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PROCUREMENT FROM DEVELOPING COUNTRIES, COUNTRIES WITH ECONOMIES IN TRANSITION AND LEAST DEVELOPED COUNTRIES

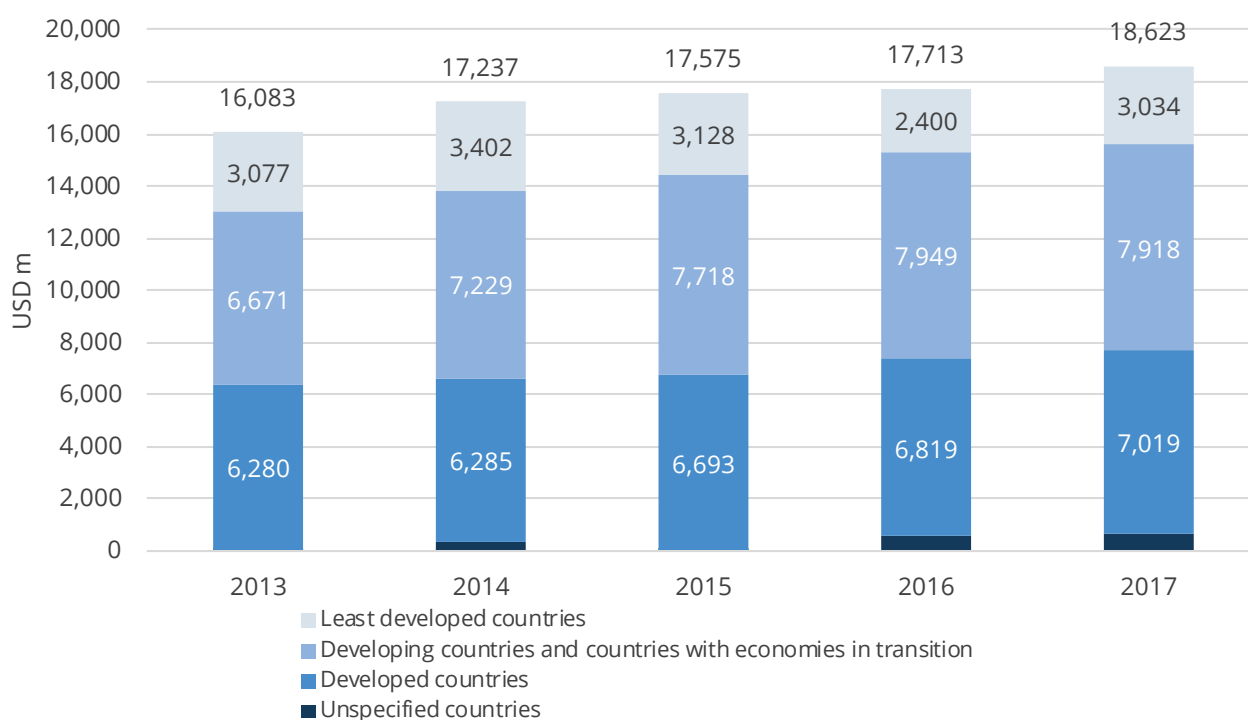


PROCUREMENT FROM DEVELOPING COUNTRIES, COUNTRIES WITH ECONOMIES IN TRANSITION AND LEAST DEVELOPED COUNTRIES

Increasing the involvement of suppliers from developing countries is a priority for the UN. In addition to the benefits realized by the recipients of goods and services the UN procures, procurement from developing countries can help to stimulate capacity growth, economic activity and employment where the goods and services are created. In 2002, the General Assembly requested the Secretary-General of the UN to encourage organizations of the UN system to take further steps to increase procurement opportunities for suppliers from developing countries and countries with economies in transition.¹⁷ In response, and in line with the 2030 Agenda for Sustainable Development, UN organizations have continued to increase procurement from these countries each year.

As shown in Figure 2.1, in 2017, procurement from developing countries, countries with economies in transition and least developed countries (LDCs) increased by \$603 million (5.8 per cent) from 2016, outpacing the rate of growth in total UN procurement over the same period. Procurement from LDCs was the main driver of growth, while procurement from developing countries and countries with economies in transition declined.

Figure 2.1 – Procurement volume from developed countries, countries with economies in transition and developing countries and least developed countries, 2013-2017



¹⁷ A/RES/57/279.

