



The World Bank

## Procurement Policy Review Feedback Summary

---

**Date:** NOVEMBER 14, 2014 (morning session with Central and Provincial Government Agencies and Project Management Offices)

**Location (City, Country):** Beijing, People's Republic of China

**Total Number of Participants:** 77

### **Overview and General Reactions:**

The second phase of consultations with Central and Provincial Government officials as well as officials from project implementing agencies on the Bank's proposed new framework for procurement in Investment Project Financing was held in Beijing, China in the morning of November 14, 2014. Participants included representatives of the Ministry of Finance, other central and line ministries, implementing agencies, provincial finance bureaus and project management offices working on Bank-financed projects in China. Also attending was Professor Liu Hiu, Rector of the University of International Relations and member of the International Advisory Group on Procurement (IAGP) and observers from the Asian Development Bank, Resident Mission in China. The list of participants is attached.

The opening speech was delivered by Bert Hofman, the Bank's Country Director for China, Mongolia and Korea. He highlighted the importance of public procurement in economic development, poverty reduction, growth and shared prosperity. He indicated that the objective of the procurement policy review is to enable the Bank come up with a modern procurement framework that helps the Bank to respond better to client needs and a framework which enables countries to achieve development outcomes with transparency and integrity. He encouraged participants to be open to raise issues, and to provide frank and candid comments and suggestions for this first ever comprehensive review of the Bank's procurement policy and procedures. China has one of the

largest portfolio of Bank-financed projects and Chinese Contractors and Suppliers compete and are very successful in winning contracts in Bank-financed projects all over the world. As such, China was one of the countries consulted during the Phase 1 consultation launched in May 2012. Inputs from the Phase 1 consultations have resulted in the preparation of a Proposed New Framework on Procurement in World Bank Investment Project Financing, setting the stage for Phase 2 consultation (September – November 2014).

Ying Wang, Division Director of the Technical Assistance Division, Ministry of Finance in her opening remarks confirmed China's active participation in the procurement policy review, and urged participants to share their experiences and make good use of the opportunity provided to help craft a new policy which will fit in the China context. She indicated that China held various focus group discussions on the policy proposals and was confident that there would be active participation by the participants.

Joao Viegas Malta, Manager, Procurement Program OPCS made a presentation on the rationale for the Review, summary of feedback received from Clients through the first round of global consultation, the overall reform timeline, and the key proposed changes and principles to the Bank's procurement policy. The presentation was followed by open discussions and responses to the guiding questions posted for consultation. Joao Viegas Malta and Elmas Arisoy, Procurement Practice Manager, PIO GGP provided clarifications and facilitated the open discussions.

The Bank's China procurement team and EXT also participated in the consultations.

### **Overall feedback**

- Many of the participants had attended the 1st consultation workshop held in Beijing in September 2012.
- Participants highly welcomed the review process and appreciated it is a timely change. The participants acknowledged the Bank's support in introducing open competitive bidding in China, and its contribution in strengthening institutions and building capacity in public procurement China.
- Participants actively participated in the discussions and in principle agreed to most of the key changes proposed by the Bank with some caveats.

### **Specific Feedback from Stakeholders**

**1. How should the Bank implement support to borrower procurement capacity building and institutional strengthening?**

- It was suggested that the Bank should provide more guidance and support in preparation of technical specification of the bidding document. Currently, it takes very long time in reviewing and clearing the bidding document in some contracts because the Bank and the client cannot agree on the technical specifications.
- Promoting the Bank's support in Borrower's capacity building and institutional strengthening is in line with the development strategy of the government of China. Setting out the standards in sectors in the market is very important area and the Bank should increase its support in this area, particularly when the Bank intends to reduce dramatically the number of prior review contracts, which means that most contracts will be post reviewed and further the Bank is going to shift to post contract management support.
- The training received by the implementation agencies is currently limited to those delivered by the designated procurement specialist from the Bank and the annual workshop co-sponsored by the Bank and the Ministry of Finance of China. There are few other opportunities for knowledge sharing and training. The procurement training workshops organized by the network of universities in collaboration with the Bank are not free of charge and in the face of in country restrictions and budget cuts on workshops and training events, implementation agency staff have limited opportunities to participate in such training.
- The Bank should set up a platform on social media to promote capacity building and knowledge sharing among procurement practitioners in Bank-financed projects in China.
- The Bank may consider certification and registration of procurement professionals in China specialized in procurement in Bank financed projects.
- The Bank should provide more training to bid evaluation committee members since most evaluation experts in China do not understand the Bank's rules and procedures.
- There is great potential for development of private sector firms in the market. It is expected that many more private sector companies will participate in procurement under Bank-financed projects.
- There is a shortage of professionals for public procurement in the market. It was suggested that the Bank provides more funds through projects to the training of such professionals.

