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Bank-Financed Procurement Manual

July 2001 Draft

Procurement Policy and Services Group
Operations Policy and Country Services
VPU

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ABBREVIATIONS AND ACRONYMS

APL	Adaptive Program Lending
BOO	Build Own Operate
BOT	Build Operate Transfer
BOOT	Build Own Operate Transfer
BP	Bank Procedures
CACM	Central American Common Market
CARICOM	Caribbean Community
CC	Chief Counsel
CD	Country Director
CFR	Cost and Freight
CIF	Cost, Insurance and Freight
CIP	Carriage and Insurance Paid to
CL	Country Lawyer
COD	Country Operations Director
CPAR	Country Procurement Assessment Report
CPT	Carriage Paid to
CTF	Consultant Trust Fund
CU	Country Unit
DACON	Bank's Data on Consultants
DAF	Delivered at Frontier
DC	Division Chief
DDP	Delivered Duty Paid
DDU	Delivered Duty Unpaid
DES	Delivered Ex Ship
DEQ	Delivered Ex Quay
DP	Decentralization Plan
DTP	Desk top publishing
ECAs	Export Credit Agencies
ECU	European Currency Unit
EDs	Executive Directors, Board of
FAO	Food and Agriculture Organization
FAS	Free alongside Ship
FCA	Free Carrier
FDRA	Food and Drug Regulation Agency
FOB	Free on Board
GC	General Counsel
GMP	Good Manufacturing Practices
GPN	General Procurement Notice
GNP	Gross National Product
IAD	Internal Auditing Department
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
ICC	International Chamber of Commerce
ICSID	International Center for Settlement of
LAIA	Latin American Integration Association
LEGOP	Legal Department's Office of Procurement and Consultant Services
LIB	Limited International Bidding
LIL	Learning in Lending
LOA	Loans Department
LOI	Letter of Invitation
MDO	Managing Director Operations
MIGA	Multilateral Investments Guarantee Agency
MOP	Memorandum and Recommendation of the President
MOS	Monthly Operational Summary
NBF	Not Bank Financed
NCB	National Competitive Bidding
NGO	Non-Governmental Organization
OCS	Operational Core Services Network
OPCPR	Procurement Policy and Services Group
ODAs	Official Development Agencies
OP	Operational Policies
OPD	Operations Policy Department
OPMIS	Operations Management Information Systems
OPRC	Operational Procurement Review Committee
PAD	Project Appraisal Document
PAS	Procurement Accredited Staff
PB	Procurement Network Board
PCD	Project Concept Document
PCR	Project Completion Report
PEF	Performance Evaluation File
PPF	Project Preparation Facility
PPI	Privately Provided Infrastructure
PR	President's Report
PRMPS	Public Sector Management Staff
PS	Procurement Specialist
RFP	Request for Proposal
RPA	Regional Procurement Advisor
RVP	Regional Vice President
SA	Special Accounts
SALs	Structural Adjustment Loans
SAR	Staff Assessment Report
SBD	Standard Bidding Documents
SECAL	Sector Adjustment Loan
SISP	Strategic Information Systems Plan
SM	Sector Manager
SOD	Sector Operations Director
SOE	Statements of Expenditure
SPN	Specific Procurement Notice

	Investment Disputes
IDA	International Development Association
IFBs	Invitation for Bids
IFI	International Financing Institutions
INNs	International Non-Proprietary Names
IS	International Shopping
IT	Information Technology
ITB	Invitation to Bid
ITF	Interim Trust Fund
TA	Technical Assistance
TF	Trust Funds
TOR	Terms of Reference
TTL	Task Team Leader
UDACA	Central African Customs and Economic Union
UN	United Nations
UNDB	United Nations Development Business
UNDP	United Nations Development Program
USD	United States Dollars
WAEC/CEAO	West African Economic Community
WHO	World Health Organization

USE OF THE PROCUREMENT MANUAL

The Operations Policy (OP)/Bank Procedures (BP) 11.00 and the Procurement Guidelines constitute the Bank's policies on procurement. This Manual is intended to give additional advice and assistance to Bank staff to help them carry out their own procurement responsibilities and to help them advise Borrowers on how to handle their own responsibilities when carrying out procurement using Bank financing. The Manual does not contain any new policies. Rather, it explains in more detail how specific aspects of procurement should be handled consistent with the Guidelines, the OP and the BP. It is a source of "how-to" information about the tasks and elements that comprise the procurement process.

The Manual begins in Chapter 1 with a review of some policy and institutional aspects of procurement that have broad applicability and about which questions arise most frequently. Subsequent chapters deal with specific procurement topics, taking them generally in the chronological order in which they occur, from the initial analysis of a Borrower's procurement systems and capacity, through the procurement planning stages and into project implementation and contract administration. A final Chapter covers a variety of special situations including implications of different financing arrangements, particular kinds of procurement -- textbooks, pharmaceuticals, commodities, etc. Where necessary, topics are cross-referenced to other relevant sections of the Manual and the Procurement Guidelines to enable a clearer understanding of the topics in issue.

It is expected that this Manual will continue to be improved and added to with a view to keeping it relevant and useful to its users. Any views in this regard will be welcome and may be forwarded to the Procurement Policy Unit in the Bank (OPCPR).

FOREWORD: PROFICIENT PUBLIC PROCUREMENT: WHY DOES IT MATTER?

Before describing step-by-step how World Bank-financed procurement should be planned and implemented by Borrowers and supervised by the Bank, it is appropriate to establish at the outset why this topic is worthy of attention. This inquiry can be fruitfully addressed by approaching it from three linked perspectives:

(a) What constitutes proficient public procurement—what are its distinguishing characteristics?
(b) Why is it so important?
(c) Why should its achievement and maintenance be a priority concern for the Bank and Bank staff?

What *Is* Good Procurement? What Does It Look Like?

The principal hallmarks of proficient public procurement are:

- Economy;
- Efficiency;
- Fairness;
- Reliability;
- Transparency; and
- Accountability and Ethical Standards.

Economy: Procurement is a purchasing activity whose purpose is to give the purchaser best value for money. For complex purchases, value may imply more than just price, for example, since quality issues also need to be addressed. Moreover, lowest initial price may not equate to lowest cost over the operating life of the item procured. But the basic point is the same: the ultimate purpose of sound procurement is to obtain maximum value for money.

Efficiency: The best public procurement is simple and swift, producing positive results without protracted delays. In addition, efficiency implies practicality, especially in terms of compatibility with the administrative resources and professional capabilities of the purchasing entity and its procurement personnel.

Fairness: Good procurement is impartial, consistent, and therefore reliable. It offers all interested contractors, suppliers and consultants a level playing field on which to compete and thereby, directly expands the purchaser's options and opportunities.

Transparency: Good procurement establishes and then maintains rules and procedures that are accessible and unambiguous. It is not only fair, but should be *seen* to be fair.

Accountability and Ethical Standards: Good procurement holds its practitioners responsible for enforcing and obeying the rules. It makes them subject to challenge and to sanction, if

appropriate, for neglecting or bending those rules. Accountability is at once a key inducement to individual and institutional probity, a key deterrent to collusion and corruption, and a key prerequisite for procurement credibility.

A sound procurement system is one that combines all the above elements. The desired impact is to inspire the confidence and willingness-to-compete of well-qualified vendors. This directly and concretely benefits the purchasing entity and its constituents, responsive contractors and suppliers, and the donor agency providing the project finance.

Conversely, a procurement system that takes the above elements stimulates hesitation to compete, submission of inflated bids containing risk premia, or submission of deflated bids followed by delayed or defective performance. Other direct results include collusion in bribery by frustrated or unscrupulous vendors and purchasing entities, bad value for those entities and their constituents, and betrayal and abuse of the public trust for personal gain.

In sum, proficient public procurement is not difficult to describe in principle or to distinguish from its antithesis in practice. But it does require varied professional and technical know-how to establish, as well as discipline and determination to administer.

Why Is Proficient Public Procurement So Important?

Public procurement is the process by which host governments, including the Bank's Borrowers, buy the inputs for vital public-sector investments. Those investments, both in physical infrastructure and in strengthened institutional and human capacities, lay foundations for national development. In procurement terms, those inputs are generally grouped into three categories:

- civil works - for example, bridges and buildings, harbors and highways;
- goods - typically equipment, materiel and supplies, commodities, textbooks, medical supplies; and
- services - expert advice and training, conventionally labeled Technical Assistance, as well as such things as building maintenance, computer programming, etc.

The quality, timeliness, local appropriateness and affordability of those procured inputs can largely determine whether the public investments will succeed or fail. So the beneficial impact and contribution of the input, particularly in the case of technical assistance services, can exceed their direct costs, by several orders of magnitude. Yet procurement costs can be substantial, consuming scarce resources of tightly constrained government budgets. Often the required funding must be borrowed. Moreover, the process also consumes scarce skilled public-sector human resources. It takes time, not merely for procurement planning and contracting but also for contract supervision and execution. And much of this process is highly visible, as well as controversial, exposing ministers and civil servants to scrutiny and second-guessing for procurement choices they made, deferred or discarded.

The Bank's interest in procurement stems from the provisions of its Articles of Agreement which stipulate that the funds it lends are used only for the purpose for which the funds were

borrowed, with due attention to economy and efficiency. The World Bank has five basic concerns that govern its procurement policies:

- to ensure that the goods and services needed to carry out the project are procured with due attention to economy and efficiency;
- to ensure that the loan is used to buy only those goods and services needed to carry out the project;
- to give all qualified bidders from the Bank's member countries an equal opportunity to compete for Bank-financed contracts;
- to encourage development of local contractors and manufacturers in borrowing countries; and
- to ensure that the procurement process is transparent.

The Bank's procurement policies and procedures have been designed to promote fairness and equal treatment. Recent changes have made the anti-fraud and anti-corruption policies even more explicit.

Procurement under a Bank loan is the Borrower's responsibility, not the Bank's. But the Bank, through its Guidelines, its training, and mostly its staff, can render support in helping Borrowers implement procurement properly. This is both a fiduciary role, that of a development partner. Bank staff can only perform that role persuasively and effectively if they understand and endorse the logic and ethical basis of the Procurement Guidelines, rather than merely citing and imposing rigid "rules."

Chapter 1. Procurement Policy and Institutional Topics

Section 1: Operational Policies

The Articles of Agreement[1] of the International Bank for Reconstruction and Development give the Bank[2] a fiduciary responsibility to ensure that the proceeds of its loans are used only for specified purposes, with due attention to economy and efficiency and without regard to political and other non-economic influences and considerations. To carry out this responsibility, the Bank oversees Borrowers' use of Bank funds to procure goods, works and services. The Bank's ability to raise financial resources from its member countries and in the capital markets also depends in part on the impartial administration of this procurement. Accordingly, the Bank has established rules for the use of its loans and for supervising the execution of projects it helps to finance.

Four considerations guide these rules: (a) ensuring economy and efficiency in project implementation including the procurement of goods, works and services financed by the Bank, as mandated by the Articles; (b) giving eligible bidders from member countries a fair opportunity to compete in procurement; (c) encouraging the development of domestic industries and consulting services - in borrowing countries; and (d) providing for transparency in the procurement process.

The rules, which are endorsed by the Bank's Executive Directors, are set out in the *Guidelines for Procurement under IBRD Loans and IDA Credits* (the Procurement Guidelines) and the *Guidelines for Selection and Employment of Consultants by World Bank Borrowers* (the Consultant Guidelines).

The Guidelines apply equally when procurement is carried out by the Borrowers,[3] their agents or other intermediaries such as the United Nations Agencies on behalf of the Borrower. For contracts which are fully funded by the Borrower or by other lenders or donors under parallel arrangements, other procedures may be followed provided the Bank is satisfied these procedures are economical and efficient and do not prejudice the successful implementation of the project. The Bank requires careful procurement planning before project approval and supervises procurement during project implementation to ensure the appropriate application of these rules.

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1 See IBRD Article III, Sections 4 and 5, and IDA Article V, Section 1.

2 For purposes of this manual, reference to "Bank" includes IDA and reference to "loans" includes "credits".

3 Borrower means also the implementing agency when they are different entities.

Section 2 Eligibility

2.1 Eligibility Criteria - Country Eligibility Criteria

Under the Bank's Articles of Agreement, the resources and facilities of the Bank are to be used solely for the benefit of Bank member countries. Membership of the Bank includes countries that are members of the International Monetary Fund, and those which accepted membership in accordance with the Articles of Agreement, and in accordance with such other terms as may be prescribed by the Bank.

A Bank member may withdraw its membership by notice in writing to the Bank at its principal office. The Bank may also suspend a country's membership, by a majority decision of the Bank's Governors. A country that has withdrawn from Bank membership, has been suspended from such membership by the Bank or has never been a Bank member country (non-member country), is ineligible to enjoy any rights provided to Bank members under its Articles of Association. These rights include *inter alia*, participating in Bank financed procurement.

Funds from Bank loans are thus only disbursed on account of expenditure on goods, works and services provided by nationals of, and produced in or supplied from, Bank member countries. Consequently, only bidders from member countries of the World Bank may bid for and be awarded contracts in Bank financed procurement.[4] (***For a list of ineligible source countries in Bank financed procurement refer to the following website address - www. worldbank.org/html/pic/procure.html)***

As a general rule bidders from all member countries of the Bank are entitled to a fair opportunity to bid for provision of goods, works and services in Bank financed projects. However, the Borrower may exclude suppliers, contractors and consultants from tendering for procurement opportunities in Bank projects on the following basis:

- the Borrower's country prohibits as a matter of law or official regulation, commercial relations with the country of the bidder;
- the Borrower's country in compliance with decisions taken by the United Nations Security Council, under Chapter VII of the UN Charter, prohibits import of goods from or payments to persons in the country of the Bidder;
- the bidders in question or their affiliates provided consulting services for the preparation and implementation of a project, and in order to prevent a conflicts of interest, they and their affiliates are disqualified from subsequently providing goods and works under Bank financing for the same project; or
- firms or individuals who have been debarred by the Bank for having been engaged in fraudulent or corrupt practices.

[4] See Section 5.01 of General Conditions Applicable to Loan and Guarantee Agreements, dated January 1985.

2.2 Trust Funds and Other Special Funds

Occasionally the Bank organizes and administers special funds for specific purposes contributed to by only some of its members. These are usually Trust Funds (TF) and other special funds such as Interim Trust Funds (ITF)[5] under IDA Credits. Procurement using such funds is conducted according to Bank policies and procedures. However, the guidelines relating to eligibility for use of these funds may be different from those that are applied to regular Bank funds.[6]

Where a TF or special fund is set up for investment in a particular area of interest, e.g. under a tied credit where procurement with such funds is for goods and services related to the specific purposes of the fund, the funds may only be used for projects aimed at achieving the objectives of that fund. Once again eligibility criteria for use of such funds may differ from those that apply to regular IBRD funds. Examples of such TFs include the IDA Special Fund, the African Facility and the Multilateral Fund of the Montreal Protocol.

Eligibility under TFs is defined in the following manner:

- Eligible firms must be registered/incorporated in an eligible source country, and personnel providing services within the borrower country must be nationals of eligible source countries. Individual consultants to be hired and paid for from the funds must likewise be nationals of eligible source countries.
- Goods and services, including construction services for works, provided by associations (such as joint ventures or subcontractors) between firms from eligible source countries and firms from ineligible source countries will not be eligible.
- For manufactured goods, materials, machinery, equipment, parts and industrial plant offered from eligible countries, the origin of the component raw materials and parts from ineligible source countries will be disregarded if their cost is less than 20 percent of the total offered price. If the cost of raw materials and components from ineligible source countries is 20 percent or more, the bid offering such goods will not be eligible for consideration for award under TF financing.
- For construction of works and other contractual services, disbursements will not be made for portions of the contract price that can be reasonably identified as representing direct purchase of materials or services by the contractor from ineligible source countries. However, purchases in the borrower's own country of supplies and materials that may have been imported from ineligible source countries will usually not be excluded.
- In the case of transportation of goods, disbursements will not generally be made for transport services by firms established in ineligible source countries or those provided through a pooling arrangement in which firms from ineligible source countries hold a majority share. Exceptions will be permissible under pooling arrangements in which shipping lines from eligible source countries hold the majority share, or when other

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[5] An example is the ITF for Fiscal Years (FY) 1997 - 99, created to bridge the funding gap for FY97 created by the absence of new United States IDA 11 funding for that year. (Eleventh Replenishment of the IDA and the Role of the Interim Trust Fund - www.worldbank.org/html/opr/procure/eleven.html)

[6] See OP 14.40 on policies applicable to the administration of Trust Funds.

means of transportation are not available or the use of other means would cause excessive costs or delays.

2.3 Eligibility of Public Sector Enterprises

In order to prevent conflicts of interest and encourage competition in Bank-financed procurement, government-owned enterprises in the Borrower's country are generally ineligible to bid for, or to be awarded contracts under Bank financing. However, if the integrity and fairness of the bidding process is not threatened, a majority publicly owned enterprise may be eligible to participate in Bank-financed procurement provided it meets the following criteria:

- it is a commercially oriented entity legally autonomous from the Borrower or the executing agency;
- it is financially independent, as demonstrated by the requirements for separate audited accounts and return of capital, powers to raise capital and obtain its revenue through the sale of goods and services;
- it is managerially autonomous, as evidenced by decision-making authority granted to its management, e.g., for contracting obligations and hiring and terminating the services of personnel;
- it is not a dependent agency of the Borrower or the agency executing the project;
- it meets all bidding and contractual conditions, including the prequalification and postqualification requirements including , financial and technical capabilities, experience and past performance.

2.4 Ineligibility of Firms Blacklisted due to Fraudulent and Corrupt Practices

It is the Bank's policy not to tolerate any fraud and corruption in the procurement or execution of Bank-financed contracts. The Bank requires the highest standard of ethical behavior from its own staff and from firms and individuals bidding for work in Bank financed Procurement. Fraudulent or corrupt practices include the solicitation, payment or receipt of bribes, gratuities or kickbacks, or the manipulation of loans or Bank Group-financed contracts through any form of misrepresentation, fraudulent or corrupt practices.

Accordingly, any supplier, contractor or consultant firm, contracted to provide services in Bank financed procurement, found by the Bank after appropriate investigations to have engaged in a corrupt or fraudulent practice be declared ineligible to bid for Bank-financed contracts. Such ineligibility may be for a specific period of time or indefinitely according to the gravity of the offense.

Staff should report all allegations of fraud or corruption to the Office of the Director, Institutional Integrity.

2.5 Reserved Procurement

Reserved procurement occurs when the Bank considers open competition to be the most appropriate method for procurement of particular goods or works, but the Borrower wishes to

reserve certain procurement for specific sources. Reserved procurement within a specific investment operation is acceptable to the Bank only under the following conditions:

- the reserved procurement is not eligible for financing from Bank funds;
- the reserved procurement will not significantly affect the satisfactory execution of the project in terms of cost, quality and completion time; and
- the estimated cost of the reserved procurement is excluded from total project costs for determining the loan amount.

Section 3: Roles and Responsibilities of Bank Staff and Organizations in Procurement

3.1 Introduction

Borrowers have the ultimate responsibility for all aspects of project implementation, including procurement. However, Bank staff have a vital role to play at each step of the procurement process to ensure compliance with Bank policies and procedures and to help Borrowers address procurement issues in all phases of the project. Therefore, Bank procurement staff are expected to have a broad understanding of development issues and specific professional knowledge, skill and experience in procurement, in order to make sound and independent judgments on procurement issues. Other non-procurement staff assigned to operational work should familiarize themselves with these established policies and procedures to factor them in project planning and implementation. The Bank exercises its fiduciary and developmental responsibilities with respect to procurement by:

- assessing Borrower and implementing agency procurement capacity and procedures and helping them improve their capacity;
- requiring appropriate procurement plans for each project before procurement begins;
- providing guidance to Borrowers in the use of standard procurement documents and related instructions to help ensure compliance with the Guidelines; and
- supervising and monitoring project implementation through site visits, prior reviews, post reviews and audits.

Both the Borrower and the Bank's operational line managers have an obligation to commit adequate project, technical and procurement resources for the proper performance of their respective responsibilities. This section gives a detailed description of Bank staff involved in procurement and the specific roles they play at different stages of the procurement process.

3.2 Task Team Leader (TTL)

The Task Team Leader (TTL) has the overall responsibility for monitoring procurement and taking any actions required under the Loan Agreement. With the detailed support of the Procurement Specialist (PS) or Procurement Accredited Staff (PAS) assigned to the project, the TTL must ensure that all systems required for the proper administration of a project including procurement activities are set up and are operational. The TTL's responsibilities include:

- ensuring that the project team is staffed with procurement expertise at the level required for the project;
- determining what goods, works and services are to be procured and financed under the project, and ensuring that adequate capacity assessment and procurement plans are prepared for the project.
- verifying that procurement is duly covered by the project documents and that it is consistent with the implementation schedule;

- confirming that the methods of procurement correspond to those specified in the Loan Agreement, and the aggregate value of the specific method, if limited by the Loan Agreement, has not been exceeded;
- reviewing or organizing the review of technical specifications of bid documents;
- preparing the procurement section of the Project Appraisal Document;
- ensuring that adequate technical and financial resources are allocated for procurement work throughout the project
- ensuring compliance with all procedures established in the Bank for procurement activities;
- issuing "no-objection letters" to all Borrower actions subject to prior review;
- ensuring that post-review of contracts not subject to prior review is carried out; and
- submitting any proposed procurement action to the RPA for review where required.

3.3 Procurement Specialist (PS)/Procurement Accredited Staff (PAS)

A procurement specialist (PS) or procurement accredited staff (PAS) should be assigned to each task team to deal with procurement matters at all stages of the project cycle, from preparation through completion. In order to ensure that procurement requirements are developed and appropriately carried out, the PS/PAS is responsible for:

- advising the TTL and the Borrower on procurement, contract management and procurement capacity building work;
- determining whether there is a current and complete Country Procurement Assessment Report (CPAR) or Operations Procurement Review (OPR) at the planning and preparation stages of the project;
- conducting an assessment of the procurement management capacity of the Borrower's implementing agency;
- discussing the CPAR and proposed procurement supervision plans with the RPA during procurement preparation;
- discussing with the Borrower the whole procurement process, methods of procurement, pre- and post qualification procedures proposed thresholds for review and the content and format of the bid evaluation report and other required documents;
- working with the Borrower to develop and monitor a scheme to strengthen procurement management;
- guiding the Borrower in developing and preparing the project procurement plan;
- comparing the estimated value of goods and works to be procured against the funds available in the loan/credit category, to determine whether or not to proceed with procurement;
- assisting the Borrower in establishing a procurement schedule (time table - a bar chart if appropriate) consistent with the Project Implementation Plan, that indicates the timing of any advance procurement action or contracting and displays conditionalities and other critical milestones in procurement, as well as estimated annual contractual payments;
- developing a procurement management plan in cases where the nature of the project does not permit the development of a precise list of packages and schedules (i.e. programmatic, social, APL lending);

- updating the procurement monitoring system for observing and supervising procurement matters;
- preparing Bank procurement supervision plans, identifying the level of prior and post reviews that will be carried out and the frequency of procurement audits where required;
- clearing the results of all fiduciary reviews below RPA mandatory review threshold;
- coordinating with the RPA the review of all other documents and decisions;
- clearing Bank "no - objections" to prequalification, prior review, proposals for contract award, use of specific bidding documents ect.;
- carrying out Borrower procurement training;
- monitoring the quality of procurement by Borrowers and reporting major deficiencies (including cases of misprocurement) and proposed remedies to the TTL, the CD and the RPA; and
- participating in carrying-out of post reviews.

3.4 Regional Procurement Advisor

The Regional Procurement Advisor (RPA) in each Region is responsible for overseeing compliance with the established procurement policies and rules and their consistent application throughout Bank regions. RPAs are usually assisted by a group of procurement specialists. RPAs are also responsible for promoting and maintaining high quality standards for procurement carried out by Borrowers within their Regions. The RPA has following specific responsibilities:

- ensuring that the fiduciary responsibilities of the Bank are carried out with diligence and consistent with established policies;
- advising Regional management on priorities for carrying out CPARs and clearing the results;
- working with Regional management to ensure that sufficient resources are allocated in Regional/Country Unit business plans, to carry out necessary Regional procurement work;
- preparing or clearing responses to procurement-related complaints from bidders and Executive Directors;
- proposing accreditation of operational staff in the Region (***for details on the role of the RPA in accreditation of procurement staff, refer to section 3.11)***
- reviewing and clearing the procurement arrangements and supervision plans, including any subsequent changes, for each project in the Region;
- helping Operations decide whether procurement technical assistance is needed, what prior review and procurement method thresholds are appropriate, and how to arrange for adequate post-review and procurement audit coverage;
- resolving any disagreements on procurement matters within the project team;
- conducting mandatory reviews of procurement documentation relating to potential contracts whose value exceeds the threshold set for RPA reviews;
- vetting Regional procurement decentralization plans before they are submitted to OPRC, and monitoring the performance of procurement work in Resident Missions;

- preparing a comprehensive annual report containing an analysis of procurement work, salient issues and actions undertaken in their Regions on procurement matters for OPCPR;
- clearing changes made to the procurement provisions of project documents and bidding documents during the negotiations stage of the project before they are finalized;
- assisting in setting up, in consultation with Regional management and OPCPR, a systematic means of monitoring and reporting on the quality of procurement work carried out in the Region;
- channeling information about procurement policy changes and developments to Regional staff;
- providing the full range of procurement advice to operational and procurement staff and acting as a mentor to the procurement family in the Region;
- developing, in agreement with Procurement Policy and Services Group (OPCPR), and conducting procurement training programs for the Region utilizing OPCPR approved materials; and
- sitting on the OPRC and on the Procurement Network Board.

3.5 The Procurement Policy and Services Group (OPCPR)

OPCPR is the anchor of the Procurement Network, and is responsible for the development and dissemination of Bank procurement policies and developing Standard Bidding Documents and other instruments necessary for Borrowers and Bank staff to carry out Bank-financed procurement. In effecting this duty, OPCPR, among other things, provides leadership in and coordinates the following:

- formulation and interpretation of procurement policies;
- assisting the Regions to maintain high quality procurement work and consistency in procurement decisions across the Regions;
- preparation and revision of guidelines, directives, instructions, standard bidding documents, procurement technical notes and the ProcurementManual;
- development of procurement training programs and materials for Borrower and Bank staff in collaboration with the World Bank Institute;
- providing advice to Bank Staff concerning procurement issues and assisting in the proper handling of procurement complaints;
- maintenance of an ongoing dialogue with the business community, professional associations, and other international organizations on issues relating to procurement;
- liaison with the Executive Directors on procurement matters;
- proper integration of procurement monitoring and administrative measures with the financial management systems introduced by the Loan Department (LOA);
- preparation of consolidated Bank-wide reports on procurement matters for review by the Procurement Network Board and submission to the Managing Directors (Operations); and
- management of the Operations Procurement Review Committee (OPRC).

3.6 Legal Department's Office of Procurement and Consultant Services (LEGOP)

LEGOP is responsible for the legal aspects of procurement. In addition to providing legal advice and support to OPCPR and the Regions on procurement policy, LEGOP:

- works jointly with OPCPR in the preparation and revision of guidelines, standard bidding documents, and related materials;
- participates in, reviews and clears Country Procurement Assessment Reports (CPARs) for legal sufficiency and assists Borrowers in reforming their procurement systems;
- supervises reform of country procurement legal systems when financed by grants or loans;
- participates upon request of the RPA in the handling of prior review above designated thresholds;
- reviews and prepares replies to procurement complaints submitted on legal grounds;
- is responsible for legal aspects of procurement training for Borrowers and staff;
- sits on the OPRC and the Procurement Board;
- clears Terms of Reference and selection of legal consultants for all procurement - related legal assignments financed by the Bank; and
- the Chief Counsel, Procurement and Consultant Services is the Secretary to the Bank's Sanctions Committee established to review allegations of fraud and corruption and to recommend appropriate action to the President.

3.7 Operational Procurement Review Committee (OPRC)

The Operational Procurement Review Committee (OPRC) is a committee set up to review procurement contracts that are valued above the threshold of USD $25m for goods and works. The OPRC is chaired by the Director of OPCPR and includes the Legal Advisor, Procurement and Consultant Services, from LEGOP and the respective RPA. Its primary responsibilities are to review and clear:

- prequalification and contract award recommendations for contracts above $25 million for goods or works;
- specific issues relating to prequalification and bidding documents for goods or works and request for proposals documentation for consultant services that are not based on Bank standard documents at the request of the RPA;
- issues relating to the procurement of contracts that are particularly difficult, require policy interpretation or are of a controversial or novel nature regardless of the value of the contract, at the request of LEGOP, OPCPR or an RPA; and
- responses to major or sensitive complaints arising from the procurement process.

The OPRC also reviews all contracts for consultant services with a value of USD $10m. In this respect it reviews:

- the technical and final evaluation reports for Quality and Cost Based Selection contracts or the technical evaluation report for Quality Based Selection contracts;
- the responses to all complaints on the selection process: and

- recommendations for single source selection of consulting services costing five million ($5m) United States Dollars or more.

The OPRC also reviews all proposals for decentralization of procurement work to country offices.

3.8 Procurement Network Board (PB)

The Procurement Network Board (PB) comprises representatives of the Bank Regions, the thematic networks and the Legal Department. The Director of OPCPR is the chairperson of the PB, OPCPR provides the Board Secretary, all the RPAs and representatives of three thematic networks (financial management, rural development, and human development) are members. The PB is responsible for, among other things:

- maintaining overall high quality of procurement work in the Bank;
- establishing overall staffing plans Bank-wide for the procurement function;
- setting and maintaining high professional and technical standards for the Bank's procurement function;
- establishing and maintaining the Knowledge Management system for procurement;
- supporting sharing of procurement information, leading to greater consistency in procurement decision making across the Regions;
- clearing shortlists of candidates to fill procurement specialist and higher positions;
- clearing promotions of procurement staff to levels above H;
- resolving disagreements regarding procurement accreditation of staff; and
- providing a forum for discussion on how operation of the procurement function Bank-wide can be improved.

3.9 Country Director (CD)

The Country Director (CD) is the head of each Country Unit (CU) and is thus responsible for overseeing, within the requirements of the Loan Agreement, the procurement arrangements best suited for particular projects. The CD monitors and assesses the quality of procurement work and compliance with project procurement requirements. The CD plays a critical role in procurement in the following ways:

- budgeting for proper PS or PAS coverage for each project;
- budget for CPARs and procurement audits;
- approval of country procurement assessments, procurement technical assistance programs and grants and national standard documents;
- preparation of decentralization recommendations for the OPRC, and outlining which procurement functions should be delegated to the field;
- effecting the decentralization of the Bank's procurement "service function"; and
- approval of recommendations by LEGOP and RPA on misprocurement with cancellation or proposing misprocurement without cancellation for the RVPs approval without cancellation, and responses to complaints relating to procurement.

3.10 Internal Audit Department (IAD)

The Internal Audit Department (IAD) carries out routine audits of Bank performance with respect to procurement to verify that the necessary standards and criteria given in the Bank's Guidelines and procurement directives are met. Additionally, IAD audits and verifies that the integrity of the Bank's procurement system is maintained. IAD also carries out audits of procurement performance by field offices to ensure compliance with the stated requirements for post - reviews as well as any specific purpose audits recommended by OPCPR, LEGOP, or the regions.

3.11 Accreditation of Procurement Staff

Accreditation is a mechanism by which the Procurement Board certifies that a particular individual is qualified to perform the procurement functions for which he or she is being accredited. ***(Refer to Section 3.4 for instructions on other roles of the RPA)*** The basic principle that the PB must observe in accrediting staff for this function is that procurement reviews be carried out professionally by staff capable of:

- applying Bank rules, policies and procedures to the full range of Bank financed procurement; and
- passing judgment on Borrowers' actions and advising TTLs, as needed.

No procurement staff should be given a fiduciary responsibility greater than that described in the occupational stream for his/her grade level, unless the PB is satisfied that the staff in question has sufficient skills and experience to discharge such increased responsibility.

The specific guidelines for declaring a staff as procurement accredited are as follows:

- All procurement specialists level G or above are automatically accredited with no restrictions.
- RPAs may propose for accreditation any other regular staff meeting or exceeding procurement knowledge, experience and professional competencies equivalent to a level G procurement specialist or higher, but working as technical specialists or TTLs. RPAs should consult, as required, with Sector Leaders or with Sector Directors in assessing qualifications of staff being accredited. In case of disagreements with a staff member or with a manager, the Procurement Board would make a final determination.
- Other staff with procurement knowledge, procurement experience and professional competencies equivalent to a level G procurement specialist or higher, in a specialized field, may be accredited to perform duties compatible with their skills. For example, a person highly qualified in employment of consultants or works or goods may be accredited to review contracts in that field only. A person specializing in health procurement may be accredited for such sector only. For simplicity, partial accreditation should be limited to a sectoral accreditation for the full range of procurement in that sector or to type of procurement (i.e. goods, works, consultants). This would enable the Bank to use specialized skills to the maximum.
- RPAs may propose for accreditation other regular procurement staff with qualifications, experience and professional competencies below those equivalent to level G, to carry out

procurement reviews leading to "no objection" letters on a case by case basis. RPAs must in these cases ensure that the scope of the agreed functions does not exceed the skills and experience of the staff member. Since this accreditation may be specific for a set of activities in the Region, when the staff moves to another Region, the RPA of the recipient Region may need to reconfirm the accreditation if the new responsibilities assigned to the staff are different.

The PB does not accredit individual consultants or consultants from firms. However, a PS or accredited staff who leaves the Bank or retires from the Bank and is rehired as a consultant may keep his/her accreditation for one year after the date of separation. This is to facilitate continuity and transition arrangements. The accreditation expires after that date, unless the PB renews the accreditation at the request of the RPA concerned. In renewing the accreditation the PB ensures that: (a) there is a clear business need for the accreditation; (b) no permanent recruitment of a PS is justified; (c) the consultant has kept current in his/her knowledge; and (d) the consultant is not in a situation of conflict of interest (as defined in AMS 15.00).

Regions may need to establish transitional arrangements to address deficiencies in numbers of accredited staff until the Region gains full strength. RPAs should work with Regional management to ensure that these transitional arrangements do not compromise the quality of procurement work. The Procurement Board monitors the application of these guidelines and introduces changes as needed.

Section 4: Decentralization Decisions in Procurement: Criteria and Process

4.1 Decentralization of Procurement Work

The Bank is moving toward the decentralization of procurement actions with the aim of achieving greater efficiency and client responsiveness. Thus, more activities are carried out directly in the field offices. Procurement work in Bank financed projects has been divided into two broad categories: the service function, requiring sufficient technical capacity in the field office, consistent with the service to be provided, and the fiduciary function which entails the review of procurement related documentation eventually leading to issuance of "no- objection" letters by the Bank. The Bank's service functions include:

- training Borrowers on the Bank's procurement guidelines and strengthening the Borrower and implementing agency's institutional capacity to carry out procurement,
- advising Borrowers on the use of Bank Standard Bidding Documents for procurement; and
- assisting Bank TTL in the identification of procurement issues and clarification of specific issues that arise.

On the other hand the Bank's fiduciary functions include prior and post review of various procurement documentation stipulated in the Loan Agreement, leading to a "no-objection" letter issued by the Bank and, the carrying out of procurement capacity assessments of the Borrower and the implementing agency.

It is imperative to the credibility of the decentralization process that the procurement capacity established in the field be compatible with the level of delegation proposed and the general country procurement environment, to minimize potential risks. The Bank's policy is that the fiduciary functions relating to matters subject to the RPA or the OPRC clearance cannot be delegated. However, fiduciary functions relating to contracts below RPA and/or OPRC review may be delegated to the field if:

- a CD (or a Resident Representative with procurement supervisory authority) is stationed in the field;
- there is a designated Bank officer, (normally an internationally recruited procurement specialist or procurement accredited staff level G or higher) to carry out the responsibility for overseeing the fiduciary review process in the field office;
- the OPRC, taking into account staff member's qualifications and local conditions, decides to accredit locally recruited staff to oversee the fiduciary review process;
- the procurement team proposed for the field office has the skills and competence to carry out its review professionally and independently;
- there is an assessment of the country procurement capacity that shows that the level of delegation proposed is consistent with the strength of the field office to handle procurement and does not pose unacceptable risks, given the country performance and potential risks; and
- the volume of the portfolio makes it cost effective.

4.2 Bank Procedures for Decentralization

Decentralization of the Bank's functions in procurement are processed in the following manner:

(a) if delegation of only the service function(s) is proposed, the decentralization proposal requires consultation with the RPA, who shall determine that the number, level and specialty of staff to be assigned is adequate and that they have the necessary experience and professional qualifications; and

(b) in the case of delegation of the fiduciary function (s), the CD with the assistance of the relevant sector managers prepares a decentralization proposal divided into two sections as follows:

(i) the first part summarizes the general country procurement situation and assesses its recent procurement performance in Bank-financed projects, concluding with a discussion about the level of procurement risk in the country;

(ii) the second part provides a detailed description of:

(A) the fiduciary function (s) that the CD believes can safely be delegated;

(B) the projects and sectors that would be covered, and the volume and kind of procurement work arising in those projects or sectors;

(C) the organizational-arrangements proposed (including names and resumes of the staff to be assigned to carry them out); and

(D) the schedule for implementing decentralization.

the proposal is then sent to the OPRC for review and clearance, and any disputes between the CD and members of the OPRC are escalated to the next level of management at the request of the Region.

Although the procurement specialist (PS) or procurement accredited staff (PAS) assigned to the project is authorized to carry out fiduciary reviews in all the Regions, the authority to sign the "no-objection" to the borrower is governed separately by each Region's Annex to Administrative Manual Statement 1.30. From time to time after delegation has taken place, the RPAs monitor the ongoing performance by procurement teams in field offices in their regions. They subsequently recommend to the CDs and the OPRC any needed adjustments to the degree of decentralization of the fiduciary and service functions to ensure that their performance continues to meet acceptable standards.

Section 5: Handling Procurement Complaints

5.1 Inquiries and Complaints from Bidders

Procurement related inquiries and complaints from suppliers, contractors or consultants and the Executive Directors (ED) occur from time to time. General inquiries about Bank procurement policy, procedures and guidelines are dealt with by the Manager—Procurement Policy and Services Group. Complaints require prompt, careful and consistent responses from Bank staff in collaboration with the Borrower government concerned. Complaints received directly from bidders relating to a specific procurement are reviewed by the TTL in consultation with the technical specialist for the project, the sector or country manager and the RPA, and dealt with in the following way:

- the TTL acknowledges receipt of such complaint and indicates that the Bank is considering the issues raised and will discuss them with the Borrower;
- the TTL then refers the issues raised by the bidder to the Borrower;
- the TTL then consults with the Borrower and a judgment is made as to the validity of the complaint;
- if , in the view of the task team the complaints are valid and corrections are required, they are referred to the Borrower with comments and guidance on how they should be remedied;
- the Borrower must notify all prospective bidders on any changes in the bidding documents or bidding conditions;
- if the Bank receives the bidder's communication after it has received the evaluation report, the task team ascertains whether the issues were satisfactorily addressed in the report; if they were not, the TTL asks the Borrower to address the issues before the Bank completes its review of the bidding process. Any communications to the Bank should be acknowledged promptly;
- except for acknowledging receipt of the complaint, the Bank does not enter into discussion or correspondence with any bidder during the evaluation and review process of the procurement until award of the contract is announced by the Borrower; and
- if on the other hand the complaint is received after the successful bidder is notified of the contract award, the TTL involved responds to it in broad terms, without compromising the confidentiality of other bids and a copy of the correspondence is then sent to the Borrower (however, if a complaint is received shortly after issuance of the Bank's "no-objection" and the complaint appears serious, the RPA may consider whether to briefly suspend award of contract pending quick resolution of the complaint.

The Bank does not directly provide any clarifications on prequalification or bidding documents. In such cases, it advises the Borrower to respond to the communication and, if appropriate, to send copies to others who purchased the bidding documents. The Borrower is required to address the complaint in the Bid Evaluation Report, which is eventually reviewed by Bank staff. ***(Refer to Appendix 4 of Procurement Guidelines for further instructions and instructions on debriefing)***

Complaints received in relation to procurement under ICB or for selection of consultants for contracts with estimated cost of $200,000 or more, must be reviewed by the RPA. In cases subject to the review of the Operations Procurement Review Committee (OPRC), the complaint is reviewed by the RPA, in consultation with the other members of the OPRC. In such cases when the evaluation report is sent to the RPA for review, the cover memorandum from the TTL should clearly state that a complaint has been received and give relevant details, i.e., the nature of the complaint, the name of the complainant, date of complaint, etc. The reply to the complainant is cleared by the RPA.

The package sent to the RPA for review includes, in addition to the cover memorandum and the bid evaluation report, the draft reply and all relevant back-up information such as, referenced sections from the bid document, and communications from the Borrower responding to specific issues raised in the complaint or by the Bank, and copies of the entire bid or proposal if necessary. All other complaints will be handled by the Procurement Specialist assigned to the project, in consultation with the RPA, as needed.

In all cases, the TTL responds to the complaint within the following period of time from the date of receipt of the complaint within the Bank unit:

- for procurement matters with a review threshold within the authority of a PS/PAS, three (3) working days;
- for matters within the clearance authority of the RPA, five (5) working days; and
- for those within the clearance authority of the OPRC, ten (10) working days.

5.2 Complaints through the Executive Directors (ED)

A complaint by a Bidder channeled through an ED's office or a government agency is acted upon as follows:

- the complaint is immediately acknowledged by the TTL and/or PS in charge of the project;
- if the complaint is in written form a copy of it is immediately sent to the Borrower for attention;
- depending on the seriousness of the issue, the RPA, Chief Counsel - Procurement and Consultant Services, and OPCPR are consulted. Important cross-cutting issues and those relating to contracts subject to OPRC review are referred to the OPRC;
- the response from the TTL, in form of a memorandum, indicates that the issues raised are being examined or will be considered in consultation with the Borrower as appropriate
- if the ED's office or government agency requests further information after contract award, the CD explains in greater detail how the specific issues raised were addressed and resolved;
- once the case has been resolved a response, in form of a memorandum (prepared by the TTL and cleared by the RPA), (or letter in the case of a government agency) presenting the pertinent facts and explaining the Bank's position and rational should be submitted to the ED's office or the government agency as necessary. The memorandum is self

contained and does not include copies of internal working documents between the Borrower and the Bank on the matter;
- in the event that the ED's office or government agency is dissatisfied with the response, the complaint is referred to the Director, OPCPR and if the decision was earlier cleared by the OPRC, it reviews the complaint, consults with senior management if warranted and responds; and
- if an ED's office or a government agency representing a supplier/contractor requests a meeting to discuss a complaint, the RPA is informed and attends such meetings.

When handling complaints staff do not:

- enter into discussions with bidders on the complaint or communicate to them an opinion (except to acknowledge receipt of the complaint);
- provide bidders with details on the evaluation while the process is going on;
- make available or disclose correspondence between the Bank and the Borrower or documents related to the evaluation process;
- participate in the evaluation of bids or make recommendations or give opinions to the Borrower as to the award of a contract;
- become party to discussions between the Borrower and bidder(s);
- give a "no objection" to a bid award recommendation until all outstanding complaints are addressed to the full satisfaction of the Bank;
- communicate a reply to a complaint except for acknowledging receipt during the evaluation process, before the Borrower has notified the award of contract to the winning bidder; or
- after notification of contract award, discuss anything other than the complainant's own bid.

5.3 Complaints on Legal Grounds

Complaints brought by bidders on legal grounds are responded to by the Legal Department.

Section 6: Transparency and Anti-Corruption Measures

6.1 Building Transparency in Project Procurement Design

6.1.1 The Bank is strongly committed to helping its members operate policies of good governance, transparency and fairness in the procurement process and beyond. As Mr. Wolfensohn noted (in his Communication to staff dated October 15, 1998):

> *"The fight against corruption is a central part of [the World Bank's] mission to reduce poverty and improve the quality of people's lives."*

6.1.2 Moreover, the Bank is itself engaged in a number of policy initiatives to significantly reduce fraud and corruption in Bank-funded projects and in all other aspects of its operations. As part of this move, the President also noted that the Bank required that Bank staff be held to the highest possible standards.

6.1.3 The Bank is committed to vigorously addressing instances of fraud or corruption in Bank-financed contracts and to taking appropriate action whenever any contractor, Borrower or staff member is found to have engaged in a fraudulent or corrupt practice.

6.1.4 Corrupt and fraudulent practices are defined in paragraph 1.15 of the Procurement Guidelines. *(Quote Guidelines, if appropriate)*

6.2 Responding to Allegations of Fraud or Corruption

6.2.1 Fraud or corruption can manifest itself in many varied ways and no World Bank operation is immune. All staff and contractors should be alert for indicators that fraud or corruption may have occurred. These include suspicious or unexplained transactions, rumors of favored bidders, bid-rigging, the use of shell companies to mask interests or ownership, lax enforcement of procurement rules, and other suspicious circumstances.

6.2.2 Allegations of bid-rigging or collusion in the procurement process (or indeed any concerns involving suspicions of fraud or corruption) in any Bank-funded project should be referred to the Department of Institutional Integrity Investigations Unit (INTIU), formerly known as the Anti-Corruption and Fraud Investigations Unit (ACFIU).

6.2.3 The Investigations Unit is staffed by a multi-disciplinary team of investigators, forensic accountants and lawyers. The Department (which combines the Investigations Unit with the Office of Business Ethics and Integrity) is headed by a Director. The Director is directly responsible to the President for the operation of the Investigations Unit.

6.2.4 The Investigations Unit is organized into regional teams to reflect the Bank's operations. Bank staff can approach the Regional Team Leader for their region with questions or to seek guidance. The Investigations Unit works closely with the Regional Procurement Advisers (RPAs), Regional Financial Management Advisers, Director of Core

Services and others in the regions. All regions have also nominated a fraud liaison co-ordinator. Bank staff are not required to inform any other person prior to making a report to the INTIU. Please be advised that neither contractors nor Bank Staff should attempt an in-depth investigation of allegations or concerns themselves.

6.2.5 Referrals to INTIU can be made a number of ways as follows:

(1) Hotline

Both Bank staff and the general public may use the hotline, which is operated 24 hours a day, 7 days a week by an outside firm staffed by trained specialists. Interpreters are available upon request. The toll-free number is: **1-800-831-0463**

This toll-free hotline number is accessible from most countries by contacting an AT&T operator and asking to be connected to the Bank's hotline number above. A list of direct access numbers available throughout the world to contact an AT&T operator is available on AT&T's web site. However, this toll-free hotline number is not accessible from all countries so two additional mechanisms have been established to allow both Bank and the public to contact the Bank:

(2) Collect Call Hotline

Individuals may use the collect call (or reverse charge/free-phone) number to contact the World Bank hotline from anywhere in the world at no expense to the caller. The call will be answered with the greeting "International Line." The number is: **704-556-7046**

(3) Hotline P.O. Box

Individuals who do not have access to a telephone or do not wish to communicate by telephone may now communicate with the World Bank hotline via Post Office Box at the following address:-

PMB
4736 Sharon Road, Suite W
Charlotte, NC 28210
USA

(4) Complaint form

In addition to the above, complaints or reports of fraud or corruption may be submitted directly by e-mail to the Department of Institutional Integrity Investigations Unit by using the Fraud and Corruption Complaint Form on the web site at *www.worldbank.org.investigations*.

(5) E-mail

A further method of communicating concerns to the Investigations Unit is to send an e-mail to: *investigations_hotline@worldbank.org*

Confidentiality and Anonymity

6.2.6 Individuals who choose to report allegations of fraud or corruption may remain anonymous or request that their identity not be disclosed outside of the Investigations Unit. Note, however, that a full investigation of the circumstances complained is made significantly more difficult where the caller remains anonymous, since it will not be possible to seek any clarifying information from the complainant.

6.2.7 There are also complications which can follow when a complainant seeks confidentiality. Nonetheless, the INTIU will not reveal the identity of complainants or witnesses who request confidentiality without their consent, so long as the information provided is truthful.

Conduct of Investigations

6.2.8 All complaints receive a preliminary inquiry and a priority attached. If sufficient evidence is identified to substantiate the report, every effort is made to conduct a formal investigation. During the course of an investigation, the Unit strives to protect the privacy and rights of all parties involved.

Sanctions

6.2.9 If reasonably sufficient evidence is obtained that a contractor subject to the jurisdiction of the Bank's Sanctions Committee has engaged in a fraudulent or corrupt act, the matter may be referred by the Director to the Sanctions Committee for a debarment proceeding. If debarred, the contractor may be prevented from obtaining any work from the Bank either permanently or for a specified period of time. Moreover, the Bank publishes a list of debarred contractors on its external web site. In addition, the Director may, when appropriate, refer matters to domestic law enforcement agencies for further investigation and/or prosecution.

6.2.10 If a staff member is found to have engaged in fraud or corrupt acts, the staff member is subject to termination pursuant to Bank Staff Rule 8.01. Such a matter may also be referred to domestic law enforcement agencies for further investigation and/or prosecution.

Section 7: Misprocurement

Pursuant to Section 6.03(d) of the Bank's General Conditions Applicable to Loan and Guarantee Agreements, the Bank does not finance expenditures for goods and works which have not been procured in accordance with the agreed procedures, and it is the policy of the Bank to cancel that portion of the loan allocated to the goods and works that have been misprocured.[7] In addition, the Bank may exercise other remedies under the Loan Agreement.

When the procedures followed by the Borrower for procurement are in violation of the agreed procedures as outlined in the Loan Agreement (*e.g.*, when the Bank determines that the procedures followed in bid evaluation are inconsistent with those outlined in the bidding documents, or that judgments exercised in the process are not reasonable and fair), the Bank should point this out to the Borrower and advise that, if not rectified, the Bank may declare misprocurement and exercise other remedies under the Loan Agreement. If, however, the Borrower has already awarded a contract after obtaining the Bank's "no objection," the Bank generally will declare misprocurement only if the "no objection" was issued on the basis of incomplete, inaccurate, or misleading information furnished by the Borrower.

Bank staff should make every effort to avoid misprocurement by providing comments and advice in the review of bidding documents and bid evaluation. In those cases where misprocurement cannot be avoided, Bank staff should follow the procedures set forth in BP 11.00, including providing the proper notification to the country director. In exceptional cases, there may be extenuating circumstances that lead the Regional vice president to decide that the cancellation policy should not be enforced and the funds instead should be reallocated for other components of the project, cost increases, etc. Such cases may arise, for instance, when there are legitimate differences in judgment between the Bank and the Borrower, or a genuine misunderstanding by the Borrower as to the requirements of the Loan Agreement. In such cases, the TTL and PS or PAS should prepare, in consultation with the Regional procurement adviser and the Chief Counsel concerned and for clearance by the country director, a memorandum justifying the recommendation that the Regional vice president authorize a departure from policy, and permit reallocation of the corresponding funds.

Fraud and Corruption

Misprocurement is triggered when a contract is awarded to the "wrong" bidder (*i.e.*, is not awarded in accordance with the agreed procedures). However, there may be cases where the Bank determines that a bidder or Borrower's representative engaged in corrupt or fraudulent practices, but misprocurement is not be the appropriate remedy (*e.g.*, a representative of the

[7] Section 6.03(d) of the General Conditions provides that if

> "at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan . . . the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled."

Borrower engaged in corruption while preparing an award recommendation but the award has not yet been made, or the corruption occurs during contract execution). In such cases, the Bank may impose the sanctions set forth in paragraph 1.15 of the Procurement Guidelines, on the basis of **Section 6.03(c) of the General Conditions**.[8]

Investment Projects

In investment projects, when misprocurement is declared, the amount allocated for that component including an appropriate portion of the physical and price contingencies should be automatically cancelled, since it is no longer required for the purpose intended. Under no circumstances should the misprocured contract be financed by the Bank.

[8] Pursuant to Section 6.03(c), these sanctions include cancellation of that portion of the loan allocated to the contract if at any time – during procurement for or execution of a Bank-financed contract – a representative of the Borrower is found to have engaged in corrupt or fraudulent practices without the Borrower having taken timely and appropriate action to remedy the situation.

Chapter II: Procurement and the Project Cycle – An Overview

Section 8: Procurement Management

General Principles: Bank's Borrowers' Procurement Responsibilities

The fundamental principle in Bank-financed procurement is that the Borrower, not the Bank, has the responsibility for procurement management. The Borrower procures all goods, works, and services for the project, utilizing funds from the Bank loan for these purposes. The Borrower signs all contracts with suppliers, contractors and consultants and is legally and operationally in charge, as client in all of these purchasing relationships. The Bank's corresponding procurement role is one of oversight to ensure that procurement is carried out in accordance with the Loan Agreement.

This oversight role includes acting as a development-assistance agency where the Bank *advises* the Borrower, promoting capacity building for procurement administration and facilitating achievement of procurement efficiency and economy through adherence to international best practices. It also includes the fiduciary obligation where the Bank exercises *oversight* of the Borrower's procurement planning and implementation, ensuring and enforcing conformity with Bank policies and legal agreements.

Complicating the challenge for effective Bank involvement is the inherent tension between the Bank's dual advisory and oversight roles. In the former capacity, Bank staff should concentrate on assisting the Borrower while; in the latter capacity, the emphasis is on monitoring and auditing Borrower performance. And while in principle these perspectives need not be contradictory, in practice they are likely to promote different attitudes and priorities.

Bank operational staff soon realize that the necessary and appropriate degree of Bank involvement in both the advisory and oversight roles will depend largely on each Borrower's relative procurement experience and sophistication. Procurement know-how varies widely between countries and even between sectors within countries.

In reality, effective Bank procurement behavior is as much cross-cultural diplomacy as regulatory enforcement. In investment projects, Bank staff's awareness of, and appreciation for, the values, expectations, and constraints of Borrowers and vendors will be as useful as knowledge about the application of the Bank's Guidelines. This section describes how the procurement process should take place under the traditional Bank project cycle and also under the Learning and Innovation Loans (LILs) and adaptable Program Loans APLs), the new Bank lending instruments that have introduced some changes to this project cycle. These instruments alter the degree of project definition and flexibility of the content at various stages of the project, and therefore require corresponding adjustments on the procurement process. These departures from the traditional approach are indicated in this section at the

stages they occur. ***(Refer also to Section 12 and Section 23 of this Manual for detailed instructions on planning and adaptable program lending.)***

8.1 Identification

Every Bank-assisted project must contribute substantially to development objectives and be economically, technically, and financially sound. The project cycle begins with the identification phase in which projects that have a high priority and appear suitable for Bank and the Borrower are identified. The Borrower then initiates the project concept document containing details of the project and submits it to the Bank. The Bank in partnership with the Borrower, then carry out an economic and sector analysis to evaluate national and sector policies and problems of the Borrower government and seek to understand the development potential of the country and how existing policies will impact the proposed project.

In the case of procurement, Bank staff in collaboration with the Borrower government identify the Borrower's implementing agency and staff responsible for procurement and examine their knowledge, experience, and understanding of Bank procurement policy and their procurement management capabilities.

Where the TTL/PAS/PS recognize weaknesses in the implementing agency's procurement capacity, they assist the Borrower in drafting an initial agency strengthening plan. This may include training, hiring of consultants, or procurement agents. If this plan identifies the need for training, the PS/PAS launches the training or similar capacity strengthening activities required. The capacity assessment and findings thereof should be cleared with the RPA. ***(Refer to Section 10 of the Manual for detailed instructions on Assessment of Implementing Agency's Procurement Capacity.)***

8.2 Preparation

After the identification stage and the incorporation of the project into the lending program, it enters into the preparation stage. Preparation is the stage when project design and development takes place. This is a period where close collaboration between the Bank and the Borrower begins. In procurement, the actions that are to be taken are dependent on various factors, especially the experience and capacity of the Borrower, the nature of the relationship between the Bank, the Borrower, cofinanciers and other donors that may be involved in the project, and the sources and availability of finances for procurement.

The preparation stage in the procurement process begins with the TTL/PS/PAS and the Borrower jointly starting to lay the groundwork for a procurement plan and the preparation of a cost estimate for the procurement. For procurement under the traditional investment loans provided by the Bank, this plan contains the various activities to be undertaken during the procurement process and deal with the following issues:

- Agreements should be reached on the contract packages for procuring the identified goods, works, and consulting or non-consulting services and the best methods for procuring them. This includes determining whether single or multiple contracts should be used to procure the items required, where there will be individual contracts (slices) or

groups of similar contracts (packages), and whether international competitive bidding, national competitive bidding, or limited international bidding, etc., should be used.

- The PS/PAS will at this stage assist the Borrower in the preparation of a preliminary procurement plan which will set out the overall procurement timetable, indicating the different procurement activities that need to be carried out and when they shall take place. These activities include: the issuance of procurement notices and when this will be done; if there is pre-qualification, the preparation and issuance of pre-qualification documents and its timing; what bidding documents will be used if the Bank's Standard Bidding Documents are not applicable; when the preparation of other bidding documents acceptable to and recognized by the Bank will be prepared by the Borrower and issued to bidders; when the pre-bid conference will be held if one is required; when and where the public opening and evaluation of bids will take place, etc.
- If required by the Region's business processes, the TTL/PS/PAS initiates the setting up of the Systems Application Production Operations Procurement System (SAP) that will serve as the Bank's database and planning and monitoring tool for all procurement activities from planning to final implementation of the project.

For projects where a time-bound schedule of procurement and specific contracts cannot be precisely defined, as in Adaptable Program Lending and social sector projects implemented at community level, the PS/PAS and the Borrower agree on the type of system to be set up for administering all the aspects of procurement. This would include the activities set out above and also defining the criteria for consultants and evaluating bids and a system under which the procurement plan will be updated periodically and the procurement process monitored.

In programs involving APLs and LILs, the following additional issues should be taken into consideration and appropriately recorded by the Borrower with assistance from the TTL/PS/PAS when preparing for procurement:

- the long term objectives of the program and a description of key objectives of the procurement;
- the sequencing or phasing of the procurement, a description of each phase and the specific objectives of each phase;
- procurement performance indicators and milestones to be used in monitoring and assessing progress and triggers for moving from phase to phase;
- the cost estimates for procurement and the financial planning; and
- the monitoring and evaluation plan for tracking progress and developing lessons to be used in subsequent phases.

It is at the preparation stage that procurement training for the Borrower's staff should be initiated. The objectives of training the Borrower's staff are to acquaint them with the principles of sound procurement practice and especially Bank procurement policies. The training should be aimed at enabling the Borrower staff to apply Bank policies and guidelines effectively and the way procurement should be carried out in accordance with such policies. The training course should cover among other things:

- a description of the procurement process;
- an explanation of key procurement terminology;
- an explanation of the procurement cycle and its relation to the project cycle;
- a description of the methods of procurement and the type of procurement for which they should be used;
- an explanation of the types of procurement documents including the Bank's SBDs and their flow in the procurement cycle;
- an account of the importance of procurement monitoring; and
- how to complete procurement data forms.

At the end of the training, the Borrower's staff should be well versed on how to plan, analyze, schedule, administer, and document procurement activities in a manner acceptable to the Bank and in accordance with Bank prescribed procedures. This training is also the one of the vehicles used by the Bank to build the Borrower's capacity to carry out procurement in the future. The TTL/PS/PAS conducting procurement training should use specific case studies and documents to illustrated learning points. ***(Refer to Section 12 of this Manual for detailed instructions on capacity building and training.)***

8.3 Appraisal

As the project takes shape and the project content and implementing arrangements are near completion, the project is scheduled for appraisal. The appraisal stage provides a comprehensive review of all aspects of procurement, both those undertaken so far and those that are in the pipeline. It lays a foundation for implementing the project and its evaluation when procurement is completed. In a traditional investment project, the following procurement-related activities are carried out during appraisal:

- The Borrower refines the preliminary procurement plan according to the conditions agreed upon with the PS/PAS and the TTL in the preparation stage of the project.
- A detailed Procurement Implementation Plan, for at least the first year after project approval and general plan for the entire project, is prepared by the Borrower with assistance from the TTL and the PS/PAS. At the end of the appraisal stage of the project, the final Procurement Implementation Plan, together with the Bank procurement supervision plan (including levels of prior review that will be carried out) and the implementing agency strengthening action plans, should form a coherent overall procurement strategy for the whole project. ***(Refer to Section 8.3.3.)***
- Taking into account the findings of the capacity assessment, the TTL, in consultation with the PS/PAS, decides whether the Borrower needs technical assistance or the services of procurement agents.
- Where the Borrower intends to engage in advance contracting, the TTL and the PS/PAS determine whether there is a need to retroactively finance the procurement of goods, works, or consultant or other services procured under such advance contracting.
- The Borrower begins the preparation of bidding documents for first year contracts. These include the preparation of a General Procurement Notice (when required under para. 2.7 of the Guidelines), which has to be cleared by the PS/PAS. Where necessary the PS/PAS/TTL may propose modification to bidding documents, subject to the approval of

the RPA and LEGOP. If there are advance procurement activities, then the GPN is issued at this stage of the procurement process.

- At this stage the Borrower is expected to initiate the setting up of systems for procurement record keeping and monitoring procurement performance that continue throughout the life of the project. The systems comprise procurement information relating to the project, including copies of all of the project related advertisements—the General Procurement Notice, the Specific Procurement Notices, the pre-qualification documents (if used), the bidding document, etc. Then as the project progresses all other procurement activities should be recorded in a similar manner.
- In order to simplify disbursement and significantly reduce the administrative burden on Borrowers in all steps in the project cycle, the TTL/PS/PAS puts in place the Project Management Report under the Loan Administration Change Initiative (LACI)—for those projects where LACI is to be used.[9]
- In the later stages of the procurement process, especially during implementation, the documents and records of activities should be maintained that include ***inter alia,*** the Pre-Qualification Evaluation Report, documenting any decisions not to prequalify certain potential bidders; the bidding documents and addenda; a record of any pre-bid meetings; the bid opening minutes; the final bid evaluation reports (including a detailed record of the reasons used to accept or reject each bid); copies of bids, appeals against procedures or award recommendations; a signed copy of final contracts; and any performance and advance payment securities issued.
- The TTL/PS/PAS in consultation with the Borrower propose thresholds for International Competitive Bidding (ICB), prior and post reviews and procurement audits that will ensure proper coverage of the Bank's fiduciary responsibilities.
- The draft provisions for the Loan Agreement, reflecting the procurement arrangements proposed by the PS/PAS and cleared by the RPA and Country lawyer, are also discussed.

8.3.1 Project Appraisal Document

The Project Appraisal Document (PAD) provides the rationale for the proposed investment operation, summarizes the task team's assessments of various aspects of the project, and flags issues or areas that may be of special concern to the Bank. The section on procurement in a PAD serves the following main functions:

- to inform the Bank Board and management of the proposed procurement plan and strategy agreed with the Borrower and to note the details of packaging, choice of procedures, conditionalities, etc.;
- to provide information for Bank management on the potential risks involved in implementing and scheduling the proposed procurement arrangements and to address measures that could minimize the risks;
- to provide a timetable for the physical implementation of the investment and to make an estimate of the project's cash flow and the Bank's loan disbursements;
- to provide a basis against which subsequent supervision and monitoring of procurement matters can be measured; and

[9] LACI integrates project accounting, procurement, contract management, disbursement, and audit with physical progress through a new Project Management Report (PMR).

- to assist in the compilation of Bank-wide data on the total amounts and methods of Bank-financed procurement.

To this end, a number of key issues must be addressed by the TTL/PS/PAS in the procurement section and related annexes of the PAD. These types of issues are elaborated below.

(i) Project Elements, Estimated Costs, and Methods of Procurement:

- This is presented as a tabulation of all project-related procurement, including elements financed by the Bank and by other sources. The list of project elements and their components should be an aggregation of similar items identifiable with the main expenditure categories of the project. The list should cover all works, goods, and services contracts, and consultancies provided under the project—regardless of the source of funds. Such items as incremental salaries for operating staff, incremental working capital, refinancing of project preparation facility (PPF) advances, interest during construction, front-end fee, etc., should be shown in a "Miscellaneous" category;
- RPAs should be consulted on the classification of any unusual or special element of procurement (such as industrial or turnkey projects that include a combination of goods, works, and services) and any project in which the procurement categories are not well defined presented as a tabulation of all project-related procurement, including elements financed by the Bank and by other sources;
- The procurement methods for each element financed by the Bank should usually be classified into one of the following three categories: international competitive bidding (ICB); national competitive bidding (NCB); and "other" which include limited international bidding (LIB), shopping, direct contracting, force account, etc., as described in Part III of the Procurement Guidelines;
- Expenditures categorized as "miscellaneous" should also be shown under the "other" column. Project elements not financed by the Bank (e.g., those procured under parallel cofinancing procedures, consultancies under trust funds, any reserved procurement, and any other miscellaneous items) should be included in a "Not Bank-Financed" (NBF category.
- The procurement arrangements for the items listed under "Other" and details of the items listed as NBF should be explained in footnotes to the table or in the text. For loans made to financial intermediaries, the procurement table may be simplified to identify any ICB procurement (normally contracts or packages above US$5 million equivalent), while the balance of procurement should be shown under the heading "Other" (namely, established commercial practices acceptable to the Bank).
- The total amount shown for each project element should be the base-cost estimate (including duties and taxes) for that element, as well as the respective share of the physical and price contingency allowances. These amounts should be allocated according to the nature of the element (or its components) and the proposed method and timing of procurement.
- The table should also show in parentheses the amount of Bank loan funds expected to be disbursed (including a prorated share of unallocated funds) against each of the project

elements. The sum of all cost elements should equal the total project cost, and the sum of the amounts to be disbursed should equal the total amount of the Bank loan.

(ii) The Implementing Agencies

- The capacity assessment and any corrective measures to mitigate against perceived risks should be reflected in the PAD. The role of supervising ministries and agencies ancillary to the principal implementing agency should be included in the review, e.g., field offices, central and regional tender boards, importation and customs authorities, agencies for the processing of payments (in local and foreign currency) and for the resolution of contractual disputes, agencies for preparing consumer and construction price indexes, etc.
- These groups are included for the purpose of defining their participation in the procurement process and indicating the likely sources of any delays that may be induced, for instance, in the processing of approvals. Measures required to bring about improvements in the capability and efficiency of implementing agencies should be discussed in the PAD. ***(refer to sections 9 and 10 of this Manual)***
- The borrower should be encouraged to take prompt action on any required improvement measures by introducing conditionalities into loan processing, i.e., the completion of certain procurement actions prior to project appraisal, loan negotiations, Board presentation, loan effectiveness, or within a specified time frame. The particular conditions and their timing should not cause significant delays in project implementation. However, experience in the Bank shows that short-term delays caused by conditionalities are more than offset in the longer term by more effective procurement implementation.

(iii) Borrower's Procurement Procedures and Regulations

Where NCB is to be used, the PAD should discuss the compatibility of the Borrower's procurement regulations and procedures with the Procurement Guidelines. It should also explain required changes or waivers in the regulations proposed for discussion during loan negotiations. If the country has been the subject of a CPAR ***(Refer to section 9 of this Manual)*** and the required changes or waivers in regulations have been formalized for all sectors or introduced under an earlier operation in the specific sector, a brief summary statement to that effect would suffice. If no changes or waivers have been formalized, the PAD should identify the particular changes or waivers required in connection with the specific procurement for the project's operations. The PAD should also outline the measures to be taken to implement such changes or waivers.

(iv) Procurement Timetable

"Implementation" and "Estimated Disbursement" Schedules and should be included as annexes in PADs. They are derived from an aggregation of the timetables and payment schedules for individual procurement actions. The plan of proposed procurement actions should be realistic and should allow sufficient time for, inter alia,

- preparation of procurement documentation;
- prequalification, if relevant;

- advertising, bidding, and bid evaluation;
- reviews by the borrower, Bank, cofinanciers, etc.;
- selection and appointment of consultants;
- contract award and ratification;
- mobilization of contractors' and consultants' resources;
- inherent delays in contract implementation;
- maintenance periods and post-completion inspection; and
- resolution of contractual claims.

The Project Implementation Schedule should be in bar-chart form, identifiable—to the extent possible—with the tabulation of project elements. If applicable, advance procurement action, timing of conditionalities, and other critical milestones in procurement implementation should be indicated and entered into the SAP procurement monitoring system. Ideally, an estimate of annual contractual payments should be given for each line item, and the totals should be reconciled with those in the table titled "Summary of Proposed Procurement Arrangements" ***(see annex 1).*** To provide more details of the procurement cycle, the suggested format of the Project Implementation Schedule may require adaptation for projects involving sector/time-slice and financial intermediary operations or for major infrastructure contracts. In such cases, the TTL/PS/PAS should consult the RPA on a suitable format.

(v) Procurement Supervision

The PAD should summarize the main points to be covered in Bank supervision of procurement including:

- thresholds for prior review of bidding documentation and the percentage of total contract value covered ***(see section 20 of the Manual on Review Responsibilities of Bank Staff in Procurement);***
- arrangements for the prompt reporting of contract award information by the borrower to the Bank;
- arrangements for reviewing contracts and other procurement documentation not covered by "prior review," including those relating to non-Bank-financed project elements;
- key events or conditionalities in procurement implementation; and
- procedures for monitoring contract modifications, variations, and extensions of completion periods to ensure compliance with the limitations stated in the Loan Agreement ***(see Procurement Guidelines, Appendix 1, para. 4)***

(vi) Recording of Procurement Information

The PAD should briefly describe the Borrower's system for collecting and recording data on project procurement. The features of such a system would include, for instance, the periodicity and content of field reports and consultants' performance evaluations, the preparation by the borrower or consultants of quarterly revised cost estimates, the timing for all contracts and other project expenditures, and the compliance with any limits placed on specified methods of procurement.

8.3.2 Presentation in the PAD

The table should be supplemented by a brief explanation of the project elements and proposed procurement arrangements, given additional information without duplicating the data presented in the table. The explanation may be given in text form or in short footnotes that refer to each project element. The explanation should include, for example:

- the general (and any special) features of contracts in the works, goods, services, and consultancy categories, including type of contract, estimated numbers, individual or range of contract values, slicing and/or packaging, and any advance procurement action;
- an explanation as to why methods of procurement other than ICB are proposed for some project elements and an indication of the maximum aggregate limits of the amounts proposed for these other methods (whose limits should be reflected in the legal documents);
- brief details of consultants' contracts and the methods used to select the consultants;
- the sources of any joint or parallel cofinancing, an explanation (where relevant) of procurement arrangements required by cofinanciers, and the Bank's proposals for monitoring and coordinating cofinancing activities;
- the details of, and reasons for, reserved procurement, if any; and
- any significant procurement features that should be reflected in the legal documents, such as prequalification of bidders and the application of domestic/regional preferences, if relevant.

A standard tabular format supplemented by notes and explanatory text should be used in the procurement section of the PAD to summarize the estimated costs and methods of procurement (including Bank-financed, borrower-financed, cofinanced, and reserved procurement, if any), for all elements of the project. The general format should be set out in the following table with adaptations to a particular project. ***(Refer to annex 1 for example of table.)***

8.3.3 Project Implementation Plan

While the TTL/PS/PAS is responsible for the preparation of the procurement related aspects of the PAD, he/she should at the same time assist the Borrower in preparing the Project Implementation Plan (PIP), and where necessary, a project manual. Depending on the nature of procurement, the PIP contains the following general elements in its procurement section:

- The Project: a summary of the scope of procurement and its objectives and the financing plan;
- Implementation Arrangements: the agreements between the Borrower and its implementing agency relating to who is responsible for implementing procurement and the role of Bank staff;
- Implementation Plan: the schedule of procurement actions, including target dates for each step and where necessary the plan for technical assistance and training of the Borrower's staff; and

- The Monitoring and Evaluation arrangements.

8.4 Negotiations and Board Presentation

Negotiations is the stage where the Bank and the Borrower endeavor to agree on the measures necessary to assure the success of the project. Negotiations are a process of give and take on both sides of the table. During negotiations, the Bank and Borrower discuss and finalize all procurement provisions in the Loan Agreement, including:

- The action plan for the procurement organization and the type of technical assistance to be procured if any is required. If technical assistance is required, the method of procuring such assistance is indicated. Technical assistance generally involves the selection and hiring of consultant services;
- The cofinancing of project components. The Bank does not usually finance all the aspects of the project and in instances where there is a cofinancier, a determination must be made about the procurement rules and policies to be followed. Joint financing may be used if the cofinancier is willing to follow the procurement rules set forth in the Procurement Guidelines. Otherwise parallel financing arrangements are agreed upon. In such instances, the Bank only finances defined components of the procurement carried out according to Bank procurement policy, while the other components are financed using the cofinanciers' funds and in line with their procurement policies;
- The methods of procurement to be used for the various items to be procured including any special provisions regarding NCB;
- Whether the borrower will use Bank Standard Bidding Documents for procurement or other recognized documents acceptable to the Bank; and
- The monitoring arrangements and the reporting requirements expected of the borrower.

Once the above issues have been agreed upon, they are converted into legal obligations on the Borrower's part and are set out in the Loan Agreement by the Legal Department. The effect of the negotiation stage of the project cycle should be to ensure that the borrower and the Bank are in agreement not only on the broad objectives of the project, but also on the specific objectives of the procurement process, the specific actions necessary to achieve these objectives, and the detailed schedule for implementation of the project. Any changes introduced either to the procurement plan or documentation at this stage require the approval of the RPA.

8.5 Implementation and Supervision

The next stage in the project cycle is its actual implementation over a period of its designing and subsequent operation. In terms of the procurement cycle, it is the actual carrying out of procurement and then the use of the items procured in the case of goods, the construction and operation of works, where works are procured, or the hiring of consultants or nonconsulting services. Implementation is the responsibility of the Borrower, with whatever assistance from Bank staff as has been agreed upon with the Bank. Bank staff continue to have a supervisory role to ensure that the implementation process follows the substance and procedures agreed upon in the Loan Agreement and Bank procurement policy. During the implementation stage the TTL and the PS/PAS carry out the following activities:

- A procurement workshop is held to train the borrower's staff in charge of procurement and further periodic training activities are scheduled and carried out as needed. The nature and extent of training depends on the extent of procurement knowledge and experience of the borrower's staff.
- The procurement plan created during the preparation and appraisal stages of the project is executed; updating if required, is carried out by the Borrower with assistance from the TTL/PS/PAS.
- The Borrower then issues the Specific Procurement Notices for ICB/NCB packages for procurement, after receipt of the "no-objection" from the PS/PAS/TTL.
- Where there is prequalification, the PS/PAS reviews the prequalification documents before they are issued to bidders by the Borrower ***(For detailed instructions on prior and post review function of Bank staff refer to Section 20 of this Manual.)***
- If procurement involves some contracts that are valued above RPA review thresholds, such contracts are subjected to prior review and where any major changes to the contracts are proposed then they are also reviewed by the RPA.
- For prior review contracts, after the borrower has implemented procurement and a contract award is proposed, the proposal for award is forwarded to the TTL and/or PS/PAS for a "no-objection" to the award.
- Contract performance and ex-post-reviews of procurement documentation not subject to prior review are then conducted by the PS/PAS and the TTL.
- While the process of procurement is taking place, the RPA monitors its quality and makes suggestions as necessary to relax or strengthen the Bank's supervision plan as appropriate to reflect the current quality.