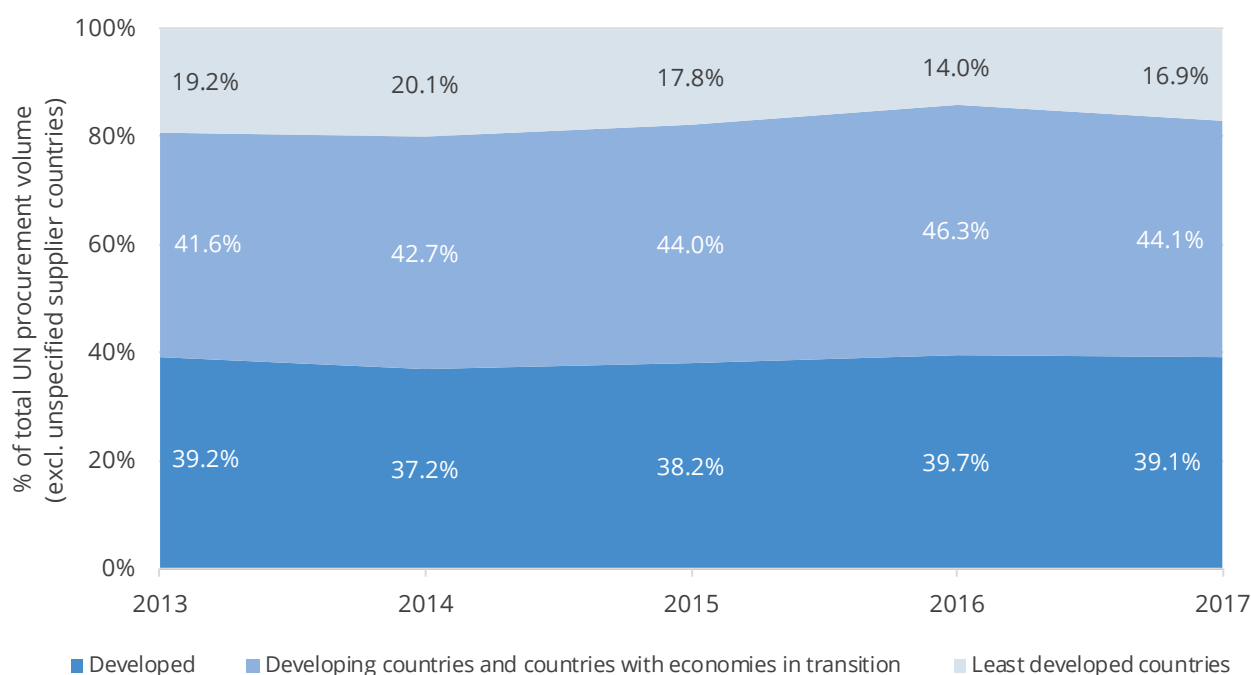
Following a 23.3 per cent drop from 2015 to 2016, in part due to the absence of UNDP National Implementation Modality (NIM) related procurement from the 2016 report onwards,¹⁸ procurement from LDCs increased \$636 million (26.5 per cent) from 2016 to 2017.

While procurement from LDCs increased, procurement from developing countries and countries with economies in transition had a slight decrease of 0.4 per cent (\$33 million) from 2016 to 2017.

In 2017, participating organizations submitted supplier country information for data equivalent to 96.5 per cent of the total UN procurement volume. For \$664 million of the procurement volume recorded, the supplier country is unknown (down from \$1.1 billion). This improvement was due to some participating organizations improving the supplier country data in their 2017 submissions. Most organizations submitted between 93.7 per cent and 100 per cent of their procurement data with supplier country information.¹⁹ In the following analysis, percentages are adjusted to include only data where the supplier country is known.

As shown in Figure 2.2, as a share of total UN procurement, procurement from LDCs increased from 14.0 per cent in 2016 to 16.9 per cent in 2017, while procurement from developing countries and countries with economies in transition fell from 46.3 per cent to 44.1 per cent in the same period.

