NAMIBIAN PORTS AUTHORITY

0

Port of Walvis Bay (Head Office):
P.O. Box 361 Walvis Bay, Namibia

Port of Lüderitz:
P.O. Box 836 Lüderitz, Namibia

GLOSSARY OF PROCUREMENT TERMS

Established in terms of the Namibian Port Authority Act, 1994 (Act No. 2 of 1994)
www.namport.com

Preface

The glossary of procurement terms is aimed at helping buyers and bidders alike with the basic procurement terminology used in the procurement process. The list is not exhaustive neither are the procurement terms used limited to those on this list only, but the list is meant to be a guideline in the process of planning, invitation, response, evaluation and contract management.

A

ABANDONMENT: Surrendering of the claim to goods (and/or a ship) so damaged during a voyage as to render them worthless to the owners who choose to abandon their rights and interest in these in favour of the underwriter and prefer their claims under the insurance cover. Abandonment is the basis for a claim to be preferred under a policy of marine insurance for constructive total loss.

ABC INVENTORY CONTROL: Selective approach in inventory control in which stocked items are classified into three groups:

Group % of stock Items % of stock value
A 10 70
B 20 20
C 70 10

The system suggests that the stock of items in group A, which accounts for only 10% of the number of items but 70% of the total stock value, should be continually reviewed so as to maintain the minimum necessary level, and reduce holding costs. As a consequence of the lesser value of stocks in the other groups - and the increased complexity of stock control due to the larger number of items - the system proposes that less attention be paid to groups B and C. See also Inventory Control.

ACCEPTABLE QUALITY LEVEL (AQL): System of material inspection based on statistical probability (sampling) theory checking only a certain percentage of the lot delivered, and accepting the lot if the number of defectives in the sample is less than or equal to the acceptable number. See also Inspection Lot Sampling; Quality Control.

ACCEPTANCE OF GOODS: The buyer is said to have accepted the goods, works or services supplied by the supplier when he does not reject them, in whole or part, for non-conformance to contract terms and conditions (e.g. quality, delivery schedule, etc.) See also Provisional Acceptance, Final Acceptance.

ACCEPTANCE OF BID (OFFER): The assent of the buyer to a bid/offer made by the bidders. A necessary element of a contract is the unqualified acceptance by the buyer of a bid/offer made by one bidders. If the buyer amends or adds elements of the bid/offer previously received this leads to a new offer from his side to the bidders to conclude a contract based on revised or changed terms and conditions. See also Counter Offer.

ACCEPTANCE OF ORDER: In case the contract is not based on any specific bid/offer made by a bidders this is the confirmation of the receipt and acceptance of the order to supply goods, works or services ordered as stipulated in the order.

ACKNOWLEDGEMENT OF CONTRACT: A communication by a bidders advising the buyer of the acceptance of his order. The contract came into force following the unconditional acceptance of the bid/offer made by the bidders through the buyer. Therefore this acknowledgement is used for information purposes only.

ACQUISITION COST: The total sum of the procurement costs in order to obtain a contract.

ADMINISTERED PRICE: Price set by a bidders in terms of his sales policy or strategy which may not be the same as the market price determined by the forces of supply and demand.

ADMINISTRATIVE LEAD TIME: The time interval between the identification of the need to buy and the placing of the contract. See also Lead Time, Procurement Lead Time.

ADVANCE PAYMENT: A payment to a supplier in the case of a major infrastructure or an industrial project or a long-term arrangement, either to enable the supplier to procure materials for fabrication and to meet his other costs or in token of the sheer ability of the supplier to exert his selling power. In either case such payments would always be as per terms and conditions of contract. Advance payments are to be distinguished from progress payments, which are related to contract performance. Normally advance payments are secured by bonds/guarantees issued by banks on behalf of the supplier. See also Payment, Progress Payments, Bond, and Warranty.

ADVICE OF SHIPMENT. A notice informing the buyer that the goods have been shipped. The notice usually gives details of packing.

ADVICE NOTE: A communication sent by the supplier to the buyer informing him that the goods are ready for dispatch and await forwarding instructions (in case of ex-works contracts) or shipment instructions (in case of FOB contracts).

AFFREIGHTMENT: A contract for the carriage of goods by a carrier. Charter-parties and Bills of Lading are contracts of affreightment by ship.

AGENT: One appointed or authorized by another to act on his behalf. The latter is called the principal. In commercial law the agent is appointed to bring the principal into a legal relationship with third parties.

AGGREGATION: Adding together the demand of several buyers for same or similar goods or services in order to increase purchasing power and obtain the most advantageous conditions. See also Bulk Buying, Economies of Scale.

AGREEMENT: An affirmation of mutual understanding or assent between two or more parties. See also Contract, Order.

AIRWAY BILL: A document evidencing a contract of carriage between the shipper and the carrier (airline) for carriage of goods. It is:

a) evidence of a contract of carriage;
b) proof of receipt of goods by the carrier;
c) customs declaration;
d) waybill.

Possession and presentation of an airway bill does not provide a title for the ownership of the goods shipped. See also Bill of Lading, Waybill.

ALL-OR-NONE BID: A bid/offer submitted for a number of different goods or services in which the bidder stipulates that the bid/offer is valid only if the contract is awarded for all items included in his bid/offer.

ALL RISKS: An insurance policy which covers the insured goods for loss by any unforeseeable cause. The policy does not cover loss due to causes which could have been anticipated and against which preventive steps could have been taken. See also Institute Cargo Clauses.

ANALYSIS OF BIDS/OFFERS: The tabulation and evaluation of bids/offers submitted by bidders and the summary of these to a comparable basis so as to facilitate comparison and enable the buyer to select the best bid/offer. See also Bid Evaluation, Tabulation of Bids/Offers.

APPROPRIATE TECHNOLOGY. Technology deemed to meet specific requirements of, and operating conditions in, a particular country of location.

ARBITRATION: A method of settling a dispute between the parties involved in a contract by referring it to one or more neutral persons, selected by the parties, for a decision.

ARRIVAL NOTICE: An intimation sent by the carrier to the consignee advising the arrival of shipment.

AS IS: Offer of goods for sale without a warranty or guarantee, and with the stipulation that the buyer takes the goods at his own risk, without any recourse to the bidders for the quality or condition of goods. Sometimes includes the location as well: "As is and where is condition".

ASSIGNMENT: Refers to transfer of a right on or a title to goods or know how to another party. For example, title to goods may be transferred by assignment on a Bill of Lading by the original consignee (referred to as the assignor), to another, the assignee.

ASSESSOR: A person who is appointed or designated to estimate the value of goods for the purpose of apportioning the sum payable in the settlement of an insurance or any other claim.

AWARD: The action taken by the buyer, after examining and comparing the bids/offers received, through which it:

i) Selects the bid/offer that is determined to be substantially responsive to the bid documents and is the most advantageous (i.e., the best evaluated bid with respect to the evaluation criteria set up); and
ii) Officially notifies the bidders of the decision as to the award of the contract.

It is one of the most important stages of the procurement cycle, since it accomplishes a principal objective, that is, selection of the bidders which is to carry out the works or services or provision of the goods that were the object of the procurement. In effect, the award completes the contract.

B

BARTER: Trade effected through exchanging one kind of goods for another, without involving money or any financial instrument of exchange.

BASIC AGREEMENT: An agreement between a buyer and a supplier setting down some of the contract clauses that shall be applicable to future procurements over a specified period of time (or till such time as either party seeks renegotiations or annulment of the agreement). Particular procurements are covered by the execution of a specific contract which incorporates, besides other relevant and agreed clauses, those already in the basic agreement. In the context of long-term contracting such basic agreements are sometimes referred to as frame contracts. Often used for recurrent provision of material or services for the same or similar purpose in order to secure a more economic procurement procedure. See also Frame Contract, Blanket Order, Rate Contract.

BID: A response to a bid notice issued by the buyer. See also Bid, Offer, Public Bid, and Quotation. A bid/offer by a bidders, in response to an invitation by the buyer, usually following an invitation to bid or a bid notice, quoting his price and setting down his other terms and conditions of supply if those specified by the buyer are not complete in his view or are not acceptable to him. In case of non-acceptance or modification of the terms and conditions of the bid documents this may be sufficient grounds for rejection of the bid. See also Offer, Bid.

BID DOCUMENTS: Bid documents constitute the set of documents issued by the buyer which establish the object of procurement (the technical specifications and/or the terms of reference), specify proposed contract conditions and establish the procurement procedures to be followed.

BID EVALUATION: Analysis of all bids/offers received by the buyer to appraise and assess the most advantageous and competitive bid/offer. See also Analysis of Bids, Life Cycle Costing, and Tabulation of Bids/Offers.

BID OPENING: In procurement through competitive bids/offers the opening and reading of bids/offers, conducted at the time and place specified in the bid documents, and in the presence of anyone who wishes to attend.

BIDDER: A legal entity approached by the buyer to submit a bid/offer for a specific project. See also Bidder, Candidate. A legal entity interested to provide a proposal within a biding procedure. The role of the bidder ends with the award of the contract to the successful bidder who in turn becomes the supplier. In professional procurement the word bidders is used to the same extent. See also Candidate, Bidders.

BIDDING: Any formal and competitive procurement procedure through which bids/offers are requested, received and evaluated for the procurement of goods, works or services, and as a consequence of which an award is made to the bidders whose bid/offer is the most advantageous.