The objective of Bank supervision during the implementation stage of procurement and also during the entire process of procurement is not only to make sure that the borrower's procurement work is done properly and according to Bank policy, it is also to gather and accumulate experience to feed back into the design and preparation of future projects. Moreover, it also helps the Bank identify issues that need to be improved and may lead to recommendations for changes in Bank policies and procedures.

8.6 Evaluation

Once the period in the project's life when physical components are being constructed, goods purchased and installed, and new programs, institutions and policies put in place are complete, and Bank funds disbursed, the level of supervision declines. The entire project is then reviewed and evaluated and actual results of the procurement are compared with the projected results in the original procurement plan. As a final step when procurement is completed, an Implementation Completion Report is prepared by the TTL and the PS/PAS examining and evaluating the overall performance of the procurement plan. The report indicates whether the project objectives were achieved, and if not it gives the reasons why they were not. It also gives suggestions on what the borrower should do in the future to ensure successful implementation of the procurement plan. In this report, issues such as the reasons for delay or cost overruns are examined and explained. The borrower is also

requested by the TTL and/or PS/PAS to comment on the procurement audits and prepare its own completion report.

8.7 A Final Project-Cycle Recommendation: Resisting Post-Approval Letdown

Implementation is the stage when most procurement occurs. Whenever a Borrower is inexperienced or a project is complex or prolonged, a myriad of procurement problems can arise, despite the most carefully drafted plans and documents. Bank staff will be prudent to exercise an undiminished level of care and vigilance when conducting procurement activities during Project Implementation. The following field-tested suggestions may help to enhance the engagement's effectiveness:

- From the earliest stages of procurement planning, the task team should look forward to Implementation feasibility, especially in terms of the borrower's absorptive capacity but also in terms of likely impact on vendors' behavior.
- Where technical assistance and purchasing agents are *not* to be employed, the TTL/PS/PAS should be especially rigorous in assessing the borrower's procurement capacity.
- Where active Bank involvement in procurement implementation is deemed necessary, whether in the advisory or oversight modes or both, it is advisable that staff should not scrimp on the resources (especially Bank staff field time) required to execute that involvement competently.
- Generally, TTL/PS/PAS should conduct Bank implementation activities—including oversight activities—in a supportive, problem solving spirit, facilitating the work of the borrower and the vendors, rather than in a fault-seek, policing approach. TTL/PS/PAS should try to accommodate their needs without violating Bank policies. All the parties, including Bank staff must bear in mind that all parties' ultimate goal is the successful (i.e., effective, economical, and timely) implementation of the project.
- Where feasible, the TTL/PS/PAS should participate personally in the Project Launch Workshop and insert it in a Start-up Procurement Briefing for key vendor representatives as well as borrower professionals.
- The TTL/PS/PAS should pay close attention to the Contractor/Consultant's Inception Report and Work Plan, especially in terms of proposed variations and changes in procurement arrangements proposed in bids and agreed to in contracts.
- Bank staff should recognize that, especially in new sectors and in long projects, procurement needs invariably evolve over time demanding appropriate, responsible, affordable flexibility within existing policies.
- Bank staff should keep thorough, retroactively comprehensive procurement records, anticipating staff turnover, and encourage the borrower to do the same.

Perhaps most important, when performing all procurement oversight duties, Bank staff must be consistent and transparent—conveying the same messages (with due allowances for confidentiality) to the borrower, vendors and Bank superiors; conveying the same messages in verbal and written communications; and conveying the same messages when back at home office as in the field. Public procurement is an ethical undertaking. The highest standards of

integrity should be practiced and demonstrated at all times by Bank staff, in addition to encouraging those same standards in Borrower and vendors.

Annex 1

Table: Summary of Proposed Procurement Arrangements (US$ million equivalent)

Project Element	ICB	NCB	Other	NBF	Cost
1. Works 1.1 Infrastructure					
Roads	13.7 (7.5)	--	00	12.0[10]	25.7 (7.5)
Irrigation and Drainage	--	4.5 (2.0)	--	--	4.5 (2.0)
1.2 Maintenance					
Buildings, Canals	--	--	3.2[11] (1.2)	--	3.2 (1.2)
2. Goods 2.1 Equipment/Machinery					
Vehicles, Tractors	10.4 (10.0)	--	--	--	10.4 (10.0)
Spare Parts, Tools	1.5 (1.4)	--	0.3[12] (0.3)	--	1.8 (1.7)
2.2 Materials					
Cement, Pipes, etc.	2.2[13] (2.0)	--	--	--	2.2 (2.0)
2.3 Commodities					
Fertilizer and Pesticides	3.0 (3.0)	--	--	--	3.0 (3.0)
3. Consultancies					
3.1 Design/Supervision	--	--	2.6[14] (2.2)	--	2.6 (2.2)
3.2 Technical Assistance/Training	--	--	1.4[15]		
4. Miscellaneous					
4.1 Refinancing PPF	--	--	1.2 (1.2)	--	1.2 (1.2)

[10] Cofinanced in parallel by the Arab Fund; procured in accordance with Arab Fund regulations in conformity with para 1.4 of World Bank *Guidelines: Procurement under IBRD Loans and IDA Credits*, Washington, D.C. January 1995, Revised January and August 1996, September 1997, and January 1999.

[11] By force account; excludes materials under footnote 4.

[12] Includes proprietary spares direct from supplier (US$ 0.2 million) and shopping (US$ 0.1 million).

[13] Materials required for force account.

[14] Services should be procured in accordance with World Bank *Guidelines: Selection and Employment of Consultants by World Bank Borrowers,* Washington, D.C. January 1997, Revised September 1997 and January 1999.

[15] Ibid footnote 5.

Annex 2:

Annex 6: Procurement and Disbursement Arrangements
INDIA: KARNATAKA STATE HIGHWAYS IMPROVEMENT PROJECT

Procurement

A. Institutional Capacity

As part of project appraisal, an assessment was carried out to determine the institutional capacity of the Karnataka Public Works Department (PWD), which manages the procurement activities of the project. The engineers of Karnataka State belong to a common cadre undertaking works in Irrigation, Highways, Public Health and Building Departments. Karnataka has implemented several Bank financed projects such as Upper Krishna Project (Cr. 2010-IN), Karnataka Tank Project (Cr.1116-IN), State Health Systems-II Project (Cr. 2883-IN), Karnataka Rural Water Supply Project (Cr.2483-IN) satisfactorily from a procurement point of view. Thus, the engineers in Karnataka are conversant with the systems and procedures to be followed for procurement in Bank-financed projects.

Recently, Karnataka has enacted a Transparency in Public Procurement Act to make tendering compulsory and enhance transparency in Public Procurement. Accordingly, the procurement systems and procedures have been streamlined to provide for wider transparency. The GOK has also agreed with the Bank to conduct a State Procurement Assessment Review as a part of a country procurement assessment. This review is expected to be completed by May 2001 and the study's recommendations will be discussed with GOK for implementation. In addition, the Karnataka PWD has good experience in the execution of externally aided projects under assistance from ADB.

To expedite procurement decisions, the GOK has constituted a Project Steering Committee to make all tender decisions relating to the project. The Committee is chaired by the ACS for Public Works and Housing, and consists of the Secretaries of PWD, Finance Department, Planning Department, as well as the Chief Project Officer. Within the PWD, a technical evaluation team has been undertaking all required tender evaluations for the approval of the Project Steering Committee.

GOK has already constituted a State level Commissionerate of Tenders for evaluation of high value bids (up to Rs. 50 million) funded from other sources. Thus, Karnataka PWD has got the necessary institutional capacity to conduct project procurement following Bank's Guidelines for this project. However, in order to update the knowledge of the PWD officials on Bank's current procurement documents and procedures, PWD needs to depute its key officers to training institutions offering procurement courses, namely, National Institute of Financial Management, Faridabad or the Administration Staff College of India, Hyderabad.

The prior review thresholds (indicated in this annex) were derived after assessing GOK's capacity to carry out project procurement as per Bank procurement guidelines.

B. Procurement Methods

All Goods and Works financed under the Loan shall be procured in accordance with the World Bank's Guidelines for Procurement, January 1995, revised January 1999. Consulting services to be funded through the Bank's Loan shall be procured in accordance with the World Bank's Guidelines for the Selection and Employment of Consultants by the World Bank Borrowers, January 1997, revised January 1999. All civil works, goods and services will be procured using India-specific Bank's Model Standard Pre-qualification and Bidding Document. Specific procurement arrangements are summarized in Tables A and A1, and are briefly described below.

B1 Works [US$ 404.7 Million]

International Competitive Bidding (ICB) : US$259.1 Million Equivalent : The works relating to upgrading and widening of 922 km to State Highways will be implemented in ten contract packages. The contract values range from US$15 to US$45 million equivalent, this includes two isolated packages (at US$4.5 million and US$8.6 million) which cannot be clubbed. Prequalification for all four Phase I contract packages have been initiated and was completed in February 2001. Bids for Phase I ICB works were invited in early March 2001 with Bank-approved bid documents, and bids for Phase II were planned to be invited in late 2001. To encourage participation of large contractors and use of modern equipment, bids are being invited for multiple packages (slice and package) to encourage bidders to offer discounts for multiple awards.

National Competitive Bidding (NCB) : US$126.4 Million Equivalent : The works relating to rehabilitation, two packages of upgradation, and one package of bridge rehabilitation will be procured following NCB procedures. The costs of the rehabilitation contract packages range from US$ 2.1 to US$5.3 million equivalent. Bids for about 1/3 of the contracts (total 423 km) were invited in March/April 2001. Tender contracts for about 550 km of rehabilitation works are expected to be invited in late 2001, and the balance in late 2002.

Direct contracting/Shopping/Force Account : US$14.6 Million Equivalent : Minor scattered works - relating to shifting of utilities (US$6.9 million), black spot improvement (US$2.0 million), rehabilitation works for PAFs (US$0.9 million) and EMP implementation works (US$4.7 million) - are all of small value and are not amenable for competitive bidding. Hence, they are to be procured in packages of US$50,000 equivalent or less, up to an aggregate of US$14.6 million on the basis of: (i) lump sum fixed price contracts soliciting quotations from at least three qualified suppliers (up to an indicative aggregate ceiling of US$6 million), (ii) direct contracting from a qualified supplier (up to an indicative aggregate ceiling of US$4 million), (iii) through community participation and NGOs (up to an indicative aggregate ceiling of USD$3 million), or (iv) as a last resort, through force account departmentally (up to an indicative aggregate of US$1.6 million).

B2. Goods [US$ 6.0 Million Equivalent]

Goods and equipment - including computer hardware and software, office and laboratory equipment as well as vehicles - will be procured following ICB procedures for packages above US$200,000 equivalent (total US$2.0 million); the majority will be procured using NCB procedures for packages below US$200,000 equivalent (total US$3.5 million). Small value off-the-shelf items individually costing US$30,000 equivalent per contract or less (total US$0.5 million) would be procured following National/International Shopping procedures in accordance with World Bank procurement guidelines.

B3. Services [US$ 30.7 Million Equivalent]

Consultancy services will be procured as follows:

S.No.	Description of Services	Estimated Cost	Method of Selection
1.	Construction Supervision-		
	Phase 1- One Consultancy Contract	US $ 5.5 million	QCBS
	Phase 2- Two Consultancy Contracts	US $ 8.3 million	QCBS
2.	Technical Audit – 4 contracts	US $ 0.8 million	Fixed Budget
3.	PCC Services – Phase II (including annual road condition and traffic surveys)	US $3.5 million	Continuing existing contract
4.	Consultancies for R & R implementation (District wise)	US $1.4 million	QCBS
5.	Consultancy for Safety Audits	US $ 0.50 million	SS / Individual
6.	Consultancy for development of Safety Management System	US $ 1.0 million	QCBS
7.	Institutional Development consultancy including needs assessment, twining and training arrangements	US $ 3.4 million	QCBS
8.	IT Training as a part of IDS	US $ 0.6 million	SS / Individual
9.	Consultancy for Environmental & Social Safeguard Policy & Management System	US $ 0.15 million	SS / Individual
10.	Consultancy for Road fund Study	US $ 0.15 million	SS / Individual
11.	Consultancy for Road Classification Study	US $ 0.3 million	SS / individual
12.	Environmental Monitoring	US $ 1.3 million	QCBS
13.	Miscellaneous Studies and training	US $ 0.9 million	SS / Individual / SOE
14.	Consultancy for Pre-Investment Studies	US $ 3.0 million	QCBS

The proposals for the Phase I supervision consultancy was invited in February 2001, while proposals for Phase II supervision consultancy are expected to be invited in December 2001. The proposals for phase I technical audit consultancy were invited in April 2001. It has been planned that contracts for supervision and technical audit consultants would be awarded about a month before the award of the related civil works contracts.

C. Procurement Planning

The GOK has prepared a procurement plan for all the identified packages under the project, which has been reviewed and approved by the Bank. Procurement of all packages will follow arrangements outlined in accordance the project's procurement plan.

D. Prior Review of Procurement Decisions by the Bank [Refer Table B]

- All ICB contracts for works valued at US$10 million equivalent and above, and goods valued at US$200,000 equivalent and above.
- All NCB civil works contracts [rehabilitation] valued at US$3 million equivalent and above.
- Consultant contracts with an estimated value of US$100,000 equivalent and above for firms, and US$50,000 equivalent and above for individuals.

Overall, the Bank's prior review is expected to capture about 88% by value of the total procurement.

E. NCB Provisions

All NCB contracts shall be awarded in accordance with the provisions of Paragraphs 3.3 and 3.4 of the Guidelines for Procurement under IBRD Loans and IDA Credits published by the Bank and revised in January 1999 [the Guidelines]. In this regard, all NCB contracts to be financed from the proceeds of the Loan shall follow the following procedures:

i) Only the model bidding documents for NCB agreed with the GOI Task Force [and as amended for time to time], shall be used for bidding;
ii) Invitations to bid shall be advertised in at least one widely circulated national daily newspaper, at least 30 days prior to the deadline for the submission of bids;
iii) No special preference will be accorded to any bidder either for price or for other terms and conditions when competing with foreign bidders, state-owned enterprises, small-scale enterprises or enterprises from any given State;
iv) Except with the prior concurrence of the Bank, there shall be no negotiation of price with the bidders, even with the lowest evaluated bidder;
v) Extension of bid validity shall not be allowed without the prior concurrence of the Bank (i) for the first request for extension if it is longer than eight weeks; and (ii) for all subsequent requests for extension irrespective of the period (such concurrence will be considered by Bank only in cases of Force Majure and circumstances beyond the control of the Project);
vi) Re-bidding shall not be carried out without the prior concurrence of the Bank. The system of rejecting bids outside a pre-determined margin or "bracket" of prices shall not be used in the project; and
vii) Rate contracts entered into by Directorate General of Supplies & Disposals, will not be acceptable as a substitute for NCB procedures. Such contracts will be acceptable however for any procurement under National Shopping procedures.

F. Procurement Information

Procurement information will be collected and recorded as follows:

1. prompt reporting of contract award information by the project management units for the respective components; and
2. comprehensive quarterly reports prepared by PWD indicating:
   - revised cost estimates for individual contracts and total cost;
   - revised timings of procurement actions including advertising, bidding, contract award, and completion time for individual contracts; and
   - compliance report by the borrower within three months of the Loan signing date.

G. Proposed Procurement Arrangements - Threshold and Frequency of Supervision

The project elements, their estimated costs, and proposed methods of procurement are summarized in Table A. Thresholds are given in Table B. Figures in parenthesis are the respective amounts to be financed by the Bank.

Procurement methods (Table A)

Table A: Project Costs by Procurement Arrangements
(US$ million equivalent)

Expenditure Category	Procurement Method[1]				Total Cost
	ICB	NCB	Other[2]	N.B.F.	
1. Works	259.10	126.42	14.61	4.53	404.66
	(207.28)	(101.14)	(11.23)	(0.00)	(319.65)
2. Goods	2.00	3.50	0.50	0.00	6.00
	(2.00)	(3.50)	(0.50)	(0.00)	(6.00)
3. Services	0.00	0.00	30.75	2.00	32.75
	(0.00)	(0.00)	(30.75)	(0.00)	(30.75)
4. Miscellaneous	0.00	0.00	0.00	0.00	0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
5. Front-end fee	0.00	0.00	3.60	0.00	3.60
	(0.00)	(0.00)	(3.60)	(0.00)	(3.60)
Total	261.10	129.92	49.46	6.53	447.01
	(209.28)	(104.64)	(46.08)	(0.00)	(360.00)

[1] Figures in parenthesis are the amounts to be financed by the Bank Loan. All costs include contingencies

[2] Includes civil works, goods, and services to be procured out of Force Account and through national shopping, consulting services, training, technical assistance, incremental costs etc.

Table A1: Consultant Selection Arrangements (optional)
(US$ million equivalent)

Consultant Services Expenditure Category	Selection Method							
	QCBS	QBS	SFB	LCS	CQ	Other	N.B.F.	Total Cost*
A. Firms	23.85	0.00	0.80	0.00	0.00	3.50	0.00	28.15
	(23.85)	(0.00)	(0.80)	(0.00)	(0.00)	(3.50)	(0.00)	(28.15)
B. Individuals	0.00	0.00	0.00	0.00	0.00	2.60	0.00	2.60
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(2.60)	(0.00)	(2.60)
Total	23.85	0.00	0.80	0.00	0.00	6.10	0.00	30.75
	(23.85)	(0.00)	(0.80)	(0.00)	(0.00)	(6.10)	(0.00)	(30.75)

1\ Including contingencies

Note: QCBS = Quality- and Cost-Based Selection
QBS = Quality-based Selection
SFB = Selection under a Fixed Budget
LCS = Least-Cost Selection
CQ = Selection Based on Consultants' Qualifications
Other = Selection of individual consultants (per Section V of Consultants Guidelines), Single Source Selection of Firms or SOE for Training, etc. Selection of individual consultants (per Section V of Consultants Guidelines), Commercial Practices, etc.

N.B.F. = Not Bank-financed
Figures in parenthesis are the amounts to be financed by the Bank Loan.

Prior review thresholds (Table B)

Table B: Thresholds for Procurement Methods and Prior Review [1]

Expenditure Category	Contract Value Threshold	Procurement Method	Contracts Subject to Prior Review (US$ millions)
1. Works -Civil Works for Upgrading and Widening	US$10m and above	ICB	10 contracts (US$259m)
-Rehabilitation	All contracts of US$3m and above	NCB	24 contracts (US$110m)
2. Goods Computer hardware and software for e-governance implementation in PWD	US$ 200,000 and above	ICB	2 contracts (US$2m)
3. ServicesConsulting Services	For firms, US$100,000 and above For individual, US$50,000 and above	Bank Guidelines and as at Paragraph B3 above	13 contracts (US$25m)

Total value of contracts subject to prior review: US$396 million

Overall Procurement Risk Assessment

Average

Frequency of procurement supervision missions proposed: One every 12 months (includes special procurement supervision for post-review/audits)

[1] Thresholds generally differ by country and project. Consult OD 11.04 "Review of Procurement Documentation" and contact the Regional Procurement Adviser for guidance.

Disbursement

Allocation of loan proceeds (Table C)

The proposed allocation of loan proceeds is given in Table C.

The disbursement will initially be made in the traditional system (reimbursement with full documentation and against statement of expenditure) and will be converted to PMR based disbursement after the financial management system has been demonstrated to be operating satisfactorily to the GOI, GOK and Bank. The target date for this conversion is October 1, 2002.

Table C: Allocation of Loan Proceeds

Expenditure Category	Amount in US$million	Financing Percentage
1.A. Civil Works for road upgrading, widening and rehabilitation	280.00	80%
1.B. Civil Works for resettlement and rehabilitation of PAPs and implementation of EMP	11.00	80%
2. Goods	6.00	100% of foreign or ex-factory costs and 80% for other items procured domestically
3. Services	30.00	100% of total expenditure net of taxes
4. Unallocated	29.40	
Total Project Costs	356.40	
Front-end fee	3.60	
Total	360.00	

Use of statements of expenditures (SOEs):

The Bank may require withdrawals from the credit to be made on the basis of statements of expenditure for:

1. works under (i) upgrading contracts not exceeding US$5 million equivalent and (ii) rehabilitation contracts not exceeding US$3 million equivalent;
2. goods under contracts not exceeding US$200,000 equivalent;
3. services under contracts not exceeding US$100,000 equivalent for employment of consulting firms and US$50,000 equivalent for employment of individual consultants respectively; and
4. training and studies.

Special account:

A Special Account will be maintained in the Reserve Bank of India and will be operated by the Department of Economic Affairs (DEA) of GOI. The authorized allocation of the Special Account is US$25 million which represents about four months of initial project disbursements from the IBRD loan. The Special Account will be operated in accordance with the Bank's operational policies.

Financial Management Arrangements

Current Financial Management System: The project management team in the PWD will be supported in the execution of the project by four divisions. The PWD has the following strengths: (i) a budgeting and accounting system has been established and is operational; (ii) staff are trained to carry out basic accounting functions at all levels including divisions; and (iii) a system of periodic financial reporting from the divisions to the state is operational. However, the following aspects have been identified and need to be addressed to ensure that a satisfactory financial management system commensurate with the size and scope of the project is established.

1. A full-time finance manager is required to actively assist in setting up the financial management system in the PWD. The divisions also need to be suitably staffed with accounts staff. The financial staff at the central project office and project divisions will need to obtain adequate training in the operation of the computerized project financial management system (PFMS).
2. An effective financial monitoring system needs to be established in the PWD.
3. There is a need to analyze financial information and use it as a decision making tool. Financial reports which provide timely and quality information on the financial performance of the project should be prepared; and
4. Satisfactory audit arrangements including timely submission of audit reports needs to be established.

PWD has decided to computerize its financial management system on a state wide basis (this activity is part of the IDS Action Plan, see Annex 11). Computerization of the entire department is to be executed in two stages. In Phase I - Central project office and the divisions participating in the project will be computerized and Phase II will involve computerization of the rest of the divisions in the PWD. As a first step, a functional PFMS was developed for the use of the project. This working system is being customized and will be fully operational in the central project office and project divisions before project effectiveness. Thereafter, PWD will gradually expand the PFMS to the rest of its 38 divisions, along with the implementation of its computerization program in the PWD.

The PFMS would, inter alia, document and encompass: (i) the funds flow process followed by the PWD; (ii) detailed accounting system (including the Chart of Accounts - accounting for GOK budget heads; formats of various financial and other reports that the department requires); (iii) internal control mechanisms; (iv) budgeting and forecasting system; and (v) auditing arrangements.

Budgeting and Flow of Funds: The Bank will open a special account for the project with GOI. GOI will make the funds available to GOK on a 70% loan and 30% grant basis in periodic advances. The project will be budgeted through a single line item in the GOK budget. After the budget is approved, an allocation will be made by GOK to PWD on a monthly basis through the mechanism of a letter of credit. On submission of certified bills by the divisions participating in the project, PWD will issue cheques. The renewal of the letter of credit will take place on a monthly basis. PWD will issue cheques to the extent of the letter of credit made available to it.

Accounting and Internal Controls

- The financial management system would cover all project-related transactions, i.e., all sources of funds would be accounted for and reflected in the project financial statements; and similarly all project expenditures would be reflected in the project financial statements.
- A chart of accounts has been developed, and the chart has linkages to: (i) government budget

heads/categories; (ii) disbursement categories; and (iii) project components.

- The financial management system is being computerized. The computerized system will be installed and operated at central project office and the participating divisions.
- Standard books/records of accounts will be maintained at the central project office and the divisions using an integrated computerized accounting system. A register of fixed assets, indicating assets created through the project or acquired under the project, will also be maintained using the computerized system. Particular attention will need to be given to maintenance of works registers and contractor's registers.
- The contractors' bills will be checked by supervision consultants appointed under the contracts. The bills will be passed onto the central project office for effecting payment to the contractors.
- The cheques will be signed jointly by the Project Director and Deputy Secretary - Finance.

Documentation Flow: Central project office and the divisions will generate and maintain the transaction vouchers for their various receipts and expenditures made at the central project office and divisions levels respectively. However, cheques will be issued at central project office level. Data transfer would be handled through an integrated computer network.

Staffing and Training: The finance and accounting unit at the central project office is headed by a Deputy Secretary-Finance, who reports to the Chief Project Officer. The unit includes a Finance Manager, who is an experienced Chartered Accountant. The Finance and Accounting units of the participating divisions will be headed by Accounts Supervisors to be appointed before project effectiveness.

An intensive training program will be developed, and an initial program delivered by the end of September 2001, to ensure that the staff at all levels are adequately trained in the computerized financial management system. Training will be part of the TOR of the consultants who develop the computerized financial management system.

Financial Reporting: Quarterly Financial Management Reports will include:

- comparison of budgeted and actual expenditure and analysis of major variances - category and component wise;
- analysis of major variances on key physical parameters;
- forecasts for the next two quarters; and
- information on procurement management for major contracts.

Project Financial Statements and Financial Management Reports will be generated from the computerized PFMS. The central project office would generate quarterly financial management reports from the integrated computerized financial management system for the whole project. The divisions will also have the capability of generating some of these reports which are directly relevant to them. These reports and the Withdrawal Application (which would be based on the financial forecasts and actual expenditures classified by disbursement category) would also be used eventually by the Bank for quarterly disbursements in accordance with the disbursement procedures under LACI.

The reporting from central project office to GOI will be on a monthly basis while the disbursements are based on the traditional system of disbursements, i.e., reimbursement on full documentation. The reporting will move to SOEs and on a quarterly basis when the switch over is made to the PMR-based system of disbursement.

Auditing Arrangements: Project Accounts will be audited by the Accountant General (Audit), Karnataka. An audited annual project financial statement will be submitted by PWD within six months of the close of

GOI's fiscal year. The following audit reports will be monitored in Audit Report Compliance System:

Responsible Agencies	Audit	Auditors
PWD/GOK	SOE/Project Audit	AG (Audit), Karnataka
DEA/GOI	Special Account	CAG

Chapter III. Preparation to Appraisal

Section 9 Assessing Borrower Procurement Capacity

9.1 Introduction

Sound public procurement policies and practices are one of the essential elements of good governance. Good practices reduce costs and produce timely results; poor practices lead to waste and delays and are often the cause of allegations of corruption and government inefficiency. The Bank has always taken measures to ensure that sound principles and practices are followed in projects it finances, by requiring in Loan Agreements that Borrowers adhere to its Procurement Guidelines and by supervising project implementation. The same benefits that accrue to Bank-assisted projects in which procurement is handled well, can and should extend to all public sector procurements. Accordingly, just as it does in matters of economic, fiscal and sector policy, the Bank is prepared to assist Borrower member countries, as an integral part of its Country Assistance Strategies, to analyze their present procurement policies, organization and procedures and to help them develop or modify their systems to:

- increase their capacity to manage and monitor the procurement process effectively;
- improve the accountability, integrity and transparency of the process and reduce corruption; and
- be consistent with internationally accepted principles and practices as set out for example in the UNCITRAL Model Law on Procurement, the European Directives, and the World Trade Organization (WTO) Agreement on Government Procurement.

9.2 Objectives of Country Procurement Assessment Reports

The CPAR, like other sector review instruments, is intended to be a useful tool which will makes it possible to diagnose the health of the existing procurement system in a country and in the process, generate a dialogue with the government, focused on needed reforms. The main purpose of the CPAR is to analyze the country's procurement policies and practices and to establish an action plan to improve a country's system for procuring goods, works and services. To accomplish this, the primary objectives of a CPAR are to:

- provide a comprehensive analysis of the country's procurement environment including the legal framework, organizational responsibilities and capabilities, and present procedures and practices, including how these may differ from the formal rules and procedures;
- establish the basis for dialogue between the country and the Bank on how to streamline and improve the economy, efficiency and transparency of public sector procurement;
- identify the specific measures to be included in an action plan to achieve these institutional developments; and
- encourage better commercial practices.

The data collection and analysis involved in meeting these objectives, provides a general survey of key legal and procedural aspects of procurement that need to be taken into account in the design and implementation of Bank financed investment and adjustment operations in each borrowing country. It can also indicate any existing practices in the country which may need to be modified while other reforms are in progress in order to meet the procurement requirements of the Bank in projects it finances.

The CPAR also serves the equally important other purpose of determining whether national procurement procedures are suitable to be used for Bank-financed projects. It also provides a sound basis for decisions on the level of intensity and approach for supervision in Bank operations, including whether and to what extent the Bank's fiduciary responsibility for procurement can be delegated to field offices. The data collection and analysis combined with a review of the history of borrower procurement and disbursement performance, the frequency and nature of substantial complaints, past misprocurement, the existence of any major procurement - related problems and existing procurement capacity in field offices, are used to:

(a) establish appropriate prior and post - review, International Competitive Bidding (ICB), International Shopping (IS) and National Shopping (NS) thresholds,
(b) set up adequate post-review plans,
(c) gauge what would be an appropriate frequency and nature of procurement audits, and
(d) determine the range of procurement services that should be provided from field offices.

9.3 Preparation of a Country Procurement Assessment Report[16]

A clear understanding of the procurement environment in each borrowing country is essential for the Bank and its borrowers to agree on workable procurement arrangements to implement Bank - financed operations. Ultimately the country must decide what actions it will take to improve procurement so it is essential that it understands the basis for the CPARs findings and recommendations. The country and the Bank should thus be partners in the preparation of a CPAR. The organization(s) in the country with the main responsibility for procurement should provide counterparts to work with Bank staff or consultants to collect data, analyze the present system and formulate recommendations and correct problems they find. At a minimum, the country should designate a liaison and coordinating agency that can provide basic support services and help the CPAR team by identifying sources of information, facilitating meetings and guiding the study efforts. If a country does not have a clearly defined organizational hierarchy of procurement responsibilities, it may be desirable for an organization with an overall interest in the outcome of procurement but which is not directly involved in the process such as a Ministry of Finance, to be the coordinating party.

Since it is necessary for the Bank to have accurate information about the acceptability of a Borrower's national procurement laws, where a Government is unable or unwilling to

[16] In preparing a CPAR, Bank staff should consult the instructions on preparing Country Procurement Assessment Reports that can found on the procurement website.

participate in the preparation of a CPAR, it is still necessary for the Bank to prepare a review on the country's procurement laws. In such a case the TTL/PS/PAS should conduct an Operations Procurement Review (OPR), focusing on those aspects which are of direct operational concern. OPRs are more limited in scope than a CPAR and their focus is on identifying contradictions between the Bank's requirements and national procurement regulations and practices within the framework of the overall procurement climate in the country. OPRs provide the necessary input for decisions on the supervision approach by the Bank. CPARs and OPRs should be updated as needed when major changes occur in the procurement system in the country.

The team carrying out a CPAR (or OPR) should consist of members with professional competence and experience in procurement laws and practices, institutional development and risk assessments. The Bank Country Unit, under the guidance of the Regional Procurement Advisor (RPA), should organize and lead the work. It is also desirable to have a Country Unit or Field Office staff member on the team who will help identify valuable sources of information and take part in the discussions with the Government about the recommended action program. The Country Director (CD) has authority for final approval for the CPAR (or OPR) after it has been reviewed by OPCPR and cleared b y the RPA and the Legal Advisor for Procurement and Consultant Services.

Depending on the size and complexity of public sector procurement in a country and the way it is presently being handled, the preparation of a CPAR, from the initial data collection in the field to development of an action program, is likely to require from 15 to 45 staff weeks of professional services over a minimum period of approximately 3 to 5 calendar months. During the period when data collection and analysis is being carried out in the field, recommendations are being developed, and the discussions and agreements with the Government on the action plan are taking place, changes in the composition of the CPAR team must be avoided.

In some cases, other development banks and donors who are cofinanciers in Bank financed procurement, may be willing to join with the Bank in the preparation of CPARs by providing information, technical staff or consultants, or partial financing for the effort. These possibilities should be considered during the planning stage for a CPAR and discussed with Government.

9.4 Scope and Presentation of Country Procurement Assessment Reports

A country's procurement framework is a consolidation of the following main factors:

(a) Legal framework
(b) Trade practices
(c) Financial framework
(d) Procurement organization
(e) Procurement training systems/institutions
(f) Procurement procedures
(g) Decision - making authority
(h) Anti - corruption initiatives and programs

(i) Private sector commercial regulations and practices

These topics cover the legal and technical framework of a country's procurement system, but, by themselves, they do not describe how well or poorly the system works much less whether there are significant differences in performance in different sectors. It is essential for the CPAR to examine and document how all types of procurement are supposed to be carried out. This includes not only goods, works and consultant services, but also large and/or complex turnkey, supply/install, management, concession and information technology contract. More importantly, the official regulations and procedures may be basically sound or need only minor changes but, their application in practice may be entirely different. Poor dissemination of rules, inadequate training of personnel, lack of enforcement, failure to maintain good records, deliberate corruption and a variety of other factors create risks that can undermine an otherwise seemingly adequate system.

Therefore, it is also necessary to examine the actual performance of the system as evidenced by whether timely decisions are taken, how often contract award decisions are protested or overturned; whether adequate records are maintained, and similar indicators. Poor procurement quality often results from underlying factors inherent in the society or in the organization carrying out procurement. Such factors include:

- the degree to which high levels of government promote a culture of accountability;
- the status of the public sector procurement profession;
- the salary structure of public sector procurement professionals versus the private sector;
- the degree to which procurement organizations are free from political interference;
- the existence of honest capable procurement staff; and
- the presence of clear written standards, procedures and delegations of authority and responsibility.

> *Although these issues may be extremely sensitive to the government, they must be examined in detail in the CPAR because in practice, they are usually the key barriers to good quality procurement. The results of this analysis should indicate whether the country risks are high, average or low and will be the key input that informs the Bank decision regarding the nature and intensity of Bank supervision of procurement in that country.*

A country's legal, regulatory and financial framework for procurement may be broadly uniform and applicable for all organizations at the same level in government but actual practices and performance may also vary widely among t he same organizations. The CPAR team should try to review a representative sampling of organizations with the most important procurement responsibilities in infrastructure, social services and public sector administration. The data and interviews should be kept separate for each organization but analysis should look for performance patterns across organizations as well as characteristics within each entity.

Good record keeping is also a necessary though not sufficient condition for transparent and fair procurement. In its assessment of the country's procurement practices and procedures the

CPAR team should take particular note of the availability and completeness of procurement records. Apart from the overall records about the quantity, types, values and dates of contracts awarded and the name of awardees, procuring organizations should maintain records of the following:

- public notices of bidding opportunities;
- bidding documents and addenda;
- bid opening information;
- bid evaluation report;
- formal appeals by bidders and outcomes; and
- signed contract documents.

The absence of records, or significant deficiencies in such records should be reported in the CPAR findings and addressed in the recommended action plan. Since timely completion of the procurement cycle is an important indicator of the efficiency of a procurement system, the CPAR team should also determine to what extent effective procurement monitoring systems are in use. If sufficient data exists, it should also try to identify steps in the procurement process where inefficiencies seem to exist and recommend ways in which unnecessary bottlenecks might be eliminated.

The CPAR should be prepared in two volumes. Volume 1 of the report summarizes the main findings about the effectiveness and transparency of the Borrower's present procurement system and focuses on critical recommendations. It should contain a recommended action plan consisting of a coordinated package of initiatives affecting all of the major areas from legislative changes to staff development and training programs. Alternative solutions should be included where appropriate, and actions may be targeted at common national deficiencies or those found within specific organizations having important procurement responsibilities. This volume of the CPAR has restricted circulation similar to the Country Assistance Strategy (CAS), to the Government and the Executive Directors and will be the basis for discussions about next steps for institutional improvements. Its structure should be as follows:

- A brief Executive Summary, including a summary of the major findings;
- A discussion of the strengths and weaknesses of the present system grouped by topics; e.g. regulatory framework, institutions, human resources and capacity, performance in Bank projects, etc.;
- Conclude with an overall assessment of the procurement environment in the country and the major risks observed; and
- An action plan based on this assessment that includes recommendations both for the country and for any operational matters on the part of the Bank relating to projects it finances, such as the degree of recommended procurement delegation to field offices, suggested prior and post - review, ICB, IS, and NS thresholds, and the appropriate nature and frequency of supervision missions and procurement audits.

While the above suggestions could be applicable to most CPARs, it is important for the team preparing the report and the recommendations to make are that each CPAR reflects the particular circumstances/needs of the specific country in question.

Volume 2 includes a broader description and analysis of the procurement system and contains the information gathered during the field data collection phase. This includes their responses to the questionnaire. This volume also provides the background and supporting material for the team's findings and recommendations that were presented in Volume 1. Volume 2 should include a complete list of all the laws and, regulations and other documents collected during the preparation of the CPAR. Since they are numerous and bulky and cannot be attached to the report, copies of them should be maintained in the Legal Department and the Operations Policy and Services Group along with the final report for reference purposes. Volume II shall be kept accessible to all those inside and outside the Bank with a legitimate interest in the procurement system and how it operates in that country.

9.5 Follow-up to the Country Procurement Assessment Report

If any other donor organizations contributed to the preparation of the CPAR, the TTL for the CPAR needs to coordinate the draft CPAR with such donor before its presentation to the Government. It is also appropriate, with the Government's agreement to include contributing organizations in the discussions of the final report.

Once completed, the CPAR Report is provided to the Government for its review, and the findings and recommendations discussed by the Government and the CPAR team. These discussions are for the Government and the team to agree on the specific scope of actions to be taken, a time frame for their implementation and the responsibilities for coordination and execution of the program. The results of agreements reached during these discussions should then be incorporated in the County Assistance Strategy and appropriate actions initiated.

From the outset of the CPAR exercise, there should be an explicit understanding between the country and the Bank that the results are intended to form the basis for agreed action plans if the CPAR indicates significant deficiencies in the existing system. When agreeing with the Government to undertake a CPAR, the Country Unit should anticipate that assistance in the form of technical and financial resources may be needed to implement agreed action plans. The Bank should be prepared to help organize and if necessary, fund this assistance in the same way it does with other policy and sector reform programs.

A record of the discussions and agreements on the recommended action plan should be kept with a copy of the final CPAR Report, in the Country Department files. A monitoring system should be put in place, with clearly assigned maintenance responsibilities, to track the progress of implementation of the action plan.

9.6 Procurement Reform

Discussions with the Government on follow - up to the CPAR may lead to agreement that he country needs to carry out reforms in the area of public procurement. The need for procurement reform may also arise in the context of various project related activities.

Procurement reform may be financed through an Institutional Development Facility Grant (IDF), which finances only procurement reform activities, or else as a component of an investment or technical assistance project.

A sound and effective pubic procurement reform is likely to start by revising the existing procurement laws and regulations by introducing an entirely new legal framework in the countries where there were no pre-existing rules or where the existing framework is weak or unclear. It would normally also include the reform or strengthening of institutions overseeing procurement, the organization of a procurement monitoring system and the training of government procurement staff in enforcing new rules, preparing standard procurement documentation and recording procurement data. However, the Bank does not finance these other complementary activities unless there is a sound legal framework in place or an agreement with the Bank on the proposed law and regulations. These activities are undertaken once the new law and the necessary regulations have been issued.

The country department (in consultations with the RPA) is generally responsible for initiating work on procurement reform. The Chief Counsel - Procurement and Consultant Services oversees the legal aspects of this work by clearing the terms of reference for the legal assignment, proposing a long list of specialized legal consultants capable of undertaking it, explaining to government officials the merits of such a reform and commenting on the draft laws and regulations prepared by the legal consultants. Since the legal framework is key to the success of an effective procurement reform, the legal consultants should be hired directly by the government and not as a sub - consultant to any procurement consultants that might be hired to advise on other aspects of procurement reform.

The procurement reform will in many cases be a sensitive subject, thus it is important that Government ownership and commitment be ensured. Typically, the process starts with a mission to present and explain the project to senior government officials and to enlist their support from the inception of the reform. Commitment from the Government is even more critical during implementation of the project (particularly when there is a need to enact the procurement law). Bank supervision should therefore aim at maintaining this commitment.

9.7 Basic Institutional Steps

The basic objectives of any procurement reform, regardless of the country's level of development, are the same: to reduce costs and improve efficiency by promoting fair competition and streamlining procedures, to ensure accountability by increasing transparency in the process and reduce corruption. Reform should however be tailored according to the specific problems and constraints of a country's legal system and traditions. Key ministries, procuring entities and other local stakeholders should be involved in the analysis and formulation of recommendations to ensure client ownership. A substantial parallel effort is also required to build broad - based support for the reform in the public administration and by the public. Finally, strong sponsorship from the highest level of government is necessary for the program to succeed.

In order to implement a comprehensive procurement reform program when major deficiencies are found in existing systems, it would be advisable to have the Government take the following steps with assistance from Bank staff:

- Establishment of a system to monitor and evaluate the pace and impact of the reform.
- Draft proposed framework legislation (including provisions for the establishment of a new/revised institutional framework).
- If necessary, identify a suitable legal instrument to obtain interim effectiveness (e.g., ministerial decree or presidential ordinance).
- Submit draft laws to the legislature for enactment and prepare implementing regulations.
- Design the organization and develop a budget for the new institutions and hire staff for them.
- Develop and deliver comprehensive customer focused training programs based on the new system.
- Ensure appropriate dissemination of information on the reform.
- Evaluate the new system after a trial period (e.g., two years).

Procurement is a core government function and also a part of the broader public administration system. As such, it is affected by how efficient the government generally operates, by other bodies of law and by attitudes in the society at large. Therefore, to ensure maximum effectiveness, procurement reforms should ideally be carried out in parallel and coordinated with other legal, administrative and economic reforms. As the reform program is discussed, developed and carried out, all the stakeholders in reform should be kept involved and informed.

Section 10: Implementing Agency Procurement Capacity Assessment

10.1 Introduction

Carrying out procurement efficiently under Bank-financed projects is critical for good project implementation, for the attainment of the objectives of the projects and their sustainability. Equally, the Bank, as part of its development role, is interested in strengthening the capacity of its borrowers to administer procurement in an effective and transparent way as part of sound governance and good project management. In this context, project teams are required as an integral part of project preparation and appraisal, to make an assessment of the capacity of the project implementing agency or project implementation unit to administer procurement. ***(refer to section 9.1 for assessment of procurement capacity at country level)*** The objectives of the assessment are to:

(a) evaluate the capacity of the implementing agency and the adequacy of procurement and related systems in place, to administer procurement in general[17] and Bank financed procurement in particular;

(b) assess the risks (institutional, political, organizational, procedural, etc.) that may negatively affect ability of the agency to carry out the procurement process;

(c) develop an action plan to address the deficiencies detected by the capacity analysis and to minimize the risks identified by the risk analysis; and

(d) propose a suitable Bank procurement supervision plan for the project compatible with the relative strengths, weaknesses and risks revealed by the assessment.

10.2 Preparation of the Capacity Assessment

The capacity assessment should be carried out during project preparation. The aim is to have the assessment and the agreed action plan finalized at the time of appraisal. The assessment and development of the action plan should be carried out with the full participation of the borrower and of the implementing agency to ensure ownership of the proposed actions. The actions proposed in the plan must be incorporated as project components and funded through the loan/credit as needed. The analysis may detect critical deficiencies that need to be addressed before project launch (i.e. setting up of a procurement unit or preparation of critical bidding or contracting documentation). In the event that the implementing agency cannot finance these activities, the project team should discuss and agree with the borrower alternative financing sources (i.e. a PPF, retroactive financing of these activities, etc.). For projects involving several implementing agencies, the project team should assess the capacity of the agency nominated as the lead or coordinator for the project, and all those having a major role in procurement administration for the project or a representative sample of

[17] Includes goods, works, services and consulting services, as applicable. Therefore the assessment should include a review of the administration of selection and employment of consultants process.

agencies if all play a similar role. This assessment, as in the case of a single agency, will be the basis for designing the capacity strengthening and procurement supervision plans.

The PS/PAS assigned to the project is primarily responsible for carrying out and coordination of the assessment. Those aspects of the assessment dealing with the controls in place (financial and administrative), should be carried out with the help of the disbursements or financial management specialist assigned to the project. This approach is necessary due to the specialized nature of assessing financial controls and because the assessment is also required for disbursement purposes. LEGOP should be involved as necessary in relation to any issues related to legal aspects of the procurement.

10.3 Scope of the Review

The capacity review includes an assessment of the capacity of the agency to carry out the different phases of the procurement cycle. The assessment should look into the organizational aspects, skills of the staff, quality and adequacy of supporting and control systems, and suitability of the laws, rules and regulations applicable to the agency. The assessment includes a review of the following aspects.

Legal Aspects

This aspect of the review should consist of: (i) a quick verification to ensure that the applicable procurement laws and regulations will enable the institution to carry out acceptable procurement; and (ii) an assessment of the quality of internal procurement practices of the implementing agency or agencies and their conformity with procurement practices acceptable to the Bank. The latest CPAR should be consulted for relevant information in regard to general country rules and environment that may be relevant to the project. Specific items to look into are:

- Legal corporate status of the agency (government department, government autonomous agency, commercial enterprise, etc. - ownership)
- Laws and regulations applicable to the agency
- Acceptability of rules and procedures for National Competitive Bidding and other procurement methods
- Existing internal procurement procedures, regulations or procurement manuals for clarity, consistency and predictability.

Procurement Cycle Management

This item includes a review of the general quality and timeliness with which the agency or institution handles each phase of the procurement cycle. The key elements are:

- Procurement planning
- Preparation of bidding documents
- Management of bidding process from advertisement to bid opening
- Bid Evaluation
- Contract award

- Preparation and signing of contract
- Contract management during implementation, including dispute resolution methods
- General handling of procurement cycle (duration, actors, reviews, etc.,)

Organization and Functions

This is a review of the organizational structure of the procurement unit, how responsibilities are allocated, its reporting relationships, its decision-making authority and whether it has the capacity to handle the proposed procurement plan for the project in addition to other routine duties if any. Specific items to review are:

- Organization of procurement unit and allocation of functions
- Internal procedural manuals and instructions and historical compliance

Support and Control Systems

This item deals with services and control mechanisms that provide checks and balances in the system. The independence and credibility of procurement audits and the quality of internal controls are critical to the reliability of the system. Specific items to be considered are:

- Auditing
- Legal advisory arrangements
- Internal technical and administrative controls
- Code of professional behavior and ethics.
- Special anticorruption initiatives

Record Keeping

The team should take particular note of the availability and completeness of procurement records. In addition to overall data on numbers, types, values and dates of contracts awarded and names of awardees, procuring organizations should maintain for all contracts, a record which includes, inter alia:

- public notices of bidding opportunities
- bidding documents and addenda
- bid opening information
- bid evaluation reports
- formal appeals by bidders and outcomes
- signed contract documents and addenda and amendments
- records in claims and dispute resolutions
- record of time taken to complete key steps in the process
- comprehensive disbursements data (as required by the country's financial management system)

The absence of or significant deficiencies in such records should be reported in the assessment findings and addressed in the recommended action program.[18] The team should also determine to what extent effective procurement monitoring systems are used and, if sufficient data exists, it should identify steps in the procurement process where inefficiencies seem to exist and recommend ways bottlenecks might be eliminated.

Staffing

The quality and sufficiency of staff in the unit are essential to good procurement administration. The assessment should determine in general whether sufficient qualified staff are available to carry out the normal procurement tasks assigned to them. There should be a determination whether the existing staff have relevant knowledge of the disciplines and the capacity required for carrying out the proposed procurement plan under the project. Otherwise the assessment should define the assistance required in the form of training additional staff or consultants or procurement agents and include an estimate of the scope, duration and cost of these services and additional resources.

General Procurement Environment

It is also necessary to examine the actual performance of the procurement unit as evidenced by whether timely decisions are taken, how often contract award decisions are protested or overturned, whether adequate records are maintained and similar indicators, and to try to identify the underlying causes for any areas of bad performance. Poor procurement quality often results from underlying factors inherent in the society or in the organization carrying out procurement. Such factors include:

- the degree to which high levels in the government promote a culture of accountability
- the reputation of the procurement corps
- the salary structure of procurement staff versus comparable salaries in the private sector
- the degree to which the procurement unit and the institution are free from political or other interference
- the existence of capable procurement staff
- the presence of clear written standards, procedures and delegations of authority and responsibility
- the soundness of the agency's budgetary and financial management systems, etc.

The Annex to this section of the Manual provides a list of suggested questions to help in the preparation of the assessment. The list is given as a guide for the assessment and should be applied flexibly depending on the case at hand. For example for new borrowers or implementing agencies it may be necessary to go over the entire range of items listed in this

[18] The critical records that shall be properly maintained (on the procurement process) up to two years after loan closing date are: copies of all public advertisements, prequalification documents (if used), the prequalification evaluation report documenting any decisions not to pre-qualify certain potential bidders, the bidding documents and any addenda, a record of any pre-bid meetings, the bid opening minutes, the final bid evaluation report (including a detailed record of the reasons used to accept or reject each bid), copies of bids, appeals against procedures or award recommendations, a signed copy of the final contract and any performance and advance payment securities issued.

instruction. However if the borrower being assessed is well known to the Bank much of the information listed in the Annex is likely to be available in the Bank and only critical parts of the assessment need to be updated or carried out. This determination should be done in consultation with the RPA as needed. Equally, if there is an up-to-date CPAR, not all questions in the questionnaire have to be researched.

10.4 Private Sector Assessment

An important part of assessment is the opinion of private firms dealing with the agency on how the written regulations and procedures are applied in practice. In this respect the mission should contact private firms, as appropriate, to find out their views on aspects such as:

- the general efficiency and predictability of the system
- the transparency of the procurement process
- the quality of contract management
- the general reputation of the agency as free of corruption or otherwise.

10.5 Risk Assessment

A key aspect of the assessment is the analysis of risks in the procurement process. This analysis should include the assessment of administrative, political and financial risks and is closely related to the transparency and predictability of the procurement process. The review should look at the record of the institution in handling procurement in general and Bank-financed procurement in particular. Of particular relevance is the consistency of application of the written rules and procedures in practice. A key input in this review is the opinion and perception of private sector parties, both national and foreign, knowledgeable of the institution. Key actors in the private sector business community dealing with the institution should be interviewed as part of the assessment. This assessment should culminate with a rating of the procurement risks as high, average or low and is key in the determination of the supervision approach to be recommended. (Annex 2 provides a form to summarize the findings and recommendations of the review and to facilitate the overall assessment of risks).

The risks assessment requires considerable professional judgment and there are no precise instructions or steps leading to a clear cut overall assessment. Moreover, different institutions may present weakness in the same areas but with varying degrees of severity. In general, an institution showing severe deficiencies (null or poor ratings) in one of the areas covered by the assessment {headings (a) to (h)} should fall into the high risk category and one showing fair to good ratings in all of them should be in the average risk zone. Only those showing satisfactory or better ratings in all areas should be rated as low risk.

10.6 Action Plan to Build the Agency's Capacity

The analysis described in the above paragraphs should identify the actions to be taken and the associated timetable to improve the long-term capacity of the agency to administer procurement. Actions may cover matters such as regulation processes, staffing organization, training, record keeping, auditing, etc. Those that are essential for project implementation should be in place before procurement starts. Others may be implemented during the life of

the project. The timetable proposed should therefore reflect these priorities. The plan should be developed in detail including TORs for any consulting assignments and cost estimates. The detailed plan should be part of the project implementation documentation and should be agreed with the borrower during negotiations as a project component.

10.7 Setting of Prior Review Thresholds and Supervision Plan

The intensity and nature of the supervision of procurement is linked to the capacity of the institution through the setting of prior review thresholds and the extent and depth of the post reviews and audits to be carried out. The supervision plan is also determined by the nature of the project (whether it is a project involving a few large contracts or many small or medium sized ones or whether it is implemented centrally or in a decentralized way). Finally, the assessment of procurement risks should be a key factor in deciding on the supervision plan.

Agencies assessed in the high risk category should not have a prior review threshold for procurement of goods above $200,000 and $500,000 for works; agencies with average risk should have thresholds not exceeding $350,000 for goods and $5 million for works. All contracts for consulting services contracted with firms with an estimated cost of $200,000 equivalent or more should be made subject to prior review. In all cases (contracts with firms or with individual consultant) the Bank should give the "no-objection" to the terms of reference for the proposed assignment. The Bank may require prior review of key critical assignments costing less than $200,000 equivalent (i.e. highly specialized services or those having high downstream effect). For loans through financial intermediaries, the prior review should cover all contracts awarded under ICB as a minimum. These thresholds are ceilings not to be exceeded without prior OPCPR clearance, but RPAs may decide to set lower thresholds, in cases of very high risk agencies or countries, when the project requires intensive review or when the agency's capacity is only marginally into one of the medium or low risk categories. The long-term objective is to strengthen the capacity of all agencies to move them gradually into the low risk category. The legal agreements may include if appropriate the possibility of a gradual raising of the threshold as the agency meets specific milestones of the strengthening program as an incentive. The agreements should also include the possibility for the Bank to reduce the threshold, increase the intensity of post-reviews and/or launch an in-depth procurement review or audit, if the capacity of the agency deteriorates or if a pattern of problems emerges from its performance or from the results of post - reviews.

For projects that comprise a large number of simple, similar small contracts (say below $200,000) to be awarded over a life of the project, it may not be cost effective or necessary to carry out prior review of a large number of them. In such cases the supervision plan should include a prior arrangement with the borrower on the standard documentation to be used by the borrower, followed by a prior review of a representative sample of them distributed over the life of the project to enable a continuous monitoring. The number of those subject to prior review should be related to the capacity of the implementing agency, but should not in any case be less than five percent of the estimated number of contracts to be awarded. This should be supplemented by an appropriate intensity of post review and audits depending on the Risk Assessment.

The size of the sample for post-review should consider factors similar to those mentioned in paragraph (b) above. Generally not less than 1 in 5 contracts should be reviewed for high-risk agencies, 1 in 10 for average risk, and 1 in 20 for low risk ones (It may be necessary to adjust this ratio in particular for social sector projects that may involve a very high number of smaller contracts. However, it is important to ensure that the post review captures a significant portion of such contracts.). As in the case of prior review, the ratio may be adjusted during project implementation depending on the behavior of the agency and the results of the reviews. The procurement supervision plan should recommend that procurement audits be carried out, if appropriate, giving the number and scope of such audits, and propose whether the supervision plan should include special missions for procurement supervision at critical points of project implementation.

The procurement specialist should discuss the assessment and the proposed supervision plan with the RPA, as needed during preparation, to ensure consistency throughout the region. The RPA and LEG clear the plan as part of the clearance of the final project package. To facilitate this clearance a summary assessment form should be copied to the RPA and to LEG when submitting the project package for their review.

Section 11 Project Design Measures To Mitigate Risk

11.1 Procurement Related Risks

Project risk management is usually considered in terms of political risks, financial risks, etc. that are outside the field of procurement. However, there is another set of risks which could be termed "non-conventional" risks that directly affect procurement, including:

- ambiguities about procurement responsibilities in project administration;
- absence of sound, well established procurement practices;
- lack of experience or capacity in the implementing agency to handle the procurement process, including anything from inability to plan procurement and prepare the necessary documents, to being unable to evaluate offers and reach correct decisions about contract awards;
- propensities for corruption in the selection of contractors and the subsequent management of contract performance;
- uncertainties about the availability of project execution prerequisites such as rights-of-way, authorizations and permits, relocation plans for affected populations; and
- community opposition to, or lack of understanding and support for, the project.

Some of these factors are simply causes for delays while others control whether the procurement process is carried out correctly. Any one of them can cause severe disruption of project procurement plans which, in turn, translates into delayed schedules for project implementation, slower disbursements, higher commitment fees for Borrowers and overall project performance that is less satisfactory than anticipated.

11.2 Reducing Risks in Procurement

The first and most important step toward reducing these risks is to recognize that some of them exist in all projects, and to make a realistic assessment of those that are most likely to occur in the particular project in question. The assessments of country procurement regimes and implementing agencies' capacity described in Sections 9 and 10 of this Manual cover some, but not all, of these risks.

The above quoted risks directly affect contractors' interest in participating in a project. For consultants, construction companies, or suppliers of goods and services, these risks are project uncertainties that have a direct bearing on their ability to perform and to make a profit. Their perception of the variety and magnitude of these risks and their potential responsibilities for dealing with them will largely determine whether they want to compete and what their price should be. These decisions, in turn, determine the quality of the competition and the price that Borrowers must pay for a project.

The first approach to dealing with non-conventional risks is to reduce them as much as possible by careful preparation and good information. The second, and very specific to procurement, is to strive for equitable risk sharing between the client and the contractor. Since clients prepare bidding documents and draft contracts, they may be inclined to assign

as many of the risks as possible to the contractor, even when the clients themselves may be more able to deal with certain of these risks. One useful aspect of the Bank's prior review of contract documents is to ensure that there is a reasonable sharing of risks, with the client and the contractor each handling those where they have a comparative advantage. The best contracts will include risk sharing and mitigation provisions that anticipate non-conventional risks and set out the respective responsibilities of each party for dealing with them.

What is important, however, is to clearly identify risks in the procurement process and to prepare a list of measures to minimize such risks. Mechanisms to minimize risk include:

- a distinct section on procurement in the project manual;
- preparing standard bidding documents for NCB;
- having experienced contractors prepare project design;
- having experience procurement agents assist the implementing agency;
- robust post-review of contracts; and
- robust procurement audits.

SECTION 12: TECHNICAL ASSISTANCE FOR CAPACITY BUILDING AND PROCUREMENT REFORM

12.1 Capacity Building

Improving the capacity of our clients is a key objective of the Bank. The Bank has developed instruments to assist staff on improving capacity at country level ***(See Sections 9 on CPARs)*** and at project level ***(See Section 10 of this Manual on Assessment of Procurement Capacity of the Borrower Implementing Agency, which also deals with Risk Assessment).*** Bank staff develops for each project an action plan to address any deficiencies identified in the course of project preparation and appraisal. Funding should be included in the project to implement the action plan as a component of the project. Where deficiencies are identified during project implementation staff propose further actions to be taken to address the problem permanently. The final objective is to bring the client to a level of procurement performance that is efficient, professional and transparent and enjoys the confidence of all doing business with the agency.

Procurement capacity building and procurement reform are related, but require substantially different levels of effort and expertise. Capacity building could be as simple as increasing Borrower's staff and providing training for them in the use of Bank Guidelines and documents, while procurement reform may require a fundamental overhauling of a country's procurement laws, organizations and procedures. In either case, Country Procurement Assessment Reports (CPARs) and implementing agency assessments ***(see Sections 9 and 10***) are requisite points of departure that provide the factual basis for determining Borrowers' needs in these areas.

It is unrealistic to expect any organization that has no prior experience in World Bank projects to be able to handle the procurement responsibilities associated with an operation without some assistance. A procurement component in a Project Launch Workshop or a one-week basic procurement training course can be a useful starting point for technical assistance, but neither one is normally sufficient preparation for a Borrower to handle its procurement responsibilities. Consideration should be given to enrolling Borrower staff in more formal procurement training programs on international procurement or specifically on Bank-financed procurement (information of existing programs can be found at the World Bank's internal web page at the Operations Core Services page, under ***"Procurement – Professional Development".*** When the number of staff to be trained is large, it may be appropriate to organize special training programs in-house for the implementing agencies. However, training may not be enough to build procurement capacity. Hiring of additional staff, improved compensation and other measures to encourage qualified staff to remain on the job may also be needed.

In most, if not all, cases of inexperienced implementing agencies who are given responsibilities for procurement, it will be advisable to include financing in the project for the services of procurement agents or consultants ***(see Section 13.3)***. This will ensure that professional competence is available to initiate procurement activities and allow the project to move forward while training and capacity building are underway. In these cases, Terms of Reference should require the agents or consultants to provide procurement training so that, at a minimum, implementing agency staff will understand what the policies and procedures are, even if they do

not become fully capable of carrying them out themselves. This training should include both structured explanations and case studies involving basic procurement policies and processes, and on-the-job training where implementing agency staff learn each step by doing it with the agents or consultants when that stage is reached. The Bank has prepared a wide range of procurement training materials which correctly present the policies and procedures of the Bank's Procurement Guidelines. These are available through the RPA or OPCPR and should be used in training for Borrowers to ensure accuracy and consistency. As a minimum the following procurement related areas should be covered in the training:

- preparation of proper prequalification, bidding and contract documentation;
- methods and procedures for evaluating prequalification documents and bid documents submitted by suppliers;
- in the case of complex works the duties and responsibilities of the employer/Borrower and "engineer";
- in the case of works, programming and scheduling of the works procured and the overall management of the project during the implementation stage;
- how records should be kept for both cost control and monitoring various activities that are undertaken during the procurement;
- provisions and procedures for payment; and
- procedures for handling disputes between the Borrower and the contractor.

Most Borrower implementing organizations will need or benefit from procurement capacity building assistance so this should be considered routinely as a part of project design. It yields early, identifiable results and involves relatively small costs and commitment from the Borrower. As in any technical assistance, however, it is essential to be clear about the particular objectives and to ensure that the allocated time and funds for the assistance are adequate to accomplish these.[19]

The Bank currently offers specialized procurement training in Hubs. The curriculum is being designed to allow packaging content of procurement courses in different formats which would make Hub training an economically feasible response to training needs. The Bank is also making arrangements to have regional procurement staff schedule and conduct more training when in the region on mission. This is to be organized and supported by OPCPR and WBI with materials.

The Bank is also in the process of developing and implement "distance learning" to include video conferencing and use of the self-learning CD-ROM. Under the "Training of trainers initiatives the Bank hopes to help develop a core of trainers who can teach procurement in a region without incurring major travel expenses. Materials for instructors and course participants could be developed and supplied by OPCPR and WBI.

[19] B.P 8.40 - Technical Assistance, and the Handbook on Technical Assistance give detailed guidance on the overall subject of technical assistance.

12.2 Procurement Reform Programs

Procurement reform programs are more ambitious forms of capacity building that require much larger investments in time and money and a broader range of professional expertise: legal, institutional development, community participation and possibly other fields in addition to procurement. However, the potential benefits are also far greater, provided that the reform efforts are backed by strong Government commitment. A decision by a Government to launch a procurement reform program, which by definition usually will be on a national scale, will be based on much broader and deeper motivations than simply preparing to meet the procurement requirements of a single project. More likely it will be a recognition that existing systems are seriously flawed and unable to produce efficient and economic results; perhaps because of outdated laws and procedures, staff who are inadequately trained or compensated, or the prevalence of corrupt practices.

All capacity building is a relatively long term process, but this is particularly true for procurement reform. It would not be unusual to spend a first year in diagnosing and reaching basic agreements about the problems in an existing system, another year to develop a strategic approach to deal with them and engage experts to assist in this effort, and at least two more years to begin to put new systems in place and see results. Procurement reform, however, is potentially one of the most rewarding ways to improve governance: the length and complexity of the reform process should not deter Bank assistance in this area. It is a field in which the Bank's own experience enables it to make significant contributions to reform.

Procurement is often one of the main sources of opportunities for bribery and corruption, so procurement reform can and generally should be an integral part of country anti-corruption programs. Anti-corruption and procurement reform measures typically will justify a free - standing technical assistance project rather than being a component of another project, and will require the commensurate allocation of budget, time and professional resources. The Bank's country level anti-corruption efforts generally are not led by procurement specialists so coordination with other departments will be needed to ensure that procurement reform receives appropriate attention.

SECTION 13: PROCUREMENT PLANNING

13.1 Strategic Considerations

(a) Procurement planning is much more than just choosing which procurement methods to use for various goods, works and services contracts and when to schedule activities. These are important parts of planning but are closer to the end of the process than the beginning. Before reaching this stage, a number of more fundamental decisions should have been made first. The starting question is: What are the most effective procurement arrangements for achieving project objectives, in compliance with the Bank's Procurement Guidelines?

The following sections deal with these subjects in the general order in which they need to be addressed in procurement planning. It will soon become evident to a planner, however, that this is not a linear process but rather an iterative procedure that should explore various options. Quite different levels of planning detail will be appropriate for different situations: a specific infrastructure investment project; a social sector project; a LIL(Learning and Innovation Loan); or APL(Adaptable Program Lending.) ***(Refer to Section 24 of the Manual for detailed instructions on APLs and LILs)***

Whatever the situation or the effort and detail that goes into the procurement planning, the results must be reviewed and updated throughout the life of the project. Estimates of time requirements, assumptions about institutional capacity, changing priorities and other factors will require plan adjustments. The need for changes does not invalidate the plan; it simply emphasizes that planning is a dynamic process rather than a static picture.

The sections on Country Procurement Assessments ***(Chapter 3, Section 9)*** and Organization Capacity Assessments ***(Chapter 3, Section 10)*** appear at the beginning of this Manual for a good reason: they are the necessary starting points for sound procurement planning. In combination, they define the legal and institutional frameworks in which procurement must be carried out. They should indicate both the strengths and weaknesses of existing systems, pointing out the most appropriate organizations for handling procurement and putting realistic limits on their capabilities. Consideration of these two assessments should be an integral part of project design. In the end, there should be consistency between the stated project objectives and the means for achieving them from the procurement perspective.

It will be a rare case where the procurement infrastructure – the laws, the procedures, the organizational capacity – in place at project inception will fully meet the needs and objectives of the project. Usually it will be a matter of deciding what institutional strengthening and technical assistance should be included in the project to offset the deficiencies. In a few cases, it is conceivable that project objectives or at least target dates may need to be adjusted because it is not practically achievable to upgrade the procurement capabilities to the implied levels of requirements.

13.1.1 Contract Price Adjustment Formulae

Where procurement is for major works, bidding documents should require that bid prices be adjusted to reflect changes in the prices of major inputs such as labor, materials such as petroleum and equipment usage over the contract period. Clause 2.25 of the Procurement Guidelines that price adjustments should be made according to formulae specified by the Borrower in bidding documents. Bank experiences shows that in order for these adjustments to reflect the true fluctuations in the above inputs, there is a need for the Borrower to have in place a mechanism that tracks the price changes, whether resulting from market forces or changes in legislation. Usually no price adjustment clauses are included in contracts for goods to be supplied, or works to be completed within one year, unless the market situation calls for it at the time. They should be monitored and records kept by the Borrower's Ministry of Public Works or Planning in conjunction with other ministries such as the Ministry of Labor which will have information on prices of labor. These records should be public documents and any interested party should have access to them.

While conducting the CPAR and the assessment of the procurement capacity of the Borrower's implementing agency, the TTL/PS/PAS should find out whether such indices exist. ***(Refer to Section 9 and 10 of this Manual for detailed instructions on CPARs and assessment of procurement capacity of Borrower implementing agencies.)*** Once it has been confirmed either that they do exist or that they do not. In the planning procurement of works contracts, the TTL/PAS/PS, ensure that the Borrower is aware of where and how to get the information and how to apply it when adjusting contract prices during the course of the contract. A mechanism should be put in place during this time which enables the Borrower gain access to the required information from time to time as required under the circumstances of the contract.

Where records of such indices do not exist and there is no institutional capacity for the tracking of price indices, arrangements may be made for the Bank or any other donor or the Borrower government to finance technical assistance to set up an institutional capacity within the Borrower country to regularly collect and record data related to fluctuation of prices of the inputs indicated above.

13.2 Preparing the Plan

Procurement planning may take either of two fundamentally different approaches, depending on whether it is for a specific investment project or one of the more programmatic types of lending operations. Regardless of which type of project, however, it is essential to develop a plan that clearly sets out the framework in which procurement will be done.

The conventional approach for specific investment projects -- finite projects of known design and content -- is to start by compiling a list of all known goods, works and services needed to complete the project. This list then becomes the basis for deciding how these items should be combined or divided into contract packages, what method of procurement should be used for each, and the scheduling for procurement activities. Even this seemingly straightforward preparation of the list of needs already implies a strategic decision about how procurement and contracting will be done.

Consider, for example, a project to improve water service in a specific urban area, consisting of additional supply, treatment and distribution. The entire project might be done using a turnkey or a design/build approach: the full responsibility for designing and installing the system improvements given to a single contractor. This single contract would comprise the whole list of needs. On the other hand, the project could be divided into separate contracts for design consulting services, construction of a treatment plant, main supply line and pumping stations construction, and laying of the distribution system -- each of these representing a "need" for the procurement list. The extreme case would be to list each pump, quantities of different pipe sizes, filters, etc. for materials purchases, separate contracts for installation, contract manager services, etc. In this case, the procurement list could run into dozens or hundreds of items -- not a very efficient approach, incidentally --for exactly the same project. The degree of detail in the list will depend on how the project is intended to be implemented.

Bank lending is increasingly for projects that do not have this finite, predetermined scope -- adaptable program lending (APL), sector reform programs, etc. The common characteristic of these projects is that specific content of the operation only becomes known as the program develops, making it impossible to list procurement needs in advance. In these cases the alternate approach to procurement planning should focus on the procedures, responsibilities and criteria for determining project components or sub-projects and for choosing appropriate procurement arrangements. *Prototypes should be established for decision making: for example, small works below a specified value will be performed by community organizations, larger works requiring construction equipment will be awarded through national competitive bidding, small goods purchases will be through local shopping and use of purchase orders, etc*. Even in program lending of this type, usually it will be desirable to identify an initial set of sub-projects or components, say for the first year, to ensure that the project does not experience long delays in getting started. For these first period components, procurement planning should be detailed in the same way as for conventional investment projects.

13.5 Contract Packaging

The objective in contract packaging is to group the procurement requirements in such a way as to ensure economy and efficiency in processing and the delivery of the "right" goods and services at the "right" time for the project. The first obvious step in grouping -- unless this is a turnkey project -- is to separate needs into goods, works and services categories. Normally contracts will be awarded within a single category, although there are exceptions: certain types of plant equipment, for example, are always procured on a "supply and install" basis where goods delivery and related installation services are combined in a single contract.

13.5.1 Bulking of Orders

Within each category, needs should be examined to see whether it is possible and sensible to combine similar or related items in a single package. Although, on the surface, this sounds as if it would be desirable to do, several questions need to be considered before coming to this conclusion:

- Does the project involve cofinancing with restrictions on the use of the funds; i.e., on the particular kinds of contracts that can be financed?

- Are the goods needed at more or less the same time, or will there be long gaps between the desirable delivery times?
- Are the goods intended for ownership and use by the same party or will there multiple owners and users, making it simpler to let each party contract for its own goods?

In the past, conventional wisdom held that substantial savings could be achieved through bulking of orders for like goods by getting economies of scale. With present order processing and shipping methods, significant price differences occur only with very large differences in quantities.

13.5.2 Local Supply Capabilities and Foreign Interest

The ability of local suppliers of goods and services to meet project needs and the likely interests of foreign bidders to participate in a project are some of the factors to be considered when making contract packaging decisions. If there are well established local civil works contracting and goods supply capabilities, the scope and sizes of contract packages should be set in such a way that permits local firms to compete effectively. If foreign interest in bidding for contracts is low, for example, because they are not established in the country or because of the known competitiveness of local firms, package sizes can generally be set to match those local capabilities. However, if there are reasons of economy or efficiency in choosing larger contract packages or if it is known or believed that foreign bidders will be interested in bidding, these should be the determining factors in contract packaging and sizing.

If there are local and foreign interests and capabilities to supply project procurement needs, it may be possible to meet both of these by appropriate sizing and timing of contract awards. Works contracts for roads, drainage canals, etc., may be divided into individual packages that can be handled by local bidders and then calling for bids for 5 or 10 of these packages at the same time ("slicing and packaging"). A small local contractor can bid for one or however many slices it can handle, and a large foreign bidder can bid for all slices in the entire package, offering a discount if all or a specified number are awarded to it. A similar approach and results can be achieved in goods contracts by making the basic bid "lots" conform to local bidding capacities and then awarding contracts for a number of lots in the same bidding process, thereby allowing larger suppliers to offer discounts in the case of multiple contract lot awards.

13.5.3 Procurement Planning and Contract Packaging for Cofinanced Projects

The structuring of procurement arrangements and the way in which projects needs are packaged requires particularly careful planning in cofinanced projects. This is because cofinancing funds must be used by Borrowers observing procedures which differ from those of the Bank. Where joint cofinancing is possible, all procurement is in accordance with the Bank's rules and no special packaging conditions are necessary. However joint financing, while preferable in terms of efficiency, economy and uniformity of procedures across project components, has limited possibilities, and parallel financing procedures have to be used in most cases. Keeping in view the objective of maximizing the amount of cofinancing available for an individual project and its specific design and other requirements, the scope for joint financing available for an individual project and its specific design and other requirements should first be explored with the Borrower.

The preliminary plan for procurement should be developed by the Borrower, with the Bank's assistance if needed, as early as possible, but not later than the appraisal stage of the project. The description of the proposed size and scope of the different bid packages can be a valuable aid in ascertaining potential cofinanciers' overall interest in the project as well as their preference for particular project elements. The interest and preferences indicated by cofinanciers may, in turn, require modifications of the preliminary procurement plan and help in shaping the actual financing plan that is adopted.

The selection of bid packages to be financed by the Bank and those to be financed by the cofinanciers, where joint financing is not possible, is influenced by a number of considerations, some of which may be conflicting. Contract packages to be funded by a cofinancing partner must be for goods, works or services that can be supplied by firms which are eligible under the cofinancier's rules. Limits placed by cofinanciers on the size and type of contract which they will finance may sometimes be additional constraints. *For example, financing may be available for equipment manufactured in the cofinancier's country, but not for civil works contracts or for consultant services.* The choice of the part of the project to be financed by each cofinancier will also depend on the amount of financing each can provide.