Figure 2.2 – Share of procurement volume from developed countries, countries with economies in transition and least developed countries, 2013-2017

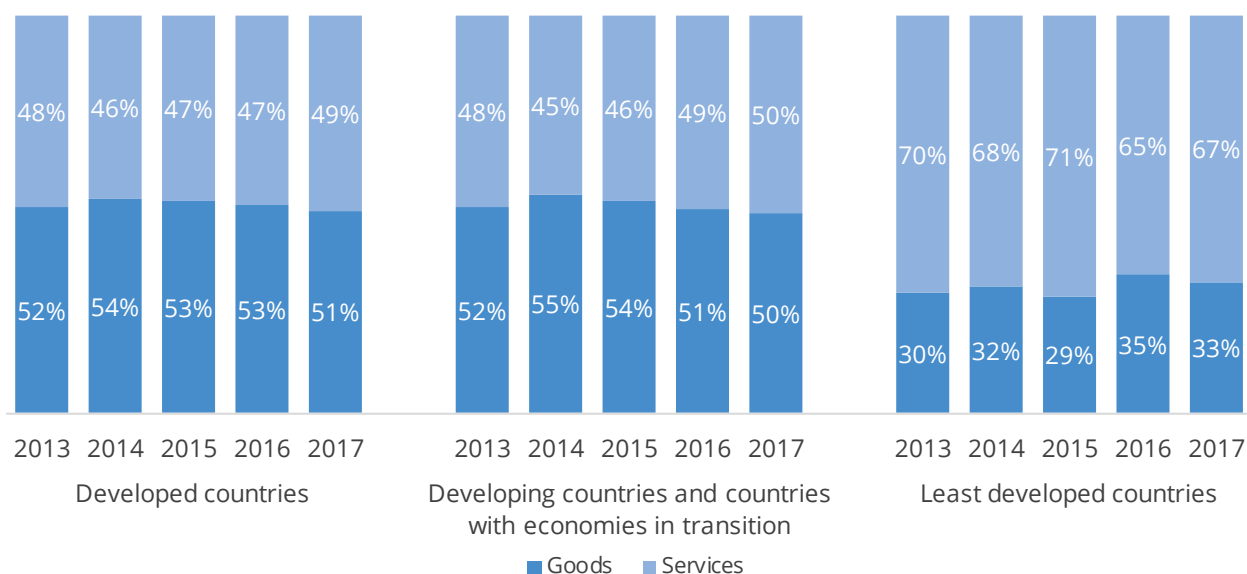


¹⁸ The reported decrease in procurement volume from 2015 to 2016 was \$497 million for developing countries, countries with economies in transition and LDCs, including a \$728 million decrease for LDCs. However, when making a like-for-like comparison, by excluding NIM from the reported volume for 2015, these figures change to an overall increase of \$707 million for all developing countries, countries with economies in transition and LDCs from 2015 to 2016, including a decrease of \$177 million for LDCs. Starting with the 2016 ASR, NIM data was no longer included in order to improve the quality and comparability of the procurement data across organizations. More information can be found in the 2016 ASR.

¹⁹ IOM was unable to specify supplier countries for any of its procurement.

Figure 2.3 shows how the distribution of goods and services procurement differs by country grouping and over time. For developed countries, the distribution between the procurement volume by goods and services has remained relatively consistent from 2013 to 2017. For developing countries and countries with economies in transition, in 2017 the procurement of services by volume was the same volume of procurement of goods – prior to 2017, procurement of goods outweighed procurement of services. The distribution for procurement from LDCs in 2017 had an increase of services procurement of two percentage points from 2016. As explained in the 2016 report, the relative increase in goods procurement from LDCs between 2015 and 2016 was due to the removal of UNDP NIM related procurement from the 2016 report onwards.

Figure 2.3 – Procurement of goods and services from developed countries, developing countries, countries with economies in transition, and least developed countries, 2013–2017



