

**PROCUREMENT IN WORLD BANK INVESTMENT PROJECT
FINANCING**

PHASE II: THE NEW PROCUREMENT FRAMEWORK

The Vision: “Procurement in Investment Project Financing supports clients to achieve value for money with integrity in delivering sustainable development.”

June 11, 2015

ABBREVIATIONS AND ACRONYMS

AC	Audit Committee
ACG	World Bank's Anti-Corruption Guidelines
ADB	Asian Development Bank
ADM	Accountability and Decision Making Framework
APA	Alternative Procurement Arrangement
APM	Accredited Practice Manager
APS	Accredited Procurement Specialist
BAFO	Best and Final Offer
BOOT	Build, Own, Operate and Transfer
BOT	Build, Operate and Transfer
CD	Country Director
CDD	Community Driven Development
CIP	Incoterm, Carriage and Insurance Paid To
CL	Country Lawyer
CMU	Country Management Unit
CODE	Committee on Development Effectiveness
CPF	Country Partnership Framework
CPO	Chief Procurement Officer
CSO	Civil Society Organizations
DP	Domestic Preference
DPF	Development Policy Financing
EOI	Expression of Interest
FA	Framework Agreement
FCS	Fragile and Conflict-Affected States
FfD	Financing for Development
FI	Financial Intermediaries
FIDIC	International Federation of Consulting Engineers
FM	Financial Management
FMS	Financial Management Specialist
FPA	Fiduciary Principles Accord
GGP	Governance Global Practice
GGPMs	Governance Global Practice Managers
GP	Global Practice
GPA	Government Procurement Agreement
GPN	General Procurement Notice
IAGP	International Advisory Group on Procurement

IBRD	International Bank for Reconstruction and Development
ICOIO	Institutional Conflict of Interest Office
IDA	International Development Association
IFC	International Finance Corporation
INT	Institutional Integrity, Integrity Vice-presidency
IPF	Investment Project Financing
IPR	Independent Procurement Review
ITC	Instructions to Consultants
KPI	Key Performance Indicator
LCBS	Least-Cost Based Selection
LEG	Legal Vice Presidency
LEGOP	Operational Policy, LEG
LEGPrA	Legal Procurement Advisor
LOA	Loan Department
MAPS	Methodology for Assessing Procurement Systems
MDB	Multilateral Development Bank
MDTF	Multidonor Trust Fund
MIGA	Multilateral Investment Guarantee Agency
MOP	Memorandum of the President
MOU	Memorandum of Understanding
NEC	New Engineering Contract
NGO	Non-Governmental Organization
OECD	Organization for Economic Co-operation and Development
OPCS	Operations Policy and Country Services
OPCSVP	Vice President, OPCS
OPRC	Operational Procurement Review Committee
OPSOR	Operations Risk Management
PAD	Project Appraisal Document
PAS	Procurement Accredited Specialist
PASP	Professional Accreditation and Standards Panel
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PforR	Program for Results Financing
PIO	Public Integrity and Openness, GGP
PM	Practice Manager
PPA	Project Preparation Advance
PPP	Public Private Partnership
PPSD	Project Procurement Strategy for Development

PSM	Public Sector Management
P&PF	Policy and Procedure Framework
QBS	Quality Based Selection
QCBS	Quality and Cost Based Selection
REoI	Request for Expressions of Interest
RFB	Request for Bids
RFP	Request for Proposal
RFQ	Request for Quotations
SCD	Systemic Country Diagnostic
SECPO	Corporate Secretary Policy Operations Unit
SOEs	State-owned Enterprises
SPN	Specific Procurement Notices
STEP	Systematic Tracking of Exchanges in Procurement
TL	Task (Team) Leader
TOR	Terms of Reference
UNCITRAL	United Nations Commission on International Trade Law
UNDB Online	UN Development Business Online
VfM	Value for Money
WB	World Bank
WBG	World Bank Group
WTO	World Trade Organization

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PROCUREMENT IN WORLD BANK INVESTMENT PROJECT FINANCING

PHASE II: THE NEW PROCUREMENT FRAMEWORK

EXECUTIVE SUMMARY

1. **This paper presents a modernized Procurement Framework (Framework), with a recommendation for Board approval, following endorsement by the Committee on Development Effectiveness (CODE) and the Audit Committee (AC).** The development of this Framework—a once-in-a-generation systematic reform and culture change—has been informed by extensive global consultations with governments, private sector, trade bodies, Civil Society Organizations (CSOs) and Non-Governmental Organizations (NGO’s). Balancing the task of maintaining the Bank’s fiduciary assurance and delivering sustained development outcomes, the Framework reflects the agreed vision: “Procurement in Investment Project Financing supports clients to achieve value for money with integrity in delivering sustainable development.”¹

2. **Procurement staff have a dual role: Borrower capacity building and fiduciary assurance.** Bank procurement is both a development instrument and a strategic policy tool that can support a broad range of economic and social development objectives. The Framework governs how Borrowers acquire works, goods, and services (consulting and non-consulting services) under investment project financing (IPF)², and defines what roles and responsibilities the Bank and Borrowers have in that process.

3. **The Framework modernizes the Bank’s procurement approach to accommodate and better support the use of various modern procurement methods in support of development outcomes.** The optimum procurement approach for each operation will be based on the findings from an analysis of the project needs, market, risks, and other influencing factors identified through a Project Procurement Strategy for Development (PPSD). The PPSD will be developed by the Borrower with the support from Bank staff, and summarized by the Bank and submitted as part of the Project Appraisal Document (PAD). The Framework will support the delivery of better procurement outcomes by expanding the number of approaches and methods that can be used, reflecting modern international good practice. It will place greater demands on Bank staff for increased professional judgment (governed by the appropriate accountability and decision-making framework) in the procurement process. Rules and guidance will be set out in the Policy, Directive and Procedure. Guidance documents will further support staff, with additional internal capacity building. Borrowers will be supported by Regulations (Procurement Regulations for Borrowers – Procurement in Investment Project Financing) governing the procurement of goods, works and services; additional guidance, training, and capacity building

¹ *Procurement in World Bank Investment Project Finance – Phase I: A Proposed New Framework*, Revised (AC2013-0013/3, CODE 2013-0017/3), October 29, 2013 – amended from Bank Operations to Investment Project Financing to be more specific.

² IPF covers loans from the International Bank for Reconstruction and Development (IBRD), a credit or grant from the International Development Association (IDA), a project preparation advance (PPA), a grant from the Bank, or a trust fund administered by the Bank and executed by the recipient.

will be provided to meet their needs. The private sector, CSOs, NGOs and other organizations that participate in IPF procurement will have access to Guidance, on-line training/briefings and a series of outreach seminars.

4. **Procurement will be proportional and fit for purpose.** Much more choice will be available under the new Framework; to structure this choice, the PPSD will be a critical document that justifies the right procurement method informed by the identified risks³. For low-to moderate-risk procurements, it is expected that the PPSD will be short, focused, and quick to complete. A PPSD for low-risk procurement may be shorter than two pages if it proposes the use of traditional procurement arrangements such as open competition, request for bids, and selection of the lowest evaluated substantially responsive bid. For the most significant procurements,⁴ the PPSD will be much more comprehensive, as those contracts constitute the highest in risk and value that the Bank finances. For those significant procurements, the use of new procurement methods should be explored to determine whether they are likely to garner the best possible response from the market. Therefore, task team leaders and procurement-accredited staff will need to support Borrowers in taking a proportional approach to the preparation of the PPSD and subsequent procurement activities. Determining the right procurement strategy will help ensure that procurements progress more efficiently, are better received by the market, and deliver the right development result.

5. **The Framework has been refined following extensive global consultations.** After CODE and the AC endorsed the direction of the Framework,⁵ Management publicized its early draft of the Policy and the Regulations⁶ and carried out 61 consultation meetings in 37 countries to discuss the new direction (August to December 2014), gathered online public feedback, and sought the views of the International Advisory Group on Procurement. In addition, the Bank has continued to engage with the Heads of Procurement of the Multilateral Development Banks with a view to maintaining cooperation in support of future cofinancing. Overall, many stakeholders broadly support the proposed Framework, with a few differences of opinion, making numerous valuable suggestions for ensuring successful implementation. The package of information provided with this paper includes mandatory aspects of the new Framework: the Procurement Policy, Directive and Procedure, and Regulations—in effect, the rules for procurement financed by the Bank. The proposed Framework reflects the feedback from consultations, particularly as regards a set of complex issues discussed with the stakeholders.

³ The risk rating for a procurement is identified in a structured manner using the Procurement Risk Assessment Methodology, which categorizes procurements as any of high, substantial, moderate or low risk.

⁴ Those that are typically above specified risk and value thresholds and are thus subject to detailed review at the Operational Procurement Review Committee – Annex E, subannex II.

⁵ *Procurement in World Bank Investment Project Finance Phase II: Developing the Proposed New Framework* (AC2014-0034, CODE2014-0028), July 9, 2014.

⁶ Consultations materials included the Paper endorsed by CODE and AC, the Draft Vision Statement and Policy, and Draft Proposed Borrower's Procurement Procedures (now called Procurement Regulations for Borrowers – Procurement in Investment Project Financing). Materials circulated did not include the Directive and Procedure (Annex D and E to this paper) and the appendices to the Procurement Regulations for Borrowers (Annex F) as they had not been drafted at that time – drafts were published on the consultation web site in April, 2015.

A. Complex Issues Resolved following Consultation

A1). The Bank will increase support to Borrower capacity building and institutional strengthening.

6. **Stakeholder consultations confirmed the importance of building public procurement and broader governance capacity in Borrower countries.** Agencies with low procurement capacity would require technical assistance/training before they could use some of the procurement tools introduced in the new Framework. The PPSD is a critical component in delivering this new Framework, as it is used to select the optimum procurement method, identifying any project-specific technical assistance needed to proceed in the context of the country's broader governance environment. Management will focus country procurement capacity building activities to accelerate progress. Priority activities will be identified in countries based on government ownership, track record of existing programs, evident capacity gaps and need for additional resources. In addition, stakeholders felt that the Bank should champion the development of the procurement profession internationally, promoting the introduction of a global procurement standard.

A2). Value-for-money decision-making will be applied in contract award decisions to determine the most advantageous bid/proposal.

7. **There is consistent support for the application of value-for-money (VfM) decision-making in IPF.** The new Framework has VfM as a core principle and outlines different methods to achieve it, including lowest evaluated substantially responsive bid/proposal and weighted assessment for quality, cost, and other factors to determine the most advantageous bid/proposal. The Bank has defined a procedure to guide the development of evaluation criteria, recognizing that procurements are unique. The PPSD will be used to inform the optimum procurement approach to determine the most advantageous bid/proposal; and PPSDs for procurements over certain thresholds will be subject to review by the Operational Procurement Review Committee (OPRC) before project implementation arrangements are finalized⁷.

A3). Management proposes that the Bank provide options for tailored procurement approaches, and make hands-on expanded implementation support available as an option for operations covered under paragraph 12 of OP 10.00.

8. **The Framework has been designed from the outset to be fit for purpose and to meet the diverse needs of Bank clients.** Consultations showed strong backing for Bank staff to provide far more hands-on expanded implementation support to procurement, particularly in low-capacity environments and to support the optimal use of complex procurement methods. Management proposes that the Bank provide hand-on expanded implementation to projects where the Borrower/beneficiary or, as appropriate, the member country is deemed by the Bank to: (i) be in urgent need of assistance because of a natural or man-made disaster or conflict; or (ii) experience capacity constraints because of fragility or specific vulnerabilities (including for small states). Hands-on expanded implementation support does not mean that the Bank will execute procurements on behalf of the Borrower, rather it means that the Bank will give much more physical help to the Borrower to advance a procurement. Hands-on expanded

⁷ Procurements above defined OPRC thresholds by risk and value (Annex E, sub-annex II).

implementation support will be made available as an option for Borrowers in fragile and conflict-affected states/situations and small states. The PPSD will be used to identify the specific procurement arrangements to be applied, given project needs, operational context, risks, and market dynamics. The PPSD prepared by the Borrower and agreed by the Bank will set out the degree of project-specific training, capacity building, and expanded hands-on expanded implementation support.

9. **Providing hands-on expanded implementation support would be a significant shift in the nature of the Bank's engagement and could result in greater legal, financial, operational and reputational risks for the Bank.** However, in Management's view, these risks are offset by a number of benefits, such as more certainty and capacity in the procurement process, speeding up delivery, encouraging more businesses to bid, improving quality in the highest-risk and lowest-capacity situations and providing more added value from the Bank to Borrowers. To address the associated risks, the Bank would need to strengthen its risk management in this area. Management has outlined a series of risk mitigations in this paper and believes that the development benefits of providing hands-on expanded implementation support outweigh the risks.