BID GUARANTEE / BOND: An obligation assured by a third party (usually a bank) whereby it agrees to be liable to pay a specified amount of money in the event that a particular bidders, if his bid/offer is accepted, fails to sign the contract as per his bid/offer. See also: Bond, Warranty.

BID DEPOSIT: A specified sum of money which a bidders is asked to deposit with the buyer as a guarantee that the bidders will, if selected, sign the contract as per his bid/offer. A bidders who fails to sign the contract forfeits the amount of the deposit.

BILL OF ENTRY: A detailed form or statement filled in by an importer giving information on the nature and value of goods being imported for submission to the customs authorities before goods are cleared for entry into the country.

BILL OF LADING: A document which is an acknowledgement and a receipt, issued by the master of the ship as agent of the owner, for cargo received on board for shipment. Although not a contract of carriage in itself it serves as evidence of the same. Salient points incorporated in a bill of lading are:

- the name of the shipper;
- ship's name; and
- full description of cargo (unless it is bulk cargo) including markings, packing numbers, etc., and port of embarkation and of destination.

A bill of lading is prepared in sets, usually of three originals. One copy is retained by the master of the ship, another by the shipper (forwarding agent) and the third is sent to the consignee enabling him to take delivery on arrival of goods. See also: Clean Bill of Lading.

BILL OF QUANTITIES: A description and a quantitative estimate of all materials and/or other supplies which will be required for a proposed construction project or production of equipment (usually custom designed). Contracts are sometimes concluded on the basis of actual costs and an agreed margin, when the buyer may seek a bill of quantity to estimate the likely cost before concluding the contract and later to make final payments when the project is completed and quantities may be measured exactly or counted when taking over works or goods.

BLANKET ORDER: Sometimes referred to as a master contract for reducing the need to enter into fresh contracts for a number of orders. It provides for the buyer to make supplies over a certain period of time and at predetermined prices on the basis of a formula for revising prices. See also Rate Contract, Indefinite Quantity Buying, Frame Contract, and Basic Agreement.

BLUEPRINT: Detailed design and specifications, indicated by a drawing, of the required product.

BOND: A bond usually issued by a bank on behalf of a bidders or a supplier/contractor as security towards the buyer for the validity and seriousness of a bid/offer, the performance and fulfillment of the contract as well as the validity of guarantees within the terms and conditions agreed upon. Different bonds may be asked for within the life of a procurement cycle:

- Bid Bond: to guarantee that the bidders, if selected, will sign the contract;
- Performance Bond: to guarantee that the supplier will perform as laid down in the contract;
- Guarantee Bond: to assure the buyer that any defects claimed within the guarantee period of the works and/or materials delivered will be repaired/replaced by the supplier free of charge.

See also: Bid Bond, Guarantee, and Warranty.

BONDED WAREHOUSE: Place owned by persons approved by an appropriate government authority and who have given guarantees or bonds for the strict observance of revenue and/or import control laws. Such warehouses are used for the storage and custody of import merchandise, until Customs are satisfied that the goods have been imported with the permission of the relevant government authority (e.g. are covered by a proper import license) and/or the duties are paid or the goods are being reshipped without entry. In many developing countries with strict import regulations in force security and supervision over movements is provided by government. See also: Clearance of Goods, In Bond.

BRAND NAME: A name or trade mark by which one producer distinguishes his product from those of similar products by other producers in the same industry. A brand name identifies both the product and the producer of the product. See also: Brand Name or Equal.

BRAND NAME OR EQUAL (DESCRIPTION): A requisition by the user which indicates that his need will be met by a particular (named) brand or products of other producers which have the same physical, chemical, metallurgical and/or other characteristics and will be able to satisfy the required need as effectively and efficiently. In a bid the same phrase is used to describe the product requirement precisely so that prospective bidders know their goods have to be similar in all respects to the named brand product. This is done to increase competition so that the producer of the particular brand does not exploit his monopoly position. See also: Brand Name.

BREACH OF CONTRACT: A failure of the supplier or the buyer, without a legally defensible excuse, to carry out his part of the duties and obligations as implied by the terms and conditions of a contract. See also: Default.

BUFFER STOCK: A certain quantity of a material held in stock to meet any unforeseen supply delays or disruptions of scheduled deliveries, increase in prices and/or unexpected up-surge in demand.

BULK BUYING: The system of aggregating total requirements (generally of all users) of a product or service for a single purchase order or a series of orders for large quantities which would not have been possible if demand was met on a fragmented basis. Bulk buying is advantageous for getting favourable terms from bidders as well as in effecting other economies. See also Aggregation, Economies of Scale.

BUY BACK: A counter-trade arrangement whereby a supplier of plant, equipment and/or technology agrees to accept part or full payment for supplies, in terms of the goods to be produced with the help of these facilities. Is also is referred to as compensation trade.

BUYER: The legal entity requesting and buying goods, works or services through contracts and, in most cases, in return paying for these.

BUYER'S OPTION: The right of a buyer to modify within a specified period of time any one or more of the terms of contract as agreed in advance (e.g. to increase or decrease the quantity indicated in a purchase contract by a specified percentage). Buyer's option may be open on other terms and conditions in the contract, if so provided (e.g. port of discharge, delivery lot, size or time, etc.). See also Contract Modification, Supplier's Option.

BUYER'S MARKET: A buyer's market is said to exist when supply exceeds demand, so that goods are readily available with the result that the buyer can exert some pressure on prices and drive good bargains.

C

CANDIDATE: A physical or juridical person invited to take part in public procurement or seeking to be so invited. See also Bidder, Bidders.

CARRIAGE AND INSURANCE PAID TO (CIP): Incoterm "Carriage and Insurance Paid to" means that the supplier has the same obligations as under CPT but with the addition that the supplier has to procure cargo insurance against the buyer's risk of loss of or damage to the goods during the carriage. The supplier contracts for insurance and pays the insurance premium. The buyer should note that under the CIP term the supplier is only required to obtain insurance on minimum terms. The CIP term requires the supplier to clear the goods for export. This term may be used for any mode of transport including multimodal transport. See also: Incoterms.

CARRIAGE PAID TO (CPT): Incoterm "Carriage paid to" means that the supplier pays the freight for the carriage of the goods to the named destination. The risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered to the carrier, is transferred from the supplier to the buyer when the goods have been delivered into the custody of the carrier. The CPT term requires the supplier to clear the goods for export. This term may be used for any mode of transport including multimodal transport. See also: Incoterms.

CARRIER: A person or a firm who contracts to carry goods by any method of transport.

CARTEL: An organization or group of organizations which colludes to determine the quantities and/or prices of goods or services to be provided by each of its members.

CASH AGAINST DOCUMENTS (CAD): Incoterms 'Cash Against Documents' means that the documents which will enable a consignee to get delivery of his goods (such as a bill of lading) are handed over to him only when he has paid for the goods. In international trade, when the contract stipulates that payment be made before goods are released, the commercial practice is to send the bill of lading and/or other documents to a bank (located in the consignee's country) with instructions to release the documents only when payment has been made. See also: Incoterms.

CASH DISCOUNT: Reduction, usually expressed as a percentage of the price of a product or of the amount of a bill, if payment is made in cash or promptly or within a specified period of time. See also Discount, Quantity Discount, Concealed Discount, Trade Discount.

CASH ON DELIVERY (COD): The expression stipulates that payment is to be made upon delivery of goods. In other words the carrier will not release goods unless there is evidence that payment has been effected or else the payment is made to the carrier at the time of delivery (e.g. to the post office when collecting the consignment). See also: Payment.

CASH WITH ORDER: A purchase agreement which requires that payment be remitted along with the order (100% advance payment). Very often the advance payment is secured by a bond. See also Advance Payment, Payment.

CAVEAT EMPTOR: A legal expression which means "Let the buyer beware". For a contract for the sale of goods it implies that the buyer must satisfy himself about all aspects of them before he buys the goods, there being no provision under common law for implied warranty as to the suitability of the goods for any specific purpose.

CERTIFICATE OF COMPLIANCE: Supplier's written certification that goods being supplied are in conformity with those specified in the contract.

CERTIFICATE OF CONFORMITY: A document attesting that a product or a service is in conformity with specific standards or technical specifications.

CERTIFICATE OF DAMAGE: A printed document issued by dock companies in regard to goods found to be in a damaged condition on being unloaded from a ship.

CERTIFICATE OF INSPECTION: A testimony of the findings of an authorized inspection agency on the quality of the goods based on the specification laid down in the respective contract document. See also Inspection, Technical Specification.

CERTIFICATE OF ORIGIN: A document indicating the country of origin of goods being imported. It is usually issued by exporting countries, official authorities or by other agencies (e.g. chambers of commerce) designated by the governments.

CERTIFICATE OF QUALITY: A certificate issued by a supplier to the effect that the goods being supplied conform to the quality specifications agreed to in the contract. The certificate forms part of the invoice and other documents sent by the supplier to the buyer. See also Express Warranty, Self-Certification, Technical Specification.

CERTIFICATION BODY: An impartial body, governmental or non-governmental, possessing the necessary competence and reliability to operate a certification system, and in which the interests of all parties concerned with the functioning of the system are represented. See also Quality Certification System.

CFR: See Cost and Freight.

CHANGE ORDER: A written request by the buyer or the supplier indicating changes in his requirements compared to those specified in the contract. May involve renegotiation of the contract except when this contains a change clause that provides for options in regard to scope of work, quantity or quality of goods or delivery schedule. See also Buyer's Option.