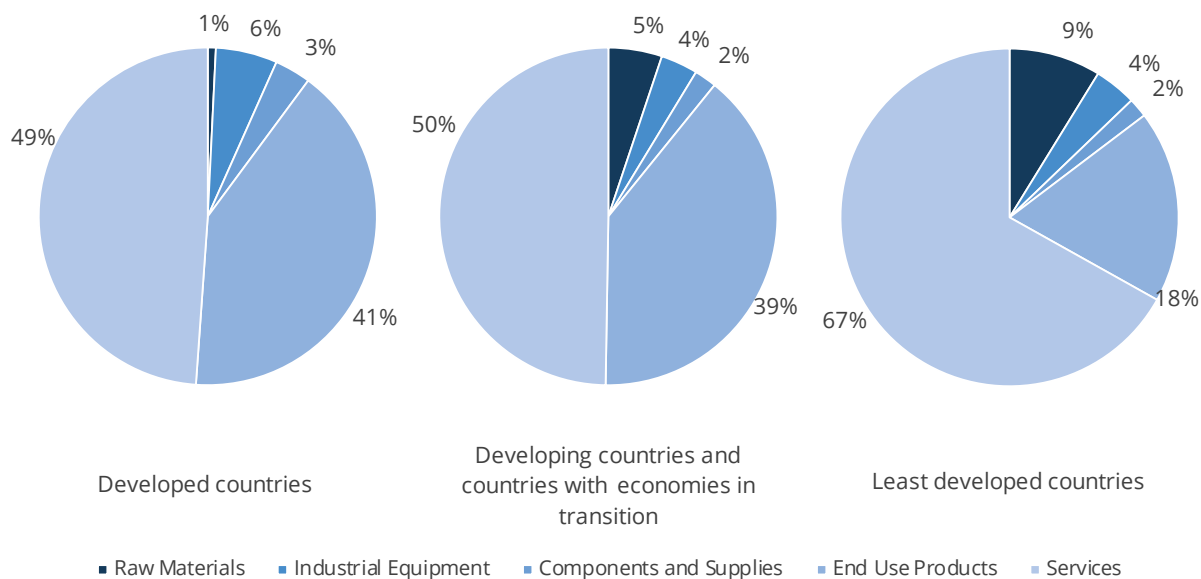
Procurement from developing countries, countries with economies in transition and least developed countries by category

The major categories of procurement vary for developed countries, developing countries and countries with economies in transition, and LDCs. Figure 2.4 looks at UN system procurement broken down into five high-level groups, based on the UNSPSC standard. It shows procurement in these groups in 2017 for each supplier country development status.

Compared to 2016, in developing countries and countries with economies in transition, the proportion of total spend on *End Use Products* decreased by 1.6 percentage points in 2017, while *Services* increased 1.3 percentage points. In LDCs, the proportion of procurement of *Services* rose 1.6 percentage points and *End Use Products* rose 1.1 percentage points, while the proportion of spend on *Raw Materials* fell 1.3 percentage points and *Industrial Equipment* fell 1.0 percentage point.²⁰

²⁰ Data where the nature of the good or service is unknown or unspecified are excluded from this analysis. This accounts for approximately \$128 million or 0.7% of the total UN procurement volume.

Figure 2.4 – Procurement from developed countries, developing countries and countries with economies in transition, and least developed countries, by UNSPSC groups, 2017



As in previous years, procurement of *Services* was the largest area of spend in 2017 in all country groupings. This was particularly strong in LDCs, where 66.9 per cent of procurement (or \$2.0 billion) was for *Services*. The largest UNSPSC segments of spend in this group are *Transportation, Storage, Mail Services, Management and Administrative Services and Building and Maintenance Services*.