A4). Integrity will be strengthened in the new Framework; the Bank's Anti-Corruption Guidelines⁸ and sanctions procedures will continue to apply.

10. **Stakeholders saw fraud and corruption as one of the major problems facing all procurement globally.** The Bank's Anti-Corruption Guidelines and sanctions procedures will continue to apply to all IPF operations. Additionally, the Regulations will refer to and provide further details related to fraud and corruption prevention requirements. The Bank will further address governance issues by requiring specific integrity management actions relevant to the procurement approach selected. Following previous discussions with the Integrity and Legal Vice Presidencies, it has been agreed that a few technical/editorial (non-substantive) changes to the Bank's Anti-Corruption Guidelines will need to be undertaken to align existing wording with the new terminology of the new Framework for procurement.

A5). If the Borrower requests, sustainable procurement criteria may be used in procurement under IPF.

11. **Many shareholders were highly supportive of promoting sustainable procurement in Bank IPF, while stakeholders in other countries expressed concern about costs, and their implementation ability.** If the Borrower requests, the PPSD may include sustainability provisions in the procurement process such as pre-qualification, specification, evaluation, and/or contract management criteria. Management has also included sustainable procurement practice as part of the assessment framework for alternative procurement arrangements not as a requirement, but as a way to raise awareness with Borrower agencies.

⁸ Throughout this paper, the term refers to the Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants – dates October 15, 20016 and revised in January 2011.

A6). Alternative procurement arrangements may be used in clearly defined circumstances.

12. **Consultations corroborated the need for the Bank to recognize and support the use of alternative procurement arrangements (APAs).** Consultations strongly supported the view that the Bank should delegate procurement leadership on IPF projects to other development banks, bilateral agencies and organizations of the United Nations when it makes sense to do so. Many participants welcomed the Bank's proposal to implement procurement under the systems of signatories to the World Trade Organization's Government Procurement Agreement (GPA), although some stakeholders expressed concerns about agency implementation capacity in GPA member countries. Many Borrowers discussed that they would like to see the Bank recognize their good procurement practices and permit greater use of their own procurement arrangements under IPF.

13. **Management has outlined APAs that may be used to undertake procurements under Bank IPF:**

- The procurement arrangements of other development banks/ agencies/ organizations⁹ with which the Bank has concluded agreements (bilateral/ cofinancing agreements and/or MOU's that set out partners' agreed roles and responsibilities);
- Procurement arrangements of full members of the GPA for covered expenditures/agencies, subject to review of Borrower implementing agency capacity acceptable to the Bank; and
- Procurement arrangements of any Borrower implementing agency that is found acceptable to the Bank according to the Bank's assessment framework.

14. **Management has publicly¹⁰ outlined a robust assessment framework to inform the acceptance of an APA for Borrower Implementing agencies** (bullet points two and three above). The final decision to apply an APA in a Borrower implementing agency would be taken at the project level and documented in the relevant legal agreements and the PAD, subject to Board approval. There are mixed views on the Bank's proposed assessment framework, with some stakeholders seeing it as too comprehensive and others as not detailed enough; in Management's view the framework needs to be tested and calibrated through experience before being finalized.

A7). The Bank will significantly enhance its approach to procurement-related complaints.

15. **Complaints handling is a critical concern for suppliers, consultants and contractors.** Although some in Borrower country governments wish to maintain the current approach, many private sector organizations requested much stronger Bank involvement. The private sector argued that strong Bank involvement in procurement-related complaints handling would inspire trust in companies, which would in turn be more encouraged to bid on Bank-financed procurements. During consultations, stakeholders recognized and generally supported the view that the Bank should not be a final party to procurement contracts (unless the Bank has

⁹ Including United Nations organizations.

¹⁰ The draft methodology to assess alternative procurement arrangements in Borrower implementing agencies was published on the consultation web site in February, 2015 and updated in April, 2015 (Annex J).

carried out the procurement under OP10.00 paragraph 12). Management will significantly strengthen its approach to procurement-related complaints, as follows:

- Dedicated senior Bank staff will be allocated to advise on process, support, and expedite, procurement-related complaints to assist Bank staff, Borrowers, and the private sector;
- All complaints related to an IPF operation will need to be reported to the Bank, including for national procurement and APAs;
- Stakeholders will inform the Bank of any contractual dispute;
- Business standards (response times) will be set for Borrowers, bidders and the Bank for procurement-related complaints;
- In the Bank's standard selection documents, a standstill period of 10 calendar days will be introduced after all bidders are notified of the intention to award, so that there is time for any bidder to raise procurement-related complaints and request a debrief by the Borrower before a contract is formalized;
- Debriefs to bidders must be undertaken during the standstill period (which can be extended accordingly as needed);
- Procurement-related complaints will be centrally monitored, tracked, and expedited, and progress will be reported by the Bank;
- If complaints are not dealt with in a timely and adequate manner, this could constitute grounds for the declaration of misprocurement by the Bank;
- The Bank will offer increased access to independent dispute review boards and dispute review experts (providing information on how to access dispute review boards, experts);
- As part of ongoing project implementation support, the Bank will monitor whether agreements made in the contract are carried out and are functioning appropriately;
- Standard contracts will continue to provide access to international arbitration;
- If a dispute over the breach of a governmental contract arises, the Bank's interest in having the project/program completed promptly and satisfactorily calls for prompt and equitable settlement of the dispute. The Bank may assist in facilitating this result, usually through the normal process of implementation support and monitoring¹¹; and
- The Bank will provide guidance and training materials for Bank staff, Borrowers, and the private sector on procurement-related complaints.

A8). Procurements above identified thresholds will continue to be internationally advertised and will use the Bank's standard selection documents, unless an APA has been agreed.

16. Stakeholders broadly supported the Bank's intention to maintain international advertising and use of standard selection documents. The Framework requires a decision to be made at any risk or value level as to whether the procurement should be internationally advertised and use the Bank's standard selection documents. To mandate international competition in larger activities, specific value thresholds have been set above which international procurement using Bank standard selection documents must be used (unless an

¹¹ See OP 7.40, *Disputes over Defaults on External Debt, Expropriation, and Breach of Contract*.

APA has been agreed, in that case the procurement would be internationally advertised, if over specified thresholds, and would use the agency's own standard bidding documentation), together with a signed acceptance, at the time of bidding to be incorporated in any resulting contract, confirming application of the Bank's Anti-Corruption Guidelines, including the Bank's right to sanction and the Bank's inspection and audit rights. (Annex E, sub-annex IX).

17. The Bank will continue to engage with other MDBs to further develop standard selection documents, including balanced forms of contract to enhance the current suite of materials. It will also continue engaging with industry and trade bodies such as FIDIC and NEC to establish a range of appropriate standard documents and contract forms.

A9). The Bank will streamline its requirements for the use of a country's own national procurement system.

18. Stakeholders supported continuing the use of a country's own procurement arrangements for procurements of lower to moderate value/risk and agreed that the Bank should streamline its requirements for such use. Management has reflected streamlined criteria in the new Framework and has maintained existing thresholds for acceptable use of a country's own procurement arrangements.

A10). The Bank will focus its prior review activity to optimize performance.

19. Consultations showed broad support for a more efficient approach to prior-review activities. The majority of stakeholders concurred that the Bank should focus most of its prior-review resources on high-risk and/or high-value procurements, reducing reviews of lower-value and lower-risk procurements to free up resources. The Bank has set an absolute value and risk threshold that determines mandatory prior review, below which prior review should not be carried out (except in fragile and conflict-affected situations and other specified circumstances). For procurements that are not prior-reviewed, Management has outlined a sampling method for post review and will obtain assistance from IAD to refine it. Consultations also showed broad support for the appropriate use of a country's own supreme audit institution and other third parties/civil society organizations to undertake post reviews of procurements.

A11). The Bank will provide more support to contract management in the most significant procurements

20. Most stakeholders requested that the Bank dedicate more of its procurement resources to support ongoing contract management, particularly for the most significant procurements. Significant procurements are defined as those that are subject to review at OPRC. Other contracts may be identified for increased contract management support, if justified. While stakeholders recognized that the Bank is not a party to procurement contracts, they also pointed out that Bank involvement in contractual disputes could compensate for low institutional or professional capacity. Depending on the procurement method selected, key performance indicators will be set that include regular review by Bank procurement staff. For procurements subject to OPRC review, progress will be reported periodically to the OPRC, enabling continued monitoring of the most significant contracts in the portfolio.

A12). The Bank will implement a planning and tracking system called STEP¹² to provide data on procurement activities, establish benchmarks, set performance metrics, and inform reporting to CODE and the AC on this Framework.

21. **Stakeholders expressed frustration with the length of some procurement processes, recognizing that delays occur with both the Bank and the Borrower.** Many stakeholders drew a link between poor timeliness and a lack of capacity in implementing agencies, drawing a correlation with their views that the Bank must enhance capacity building. The Bank will implement a planning and tracking system to provide public information on how long procurements are taking by sector, type, agency, and country. With this information, benchmarks can be drawn for the first time across the Bank on timeliness between different parameters, highlighting where any bottlenecks are (Bank, Borrower, or private sector). Management is unable to define procurement performance targets now for the GGP, but will do so once the system has been running for 12 months and baselines have been established (FY17).

A13) Management proposes to begin a program of external sectoral engagement.

22. **Management will begin a program of external sectoral engagement to investigate opportunities to improve procurement arrangements once resources are in place.** Stakeholders strongly supported this initiative and requested that such a program be transparent, open, and inclusive. Management anticipates that by leveraging the Bank's expertise and convening powers it can speed up procurements in key sectors, improve bid/proposal quality, and reduce the costs of bidding and procurement processes for all parties.

23. **There is a risk that the Bank's external sectoral engagement dialogue could expose the Bank to reputational risk.** If the Bank engages with sectors to set mandatory specifications, this could give rise to situations, or perceptions, of conflict of interest and/or unfair competitive advantage on the part of firms/individuals and expose the Bank to legal challenge. In Management's view, any such risk can be mitigated by adopting a gradual approach and conducting the program in an open, inclusive and transparent manner. No mandatory specifications will be set, but rather the focus will be on producing targeted procurement guidance that better supports Borrowers and the private sector.

A14). An independent skills assessment of Bank procurement staff has been completed and will be used to create a training and development program in support of the new Framework.

24. **Many stakeholders questioned whether the Bank has adequate skills to implement this new Framework.** It was widely recognized that effective implementation of the Framework would require a culture change among Bank staff, particularly with regard to providing hands-on expanded implementation support. An independent skills analysis, completed for all procurement staff, has established an initial skills baseline and has benchmarked the Bank against public and private sector organizations. The independent benchmark shows that the procurement skills of the top 10 percent of Bank procurement staff compare favorably with those of the best in class of benchmark comparators. The analysis also showed that the Bank's broad procurement skills benchmark on average with other sectors, but that skills still need to be raised.

¹² Systematic Tracking of Exchanges in Procurement (STEP).

25. **In Management’s view the Bank has enough staff with the skills needed to begin incremental implementation of this Framework.** The Governance Global Practice (GGP) is responsible for procurement delivery activities, Human Resources matters, general non-technical training, day-to-day funding and implementation of this new Framework. Operations Policy and Country Services (OPCS) is responsible for technical leadership on procurement Policy matters, training in the new Framework/technical matters, deciding the procurement clearance of the most significant procurements at OPRC, revising and interpreting the Framework as needed, accrediting Bank staff and delegating procurement functions, and monitoring the Framework. For this procurement reform to be successful, Management is working on modernizing the Bank’s culture, staffing, and skills profile.

B. Implementation

26. **While the proposed Policy reforms aim to enhance efficiency and clarity, the implementation of the new Framework will require additional resources.** There will be savings through reduced activities, fewer internal delays, less churning, and greater efficiency. However, there will be additional costs for some new activities, training, skills upgrading, and implementation support. Management has sought to minimize the implementation costs of the new Framework by reducing low-value-added activities where possible and redeploying existing resources appropriately. Management has allocated sufficient funds to implement the new Framework, including funding for extensive training and development activities to establish the Framework, ongoing staff costs for new activities in OPCS and Legal, plus information system capital costs.

C. Conclusion and Next Steps

27. **This paper presents a modernized Framework for procurement, with a recommendation for Board approval, following endorsement by CODE and the AC.** If CODE and AC endorse the recommendation, the entire proposed Framework will be disclosed publicly, and Management will seek Board approval on July 21, 2015. If the Executive Directors agree with the recommendation and approve the Policy, Management will assess readiness and set a day for effectiveness in FY16.