At the same time, procurement for the Bank - financed contracts must be carried out in accordance with the Guidelines, including ICB wherever appropriate. It may, therefore, become necessary for the Bank to select some project components for Bank financing that are unlikely or unable to attract cofinancing offers, and this may involve a reallocation of Bank funds from the bid packages initially identified for Bank financing to some other contracts. There are two kinds of contracts which it may be desirable for the Bank to finance regardless of cofinanciers' willingness and the availability of cofinancing resources:

- those where the contract award under tied financing arrangements would predetermine the outcome of related contract awards or give an unfair advantage to that bidder in subsequent competitive bidding under Bank rules; and
- contracts that are of such importance to the overall success of the project that the Bank should maintain direct supervisory control over them. ***(See Section 21 for other procurement considerations in cofinanced projects.)***

Large projects may require mobilization of cofinancing from several sources, but the various cofinanciers willing to support the project may each have different limitations on the amounts and ways their funds could be used. The problem becomes one of applying these funds as efficiently and economically as possible for the various project items, taking into account the limitation on their use. In such cases, a good strategy for the Borrower is to begin by earmarking those funds with the least procurement flexibility for particular items which can be procured with reasonable economy and efficiency in spite of the limitations imposed by the cofinancier. *For example, if funds are tied to procurement in one country, it may be advantageous if they are used to procure items which are manufactured by several firms in that country so that the Borrower may still have the advantage of securing competitive prices, albeit within that country.* Tied credits could also be used to procure items which, for reasons of compatibility or standardization, have in any case to be procured from that same country

Alternatively, the Borrower may be able to select items of a standardized nature such as fertilizers or structural steel, for which price indications are widely available from several countries. This may assist the Borrower in estimating and bargaining effectively for an economical price.. By following such a process successively for funds with increasing degrees of flexibility, the Borrower can maximize the efficiency of their utilization. Bank funds will generally have the least restrictions on their use with respect to eligibility, and may therefore be applied to items which cannot be procured economically with the cofinanciers' funds.

To the extent possible, bid packages and financing arrangements should be designed so that the outcome of one contract award does not unduly influence the competition for other bid packages. If, for reasons of compatibility, the choice of one piece of equipment determines the choice of associated pieces of equipment, all such related equipment should generally be covered by a single bid package.

In projects involving multiple contracts for civil works, some to be financed by the Bank and others by co - financiers, there are advantages from the standpoint of competition in having the Bank finance the first contract to be awarded in the normal construction sequence. By doing so, it will be assured that competition for that contract is open to all eligible bidders without any requirement to provide financing as a condition of bidding, and that the award will be made to the bidder submitting the lowest evaluated bid on a cash basis.

Contracts to be funded by cofinanciers, in contrast, may require that the bidders offer financing as a condition of bidding; and that the financing terms be taken into account in selecting the best offer***. (Refer to section 21.1)*** Such a requirement limits competition to those bidders who can make financing available, which many eligible and qualified bidders may not be able to arrange. If bidding for the first contract is limited only to those bidders who can provide financing, the successful bidder may be seen as having an unfair advantage in competing for subsequent contracts which may be let out with Bank funding, because of being already on site, having received mobilization advances and so on. This could reduce competition for the Bank - funded contract and might not result in the most economic and efficient overall procurement for the project.

13.6 Procurement Scheduling

One of the considerations in choosing contract packaging is the timing when goods or services are needed. After preliminary packaging plans have been formulated and, by implication, the method of procurement to be used for each is tentatively determined by the nature and size of the packages, it is necessary to verify that these combinations will permit the goods or services to be delivered at the times they are needed for the project. The best way to check this is to work backwards from the desired date of delivery to determine whether sufficient time is available to carry out the necessary procurement steps for each element.

13.6.1 Procurement Time Requirements

Each method of procurement involves different steps and/or different time requirements. The following table gives typical ranges of time needed for the most common methods, from the time the procurement process is started until a winner is selected and a contract signed.

In some cases, it may be possible to modify certain contract packages and procurement methods and shorten the time needed until delivery in order to meet desired schedules, provided that the modified approach is still consistent with the procedures required and the types of approaches permitted by the Guidelines. In other cases, it will have to be recognized that no other approach is permissible for that particular project component and that the time required cannot be shortened by changing packaging or procurement methods. However, other possibilities may exist for achieving deliveries at the desired time.

13.6.2 Advance Contracting

In some situations the only way to bring forward the date of delivery or completion of a contract is by starting the procurement process earlier; i.e., by advance contracting ***(see Clause 1.9 of the Guidelines)***. Advance contracting can apply to any of the methods of procurement permissible under the Guidelines, although it is usually associated with International Competitive Bidding (ICB) since this is most time consuming. Whatever the method, the process itself is not changed: the time advantage comes from beginning sooner, before the actual signing of the loan agreement. It is potentially a valid part of any project and is therefore a normal tool to consider in procurement planning. However, the Borrower must be made aware that in the event the project is not approved for whatever reason, whether because of the Bank's or the Borrower's decisions, actions or inactions, the Borrower bears any risks and liabilities associated with advance contracting steps that are taken.

13.6.3 Accelerated Procedures

For some types of operations that are meant to be quick - disbursing ***(see Guidelines paragraphs 2.63 - 2.64)*** modified ICB procedures may be used with simplified advertising requirements and shorter bid response times. These two changes can reduce the ICB process time by 2-3 months or more. Although not mentioned explicitly in the Guidelines, similar simplification and acceleration of procedures may be approved on a case by case basis in other kinds of situations such as disaster recovery programs where speedy responses are essential. Greater flexibility in the choice of appropriate procurement methods is also possible in such situations, which may result in even greater time savings; for example, by allowing direct contracting or shopping instead of competitive bidding for larger contracts than would normally be approved. Procurement planning in these situations should make use of all permissible means to speed up the process but the planners must initiate the required steps and obtain approvals before counting on these measures in the procurement plan.

13.7 Choice of Procurement Methods

As can be seen from the foregoing sections, contract packaging, scheduling and choice of procurement methods are all interlinked. In most cases, arriving at the procurement plan requires iterative adjustments in all three of these aspects. It is impossible, for example, to think about what contract packaging would be appropriate without having in mind how this affects the choice of procurement method and the time that will be needed to carry it out.

The Guidelines emphasize choice of procurement method as the major variable, with a strong preference for International Competitive Bidding (ICB). Clearly ICB still attracts the greatest interest of bidders outside the Borrower country and requires the most attention by Bank staff during project implementation, but it is only one of a variety of procurement methods that are all appropriate in certain circumstances. The key to method selection, then, is to understand what situations are suitable for each of them.

Depending on the nature and size of the project and its procurement elements, Borrowers may use any of the methods set out in the Procurement Guidelines, (Red Book) to procure goods, works and services. The choice of procurement method depends on:

- the nature of the goods and services to be procured;
- the value of the procurement;
- the likelihood of interest by foreign bidders, which is a function of the local availability and cost of goods and services;
- critical dates for delivery; and
- transparency of procedures proposed.

The following table is a matrix of the available options and their characteristics. It is consistent with information given in the Guidelines, but attempts to give additional guidance about situations where each method will be suitable, with emphasis given to newer types of projects and lending.

Procurement Method	Suitable Applications	Approximate/ Indicative Range of Times for each Method
International Competitive Bidding (ICB)	• Bank preferred method of Procurement, for large contracts for goods, works and services valued at US dollars $10 million or more. • There is an interest by foreign suppliers or contractors in supplying the required goods or works. • The requirements for the procurement aspect of the project are widely available. • Although efficiency is important, there is no specific urgency in processing the procurement.	• ICB for works with prequalification needs: 16-20 months • ICB for works without prequalification needs: 8-12 months • ICB for goods: 8-10 months
Limited International Bidding **See Guidelines pars. 3.2**	• There are only a few known suppliers. Bank policy is that all eligible suppliers should be invited to bid. • Small amounts of money are involved e.g. in procurement of a small number of vehicles or machine tools; or • Exceptional reasons such as emergency actions related to a major natural disaster, which may justify the waiving of advertising of competitive bids. • LIB may be used for procurement of goods such as pharmaceuticals, or highly specialized equipment for construction of dams or works facilities for offshore petroleum mining, where there are only a limited number of known suppliers or manufacturers.	• LIB goods: 5-6 months
National Competitive Bidding (NCB) **See Guidelines paras. 3.3 & 3.4**	• The values of goods and services being procured are small in relation to the effort that bidders need to tender; • The capability and competitiveness of local bidders makes it unattractive for foreign bidders to compete for contracts below a certain value; • The contract involves a significant transportation component and are labor intensive; • In the case of works, they are spread	NCB goods: 5-6 months

	geographically over time in a manner that upsets the economies of scale; • The costs involved in implementing ICB are clearly and disproportionately high; and • The goods or works are available locally at prices significantly below those in the international markets.	
Direct Contracting **See Guidelines para. 3.7**	• Where extension of an existing contract is necessary as works are already underway and were procured through procurement procedures acceptable to the Bank; • Similar goods as those purchased under an existing contract are required (subject to reasonableness of price and where no benefit can be gained from competition); • Standardization of equipment and spare parts of compatibility with existing equipment is required; • Equipment required by the Borrower is proprietary and there is only one source and no alternative equipment or products with equivalent performance characteristics are available; • Critical components or materials from a particular supplier are required by the contractor responsible for a process design as a condition for the guarantee for performance; and • Direct contracting is also used where, in exceptional cases, early delivery of essential goods is needed in emergency operations.	Direct contracting: 1-3 months
Shopping **See Guidelines paras. 3.5 & 3.6**	• Goods required are readily available off-the-shelf goods or standard commodities in quantities of small value; • In some cases, small simple works for e.g. for essential repairs to restore a basic industry or service, or other reconstruction work after natural disasters where delays may result in greater damage and loss of life or property; desired goods are ordinarily	Shopping goods: 1-2 months

	available from more than one source in the country.	
Force Account **See Guidelines para. 3.8**	• The Borrower has ascertained that a schedule of rates, cost - plus or target contract let competitively would not be feasible, as quantities of work to be carried out cannot be defined in advance; • Works are small and scattered or in remote locations with no local contractors and demobilization costs for outside contractors would be too high; • Works must be carried out without disrupting existing operations by the Borrower's crew familiar with those operations; • The risk of unavoidable work interruptions is better borne by the Borrower than by a contractor; • No contractor is interested in conducting the work at a reasonable price; • It has been demonstrated that Force Account is the only practical method for constructing and maintaining works under special circumstances; • Where national security would be compromised if any other method was used.	Force account: 1-3 months

As is evident from the table, the "best" method is the one that is best suited to a specific situation. Sections 21 to 32 give further information about procurement under special conditions which will have a bearing on this choice.

13.8 Plan Presentation

The results of procurement planning must be presented in the Project Appraisal Document (PAD) in tables accompanied by explanatory text which highlight the organizational responsibilities for procurement, the planning criteria and main features of the plan. Any advance contracting and acceleration of procedures should be mentioned as well as the thresholds for the various procurement methods and for prior review by the Bank. Levels of effort and the planned approach for post-reviews and procurement audits should be indicated.

For specific investment projects such as large infrastructure, proposed procurement arrangements for all main components should be covered in the plan, including the overall procurement strategy, methods of selection and timing sequence for the major contracts. For projects consisting of many small elements and program financing, the plan description should emphasize

the procedures that will be used to choose sub-projects, how procurement decisions will be made, and by whom. To the extent that it is possible, tables should indicate specific examples of early procurement activities that are already known will occur. The following tables are examples of both of these types of plan presentation in PADs.

13.9 Plan Monitoring And Updating

During project execution the original procurement plan should be regularly monitored and updated. In the case of "standard" investment projects the purpose is to see how actual performance compares with the planned activities and to make changes in the plan if necessary. In each supervision mission or at other times of known changes, the PS should review procurement performance. If slippage occurs in the award or execution of one major contract, it may require rescheduling of other related contract awards and deliveries of products.

Since there is no specific schedule of performance for most of the procurement in a program loan, the purpose of monitoring is to complete the details of what has actually been done, to note whether there are major discrepancies with what was anticipated, and to make adjustments in procedures and expectations if appropriate. This is carried out using the SAP Procurement System ***(Refer to Section 30 of this Manual for detailed instructions on SAP)***

In both of these procurement monitoring situations, the objective is not faultfinding but rather to:

- gain better understandings of what causes delays or changes in plans,
- maintain efficiency in procurement operations, and
- improve forecasting and planning for other similar operations.

Note that this monitoring is distinct from the prior and post-reviews and audit activities, in that it is concerned with how the procurement plan is carried out with regard to timing, packaging and suitability of methods rather than the quality of decision-making or the economy and correctness of results. Both types of activities are needed to give a complete picture of procurement performance.

Procurement Planning Tables For An Example Loan In Health Systems Management Project (expressed in US$ million)

Description	Type	No. of Contracts	Estimated Cost	Procurement method	Review	Estimated Dates for Contracts			
Goods: Operational Systems Single Responsibility S&I OF IS	G	1	3.77	ICB	Prior	Feb. 00 Feb. 00 Feb. 02	Mar. 01 Mar. 02 Mar. 03	Aug. 01 Aug. 02 Aug. 03	Sep. 01 Sep .02 Sep. 03
Operational Systems Integration of Incumbent Systems	G	8	0.31	DC	Post	Jan. 02 Jan. 03	n.a n.a	n.a n.a	Mar. 02 Mar. 03
Furnishing, equipment technologies	G	4	0.32	IS	Post	Jul. 00 Jul. 01 Jul. 02 Jul. 03	Aug. 00 Aug. 01 Aug. 02 Aug .03	Sept. 00 Sept. 01 Sept.02 Sept. 03	Oct. 00 Oct. 01 Oct. 02 Oct. 03
Office Technologies	G	3	0.10	NS	Post	Aug. 00 Aug. 01 Aug. 02	Sept. 00 Sept. 01 Sept. 02	Oct. 00 Oct. 01 Oct. 02	Nov. 00 Nov. 01 Nov. 02
Consulting Services Management Training. Institutional. Building.	CS	4	2.70	QCBS	Prior	Nov. 99 May. 00 Mar. 01 Nov. 01	Jan. 00 July. 00 May. 00 Jan. 02	Apr. 00 Nov. 00 Aug. 01 Apr. 02	May. 00 Dec.00 Sept. 01 May. 02
Project Manager, Health Specialist, Health Informatics	CS	3	1.03	QBS	Post	Nov. 00	Jan. 00	Apr. 00	May. 00
KM (working groups) National TA	CS	80	1.58	SDC	Post	Hiring will take place over a period of four years from Jan. 00 to Dec. 03			
International TA, PM-PS monitoring and evaluation	CS	40	0.88	IC	Post	Workshops, training and study tours			

Workshops	CS	30	0.28	SS	Post	will take place over a period of four years from Jan.00 to Dec. 03
Training	CS	Several	0.34	SS	Post	
Study Tours	CS	Several	0.39	SS	Prior	
Total			11.6			

Note: Total does not include the front-end fee of $0.09

Type: G–goods; CS–consulting services
Procurement Methods: ICB-international competitive bidding; DC-direct contracting; IS-international shopping; NS-national shopping; QCBS-quality and cost based selection; QBS-quality based selection; SDC-service delivery contractors; IC-individual contractors; SS-single souurce.

Section 14 Advertising and Notification of Procurement Opportunities

14.1 General and Specific Procurement Notices

Timely appropriate notification of procurement opportunities for goods, works and consulting services financed by the Bank is essential for economic and efficient project execution, and is the basis for eliciting maximum competition with fair opportunities for all eligible potential bidders. Advertisement of procurement opportunities can be expensive and may cause difficulties for Borrowers if payment in foreign currency is required. Thus, the Bank emphasizes advertising in both the printed and online versions of the United Nations Development Business (UNDB)[20], for which there is no charge for Bank financed projects. ***(See para. 2.7 of Procurement Guidelines)*** If costs for advertising are incurred, Borrower's may claim reimbursement from loan proceeds, provided appropriate provision is made in the Loan Agreement.[21]

14.1.1 General Procurement Notice

The General Procurement Notice (GPN) contains advance information on the major procurement packages in a project being considered or approved for financing by the Bank. The information is intended to alert suppliers and contractors of ICB procurement opportunities under the project, thereby precluding the need for them to query the Bank directly or indirectly. In response to the GPN, potential bidders may request the Borrower or its issuing agency to be put on a mailing list for the forthcoming Specific Procurement Notices inviting prequalification, or if there is no prequalification, inviting bids. The information to be included in the GPN includes:

- the name of the Borrower (or prospective Borrower);
- the amount and purpose of the loan or prospective loan;
- the scope of procurement under ICB and consulting assignments (i.e. technical services) estimated to cost US$ 200,000 equivalent or more;
- the name and address of the Borrower's implementing agency responsible for procurement; and
- if known, the schedule dates for availability of the bidding documents or, as appropriate, the prequalification documents.

Prior to issuing the GPN, the Borrower should prepare it and forward it to the Bank for review and insertion in the UNDB, not later than 8 weeks prior to the earliest date of availability to the public of any prequalification or bid documents for ICB contracts in projects. The GPN is issued during the appraisal stage of the project and if there are any advance procurement activities, the GPN issued much earlier. The GPN should be updated whenever there are significant changes in the project and at least once a year as long as ICB procurement opportunities still exist.

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[20] The Development Business is a publication of the United Nations Department of Public Information, UN Plaza, New York , New York 10017 U.S.A. A Development Business office is maintained at the World Bank, 1818 H Street, NW Washington, D.C. 20433, USA

[21] Since February 1996, when the Bank simplified disbursements under Structural and Sectoral Adjustment Loans, (SALs/SECALs), disbursements in such projects are not linked to any specific purchases. Thus, evidence is not needed to support disbursements under SALs/SECALs, nor are procurement requirements needed unless they are required under tranche release conditions. Consequently, neither GPNs or SPNs should be published for such loans.

Although the GPN is required mainly for procurement under ICB, the Bank encourages Borrowers to include in the GPN any consulting services, including technical assistance, to be engaged for the project.

14.1.2 Specific Procurement Notice.

A Specific Procurement Notice (SPN), for each of the major procurement packages in the project should also be issued. SPNs are issued either as a public Invitation for Prequalification, or in the absence of pre-qualification, as an Invitation for Bids. It is recommended in practice that the invitation also be incorporated in the front of the prequalification or bid documents as appropriate for reference purposes. SPNs should provide adequate notification of specific contract opportunities or Invitation For Bids (IFB) under the project regardless of what procurement method is used. In some cases, the Bank allows for publication of SPNs in the online version only. In these cases the date of publication in the online version is the official date of publication of the notice for purposes of allowing adequate time for preparation and submission of bids.

The SPN should be issued in the following way:

- as an advertisement in at least one newspaper of general circulation in the Borrower country;
- by an announcement in the official gazette (if any) in the Borrower country;
- by direct notification of all firms which have expressed an interest in the procurement in response to the GPN ***(See Clause 2.8 Procurement Guidelines)***; and
- it is also recommended, that it be issued by notification to local representatives of Bank eligible countries that are potential suppliers of the goods, works and services required.

Where procurement is for goods and works below US$ 10.0 million, the official date of invitation for bids is that of publication in the newspaper of national circulation. Any notices submitted for publication in UNDB must closely correspond with the date in the national newspaper. Borrowers are strongly encouraged to publish SPNs in UNDB, but the Bank allows advertisement in the online version only in order to save time. Notices should be submitted five days in advance of the publication date for publication in the online version. Notices may also be submitted for publication in both the online version and the hard copy. In this case, the date of publication in the national newspaper, which is the official date of publication, must closely correspond with that of the hard copy of UNDB.

For large, specialized or important contracts the Bank requires that the SPN be published in the printed version of the UNDB or well known technical magazines newspapers or trade publications or in international newspapers. This includes contracts for which the estimated cost is equivalent to US$ 10 million or more.

If there has been prequalification, the Borrower sends that Invitation for Bid (IFB) and bidding documents only to the prequalified potential bidders, with notification of their successful

prequalification. No additional notices or any advertising for bidding are required or should be issued under these circumstances. The ITB contains information concerning:

- the name of the Borrower;
- the name of the project and the title of the contract;
- the Borrower's agency in charge of procurement;
- items to be procured;
- contact information for obtaining bidding documents;
- cost of the bidding documents;
- place and deadline for bid delivery;
- required bid security amount and form;
- the place, date and time of bid opening;
- whether domestic preference margins will be applied in the evaluation of bids; and
- the minimum qualifications that bidders must meet. An invitation for prequalification includes similar information including the place and deadline for submission of the Application to Prequalify.

As is the case for the GPN, the Borrower is required to send the SPN to the TTL before publication, with a note drawing attention to the prequalification or bid closing date. The TTL reviews the SPN and notifies the Borrower of any changes required and requests correction prior to publication.

To avoid confusion, it is advisable that the SPN for a particular contract be identically worded wherever it appears. However, SPNs in UNDB should contain reference to the appropriate GPN for the project with the date of publication and the issue number. Whenever Borrowers decide to publish the SPN in UNDB they should ensure that the Bank gets the notice four weeks in advance of the planned publication date.

The TTL needs to alert the Borrower and its implementing agency that they should allow bidders not less than six weeks from the date of the latest SPN or the date of availability of bidding documents, whichever is later, to prepare responses - prequalification submissions or bids.

14.2 Other Notifications

14.2.1 Monthly Operational Summary

Information on procurement opportunities is also routinely published by the Bank through its Monthly Operational Summary (MOS). The MOS provides information about operations being considered for Bank financing and includes among other things:

- the identification of the Borrower and implementing agency;
- the likely loan/credit amount;
- a brief description of the project/operations;
- the goods and services to be procured;
- the stage of processing and any advance action on procurement;

- the status of consultant selection;
- the environmental assessment category; and
- the Project Preparation Facility (PPF) advances.

The MOS provides valuable general information on the kinds of procurement likely to occur in a project, and alerts consultants of opportunities that exist for their services, early in the project. It also informs consultants that Borrower's are responsible for implementation and hence for hiring consultants and procuring the goods and works required. The MOS also provides the address, telephone, telex and fax numbers of the implementing agency in charge of the particular procurement opportunity. The TTL is responsible for reviewing the MOS monthly and updating the information as necessary.

Borrowers may also use other means of publishing information on bidding opportunities including on any procurement websites or other electronic media.

GENERAL PROCUREMENT NOTICE

[NAME OF COUNTRY]
[NAME OF PROJECT]
GENERAL PROCUREMENT NOTICE

Loan/Credit No.

This general procurement notice updates[22] that published in Development Business No. *[insert number]* of *[insert date]*.[23]

The *[insert name of borrower] [has received/has applied for/intends to apply for]* a *[loan/credit]* from the International Bank for Reconstruction and Development (IBRD)/International Development Association (IDA)] in the amount of US*$ [insert loan/credit amount]* equivalent toward the cost of the *[insert name of project],* and it intends to apply the proceeds of this [*loan/credit*] to payments for goods, works, related services and consulting services to be procured under this project.[24] The project will include the following components [insert description].[25]

Procurement of contracts financed by the [*loan/credit*] will be conducted through the procedures specified in the current edition of the World Bank's Guidelines: Procurement under IBRD Loans and IDA Credits, and is open to all bidders from eligible source countries as defined in the guidelines.[26] Consulting services will be selected in accordance with the current edition of the World Bank's Guidelines: Selection and Employment of Consultants by World Bank Borrowers.

Specific procurement notices for contracts to be bid under the World Bank's international competitive bidding (ICB) procedures and for large-value consultants' contracts will be announced, as they become available, in Development Business [*and/or the names of technical magazines, newspapers and trade publications of wide international circulation and in local newspapers]*.[27]

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22 Insert this paragraph for GPN updates only

23 Day, month, year; for example, 31 January 1998.

24 [Insert the following if applicable]. This project will be jointly financed by [insert name of cofinancing agency]. Bidding for contracts financed by the World Bank will be governed by its eligibility rules and procedures.

25 Describe the main project components, including consulting services, and, if available, include a brief description of the goods, works and services to be procured under ICB procedures financed from the proceeds of the loan/credit.

26 Occasionally, contracts may be financed out of special funds that would further restrict eligibility to a particular group of member countries. When this is the case, it should be mentioned in this paragraph. Also indicate any margin of preference that may be granted as specified in the loan or credit agreement and set forth in the bidding documents.

27 If known, the dates of issuance of the specific procurement notices for goods, works, prequalification, and the dates of issuance of requests for expressions of interest for large-value consultants' contracts (above US$ 200,000) shall be given.

Prequalification of suppliers and contractors will be required for the following contracts [*insert names of contracts if known*].[28]

Interested eligible bidders who wish to be included on the mailing list to receive an invitation to [*prequalify/bid*] under ICB procedures, and interested consultants who wish to receive a copy of the advertisement requesting expressions of interest for large-value consultants' contracts, or those requiring additional information, should contact the address below.

[*Insert name of office*]
[*Insert name of officer*]
[*Insert postal address and/or street address*]
Tel: [*Indicate country and city code*]
Fax: [*Indicate country and city code*]
E-mail:

[28] Insert this sentence only if applicable.

SPECIFIC PROCUREMENT NOTICE

SAMPLE FORMAT FOR INVITATION FOR BIDS

[*NAME OF COUNTRY*]
[*NAME OF PROJECT*]

[*BRIEF DESCRIPTION OF GOODS/WORKS*]

Loan/Credit No.
Contract/Bid No.

This invitation for bids follows the general procurement notice for this project that appeared in Development Business No.[*insert number*] of [*insert date*].[29]

The [*insert name of borrower*] [*has received/has applied for/intends to apply for*] a [*loan/credit*] from the [International Bank for Reconstruction and Development (IBRD)/International Development Association (IDA)] toward the cost of the [*insert name of project*], and it intends to apply part of the proceeds of this [*loan/credit*] to payments under the contract for [*insert name/no. of contract*].[30] The [*insert name of implementing agency*] now invites sealed bids from eligible bidders for [*insert description of goods or works to be procured*].[31] The delivery/construction period is [*insert No. of days/months/years or dates*].[32]

Bidding will be conducted through the international competitive bidding procedures specified in the World Bank's Guidelines: Procurement under IBRD Loans and IDA Credits, January 1995 (revised January and August 1996, September 1997, and January 1999), and is open to all bidders from eligible source countries as defined in the guidelines.[33]

Interested eligible bidders may obtain further information from and inspect the bidding documents at the [*insert name of agency*] at the address below [*state address at end of document*] from [*insert office hours*].[34] A complete set of bidding documents in [*insert name of language*] may be purchased by interested bidders on the submission of a written application to the address below and upon payment of a nonrefundable fee[35] of [*insert amount in local currency*] or in [*insert amount in specified convertible currency*]. The method of payment will be [*insert method of payment*].[36] The document will be sent by

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29 Ibid. note 3
30 Ibid. note 4
31 A brief description of the type(s) of goods or works should be provided, including quantities, location of project, and other information necessary to enable potential bidders to decide whether or not to respond to the invitation. Bidding documents may require bidders to have specific experience or capabilities; such restrictions should also be included in this paragraph.
32 Insert this sentence if applicable.
33 Ibid. note 6
34 For example, 0900 to 1200 hours.
35 The fee, to defray printing and mailing/shipping costs, should be nominal.
36 For example, cashier's check, direct deposit to specified account No., etc.

[*insert delivery procedure*].[37]

Bids must be delivered to the address below by [insert time and date]. All bids must be accompanied by a bid security of [insert amount in local currency or minimum percentage of bid price] or an equivalent amount in a freely convertible currency.[38] Late bids will be rejected. Bids will be opened in the presence of bidders' representatives who choose to attend at the address below[39] at [insert time and date].

[*Insert name of office*]
[*Insert name of officer*]
[*Insert postal address and/or street address*]
Tel: [*Indicate country and city code*]
Fax: [*Indicate country and city code*]
E-mail:

[37] The delivery procedure is usually airmail for overseas delivery and surface mail or courier for local delivery. If urgency or security dictates, courier services may be required for overseas delivery.

[38] The amount of bid security should be stated as a fixed amount or as a minimum percentage of the bid price. Alternatively, if a bid security is not required (often the case in supply contracts), the paragraph should so state.

[39] The office for bid opening may not necessarily be the same as that for inspection or issuance of documents or for bid submission. If they differ, each address must appear at the end of the notice and be numbered; as, for example, (1), (2), (3). The text in the paragraph would then refer to address (1), (2), etc. Only one office and its address may be specified for submission, and it should be near the place where bids will be opened.

SPECIFIC PROCUREMENT NOTICE

SAMPLE FORMAT FOR INVITATION FOR PREQUALIFICATION

[*NAME OF COUNTRY*]
[*NAME OF PROJECT*]

[*BRIEF DESCRIPTION OF GOODS/WORKS*]

Loan/Credit No.

Invitation for Prequalification

This invitation for prequalification follows the general procurement notice for this project that appeared in Development Business No. [*insert number*] of [*insert date*].[40]

The [*insert name of borrower*] [has received/has applied for/intends to apply for] a [loan/credit] from the [International Bank for Reconstruction and Development (IBRD)/International Development Association (IDA)] toward the cost of the [insert name of project], and it intends to apply part of the proceeds of this [loan/credit] to payments under the contract for [insert name/no. of contract -- if prequalification is being invited for more than one contract, describe each contract and indicate whether applications may be made for prequalification for one or more of the contracts].[41] The [insert name of implementing agency] intends to prequalify contractors and/or firms for [insert description of works or goods to be procured].[42] It is expected that invitations to bid will be made in [insert month and year].[43]

Prequalification will be conducted through prequalification procedures specified in the World Bank's Guidelines: Procurement under IBRD Loans and IDA Credits, January 1995 (revised January and August 1996, September 1997 and January, 1999), and is open to all bidders from eligible source countries, as defined in the guidelines.[44]

Interested eligible bidders may obtain further information from and inspect the prequalification documents at the [insert name of agency] (address below) [state address at end of document] from [insert office hours].[45] A complete set of prequalification documents in [insert name of language] may be purchased by interested parties on the submission of a written application to the address below and upon payment of a nonrefundable fee[46] of [insert amount in local

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40 ibid. note 3
41 ibid. note 4
42 ibid. note 5
43 ibid. note 8
44 Occasionally, contracts may be financed out of special funds that would further restrict eligibility to a particular group of member countries. When this is the case, it should be mentioned in this paragraph. Also indicate any margin of preference that may be granted as specified in the loan or credit agreement and set forth in the bidding documents.
45 Ibid. note 14
46 The fee, to defray printing and mailing/shipping costs, should be nominal

currency] or in [insert amount in specified convertible currency]. The method of payment will be [insert method of payment].[47] The
document will be sent by [insert delivery procedure].[48]

Applications for prequalification should be submitted in sealed envelopes, delivered to the address below[49] by [insert date],[50] and be clearly marked "Application to Prequalify for [insert name of project and the contract name(s) and number(s)]."

[*Insert name of office*]
[*Insert name of officer*]
[*Insert postal address and/or street address*]
Tel: [*Indicate country and city code*]
Fax: [*Indicate country and city code*]
E-mail:

[47] For example, cashier's check, direct deposit to specified account No., etc

[48] ibid. note 17

[49] The office for bid opening may not necessarily be the same as that for inspection or issuance of documents or for bid submission. If they differ, each address must appear at the end of the notice and be numbered; as, for example, (1), (2), (3). The text in the paragraph would then refer to address (1), (2), etc. Only one office and its address may be specified for submission, and it should be near the place where bids will be opened.

[50] The time allowed for preparation of the prequalification submission should be sufficient for applicants to gather all the information required, but in any case not less than six weeks after the date the documents are available or the last date of the advertisement, whichever is later. This period may be longer for very large projects, for which more time may be needed for the formation of joint ventures and assembly of the necessary resources.

VOLUME TWO - PROCUREMENT OF GOODS AND WORKS

Section 15 Bidding Documents

15.1 Standard Bidding Documents

Under Bank financed procurement, the Borrower is expected to prepare bidding documents for each proposed purchase involving international and national competitive bidding, both to inform and instruct potential bidders, suppliers and contractors of the requirements expected of them in particular procurement opportunities. The Bank thus expects bidding documents to be drafted so as to permit bidders to submit responsive bids. Bid documents should clearly define the scope of works, goods or services to be supplied, the rights and obligations of the Borrower/Purchaser and of suppliers and contractors, and the conditions to be met in order for a bid to be declared valid and responsive. They should also set out fair and non - discriminatory criteria for selecting the winning bid. Bidding documents should thus;

- encourage eligible potentially qualified firms to bid, by making reasonable demands for information and form-filling;
- not discriminate against any potential bidder; and
- provide a clear, objective means of evaluating the bidders.

The detail and complexity of bidding documents vary according to the nature and size of the contract but they generally include the following:

- *Invitation for Bid;* the IFB is normally used by the Borrower to invite potential bidders to present their bids for the project at hand, and it describes the Borrower and source of financing and indicates the goods, works or services to be procured. An IFB is issued prior to the preparation of the bidding documents once the GPNs and SPNs are issued.
- *Instructions to Bidders;* providing information to bidders regarding the form, procedure and timing of bidding.
- *The Bid Data Sheet;* which specifies the parameters of the Instructions to Bidders for the particular procurement including source of funds, eligibility requirements, procedure for clarification, bid preparation form, number of copies to be submitted, language of the bids, pricing and currencies and currency conversion mechanism, instructions on modification and withdrawal of bids, bid submission procedures, closing date bid validity period opening, evaluation and award of contract procedures, procedure for correction of mathematical discrepancies in bids, purchaser's right to accept any bid and reject any or all bids; award criteria; notification of award and procedures for signing of contract.
- *Evaluation and Qualification Criteria;* this section specifies the criteria that the Borrower will use to evaluate the Bids postqualify the lowest evaluated Bidder.
- *The General Conditions of Contract;* setting out the general provisions of the contract between the Borrower and the bidder awarded the contract.
- *Special Conditions of Contract;* which modify the General Conditions of Contract for the particular procurement.

- *Schedule of Supply;* which specifies the quantities, delivery locations and dates for the items required by the purchaser.
- *The Technical Specifications and drawings;* which detail the characteristics of the technologies and technical services required (as well as specify the common format which bidders must present their materials, including a technical responsiveness cross – reference form).
- *Bidding Forms;* which include the Bid Submission Sheet and Price Schedules, the Bid Security Forms, the Contract Form, the Performance Security Form, the Bank Guarantee Form for Advanced Payment and the Manufacturer's Authorization Form.
- *Eligibility for Provision of Goods, Works and Services in Bank – Financed Procurement;* which lists countries which are not eligible to participate in Bank financed procurement.

The Bank requires the Borrower, in procurement through ICB and LIB procedures, to use Standard Bidding Documents (SBDs) issued by the Bank, with minimum changes acceptable to the Bank. No changes should be introduced to the Instructions to Bidders and the General Conditions of Contract, however, if changes are necessary to address county and project specific issues they may be introduced only through bid or contract data sheets or through Special Conditions of Contract. The following SBDs currently exist for use by Borrowers:

- SBDs for Procurement of Goods (SBDG);
- SBDs for Procurement Works (Smaller Contracts) (SBDSW);
- SBDs for Procurement of Large Works (SBDLW);
- SBDs for Supply and Installation of Plant and Equipment (SBDPE);
- SBDs for Procurement of Pharmaceuticals (SBDP);
- SBDs for Procurement of Textbooks (SBDT);
- SBDs for Procurement of Commodities – Fertilizers and Fertilizer Raw Materials (SBDC);
- SBDs for Supply and Installation of Information Systems;
- SBDs for Procurement of Crude Oil/Petroleum Products;
- Standard Bid Evaluation Form - Procurement of Goods or Works;
- Standard Prequalification Document - Procurement of Works - Major Equipment and Industrial Installations; and
- Standard Request for Proposals (for Consultant Services)

Where no relevant SBDs have been issued by the Bank, the Borrower is required to use other internationally recognized standard conditions of contract and contract forms acceptable to the Bank.

15.2 Technical Specifications

Precise and clear specifications are prerequisite for bidders to respond realistically and competitively to the requirements of the Purchaser/Employer without qualifying or conditioning their bids. In the context of ICB, the specification must be drafted to permit the widest possible competition, and at the same time make a clear statement of the required standards of workmanship to be provided, standards of plant and other supplies and performance of the goods and services to be procured. Only if this is done will the objectives of economy, efficiency and

fairness in procurement be realized, responsiveness of bids be ensured, and the subsequent task of bid evaluation be facilitated.

For the goods, plant and other supplies to be incorporated in the works, the specification should require that they be new, unused, and of the most recent or current models and that they incorporate all recent improvements in design and materials unless provided otherwise in the contract. For works contracts, a clause setting out the scope of works is often included at the beginning of the Specifications, and it is customary to give a list of the Drawings. Where the contractor is responsible for the design of any part of permanent works the extent of his obligations must be stated.

Samples of specifications from previous similar procurements in the same country are useful in this respect. The Bank encourages the use of metric units. In the procurement of works, specifications are usually written by the Employer or Engineer to suit specific contracts. There are no standard specifications for universal application in all sectors in all countries, but there are established principles and practices that are accepted. In the case of goods, depending on the complexity of goods and the repetitiveness of the type of procurement, it may be advantageous to standardize the General Technical Specifications and incorporate them in a separate section of the Bidding Documents. There are considerable advantages in standardizing general specifications for repetitive works in recognized public sectors such as highways, ports, railways, urban housing irrigation and water supply in the same country or region where similar conditions prevail.

Care must be taken in drafting specifications to ensure that they are not restrictive. In specifications for standards for materials, equipment, plant, workmanship and other supplies, international standards should be used as much as possible. Where other standards are used, whether national standards of the Borrower's country or other standards, the specifications should state that other authoritative standards which ensure substantially equal quality to the standards mentioned will also be acceptable. (***For Sample Clauses on Technical Specification refer to SBD for Goods and SBD for Works)***

In the case of procurement of goods or the Supply and Installation of Plant and Equipment, reference to brand names, catalogue numbers or other details that limit any materials or items to a specific manufacturer should be avoided as far as possible. Where unavoidable, such item description should always be followed by the words "substantially equivalent. Technical specifications in this instance should be descriptive and give the full requirements in respect of, but not limited to, the following:

- standards of materials and workmanship required;
- details of all factory tests required (type and number);
- details of all work required to achieve completion;
- details of all precommissioning and commissioning activities to be performed by the Contractor; and
- details of all functional guarantees required and liquidated damages to be applied in the event that such guarantees are not met.

It is recommended that essential technical and performance characteristics and requirements, including maximum or minimum acceptable values, as appropriate, be summarized in a specific section, to be completed by the bidder and submitted as an Attachment to the bid form.

15.3 Contract Provisions in SBDs

15.3.1 General Conditions of Contract (GCC)

The GCC in the bidding documents establish an accepted basis for similar procurement contracts under the project. Bank policy is that the GCC should not be changed by the Borrower without the approval of the TTL/PS/PAS. The GCC contains:

Operational Clauses: These establish the relationship between the Borrower and the suppliers/contractors they contain information regarding:

- Definitions;
- Rights and obligations of both parties;
- Procedures for shipment and documentation;
- Delivery and transfer of risk;
- Terms and currencies of payment;
- Mode and form dispute settlement;
- Governing language; and
- Applicable law.

Protective Clauses: They establish protection against various risks and allocate them between the parties. They include instructions on:

- Performance security;
- Retention of payments;
- Insurance;
- Inspection and tests;
- Warranty;
- Protection against third party infringement suits; and
- Force Majure.

Variations: Unforeseen or planned changes during the life of the contract are identified and provided for under these parts of the GCC. They cover the following:

- Quantity changes;
- Adverse physical conditions;
- Price adjustments; and
- Changes in delivery requirements.

Remedies: These deal with the breach of contract by one of the parties. They include provisions on:

- Forfeiture of performance security;
- Procedure for damages, penalties for delay;
- Procedure for suspension and termination; and
- Nonpayment or failure to provide required approvals and information.

15.3.2 Special Conditions of Contract

Bank SBDs have a Section on General Conditions of Contract that is standard for all bidding and one on Special Conditions of Contract which contains provisions that should be drafted specifically by the Borrower for each procurement. Unlike the other sections of SBDs, the Special Conditions of Contract are not mandatory and are meant to assist the Purchaser in providing contract - specific information relating to corresponding clauses in the General Conditions of Contract. The provisions of the Special Conditions of Contract complement, the General Conditions of Contract, specifying contractual requirements linked to the special circumstances of the Purchaser, the Purchaser's country, the sector and the goods, works or services to be purchased. In preparing the Special Conditions of Contract, the Borrower should take into consideration the following aspects:

- Information that complements provisions of the General Conditions of Contract must be incorporated; and
- Amendments and/or supplements to the provisions of the General Conditions of Contract, as necessitated by the specific circumstances of the purchase must also be incorporated.

Where there is a conflict between the provisions of the General Conditions of Contract and those of the Special Conditions of Contract, the provisions of the latter prevail.

15.4 Contract Securities

Contract securities are used to ensure that suppliers/contractors will perform their contractual obligations when an award is made after the procurement process is carried out. Securities include: bid and performance securities, retention money and advance payment securities. These may be provided in the form of a bank guarantee or irrevocable Letter of Credit, cash, cashier's check or certified check or an insurance certificate. Retention money on the other hand is a portion of the payments due under the contract, which is retained to ensure performance by the supplier/contractor. When used as a guarantee, it should not exceed 5% of the contract value. Instead of the Borrower retaining part of the due payments, the supplier/contractor may also provide a money retention bond in form of a bank guarantee or irrevocable Letter of Credit.

15.4.1 Bid Securities

Bid securities are required as a condition of contract for the bid. It assures compensation to the Contracting Agency for the time and money lost if the successful bidder fails to honor his bid and enter the contract. Bid securities may not be required in small contracts and should not be too high. About 2% of the contract price is acceptable. The Bank recommends that the amount of the bid security be fixed and should remain valid beyond the bid validity period. A sample form

establishing the acceptable wording should be included in the bidding documents. The bid security should be released upon:

- the end of the bid validity period, unless extended;
- notice to the successful bidder of contract award; and
- receipt of the successful bidder's signed contract and performance security.

15.4.2 Performance Securities

Performance securities are required as a condition of contract validity. They guarantee the contractor's obligations under the contract and should always be required where the contract value is large. However, the amount of the security should not exceed 10% of the contract price. Where a performance security is required in addition to retention money, the amount should be reduced to less than 10%. The contract should define clearly the kind of defaults that would lead to the surrender of the performance security e.g. the contract may provide that the performance security be payable only once default has been established by an arbitral award. Where there is no default, the performance security must be discharged after completion of the contract and expiration of the warranty period.

Another form of security is the advance payment security which guarantees advance payment made by the contracting agency against the contractor's default. They are in the form of a bank guarantee or irrevocable letter of credit for an amount equal to the advance payment and are normally callable on demand. Securities must be denominated in the currency of the bid or another freely convertible currency

Section 16 Methods of Procurement

16.1 Introduction

As indicated in Section 13, the method of procurement that the Borrower chooses to use for a particular project depends on the nature and size of a project and its procurement element and the urgency with which the goods or services to be procured are required. Commonly used methods of procurement include International Competitive Bidding (ICB), National Competitive Bidding (NCB), Limited International Bidding (LIB), International and National Shopping, Direct Contracting and Force Account.

Experience has shown that in many cases International Competitive Bidding (ICB) open to all eligible and qualified bidders, with an optional element of domestic preference, achieves the principal objectives of Bank procurement most effectively. The Bank thus considers ICB the preferred method for procurement. However, in circumstances in which it can be demonstrated that ICB is not appropriate, the Borrower may with the approval of the TTL/PS/PAS, use the other methods of procurement. In such cases the Bank requires the Borrower to ensure that the method used is the most economic and efficient method. The Borrower also has to show that by using such a method it will get the best value for money. The method other than ICB, must also be open and fair to all the interested bidders to the extent possible.

16.2 International Competitive Bidding

The purpose of International Competitive Bidding (ICB) is to give all eligible and qualified prospective bidders adequate and timely notification of a Borrower's requirements and to give them equal access and a fair opportunity to compete for contracts for required goods and services***. (see Procurement Guidelines p2.1)*** Bidding opportunities must therefore be advertised internationally and all eligible bidders given reasonable possibilities to participate. These notification requirements distinguish ICB from other methods of procurement. ***(Refer to Section 14 of this Manual for detailed instructions on Advertising and Notification requirements)***

ICB requires formal bidding documents which are fair, non-restrictive, clear and comprehensive. The bidding documents and technical specifications relating to the project should clearly describe the criteria and methodology for evaluation of bids and selection of the successful bidder. The Bank requires the Borrower to use Bank Standard Bidding Documents (SBD) whenever these have been prepared for procurement of particular types of goods and services. When an SBD does not exist, the Borrower may use other bidding documents provided that they contain internationally recognized standard conditions of contract and contract forms acceptable to the Bank. As part of the bidding documents, the Borrower under ICB also provides technical specifications and wherever available international standards and specifications are used.

Bidding documents for procurement by ICB procedures should be prepared and the whole procurement process conducted in English, French or Spanish. However, bids submitted by, and contracts with, local bidders (excluding joint ventures between local and foreign bidders)

may, at the Borrower's option, be in the local language which shall be the governing language for such contracts. The Borrower is required to send the Bank a certified translation of (i) the bid and the bid evaluation report, and (ii) the contract, prior to the first application for withdrawal of funds against it, in one of the above three languages. The Bank also requires a certified translation of any proposed substantive modifications to such contracts.

Registration of foreign bidders with local authorities should not be a requirement for bidding under ICB procedures. The successful bidder may have to register if required by law, but should not be denied registration on grounds unrelated to the bidder's ability to perform the contract. Likewise, where the subject of procurement requires, a successful bidder may have to establish a local agency or representation. For instance, the supplier of a large fleet of equipment may have to establish service or spare parts facilities needed to maintain the procured equipment.

Foreign firms should not be required to associate with domestic firms in joint ventures or employ specific personnel - e.g. maintain ethnic ratios in the labor force, as a condition for prequalification or bidding. Further, local or foreign contractors should not be permitted to present more than one bid either individually or as members of a joint venture.

Bids should be opened at a time and place specified in the bidding documents and data sheets, in the presence of the bidders or their representatives who wish to be present. The name of the bidder and total amount of each bid, and of any alternative bids if they have been requested or permitted, should be read aloud and recorded when opened. The Bank does not accept the "two - envelope" bidding system, in which bidders simultaneously submit technical and price bids that are opened at different times. However, a similar procedure is allowed in the case of proposals for consultant services to be evaluated on Quality and Cost Based Selection (QCBS) procedure. ***(Refer to, Guidelines: Selection and Employment of Consultants by World Bank Borrowers, January 1997, Revised September 1997 and January, 1999.)*** Conversely, the "two step" (or "two stage") bidding procedure, usually applied in complex industrial projects, procurement of textbooks and information technology projects is acceptable to the Bank. "Two stage" bidding involves, first a presentation of only technical proposals, and after discussion of their technical merits and compliance with performance specifications, submission and evaluation of priced bids.

All quotations by bidders for imported goods should be on INCOTERMS, Cost Insurance and Freight (CIF) or Carriage and Insurance Paid (CIP). Domestic suppliers/bidders quote off-the shelf, ex-factory or ex-warehouse (EXW), with prices that exclude sales taxes on the finished product. A margin of preference may be allowed for domestic bidders offering bona-fide domestic manufactured goods subject to the conditions stated in the Loan Agreement. ***(For detailed instructions on application of domestic preference margins in the evaluation of bids refer to Section 19.12 of the Manual)***

Under ICB, the Borrower should award the contract within the period of validity of the bids to the bidder whose bid has been determined to be the lowest evaluated responsive bid. Such a bidder must also meet the appropriate standards of capability and financial resources. A bidder should not be required, as a condition of award, to undertake responsibilities for work

not stipulated in the specifications or to modify his/her bid. ***(Refer to Section II of the Guidelines for detailed procedures for the implementation and supervision of ICB)***

16.2.1 Types of ICB Methods

Procurement using ICB methods can follow either a one-stage and two-stage bidding process. In a one-stage process, the borrower's agency prepares a bidding document with, among other things, detailed functional and technical requirements. In response, suppliers submit bids containing their technical and financial proposals at the same time but, in separate envelopes. The borrower's agency then evaluates each of the bidders' proposals and awards the contract to the lowest evaluated bidder, according to the method and criteria specified in the bidding documents.

In a two-stage process, the borrower's agency prepares a first stage bidding document with functional performance specifications, rather than detailed technical specifications. In response, bidders offer unpriced technical proposals (i.e., no financial proposal is submitted at this time). The borrower's agency then:

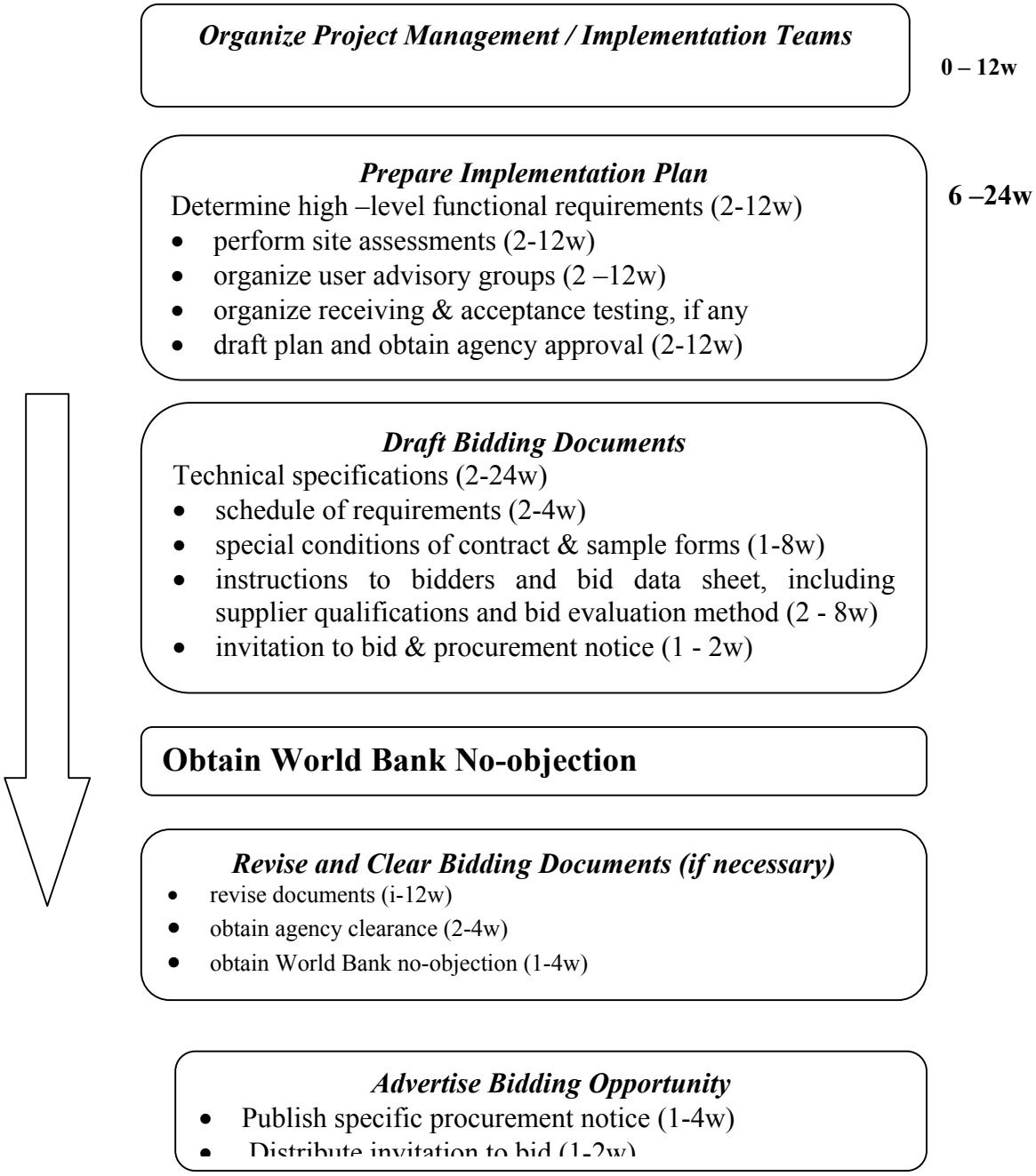
- assesses the suppliers' qualifications;
- evaluates the technical proposals;
- indicates to the suppliers precisely what must be done to make their bid technically responsive.

Following the first stage evaluation, the agency prepares the memoranda of changes for each bidder and may prepare addenda to the bidding documents, including revisions to the technical requirements made in the light of the first stage technical evaluation, and initiates the second stage bidding process. During the second stage bidding process, bidders offer amended bids containing their final technical proposal and a financial proposal. The borrower's agency then evaluates the combined proposals (technical and financial) according to the method specified in the bidding documents.

The advantages of the two-stage process include the ability of the borrower's agency, during the first stage, to interact extensively on technical matters with bidders than is permissible in a one-stage process. In this way, an agency can learn from the market and adapt its requirements. In addition, a two stage process allows an agency to, in the first stage, state its requirements in more general functional terms than the detailed functional and technical requirements necessary to carry out a one-stage process. By knowing the bidders and their technologies prior to the second stage, this reduces the burden of preparing detailed functional and technical requirements which are so comprehensive that they can accommodate the entire universe of potential technical proposals.

One-stage processes are most appropriate for relatively straight - forward procurement of fairly standard technologies and ancillary services. In contrast, the additional capacity to review technical proposals, revise technical requirements and interact directly with the suppliers during the first stage make the two stage process much more suitable for the procurement of goods such as complex information systems and procurements which involve extensive technical services.

Figure 1: One Stage ICB, Process Flow and Indicative Timing



16.3 National Competitive Bidding

National Competitive Bidding (NCB) is acceptable when, in the judgment of the Borrower and the Bank:

- the nature or scope of the goods or works being procured;
- when the advantages of ICB are clearly outweighed by the administrative or financial burden involved;
- contract values are small;
- works are geographically scattered; or
- the goods or works are available locally at prices below the international market.

When considering whether NCB is acceptable for use in procurement under Bank financing, local procedures and practices should be examined to determine whether they meet the Bank's essential criteria for acceptability. An acceptable NCB system generally incorporates the basic principles of ICB including ***inter alia,*** timely notification through advertising in local newspapers, adequate competition, clarity of procedures, fair treatment for all bidders and award to the lowest evaluated bidder in accordance with the criteria set out in the bidding documents. Eligible foreign firms are also allowed to participate in procurement under NCB procedures. The essential differences include the use of nationaal advertising and the Borrower county's local language in bidding documents. The currency of the bid and payment are also in the local currency. ***(Refer to Sections 9 of the Manual for a checklist of allowable practices in procurement using NCB)***

In some situations the Loan Agreement specifies a U.S. dollar value below which NCB may be used. The RPA and the OPCPR, are usually consulted on setting of appropriate thresholds where there are no precedents or where special circumstances apply. To avoid uneconomic splitting of contracts, an aggregate total for goods and works to be procured through NCB may also be agreed and specified in the Loan Agreement. Where there is doubt whether to use ICB or NCB, the choice should be ICB.

16.4 Limited International Bidding

Limited International Bidding (LIB) is essentially ICB by direct invitation, without open advertisement. LIB is an option generally where there is a limited number of possible suppliers or where contract values are small or other special circumstances that may justify departure from ICB. Where the Borrower uses LIB as the method of procurement, bids should be solicited from a list of potential suppliers broad enough to ensure competitive prices, including all known suppliers if their number is small. The geographical spread of the list should also be as wide as practicable and upon prior review, acceptable to the Bank. Advertising, prequalification and application of domestic preferences are not required when goods and services are procured under LIB procedures. ***(Refer to Section 13.7 of the Procurement Manual for additional instructions on LIB)***

16.5 International and Local Shopping

Shopping is an appropriate method for procuring readily available off-the-shelf goods or standard commodities in quantities of small value and in some cases, small simple works. Shopping does not require formal bidding documents, and is carried out by requesting written quotations from several local or foreign suppliers or contractors -- usually at least three -- to ensure competitive prices. Telephone or verbal quotations are not acceptable.

International shopping is used to solicit quotations on a Cost Insurance Paid (CIP) or Cost Insurance Freight (CIF) basis, and quotations from at least three suppliers in two different countries are necessary. National shopping is used to procure goods which are ordinarily available locally from more than one source at competitive prices which include tariffs and sales taxes.

In evaluating quotations submitted by bidders under shopping, price and ability to meet required delivery requirements are usually the main selection considerations for these simple purchases. However, the Borrower may also take into account, things such as the availability and costs of maintenance services and spare-parts over a reasonable period of use. The terms of the accepted offer are incorporated in the purchase order. ***(Section 13.7 sets out the situations in which the Borrower may use Shopping as a procurement method)***

16.6 Direct Contracting

Direct contracting without competition is another method of procurement open to Borrowers in a limited number of circumstances. In all cases where direct contracting is proposed, Bank staff must ensure that it would not be feasible to apply a competitive bidding procedure. Where appropriate, purchasers should inquire into the prices paid by other recent purchasers of goods or examine recent contracts of a similar nature, to determine the fairness of the quoted price for single source procurement. Any differences in the quantities ordered or delivery requirements should be considered when comparing prices. The contractors or suppliers hired by direct contracting must be qualified to perform the works or supply of goods on time, meeting specifications and fulfilling the special requirements of the sole source contract. They should also be required to meet any performance security and warranty conditions that would normally apply in a competitive bidding situation. ***(Refer to Section 13.7 of the Manual for breakdown of the situations where direct contracting may be used as the procurement method).***

16.7 Force Account

16.7.1 General

Force account is construction by the use of the Borrower's or a government agency's own personnel and equipment. Force account should be used only under the following circumstances:

(a) quantities of work involved cannot be defined in advance;
(b) works are small and scattered or in remote locations for which qualified construction firms are unlikely to bid at reasonable prices;
(c) work is required to be carried out without disrupting ongoing operations;

(d) risks of unavoidable work interruption are better borne by the Borrower than by a Contractor; and
(e) there are emergencies needing prompt attention.

If after reviewing all options, the use of force account is decided upon, it should be managed so as to introduce productivity controls approximating those of commercial contracting. The Borrower and the Bank should agree on appropriate production standards for the works items involved, and Bank disbursements should be linked to the production of predetermined physical units.

Annex 1:

Sample Format for International Shopping

Date:

INVITATION TO QUOTE

To:

_____
_____

Gentlemen/Ladies:

Regarding: _____

1. You are invited to submit your price quotation (s) in a proforma invoice format for the supply of the following items:

(i) _____
(ii) _____
(iii) _____

2. Information on technical specifications and required quantities is contained in Attachment 1.

3. The Government of _____ has (applied for/received) a loan from the International Bank for Reconstruction and Development in various currencies and intends to apply the proceeds of this loan to eligible payments under the contracts for which this invitation for quotation is issued.

4. You may quote for any item in this invitation. Each item shall be evaluated and contract awarded separately.

5. Your quotation(s) in the required format should be addressed to

_____
_____

Telephone: Fax:

6. The proforma invoice, in duplicate and in English language, should be accompanied by adequate technical documentation and catalogue(s) and other printed material or pertinent information (in English language) for each item quoted, including names and addresses of firms providing services facilities in _____.

7. The deadline for receipt of your quotation is _____.

8. Quotations by Telex or Fax are acceptable.

9. Other Conditions of Supply are as follows:

(i) **PRICES** quoted in different currencies will be evaluated after converting them into _____ (local currency) at the exchange rate prevailing at the Central Bank of _____ on the date of evaluation.

(ii) **PAYMENT** for your invoice will be made 100% against delivery documents, through an irrevocable and confirmed Letter of Credit (L/C), opened by _____ (name of Bank in Borrower/Purchaser's country) in favor of the _____ Bank (supplier's bank).

(iii) **DELIVERY** prices should be quoted for delivery CIF _____ port for imported goods and ex - factory for domestically supplied goods or CIP _____ according to INCOTERMS, 1990.

(iv) **DELIVERY SCHEDULE** _____ months/not exceeding _____ months from L/C confirmation.

(v) **WARRANTY** Goods offered should be covered by Manufacturer's warranty for at least 12 months from the date of delivery to purchaser. Please specify period and terms in detail.

(vi) **ORIGIN** Goods offered should have their origin from the World Bank member countries and you will be required to furnish a certificate of origin for each item for which you quote.

(vii) **VALIDITY** your quotation should be valid for a period of 45 days from the date of your quotation.

10. Further information can be obtained from:

_____
_____

Telephone: _____ Telex: _____ Fax: _____

11. Please confirm by fax or telex the receipt of this invitation and whether or not you will submit the price quotations.

Sincerely,

Attachment 1

TECHNICAL REQUIREMENTS

Project Name: _____

Name of Item: _____

Quantity: _____

TECHNICAL DETAILS

1. General Description.

2. Technical Specifications

3. Accessories and Attachments

4. Tools or Other Required Items

5. Maintenance Requirements

6. Spare Parts Required

7. Manuals

8. Required Performance

9. Warranty Specifications.

Section 17 Transportation and Insurance Issues in Procurement

17.1 Transportation

The cost of transportation is a significant component of the cost of goods purchased by Borrowers and delivered to the project site. It is thus an important factor in the evaluation of bids. All four basic modes of freight transportation - road, rail, air and water - are used in international transportation for which codification has developed over centuries. The Bank encourages the use of INCOTERMS, a set of rules issued periodically by the International Chamber of Commerce, in all procurement documents for the supply of goods and equipment. This helps avoid uncertainties in interpretation between contracting parties - the purchaser and suppliers. Copies of INCOTERMS 2000 may be obtained from the International Chamber of Commerce, 38 Cours Albert 1er, 75008 Paris, France. Commonly used terms in World Bank procurement are listed in the table below:

Term	Meaning
Cost and Freight (CFR) (….named port of destination)	The seller delivers when the goods pass the ship's rail in the port of shipment. The seller must pay the costs and freight necessary to bring the goods to the named port of destination BUT 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 on board the vessel, is transferred from the seller to the buyer when the goods pass the ship's rail in the port of shipment. The CFR term requires the seller to clear the goods for export. Used for sea or inland waterway transportation.
Cost Insurance Freight (CIF) (…named port of detination)	The seller delivers when the goods pass the ship's rail in the port of shipment. The seller obtains transport insurance against the risk of loss or damage to goods to the destination port. The seller must contract with the insurer and pay the insurance premium. The risk of loss or damage to the goods as well as any additional costs due to events occurring after time of delivery are transferred from the seller to the buyer. Used for sea or inland waterway transportation. The purchaser is obligated to pay the contract price of goods as provided in the sales contract, and arrange and pay for all import licenses and formalities and take delivery at the port of entry.
Carriage and Insurance Paid to (CIP) (…named place of destination)	The seller must deliver the goods to the carrier nominated by him/her, but the seller must in addition pay the cost of carriage needed to bring the goods to the named destination. The buyer bears all the risk and any additional costs occurring after the goods have been so delivered. However the seller must also procure insurance against the buyer's risk of loss or damage to the goods during the carriage. The seller must clear the goods for export.

Delivered Duty Paid (DDP) (….named place of destination)	The seller delivers the goods to the buyer cleared for import, and not unloaded from any arriving means of transport at the named place of destination. The seller has to bear all the costs and risks involved in bringing goods thereto including where applicable, any duty (which includes the responsibility for the risk of the carrying out of customs formalities and the payment of customs duties, taxes and other charges) for import in the country destination. DDP represents the maximum obligation of the seller.
Ex –Works (EXW) (….named place)	The seller delivers when he places the goods at the disposal of the buyer at the seller's premises or another named place (i.e. factory warehouse, etc) not cleared for export and not loaded on any collection vehicle. This term represents the minimum obligation for the seller, and the buyer has to bear all costs and risks involved in taking the goods from the seller's premises.
Free on Board (FOB) (….named port of shipment)	The supplier delivers when the goods pass the ship's rail at the named port of shipment within the period stipulated. The risk of loss of or damage to the goods is transferred to the buyer when the goods pass the ship's rail (i.e., off the dock and placed on the ship). The seller pays the cost of loading the goods and clears the goods for export.
Free Carrier (FCA) (….named place)	The seller delivers the goods, cleared for export to the carrier nominated by the buyer at the named place. If delivery occurs at the seller's premises, the seller is responsible for loading. If delivery occurs at any other place, the seller is not responsible for unloading.
Carriage Paid To (CPT) (…named place of destination)	This term means the seller delivers goods to the carrier nominated by him, but the seller must additionally pay the cost of carriage of the goods to the named destination. The risk of loss or damage to the goods and any cost are borne by the buyer after the goods have been delivered to such destination. Carrier means any person who, in a contract of carriage, undertakes to perform or to procure the performance of transport by rail, road, air, sea, inland waterway or by a combination of any such modes. The seller is required to clear the goods for export. When the seller is required to furnish a bill of lading, way bill, or carrier receipt, the seller duly fulfills its obligation by presenting such a document issued by the person contracted with for carriage to the main destination.

The most widely used term by the Bank is Cost Insurance Freight (CIF). Where road, rail or air transport is used, Borrower countries may use Cost Insurance Paid (CIP) terms, rather than CIF terms. If Borrowers with national shipping lines wish to require their use for external transportation, the Bid Data Sheet requires bidders to quote Free on Board (FOB, for

container goods - FCA) in addition to CIF. Bid evaluation and selection by the Purchaser are done on the basis of CIF price, but the Purchaser may choose to sign the contract with the selected supplier on FOB terms, making its own arrangements for transportation and insurance. However, the Purchaser will not be reimbursed from loan funds for transport and insurance costs in FOB contracts, as this is reserved procurement. ***(see Guidelines paragraph 2.27)***

The Bank's Standard Bidding Documents for Goods, in the Instructions to Bidders, require bidders to indicate separately on the Price Schedule ***inter alia:***

- For goods offered within the Purchaser's country, the price for inland transportation, insurance, and other local costs incidental to delivery of the goods to their final destination, if specified in the Bid Data Sheet.
- For goods offered from abroad:

    - the price of goods shall be quoted CIF named port of destination, or CIP border point, or CIP named place of destination, in the Purchaser's country, as specified in the Bid Data Sheet. In quoting the price the bidder is free to use transportation through carriers registered in any eligible countries.
    - the price of the goods quoted FOB port of shipment (or FCA as the case may be), or Cost and Freight (CFR) port of destination (or CPT) if specified in the Bid Data Sheet.
    - the price of inland transportation, insurance and other local costs incidental to delivery of the goods from the port of entry to their final destination, if specified in the Bid Data Sheet.

The Bank's SBDs adopt different approaches regarding internal transportation for imported goods. The SBD for the procurement of Pharmaceuticals and Vaccines (SBDP) provides only for the supplier to transport the pharmaceuticals to the place of embarkation. The SBD for procurement of Textbooks (SBDT), on the other hand, provides for the bidder to estimate charges or costs for inland transportation of imported goods. After delivery transportation to the point of use is the Borrower's responsibility. Further, the SBD for Supply and Installation of Plant and Equipment (SBDPE) requires the bidder to include local transportation in its bid. Thus, the Contractor has the duty to transport the procured items to the project site at its own risk and expense. ***(Refer to para 21.3 SBDPE)*** Where there are items that are to be supplied by the Employer/Purchaser, then these items shall be furnished and transported at the Employer's expense and risk.

17.2 Insurance

Section 5.01 of the Loan Agreement requires the Borrower to take out and maintain with responsible insurers, insurance against such risks and in such amounts as shall be consistent with appropriate practice. Insurance issues arise in various forms during the procurement aspect of the project. Instances where the Borrower may have to deal with insurance include ***inter alia*** cargo insurance during transportation of goods, installation all risks insurance, third party liability insurance, automobile liability insurance, worker's compensation and employer's liability. As all of these issues are subject to the final agreement between the

purchaser and the supplier or contractor, this section merely gives a brief description of what is covered under these types of insurance. ***(For more detailed discussion refer to Bank SBDG, SBDW, SBDPE)***

17.2.1 Transportation Insurance

Borrowers are required under the Bank's General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans (Section 9.04), to insure or make adequate provisions for the insurance of, imported goods to be financed out of the proceeds of the Loan, against hazards incidental to the acquisition, transportation and delivery of such goods to the place of use or installation. Indemnification should be in the contract amount or in a freely convertible currency. Suppliers are allowed to arrange insurance from any eligible source country. However, if the Borrower wished to reserve insurance to national companies or other designated sources, loan proceeds from the Bank cannot be used to reimburse insurance costs. ***(See Procurement Guidelines p 2.27)***

Depending on the transport provisions in bidding documents, the Purchaser or the Supplier makes arrangements for transportation, and must obtain insurance against loss or damage for internal transit and storage in accordance with the Loan Agreement. In the cases of CIF and CIP for example, the supplier has to insure the goods up to the port or other destination where delivery is to be made. The Bank SBD for the Supply and Installation of Plant and Equipment (SBDPE) for instance, requires the contractor to take out cargo insurance to cover loss and damage to:

- equipment, including spare parts from the supplier's or manufacturer's works or stores until arrival at the project site; and
- construction equipment to be provided by the contractor or its subcontractors.

If, on the other hand, procurement of goods is on FOB terms, once the goods are on board, it is up to the Borrower to arrange for the necessary insurance to cover the goods to their destination.

17.2.2 Contractor's Insurance

Bidding documents usually require all contractors to take a Contractor's All Risk Insurance (CAR). CAR is generally used as the main protection against physical loss, damage, or injury to the project works and property of third parties.

The amount of insurance coverage should be commensurate with the liability that the insured third party may incur. In case of a physical asset, for example, this means the replacement cost, payable in a freely convertible currency, or in currencies in which replacement costs would be incurred.

17.2.3 Designer Liability

Consulting engineers or architects may be engaged by the Employer to provide preliminary designs, technical specifications, detailed designs, working drawings, construction inspection

and approvals for the project. Loss or damage due to defective design in these instances is usually covered under a professional liability insurance cover taken by the service provider. The Borrower should ensure that the hired party is insured under such coverage or other similar coverage which will cover any defects in the design of procured items, that may arise due to the contractor's negligence.

17.2.4 Third Party Liability Insurance

This covers bodily injury or death suffered by third parties, including the Employer's personnel and loss or damage to property occurring in connection to the supply and installation of procurement related facilities. Third - party liability insurance is governed by the laws in the Borrower country.

17.2.5 Worker's Compensation and Employer's Liability

These cover bodily injury or death suffered by the Borrower's or Contractor's employees and are usually governed by the statutory requirements applicable in the Borrower country.

17.2.6 Evaluation of Insurance Needs

The TTL/PS is responsible for assuring that the Borrower undertakes a comprehensive analysis of risk and insurance needs before the procurement process begins, so that project costs are optimized to include insurance coverage. This analysis provides an informed basis upon which the Borrower will decide which risks it should take on itself and which should be covered by insurance. The obligation to analyze insurance needs extends to the duration of the procurement and not merely to the implementation period, and includes all risks which a prudent investor would insure against.

17.3 Effect of Transport and Insurance Issues in Bid Evaluation

All INCOTERMS are free of taxes including value added taxes (VAT), in the Borrower's country. In most situations where only imported goods are involved, evaluation is generally straight forward, provided only one port or point of destination is specified. However, if imports can be received in a number of points or by different modes, the cost of different methods of further handling and transportation should be taken into account in bid evaluation. ***(Refer to Procurement Guidelines, Appendix 2 Clause 2 and 3)***

Section 18 Qualification of Bidders

18.1 Prequalification of Bidders

The Loan Agreement usually specifies whether prequalification is required and for which categories of contracts. Prequalification is common for large works, civil works, turnkey plants, BOT, some special goods and complex information technology systems. However, prequalification is not generally needed for vehicles, PC supply and ordinary goods. In initiating the procurement process, whether or not there is prequalification of bidders Borrowers need to carry out the following processes, to initiate and manage the bidding process:

- distribute the Invitation for Prequalification to potential suppliers/contractors;
- distribute any necessary Bank-reviewed addendum to the prequalification documents within the allotted time specified in the Particular Instructions to Applicants (PITA);
- distribute all amendments to the prequalification documents to all firms which have expressed interest in the prequalification process after receiving the Invitation for Prequalification;
- organize and prepare the prequalification evaluation teams and facilities; and
- properly manage and evaluate submitted prequalification documents.

The time allowed for these activities are specified in the Particular Instructions to Applicants (PITA) and must allow time for potential suppliers to prepare responsive their prequalification applications for the specific procurement.

18.1.1 Use of Prequalification

Prequalification is aimed at ensuring that only contractors and suppliers who have the required experience, technical and financial resources bid for a contract. Prequalification screens potential bidders and is designed to provide the following benefits:

- Unqualified bidders save the cost of bid preparation which results in lower overhead costs to them and, therefore presumably lower bid prices in the long run, to the benefit of the Borrowers.
- Leading contractors and suppliers, particularly the international ones, are more likely to bid knowing that competition is confined to only those qualified. This is also to the benefit of the Borrower.
- The scale of interest by potential bidders can be measured, affording the opportunity to revise bidding conditions as necessary to develop adequate competition.
- The evaluation of only bids from qualified bidders may result in time and cost savings to the Borrower, as well as a reduction (or elimination) of the threat of pressure being applied by marginally or unqualified bidders for their low prices to be considered.
- An early indication of the Borrower's procurement capability is provided, allowing necessary improvements to be made at the initial stages of procurement.
- A preliminary indication of a contractor's eligibility for domestic preference in civil works contracts is given, where this is allowed.
- The creation of appropriate joint ventures is encouraged. and

- Providing assistance in locating financing.

However, prequalification has some potential disadvantages:

- It may increase procurement lead time, although this can be minimized by good procurement scheduling, e.g. undertaking the process while bid documents are in preparation;
- The Borrower is required to review all prequalification applications whereas with postqualification, the Borrower would only review qualifications of one bidder ***(For detailed instructions on postqualification refer to section 18.2 of this Manual)***; and
- Names of all prequalified bidders are known in advance of bid submission, making it easier for bidder collusion and price fixing to occur.

Where government agencies or civil works contractors are likely bidders, prequalification may be used to determine that they are not only capable of supplying the items to be procured, but also that they are commercially-oriented and do not enjoy direct or hidden subsidies from the government. ***(For detailed instructions on Eligibility of Public Sector Enterprises see Section 2.4 of this Manual)*** This ensures that a fair competitive bidding situation exists and thus, eligible private sector domestic and foreign suppliers and contractors, do not refrain from bidding.