CHARACTERISTICS: A quality characteristic of a material or product as to its physical, chemical or metallurgical property or performance index that is measurable or at least observable. See also Technical Specification.

CHARTER: The mercantile lease of hire of a carrier such a vessel, aircraft, etc., for carriage of cargo on terms and conditions specified in an agreement (called charter-party when an ocean going vessel is involved).

CIF: See Cost, Insurance and Freight.

CIP: See Carriage and Insurance Paid to.

CLEAN BILL OF LADING: A bill of lading that does not carry any remarks to indicate that goods received were not in apparent good order and condition. If the goods or packages are damaged or defective the master of the ship will put an endorsement to this effect on the bill of lading. See also Bill of Lading.

CLEARANCE OF GOODS: The procedures involved in clearing the goods received from abroad through customs. See also Bonded Warehouse, In Bond.

COLLUSIVE BIDS/OFFERS: Bids/offers by two or more bidders who have joined together to circumvent the intention of the buyer to secure competitiveness by submitting bids/offers, the terms and conditions of which are decided jointly (and are therefore known to each) even when these are submitted separately. See also Competitive Bidding.

COMMODITY EXCHANGE: Specialized markets in which titles to ownership of commodities are freely traded. Physical exchange of commodities in general does not take place, although samples of these may be examined. Many of the well-organized exchanges now provide for both spot as well as futures trading. Bids/offers for these commodities might not show prices, but only the percentage of the surplus asked for by the bidders on top of the market price fixed on the day the contract comes into effect. See also Futures, Spot Purchase.

COMMON-USE ITEM: Material that is often used by a number of users and fulfills certain standards set up. The term is generally used in the context of government procurement of such items as stationery, vehicles, typewriters, and other office equipment, machines or accessories.

COMPATIBILITY: The suitability of products or systems to be used together under specified conditions to fulfil the relevant requirements without causing unacceptable interactions.

COMPENSATION TRADE: See Buy Back.

COMPETITIVE BIDING: If responsive bids were received by the buyer in response to an invitation to bid where the bid is global (open to everyone) or is restricted (open to a selected number of bidders) and where there is no evidence that the bidders have had a secret understanding. See also Collusive Bids/Offers, Bid, Offer, and Bid.

COMPOSITE PRICE INDEX: Weighted price indices for major inputs entering into the composition of a finished item of procurement. Sometimes incorporated and made use of in a contract as a basis for price revision. See also Price Revision.

CONCEALED DAMAGE: Damage which is not apparent at the time of delivery and which may be discovered only after a package has been opened and the contents examined.

CONCEALED DISCOUNT: A discount not in the form of a straight percentage deduction on list price but in some other form with the same effect on the net price, e.g. 90 days credit (i.e., payment to be made after 90 days of delivery). See also Cash Discount, Quantity Discount, and Trade Discount.

CONFIRMED LETTER OF CREDIT: A letter of credit in which the negotiating bank guarantees payment to the beneficiary after all conditions mentioned therein are fulfilled. See also Letter of Credit.

CONFLICT OF INTEREST: A situation where personal or business interests of a party could affect the outcome of a business transaction through the non-declaration of that interest. For example, bidders should never be involved in the preparation of bid invitation documents or evaluation of the same bid.

CONSIGNEE: A person or a firm to whom the goods are shipped by the supplier. The consignee may be the buyer of the goods, an agent of the supplier (if the goods are intended to be stocked for eventual sale). Etc. The consignee referred to in a bill of lading is, therefore, entitled to take delivery of goods on arrival.

CONSIGNMENT: Goods shipped to a consignee in terms of a sales contract or for future sale or other purpose (in the latter cases the title usually remains with the shipper/consignor).

CONSIST: A complete (itemized) list (one for each wagon) of goods carried by a train; consist is similar to a manifest for goods shipped by a vessel.

CONSULAR INVOICE: An invoice (or a prescribed form) made out by the shipper in the presence of a consular representative of the importer's country and/or to be attested by him giving information as to consignor, consignee value, description, etc., of a shipment being imported. The object is to ensure that goods are not banned and facilitate imposition of import duties.

CONSULTANT: Phrase used for a company or an individual selling advisory services.

CONSUMABLE MATERIAL: See Expendable Material

CONTAINER: A generic term used to describe any form of pack or receptacle containing goods, liquid or solid. However, in the context of marine transportation of goods it refers to special or specific types of steel receptacle. For facilitating their use universally the International Organization for Standardization (ISO) has laid down their dimensional standards.

CONTENT NOTE: A statement attached to a package, listing the items enclosed in that particular package.

CONTRACT: An agreement, enforceable by law, between two or more competent parties (legal entities) to perform or not to perform a specific act or acts for a consideration. A contract may be verbal or written. An offer released by a party becomes a contract when accepted by the other party. Acceptance may be either in writing or by performance, unless the purchase order requires acceptance thereof to be in writing, in which case it must be thus accepted. Contracts financed with public funds are generally made up in writing. See also Agreement, Order.

CONTRACT, COST-PLUS-A-FIXED-FEE: A contract which provides for reimbursement of cost of materials used in fabrication of equipment and/or construction of plant and/or specific costs of services (for example travel costs) on an actual basis plus a fixed (amount) fee for the supplier, the fee bearing no relationship to the cost of materials or services.

CONTRACT, COST-PLUS-A-PERCENTAGE-OF-COST: A contract in which a fee is set at a specified percentage of the supplier's actual cost of accomplishing the work.

CONTRACT, COST-PLUS-INCENTIVE-FEE: A cost reimbursement type of contract for construction of a turnkey project where the supplier's fee is linked to the actual costs in relation to the estimated or the target cost so that there is an incentive for the supplier to achieve cost reduction.

CONTRACT DOCUMENTS: A set of documents that convey the contract between the buyer and the supplier in such a way as to minimize misunderstanding. They could include:

- the instrument of the contract - the actual document signed by both parties;
- general conditions of contract;
- special conditions of contract;
- specifications/terms of reference/drawings/bills of quantities/timetables/schedules of rates/terms of delivery/ etc.;
- copies of any relevant meeting minutes or letters which have been exchanged;
- curricula vitae of staff selected to carry out the activities; and
- specimen of bonds.

See also: Contract

CONTRACT FIXED PRICE: A contract that provides for a fixed price not subject to any adjustment on account of cost increases that a supplier may experience in the course of execution of the contract.

CONTRACT, FIXED PRICE WITH REVISION: A variation of a fixed price type of contract which provides for the upward or downward changes in prices of specified materials and/or of labour costs.

CONTRACT MODIFICATION: Any change in the provision of any one or more of the terms and conditions of a contract, proposed by one party and carried out with the agreement of the other party. Legally a modification in a contract amounts to agreeing to a new contract unless the intended modifications are provided for in the contract, e.g. plus/minus option on quantities, lot sizes, etc. See also Buyer's Option, Supplier's Option.

CONTRACT PERIOD: An arrangement for the supply of goods or services established for a fixed period of time.

CONTRACT SCHEDULING: A systems approach to help monitor contract implementation. Particularly useful for contracts for large projects where different activities have to be carried out in a sequence within a time frame and where delay in the completion of one segment of a project is likely to delay the execution of the whole project. See also Expedite, Follow-up.

CONTRACTOR: A phrase often used for a company carrying out construction works. Sometimes used in a more general way for all types of suppliers of goods, works or services.

CONTRACTOR, PRIME: In a large project contract involving supply of materials, machinery, equipment, construction works etc., a buyer may prefer to appoint a prime contractor who may sub-contract parts of supplies, or fabrication of machinery to other sub-contractors, with overall responsibility for project execution remaining with the prime contractor. See also Contractor.

COST ESTIMATE: A cost estimate prepared by the buyer for goods, works or services which provides a benchmark or a basis for evaluation and/or negotiation when bids/offers are received from bidders. It also serves as an instrument of project planning and budgeting.

COST AND FREIGHT (CFR): Incoterm "Cost and Freight" means that the supplier must pay the costs and freight necessary to bring the goods to the named port of destination but the risk of loss or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered on board the vessel, is transferred from the supplier to the buyer when the goods pass the ship's rail in the port of shipment. The CFR term requires the supplier to clear the goods for export.

This term can only be used for sea and inland waterway transport. When the ship's rail serves no practical purpose, such as in the case of roll-on/roll-off or container traffic, the CPT term is more appropriate to use. See also Incoterms.

COST, INSURANCE AND FREIGHT (CIF): Incoterm "Cost, Insurance and Freight" means that the supplier has the same obligations as under CFR but with the addition that he has to procure marine insurance against the buyer's risk of loss or damage to the goods during the carriage. The supplier contracts for insurance and pays the insurance premium. The buyer should note that under the CIF term the supplier is only required to obtain insurance on minimum coverage. The CIF term requires the supplier to clear the goods for export.

This term can only be used for sea and inland waterway transport. When the ship's rail serves no practical purposes such as in the case of roll-on/roll-off or container traffic, the CIP term is more appropriate to use. See also Incoterms.

COUNTER OFFER: The acceptance of a bidder's offer by the buyer but with modification in one of more terms and conditions of offer. In legal terms it amounts to a new proposal to the bidders which will be construed as a contract only if he accepts the revised proposal of the buyer without any qualifications. See also Acceptance of Bid/Offer.

CPT: See Carriage Paid To.

CUSTOMS CLEARANCE: See Clearance of Goods.

CUSTOMS DUTIES: Taxes levied upon goods on entry into (import duties) or exit from (export duties) the country. See also Customs Tariff, Import Duties.