- *New Operations.* Use of the Framework will be mandatory for all new operations—that is, operations with Concept Notes on or after the date of effectiveness.
- *Operations under preparation.* Management will also review internal and Borrower capacity to determine whether procurement under any project under preparation after the Board presentation in July 2015 could be carried out under the Framework.
- *Existing Operations.* The Framework will also be available for use in existing IPF operations. Staff will review the portfolio to identify the most significant projects that involve procurement over OPRC thresholds that have not yet started. After the necessary internal assessment and analysis, and with the Borrower’s agreement, Management would amend the relevant legal agreements to allow the use of the new Framework. These amendments would be processed internally as Level Two restructurings requiring approval by Management, unless APAs are proposed, which Management would bring to the Executive Directors’ for approval.

28. **Beginning in January 2016, the Chief Procurement Officer, with the Director, Public Integrity and Openness (responsible for Procurement in GGP), will report together to CODE and AC members on progress and implementation of the new Framework on an annual basis.** Management also proposes that OPCS carry out a 5-year review of the entire Framework in 2021 to ensure that it remains fit for purpose in maximizing development effectiveness.

PROCUREMENT IN WORLD BANK INVESTMENT PROJECT FINANCING

PHASE II: THE NEW PROCUREMENT FRAMEWORK

I. INTRODUCTION

1. **This paper presents a modernized Procurement Framework (Framework), with a recommendation for Board approval, following endorsement by the Committee on Development Effectiveness (CODE) and the Audit Committee (AC).** The new Framework sets a modern, good practice, principles-based strategic foundation for procurement in operations to support development effectiveness. The Framework proposes a balanced approach between maintaining the Bank’s fiduciary assurance and simultaneously delivering tangible development outcomes, to reflect the agreed vision: “Procurement in Investment Project Financing supports clients to achieve value for money with integrity in delivering sustainable development.”¹³

2. **Procurement has a dual role: client capacity building and fiduciary assurance.** Bank procurement is both a development instrument and a strategic policy tool that can support a broad range of economic and social development objectives.

A. Rationale for Reform

3. **For over 50 years the Bank’s procurement approach has been a model of good international practice.** The approach has served the Bank well, but as procurement has matured as a profession in an environment of globalization and rapid information exchange, the Bank’s global procurement leadership has fallen behind good international practice and needs to be modernized.¹⁴

4. **The Bank’s range of procurement activities reflects the diversity of its project portfolio and country capacity.** Bank procurement covers a wide range of projects in the very different environments of some 172 countries where both Borrowers and the private sector have varied levels of capacity. To manage this diversity, the Bank has historically applied a standard approach to its procurement in the form of the Procurement Guidelines¹⁵, which apply equally to all Borrower countries, from the largest to the smallest, and from middle-income countries to fragile and conflict-affected situations (FCS). This standardized approach is no longer considered the best fit for purpose and needs to be better tailored to different operating environments and project needs.

¹³ *Procurement in World Bank Investment Project Finance – Phase I: A Proposed New Framework*, Revised (AC2013-0013/3, CODE 2013-0017/3), October 29, 2013. Amended from “Bank Operations” to “Investment Project Financing” to be more specific.

¹⁴ See, for example, the Independent Evaluation Group report *The World Bank and Public Procurement* (CODE2013-005), August 9, 2013.

¹⁵ Guidelines – Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers (January 2011), and Guidelines – Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers (January 2011).

B. Approach to Reform

5. **The proposed Framework is the culmination of a three-year process.** The process began when a joint meeting of CODE and the AC endorsed an approach paper that set out the case for changing and reforming the Bank's Procurement Policy and launched the first comprehensive review of Bank procurement since the Bank's founding.¹⁶ Phase I of the reform sought views and then triangulated the opinions of Bank staff and external stakeholders and the recommendations of the Independent Evaluation Group (IEG). The vast majority of these views confirmed the need to change both the Policy and the implementation of the Bank's procurement approach.

6. **CODE and the AC discussed a second approach paper in April 2013,¹⁷ and in November 2013 asked Management to develop more detailed proposals to modernize the Bank's procurement approach.** CODE and AC also requested that Management answer a series of specific questions (Annex A). In developing proposals, Bank staff engaged widely through a variety of fora:

- Internal Advisory Group of senior Bank staff;
- International Advisory Group on Procurement (IAGP), comprising experts in procurement from the public sector, private sector, academia, and non-governmental organizations (NGOs);
- Briefings to Executive Director's Advisors on subjects such as data, metrics, and the Government Procurement Agreement (GPA);
- Consultations with Executive Director's Advisors on complex matters such as Policy, Directive, Procedure, sustainability, alternative procurement arrangements (APAs), skills assessment, and complaints;
- Heads of Procurement Working Group of the Multilateral Development Banks; and
- Survey of procurement staff and presentations to Bank staff.

7. **In July 2014 CODE and the AC endorsed the direction of the proposed new Framework and requested Management to undertake global consultations on the approach.**¹⁸ Management has now held 61 consultation meetings in 37 countries to discuss the new approach (Annex B details an overview of feedback from consultations and Management response). The Bank also requested online public feedback; sought the views of the IAGP; and held several meetings with the Heads of Procurement of the Multilateral Development Banks.

8. **While there is not complete agreement on every detail, overall there appears to be broad support for the new Framework.** The consultations demonstrated overarching positivity from many participants, with overall broad support for the direction of the new Framework. There are some mixed views in the IAGP on the assessment of APAs for Borrower implementing agencies, which some members see as too complex and others as too simple.

¹⁶ *The World Bank's Procurement Policies and Procedures: Initiating Discussion and Approach Paper* (AC2012-0010, CODE2012-0007), February 10, 2012.

¹⁷ *Procurement in World Bank Investment Project Finance – Phase I: A Proposed New Framework*, Revised (AC2013-0013/3, CODE 2013-0017/3), October 29, 2013.

¹⁸ *Procurement in World Bank Investment Project Finance Phase II: Developing the Proposed New Framework* (AC2014-0034, CODE2014-0028), July 9, 2014.

Management's proposal that the assessment methodology for APAs needs to be tested with Borrower implementing agencies and refined before being fully finalized was supported by the majority of IAGP members.

9. **The Bank will need to implement this change program in a flexible manner that facilitates cofinancing and supports harmonization with other MDBs.** The Bank's proposed Framework is a significant shift from current practice and may impact other MDBs, in particular wider application of value for money, hands-on expanded implementation support, complaints handling etc. Listening and acting on MDB feedback, the Bank has revised its proposed terminology to ensure continued harmonization where it makes sense to do so. Further, when the Bank negotiates agreements with other development banks/agencies/organizations it will ensure the Core Procurement Principles in the Bank's Procurement Policy, the Bank's sanctions procedure, and the Anti-Corruption Guidelines apply. In seeking agreement with other development banks/agencies/organizations, the Bank would not demand precise mirroring of every granular detail of the Directive, Procedure and Regulations. As drafted, the proposed Policy should facilitate bilateral/cofinancing agreements with other parties that have similar core procurement principles. The ability for Management to exercise flexibility when agreeing details of such procurement matters with other development partners should enable the Bank to quickly deliver its operational support to the Financing for Development (FfD) initiative.¹⁹

C. Structure of the Paper

10. Following this introduction, Section II briefly introduces the Framework. Section III sets out in detail how the Framework has dealt with a range of complex issues that were discussed during the consultations, after CODE and the AC endorsed Management's proposed direction on each issue. Section IV discusses implementation of the Framework, Section V requests Board approval and sets out next steps, and Section VI presents conclusions.

¹⁹ DC20015-0002 – April 2, 2015 - From Billions to Trillions: Transforming Development Finance Post-2015 Financing for Development: Multilateral Development Finance.

II. THE NEW PROCUREMENT FRAMEWORK

11. **The Framework, comprising the Procurement Policy, Directive and Procedure, and Procurement Regulations for Borrowers (Annexes C, D, E and F), replaces OP 11.00, BP 11.00, and the Procurement Guidelines.**²⁰ The content of the existing documents has been reviewed and, as appropriate, incorporated into the Framework. Annex G sets out a comparison between OP 11.00 and the proposed Procurement Policy. Annex H compares BP 11.00 and the proposed procurement Directive and Procedure and Annex I summarizes the main changes between current Guidelines and the proposed Regulations (Procurement Regulations for Borrowers).

12. **The new Framework deals primarily with IPF-specific matters.** This applies to the proposed Policy, Directive, Procedure, and in particular the Regulations. At the same time, given that this reform is a comprehensive modernization of the Bank's entire procurement regime, there are a few general or non-IPF topics that need to be covered in the draft Directive and Procedure (and will be discussed in the forthcoming Procurement Guidance). Accordingly, in Annexes D and E, the Directive and Procedure titles refer to IPF procurement, as well as "other operational procurement matters." At the same time, instrument-specific procurement rules, namely those for Program for Results (PforR) and Development Policy Financing (DPF), will continue to be set out in the relevant instrument-specific operational requirements.

13. **The new Framework represents a change from the previous approval environment for the existing procurement policy.** The draft Policy, annex C requires Board approval, following endorsement by CODE and AC. If approved, the Policy would be under the purview of the Board. The Directive, Procedure and Regulations are the other mandatory components of the Framework, annexes D, E and F. If the Policy is approved, the Directive, Procedure and Regulations would then be finalized and issued by Management. Management would have the authority to amend or waive them, but only if consistent with the Board approved Policy. This approach is consistent with the Board approved Policy & Procedures Framework (P&PF). In finalizing the Framework, Management will develop Guidance drawn from the materials provided to the Board, and this may necessitate moving content that by its nature is non-mandatory from the Directive, Procedure and Regulations.

A. Procurement Policy

14. **The draft Policy received broad support during consultations and the final draft is presented in annex C for Board approval, following CODE and AC endorsement.** The Policy, which conforms in form, content, and methodology to the P&PF rules, sets out the procurement vision and policy-level requirements. The Policy describes the Core Procurement Principles of value for money, economy, efficiency, integrity, fit for purpose, transparency, and fairness. The Policy gives Borrowers the scope to apply more modern procurement procedures that balance risk with procurement development, design, and contract management. The Policy permits the use of alternative procurement arrangements, and also details the governance

²⁰ Guidelines – Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers (January 2011), and Guidelines – Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers (January 2011).

structure for the Bank’s Framework including accountability, conflict of interest, eligibility, complaints, non-compliance and, roles and responsibilities.

15. **Management Proposes that the new Framework not apply to Bank guarantees.** In a Bank guarantee project (unlike other types of IPF), the Bank does not actually finance goods, works or services procured by a project entity. Instead, the Bank typically guarantees to repay a private beneficiary/private lender, where such beneficiary/lender finances, or has financed, the procurement of such goods, works and services. The proposed policy change more appropriately reflects the overall commercial and private sector context of the Bank’s guarantee business. In addition, the proposed policy change would make the Bank’s approach to procurement in connection with guarantee projects more consistent with the approaches undertaken by IFC and MIGA, neither of which apply procurement-specific policy requirements in making their investments.

16. **The existing, over-arching fiduciary requirement of “due economy and efficiency”, which emanates from the Bank’s Articles of Agreement and appears in OP10.00, will continue to apply to Bank guarantee projects and will continue to be satisfied through the overall transaction due diligence.** The Anti-Corruption Guidelines for Bank Guarantees and Carbon Finance Transactions, and the Bank’s sanctions procedure, will continue to apply to Bank guarantee projects as they currently do, thereby contributing to overall fiduciary assurance.

17. **The proposed Framework seeks to address certain deficiencies in the current procurement policy²¹ concerning lending through financial intermediaries (FIs) to private Borrowers.** The Bank sometimes provides financing indirectly through FIs, who then on-lend (usually with other sources of funding) to private sub-borrowers. In these cases the Bank does not have a direct relationship with the sub-borrower who procures using the funds from the FIs. The current OP11.00 requires that all lending through FIs be subject to the Bank’s procurement policies, procedures and guidelines.

18. **The Framework is primarily designed to support public procurements, where there is a direct legal relationship between the Bank, and the Borrower’s public sector agency implementing the procurement.** Therefore, Management purposes that new Framework does not apply to repayable loans received by eligible private (final) Borrowers through FIs. Unlike traditional IPF operations which fund specific goods, works or services procured primarily by public sector entities,²² in the case of financial intermediary financing Bank funds can be channeled through FI to private Borrowers. In such cases, FIs assume full credit risk in on-lending the resources to private Borrowers in line with the project established criteria. Also, in many cases eligible sub-projects may involve the use of financial instruments such as working capital loans or factoring, which do not involve traditional procurement per se. Moreover, it is also very difficult to explain and defend the concept of requiring these processes for private Borrowers just because the source of the funding for their loan comes from the Bank credit line, even though they get no preferential treatment (e.g. they simply deal with their loan officers, provide their collateral, pay market interest rates, and are not concerned where the money is ultimately coming from). This often results in low or slow disbursements, as the clients

²¹ Including complementary provisions in OP10.00.