**2. How should the Bank operationalize the potential broader use of value-for-money criteria in borrower contract award decisions?**

- Use of factors other than the initial acquisition price in evaluation of bid/proposals is appropriate. Quality, total life cycle costs, reputation and the providers performance record are important considerations in determining contract award
- Some participants said that the lowest evaluated responsive bid method is not the best solution and the move to value for money is a welcome change. However, the circumstances and the manner in which VfM can be applied should be clearly defined to avoid any abuse in practice. How to make VfM feasible for implementation is a challenge
- However, some participants were of the opinion that the criterion of the lowest evaluated responsive bid (LERB) is good and scientific. This is one of the reasons why the quality of Bank-financed projects in China is better than domestic funded projects, and there are less problems and corruption issues in Bank-financed projects than in domestic funded projects. The problem in China is not with the criterion itself. The problem is that LERB is not properly understood by the bid evaluation committee members and not properly applied in bid evaluation
- In the current Procurement Guidelines and in the standard bidding documents, the Borrower is allowed to take into consideration factors other than price and life cycle costs such as operation and maintenance cost in bid evaluation. However, this option is seldom used in China. The reasons for not using the flexibility allowed currently include: (1) Difficulty in setting and justifying an appropriate discount rate for calculation of net present value; (2) weak capacity in drafting technical specifications with high quality; and (3) difficulty in estimating operation and maintenance costs – the factors used and the assumptions made for the purposes of evaluation may turn out to be far from reality. The Bank should therefore provide more guidance in this respect
- Careful consideration should be given to the application of merit point system in bid evaluation for goods and works. This approach used to be the practice in China many years ago. This subjective approach to bid evaluation may lead to abuse. If allowed, the circumstances under which the merit point system may be used should be clearly defined in the procedures or the guidance.
- The Bank should be cautious in allowing negotiations after bid opening. Based on China’s experience prior to the coming into force of the Tendering and Bidding Law, negotiations may result in more complaints. If negotiations are allowed, the nature and scope of the negotiations should be disclosed in the procurement documents. If negotiations are allowed after bid opening a bidder with an initial low price may request for price increase during negotiations leaving room for “under-the-table” private deals.

### **3. How should the World Bank target its procurement staff resources to get the best results?**

- The proposal to streamline prior reviews and focus only on high risk and/or highly value contracts is appropriate.
- Some participants questioned the entrustment of procurement post reviews to the government audit office. The audit offices have experienced staff to carry out financial audits. However they may not have the skills or capacity to conduct procurement post reviews. The national audit office normally entrusts the provincial audit offices to conduct audits. The provincial audit offices may also assign the audits to the county audit office. The lower the level of the audit office is the lower the capacity is. As such the quality of the procurement post reviews may not be very good.
- Bank procurement staff should provide more support in contract management. The shift of staff resources to post award

contract management support will have great demonstrative effect in China since contract management and administration is also a weak area in China's domestic funded projects.

- The proposed new procurement framework would require training for the Bank's staff to acquire a new set of skills.

#### **4. How and when should alternative procurement arrangements be used for procurement in Bank projects and how should they be assessed?**

- The proposal to accept alternative procurement arrangements is a good one. China's public procurement system works for China. The procurement system has been developed and established through many years of iterative adaptation and is the best fit for China at its stage of development. Since Bank-financing account for only a very small proportion of procurement in China, the Bank should accept China's procurement system.

#### **5. How should sustainable procurement matters be addressed in Bank-financed contracts?**

- Participants agreed with the approach to sustainable procurement in the proposal where sustainability requirements can be scoped early and used to set procurement criteria in line with national policies. Green Procurement, including considerations for avoidance of environmental pollution, recycling, waste minimization, energy efficiency, carbon reduction, health and safety are particularly important in the China context.
- Participants expected the Bank to provide a comprehensive toolkit to provide specific guidance on sustainable procurement criteria for different sectors.

#### **6. How should the World Bank manage fraud and corruption issues in the procurements it finances?**

Participants felt that F&C is still a big challenge in procurement and made a number of suggestions:

- The best way to address F&C is to promote transparency and fairness in procurement and contract management.
- Prospective bidders should be allowed to raise complaints on biased and restrictive technical specifications and qualification criteria.
- In line with the practice in some provinces in China, bidder's representative should be allowed to be observers during bid evaluation. Unsuccessful bidders should be allowed to be present during inspection/testing and acceptance of works completed and goods delivered.
- Oversight and supervision through audits is not sufficient. Participation of the business industry in oversight, monitoring and supervision of procurement and contract execution should be encouraged in Bank-financed projects.
- Firms and individuals debarred by the country should not be eligible to participate in Bank-financed procurement. The Bank should accept debarment by national authorities.

**7. What would be suitable procurement metrics that the Bank should use to improve performance?**

- No Comments

**8. What role should the Bank have with regard to complaints monitoring?**

- The Bank's current procedures for handling complaints are too lengthy
- The national procedures and mechanisms for handling complaints in China are sufficient. The Bank should not get involved in handling complaints
- Frivolous complaints should be ignored

**9. What should be the Bank's role in contract management, and with regard to improving performance of suppliers?**

- Contract management is a big issue in China. The Bank should provide capacity building and advisory service to project implementing agencies in contract management.
- Past performance of contractors/suppliers should be taken into consideration in bid evaluation and the award of contract. Providers with a record of poor performance on on-going and previous contracts should be debarred for a period of time
- The Bank should assist countries establish and maintain a database of supplier performance on contracts.

**10. General comments on other issues emanating from the Bank's proposals?**

- State-Owned Enterprises are the major players in the China market. The Bank should further review the current restrictions on affiliated companies bidding for the same contract and take into account the special market situation in China.