CUSTOMS TARIFF: Schedules or rates of customs duties laid down for different goods imported or exported from the country. Schedules of duties for imports and exports are usually issued separately or as two sections in the same document. See also Customs Duties.

D

DAF: See Delivered at Frontier.

DANGEROUS/HAZARDOUS GOODS: Any cargo which under normal conditions of transportation can pose an unreasonable risk to health and safely of crew, other cargo and the ship, aircraft, etc. This includes goods classified as explosive, flammable, corrosive, combustible, oxidative, poisonous, compressed gases, toxics, unduly magnetized, biologicals and radiologicals, and substances associated therewith.

DDP: See Delivered Duty Paid.

DDU: See Delivered Duty Unpaid.

DEAD STORAGE: Goods stored which are not likely to be used for a long period of time.

DEFAULT: Failure of a supplier or a buyer to comply with any one or more of the terms and conditions of a contract: See also Breach of Contract.

DEFICIENT MATERIAL: Material found to be not conforming to the specifications as to design and quality and, therefore, not fit for the intended use. See also: Technical Specification.

DELIVERED AT FRONTIER (DAF): Incoterm "Delivered at Frontier" means that the supplier fulfills his obligation to deliver when the goods have been made available, cleared for export, at the named point and place at the frontier, but before the customs border of the adjoining country. The term "frontier" may be used for any frontier including that of the country of export. Therefore, it is of vital importance that the frontier in question be defined precisely by always naming the point and place in the term. The term is primarily intended to be used when goods are to be carried by rail or road, but it may be used for any mode of transport. See also Incoterms.

DELIVERED DUTY PAID (DDP): Incoterm "Delivered Duty Paid" means that the supplier fulfills his obligation to deliver when the goods have been made available at the named place in the country of importation. The supplier has to bear the risks and costs, including duties, taxes and other charges of delivering the goods thereto, cleared for importation. While the EXW term represents the minimum obligation for the supplier DDP represents the maximum obligation.

This term should not be used if the supplier is unable directly or indirectly to obtain the import license. If the parties wish the buyer to clear the goods for importation and to pay the duty the term DDU should be used. If the parties wish to exclude from the supplier's obligations some of the costs payable upon importation of the goods, such as value added tax (VAT), this should be made clear by adding words to this effect: "Delivered duty paid, VAT unpaid (...name of destination)" This term may be used irrespective of the mode of transport. See also Incoterms.

DELIVERED DUTY UNPAID (DDU): "Delivered Duty Unpaid" means that the supplier fulfills his obligation to deliver when the goods have been made available at the named place in the country of importation. The supplier has to bear the costs and risks involved in bringing the goods thereto (excluding duties, taxes and other official charges payable upon importation as well as the costs and risks of carrying out customs formalities). The buyer has to pay any additional costs and to bear any risks caused by his failure to clear the goods for import in time.

If the parties wish the supplier to carry out customs formalities and bear the costs and risks resulting therefrom, this has to be made clear by adding words to this effect. If the parties wish to include in the supplier's obligations some of the costs payable upon importation of the goods, such as value added tax (VAT), this should be made clear by adding words to this effect: "Delivered duty unpaid, VAT paid, (...name of destination)"

This term may be used irrespective of the mode of transport. See also Incoterms.

DELIVERED EX QUAY (duty paid) (DEQ): This Incoterm means that the supplier fulfills his obligation to deliver when he has made the goods available to the buyer on the quay (wharf) at the named port of destination, cleared for importation. The supplier has to bear all risks and costs including duties, taxes and other charges of delivering the goods thereto.

This term should not be used if the supplier is unable directly or indirectly to obtain the import license. If the parties wish the buyer to clear the goods for importation and pay the duty the words "duty unpaid" should be used instead of "duty paid". If the parties wish to exclude from the supplier's obligations some of the costs payable upon importation of the goods, such as value added tax (VAT), this should be made clear by adding words to this effect: "Delivered ex quay, VAT unpaid (...named port of destination)" This term can only be used for sea or inland waterway transport. See also Incoterms.

DELIVERED EX SHIP (DES): This Incoterm means that the supplier fulfills his obligation to deliver when the goods have been made available to the buyer on board the ship uncleared for import at the named port of destination. The supplier has to bear all the costs and risks involved in bringing the goods to the named port of destination. This term can only be used for sea or inland waterway transport. See also Incoterms.

DELIVERY: Transfer of physical possession of goods from the carrier to the consignee. This term is primarily intended to be used when goods are to be carried by rail or road but it may be used irrespective of the mode of transport.

DELIVERY SCHEDULE: The date and/or the rate of delivery of the goods or works or services by the supplier to the buyer as incorporated in a contract.

DELIVERY TERMS: Conditions specified in a sale/purchase contract as to delivery schedule and methods of transportation. See also Delivery Schedule, Incoterms.

DEMURRAGE: A penalty imposed by a vessel owner or carrier on a consignee/consignor for delays in loading/unloading of cargo beyond the time specified in the charter-party. Demurrage charges may be also claimed for storage or use of shipper's owned containers beyond a specified period. See also Detention, Free Time, and Lay Days.

DEQ: See Delivered Ex Quay.

DES: See Delivered Ex Ship.

DESIGN SPECIFICATIONS: Specifications which indicate the essential characteristics which a product to be fabricated and supplied should possess. These have to be as detailed as possible, illustrated with drawings where necessary, so as to enable the bidders to know precisely what the buyer's needs are. On the other side they should leave enough room for a competition between the makes of several bidders to secure as much competition (also quality competition) as possible. See also Specification, Technical Specification.

DESTINATION: The port or place to which goods are shipped for delivery.

DESTINATION INSPECTION: Inspection by the buyer or his agents of goods on receipt at destination to assess whether the goods conform to the specifications laid down in the purchase contract.

DETENTION: An owner of a vessel which is delayed beyond the period specified for demurrage in a charter-party can claim unlimited damages for any further delays called "detention". See also Demurrage.

DEVELOPMENT COSTS: Supplier's expenses in development of a design or a prototype to help the buyer decide whether the product conforming to this would meet his intended use. As part of a two-stage biding procedure these costs will not be reimbursed by the buyer.

DIRECT CONTRACTING: Selection of a supplier without obtaining bids/offers from bidders. Used for small purchase values or in case of extreme urgency.

DISCOUNT: Price deduction granted by the supplier to the buyer, usually when certain stipulated conditions are met by the buyer such as such prompt payment, bulk order quantity, etc. Discounts are also granted by a supplier on nominal list prices which may vary from one buyer to another because of either order size, payment terms, relationship or as an element of marketing strategy of the supplier. See also Cash Discount, Quantity Discount, Concealed Discount, List Price, Price Discrimination, and Trade Discount.

DISCREPANCY REPORT: Report indicating that the delivered goods were unsatisfactory for any reason or that the goods (their number, packages, etc.) did not correspond with those indicated in various shipping documents (e.g. the invoice).

DRAFT CONTRACT: A contract specimen filled in and signed by the bidders and submitted to the buyer as part of his bid. See also Bid, Offer, and Bid.

E

EARNEST MONEY: A sum of money given by one contracting party to another on entering into the contract, to be forfeited by the giver if he fails to carry out his obligations under the contract. See also Bond.

ECONOMIC ANALYSIS: Economic evaluation of offers, particularly in case of capital equipment of high value, where different bidders may offer different payment and/or financing terms with an impact on the total cost of acquisition. Also refers to evaluation of when and how much to buy, taking into account the level of inventories, the likely demand, ordering and holding costs, as well as the present and the likely international market situation.

ECONOMIC ORDER QUANTITY (EOQ): That order quantity which gives lowest total variable costs, including costs of both procurement and stock holding. See also Inventory Control.

ECONOMIES OF SCALE: A concept that, when procuring goods or services, examines the effect of combining like requirements to increase the scale of procurement, thereby providing greater leverage in achieving maximum value for money when getting bids/offers from bidders. See also Aggregation, Bulk Buying.

ELIGIBILITY: Special requirements set up for bidders. If not met, the bidders will not be allowed to bid or their bids/offers already submitted will be rejected. Requirements can be the nationality of the bidders, presentation of a specific business license, etc.

EMERGENCY PURCHASE: Procurement necessitated to meet a requirement which could not be anticipated and provided for in advance by the buyer; e.g. break-down of equipment and replacement of a part, natural disasters.

ENQUIRY: An invitation from a buyer to bidders to submit their price quotes and other terms and conditions for supply of a product (or products) as specified. See also Bid

EOQ: See Economic Order Quantity.

EQUIPMENT: See Goods.

ESCALATION: See Price Revision.

ESCALATION OR ESCALATOR CLAUSE: See Price Revision.

EXPEDITE: Action taken, or to be taken, to ensure that the work of fabrication, construction, supply etc. is proceeding according to schedule and that the supplier will be able to deliver the product or complete the project as per delivery or completion date mentioned in the contract. In large-scale projects where activities are interdependent and certain activities have to precede others, delays by one contractor or subcontractor can disrupt the implementation schedule of the project. Expediting in such cases is of special importance. See also Contract Scheduling, Follow-Up.

EXPENDABLE MATERIAL: Items that are consumed in use and that do not ordinarily retain their original features during the period of use (e.g. paper, fertilizers. etc.).

EXPORT CREDIT GUARANTEE: A guarantee issued by a financial institution, specially set up for this purpose, on the basis of which an exporter can seek pre/post-shipment credit from a banking institution.