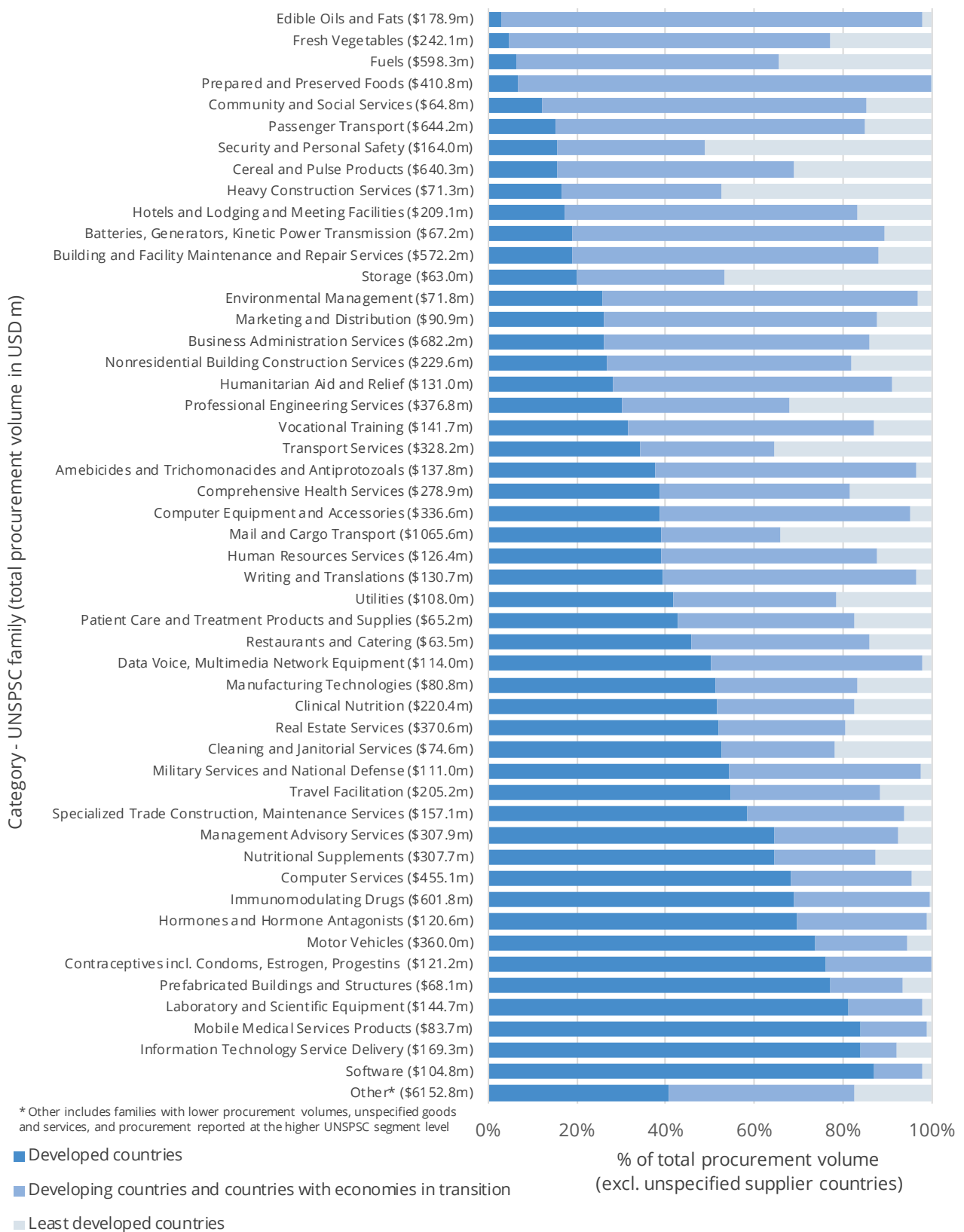
End Use Products was the second largest area of spend in all country groups. This area includes *Food and Beverage Products*, which was the largest UNSPSC segment for LDCs and developing countries and countries with economies in transition. *Pharmaceuticals, Contraceptives, Vaccines* was the largest UNSPSC segment for procurement from developed countries.

Raw Materials was the third largest area of spend for LDCs, developing countries and countries with economies in transition, representing 8.8 per cent (\$266 million) and 5.1 per cent (\$406 million) of procurement volume, respectively. In these country groups, most of the procurement volume was attributed to the procurement of *Fuels and Lubricants*. In fact, 93.8 per cent of UN procurement of *Fuels and Lubricants* was procured from LDCs (\$213 million) and developing countries and countries with economies in transition (\$358 million). *Fuels and Lubricants* was the UNSPSC family with the highest procurement volume in 2017 where more than 90 per cent was procured from LDCs and developing countries and countries with economies in transition, as shown in Figure 2.5.

UN organizations reported procurement against 375 different UNSPSC families in 2017. Of these, there were 224 families with procurement volume in excess of \$1 million. Overall, there were 254 UNSPSC families where the proportion of spend with developing countries and countries with economies in transition, and LDCs, was at least 50 per cent.

Figure 2.5 shows the top 50 UNSPSC families by procurement volume. On a procurement volume basis, the UNSPSC family with the highest spend in LDCs was *Mail and Cargo Transport* (\$364 million), followed by *Fuels* (\$206 million). *Passenger Transport* was the largest UNSPSC family by spend for developing countries and countries with economies in transition (\$424 million), followed by *Business Administration Services* (\$408 million).

Figure 2.5 – Distribution of categories of goods and services by supplier country development status (top 50 UNSPSC family level by total procurement volume)



When looking at the proportion of spend, *Security and Personal Safety* was the UNSPSC family in 2017 with the highest proportion of spend in LDCs (51.0 per cent or \$79 million), followed by *Heavy Construction Services* (47.2 per cent or \$34 million). For developing countries and countries with economies in transition, the UNSPSC families with the highest proportion of procurement volume were *Edible Oils and Fats* (94.9 per cent or \$170 million) and *Prepared and Preserved Foods* (93.1 per cent or \$382 million).