²² Including State Owned Enterprises (SOEs).

may rather opt for more tailored loans from other sources within the same bank, given that they are more willing to pay more or get a shorter term loan which does not involve complex administrative requirements and which takes less time to obtain.

19. **This proposal does not dilute the existing fiduciary assurance that funds are used for intended purposes with due considerations of economy and efficiency.** In the case of FI loans for private²³ Borrowers, the Bank requires that its funds be on-lent only to Borrowers that meet agreed eligibility criteria. In addition, these operations are subject to control by FIs and Bank implementation support missions, including financial management. In addition, the application of the Bank's Anti-Corruption Guidelines (ACG) and sanctions procedure will continue to be ensured through the Bank's model legal agreements for FI operations which require that ACG provisions apply to ultimate recipients of Bank funds.

B. Procurement Directive and Procedure

20. **The Procurement Directive and Procedure provide Management's instructions to Bank staff on applying the Policy** (Annex D and E). They cover such issues as prior review thresholds, complaints, country procurement thresholds, Operational Procurement Review Committee (OPRC) instructions, and Accountability and Decision Making (in critical activities involving Operations Policy and Country Services (OPCS)). They are intended to ensure that procurement support is managed effectively across the investment project financing (IPF) portfolio. Subject to approval of the Policy, the accountability and decision-making procedure will be further augmented to include additional detailed internal procurement decision activities within the Global Practices. The Procedure detailing internal roles and responsibilities will be complete by October 31, 2015, in readiness for implementation of the new Framework in 2016.

C. Procurement Regulations for Borrowers (Regulations)

21. **Regulations contain Management's requirements for all those carrying out the procurement of goods, works, and consulting and non-consulting services under IPF operations** (Annex F, Section 7). Regulations build on—and replace—the current Bank Procurement Guidelines²⁴ and include new procurement modalities such as competitive dialogue, negotiation, performance management, and best and final offers. The Regulations provide direction for all parties involved in the procurement process.

D. Guidance

22. **The new Framework is richer, but more concise than the Bank's existing system.** This paper includes key mandatory materials for Bank staff, Borrowers, or others, to help ensure that approval of the Policy can take due regard of the broader mandatory Framework. Over time, as the Bank and Borrowers gain further experience with the implementation of the new Framework, mandatory rules will be supplemented by additional non-mandatory guidance

²³ Does not include State Owned Enterprises (SOEs).

²⁴ Guidelines – Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers (January 2011), and Guidelines – Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers (January 2011).

developed to support staff and Borrowers, for example additional templates, good practice case studies, spreadsheets to support evaluation, or more detailed narrative on new techniques.

E. Other Related Policies and Guidelines

23. **Terminology changes will be required to OP 10.00**, to align existing wording with the new terminology of the Framework.

24. **Technical and editorial changes to the Bank's Anti-Corruption Guidelines will be undertaken.** In agreement with the INT and LEG Vice Presidencies, there will be a few technical and editorial (non-substantive) changes to the Bank's Anti-Corruption Guidelines.

25. **The Fraud and Corruption Annex to the Regulations will be aligned to the Anti-Corruption Guidelines.** Specifically, the footnotes to the definitions of corrupt, fraudulent, collusive, and coercive practices in the existing Procurement and Consultant Guidelines will not be carried over into the new Regulations. The Fraud and Corruption provisions that apply to the Framework are set out in the Anti-Corruption Guidelines and Annex IV of the Regulations (Annex F). Since the relevant terms are defined in the Anti-Corruption Guidelines, which do not include such footnotes, it would be clearer and more consistent to similarly exclude the footnotes from the Regulations. This would also avoid the potential risk of creating an internal inconsistency among the governing documents, which may lead to a more narrow interpretation of the relevant terms in the procurement context as compared to other areas covered by the Anti-Corruption Guidelines.

26. **If the Board approves proposals for a new Environmental and Social Framework then the new Framework for procurement will be updated accordingly.** Any changes required to existing Procurement Policy, Directive, Procedure and Regulations, will be reflected in the Environmental and Social Framework Paper.

III. COMPLEX ISSUES RESOLVED FOLLOWING GLOBAL CONSULTATIONS

27. **There is overall broad support for the Bank's new Framework and widespread demand to implement it swiftly and systematically.** During each of the consultations Borrowers responded positively to the proposed direction, emphasizing the importance of value-for-money (VfM) decision-making, hands-on expanded implementation support from the Bank to assist them in undertaking procurement, and capacity building. Shareholders also responded positively to the proposals, emphasizing similar issues, but also mentioning the need to deal with business complaints and raising concerns about the Bank's ability to implement the Framework. There was also broad support from the private sector and civil society, although some private sector organizations are concerned about fair use of non-price attributes in decision-making, complaints resolution, use of APAs, local content requirements, and the need for the Bank to provide hands-on expanded implementation support and capacity building. Some civil society organizations (CSOs) pointed out that the new methods in the procurement process can mean more risk, so they see a wider role for third parties in monitoring transparency.

28. **Internally, task team leaders (TLs) and many other Bank staff have requested rapid modernization of the Bank's Framework and more proportional procurement processes to speed up implementation.** The new Framework introduces more procurement options for Borrowers and task teams. In particular, the ability to more broadly apply VfM principles to determine the most advantageous bid/proposal, using rated criteria to differentiate proposals on quality and other non-price factors, will greatly assist TLs in advising Borrowers on how best to achieve development results in complex projects. The Framework promotes proportional, fit-for-purpose procurement, and seeks to simplify and speed up low- to moderate-risk procurement activities. The Bank's requirement to accept national procurement arrangements has been streamlined, and a methodology to allow the wider use of a Borrower's own procurement arrangements is now available for testing. Acceptable APAs are outlined, and the option to delegate procurement leadership to another multilateral, or bilateral agency, or development organization is available. The Framework also allows accredited Bank procurement staff in the GGP to provide hands-on expanded implementation support to Borrowers in defined circumstances.

29. **During global consultations, Management outlined its proposals with stakeholders and discussed a range of complex issues to inform the finalization of the Framework.** Issues were considered complex when there were varied views on the best way to proceed or when changing the current approach posed legal/operational/reputational complexities for the Bank. Typically, consultations in each country involved separate meetings with specific stakeholder groups, including government, private sector, and civil society. To ensure transparency, reports of meetings have been published on the Bank Consultation website, along with written public submissions from groups and organizations. Management has also posted on the consultation web site updated drafts of key elements of this Framework in February 2015, updated and posted again in April 2015. Management is confident that the Framework has been appropriately publicized and delivers on stakeholders' key expectations, striking an appropriate balance between operational delivery needs and stringent fiduciary assurance to achieve optimum development outcomes. This chapter discusses the complex issues that formed the core of the consultations and explains how they are addressed in the proposed Framework.

A. Capacity Building

The Bank will increase support to Borrower capacity building and institutional strengthening.

30. **Stakeholder consultations confirmed the importance of building public procurement capacity in Borrower countries.** Institutional strengthening is a critical aspect of the work of the GGP: the GGP is tasked with enhancing capacity building by leveraging its global, multidisciplinary resources, particularly its specialists in governance, Public Integrity and Openness (procurement), and Financial Management. In the consultations, most participants agreed that the Bank’s proposed shift from the current, rigid transaction-focused approach to procurement to allow the use of newer methods, approaches and APA would not be successful unless the Bank simultaneously helps low-capacity countries build their procurement institutions and strengthen their own procurement policies. The IAGP broadly supported the Bank’s proposals for capacity building and agreed that Management should engage regularly with CODE and the AC (as part of regular reporting) to ensure that any resource gaps are addressed in a timely manner.

31. **The Framework provides more choice of procurement methods, and implementing agency capacity will be a critical factor in determining whether they can be used.** Countries with low procurement capacity would not be able to use some of the new procurement methods without additional training and/or implementation support from the Bank. Stakeholders spoke of a “holistic approach” to procurement and capacity building, noting that capacity building is needed throughout all stages of a project. Stakeholders identified a number of relevant groups for capacity-building efforts: government and implementing agencies, the private sector (especially small and medium enterprises), NGOs and civil society, the procurement profession, and Bank procurement staff. Stakeholders emphasized that capacity building needs to be long-term and sustainable, rather than one-off training events. Certification and potentially licensing procurers by professional bodies such as the Chartered Institute of Purchasing and Supply was also seen as a major tool to improve the capacity of procurement professionals; the Bank will champion this agenda and will open dialogue with a range of professional procurement institutes and other bodies to promote a global standard for procurement.

32. **Management will focus country procurement capacity building activities to accelerate progress.** Priority activities will be identified in countries based on government ownership, track record of existing programs, evident capacity gaps and need for additional resources. This work will be funded from a variety of sources, including from the country’s own resources, borrowing, reimbursable advisory services, donor funding and the Bank’s budget. In addition, Management will seek to establish a multidonor trust fund (MDTF)—a measure in which several shareholders have already expressed an interest.

33. **To inform agency capacity building and institutional strengthening, Management has drafted a Methodology to assess Alternative Procurement Arrangements in Borrower Implementing Agencies** (Annex J). This methodology will primarily be used to determine the acceptability of a Borrower’s implementing agency APA for procurements in Bank IPF. The methodology also provides an enhanced procurement system diagnostic that could be used to inform procurement capacity-building programs. Use of the methodology will require support from the Bank’s procurement, governance, and financial management experts, as it critically

assesses the broader fiduciary environment in which the procurement is set to occur. In developing the methodology, the Bank has augmented existing international methodologies²⁵ to include analysis of quantitative and qualitative performance and of stakeholder perceptions at the sector/agency level, to focus on system wide performance and results.

34. **The Project Procurement Strategy for Development (PPSD) is a critical component in delivering this Framework.** The PPSD will be developed by the Borrower, with support from the Bank, and a summary of the PPSD will form part of the Project Appraisal Document (PAD), Annex F, sub-annex V. The PPSD will be used to provide structure and discipline to decision-making on the most appropriate procurement approach, including the degree of capacity building, training, and hands-on expanded implementation support needed from the Bank. The detail of the PPSD will be proportionate to the complexity of the procurement—short and simple for routine activities and more complex for higher-risk/higher-value, more innovative activities. This approach will enable both the Borrower and the Bank to determine the optimum procurement method and any specific funding needed to deliver it, with transparency to Management and the Board at the time of project approval. The summary of the PPSD will be formally disclosed to the Board for review as part of the PAD, when the project is submitted for approval by Executive Directors. In low-capacity situations, and for projects of lower to moderate value and risk, it is expected that Borrowers may generally rely on the Bank’s traditional procurement methods; but for projects of higher value/risk, Borrowers should explore and justify newer, more innovative procurement methods to encourage the best possible response from bidders – this is to be encouraged by the Bank.

B. Value-for-Money Decision-Making

Value-for-money decision-making will be applied in contract award decisions to determine the most advantageous bid/proposal.

35. **There is consistent support among stakeholders for the application of VfM decision-making in procurements under IPF.** Stakeholders emphasized the importance of being able to take into account both price and non-price factors to determine the most advantageous bid/proposal. They generally agreed that in lower- to moderate-risk procurements, or in situations of low capacity, awarding the contract to the lowest evaluated substantially responsive bid remains entirely appropriate and still achieves VfM. Stakeholders noted that evaluation criteria must be transparent and clearly explained upfront in the selection documents. Some private sector firms and their trade bodies expressed concerns about the application of domestic preferencing, excessive demands for local content, and industry integration requirements, which in their view can compromise VfM. Further, many stakeholders highlighted the problem of abnormally low bids, where some private sector organizations submit prices that are so low (compared to the cost estimate) that it can compromise quality and delivery, and/or resulting in significant post award claims/disputes. Some Borrowers highlighted that the Bank will need to provide more support to assist them in evaluating proposals and determining the most advantageous bid/proposal if rated non-price criteria are used. Management sees a direct link between the application of broad VfM principles and procurement capacity building. Some stakeholders also highlighted that the Bank’s current approach to PPP is far too restrictive and does not encourage commercial procurement best

²⁵ Methodology based on OECD, Methodology for Assessment of Procurement Systems (MAPS).

practice in the selection and on-going procurement management of concessionaires or entrepreneurs.