Prequalification should not be used to limit competition to a predetermined number of potential bidders. All applicants who have the qualifications to perform the proposed contract should be prequalified and bidding documents made available to all those who prequalified. No upper limit should be imposed on the number of prequalified potential bidders, but, if the prequalified applicants are too few to ensure competition, a reassessment of the situation can be carried out. This includes:

- further advertising for prequalification submission;
- extension of the deadline for applications;
- review of the proposed contract conditions to reduce contractors' risks; and
- improvement of advance mobilization payments. The Borrower may also review prequalification requirements but should not lower them merely to increase competition. Setting of standards/requirements at different well defined levels may be justified when a contract is divided into several smaller, less complex contracts, and bidding is on a slice or package basis. ***(For detailed instructions on contract packaging see Section 13 of the Manual)***

After prequalification, prequalified bidders are invited to submit bids which are eventually evaluated. The Borrower is required to award the contract to the bidder offering the lowest evaluated responsive bid. The Borrower should ask bidders to confirm and update essential prequalification information at the time of bid submission. The lowest apparent evaluated responsive bidder may be denied the contract if evaluation of the updated information indicates that the bidder, no longer possesses the necessary capabilities. This could occur because of changed financial situation, loss of equipment or key personnel, or lack of capacity because of new contract commitments on the bidder's part.

18.1.2 Advertising for Prequalification

Advertisements and invitations for prequalification should conform to the provisions of the Bank's Procurement Guidelines and have the following information:

- a brief description of the goods and works to be procured;
- the contract conditions;
- who is financing the project;
- eligibility requirements for potential bidders, suppliers and contractors; and
- the time and place where prequalification documents can be obtained. ***(For detailed instructions on advertisement and notification of procurement opportunities under Bank financing refer to Section 14 of the Manual)***

Prequalification documents should enlarge on the information provided in the notification advertisement and contain a description of:

- the proposed procurement;
- the estimated value of the contract and major quantities of work;
- location of the work;
- eligibility requirements including, eligibility requirements for domestic preference;
- procurement scheduling of goods or works to be procured;
- abbreviated specifications and conditions of contract;
- main quantities to be procured;
- delivery or implementation schedules;
- requirements for bid and performance securities;
- how the project is to be financed;
- payment terms;
- price adjustment provisions;
- the language and governing law of the contract;
- other information in sufficient detail to enable bidders, suppliers or contractors to assess their interest and respond appropriately; and
- the name and address of the Borrower and of the Borrower's official in charge of the procurement with a statement of their roles.

For purposes of evaluating the applicants, the prequalification documents should include a questionnaire, requiring applicants to respond to direct questions as well as to complete a series of forms. The information solicited and the number of forms to be filled should be the minimum essential required to make an objective decision as to the bidder's capabilities. The Borrower should avoid requesting excessive form-filling, testimonials, affidavits from bidder's former or current clients, notarized documents and any other non-essential documents and information which will deter some of the qualified firms from applying. Properly designed and completed, the questionnaire should provide the Borrower with a good framework for evaluation, while encouraging applicants to provide full pertinent details on their capabilities.

18.1.3 Prequalification for Multiple Contracts

Prequalification can also be used for a package of contracts essentially similar in type and size. Under these circumstances, applicants can be prequalified for a specific or single contract, combinations of contracts or the entire package. The prequalification document should thus describe the package and the slices, and the criteria required for bidders to meet the qualification requirements for slices, groups of slices or the whole package. The applicant should be asked in the prequalification documents to indicate the contracts for which it wishes to be considered.

18.1.4 Basis of Prequalification

Prequalification should be based entirely upon the technical, managerial and financial capabilities of prospective bidders to perform the particular contract satisfactorily, their past performance and litigation history. ***(See paragraph 2.9 of Procurement Guidelines)*** The Borrower should evaluate bids from suppliers and contractors in a manner that takes into consideration the period over which the contract will be executed and known commitments of the bidder over that period.

Where the prime contractor proposes to use the services of major specialist subcontractors, their names and experience should also be solicited. However, the Borrower should not require applicants to furnish particulars of suppliers of minor sub-contractors, particularly if their incorporation in the procurement of, for example, a works or industrial plant will take place many months into the contract.

The Borrower should avoid rigid statements in the prequalification documents to the effect that applicants who do not answer all questions or submit all required information "shall be disqualified". The expression "may be disqualified" is preferable, as it provides flexibility. It is also not in the Borrower's interest to reject applications of qualified applicants on the basis of trivial or narrow interpretations of prequalification submissions. However, the Borrower should reject incomplete applications.

18.1.5 Prequalification of Joint Ventures

Special conditions apply when the applicant for prequalification is a joint venture formed by two or more firms. It is essential that the prequalification documents state clearly the conditions applying to joint ventures, and to any change in its membership after prequalification and to subsequent bidding by the joint venture. The Bank recommends the following conditions for this purpose:

(a) No firm or individual partner of the joint venture is allowed to submit or to participate in more than one bid and the Borrower should reject any bid submitted in violation of this rule.
(b) Applications submitted by a joint venture must meet the following requirements:

- each partner in the joint venture must submit the complete documentation required of a firm applying for individual prequalification;

- the prequalification application must confirm that if after prequalification the applicant should submit a bid, then: that bid as well as (in case of an award) the resulting contract would be signed so as to be legally binding on all partners jointly and severally, and, a joint venture agreement providing that joint and several liability of all partners in respect to the contract would be submitted together with the bid;
- the application must include a description of the proposed participation and responsibilities of each partner of the joint venture;
- the application must include a statement of proposed capital contribution of each partner, and the sharing out of profits and losses among the parties;
- the percentage participation in the joint venture of each of its members (in terms of the corresponding value of the contract) must not exceed each member's capacity in terms of each of the qualifying criteria; and
- the application must designate one of the partners, as the partner in charge through whom any correspondence between the applicant and the Borrower will be channeled.

(c) The Borrower must approve in writing any formal agreement for a proposed joint at the time of prequalification and any changes to a prequalified joint venture. After prequalification there should be no new joint ventures formed. The Borrower should not approve any changes in prequalified joint ventures if they would in the Borrower's opinion result in:

- a substantial reduction of competition;
- the inclusion of a firm which had not previously been prequalified (either individually or as a part of another joint venture); or
- acceptance of the joint venture's qualifications below the minimum requirements stated as acceptable in the prequalification documents.

18.1.6 Procedural Requirements for Prequalification

The Borrower may issue prequalification documents free of charge or for a reasonable fee. All prequalification documents should be in the language to be used in the bid documents, i.e. English, Spanish or French. Prequalification and bid documents may also be in the local language of the Borrower country. The Borrower must however, provide the TTL/PS/PAS with certified translations of the prequalification evaluation report into English, French or Spanish. Supporting materials such as financial reports should be submitted in their original language along with a certified translation of all relevant portions into the stipulated language for bidding.

Prequalification documents should specify the submissions required, such as completed questionnaire forms and supporting documents and their number and the deadline for their submission. They should also contain a clear statement on the criteria for evaluation of prequalification applications. The anticipated period for evaluation, usually 30 to 60, days and the method of notification to all applicants of the results should be indicated in the documents. The Borrower should not consider prequalification applications received after the time stipulated. The Borrower should also make a formal acknowledgment of receipt of the prequalification proposals. The Bank's prior review and no-objection are required for the Borrower's prequalification requirements and documents and the list of prequalified firms.

Public opening of prequalification applications is not necessary and evaluation of the applications should be conducted confidentially by the Borrower's Prequalification Evaluation Committee. A full report should be submitted to the TTL/PS/PAS describing the application of the evaluation criteria, with tables as necessary stating the reasons for disqualifying applicants. After review and approval by the TTL/PS/PAS, the Borrower should provide all the applicants with a list of the prequalified firms. Bids should be invited as soon as possible after completion of prequalification.

For very large projects, the Bank encourages the Borrower to hold a prequalification conference, including a site visit, in order that potential bidders assess conditions first hand.

18.1.7 Evaluation of Prequalification Applications

The Bank recommends that evaluation of prequalification application should be based on compliance with quantifiable clearly identified minimum thresholds, which establish the capability of an applicant to carry out the contract satisfactorily. Applicants are prequalified if they meet all the required criteria on a pass/fail basis.

The criteria should also be objective; ambiguous requirements such as "general reputation", or "co-operativeness" or irrelevant ones are not acceptable to the Bank and thus should not be used by the Borrower. Likewise the criteria should not be unfairly discriminatory. Examples of the type of essential criteria for prequalification of civil works contractors that Borrowers may require include:

> **Experience:** Having carried out a specific volume of work, comparable to that required for the critical items of the contract (for instance X million cubic meters of earth-moving plus laying Z kilometers of steel pipeline of given minimum diameter, for a pipe laying project), measured annually, in at least two of the last five years. Experience in the Borrower country is not usually a relevant criterion; however, experience in countries with similar climatic, hydrographic, topographic or cultural conditions may be relevant in some cases.
>
> **Financial Resources:** Demonstrating availability of the financial means to fully finance the estimated contract cash flow for a specified period of N months, net of requirements for other known commitments over the period of construction. N is determined as the time, from the end of the month being invoiced, required by the Borrower to pay the applicant/contractor, including the time needed by the Engineer to issue the interim/monthly certificate, plus two months. (A straight line cash flow is assumed, neglecting any advance payments and retentions.)
>
> **Personnel Resources:** Having a pool of experienced staff capable of performing the key functions required for the project, from which contract personnel will be drawn. The prequalification document should list the essential functions, and the number of years of relevant experience of the personnel to be detailed in the submission. At least two staff members for each essential position should be available. The Borrower should avoid

using words such as "qualified" or "licensed" as well as "university degrees", unless they are essential for a specific function.

Equipment Resources: Having available specialized equipment essential for the execution of the contract. This could include a dredger, pile driver, slurry trencher and an extra heavy face shovel. The list should be limited to highly specialized or heavy equipment which would be critical to the execution of the contract, and cannot easily be purchased, hired or leased in the market, or readily manufactured for the task. Normal construction equipment (scrapers, bulldozers, loaders, tip trucks and pavers) which can normally be bought leased or hired "off-the-shelf" should not be listed, unless there are particular circumstances which would make access to them difficult.

Particular attention should be paid to the setting of requirements for the presentation of financial information. For instance applicants may present their financial statements with the intention of minimizing taxes and thus, the extent of true resources may not be reflected, but severely understated. Accounting procedures also vary from country to country and financial strength based exclusively on standard financial ratios can be meaningless when applied to results accounted for under different rules and methods. For these reasons, evaluation of financial capability should place the onus of demonstrating adequate means on the applicant. Thus, the Borrower should give the applicant a certain amount of latitude with respect to the information and documents to be supplied. These include: cash and convertible documents in hand, a line of credit from a reputable bank, overdraft facilities, other bank loans, supplier's credit and any other evidence that the applicant complies with the financial criterion for prequalification.

An applicant can be prequalified subject to certain conditions that must be fulfilled before such applicant is allowed to bid or to be awarded the contract. Typical conditions might require:

- submission of additional information;
- a revision of a joint venture agreement;
- hiring of experts in specialized areas; or
- changing the proposed foreign source of bid performance securities to one that is acceptable to the Borrower.

Conditional prequalification is also appropriate where a potential increase in the work-load of the applicant could significantly alter its ability to undertake the prospective contract.

If the Borrower doubts the accuracy or completeness of a prequalification application, the applicant should be requested to provide verification or supplement earlier provided information. Borrower may also contact references cited in the applications for information required. Applicants for prequalification are required to provide the Borrower with authorization to do so, in their prequalification applications. The Borrower should also check the litigation and arbitration history of prequalification applicants, in order to ensure that there are no judgments or decisions that create liabilities that affect the applicant's ability to perform the contract.

Prequalification Evaluation Report

After the Borrower has conducted prequalification process, a Prequalification Evaluation Report is prepared by the Borrower for review by the TTL/PS/PAS. The report contains the following information:

- A list of all prequalified applicants and their qualifications;
- A list of disqualified applicants and an explanation for their disqualification; and
- A list of conditionally prequalified applicants if any.

18.2 Postqualification of Bidders

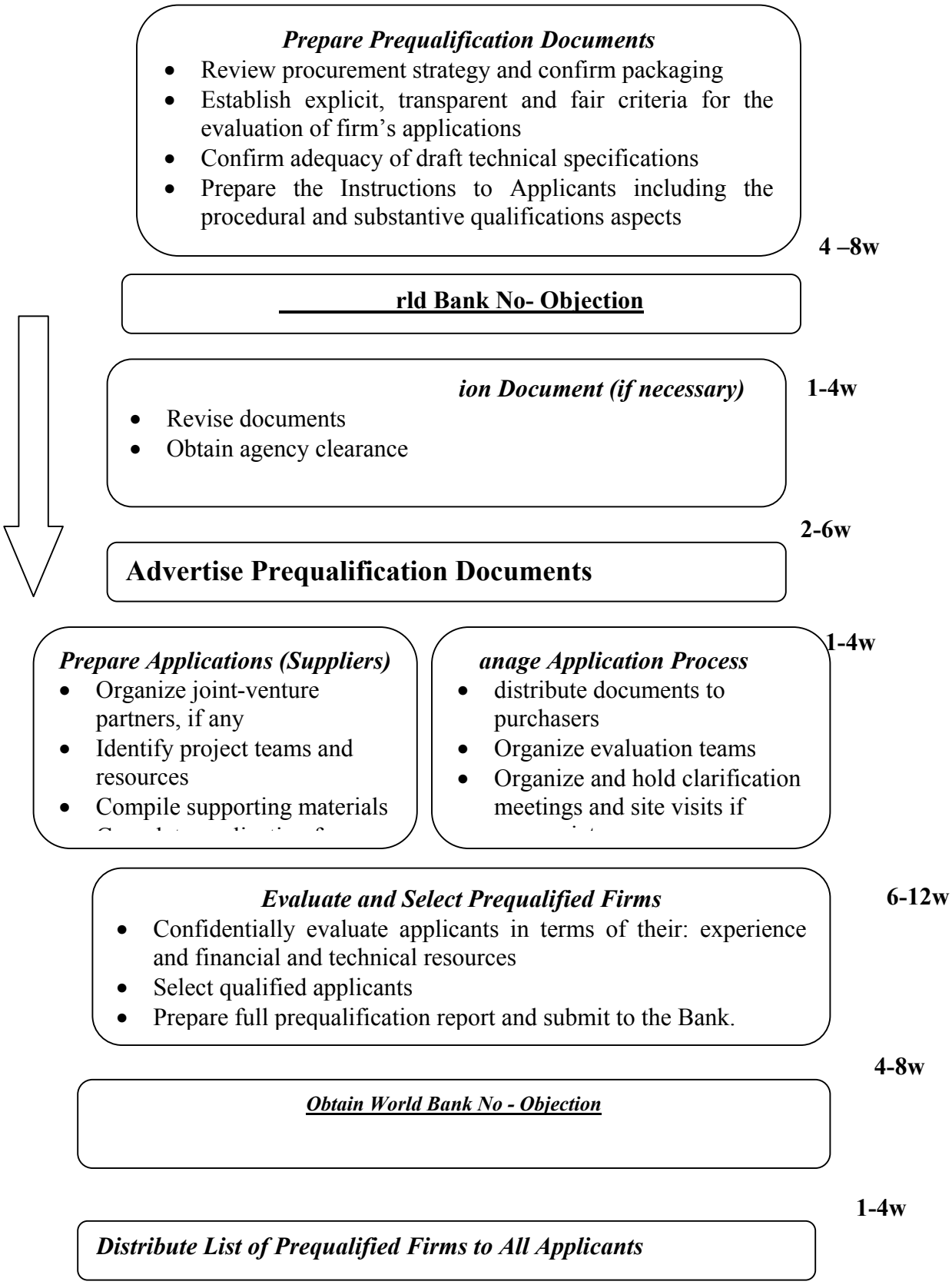
In the absence of prequalification, the Bank requires Borrowers to undertake postqualification of bidders who tender for procurement contracts. Postqualification involves determination by the Borrower that the bidder, supplier or contractor submitting the lowest responsive evaluated bid, has the capability and the capacity to perform the contract. If this bidder fails to demonstrate the necessary experience and capability to carry out the contract, the bid is rejected and the next lowest evaluated bidder is subject to postqualification. Post qualification is suitable for use in the procurement of goods of small value and small works contracts.

Postqualification requirements are in principle similar to those for prequalification, but bear mainly on the technical and financial resources available for fulfilling the contract. Qualifications of the lowest evaluated bidder are scrutinized using data submitted by the bidder as well as information gathered by the Borrower.

To ease evaluation during the process of postqualification, the bid documents should contain a questionnaire on qualifications similar to that which the Borrower would use in a prequalification document. The criteria for postqualification should be clearly set out in the bid documents. When practical and appropriate, the minimum qualification requirements should be listed in the Invitation for Bids, to provide guidance to potential bidders as to whether in their own judgment they are qualified to submit bids. It should also indicate the pertinent factors that will be analyzed by the Borrower in arriving at the determination whether or not the bidder is qualified.

Financial data that bidders should provide with their bids may include: a banker's statement; statements of business accounts; and statement of overall business turnover in three previous financial years. Performance data for goods may include: information on similar deliveries in the last three years; description of competence of the bidder's technical personnel; and certification by official quality control institutes. For works contracts, performance data may include information on similar works undertaken in the last five years; whether the bidder has the necessary equipment or access to the equipment needed for the works contract; whether he has the personnel and manpower to undertake the works and if he is aware of the testing procedures to endure that the works can perform the purpose for which they were procured. After postqualification the Borrower prepares and submits to Bank staff a detailed Standard Bid Evaluation report, indicating how the recommendation for award was arrived at.

Figure 1: Prequalification, Process Flow and Indicative Time



Annex 1

CHECKLIST FOR PREQUALIFICATION SUBMISSION

1. Applicants should be required to submit the following in respect of their organization and legal status:

(a) name, postal and street addresses, telephone, fax and telex numbers;
(b) for corporations, copies of original documents defining legal status, place of incorporation and principal place of business;
(c) for partnerships and individually owned firms, copies of original documents defining legal status, place of registration, principal place of business and nationality of owners;
(d) designation of the individual(s) authorized to act for the organization;
(e) information on the nature and results (where applicable) of any litigation in which the applicant was involved in the last five years, including any current litigation;
(f) authorization for the Borrower to seek detailed references with regard to financial standing or experience; and
(g) if a joint venture or other form of association, a document of intent to form a joint venture or association should be submitted. The document should define the capital contributions of the partners and sharing of profit and losses among them; the participation of the firms in the contract and the division of work, including the responsibility for overall management and coordination and the representation of the joint venture for purposed of prequalification, bidding and contract. Each member firm should respond individually and fully to all prequalification questions.

2. The following financial information should be required from the applicants:

(a) annual financial statements for the last five years, including an interim statement not over six months old. These should be supported by audit statements or tax returns;
(b) financial projections for the next two years, including the effect of known commitments;
(c) name and address of the applicant's banker, identification of individuals familiar with the applicant's standing,
(d) names and addresses of the applicant's insurers, identification of individuals familiar with the applicant's standing and a statement from the applicant's insurer that it is prepared to insure the applicant as described in the prequalification document;
(e) statement from the applicant's bank, insurer or other surety that it is prepared to issue bid guarantee or bond (as required by the prospective bid documents); and
(f) documents to demonstrate availability of lines of credit, overdraft facilities, supplier's credit, unencumbered assets, or other proof of capability to comply with the financial requirements of the prequalification document.

3. The following technical information should be required from the applicants:

(a) Details of the experience and past performance of the applicant on works of similar

nature within the past five years, including projects under way and contracts awarded but not started. These details should include:

- name of project and location;
- owner of sponsoring organization;
- brief description of contract, cost, details of the principal quantities involved, methods and type of equipment used (where relevant to the project for which the contractor is applying for prequalification), whether liquidated damages were applied and the dates of commencement and (initial planned and effective) completion. For contracts recently awarded, the dates will be those estimated or written into the relevant contract;
- extent of the applicant's participation in the contract, degree of responsibility and the names of associated companies and/or main subcontractors (if any); and
- names and addresses of responsible officials, entities and consultants familiar with the project undertaken.

(b) For contracts where specialized or major equipment which cannot easily be purchased, hired or leased is necessary: availability of items of construction equipment (and fabrication facilities, if appropriate) essential for carrying out the prospective contract. Descriptions should include type, capacity, age, condition and ownership status (presently owned, leased, to be purchased, liens thereon, etc.);

(c) Types and amounts of work of the contract likely to be subcontracted, with names and addresses of major subcontractors to be used, if known. For those proposed to undertake more than 10 % of the contract value, it is recommended that the subcontractor(s) reply individually and fully to all prequalification questions; and

(d) applicant's staff from whom the proposed key personnel will be drawn, including their role in contract implementation, their present positions, years of experience with the applicant and in construction in general, major previous responsibilities including the type and value of contracts worked on, and pertinent language abilities and experience in the region.

Annex 2

TYPICAL PARAMETERS FOR PREQUALIFICATION EVALUATION

1. Experience

The prequalification document should specify the minimum experience in key elements of the work, necessary for an applicant to prequalify. For instance

- -- For an industrial project, having constructed and commissioned at least one plant producing the same final product, with a given minimum annual production capacity.
- -- For an earthfill dam, having placed X million cubic meters of earthfill in dams of comparable complexity (core, filter layers, etc.), per annum.

Where the qualifying parameter is an annual volume of construction or production, the applicant should have carried that out in at least two of the last five years; where it refers to an industrial plant, thermal power plant, and similar facilities, the applicant should have completed at last one in the last five years.

2. Financial Resources

The prequalification document should specify a certain monetary amount that the applicant must demonstrate he can finance, to cover cash flows for the contract over a given period. Cash requirements for other known commitments over the same period should also be added to this amount.

The period of time should be calculated by adding the time realistically necessary for the Borrower to pay the contractor, from the time of presentation of monthly statements. The time necessary for the Engineer to issue a certificate, and the time taken by the Borrower's Treasury to issue payment, after obtaining all the necessary approvals is taken into account in this regard. Two months are then added as a safety measure.

Cash requirements for the project itself should be calculated from the Engineer's estimate of the total cost and completion time, on a straight line basis, neglecting the effect of any advance payments and retentions.

The working capital necessary for "other known commitments" can be determined for each applicant from his submission of information on current commitments. ***(Refer to Annex 1)*** Applicants should present evidence of having available the necessary working capital, from sources available to them including, lines of credit, overdraft facilities, cash in hand, unencumbered assets, shares and bonds, etc. They are also required to produce evidence to this effect.

All other financial information -- balance sheets, letters from insurers and sureties, should confirm all the above submissions, by way of demonstrating the general financial capability of

the applicant. Lack of any of the documents in paragraph (d) above, should not be a cause for automatic disqualification, but rather, for making further inquiries form the applicant.

3. Personal Resources

The prequalification document should specify **key** positions for which the applicant must demonstrate having sufficient staff resources available. For instance, for a highway construction project:

- Project manager, with a minimum of 15 years experience of which at least 10 in similar works, and no less than 4 as a project manager;
- Equipment manager, minimum 15 years experience;
- Asphalt Plant Operator, minimum 10 years experience;
- Site manager, minimum 10 years experience, at least 5 in similar works;
- Pavement Works Superintendent (or Senior Foreman) with no less than 15 years experience.

Applicants should not be bound to appoint specific staff to the Contract, but should demonstrate having in their own staff sufficient experienced personnel for the contract and for other known commitments. Experience and not academic qualifications should be the key requirement.

4. Equipment Resources

The applicant should demonstrate having available (or access to) highly specialized, large or complex equipment, or equipment which is not otherwise easily available. For instance, in a dredging contract involving work in the open sea, the following characteristics of a dredger could be specified:

- freeboard;
- depth of operation;
- type of dredger, to suit the material to be excavated; and
- the minimum hourly production volume, to suit estimated rate of progress of the work.

A penstock manufacturer who applies to prequalify for the supply of 1000 meters length of 3 meters diameter steel penstock, must have a rolling mill capable of rolling the steel plate of the design thickness.

A tunnel contractor applying to prequalify for underground work (tunnel, shaft) on saturated ground with very low residual strength should demonstrate having available specialized equipment such as ground freezing equipment and the experience and personnel needed for this work.

Section 19: Evaluation and Comparison of Bids for Goods and Works

19.1 General

Regardless of how well the other steps in the procurement process are conducted, if bids are not evaluated correctly and fairly, the process has failed. Unfortunately, bid evaluation is the step that is most easily manipulated if one wants to favor a particular bidder. Even though Borrowers have the responsibility to make the evaluation, Bank staff need to understand how it should be done in order to give sound advice to Borrowers and to know how to review and what to look for in the results.

The basic sequence for bid evaluation is the same for all goods and works, and consists of the following steps:

- Preliminary examination;
- Determination of bid responsiveness;
- Correction of arithmetic errors;
- Conversion to common currency;
- Quantification of omissions and deviations;
- Application of evaluation criteria;
- Comparison of bids; and
- Preparation of evaluation report.

19.1.1 Bid Evaluation Committee

In order to examine and evaluate bids, the Borrower must appoint a Bid Evaluation Committee, which need not be approved by the Bank. However, the Bank recommends that it be composed of three qualified members preferably persons who participated in the preparation of bidding documents. In appointing the members of the Evaluation Committee, the Bank expects Borrowers to take due consideration of the type of procurement being carried out. For example, where procurement is for textbooks, the Committee should consist of a representative of the Ministry of Education and a representative of teachers who are familiar with the curriculum for which the textbooks are being procured. For health sector projects such as pharmaceuticals, there should be a pharmacist and a doctor present, inorder to ensure that the drugs have the required chemical composition and that they are suitable for the purpose for which they are being procured. In the case of large works such as construction of a major road, the Committee should consist of the independent consulting engineer, a second engineer and a technically capable representative of the Borrower's implementing agency. Where the contract involves the construction of buildings an architect should be part of the committee. In the case of goods, the members will vary depending on whether procurement is for simple goods such as pencils or whether it is for complex goods such as heavy machinery. The committee should include persons who are qualified and familiar with the technical capacity and capability of the required machinery.

The Bid Evaluation Committee is responsible for the evaluation and comparison of the bids received and for the preparation of the Bid Evaluation Report, which will be submitted the

Bank after the process is complete. The following sections describe in detail the steps set out in Section 19.1, that are followed by the Committee carrying out the evaluation.

19.2 Preliminary Examination

The bid examination phase begins during the public bid opening with a preliminary examination of the bids. Except for decisions about rejecting bids received after the closing time, which is mandatory for all late bids, other decisions about whether a bid is compliant with bid document requirements should not be made during the bid opening. Errors may be made based on an incomplete reading or wrong interpretation of a bid, and a mistaken decision taken hastily in the presence of the bidders is awkward to correct later. Instead, after the bid opening has been completed, as its first step in the evaluation, the committee should make a thorough examination of all bids received before the deadline for submission.

The preliminary examination of bids determines whether the bids meet the general procedural requirements of the bidding documents. In particular, the Committee should examine bids for compliance with the following requirements, using the bidding documents as the reference point:

- The Bid should be signed properly by an authorized party, including the Power of Attorney if stipulated and are generally in order;
- Bid securities should be in acceptable format, for suitable amount and duration;
- Bid packages should contain all required documents including supporting evidence of bidder eligibility and qualifications;
- Changes should be initialed;
- The mathematical calculations should be properly computed - if not, corrections should be made; and
- Bids should be complete and quote prices for all items in the lot or package if so stipulated in the bidding document.

The purpose of this examination is to eliminate any bids from further and more complicated consideration if they do not meet the minimum standards of acceptability as set out in the bidding documents and are therefore not substantially responsive. However, the Borrower should exercise reasonable judgment in applying these tests and should avoid rejecting bids on trivial procedural grounds. For example, if the bidding documents stipulate that each page of the bid should be signed or initialed and a bidder failed to initial one or more pages of supporting information, this should not be a ground for bid disqualification. Furnishing one more or one less than the required number of bid copies, or not using the form supplied in the bid document, but providing bid prices on a similar form on the bidder's own letterhead would also be minor discrepancies. These can be rectified through the clarification process without giving any benefit to the bidder and without prejudice to the interests of other bidders and need not be causes for rejection. Such discrepancies should be noted, however, and decisions about their acceptance or rejection should be recorded in the bid evaluation report.

19.2.1 Correction of Arithmetic Errors

Bids should be checked carefully by the evaluation committee for arithmetic errors in the bid form to ensure that stated quantities and prices are consistent. The quantities should be the same as stated in the bidding document. The total bid price for each item should be the product of the quantity and the quoted unit price. If there is a discrepancy, the quoted unit price shall govern in the recalculation. Prices spelled out in words shall take precedence over numeric quotations in case of differences. The Borrower should correct all arithmetic errors and notify each bidder of the detailed changes. The Bidder must accept such arithmetic corrections or its bid will be rejected.

19.3 Application of Evaluation Criteria

The preliminary examination stage of bid evaluation described above is aimed at making sure that the bids received are substantially responsive. A substantially responsive bid is one that conforms to all the terms, conditions and specifications in the bidding documents without material deviations, reservation or omission. After the preliminary bid evaluation stage, the bids are taken through a detailed evaluation in order to select the bidder whose bid not only complies with the technical requirements in bidding documents, but also offers the Borrower the lowest price for the goods, works and/or services to be procured. During the bid evaluation period Bank policy requires the Borrower to strictly adhere to the following principles:

- Ensure that the bid evaluation process is strictly confidential; ***(Refer to Section 19.6 for detailed instructions regarding confidentiality in procurement)***
- Reject any attempts or pressure to distort the outcome of the evaluation;
- Reject any proposed action likely to lead to fraud and corruption;
- Comply with the Bank's prior review requirements; and
- Strictly apply only the evaluation and qualification criteria specified in the bidding documents.

19.3.1 Conversion to Common Currency

In order to minimize the foreign exchange risk for bidders in ICB, the Guidelines allow every bidder to express its bid price in the currency or currencies of any member country (up to a maximum of three currencies in most cases) or in EURO. This provision effectively causes the Borrower to carry the exchange risk rather than bidders and eliminates disadvantages some bidders would otherwise experience because of differences in strengths of bidders' currencies. However, it results in bids being presented in a wide variety of currencies which must be converted to a single common currency before they can be compared.

In order to compare bids for goods contracts, the most common practice is to convert all bid prices in the Borrower country's currency at the selling rate established for similar transactions by the Central Bank or a commercial bank in the Borrower's country. The Borrower is also allowed under Bank policy to convert the bid prices into a currency widely used in international trade such as the US dollar, at the selling rate of exchange published in the international press. For works contracts, Borrowers often specify that the entire bid must

be priced in the Borrower's national currency, even though specified percentages of the total payment may be made in several other foreign currencies. In those cases, it will be more convenient to convert everything into national currency units for comparison purposes. The process and results are the same in either case.

The Bid Data Sheet in the bidding document will specify a calendar date which may be anywhere from 30 days before bid submission until the final date of the original bid validity period as the reference date for currency conversions. It will also indicate the source to be used for obtaining exchange rate information for that date, usually the Central Bank official rates. These published rates for each currency of bid are applied to the quoted prices of each bidder to calculate the equivalent common currency figures for bid comparison purposes.

19.3.2 Evaluation of Bids on the Basis of Price Only

In the procurement of simple commodities, semi-finished raw materials and goods, where all offers are of identical and comparable material, price alone is an appropriate deciding factor. For purposes of comparing local and foreign bids for goods contracts, the Bid Evaluation Committee compares the EXW price of goods offered from within the Borrower's country with the CIF (named port of destination) price of goods offered from outside the Borrower's country. The bidder with the lowest priced bid is then awarded the contract. The EXW price of local bids and the CIF price of foreign bids are calculated in the following way:

Foreign Bids

Where bidders offer goods procured from abroad, the price for their bids shall be on cost, insurance and freight (CIF), Port of Entry. The CIF price includes all costs, taxes, duties etc., in the Borrower country. If CIF "liner terms" are specified, the freight shall also include the cost of unloading the goods on the wharf at the port of discharge. In the case of procurement of bulk commodities such as fertilizer, iron ore, etc., bids may be invited and compared on CIF (Free Out) Port of Entry, in which case, the unloading from the vessel at the Port of Entry shall be carried out by the Borrower at its expense. In case of land locked countries such as Uganda, Hungary, etc., foreign bidders are required to quote Delivered at Frontier (DAF) Border Station instead of Port of Entry.

Local Bids

- Bidders offering goods manufactured or assembled within the Borrower country are quoted EXW (ex-factory, ex-works, ex-showroom, or of-the-shelf, as applicable). The EXW price should include all costs, taxes, duties, custom duties and other levies incurred in the acquisition of components and raw materials, domestic and foreign which go into the manufacture of the goods.
- If there is a sales tax or similar tax which is payable only if the sale of the finished goods offered in the bid takes place, such sales tax and other similar taxes are excluded from the ex-factory price and quoted separately.
- Where local bidders offer goods which are imported, the ex-warehouse price or off-the-shelf price shall include the customs duties paid on the imported goods by the importer,

stockist or agent. The price shall thus represent the total price payable by the purchaser except for any sales tax.

- Where there is no provision for the application of domestic preference margins, the Borrower should evaluate bids offering goods manufactured abroad on a CIF or CIP basis. ***(Refer to Section 19.12 for detailed instructions on the application of domestic preference margins in evaluation of bids.)*** However, if the Borrower wishes to use national shipping lines for transportation, these goods will be evaluated on an FOB basis. On the other hand bids offering goods manufactured in the Borrower's own country are evaluated on an EXW basis. ***(Refer to Section 17 for detailed instructions on CIF, FOB and EXW {transport and insurance issues in procurement})***

19.3.3 Evaluation on the Basis of Price and other Factors

Inland Transportation Cost and Insurance

The Procurement Guidelines permit comparison of bids on the basis of the total cost of goods until they are delivered to the project site. The Borrower in its evaluation of foreign bids, can take into consideration the cost of inland freight and other expenditures incidental to the handling transportation and delivery of goods to the place of their use or installation if they are not already included in the Incoterms selected. This is in addition to the price of the bid. This cost will be from the place of entry to the project site and may include:

- port handling cost:
- inland transportation from the place of entry to the project site; and
- insurance from the port of entry to the project site. ***(For detailed instructions on Transportation and Insurance Issues see Section 16 of the Manual.)***

Similarly in evaluating local bids, the Borrower can consider in addition to the price of the bids, the cost of transportation, handling and insurance costs from the factory to the project site.

Price Adjustment

If the Borrower invites bids on prices subject to price adjustment, the Borrower should specify the price adjustment formula which will apply to all bidders uniformly, in the bidding document. ***(See Section 13.2 of this Manual for detailed instructions on price adjustment)*** The Borrower should compare the bids only on the basis of the base price, excluding the price adjustment during performance of the contract, since any computation of probable increase or decrease in labor and material cost would be speculative.

If the bid evaluation process takes considerable time, (say a year or more), the Borrower may, with the Bank's approval, update the base prices of the all the bids in accordance by applying the price adjustment formula specified in the bidding document taking into consideration the fluctuation in prices of the important project inputs (labor, raw materials etc.)

If in response to an invitation for bids subject to price adjustment, a bidder chooses to quote a fixed price, no special consideration will be given, and the price adjustment factor will be considered as "zero".

Delivery Schedules

For purposes of bid evaluation, the estimated time of arrival of goods should be calculated for each bid after allowing for reasonable international and inland transportation time. The Evaluation Committee will then treat the Bid resulting in such arrival time as the base and a delivery "adjustment" will be calculated for other bids by applying a percentage, specified in the bidding documents of the EXW/CIF/CIP price for each week of delay beyond the base, and the Committee, will add this to the bid price for evaluation.

Whenever possible, the Borrower should initiate procurement sufficiently early so that delivery schedules normally available in the market are acceptable and no premium has to be paid for urgent deliveries. The bidding documents should indicate the latest delivery schedule acceptable to the Borrower, and a bid offering delivery beyond this time would be clearly non-responsive. No advantage should be given for early delivery unless this will produce real benefits for the purchaser.

Where bidding documents require delivery of goods is in partial shipments, bids offering delivery earlier or later than the specified dates should be adjusted by adding to the bid a factor equal to the percentage to be specified in the documents, of the EXW/CIF/CIP price per week of variations from the specified delivery schedule.

Cost of Spare Parts

In the procurement of simple durable goods such as engines, pumps, vehicles, tractors, etc., the cost of initial and subsequent spare parts is very important as it adds up to a substantial part of the maintenance costs. Bidders should be required to include in the bid the price of spare parts over a specified period of time. These prices are added to the bid price when evaluating the bids. Bidders should also be asked to include the costs of maintenance and the supply of spare-parts. After the lowest evaluated bidder is determined the Borrower and such bidder could enter into an appropriate arrangement for both the supply of spare-parts and maintenance as may be required in the specific circumstances.

19.3.4 Evaluation on the Basis of Life Cycle Cost

Life cycle cost is the assessment of the initial acquisition cost plus the follow-on ownership cost to determine the total cost during the life of a works plant or equipment. In the procurement of works or equipment in which the follow-on cost of operation and maintenance are substantial, a minor difference in the initial purchase price between two competing bids can easily be overcome by the difference in follow-on cost. In these cases, it is most appropriate for the Purchaser to evaluate bids on the basis of life cycle cost.

The following elements would comprise a typical life cycle assessment in the procurement of highway transport trucks:

- initial purchase price;
- adjustment for extras, options, delivery, variations in payment terms, etc.;
- estimated fuel cost during the life of the truck;
- estimated cost of spare parts and labor for maintenance during the life of the truck; and
- estimated residual scrap value at the end of its economically useful life (e.g. six years)

The follow on costs such as fuel, spare parts, maintenance and residual value should be discounted to net present value to make the proper comparison. In some situations such as the procurement of a major thermal plant, the relative life cycle cost can be evaluated by capitalizing the differences in efficiency in the boiler, turbine, generator and transformer. ***(See Annex 4 for example)***

In an industrial plant, in addition to the total life cycle cost of the plant itself, the Purchaser may also include the factor of the productivity of the plant and determine the total life cost per unit output. For example, in the procurement of a fertilizer plant or a steel bar mill or oil palm mill, the total cost will be divided by the rated output to arrive at "per tonne of output" cost which will become the basis of comparison.

19.3.5 Evaluation Using a Merit Point System

(In cases where evaluation and selection merely on initial purchase price is deemed inadequate and evaluation using the full life cycle is either too time consuming or unwarranted compared to the cost of procurement itself, evaluation may be carried out by assigning merit points or weightages for price and other relevant aspects. Evaluation using this system is done, for example, for the procurement of information technology equipment. This system is usually applied by allocating points to a number of factors as illustrated below:

Item	**Range of Points**
Evaluated price of goods	60 - 90
Cost of common list spare parts	0 - 20
Technical features and maintenance and operating Costs	0 - 20
Availability of service and spare parts	0 - 20
Standardization	0 - 20
Total	**100**

In this case the bid scoring the highest number of points will be deemed to be the lowest evaluated bidder.

The presumed advantage of using a Merit Point System is its simplicity and ease of application for considering factors that may not easily be convertible to monetary terms.

However, the disadvantage is that the weightages for different factors and the points within each factor must be properly allocated or the outcome will be distorted. Assigning points for some factors could be very subjective and thus open to manipulation. Thus the merit point system should only be used with the Bank's prior agreement, where comparison of bids cannot adequately be based on price alone, and full life cycle costing is either impractical or unjustified.

19.4 Deviations from the Requirements of Bidding Documents

Bidding documents generally outline numerous procedures, conditions and requirements some of which are mandatory and some which are not. In some instances, bidders submit bids that deviate from the specifications required by the Borrower. Deviations include exceptions, exclusions, qualifications, conditions, stated assumptions, alternative proposals and changes to stated requirements. Deviations may either be material or non-material. Material deviations are:

- those which affect the scope and quality or performance of a contract;
- limits the purchaser's/employer's rights or bidders obligations; and
- affects unfairly the competitive position of other bidders.

A bid which has complied with all the mandatory requirements of the bidding documents, but has minor or insubstantial deviations in respect of terms or conditions on the technical specifications, should be retained for more detailed evaluation and should not be rejected. On the other hand, one which is not substantially responsive because as it contains material deviations or reservations to the terms, conditions and specifications in the bidding documents should not be considered further. In determining whether a bid is substantially responsive the Borrower, apart from taking into consideration the general procedural issues, also considers the bidder's compliance with the required technical specifications and the commercial aspects of the bid. Deviations may be clarified by bidders but not withdrawn.

The following examples are considered to be non-material deviations and would be permissible in a "substantially-responsive" bid:

Commercial Aspects

- a bid offering delivery at a date slightly different from that indicated in the bid invitation, unless it is later than an absolute cut-off date that is clearly stated as such in the bidding documents;
- a bid with a fixed price in response to bidding documents calling for bidders to submit prices subject to price adjustment (the reverse situation, i.e., a submitted price subject to adjustment when a fixed price is called for, would normally not be permissible);
- a bid requesting changes in the coefficient of the price adjustment formula specified in the bidding document or seeking a ceiling for the price adjustment;
- a bid having minor deviations in payment terms;

Technical Aspects

- a bid offering alternative goods that are equal or superior in specifications and performance, unless the bid documents explicitly prohibit consideration of any alternatives;
- a bid which meets all performance criteria of a works plant, but not dimensional provisions that do not affect performance or the utility for the purpose intended;
- a bid which offers goods with minor deviations from the technical specifications which do not affect the suitability of the goods for the intended use, e.g. an agricultural tractor with a diesel engine developing 80 hp at 2600 rpm in response to bid specifications for agricultural tractors developing 80 hp at 3000 rpm, (deviations which affect the efficiency or performance should be evaluated for purposes of comparison); and
- a bid which offers the equipment specified but has omitted minor attachments and components, e.g. a tool kit in motor vehicle. However, the Borrower must quantify this deviation in monetary terms during the detailed evaluation process prior to comparing such bid with the other bids.

19.5 Quantification of Omissions and Deviations

The procedures described above for correcting arithmetic errors and converting to a single currency are simply mechanical calculations and are not related to the substance of the bids. In many cases, bidders will present bids that deviate from bidding document requirements, either accidentally or deliberately because they believe they gain a competitive edge as a result. Regardless of the reason, such omissions and deviations should be quantified in money terms whenever possible, to permit direct comparison with other bids.

In the case of omission of one or a few essential items from a bid, rather than rejecting the bid in its entirety, a surrogate price for these items may be obtained from printed parts and price lists, if available, or from the quoted prices of other bidders. In the latter case, a price representing the average of several other bidders for the corresponding item should be used rather than the lowest or highest figure.

The most common deviations in bids are proposals for different commercial terms; i.e., for amounts of advance payments, changes in payment schedules, etc. and for changes in the schedule of delivery of goods or completed works. These can usually be adjusted by applying an appropriate discount rate and converting them to their equivalent present worth to equalize them with non-deviating bids. As already indicated, no advantage should be given to a bid offering an earlier delivery date than is specified in the bid document unless there is a real benefit to the Purchaser. Any bid offering a delivery date that goes beyond a final acceptable cutoff date specified in the bidding document should be rejected as a non-responsive bid, irrespective of the offered price.

Another form of bid deviation is to offer a higher capacity or standard of performance than is required by the bidding document: a larger engine size, greater carrying capacity, etc. No additional bonus or advantage should be given to such offers unless the bid document specifically provides for this and sets out how the differences will be evaluated. In the case of

power generating equipment, process plants, etc., bid documents should always include evaluation criteria and procedures which take into consideration the value of additional capacity, higher efficiency lower production costs, etc. ***(See Section 19.3.4 Evaluation on the basis on Life Cycle Costing)***

The bid document is the authoritative source for determining whether various kinds of deviations are acceptable in a particular case. If it does not specifically rule out or set limits on commercial deviations, these can be evaluated on present value calculations. Specifications and Bid Data Sheets should indicate if technical deviations are acceptable and, if so, what criteria and procedures should be used for their evaluation.

19.6 Evaluation of Bids for Works Contracts

Evaluation of bids for works contracts is more complex than the evaluation of bids for goods. To make the evaluation process easier and transparent, it is essential for the Borrower set out in bidding documents, well defined evaluation criteria and carry out the evaluation process in a transparent manner. If the evaluation criteria is not well defined, Bidders may be reluctant to submit bids. The evaluation of works contracts involves price and nonprice factors, depending on the form of works contract being procured. The selection of bids in for a works contract involves two steps after the preliminary examination to determine responsiveness. The first being the selection to determine whether Bidders demonstrate relevant experience in the undertaking the works being procured and the second step is based on price.

As in the case of evaluation of bids for procurement of goods, evaluation of works contracts begins with a determination of the following basic issues:

- was the bid received by the due date required in the bidding documents;
- is the bid accompanied by the prescribed fees and bid security;
- is it submitted in the required form, where necessary; and
- does it comply with all the specific mandatory requirements of the bidding documents.

Once a bid has been determined as responsive, the Bid Evaluation Committee assess the technical feasibility of the bids and compliance of such bids with specifications required in bidding documents. Evaluation also involves the examination of the Bidder's key staff in order to make a determination of whether they possess the qualifications and experience to undertake the works contract. The Borrower also takes into consideration similar works procurements that the Bidder has engaged in within the last five or so years, and whether they have been successful. Apart from these the Bid Evaluation Committee also evaluates the Bidders financial capabilities using the documentary evidence of the Bidder's financial viability to carry out the contract. Bank policy requires bidders to submit with their bids financial statements for a number of years specified in the bidding documents. These fall under the nonprice factors that need to be evaluated.

After evaluating the nonprice factors, the Bid Evaluation Committee, proceeds to evaluated the prices offered for the contract. Depending on the kind of works contract being procured, the lowest evaluated bidder is determined and awarded the contract. In a contract for the

building of a major road or power plant, the lowest evaluated bidder is the one offering the lowest price to the Borrower to build the road or power plant. On the other hand where the works contract is in the form of a concession, then the lowest bidder should be the Bidder charging the lowest tarriff for the services to be provided by the works, this is usually the case where the Bidder undertakes the construction and operates it for a while before handing it over to the Borrower.

19.7 Evaluation of Deviations in Bids for Works Contracts.

Bidders for works contracts often qualify or condition their bids in some way, creating problems for Borrower staff who must decide whether a bid is substantially responsive to the bidding documents and, if so, how deviations from the bidding conditions should be handled in the evaluation of bids. Clear unambiguous bidding documents prepared by experienced staff of the Borrower result in fewer qualifications by bidders. Pre-bid conferences during the bidding period should also be convened to clarify any serious ambiguities and discrepancies in the documents.

Deviations may include exceptions, exclusions, qualifications, conditions, stated assumptions, alternative proposals (when not specifically solicited) and other changes to the requirements of bidding documents. Their degree of acceptability and impact on bid comparison will vary; some may be clearly unacceptable; some that are acceptable may be quantifiable in monetary terms; others may not be quantifiable but may still affect the competitive position of other bidders.

The first stage in evaluation is to decide whether the deviations in a bid are so material as to be unacceptable, and therefore are grounds for rejecting the bid. Fairness to the other bidders is a prime consideration. A bidder's deviation which, in itself or by its withdrawal or rectification, would seriously affect the competitive position of other bidders unless they were given the same opportunity, would normally constitute grounds for rejection of the entire bid. The following deviations (or some combination thereof) may result in rejection of bids in Bank financed contracts:

- bid submission by a legal entity or joint venture different from that which was prequalified (excepting when all members of the new joint venture were prequalified initially);
- the submission of a base bid subject to price adjustment when fixed price bids were called for;
- the submission of a bid based on an entirely different alternative design where such had not been requested nor expressly permitted;
- an inflexible time phasing of contract construction or performance not conforming to prescribed critical key dates or "milestones" in a broader construction program; and
- sub-contracting in a substantially different amount and manner than specified.

Deviations from the bidding requirements which do not appear at first sight so serious as to provide immediate grounds for bid rejection maybe considered further in the evaluation process. The following are examples of such deviations in Bank-financed contracts:

- an amount of advance payment and other payment terms (including retention money, guarantees, the details of price adjustment provision) differing from the prescribed conditions;
- non-compliance with local regulations relating to labor, imports taxes, duties, notarization, etc.;
- changes in specified methods of construction or execution (temporary works, shift work by labor, etc.);
- subcontractors not meeting pre-specified requirements;
- omission (deliberate or unintentional) of minor works or items included in the scope of work;
- non-acceptance of full liabilities (e.g. risks to third parties, nearby structures, etc.);
- modification of, or a limit to the amount specified for liquidated damages; and
- proposed changes in standards or codes relating to materials, workmanship or design.

The details and implications of any deviations which are not explicit should be clarified by the Engineer/Employer in discussion with respective bidders without change in the substance or price of the bids. (After clarification the implication of a deviation may be such as to justify rejection of the bid as non-responsive.) Each deviation having financial or economic implications should be quantified independently by the Engineer and expressed in its expected monetary cost to the Employer. In this respect, the submissions by bidders during clarification and pricing of similar items from the next lowest (and other) responsive bidders may prove useful.[51] The current monetary costs of deviations with timing implications (e.g., modification payment terms, amortization of advances, limits on liquidated damages, varied construction or delivery periods, etc.) should be discounted to present values for evaluation purposes.[52]

Deviations or offers which are better than the requirements of the bid specifications (e.g. higher quality materials and workmanship, modified designs, shorter construction periods, etc.) should only be regarded as benefits to the Employer and included in the evaluation if specifically solicited in the bidding documents.

Deviations which are minor or non-quantifiable (e.g., changes in subcontractors, access to site, land acquisition, sources of materials, etc.) should be assessed in terms of their reasonableness for acceptance or rejection taking into account fairness to other bidders and their impact on the implementation of the contract.

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[51] To facilitate evaluation (and partly to discourage bidders from making frivolous or ambiguous deviations), it is recommended that bidding documents include a requirement that any deviation must be presented as an alternative offer and carry a price tag with breakdown if it is to be considered in the evaluation process; otherwise the bid may be rejected as non-responsive.

[52] For the purposes of discounting, the current monetary costs of deviations should be expressed in a common currency using exchange rates prevailing at the date stated in the bidding documents for bid comparison. A uniform discount rate should be used for calculating present values as of that date. Unless otherwise agreed with the Bank, the discount rate used shall b e the “Long Term Euro dollar rate” for 2 year money at the time as published in the London financial times or other similar publication (rounded to the nearest integer) plus one percentage point.

The ranking order of bids should be determined using the most probable monetary costs (or benefits) to the Employer of all quantifiable deviations. The contract should be proposed for award to the bidder submitting the lowest ranked evaluated bid.[53] Before the award is made the TTL/PA/PAS have to review the evaluation and comment on the proposed award, then give the Bank's "no objection" to the proposed award.

After selecting the lowest ranked evaluated bidder in the manner described above, the Employer may accept the qualified bid or, after consultation with the Bank, negotiate with the bidder for the complete or partial withdrawal of individual deviations, using the respective quantified monetary values assessed by the Engineer as upper limits for any negotiated adjustments to the original bid price. Non-quantifiable deviations may be accepted or rejected according to their reasonableness. The Bank should be informed of the outcome of the negotiations and of any consequent changes in bid price, prior to award of contract.

Local bidding regulations or custom may preclude a Borrower from considering bids which deviate substantially from prescribed conditions. In such cases, the Bank should not normally object if a Borrower insists on rejecting a heavily qualified bid (i.e., one with numerous material deviations) without further consideration regardless of the bid price, particularly if other bids have few or no deviations and the prices are reasonable in relation to the cost estimate.

If the majority of low bids are heavily qualified, the reasons for the deviations should be determined by the Engineer/Employer in discussions with bidders, and consideration should be given to rebidding amongst the same group of bidders with conditions and specifications amended to remover the probable causes. A series of addenda to the original bidding documents may suffice for this purpose and a relatively short period (30-45 days) may be sufficient for rebidding under such circumstances.

19.8 Application of Domestic Preferences in the Evaluation of Bids

19.8.1 Application of Domestic Preference for Goods

The Bank's policy is to encourage the development of a Borrower's domestic manufacturing industry. Thus, under Bank financed procurement, the Borrower is permitted to apply a margin of preference in bid evaluation in favor of domestically manufactured goods and certain categories of works contracts, ***(See Section 19.8.2 for instructions on Application of Domestic Preference in Works Contracts)*** when competing with bids offering imported goods.

A domestic preference margin is applied by first classifying bids according to whether the goods offered are locally manufactured or imported. ***(See Appendix 2 of the Procurement Guidelines for detailed guidance on classification of bids for purposes of application of domestic preference margins)*** After a determination of the lowest priced bid in all the classes of bids is made, an amount of 15% is then added to the CIF or CIP prices of bids

[53] A sensitivity analysis should be made of the ranking order of evaluated bids using a realistic range of monetary values for the more significant deviations; if the ranking order changes, a check should be made on the value of relevant deviations, using independent expertise if necessary.

offering imported goods. (***Refer to Appendix 2 of Procurement Guidelines for detailed instructions***) The Borrower should be guided by the following general principles when applying domestic preference margins in the evaluation for goods:

- The application of a preference margin is permissible only when the Loan Agreement provides for it by specific reference in the Procurement Schedule and the bidding documents specifically outline the procedure for its application.
- The goods being procured are "manufactured goods" involving assembly, fabrication, processing etc., where a commercially-recognized final product is substantially different in basic characteristics of its components and raw materials.
- The goods offered by foreign and domestic bidders are identical or compatible in respect of quality, size, capacity and performance.
- There is a qualified domestic bid which, irrespective of the nationality of the bidder, has offered goods assembled or manufactured in the country of the Borrower, which has domestic value in the manufacturing cost not less than 30 percent of the ex-factory price of the product offered.
- The margin of preference is added to the CIF price of foreign bids and not subtracted from the domestic bid.

The preference is applicable even when the goods are imported by the government or a public authority exempt from paying import duties on imported raw materials or components used in the manufacture of the offered finished product. The nationality of the bidder is immaterial, but the domestic manufactured goods offered in the bid must meet the minimum domestic value added criterion. Domestic value added comprises domestic labor, the domestic content of material, domestic overheads and profits, from mining until final assembly. ***(See Appendix 2 of the Procurement Guidelines for further instructions on the application of domestic preference margins)***

19.8.2 Application of Domestic Preference in Works Contracts

Borrowers from countries with a per capita GPN of US$760 (1999 dollars)[54] or less may with Bank agreement grant a margin of preference of 7.5% to domestic bidders in ICB for works contracts. For this preference to apply, the Loan Agreement should provide for it and bidding documents should outline the necessary procedures.

To determine eligibility of this preference, domestic firms include purely local firms in the Borrower country, or joint ventures of domestic firms with no more than 10% sub-contracting to foreign firms. Joint ventures between foreign and domestic firms do not qualify for the application of preference.

The Borrower may apply preference margins in the procurement of works such as civil engineering and building construction, land clearing and leveling, field drainage, well exploratory drilling, site clearing for urban projects and similar activities. The applicable formulae for application of the margins are contained in ***Annex 2 of the Procurement***

[54] This figure is updated from time to time by the International Economics Department.

Guidelines. The preference is applied by adding 7.5% to the price quoted by a foreign bidder for comparison with a qualified domestic bid.

19.9 Extension of Bid Validity

In ICB, bidders are required to keep their offers valid for a specified period to allow the borrower to examine and evaluate offers, select the lowest evaluated bid, obtain the necessary approvals from the competent authorities and obtain a no objection from the World Bank, for the proposed award of the contract. Bids should thus remain valid for the period stated in bidding documents, usually until the final award of the contract to the lowest evaluated bidder is made. A bid that is valid for a shorter period than required by the bidding documents should be rejected by the Borrower as non-responsive.

Where there is a delay in bid evaluation, the Borrower may request bidders to extend the period of validity of their bids. Also, in the case of fixed price contracts if the award is delayed for more than fifty-six (56) days, beyond the expiry of the initial bid validity, the contract price should be adjusted by a factor stated in the Borrower's request for extension.

The adjustment provision is aimed at protecting bidders from the risk of change (usually increases) in the price of the goods offered if implementing agency takes longer than the original bid validity period to award the contract. In the case of fixed-price bids, however, bidders have to choose between:

- refusing to grant any extension of validity of their bids; and
- absorbing any cost increases that might occur during such extensions (bidders are not allowed to increase their prices as a condition of extending the validity of their bids).

To simplify the application of the price adjustment, two standard correction factors should be used: one for all foreign currency components, and the other for the local currency component. The former should be consistent with the annual increases in international prices indicated in the Index of Unit Value of Manufactured Exports,[55] which is updated semi-annually; and the latter with the local inflation for the country as projected by the country department. The TTL/PS/PAS provides should assist the Borrower finding or determining both indexes and in drafting the relevant provision to be introduced in the bidding documents.

If bidders who submitted low bids do not extend their bid validity, borrowers may argue in favor of rebidding, this results in delaying the procurement process. Borrowers should avoid chronic delays in bid evaluation and award as competition may suffer since bidders may include a speculative cushion in their bid prices to absorb potential costs of delay.

Price adjustment provisions provide an incentive for the Borrower to award the contract within bid validity period. Bid evaluation and the selection of the lowest evaluated bid are

[55] See OP 6.50 Annex B1, *Index of Unit Value of Manufactured Exports (MUV),* Percentage Change from Previous Year, Projected Levels.

based on the prices quoted, disregarding the adjustments, which will eventually affect only the contract price.

19.10 Confidentiality

The Bank's Procurement Guidelines stress the confidential nature of the evaluation process. ***(See para 2.46 of the Procurement Guidelines)*** After suppliers, contractors and consultants have submitted their bids to the Borrower by the required deadline, the bid evaluation process outlined above begins on the date indicated in the bidding documents for bid opening. Suppliers, contractors and consultants frequently request their governments or concerned Executive Directors (EDs) to intervene with the Bank during the Borrowers' bid or proposal evaluation period. It is important for Bank staff to note that after the deadline for receipt of bids for goods or works, confidentiality is imposed and is maintained throughout the evaluation process until announcement of the award of contract. ***(See Paragraph 2.46 of the Procurement Guidelines)***

The rules that apply to Bank staff members themselves are presented in the Bank's Administrative Manual Statement 1.10, "Directive on Disclosure of Information," paragraph 19 which states as follows:

> "The Bid evaluation process is carried out by the borrower, and while the process is going on information relating to the examination, clarification and evaluation of bids and recommendations concerning award should not be disclosed to any person not officially concerned with the process. The text of the communication between the Bank and the borrower in respect to the evaluation process should not be made available to any other party. Any response, beyond a simple acknowledgment to questions concerning the propriety of an award, whatever the source of the query, should be made only after the borrower has been informed of the Bank's decision on the recommendation for award."

This restriction also applies during the prequalification evaluation process.

Accordingly, if Bank staff are approached by firms, governments, or EDs during the evaluation period to the date of final award of the contract to the lowest evaluated bidder, they should limit their response to acknowledging the query and the points made and advise the inquirer that the bidding process is confidential. ***(For procedures for handling of complaints by bidders or ED's acting on behalf of bidders, refer to Section 5 of this Manual).***

19.11 Rejection of All Bids

In some situations the Borrower is permitted by the Bank to reject all bids submitted in response to an invitation for bids. However, this has to be provided for in the bidding documents and the approval of the TTL/PS/PAS must be obtained by the Borrower. The Borrower may reject all bids under the following circumstances:

- Where the price in the lowest evaluated bid exceeds the Borrower's bid cost estimates by a substantial margin;
- When all the bids received are not responsive to the requirements in the bid documents; and
- Where the Borrower after receiving bids reasonably concludes that there is lack of competition.

Where all the bids are rejected, the Borrower should review the bidding documents and make any appropriate revisions. If substantial changes are made to the bidding documents, the Borrower should then invite new bids on the basis of the new bidding documents.

19.12 The Standard Bid Evaluation Report

After the completion of the evaluation process the Borrower/implementing agency, presents to the TTL/PS/PAS, a bid evaluation report setting out the process by which the Bid Evaluation Committee evaluated the bids received in response to the procurement process. A Standard Bid Evaluation Report format prepared by the Bank is available for use by Borrowers. This report covers among other things:

- key dates and steps in the bidding process;
- bid prices, corrections, discounts and currency conversions;
- additions, adjustments and price deviations;
- domestic preference if any;
- technical evaluations if any;
- postqualification results;
- names of bidders rejected and reasons for rejection of bids; and
- the proposed contract award.

19.13 Award and Signing of the Contract

Once the Borrower has evaluated the bids and made a determination on the lowest evaluated responsive bid, and a decision has been made about the award, the Borrower should:

- request and obtain the TTL/PS/PAS "no – objection" prior to awarding the contract;
- **not** negotiate the award with the successful bidder;
- **not** require the selected bidder to provide performance in excess of that specified in the Bidding Documents;
- send notification of the award, a contract form, and a performance security form (indicating the amount of security) to the successful Bidder in a manner and within the time specified in the bidding documents;
- request the supplier to return the signed contract together with the required performance security within the time specified in the bidding documents; and
- notify unsuccessful Bidders as soon as possible after receiving the signed contract and the performance security.

If the successful Bidder fails to return the signed contract or provide the required performance security, the Borrower may:

- require forfeiture of the Bidder's Bid Security; and
- proceed to offer the contract to the second lowest evaluated Bidder, provided that he is capable of performing satisfactorily.

Standard Bid Evaluation Form

Section 1. Bid Evaluation Standard Forms

Table 1. Identification

1.1	Name of Borrower	_____
1.2	Loan/Credit number	_____
1.3	Date of effectiveness	_____
1.4	Closing date	
	(a) original	_____
	(b) revised	_____
1.5	Name of project	_____
1.6	Purchaser (or Employer)	
	(a) name	_____
	(b) address	_____
1.7	Contract number (identification)	_____
1.8	Contract description	_____
1.9	Cost estimate[1]	_____
1.10	Method of procurement (check one)	ICB _____ LIB _____ Other _____
1.11	Prior review required[2]	Yes _____ No _____
1.12	Domestic preference allowed	Yes _____ No _____
1.13	Fixed price contract	Yes _____ No _____
1.14	Cofinancing, if any:	
	(a) agency name	_____
	(b) percent financed by agency	_____

[1] Cite source and date if other than Staff Appraisal Report.
[2] If response is "no," items 2.2(b), 2.4(b), and 2.6(b) in Table 2 may be left blank, unless the Bank's prior review was specifically requested.

Table 2. Bidding Process

2.1	General Procurement Notice	
	(a) first issue date	_____
	(b) latest update	_____
2.2	Prequalification, if required	
	(a) number of firms prequalified	_____
	(b) date of Bank's no-objection	_____
2.3	Specific procurement notice	
	(a) name of national newspaper	_____
	(b) issue date	_____
	(c) name of international publication	_____
	(d) issue date	_____
	(e) number of firms notified	_____
2.4	Standard Bidding Document	
	(a) title, publication date	_____
	(b) date of Bank's no-objection	_____
	(c) date of issue to bidders	_____
2.5	Number of firms issued documents	_____
2.6	Amendments to documents, if any	
	(a) list all issue dates	1. _____ 2. _____ 3. _____
	(b) date(s) of Bank's no-objection	1. _____ 2. _____ 3. _____
2.7	Date of pre-bid conference, if any	_____
2.8	Date minutes of conference sent to bidders and Bank	_____

Standard Bid Evaluation Form
Procurement of Goods or Works

Bid Opening Checklist

(To be filled out for each bid as it is read out)

Contract Reference: _____

Bid Opening Date: _____ Time: _____

Name of Bidder: _____

(a) Is outer envelope of bid sealed?

(b) Is bid form completed and signed?

(c) Expiration date of bid:

(d) Is documentary authority for signing enclosed?

(e) Amount of bid security (if required):_____ (state currency)

(f) Describe any "Substitution," "Withdrawal," or "Modification" submitted

(g) Describe any alternative bid made:

(h) Describe any discounts or modifications offered:

(i) Additional comments:[56]

(j) Name of bidder or representative present:

(k) Total bid price: _____ (list currencies and amounts or percentages)[57]

Signature of responsible official: _____ Date: _____

[56] Read out and record model numbers of equipment.
[57] If bid is for a package of contracts, the price for each lot or item should be read out.

Table 3. Bid Submission and Opening

3.1	Bid submission deadline	
(a)	original date, time	_____
(b)	extensions, if any	_____
3.2	Bid opening date, time	_____
3.3	Record of bid opening, date sent to Bank	_____
3.4	Number of bids submitted	_____
3.5	Bid validity period (days or weeks)	
(a)	originally specified	_____
(b)	extensions, if any	_____
(c)	date of Bank's no-objection to contract award, if required	_____

Note: Contracts under two-stage bidding will require the information requested for each stage to be filled out. Refer to *Guidelines*, para. 2.6, and SBD for Supply and Installation of Plant and Equipment.

Table 4. Bid Prices (as Read Out)

Bidder Identification			Read-out Bid Price(s)[1]		Modifications, Discounts or Comments[2]
Name *(a)*	City/State or Province *(b)*	Country *(c)*	Currency(ies) *(d)*	Amount(s) or % *(e)*	*(f)*
etc.					

[1] For single currency option, secondary currencies are expressed in column *e* as a percentage of the total bid price.
[2] Describe any modifications to the read-out bid, such as discounts offered, withdrawals, and alternative bids. Indicate also the absence of any required bid security or other critical items.

Table 5. Preliminary Examination

Bidder *(a)*	Verification of arithmetic calculations *(b)*	Eligibility *(c)*	Bid Security *(d)*	Completeness of Bid *(e)*	Substantial Responsiveness *(f)*	Acceptance for Detailed Examination *(g)*
etc.						

Note: Additional columns may be needed, such as for responsiveness to technical conditions.

Table 6. Corrections and Unconditional Discounts

Bidder	Read-out Bid Price(s)		Corrections		Corrected Bid Price(s)	Unconditional Discounts[2]		Corrected/Discounted Bid Price(s)
	Currency(ies)	Amount(s)	Computational Errors[1]	Provisional Sums		Percent	Amount(s)	
(a)	*(b)*	*(c)*	*(d)*	*(e)*	*(f) = (c) + (d) - (e)*	*(g)*	*(h)*	*(i) = (f) – (h)*
etc.								

Note: Only bids accepted for preliminary examination (Table 5, column *g*) should be included in this and subsequent tables. Columns *a*, *b*, and *c* are from Table 4 (columns *a*, *d*, and *e*, respectively).

[1] Corrections in column *d* may be positive or negative.

[2] If the discount is offered as a percent, column *h* is normally the product of the amounts in columns *f* and *g*. Refer to para. 6(c). If the discount is provided as an amount, it is entered directly in column *h*. A price increase is a negative discount.

Table 7. Exchange Rates

Currency Used for Bid Evaluation: _____

Effective Date of Exchange Rate: _____

Authority or Publication Specified for Exchange Rate: _____

Note: Attach copy of exchange rates provided by specified authority or publication.

Table 8. Currency Conversion (Single Currency)
Specify Evaluation Currency

Bidder	Corrected/ Discounted Bid Price (in specified currency)	Payment Composition[58]			Exchange Rate Used by Bidder[59]	Amounts in Currency of Payment	Exchange Rate for Evaluation[60]	Evaluation Currency	
		Currency of Payment	Percent of Total Bid	Amount in Evaluation Currency				Bid Prices	Total
(a)	*(b)*	*(c)*	*(d)*	*(e) = (b)x (c)*	*(f)*	*(g) = (e) x (f)*	*(h)*	*(i) = (g) x (h)*	*(j)*

Note: This table id used for SBDSW and Option A of SBDLW. Columns *(a)* and *(b)* are from Table 6, Columns *(a)* and *(i)*

[58] Columns *c, d,* and *f* are provided in the SBDLW Appendix to Bid and in the (Form of) Contractor's Bid in the SBDSW.
[59] Column *h* is from Table 7
[60] Column *J* is the sum of bid prices in column *i for each bid*

Table 9. Additions, Adjustments, and Priced Deviations
Specify Evaluation Currency: _____

Bidder *(a)*	Corrected/Discounted Bid Price[1] *(b)*	Additions[2] *(c)*	Adjustments[2] *(d)*	Priced Deviations[2] *(e)*	Total Price *(f) = (b) + (c) + (d) + (e)*
etc.					

[1] Column *b* is from Table 8, column *j*
[2] Each insertion in columns *c*, *d*, or *e* should be footnoted and explained in adequate detail, accompanied by calculations.

Table 10. Domestic Preference for Goods

Specify Evaluation Currency: _____

Bidder *(a)*	Domestic Preference Group[1] *(b)*	Total Price[2] *(c)*	Exclusions for Preference[3] *(d)*	Revised Total *(e) = (c) – (d)*	Prevailing Tariff (%)[4] *(f)*	Domestic Preference (%)[5] *(g)*	Preference Price[6] *(h)*	Total Comparison Price *(i) = (c) + (h)*
Name	c	105	5	100	18	15	15	120
Name	b	115	--	--	--	--	--	115
Name	a	110	--	--	--	--	--	110
etc.								

[1] Column *b* refers to Groups A, B, or C, as indicated by bidder, subject to verification by Borrower.

[2] Column *c* is from Table 9, column *f*. If the lowest total price is from a Group A or Group B bidder, it is the lowest evaluated bidder, and the remainder of the table need not be filled out. Columns *d* through *h* need to be filled out only for Group C bids.

[3] Column *d* is the sum of costs in columns *d* and *e* from Table 9 plus other costs incurred within the Borrower's country. Footnotes should be provided to explain the significant components of column *d*.

[4] Column *f* is the sum of duties and import taxes on the particular items or group of similar items as a percent of the CIF or CIP price. Refer to para. 7(a) of Annex I.

[5] Column *g* will be the smaller of 15 percent or the prevailing tariff in column *f*.

[6] Column *h* for Group A bidders is zero. Group B bids at this stage should no longer be compared. For Group C bidders, column *h* is the product of columns *e* and *g*.

Table 11. Domestic Preference for Works

Specify Evaluation Currency: _____

Bidder *(a)*	Domestic Preference Group[1] *(b)*	Total Price[2] *(c)*	Exclusions for Preference[3] *(d)*	Revised Total *(e) = (c) – (d)*	Preference[4] *(f)*	Total Comparison Price *(g) = (c) + (f)*
etc.						

[1] Column *b* refers to Group A (eligible domestic bidders) or Group B (others) as indicated by bidder, subject to verification by Borrower.

[2] Column *c* is from Table 9, column *f*. If the lowest priced bid is from a Group A bidder, it is the lowest evaluated bidder, and the remainder of the table need not be filled out.

[3] Column *d* is the sum of costs in columns *d* and *e* from Table 9. An attachment should be provided to explain the significant components of column *d*. Columns *d* and *e* may be left blank for Group A bidders.

[4] Column *f* for Group A bidders is zero. For Group B bidders, column *f* is 7.5 percent of column *e*.

Table 12. Proposed Contract Award

1.	Lowest evaluated responsive bidder (proposed for contract award).	
	(a) name	_____
	(b) address	_____
2.	If bid submitted by agent, list actual supplier.	
	(a) name	_____
	(b) address	_____
3.	If bid from joint venture, list all partners, nationalities, and estimated shares of contract.	_____ _____ _____ _____
4.	Principle country(ies) of origin of goods/materials.	_____
5.	Estimated date (month, year) of contract signing.	_____
6.	Estimated delivery to project site/completion period.	_____

		Currency(ies)	Amount(s) or %
7.	Bid Price(s) (Read-out)[1]		
8.	Corrections for Errors[2]		
9.	Discounts[3]		
10.	Other Adjustments[4]		
11.	Proposed Award[5]		
12.	Disbursement Category[6]	_____	

[1] From Table 6, columns *b* and *c*.
[2] From Table 6, column *d*.
[3] From Table 6, column *h*. Include any cross-discounts. See Annex I, para. 7(b).
[4] All adjustments should be explained in detail.
[5] Sum of the prices in Items 7–10. For single currency bids, express secondary currency amounts as percentages.
[6] From the Loan Agreement.

Annex 2: Bid Evaluation on Life Cycle Cost Principles for the Procurement of One Hundred Highway Trucks

Relevant Part of Bid Evaluation Clause in Bidding Documents

The evaluation and comparison of bids shall be based on the life cycle cost for the vehicles during the first six years , worked out in the following manner:

1. Initial Price

-- CIF price quoted for trucks offered from abroad
-- Ex-factory/ex- showroom price for vehicles offered from within the country

2. Operating and Maintenance Costs

2.1 Fuel costs shall be computed on the basis of 100,000 km of operation per year at a fuel price of 0.80 USD per liter, discounted to net present value at a discount rate of 10 percent.

2.1 Spare parts cost shall be based on 100,000 km per year of operation based on the **guaranteed B** figures provided by the bidder for each year, discounted to net present value at a discount rate of 10 percent. If guaranteed figures are **not** provided, the Borrower/Purchaser may use estimated figures based on past experience if available.

3. Depreciated Cost

3.1 The Purchaser/Borrower shall estimate the depreciated cost of the vehicle offered based on the guaranteed life prior to the first major overhaul, or based on past experience, but in no case more than eight years.

4. Bidders shall furnish all the data required for the above computations, as further outlined under Clause ___ of the Technical Specifications.

Annex 2 continued

Evaluation and Comparison of Goods

		All Figures in US$	
1.	**Initial Costs**	A	C
	Bid Price Ex-Factory/CIF	65,000	70,000
	Evaluation adjustment for Delivery Schedule	6,000	
--			
	Evaluation adjustment for variation in payment terms	--	1,000
	TOTAL	71,000	71,000
2.	**Operating and Maintenance Costs**		
	Fuel Guaranteed cost for each year	(8,000)	(6,000)
	NPV for six years	34,20000	26,130
	Spares Guaranteed cost (average) for each year	(5,000)	(4,000)
	NPV for six years	21,775	17,420
	TOTAL	56,615	43,550
3.	**Depreciated Value** (- Deduct)		
	Life	(6 years)	(8 years)
	Depreciated Value	0	12,500
4.	**TOTAL LIFE CYCLE COST**	127, 615	102,050
	Ranking	2	1

Annex 3

Domestic Preference Illustrations

Case 1

All Figures in US $

Procurement of Vehicles Evaluation on price alone	A1	B2	C1	C2	C3
Price ex-factory/CIF	10,000	9,900	10,500	11,300	12,000
Step 1					
Lowest bid in each group	10,000	9,900	10,500		
Ranking	2	1	3		
Award		B2			

Case 2

Procurement of vehicles Evaluation on price alone					
Price ex-factory/CIF	10,000	9,900	9,500	11,300	12,000
Step 1					
Lowest bid in each group	10,000	9,900	9,500		
Ranking	3	2	1		
Since lowest evaluated bidder is from Group C					
Step 2					
Lowest in Gr. A and all Gr.C bids	10,000		9,500	11,300	12,000
Domestic preference margin					
Customs duty or 15% CIF for Group C					
Customs duty 30% of CIF, so 15% of CIF	--		1,425	1,695	1,800
Total for Comparison	10,000		10,925	12, 995	13, 800
Ranking	1		2	3	4
Award	A1				

Annex 3 continued

Case 3

Procurement of vehicles
Evaluation on price plus operating NPV cost for 4 years

	A1	B1	C1	C2	C3
Price ex-factory/CIF	10,000	11,000	12,000	13, 500	9,000
NPV of operating cost	10,000	10,000	5,000	8,000	8,500
Total evaluated cost	20,000	21,000	17,000	21, 500	17,500
Step 1					
Lowest in each group	20,000	21,000	17,000		
Ranking	2	3	1		
Since lowest is from Group C					
Step 2					
Group A and all Group C	20,000		17,000	21,500	17,500
Domestic Preference margin: Duty 30%					
15% of CIF price	--		1,800	2,025	1,350
Total for comparison	20,000		18,800	23,525	18,850
Ranking	3		1	4	2
Since the lowest is from Group C, go back to Step 1 to ascertain the lowest among C without domestic preference margin)			1	3	2
Award			C1		

Annex 3 continued

Case 4

Procurement of cement clinkering plant
Evaluation on price of plant plus erection plus, operating cost in 4 years NPV

BID PRICE	P $	P Rs	Q $	Q Rs	R $	R Rs
1. Price of imported machines/plant CIF	2,000		3,000		6,000	
2. Price of local machines/plant ex-factory		80,000		90,000		30,000
3. Assorted civil works and erection	500	10,000	600	14,000	1,000	5,000
4. Design, supervision and other services	1,000	5,000	200	4,000	1,000	8,000
Evaluation-Total Bid Price						
Foreign currency	3,500		5,600		8,000	
Equivalent Rs (1$ = 10 Rs)	35,000		56,000		80,000	
Local currency		95,000		108,000		43,000
Overall total bid Price in Rs		130,000		164,000		123,000
Operating cost (NPV)		40,000		60,000		45,000
Total Evaluated Cost		170,000		224,000		168,000
Domestic Preference Margin: 15% of CIF price of imported plant in Rs		3,000		4,500		9,000
Total for comparison		167,000		219,500		159,000
Ranking		2		3		1
Award		P				

Annex 4

SAMPLE BID EVALUATION REPORT FOR SIMPLE EQUIPMENT

1. Scope of contract and approximate cost

Outline the brief description of the goods and services covered by the invitation, the estimated cost at the time of appraisal and the actual cost for the proposed contract.