Procurement from least developed countries

The UN has placed increased focus on LDCs since their official classification by the UN General Assembly in 1971. These countries are the most vulnerable and disadvantaged members of the UN. In 2015, the ASR began reporting on procurement by UN organizations from suppliers in LDCs.

LDC procurement by country

Table 2.1 and Table 2.2 show the LDCs with which UN organizations have reported procurement in 2016 and 2017. Yemen and Sudan had the biggest procurement volume increases (\$326 million and \$81 million respectively). Yemen surpassed Ethiopia as the top LDC supplier country by procurement volume in 2017. The increase in procurement from suppliers in Yemen was driven primarily by UNICEF, as described earlier. In the case of Sudan, the increase was driven by WFP (\$51 million), UNPD (\$13 million) and UNDP (\$13 million) mainly in *Cereal and Pulse Products* (\$37 million), *Fuels* (\$11 million), *Mail and Cargo Transport* (\$10 million).

Table 2.1 – LDCs supplying UN organizations, 2016 and 2017 (2017 procurement volume above \$50 million)

| Supplier country | Total 2016 (USD m) | Total 2017 (USD m) | Total change 2016-2017 (%) |
|--|-----------------------|-----------------------|-------------------------------|
| Yemen | 107.9 | 433.6 | 301.8% |
| Ethiopia | 249.1 | 263.2 | 5.6% |
| Sudan | 176.2 | 257.7 | 46.2% |
| South Sudan | 178.7 | 204.1 | 14.2% |
| Uganda | 122.2 | 193.6 | 58.3% |
| Afghanistan | 189.2 | 177.9 | -5.9% |
| Democratic Republic of the Congo | 144.7 | 139.1 | -3.9% |
| Senegal | 95.1 | 129.6 | 36.3% |
| Somalia | 63.7 | 87.1 | 36.7% |
| Myanmar | 57.5 | 87.0 | 51.4% |
| Mali | 111.8 | 83.7 | -25.2% |
| Bangladesh | 42.5 | 68.1 | 60.4% |
| Niger | 53.7 | 67.7 | 26.1% |
| Chad | 67.1 | 64.7 | -3.6% |
| United Republic of Tanzania | 57.5 | 64.6 | 12.4% |
| Rwanda | 31.6 | 64.6 | 104.6% |
| Haiti | 61.5 | 58.7 | -4.6% |
| Malawi | 71.6 | 55.0 | -23.2% |
| Zambia | 42.6 | 51.1 | 19.9% |
| Central African Republic | 41.3 | 50.3 | 21.7% |
| Least Developed Countries total | 2,400.4 | 3,036.6 | 26.5% |
| UN total | 17,712.5 | 18,622.7 | 5.1% |

Table 2.2 – LDCs supplying UN organizations, 2016 and 2017 (2017 procurement volume below \$50 million)

| Supplier country | Total 2016 (USD m) | Total 2017 (USD m) | Total change 2016-2017 (%) |
|--|-----------------------|-----------------------|-------------------------------|
| Nepal | 42.6 | 44.8 | 5.3% |
| Madagascar | 39.2 | 44.1 | 12.7% |
| Mozambique | 49.1 | 42.4 | -13.6% |
| Togo | 10.4 | 37.3 | 259.2% |
| Liberia | 37.8 | 36.5 | -3.4% |
| Burkina Faso | 34.8 | 31.5 | -9.4% |
| Sierra Leone | 29.5 | 26.0 | -11.8% |
| Burundi | 27.4 | 25.7 | -6.3% |
| Guinea | 32.2 | 18.8 | -41.7% |
| Djibouti | 19.8 | 18.1 | -8.3% |
| Cambodia | 16.1 | 15.6 | -2.8% |
| Mauritania | 10.2 | 12.9 | 26.8% |
| Angola | 9.2 | 12.8 | 38.2% |
| Lao People's Democratic Republic | 10.3 | 12.7 | 22.8% |
| Benin | 19.3 | 11.3 | -41.4% |
| Lesotho | 6.9 | 8.1 | 16.2% |
| Timor-Leste | 8.4 | 7.9 | -6.3% |
| Guinea-Bissau | 7.8 | 6.9 | -11.5% |
| Gambia | 6.0 | 6.6 | 9.8% |
| Solomon Islands | 4.5 | 4.0 | -11.8% |
| Eritrea | 2.5 | 2.9 | 13.4% |
| Bhutan | 1.6 | 2.0 | 25.2% |
| Comoros | 3.0 | 1.7 | -44.2% |
| Sao Tome and Principe | 1.7 | 1.4 | -20.0% |
| Vanuatu | 1.9 | 0.7 | -63.9% |
| Kiribati | 0.5 | 0.2 | -62.1% |
| Tuvalu | 0.0 | 0.1 | 570.7% |
| Least Developed Countries total | 2,398.3 | 3,034.3 | 26.5% |
| UN total | 17,712.5 | 18,622.7 | 5.1% |