36. Recognizing that each procurement is unique, the Bank has defined a process to guide the development of VfM to determine the most advantageous bid/proposal (Annex F, sub-annexes I and X). VfM can be achieved in many ways. Borrowers could achieve VfM by choosing the lowest evaluated substantially responsive bid for more routine, lower- to moderate-risk activities. For complex, innovative procurement, Borrowers would be able to set minimum criteria for non-price, quality-related aspects (pass/fail), and then, if needed, rated aspects that are mandatory or desirable. Such an approach should encourage providers to offer greater innovation and allow them to differentiate their bids beyond pure price. An approach for identifying and treating abnormally low bids/proposals has also been outlined in collaboration with other MDBs (Annex F, Paragraph 6.42-6.44).

37. Management has enhanced its approach to PPP's to further improve procurement performance, reflecting the different commercial dynamics that exist from a traditional public sector procurement activity. Presently the Bank's practice is that either the concessionaire or entrepreneur be selected using the Bank's Procurement Guidelines or if not, that they then carry out their downstream procurement under the PPP using the Procurement Guidelines. This approach is too restrictive in what by nature is a very specific type of commercial relationship, with different risk allocation to a traditional procurement. Under the new Framework, for PPP projects, the Bank will require Borrowers to select a private partner using the most appropriate procurement approach consistent with the Bank's Core Procurement Principles (Annex F), the Bank's Anti-Corruption Guidelines, sanctions procedure and, as appropriate, with the requirements set up in the Procurement Regulations and further elaborated in the PPP Annex (Annex F, sub-annex XIV). The private partner selected in this manner would then procure the goods, works, non-consulting services and/or consulting services required for the facility from eligible sources (in accordance with the Bank's Anti-Corruption Guidelines and sanctions procedure), using its own procedures. To further encourage innovation, unsolicited bids are also discussed in the new Framework and are permitted for consideration in public-private partnership (PPP) contracts.

38. The optimum approach to VfM is described in the PPSD. The selection of the right approach to achieve VfM will be informed by risks, market conditions, project complexity, degree of innovation, and the Borrower's implementation capacity. The PPSD, which builds on the procurement strategy requirements currently contained in BP 11.00, will provide a structured approach to the selection of the appropriate procurement method. A summary of the PPSD will be included by the Bank as part of the implementation arrangements in the PAD. If the project is more complex and contains varied, significant procurements, it may also be necessary to develop an Activity Procurement Strategy, reflecting different market and procurement needs. To ensure transparency, the PAD will continue to be publicly available for those who wish to review it, with regular updates of the Procurement Plan as needed.

39. Management has maintained the current requirements for the use of domestic preferences (Annex F, sub-annex VI). If local content or industry integration requirements are required beyond the Regulations, then this will require either Board approval in the context of the specific project, or a Management waiver during implementation. In Management's view, further evaluation of the use of domestic preference provisions may be warranted in the future.

40. **Procurement arrangements and Procurement Plans for the most significant procurements²⁶ will be subject to prior review and concurrence by the GGP, and review and decision at OPRC by the CPO.** The review will focus on ensuring that the procurement approaches are best fit to the market dynamic, that they manage risk, and that they are most likely to deliver success given the capacity present. Management expects that this more up-front, tailored, and fit-for-purpose approach to procurement will deliver better market participation with better results. Management further anticipates that significant procurements will progress more efficiently and faster as the procurement approach is tailored to the needs of the project.

C. Tailored Procurement Approaches and Hands-on Implementation Support

Management proposes that the Bank provide options for tailored procurement approaches, and make hands-on expanded implementation support available as an option for operations covered under paragraph 12 of OP 10.00

41. **The Framework has been designed from the outset to be fit for purpose and to meet the diverse needs of Bank clients.** The Framework provides many more options for Borrowers to choose from to determine the most fit-for-purpose approach to run a particular procurement financed by the Bank. The most critical application of fit-for-purpose procurement is in disaster response/emergency situations, in FCS and in small states. In FCS, small state or low-capacity situations, the PPSD/Procurement Plan will be used to identify the specific procurement arrangements to be applied - in very different environments, the Framework provides latitude to meet the Core Principles of the Bank's Procurement Policy.

42. **Many stakeholders requested that the Bank provide much more hands-on implementation support; however this is a significant shift in the Bank's traditional role.** During consultations, stakeholders consistently demanded that Bank procurement staff get more involved to actually help Borrowers, including actively participating in the procurement process to ensure capacity development and delivery of the right outcome. Many stated that in very low-capacity situations the Bank should physically place its own staff in the Borrower's facilities to support them through a procurement process, rather than always using non-Bank staff in project implementation units to support procurement. Many stakeholders considered that Bank staff are best placed to advise, pick up problems early in the process, be independent, and transfer knowledge. Providing more hands-on expanded implementation support for Borrowers is also good for Bank procurement staff, as it hones their skills and knowledge through actual practice. The IAGP also strongly endorsed the Bank's proposals to provide hands-on expanded implementation support and actively encouraged Bank Management to champion this initiative.

43. **Management has examined options to provide expanded hands-on implementation support and has concluded that due to the risks involved this should at this stage be available only to operations covered under paragraph 12 of OP 10.00.** In other words, such support would be available to projects where the Borrower/beneficiary or, as appropriate, the member country is deemed by the Bank to: (i) be in urgent need of assistance because of a natural or man-made disaster or conflict; or (ii) experience capacity constraints because of fragility or specific vulnerabilities (including for small states). To structure the Borrower's

²⁶ Procurements above defined OPRC thresholds by risk and value (Annex E, sub-annex II).

request for hands-on expanded implementation support, the PPSD/Procurement Plan will be used to document and rationalize the degree of Bank support needed from any of:

- *Review and advise* (current approach);
- *Hands-on expanded implementation support* (expanded from current policy restrictions) in operations covered under paragraph 12 of OP 10.00, accredited GGP procurement staff would be able to assist Borrowers during any²⁷ procurement process in: the preparation of reports; bid/proposal development; and identification of strengths and weaknesses in bids. Accredited GGP procurement staff may also observe dialogue/negotiations as needed; and/or
- *Execution* (current approach where the Bank’s internal, corporate procurement team can carry out and execute small procurements on behalf of a Borrower in certain situations, see OP10.00, paragraph 12).

44. **Formally acknowledging and supporting accredited GGP procurement staff to provide hands-on expanded implementation support is a significant change for the Bank,** which has traditionally restricted its support at a policy level to purely advisory and oversight activities. In reality, Bank staff already provide a great deal of hands-on expanded implementation procurement support to Borrowers; many note that if they do not provide such support the procurements stop or are severely delayed. This support is seen as high added value by many Borrowers, shareholders, business groups, private sector bidders, and CSOs, and in Management’s view should be actively supported.

45. **Providing hands-on expanded implementation support is a significant shift in the nature of the Bank’s engagement and could result in a greater legal, financial, operational and reputational risks for the Bank.** However, the Bank’s broader development objective risks could be further mitigated by having more certainty and capacity in the procurement process, speeding up delivery, encouraging more businesses to bid, and improving quality in the lowest-capacity situations. This shift to offer hands-on expanded implementation support to operations covered under paragraph 12 of OP 10.00 would no longer allow the Bank to fully disconnect itself from procurement decisions and outcomes. A closer association with the process leading to final decision-making and outcomes could expose the Bank to potential legal challenges. While the Bank would assert its privileges and immunities against judicial process to shield itself and its staff from legal claims brought against it and/or its staff in courts, the nature of hands-on expanded implementation support is such that the immunities of the Bank and its staff may be significantly weakened. Given the litigious nature of public procurement, the possibility is strong that the Bank and/or its staff would be sued in national courts and the privileges and immunities defense would fail as the Bank had stepped outside its role as a financier. However, Management believes that, for the reasons stated above—supporting actual development outcomes, better managing fiduciary and fraud and corruption risks, encouraging more businesses to bid (particularly in the most difficult situations) - the development benefits of providing expanded hands-on expanded implementation support to actually help Borrowers deliver results would justify this higher legal risk exposure for the Bank.

²⁷ Hands-on support by accredited GGP procurement staff could be provided to any procurement financed by the Bank, not just small procurements, start-up activities etc.

46. **To mitigate these legal risks, the Bank will ring-fence the scope of expanded hands-on implementation support to procurement operations covered under paragraph 12 of OP 10.00 and will strengthen its risk management in this area.** The Bank will take various measures depending on the particular level of risk exposure in the specific project, which would vary by the degree of the expanded hands-on implementation support and by particular country and sector circumstances. In terms of internal process, the Bank will establish a robust review mechanism for any proposed hands-on expanded implementation support under which the proposal would be vetted by LEG and OPCS to determine if the risks involved have been adequately mitigated and other options have been considered. Risk mitigation measures could include any or all of the following. First, the Bank could manage the increased risk of liability vis-à-vis the Borrower or other recipient of hands-on expanded implementation support by inserting a “hold harmless” provision in its legal agreement with the Borrower if appropriate.²⁸ Second, the Bank could take measures to mitigate its risk exposure vis-à-vis third parties. Noting that liability risk relating to third-party claims cannot be excluded contractually, as the Bank does not have a contractual relationship with third parties. Management is also exploring the option of strengthening its protection by way of its Professional and General Liability Insurance Policies. Management will develop a risk management framework and approach that can be tailored to meet project and country needs.

47. **In every situation²⁹, the procurement decisions at key stages always remain the responsibility of the Borrower under the legal agreement.** In providing expanded hands-on implementation support, the Bank will not substitute the judgment of Bank staff for the decision making by Borrowers. Bank staff would remain responsible for independent clearance and no-objection above prescribed thresholds; this role can be fully maintained even when expanded hands-on implementation support is provided, as long as it is organized in such a way that Bank staff do not clear their own activities and that there is a clear separation of duties between staff providing expanded hands-on implementation support, and those issuing no-objections are maintained. In view of the potential legal risks, Management envisages that the provision of hands-on expanded implementation support should be reviewed as part of the ongoing reporting on the implementation of the Framework. Further, reflecting feedback that even more hands-on implementation is demanded, Management proposes to undertake a study on the opportunities and risks associated with the provision by the Bank of more support to carrying out procurements on behalf of Borrowers when requested (undertaken by both internal corporate procurement staff, as well as procurement accredited staff in the GGP depending on the situation). This study will report on whether the risk mitigation measures adopted have proven effective and will deepen the Bank’s analysis on the impact of such activities on the Bank’s privileges and immunities in the countries in which it operates. The results of this study will be reported to CODE and AC members in FY17.

²⁸ Under such a “hold harmless” provision, the Borrower would agree that the Bank will not be liable for any loss, damage, or liability that the Borrower may incur as a result of the services provided by the Bank.

²⁹ Except under OP10.00 paragraph 12 where the Bank’s internal; corporate procurement team carries out a procurement and executes on behalf of the Borrower.

D. Integrity

Integrity will be strengthened in the new Framework; the Bank's Anti-Corruption Guidelines and sanctions procedure will continue to apply.

48. **Stakeholders saw fraud and corruption as one of the major problems facing procurement globally.** They called for enhanced transparency in the bid evaluation process and for increased accountability in procurement decision-making. It was suggested that supreme audit institutions and third parties such as CSOs should have an active role in monitoring and auditing procurement processes, including at the local level. The use of innovative technologies—e-procurement, open data, and geo-tagging of procurement activities—was also suggested to further support integrity management.

49. **The Bank's Anti-Corruption Guidelines and sanctions procedure will continue to apply to Bank-financed procurement under IPF.** The prevention of fraud and corruption in Procurement is specifically addressed in the new Policy (Annex C) and in the Regulations (Annex F). The new Framework requires more up-front dialogue on integrity matters to determine appropriate integrity controls in support of the selected procurement method. Further, as part of performance monitoring, there will be greater interaction on integrity matters with integrity specialists in relation to actual contract delivery and results measurement. This will provide more opportunities for continued dialogue and review of integrity management throughout the procurement and project.

50. **Beyond the requirements in the Anti-Corruption Guidelines, the Bank will tailor enhanced integrity measures to the procurement method selected.** Depending on the project context, the task team will identify additional integrity controls specific to the particular procurement chosen. For example, if a negotiated approach is considered optimal to achieve maximum development outcomes, it would need to be accompanied by specific integrity management actions: Bank staff might provide hands-on expanded supervision during negotiations, or support in structuring the dialogue; or independent third-party monitors (such as Transparency International) might be engaged to review the process through a continuous probity assurance approach.

51. **The Framework supports the use of open data to further enhance integrity.** Management will review the existing "Bank's Guidance for Staff on Handling Procurement Information" in FY16 to provide guidance to staff on options to be considered for making key procurement documents openly and freely available electronically, in accordance with the Bank's Access to Information Policy (effective July 1, 2013). Management will examine options to collect, and make available the beneficial ownership information for legal entities participating in Bank-financed procurements. Management will also consider the use of tools such as geo-tagging to pinpoint significant procurements so that they can be assessed later during contract management.³⁰

³⁰ Using geo-tagging means simply having a precise location that enables accurate monitoring of physical implementation—an important way to mitigate fraud.

