

## ANNEX H

### BACKGROUND AND MARKET APPROACH

#### 1. BACKGROUND

##### 1.1 The PPE Current Market Environment

The PPE Current Market Environment is under severe pressure due to the COVID-19 Global Pandemic, with demand levels 100's or '000's of times more than normal.

Demand and Supply shifts as the outbreaks spreads, with the demand and supply bases being in a continuous state of flow - first from the rest of the world into China and then switching from China to Europe and the US and anticipated to move on to the rest of the world.

This global pandemic has seen multiple Governments placing bans on exports, including raw materials; impacting industry, established supplier bases, and requiring the cancellation of orders.

The extreme demand has caused price inflation within the limited supply availability environment, as wealthier buyers secure available production capacity/ supply; further aggravated by intermediary and trader speculation.

The impact of this is severe constraints on production capacity and raw materials (particularly for N95 masks, surgical masks and coveralls, where the highest demand is seen). There is a lack of raw material availability which limits production. Manufacturers are required to pay cash in advance to secure raw materials, and buyers are required to pay cash in advance to secure production capacity at manufacturers.

There are poor quality products present in the market, where pop-up suppliers are seeking to make quick profits, damaging the reputation of industry members and resulting in increased controls e.g. Announcement 5 of 2020 from the Chinese Customs Authorities.

##### 1.2 The COVID-19 pandemic impact on procurement of PPE

This pandemic has had a significant impact on the procurement approach required to operate within this market.

Contracted suppliers no longer have the access to their supply sources. With the limited available capacity within the market to meet the current demand there has been relatively few suppliers who have been able to offer products that met the technical and quality requirements and were commercially acceptable, despite having contacted over 1000 suppliers.

For example, 70% of UNICEF PPE orders placed were outside of UNICEF LTAs with existing suppliers. This required technical evaluation of the Products; Supplier Evaluation and Registration; and the Submission to and the recommendation from the Contracts Review Committee.

These new suppliers are unfamiliar with UN procurement procedures, rules and regulations. There were challenges for suppliers to understand the needs and provide the required laboratory and testing reports. These suppliers require follow up and nurturing for them to become familiar with UN procurement. Suppliers requested changes to the offered product after purchase order issuance, needing to source from alternative production sites, requiring additional technical evaluations.

UNICEF experienced significant price increases; advanced payment requests to secure production capacity and raw materials, requiring at least 50% advance payment and remaining balance payment on delivery; offer validities for 24 hours; suppliers failing to deliver despite receiving orders; and ending with purchase order cancellations.

The current advanced payment for raw material producers and manufacturers put pressure on suppliers cash flow, challenged further by UNICEF procurement standard payment terms (30 days after delivery). Advanced payment against bank guarantees were required in some cases to secure supply, and preferential payment terms, such as within 5 days after delivery, were put in place to help suppliers manage the cash flow constraints.

A few purchase orders ended being cancelled predominantly due to export bans and lock downs. Where possible, in situations where export bans were imposed after PO placement, UNICEF reallocated the deliveries to the UNICEF Country Programs and UNICEF National Committees in countries where there was a need for PPE supplies.

Under these market pressures there is an increased risk of fraud and unethical practices to secure contracts. Many offers were received from traders or manufacturers submitting falsified certificates. UNICEF has a zero-tolerance policy for fraud and unethical practices and rejected those potential suppliers who submitted falsified certificates. This requires strict quality controls to be in place, close monitoring and review of technical and quality documentation and pre delivery inspections to ensure quality products are delivered.

### **1.3 Tension Points**

#### *(a) Multiple Buyers competing in the market*

The sheer demand and number of buyers out bidding each other creates instability and overheats the market, often ending with those with the deepest pockets, willing to pay the most, securing the supply.

#### *(b) Need to ensure Equity and accessibility*

We need to ensure equity in this market, UNICEF, Private Business and Donors alike, making sure that all of those in need of PPE have timely and affordable access to quality assured PPE.

This is not the right time to put pressure on prices, but to secure capacity. UNICEF needs to partner with high impact suppliers capable of ensuring equity and access to supply.

#### *(c) Technical Standards and Quality Assurance Requirements*

UNICEF needs to maintain the technical and quality standards, irrespective of the demand on the market, and making sure that the products procured are fit for purpose. Quality Assurance is the overriding criterion.

UNICEF needs reliable, quality assured suppliers.

#### *(d) Securing access to raw materials and manufacturing capacity*

UNICEF needs to work with Industry to get insight and understand on what is required to secure access to the needed manufacturing capacity and raw materials; to understand the challenges and bottlenecks Industry is facing.

UNICEF will have bilateral discussions with high impact suppliers, that illustrate their commitment to ensuring equity and access to supply of quality assured products; to understand the challenges they are facing and what UNICEF can do to address them. UNICEF want to gain insight into the issues and challenges so that we can collectively overcome these challenges and ensure equity.

*(e) Funding Constraints*

UNICEF needs to work with partners and donors to overcome the funding challenges to secure the access to the manufacturing capacity.

*(f) Public procurement requirements vs Market Dynamics*

UNICEF needs to work with industry within the current market conditions to establish supply agreements that meet the needs of both parties, minimizing and mitigating risks, to ensure access to timely, quality assured PPE products.

*(g) Short term emergency buying vs longer term supply security*

There is need to be agile in this current market state to secure supply, while maintaining compliance and adherence to quality standards and public procurement procedures; to both secure short-term availability and long term affordable, quality assured supply security. UNICEF is not just looking for short term supply but to establish long term relationships with quality assured, high impact suppliers.

## **2. COVID19: UNICEF'S PROPOSAL FOR A JOINT MARKET APPROACH FOR 2020**

### **2.1 Approach**

UNICEF, WHO and other agencies have been procuring<sup>1</sup> and supplying significant quantities of supplies to countries as part of COVID response. The continued response necessitates a transition from a short-term / surge approach, marked by fragmentation, to one which contemplates a longer-term and strategic engagement across the COVID-19 commodity categories, including PPE, with substantially enhanced coordination. In the diagram below, UNICEF provides its in-process thinking on how to best organize around the partnership, while also summarizing UNICEF's (high-level) approach.

**Table. 1 Overview of UNICEFs' Strategic Market Response to Supply Constraints (Medium to long term, Global perspective)**



Key focus areas form the above Strategic Market response, supported by this tender are:

(i) Demand organization, including rationalized and coordinated procurement at-scale. Market discontinuities addressed and de-risked via non-traditional contracting tools.

and

(ii) Procurement and Special Contracting, including flexible financing made available both at transaction level, but also to support special contracting, procurement at scale, demand credibility and liquidity needs.

Seeking to address the current market issues of:

- **Capacity & Access:**

Seeking diversified, high capacity market access, and equitable allocations. Information on what scale up & access require (time, money, upper limits, etc.) to increase weekly production capacity by a given percentage, including understanding of raw material market impact and mitigation options. Encourage and support geographic diversity and development and support of local capacity including local procurement and tech transfers.

- **Finance & liquidity:**

The role of payment terms; working with partners on targeted supplier Financing, Liquidity & Performance issues that can unlock access and good terms.

While prioritizing access and scale-up, target reasonable price discounts to market rates on the basis of longer-term commitment and sustainable supply.

- **External factors:**

High-level advocacy to prioritize supplies to be delivered to UN with equitable allocations to programme countries. Explore solutions for bottlenecks such as export bans, regulations via pursuit of other market opportunities i.e. tech transfers.