Other LDCs that experienced notable changes in procurement volume include Uganda, Rwanda, Mali and Malawi. Procurement from suppliers in Uganda and Rwanda rose \$71 million (58.3 per cent) and \$33 million (105 per cent) respectively from 2016 to 2017, primarily due to increased expenditure on *Food and Beverage Products* by WFP, and in the case of Uganda also on *Transportation, Storage, Mail Services* by the same organization. However, procurement from Mali fell \$28 million (25.2 per cent) and \$17 million in Malawi (23.2 per cent) due to decreased procurement volume from UNPD and WFP, respectively.

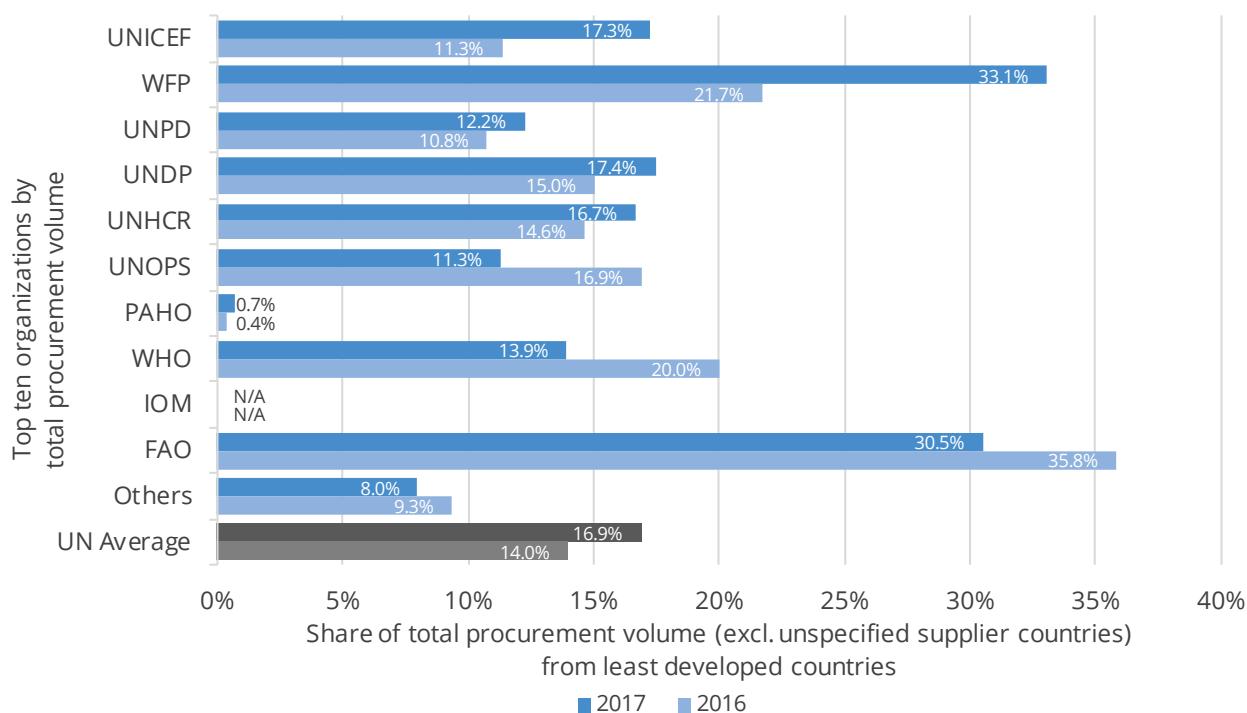
LDC procurement by organization

Figure 2.6 shows the proportion of total procurement volume from LDCs in 2016 and 2017 for the top ten UN organizations by total procurement volume. The UN average procurement proportion from suppliers in LDCs increased from 14.0 per cent in 2016 to 16.9 per cent in 2017. This was influenced by increased expenditure with LDC suppliers from the largest five organizations by procurement volume.