52. **The Bank will focus its procurement support on the most significant procurements³¹, with more prior review at key stages from up-front strategy to downstream contract management.** Depending on the procurement method selected, key performance indicators (KPIs) will be set that include regular review by Bank procurement staff. Ongoing integrity management will be a critical aspect of contract performance monitoring, and Management expects that tracking contract performance will become a critical aspect in the ongoing review of the actual performance of the Framework.

53. **Integrity will continue to be closely managed, with particular attention to fiduciary oversight when APAs are used.** When negotiating bilateral/cofinancing agreements with other development banks/agencies/organizations, such agreements will reflect the application of Core Procurement Principles in the Bank's Procurement Policy, the Bank's sanctions procedure, and the Anti-Corruption Guidelines. The following integrity criteria would govern the use of all alternative procurement arrangements:

- The procurement and governance arrangements, including oversight mechanisms, provide assurance to the Bank that its proceeds will be used for the intended purposes, with due attention to the Core Procurement Principles³².
- The arrangement maintains the Bank's eligibility criteria:
 - The eligibility of firms and individuals from all countries to offer goods, works, and services to be financed under the operation; and
 - The ineligibility of firms and individuals to participate and to be awarded, or to benefit from, a Bank-financed contract for goods, works, or services financed under the operation if they have been temporarily suspended or debarred by the World Bank Group.
- The Bank's sanctions procedures and Anti-Corruption Guidelines apply and will be operationalized by requiring that bidders present a signed acceptance, at the time of bidding, - to be incorporated in any resulting contract, confirming application of the Bank's Anti-Corruption Guidelines, including the Bank's right to sanction, and the Bank's inspection and audit rights. (Annex E, sub-annex IX).
- The Bank has an unrestricted right to exercise its contractual remedies under its financing agreement with the Borrower.

E. Sustainable Procurement

If the Borrower requests, sustainable procurement criteria may be used in Bank-financed procurement processes.

54. **Sustainable Procurement is an approach where economic, environmental and/or social factors can be fully taken into account when determining which bid/proposal is selected for a specific procurement.** Sustainable Procurement is not a new concept, and has been practiced for decades in a variety of countries. At present, the Bank only permits sustainability issues to be addressed in the project design (specification), where the procurement is then awarded based on a lowest evaluated substantially responsive bid/proposal basis. Good

³¹ Procurements typically over the OPRC review thresholds.

³² Internationally advertising the procurement above specified thresholds.

international practice would see Borrowers able to develop specific sustainability criteria that can be applied at any stage of the procurement process to facilitate the most sustainable bid, including the use of weighted evaluation criteria to determine the successful bid/proposal.

55. Many shareholders were highly supportive of promoting sustainable procurement in IPF operations, whereas stakeholders in some other countries expressed concern about costs and their ability to implement. A non-mandatory approach to including sustainable procurement criteria in a procurement process is seen as an acceptable compromise, allowing countries to test sustainable procurement in their own contexts with support from the Bank. As some countries have low capacity for sustainable procurement, the Bank was asked to provide further Guidance material and training.

56. If the Borrower requests, sustainability provisions may now be incorporated into the procurement process. Where requested (by the Borrower), Bank and Borrower staff will identify specific sustainability risks and opportunities for procurement during the research and planning stages of project preparation (incorporating activity-specific issues identified as part of the Bank's environmental and social risk assessment process), as detailed in the PPSD, for example, design proposals for enhanced access for disabled persons. As agreed with the Borrower, sustainability risks and opportunities would then be addressed at the appropriate stage of the procurement process (e.g., defining specific sustainability criteria as necessary for prequalification, specification, evaluation, and/or contract management). The Bank would support Borrowers to include other sustainable procurement criteria in Bank-financed procurements if such criteria are fully consistent with the Borrower's own national policy and the use of such criteria does not contravene the Bank's Core Procurement Principles.

57. Management has included, as part of the assessment framework for Alternative Procurement Arrangements in Borrower implementing agencies, questions related to sustainable procurement practice. This aspect of the assessment will not be mandatory, but will be used to raise awareness and measure the broader application of sustainable procurement.

F. Alternative Procurement Arrangements (APA)

Alternative procurement arrangements may be used in clearly defined circumstances.

58. Consultations broadly corroborated the need for the Bank to permit the use of APAs. A significant number of Borrowers would like the Bank to go further and permit much wider use of their own procurement systems. Shareholders expressed mixed views on this issue, noting that they wish to see country systems strengthened by Bank capacity building, but are often concerned about the wide use of APAs. However, reflecting the international commitments made in Paris, Accra, and Busan,³³ both Borrowers and shareholders supported the Bank's proposals to begin the use of APAs. Consultations showed some mixed views from the private sector and their trade bodies, in particular those in shareholder countries that bid for and are successful under the Bank's traditional international competitive bidding approach. General concerns on the wider use of national procurement systems relate to trust, integrity, and

³³ In the 2005 Paris Declaration on Aid Effectiveness and the 2008 Accra Agenda for Action, donors agreed to strengthen and increasingly use country systems. The Busan Partnership for Effective Development (2011) also calls for the use of country systems, but it also recognizes that full use may not be possible yet and calls on donors to initiate a process that eventually leads to the full use of national systems.

capability in the process. Some companies (mainly infrastructure consultants and contractors) prefer Bank procurement approaches and the use of FIDIC international standard contracts to other procurement systems, and they express particular concerns about capability and practice in some states.

59. Consultations overall welcomed the Bank’s proposal to implement procurement under the arrangements of Borrower GPA members (Annex L). However, a number of caveats were made. Private sector stakeholders emphasized that even in GPA member countries, a robust assessment of agency procurement capacity and practices is essential to ensure high procurement standards. Some borrowing countries with high procurement capacity suggested that states that are not GPA members, but either are in the process of acceding to GPA or have equivalent institutions and practices, should also be allowed to use their national procurement arrangements. Private sector and NGO consultation participants emphasized that tight control, audits, and adequate oversight would be necessary if APAs are used in any scenario. The IAGP broadly supported the Bank’s proposals to begin the use of APAs, but had mixed views on the Bank’s proposed assessment methodology – some saw it as far too complex, others saw it as not detailed enough; this dichotomy largely reflects the ongoing debate about determining acceptable APAs (stakeholders often have very divergent views).

60. As part of the Framework, Management has outlined acceptable APAs that may be used under Bank IPF. To maintain transparency in decision-making to the Board, APAs will be identified during project appraisal as part of the PPSD. The following APAs may be used in any procurement financed by the Bank:

- The procurement arrangements of other development banks/ agencies/ organizations³⁴ with which the Bank has concluded agreements (bilateral/ cofinancing agreements and/or Memoranda of Understanding that set out partners’ agreed roles and responsibilities);
- Procurement arrangements of full members of the GPA for covered expenditures/agencies, subject to review of Borrower implementing agency capacity acceptable to the Bank; and
- Procurement arrangements of any Borrower implementing agency that is found acceptable to the Bank according to the Bank’s assessment framework.

61. Management has publicly³⁵ outlined the assessment methodology to inform the acceptance of an APA for a Borrower implementing agency (bullet points two and three above). The final decision to apply an APA in a Borrower implementing agency would be taken at the project level and documented in the PAD, subject to Board approval. As there are mixed views on the Bank’s proposed assessment framework, with some stakeholders seeing it as too detailed and others as not detailed enough; in Management’s view the framework needs to be tested and calibrated through experience before being finalized (Annex J).

³⁴ Including United Nations organizations.

³⁵ Posted as a working draft on the World Bank Procurement Consultation Web site in February, 2015 and updated in April 2015.

62. **The assessment of Borrower agencies will include surveys and feedback from the private sector and CSOs to corroborate real performance experience.** In determining whom to survey to corroborate performance, organizations would be identified by the agency and the Bank, with a list of all firms/individuals that have bid for procurements in that country and sector for the last three years. By undertaking both a qualitative and quantitative appraisal of procurement performance at a Borrower agency level with appropriate controls, Management believes it can confidently begin the progressive use of APAs, on an agency-by-agency basis.

63. **The use of Borrower agency-level procurement arrangements (in both GPA and non-GPA members) is subject to a successful review of implementing agency capacity.** A successful Borrower implementing agency would be given initial clearance to procure using its own procurement arrangements under Bank IPF by the CPO at the OPRC (Management will report back on progress as part of its annual report to CODE and the AC). Then, as part of the PPSD for each project, the use of the APA would be requested in the PAD. If the Board approves, the agency would then be allowed to undertake identified procurements under the project using its own procurement arrangements. The Bank would continue to prior-review identified project procurement strategies and procurement plans to ensure appropriate application of the APA and selection of the optimum procurement method. The Bank's standard selection documents would remain available for use by any agency if their application is considered the arrangement that is best fit for purpose to deliver a particular procurement activity, but their use would no longer be mandatory for internationally advertised procurements.

64. **Management will review APAs to measure performance and determine their continuing use.** Once an implementing agency has been given approval to procure under a project using its own arrangements, the Bank will focus its efforts on prior-reviewing specific procurement strategies and procurement plans, and post-reviewing performance. Successful procurement performance by an agency on one project will be critical in determining use of its APAs on the next project. Management envisages that this review will create a strong incentive for agencies to perform. In the event of poor performance, the agency's clearance to procure under a project would be modified or revoked and the Bank's Regulations applied in full instead. As part of the annual report on progress, CODE and the AC will be notified if an agency's approval to procure using its own arrangements is withdrawn. To implement the application of APA, the GGP will pre-screen up to 100 agencies to determine the likely feasibility for the use of APAs, and up to 10 agencies will then be initially targeted for detailed assessment.

65. **Under the Framework the Bank may delegate procurement leadership and oversight responsibilities to a lead development bank/agency/organization.** In such a case, the Bank would fully rely on the lead agency's procurement arrangements and oversight, according to the bilateral/cofinancing agreement and/or Memorandum of Understanding; provided, however, that the Bank's eligibility requirement and investigation and audit rights would be preserved consistent with the Bank's fiduciary obligations. As a general principle, the Bank would seek opportunities to delegate when it makes sense to do so, such as when it is a minority or equal financier, but instances may arise when the Bank is a majority financier when another organization is better positioned to lead procurement – as needed this would be justified by Management.

G. Procurement-Related Complaints

The Bank will significantly enhance its approach to procurement-related complaints.

66. **Complaints handling is a critical concern for suppliers and contractors.** Many private sector organizations are frustrated with the Bank's current approach to handling complaints and can feel abandoned by the Bank if something goes wrong with a procurement, in particular during contract implementation. Some governments in Borrower countries largely wish to maintain the current approach, but many shareholder governments made strong observations that the procurement complaints system must be improved if this Framework is to be fully effective. The private sector argued that strong Bank involvement in complaints handling would inspire the trust of companies, which would in turn be more encouraged to bid on Bank-financed procurements.

67. **Stakeholders recognized and generally supported the view that the Bank should not be a final party to a procurement contract and is legally limited from intervening in post-award contract disputes** (unless the Bank has executed the procurement on behalf of a low-capacity Borrower or in an emergency situation under paragraph 12, OP 10.00). It is envisaged that hands-on expanded implementation support by the Bank will help to prevent complaints from arising and will build the private sectors' confidence in participating in procurements in challenging operating environments. The IAGP endorsed the Bank's proposals to significantly enhance its approach to procurement-related complaints. OPCS will oversee any complaints that relate to activities of Bank procurement staff providing hands-on expanded implementation support to Borrowers to ensure separation of duties with the GGP. The proposed approach to complaints handling is detailed in Annex E (Procedure, sub-annex V) for Bank staff, and in Annex F (Regulations, sub-annex III) for Borrowers.

68. **Management proposes to significantly enhance its approach to procurement-related complaints as follows:**

- Dedicated senior Bank staff will be allocated to advise on process, support, and expedite, procurement-related complaints to assist Bank staff, Borrowers, and the private sector;
- All complaints related to an IPF operation will need to be reported to the Bank, including for national procurement and APAs;
- Stakeholders will inform the Bank of any contractual dispute;
- Business standards (response times) will be set for Borrowers, bidders and the Bank for procurement-related complaints;
- In the Bank's standard selection documents, a standstill period of 10 calendar days will be introduced after all bidders are notified of the intention to award, so that there is time for any bidder to raise procurement-related complaints and request a debrief by the Borrower before a contract is formalized;
- Debriefs to bidders must be undertaken during the standstill period (which can be extended accordingly as needed);
- Procurement-related complaints will be centrally monitored, tracked, and expedited, and progress will be reported by the Bank;

- If complaints are not dealt with in a timely and adequate manner, this could constitute grounds for the declaration of misprocurement by the Bank;
- The Bank will offer increased access to independent dispute review boards and dispute review experts (information on accessing dispute review boards, experts);
- As part of ongoing project implementation support, the Bank will monitor whether agreements made in the contract are carried out and are functioning appropriately;
- Standard contracts will continue to provide access to international arbitration;
- If a dispute over the breach of a governmental contract arises, the Bank's interest in having the project/program completed promptly and satisfactorily calls for prompt and equitable settlement of the dispute. The Bank may assist in facilitating this result, usually through the normal process of implementation support and monitoring³⁶; and
- The Bank will provide guidance and training materials for Bank staff, Borrowers, and the private sector on procurement-related complaints.

