
3. Timely processing of contract payment requirements.

L. Glossary and Acronyms

Award notification	A notification from the purchaser to the successful bidder recommended for a contract.
Beneficiary	A legal term used in banking to describe the party entitled to collect funds guaranteed by a commercial letter of credit upon presentation of stipulated documents (usually shipping and quality assurance documents). Also known as the seller.
Bid	A procurement term describing a written offer for a quantity of goods, works, or services at a stated price based on a technical specification and specific terms and conditions. Bids are submitted to an intending purchaser by an intending seller in response to an Invitation for Bids.
Bidder	An intending seller or supplier that submits a bid offering goods or services in response to an invitation or request for bids and offers.
Bidding documents	The written description and set of terms and conditions of an intended purchase that is circulated by the intending buyer to prospective sellers.
Bid security	A financial instrument used to guarantee compensation to the prospective buyer for inconvenience and expense if a winning bidder rescinds its offer after the bid is closed and an award has been made to the bidder. Each bidder provides an amount stated in the bidding documents with its bid submission.
CFR	Cost and freight: Title and risk insurance cost pass to buyer when delivered on board the ship by seller, which pays the transportation cost to the destination port.
CIF	Cost, insurance, and freight: Title and risk pass to buyer when delivered on board the ship by seller, which pays transportation and insurance costs to destination port.

CIP	Carriage (freight) and insurance paid to: Costs paid to the named destination by the seller. Title and risk pass to buyer when delivered to carrier.
Commercial invoice	Document required by customs to determine the true value of imported goods for assessment of duties and taxes.
Commodity	Any piece of tangible property, supplies, or equipment that is the subject of a procurement activity.
Component	An important function or process that occurs within an element of the reproductive health supply process. Each module of the *Toolkit* focuses on one element.
Contract	An agreement entered into by two parties for the execution of a certain activity (e.g., sale and purchase, construction, service provision, etc.).
Criteria	Specific points, standards, qualities, and/or requirements against which something is judged.
Direct procurement	Purchaser contracts for goods directly with a manufacturer or its representative.
Element	One of the ten key operational, broad-based activities in the reproductive health supply process.
Eligibility (criteria)	Not excluded from competing for contracts in general by reason of nationality, debarment, lack of regulatory approval, etc.
Entity	A business and legal term to describe something that exists and functions as a separate and distinct body (e.g., a corporation, Ministry of Health, or committee).
Evaluated cost	An offered price adjusted for corrections, discounts, domestic preference, and usage factors.
Evaluation criteria	Basis for judgment (announced in bidding documents) that will be used to select the winning bidder.

Exercise date	The latest date on which an option needs to be executed for it to become effective.
Expiration (Expiry) date	The date beyond which the manufacturer will not guarantee the product.
EXW	Ex-works: The buyer bears all costs and risks involved in taking the goods from the seller's premises to the desired destination.
Force majeure	Unforeseen circumstances excuse a party from fulfillment of a contract.
Framework contract	General term for an agreement with a supplier setting out terms and conditions against which specific purchases (call-offs) can be made throughout the life of the agreement. Also see indefinite quantity contract.
Funder	Organization (or person) providing funds for a specific project, program, or purpose.
General Conditions of Contract	Mandatory contract wording for issues such as payments, obligations, risks, rights, and performance.
ICB	International competitive bidding.
IDA Foundation	Claims to be the world's largest not-for-profit supplier of essential medicines and medical supplies to low- and medium-income countries. Established in 1972 in Amsterdam by a group of pharmacists.
INCOTERMS	Rules for interpretation of the most commonly used terms in foreign trade to describe how goods will be shipped, who is responsible for them at each stage of the process, and who pays which costs. Published by the International Chamber of Commerce.
Indefinite quantity contract	Also referred to as a framework contract, it establishes terms and conditions applicable to each order a purchaser places with the supplier during the fixed period of the contract.