WFP procured an additional \$373 million from LDC suppliers in 2017 compared to 2016, and was the largest procurer from LDCs by volume (total \$1.0 billion in 2017). This was helped by increased expenditure on *Transportation, Storage, Mail Services* (increased 84.8 per cent to \$434 million in 2017), *Food and Beverage Products* (\$300 million in LDCs in 2017, compared to \$170 million in 2016), and *Fuels* (increased from \$90 million in 2016 to \$104 million in 2017).

Despite an overall decline in procurement of \$57 million, UNICEF spent an additional \$197 million with LDC suppliers in 2017 compared to 2016, translating to an increase in spend with LDC suppliers as a proportion of the total UNICEF procurement volume from 11.3 per cent to 17.3 per cent. This was primarily due to an additional \$196 million spend on *Financial and Insurance Services* in Yemen compared to 2016, as well as increased expenditure on educational equipment and *Management and Business Professionals*. This increase was offset somewhat by a reduction of \$30.1 million expenditure on *Building and Maintenance Services*.

Figure 2.6 – Proportion of organizations' procurement volume from least developed countries, 2016–2017 (top 10 organizations by total procurement volume)



Meanwhile, the procurement from suppliers in LDCs by UNOPS dropped from 16.9 per cent to 11.3 per cent of the organization's procurement from 2016 to 2017. This was due to reduced procurement volume in Somalia (\$10 million less), Afghanistan (\$9.1 million reduction) and Democratic Republic of the Congo (down from \$9.7 million to \$2.5 million) in particular; however, procurement volume in Myanmar increased by \$15 million.

WHO's procurement from suppliers in LDCs decreased from \$151 million in 2016 to \$93 million in 2017. This was a result of decreased expenditure on *Healthcare Services* (\$35 million or 42.0 per cent less) in a number of LDCs including Ethiopia, Afghanistan and Democratic Republic of the Congo, and on *Accounting and Bookkeeping Services* (\$16 million reduction compared to 2016), particularly in Afghanistan.

FAO remained the largest procurer from LDCs in terms of the proportion of total procurement volume,²¹ but the proportion reduced from 35.8 per cent in 2016 to 30.5 per cent (its procurement from LDCs increased \$0.4 million in the context of an increase of \$54 million across all countries).

LDC procurement by category

Table 2.3 shows the UNSPSC segments that recorded the highest procurement volume from suppliers in LDCs in 2017. The top ten segments accounted for 76.1 per cent of the total volume procured from LDC suppliers (increasing from 73.6 per cent in 2016).

The *Transportation, Storage, Mail Services* segment was the largest, with \$646 million or 21.3 per cent of total spend in LDCs. Spend in this segment increased \$204 million from 2016 to 2017, and \$199 million of this increase was attributed to WFP. The second highest spend was on *Food and Beverage Products*, which increased \$127 million or 72.7 per cent, again driven primarily by WFP.

Financial and Insurance Services joined the top ten list in 2017 with \$216 million procurement from LDCs. \$198 million of this was procured by UNICEF. By contrast, spend in the *Healthcare Services* segment dropped 36.6 per cent to \$57 million from 2016 to 2017, meaning it fell just outside the top ten UNSPSC families from LDCs in 2017.

Table 2.3 – Top ten categories of goods and services procured from least developed countries, 2017

| Category (UNSPSC segment) | Total 2017 (USD m) | Share of LDC total 2017 (%) |
|--|--------------------|-----------------------------|
| Transportation, Storage, Mail Services | 646.1 | 21.3% |
| Food and Beverage Products | 301.8 | 9.9% |
| Management and Administrative Services | 248.3 | 8.2% |
| Building and Maintenance Services | 237.7 | 7.8% |
| Financial and Insurance Services | 216.1 | 7.1% |
| Fuels and Lubricants etc. | 213.5 | 7.0% |
| Engineering and Research Services | 194.7 | 6.4% |
| Public Order and Security Services | 96.6 | 3.2% |
| Travel, Food and Lodging | 89.5 | 3.0% |
| Medical Equipment | 65.7 | 2.2% |
| Top 10 total | 2,310.0 | 76.1% |
| Least Developed Countries total | 3,034.3 | |

²¹ With the exception of UNAKRT, which while procuring 69.0 per cent of its procurement volume from suppliers in LDCs, the organization had the lowest procurement volume of all organizations in 2017 (\$1.1 million).