H. International Advertising and Standard Selection

Procurements above specified country thresholds will continue to be internationally advertised and will use the Bank's standard selection documents, unless an APA has been agreed.

69. **Stakeholders broadly supported the Bank's intention to maintain international advertising and use of Bank standard selection documents.** Consultations demonstrated some differing private sector views: some small businesses feel excluded by a complex process, and some Borrowers see international contract forms as weighted in favor of consultants. Whereas some international consultants and their trade bodies wish to widen the use of FIDIC contract forms below international advertising thresholds. Some private sector organizations and their trade bodies would also like to see the Bank maintain current international advertising thresholds and use of standard documents even in agencies that have been approved for APA. The IAGP largely supported Management's proposals for international advertising and use of standard selection documents.

70. **The Framework maintains international procurement, using international advertising and use of the Bank's standard selection documents³⁷ above specific dollar thresholds that are set for each country³⁸** (unless APAs have been agreed, in which case the procurement would be internationally advertised, if above specified thresholds, and would use the agency's own bidding documents), together with a signed acceptance regarding application of the Bank's Anti-Corruption Guidelines at the time of bidding (Annex E, sub-annex IX)). In addition, below these thresholds the Framework asks for a decision to be made at any risk or value level to determine whether the procurement should be internationally advertised and use

³⁶ See OP 7.40, *Disputes over Defaults on External Debt, Expropriation, and Breach of Contract*.

³⁷ Annex F (Regulations) – para. 6.16-6.17.

³⁸ Annex E (Procedure) – sub-annex III – Thresholds for International Competitive Procurement Processes by Country.

the Bank's standard selection documents. This maintains the international openness of the current system, but permits its use at lower values.

71. The Bank will update its standard bidding documents to reflect the new Framework. The Bank will continue to work with the other MDBs to further develop the master procurement document, including review of other international contract forms to enhance the current suite of standard selection documents. The Bank will also continue to engage with industry and other trade bodies such as FIDIC and NEC to establish a range of appropriate selection documents and contracts. Management has heard clearly in consultations that many Borrowers view some existing forms as biased toward industry, but has equally heard concerns from the private sector about their risks of participating in Bank-financed procurements at all levels. In Management's view, this dichotomy is best managed by introducing more choice into the selection of the optimum approved contract form, with Bank approval through the PPSD/Procurement Plan.

I. Use of National Procurement Systems below International Advertising Thresholds

The Bank will streamline its requirements for the use of a country's own national procurement system.

72. Stakeholders supported continuing the use of a country's own procurement arrangements for procurements of lower to moderate value and risk. Borrowers particularly welcomed the Bank's proposals to streamline and simplify its requirements for using a country's own procurement arrangements; those in Latin America highlighted that this was already common practice in their arrangements with the Inter-American Development Bank. Some private sector organizations linked this issue to the discussion on APAs and were concerned about broad use of a country's own procurement arrangements for higher-risk and higher-value procurements. Some consultant and contractor organizations and their trade bodies requested that the Bank mandate the use of international contract forms in national-level procurements. In Management's view, procurements at lower to moderate value/risk levels should be undertaken using a system that is acceptable to the Bank and is as close as possible to the norm in the country. Therefore, Management does not see it as appropriate to mandate international contract forms for use at the national level; it has, however, introduced a requirement that contracts must have an appropriate allocation of responsibilities, risks, and liabilities. The IAGP overall endorsed the Bank's proposals to streamline its requirements for the use of a country's own national procurement system below identified thresholds.

73. Management has maintained existing country and sector-based monetary thresholds for acceptable use of a country's procurement arrangements³⁹. The following criteria will be required for the use of any national procurement arrangement:

- (a) Open advertising of the procurement opportunity at the national level, except for
 - i. quotations, where open advertising is the preferred option but not mandatory; and
 - ii. limited national competition;

³⁹ Annex E (Procedure) – sub-annex III – Thresholds for International Competitive Procurement Processes by Country.

- (b) Open to eligible providers from any country;
- (c) Contracts must appropriately allocate responsibilities, risks, and liabilities;
- (d) The Bank's sanctions procedures and Anti-Corruption Guidelines apply and will be operationalized by requiring that bidders/consultants present a signed acceptance at the time of bidding, to be incorporated in any resulting contract, confirming application of the Bank's Anti-Corruption Guidelines, including the Bank's right to sanction and the Bank's inspection and audit rights. (Annex F, sub-annex XVI);
- (e) Publication of contract award information;
- (f) Rights for the Bank to review procurement documentation and activities;
- (g) Effective and independent complaints mechanism;
- (h) Maintenance of records of the procurement process; and
- (i) Right to submit complaints to the Bank.

J. Focused Prior Review

The Bank will focus its prior review activity to optimize performance.

74. Consultations showed broad support for a more efficient approach to prior-review activities and the Bank's proposals to streamline prior review (from FY14 baseline). Most stakeholders agreed that the Bank should focus prior reviews on high-risk and/or high-value procurements, reducing other reviews as far as possible to free up resources. Feedback from the private sector echoed this view; overall this was seen as common sense modern resource prioritization that many practiced themselves. There were consistent views that the Bank should stringently apply mandatory thresholds for prior review to drive internal behavior change and set an institutional risk tolerance. Some CSOs had mixed views on streamlining prior reviews, with some echoing the private sector that this is common sense, whereas others were keen to take a role in auditing and monitoring performance on an ex-post basis (for items no longer prior-reviewed). The IAGP overall endorsed the Bank's proposals to streamline prior review.

75. The Bank will continue to prior-review procurements based on specified risk and value thresholds⁴⁰. The optimum prior review threshold balances the Bank's fiduciary risk management with efficiency and effectiveness. In other words, the threshold should trigger a prior review of the optimum number of transactions necessary to provide sufficient assurance that the Bank's funds are used for the purposes intended. The Bank will continue to set an absolute threshold that determines mandatory prior-review based on project procurement risk and value (Table 1), which will be updated as needed by Management. Activity-level risk will also be a factor in determining whether prior review is warranted. In the future once more data is available from the planning and tracking tool (STEP), Management will further refine the prior review thresholds to make them sector based by country i.e. transport, energy, medical equipment etc.

⁴⁰ Annex E (Procedure) – sub-annex II – Mandatory Procurement Prior Review Thresholds.

Table 1. Prior-Review Thresholds (US\$ millions)⁴¹

<i>Type of procurement</i>	<i>High risk</i>	<i>Substantial risk</i>	<i>Moderate risk</i>	<i>Low risk</i>
Works ⁴²	5.0	10.0	15.0	20.0
Goods, IT and non-consulting services	1.5	2.0	4.0	6.0
Consultants (firms)	0.5	1.0	2.0	4.0
Individual consultants	0.2	0.3	0.4	0.5

76. **Relevant procurements in FCS, or above international advertising thresholds, or those subject to OPRC clearance will continue to be prior-reviewed at any value.** This reflects consistent feedback on the need for continued strategic involvement of senior Bank procurement staff in procurements in difficult situations such as FCS, or where the Bank’s standard selection documents are used with international advertising, or where the activities are the most significant in terms of risk and value. Further, any procurement that involves use of Best and Final Offers (BAFO), negotiations, competitive dialogue, and sustainable procurement will also be subject to prior review by the Bank. All other procurements below the thresholds detailed in table 1 will not be prior reviewed on procurement matters by Bank staff. Accredited Practice Managers may justify procurement prior review below specified thresholds (table 1) on an exceptional basis, which will be notified to OPCS with reasons for the exception and will be monitored and reported by Management.

77. **Activities that are not prior-reviewed will be subject to post review according to an agreed identification model.** Management has drafted criteria for identifying activities for post review, sampling at least 10 percent of activities across the Bank’s portfolio that have not been prior-reviewed. Management will obtain assistance from the Internal Audit Department to further refine this approach. Post review will prioritize sampling of the following types of activities:

- a complaint has been submitted;
- rebidding/cancellation of the procurement took place;
- price modifications of 15 percent or more of the original contract price;
- awarded without competition (direct procurement);
- not listed in the procurement plan (except community-driven development, or other activities that are demand-driven and cannot be identified up front);
- estimated cost above the set prior-review thresholds, but subject to post review given their low risk, as indicated above; or
- cost estimate below the Bank’s prior review thresholds if the final price of the contract exceeds those thresholds.

⁴¹ Annex E (Procedure) – sub-annex II – Mandatory Procurement Prior Review Thresholds.

⁴² Including turnkey, and supply and installation of plant and equipment

78. **If prior review can be streamlined, Bank procurement staff will have far more time to support up-front planning, enhance implementation, and to provide more hands-on expanded support to Borrowers.** The GGP has conservatively estimated that a prior-review process takes on average 1.7 days. OPCS estimates based on available data,⁴³ that eliminating 7,779 prior reviews (below the thresholds in table 1 and not in FCS) would then release the equivalent of up to 60 Bank staff (about 27% of GGP procurement staff capacity). This would allow Bank staff to focus on other added-value activity (FY14 data), including capacity building at the project and country level, hands-on expanded implementation support, and the other initiatives in this new Framework. Focusing prior review is the main mechanism by which the Bank will release existing staff resources to support new initiatives in this Framework, while making the Framework's overall change program affordable in the current constrained fiscal environment.

79. **Consultations showed broad support for the appropriate use of a country's own supreme audit institution and other third parties/CSOs to undertake post review of contracts.** The IAGP also fully endorsed the Bank's proposals and requested that the Bank quickly engage with CSOs to develop an approved list of providers. The use of third parties with mature systems for auditing Bank-financed projects will be subject to agreement by the Bank's financial management, and procurement experts. This approach will promote greater integration of fiduciary assurance, reflecting the current use of supreme audit institutions for project audits in Bank operations. In Management's view, the use of supreme audit institutions, CSOs, and other third parties will be extremely useful in providing additional continuous probity assurance when new methods or techniques such as negotiation are used.

K. Support to Contract Management

The Bank will provide more support to contract management in the most significant procurements.

80. **There is continuing demand for the Bank to dedicate more of its procurement resources to support ongoing contract management.** While stakeholders recognized that the Bank is not party to procurement contracts, they considered that Bank involvement could correct for low institutional or professional capacity when necessary. Stakeholders acknowledged that the Bank does not have infinite resources, and corroborated the need to focus on the most significant procurements in the IPF portfolio. Management has defined significant procurements as those that are subject to review by OPRC (above defined risk and value thresholds set out in Annex E, sub-annex II). Other high-risk or high-value contracts may be identified for increased contract management support as justified in the Procurement Plan. The IAGP endorsed the Bank's proposals to provide more support to contract management, echoing this as a critical area of added value for all parties.

⁴³ In FY14, the Bank prior reviewed 10,917 contracts (\$13.5 Bn), of this 9,849 contracts were below the mandatory prior review thresholds identified in table 1. 869 contracts were prior reviewed over the thresholds in table 1, valued at \$10 Bn, 74% by value of all procurements prior reviewed. In FCS countries, 2,070 contracts were prior reviewed below the thresholds in table 1, valued at \$433 Million (3% by value). If the thresholds in table 1 were applied in full in FY14, with continued prior review of all contracts in FCS countries at any value, 7,779 (\$3.1 Bn) of contracts, equating to 71% by volume and 23% by value of all prior review, would have been eliminated from a prior review process – instead post reviewed on a sampling basis.

81. **Depending on the procurement method selected, KPIs will include regular review by Bank staff of the most significant contracts.** In defining the approach to ongoing contract management, the PPSD/Procurement Plan will take into account the correlation between identified risks and opportunities, specification criteria, and contract award criteria and their link to ongoing KPIs. If the selection criteria identify a performance aspect as critical, the Borrower should set KPIs to monitor actual performance during execution. The responsibility for contract management remains with the Borrower; the Bank's role is to provide additional due diligence and independent review of contract performance. Procurement staff will work with TLs to carry out this role, recognizing that different procurement methods require different levels of contract management.