EXPRESS WARRANTY: A written affirmation by a supplier to a buyer that the goods are of the same quality and the requisite performance standard as in the contract. An express warranty does not exclude implied warranty. See also Certificate of Quality, Self-Certification, and Technical Specification.

EXPRESSION OF INTEREST: A note received from a bidders, usually in response to a public advertisement, invitation to bid or prequalification, for the supply of specific goods, works or services. The note confirms the interest of the bidders in making an offer to supply the goods, works or services.

EX WORKS (EXW): Incoterm "Ex works" means that the supplier fulfills his obligation to deliver when he has made the goods available at his premises (i.e. works, factory, warehouse, etc.) to the buyer. In particular, he is not responsible for loading the goods on the vehicle provided by the buyer or for clearing the goods for export, unless otherwise agreed. The buyer bears all costs and risks involved in taking the goods from the supplier's premises to the desired destination. This term thus represents the minimum obligation for the supplier. This term should not be used when the buyer cannot carry out directly or indirectly the export formalities. In such circumstances, the FCA term should be used. See also Incoterms.

F

FAS: See Free Alongside Ship.

FCA: See Free Carrier.

FINAL ACCEPTANCE: The buyer grants technical acceptance upon expiry of the guarantee period provided the supplier has met all his obligations. For items replaced, repaired or modified, the guarantee period shall be prolonged by a period equal to that during which they are unavailable. See also Acceptance, Provisional Acceptance.

FIRM BID/OFFER: A definite price proposal as differentiated from an estimated cost bid/offer. It binds the bidders for the validity time of his bid/offer. See also Bid.

FIXED PRICE CONTRACT: See Contract, Firm/Fixed Price.

FOB: See Free on Board.

FOLLOW-UP: In procurement, to monitor the implementation of the contract and to take necessary action if warranted. See also Contract Scheduling, Expedite.

FORCE MAJEURE: A contract term which implies circumstances beyond one's control, the occurrence of which can be pleaded as a legal excuse for non-fulfillment of contract. Previously the term referred largely to Acts of God (earthquakes, floods, etc.) However, the term is now used somewhat more flexibly to include government decrees, edicts, strikes, etc. To avoid problems of interpretation, in the event of a dispute, it will be helpful if the buyer and the supplier can agree at the contract stage itself to define what circumstances will constitute Force Majeure.

FORWARD PURCHASING: Purchasing of quantities in excess of immediate requirements, a procurement strategy which may be adopted when indications are that the supplies in the international market may become short and/or when prices are expected to rise sharply. See also Economies of Scale.

FORWARDER, FREIGHT: A person or a firm engaged in the business of collecting goods, arranging for their transportation from the factory or warehouse for delivery at the port of shipment, arranging for customs clearance and booking freight for shipment to the port of destination as the agent of the supplier or the buyer (depending on the terms of contract).

FRAME CONTRACT: See Basic Agreement, Blanket Order, Rate Contract.

FREE ALONGSIDE SHIP (FAS): Incoterm "Free Alongside Ship" means that the supplier fulfills his obligation to deliver when the goods have been placed alongside the vessel on the quay or in lighters at the named port of shipment. This means that the buyer has to bear all costs and risks of loss or damage to the goods from that moment. The FAS term requires the buyer to clear the goods for export. It should not be used when the buyer cannot carry out directly or indirectly the export formalities. This term can only be used for sea or inland waterway transport. See also Incoterms.

FREE CARRIER (FCA): Incoterm "Free Carrier" means that the supplier fulfills his obligation to deliver when he has handed over the goods, cleared for export, into the charge of the carrier named by the buyer at the named place or point. If no precise point is indicated by the buyer the supplier may choose within the place or range stipulated where the carrier shall take the goods into his charge. When, according to commercial practice, the supplier's assistance is required in making the contract with the carrier (such as in rail or air transport) the supplier may act at the buyer's risk and expense.

This term may be used for any mode of transport, including multi modal transport. If the buyer instructs the supplier to deliver the cargo to a person, e.g. a freight forwarder who is not a carrier, the supplier is deemed to have fulfilled his obligation to deliver the goods when they are in the custody of that person. Transport terminal means a railway terminal, a freight station, a container terminal or yard, a multi-purpose cargo terminal or any similar receiving point. See also Incoterms.

FREE ON BOARD (FOB): Incoterm "Free on Board" means that the supplier fulfills his obligation to deliver when the goods have passed over the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that point. The FOB term requires the supplier to clear the goods for export. This term can only be used for sea or inland waterway transport. When the ship's rail serves no practical purpose, such as in the case of roll-on/roll-off or container traffic, the FCA term is more appropriate to use. See also Incoterms.

FREE TIME: The period allowed to load or unload transportation equipment before demurrage or storage charges begin to accrue. See also Demurrage, Detention, Lay Days.

FREIGHT AT DESTINATION: A provision in a contract of affreightment stating that the freight charges will be paid by the consignee upon the arrival of goods at the specified destination.

FREIGHT FORWARDER: See Forwarder, Freight.

FUNGIBLE GOODS: Goods of which any one unit is similar to other units or where the qualities marketed by various producers are treated as equivalent or nearly similar, e.g. grains.

FUTURES: Contracts for the sale and purchase of commodities (or securities, currencies, etc.) for future delivery. In futures trading, commodities are not intended to be delivered physically (although this is not ruled out); instead, price differences are settled. Thus, if a supplier had agreed to deliver x tons of copper to the buyer at £900 per ton after 90 days and the actual price after that period is £800, the buyer pays to the supplier a difference of £100 per ton. See also Commodity Exchange, Hedging, Spot Purchase.

G

GROSS WEIGHT: The weight of a package/article in a consignment including that of its container and other packaging material.

GOODS: Physical products manufactured and sold on markets. See also Goods, Objects of Procurement.

GUARANTEE: A surety by which one person undertakes to be answerable to another for the performance of some act by a third person. Usually guarantees are issued by banks. See also Bond, Warranty.

H

HEDGING: Act of purchasing made by a buyer to protect himself against the effect of price fluctuations over which he has no control and over which he does not wish to speculate. A basic principle of a price hedge is to take an equal but opposite position on the futures market to the physical delivery position. See also Futures.

I

IDENTICAL BID: An offer from a bidders in response to an invitation to bid which is similar in all respects to another submitted by another bidders.

IF UNSOLD: A conditional offer made by a bidders to supply the goods if these are not sold elsewhere between the time of the bid/offer made and the award of the contract.

IMPORT DUTIES: Taxes imposed by governments on imports of goods from abroad. The duties are levied to (a) raise revenues and/or to (b) provide protection to domestic industry. See also: Customs Duties.

IMPORT LICENCE: A permit granted, usually by a designated government authority, authorizing the holder to import the particular article indicated in the permit. The permit may also indicate the quantity and/or the value limit of import, and at times the country or the geographical region/monetary area from which imports may be made.

IMPORT RESTRICTIONS: Direct regulation of the quantity or types of goods imported into a country, largely through licenses or quotas.

IN BOND: Goods on which import duty has not been paid are held in warehouses supervised by Customs officials until the duty is paid or goods are re-exported, or otherwise dealt with as directed by the authorities. See also Bonded Warehouse, Clearance of Goods.

INCOTERMS: A set of trade terms (13 in number) for which precise definitions have been set down by the International Chamber of Commerce (Paris) and which, when used in a contract, clearly indicate the rights and obligations of the buyer and the supplier. The terms have been grouped in four different categories:

The only term whereby the supplier makes the goods available to the buyer at the supplier's own premises (the "E"-term Ex works)

The second group whereby the supplier is called upon to deliver the goods to a carrier appointed by the buyer (the "F"-TERMS FCA, FAS and FOB);

The "C"-terms where the supplier has to contract for carriage, but without assuming the risk of loss or damage to the goods or additional costs due to events occurring after shipment and dispatch (CFR, CIF, CPT and CIP)

The "D"-terms whereby the supplier has to bear all costs and risks needed to bring the goods to the place of destination (DAF, DES, DDU and DDP). See also CFR, CPT, CIF, CIP, DAF, DES, DEQ, DDU, DDP, EXW, FCA, FAS, and FOB.

INDEFINITE QUANTITY BUYING: See Blanket Order, Agreement, Frame Contract, Rate Contract.

INDEMNITY: An undertaking which affords protection against loss or damage. Cargo insurance is an indemnity in as much as in the event of loss or damage the insurance company indemnifies (makes good) the loss to the consignees or consignor.

INELIGIBLE BIDDER: A bidders who may have been disqualified to bid/offer for any one of such reasons as unsatisfactory past performance, attempts at influencing awards, or inability to meet the pre-qualification standards for inclusion in the list of approved bids (holding the requested business license, nationality,...), or for any valid reason.

INFORMAL SOLICITATION: A process of obtaining offers (oral or written) from a selected number of bidders or a single one without the formal procedure of issuing invitations to bid and inviting bids/offers within a specified time. Often used to validate planning results. Bidders should be informed in advance that their offer will not result in the conclusion of any contract.

INSPECTION: A survey carried out by a buyer or his agent to determine whether the goods or services conform to the specifications or terms of reference laid down in the contract. This inspection may be carried out while goods are in the process of manufacture, before shipment or after shipment as well as throughout the implementation of a project. It includes the process of measuring, examining, testing, gauging or otherwise comparing activities and results with applicable requirements as specified in the contract.