(Attachments 1, 2, 3)

2. Bid Invitation process

Specify the date of the general procurement notice, bid invitation advertisement, number of firms who purchased bid documents, date of closing, extensions (if any), pre-bid conference, resulting amendments (if any), date and time of public bid opening, attendance, highlights of the bid opening meeting (if any). Also prepare a table of bid prices as read out.

(Attachments 4, 5)

3. Preliminary examination of bids

Discuss the preliminary examination for arithmetical errors, completeness, legal validity, bid security, and substantial responsiveness to commercial and technical aspects of the bidding document. Include a brief discussion of bids rejected/ruled out of consideration at this stage.
List arithmetic corrections and corrected bid prices.

(Attachment 6)

4. Evaluation of substantially responsive bids

(i) convert prices to common currency for comparison;
(ii) list evaluation criteria and methodology cross-referencing to bid documents;
(iii) discuss any adjustments, if any, for

-- commercial aspects

omissions
delivery
payment schedule
spare parts, etc.

-- technical criteria

efficiency
productivity
training, etc.

(iv) explain the application of domestic/regional preference with demonstration of domestic bid's eligibility for preference, and the level of prevailing import duties on the goods;
(v) prepare an evaluation able showing all adjustments and ranking;
(vi) if merit point system is used, prepare table showing points allocated to each bid for each criteria and total. If domestic preference is applied, prepare a separate table after increasing CIF price by the preference margin and revising the points for price.

(Attachment 7)

5. Post-qualification

Describe criteria, if any, outlined in bid documents. Actual qualifications of selected bid to demonstrate compliance.

6. Recommendation

Briefly describe: Important features (total bid price, delivery , country of origin, etc.) of the recommended bid.
Points/issues, if any, proposed for discussion before award.
Date of expiry of selected bid.

List of Attachments to the Bid Evaluation Report

1. Copy of Bid Invitation

2. Pre-bid meeting minutes

3. Copy of bidding document and amendments, if any

4. Minutes of bid opening (process verbal)

5. Table of bid prices received
-- bidder, nationality, bid price as read out, bid price in common currency

6. List of bids rejected during preliminary examination with brief reasons

7. Evaluation and comparison table of substantially responsive bids with all adjustments and preference margin, if applied

8. Contract information sheet of the selected bid.

Section 20 Bank Review of Procurement Actions

20.1 Overview of Responsibilities

Apart from the overall responsibilities of Bank staff already discussed in the earlier sections of this Manual ***(See Section 3 on Roles and Responsibilities of Bank Staff in the Procurement process),*** Bank staff's fiduciary responsibilities involve prior review and post review of procurement documentation as the procurement process is carried out. The Bank's review process ensures that Bank funds are used for the purposes intended and that procurement procedures outlined in the Loan Agreement are followed in letter and spirit before the Bank commits funds for the relevant goods, works or services. The Bank's review of procurement documentation begins after the groundwork has been done and the Borrower has began carrying out the initial stages of the procurement process.

The prior review process protects the Borrower at each stage of the procurement transaction and also provides advice and suggestions to the Borrower for enhancing the quality of the documents and procedures. In investment operations, prior review involves review of proposed procurement documentation and decisions by Borrowers by Bank staff before final approval and implementation. Post review is similar in scope but is related generally to smaller value items. Post review is carried out by Bank staff only on a sample basis after action has been taken by the Borrower. In adjustment operations and other fast disbursing operations, all reviews are carried out ex-post, except for the review of standard bidding documents, for procurement by ICB.

20.2 Scope of Prior Review

The following procurement documentation should be reviewed by the TTL/PS/PAS and cleared whenever necessary by the RPA, before the Borrower proceeds with each step of the procurement process:

- advertising procedures including the GPN and the SPN ***(for detailed instructions on GPNs and SPNs see Section 14 of the Manual)***;
- prequalification invitation, documents and subsequent evaluation;
- bidding documents and addenda;
- bid evaluation and the proposal for award of contract;
- the contract documents, to identify any substantial differences from the proforma contract included in the bidding documents and to verify consistency with bid evaluation; and
- material modifications to the contract during execution. ***(See Appendix 1 of the Procurement Guidelines)***

Where prequalification is required under the Loan Agreement, prior review by Bank staff is mandatory for all documentation and proposals relating to prequalification regardless of the threshold. Bank staff should also review any advance procurement action related to:

- contracts that would require ICB and LIB; and

- other large contracts expected to be above the prior review threshold level in the Loan Agreement.

In operations that involve numerous procurements of similar goods, works or services, certain commercial documents could be common items being procured and hence could be reviewed once, then used repetitively. In most instances Banks Standard Bidding Documents (SBDs) exist to make this process easier. ***(Refer to section 15 for detailed instructions on bidding documents)*** Only modifications to the SBDs to suit the specific procurement if made by the Borrower, require review by Bank staff. Examples of documents that may be common to similar procurements are:

- the general format of advertisements of procurement opportunities and the method of their circulation;
- the prequalification questionnaire and the method of evaluation;
- the Borrower's standing registers, if any, of prequalified suppliers and contractors; and
- standard prequalification documents including -- instructions to bidders, general conditions of contract and general technical specifications.

20.3 Setting Prior Review Thresholds

As a general rule, a threshold that results in the review of contracts for about 50-80% (percent) of the total value of Bank financed contracts in a project is significantly acceptable. The acceptable coverage may vary between sectors and projects according to the nature and size of the contracts. For example in social sector projects (education, health, rural development), which typically involve a large number of small value contracts, a coverage lower than 80% may be justified. In such projects involving a very high number of small contracts, it may be more advisable to provide for regular concurrent procurement audits by qualified auditors to be funded under the project who will do the review and present regular reports. The TTL/PS/PAS have to strike a balance between the work load for Bank staff on prior review and an acceptable coverage of Bank financed contracts in number and value.

As a basis for preparing a contract profile, the approximate values (including contingencies) of all Bank financed contracts or bidding packages to be procured under a project should be tabulated by size. Categories of goods, works and services should be kept separate. To simplify tabulation when projects include a large number of small contracts or packages, smaller items accounting in aggregate for less than about 20% of the total value of procurement may be approximated and grouped collectively in value and number. Based on appropriately stepped ranges of contract values, a contract profile by value and number should be drawn up sequentially.

The TTL and the Borrower must then discuss and agree on a suitable threshold level for prior review from the contract profile. The desirable coverage of about 80% should first be considered. The resulting work load is determined in terms of annual number of review actions, combining prior review with an estimate of post review, appropriately weighted. Proposed prior review of less than 80% of the total contract value should be highlighted and explained in the Project Appraisal Document (PAD). The contracts that at subject to various

prior review thresholds are then accordingly reviewed. In setting the prior review threshold the TTL/PS/PAS should also take into consideration the procurement capacity of the Borrower's implementing agency and also the level of risk involved. ***(See Annex 2 of this Section and Section 10.7 of this Manual for more instructions on setting prior review thresholds on the basis of the value of contract and the procurement capacity of the Borrower's implementing agency)*** A coverage down to about 50% may be acceptable in such exceptional and justifiable circumstances such as:

- the demonstrated experience and capability of the Borrower in Bank financed procurement;
- previous practice on similar Bank financed projects in the same country and sector;
- the extent to which technical assistance (consultants, procurement agents, etc.) is provided to support the Borrower's procurement organization;
- the existence of a large number of similar or repetitive contracts;
- a compensating higher intensity of post review; and
- the degree to which the Borrower is able and willing to accept responsibility for the risk of misprocurement, resulting in the cancellation of loan proceeds.

During loan negotiations the TTL explains to the Borrower, ***inter alia*** the underlying rational for the thresholds for prior and post review of contract award. A Borrower's request for lower thresholds to reduce his exposure to inadvertent misprocurement should be considered by the TTL/PS/PAS in light of the issues raised in paragraph (d) above and possible constraints on Bank staff time. If necessary procurement agents or technical assistance financed under the loan, may be arranged to assist the Borrower in managing procurement.

The threshold selected should result in prior reviews of contracts sufficient in number to ensure substantial compliance by the Borrower with the agreed procurement procedures and satisfactory completion of the overall project. For example, while one dominant contract in a project may account for 80% or more in coverage of the total contract value, other important contracts may still warrant the full scope of prior review. In certain cases, all contracts of substantial value (judged in a country context from previous procurement experience) should be subjected to prior review.

Contracts cofinanced under parallel arrangements should also be reviewed by Bank staff to ensure their compatibility with the balance of the project, satisfactory quality, timely delivery of completion and acceptable pricing. Bank staff should also examine the essential elements of any reserved procurement that may be associated with a project, to ensure execution of the overall project in terms of cost, quality and completion time.

Prior review thresholds and the proportion of documents to be subjected to post review should be indicated by the TTL in the PAD and the thresholds should be cleared by the RPA. These review thresholds will subsequently be stated in the Procurement Schedule of the Loan Agreement.

20.4 Procedure for Prior Review of Prequalification and Bidding Documentation

The Bank's Procurement Guidelines provide that Bank staff have to review all of the prequalification documentation before the applicants are invited to prequalify for the procurement. Banks staff also reviews and comments on bidding documents for procurement above a specified threshold level of contract value. The following documents should therefore be submitted to the TTL/PS/PAS for review and comment before they are implemented by the Borrower:

- draft texts of the advertisement;
- prequalification invitation documents and subsequent evaluation;
- list of local and foreign newspapers, technical magazines and trade publications in which the advertisements will be published;
- bidding documents and addenda;
- the bid evaluation document and the proposal for award of contract;
- the contract documents to identify any substantial differences from the pro forma contract included in the bidding documents and to verify consistency with bid evaluation; and
- material modifications to the contract during execution.

Where there is prequalification, prior review by Bank staff is mandatory for all documentation and proposals relating to prequalification regardless of threshold. Similarly, Bank staff should review any advance procurement action, advance contracting, and retroactive financing related contracts that require ICB and other large contracts expected to be above the prior review threshold level in the Loan Agreement. ***(For detailed discussion on prequalification and postqualification of bidders see Section 18 of the Manual)***

Bank staff do not participate in the evaluation for prequalification. The Borrower conducts the evaluation and submits the prequalification report to the TTL/PS/PAS for review. This report must include the following:

- a listing of applicants;
- their ratings keyed to specific items of information requested,
- the list of rejected applicants; and
- the resulting proposed list of prequalified applicants.

Any recommendation for exclusion of an applicant should be accompanied by a detailed explanation. Based on its review, the TTL/PS/PAS may ask the Borrower to provide further justification for its recommendation to exclude (or include) specific firms from the list of prequalified applicants. Bank staff may also ask for a copy of the prequalification application and all supplementary or other information submitted by any applicant.

When the Borrower rejects an applicant because of the submission of inadequate or insufficient data, Bank staff may recommend that the Borrower contact the applicant for additional information. The TTL/PS/PAS must be satisfied that the composition of the list of qualified firms is justified exclusively on sound technical and financial grounds. In

exceptional circumstances, the Bank may object to the rejection of a firm and require that the applications be reevaluated. If the Bank is not satisfied with the results of prequalification, misprocurement may be declared.

In the case of operations that involve numerous procurements of similar goods, works, or services, certain commercial documents could be common to similar items of procurement, and hence, could be reviewed once then used repetitively. Examples of documents that may be common to similar procurements are:

- the general format of advertisements and method of circulation;
- the prequalification questionnaire and the method of evaluation;
- the Borrower's standing registers, if any of prequalified suppliers and contractors; and
- standard bidding documents, including instructions to bidders, general conditions of contract and general technical specifications.

20.5 Procedure for Prior Review of Contract Award Recommendations

When the TTL/PS/PAS receives a proposal for award of contract after the procurement process has been carried out, the following review steps are carried out to ensure that Bank procurement policy has been complied with by the Borrower. These steps lead to the eventual issuance to the Bank's "no objection" to the Borrower's recommendation for contract award to a particular bidder. These review procedures are undertaken as follows:

- For all contracts of an amount equal to and below the thresholds specific in the Summary Chart: Regional Thresholds Review-Annex 2, the TTL/PS/PAS after reviewing the relevant documentation shall submit his/her recommendations to the chief, Sector Operations Director (SOD) / Country Operations Director (COD), for approval and clearance of the eventual communication to the Borrower.
- For contracts above the thresholds specified in Annex 2 and for contracts whose awards are likely to be contentious, the TTL sends his/her recommendation and draft response for clearance to the RPA, who in turn will request clearance (or additional comments) from Legal Adviser, Procurement and Consultant Services (LEGOP).The RPA and LEGOP may contact the TTL for additional information.
- The RPA and LEGOP have 10 working days to prepare their reviews. The RPA then issues his clearance in a memorandum or email or marked copy of the incoming recommendation, reflecting the views of LEGOP and attaching any additional comment that LEGOP may offer. The TTL/PS/PAS then prepares the Bank's final recommendation accordingly and sends it to the chief of SOD/COD for approval and signature.
- In the case of contracts of an amount equal to or above the threshold of $25 million for goods and works, and $10 million for consultants, the TTL sends his/her recommendations and draft response simultaneously for clearance to the RPA, and the chief of SOD/COD, and the director OPCPR. If they agree with the recommendations, each gives his/her clearance to the TTL/RPA within 10 working days. If one does not agree with the recommendations or requests a meeting, the RPA convenes a meeting.
- The TTL, RPA, the Legal Advisor Procurement and Director OPCPR, meet as the Operations Procurement Review Committee (OPRC) to discuss and review the TTL's

recommendations. The OPRC makes a decision by consensus, and conveys its views through the RPA to the Country Unit Director.

- If the OPRC fails to arrive at a consensus, then at the option of the dissenter, either: (i) he/she will merely record his/her dissenting views which are communicated to the Country Director, together with the views of the others; or (ii) the issue is elevated to the next management level (Senior Operations Advisor, Assistant General Counsel, Country Unit Director, Director OPCPR) for their review and advice. In all cases, the final decision rests with the regional management. The TTL/PS/PAS then processes the response to the Borrower.
- The RPA or LEGOP at his/her own initiative or at the request of the TTL/PS/PAS, may refer award proposals below the thresholds specified in bullet 4 above to the OPRC for guidance, advice and clearance as appropriate.
- In all cases of award proposals, every endeavor should be made to send the response to the Borrower within 14 working days of receipt of a proposal for award. If further time will be needed before a decision is reached, the Borrower should be advised within 14 days, that its recommendations are still under review.

Differences between the Bank staff and the Borrower's views on bid evaluation and resulting recommendation for award frequently center on prequalification or on postqualification. If the issue is the disqualification of a prequalified bidder, the TTL/PS/PAS must be satisfied that the reversal is due to:

- substantial deterioration in qualifications of the bidder incurred since prequalification, such as resulting from new contractual obligations which over-extend his capacity to perform the contract, financial deterioration, adverse results of litigation which demonstrate fault by the applicant, or delays with contracts underway for which the contractor is responsible;
- misrepresentation of the bidder's capabilities in his prequalification submission; or
- flaws in the prequalification procedure.

The TTL/PS/PAS should consult with the RPA in all cases where the Borrower proposes to deny award of contract to the lowest evaluated bidder on grounds of failure to postqualify or to have prequalification confirmed. Consultation is also advised where applicants protest a prequalification evaluation.

20.6 Post Review of Procurement Documentation

20.6.1 Scope of Post Review

Post review is similar in scope to prior review, but is carried out only on a preselected proportionate sampling basis, either on procurement documentation submitted to the Bank or retained by the Borrower in the field. Since post review involves smaller procurements below the prior review threshold level and may include, ***inter alia*** shopping and single payment contracts, the related procurement documentation is relatively simple.

20.6.2 Sampling for Post Review and Disbursements under Post Review

Post review of a random sample of awarded contracts and procurement related documentation below the prior review threshold usually complements prior review. The proportion of contracts chosen by the TTL/PS/PAS for post review should take into consideration the following issues:

- the nature, size and expected number of contracts below the threshold;
- demands on staff time; and
- the Bank's previous experience with the Borrower.

Depending on the circumstances of a specific project, a proportion ranging from 1 in 4 down to 1 in 20 is suggested as a guide for post review. In exceptional circumstances, the proportion may be reduced to as low as 1 in 50 in consultation with the RPA. This may be in cases for example, in a project with a large number (say above 200 annually) of similar small goods contracts, or with experienced and sophisticated Borrowers.

Once the contract has been awarded to the lowest evaluated bidder, the borrower furnishes to the Bank, prior to the first application for withdrawal, two conformed copies of the contract together with the analysis of bids and other procurement information. Borrowers should be encouraged to submit these documents as soon as contracts are signed in order to avoid delays in disbursement. The first contract received for post review in a particular category (goods, works, etc.) should always be the subject of review by the TTL/PS/PAS. Thereafter, the documentation should be reviewed on the prescribed sample basis.

The Loans Department (LOA) should process applications for withdrawal against awarded contracts or for replenishment of Special Accounts (SAs) [see para. {f}], promptly upon receipt, without reference to the TTL. LOA should make a general review of any accompanying contract documentation to ascertain that the nature and amount of the goods, works, and services comply with the general description and objectives of the project and that the aggregate amounts of withdrawal are within the prescribed limits for the particular categories. All procurement-related documentation received by LOA should be passed to the TTL/PS/PAS for random sampling and detailed review.

If misprocurement is revealed during a review, the TTL/PS/PAS should, in consultation with the RPA and the Legal Department, promptly inform both the borrower and the disbursement officer in LOA and advise the borrower that corrective action is required. If any amounts related to the misprocured contract have been withdrawn from the loan (or paid from a SA), LOA should take appropriate action with the borrower to recoup any amounts improperly disbursed. The TTL should then intensify the review of procurement documentation, past and future, to identify other potential objections.

Where the Borrower seeks to make withdrawals against SAs it may submit the procurement documentation subject to post review with the request for replenishment of the SA, if not submitted earlier (see para. {d}). LOA should process the disbursement application without delay and pass any procurement materials to the TTL after making a general review of basic acceptability. The TTL will make the required sample post review and inform both the

borrower and LOA of any objection (as in para.{e}). Annex 5 sets out the Decision Authority Matrix for various activities at the different stages of the procurement process.

20.6.3 Statements of Expenditure (SOE)

SOEs are used when documentation for project expenditures wold be cumbersome or voluminous e.g. shopping for minor supplies, force account works, training etc. and for individual contracts below limits specified in the PAD and the disbursement letter. The TTL/PS/PAS should set the SOE limit in consultation with the RPA and in collaboration with the Loan Department (LOA), and ensure that the specified limit does not exceed the prior review threshold applicable to procurement under the project.
Contracts or invoices subject to SOE disbursement, and other procurement and disbursement support documents relating to SOEs should be retained by the Borrower in the field in a manner that is satisfactory to the Bank. These documents should be available for subsequent random sample post review by the TTL, on scheduled supervised missions. Alternatively, resident missions with appropriate input by PS/PAS and LOA staff may conduct field review of SOE documents.

Field reviews should include an examination of the Borrower's capacity to maintain adequate accounting records, systems for control, and auditing arrangements. The selection of sample documentation for SOE reviews requires sound judgement by the TTL/PS/PAS. If the SOEs relate clearly to works or goods categories, the sampling ratios prescribed in the PAD for those particular categories should be used. SOEs for force account work may include different items of expenditure for labor, materials, equipment, operation, spare parts, etc. For sampling purposes, SOEs related to force account should be included in the "works" category. For SOEs related to other categories of expenditure, the sample of line items and related documentation should be of sufficient intensity to establish the adequacy of the Borrower's monitoring system and to ensure compliance with the agreed procurement procedures.

20.7 Review of Procurement Documentation in Adjustment Operations

Adjustment operations are fundamentally different from investment operations in the scope, objectives and nature of its procurement requirements. Thus, prior review is not required for any procurement documentation or proposal for award. Procurement review in adjustment operations is done on an ex-post basis only i.e., after a particular purchase agreement has been concluded and the relevant shipment made. The main objectives of Bank staff review of procurement documents related to adjustment operations are to:

- verify compliance with the procurement arrangements prescribed in the Loan Agreement;
- ensure that procurement is being carried out by the importing agencies, both public and private, in an acceptable manner and according to basic Bank principles of economy, efficiency and transparency, while providing an opportunity for bidders from eligible Bank member countries to compete;
- confirm that adequate supporting documentation on individual procurement transactions is being prepared by importers and that originals or copies are retained by the Borrower's

Central Bank or other intermediary banks to facilitate a final comprehensive audit of the operation; and
- determine what assistance is required (such as procurement specialists, trade verification or inspection agents, etc.) to rectify deficiencies in procurement performance.

Banks staff should review and approve SBDs for any ICB procurement in adjustment operations during appraisal or soon thereafter. Borrowers are required to submit supporting documents, the evaluation report etc. prior to or along with the first application for disbursement. In reviewing these documents the TTL/PS/PAS checks whether the documents submitted by the Borrower are the same as those approved earlier, or are otherwise acceptable and, whether the award was made to the lowest evaluated bidder.

In non-ICB procurement, the Bank encourages supporting documents, submitted by the Borrower to include a brief description of the procurement procedure used, and an evaluation summary giving the number of bids received and a comparative table. In exceptional cases where single source procurement is used, the Borrower is required to provide Bank staff with appropriate justification for not using competitive procurement procedures.

20.8 Procurement Decisions subject to Review by the Operational Procurement Review Committee (OPRC)

In procurement of goods, works, and services (other than consulting services) with a value of twenty-five million US dollars (US$25m) or more, the OPRC must review the following documents:

- the prequalification evaluation report;
- the bid evaluation report; and
- the responses to all complaints on the procurement process;

The following documents are subject to review by OPRC with respect to hiring of consultants for Bank financed contracts of a cost equivalent to ten million US dollars (US$10m) or more:

- the technical and final evaluation reports (QCBS) or the technical evaluation report (QBS); and
- the responses to all complaints on the selection process. OPRC also has to review the justification for consulting services contracts costing $5 million or more equivalent being processed on a single source basis.

The OPRC does not need to clear prequalification or bidding documentation for goods or works, or requests for proposals documentation for consulting services. However, at the request of the Regional Procurement Adviser (RPA), OPRC reviews specific issues related to this documentation, or specific sections of bidding documents which are not based on Bank standard documents.

The OPRC also reviews, at the request of LEGOP, OPCPR or an RPA (acting on their own initiative or at the request of the Task Team Leader (TTL)), issues relating to the procurement of contracts that are particularly difficult, require policy interpretation or are of a controversial or novel nature, regardless of the value of the contract. The concerned TTL (or the Country or Sector Director), presents the case to the OPRC. The person acting for a principal will represent him or her on the Committee in his or her absence.

20.8.1 Composition of the OPRC

The OPRC is composed of the following members:

- the Senior Manager, OPCPR, who chairs the Committee;
- the Legal Adviser, Procurement and Consulting Services, LEGOP; and
- the RPA with jurisdiction over the case.

In the absence of the Senior Manager, OPCPR, the concerned RPA or the Legal Adviser, in this order, will chair the Committee. In the absence of all the principals, the Procurement Policy Adviser, OPCPR, or one of the other acting persons (in the same order as given above), will chair the Committee. Principals may invite other relevant staff to attend the meetings.

In order to review a case before it the OPRC requires the following documents:

- the OPRC case recommendations and report;
- the Standard Bid Evaluation Form, and selected documentation, i.e., full bid evaluation report for goods or works, or technical plus final evaluation report or technical evaluation report (for QCBS or QBS respectively) for consultant contracts; and
- copies of any complaints received and Bank responses.

TTLs may want to add to the package other documents that could become essential to the review, e.g. complete copy of specific sections of bids or proposals, copies of bid securities, etc. They should consult with their RPA in this regard. The OPRC may need to ask for additional documentation and/or clarifications from the borrower.

The OPRC requires 10 working days to review and clear a case. It may be possible to clear simple cases in less time, but particularly complicated cases, or those requiring further clarifications, analysis, etc. are likely to take longer. Therefore, the package of documents should be complete and made available to the members of the Committee with sufficient time to allow for the review. Bulky reports do not need to be photocopied, but rather furnished to OPCPR for circulation, as appropriate, to the members of the OPRC. The RPAs are not required to clear the package in advance of submission, but TTLs are encouraged to consult with the RPA during preparation of the OPRC Case Recommendation and Review Report (OPRC--CRRR), to ensure relevance of content and quality of presentation.

20.9 Procurement Audits

An annual audit of the Bank's country lending portfolio should be carried out a random sample of procurement in all ongoing operations is selected by the auditing staff or consultant. The review usually covers the following documents:

- the Invitation for Bids;
- Bidding Documents;
- Public bid opening record;
- Bid evaluation report;
- final contracts;
- other documents as appropriate to check if the agreed procedures were correctly followed, whether the documents are consistent with Bank procurement rules; and
- whether the lowest evaluated bidder was indeed awarded the contract.

Procurement audits are also used to examine the Borrower's capacity to maintain adequate accounting records, systems for control and auditing arrangements. This involves the review of Statements of Expenditure (SOEs). The random selection of sample documentation for SOE review requires the exercise of sound judgment by the TTL/PS/PAS. If the SOEs relate clearly to works or goods categories, the sampling ratios prescribed in the PAD for those particular categories should be used. SOE for force account may include different items of expenditure for labor, materials, equipment operations, spare parts, etc. For sampling purposes, SOEs related to other categories of expenditure, the sample of line items and related documentation must be of sufficient intensity to establish the adequacy of the borrower's monitoring system and to ensure compliance with agreed procurement procedures.

After conducting the analysis, the audit team prepares a report of its findings and conclusions and submits it to the Country Director at the Bank headquarters. The report is reviewed by the Country Unit in consultation with the RPA and LEGOP. If the audit reports are not satisfactory, corrective actions are introduced in subsequent operations which may include, lowering of prior review thresholds, training of implementing agency staff and hiring of procurement agents. Notwithstanding the use of audits, the TTL/PS/PAS have the right to verify that the procurement arrangements under SOE are sound and the role of auditors is effectively exercised. ***(Refer to Annex 1 for Model Terms of Reference for Procurement Audit)***

20.10 Review and Clearance of Amended Bidding Documents

Where the Borrower submits bidding documents to the TTL/PS/PAS for review and the latter suggest that changes be made prior to the issuance by the Bank of its "no – objection". The Borrower or its implementing agency should develop a method to carefully annotate the changes from the previous version. This will assist in limiting the need to review the entire documents from scratch in the subsequent round. After the changes are made by the Borrower the bidding documents are again submitted to the TTL/PS/PAS for approval and issuance of the Bank's "no- objection. Once the "no-objection" is given the Borrower proceeds to issue the documents to all the bidders.

20.11 Contract Changes

Once a contract subject to prior review has been awarded and signed, the contract documents are reviewed by the TTL/PS/PAS in the country unit to ensure that there has been no substantial change in their provisions. Copies of the contract are filed in the Regional Office. A copy of the contract or a summary of the pertinent contract data is also given to the Loan Department as the basis for disbursement during project implementation.

In cases where prior review is not required a sample of contracts is examined. Subsequent substantial modifications of contracts that are being executed are also reviewed. All queries on deviations from contract provisions are referred to the TTL/PS/PAS in the country unit concerned.

The Bank does not encourage changes to the contract once the Bank "no objection" is given. However in some instances, changes to a contract relating to one or more of the following may be sort by the Borrower or contractor:

- Time extension, where there is a delay in the implementation of the contract caused by either the Borrower or supplier.
- Price adjustment higher than what was provided for in the original contract.
- Changes in technical specifications.
- Changes in the scope of the contract.
- Administrative changes like the change in the name and legal status of the contractor.

Where changes are absolutely necessary the Borrower in consultation with the contractor may establish a procedure for effecting changes to the contract. The following steps are recommended:

- Where one party determines a need for an amendment, the other party is duly informed and the issue discussed and agreed upon.
- The parties then refer to the contract clause giving then the authority to process such change.
- Where the change is a price adjustment, the adequacy of the funding allocation should be checked to ensure that the allocated limit of the contract price is not exceeded.
- The amendment should then be issued as an addendum to the original contract. The addendum is given a serial number and copies of it are distributed to all concerned parties.

Contract changes are effected using a standard form developed by the Borrower or through a supplemental letter signed by both the parties and annexed to the original contract. The changes usually make reference to the original clauses in the contract. Contract amendments should not be made by corrections or deletions on the original document. Before any changes to the contract are undertaken, the TTL/PS/PAS have to review the changes and give their "no – objection" to them.

Annex 1:

MODEL TERMS OF REFERENCE FOR A PROCUREMENT AUDIT.

Ex-Post Procurement Audit for Contracts under World Bank Financed Projects in Zambia

Terms Of Reference-Table Of Contents

A. Audits of Procurement and Contracting in Zambia

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EX-POST PROCUREMENT AUDIT
FOR CONTRACTS UNDER WORLD BANK FINANCED PROJECTS IN ZAMBIA

1. Introduction

1.1 The Africa Regional Office of the World Bank requires an audit of the procurement and contracting carried out by implementing agencies under four (4) Bank financed projects in Zambia.

1.2 Under the Bank's Procurement Guidelines (the Guidelines) the Bank is expected to assure itself that procurement and contracting for Bank financed projects is carried out in accordance with the procedures specified in the Loan/Credit Agreement (the LA) or authorized by the Bank through formal waivers. Only contracts awarded following such procedures are eligible for financing using the proceeds of the Bank's Loan.

1.3 To this end, the Guidelines provide for the following review procedures, which are specified in detail in the LA for each Bank-financed project:

i. "Prior Review": For contracts above certain thresholds in US dollar amounts or specific contracts as specified in the LA, the Bank reviews all procurement documents and decisions prior to:

- inviting bids or applications for pre-qualification (where appropriate);
- finalising the list of pre-qualified bidders (where appropriate);
- shortlisting consultants;
- extending the bid/proposals validity period by more than eight weeks and any subsequent extensions;
- issuing no-objection to award of contract in the evaluation of bids and of technical/financial proposals;
- awarding the contract; and
- modifying materially a contract already awarded.

ii. "Post Review": For all contracts which are not subject to "Prior Review", the Bank reviews contracts and award decisions after the award of the contract. This "post review is conducted on the basis of documents provided to the Bank prior to the first withdrawal or replenishment application in respect of the contract. For contracts on account of which disbursements are made on the basis of Statements of Expenditure (SOE), the Bank reviews these contracts and their award decisions ex-post, in the field during the Bank's supervision missions.

1.4 To facilitate compliance by Borrowers and review by the Bank, the Bank requires the use of its Standard Bidding Documents (SBD) and standard documents for

prequalification and bid evaluation in International Competitive Bidding and Standard Requests for Proposals (consulting services).

1.5 The procurement audit serves an important role in the Bank's general review responsibility by:

i. acting as a reminder for Bank management, staff and borrowers of the importance of their respective responsibilities for procurement;
ii. creating a deterrent to negligence in procurement management, decision making and oversight, to ensure that an environment conducive to corrupt practices is not allowed to develop and that any such practices are brought to light and eliminated;
iii. monitoring both procurement and review functions and stimulating corrective action by the appropriate parties wherever non-compliance or deficiencies are identified.

2. Objective

2.1 The objective of the procurement audit is to review the procurement, contracting, and implementation processes which have been followed for contracts in Bank-financed projects in Zambia, to confirm consistency with the LA.

2.2 The purpose of the audit of the projects is to perform verification of:

i. the procurement and contracting procedures and processes followed;
ii. technical compliance, physical completion and price competitiveness of the contracts reviewed; and
iii. possible improvements

2.3 Based on this verification, the auditor will:

i. determine whether the procurement and contracting processes were carried out in accordance with the Loan Agreement (LA) and achieved the expected economy and efficiency;
ii. determine, to the extent possible, whether identified non compliance with the LA, inappropriate practices or questionable decisions/actions, may have been related to corrupt practices;
iii. evaluate the quality, timeliness and reliability of the Bank's reviews and checks in ensuring that procurement, contracting and disbursement is being carried out in accordance with the LA; and
iv. in the light of deficiencies, identify ways of improving the procurement and contracting process.

3. Scope of the Audit

3.1 Initially, the procurement audit will cover four (4) projects in Zambia selected by the Auditing team.

3.2 The audit team should conduct a thorough review of sample contracts that have been selected. Project sites should be visited to make physical inspections of quality and quantity of goods, works and services procured. Where appropriate, prices should also be compared with similar contracts financed by agencies in the country and the region and verified against international market prices for the items in question.

3.3. To cover systematically the various objectives, the audit should focus its review on the following main areas:

i. compliance of the procurement procedures, documentation and decisions with the Loan Agreement (LA);
ii. timeliness of procurement/contracting processes and decisions;
iii. compliance of the completed works with the requirements and specifications defined in the contract; and
iv. cost effectiveness of contracts.

4. Methodology

4.1 The procurement audit should follow three broad phases:

i. Design of scope and program of the audit, defining the essential information requirements and contracts;
ii. Field work;
iii. Preparation of the Audit Report.

4.2 Decisions on appropriate sampling should be taken based on selection criteria.

4.3 Fraud and Error: The Consultants should plan the audit so that there is a reasonable expectation of detecting material misstatements resulting from fraud and error. Suggested procedures are provided in the International Standards on Auditing (ISA), when the Consultant has an indication that fraud or error may exist.

5. Audit Report

5.1 At the completion of the audit work in the field the audit team should present its findings in the form of an Audit Report. The Audit Report should focus on the audit findings and recommendations without going into details of what transpired during the audit. Details of the audit methodology and procedures, evidence substantiating the audit findings, and elaboration on the recommendations should be covered in the Annexes.

5.2 The final Audit Report should focus on the audit findings and recommendations. Details of the audit methodology and procedures, evidence substantiating the audit findings, and elaboration on the recommendations should be covered in the Annexes.

5.3 Except as otherwise justified by the Auditor, the report should be structured as follows:

- Summary of findings and recommendations.

- Outline of the audit
  - objectives and Terms of Reference
  - scope, approach and audit sample

- Findings on:
  - specific contracts
  - specific projects/agency
  - country issues
  - Bank actions
  - general issues

- Recommendations (if any) for Improvements

ANNEXES

1. Terms of Reference

2. Audit Methodology

3. Audit Data (by project and by contract)

   - details of all audit findings with evidence substantiating all findings
   - tables and graphs illustrating the detailed analysis carried out during the audit

5.4 The auditors will address all the findings and recommendations. The output of the audit will be the final Audit Report which will be the sole responsibility of the auditors and will represent the opinions of the auditors.

5.5 The audit report will be in the English language.

6. Time Schedule

6.1 The audit work would mainly take place in Zambia. The audit shall be completed and final report presented to the Bank within 120 calendar days from the date of the contract.

6.2 The auditors shall select and finalise the samples of contracts to be reviewed within 10 calendar days of start of the work. The list and any major changes in the work plan must be agreed with the Bank Headquarters prior to undertaking the work. The Bank Resident Mission in Lusaka shall be kept informed at all times;

6.3 The draft audit report shall be presented within 90 calendar days from the date of the contract; and

6.4 The Bank shall furnish its comments in writing on the draft audit report within 20 calendar days of receipt of the report. The final audit report shall be submitted to the Bank within 10 calendar days after the Bank has furnished its comments in writing on the draft audit report.

6.5 If acceptable, the Bank shall approve the final audit report within 10 calendar days which will be the basis for release of the final payment; if not, the Bank will specify reasons and require the auditor to address them and resubmit for acceptance.

7 Staffing

7.1 The audit team will include a Bank staff from the Resident Mission with experience in public procurement under Bank financed projects, an operations assistant and two consultants, and a social worker.

8. Data, Documents, Services and Facilities

8.1 The documents and information listed in Attachment 2 will be available from the project implementing agencies in Zambia. Much of this information will be in the implementing agency's project files, etc., and the auditors should be prepared to review and inspect this information in the offices of the implementing agency.

8.2 The auditor should work in close co-ordination with the staff of the implementing agencies for day to day reviews and audit works to be performed. As far as practical, the auditor should give the implementing agencies advance notices of the information and documents which they will require and to arrange for site visits.

8.3 The Bank will nominate a Bank contact at the Resident Mission in Lusaka to facilitate the work of the auditors and provide liaison, assistance and co-ordination with the implementing agencies. The Bank contact person will be the main means of communication amongst the auditors, the Bank and the implementing agencies.

8.5 The Bank's staff responsible for this task at Headquarters in Washington will be [insert name of staff, telephone and fax number and internet address] *Contact person at the Bank's Lusaka office will* [insert name].

8.6 The Bank and the implementing agencies will not be able to provide accommodation, transportation or other facilities to the auditor but the auditor will have access to all relevant project files.

9. Reporting

9.1 The primary output of the audit will be the Final Audit Report which shall be the sole responsibility of the auditor and shall represent the opinions of the auditor.

Annex 2

Prior Review Threshold: Sample Contract Profile by Value/Number

***[PAD Title*]**

Prior Review Threshold:
Sample Contract Profile by Value/Number

Range of contract values (incl. Contingencies) (US$ thousand) (1)	Estimated value (no.) of contracts within each range (US$ million) (2)	Cumulative value (no.) above threshold (US$ million) (3)	Percentage of total value (no.) above threshold (4)
	Goods		
1,000 and above	13 (4)	13 (4)	26 (2)
500 to 999	14 (16)	27 (20)	54 (10)
250 to 499	8 (20)	35 (40)**	70 (20)
100 to 249	7 (30)*	42 (70)	84 (35)*
50 to 99	4 (45) approx.	46 (115)	92 (38)
0 to 49	4 (85) approx.	50 (200)	100 (100)
Duration of procurement is about two years.			
	Works		
10,000 and above	18 (1)	18 (1)	36 (5)
5,000 to 9,999	15 (2)	33 (3)	66 (15)
2,000 to 4,999	7 (3)	40 (6)	80 (30)*
1,000 to 1,999	4 (3)	44 (9)	88 (45)
500 to 999	4 (5)	48 (14)	96 (70)
0 to 499	2 (6)	50 (20)	100 (100)
Duration of procurement is about three years.			

Notes:

- Retain the completed profile in the project file.
- "Threshold" is the first figure in each range of the first column.
- In practice, with a large number of small contracts, the detailed tabulation only needs to be taken down to a level that accounts for about 80 percent of the total value of procurement, with approximate aggregated figures below that level.

* Indicates a desirable percentage coverage of contract value (i.e., around 80 percent).

** Indicates a reasonable individual staff work load in the opinion of the task manager (any lower threshold would require additional staff input).

The Task Manager's Conclusion

Selected prior review thresholds	For Goods: $250,000 with 70 percent value coverage (plus explanation) For Works: $2 million with 80 percent value coverage
Sample post review of contracts below threshold	For Goods: 1 in 8 of the remaining 160 contracts For Works: 1 in 4 of the remaining 14 contracts

Annex 3

SUMMARY CHART: REGIONAL THRESHOLDS FOR MANDATORY REVIEW

(millions of US dollars)
(as of _____1999)

Item	*AFR*	*EAP*	*SAS*	*EAC*	*MNA*	*LAC*
Review by Regional Procurement Advisor (RPA)[61]						
Civil works	15.0	15.0	15.0	15.0	15.0	15.0
Goods	5.0	7.5	7.5	7.5	7.5	7.5
Consultants (competitive selection)	2.0	2.0	2.0	2.0	2.0	2.0
Consultants (sole source waiver of competitive selection)	0.25	0.25	0.25	0.25	0.25	0.25
Consultants (when Bank is executing agency)	----------See Consultant Handbook--------					
Management Service Agreements with UN agencies and contracts with procurement agents	0.25	0.25	0.25	0.25	0.25	0.25

In addition, the following procurement instances, inter alia, are subject to the RPA's mandatory review (goods or works):

(a) all prequalification documents;
(b) any case in which the procedures used are not transparent or award recommendation is irregular;
(c) any request for rebidding;
(d) standard procurement documents to be used by a sector or agency;
(e) standard procurement documents to be used by a sector or agency;
(f) the first ICB, LCB, or other procurement documents for a new project if not previously reviewed;
(g) turnkey and BOT, BOOT, BOO contracts; other complex procedural or contractual arrangements;

[61] The ceilings contained here cannot be exceeded by the Regions. However, RPAs may decide to reduce these figures in their Regions or for specific countries when special circumstances require a more intense review by the RPA. When such reductions are established, OPCPR and LEGOP are informed.

(h) commodity purchases;
(i) drilling, well development; other "borderline" services such as aerial and satellite mapping; and
(j) a Borrower's repeated requests for bid validity extensions.

Annex 4

SUMMARY CHART: REGIONAL THRESHOLDS FOR MANDATORY REVIEW

(millions of US dollars)
(as of _____1999)
(continued)

Item	*AFR*	*EAP*	*SAS*	*EAC*	*MNA*	*LAC*
Review by the Operational Procurement Review Committee (OPRC)						
Works, Goods and Services	25.0	25.0	25.0	25.0	25.0	25.0
Consultant Services	10.0	10.0	10.0	10.0	10.0	10.0
Justification for Single Source Contracting of Consultants	5.0	5.0	5.0	5.0	5.0	5.0

Notes:

(i) The OPRC does not need to clear prequalification or bidding documents for goods or works, or requests for proposals documentation in consulting services. However, at the request of LEGOP, OPCPR or an RPA (acting on their own initiative or at the request of the TTL), issues relating to the procurement contract that are particularly difficult, require policy interpretation or are of controversial or novel nature, regardless of the value of the contract.

(ii) The OPRC requires the following documents for its review:

- the OPRC case recommendation s and report (see Attachment (i));
- the Standard Bid Evaluation Form , the bid evaluation report for goods and works, the technical report and final evaluation report or technical evaluation report for (QCBS or QBS respectively) for consultant contracts; and
- copies of any complaints received from bidders and/or the Executive Directors on behalf of bidders and Bank staff responses.

Annex 5:

SAMPLE FORMAT OF OPRC CASE RECOMMENDATION AND REVIEW REPORT

Case Report No.:_____
(completed by OPRC)

Section 1. General Information

Country		
Project		
Loan/Credit Number		
Sector		
Task Team Leader		
Room		
Extension		
Bank Unit		
Contract Type: (check one)		Remarks (if any):
Goods		
Works		
Supply and Installation		
Services		
Consultants		
Other (specify)		
Contract Description and Summary:		
Estimated Cost US$		
Borrower Recommended Award to:		
Amount and Currency		
Prequalification Report Date or Shortlist Report Date		
No Objection Date:		
Date of Bid Evaluation Report for Goods/Works/Non – Consulting Services: Or Date of Technical & Final Evaluation Report (QCBD): Or Date of Technical Evaluation Report (QBS):		

Section 2. Complaints received by the Bank on this Case

Please summarize the nature of the complaint, the actions taken and submit copies of the complaints and the responses when submitting this form.

(A). During Bidding / Selection Process:

(B) During Bid Proposal Evaluation

(C) After Bid/Proposal Evaluation

Section 3. Main Issues to be Considered for the OPRC Review
(Summarize main issues-Technical, Commercial, Procedural, other)

Section 4. Recommendation by the Task Team Leader

Section 5. Summary of OPRC Findings and Decisions

Section 6. Processing of Case by OPRC

Insert Dates:

(i) Case Sent to OPRC on:	
(ii) OPRC Meeting held on:	
(iii) OPRC Case Cleared on:	
(iv) No Objection Letter date:	

If more than 10 working days between the dates (i) and (iii), check reason(s) and provide remarks, where applicable:

More Information Required by OPRC:		
Incomplete of Deficient Report:		
Unavailability of OPRC:		
Other (spell out		

Section 7. Lessons Learned from the Case

Report Prepared by:	
Date:	
Extension:	
Room Number:	

Annex 6

THE WORLD BANK PROCUREMENT FUNCTION

Decision Authority Matrix

Decision Authority Matrix

Action	*Initiates/Executes*	*Consults/ Advises*	*Clears*	*Signs*	*Final decision in case of disagreement*
Borrower Development/Capacity Building					
Country Procurement Assessments and Follow-up Activities	CD/RPA	PRMPS/ CCPr/CL/ OPCPR	RPA/CCPr/ CL	CD	RVP
Fiduciary Responsibilities - Investment Operations					
Project Preparation					
Implementing Agency Capacity	TTL/PS/PAS	LOA/PRMPS	RPA	CD	
Procurement Section in PCD/PAD	TTL/PS/PAS	LOA	RPA	CD	
Prior Review Thresholds	TTL/PS/PAS	SM/CL	RPA	CD	
Supervision[a]					
Document Prior Reviews[b]					
• Below RPA Threshold	TTL	RPA	PS/PAS	TTL	RVP
• RPA Threshold and above	TTL		RPA/CCPr[c]	TTL	RVP
Decision Prior Reviews[d]					
• Below RPA Threshold	TTL	RPA	PA/PAS	TTL	RVP
• Between RPA and OPRC Thresholds	TTL/PS/PAS		RPA/CCPr[c]	TTL	RVP
• Above OPRC Thresholds	TTL/PS/PAS		OPRC	TTL	President
Sole Source Hiring of Consultants					
Below $200,000	TTL	RPA	PS/PAS	TTL	RPA
Between $200,000 and $5 million	TTL/PS/PAS		RPA/CCPr	TTL	RVP
$5 million and above	TTL/PS/PAS	RPA	OPRC	TTL	MDO
Hiring Individual Consultants					
Below $50,000	TTL		PS/PAS	TTL	RVP
At and above $50,000	TTL	RPA	RPA/CCPr[c]	TTL	RVP
Post-Reviews and Procurement Audits	TTL/CD	RPA/ OPCPR	PS/PAS	TTL	RVP
Approve rebidding/negotiation with the lowest bidder					

[a] Waivers, and amendments to Legal Agreements should be processed in accordance with OP 13.05.
[b] Procurement Notices, Bid Documents, Prequalification Documents, Consultant RFP Packages, Contracts. All Terms of Reference and selection of consultants for legal work are cleared by LEG.
[c] Upon RPA's request.
[d] Prequalification lists, consultant short list, consultant selection, supplier/contractor selection, contracts.

Action	*Initiates/Executes*	*Consults/ Advises*	*Clears*	*Signs*	*Final decision in case of disagreement*
Below OPRC review threshold	TTL/PS/PAS	CCPr[c]	RPA	TTL	CD
OPRC review threshold and above	TTL/PA/PAS		OPRC	TTL	RVP
Contract Amendments					
Amendments not subject to RPA mandatory Review	TTL	RPA/ CCPr[c]	PS/PAS	TTL	CD
Amendments subject to RPA mandatory review	TTL/PS/PAS	CCPr	RPA	TTL	RVP
Misprocurement					
With Cancellation	TTL/PS/PAS	CL/ CCPr[e]	RPA	CD	RVP
Without Cancellation	TTL/PS/PAS	CC/RPA	CD	RVP	MDO
Response to Complaints					
From Bidders, EDs, Governments	TTL/PS/PAS	CCPr[c]	RPA/CCPr[c]	CD/TTL	RVP
That raise legal issues	CCPr	RPA		GC	

Acronyms

CC	Chief Counsel (region)
CCPr	Chief Counsel, Procurement and Consultant Services
CD	Country Director
CL	Country Lawyer
EDs	Executive Directors
GC	General Counsel
MDO	Managing Directors Operations
OPCVP	Operational Core Services Vice Presidency
OPCPR	Procurement Policy and Services Group
OPRC	Operations Procurement Review Committee
PAS	Procurement Accredited Staff
PB	Procurement Board
PRMPS	Public Sector Management Division
PS	Procurement Specialist
RPA	Regional Procurement Adviser
RVP	Regional Vice President
SM	Sector Manager
TTL	Task Team Leader

[e] At RPA's or Country Lawyers' request.

CHAPTER V PROCUREMENT UNDER SPECIAL CONDITIONS

Section 21. Co-Financing

21.1 Procurement in Co – Financed Projects

Bank policy is to encourage Borrowers to develop procurement arrangements and packages of contracts that will attract the widespread interest of cofinanciers. The availability of cofinancing is determined in part by the type, size and timing of the contract(s) for which cofinancing is sought. The sources of co-financing are varied and include:

- bilateral aid programs of governments;
- regional development banks;
- mixed and export credits provided or supported by official export credit agencies and their governments with the objective of export promotion;
- private resources seeking market based returns such as syndicated loans from commercial banks; and
- investors and suppliers providing risk capital to be paid through revenues of operating concessions.

In most cases co-financing introduces issues that do not arise when the project is financed entirely by the Borrower and the Bank, mainly because of the different terms and conditions attaching to the use of resources from the various cofinancing agencies. In case of cofinancing from official agencies, their funds may be "tied," i.e. available only for specified kinds of purchases or for purchases only from the country offering the financing; the amounts available may be limited; and the funds may be subject to other restrictions on their use. Depending on the circumstances, the use of the cofinancing resources may need either joint or parallel financing arrangements. ***(See Section 21.3 for detailed instructions on parallel financing)***

These conditions affect the choice of appropriate procurement arrangements in co-financed projects. In general, cofinancing requires that early attention be given to procurement planning during project formulation, to achieve optimal use of cofinancing resources to help ensure successful project implementation.

21.1.1 Role of Bank Staff

Cofinancing does not alter the basic responsibility of appraisal teams to examine and report on the overall soundness and feasibility of the entire project. It does however, give added importance to the need for staff to address the issues of procurement packaging as early as possible in the project cycle. Specifically in the area of procurement, the TTL/PS/PAS must be able to satisfy the Bank's management that:

- the proposed arrangements are consistent with the Bank's concern for economy and efficiency;
- prices are reasonable and quality is satisfactory; and
- cofinanced elements can reasonably be expected to be completed or delivered in accordance with the overall project schedule.

In order to do this, the TTL/PS/PAS may be required to spend more time than usual in assisting the Borrower with procurement planning and contract packaging. This may include advising Borrowers as to the kind and sizes of contracts that are likely to attract cofinanciers, the sequence and scheduling of procurement activities, and the procedures to use for inviting and evaluating bids to promote competition and facilitate the assessment of costs, quality and credit terms.

Borrowers may want Bank staff to assist in identifying potential sources of, and in arranging for, cofinancing. The Bank collects general data from many entities about their interests in cofinancing, including their areas of special interest, both geographical and sectorially, and the amounts available and conditions for lending. In particular the Bank has an arrangement under which most export credit agencies are prepared to give advance expressions of interest in specific cofinancing possibilities. Staff can assist by making the information available to borrowers and, conversely by providing information covering procurement aspects of particular projects to potential cofinanciers.

Borrowers may request the Bank to go beyond the role of providing information and to act on their behalf in arranging cofinancing. The nature and extent of this type of assistance by Bank staff that is appropriate will depend in part on the experience and stage of development of the Borrower. Some Borrowers have their own organizations and methods for securing cofinancing and need little assistance in this respect from the Bank. Others may be seeking cofinancing for the first time and may need more guidance. In some cases, e.g. large and complex projects, it may be preferable for the Borrower to engage a financial advisor to assist in financial planning and in identifying potential sources of cofinancing. In certain types of export credit cofinancing and in the case of the new commercial cofinancing instruments a very close relationship between the Bank and the Borrower is involved and CFS assistance will usually be necessary.

21.2 Procurement under Joint Financing Arrangements

Joint financing is a cofinancing operation in which the financing of all or certain contracts is shared between the Bank and the cofinancier in agreed proportions. All procurement under joint financing arrangements must be in accordance with the Bank's Procurement Guidelines, and the responsibilities of the Bank for procurement are generally the same as in lending operations where no cofinancing is involved. If this is not acceptable to the cofinanciers, parallel financing should be selected to ensure that Bank funds only finance procurement in accordance with the Guidelines.

When a contract is to be financed in part with Bank funds, there should be no condition requiring bidders to provide suppliers' credits or any other form of financing. Such a condition is unacceptable because it would limit the participation of otherwise eligible

bidders who cannot offer financing. However, since the Bank provides only a portion of the payment required, bidders may be asked on an optional basis to indicate their ability to provide finance for the balance of the payments. The availability of terms of such financing cannot be taken into account in bid evaluation. This should be indicated by the Borrower in the bidding documents. ***(See Section 27 for exceptions in the case of BOT projects)***

21.2.1 Intermediary Financing Institutions (IFIs)

One of the forms of the Bank's intervention in the financial sector is a financial intermediary loan (FIL). When the Bank provides a loan to a financial intermediary for on-lending to private sector beneficiaries and autonomous commercial enterprises of the public sector, procurement is usually undertaken by the respective beneficiaries in accordance with established commercial practices in the sector and in the country -- provided these are acceptable to the Bank.

This approach relies on the intermediary institution to ensure that acceptable procurement practices are followed, and on the self interest of the beneficiary to ensure economic and efficient procurement. There are some situations however, where the size and nature of the procurement package may be such that ICB is the more efficient and economic method of procurement. In such instances, procurement using ICB procedures should be required and so specified in the Loan Agreement.

Differences in membership of the IFIs and consequently the eligibility of suppliers/contractors and their products to participate in the bidding process are major impediments to joint cofinancing with the Bank. It is nonetheless worthwhile for Borrowers to explore the scope for joint financing whenever any of the other IFIs is cofinancing a project, as it can help in more economic and efficient procurement and can simplify project implementation significantly.

At project appraisal, staff should assess whether bulking and competitive procurement are feasible, and determine how it would be carried out. They should also determine whether end users accept the proposed method of procurement. In cases where there is good competition of local suppliers or agents, selection by the direct end users has the advantage of allowing for local choice and circumstances, and should be acceptable.

In the case of sub-loans to many Borrowers -- e.g. farmers, fishermen, or cottage industries that require common items such as motorcycles and pump sets -- the advantages of bulking requirements and procuring through ICB in accordance with the Bank's Procurement Guidelines should be explored. ICB may achieve among other things, economic prices, standardization and better availability of spare parts and service.

If all prequalified bidders in a particular project are found to be eligible under the Guidelines of the Bank and the procurement guidelines of the concerned IFI, joint financing may be possible. Such arrangements require careful attention at the time the bidding documents are drafted and the evaluation procedures decided upon. Procurement procedures of other IFIs, while similar, are not identical to those of the Bank. The requirements of the Bank are subject

to modification to accommodate IFIs to the extent that eligibility restrictions are not compromised.

21.2.2 Special Region-Specific Development Banks and Funds

These institutions have the same development objectives as the Bank, but the fact that they are established by donors or capital-surplus countries of a particular region has a marked impact on the eligibility criteria and procurement procedures using their resources. The scope for joint financing with such cofinanciers is thus more restricted. Regional trading preference and boycott[62] regulations may represent a further constraint on the possibilities for joint financing.

21.2.3 Bilateral Official Development Agencies (ODAs)

The scope for joint financing is limited with these agencies, since their resources are normally "tied" to the country of the donor agency. A notable exception is the untied resource provided by the Export-Import Bank of Japan for which the Bank's guidelines are generally used.

21.3 Parallel Financing

Parallel financing is a cofinancing arrangement in which the Bank and cofinanciers finance different goods and services or parts of a project. It is generally used in cases where:

- cofinanciers' procurement rules are inconsistent with the Bank's Guidelines, either through source restrictions or unacceptable procedures; and
- the procurement can be divided into packages that may be procured separately without seriously affecting project costs, implementation schedules or overall performance.

Since many sources of cofinancing -- including most national aid institutions, regional development banks and special funds established by regional blocks or marketing groups -- put limitations on the use of their funds, parallel financing arrangements are used in most cofinanced projects.

Procurement considerations to be weighed when arranging parallel cofinancing include the following:

- ensuring economy, efficiency and overall project soundness, including reasonable prices, compatibility of technical characteristics and quality of standards, coordinated timing of implementation and adequate total financing;
- the Borrower's interest in obtaining the most advantageous combination of prices and financing terms;
- the need to make organization and management of the operation as simple as possible; and

[62] Note that the Bank does not accept "secondary" boycotts.

- parallel-financed procurement should not influence or prejudice the procurement of Bank-financed contracts by giving an unfair advantage or other preferences to the suppliers or contractors of parallel financed contracts.

The choice of arrangements for parallel financing is the sole responsibility of the Borrower, and the administration of procurement is the responsibility of the co-lenders. The Bank limits its role to advising and assisting the Borrower in achieving reasonable economy in procurement.

The Bank should be satisfied that the goods and works to be procured under parallel financing:

- are of satisfactory quality and compatible with the balance of the project;
- will be delivered or completed in a timely fashion;
- are not priced to impair the economic and financial viability of the project; and
- will have the guarantees or warranties provided by the contractor or supplier to protect adequately the purchaser and the project as a whole.

21.4 Use of Tied Credits in Procurement

21.4.1 Background

Tied credits[63] are a major source of finances made available by donor agencies and/or other lenders on attractive terms to finance the exports of goods and services from their respective countries. Borrowers can use tied credits in parallel cofinancing transactions with the Bank. Although the Bank cannot finance the goods and services for which tied credits may be available, it can, if requested by the Borrower, advise on procedures to enable the Borrower to obtain the advantages of competitive bidding to the maximum extent possible while using such tied credits. This will minimize the risk that attractive credit terms may be totally offset by higher quoted costs for the goods than may be available from other sources of supply. If alternative arrangements (e.g. engaging consultants) are not appropriate, the Bank can help the Borrower develop bidding and evaluation procedures which will make it easier for the Borrower to assess the combined features of quality, cost and credit terms.

21.4.2 Approach and Procedure

The Bank recommends that Borrowers use the following approach when conducting procurement using tied credits:

- Borrowers should openly invite bids from all practical sources of supply and credit.
- Bidders should be asked to submit not only prices for the supply of goods or services, but also credit offers for their financing since. When the contract is not proposed for financing by the Bank, a Borrower is free to take credit terms into account in the evaluation of bids. Inviting such combined offers from competing suppliers from a

[63] These include officially supported export credits, mixed credits (which may include an element of private commercial lending) and tied ODA soft loans.

number of countries can increase the likelihood of a Borrower procuring suitable equipment and services at reasonable prices along with credits supported by national governments of the exporting countries or their agencies (supplemented in some cases by commercial banks) on reasonable terms.

- Bidders should be allowed to express their bids and financing offers in a number of different currencies.
- The bidding documents used by Borrowers should invite as many bidders as possible to submit financing offers with the bids.
- The Invitation for Bid should specify in detail the considerations to be used in the evaluation of bids so as to elicit responsive offers and facilitate bid evaluation on a common basis.
- The cost of all technically acceptable bids, including the financial terms of the tied credits, should be reduced to their respective present worth using pre-selected and announced discount rates. and
- The award should be made to the lowest evaluated bid in terms of the present worth of the price.

This arrangement requires that the bidding documents used to invite bids be expanded to include the Invitation to Submit Financing Offers and the method used for evaluating the financing offers.

21.4.3 The Invitation Process

Bidding documents should make it clear that Bank financing and any other financing from the Borrower will not be available for contracts on which bids are invited. The process of bid evaluation should be explained as clearly as possible.

In order to exclude unqualified bidders, and to make the bidding and evaluation process as transparent as possible, the Borrower should specify clearly any minimum standards below which a financing offer would be unacceptable. This will encourage as many potentially qualified bidders as possible to submit responsive bids and thereby improve the chances that the combination of the financing offer and cash price will be economic. Some of these could be:

> **Minimum Percentage Financing:** An important question concerns the portion of the bid price to be covered by the financing offer. It could cover all or part of the bid price, it could pertain to the foreign exchange portion of the bid price or to both the foreign and the local currency portion. The Borrower is usually unlikely to be able to finance a sizable amount of the bid price so offers for only a small percentage of the total bid price should be discouraged.
>
> Borrowers should clearly indicate the minimum acceptable amount of financing expressed as a percentage of total price in the bidding documents. For the present worth evaluation, the entire offer should be taken into account. The present worth is combined with the undiscounted balance, in order to arrive at the price to be used for ranking the offers.

Minimum Acceptable Credit Terms: Borrowers may specify the minimum credit terms for acceptable financing offers. This should be in terms of the minimum terms for credit repayment as regards interest rates and the length of the repayment period. The acceptable terms will depend in part on the debt servicing capacity of the Borrower, and the terms commonly extended in export credit financing or soft aid financing.

Non-Financed Payments: All non-financed payments should be treated as cash payments and not distributed over the repayment period of the financed portion for discounting.

21.5 Procurement of Secondhand Goods

The Bank's general Policy is to finance the procurement of new goods. However, under special circumstances which must be evaluated on a case by case basis, secondhand goods, e.g. equipment and vessels, may provide the most economic and efficient means of satisfying the projects objectives. The Bank may finance a Borrower's procurement of secondhand goods subject to the following conditions:

- There is a surplus (in suitable quantity and quality) of the type of goods required from enough sources to ensure competitive bidding; and
- Insistence on the procurement of new goods can result in prohibitive costs where the Borrower's budget is limited.

Suitable bidding documents should be prepared, including special criteria and methodology for evaluating and comparing bids, acceptable to the Bank. The specifications should establish performance requirements of the goods, and minimum standards for age, residual economic life, and quality of materials. The procurement procedures should include provisions acceptable to the Bank for inspection, survey and or certification by internationally recognized specialist agencies.

The above provisions should be interpreted as requirements for the Borrower to exercise particular care to obtain best value for money, and to avoid abuses such as dumping of obsolete units and fraudulent invoicing based on unserviceable equipment.

21.6 Procurement of Spare Parts

21.6.1 Spares Accompanying New Equipment

Spare parts can be purchased from the original manufacturer of equipment which was procured by the Borrower, independent manufacturers of spare parts, or spare parts dealers.

Generally, spare parts in sufficient quantity to cover at least the warranty period should be ordered with new equipment, to obtain the manufacturer's experience on the quantity of spares required, and protect the purchaser from a supplier reneging on his warranty liability on grounds of use by the purchaser of unauthorized spares. By calling for spares as part of

the bid for equipment, the Borrower is likely to get better prices and ensure the availability of spares from the start of the operations. Borrowers are advised to exercise care in order to ensure that they do not overstock spare parts which have a slow turnover.

Bidding documents for new equipment may require bidders to state the pricing policy for spare parts that will apply over a specified period after purchase of the equipment -- usually between five to ten years, depending on the type of equipment.

21.6.2 Spares for Equipment in Use

Procurement of spare parts for equipment in use for which the warranty has expired will generally be limited to qualified suppliers, though ICB for large amounts of general spare parts that are manufactured by many firms (non-proprietary spares), LIB or shopping from established domestic and foreign manufacturers or dealers may also be used. LIB or direct contracting may be used for critical or special items that are available in suitable quality only from the original or few suppliers (proprietary spares). The method of procurement must be justified and acceptable to the Bank.

21.7 Procurement in Petroleum Lending

Procurement of general drilling services, equipment, materials, and large-value geophysical services in Bank-financed oil and gas projects should normally be carried out through ICB procedures, following the Procurement Guidelines and this Manual. Under the exceptional circumstances set forth below, a departure from the ICB procedures may be justified:

- Exploration work and oil and gas well drilling can require procurement of highly specialized goods and services at short notice, making it impracticable to follow normal ICB procedures. Often, only contractors and suppliers in the area can supply the goods and services in time. Under these circumstances, LIB may be used in the procurement of well-related services.
- Full ICB procedures may not be justified for geophysical services with a foreign exchange cost estimated at less than US$500,000 equivalent; in this case, LIB may be the most appropriate method of procurement or, alternatively, quotations may be obtained from contractors operating in the area.
- When the project involves a proposed joint venture between an operator, usually an international oil company, and the government or a national oil company, the Borrower should be required to incorporate procurement arrangements, acceptable to the Bank, in the joint venture agreement. In the case where the project involves an existing joint venture, for which procurement procedures are covered by the joint operating agreement, it may not be feasible to apply ICB to procurement under the agreement. In this case, TTL/PS/PAS should consult OPCPR and LEGOP to identify issues and find solutions which will be acceptable to the joint venture partners and meet the objectives of the Procurement Guidelines.

21.8 Procurement of Commodities

Where the project calls for financing commonly-traded commodities such as metals, cereals, edible oils, animal feed, or fibers, special procurement procedures through organized international commodity markets (e.g., the London Metal Market or the Chicago Commodity Market) may be considered, in consultation with OPCPR. These procedures should not exclude other channels of competitive procurement that may offer better delivered prices and be acceptable to the Bank, such as ICB, locally-advertised bidding, or international shopping linking the delivered prices offered to those quoted in the relevant commodity market at the time of delivery. In preparing bidding documents the Borrower should take into consideration the way in which the contracts will be packaged, i.e. whether suppliers will be awarded single or multiple contracts. Bidding documents should also indicate whether suppliers will be allowed to send partial shipments of the commodities being procured. Bidding documents should outline the proposed procedures, which shall be agreed with the Bank staff, and reflected in the loan documents.

Bidding documents should require suppliers to quote prices reflecting those in established commodity markets on the basis of standard international specifications. Bid prices for commodities are usually quoted on spot markets or commodity exchanges. Since the validity period for commodity prices are shorter than that for other goods and works, Borrowers take this into consideration during bid evaluation.

Section 22 Procurement Agents

22.1 Use of Procurement Agents

When a Borrower lacks the necessary organization, resources, or experience, it may be efficient and effective for it to employ, as its agent, a firm that specializes in handling procurement. Under Bank policy, private firms, NGOs and UN Agencies may assist Borrowers as procurement or inspection agents helping manage all or part of the procurement process, or providing specialized services as production (quality control) or preshipment inspections. Such agents assist the Borrower in managing procurement within the terms of the Loan Agreement, and do not diminish the Borrower's responsibility.

PAs are generally paid a percentage of the value of the procurements handled, or a combination of such a percentage and a fixed fee. Such PAs shall be selected using QCBS procedures with cost being given a weight up to 50 percent. The standard contract form (23) applicable for procurement agencies, with payments based on a percentage of the total procurements and/or staff-month rates, shall be used. When PAs provide only advisory services for procurement and do not act as "agents" and are not paid a percentage fee at all, they shall be selected following the appropriate procedures as for other consulting assignments, specified in the Guidelines. ***(See paragraph 3.15 of Consultant Guidelines)***

Borrowers may wish to employ inspection agencies to inspect and certify goods prior to shipment or on arrival in the Borrower country. The inspection by such agencies usually covers the quality and quantity of the goods concerned and reasonableness of price. However, imports procured through ICB are not subject to price verification. Inspection agencies shall be selected using QCBS procedures giving cost a weight up to 50 percent and using a contract format with payments based on a percentage of the value of goods inspected and certified. ***(See paragraph 3.16 of Consultant Guidelines)*** Procurement agents should be selected and engaged on the basis of their professional experience and proven ability to carry out the required work to the highest ethical and technical standards.

22.2 The United Nations Development Programme

A number of UN Agencies assist Bank Borrowers by providing services of a procurement agent. The circumstances under which UN Agencies may be called upon to participate in Bank financed procurement related work include the following:

- The agency may offer specific unique support not available from private sector firms and its participation will thus be justified as part of the Bank's appraisal documentation and the legal agreements for the project;
- In emergency situations where rapid selection is essential and only a particular UN Agency can offer the services needed, or for very small assignments valued at less than $100,000. In these circumstances the Bank can permit single source selection of a UN Agency to provide goods or services; and
- UN Agencies can also co - finance particular activities in Bank financed projects as part of the initial project design or the agency can be retrofitted in ongoing projects.

22.2.1 The Inter - Agency Procurement Services Office (IAPSO) as a Procurement Agent in Bank - financed Procurement.

IAPSO has the overall responsibility for procurement support to other UN agencies and international aid organizations. IAPSO usually negotiates special prices on behalf of the UN system with selected suppliers of certain goods and services commonly used in most of the UN financed projects. More than 100 different agencies use IAPSO's procurement services. As a part of this initiative, IAPSO issues specific product catalogues which are updated regularly and given wide circulation to potential clients and end users. IAPSO's role is based on its general work programme and mandate and its functions are limited to those of a specialized procurement agent for selected commodities.

Through a collaborative effort between the Bank and UNDP, IAPSO also extends these facilities to Borrowers in Bank financed procurement. The prices negotiated by IAPSO can be reasonable and economical compared to the prices obtained by direct solicitation from local agents by Bank borrowers. The Bank thus permits its Borrowers as appropriate, to use IAPSO's services for procurement of vehicles and personal computers among other selected items. Under such circumstances, the procurement services offered to Borrowers by IAPSO, are governed by the Bank's procurement guidelines.

IAPSO procures goods in conformity with the specifications required by Borrowers and does not assume liability for the performance of the procured goods. IAPSO's price lists for vehicles for example, are generated from Limited Competitive Bidding (LIB) exercises, to which a number of qualified manufacturers are directly invited, after intensive global research. The price lists are normally valid for 6 months and are updated regularly through LIB. IAPSO is also willing to establish necessary mechanisms for International Competitive Bidding (ICB). Evaluation of tenders from the invited manufacturers is carried out by the UN Sub - Working Groups composed on seven major UN organizations including the UN Secretariat, UNICEF, UNHCR, WHO and UNDP.

In the case of office equipment and computers, preferential prices for selected makes and models are obtained through competitive negotiations. The competitive negotiations are carried out by IAPSO on behalf of the UN system of organization, in close cooperation with various UN organizations which purchase these items. Regular feedback is obtained form participating organizations as well as from projects and field operations regarding the appropriateness of make/model of the procured items and the quality of contract performance by selected suppliers.

Section 23 Projects Involving Community Participation

23.1 Introduction

Community participation in planning, designing and implementing development projects is increasingly becoming a significant element in project design. World Bank experience suggests that projects tend to be more sustainable and yield higher returns when they involve those they are intended to help. The benefits of involving communities in procurement include:

- Enhancing community ownership and sustainability of the project;
- Increasing the economy and speed of procurement;
- Increasing capacity and skills of the community;
- Generating employment and economic opportunities within the community; and
- Reducing the burden of centralized procurement on the Borrower's implementing agency;

The Bank has thus implemented procedural changes that are more supportive to primary stakeholder participation. The term community covers the following groups:

- Disadvantaged individuals or groups of beneficiaries;
- Community groups with no legal status;
- Associations or groups with legal status, with or without separate legal personality as a group;
- Small scale artisans and other local or small commercial organizations and associations disadvantaged because of lack of adequate financial assets or institutional capacity; and
- Small and local level organizations, particularly NGOs which support and facilitate the flow of Bank funds to individuals.

23.2 Designing Procurement Mechanisms

Depending on the complexity of the procurement to be carried out, the institutional capacity of communities is key to effective community participation in procurement (CRP). The TTL/PS/PAS in charge of the project must ensure that the community has the technical, financial and accounting skills and an organizational capacity that allows for beneficiary contribution by the community at large. This may require an assessment of the implementing agency's procurement capacity. Capacity building where necessary assists the community to build on and sharpen their existing skills in order to manage and sustain activities. It should lead to training the community in skilled work, producing better quality goods and materials, better accounting for use of funds, enhancing organizational capacity to do collective and community procurement activities and improved operation and maintenance of facilities or activities undertaken. The preliminary investigation of the community's procurement capacity also assists, the Borrower and Bank staff to come up with a procurement plan and design that complements community strength and skills.

Where communities do not have adequate capacity, the Bank may recommend that they not be involved directly in complex procurement activities until adequate capacity building activities are undertaken. If possible and where necessary, the Borrower and the Bank should arrange for procurement training or for intermediaries who are acceptable to the community to be hired to conduct procurement on behalf of the community. Where participating communities cannot be identified before the procurement process begins, the TTL/PS/PAS and the Borrower should arrange a rapid appraisal among potential beneficiaries.

Where the need for intermediaries exists, the Borrower with assistance from the TTL/PS/PAS assists in selecting an intermediary, usually a Non Governmental Organization(s) (NGO) to act on the community's behalf. Depending on whether the NGO is functioning as consultants or contractors, informal advisors or implementing agencies the NGO must be selected in accordance with the Bank's procurement procedures.[64] In all cases the Bank recommends that selected NGOs should have the following general qualifications:

- community ties in the Borrower country and be, accountable to the beneficiaries, of procurement;
- the required institutional capacity in terms of human and physical resources to assist the community in carrying out procurement. (This includes having staff with the technical skills and qualifications required for the implementation of procurement and having accessible office space, vehicles, communication facilities etc.);
- an appropriate governance framework with sound internal management, transparency, financial accountability and efficiency;
- personnel with a keen understanding of and sensitivity to issues concerning women, minorities the environment and a philosophy suitable for implementation of community initiated sub-projects with community participation;
- The NGO should be non-political and should be having a proven track record of satisfied beneficiaries on similar assignments (at least two years' of experience in works of this type). *(Period could be modified to suit individual cases.)*;
- it should be registered as a society or have other corporate status;
- it should have facilities to maintain separately, records and accounting and auditing of funds allocated for the assignment;
- it should consist of an adequate number of experienced field staff conversant with the local culture and language, and the socio-economic dimensions of the beneficiary groups;
- the staff of the selected NGO should have excellent communication skills;
- it should possess internal stability so as to assure long-term support; and
- local knowledge in the specific Borrower country where the project is being undertaken.