Indirect procurement	Purchaser contracts for goods through an intermediary that has or will purchase directly from a manufacturer.
International supply service	An international agency such as the United Nations Population Fund that purchases standardized commodities in large quantities and supplies them to developing-country government institutions at cost plus a fixed fee.
Invitation for Bids	An invitation to manufacturers or contractors, through a bidding process, to submit a proposal on a specific product or service to be furnished or project to be realized.
Joint venture	A business enterprise in which two or more companies enter a temporary partnership.
L/C	Letter of credit: An arrangement by banks for settling commercial transactions; specifically, a written promise by a bank given to the seller in accordance with instructions (backed by a cash deposit) of the buyer to pay up to a given sum of money within a prescribed time limit when and if the seller presents specified documents that give evidence of its performance.
Marks, markings	An application of numbers, letters, labels, tabs, symbols, or colors for handling or identification during shipment and storage.
Missionpharma	Supplies generic pharmaceuticals and medical devices to governments, United Nations agencies, and nongovernmental organizations in developing countries.
National regulatory authority	Same as drug regulatory authority: An independent government entity responsible for establishing procedures to ensure that medicines intended for use in the country are safe, potent, and effective.
Null and void	Cancellation or lapse of an agreement (contract) with no legal effect.
Option	If a purchaser knows there is potential for additional quantities in the future, but the budget is not yet available, an option may be structured

	in the contract. An option is an additional quantity or period in a contract that can be exercised or executed at the buyer's discretion.
Packing	The assembling of a packaged product into multiple units. Prepared for shipment in appropriate cartons or crates with all necessary blocking, bracing, cushioning, weatherproofing, reinforcement, and markings.
Performance indicator	Measures and evaluates success against a specific goal.
Performance security	A procurement term describing the financial instrument used to guarantee compensation to the buyer for inconvenience and expense if the seller does not perform (i.e., does not produce and ship the contracted goods or provide the contracted services within the stated period). The seller puts up its own funds, often through a bank or insurance company, to be held in reserve until the contract terms have been met.
Phase	A natural division of the ten elements of the supply process into three sequential parts: program planning, procurement process, and contract performance.
Procurement method	Process a purchaser uses to reach an agreement with a seller.
Procurement option	Approach to procurement: Direct or indirect, and several subdivisions of each are differentiated by who contracts with the original manufacturer (or its representative).
Purchase order	A commercial document issued by a buyer (purchaser) to a seller indicating the type, quantities, and agreed prices for products or services the seller will provide to the buyer. Purchase orders usually specify additional conditions such as terms of payment, INCOTERMS for liability and freight responsibility, any inspection or testing procedures that may be required, and required delivery date.

QA	Quality assurance. For more information, see Supplementary Topics, Section H: Product Quality Assurance.
Registration	A term used in regulating medicines, pharmaceuticals, and vaccines; exact usage varies from country to country. It is often synonymous with licensing, but it can mean simply that the particulars about a shipment are recorded as it enters a country.
Request for Quotation	A procurement method without sealed bidding or formal bidding procedures in which potential suppliers are contacted and asked to provide a price for specified goods.
RH	Reproductive health: A state of complete physical, mental, and social well-being—not merely the absence of disease or infirmity—in all matters relating to the functions and processes of the reproductive system. Reproductive health implies that people are able to have a satisfying and safe sex life and that they have the capability to reproduce and the freedom to decide if, when, and how often to do so; implicit in this last condition is the right of men and women to be informed and to have access to safe, effective, affordable, and acceptable methods of family planning of their choice, as well as other methods of their choice, for regulation of fertility.
Schedule of Requirements	Part of bidding documents that describes the quantity of goods and expected delivery time.
Sealed bids	A procurement process in which formal bids are submitted in sealed envelopes and held unopened until an appointed date and time, then opened and read in public with bidders in attendance.
Shipping term	Generally an INCOTERM.
Special Conditions of Contract	Modifies or adds to General Conditions of Contract to suit specific goods and situations.
Specification	A definitive description of the commodity to be procured.

Standard	Establishes the minimum level of performance and safety requirements for the product, and generally specifies methods of use when carrying out basic tests for quality verification. Standards are traditionally developed and published by international and national regulatory authorities or standards bodies.
Supplier	The party that transfers goods out of its own control to a named recipient.
Supply	Goods and services of a specific kind that are provided to businesses, public agencies, or directly to consumers.
UNFPA	United Nations Population Fund: A semiautonomous United Nations agency working to ensure universal access to reproductive health, including family planning and sexual health, to all couples and individuals. Operates a global procurement service for public-sector purchasers of contraceptives and related products.
United Nations	An international organization founded in 1945 after the Second World War by 51 countries committed to maintaining international peace and security; developing friendly relations among nations; and promoting social progress, better living standards, and human rights.
Warranty	A written guarantee given to the purchaser of health-sector goods by the manufacturer or dealer, usually specifying that the manufacturer will replace poor-quality goods free of charge for a stated period of time.
World Bank	The World Bank Group offers loans, advice, and an array of customized resources to more than 100 developing countries and countries in transition.