INSPECTION LOT-SAMPLING: Where the number of items is large, and 100% inspection would be time consuming, inspection is carried out by taking a sample from a lot and accepting or rejecting the lot depending on the number of defects in the sample being less or greater than the acceptable number. For services a similar activity can be carried out, focusing on milestones identified for the particular project. See also Acceptable Quality Level (AQL), Quality Control.

INSTITUTE CARGO CLAUSES: Standard insurance terms and conditions for policies covering goods in transit overseas. The Institute clauses are drafted by the Technical and Clauses Committee whose members are drawn from the insurance companies and Lloyds. Details are available with insurance companies.

INSURED VALUE: The monetary value of the insured property as shown in the policy plus insurance charges. To cover renewed acquisition and other costs involved with the loss of material often 110% of the value is insured as a standard international practice.

INTELLECTUAL PROPERTY: Property of a non-physical nature capable of being transferred from one party to another.

INTERCHANGEABILITY: The suitability of a product(s) to be used in place of another products(s) to fulfil the relevant requirements. The functional aspect of interchangeability is called "functional interchangeability" and the dimensional aspect, "dimensional interchangeability".

INTERNATIONAL COMPETITIVE BIDDING (ICB): The procurement procedure where biding is open to all local or international legal entities interested to submit a bid.

INVENTORY: A complete list or statement of the stock of all materials, parts, components, work-in-progress and/or finished goods in possession of an organization at a point in time. For stock control purposes, particularly of raw materials, an enumeration of goods received, issues effected and balance at hand is done on a day to day basis or at period intervals, as part of efficient inventory and stores management. For balance sheet purposes the usual approach is to take stock of inventories and evaluate them at the end of an accounting year. However, the practice of a perpetual inventory system, indicating day to day changes, is now used more and more for better financial control. See also Stock.

INVENTORY CARRYING COSTS: Monetary cost of holding stocks. These consist of:

a) interest on blocked capital;
b) cost of handling the materials;
c) storage or warehousing costs;
d) premium on insurance (for theft, fire, etc.);
e) deterioration; and
f) obsolescence.

INVENTORY CONTROL: A functional aspect of inventory management, which seeks to ensure that stocks of raw materials, parts and components are at an optimal level that is neither too low in relation to expected usage, not so high as to increase avoidable holding costs. See also ABC Inventory Control, Economic Order Quantity (EOQ), and Order Point Control.

J

JOINT BID: A bid/offer submitted by a group of companies and/or individuals which have formed a grouping (consortium) to bid for and (if awarded) implement a specific project. One lead company has to represent and act on behalf of all other members of the consortium towards the buyer. Nevertheless each member of the consortium remains jointly and severally liable for the fulfillment of the bid and implementation of the contract.

K

KNOCKED DOWN (CKD): Articles when procured as parts and in unassembled form are referred to as in knocked down condition.

L

LATE BID: A bid/offer received after the closing time and date indicated in the bid issued. In most cases returned unopened to the bidders.

LATENT DEFECT: A defect in a product that is normally difficult to notice visually or through ordinary and reasonable inspection and which becomes apparent in the course of its use.

LAY DAYS: The number of days during which a vessel may load or unload without involving demurrage. The days may be counted as running days (including weekends and other holidays), as working days (excluding Sundays and other holidays), or as weather working days, the days on which weather permits loading/unloading. See also Free Time, Demurrage, and Detention.

LEAD TIME: The period of time from date of placing the order with a supplier to the date by which the goods are delivered by him and received by the buyer. In inventory management, one has to allow for reasonable lead time (based on experience) so that orders are placed well ahead of requirements, providing for the delivery time as well as the time for haulage of the goods to the buyer's warehouse, so as to avoid the possible of a stock out.
See also Economic Order Quantity.

LETTER OF CREDIT: An order from a banker (or other person) at one place to his agent abroad (a foreign bank) authorizing him to pay a given sum to the person or company named therein. Commercial letters of credit are extensively used as means of overseas payments. This requires the buyer to request his banker to open a letter or credit for a specified amount favouring the supplier and negotiable by a supplier's bank in his country. The buyer indicates in the application to the opening bank the conditions which should be fulfilled by the supplier (e.g. submission of bill of lading and other documentation) and upon the fulfillment of which the negotiating bank should release the money. See also Confirmed Letter of Credit.

LETTER OF INDEMNITY: A letter issued by the supplier to the effect that he will be responsible for losses or damage arising from faulty packaging or any other stipulated reason.

LETTER OF INTENT: A preliminary quasi-contractual arrangement by letter customarily used in circumstances where the goods, works or services, quantities, price and delivery dates are known, but where principal contract provisions may require additional time-consuming negotiations. Used to enter into interim agreement pending a definite contract so as to permit the start of services, construction, production, or delivery of supplies or materials.

LICENCING: The word is used in many different contexts. Essentially it means a document giving rights to a person or a firm which it would not otherwise have. In business it may mean a legal arrangement transferring the rights to manufacture, or to market, a product or service to another. Such an arrangement is usually formalized by a document. There might be a consideration, perhaps in the form of a regular fee, or of a commission or royalty. In many countries, licensing is used as a method of deciding who should sell what. See also Import License.

LIEN: A right by which one person, usually a creditor, has to retain possession of the goods of another until such time as the owner of the goods clears his liabilities. A common instance of a lien is the right of a carrier to retain possession of the goods and not deliver these until his charges are paid.

LIFE-CYCLE COSTING: A procurement technique for evaluation of bids/offers that considers, in addition to acquisition costs (price), other elements of maintenance, operating, etc.. In evaluating different supply bids/offers this enables the buyer to compare and select the one with the lowest total cost for the entire period over which the product is expected to be in use. See also Analysis of Bids, Tabulation of Bids, and Bid Evaluation.

LIQUIDATED DAMAGES: Damages that become due to one of the parties to a contract when the other party fails to fulfil his contractual obligations, that is, there is a breach of contract on his part. Liquidated damages are usually specified in the contract itself and need not be related to an actual loss. See also Penalty Clause.

LIST PRICE: The prices published in a catalogue or any similar publication by a producer (or trader) from time to time. Often list prices are indicative prices on which discounts are offered. See also Discount.

M

MANDATORY STANDARD: A standard of which the application has been made mandatory by a regulation. See also Standard.

MANIFEST: A detailed list of cargo being carried on board by a carrier (e.g. vessel or aircraft), including quantity, identifying marks, consignor and consignee of each item. This is made or signed by the captain of the vessel or aircraft. A copy is handed over to Customs. Copies of the manifest are also sent to the ship's agents at ports of call.

MARGINAL COSTING: The extra cost of increasing production by one or more units. It includes only the variable cost (direct costs) and no element of fixed costs (overheads).

MARK OF CONFORMITY: A mark attesting that a product or a service is in conformity with specific standards or technical specifications.

MARKET ANALYSIS: Information required to make an assessment of market conditions such as demand and supply conditions, prices, discounts, etc. to enable a buyer to make the right purchase decision. Besides information through formal channels or a survey it also includes information through informal channels such as agents, other buyers, etc. See also Sourcing.

MARKET LEADER: Brand and/or product with the largest market share. Often refers to the company producing and marketing the brand/product concerned. See also Price Leadership.

MARKING: Indications on a product or on a package primarily for the purpose of identifying it; marks, marks of conformity, characteristics of the product, etc. Marking may

also be applied to equipment employed in transferring a product to the user; for example, dispensers such as petrol pumps.

MATERIAL: see Goods.

MATERIAL DEFICIENCY: Any deficiency (such as physical, chemical, electrical or functional) noted in material that is attributed to non-conformance with contract specifications. Substandard workmanship is considered to fall within this definition. See also Non-Conformance, Technical Specification.

MULTIPLE AWARD: The award of separate contracts to two or more bidders for the same product where a single bidders does not offer to supply the entire quantity required or where the buyer wants to split a demanded quantity as part of his purchasing strategy. See also: Multiple Source Buying.

MULTIPLE SOURCE BUYING: A purchasing strategy by a buyer to diversify sources of supply, reduce his dependence on one or few suppliers, and to increase competition.
See also Multiple Award.

MUTUAL ASSENT: The basis for a contract is that each party agrees to the same thing. Each must know what other intends; they must mutually assent to be in agreement.

N

NEGOTIATION: The bargaining process between a buyer and bidders, each advancing his arguments in trying to get the best contract terms from his viewpoint. It is allowed for only in specific forms of procurement. See also Procurement Methods.

NET PRICE: Final price after all adjustments have been made for all discounts and rebates.

NETWORK ANALYSIS: Breaking down a complex project into a series of activities, arranging these with precedence, putting against each of the activities the estimated completion time and depicting the sequence on a diagram to facilitate the identification of inter-relationships and critical areas of activity, a delay in any one of which is likely to delay the implementation of the project. It is a technique of contract monitoring and administration.

NET WEIGHT: The weight of the contents of a package/container/wagon net of packaging material and/or tare weight. See also Gross Weight, Tare Weight.

NON-CONFORMANCE: The failure of services and/or material supplied by a supplier to conform to technical specifications and/or terms of reference incorporated in the contract. See also Material Deficiency.

NON-RECURRING DEMAND: A request made by a user (department) on a one-time basis for a special purpose or use.

NON-RESPONSIVE BID: A bid/offer by a bidders which does not conform to the essential requirements of the bid. See also Responsive Bid.

O

OBJECTS OF PROCUREMENT: A term used for any one of the categories of goods, works or services or any mixture thereof. In case of a mixture the category for classification is that to which the majority of the value belongs. See also Goods, Works, and Services.