Where the Borrower decided to undertake capacity building for the community to carry out the procurement instead of hiring NGO's to perform the procurement, arrangements should be made to train the community on Bank procurement policies and procedures. Training and capacity building should cover a number of facets, including:

[64] For example, where the NGO is providing services as a consultant, selection is in accordance with the Consultant Guidelines and where the NGO is a contractor, the Procurement Guidelines should govern.

- awareness of Bank policies, reasons of such policies and consequent requirement;
- skills in communicating with and organizing community groups;
- procedures for carrying out the procurement process as a whole including technical advice to support staff in handling procurement matters;
- techniques in monitoring and evaluating sub-project impact; and
- sensitivity to gender and other cultural concerns.

23.3 Procurement Planning

During project preparation, the Borrower is expected to draft a preliminary project plan to guide the implementation phase. This plan must include a schedule for procurement actions, including the target dates for each step, schedule for disbursements for each component, expected Bank financing, government counterpart funds and cofinancing. Once the Borrower with the assistance of the TTL/PS/PAS prepare the plan and determined who will carryout the procurement, a decision has to be made on, the kind of goods, works or services to be procured; the role the community will play and when procurement will be scheduled. Communities should be involved in procurement as suppliers only when:

- goods required are of a type commonly provided by community groups including furniture, roofing materials, wooden sleepers for railways, groups of small scale artisans may provide wooden desks in an education project etc.;
- works are to be performed by unskilled labor and construction of small infrastructure, informal groups within the community may also be hired to manage and supervise construction of such works;
- procurement involves execution of specific irrigation work on communal or privately owned land by irrigator associations formed by farmers; and
- in emergency recovery and reconstruction projects, project committees may be formed by communities to enter into procurement contracts with contractors and suppliers of goods and services required.

Similarly communities can be involved as procurement agents only when goods are of a type readily available in local markets, or works are of a type provided by contractors in the geographical areas or services required are provided by persons or groups within their reach

Estimating the quantities of goods, or nature of works and services required is an important step in procurement planning and preparation. If procurement contracts are expected to be large, community participation may not be economic or efficient. Thus the community should only participate when contract sizes or values are small and the community has adequate financial and administrative capacity.

Since many social sector projects are demand based, the nature and quantities of procurement are determined during project implementation through community-initiated sub-projects. In such instances the Borrower and the TTL/PA/PAS, can leave the determination of “what to procure” to the community and identify only the total financial allocation for the projects.

Estimating financial aggregates for different procurement categories is also difficult in demand based projects which set up social funds. Estimated aggregates of the amount needed are incorporated in the agreement but may be amended during project implementation upon request by the Borrower and approval by the TTL/PS/PAS.

23.4 Methods of Procurement

23.4.1 National Competitive Bidding

Although NCB is the preferred method for procurement involving community participation, communities unless commercially sophisticated almost always need assistance to participate either as suppliers or procurement agents. The Bank allows the process of bidding to be simplified or streamlined without affecting its competitive nature thus, smaller local organizations have a greater opportunity to participate.

23.4.2 Local Shopping

The Bank permits some variations of local shopping in projects involving community participation. There should be more than one contractor invited to provide the goods, works or services. It is normal practice to obtain three quotes. For example, under the Ghana Primary School Development project, small scale contractors were selected through local shopping, obtaining three quotations, whenever possible on the basis of disclosed cost estimates. Works were paid for at actual costs not exceeding this estimate by the project on receipt of reports from independent technical editors certifying full completion in accordance with standard drawings and specifications.

23.4.3 Direct Contracting

In some projects, direct contracting can be used as the method of procurement to facilitate community participation. Direct contracting is used especially where sub – projects are scattered or remote, making it less attractive for contractors, and eliminating the need for extensive supervision and reviews by the Bank. In such projects, the TTL/PS/PAS perform quarterly reviews and the procurement schedule is regularly audited and updated as necessary.

In other instances the Bank has established direct contracting between the project implementing agency and community groups. Such projects include those that finance small civil works in remote and scattered locations. In most cases work is carried out directly by the communes, which hire local technicians to supervise the works. The communes also hire local workers to construct the works under contracts entered into for the specific project. An example of such projects is:

> The Burundi Social Action Project which involves the community in the planning, designing and implementation processes. In rural areas, for instance rehabilitation and construction of local social infrastructure (schools, health centers, water supplies) is carried out by communities using their own labor. The work is supported by skilled masons and the communities are used carry out the work and provide various services based upon:

- the technical complexity of the work to be undertaken;
- local practice of using community labor;
- willingness of the communities to participate; and
- the availability of small contractors in the area.

Communities essentially provide free or unskilled labor, while executing agencies or NGOs provide the wages for the skilled masons. The skilled mason supervises the work and the purchase of materials at the local level (using shopping procedures). A Project Monitoring Unit (PMU) provides any needed materials that are not locally available.

Costs of the masons are reimbursed. Reimbursement for locally purchased equipment is based on receipts checked against standard unit costs available at he PMU, once the construction is satisfactorily completed. The repayment is subject to a ceiling defined in each sub – project agreement. The unit costs are established for a small range of materials and for the cost of local masons based on surveys carried out locally by the PMU staff and updated every three months. The unit costs have to be acceptable to the Bank at all times.

23.5 Advertisement of Bidding Opportunities

Access to adequate and relevant information is important for equitable community participation in procurement activities. When the community seeks to purchase materials or works through methods other than competitive bidding, they should be required to disseminate information on the availability of opportunities and permit all interested suppliers and contractors to provide quotations. Thus for example, when a community group which is an implementing agency is allowed to procure bricks or roofing tiles through local shopping, all producers of such items should be given an opportunity to provide quotations, in order to ensure transparency and accountability.

Since procurement involving community participation is small scale, the socio-cultural and economic context of each community dictates the precise forms of advertisements. Dissemination of information through advertisements in local newspapers would be meaningless unless participating communities and suppliers are literate and in the habit of reading newspapers. Thus the following mechanisms may be considered:

- distribution of illustrated brochures;
- promotional workshops and meetings;
- radio commercials;
- commercials in cinema theaters before the main feature;
- discussions at community meetings;
- street plays;
- video films in local languages (or with interpretation) shown in community centers using mobile vans; and
- wall posters and community bulletins.

In order for bidding opportunities to be adequately advertised, there should be an institutional framework to oversee and undertake the process. There is thus a need for train persons in the community to carryout the process. The Borrower and the TTL must ensure that adequate resources are also allocated by for these purposes.

23.6 Flexible Packaging

Bank policy normally encourages the grouping of small contracts into larger contracts to increase the economy of procurement. However, in community based procurement, such packaging may have a negative impact. This is because when contracts are large in value small local firms or cottage industries cannot participate as suppliers, given their weak procurement and administrative capacities. Flexible packaging should be adopted when it is believed that community participation in the bidding process would enhance project sustainability. However, justification for avoiding bulk packaging must be clearly documented in the SAR. In deciding how to package contracts to determine whether the community should participate in procurement, the Borrower and the TTL/PS/PAS, must consider the following factors:

- economy of procurement;
- impact on project sustainability if contracts are kept small to involve communities;
- logistics and costs of transport and storage if larger contracts and therefore centralized procurement is used; and
- timing of centralized procurement and its consequences for community participation.

23.7 Simplification of the Bidding Process

The Bank has also attempted to simplify of bidding documents in some of its projects in order to facilitate the involvement of small scale or community level contractors. This has been done in the following way:

- Procurement in a proposed contract for a given sub – project is advertised locally among registered contractors. All contractors registered in the roster for the category of works and the area covered by sub – project are invited to bid.
- The contract is also written in simple language and describes the scope and nature of the works, proposes reference price with some straightforward explanations about its calculation (unit prices and quantities).
- Using NCB procedures without requiring bulk packaging of contracts, for example, in the Philippines Second Education Elementary project NCB was used as the primary method of procurement of furniture. However, to encourage local small scale artisans, contracts of up to US$ 3.8 million were packaged into amounts of less thanUS$5,000 and could be procured through shopping.
- Where competitive bidding is not feasible because of insufficient competition or does not produce acceptable results, negotiated contracts are permitted on the basis of a specified schedule of price.

- Requirements of tender and performance securities are eliminated or minimized and alternate mechanisms introduced to ensure collateral or security for use of funds. Payment in tranches with the final tranche conditional upon satisfactory performance may eliminate some of the risks in not requiring security.

23.8 Bank Supervision

The ability of Bank missions to supervise projects with community participation efficiently and cost effectively is difficult because such projects are normally a large number of sub projects spread in remote and scattered locations. As a result, more and more supervisory activities are being contracted out to other suitable entities who perform such tasks either prior to the arrival of a Bank supervision team or as part of the supervision team. The TTL/PS/PAS, should assist the Borrower to put together a database of consultants, either individuals or firms including NGOs, with the necessary training and skills to supervise and monitor progress of sub-projects. Where necessary, the TTL/PS/PAS should assist the Borrower in developing necessary skills through indigenous capacity building.

23.9 Prior Review of Contracts

As indicated in Section 19 of this Manual, between 50% - 80% of all contracts awarded under a project should be subject to prior review by Bank staff. However, to suit the needs of community related procurement, the Bank allows for modification of this rule in some projects. In projects involving community participation the following is generally acceptable to the Bank:

- In some cases there is no prior review of contracts with communities. Instead a sample number of projects were reviewed during or after implementation. In such cases, the Bank dispenses with prior approval for the evaluation of bids and the award of contracts and relies on its rights under the general conditions of the loan agreement, not to disburse on contracts that violate the principles set forth in the Procurement Guidelines, the OP, BP and this Manual.
- In other cases the Bank reviews documentation for a specified number say 30 of the first projects irrespective of size, then subsequently only those contracts that are over the threshold of US$100,000.
- The Bank and Borrower may set a threshold for prior review – for projects of over US$50,000 in value, however since the majority of community related sub - projects of US$25,000 in value or below, such a threshold level avoids the need of prior review. *(Refer to Section 20 of the Manual for detailed instructions on Prior and Post Review of Procurement Documentation)*

Justification for departure from the norm must be specified in the SAR. The Bank still reserves the right to suspend disbursements at any stage upon discovery that procurement procedures unacceptable to the Bank were used. Recommendations in designing prior review would include:

- Using standard contracts and bidding documents which have been approved by the Bank in advance;

- Setting the prior review ceiling sufficiently high (given the context of the project and the country) so as to permit a large number of standard contracts with communities to be implemented without prior review;
- Requiring prior review of a fixed number of contracts in the first year (in each sector if applicable) to ensure that any problems are identified and handled up front; and
- Ensuring adequate random post review during supervision mission and through procurement audits by external agencies.

Annex 1: Considerations For Determining Procurement Method

Issues	NCB	LS	DC	FA (Works)
Complexity of Process	Fairly complex and formal	Process of seeking and evaluating quotes	Direct purchase	Capacity of government to manage and supervise
Institutional Capacity	Required	Who is responsible?	Who is responsible?	NA
Transparency of Process	High	Moderate	Weak	Disbursement either for salaries, output or for materials
Accountability	Can be monitored	Review if written quotes	Difficult to monitor	Difficult to monitor except when disbursement is against output
Disbursement Mechanisms	More often payment can be made directly to contractors	Communities need to be paid directly because of multiplicity of contracts	Communities may need to be paid due to multiplicity of contracts	
Financial Capacity of Communities	Ability to provide performance bonds, tender securities	Need for advance payment	Need for advance payment	Need for advance payment
Knowledge of Commercial Transactions	Necessary	Ability to get three quoted and maintain records	Maintain receipts	Disbursements to Government
Availability of Contractors or Suppliers	Necessary	At least three necessary	Contract is with the principal	Contractors must not be available
Issues and Concerns	Inadequate institutional and financial capacity; Transportation and storage of goods	Availability of contractors in local markets; Economy; Quality of goods or works; Transparency; Accountability	Availability of contractors in local markets; Accountability; Transparency; Economy; Quality of goods or works.	Government deals directly with communities; Accountability; Transparency

Annex 2: Checklist for Task Team Leaders

COMPONENT	ACTION OR STEPS REQUIRED
Procurement Planning	• Separate into goods, works and services; • Estimate quantities/nature and sources of procurement; • Examine institutional aspects; • Plan schedule for procurement; • Select procurement method; and • Design project arrangements for procurement.
Community Contribution (In consultation with the Community)	• Evaluate ability of communities to contribute both physical and financial resources; • Determine the nature of community contribution; and • Designate responsibility for coordination and management of such information.
Implementation Plan	• Advise Borrower of need to formulate its implementation plan (during pre-appraisal); and • Agree on procurement and disbursement schedule and implementation schedule to be included in implementation plan (during appraisal.
Studies for Effective Designing	• Examine availability of information on socioeconomic data of participating communities; and • Examine availability of information on regulatory systems affecting community related procurement and disbursement; and • Identify areas where further studies may be needed.
Mechanisms increasing accountability	• Assess which contracts would need prior review by the Bank; • Examine the possibility of disbursing any for output in the case of infrastructure construction or rehabilitation; • Examine the need for a procurement and disbursement manual; • Examine whether project should call for independent procurement audits or assessments; • Develop monitoring indicators suitable for community based procurement; and • Examine the need to establish a unit roster to assess the economy of procurement.
Quality of Goods, Works or Services	• Examine need for technical assistance; • Examine need for training and capacity building in matters related to procurement; and • Identify aspects or persons responsible for arranging and providing training.

COMPONENT	ACTION OR STEPS REQUIRED
Information	• Examine the adequacy of existing institutional mechanisms for dissemination of information; • Delegate responsibilities for promotional and other related activities; • Determine need to use different modes of advertisement and modes of information dissemination; and • Discuss timing for release of such information
Contracting arrangements	• Examine the types of contacts that communities will need to enter into and the scope for drafting standard documents; • Discuss the specific terms and conditions with communities; and • Discuss timing for release of such information.
Dispute Resolution	• Examine the existence of indigenous dispute resolution process; and • Establish simple process for dispute resolution.
Disbursement (Opening SA account)	• Examine the suitability and prevalence of banking facilities for disbursement to such communities; • Examine the need for more than one SA if project design provided for only a single SA; • Examine the stems of flow of funds from SA to communities; • Discuss maintenance of records including SOEs for procurement; • Examine the disbursement schedule and disbursement percentages to ensure they are realistic; • Evaluate the availability of local counterpart funding in a timely and adequate fashion; and • Examine the possibility of eliminating performance bonds or guarantees and introducing alternative forms of guarantees.
Modified Special Account Procedure	• Examine the need for funds at decentralized levels; • Examine the capacity of banking facilities and the access of communities to such facilities; • Examine and assess the adequacy of accounting and auditing systems and the need to provide the Borrower with technical assistance to develop them; • Develop necessary documents for financial reporting; and • Establish cycle for preparation of annual work plan.

COMPONENT	ACTION OR STEPS REQUIRED
Accounting and Auditing	• Review responsibility of existing accounting and financial management system and build in enhancements where necessary not only for the project but also for NGOs and other participating implementing agencies; • Review the need for technical assistance; • Examine and assess the adequacy of accounting and auditing system for management information; • Review umbrella agreements, by laws of community groups and other legal documents to ensure accountability of community leaders; • Incorporate provisions for conducting annual external audits by independent auditors acceptable to the Bank; • Assess regular or continuous auditing capacity of the Borrower, participating NGOs
Negotiation	• Ensure that the institutional arrangements and mechanisms for community participation are incorporated into the credit agreement and other related documents; and • Finalize Borrower's implementation plan.
Implementation	• Incorporate relevant training into project launch workshop; and • Ensure that training sessions planned is implemented on schedule.
Monitoring	• Ensure that monitoring system is functioning as planned and that indicators are identified and in place.
Evaluation	• Examine the achievement of targets and evaluate project results against set indicators.

Section 24 Adaptable Lending Instruments

Adaptable lending instruments were added to the Bank's existing array of lending instruments, to better adapt borrowers' differing needs and to move away from the tendency to fund "blueprint" solutions, rather than be open to the multiple alternatives that participatory approaches imply. Borrowers are also looking to the Bank for support for long-term institution - building for environmental agencies; people-centered, participatory projects such as urban upgrading; and post-conflict reconstruction. As a result, the Bank has adopted such new instruments as Learning and Innovation Loans.

24.1 Adaptable Program Lending (APL)

APL is one of the new investment instruments the Bank has introduced to respond to these changing needs. APL involves a series of investment loans through which the Bank provides phased and sustained support for a Borrower's long – term development program. Under the initial APL, the Borrower and the Bank reach an agreement on the program's long – term goals, the phasing and sequencing of investment activities and policy/institutional changes that would contribute to realizing these goals, and the specific objectives and associated performance measures and milestones for each phase.

Each of the phases is supported by a n investment loan prepared and appraised separately. Reaching the agreed milestones during a first loan allows the commitment of funds for the second loan, and so on for each successive APL until the program goals are achieved or partners decide that the program parameters no longer hold. The continuity in lending within an overall program framework lessens the "stop and go" patterns that interrupt capacity building, sector reforms and investment as one project ends and the next project is prepared.

Under APL, funding for the program starts with components that are ready and can and need to be appraised in terms of the logical sequence, allowing other components to be prepared over time and be eligible for financing at subsequent stages, based on results and learning from preceding phases. This allows a quicker Bank response to Borrower needs than is possible with existing investment instruments while providing flexibility in program implementation.

APLs provide phased and sustained funding for implementation of a long-term development program that reflects economic priorities and poverty reduction. Under APL, loans are phased according to agreed milestones and benchmarks for realizing the program's objectives. The World Bank Board of Executive Directors approves the first loan and the long-term program agreement under which the full sequence of Adaptable Program Lending is prepared. Authority for approval of subsequent loans in the sequence lies with Bank management (subject to oversight and review by the Board). APL is expected to be, on average, in the amount of US$50 million and last for three to five years, but some are as large as US$200 million.

24.2 Learning Innovation Loans (LILs)

LILs are part of APL and are designed to support small, time-sensitive programs to build capacity, pilot promising initiatives, or experiment and develop local models prior to larger-scale interventions. LILs may also be particularly appropriate for projects in which the Bank is working in partnership with another lenders due to their flexibility in design and processing. LILs are particularly relevant for development processes which require extensive self learning on the part of affected groups such as projects involving community participation and institutionalization of a sector or members of the society at large. The Bank recommends that LILs be used in start-up situations, with new Borrowers, new sectors and new approaches. LILs involve a series of small, discrete investments and capacity building efforts which can be implemented in a relatively short period of time (say about three years). They should not be used for large scale infrastructure investments, which require detailed engineering and preparation. LILs are also not a solution when the policy framework within which the proposed project lies is poor or where the Borrower's commitment and ownership are especially weak or cannot be tested in advance.

LIL incorporates opportunities for intensive monitoring and evaluation, and includes the opportunity to assess borrower capacity and stakeholder response as part of the learning process, when these are unknown. Monitoring and evaluation features built into the project design are critical as the basis for determining whether or not the project should be continued scaled up or dropped. LILs are modest in size, not exceeding US$5 million each. A key component of the instrument is that Bank management has authority to approve LILs, rather than the Bank's Board of Directors.

24.3 Procurement under Adaptable Program Lending

Under APL the Bank's Procurement Guidelines are followed in all operations. An assessment of the procurement capacity of the Borrower's implementing agency is carried out and where necessary institutional assistance is offered by Bank staff to help the revamp and straighten out the Borrower's procurement system. ***(Refer to Section 10 of the Manual for detailed instructions on the Assessment of the Procurement Capacity of Borrower)***

Although all of the Bank policies and fiduciary responsibilities are maintained in projects involving APL, procurement planning is carried out in a different way from other investment projects. A multiple number of programs are financed under APL procurement, thus procurement planning has to be carried out through a systematic – rolling process. Such plans should cover firm decisions on the assignment of different procurement methods and the design of the procurement packages for the first six months and tentative planning for the next six months. These plans are subject to prior review by the TTL/PS/PAS, before any procurement action plan is implemented.

24.3.1 Review of Procurement Plans

As already indicated above, the procurement plan in APLs are drafted to cover one year and revised every six months. Every quarter the Borrower is required to furnish a detailed six-month procurement plan to the TTL/PS/PAS for review and approval. This is also applicable

in the case of issuance of the invitation to bid or to prequalify and where the Borrower plans to issue a request for proposal for consultant services. Each plan must include:

- a firm list of contracts to be procured in the next six months and a tentative list of contracts to be procured in the following six months;
- estimated contract costs; schedule for bidding; and
- the method of procurement or of selection of consultants.

The plan must be consistent with the Credit Agreement provisions for the procurement methods for goods and works and the selection methods for hiring consultants. Procurement of goods, works and services shall thus be carried out in accordance with such plan. Once approved the six-month plan is binding and changes require prior review and approval by Bank staff.

During the six-month period of the plan the Borrower and Bank staff should have regular meetings to review progress of implementation of the procurement plan. Bi–monthly meetings are recommended. Any changes in the procurement plan should be recorded in the minutes of the meeting and in an updated version of the plan.

The borrower is required to arrange for a summary of each plan to be published in Development Business Web site at least eight weeks before the documents for the first ICB in the plan are released. All NCB and ICB should be advertised in the Web site of Development Business.

Annex 1: Sample Table for Procurement under APL

Procurement of Goods and Works and Selection of Consultants **Group "A"**				
Category	**Contract Value ($000)**	**Method of Procurement**	**Eligible Contracts**	**Bank Prior-review**
Goods	Above 200	ICB	Those included in the 6-month plan	All contracts
	Between 150 and 200	NCB	Those included in the 6-month plan	All contracts
	Between 50 and 150	NCB	Those included in the 6-month plan	None
	Below 50	Shopping	Those included in the 6-month plan	None
		Other	Case by case approved by IDA	All contracts
Works	Above 3,000	ICB	Those included in the 6-month plan	All contracts
	Between 750 and 3,000	NCB	Those included in the 6-month plan	All contracts
	Between 250 and 750	NCB	Those included in the 6-month plan	None
	Below 250	Three Quotations	Those included in the 6-month plan	None
		Other	Case by case approved by IDA	All contracts
Consultants	Above 150 for Firms	QCBS	Those included in the 6-month plan	All contracts
		Other defined in the 6-month plan	Those included in the 6-month plan	All contracts
	Below 150 for Firms	Defined in the 6-month plan	Those included in the 6-month plan	None
	Above 50 for Individuals	Qualifications	Those included in the 6-month plan	All contracts
	Below 50 for Individuals	Qualifications	Those included in the 6-month plan	None

Procurement of Goods and Works and Selection of Consultants **Group "B"**				
Category	**Contract Value ($000)**	**Method of Procurement**	**Eligible Contracts**	**Bank Prior-review**
Goods	Above 200	ICB	Those included in the 6-month plan	All contracts
	Between 100 and 200	NCB	Those included in the 6-month plan	All contracts
	Between 50 and 100	NCB	Those included in the 6-month plan	None
	Below 50	Shopping	Those included in the 6-month plan	None
		Other	Case by case approved by IDA	All contracts
Works	Above 3,000	ICB	Those included in the 6-month plan	All contracts
	Between 500 and 3,000	NCB	Those included in the 6-month plan	All contracts
	Between 250 and 500	NCB	Those included in the 6-month plan	None
	Below 250	Three Quotations	Those included in the 6-month plan	None
		Other	Case by case approved by IDA	All contracts
Consultants	Above 100 for Firms	QCBS	Those included in the 6-month plan	All contracts
		Other defined in the 6-month plan	Those included in the 6-month plan	All contracts
	Below 100 for Firms	Defined in the 6-month plan	Those included in the 6-month plan	None
	Above 35 for Individuals	Qualifications	Those included in the 6-month plan	All contracts
	Below 35 for Individuals	Qualifications	Those included in the 6-month plan	None

Procurement of Goods and Works and Selection of Consultants **Group "C"**				
Category	**Contract Value ($000)**	**Method of Procurement**	**Eligible Contracts**	**Bank Prior-review**
Goods	Above 200	ICB	Those included in the 6-month plan	All contracts
	Between 50 and 200	NCB	Those included in the 6-month plan	All contracts
	Below 50	Shopping	Those included in the 6-month plan	None
		Other	Case by case approved by IDA	All contracts
Works	Above 3,000	ICB	Those included in the 6-month plan	All contracts
	Between 250 and 3,000	NCB	Those included in the 6-month plan	All contracts
	Below 250	Three Quotations	Those included in the 6-month plan	None
		Other	Case by case approved by IDA	All contracts
Consultants	Above 50 for Firms	QCBS	Those included in the 6-month plan	All contracts
		Other defined in the 6-month plan	Those included in the 6-month plan	All contracts
	Below 50 for Firms	Defined in the 6-month plan	Those included in the 6-month plan	None
	Above 20 for Individuals	Qualifications	Those included in the 6-month plan	All contracts
	Below 20 for Individuals	Qualifications	Those included in the 6-month plan	None

Section 25 Procurement of Textbooks

25.1 Introduction

Successful procurement of textbooks not only requires that the Borrower uses procedures that will obtain the lowest price, but also sets qualitative selection criteria which result in the selection of books that: are suitable for the curriculum; conform with local pedagogical or methodological requirements; and have satisfactory content durability and presentation standards and are of local relevance. The Borrower may use a number of different approaches to procure textbooks. Each requires the use of slightly different provisions in the bidding documents, different supporting documentation, and different evaluation procedures.

25.2 Defining the Scope of Contract Services Required of Bidders

25.2.1 Technical Issues

(a) The Borrower must clearly establish the level of textbook preparation and/or manufacturing required of bidders. A number of approaches to textbook procurement are acceptable by the Bank, depending on the purchaser's needs, appropriate textbook availability, and the level of effort required to produce the final product. From the simplest to the most complex, the most typical services normally required by Borrowers include:

- Acquisition and reproduction of existing textbooks for bulk purchase;
- Printing and production services for manuscripts, either at the camera-ready-copy[65] (CPC) stage or the film stage[66] or including both of these processes;
- Adaptation and/or translation and preparation for printing of material already in existence usually owned or licensed by a potential bidder;
- Provision of professional editorial and publishing services to revise manuscripts already in existence or in active development, and owned or commissioned by an implementing agency, usually the Ministry of Education ("the purchaser"); and
- Provision of the complete range of commercial publishing services from new manuscript development to layout and design and from preparation of CRC to printing and delivery of the finished book to the purchaser.

(b) Since a broad range of services is required to meet the needs of each of the above levels of services, the Borrower has to apply somewhat different procurement strategies. *For example, Math and English books can often be adapted from existing commercial texts originally published for other countries, while it may be necessary to develop new Social Studies and Science texts to meet local requirements. The latter case involves contracting outside the publishing arena to manage the entire process from local authorship to supply of the finished books.*

[65] Camera-ready Copy refers to typeset pages that are ready for filming with completed artwork and illustrations laid out in the finished form in which they will appear in the book.

[66] Film refers to the finished film ready for platemaking and printing.

(c) The decision on which level of effort is needed (or reasonable) should be a result of collaboration between the TTL/PS/PAS and the purchaser. They should jointly decide which services are essential and which (or which combination) are optional. *For instance, a purchaser may wish to compare using an existing purchaser-originated manuscript, to the quality and cost of adapting an existing text. In this situation, Bidders could be invited to submit bids either for adapting their own course material or providing publishing services on already existing purchaser originated manuscripts and told that each type of bid would be treated equally in the evaluation.* This approach is complex, but it would allow for an equitable and transparent bid comparison and a rational award decision.

(d) Publishers generally make their profit by supplying finished textbooks. If the scope of service is limited to supplying CRC or film and excludes printing, they might be less interested in bidding. *In general, the Bank recommends that contracts for textbooks be written for the supply of the finished product.*

(e) If the purchaser has its own printing source (often a parastatal printer), the procurement will inevitably be done without the benefit of competitive bidding. This may not necessarily result in high quality and low prices. In consultation with the TTL/PS/PAS, the purchaser can determine whether using an in-house service will achieve the desired outcome. ***(Refer to Section 16.7 for detailed instructions on Procurement using Force Account procedures)***

(f) Specific bidding documents which permit bids to be submitted at the Bidder's option based on various combinations of services are difficult to draft, e.g. when the submission of an existing textbook is combined with the provision of publishing services to develop a purchaser's manuscript into another finished book. *Accordingly, except for the special case described in (c) above, the Bank recommends that textbook bidding be designed to permit bidding on a single, clearly defined group of services only wherever this is possible.*

25.2.2 Content Issues

(a) **Provision of Curriculum, Scope and Sequence:** All bidding documents for the procurement of textbooks should include details of curriculum, scope and sequence, and pedagogical and methodological requirements. Bidders should be able to evaluate a locally prepared manuscript on the basis of these requirements to determine how much editorial and authorship work is needed. For adaptations and translations the selection of a title will depend on the scope and sequence of the curriculum and pedagogical and methodological requirements. This also applies to off-the-shelf textbooks. Bidding documents for only printing services do not require this kind of information.

(b) **Approvals:** The purchaser has to approve the final draft of the textbook and at the proof stages, prior to final printing. The purchaser has to clearly set out the approval procedures and timetables in the Technical Specifications contained in the Bidding documents.

(c) **Authorship**: The Technical Specifications must indicate whether the purchaser has a requirement to use local authors, named authors or a local curriculum development organization. Bidding documents should include procedures which allow the successful bidder to request that non-productive or poor authors be replaced and for the purchaser to act upon reasonable requests. The successful bidder should be consulted when authorship teams are first established for the contract.

25.3 Selecting the Right Procurement Method

Five methods of procurement are traditionally acceptable by the Bank for the procurement of textbooks. The Bank typically encourages bulk packaging and estimated package values are used to determine the appropriate procurement method, as they are a good gauge to measure potential interest by foreign bidders. Suitable procurement methods include:

(a) International Competitive Bidding (ICB)

The Bank's policy is that ICB should be used for all Bank-financed textbook contracts where foreign bidders are likely to participate. This includes contracts with a value of more than US$ 200,000, except where:

- the language of the publication is not a widely used one; and
- where there is an identifiable, competitive, local educational publishing industry experienced in, and capable of producing quality textbooks in that language.

Even where these conditions exist, however, the Bank encourages the Borrower to considered using ICB if foreign bidders are thought to be interested in bidding. Domestic preference margins may be applied in procurement of textbooks using ICB. ***(Refer to Section 19.1 of the Manual for detailed instructions on ICB and Section 19 for instructions on application of domestic preference margins in evaluation of bids)***

(b) Limited International Bidding (LIB)

LIB may be used to procure off-the-shelf textbooks when a limited number of titles are available for selection and to procure publishing services where specific local/regional experience is essential. LIB may also be used where sophisticated multimedia publishing services are needed, particularly those involving video and computer assisted learning techniques. This is usually because the number of qualified and experienced publishers is limited. ***(Refer to Section 16.3 of the Manual for detailed instructions on LIB)***

(c) National Competitive Bidding (NCB)

(i) The Bank allows Borrowers to use NCB as the method of procurement of textbooks where there is a strong local publishing industry and foreign bidders are not interested in bidding. NCB is normally used for contracts of under US$ 200,000 in value. The TTL/PS/PAS in collaboration with the Borrower should ensure that nationalistic pressures do not result in the awarding of contracts to local organizations without the necessary

professional, technical or financial qualifications. NCB should not be used in countries with weak or non-existent publishing industries irrespective of the estimated value of the contract or language to be used.

(ii) In countries where the existence of good local primary textbook publishing capacity is established, but the secondary and tertiary markets are too small to encourage local publishing for those educational levels, the use of ICB for off-the-shelf textbooks or adaptations is often more economic and appropriate. ***(Refer to Section 16.2 of the Manual for detailed instructions on NCB)***

(d) **International and Local Shopping**

This method of procurement may be used to procure small quantities of off-the-shelf titles with an estimated value of less then US$ 50,000. It may also be acceptable for publishing services contracts where a there is a limited number of qualified publishers that are proficient in the required local language. ***(Refer to Section 16.4 for detailed instructions on International and Local Shopping)***

(e) **Direct Contracting**

This method of procurement is acceptable when particular titles have been pre-selected from existing titles by the Borrower with Bank approval. Since after selection no competition is possible, it is essential that an objective procedure be followed in the pre-selection process so that price can play a role in the selection. ***(Refer to Section 16.5 for detailed instructions on direct contracting)***

The TTL/PS/PAD should advise the Borrower to ensure that the procurement strategy selected in each case must be designed carefully so that it does not inadvertently damage a viable local publishing industry or change essential elements in the local education system, e.g. by limiting the freedom of textbook selection that local schools may have.

25.4 Bidder Qualifications

25.4.1 Basic Standards

(a) It is essential that qualification standards are clearly set in bidding documents to assure a high quality result, transparency, and fairness. Acceptance of bidders with insufficient experience can create certain risks that purchasers should be aware of. It can result in:

- poor writing and editing;
- inappropriate content, educational level, and presentation for the local curriculum;
- poor page design and layout, thereby increasing book length and paper usage and costs;
- seriously lowering visual effectiveness, and with it pupil interest and performance; and
- poor presentation of illustrations (particularly half tone photographs and four color artwork), resulting in bad image reduction on the page.

(b) Bidding documents should require that Bidders have the following basic qualifications:

- Previous successful experience in performing similar contracts;
- Sufficient financial capacity to be able to finance all preliminary activities required for successful, timely performance of the contract before payments are due;
- Sufficient staff of the right qualifications, specialties and experience;
- Sufficient space and equipment to undertake the contract; and
- Availability of the full range of publishing skills and specialties required.

(c) When SBDs are used, all these factors should be specified in the Instructions to Bidders (ITB) Data Sheet, and evidence of each must be submitted by Bidders as part of their bid. If the minimum acceptable levels set for each criterion are not met, the bid should be rejected. The merit point scoring system adopted for each contract should also give adequate weight to bidder qualifications. ***(See Annex 2)***

25.4.2 Contracts Starting from Original Manuscripts and Adaptations

For contracts starting from original manuscripts and adaptations, the Bank requires the following basic bidder qualifications for publishers:

(a) *A minimum of four (4) years operating experience as a publisher of original school textbooks; for printing and limited pre-press services, three years is sufficient if adequate references and examples of previous quality performances are provided*. The normal textbook production cycle requires two to three years to complete. Publishers who have been in the business for less than four years will hardly have the time to take even a partial series through to completion. It is necessary therefore that four years be the minimum operating experience that any bidder be required to have. It is reasonable for Borrowers to demand more years of experience for large value contracts.

(b) *A minimum of five (5) years in publishing texts in the age range and in the subjects specified in the bidding documents*. Primary, secondary and tertiary textbook publishing require different skills. A tertiary textbook publisher may not have the skills required for primary textbook publishing and vice versa. Accordingly, requiring previous experience of publishing in the specific age range and subjects is reasonable.

(c) *A minimum of five (5) years relevant regional publishing experience*. Previous experience of successfully performing contracts in conditions similar to those in the purchaser's country is often the key to success. Therefore, some level of local or regional knowledge may be required. The Bank does not permit such a requirement, however, where the result would be to restrict bidding arbitrarily to local publishers.

(d) *A minimum of four (4) years relevant publishing experience in the language required by the bidding documents*. If publishing services in a widely used language (English, French, Spanish, Portuguese, Arabic, Chinese, etc.) are needed, it is reasonable for the bidder to

demonstrate experience in publishing in these languages. The same is also true of certain local or regional languages (e.g., Hausa, Swahili. etc.) where international and national textbook publishers have historically had an interest. For many languages (e.g., Bulgarian, Nepalese, etc.) it is extremely unlikely that foreign publishers would have the necessary experience. Bidding documents for publishing services for textbooks in languages which require specific language qualifications in terms of past experience would automatically limit bidding to local publishers. General experience of publishing in foreign languages should be required instead. This would also indicate the ability to cope with the problems involved in such publishing.

(e) *Evidence that the bidder has established premises and all the equipment required for successful performance of the contract.* This requirement is meant to exclude bidders with no record of satisfactorily providing the required services. The ability of a bidder for publishing services to control, manage, and use specialist skills within price, quality and timetable parameters is more important than having extensive equipment on site. Bidders also need to have the capacity for resource management because publishing largely specializes in the procurement and use of external specialist skills. Desk-top publishing (DTP) is increasingly used to develop some educational materials and the existence of in-house DTP systems does not indicate a familiarity with the skills needed to provide publishing services. Where applicable the bidding documents should give a precise description of the DTP skills and experience required, including the hardware and software to be used.

(f) *Evidence of acceptable financial stability and viability, submitted in the form of audited accounts and annual reports for the past three (3) years accompanied by a letter from the bidder's bankers.* This should indicate that the bidder has the financial resources necessary to handle the requirements of the contract as reasonable evidence of financial and operational capacity. Any bid where the value of the proposed contract represents more than half of the Bidder's firm's turnover for the period of the contract should be rejected.

(g) The Borrower should also request documentation pertinent to the experience of authors, editors, layout and design specialists and textbook development experts to be covered by subcontract where there is subcontracting.

25.4.3 Printing and Pre-Press Services and Off-the Shelf Textbooks

Bidders for these services do not necessarily need to have all the qualifications set out in Section 25.3.2 above. However, they must supply with their bids evidence of ownership of copyright or licenses and they should have the following qualifications:

(a) **Skills**: Bidders for printing or simple pre-press services would need to provide evidence that they have the full range of applicable printing skills and processes. Staff lists with qualification and years of experience are useful indicators of such skills.

(b) **Facilities and Equipment:** For bids requiring printing or simple pre-press services, the minimum acceptable area and type of space must be specified and the bidder required to submit a detailed list of major plant and equipment, including make model, size, age,

condition and optimum working speed and output. For off the shelf and adaptation/translation procurement, no special equipment is required. The minimum acceptable amount and the kind of equipment will vary with each case.

25.4.4 Contracts Requiring Multi-Media Skills

A minimum of four (4) years past experience in the kind of multi-media publishing services described in the Technical Specifications in the bidding documents should be required. Where purchasers require a course which integrates the use of multi-media, bidders should be required to provide evidence of experience in other media production and in the integration of different media into a single course package.

25.4.5 Prequalification

(a) In the case of procurement involving textbook publishing, adaptation and translation services, adherence to the bidder qualification requirements set forth in the bidding documents is generally sufficient to screen out unqualified bidders. *Therefore, the Bank recommends that prequalification should not be carried out.* The criteria in the bidding documents must however, be clearly established and defined and they must be rigorously and fairly applied.

(b) Where printing services are to be procured, *the Bank recommends prequalification for contracts calling for printing and pre-press services if these are the only services required.* The exact terms of the prequalification requirements for printing will vary depending on the nature and complexity of the work required and on the number of print runs. ***(Refer to Section 18 of the Manual for detailed instructions on prequalification of bidders)***

25.4.6 Publishing and Printing Issues

(a) Publishers: The qualification criteria given in bidding documents should require publishers to have knowledge and experience in contracting for and supervising printing services and in obtaining reasonable prices and high quality if the printing services are part of contract requirements.

(b) Printers: Printers that do not offer the specific services covered by a contract (e.g., editorial, design, or layout) or have no actual experience in providing them are not qualified to bid on publishing services for new manuscripts. There are significant differences in the actual capabilities of book printers, magazine printers and commercial printers that also need to be assessed in evaluation of bids.

25.4.7 Physical Specifications

(a) The Bank prefers that the Borrower use broad specifications as this allows greater competition. Most bidders prefer to have some latitude in developing a technically responsive bid. By allowing bidders some flexibility in how they prepare manuscripts, the purchaser can often benefit from competitive prices and improved presentation. Using

physical specifications that are too precise, with format, length, extent and number of colors specified in detail, can limit the creativity of bidders in seeking to provide publishing services and it can severely limit the number of titles submitted for adaptation and translation.

(b) Only the minimum acceptable standards for certain essential technical features should be specified in the technical specifications. These normally include such factors as book life, the weight and type of cover stock and finish, the weight and type of text paper and the binding process.

(c) Where paper and cover card are specified, it is necessary to go into some detail. Paper should be specified by both weight and quality. If paper and cover are under specified in the bidding document, it is almost impossible to predict standards of durability or to assess the quality of the raw materials without testing. The following paper/cover card characteristics have an impact on durability:

- weight
- chemical composition (percentage of wood free pulp)
- tear strength
- burst strength
- grin direction
- caliper (thickness of the paper)

(d) The following paper/cover card characteristics have an impact on manufacturing quality:

- weight
- grain direction
- water content
- porosity

(e) The following paper/cover card characteristics have an impact on presentation:

- opacity (see through)
- luminosity (brightness or whiteness)

(f) **Binding**

There are a number of different binding processes, some of which are generally unsuitable for school use. Others are suitable but may be too expensive. The main binding styles are:

(i) *Wire side stabbing:* This is not recommended for school books. Textbooks bound in this way do not stay open flat. Pupils invariably press open the gutters leading to spine cracking and early destruction.

(ii) *Wire saddle stitching:* This sort of binding is acceptable for a textbook of 96 to 112 pages. The positioning of the stitches, the number of stitches in relation to spine length and the quality of the wire are important issues in durability.
(iii) *Perfect Binding:* Perfect Binding is not recommended for textbooks. With rough handling pages easily detach from the book block. There exists variations in the quality of perfect binding and only good perfect binding is even marginally suitable for textbooks, even at secondary level. Perfect binding is never suitable for primary level textbooks.

(iv) *Thread sewing*: Machine thread sewing if performed well is the strongest binding style generally available particularly for extents over 96 pages. It is also the most expensive. Machine thread sewing is sometimes unavailable in the printing plants of many developing countries and hence, it is often not specified as a requirement in the bidding documents. Manual thread sewing is often substituted for machine thread sewing. However, it is difficult to achieve good quality with the latter form of binding.

(v) *Burst Binding (sewing with glue):* This is a good durable way of binding textbooks in an intermediate price range. Burst binding is not always locally available in some countries although it is generally cheap to install if perfect binding is already available.

(vi) All binding processes are subject to great qualitative variation. The quality of a proposed binding can only be inspected via a dummy and the quality standards provided in the dummy must be specified (and inspected and maintained) as a condition of contract.

(g) **Cover Finish**

A good cover finish greatly enhances durability by protecting against dampness, scuffing and wear. Most laminate or varnish finishes can be wiped clean with a damp cloth which greatly enhances appearance if reissue is a policy. The basic finishes are:

Type of Finish	Comments
(i) Mechanical varnish	cheapest
(ii) Ultra Violet varnish lamination	most expensive

(h) **Format**

Bidding documents should give Bidders guidance on formats required for the textbooks being procured. The exact limits placed on format will depend heavily on the Borrower government policy on book life, on environmental conditions in the classroom and on the content and presentational requirements of the curriculum. In NCB cases where available machine sizes are limited, the format selected will depend heavily on local printing plant specifications. The type of formats include:

(i) *Large formats* allow for better presentation, design and page layout. They are thus a positive aid to learning if well designed. However they are less durable (ratio of book

weight to spine length is a key issue in binding strength and thus durability), more difficult to store as they take up more space (also an issue in crowded classrooms), are more difficult to handle and use when there are no desks and require larger bags to carry them to and from school. They are generally more expensive in paper and cover card.

(ii) *Small formats* are less visually attractive (although good design and layout can alleviate this) but are more durable and are easier to handle, use, store and carry in harsh classroom environments.

(i) **Color**

Color printing is relatively expensive. Four color printing, costs on average 2.5 to 3.0 times more than one color printing. Decisions on the use of color are fairly arbitrary and limited research has been undertaken on the value of color as an aid in learning.. However, good color demands good artwork, good pre-press, good paper and good machining so that the cost impact of requiring good color goes beyond the simple printing costs. To have a good color text in a weak binding obviously results in high recurrent costs. Printing four colors on one side of a sheet and one color on the other can significantly save prices and still leave the impression of a four color book. 4/1 or 4/2 printing requires good planning, design and layout work.

(j) **Durability Specifications**

The basic raw materials specifications needed to ensure one year and three year book-life respectively would be as follows:

(i) **Sheeted text paper for one year book life:**

Description: White, part mechanical offset wove MF
Composition: No more than 40% mechanical pulp with an even formation free from specks and holes
Weight: 60-65 gsm
Bulk: Volume 14
Opacity: 75-80%
Condition: In equilibrium with user's ambient RH and temperature conditions
Dimensions: Cut square to size, -0/+2mm
Grain: To user's specification giving grain parallel the spine of the book.
Delivery: Moisture proof wrapped onto pallets or in reams

(ii) **Sheeted text paper for a three year book life:**

Description: White, woodfree offset wove MF
Composition: No more than 10% mechanical pulp with an even formation free from specs andholes
Weight: 75-80 gsm
Bulk: Volume 12-13

Opacity: 80% plus
Condition: In equilibrium with user's ambient conditions
Dimensions: Cut square to size specified, -0/+2mm
Grain: To user's specification giving grain parallel to spine of the book
Delivery: Moisture proof wrapped onto pallets or in reams

(iii) **Cover Material**

Description: White one sided Art Board
Finish: Coated one side only, gloss or matt as required
Weight/Bulk: 220 gsm/260 microns
Conditions: In equilibrium with user's ambient conditions
Dimensions: Cut square to size specified
Grain: To user's specification giving grain parallel to spine of the book
Delivery: Moisture proof wrapped onto pallets

Cover weight is similarly specified for both 1 year and 3 year book life because weak covers often result in books not surviving even one year. Similar binding specifications would normally require wire saddle stitch up to 112 pages maximum (many experts do not advice using saddle wire stitching for textbooks over 96 pages) and a good machine thread sewing over 112 pages for both 1 and 3 year book life.

(k) It is impossible for the Bank to provide detailed guidance on format, content and presentational specifications as highly specialized decisions have to be made by the Borrower in the context of policy, environment, usage and available financial resources.

25.4.8 Manuscript Issues

(a) Contracts for the procurement of textbooks including publishing services usually involve either an existing manuscript or one under preparation by a Ministry of Education, a curriculum development unit, or a requirement for the bidder to develop a manuscript, including the identification and any subcontracting of authors. The approach to be followed must be clearly specified in the technical specifications. The three alternatives that exist include:

- Bidding documents covering publication of a local manuscript require the inclusion of the finished manuscript including artwork, indicating clearly the amount of editing and artwork required;
- Bidding documents requesting publication as well as authorship and editorial support services to develop an existing but unfinished manuscript. The documents include the unfinished manuscript and a clear definition of the additional services required is given and an indication made about who will own the final manuscript (usually the purchaser); or
- Bidding documents requiring the successful bidder to carry out the entire process of manuscript development with a local authorship team nominated by the purchaser or

agreed upon with the successful bidder. The documents include a specific list of services that will be covered and indicate who will be responsible for each.

(b) The Bank recommends that Borrowers follow the alternative in bullet one above, and that the object of the contract be to produce a final textbook form a finished manuscript which Bidders can inspect. This gives Bidders a precise idea of the quality of the manuscript and the amount of editorial design work necessary to bring it to a camera-ready condition. If the alternative in bullet three is followed, most bidders would prefer to work with an authorship team to develop the needed manuscripts in order to avoid uncertainties caused by a manuscript which the bidder is not acquainted with.

25.4.9 Packaging Delivery and Storage Instructions

The Borrower should include in all the bidding documents detailed packaging and delivery instructions appropriate for the mode of transport and country of destination. Bidding documents should specify the type of transportation, delivery dates, points of delivery, package labeling, arrangements for acceptance and signing off and minimum packaging standards. The packaging standards may require some special drafting if particular climatic or environmental conditions apply, e.g., transport by small water craft, very heavy rainfall, humid storage conditions etc. The size of the package can also be an issue if large quantities must be broken down into smaller packages for onward delivery into rural areas where transportation and storage facilities are minimal. ***(Refer to Section 17 of the Manual for detailed instructions on transportation issues in procurement)***

25.5 Copyright and Ownership Issues

25.5.1 Copyright and Licensing of Publication Rights

(a) The copyright issues in textbook procurement is potentially complex. Prior to preparing Bidding documents, the Borrower needs to consult an experienced publisher, with good knowledge of contract law and copyright law, or a specialist copyright lawyer.

(b) The precise copyright ownership situation of manuscripts developed by or for the purchaser needs to be specified clearly in the bidding documents, particularly those concerning the rights of local authors and artists and any consequent payment requirement. Where a purchaser prepares its own manuscript the copyright would generally lie with the purchaser although there are cases where individual authors who prepare manuscripts on behalf of the purchaser are allowed to maintain their own copyright, or at least have a partial share in the copyright. This is usually the case when authors write manuscripts without a fee on their own time.

(c) Where authors are given time off to write or write as part of their job (e.g. staff in Curriculum Development Units), ownership normally lies with the purchaser. In some countries (e.g. Pakistan) manuscripts are often selected as a result of an advertised competition and copyright lies with the author. Purchasers may either pay a flat fee or royalty to an author in return for the assignment of copyright. Illustrative material originated by a

Bidder specifically for the course and specifically paid for by the project is normally owned by the purchaser.

(d) Where manuscripts are clearly owned by the purchaser, it can, license publication rights to the successful bidder for a number of years for a fixed number of copies. This license to publish is normally paid for by the successful bidder as a royalty on each copy sold. Where contracts include publication rights, a two way clash flow results. The purchaser pays the successful bidder for the publishing services and/or the delivered finished textbooks and the successful bidder pays the purchaser a royalty on copies sold by the bidder.

(e) If the purchaser only intends to distribute the finished books in its own country, and if it clearly owns the entire copyright in the work, then licensing of publication rights is often unnecessary. The bidding documents could require that the publishing services only extend to the CRC or film stage and the purchaser could then tender for printing services and raw materials separately. However, this is acceptable only if the production knowledge and production control functions are readily available to the purchaser. If these key skills are not available, the contract could specify the supply of finished copies for a once only order or for a specified number of copies covering reprints into the future.

(f) Alternatively, the purchaser may require that the textbooks be sold commercially at risk or even that limited quantities be supplied free of charge and only additional copies be sold. In such cases the commercial and marketing skills of the bidder (and its ability to minimize the resulting risks) are often stronger than the purchaser's, and therefore it makes sense to give the bidder publication rights as part of the contract.

(g) The licensing of publishing rights for titles covered by purchaser copyright confers a monopoly on the bidder for the period of the license and this may potentially result in unnecessarily high prices and invite corruption. *Rebidding for subsequent print may prevent this and the Bank recommends that rebidding be carried out by the purchaser.* If negotiations over the cost of subsequent printruns are unavoidable, however, the purchaser can strengthen its negotiating position by obtaining and tracking international printing and raw materials prices, which are published and generally available to the public.

(h) The bidding documents must specify copyright, ownership and required payments against copyright. They must specify whether or not publication rights are available, whether such licenses are based on time or quantities and if the purchaser expects to be paid royalty in return.

25.5.2 Adaptations/Translations

(a) When materials are submitted by bidders for adaptation, the copyright and ownership situation is more complex. The copyright on the original materials submitted by the bidder lies with either the publisher or the original authors(s). The copyright or any new material, inserted into the original book by local authors for the purposed of adaptation, would normally lie with the purchaser (since it pays for the course development), with the local authors or jointly by agreement. The copyright on the new adapted text comprising both

original publishers' text and new material added for adaptation purposes is a separate copyright which would also normally lie with the purchaser but the ownership and copyright of any original material used in the adaptation would remain with the original author/publisher. The adapted version could be covered by a joint copyright shared between the purchaser/local authors and the bidder/commercial authors. This alternative is cumbersome particularly if disputes arise concerning the adapted version. It would be simpler for the purchaser to pay a royalty to the original publisher of the original material used in the new text.

(b) In the case of translations the instructions above apply with the proviso that the organization paying for the translation would hold a copyright for the translation of the original material. A royalty is normally payable to a bidder submitting material for translation and adaptation for the original text used. If the normal royalty is 10% and 50% of a bidder's original text was used in the adaptation, royalties are paid pro rate, i.e. in the amount of 5%. If a bidder's original artwork or film is used an additional fee (the "off set fee") is payable to cover the cost of duplicate film. A contribution to the original cost may also be sought by Bidder, but this is normally waived to enable the Bidder to be more competitive.

(c) Where adaptations or translations are involved, the publication rights will involve recognition of copyrights and payment (or waiver) of fees/royalties. Even if publication rights are retained by the purchaser, copyright on the original material still remains with the successful bidder and royalties recognizing these rights are due to the bidder. The purchaser could pay itself a royalty for its own copyright material contained in the textbook or could waive it. If the bidder is granted publication rights the reverse obtains and royalties are payable to the purchaser because it owns the copyright on the new material.

25.5.3 Off the Shelf Purchase

Bidders normally include royalties in the quoted cost of textbooks they offer. However, the Instructions to Bidders should be clear on this issue. Where special, straight reprint editions not requiring any adaptation or alterations are to be supplied, it is sometimes possible to negotiate special, lower royalties. This depends on the terms of contract between the original publishers and authors and is not always legally possible. If bidding is competitive, it is assumed that all reasonable price reduction possibilities, including reduced royalties have been explored by bidders.

25.5.4 Permissions

Where substantial quotations, artwork, illustrations or photographs are used which are covered by a copyright owned by the bidder or another publisher or agency, it is necessary to get written permission from the owners of the material. In some cases, this is given free of charge, while sometimes payment is required. When applying for permission bidders/purchasers should specify the territories in which the new books will be used, estimated edition sales and estimated retail prices. Permission fees are calculated, based on this data. Fees for world wide usage are generally higher than those for limited usage in one

territory or region. Responsibility for seeking these permissions and the territoriality of permissions must be specified in the bidding document. All costs incurred in obtaining permissions should be included in the bid price.

25.5.5 Subsidiary Rights

(a) Where the copyright on an original manuscript belongs to the purchaser or to local authors, they control the "World Sales Rights" to the textbook and can theoretically sell or license copies of the textbook outside their own territory. In practice few purchasers have the marketing and sales capabilities and therefore they license these extra-territorial rights to Bidders for a fee. Where adapted or translated material belongs to a publisher, it may limit the use of adaptation to the specific territory of the purchaser to prevent overlap with other textbooks sold by it elsewhere in the region or in the world. This is a reasonable practice and should be allowed by the purchaser if requested.

(b) The exploitation of extra-territorial and other subsidiary rights depend upon the ownership of the material. Where the material is owned by the purchaser, subsidiary rights are retained by the purchaser, who licenses them to the Bidder if requested, against the payment of a fee. Where an adaptation or translation is required, the exploitation and payment of subsidiary rights should be specified in the bidding documents.

25.5.6 Publication Rights

(a) If the successful bidder is required to produce finished textbooks from manuscripts owned by the purchaser or resulting from adaptation, the Instructions to Bidders in the bidding documents (SBDs) should specify that the bidder has exclusive rights to manufacture and supply the textbooks (i.e., has the publication rights) and how long this exclusive right will last. A contract for the supply of finished textbooks can either be for a specified print run with no reprint, the preparation of a revision or new edition by the bidder or it can be for a specified initial print run with the bidder required to carry out future revisions, reprints and new editions in quantities that are not specified.

(b) If a bidder is required to produce finished textbooks, however, and does not know how many copies are required, it is impossible for costs to be accurately assessed. It is difficult to indicate at the time of bidding, the exact requirements for reprints and new editions needed several years later. It is also difficult for Bidders to estimate the costs for future reprints or new editions. Nonetheless, the longer the publishing rights are in effect, the more interest Bidders will have in bidding and greater continuity will be provided for the project. Continuity is important where revisions and new editions are likely and where publication services are being used to train and upgrade local staff to acquire publishing skills.

(c) The Bank recommends that bidding documents cover both the initial printrun and the possibility of reprints, with or without revisions, for a period of no longer than six years, the usual life of a textbook prior to a major revision. Bidders are asked in such circumstances to

quote prices for the initial print run and unit rates for revisions and any reprints during this period. The evaluation of bids is conducted using the initial costs quoted and the unit rates for revision/reprints multiplied by a realistic estimate of the amount of revision/reprints needed during the first two years as given in the Instructions to Bidders Data Sheet. The unit rates for revisions/reprints are made subject to adjustment after the first year.

(d) Publication rights are offered for this period. Where adaptations or translations are involved, repeated use of original material from the Bidder's original textbook requires continued payment of royalties by the purchaser for each reprint, revision or new edition unless these royalties have been specifically waived by the bidder. This does not waive the copyright ownership. Where a new edition with substantially less original material is prepared, the royalty provision in the contract should be re-negotiated.

(e) When adaptations and translations are required, it is impractical to have a Bidder work on material originated by a different publisher. Therefore, bidding documents for adaptations and translations should give the successful bidder the right to manufacture and supply reprints or new editions as specified above. If a purchaser reserves the right to develop course material from a licensed adaptation, the successful bidder should be paid royalties and usually makes the license non-transferable.

25.5.7 Rights Relating to Printing

With printing contracts, the printer has no copyright interest in materials which it prints. Contracts for printing services should specify the ownership of film and any original artwork supplied to the successful bidder. Ownership normally vests in the purchaser or with the publisher used. If a printer or publisher is required to store film on behalf of the purchaser, a storage fee is paid. If the film is to be returned to the purchaser it should have acceptable facilities to store the film in a proper way.

25.5.8 Local Copyright Laws

Copyright laws that exist in the country of the purchaser should be ascertained and the degree to which they conflict with copy right laws best known to the bidding community should be looked into. This will assist the purchaser and Bidders to resolve disputes that may arise as a result of the legal difficulties during the performance of the contract, due to the purchaser's country not being a signatory to international copyright conventions. ***(Refer to the General Conditions of Contract in the Bank's Standard Bidding Documents for Procurement of Textbooks for further details on copyright, ownership and subsidiary rights)***

25.6 Bid and Contract Performance Schedules

(a) Schedules for preparation of bids as well as delivery of the final textbooks should be realistic and take into consideration the special circumstances of the procurement in question. The stages of the typical textbook procurement process, together with the time periods recommended by the Bank for each stage are:

(i) *Bidding Documents on Sale/Bid Preparation*: Six (6) to eight weeks. This period could be longer if elaborate samples of 4 color printed pages are needed.

(ii) *Bid Validity Period:* The period of bid validity should be clearly specified (3 months from the date of bid opening would be reasonable, if not a longer period should be used.) If award is delayed beyond this period prices should be automatically adjusted as provided in the SBD for Procurement of Textbooks.

(iii) *Bid Evaluation and Contract Award*: Four (4) weeks.

(iv) *Completion of Contract Formalities*: Four (4) weeks to allow for additional discussions with the successful bidder and preparation of any supplemental documentation that may be required before the contract can be signed.

(v) *Development of Textbook Manuscript*: Six (6) months to present final draft.

(vi) *Publishing and Production Services*: Six (6) months to turn the manuscript into finished book months.

(vii) *Delivery of finished Books*: One (1) to three (3) months. This period varies depending on conditions in specific locations.

(viii) *Lead Time for Reprint*: Six (6) months including delivery.

(ix) *Revision or New Edition*: Nine (9) months for editing artworks and printing plus one (1) to three (3) months for delivery.

(b) Approvals: In the preparation of schedules, appropriate time should be allocated for necessary approval procedures. Too many approvals, however, by different parts of an implementing agency and/or Ministry of Education cannot only adversely affect the timetable but can also lead to disputes with bidders. If the purchaser fails to meet its own approval deadlines, the successful bidder should be permitted to extend the delivery deadline by the amount of time caused by the delay.

25.7 Bid and Performance Securities

(a) As with other goods procurement, bid security for textbook procurements should generally be established at levels of between not less than 2% and not more than 5% percent. ***(The Bank SBDs for Procurement of Textbooks, Instructions to Bidders Clause 15 provides detailed instructions on bid securities.)***

(b) Performance securities should be limited to no more than 10% of the contract price, and purchasers should be discourages from calling the security except in legitimate cases of default. Provisions should be made in the General Conditions of Contract allowing for reduction of the value of the security in proportion to work satisfactorily performed. ***(Clause***

33 of the Bank's SBDs for Procurement of Textbooks, Instructions to Bidders provides instructions on performance securities)

25.8 Payment Schedules

(a) The bidding documents must specify the payment schedule and this should recognize the realities of the publishing industry's supply process and cash flow requirements. If this is not done, qualified bidders may be discouraged from bidding or be forced to take short-cuts which would have adverse impact on quality. Contracts for publishing and printing services and off-the- shelf book contracts do not usually require advance payments and in such cases bidders should be paid within 30 days of delivery.

(b) Qualified bidders with cashflow difficulties, however often need advance payments, particularly to assist with pre-production costs, such as for paper. *The Bank thus recommends an advance of from 10% to 25% of the contract price against an advance payment bank guarantee (valid until acceptance of the procured textbook).*

(c) The Bank also allows Borrowers to make advance payments for publishing services contracts, where the successful bidder must incur considerable costs during the title development phase which can last more than six months prior to delivery of the finished books. An advance of 25% of the contract price on signing of the contract, against a bank guarantee for the equivalent amount valid until the books are accepted would be reasonable for pre-press and development contracts. Provision should be made in the payment schedule for the purchaser to be credited or reimbursed for shortages and any misprinted or misbound books on delivery.

(d) The Bank recommends that payment schedules be established (in Line 10 of the GCC Data Sheet when Bank SBDs are used) in the following manner:

(i) Advance payment: 10% to 25% depending on the amount of initial investment required to perform the contract (against a bank guarantee of an equivalent amount).

(ii) On shipment: 65% to 80% against receipt of documents

(iii) Receipt of the textbooks: 10%

25.9 Evaluation Process

The key factors that must be considered when evaluating bids for textbooks to assess whether they fit the educational, budget and other requirements of the purchaser vary enormously. The Bank thus recommends the use of the merit point system to evaluate bids in textbook procurement. The SBD for Procurement of Textbooks Clause 26.3 outlines the factors and scoring systems that are recommended. Both technical and commercial scores should be assessed for all responsive bids, and each of the bids given a pre-determined weight. The award is then made to the bidder receiving the highest total number of points. Some of the relevant criteria include:

(a) Bidders' Qualification and Capacity -10 to 15 points

(b) Compliance with Educational Objectives -10 to 15 points

(i) *Conformity to Curriculum*

(ii) *Pedagogical/Methodological Suitability:* Is the text "teacher friendly" or "pupil friendly" bearing in mind the level of local teacher training and capability?

(iii) *Support for Teachers*: Does a Teacher's Manual exist and is it relevant?

(iv) *Supporting Pupil Materials*: Do supporting materials such as work books or posters exist and are they relevant?

(v) *Language Levels*: Is language grading required? If not, is the usage suitable in vocabulary structure, usage and interest?

(vi) *Sociological Relevance*: Are texts too urban-biased? Do they contain examples and illustrations that are familiar/relevant (unfamiliar/irrelevant) to pupils? (This is a very important concern at the primary level, but is less important in advanced grades.)

(vii) *Regional relevance*: Do the texts have appropriate geographical relevance?

(viii) *Content*: Is it interesting? Is the quantity of information sufficient? Is there too much? It is factually correct? At the right level? Properly sequenced?

(ix) *Internal Organization*: Is the balance between fact, concept, illustration of concept, individual/group/class activities, exercise materials etc., good? Is there a consistent, internal logic to the organization of material which assists and interacts teacher and pupils?

(c) Presentation -5 to 10 points

(i) *Format:* Is it suitable to local conditions?

(ii) *Illustrations*: Are they well drawn/photographed/reproduced? Are they interesting and attractive? Are they decorative or useful? Do they inform, illustrate? Are they sufficient? Are they in the right place? Are they accurate?

(iii) *Text:* Is the type face large enough, readable? Is text well designed or laid out?

(iv) *Headlines and Captions:* Are they logical, consistent, useful, accurate?

(v) *Content List and Index:* Are they useful?

(vi) *Reproductive Quality:* Is there a good register? This is very important with color. How good are the opacity and paper see-through characteristics? What is the quality and consistency of printing and folding?

(d) Price - 60 to 75 points ***(Refer to the SBD for Procurement of Textbooks, Clauses 11 and 26 of the ITB for detailed instructions on Bid Price)***

25.10 Submission of Samples to Illustrate Quality

(a) Bank policy requires Bidders to submit work samples and production schedules to demonstrate their ability to meet the requirements of the technical specifications. Samples can also be used to evaluate the quality of the textbooks offered in a bid or to verify that the bidder understands the contract requirements and is likely to be able to perform successfully. ***(Refer to SBD for Procurement of Textbooks, ITB Clause 14.3)*** Sample adaptations must be submitted in a language acceptable to the Borrower's staff, who may not have the ability to evaluate textbooks in their original language.

(b) Sample submissions may include one or more of the following:

(i) *Dummy:* This is a fully made up book consisting of blank pages which is used to illustrate the format, length, text and cover paper quality, binding style and finish of a book and demonstrate conformity to the specifications. If it is to be kept as a standard of comparison with the actual books delivered, the dummy should be signed and stamped by the bidder on the cover and on at least one text page.

(ii) *Printed Section:* This is a printed, folded, cut and trimmed section of pages, which have been type-set, illustrated, designed, laid-out, filmed and printed for the purpose of demonstrating page presentation, visual impact and internal organization of the text and scope and sequence. These sections can be very expensive to produce as part of a bid if four color illustration and printing are required. Most bidders would therefore prefer to submit a 4-page section. An 8-page section should not be required unless absolutely essential.

(iii) *Design Rough:* This consists of a designer's free hand visual representation of the final page appearance. It may be used as an alternative to a printed section as it is much cheaper to prepare.

(iv) *Paste Up or Mock Up:* This alternative to a printed section consists of pasted artwork and mock text to represent the final page appearance. If an accurate interpretation or reduction of the page is required, a printed section should be specified but kept to four pages wherever possible to avoid unnecessary cost being incurred by unsuccessful bidders.

25.11 Affordability and Price Control

In many Borrower countries, affordability is a key issue. A ceiling price per textbook may be established in such instances to make certain that the final textbook falls within budgeted

purchaser limits of affordability. Revealing the ceiling price to bidders, however, tends to limit price competition; and may also affect quality. Therefore, ceiling prices should not be included in the bidding documents, but the prices quoted should be compared with the ceiling price in the evaluation and if a substantial difference exists between the lowest evaluated bidder's price and the ceiling price, that bid can be rejected on those grounds and new bids invited based on revised specifications. ***(See paragraph 2.60 of the Procurement Guidelines for instructions on rejection of bids)***

25.12 Bidding and Contract Supervision

Bidding and contract supervision by purchasers should be careful and attentive enough to prevent minor problems from going uncorrected or growing into major disputes. The institutional capacity of purchasers to supervise bidding and contract performance should be addressed at the out set of each project. Staff in the implementing agency should respect the rights and obligations of both parties to the contract and be trained in contract management and administration matters if successful contract performance is to be obtained. ***(See Section 10 of the Manual for instructions on Assessment of Procurement Capacity of Borrower's Implementing Agency)***

25.13 Off-The-Shelf Procurement: Procurement of Pre-selected Off-The-Shelf Titles

(a) There are two possible approaches open to Borrower in off-the-shelf procurement of textbooks:

(i) *Centralized:* This involves pre-selection by the purchaser of a single title (or titles) for supply to all schools; and

(ii) *Decentralized:* This approach involves the pre-selection of multiple titles for a "short list or "approved list" of title from which schools or school districts can select.

(b) The Bank sometimes finances large scale procurement of a single title off-the-shelf textbooks on the basis of direct contracting, but this is not the preferable method of procurement, since it does not ensure economic prices. Title selection should be conducted on the basis of a competitive evaluation procedure. When multiple choice selections are made to create a shortlist from which schools can select, the procurement process is more complex at the time of selection since it is not known which titles will be selected, and in what quantities. Prices depend on sales and varies depending on demand.

(c) If the "short-list" strategy is used, the contract must incorporate suitably clear payment provisions based on one of the following three approaches:

(i) The purchaser collects orders from individual schools, orders the quantities needed from the successful bidder, and makes direct payment;
(ii) The purchaser gives schools a budget allocation and schools buy (and pay) directly from (to) the successful bidder; or

(iii) Schools order directly from the successful bidder but send the bills to the purchaser for payment.

(d) In paragraph (c) {i} and {iii} above, the purchaser pays publishers directly and has the ability to calculate sales quantities for each title. Price provisions in bidding documents for such cases should incorporate a sliding scale for prices, so that potential economies of scale are realized. The contract price would be the price for the quantities actually sold. The evaluation of bids, however would be conducted using the average of the price quoted for the different likely quantities to be purchases as estimated by the Borrower. Bidders should be advised that this procedure will be used in the evaluation and actual points given as a result of the estimates must be revealed in the ITB Data Sheet to provide for transparency.

(e) In the approach described in paragraph (c) {ii} above, the purchaser provides a budget and is not involved in payments to the successful bidder. In such cases the Bank ends up financing in effect, an incremental operating cost of the purchaser, not a specific textbook contract

(f) If pre-selected titles are to be sold commercially and purchased by parents, the selection procedure needs to consider educational suitability, price affordability, marketing and distribution capacity in addition to technical specifications. If the publisher of a title has no stocking, distribution or delivery base in the area of the purchaser's school system, such title should not be selected.

Section 26: Procurement of Privately Provided Infrastructure

26.1 Introduction

Both public and privately provided infrastructure projects provide public services which are paid for by the public, thus their procurement arrangements should be undertaken in a competitive manner that ensures both economy and efficiency. Private sector participation in the provision of infrastructure (PPI) includes the full range of concession type arrangements for the provision, upgrading, maintenance and operation of infrastructure projects. Concessions include, build own transfers (BOT)/build own operate (BOOs) contracts and build own operate transfer (BOOTs), long – term service contracts, management contracts, leases and divestiture.

Under a concession arrangement, a private contractor is responsible for the provision of a service, its operation and maintenance and in some instances, for building and financing new investments. At the end of the concession term, the sector assets are returned to the state/employer. Concessions are usually granted for the provision of gas, power, water, transport, sanitation or telecommunications. Borrowers have the right to limit in time the property rights that are transferred to concessionaires.

A PPI scheme occurs when the government grants a concession or franchise to a private firm in order to finance and build or modernize a facility that will also be operated by the firm for a certain period of time. Slightly different is a BOOT scheme under which the private operator also retains ownership of the facility during the concession period in order to guarantee bank loans.The private operator gets the corresponding revenue and assumes all the commercial risk. BOTs usually include some regulatory provisions regarding the prices charged or the quality provided.

26.2 The Role of the World Bank in the Procurement of Concessions

In concession arrangements the Bank may provide the Borrower with funding for technical assistance (in the form of financing advisors), investment funds or guarantees. Investment funds are provided by the Bank through the International Finance Corporation (IFC), while guarantees are provided through the Multilateral Investment Guarantee Agency (MIGA). Where the Bank is involved in financing the cost of a project procured under at BOO/BOT/BOOT or other PPI arrangement, the entrepreneur should be selected under ICB or LIB procedures acceptable to the Bank. In such a case, the entrepreneur may use their own procedures in purchasing goods, works, or services (from eligible sources – see Guidelines para. 3.13). Where the entrepreneur is not to select the goods, works, or services financed by the Bank shall be procured by means of ICB or LIB. ***(Refer to Section 19 of the Manual for instructions on the responsibilities of Bank staff in procurement and Procurement Guidelines paragraph 3.13)***

26.3 Preparation for Bidding

As already indicated, the responsibility for procurement remains with the Borrower and Bank staff merely have a fiduciary and advisory role to ensure that procurement is carried out

according to Bank policy. Before bidding begins, the Borrower must issue an advertisement in the form of a GPN and an SPN inviting bidders to prequalify. These should be advertised in the UNDB and in local and international newspapers in accordance with the Bank's requirements. The notice is also inserted in the online version of the UNDB. ***(Refer to Section 14 of the Manual for detailed instructions on Advertisement and Notification of Bid Opportunities)***

To maximize competitive interest from well-qualified bidders, the government should adopt a strategy aimed at minimizing the costs to bidders of preparing their proposals and restricting the number of bidders in the final tender round to no more than three or four. Governments should also ensure that the tender process is undertaken swiftly and efficiently. Governments should take the following steps before the tendering process begins:

- establish a dedicated project team made up of experienced individuals in the areas of procurement, engineering, financing, market analysis, revenue forecasting, and legal matters;
- begin the process of putting in place an appropriate legal and regulatory framework for the operation of private concessions;
- establish a clear definition of what is required from the private sector;
- launch an expert review of the financial viability of the project finance;
- decide on how any financing gap revealed will be handled; and
- develop a firm plan for the bidding process, including the timetable, number of stages, and the objectives to be achieved at each stage. The government needs to ensure that the tender documents to which bidders are asked to respond contain a clear set of requirements and specifications.

Since most governments lack the capacity to undertake and manage the process of selecting the concessionaire, the first step after Bank staff review should be an assessment of the implementing agency's procurement capacity to hire qualified consultants/advisors to provide Technical Assistance. ***(Refer to Section 9 and 10 of the Manual for instructions on CPAR, and assessment of procurement capacity of the Borrower's implementing agency)*** Consultants and advisors will basically provide technical assistance to advise the government on the most appropriate way to carry out procurement and the economic, regulatory, legal, financial and technical issues that will arise with the granting of the concession.

The government may either hire a consortium of firms under a single contract to deal with the above issues or hire separate advisors under individual contracts. Although a consortium of firms may reduce the management demands on the government, and probably result in more consistent advice, it may not provide a sufficiently broad range of advice on complex issues. It may also generate contractual difficulties particularly due to the different size of participating firms and their different levels of liability. On the other hand if separate advisors are hired, contracting is straight forward and it will be easier for the government to coordinate them or assign one of them to coordinate the others, advise will also be broader. The Bank recommends that where the government has proper capacity and experience is procurement of concessions consultants should be hired separately and managed by the government.

Due to the complex nature of concessions, the government and the selected advisors should hold road shows to visit potential bidders and make presentations on the proposed concession. Conferences may also be held to give potential bidders information on the prequalification and bidding processes. The Government may also establish a data room where all data relevant to the concession, such as studies and information on the project are made available for potential bidders for a specific period of time. Potential bidders should also be allowed to make suggestions for the bidding process.

26.3.1 Incentive Schemes

In most privately provided infrastructure projects contracts, the government has to provide incentives to attract private sector firms to participate. Incentives may thus be in the form of cost sharing and pricing arrangements, penalties or incentive payments linked to performance standards, bonding devises and insurance arrangements. Incentives are essential because the different forms of PPI involve a number of varying risk factors including commercial risks, exchange rate risks and political risks.

To ensure intensive competition and the most economic result, the government should thus design the contract in a way that ensures that risks are allocated to the party who can best bear it. Risks that the concessionaire can control or assess less effectively than the eventual customers should generally not be shifted to the concessionaire. Where the concessionaire and customers have similar ability (or inability to control or assess a risk), the decision on who would assume it should be based on who can bear the risk at a lower cost. The government should consider testing the market through the bidding process in those areas where there is uncertainty about the private sector's appetite for assuming different levels of risk. This can be achieved by inviting tenders on a manageable number of alternatives, specifying different levels of risk transfer. In order to attract responsive bids that focus on the government's key objectives, the evaluation criteria need to be spelled out transparently in the tender documents.

Where the World Bank provides a guarantee, detailed information on the terms of the guarantee should be provided in the tender document. If there is any uncertainty about whether or the extent to which such a guarantee is required to ensure that the project can be financed by the private sector, the government could again test the market by inviting bids based on different types and levels of risk protection.

Designing the contract in such a way that increases cost and risk sharing between the concessionaire and the customers increases the intensity of competition and benefits the government. Where concessionaires are exposed to the risk of cost increases, they may bid low and later claim cost increases. On the other hand if the contract provides for a suitable scheme of cost sharing, it is most likely that the most efficient firm will be selected as it will probably make a fairly low bid. Although governments prefer fixed priced rules it is recommended that the government and its advisors should take into consideration how the different incentives will affect the final contract, when drafting the bidding documents.

26.4 Selection of a Suitable Bidding Method

26.4.1 Competitive Bidding

Competitive bidding methods include ICB or LIB. These methods are described in detail in earlier sections of this Manual. ***(Refer to Section 13 and 16 of the Manual)*** The main advantages of competitive bidding are that it ensures transparency, provides a market mechanism for selecting the best proposal and it stimulates interest among a broad range potential partners. Its disadvantages in the case of concessions are that it only works best where outputs are standardized and all technical parameters are clearly defined. It may also encourage underbidding if renegotiation is possible later.

In cases where the concession involves a product or service that is not standardized and the technical outputs are cannot be clearly defined, performance-based bidding can also be used. However, in such instances, the employer when preparing bidding documents must pay particular attention to providing good quality information to potential bidders and designing the bidding process in a manner that will ensure that the specific objectives of the employer are met.

Single versus Two Stage ICB: Whether a government uses a single or two stage bidding process depends on the nature of the contract and how precisely the technical requirements can be defined. In cases where the project is defined and technical and performance specifications a single stage bidding process is appropriate. However, where the concession project is complex and both technical and performance requirements are not clear, the government can undertake a two stage bidding process and obtain a general idea of bidder's qualifications and ideas on the concession. On these basis, the government can modify bid documents in accordance with the needs of the project. ***(Refer to Section 16 of the Manual for detailed instructions on Single and Two Stage Bidding in procurement using ICB)***

26.5 Prequalification Process

In concessions as in other large projects, the objective of prequalification is to reduce to about three the number of interested bidders selected for the main bidding process. Prequalification needs to be stringent so that the government can distinguish adequately among the candidates. Bidders should thus be provided with sufficient information on the concession to enable them to undertake an adequately detailed assessment that will allow them to justify the commitment of substantial resources to making a comprehensive and competitive submission. This information must be sufficient to attract suitable bidding groups. The Borrower should allow joint ventures to enable qualified small operators to join large contractors or banks to compete with traditional concessionaires, and in this way foster competition.

Apart from information on the design, scope, timetable and background on the project, the Borrower should provide the following information in prequalification documents:

- Summary demand forecasts, with estimates of revenue and assumptions of demand elasticity;

- Progress on various critical path actions relevant to the project;
- Scope of the proposed concession, including an outline of the concession agreement covering the key issues; and
- An outline of bid selection and evaluation criteria to be used.

The concessionaire is responsible for the design, financing and construction of the facilities for which the concession is awarded. Prequalification should this assess the capabilities of bidders in these areas. The Borrower should design an assessment procedure to prequalify candidates who have:

- The financial, technical, and managerial capacity and expertise to build finance and operate the type of concession in question;
- Experience of bidding successfully for similar concessions and mobilizing project finance;
- Demonstrated commitment and competitive enthusiasm to participate aggressively in the main bidding process; and
- Knowledge and experience of conditions within the host country.

Bidding documents for prequalification should in addition require bidders to provide the following information:

- A description of their experience on the design, construction and operation of the type of project being considered;
- A description of the bidder's (i) proposed commercial structure, if awarded the concession and their understanding of commercial issues; (ii) likely sources of financing; (iii) proposed scale of financial commitment and, if relevant, the level of the financial commitments of consortium members; (iv) likely level of financial returns sought;
- Their approach towards managing construction contracts;
- Their experience in competitive tendering for projects involving a design, construct and operate concession;
- The agreement and organization among partners in case of a joint venture;
- Their experience in major construction and operational undertaking in the host country;
- Their economic and financial history; and
- History of litigation or arbitration.

In evaluating prequalification applications, relative weights may be allotted to the various criteria listed above and given the nature of these criteria, careful judgments will often be called for in assessing bidders' capabilities in a number of these areas rather than there being any strict qualitative criteria.

The financial capabilities of sponsors should be assessed by the Borrower taking into consideration the following issues:

- the combined net worth of the sponsors should at a minimum exceed the sum of the level of equity plus the quantified value of any guarantee-like undertakings, by a margin that is comfortable enough for them to undertake their original business commitments;
- the source and application of the bidder's funds;
- the bidder's short term and long – term debt schedule;
- the bidder's income statements; and
- the realism of the borrower's expected return and how well the bidder demonstrates its understanding of the key commercial and financing issues that will arise from the concession.

The Borrower should indicate the minimum acceptable capital, current ratio and debt ratio that bidders should have.

The Borrower should also design performance indicators which will assist in the supervision of the concession. The indicators should include the bidder's proposals for:

- expansion of the service to be provided under the concession – for example in a concession for water supply -- this entails submitting for approval, a plan setting out indices measuring the time for connection of new users to the system, the quality of supply to all users; the number of users who will be served and the barometric pressure of water at consumer entrance of the supply. For power, the in addition the voltage regulation at the consumers entrance of supply and the frequency fluctuation at the installation point;
- quality of the technical operation of the system–in this case the bidders should submit to the Borrower a plan setting out–in the case of a concession for water supply an indication of intended service continuity detailing a measure of the number of days and hours per year when consumers will go without water and the measure of water not accounted for in the system. For power supply, the frequency of outages per year, their duration and the difference between electricity generated and total sales.
- quality of maintenance of concession facilities;
- attention to customers–the quality of attention to customers may be measured by indicating the connection time–the number of days between the date a new customer asks for connection and the date the service begins, reconnection time, telephone service indication whether the concessionaire has an exclusive telephone service for facilitating commercial operations with customers and for complaints about the service, the number of days between bill deliver and due date; and
- the consistent economic and financial soundness of the concessionaire–the concessionaire should submit financial statements to the regulator that define indices for compliance in terms of–debt service coverage ratio, self financing ratio, average collection period, operating profit margin and rate of return.

26.6 The Bidding Process

Before the government issues bidding documents and after prequalification has been carried out, it must resolve the following critical issues:

- whether the concession period is fixed or whether bidders may propose the duration of the concession;
- where necessary, the basis upon which the concession will revert back to the government or be transferred to another concessionaire;
- what sort of remedies will be applied for delay in completion of the construction and commencement of operation;
- the degree of allowance for innovative designs by bidders;
- the kind of incentives in the operation of the concession and the mechanism for their application;
- final decisions on risk sharing;
- common information provision, for example, the commissioning of a ground conditions survey by the government and its inclusion in the project costs;
- final decisions on government support;
- any bonding or guarantee requirements; (careful consideration should be given to the appropriateness of these as their cost will reduce the value of the bid);
- treatment of qualified but variant bids;
- restrictions if any on competing infrastructure;
- agreements on external support;
- potential reimbursement of abortive bidding costs; and
- areas in which specified alternative bids will be required from bidders so as to test the market.

In drafting bidding documents, a balance has to be struck between ensuring that the government's commercial economic and social requirements are met, and offering a structure that will attract the private sector. Imposing restrictions that are unreasonable, impractical or costly would minimize the private sector contribution or render the concession unattractive.

Depending on the complexity of the project and given the level of detail required to maximize the bid value, bidders should be given a minimum of bid period of five to six months to prepare their bids. During this period the Borrower should speedily answer bidders' questions and comments, on a consistent and open basis. New information should be provided to all bidders. At the same time the Borrower may hold a pre – bid conference to give bidders information on the government's expectations. Separate consultation meetings with each bidder can also be used to raise issues, that they may not wish to raise in the presence of third parties.

Governments need to retain an open mind and be prepared to issue amendments to bidding documents where gaps and inconsistencies are identified by bidders or where issues that could affect the financeability of the concession have been raised.

26.7 Technical Specifications

When coming up with technical specifications, the government needs to consider carefully the tradeoff between issuing an output-based performance specification, which will give bidders scope for innovation in design and risk taking, or a more detailed input-based

specification that, while having the advantage of reducing bidders' costs, will transfer more risk to the government. Where the government chooses to have an output specification requirement that will be effective, the government needs to:

- ensure that its technical team has the relevant experience to enable it to produce a specification that will permit a like for like evaluation for bids, and against which the concessionaire's performance can be monitored;
- consider bidder consultation meetings during the tender period to ensure that the technical solutions bidders have in mind are likely to be acceptable; and
- be prepared to issue amendments to output specifications after consultations with bidders.

26.8 Bid Documentation

Bidding documents should clearly state the government's contractual, financial and technical requirements and how the bidding process with be handled. This should specifically include:

- a detailed definition and description of the project;
- a draft concession that will include a schedule containing (i) a technical performance specification, relating to both construction and operations, and (ii) drafts of any other key agreements to which the government will be a party, such as any direct agreements between the government and the Bank and other potential lenders, that give the lenders the right to take over the concession in the event of default by the concessionaire. This will help reduce the post-bid negotiation period, as the government's position on all aspects of the concession will be clear. These documents should be balanced and realistic and should reflect an initial negotiation position.
- Full details on the government's proposed support for the project.
- Details of any external support agreed for the project.

Information on the concession should be as complete as possible to avoid the bidders incurring unnecessary time or expense seeking for clarification, and to enable them to meet the government's requirements. Bidders should be made aware that the information is provided in good faith and the government shall not be liable contractually for such information. The information should be made up of:

- Detailed, independently validated underlying demand forecasts and revenue projections, with assumptions and methodology used.
- Survey reports including any detailed soil or ground conditions tests that may be relevant or any detailed environmental assessment of the project site.
- Legislation, existing and proposed, that will affect the project, including any applicable environmental regulations or guidelines.

Bidding instructions and information should notify bidders precisely what they need to do in order to submit a compliant tender and what will happen to the bids once they are submitted. The instructions should set out:

- The timetable that bidders must adhere to for bid submission;

- The required form of tender;
- Details of any bonds and guarantees required of bidders;
- Details on what bids should contain; and
- The precise criteria on which both compliant and variant bids will be evaluated.

In general, bidders should at the minimum include the following documents with their bids for the concession:

- a signed form of the render in the specified format;
- technical proposals that clearly demonstrate how the bidder intends to meet the government's specifications;
- a coherent, well developed commercial and organizational plan for operations of the concession company;
- financial projections and analysis demonstrating the viability of the concessionaire's operations over the life of the concession;
- the assumptions underlying this analysis on all aspects of construction and operation;
- comprehensive, detailed financing proposals together with evidence of support of lending and investing institutions;
- evidence of adequate financial resources from the bidder, other investors and lenders to cope with unforeseen circumstances; and
- any bonds or guarantees required at the bidding stage.

Alternative bids may be submitted together with the fully conforming proposals where the Borrower allows bidders. Before bidding documents are issued to bidders, the Borrower must submit them to the Bank for the TTL's comments and the Bank's "no-objection.

26.9 Evaluation of Bids

Bidders' proposals are more likely to match the government's critical objectives if the evaluation criteria are precise and transparent. This also enables the Borrowers to evaluate tenders easily and rapidly. The precise approach to evaluation will depend on the government's objectives, the framework within which the candidates have to bid (the type of concession), and the level of detailed information available on the potential socioeconomic impact of the project.

26.9.1 Assessment of Value for Money

The assessment of value for money may involve taking into account for each bidder's proposal, the level of government support where necessary, and the costs and benefits of each proposal. Where government support is required, the kind of support will be defined in the bidding documents. The evaluation in this instance will be based on the amount of support that each bidder requires. In assessing the value for money, the government will in effect be selecting the bidder who offers the best commercial proposal. For example in a divestiture project in which bid are based on the price of shares or assets being sold by the government, bids are evaluated on the basis of the highest price offered. In concessions where the

economic activity to be undertaken results in income to the government, the concession should be awarded to the bidder who offers the highest income to the government.

In evaluating the bids the Borrower will also consider whether there is any difference between compliant bids in terms of charges the concessionaire will seek to impose in return for the services provided. It is appropriate in such cases to assess the cost to the government of the charges required by the concessionaire over the concession period. This can be done by calculating the net present value of the initial charges imposed by each bidder. The favored bidder in this case will be the bidder who offers the lowest service fee.

Where the concessionaire is required to bear demand risk, the calculation should be based on the government's own demand projections, in order for a consistent basis for comparison to be made between different bidders. The calculation should incorporate the bidder's proposed escalation regimeor the government's proposed escalation regime as required in the bidding documents. For example for concessions where there are multiple customers, such as toll roads or water supply concessions, but where tariffs are regulated, the Borrower should undertake a comparative assessment of bids based on the proposed charges of each bidder on these basis. In this instance the selected bidder should be the one who offers the largest discount on existing tariffs or the lowest new tariff.

Where the environment is unregulated, it is not necessary for the Borrower to take toll levels into account, as it may be assumed that any concessionaire will eventually adopt a revenue maximizing strategy regardless of its initially proposed toll charges. If the tender documents give bidders the freedom to propose factors that give rise to differences in costs and benefits of bids received, the net present value of such costs and benefits of each bid should be calculated. For a road project for example, the bids could differ in terms of the amount of road congestion relief each bid produces in the area where the road is to be built. For such projects the degree of congestion relief can be said to represent the net benefit of the proposal. This can be done by ascribing values to the various elements of congestion relief such as-time savings to motorists and a reduction of the costs of dealing with accidents-and computing a net present value of the aggregate of these individual elements for the period of the concession.

Where no government support is necessary and all aspects of the project are prescribed in bidding documents except for the construction period, the best value for money could be said to be offered by the bidder proposing the shortest construction period.

26.9.2 Technical Evaluation

The following technical aspects of the bids received should be assessed by the Borrower in its evaluation:

- whether the bidder's technical and management proposals are likely to meet the requirements of the performance specification;
- technical and design risks of the proposals;
- the proposed constructions costs, their timing and the likelihood of their attainment; and

- the proposed operating and maintenance costs and the likelihood of their attainment.

Evaluation of technical aspects during the construction and operating period could be simplified by:

- specifying stringent technical standards;
- providing for penalty points to be given for noncompliance; and
- adopting high standards in relation to the bidder's experience.

All proposals that meet the required technical standards should be put forward for a financial evaluation, while those that do not should be rejected.

21.9.3 Financial Evaluation

The Borrower must assess the credibility of the commercial and financial aspects of the bidders' plans over the concession period. The underlying assumptions in each bid should be reviewed stringently and in detail and the track record of the bidders' sponsors financial advisors and supporting financiers should be assessed. The assessment of credibility of a bidder's proposal will involve considering issues such as the bidder's own capital structure, and the sources and availability of funding.

Where the bidder is a company of substance and is willing to provide a guarantees for the repayment of debt, considerations of financial structure and availability of funds need not be evaluated. In the absence of guarantees, the government should consider:

- the amount and nature of the subscription of equity;
- the strength and credibility if expressions of financial support from banks and institutions that accompany the bid;
- the requirements of lenders and other project participants such as suppliers and operators, with whom there is an arms-length contract;
- the availability of standby equity and debt;
- in the absence of equity the extent to which the commitment of other participants (in terms of bonds and guarantees and other conditions) provide an adequate substitute for equity;
- the realism of the bidder's revenue projections as compared with the government's projections;
- the soundness and feasibility of the financing proposals, that is, to the extent to which they move into relatively uncharted territory, as complex or are dependent on external factors; and
- the bidder's proposed timetable for obtaining underwritten commitments.

Using an adequately specified financial model, the robustness of the financial structure can be tested by sensitivity analysis to assess the ability of the bidder's projected cash-flow to with stand adverse variations in economic assumptions. The assessment can then be converted into a yes-no judgement or into a weighting sufficient to remove the risk of failure.

If the bidding and evaluation process is well handled, there is likely to be much greater consistency between the final financing plan and the one initially submitted by the winning tenderer as part of his bid.

21.9.4 Integration of Evaluation

It is necessary to integrate the different components of the evaluation methodology described above. Judgments may either be made between different aspects of bidders' proposals, either implicitly or explicitly (through assigning weights); or developing quantitative criteria where practical, and using hurdles or yardsticks for criteria. Depending on the project, the approach should consist of:

- quantitative assessment of the value for money using one or more of the methods described above;
- an assessment of the risk that this may not be realized because of problems with the financial, technical, and operational aspects; and
- the adjustment of the value-for-money assessment in light of this risk assessment.

After the evaluation process is complete, the Borrower should prepare a Bid Evaluation Report indicating the concessionaire selected and submit it to the Bank for review, and approval by the TTL. ***(Refer to Section 19.17 of the Manual for detailed instructions on the contents of this Report)***

21.10 Negotiation and Conclusion

Once the winning bid has been selected and Government has obtained the Banks approval on the award of the concession to the selected bidder. The bidder is then informed, and negotiations with the Borrower are held in order to should ensure that:

- Private sector finance can be underwritten on terms contained in the preferred tender.
- Construction and equipment supply contracts have been negotiated that reflect the terms of the concession agreement, and are executed at the same time.
- The process of obtaining legal powers and ensuring other conditions precedent are satisfied on time.
- The government's timetable of actions and contributions is consistent with the proposed timetable for signing the concession agreement.

Underwritten offers of debt finance and shareholders' guarantees should be required at this stage. This is to ensure that the financial markets are not flooded with competing financial proposals for the same concession, and to ensure that abortive bidding costs are minimized by necessitating the completion of financier's due diligence and imposition of commitment fees only after the preferred bidder has been identified. Although private sector concessionaire has the obligation to raise financing for the concession, the government has to ensure that he finance promised in the bidding documents is confirmed.

After contract negotiations are complete and before signature, the Borrower should submit the final draft concession contract to the Bank for approval.

26.11 Concession Contract

The final contract will take into consideration all of the issues described above. Generally it will set out:

- The definition of the services to be provided by the concessionaire under the contract;
- The concession area;
- The rights and obligations of the Borrower and concessionaire;
- The performance indicators to the quality of the service;
- The regulations to be applied;
- The power of the regulator to inspect installations and books;
- The penalty for non – compliance with the concession agreement;
- The tariff regime, adjustment mechanism and process for resetting the tariffs;
- The guarantees, warranties and performance bonds;
- The duration of the contract;
- The process for termination, renewal or rebidding of the concession; and
- The dispute resolution mechanisms and applicable law.

To prevent unnecessary and capricious negotiations, concession contracts should contain well thought out performance specifications, well balanced incentives and risk-sharing arrangements and strong bonding mechanisms leading the government and the concessionaire to adhere to the contract terms.

Section 27 Procurement of Information Systems

27.1 Introduction

The nature and scope of information systems financed under World Bank projects vary greatly. They encompass a broad range of functional applications, technologies and related technical services. They also vary widely in scale and complexity. A further variation in the acquisition of information systems includes the use of technical services, and the relevant World Bank procurement methods associated with consulting services. This approach is more narrowly applicable in that it is appropriate for software development or other service-only type assignments (i.e., little to no tangible technologies).

Procurement of Information Systems (IS/IT) are considered to be among the most challenging and difficult to undertake, because of the following characteristics:

- their technical content is extremely diverse and difficult to define;
- the various components of IT are highly interdependent on the business processes of the implementing agency;
- **the available solutions in the market to IT problems experienced by Borrowers are subject to rapid technological and methodological change; and**
- IT contracts generally entail procurement of a substantial mixture of professional, and intellectual services as well as tangible and not so tangible technologies.

These and other factors mean that Borrowers engaging in a large IT investment must make a serious effort to plan and execute the procurement process, and commit to supervising the installation, integration and operation of the IT system over the long term.

27.2 Procurement Planning and Packaging

Borrowers have traditionally followed two approaches in procuring their IT needs. The most typical is procurement based on the short term needs of a particular department of the Borrower government. This is a fragmented form of procurement, where the department or agency procures stand alone personal computers (PCs) loaded with associated packaged software for word processing, data base management etc., and associated peripherals such as printers. In many instances, however, this approach may not consider its impact on other parts of the organization. While the procurement may satisfy the needs of these departments, the economies of scale are lost and the IT goods or services procured provide very little scope for expansion in the future.

Borrowers also procure IT on a corporate - wide basis, as part of an integrated IT strategy of two or more departments in the Borrower government. This takes into account the end - user's overall business development plan for the next three to five years and explicitly addresses the life cycle cost consequences of any IT investment at each stage. Under this approach, the needs of multiple departments are examined by the Borrower and a solution recommended. The solution may involve the establishment of a Local Area Network connecting PCs in all of these departments, allowing them to share common software through a network server, supported by network printers.

Unless the Borrower goes through a disciplined enterprise - wide needs analysis, the overall capital and recurring costs for the Borrower arising from the procurement tend to be greatly increased. The Bank thus expects Borrowers who are undertaking IT procurement using Bank finances to come up with a plan for the purchase that is consistent with a strategic IT plan for the organizations involved in the procurement.

The Bank encourages Borrowers to have an integrated approach, whereby the needs of two or more departments of the Borrower's government departments are examined in the enterprise - wide IT strategy and procurement is based on the formation of a network of PCs as mentioned in paragraph (b) above. In addition, since the license for the use of software is for multiple users, the cost per user is significantly less. Additional users could also be added to the Network at minimal extra cost when each department expands their automation process. Providing maintenance and supplying spare parts also becomes more cost effective for the supplier and a part of the savings may be passed to the Borrower. If the Borrower lacks the expertise to develop such a plan/strategy, expert consultants should be engaged initially to guide this process, the longer term objective being to help the Borrower develop its own capacity to carry out the plan.

If the Borrower/agency wishes to, bidding documents may permit bidders to bid on individual items in the schedule of requirements, by specifying this possibility as well as the appropriate evaluation methods in the ITB. However, for information systems with a strong inter - dependency among the elements, the Bank does not recommend this approach. In circumstances in which dividing the procurement into lots and letting bidders bid on one or more lots may make sense, the Borrower should plan the procurement in such a way that the lots form relatively independent systems or collections of independent systems. This may be used by Borrower for the procurement of independent systems in different agency offices or in different institutions (e.g., different hospitals). In such cases, a mix of suppliers may not compromise the effectiveness of the overall information systems investments.

Where the volume of installations is too large for any single supplier to undertake, or for anti-trust reasons the agency would not like a single supplier to win all of the installations, it is acceptable for the Borrower to divide installations into lots that could help speed implementation and diversify suppliers. In particular, if a large volume of installations is the agency's concern, then by organizing them into lots (e.g., on geographical or functional grounds), the agency can achieve an ambitious implementation schedule with a number of suppliers working in parallel.

If anti-trust is the Borrower's/agency's concern, then it can use lots and a very aggressive implementation schedule to help ensure that more than one supplier emerges from a competitive procurement. In any case, the organization of lots, the rules for bidding and the evaluation methods must be clearly specified in the pre-qualification and bidding documents and, accordingly, planned well in advance of the launching of the procurement process.

Other steps in implementation planning include site assessments. During these visits, the project team must identify responsible individuals, as well as important differences in agency

business processes or features of the premises which might influence the work required of the selected supplier for the information system. Implementation planning also involves the organization of user advisory groups, to help improve the effectiveness of the plan, the accuracy of the systems specifications, as well as the reception which the new system encounters during implementation. The plan should also address how the equipment and services will be physically received and tested, as well as how the necessary resources to carry this out will be arranged for.

27.3 Prequalification of Bidders in IT Procurement.

In IT procurement, prequalification is recommended only for large or complex projects where the high costs of preparing detailed bids might discourage firms from competing or when knowledge of and experience with specific business areas are required. Standard Prequalification documents may then be used by the Borrower to assess the competence of firms to provide the items and carry out the activities under specific contracts. In the rapidly changing and technically complex area of IT, prequalification presents the Borrower or its implementing agency with an opportunity to circulate draft functional and technical requirements for the supplier's comments. These comments can complement other agency - supplier dialogues, such as a pre - bid general conference as well as the bid clarification meetings that are held during the bid preparation period.

27.4 Procurement Methods for Information Systems

In IT procurement, the Bank recommends that Borrowers use ICB as the method of procurement. Procurement by ICB can either be a one-stage or two-stage process. ***(See Section 16 of the Manual for detailed instructions on ICB)*** The Bank recommends in most cases that Borrowers use the two-stage ICB process. Under a one–stage ICB procurement, the Borrower conducts ICB in the manner described in Section 16.1.1(b) of this Manual. A GPN is issued, and bids are invited and the procurement process carried to conclusion.

The advantages of the two-stage process include the ability of the borrower's agency, during the first stage, to interact extensively on technical matters with bidders than is permissible in a one-stage process. In this way, an agency can learn from the market and adapt its requirements. ***(See Section 16.1.1 (c) for further details on two-stage ICB)***

In addition, a two - stage process allows an agency to state its requirements in more general functional terms in the first stage of the two - stage process, other than give the detailed functional and technical requirements necessary to carry out a one-stage process. After receiving the bids and evaluating them, the Borrower can come up with more precise specifications in the second stage. By knowing the bidders and their technologies prior to the second stage, the burden of preparing detailed functional and technical requirements which are so comprehensive that they can accommodate the entire universe of potential technical proposals, is reduced.

On the other hand however, one-stage processes are most appropriate for relatively straight-forward procurement of fairly standard technologies and ancillary services. In contrast, the additional capacity to review technical proposals, revise technical requirements and interact

directly with the suppliers during the first stage make the two stage process much more suitable for the procurement of complex information systems and procurements which involve extensive technical services.

Since the two-stage ICB is associated with the procurement of more complex information systems, the issues which may arise in putting together the teams and preparing the implementation plan tend to be considerably more involved. For example, the project team may include more staff from a wider range of agency departments and offices. Also, the team will have to resolve more challenging technical problems. These may include, for example, specifying acceptance tests that are based on more complex operational functions or specifying the required procedures that a the supplier must follow in conducting trial implementations and performing subsequent system refinements. Accordingly, the team building and implementation planning steps are likely to take significantly more time than those related to the procurement of a more straight-forward information system. Although a well-prepared agency may undertake these steps in just a few months, in many instances the processes may require six to nine months.

Most information systems projects which involve ICB also require specialized technical assistance. Technical assistance is often necessary to help prepare, among other things:

- an overall information systems strategy that reflects the agency's business functions;
- an analysis of market conditions for the relevant technologies; and
- detailed functional and technical specifications.

In addition, technical assistance is often required to provide project and contract management. ICB is a rigorous process, involving the open, competitive "arms-length" procurement of well specified products and ancillary services. The single most important lesson that can be drawn from World Bank experience in this area is that it is critical for the borrower's agency to have excellent and deep technical capacities in the informatics area (which is not normally the case), or obtain high quality technical assistance to perform these technical services. It is particularly critical for the preparation of the functional and technical requirements. More often than not, failure to obtain such assistance results in lengthy delays in the procurement process, due to the time required to develop a satisfactory procurement approach and prepare adequate bidding documents, or the acquisition of systems which do not match the agency's requirements.

27.5 Contract Packaging for IT Procurement

Information systems tend to be strongly inter-linked and highly dependent on a large number of related technical service activities and other investments. Figure 1 presents a general model of an information system project's technology and other investments as well as related technical service activities. The purpose is two-fold. First, the diagram provides a check list of technology investments and services which the borrower's agency may need to plan and execute. Second, it provides a framework to analyze how to package technologies and technical services under a specific ICB procurement.

With respect to procurement packaging, two points are worth emphasizing. First, procurement actions should be minimized in number, to economize time and cost. An important caveat to this is that in the face of declining technology costs, particularly hardware, care should be taken not to procure equipment too far in advance of when it is needed (even though the bidding documents contain clauses that obligate a supplier to provide the up-to-date technologies at the time of delivery). This cautionary note, however, must be balanced against the second point, namely: if systems contain linked components from different suppliers, the responsibility for making the entire system work nearly always devolves to the implementing agency -- whether it is prepared for the responsibility or not. Carefully drafted contract terms can mitigate this risk somewhat. However, in general, economy and accountability strongly suggest that the implementing agency package as many of the technologies and services as practical into a single contract. This, of course, is only a rule of thumb, and project-specific factors may suggest a different approach, including multiple contracts. In either case, the preparation of the bidding documents, including contractual clauses, technical requirements and bid evaluation methods should all reflect the adopted procurement strategy. As determined by the needs of a specific information system implementation, these could include elements of the:

- systems analysis;
- ancillary investments;
- change management activities;
- data migration and loading;
- the institutionalization of technical capacity; and
- operations support.

Alternatively, the items that make up the core system investment could, instead, be divided among a number of contracts if the situation called for it. In the context of a World Bank financed project these broad procurement strategy issues are typically addressed in the process of project appraisal. Nevertheless, the issues can be revisited during the implementation planning activity.

Conversely, many of the topics discussed will not be relevant for a specific project. Nonetheless, the discussion contains two key messages. First, an agency needs to plan for a wide range of inter-linked activities, in addition to the core system. This includes a procurement plan for each item. Second, information systems projects involve extensive professional technical services, many of which must be obtained from outside the agency. Economizing in the area of technical assistance can be an extremely short sighted strategy and frequently results in substantial waste of investment resources.

27.5.1 Project Management

This encompasses the full range of coordination, liaison, monitoring, reporting, decision-making and trouble-shooting activities that are required to ensure the project is properly conceived, executed, and documented. The technical services that are required to manage the project vary widely from project to project, depending on the functional scope of the project, its technical complexity, the mix of in-house and external resources used, as well as the

number of stakeholders and sites involved. For complex systems, which involve a number of contracts and a number of sites, the project management team may be quite large and its activities must be tightly integrated with the activities of the suppliers.

In large measure, the TTL/PS/PAS's qualifications should emphasize the management dimension, relative to the technical dimension. However, a complex information system project involves the management of contracts for highly technical goods and services. Therefore, the TTL/PAS/PS and the other members of the team – Bank and Borrower's staff, should possess substantial experience in information systems projects. This is especially important when, as is often the case with complex systems, the implementation of the system has a major impact on the agency's core business processes and, thus, has implications for the agency's organization and staffing. The TTL/PS/PAS ability to lead the project and to lead the agency through the necessary adjustments has a profound influence on how quickly the project is carried out and ultimately how beneficial it is to the agency.

27.5.2 Procurement

In IT the basic elements of procurement includes the:

- preparation of the procurement strategy;
- preparation of the detailed requirements and schedules;
- preparation of the bidding documents;
- management of the bidding and bid evaluation processes;
- award of contract (and negotiations in some cases);
- contract management; and
- settlement of final contact accounts.

Whereas many public agencies can draw on internal expertise in procurement processing and the preparation of general contractual clauses, many do not have the expertise to prepare the technical specifications and special contractual clauses which are required to ensure proper execution of information system contracts. The borrower's agency is strongly encouraged to obtain external assistance to prepare the technical specifications and the special conditions of contract, to help ensure that:

- the procurement reflects up-to-date knowledge of the rapidly changing information systems market;
- the technical specifications and other requirements are free from biases; and
- the agency's uncertainty over the adequacy of the technical specifications does not stall the launch of the procurement process. The involvement of independent professional technical assistance is particularly useful in avoiding biased systems specifications.

27.5.3 The Agency Business Plan

The Agency Business Plan represents the logical foundation of the project. The business plan. Among other things, establishes the case for the investments in information systems in

terms of the business objectives and overall responsibilities of the implementing agency. This includes, but is not restricted to:

- what are the business areas which would benefit from automation;
- what are the expected benefits of the systems investments; and
- what are the key organizational, management, business process and legal / regulatory changes required to maximize the rate of return on the information systems investments.

Overall time tables and financing sources are also key elements of the business plan. The business plan is usually the responsibility of the senior management of the relevant business unit(s), with technical input from each of the key departments (including, but in no way dominated by, the information systems department). The business plan is also typically an exceptionally good opportunity to bring to the agency the assistance and perspectives of international experts in the agency's line of business.

27.5.4 The Strategic Systems Plan

This plan continues the line of analysis of the agency's business plan, providing greater detail in the business functions to be automated, how these functions would be automated, and the timetable and resources required. The strategic systems plan also further elaborates what are the other initiatives and ancillary investments that are necessary to ensure that the system implementation is feasible and sustainable, as well as those that are necessary to obtain the greatest return from the systems investments.

One of the most important and often overlooked effects of major information systems investments is the need to develop and implement a human resource plan to address the increased need for and dependence on information technology professionals. Especially when the implementing agency is in the public sector, the lack of competitive wages for such professionals creates serious problems for the sustainability of the investments. These issues must be addressed at this planning stage, including finding the proper balance for dependence on in-house and contracted technical staff.

Whether the strategic systems plan is undertaken by in-house or external staff the critical point is that it is fundamentally an exercise in business planning, rather than solely an exercise in technological planning. The Borrower's strategic planning team's composition and mandate must be carefully constructed to ensure that the agency's business problems are at the fore, while the interplay between technological opportunities and ramifications are properly addressed. As the systems initiative moves forward, the strategic systems planning team should be closely involved in the implementation planning as well as with procurement planning and processing, to ensure that the acquired systems closely match the strategy.

27.5.5 The Implementation Plan

The Implementation Plan follows the directions established in the strategic systems plan. In addition to the relevant time and financial constraints, the important factors that shape the implementation plan include:

- what information and technology standards have been adopted by the borrower's agency;
- what relevant technology products are available in the market place, including which business systems can be purchased and customized and which systems must be built from "scratch"; and
- what are the relevant features of the various sites where the system is to be implemented, including the physical conditions, existing systems and staff and management capabilities.

Among other things, the implementation plan should determine:

- how the investments and technical services activities would be grouped together;
- when, and in what order, will the investments and activities be undertaken;
- who will be responsible for which investments and activities;
- how will the investments and technical services activities be procured;
- how will stakeholders be involved as advisors and decision-makers;
- how will decisions be taken;
- what monitoring and reporting arrangements will be established;
- how will any necessary legal and regulatory changes be carried out;
- how will the agency coordinate the project activities with other involved agencies; and
- what kind of public awareness and education initiatives will be needed.

As the implementation plan reconciles the project's objectives, financing requirements and procurement arrangements, it is important that the agency works closely with the Bank's project staff during the development of the plan. For its part, the Bank will bring to the discussions lessons learned from similar Bank-financed projects.

27.5.6 The Agency Standards Review

This includes an assessment and update of the agency's existing technology, data and coding standards, as well as the agency's standardized processing and reporting forms. In particular, data, coding and forms standards are usually important inputs into the systems specifications. Conversely, such standards are also often subject to modification as a result of a system implementation, especially when the information systems are automating previously manual, paper-based procedures. Accordingly, both types of interactions need careful assessment.

Technology standards can help ensure inter-operability between existing and newly implemented systems. However, many standards exist in the information technology market and the agency must make judicious choices. Some are vendor-neutral and promulgated by independent standards-setting bodies, such as the United Nations International Standards Organization (ISO). Others are de-facto standards controlled by specific firms (e.g., Microsoft Windows). In some cases, agencies adopt brand name, product specific standards, usually to economize on scarce technical support resources and enhance systems integration. Such potential benefits, of course, must be balanced against the risk of handing a supplier monopoly power over the agency and the risk of technological lock-in.

Also, in World Bank financed projects, procurements must be configured create effective competition and ensuring that bidders from all member countries have a fair opportunity to bid on and win contracts. As a result, special procedures must be followed whenever compliance with brand-specific standards are mandated in the technical specifications of Bank-financed contracts. First, the existing investments in brand-specific technologies must be large in relation to the new technologies being procured. Second, the establishment of a brand-specific standard by an agency must be undertaken through a formal standards review process and independent parties from outside the agency should participate in the review. The results of the review must then be discussed with the Bank, to ensure that they are eligible for Bank financing. Any other use of brand names in technical specifications requires the additional phrase "or at least substantially equivalent", to permit potential suppliers to bid alternative technologies.

Because of the special and dynamic nature of the information systems market, it is important that the Borrower or implementing agency secure suitable technical advice to determine what are the currently acceptable practices with respect to standards and the possible use of brand names. As a general guide, however, the Bank recognizes the difficulties and cost of running information systems with mixed brand technologies in the areas of network operating systems and major databases. Other technical areas tend to be less problematic. The Bank is however, less amenable to giving its no-objection to brand name specifications. In any case, these issues must be discussed with the Bank's project staff.

27.5.6 Market Assessments

Market assessments are usually important steps in the planning of complex information systems. Such assessments are necessary to determine, among other things:

- the functions offered by the current array of products and technologies in the market;
- the trade-off between functionality and cost, as well as between functionality and the technology infrastructure required; and
- the set of potential suppliers and their abilities to offer ancillary technical services and other items required for the planned system implementation.

Market assessments are particularly important in planning the procurement of a complex vertical market product, such as integrated banking or hospital systems. Since different supplier's products tend to differ from each other in important ways and there are practical limits how extensively an existing product can be modified, the Borrower's agency must be careful to specify its functional and technical requirements precisely enough to achieve its objectives, yet not be so restrictive that it unduly limits the number of potentially responsive products.

To strike the proper balance in the technical specifications, it is particularly important for the Borrower to have a clear idea of current state of the relevant market. Such an assessment most often requires the assistance of an external specialist or firm, given the rapidly changing market and highly technical products. When the set of potentially responsive products is likely to be small, the involvement of an independent external consultant can be useful to add

transparency to the process. This, in turn, can help prevent protests from the excluded suppliers from stalling the procurement process.

27.5.7 Site Assessments

In IT procurement, site assessments are necessary to determine:

- how the system requirements vary from office to office;
- what, if any, modifications are required to the premises to accommodate the new technologies and/or modifications to the business processes;
- what additional furnishings and equipment are required;
- how the data cabling must be implemented;
- what upgrades are needed in the site's electrical and telephone services;
- what is required in terms of user, technical and management training programs; and
- what measures are necessary to ensure adequate acceptance of the new system by the local staff, management and customers. Agency staff often play an important role in such site assessments, particularly in determining the site specific variations to standard agency business practices, as well as in preparing their colleagues for the subsequent project-related activities.

27.5.8 Functional Requirements

Functional requirements are a detailed statement of the processes and procedures the new information system must embody. They are based on the business objectives specified in the strategic analysis, as well as on the constraints and parameters identified in the implementation plan, agency standards review, or market and site assessments. The functional requirements, in turn, determine the scope of work undertaken during the formal systems analysis, if a software development effort is required. The functional requirements, alternatively, provide the basis to prepare technical specifications, if an existing product is to be procured. Proper staffing of the team preparing the functional requirements necessitate balancing the knowledge of:

- the agency's existing business processes;
- best practices of business processes in similar agencies; and
- the capacity of information systems to support such processes. Thus, a mix of internal agency staff and external consultants is usually most appropriate for specifying the functional requirements complex information systems.

27.5.9 The Systems Analysis

This is the formal process of identifying and rigorously documenting the data elements in an information system and the relations among the data elements. Systems analysis is an essential step in the design of information systems that requires agency-specific application software to be developed. It is not generally relevant for information systems where software is not developed from "scratch" or extensively customized.

Systems analysis is a rigorous process of interviewing the agency's staff to determine precisely information is processed in the course of the agency's operations and precisely what those processes involve. Computer Assisted Software Engineering (CASE) tools are employed in a system analysis, to ensure that the analysis procedures are carried out in accordance with a formal method and that the data elements and relations are fully and precisely documented.

In most cases, where a systems analysis is undertaken, work is performed by external consultants. However, generally it is preferable that the systems analysis is performed as a separate and prior activity. In this case, the analysis report forms part of technical specifications which define the software developer's responsibilities. Whenever the systems analysis is a separate activity, the firm undertaking the analysis must be independent of the firm or firms performing the development and implementation activities and supplying the technologies. This is explicitly required by strict conflict of interest clauses contained in the SBD. These clauses exclude "downstream" suppliers from bidding if they are associated with firms and individuals who were involved in the system design and specification processes.

Despite the required independence of the analysis and implementation firms, the systems analysis is closely linked to the development and implementation work. Accordingly, the contracts for both the systems analysis and the system supplier should contain text obliging the firms to cooperate, at minimum, during a pre-specified initial phase of the development and implementation work. During this period, the implementing firm must fully understand and accept the systems analysis. This generally requires direct involvement of the firm that performed the systems analysis. Moreover, the systems analysis firm occasionally is needed to assist with updates and modifications to the analysis which may be needed, even in the period between the initial analysis and the beginning of the systems development and implementation activities.

In addition to forming the basis of the technical requirements for the system, the systems analysis documentation also forms the basis of future troubleshooting, upgrades and modifications of the system. Thus, maintenance of the systems analysis documents is critical. The agency should contractually oblige the systems analysis firm to convey both the CASE files as well as the CASE tool. In addition, the agency should develop at least a minimum level of in-house capacity to operate and maintain the tools, files and documents.

27.5.9 Core System Investments

These include all the technologies and ancillary services to be procured through an ICB process using the SBD. As appropriate, they include the hardware and software technologies, as well as any design, development, installation, training, user and technical support, warranty repair, and other ancillary services required. These technologies and services can vary widely and be combined in a numerous ways.

In general, the goal in configuring a systems procurement is to encompass all of the critical, inter - dependent elements of the system. In this way, the supplier can be held accountable for the operation of the whole. However, the procurement must also reflect the collection of technologies and services which suppliers (or consortia) can practically provide. For

example, an international firm which specializes in software development may find it too difficult to be responsible for loading the new system with information contained in a large body of paper records scattered in numerous agency offices. Thus, such activities would not be bundled together. In contrast, a supplier of integrated banking systems can and should be required to load the new system with information from the bank's existing systems, as part of making the new system operational. Complex information systems procurements typically involve many such choices regarding the packaging of related activities. Few, if any, have simple mechanical answers. Nearly always, the proper choice requires the input of professional analysis during strategic and implementation planning stages.

27.5.10 Ancillary Investments

Ancillary Investments include a variety of items which, together with the core system investment, may be required to realize a major information systems project. These investments should be identified in the agency business plan, and specified in the appropriate level of detail in the strategic systems plan and the implementation plan. Whether such ancillary investments fall under the core information system supplier's contract or not depends on a number of factors, including:

- the nature of the ancillary items (e.g., civil works, specialized furnishings, information technologies and/or services, etc.);
- the capacities of the potential system suppliers; and
- the agency's ability to perform in-house the ancillary investments.

Generally speaking, combining as many of the ancillary investments as practically possible under the core systems contract will help foster the coherence of the overall investment program by unifying the contractual responsibilities for its success. The argument for unifying the contractual responsibility is stronger, the greater the success or impact of the core information systems investments depends on such ancillary investments.

> ***Premises.*** Contemporary information technologies are considerably less demanding in terms of physical facilities than older technologies. Nevertheless, most still require secure, controlled environments. Accordingly, new information systems can require construction, modification or refurbishing activities. These can relate to, for example:
>
> - the information processing center, room or closet;
> - facilities for the information systems staff, records, and related resources;
> - customer services facilities, such as window operations; or
> - reconfigured office space to support reorganized agency operations. New systems may also require special furnishings and equipment. These can include tables and chairs, data safes, upgraded telephone equipment, and physical access control equipment.
>
> ***Communications Services.*** New information systems which involve significant data communications, often require enhancements to the agency's telecommunications systems. This usually involves the telecommunications service supplier or suppliers,

including the local telephone service provider. Specifying and arranging for the installation and provision of these services are usually the responsibilities of the borrower's agency. Nevertheless, both the technical requirements and timing of the upgraded services must be closely coordinated with the systems supplier's work plan (among other things, to ensure that acceptance testing for the system can be carried out as specified in the system contract). Any technical or timing constraints imposed by telecommunications service provider must be taken into consideration in the specification and scheduling of the core information system implementation. Thus, any issues that may arise in the area of telecommunications must be identified and resolved prior to the launch of the procurement for the core system.

Systems Integration. When a new information system is implemented in an agency with existing systems, the challenge of integrating the new and existing systems nearly always emerges. To the extent that the agency can spell out in precise technical terms what level of integration it requires, there is scope for incorporating the requirements into the specifications for the new system. However, there is an important caveat to incorporating integration into the technical specifications for the new system: integration requirements must not bias the procurement, for example, in favor of an incumbent supplier. As discussed above in the context of agency standards review, some of the problems associated with integrating information systems can be ameliorated by adopting selected, key technology standards for the agency. Subject to the conditions discussed in that section, including the Bank's acceptance of any brand-specific standards, such standards can be used in the technical specifications to address anticipated systems integration problems.

Complementary Business Systems. The implementation of new or significantly upgraded information systems often creates the need for an agency to undertake further investments in related or complementary information systems. For example, if the new information system automates an operation for which the agency receives fees, the agency may also require upgraded financial systems to manage the revenues, costs and budgets related to the operational system. In some circumstances, such complementary business systems may be available from the same supplier as the operational system (and thus incorporated into the contract for the operational system). In other situations, the suppliers may not be the same. In either case, the agency must make a clear assessment early in the project planning process (i.e., in the business, strategic systems and implementation plans) how tightly the implementation of the systems needs to be coordinated. If such an assessment is not properly made, then the agency runs the risk that the operational system could turn out to be unusable, because of a lack of adequate supporting systems.

Training Facilities. Most major information systems implementations result in the need for significant training services, including those for users, technical support and management. If a new system involves the training of a large number of system users in a short time period, this may require special training facilities, including premises, furnishings, systems, etc. If the training is an on-going requirement, because of staff turnover or anticipated future automation initiatives, the agency should consider

establishing the facilities on a permanent basis. Permanent or otherwise, during the project planning phases, the agency needs to determine:

- the most appropriate suppliers for the training facilities, e.g., the system supplier or other suppliers; and
- the closeness of the links between the activities of establishing the training facilities and implementing of the new information system. Implementation of the training facilities must be organized accordingly.

Back-up and Disaster - Recovery. When an agency cannot afford an extended interruption of the operation of the system or the loss of any data and application code, it must plan for off-site back-up systems and secure storage for essential data and software. These must be carefully matched to the expected requirements of the information systems and kept up-to-date with the evolving systems requirements and with accumulated experiences. Depending on:

- the nature of the system;
- the likelihood and the cost of operational disruptions or data loss;
- legal requirements governing systems operation and information control; and
- the range of alternatives in the market place, back-up systems can be purchased outright or procured on a service contract basis. These must be assessed on a case-by-case basis. In any case, such facilities must be planned for and, equally important, tested on a regular basis to ensure they can function as planned and respond within the required time.

27.5.10 Change Management

Change management encompasses a variety of technical service activities which may be required in an information systems project to ensure proper implementation and effective use of the new systems. Some activities may be carried out by agency staff, while others may require external technical assistance. In addition, some activities may be incorporated into the work of the core system supplier, while others may require capacities which the supplier cannot offer.

Legal and Regulatory Change.

Information systems frequently contain information which is a matter of legal record or subject to legislative prescription or regulation. The procedures embodied in an information system may also be legal or regulatory subjects, (e.g., social benefit calculations, public sector accounting rules, financial transactions reporting, etc.). Accordingly, the move from traditional, paper-based information systems to electronic information systems, can raise a host of legal and regulatory issues. Some may dictate the technical characteristics of the electronic system. For others, the technical characteristics of the information system may dictate the necessary legal and regulatory changes (e.g., to address issues never before raised in the traditional paper-based environment, such as the lack of an “original” electronic document).

Any agency that operates within a legal and regulatory environment must, during the development of the business and strategic systems plans, identify these issues and approaches to address them. Although some of the issues may be resolvable during the planning stages, some issues may require the entire implementation period to resolve. In either case, these issues may necessitate legislative and regulatory initiatives, which must be closely coordinated with the specification and implementation work on the core system. Given the rapid development and proliferation of electronic information systems in recent years, tapping international experience and/or international standards in the legal and regulatory area of information systems is a crucial step in the conduct of an information systems project which has a legal and regulatory dimension.

Organizational Change.

The return on investments in modern information systems typically depends on making significant revisions to agency procedures and/or organizational structures. For example, in an automated environment, an agency might find it more effective to organize work on client transactions around the client or type of client whereas, in a paper-based environment organizing work around the type of procedure may have been more effective. Such a change might, in turn, require a reallocation of processing responsibilities among the agency's local, regional and central offices. The importance of procedural and organizational change in the context of information systems projects raises the standard set of questions:

- who is responsible for the change activities;
- how are they linked to the new information system, both technically and in terms of scheduling; and
- what can be learned from similar international experiences.

User Acceptance.

In most agencies, a large percentage of the efforts of agency staff and management are directed at collecting, processing and re-directing the flow of information. Similarly, the general public's interactions with most service sector agencies tends to be focused around the exchange of information. The introduction of new information systems, particularly electronic systems, has great potential to disrupt existing relationships and practices within the agency and between the agency and its public. Accordingly, the success of many information systems projects often depends on how well the project managers and implementors foster the receptivity of the agency's staff, managers and clients. This can be accomplished by actively involving them in the design, assessment and monitoring processes. It also can be accomplished by educational and other awareness programs.

Inter-agency Coordination.

In addition to agency staff, management and clients, other parties affected by the implementation of a new information system include other agencies with which the implementing agency routinely exchanges information. When electronic interfaces between

different agencies' systems are implemented or modified, critical coordination challenges usually arise. These include technical matters, such as communications protocols and data standards. They can also involve policy-oriented matters, such as shifting responsibilities among agencies, as well as specifying the precise order of precedence among the information sources.

Information Quality Assurance.

When electronic interchanges replace traditional paper based ones, inter-agency issues very often arise in the area of information quality. These generally come to the fore as a result of increased use of extra-agency information and the resultant attention paid to inconsistent data. For example, a health insurance agency may modernize its beneficiary identification system. In doing so, it may tap personal and/or employer identifier databases that are maintained by other agencies. If these data have problems, the insurance agency must arrange with the other agencies to identify and resolve the problems. This usually requires the participation of both agencies and coordination at the technical and management levels. The agency's project planners must assess the timing and effectiveness of such inter-agency activities on the agency's systems project and have an appropriate strategy to ensure they do not derail or compromise it.

Financial sustainability.

As in the case of any key investment, an agency must ensure that it has adequate budgetary resources, year-in and year-out, to fund the necessary operations of the systems, including expenses related to staff, consumables, maintenance contracts, and any required license fees. Moreover, the agency needs to ensure an adequate depreciation schedule is established and maintained to ensure that when the systems reach the end of their economic lives that the agency can renew and replace them with out a major disruption in service. The rapid and accelerating rate of technical innovation in the information systems area makes such depreciation arrangements particularly important.

Data Migration and Loading

These are usually major activities in implementing operational information systems. They include the transfer of information from older systems and from paper records to the new electronic system. When the information forms the legal record or has legal ramifications, the rigor of the process and the ability to audit the transfer is absolutely crucial. In case of financial systems, it is equally critical. When the transfer involves a large volume of paper documents, particularly textual ones, the cost and difficulty of the transfer can easily be as great as the technological aspects of the system implementation. Although it is easy to do, systems planners must not underestimate or under-emphasize the data migration and loading aspects of information systems projects (particularly, when migrating data from older database systems to relational database systems that require data normalization). It is critical that an assessment of the time and cost of such migrations be carried out by specialist professionals who are highly experienced in such procedures.

Acceptance Testing

Acceptance testing involves formal performance and functional tests of the systems to assessing the contractual performance of the supplier, with, among other things, specific payment triggers that are conditional on the outcome of specific tests. The importance and complexity of such acceptance testing is typically correlated with the complexity of the information systems: the more complex the systems, the more involved the acceptance testing procedures. As appropriate, acceptance tests can be conducted in laboratory settings and/or on site. Such tests, even if they are relatively simple and performed on site, must be designed and organized. Moreover, acceptance testing must always be explicitly specified in the bidding documents. This includes specifying the technical characteristics of the tests (e.g., the standard benchmarks, test conditions, data sets, required results, etc.,). This also includes the procedural characteristics, such as when the tests are conducted (e.g., at delivery, installation, and/or operational acceptance), as well as how the test results and responses are to be formally communicated. Acceptance testing should receive the attention of experienced professionals and cannot be left to the last minute, especially when the tests involve the participation of prospective users and managers of the system.

Impact Analysis

This includes any post - project assessment of the benefits associated with the information systems project and any lessons learned. These activities are important in their own right, to confirm or qualify the expected returns from the system investment. An assessment of net benefits and lessons learned is particularly important in the area of information systems, since such investments are rarely one-time events. Instead, information systems tend to involve continuous investment programs as a result of an agency's evolving requirements and changing technological opportunities. Having a well founded grasp of the benefits, as well as the pitfalls, is an essential part of maximizing the return from the initial system investment.

Institutionalization of Technical Capacity

Institutionalization of Technical Capacity includes the build up of technical staff to operate, maintain and extend the information system. It also includes the transformation of the perspectives and professional practices of the agency's managers to reflect the new considerations, constraints and opportunities presented by modern electronic information systems. Some of these activities, particularly the building of technical skills and technical support units, can be incorporated into the systems implementation work. Some of the activities, particularly the management-focused ones, often require a longer, more sustained involvement than a systems supplier may be able to provide. Moreover, these activities are sufficiently different from the technical ones usually performed by a systems supplier that the agency will typically have to look elsewhere for them. Once again, tapping international experience in this area can be highly valuable, especially given the rapid rate of change in technologies and the still on-going search for best practices in agency management for the electronic age.

Operational Support

This may be required when the agency is absorbing a major new system that it cannot rapidly enough build the capacity to operate. Contracting for the operation of the system may also make sense, when either the system in question automates business processes that are not at the core of the agency's business, or when personnel, wage or staffing constraints make it unwise for an agency to operate the system with internal staff. In these situations, the agency may turn to the systems supplier for operational support for a fixed period (provided the supplier can reasonably supply such services). Alternatively, the agency may seek another firm to offer the service. Such arrangement may even be sensible for an open-ended period.

Follow-on Investments

These are typically required for complex information systems implementations. These include investments to fill in the gaps in the functions or coverage that emerge during the implementation and initial operation of the new system. Similarly, an agency may deliberately plan to extend the function scope or coverage of the system only after the core system has been proven and digested. Even if neither gaps in the system emerge nor the need to extend the system scope arises, most systems will require revisions and refinements to reflect changes in the agency's requirements or emerging opportunities to exploit more efficient or effective information technologies. Thus, generally speaking, the process of continuous re-investment in the information system should be foreseen in the business and strategic systems plans. This includes planning for the financial requirements of continuous re-investment, as well as the need to develop and sustain the institutional capacity to manage the re-investment processes (even if, in-house technological capacities are kept to the minimum).

27.6 Procurement of IS Software

Procurement of software is usually done as part of the procurement of the IS hardware. However, the procurement of software raises intellectual property issues. The Bank's SBDs for procurement of IS includes a software covenant which requires Borrower's to ensure that any software procured should be legal and should not violate any copyright laws. The Bank has authority to blacklist bidders who supply illegal software and where a Borrower procures illegal software, the TTL/PS/PAS may declare misprocurement and refuse to allow the loan funds to be used to finance the contract in question.

The effect of the software covenant is to establish provisions against the use of pirated software; require suppliers to provide certifications about the legality of software together with their bids and to indicate the penalties that accompany violations of the Bank's policies relating to the procurement of software. ***(See SBD for Procurement of Information Systems, ITB Sub – Clauses 3.5, 6.1 and the GCC Clauses 16.2 and 31)***

Section 28 Procurement of Pharmaceuticals and Vaccines

28.1 Introduction

World Bank financing for procurement of medicines, vaccines, contraceptives, food/nutritional supplements and other pharmaceuticals under health and population projects ("Health Sector Goods") is increasing significantly. Assistance under these projects ranges from the procurement of pharmaceuticals and vaccines for emergencies, contraceptives for family planning programs to procurement for AIDS, tuberculosis, leprosy, maternal and child health (MCH) programs, etc. These goods are essential to the improvement of a population's health and well - being. A government's responsibilities in countries where its role is as the predominant provider of health care, are wide ranging. They include:

- the oversight of the range of products to be available in both the public and private sectors;
- the establishment of standards for, and monitoring of, the quality of health sector goods manufactured in the country or imported;
- the efficient distribution of these products through public health facilities;
- ensuring that appropriate diagnosis, prescribing dispensing and use by consumers takes place; and
- procurement of health sector goods selected for various projects whether financed through government funds, loans or donations.

The following table indicated the categories of health sector goods normally included in Bank-financed health projects:

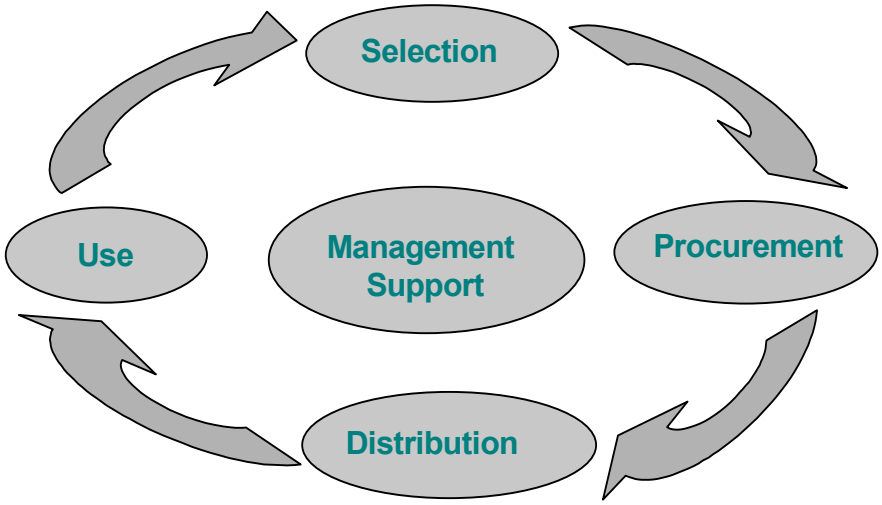
Pharmaceuticals	The most common pharmaceuticals used to treat about ninety percent (90%) of all the causes of mobidity in developing countries are included on the WHO Model *Essential Drug* List, and are often available in generic form. Other pharmaceutical products with specialized uses may also be included in national essential drug lists. These include the following: proprietary pharmaceuticals (newer pharmaceutical products manufactured under patent and often used at the tertiary level of health care); drugs for tropical diseases (used infrequently in most exporting countries but extensively in tropical countries to control major epidemic diseases); pharmaceuticals used for certain rare diseases that therefore have a very limited market; and pharmaceuticals, the consumption of which is small and sporadic in a developing country, primarily because of cost.

Biological Products	These biological products include vaccines for universal (child) immunization and products that immunize specific risk groups against specific diseases. Many of these are named in essential drug lists.
Contraceptives	Contraceptives take a number of different forms, including pharmaceutical products. Mechanical contraceptives, e.g., condoms and intrauterine devices (IUDs) may be classified as drugs or medical devices and need also to be regulated by the local regulatory agency for quality control. The WHO essential drug list includes hormonal contraceptives, both pill and injection form, copper-bearing intrauterine devices, and condom and diaphragm barrier methods.
Nutritional Additives	Nutritionals are pharmaceutical products, including amino acids and combinations, minerals and electrolytes, miscellaneous nutritional supplements, vitamins and combinations, prenatal, renal, and therapeutic formulations. WHO includes a number of such products in the Model List of Essential Drugs.
Medical Equipment	The Bank primarily supports the financing of capital—mechanical, electronic, diagnostic, and life-support products—as opposed to consumable medical equipment. The range of available equipment is extensive, but guidelines on the type of standard equipment that should be on site at primary, secondary, and tertiary facilities have been drafted on behalf of the Bank. TTLs may refer to these "Standard Equipment Lists" as the basis for discussion with borrowers on the acceptability of medical equipment for financing with Bank loans.

The outcome of a project will significantly be enhanced by timely and cost effective procurement. This can be achieved through careful packaging and the competent implementation of procurement procedures (which comply with Bank regulations) combined with attention to a number of areas that influence the environment for procurement activities in the Borrower country. The team designing and carrying out the project must be adequately staffed and fully conversant with these procedures to ensure successful implementation. Figure 1 gives an overview of the procurement process – procurement follows on from selection, which is the informed determination of the most suitable items to obtain for the health system – and precedes the distribution (or allocation, in the case of medical equipment) of the products to the dispensing and subsequent rational use by the

consumer. Underlying the whole process is the Borrower's national legislative and regulatory framework.

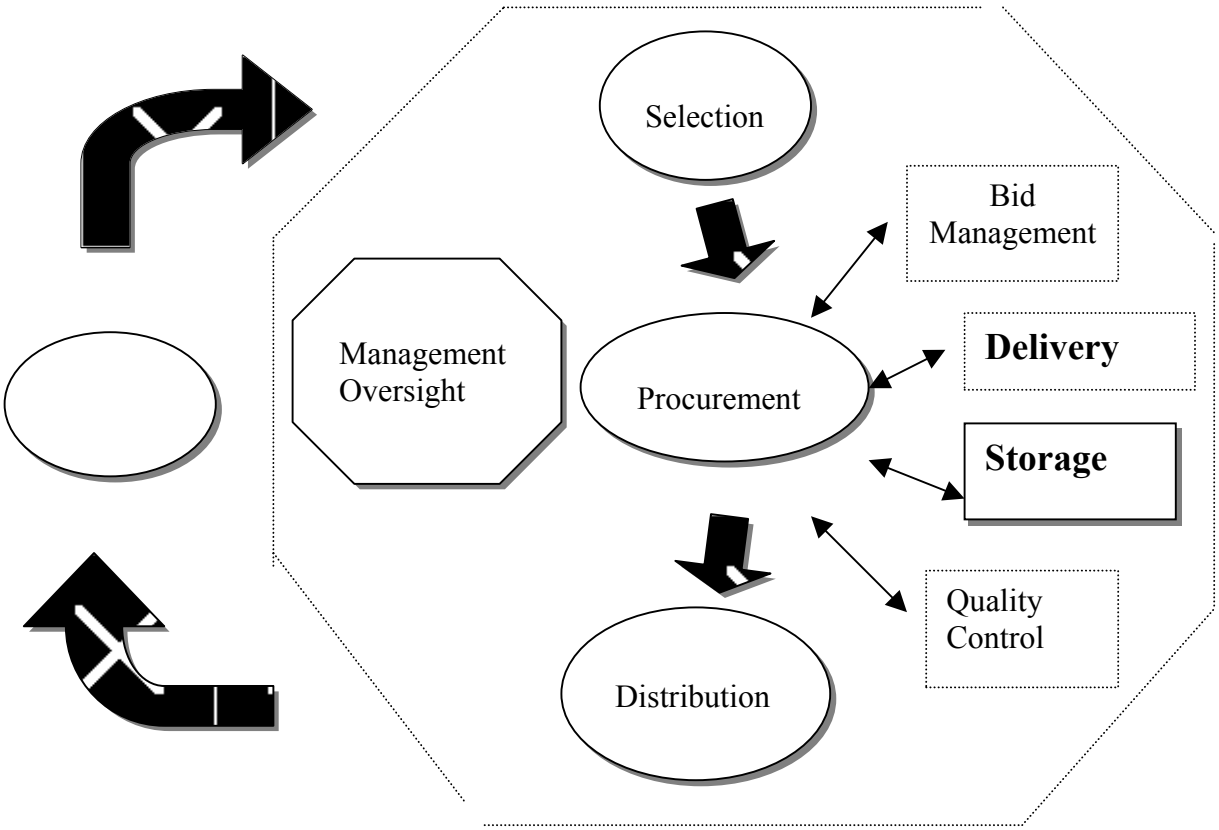
Figure 1:



Once the goods are selected, they are procured, distributed and used. World Bank project experience has shown that the objectives of procurement of health sector goods are successfully met when careful attention is paid to a much broader of activities. These include:

- selection of the health sector goods required;
- appropriate delivery to and storage within the recipient health system;
- stringent monitoring and assurance of quality through inspection and product testing; and
- transparent, fair, and cost effective management of the purchasing of the goods. These steps are incorporated in Figure 2.

Figure 2



28.2 Assessment of Borrower's Procurement Capacity

The TTL should carry out a thorough analysis of the Borrower's public and private pharmaceutical/medical supply sector, before designing the procurement scheme for a project financed by the Bank. The assessment should examine the national pharmaceutical market, the structure, capacity and functionality of public and private drug supply systems and the political context of procurement. Many Borrower countries are adopting alternative frameworks for drug supply management as practice has revealed that the public sector has been unable to manage such supply. Some of the models that have been developed as alternatives to centralized management of procurement of health sector goods include:

- traditional central medical stores -- where procurement is managed by a central government agency that is part of the Ministry of Health. However, some aspects of supply such as transportation is contracted out;
- autonomous supply agencies, whereby a central store is managed by an autonomous agency reporting to the government or by a private firm under contract;
- decentralized procurement with orders to suppliers placed by regional district or local facilities followed by direct delivery to the ordering agency by the supplier. Under this system procurement is managed centrally, regionally or locally;

- "prime-vendor" systems, with many variations in which one agency (again at central, regional, or local level) bids and contracts with any number of suppliers of drugs on the price of drugs. A separate bid and contract is estimated with a single distributor -- the prime vender, to manage some or all aspects of logistics. The suppliers then deliver to the prime vendor for distribution.
- fully private supply systems in which health services and drug/commodity supply are provided by private providers (for profit or NGO). The Borrower may or may not take responsibility for paying private providers for care to certain categories of patients.

The assessment should be structured to achieve necessary information objectives, and the team carrying out the assessment and options analysis should have at least one expert in drug/health commodity supply sector. The TTL/PS/PAS should consider with the Borrower both the existing systems and potential alternatives which may be developed and implemented with Bank support.

The capacity of the parties designated to carry out procurement must also be examined in order that appropriate support and technical assistance can be included in the project. The agency should have the capacity to implement local registration procedures and monitor good manufacturing practices (GMP). In Borrower countries where the FDRA are weak and lack the ability to exercise adequate control, the TTL/PS/PAS should make arrangements to strengthen the capability of the local FDRA to monitor and control quality. Arrangements may also be made for monitoring and inspection of shipments by another qualified independent regulatory and testing agency acceptable to the Borrower and the Bank, as a condition of the loan. An alternative for small value procurements would be for Borrowers to utilize the procurement expertise of a qualified, reputable UN Agency or NGO.

The acceptability of the Borrower's drug registration process should also be reviewed. Where it is inadequate or inefficient, steps must be taken to improve the registration process so that it does not impede the effectiveness of the competitive bid process by deterring potential bidders. Where local quality control systems are judged inadequate, consideration should be given to financing technical assistance to improve the situation in the Borrower country, either as a part of the project or through an alternative grant mechanism. ***(Refer to Sections 9 and 10 of the Manual for detailed instructions on Assessment of Borrower Procurement Capacity)***

28.3 National Policies

National policies on pharmaceuticals, vaccines, contraceptives, food supplements and medical equipment address broad issues relating to acquisition and use in the country and provide a legislative and regulatory setting within which appropriate decisions about the procurement characteristics of Health Sector Goods are made and carried out. Comprehensive, officially adopted policies are likely to contain health-related goals such as:

- improving the access of the whole population to essential drugs;
- ensuring safety, efficacy, and drug quality, and promoting rational prescribing;
- dispensing, and use of medicines; and

- economic and national development aims. Economic goals generally include lowering the cost of drugs, control of foreign exchange expenditures, and the provision of employment in pharmaceutical supply.

Strong government commitment is required to establish a national drug policy, that oversees the procurement process, correctly identifies key problem areas and monitors and enforces related legislation. The components of a national drug policy depend on the Borrower county situation and includes the following areas:

- a legislative and regulatory framework;
- sound principles of drug and vaccine selection;
- the supply and rational use of drugs;
- the economic strategies for provision of pharmaceutical products in the public and private sectors;
- the development of human resources; and
- clear monitoring and evaluation roles.

Although it is essential that such policies be in place for procurement and eventual distribution of the goods in question to be successful, the development of these policies may take a long time and procurement should not be delayed while awaiting a comprehensive policy. As indicated in Section 28.2, where such a framework is not in place the TTL/PS/PAS should make arrangements for technical assistance to be provided to the Borrower to develop such a policy and to build the implementing agency's capacity to carry out procurement. In the meantime, the TTL/PS/PAS should assist the Borrower to include measures to mitigate the quality and other risks created as a result of the lack of policy. Pending the establishment of the policy, internationally accepted instruments such as the World Health Organization (WHO) Model List of Essential Drugs may be used. Acceptable measures to mitigate risks caused by the lack of a policy should also be included in the project. The establishment of a national drug policy assists particularly in the procurement of health sector goods financed by Bank loans in two key areas;

- the development of a national essential drug list within the drug policy facilitates the selection of appropriate health sector goods; and
- the establishment of a regulatory system ensures that goods of appropriate quality are procured.

A national policy for vaccines used in the immunization processes has the role of managing their importation, ensuring their safety, quality and efficacy. Such policy should include the establishment of a national control authority for biological products, (probably as part of a national drug regulatory body) with responsibility for licensing vaccines for use in the Borrower country and assessing the quality of both locally manufactured and imported vaccines. Such authority should also monitor vaccines in use and take appropriate action should adverse reactions occur.

Family planning policies should initially determine the extent of choice in contraceptive methods to be made available, with many programs aiming for a broad method mix to meet

varying needs of couples wishing to space or prevent pregnancies. The cadre of health sector personnel authorized to administer the methods should be set out in the policy. For example, condoms may be distributed by community based workers, while hormonal methods that require a higher level of clinical expertise and IUD and implants should be administered by trained doctors.

A national policy on medical equipment for the public sector should aim to ensure that scarce resources are utilized to obtain priority or essential equipment. Such policy should help ensure that:

- the equipment is compatible with expertise in the public sector;
- servicing and maintenance is available for such equipment;
- the equipment is suitable for the facility environment; and
- that complementary equipment is on site (generators, surge protectors).

28.4 Centralized versus Decentralized Procurement

28.4.1 Centralized Procurement

A major issue affecting the overall success of a health project, which must be resolved early in the project cycle, is the institution to be made responsible for procurement. The end users of the pharmaceuticals or vaccines, e.g., central, state, regional or municipal hospitals, health centers, clinics, public and private pharmacies etc., usually argue for a decentralized approach which gives them greater control over the process. In some cases however, governments may have an established central purchasing unit.

The Bank's interest is in ensuring that the procured health sector goods reach the population which needs to benefit from their purchase. Centralized procurement offers some potential advantages especially in terms of the cost of the goods and in optimally utilizing scarce technically skilled personnel. By bulking the usually small quantities required by each end user, the economies of scale are achieved and each such user benefits from good prices. The to prepare and evaluate competitive procurements, especially international ones, is most likely to reside at the central level. Central procurement also minimizes financial and accounting management requirements of procurement.

One potential disadvantage of centralized procurement is that where the purchasing agency's control over the distribution chain is weak and coordination between it and the ultimate purchasers is poor, products may not be available to the consumer in a timely and efficient manner. This can however be overcome through good communication on needs (products and quantities) and efficient distribution. The use of a private sector distribution or logistics agent could also be considered.

If procurement is to be handled by a central purchasing agency, it must interact with end-users during the preparation of bidding documents and Technical Specifications, to ensure that the right pharmaceuticals and vaccines in adequate quantities are ordered. The central agency must also carefully coordinate the final distribution to the end - user to guarantee quick delivery and a minimum of loss in transit through exposure to high temperatures, light

and moisture. Centralized procurement should be limited to the large consumption pharmaceuticals and vaccines and food supplements that are on the government's central drug list.

The end users, should be allowed to purchase other items not on the essential drug list, emergency supplies or items needed in small numbers which are usually available from a local sources. Any weakness in the pharmaceutical or vaccine supply and distribution system should be addressed during preparation and appraisal of each project providing financing for such items. Medical equipment procurement should also be undertaken centrally, in part to take advantage of multiple unit purchases, but primarily because expertise to procure specialized medical equipment is unlikely to be available or easy to maintain in a cost effective way at lower administrative levels.

The Bank recommends that centralized procurement should be used for large fixed-quantity purchases of pharmaceuticals and nutritional supplements. It should also be used for procurement of vaccines and contraceptives as there are limited numbers of reliable manufacturers. Medical equipment should also be procured centrally in part to take advantage of multiple unit purchases, but primarily because the expertise to procure specialized capital medical equipment is unlikely to be available or easy to maintain in a cost effective way at lower administrative levels of t he health system.

28.4.2 Decentralize Procurement

In cases where estimated quantity supply contracts are feasible and preferable, some aspects of procurement can easily be decentralized. In such cases the procurement agency negotiated prices based on estimated order volume and orders are placed throughout the contract period based on actual need. Decentralized procurement also offers an opportunity for capacity building of the procurement capabilities of the regional organizations and other administrative bodies in the lower level. Procurement by lower administrative levels is suitable in the following cases:

- for emergency requirements;
- products that are available from a number of national suppliers;
- for products for which only a small quantity is needed; or
- items not contained on the national essential drug list.

On the other hand, decentralization has a the following disadvantages:

- staff at lower levels may possess less expertise in quantification and quality assurance than at the central level;
- the availability of staff dedicated to the procurement function to manage and monitor physical and financial activities may be limited; and
- decentralized procurement may also be costly to the Bank as it has to finance technical assistance where the regional agency lacks procurement capacity.

A range of decentralized options exist short of allowing or expecting lower level health facilities (or even users) to manage all aspects of procurement. For example, ordering of products might be managed centrally, while district offices or hospitals could order health sector goods from the suppliers previously selected through a centrally managed bid process. Distribution could be contracted out to an autonomous agency or a prime vendor following a centrally managed process that would set the price.