OFFER: An offer can be the positive answer issued by a bidders in response to a bid invitation, or an announcement to deliver goods, carry out works and/or services to every or a specific buyer without a specific request or invitation to bid. Also refers to an expression of readiness by a bidders to enter into a contract. See also Bid, Draft Contract, Quotation, and Bid.

ORDER: A written document to buy, with instructions, issued to a supplier for material and/or services to be made available at specified price and time. Orders can be issued without any reference to a bid/offer. See Agreement, Contract.

ORDERING COSTS: Cost of placing an order.

ORDER POINT CONTROL: A method of inventory control which relies on defining a minimum stock level which, when reached, must trigger off procurement action of re-ordering. See also Inventory Control.

ORIGINAL EQUIPMENT MANUFACTURER (OEM): Producer who procures goods and/or services and incorporates these without any changes (a component part) into a product which he is manufacturing for sale.

P

PACKING LIST: A statement which lists in detail the contents of a particular package. It is also called a Packing Note.

PATENT: A right or an authority granted by a designated government agency to an inventor to have a sole right of making, using or selling his invention for a specified period.

PATENT INFRINGEMENT: Unauthorized use by a manufacturer of a product or process invented by someone else and over which the latter has a patent right. The buyer, to protect himself against patent infringement by a supplier, usually has an appropriate clause inserted to this effect in the purchase contract. See also Patent.

PAYMENT: The contractually agreed equivalent to the goods, works and/or services supplied by the supplier, provided by the buyer usually in terms of money. Payment can be done in stages; advance payment, progress payment, final payment upon evidence (presentation of vouchers), as a lump sum, on the basis of an agreed rate per unit multiplied with the number or units ordered.

PENALTY CLAUSE: A clause in a contract specifying the sum to be paid by the defaulting party to the other if the contract is not fulfilled. The sum is usually an estimate of the loss likely to be suffered by the party as a result of default. See also Liquidated Damages.

PERFORMANCE GUARANTEE / BOND: See Bond.

PHASED DELIVERIES: Scheduling shipments of material or supplies at specific intervals of time as per contract terms.

PREAWARD SURVEY: A physical survey undertaken to make an evaluation of a bidder's technical, financial and managerial capability to perform the contract (i.e. ability to supply the goods) before it is awarded. Sometimes referred to as vendor survey. For service contracts bidders' references can be asked for or interviews with the key personnel proposed can be held.

PRECLUSIVE SPECIFICATION: Specifications which are so restrictive as to limit or exclude competition.

PREPAID (FREIGHT): A term denoting that transportation charges have been or are to be paid at the point of shipment (and not at destination).

PREQUALIFICATION: The screening of potential bidders with reference to such factors as technical and financial capability, reputation as to reliability, etc., in order to develop a list of bidders qualified to bid/offer to whom alone the bid documents may be sent. See also Restricted Biding, Registration of Interest, and Short List.

PRICE DISCRIMINATION: The system followed by a bidders of charging different prices to different markets or classes of buyer. May be based on buyer - supplier relationship, volume of purchases/orders, also as part of sales strategy or any other factor. See also Discount.

PRICE LEADERSHIP: The lead taken by a company in setting a new price level. In a market with few bidders (i.e., an oligopolistic market structure) usually the market leader takes the lead in establishing such a price level. See also Market Leader.

PRICE REVISION: A provision in a contract for prices of products (usually a piece of equipment to be fabricated) or services to be increased or decreased if the costs of materials to be used (or the wages of labour) increase or decrease during the period of delivery. Generally, the contracts incorporate a formula for such price adjustments. A civil construction contract usually links wage costs of unskilled workers to any changes in minimum wage laws or union wage settlements. See also Contract, Fixed-Price with Revision.

PRIME CONTRACTOR: See Contractor, Prime.

PROCUREMENT: Purchasing, hiring or obtaining by any other contractual means goods, works or services or any mixture thereof.

PROCUREMENT CYCLE: A full procurement cycle involves the following stages:

a) identification of needs;
b) biding;
c) contracting; and
d) contract execution and monitoring.

PROCUREMENT LEAD TIME: See Lead Time.

PROCUREMENT METHODS: Internationally used term for the different procedures to be followed in completion of a procurement cycle.

PROFORMA INVOICE: An invoice prepared by a bidders in advance of a sale to show the form and amount of the invoice which will be rendered to the buyer if the sale takes place. Importers often require proforma invoices to support their request to governmental authorities for import permits and foreign exchange.

PROGRESS PAYMENTS: Periodic payments, in advance of delivery or completion of the full contract. Such payments are usually contractually linked to different stages in the manufacturing process of a product (equipment), or progress of the civil construction or services rendered. See also: Payment.

PROPOSAL: see Offer, Quotation, and Bid.

PROPOSAL CONFERENCE: A meeting of all prospective bidders convened by a buyer some time before the bid closing date to explain to them the precise scope of work and to provide any clarifications on design, specifications, etc. The purpose is to ensure that the bidders are clear about the buyer's precise needs and also have a uniform understanding of these.

PROPRIETARY ARTICLE: An article manufactured and sold by a patentee or by his licensee. See also Patent.

PROVISIONING: The process of determining the range and quantity of items (such as spares and repair parts, special tools, test equipment and support equipment) required for the maintenance of equipment for a specified period of service. It includes the identification of items and arrangements with the supplier for their supply when needed and/or stocking of these if there are indications that they may not be easily available when required. See also: Design Specification, Technical Specification.

PROVISIONAL ACCEPTANCE: Constitutes technical acceptance, with or without minor technical reservations, of goods and equipment supplied to, or installed on, the buyer's site. Acceptance should be confirmed by a Certificate of Provisional Acceptance. The date of the provisional acceptance marks the start of the guarantee period and signifies a transfer of property rights from the supplier to the buyer: See also: Acceptance, Final Acceptance.

PUBLICITY: For biding, publicity is secured by means of procurement notices on business opportunities as well as invitations to bid within the public bid procedure. Publicity can be secured locally and internationally by selecting corresponding media.

PUBLIC AUTHORITIES: State, regional and local authorities and bodies governed by public law.

PUBLIC CONTRACTS: Orders financed from public funds.

PUBLIC FUNDS: Funds of the buyer originating from state or community budgets (at least partially).

PURCHASER: See Buyer, Contracting Authority.

Q

QUALITY: The term covering any and every characteristic, property and/or performance of a product or service that can be evaluated to determine whether the product or service meets the specified requirements.

QUALITY ASSURANCE: A planned and systematic pattern of all actions necessary to provide adequate confidence that the product or services will perform satisfactorily. It may consist of the buyer satisfying himself that the system of quality control the supplier has instituted is satisfactory by examining or evaluating it. Alternatively, the buyer or his agent can undertake inspection of the product, in the process of production or at the pre-shipment stage monitoring the implementation of the services by verifying results. See also Quality Control.

QUALITY CERTIFICATION SYSTEM: Scheme set up by exporting countries, by law or practice, for certifying specifications. An importer must determine the independence and prove the reliability of inspection and certification institutions operating under such systems, which may be government departments or private sector bodies. See also Certification Body.

QUALITY CONTROL: A systematic approach to inspection of products (services) during the process of production (rendering) to ensure that the products (results) meet the expected use or performance standards as well as to identify the source of defects in materials used, workmanship, performance, design or technique of production. See also Acceptable Quality Level.

QUANTITY DISCOUNT: A price reduction granted by a bidders linked to the quantity of a proposed purchase. See also Cash Discount, Trade Discount.

QUOTATION: Another term used for bid or offer. See also Bid, Offer, and Bid.

R

RATE CONTRACT: The system of establishing a price for supplies at that price over a specified period of time. It is also sometimes referred to as a running contract. See also Basic Agreement.

RATING OF VENDORS: The evaluation and comparison of a bidder's performance, principally with regard to quality, timely delivery and prices.

REBATE: A sum of money abated by the bidders to a buyer in consideration of the purchase of a stipulated quantity or value of goods within a stated period. See also Discount.

RECURRING DEMAND: Procurement request(s) made by a user (department) on the basis of continuing requirements. See also Non-recurring Demand.

REGISTRATION OF INTEREST: To register all bidders interested in the bid or prequalification of a specific project. The register compiled is the basis for the preparation of a short list and/or invitations to bid. See also Prequalification, Short List.

REJECTION ADVICE (NOTE): A communication by the buyer to the supplier notifying him of the rejection of goods supplied or services rendered for reasons of non-conformity to quality or breach of any other contractual commitment.

REMEDIES: Corrective measures taken when directives have been breached.

REQUEST FOR QUOTATIONS: A procurement procedure frequently used in cases when clear specifications and/or terms of reference permit offers to be obtained by at least 3 bidders in order to select the lowest offer to supply the specified goods and/or services.

REQUIREMENT: The maximum overall estimated need of goods or services over a specific period of time for purposes of procurement, budgeting and planning.

RESPONSIVE BID: A bid or offer which does not vary in regard to specifications, terms and conditions of contract set out by the buyer in his invitation to bid. See also Non-responsive Bid.

RESTRICTED BIDING: An invitation to bid open only to certain prequalified bidders and implementing a format method of procurement. See also Prequalification, Short List.

RESTRICTIVE SPECIFICATIONS: See Preclusive Specification.

RUNNING CONTRACT: See Rate Contract.

S

SALVAGE: Is used in various contexts. Generally refers to the value of a property higher than its scrap value but no longer economically worthwhile to restore to its original usable form. Salvage loss in marine insurance occurs when goods damaged in transit are sold for less than their insured value before these reach the final destination. It also refers to payments made to professional salvors who are used for saving cargo or a ship in distress, or for the services of a person who may find a piece of ship's equipment washed up on a beach. Salvage is first charge on a saved property.

SAMPLE: A sample to be furnished by bidders along with their bids/offers to establish the quality of the products being offered.

SELF-CERTIFICATION: A form of conformity certification in which one or more manufacturers is responsible for conformity certification of its products with no surveillance from any certification body. See also Certificate of Quality.

SERVICES: Activities carried out by the supplier to achieve the contractually fixed results. Results can be physically defined (a study) or as an action (3 months of training). Mixtures of supplies and services are usually put in the category to which more than 50% by value belongs. See also: Objects of Procurement.

SHELF LIFE: The period of time during which an item, having a limited storage life, is considered to be ready for use.

SHORT SALE: The sale of a commodity for future delivery which the supplier does not possess but intends to purchase prior to the required delivery date, expecting that the market price will be no higher or will decline during the intervening period.

SHORT LIST: A list of names and addresses of potential bidders drawn up by a buyer to whom invitations to bid may be sent. Usually the elaboration of a short list is the objective of a prequalification procedure. See also Registration of Interest, Prequalification.

SOURCING: Act of searching for suitable sources of supply: See also Market Analysis.

SPECIFICATION: A statement of a set of requirements to be satisfied by a product, material or process indicating, whenever appropriate, the procedures by means of which it may be determined whether the requirements given are satisfied. It will generally include physical, chemical and/or metallurgical properties of a product and/or its design characteristics and/or performance standards. It may also include terminology, testing and test methods, packaging, marking and/or labelling requirements. See also Technical Specification.

SPOT PURCHASE: Act of purchasing in the spot market (that is at prices ruling on the purchase date) for prompt delivery, in contrast to forward purchase made now for future delivery at futures prices. See also Commodity Exchange, Future.

STANDARD: The result of a particular standardization effort approved by a recognized authority. It may take the form of (a) a document containing a set of conditions to be fulfilled, (b) a fundamental unity; or (c) an object for physical comparison. See also Mandatory Standard, Standardization.

STANDARDISATION: The process of defining and selecting through an agreement characteristics of products, testing and measuring methods, specification of characteristics of products for defining their quality, regulation of variety, interchangeability, etc.. Many countries have set up national standards organizations setting out, for a large number of products, the essential requirements which a product should measure up to.

The International Organization for Standardization (ISO) has been laying down standards for acceptance and adoption of these by member countries. In a bid invitation or enquiry a reference to a national standard or an international standard (or that of any other country) is usually sufficient for suppliers to know precisely what the buyer's requirements are. Standardization is also used in the sense of variety control, i.e., reducing the number of types of products within a definite range to that number which is adequate to meet prevailing needs at a given time. See also Standard, Variety Control.

STANDING ORDER: See Blanket Order.

STOCK: The quantity of all raw materials, components, parts, work in progress and finished goods held in store by an enterprise or a government agency. See also Inventory, Warehouse.

SUBCONTRACTOR: A person or a firm who enters into an agreement with a prime (main) contractor and undertakes to perform a part of the prime contractor's obligations with reference to the main contract. In construction and turnkey projects the buyer awarding a contract for the complete job to one (prime) contractor, and the latter subcontracting parts to different subcontractors, is usual practice. If some of these are defined by the buyer the subcontractors are called nominated subcontractors and the risk of their failure to perform the requested services rests with the supplier. See also Prime Contractor.

SUPPLIER: The bidders whose bid/offer has been selected for the contract. After signature of the contract by both parties the bidders becomes a supplier. See also Consultant, Contractor.

SUPPLIER'S LIEN: The right of a supplier to retain possession of goods until all dues to him are paid. Such right, however, does not exist where goods are sold on credit.

SUPPLIER'S MARKET: A supplier's market exist when supplies are short in relation to demand and where suppliers are in a position to drive a hard price bargain. See also Buyer's Market.

SUPPLIER'S OPTION: A provision in the contract which gives the supplier the right to vary the contract quantities to be delivered by a certain percentage. The contract may also provide options on any other clause in it such as the delivery schedule. See also Buyer's Option.

SURPLUS STOCK: Material assessed to be in excess of the buyer's own requirements and set aside for disposal.

T

TABULATION OF BIDS/OFFERS: The recording of bids/offers in tabular form to facilitate evaluation. See also Analysis of Bids/Offers, Bid Evaluation.

TALLY: A listing of items in a shipment by quantity and description.

TARE WEIGHT: The weight of a container (and other packaging material), vehicle or wagon in which goods are packed or stowed. The net weight less tare. Actual tare is determined when each cask/bag/box/wagon, etc., is weighed; average tare when one is weighed and used as a standard; and estimated tare when a fixed percentage is deduced from the gross weight. See also Net Weight, Gross Weight.

TECHNICAL SPECIFICATION: Part of purchase specifications on design, quality and/or performance excluding those on packaging, labelling, marking, etc. See also Design Specification, Provisioning, Specification, and Terms of Reference.

TERMS OF CONTRACT: Stipulations, explicit or implicit, in a contract setting out the obligations and the rights of the contractual parties, as well as other conditions of contract.

TERMS OF PAYMENT: Conditions for payment for goods or services received as agreed between buyer and supplier, such as: Cash Against Documents (CAD), Cash on Delivery (COD), Letter of Credit, etc. See also Payment.

TERMS OF REFERENCE: Scope of work for a service contract, equivalent to the specification of goods in a contract for the purchase of goods. See also Specification, Technical Specification.

TOKEN BID: A perfunctory bid/offer submitted by a bidders with no serious intent of being awarded the contract. Often submitted when the bidders wishes only to continue to be kept on the buyer's eligibility list, or as a part of a collusive deal with other bidders.

TOLERANCE: The permissible variation of the specified value or quantity according to needs.

TOTAL LOSS: Nothing salvageable, that is, completely lost from an insured peril and the amount recoverable is the insured value.

TRADE DISCOUNT: A percentage deduction from an established price for goods (percentage often varying in accordance with volume of transaction), made by the supplier to others in the distribution chain (stockists, wholesalers, retailers, etc.). See also Discount, Rebate.

TRADEMARK: Any sign, symbol, mark, word, or arrangement of words in the form of a label used by a manufacturer or supplier as identification or symbol of his particular goods, which no other person can legally use without his consent. See also Brand Name, Proprietary Article.

TURNOVER: In supply management is the quantity and/or value of stock issued in a given period, usually one year.

TURNKEY CONTRACT: A contract for plant fabrication, its installation and/or commissioning and/or the associated civil construction.

TWO ENVELOPE SYSTEM: A biding option for the selection of the most advantageous bidders. The bidders are ordered to submit their bids/offers in two separate envelopes, both of them sealed and clearly marked. The first envelope contains the technical proposal, the second one the price proposal.

TWO STAGE BIDING: Within this procurement procedure in a first stage bidders are asked to present technical and organizational suggestions how best to implement a specific project. Thereafter the buyer identifies the concept which is likely to be the most advantageous one. For this concept bids are requested from the same group of bidders in the usual formal way, including prices, in order to select the preferred bidders.

U

UNDERWRITER: One who accepts liability by providing insurance.

V

VALUE ANALYSIS: A systematic examination and analysis of the cost of each component or constituent part of a product (including raw materials used, finish, packaging, etc.) which can be eliminated without impairing its capacity to satisfy the intended need or use.

VENDOR: The supplier of goods (property or services). See also Supplier.

VARIETY CONTROL: The selection of the optimum number of sizes, other characteristics or types of a product required to meet prevailing needs.

VISUAL INSPECTION: A term generally used to indicate inspection performed without the help of measuring and testing instruments or a laboratory.

W

WAREHOUSE: A place of storage for merchandise and commodities. In addition to the service of storage some warehouses, particularly in the vicinity of a port area, perform the functions of freight forwarding and/or of distribution agents. See also Stock.

WARRANTY. Used in different contexts as an undertaking, either expressed or implied, by one party to a contract to another.

a) In the context of marine insurance an implied warranty is that the vessel is seaworthy and fit for voyage. A breach of warranty is sufficient for the insurer to avoid payment on damage to, or loss of, the ship.
b) In the context of supply contracts, it is an assurance by the supplier on the workmanship, quality and serviceability of the item (equipment) for a particular period of use/time. In case of defect the item may be repaired or completely replaced, free of charge, by the manufacturer.

c) More generally, an express or implied statement of fact amounting to an assurance of something in a contract. If the obligation is not carried out the contract may not be invalidated but damages can generally be claimed. See also Bond, Guarantee.

WAYBILL: A carrier's document listing goods being carried, showing the point of origin, destination, consignor, consignee and transportation charges.

WEIGHT: See Gross Weight, Net Weight, Tare Weight.

WHARF: A platform for berthing of ships for loading and unloading.

WITHOUT ENGAGEMENT: A phrase incorporated by bidders in his quotation indicative of no commitment to accept a contract at the price quoted; a safeguard against prices rising between the time of giving the bid/offer and the contract being placed.

WORKS: Are defined as civil engineering construction. See also Objects of Procurement.

References

AfDB. (2018, 01 04). *African Development Bank*. Retrieved from African Development Bank: https://www.afdb.org/en/projects-and-operations/procurement/resources-for-borrowers/standard-bidding-documents/