28.5 Procurement Packaging and Scheduling

Due to the peculiar nature of pharmaceutical and vaccine procurement, it is difficult to develop well defined bid packages using a standard classification based solely on therapeutic or product categories that will generate maximum competition. (The only exception may be large volume transfusions). This is because pharmaceutical manufacturers generally either produce non-sterile products, or a mixture of both for a limited group of pharmaceuticals in a particular therapeutic range. Different manufacturers may elect to prepare specific products in different dosage forms, and it is unlikely that a single manufacturer would be able or willing to bid on the complete range of items in a procurement of a large volume of heath sector goods. Participation in procurement may thus be limited to merchant exporters, shippers and wholesalers. However, such suppliers may not be able to provide adequate guarantees of quality and deliver on time because of poor coordination with the manufacturers they represent. It should be noted that international wholesalers such as the International Dispensary Association (IDA) and reputable national wholesalers may provide the only reliable bid for small volume items.

Packaging of pharmaceutical products into smaller sets for separate bids using therapeutic or product categories is discouraged by the Bank because, except for large volume infusions, such packaging discourages bidding by reputable manufacturers and limits competition. Manufacturers usually specialize in particular pharmaceutical forms – solutions or tablets, packaging should be based on form in order to improve competition. For packaging to be useful, it is essential that the bidder provide a quotation for all items listed in the package. If prices are not quoted for all items, a bid should be considered as non-responsive and rejected.

Departure from this policy is however accepted in cases where only a few suppliers can quote for all items being procured, and consequently packaging becomes difficult. In these circumstances each bidder should be allowed to submit partial bids covering only the items they or their principals manufacture, and the evaluation should be done on a per item basis. To make the evaluation process more efficient, the bidding documents should require that a bid for less than the full requirement for a single item should be rejected as non-responsive. Bidders could also be expected to bid for a specified percentage of the required goods. In special circumstances however, the Borrower may split bid awards for individual products. Bidding documents must contain information about any such constraints and the possibilities in order that potential bidders are aware of these circumstances in advance.

In order to maximize the remaining shelf life of health sector goods after deliver, bidders should be required to adhere to the delivery schedules specified in the bidding documents. Whenever possible, phased deliveries should be allowed with the quantity covered by each

partial shipment geared to the capacity and logistics system in the country and the estimated rate of consumption by the final user.

28.5.1 Drug Kits

A number of products in predetermined quantities for specific types of health care facility can be put together to form drug kits. The kits can either be assembled by the supplier or centrally within the health system. The procurement of drug kits requires an individual approach depending on the country context. The basic options include:

- purchase of prepackaged kits on open bid from local and/or international suppliers;
- contracting a local company to pack the kits using drugs purchases separately through local or international bidding processes; and
- setting up kit packaging at national or regional medical stores using separately purchased products.

Individual manufacturers of pharmaceuticals are unlikely to respond to invitations to bid for supply of drug kits unless they produce the majority of the items constituting the kit. This can lead to less competition and increased costs. Kit procurement is thus usually undertaken by intermediary agencies which purchase drugs and package them according to predetermined specifications. International suppliers usually add three to five percent of the cost of the drugs to cover their packaging and related activities.

28.6 Essential Drug Lists

28.6.1 Pharmaceuticals

For a single chemical entity (i.e. "basis drug" according to INN or generic chemical terminology) there are as many as fifty to a hundred brand names in the market from as many manufacturers. In addition, there are many similar pharmaceuticals or vaccines with only minor variations in any distinct therapeutic group. A number of new products frequently come on the market with only minor variations in therapeutic effectiveness, but at a much higher price. Due to intense competition in the market, there is extreme pressure on buyers to recommend inclusion of new brand name products in the various approved Essential Drug List (EDL) in the country of use.

This makes the job of selection, evaluation and inventory management extremely difficult and results in the procurement of items that often become obsolete and have to be disposed of resulting in a net loss in the system. To address this issue many developed country public and private sector hospitals and teaching institutions have designed a hospital formulary for the procurement of pharmaceuticals and vaccines, and dispense items only from that list. Anything outside the list has to be bought and paid for by the patient.

Developing countries have also developed and adopted an EDL or a national formulary for public sector procurement using the WHO essential drug list as a model. These lists generally include the most commonly needed pharmaceuticals and vaccines to treat majority of problems seen at public sector facilities. Public sector procurement is limited to the essential

drug list or national formulary and any items outside the list are procured only in emergencies. Such essential drug lists have been adopted by Ghana, Nigeria, Kenya, Botswana, Lesotho, Bangladesh, Sri Lanka, Mexico, Peru and others. (The WHO Essential Drug List is only a recommended model to help countries to develop their own list based on country - specific morbidity patterns.)

28.6.2 Vaccines

Vaccines are broadly divided into those used for universal immunization to prevent illness in children and those to protect against diseases that affect specific groups or geographical areas. Consequently most countries use about six different vaccines in their immunization program. The choice of international manufacturers for each vaccine is restricted (and is often only a single company). Selection of the vaccine is made easier by the inclusion of relevant vaccines on the country's essential drug list, with review as the formulary or EDL.

28.6.3 Contraceptives

The WHO proposed the inclusion of hormonal contraceptives and condoms in national EDLs in the late 1980s. A number of countries have thus revised their national EDL to reflect this. The selection of contraceptives is guided by the policy decisions of reproductive health department authorities on the methods of contraception to be offered in public health facilities. Once a range of contraceptive methods has been determined, selection decisions differ according to the method.

28.7 Prequalification Versus Postqualification

Both pre- and post-qualification can help to eliminate suppliers with substandard qualifications and reliability. Prequalification evaluates supplier capacity, before bids are solicited for specific products (based on documentation of product quality, previous procurement history, and other customer references). Substantial time and effort may be required to establish an initial list of prequalified suppliers, especially if a policy is in place to prequalify suppliers separately for each product (drug, vaccine, etc.). But since only appropriately registered suppliers may then participate in the bidding process, the benefit is that the lowest bidder for each product is deemed to be qualified thus expediting evaluation and contract award. The concern that suitably reliable suppliers may be excluded from lists of prequalified bidders if the process is administered unfairly, can be eliminated if the prequalification criteria are clearly specified and approved by the Bank, and the procedures are fully and consistently applied to all candidate suppliers.

Where procurement systems are established, ICB is preceded by prequalification by way of soliciting bids only from suppliers who have been prequalified. In such cases, the implementing agency should continually assess the market to seek out potential new suppliers in order to maintain competitive pressure on established suppliers. Suppliers need not be prequalified for each contract, but once a prequalified status is achieved, the supplier remains prequalified for a period of two or more years. This status may be reviewed however, for example if there were product recalls or non-compliance with awarded contracts. The Bank recommends that the Borrower should undertake such a review as a

matter of course every three years. Suppliers who did not prequalify at the outset of the project should be allowed to apply for prequalification again at a later stage in the project's life.

It is recommended that prequalification be undertaken for vaccines to ensure the quality and acceptability of the product as well as the supplier. The suggested procedure for prequalification is through licensing of the vaccine by the Borrower's regulatory body. The result is a list of vaccines (from specific manufacturers and with specific technical attributes) that are acceptable and safe to procure. Should the national regulatory body be too inexperienced to conduct the prequalification exercise, the borrower may be permitted to rely on vaccine suppliers prequalified "in principle" by WHO, by obtaining a Statement of Known Good Quality from WHO, or by selecting vaccines manufactured and licensed in countries with strong, competent regulatory bodies.

Post-qualification is where the supplier qualification exercise is carried out after bids are submitted in response to an open bid process, commencing with the supplier submitting the lowest evaluated bid. The process is similar to that for prequalification, with supplier(s) being assessed with respect to registration status, previous performance, and product quality. Only if the apparent lowest evaluated bidder lacks acceptable qualification would more than one post-qualification have to be carried out. Should delays in post-qualification occur, however, following the bid opening, it may be necessary to re-confirm prices, or even require re-bidding, before finalizing the contract. The validity period should therefore be deliberately set to allow adequate time for postqualification. Providing clear, internationally accepted standards and requirements at the outset makes the process easier.

The Bank supports prequalification because this contributes significantly to the purchase of high quality products while maintaining the competitive nature of the procurement process. Should the procurement capacity of the implementing agency be inadequate to satisfactorily undertake the prequalification of suppliers, the borrower may contract for the assistance of outside consultants or international agencies such as UNICEF to carry out the prequalification while it develops its own capacity. Such assistance, which could be financed by a grant, must also include measures to strengthen the borrower's capacity to undertake prequalification for future projects.

It is recommended that pre-qualification be undertaken for vaccines to assure the quality and acceptability of the product as well as the supplier. The suggested procedure for prequalification is through licensing of the vaccine by the Borrower county's regulatory body. The end result is a list of vaccines (from specific manufacturers and with specific technical attributes) which are acceptable and safe to procure. Where the Borrower's national regulatory body does not have sufficient capacity to carry out prequalification, the Borrower can relay on vaccine suppliers prequalified "in principle" by WHO, or by obtaining a Statement of Known Quality from WHO, or by selecting vaccines manufactured and licensed in countries with strong, competent regulatory bodies.

28.8 Marketing Authorization (Product Registration)

Bank policy is that Bidders should not be required to register their pharmaceuticals and vaccines to be procured in advance of bidding as this potentially limits competition. For most bidders, undertaking the expensive and time consuming registration process would not be justified given the uncertainty of success in the ICB process. Making registration a pre-condition to bid for an IFB financed by the Bank would in effect force every primary manufacturer to register all products of potential interest in all Bank member countries. This is unreasonable, since post-qualifying bidders based on their experience and quality control facilities if undertaken carefully and well, serves virtually the same purpose as registration. The Bank therefore recommends that registration be accepted only as a condition of contract award, not bidding.

If, for statutory reasons, registration is necessary before drugs are allowed entry, the Bank in its ongoing dialogue with Borrowers encourages them to establish a fast-track registration process which would automatically register new pharmaceuticals or vaccines offered by successful bidders on payment of a reasonable fee. This is provided the documentation and samples submitted as part of the bid, confirm that they meet all the qualification criteria established in the bidding documents including proof of registration and approval in the country of origin. To expedite the registration process, registration forms could be included in each set of bidding documents and bidders encouraged to apply even before the bidder awarded the contract is known.

(c) Fast-track registration could also be accomplished by the regulatory authority of the borrowing county establishing a policy or regulation that allows registration of a product through confirmatory evidence that the product is registered in another country for importation and use. In this case the Borrower will need to establish that the selected country or trade group had in place proper and appropriate standards and procedures to assess the quality of the goods. If however registration is unreasonably denied to a qualified bidder, the contract should not be financed by the Bank.

28.8.1 Importation Issues

The importation of health sector goods must be smooth and rapid to ensure that the goods are quickly made available to the distribution system and the user. This will also minimize the opportunity for the goods to age, be damaged, or be mislaid at the ports. Delay in importation shortens the shelf life of the health sector goods and may also result in damage due to climatic extremes. The latter can be managed by proper storage of the pharmaceutical during the process of importation.

The requirements and steps for importation should be specified in the bidding documents and put in place before the procurement process begins, to facilitate the efficient transfer of goods from the port of arrival to the implementing agency warehouse and distribution system. This system should also be reviewed during the CPAR to ensure its efficiency. Where measures are required to bring the quality of the system up to a minimum acceptable level, the following issues should be addressed:

- do the laws in the Borrower country allow for the importation of the products in the project procurement list;
- what are the procedures and time lines for obtaining import licenses;
- who pays import duties and what is the timeline for the payment process;
- are there exemptions to import duties?;
- what documents are necessary for importation clearance;
- what is the rate and initiation of demurrage charges;
- are there special handling requirements for products (e.g. refrigerated storage for vaccines);
- is there in-house clearing or do bidders have to employ a clearing agent; and
- is the customs storage capacity adequate, secure, and suitable foe safeguarding product quality, including the presence of refrigeration facilities?.

The Bank recommends that the provisions of the WHO[67] which provide that for public health reasons pharmaceutical goods should not be treated in the same way as ordinary commodities be adhered to. Importation should be undertaken by licensed agencies and in line with national drug policy regulations and enforced by the national drug regulation authority.

28.9 Procurement Methods

International Competitive Bidding (ICB)

ICB procedures should be used for the procurement of all essential pharmaceuticals and vaccines not covered by patents such as those included in the WHO essential drug list, provided the value of the proposed package is $200,000 or more. Generally to be attractive to bidders ICB procurements must have a relatively large value.

Bank recommends that the Borrower should carry out prequalification early in the project before price considerations are introduced in order to allow concentration on other important issues. The Bank considers it more efficient to carry out a broad prequalification for all the Health Sector goods to be procured at the beginning of a project. The resulting list of prequalified bidders would be updated every two or three years or so. ***(See Section 16.1 of the Manual for detailed instructions on ICB)***

National Competitive Bidding

This is the appropriate method of procurement for almost all galenicals, and for small volume purchases of essential pharmaceuticals (less than $200,000) provided they are available from a number of qualified local manufacturers or their authorized agents. Even when NCB is used, the bidding documents should incorporate strict quality controls provided for by the Borrower country's FDRA. ***(See Section 16.2 of this Manual for detailed instructions on NCB)***

[67] Guidelines on Import Procedures for Pharmaceutical Products, WHO 1996

Limited International Bidding

This method of procurement is only appropriate for vaccines and special pharmaceuticals like neoplastics, contraceptives, etc., regardless of value, where a few manufacturers control the entire world production. The TTL/PS/PAS should check to ensure that the LIB short - list proposed by the Borrower includes all qualified manufacturers including local manufacturers, provided they are approved by the local FDRA. ***(See Section 16.3 of the Manual for detailed instructions on LIB)***

International or National Shopping

This method of procurement should generally be limited to smaller size contracts and when there are a limited number of suppliers. It would be acceptable for a few specialized galenicals, proprietary, orphan, special tropical disease pharmaceuticals and vaccines, injectable contraceptives and, to some extent, oral contraceptives. (For some of the tropical disease pharmaceuticals or vaccines, special prices are fixed in consultation with the WHO.) For products with a very limited shelf life (i.e. twelve months or less) or sporadic or seasonal use, shopping is recommended regardless of potential contract size. To ensure competitive prices, it is recommended that the Borrower should solicit quotations from at least three suppliers (for international shopping at least two suppliers). ***(See Section 16.4 for detailed instructions on Shopping)***

Direct Contracting

This method would only be acceptable for pharmaceuticals or vaccines that are available from only one source. It is the least favored method of procurement because there is no measure by which one can determine whether the prices quoted are economic and reasonable. Bank financing of these items is therefore minimized during project design. Borrowers should plan their negotiating strategy very carefully using historic prices received and the drug price bulletins issued periodically by UNICEF, the Market News Service, Management Sciences for Health (MSH) and similar information sources available from WHO and UNFPA to determine the reasonableness of the price offered from the single bidder. With few exceptions, the prices given in these publications for pharmaceuticals, vaccines and raw material reflect the best prices available in the markets one of which are fixed in consultation with the WHO, UNFPA, etc., which closely monitor them. ***(See Section 16.5 for detailed instructions on Direct Contracting a and Table 1 for suitability of procurement methods for different health sector goods)***

28.9.1 Procurement from United Nations Sources or Other Agencies

The Bank allows procurement of pharmaceuticals, vaccines and nutritional supplements directly from established United Nations agencies such as UNICEF and non profit organizations such as IDA or the Equipment for Charitable Hospitals Overseas (ECHO) in cases of emergencies resulting from famine, floods, wars, the influx of refugees and epidemics, poor planning or foreign exchange scarcity. These situations demand the

immediate procurement of these goods in order to effect deliveries in the shortest possible time.

(b) These agencies procure and stock common essential items for supply to their own constituents and can supply limited quantities to others quickly on request. Bank policy requires that the total amount of procurement directly from these agencies should remain small i.e. for procurement of pharmaceuticals valued less than US$5 million for the UN and US$250,000 for NGOs The Bank only allows such procurement when ICB cannot be used.

28.9.2 Use of Procurement Assistance or Agency Services from UN and Other Agencies

UN agencies or private firms with experience in health sector goods procurement can be hired to provide procurement consultancy services or to act as procurement agents on behalf of Borrowers in Bank financed projects. The Bank recommends that such agencies conduct procurement according to its procurement procedures set out in the loan agreement. Selection of such UN agencies and NGO's as consultants should be carried out in accordance with the *Guidelines: Selection and Employment of Consultants by World Bank Borrowers*.

UN agencies are not profit oriented bodies and the commercial advantages they have must be neutralized by the Borrower through the use of a Quality Based Selection Process. If a UN agency is the lowest evaluated bidder, the Bank permits the use of a different contract format than the one stipulated for private firms, the standard contract for consulting services. In case of single source selection, the justification for exclusive use of UN agencies must meet the same criteria applied to any other consulting firm.

In general however, the Bank allows UN agencies to procure certain items or services that they are experienced in procuring for their own operations and where Borrower is not equipped to handle the process efficiently on its own.

28.10 Special Features of Pharmaceuticals and Vaccines

28.10.1 Stability

A pharmaceutical or vaccine is considered stable if it retains the physical, chemical, microbiological, therapeutic and toxicological characteristics required in the Technical Specifications for a designated period or "shelf life". An assurance to this effect has to be provided by the manufacturer. Stability is affected by adverse conditions during storage and transit. Deterioration may result in a change in chemical, physical or anti - bacterial properties of the medicine and thus have a negative impact on the drug's therapeutic value or result in an increase in toxicity. Deterioration tends to accelerate under hot and humid conditions in most tropical countries. Common essential pharmaceuticals and vaccines with stand tropical conditions fairly well. The Borrower's implementing agency should clearly specify in the bidding documents any extreme environmental conditions that exist in the area of final delivery and use. This must be taken into consideration by potential bidders.

28.10.2 Shelf Life

To ensure safe use, all formulated products are assigned an expiry date beyond which they may not be potent or safe to use. This shelf life is assigned for each individual product based on its stability characteristics. Studies conducted by the manufacturer should be available to the Borrower on demand and should be duly verified by the FDRA of the bidder's country. For tropical climates based on simulated conditions and stability evaluation, shelf life would have to be suitably adjusted.

Shelf life varies for different product groups and dosage forms. Most commonly used pharmaceuticals and vaccines have a shelf life of three to five years form the date of manufacture. Certain products in liquid forms, vaccines, sera, venoms etc., have a shorter shelf life, sometimes only 12 months or less. To ensure maximum shelf life is made available to the Borrower on arrival in the country, the following standard condition should be incorporated in all bidding documents: "pharmaceuticals and vaccines should have as a minimum, 5/6 of the specified shelf life remaining on arrival at the port of entry".

Printing of the date of manufacture and date of expiry on the label of the primary container and the outer package is mandatory in most countries. However, some suppliers taking advantage of lax regulation in Borrower countries do not include this information on the inner and outer package. It should be clearly stipulated in the Technical Specifications that failure to print:

- a description of contents;
- the date of manufacture; and
- the date of expiry on the primary container and the outer package will result in rejection of the drugs upon inspection.

Certain products tend to lose potency faster during their shelf life. To compensate for such loss, manufacturers are allowed to add additional quantities of active ingredients termed as "overages", to ensure that the stated power of the active ingredient is available for therapeutic efficiency during the shelf life of the item. According to international standards, overages of up to 30% are generally acceptable. However, overages above the permissible limit result in the administration of a higher dose without a physician's knowledge or supervision and therefore can be hazardous to the health of the patient. The Technical Specifications should clearly specify that all pharmaceuticals and vaccines will conform to compendia standards for "overages" and that items with overages above the permissible ceiling will not be accepted.

28.10.3 Special Storage and Transportation Conditions

Most commonly used pharmaceuticals made in the form of tablets, capsules, syrups and emulsions are stable, if protected from light and direct heat and stored in well - ventilated places at temperatures below 30 degree centigrade. However, some items require very special storage and transportation to ensure stability. Bidding documents should require suppliers to maintain the health sector goods in these temperatures to ensure that their shelf life is

maintained. Once the goods have been delivered, the Borrower should ensure that the implementing agency and distributors have adequate facilities to ensure that the products are not damaged.

The following are the different storage and transportation conditions required for most pharmaceuticals and vaccines according to the official compendia. Protection from excessive humidity is also important for most items, although these standards for temperature and humidity may be difficult to achieve in some developing countries.

Pharmaceutical or Vaccine	Storage and Transportation Conditions
Common pharmaceuticals, e.g., tablets, capsules, granules, syrups and emulsions	Store in a cool dry place below 30 degrees centigrade. Can withstand transit hazards for short periods.
Injectibles, antibiotics, ophthalmic items, certain syrups, and sterile ointments	Store in cool room at a temperature of 15 degrees centigrade or below. Delivery in special containerized vehicles.
Most vaccines, sera, immunebiologicals	Store at below 8 degrees centigrade. Ship in cold boxes or as cold chamber cargo.
Polio and measles vaccines, some toxoids	Store at below -4 degrees centigrade in freezers. Ship only in freeze chambers and transport in refrigerated carriers.

28.10.4 Good Manufacturing Practices (GMP)

GMP guidelines stipulate standards for housekeeping, bacterial contamination, quality control and maintenance of manufacturing records. Most countries mandate compliance with GMP standards before issuing new manufacturing licenses and upon routine inspection. Any violation can result in prosecution or suspension of the offender's manufacturing license. Borrowers can obtain an assurance within a reasonable length of time that GMP guidelines are being followed by stipulating that bidders send with their bids, a certificate from the FDRA of their country that the firm's manufacturing premises have been inspected periodically during the past two years and that the bidder has not been accused of any GMP violations. WHO's guidelines for GMP have been adopted as the standard in most countries.

28.10.5 Technical Specifications

Lack of clarity and specificity in the Technical Specifications, use of improper dosage forms, strengths and unit packing techniques, failure to define shelf life parameters and imposing unrealistic delivery schedules may lead to the delivery of sub - standard pharmaceuticals or vaccines, incorrect dosage forms or supply of pharmaceuticals with very limited shelf life. This results in costly losses. An essential key to avoiding these problems is for the borrower to develop appropriate specifications that clearly define:

- the required standards;
- quality control procedures;
- packaging and dosage requirements;
- minimum acceptable shelf life;
- mode of delivery; and
- realistic delivery schedules.

It is recommended that Borrower's should use an appropriately developed and managed national formulary such as an essential drug list that standardizes the list of pharmaceuticals, contraceptives and vaccines, dosage forms and strengths typically needed in the country, as the basis of procurement.

The Technical Specifications used in IFBs for pharmaceuticals and vaccines assume special significance because of the importance to both quality standard and testing procedures. Fortunately, most items are included in internationally - accepted pharmacopoeias such as the British, European, United States, the French VIPAL (commonly used in francophone countries) or International Pharmacopoeias. Certain pharmaceuticals or vaccines which do not appear in the latest editions of these accepted pharmacopoeias are generally included in the British Pharmaceutical Codex (BPC) or the United States Dispensary (USD) which are also internationally accepted compendia. For national manufacturers bidding for potential ICB contracts, the national pharmacopeial standards are usually acceptable at par with other international compendia. Manufacturers should be given a choice to select any pharmacopeial standard indicated in the Technical Specifications, provided the product is labeled, formulated and tested as per the Technical Specifications and according to the section relating to the specific product in the selected pharmacopoeia. For pharmaceuticals or vaccines not included in any approved compendium, but included in the essential drug list, the manufacturer should be obligated as part of its bid, to provide testing protocol and reference standards. This should be clearly stated in bidding documents and should be incorporated in the General Conditions of Contract.

For medical equipment the Bank recommends that a standardized format of specifications be adopted consisting of a specifications scope, applicable industry standards and codes, and the salient characteristics of the equipment.

Policy requires that:

- all firms that comply with the Technical Specifications should have the same opportunity in the Borrower's further evaluation of the bid; and
- specifications should not be changed after bid opening – or during evaluation to suit a particular bidder or to justify award to a particular bidder.

28.10.6 Quantification Requirements

Following the identification of the pharmaceuticals, vaccines, contraceptives, nutritional supplements and medical equipment to be procured under World Bank financing, it is essential for the Borrower to determine realistically, using the best available information, the

quantities of each item to be purchased. The quantification exercise should produce an estimation of the financial requirements of the procurement. If available funds are not sufficient, the quantities need to be adjusted, using a rational process. A number of different estimation methodologies can be utilized depending upon the product group and objectives or scope of the project.

Pharmaceuticals

The following three prime methodologies are available to determine the quantities of individual drugs required:

The consumption method: This employs data on past use (adjusted for stockouts and projected changes in drug utilization) to project future needs. This is likely to be the most reliable method provided that the supply pipeline has been consistently full and consumption records accurately kept. One drawback is that any existing patterns of irrational use will be perpetuated.

The morbidity method: This bases the estimate on the expected number of attendance, the incidence of common diseases, and current standard treatment guidelines. Good morbidity data is essential. This method is most appropriate for calculating need in new programs and for comparing actual use with theoretical needs.

The adjusted consumption method: This applies the pattern of drug use in a "standard" supply system to the target system, and is useful in those circumstances where the output from the other methods is considered unreliable.

Vaccines

Under circumstances where there are no changes expected in the country's immunization strategy a calculation requirement can be based on historical use of the vaccines concerned. Alternatively two methodologies are available to forecast needs in less static situations:

The dose based system, which determines need in relation to the target population, the expected coverage, the number of doses required per client, with adjustment for a wastage factor.

The vial based methodology, initially estimates the average number of doses required per vaccination session as a basis to determine the optimal size of vial to obtain, and then uses this factor to calculate the total quantity of vaccine to be procured. This requires in addition to the data for the dose based method, information on the number of immunization centers and the total number of vaccination sessions per year. The national immunization program's policy on discarding multiple dose vials once opened will significantly influence the wastage factor to be incorporated in the estimation process.

Contraceptives

The main methodologies employ either:

Historical consumption (or logistics data): under which data on the consumption of each contraceptive product over a number of time periods can be used to ascertain trends and extrapolate need into future time periods. In the absence of comprehensive consumption data from service delivery points (because of poor reporting or an inadequate information system) it may be possible to use logistics data on movement of stock as a proxy for quantities used.

Service statistics: Forecasting requirements from service statistics requires information on the numbers of clients of each method (or brand), attendance at facilities for re - supply and usual dispensing practices (how many cycles of pills or condoms provided to each client at each visit).

The third method, population and contraceptive prevalence and method mix information, transforms proportions of the population using particular methods into quantities of contraceptives by application of consumption factors (the quantity of a method needed to provide a year of protection against pregnancy). In all the cases the forecasting process should take account of expected changes in the program coverage, or method mix, and compensate for known shortages in supply.

Nutritional Supplements

Quantification of requirements is determined with reference to the incidence of dietary deficiency, the population of the target group (to be provided with supplements), for e.g., pregnant women, children aged under 5 years, and the dosage and form of the nutritional supplement. Alternatively the methods described above under pharmaceuticals can be used.

Medical Equipment

The type of equipment to be procured is determined by the objectives of the project and the type or level of health care facility being furnished. For example, a project that aims to equip or reequip a number of health-care facilities may refer to the standard equipment lists to decide what equipment is appropriate for each site and then determine the total quantity of items required by aggregating the requirements of all sites minus the existing functioning equipment.

Where the objective of the project is to procure equipment for the provision of a specific medical service throughout the health system, then an enumeration of the number of sites providing the service compared with the inventory of available equipment at those sites will make it easier to quantify equipment needs.

28.10.7 Products and Product Packaging Specifications

Bidding documents should describe all products to be procured in the Technical Specifications and provide that they be labeled by their International Non - Proprietary Name (INN) or generic name. The name of each product should also appear prominently on the label in addition to any trade mark or brand name.

Product Specification should indicate:

- the dosage form (e.g. tablets, capsules injection, dry syrup, liquid, ointment emulsion, suspension, etc.); and
- the content per tablet, capsule, teaspoon or on the basis of weight by volume (W/V) or volume by volume (V/V). Most pharmacopoeias indicate the product specification and acceptable range. For pharmaceuticals or vaccines not included in a compendium, Borrowers should clearly indicate acceptable limits.

As regards product packaging most official pharmacopoeias establish the following broad guidelines for primary containers. The primary containers should:

- maintain quality, safety and stability of the pharmaceutical or vaccine contained;
- be able to withstand the mechanical hazards of handling and transport, prevent leakage and environmental degradation and should have no physical or chemical effect on the contents;
- for liquids, be sufficiently transparent for visual inspection and be covered with outer packaging to protect the contents from incidental radiation.

Very few currently available packaging materials can satisfy all the above conditions fully and they are commonly unavailable in developing countries. The following are generally considered most suitable materials for different dosage forms:

- *Glass:* Neutral glass containers, colored when required for light sensitive pharmaceuticals to resist ultraviolet radiation, are the most suitable for liquid preparations. Glass offers a very distinct advantage in that it can be sterilized, but it is heavy and therefore expensive to transport.
- *Plastic Containers:* These have traditionally been avoided for liquids except for some very stable products which are consumed over a very short period. When stored longer, leaching of the plasticizers can occur and in some cases, may cause some chemical interaction with the pharmaceutical; or vaccine content. Plastic containers with an inner coasting can be used for non - hygroscopic items, tablets, and capsules. Plastic containers that are approved for use with liquids are now becoming available.
- *Metal Containers:* These are suitable for large packs of tablets and capsules and should preferably be lacquered from the inside and have an inner polymer lining for added protection.
- *Films and laminates:* A combination of plastic, aluminum and paper is ideal for single dose packs. Unit packaging in such laminates increases the cost considerably and thus cannot replace bulk packaging in most routine cases. In - house unit packs at the hospital level for the amounts needed for weekly consumption could be a much cheaper option in the developing countries.
- *Containers for external preparations:* The shape and size of product containers for external use should be different from containers for systemic use and products to prevent accidental ingestion. Usually external preparations (e.g. ointments and creams) are packed in: jars; aluminum extrusion tubes for small quantities of ointments or fluted glass

bottles for liquids. For products not included in any official compendium, the borrower must clearly stipulate the type of container to be used.

In general, all containers should be filled to the top and in case of dry products the residual space should be filled with bubble plastic or other suitable material then sealed. For liquids, the bottles should be closed with screw caps with inert lining to provide a moisture proof seal. All packaging components must be approved for pharmaceutical packaging by the manufacturer's national FDRA. The external containers should be export worthy and suitable to with stand rough handling in transit and during storage.

28.10.8 Labeling

The product should be labeled according to the applicable pharmacopeial standard and the language for labeling stated in bid documents. The following information should be included in the labels:

- The generic name of the active ingredient;
- Dosage form (tablet, ampoule, vail);
- Quantity of active ingredient(s) in the dosage form;
- Number of units per package;
- Batch number;
- Date of manufacture;
- Expiry date (in clear language, not code)
- Pharmacopeial standard;
- Instructions for storage;
- Name and address of the manufacturer and country of origin;
- Name and address of distributor, if not supplied by the manufacturer directly; and
- Desired cautionary statements.

Similar information should appear on cartons. Directions for use and precautions may be given in leaflets (package inserts), though these provide supplementary information and are not an alternative to labeling.

28.10.9 Inspection and Testing

Most ICB contracts for pharmaceuticals and vaccines are on a CIP or CIF basis and require a visual pre - shipment inspection confirming that the quality and packaging method used appear to be satisfactory. Pharmaceutical and vaccine quality is accepted on the basis of quality test certificates provided by manufacturers. However, to reinforce quality assurance, inspection agents should be periodically asked to collect samples from lots ready for shipment for independent testing at the manufacturer's cost. Shipment should not be authorized until the test results are evaluated and certified by the borrower. This condition as well as the Borrower's right to conduct random tests at the successful bidder's cost should be incorporated in the Conditions of Contract if the Bank's SBDs are used or in the Loan Agreement if other internationally recognized and Bank approved bidding documents are used for procurement.

28.10.10 Recalls - Adverse Reactions

Developing countries generally lack the necessary pharmaceutical or vaccine information systems to monitor adverse reactions or international recalls. Bidding documents should thus, require suppliers to inform the Borrower of any such event and to replace the affected items, if a similar action has been taken in the manufacturer's country of origin. This should be one of the conditions of the General Conditions of Contract in the Standard Bidding Documents. The FDRAs in Borrower countries should establish direct communication channels with FDRAs in developed countries such as the United States, Britain and other European countries to obtain information about recalls.

28.11 Description of Pharmaceutical, Vaccine and Contraceptive Categories Procured using Bank Financing

28.11.1 Pharmaceuticals

The following are the categories of pharmaceuticals and vaccines normally included in Bank-financed health projects:

Essential Drugs: These are the most common pharmaceutical or vaccines which are used to treat about 90 percent of the causes of morbidity in developing countries. Most of them are included in the World Health Organization (WHO) essential drug list (about 300 drugs) and are listed in acceptable international compendia. The majority are not covered by patents and are available from a number of manufacturer in developed and developing countries as generic drugs.

Proprietary Pharmaceuticals and Vaccines: These are newer pharmaceuticals or vaccines manufactured by either one or only a few companies which either hold the patent or manufacture under a license from the original patent holder. Most are used at the tertiary level of health care, i.e. in specialist hospitals.

Special Category Pharmaceuticals: These include

- *Drugs for Tropical Diseases:* These are pharmaceuticals and vaccines which are included in essential drug lists but are specially manufactured by a few companies to combat tropical diseases either based on in - house research or under license from the WHO. They are seldom used in the country of origin but extensively in poorer countries to control major epidemic diseases. They include schistosomiasis, onchocerciais and anti - filarial drugs, etc.
- *"Orphan" Pharmaceuticals and Vaccines:* These are manufactured for certain rare diseases with a very limited market. They are covered by patents and also receive subsidies to offset research costs. These are produced and sold in developed countries.
- *Anti-plastic pharmaceuticals*: These are for cancer treatment, which are generally covered by patents and manufactured in a few developed countries where consumption of such items is high. The incidence of cancer in the developing countries appear to be low

(perhaps due to poor diagnostic facilities or limited specialist manpower to treat such conditions) and use of such items limited.

- *Specialized pharmaceuticals:* These are used in developing countries at the tertiary level or in specialized institutions as a second line treatment. Consumption of such pharmaceuticals is small and sporadic in developing countries, primarily because of cost;
- *Gelenicals:* They are out of vogue in developed countries but are still commonly used in developing countries at the primary and secondary level of health care (i.e. at village dispensaries and sub - district and district hospitals) for the preparation of mixtures, emulsions or ointments. There are very few manufacturers for galenicals. Normally sold in bulk (one liter plus), they require very heavy freight costs and are not financially attractive for developed country manufacturers because of low demand.

28.11.2 Vaccines

Vaccines to prevent most childhood illnesses are usually named in essential drug lists. Vaccines, which in most cases are not covered by patent. Demand for vaccines is high in developing countries for use in mass immunization campaigns. Most vaccine procurement is either funded by donor agencies or procured directly from the warehouse of agencies like UNICEF (using their own procurement procedures) and supplied to developing countries for their immunization programs. Vaccine manufacture involves high technology, rigid production protocols, process controls and strict quality control. Vaccines have a very limited shelf life and large production volumes are needed for the manufacturer to break even. There is a trend leading to further consolidation and merger so as to enable these companies to manufacture global requirements economically while still meeting rigid WHO standards for manufacture and export. Some developing countries manufacture a limited number of vaccines for national consumption, but do not yet meet the standards for export.

Vaccines are biological products -- being derived from living organisms -- and thus are very different from other pharmaceutical products. They require special quality considerations because of the biological nature of the starting materials, the manufacturing process and the test methods needed to characterize batches. They may include:

<u>Vaccines for Universal Immunization</u>

- BCG;
- Diphtheria - pertussi - tetanus;
- Hepatitis B;
- Measles and measles - mumps - rubella;
- Poliomyelitis;
- Tetanus, and tetanus - diphtheria

<u>Vaccines for specific groups of high risk individuals</u>

- Influenza;
- Meningococcal;
- Rabies;

- Rubella;
- Typhoid;
- Yellow fever.

28.11.3 Contraceptives

Contraceptives take a number of different forms including pharmaceutical products. Mechanical contraceptives, e.g. condoms and intra - uterine devices ("IUDs"), which are generally treated as drugs controlled by the local regulatory agency for quality control. These are included in the WHO essential drug list, which also includes hormonal contraceptives, both pill and injection form, copper - bearing intrauterine devises and condom and diaphragm barrier methods:

Hormonal Contraceptives

Hormonal contraceptives are pharmaceutical products containing synthetic hormones and are available in these main forms:

- Oral contraceptives (available in a number of doses and formulations);
- Injectable contraceptives (three primary types are distinguished by the different periods of time for which they protect against pregnancy as well as formulation of hormones); and
- Implant.

Intrauterine Devices

The majority of internationally marketed IUDs are plastic medical devices available in a variety of shapes and sizes. (Metal devices are manufactured in China for use in its national program). Plastic IUDs may be enhanced with copper - bearing or hormone - releasing components.

Barrier Methods - Mechanical

The majority of mechanical barrier methods are latex or plastic products (condoms, diaphragm, and cervical cap).

Barrier Methods – Spermicides and Microbicides

Spermicidal barrier methods consist of chemical agents available in alternative forms (creams and gels, foam or suppositories).

28.11.4 Nutritional Supplements

Nutritional supplements are frequently considered for inclusion in Bank financed health and nutrition projects. A range of pharmaceutical products may be considered as nutritional supplements; micronutirients, oral hydration salts, vitamins, IV Solutions and minerals. WHO includes a number of such products in the Model Essential Drug list under the

grouping Vitamins and Minerals (e.g. Retinol palmitate, riboflavin and Oral rehydration salts). Borrowers seeking Bank financing for the procurement of nutritional supplements should follow similar procurement procedures as for pharmaceuticals.

28.11.5 Medical Equipment

The Bank primarily supports the financing of capital goods as opposed to medical consumables. Including a start-up set of consumables (e.g., x-ray film, ultrasound gel) should be taken into consideration. Further, the local supply and pricing of consumables should be checked in parallel with the technical specification process. Medical equipment that would generally be classified as capital goods consists of mechanical, electronic, diagnostic, and life-support products. Medical equipment may be categorized by the level of the facility it is intended to be used at within the health system.

The range of available medical equipment is extensive, but guidelines on the type of standard equipment that should be on site at primary, secondary, and tertiary facilities have been drafted on behalf of the Bank.[68] TTLs, PSs, and PASs may refer to these "standard equipment lists" as the basis for discussion with borrowers on the acceptability of medical equipment for financing with Bank loans.

[68] Medical Equipment Procurement Study.

Annex I: Methods for Procurement of Pharmaceuticals

Procurement method		Pharmaceutical	Vaccines	Contraceptives	Nutritional supplements	Medical equipment
International Competitive Bidding (ICB)	***Use***	For multisource products. Essential drugs not on patent.	Not recommended.	For multisource products. Condoms.	For multisource products. Larger contracts covering supplements with a longer shelf life (more than three months).	For multisource products.
	Market Situation	Multiple manufacturers or suppliers. Value of procurement sufficiently high to attract a number of bids.	Too few reputable manufacturers.	Multiple manufacturers or suppliers. Value of procurement sufficiently high to attract a number of bids.	Multiple manufacturers or suppliers. Value of procurement sufficiently high to attract a number of bids.	Multiple manufacturers or suppliers. Value of procurement sufficiently high to attract a number of bids.
	Implementing agency procurement expertise: High – Knowledge of sources: preparation and evaluation of bids.					
Limited International Bidding (LIB)	***Use***	Special pharmaceuticals (see attachment 1).	Recommended.	For those methods of contraception with only a few manufacturers; IUDs, some formulations of OCs.	Recommended	Acceptable
	Market Situation	Limited number of international manufacturers.	Limited number of manufacturers.	Limited number of manufacturers.	Limited number of manufacturers.	Limited number of manufacturers
	Implementing agency procurement expertise: High - Knowledge of sources; preparation and evaluation of bids and supplier qualifications.					

Procurement method		Pharmaceutical	Vaccines	Contraceptives	Nutritional supplements	Medical equipment
National Competitive Bidding (NCB)	***Use***	Small volumes of essential drugs. Galenicals.	Unlikely to be an alternative as there are very few satisfactory manufacturers in borrower countries.	Limited use. Very few countries have even a single manufacturer of contraceptives.	Small contracts. For most processed nutritional supplements (which can have shelf life as short as three months).	Limited use.
	Market Situation	A number of qualified local manufacturers or authorized agents of international manufacturers or licensed wholesale importers.	Major difficulty in ensuring quality through in-country suppliers.	A number of qualified local manufacturers or authorized agents of international manufacturers or licensed wholesale importers.	A number of qualified local manufacturers or authorized agents of international manufacturers or licensed wholesale importers.	A number of qualified local manufacturers or authorized agents of international manufacturers or licensed wholesale importers.
	Implementing agency procurement expertise: High - Preparation and evaluation of bids.					
International/ National Shopping	***Use***	Smaller volume procurements. Specialized galenicals, proprietary, orphan, and special tropical disease drugs. Drugs with very limited shelf life (i.e., 12 months or less).	For small-volume procurements.	Injectable, some oral contraceptives.	For small-volume procurements.	Smaller volume procurements.
	Market Situation	Limited number of manufacturers.	Limited number of manufacturers.	Limited number of manufacturers.	Limited number of manufacturers.	Limited number of manufacturers.
	Implementing agency procurement expertise: Knowledge of sources; comprehensive, up-to-date knowledge of current world prices; negotiating skills.					

Procurement method		Pharmaceutical	Vaccines	Contraceptives	Nutritional supplements	Medical equipment
Direct Contracting	***Use***	Single-source products.	For single-source vaccines. Vaccines with very limited shelf life (i.e., 12 months or less).	Single-source products. Implants.	Single-source products.	Single-source products.
	Market Situation	Single manufacturer for the product.	Single manufacturer of product worldwide.	Single manufacturer.	Single manufacturer.	Single manufacturer.
	Implementing agency procurement expertise: Knowledge of sources; negotiating skills.					
UN Agency as Supplier	***Use***	Low/poor implementing agency procurement capacity. UN agency follows Bank regulations for procurement.	For emergency supply; cases where implementing agency lacks procurement expertise; to take advantage of Vaccine Independence Initiative.	Low/poor implementing agency procurement capacity. UN agency follows Bank regulations for procurement.	Low/poor implementing agency procurement capacity. UN agency follows Bank regulations for procurement.	Low/poor implementing agency procurement capacity. UN agency follows Bank regulations for procurement.
	Market Situation	Existence of UN agency undertaking regular drug procurement (UNICEF).	Existence of a UN agency undertaking regular vaccine procurement.	Existence of a UN agency undertaking regular contraceptive program.	Existence of UN agency undertaking regular food supplement procurement (WHO, UNICEF).	Existence of UN agency undertaking regular medical equipment procurement (UNICEF and UNFPA).
	Implementing agency procurement expertise: Straightforward contracting; consultant contract management.					

Procurement method		Pharmaceutical	Vaccines	Contraceptives	Nutritional supplements	Medical equipment
Procurement Agent	***Use***	Very limited procurement capacity at implementing agency.	For emergency supply; cases where implementing agency lacks procurement expertise.	Very limited procurement capacity at implementing agency.	Very limited procurement capacity at implementing agency.	Very limited procurement capacity at implementing agency.
	Market Situation	Existence of suitable qualified and experienced procurement agent for required pharmaceuticals.	Existence of suitable qualified and experienced procurement agent for required vaccines.	Existence of suitable qualified and experienced procurement agent for required contraceptives.	Existence of suitable qualified and experienced procurement agent for required nutritional supplements.	Existence of suitable qualified and experienced procurement agent for required medical equipment.
	Implementing agency procurement expertise: Ability to monitor/supervise procurement agent; consultant contract management.					

Section 29 Procurement of Pesticides

29.1 Selection of Pesticides and Pesticide Formulation

The procurement of any pesticide in a Bank financed project is contingent on an assessment on of the nature and degree of associated risks of using the pesticide, taking into account the proposed use and he intended users.[69] With respect to the classification of pesticides and their specific formulations the Bank refers to the World Health Organization's – Recommended Classification of Pesticides by Hazard and Health Guidelines to Classification (Geneva: WHO 1994-95). The following criteria apply to the selection and use of pesticides in Bank financed procurement:

- They must be negligible adverse human health effects;
- They must be shown to be effective against target species;
- They must have minimal effect on non-target species and the natural environment. The methods, timing and frequency of pesticide applications are aimed at minimizing damage to natural enemies;
- Pesticides used in public health programs must be demonstrated to be safe for inhabitants and domestic animals in the treated areas, as well as for personnel applying them; and
- Their use must take into account the need to prevent the development of resistant pests.

Borrowers should seek guidance in the periodic lists issued by the WHO, classifying pesticides by hazards. This lists technical products by their generic names tabulating them in categories ranging from extremely hazardous, to unlikely to present acute hazard in normal use. The list also gives guidance on the use of tables to assess the hazard of particular formulations. Apart from these requirements the following issues should be taken into consideration by the Borrower:

- the safety and effectiveness of alternatives under the Borrower's local climatic and environmental condition;
- their compatibility with IPM;
- the existence of national and international regulations or recommendations regarding use of particular materials for particular crops and the reliability of potential suppliers to deliver products of high quality;
- appropriately packed and backed by well qualified technical advice and support; and
- indigenous capability for handling toxic materials and regulating their distribution.

Since both active ingredients and contaminants in pesticides may be harmful, bidding documents should require suppliers to provide analysis by an independent and reputable laboratory showing the formulation to be free of such contaminant or that the component of

[69] This assessment is made in the context of the project's environmental assessment and is recorded in the project documents. The project documents also include (in the text or as an annex) a list of pesticide products authorized for procurement under the project or an indication of when and how this list will be developed and agreed on. This authorized list is included by reference in the Loan Agreement with provisions for adding or deleting materials.

such a contaminant meets internationally accepted limits for use of the formulation for specific purposes under close supervision. When pesticides are to be used on food crops, Borrowers should require as far as possible that FAO/WHO maximum residue limit recommendations will not be exceeded. In the case of crops which make a significant contribution to the diet, maximum residue levels must be viewed in the light of the need to ensure that acceptable daily intake levels are not exceeded. Where such materials are to be used on food crops for export, compliance with such acceptable residue limits or tolerances established by the importing country must be assured.

Where a supplier proposes to provide a pesticide that is not registered in the Borrower country, bidding documents should indicate the process by which registration will be done. Bidding documents should also provide labeling requirements for the product and require the provision by the supplier/manufacturer of particular information on the pesticide's toxicity. Information on the pesticide's chemical characteristics and possible results of its harmful breakdown in the environments should also be required by the Borrower as part of the bid if this information is not already available.

Selection of pesticides should also be based on careful evaluation of possible hazard to the environment and to important natural resources. For example, materials having high acute toxicity to fish or aquatic invertebrates should not be used where there are aquatic resources which could be affected by runoff, drift or soil erosion and those highly toxic to honeybees should not be used when they will present a threat to important pollinators. Information on toxicity to non-target organisms should be available from the manufacturer if it is not in published literature.

Where pesticides are procured for supply to farmers, it is essential for the Borrower to select materials which can be applied safely and effectively without close supervision. Staff in the implementing agency should also be adequately supported and trained in the use of the materials so that they may demonstrate the correct techniques and give appropriate advice, including advice for on-farm storage of concentrates and eventual disposal of surplus pesticides and empty containers.

29.2 Pest and Pesticide Management Practices

Every effort should be made by Borrowers procuring pesticides in Bank financed projects to select and use pesticides which are compatible with an Integrated Pest Management (IPM) approach. IPM refers to a mix of pest control practices that seeks to avoid the excessive use of pesticides. The Bank's objective under the IPM approach includes the prudent use of pesticides when damage in agricultural activities reach unacceptable. Thus in procuring pesticides the Borrower should take into consideration three major points:

- pesticides should be seen as a short - term response to the build-up of a particular pest species to threshold levels, which have been found as a result of field trials and past experience by both the Bank and Borrowers to be economically damaging, i.e managing pests rather than eradicating them;
- relying to the extent possible, on non-chemical measures to keep pesticide populations low; and

- whenever possible narrow spectrum pesticide materials should be selected which are effective against pest species, but cause minimum harm to other useful insects (especially the important predators and parasites of the pest species). This approach requires that one or more key target pest species and, if possible, their principal natural enemies first be properly identified by the Borrower.

29.3 Technical Specifications

Technical specifications for the procurement of pesticides should define all the critical characteristics in the formulation of the pesticide required. This should include aspects such as solvents emulsifiers and surfactants in the case of emulcifiable concentrates, or particle size in the case of dusts or suspensions, which may affect the performance of the pesticide. To ensure effective competition among suppliers who formulate a particular active ingredient under one or more different trade names, the IFB and other tender documents should use accepted generic names of the material or materials to be purchases.

Foreign suppliers/manufacturers should be required to submit with their bids certification that the product is exactly the same (in terms of physical and chemical properties, formulating ingredients and manufacturing process) as that marketed and registered in the country of origin and state any deviations and provide rationale for them.

Specifications should also indicate any special features of packaging and labeling which are necessary for product protection during handling and storage to ensure effective use. This includes requirement in the bidding documents that materials used for seed treatment be formulated with warning colorants or dust which will persist under anticipated storage and handling conditions. Reference may also be made to internationally accepted packaging and labeling standards. In case of products which are not water soluble, bidding documents should require suppliers/manufacturers to recommend and provide a suitable solvent for washing application equipment and containers. Where available containers which discourage re - use for storing liquids should be specified.

The Bank requires that any pesticides it finances be manufactures, packaged, labeled, handled, stored, disposed of and applied in accordance with Food and Agriculture Organization's (FAO) Guidelines for Packaging and Storage of Pesticides (Rome 1995), Guidelines on Good Labeling of Pesticides (Rome 1985), and Guidelines for the Disposal of Waste Pesticide and Pesticide Containers on the Farm (Rome 1985). This should be indicated in bidding documents. The Bank does not finance formulated products that fall in WHO classes IA and IB, or formulations of products in Class II, if:

- the Borrower lacks restrictions on their distribution and use; or
- they are likely to be used by, or be accessible to lay personnel, farmers, or others without training, equipment and facilities to handle, apply and store these products properly.

29.4 Handling, Storage and Application Safety

Bidding documents should specify the standards of packaging of pesticides, in order to ensure that they are adequate to withstand the considerable abuse which can occur during

transport and storage. Clear and durable labeling of all packages to depict the hazardous nature of the contents should be mandatory. Bidding documents should also require that the labels be in a specified language(s), and be consistent with internationally accepted standards.

The Bank recommends that the Borrower should encourage suppliers to pack the pesticides in single dose packages or small containers to reduce the need for measuring concentrates. This alleviates some of the problems of on - farm storage of open pesticide containers. Bidding documents can permit repackaging in properly licensed and inspected facilities meeting acceptable safety standards and preferably under the control of the supplier winning the bid, who should be fully responsible for the suitability of the new package including labeling and instructions for use, the quality of the repackaged product and the safety of the repackaging process.

Bidding documents should also require that manufacturers design containers which discourage reuse. This is because, although all empty containers should be destroyed, there may be countries in which adherence to regulations requiring their destruction is difficult to enforce due to a shortage of empty containers to store liquids. The Bank does not approve of re-use of pesticide containers and strongly recommends that all possible deterrent measures be taken. However, in instances where the only available and suitable package offered by suppliers is a non - returnable drum and where destruction of all empty containers cannot be ensured, their thorough washing with an appropriate solvent and numerous water rinses should be ensured by the Borrower. The latter can be done through requiring bidders to include detailed instructions in the containers to enable final users and the implementing agency's staff to carry out this process satisfactorily.

Where pesticides are applied by contractors, they should be required in the bidding documents to take all necessary precautions to protect the public and the environment from damage due to spray drift or other accidental contamination. For particularly toxic materials, it may be expedient for bidding documents to require the supplier to supervise the correct handling and application of the materials in accordance with accepted safety standards.

29.5 Procurement Methods for Pesticides

Bank policy is always to encourage Borrowers to use competitive selection methods to ensure that the Borrower's needs for economy and efficiency are met. However, where only a single product from a single manufacturer is effective in controlling a particular pest or where a single product has such outstanding advantages over other products on the market that it would not be technically justifiable to use anything else, the Bank may allow Borrowers to use international or local shopping. Even in such instances the Borrower should make prudent inquiries to determine the prices paid by other recent purchasers of the same product in order to ascertain that prices being quoted by the approached supplier(s) are economic, taking into consideration the quantity being ordered and delivery requirements. Where quantities being purchased are so small that competitive bidding would not be an efficient means of procurement, local shopping may be resorted to, with the Borrower obtaining quotations from at least three different suppliers.

29.6 Evaluation of Bids for Supply of Pesticides

Evaluation of bids for procurement of pesticide would follow the normal Bank accepted evaluation policies. ***(Refer to Section 19 of the Manual for detailed instructions)*** However, in the particular case of pesticides, in order for the Borrower to effectively evaluate tenders from different sources offering different materials for the control of the same pest, prior comparison of the different materials in field tests is necessary to evaluate their relative efficiencies.

Where adequate information is available, efficiency weightings may be given to different materials and used in the evaluation of bids, but to do so, the weights must be made public in the bidding documents supplied to potential bidders so that in making offers they are aware of the conditions under which their product will be evaluated. Such weights may be used to reflect the advantage a particular material might offer by:

- controlling other pests besides the one for which the pesticide sought by the borrower is intended;
- being less harmful to predators; or
- by being less dangerous to handle.

Where data is insufficient to apply such efficiency factors, materials are compared on the basis of their cost per unit area when applied, in accordance with the local recommended practices in the Borrower country and taking account of the manufacturers recommendations, at the rate and frequency of control of the pest concerned. Where one material has been shown in trials and practice to offer a longer period of control than another, and thus requires fewer application, the saving in the application costs should be taken into account in evaluating the bids.

Section 30 Monitoring, Evaluation and Record Keeping

30.1 The Role of Borrowers in Monitoring Procurement Activities

Monitoring is the continuous assessment of project implementation in relation to agreed schedules and the use of the procured goods, works and services by the project beneficiaries. It is an integral part of good management by the project implementing agency. Its main objectives are to provide continuous feedback on implementation and to identify actual or potential successes and problems as early as possible to facilitate timely adjustments to the project in general and the procurement process.

Continuous monitoring and periodic evaluation of the procurement process can achieve the following:

- Relevant analysis from the project and policy evaluation can highlight the outcomes of previous projects of similar nature and the strengths and weaknesses of their implementation and thereby influence the sector assistance strategy;
- Use of project design tools results in systematic selection of indicators for monitoring the Borrower's performance in procurement. The process of selecting indicators for monitoring is a test of soundness of the project objectives and can lead to improvements in project design; ***(Refer to Section 11 of the Manual for further instructions on Project Design)***
- Incorporate views of stakeholders as participation in some projects by project beneficiaries, (e.g. in procurement projects involving community participation) in the design brings greater "ownership" of the project objectives and encourages sustainability of project benefits. Ownership leads to accountability. The emergence of recorded benefits early in the project helps reinforce ownership and early warning of emerging problems allows actions to be taken before costs rise;
- A reliable flow of information during implementation enables the Task Team (TT) to keep track of progress and adjust operations to take account of significant experiences in the procurement process and undertake mid-course corrections where needed.
- Help the TTL/PAS/PS and the Borrower in identifying targets and objectives for procurement implementation;
- Assist the Borrower to maintain easily retrievable records of procurement implementation which can later be used for evaluation; and
- Provide readily available analyses for decision – making; and
- In addition, the Bank supervision missions can greatly benefit from a suitable combination of comprehensive and shorter issue oriented, accurate, and timely progress reports. These reports reduce the time needed for data gathering, enabling maximum concentration on problem - solving and technical assistance as required.

Where the Country Procurement Assessment Report and the Assessment of the Implementing Agency's Procurement Capacity reveal that the Borrower's implementing agency has a weak procurement management history, the TTL/PS/PAS should assist the Borrower in setting up a separate administrative unit for monitoring procurement. ***(See Sections 9 and 10 of the Manual for instructions procurement assessments)*** This should

also be done where project/procurement objectives (especially social and institutional) are innovative and/or complex, or in projects with multiple components.

Once created such a unit should be integrated into the management structure of the project, since its purpose is to serve the information needs of the Borrower's implementing agency. Its organization is part of the institution-building process and should be treated as such during project appraisal and supervision. The range of the information system and the scale of the monitoring process must be consistent with the staff and financial resources available in the country and must be sustainable as a feature of management procedures within the Borrower's agency. The cost of providing sound monitoring is not a direct function of the size or cost of the project itself. In innovative pilot projects, the monitoring component may constitute a large part of the total cost, but for follow-up projects run by established agencies, the incremental costs may be negligible. During project preparation, the TTL/PS/PAS should assist the Borrower's staff responsible for monitoring procurement activities in setting and achieving monitoring objectives by:

- ensuring that appraisal documents clearly establish objectives, targets and expected results for each component;
- reviewing the design of the proposed information system and special studies to ensure that they are cost effective and that organizational arrangements are reasonable;
- helping to finance the technical assistance and equipment (including data processing) required for the design and implementation of monitoring and evaluation activities; and
- ensuring that training needs are adequately addressed.

30.2 Monitoring and Procurement Management Information Systems

A good management information system contains the necessary data on project activities under implementation. A good monitoring system collates and analyzes these data regularly and quickly and communicates pertinent information to both the Borrower's staff and the TTL/PS/PAS. The required information covers four areas:

- procurement and physical delivery of goods, structures and services, and the costs incurred;
- use of the structures and services by the project beneficiaries and their initial reactions;
- reasons (social, economic or environmental) for unexpected reactions by the project beneficiaries, when these are revealed by the information obtained in bullet 2 above or through other sources; and
- measurement of output indicators such as productivity gains to the extent that these can be measured during implementation.

Projects in different sectors will call for different emphasis among these four areas, with infrastructure projects focusing more on physical and financial implementation, and service projects emphasizing the reactions of the intended beneficiaries from the outset. Managing a procurement process as in any development project is a complex task. The basic core of a TTL/PS/PAS and Borrower's procurement program should include:

- collection of data and managing project records so that data required for indicators are compatible with existing statistics and are available;
- preparation of procurement plans and schedules;
- set up institutional arrangements for gathering, analyzing and reporting project data and for investing in capacity building, to sustain monitoring and evaluation – in the case of the Borrower a suitable system should be set up after the CPAR and the assessment of the implementing agency's procurement capacity and in the case of the Bank SAP, LACI and PMRs should be set in motion
- maintenance of detailed records of physical and financial performance and establishment of measurable procurement performance indicators;
- monitoring of procurement environment so that project implementation can be facilitated or adjustments made;
- preparation of periodic reports to the Bank and the Borrower's central agencies and institutions; and
- development of ways in which the monitoring and evaluation findings will be fed back into decision making..

Physical and financial information is usually obtained from procurement/project and financial records; its integrity is ensured by auditing these records. Such information should be used for monitoring progress according to agreed implementation schedules and for meeting specific targets. Any deviations should be brought to the attention of the TTL/PS/PAS for necessary adjustments to the implementation schedule, or for devising actions to improve adherence to schedule.

Monitoring the use of structures or services and the initial reactions of beneficiaries requires regular contact with the targeted population. Should any unexpected beneficiary reactions emerge, the Borrower's implementing agency and the TTL/PS/PAS should call for a diagnostic study to reveal causes and identify necessary actions. Beneficiary contact and diagnostic studies are often called "ongoing evaluation", but fundamentally they are an integral part of good monitoring.

The design of the information system and its use for monitoring progress requires identification of the primary users, quantification of project objectives, and selection of a minimum core of quantitative and qualitative indicators for monitoring progress towards these objectives. There can be no standard list of indicators, even within one sector since indicators are project - specific and should be decided by the Borrower in consultation with the TTL/PS/PAS. When a monitoring system is to be designed, or existing services in the implementing agency are to be strengthened, two approaches can be considered during project preparation:

- the blueprint approach, in which detailed specifications are provided on what will be done and by whom; and
- the process approach, in which only the main objectives of monitoring are specified, leaving the detailed design to be undertaken by project managers during project start - up.

The advantage of the process approach is that the task team and the Borrower are more likely to support an information system if it is involved in its design. The disadvantage is that little may be done if the TTL/PAS/PS are themselves inexperienced and do not appreciate the value of such a system. In such a case, a blue - print approach is preferable, although the TTL/PS/PAS and the Borrower's staff should be involved in its detailed design at the earliest possible stage.

Efficient management of the procurement process requires sound monitoring. Conversely, monitoring cannot be fostered and its integrity protected if the management structure is unsound or if the Borrower's implementing agency's staff are ineffective. Structured performance indicators should be set out to provide the quantitative and qualitative detail to the objectives. These point out the situation that will exist after the procurement is carried out. In order to achieve accountability, the TTL/PS/PAS and the Borrower should agree on the value of the goods or services to be procured and the timing of the procurement. To make information on progress available from the early stages of implementation and throughout the procurement process, such indicators need to be set out in the procurement plan during the planning stage of the procurement process. In procurement of goods and services may include an indication of the number of clients vaccinated in a health sector project, or the miles of roads built.

30.3 The Role of Bank Staff in Monitoring and Evaluation of Procurement Activities

Apart from assisting the Borrower in setting up a monitoring system, the Bank requires the TTL/PS/PAS to put in place a monitoring and evaluation system to enable them to monitor and concurrently evaluate the procurement process. The Bank requires monitoring and evaluation as management tools within projects by emphasizing their importance as integral parts of day to day procurement management. They also provide the basis for accountability in the use of Bank funds. Evaluation is the periodic assessment of the relevance, performance and impact of the project as a whole and the procurement aspect of it (both expected and unexpected) in relation to the objectives set out in the procurement strategy and plan. ***(Refer to Section 30.1 for a definition of monitoring)*** In order to carryout their monitoring and evaluation responsibilities the Bank has set up a number of tools which incorporate the Bank's procurement and financial management roles. These tools include the Systems Applications Production (SAP) Operations Procurement System, the Loan Administration Change Initiative (LACI) and Project Management Reports (PMR).

30.3.1 System Applications Production (SAP) Operations Procurement System

The SAP procurement system, is an information management system set up to assist the TTL/PS/PAS in carrying out the Bank's prior-review responsibilities. At each step of the procurement process the TTL/PS/PAS enters information on the various components of procurement that have taken place. The SAP is set up in a manner that enables it to automatically come up with information that is connected to the original data that is put in by the TTL/PS/PAS. The system enables the TTL/PS/PAS, to set up electronic work flows to route/distribute documents for review and approval. The SAP is accessible by the project staff from anywhere in the Bank Regions and at the headquarters. The SAP is meant to provide Bank procurement staff with the following:

- a planning tool for task teams to help the borrower develop a procurement plan;
- a monitoring tool to aid the Bank team to track the complete procurement process;
- a method to capture any complaints at any stage of the procurement process;
- a method to capture data on misprocurement;
- monitoring of the disbursement activities;
- an electronic record of the borrower's bid evaluation;
- an easier method for creating the Form 384; and
- the ability to capture general information into a central data warehouse.

The SAP is has the following advantages:

- For each procurement method the planning tool has built in time periods between each procurement activity and with the entry of one date by the TTL/PS/PAS the complete draft procurement plan will automatically be generated to be used by the Bank team to help the borrower develop the actual procurement plan. Dates can be changed and a base plan frozen;
- The TTL/PS/PAS can use the frozen plan to monitor the procurement process allowing the Bank team to proactively act on problems;
- Information entered for all projects and contracts form a Bank wide data resource and future custom reports may be generated. For example, if a complaint is made against a particular contractor or consultant Bank staff can readily find the projects in which that company has worked, and determine if a particular contractor is continually protesting maybe just to delay the award process;
- The TTL/PS/PAS can review performance standards for each procurement activity and have a record of actual to planned performance of the procurement process which would be useful for future planning;
- Form 384 is easily prepared by the TTL/PS/PAS or other Bank staff designated to input the information and the preparation can be completed wherever the staff member is located (unlike the current process of one person in HQ);
- The Form 384 sent to LOA and the information used for procurement and disbursement is identical as there is no double entry;
- Loan information or project information entered elsewhere in the system are picked up in the procurement system; and
- Addresses of all companies, that have worked on Bank funded projects, are in the system - including zip codes for all US companies, thus providing more accurate and easier entry of information.

30.3.2 Loan Administration Change Initiative (LACI) and Project Management Reports (PMR)

LACI integrates project monitoring systems and brings together project financial management, disbursement, procurement management, and physical progress. It simplifies the disbursement of funds by periodic advances to a project special account based on Procurement Management Reports/Project Management Reports which link eligible

expenditures with actual physical progress made by the project/in the procurement process. Under LACI, the Borrower is required to establish and maintain sound financial management and reporting systems which are a pre-requisite for effective implementation of procurement.

PMRs include a Procurement Management Report which provides information on the status of procurement and contract commitments and expenditure, including the source of supply data for contracts subject to the Bank's prior-review, as well as post review contracts above US$ 100,000. The PMR is designed as a tool to assist borrowers in managing procurement/projects and also facilitates procurement/project monitoring.

30.4 Record Keeping

The Bank requires Borrowers to maintain records or each of the steps taken during the procurement process. Where contracts are to be awarded on the basis of competitive bidding, the procuring entity should maintain a complete record of the process and documentation, i.e.,:

- copies of public advertising,;
- prequalification documents (if used) and resulting decisions to accept or reject applicants;
- bid documents and addenda;
- records of any pre-bid meetings;
- bid opening minutes;
- bid evaluation results including summary rating sheets;
- appeals against procedures or award recommendations;
- a signed copy of contract and performance securities; and

Ideally, for small contracts or goods purchased using shopping procedures, a database should be maintained showing:

- the current market price for commonly needed items;
- names of suppliers invited to submit written price quotations for each lot, and their prices;
- names of selected suppliers, quantity and value of orders; and
- a copy of the purchase order.

This should also be done for the contract administration process. These would include:

- keeping records of contractual notices issued by the supplier contractor, purchaser or employer;
- maintaining a detailed record of all changes or variation orders issued affecting the scope, quantities, timing or price of the contract;
- records of invoices payments;
- certificates of inspection, acceptance; and
- completion records of claims and disputes and their outcome etc. These records should be available for review and examination by the TTL/PS/PAS, during evaluation of the procurement as a whole and during procurement audits.

Section 31 Settlement of Disputes

31.1 Introduction

Settlement of disputes provisions are seen by bidders as a major risk factor or risk mitigation factor depending on how the provision is drafted. This is particularly noticeable in the bids received for large ICB contracts in which bidders insert qualifications or deviations pertaining to the mode of settlement of disputes or the place selected for the settlement. These deviations, which are major and non-quantifiable in nature, may lead to rejection of the bid.

Historically, the Bank first was concerned with a fair mechanism for the final settlement of disputes; this concern is reflected by the provision in the Procurement Guidelines that borrowers are "encouraged to provide for [international commercial arbitration]". Subsequently, the Bank introduced a requirement that in case of works contracts, supply and installation contracts and turn-key contracts, the dispute settlement provision should also include mechanisms such as dispute review boards or adjudicators.

Therefore, bidding documents (except in the case of supply of goods) provide for two types of mechanisms: a dispute review board/expert or an adjudicator of disputes mechanism, and a final settlement of disputes mechanism. The table appended to this chapter shows the various requirements as they apply to the various forms of contract developed by the Bank.

31.2 Domestic Disputes

At the time tenders are invited, it is not possible to determine if disputes shall be settled in accordance with national law (domestic contractors) or international commercial arbitration (foreign contractor).

Disputes between a client and a contractor or supplier from the client's country should be settled in accordance with the mechanisms (judicial or arbitral) mandated by domestic law. For example, the following Acts provide for the settlement of disputes by arbitration between two domestic parties: the 1998 Arbitration and Conciliation Act of Nigeria, and the 1940 Arbitration Act of Pakistan. Similarly, the Turkish Code of Civil Procedure provides that disputes between a Turkish supplier and a Turkish government entity will be settled by the Courts. In a few instances, disputes involving government contracts are subject to a special set of legal rules and jurisdictions, that is to say, these disputes will be settled by administrative courts in accordance with administrative law (Lebanon).

31.3 International Arbitration

The Procurement Guidelines recommend international commercial arbitration when the winning bidder is a foreign contractor or supplier. However, the Guidelines do not mandate international arbitration—therefore, this recommendation cannot over-ride the provisions of national law. There are two main possible approaches to international commercial arbitration: either the arbitration will be administered by an institute following its own rules (ICC, Institute of Stockholm Chamber of Commerce, London Court of International

Arbitration), or the arbitral procedure will be defined by reference to a well-recognized set of procedures such as the UNCITRAL Arbitration Rules. When the UNCITRAL rules are selected, it is critical that a credible appointing authority be also identified in the contract terms (it could be an institution such as the ICC) for the arbitration provision to be perceived as fair and impartial by the contractor or supplier. Furthermore, the place of arbitration is important and usually contractors or suppliers will request that it be not in the country of the government entity contracting party.

An excellent example of the various choices available to borrowers is provided in the Supply and Installation Standard Bidding Document SCC 4. Settlement of Disputes (GCC Clause 6).

31.4 Accelerated Dispute Settlement Mechanisms: Common Features

The 1996 Procurement Guidelines have introduced the requirement for accelerated dispute settlement mechanisms for larger works, smaller works, and supply and installation contracts. All of the accelerated dispute settlement mechanisms have the following features in common:

- The provision is mandatory if included in the standard contract form
- The mechanism should be in existence at the beginning of the contract and throughout contract implementation
- The appointing authority (i.e. the authority appointing the adjudicator or dispute review board member when the parties cannot agree) has to be identified in the contract documents
- For various reasons, these mechanisms constitute an essential feature of the contract which is intended to balance certain prerogatives of the employer
- The decision of the arbitrator or the recommendation of the expert or panel member becomes final unless referred to arbitration by either party in a very short time period
- Dispute review settlement mechanisms come in addition to but not in lieu of the final settlement of dispute provisions included in the contract

Accelerated Disputes Settlement Mechanisms

	Works Contracts			**S+E Contract**
	SBDW >50M	*SBDW <50M- >10M	SBDW(S) <10M	
Mechanism	DBR (3)	DRE (1)	ADJ. (1)	ADJ (1)
Appointing Authority	Y	Y	Y	Y
Site Visit	Y	Y	Y	N
**Decision/Recommendation Final After	14 day	14 days	28 days	28 days

* Except if Employer chooses DRB or Regular FIDIC Cl. 67.1.

** Unless one party objects.

31.5 Adjudicator (Smaller Works, Supply and Installation Contracts)

- The SBDSW Conditions of Contract include a provision for an adjudicator of disputes whose role is to review the decision of the Project Manager[70]. The dispute shall be reviewed within 28 days from the request made by the contractor; the decision of the adjudicator becomes final if neither party refers the dispute to arbitration within 28 days after the adjudicator has arrived at it.
- The appointing mechanism for the adjudicator is built into the bidding process: the employer proposes an adjudicator in the bidding documents data sheet and the bidder accepts or counter-proposes another adjudicator in his bid. In the contract letter of acceptance, the employer accepts the counter-proposal (if any) of the winning bidder or refers the appointment to "an appointing authority" which has also been pre-identified in the bidding document data sheet. In the latter case the appointing authority should immediately proceed with the designation and appointment of the adjudicator.
- The adjudicator is usually an expert in the subject matter of the contract. The appointing authority should be neutral (i.e. not a government official). Suggested appointing authorities would be professional organizations, centers of expertise, etc.

31.6 Dispute Review Boards

Dispute Review Boards (DRB-three members) and Dispute Review Experts (DRE-one member) constitute more complex, accelerated dispute review mechanisms which have been incorporated in the 1996 Procurement Guidelines. These boards/experts have been assigned the role formerly played by the engineer under FIDIC Civil Works Conditions Clause 67.1. Dispute Review Boards and Dispute Review Experts are expected to keep themselves informed of the progress of the works (periodical site visits) and their role is mainly to preempt disputes from occurring by detecting, early on, potential grounds for disagreement between the employer and the contractor. Dispute review board/experts review disputes at the request of the contractor, the employer and the engineer. Their fees are split in half between the two parties and pre-paid by the contractor who is reimbursed (for half of it) by the employer.

The Bank Standard Bidding Documents for Larger Works provide details on how the Board operates:

- requests for recommendation (which contain the details of the specific issue in dispute)
- documents
- payments
- referral of disputes to the Board
- site visits
- conduct of hearings
- deliberations
- recommendation, and
- restrictions placed on Board membership.

[70] The Project Manager is the representative of the Employer.

See Section 13 of the SBD Larger Works for details. A list of appointing authorities is provided in a footnote to the standard Dispute Review Board and Dispute Review Expert provision of the SBDs. The appointing authority should be a person, not an institution. The Dispute Review Expert has the same role as a Dispute Review Board but is comprised of one person only (for specific circumstances governing the choice between DRB and DRE, refer to the table included at the end of this chapter).

31.7 Termination of Contract

The Bank's standard forms of contract all include provisions dealing with the termination of a contract before its term. Most (but not all) the forms also include detailed provisions stipulating how the contractor will be paid following termination of a contract.

Contracts can be terminated as a result of the employer's/purchaser's default, convenience, *force majeure*, suspension of works/services, suspension of the loan, contractor's or supplier's default.[71]

- Contractor's default usually includes failure to commence or proceed with the work and to comply with the notice requesting to proceed, failure to complete the work/deliver the goods within the agreed period of time, etc. Insolvency, voluntary or involuntary bankruptcy, liquidation or dissolution amount to the same as Contractor's/Supplier's default. In such cases, the Contractor is responsible for the additional cost incurred by the Employer in relation to the completion of the works/supply (except in the case of the SBDSW which stipulates that the employer's compensation will be in the form of a percentage of the value of the work not completed).

- Employer's default includes failure to pay within a certain period of time (usually non-payment, but also in the smaller works fundamental breach of contract); termination for Employer's/Purchaser's convenience, i.e., the Employer's/ Supplier's discretionary decision to terminate the contract, amounts to the same as termination for Employer's/Purchaser's default. The contractor or supplier is entitled to be compensated for all of the expenses incurred and for the reasonable cost associated with the early termination of the contract.

Termination may also occur as a result of:

- Suspension of the works when not followed by resumption of the works within a certain period of time.

- Suspension of the Loan, when not followed by resumption of payments.

- *Force majeure*, outbreak of war and release from performance.

[71] The Standard Bidding Documents also include now a provision for termination of the contract for fraudulent or corrupt practices.

ANNEX – SUMMARY OF GROUNDS FOR TERMINATION IN SBDs:

Convenience	SBDG SBDSW SBDLW SBDSI
Suspension of the Works	SBDWDC SBDLW SBDSI
Suspension of the Loan	SBDLW SBDSW SBDWDC
Force Majeure	SBDWDC SBDLW (outbreak of war, release from performance) SBDSW (release for performance) SBDG (if impractical to perform) SBDSI (and war risks)
Change in Contract Elements	SBDWDC
Contractors Default	**all SBDs**
Contractors Insolvency, etc.	all SBDs