82. **Management will undertake research into options to support performance review of firms and individuals undertaking procurements financed by the Bank.** Consultations confirmed that many stakeholders are concerned that poor performing firms and individuals are not identified in the procurement process and do not appear to be affected when bidding on Bank financed procurement. This is a complex issue as performance review can be a difficult and contentious issue involving multiple parties, with possible reputational and legal risks for the Bank. Management will assess this issue and the risks, and report back to CODE and AC with findings.

L. Tracking System (Systematic Tracking of Exchanges in Procurement – STEP)

The Bank will implement a planning and tracking system to provide data on procurement activities, establish benchmarks, and set performance metrics called STEP.

83. **Stakeholders expressed frustration with how long procurement processes take, recognizing that delays occur with both the Bank and the Borrower.** Many stakeholders drew a link between poor timeliness and a lack of capacity in implementing agencies, drawing a correlation with their views that the Bank must enhance capacity building. Stakeholders asked the Bank to improve performance tracking. Several consultation participants called for the Bank to publish performance data to allow external parties to understand any performance issues that arise.

84. **STEP will be used to provide much more public information on Bank financed procurement, including how long procurements are taking by sector/practice, type, agency, and country, who's bidding, how much they bid, and the reasons for selection/non-selection.** STEP will be a requirement under the legal agreement and will apply to all procurements financed by the Bank, while the system is mandatory, forbearance will be applied reflecting multiple capacities present in Borrower implementing agencies. The information from the system can be used to draw benchmarks on timeliness between different parameters and, for the first time across the Bank, it will be possible to identify bottlenecks (Bank, Borrower, or private sector). Management envisages that CODE and the AC will be interested to see comparators of timeliness between sectors and countries to inform intervention activities. For Bank staff, this data will inform the establishment of a balanced scorecard for reporting procurement activities and will also be used to inform future decisions about Borrower and Bank performance and about PPSDs in relation to previous implementation performance. Management is unable to define performance metrics now for procurement in the GGP, but will do so once the system has been running for 12 months and baselines have been established.

M. External Sectoral Engagement

85. **There was consistent support for the Bank to undertake more strategic external sectoral engagement to investigate opportunities with the private sector and others to further improve procurement arrangements.** Stakeholders recognized the Bank's unique, independent role and agreed that the Bank should use its convening powers to engage with external sectors to improve procurement processes in critical areas such as power, medical goods, water, rail, and environment. Stakeholders requested that such a program be transparent, open, and inclusive. The IAGP endorsed the Bank's proposals to strategically engage in external sectors in an open and transparent manner, to drive a collaborative program to improve procurement arrangements for Borrowers.

86. **In Management's view the external sectoral engagement program is important as it will enable the Bank to provide much more specific Guidance to help borrowers procuring activities in complex sectors.** The external sectoral engagement program would see Bank staff engaging with external parties to identify the specific problems in the procurement system for a certain sector, and then developing the specific Guidance (on a non-mandatory basis) necessary to assist Borrowers in improving those procurements financed by the Bank e.g. model contract terms.

87. **There is a risk that the Bank's external sectoral engagement dialogue could expose the Bank to reputational risk.** If the Bank engages with external sectors to set mandatory specifications, this could give rise to actual or perceived conflict of interest and/or unfair competitive advantage on the part of suppliers/contractors and expose the Bank to legal challenge. In Management's view, this risk can be mitigated by adopting a gradual approach and conducting the program in an open, inclusive, transparent manner. No mandatory specifications will be set, but rather the focus will be on producing targeted procurement guidance that better supports Borrowers and the private sector in specialist procurements.

88. **To manage any perceived risks, the Bank will publish an open notice of intention to undertake this work, and will invite interested and relevant parties for consultation and joint working to improve performance.** Management anticipates that by leveraging expertise and convening powers, the Bank can speed up procurements in key sectors and reduce the costs of bidding and procurement for all parties. To maintain the day-to-day independence of procurement-accredited staff working in the GGP on specific project procurements, the external sectoral engagement program will be led by OPCS.

89. **Management will begin an external sectoral engagement program to investigate opportunities to improve procurement arrangements once resources are in place,** and will report progress annually to CODE and the AC. Management will test this initiative for 12 months before discussing the ongoing approach with CODE and the AC. Given the high risk and value of projects and the high degree of provider consolidation in the high-voltage direct-current power transmission sector, Management envisages beginning by bringing together Global Practice and OPCS specialists to target that sector for strategic engagement on opportunities to improve procurement performance.

N. Training and Development

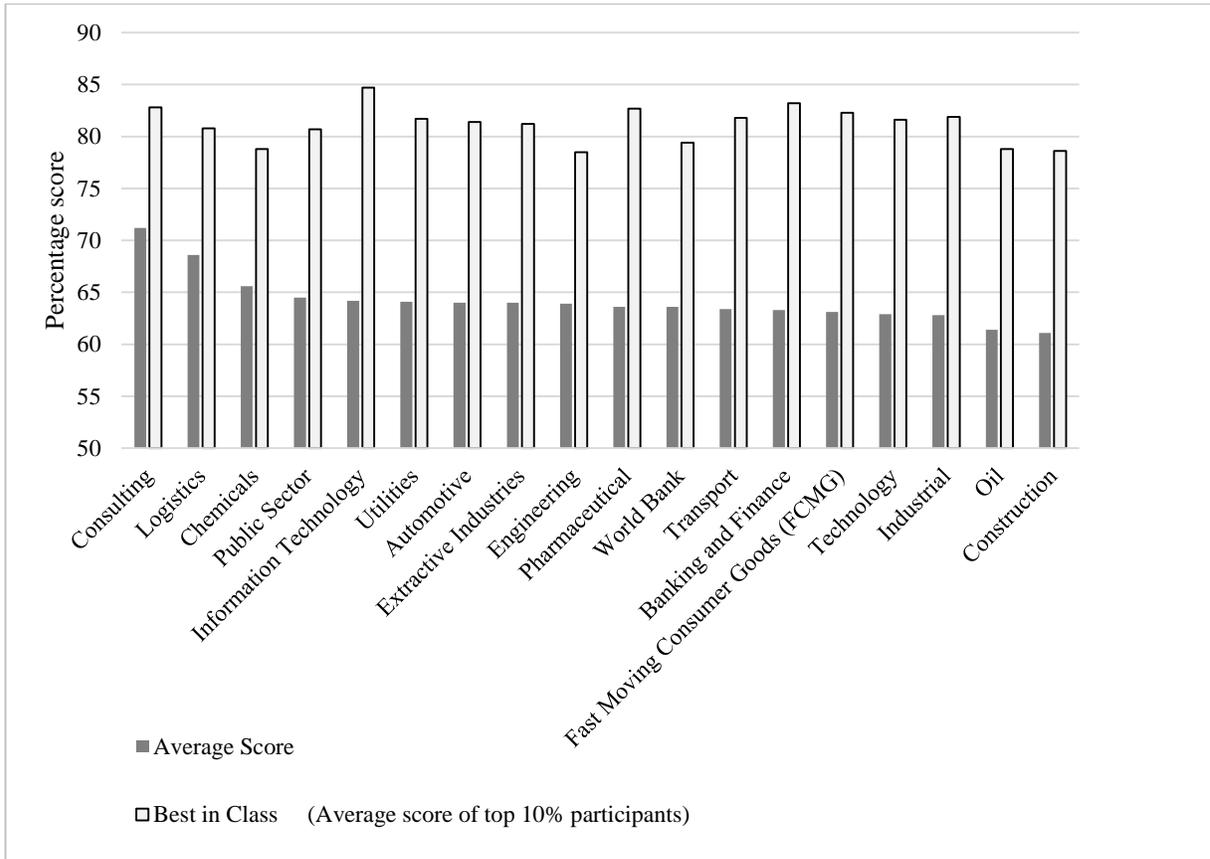
An independent skills assessment of Bank procurement staff has been completed and will be used to inform the implementation strategy and to create a training and development program in support of the new Framework.

90. **Many stakeholders questioned whether the Bank has the right skills to implement this Framework.** It was widely recognized that the Framework would require a culture change among Bank staff. Procurement staff will need to understand the intricacies of country contexts, legal systems, and sectoral issues. Training in expanded hands-on implementation approaches, beyond providing procurement advice and oversight to Borrowers, was also recommended. Consultation participants also suggested that the Bank's procurement function would likely need to be reorganized and resources augmented. To answer the challenge on the Bank's general procurement knowledge, Management initiated an independent skills assessment of all procurement staff. IAGP acknowledged the Bank's approach to skills assessment and regarded this as best practice. IAGP also opined that the Bank should repeat the exact same test to measure progress identically every two years.

91. **The independent skills analysis has for the first time measured all procurement staff⁴⁴ to establish a general skills baseline and has benchmarked results with the public and private sectors.** The independent skills assessment, completed by 225 procurement staff, tested their general procurement knowledge. The consultants have used this type of assessment with over 9,000 professionals working in procurement, and they compared Bank staff scores to those of other individuals/sectors. The average score achieved by Bank procurement staff is 63.6 out of 100, with the top 10 percent of Bank staff scoring an average of 79.4 at the best-in-class measure (Figure 1).

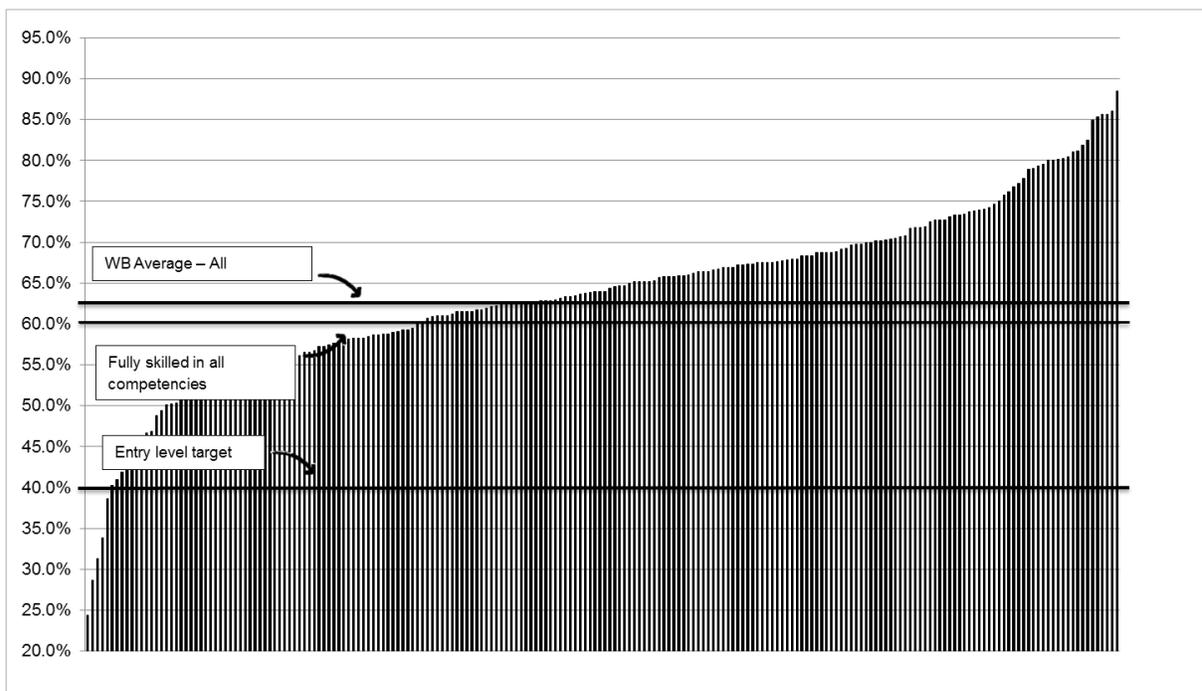
⁴⁴ Bank procurement staff in place as at December 2014 (prior to creation of the GGP).

Figure 1. Independent Benchmark of Bank Procurement Skills



92. **Overall, the Bank’s general procurement skills are comparable with public and private sector benchmarks.** The Bank scored an average of 63.6, and the average score of all sectors was 64.2. There is a dichotomy in the Bank’s procurement skill mix. At a best-in-class level the Bank benchmarks favorably with the global consultancy sector, showing that it has some very talented people to draw upon. However, the assessment in its entirety shows that the Bank has skills gaps in its procurement cadre and needs to examine how best to reorient its skills in support of this Framework. The individual assessment scores are detailed in figure 2, reflecting a typical distribution curve of results, with some very high scoring staff and few that struggled to successfully complete the test.

Figure 2. Overall Bank Staff Skills Assessment



Note: Each line is a Bank procurement staff member. The lines show the average of all Bank (WB) staff assessed, the level 3 “skilled in all competencies” level, and the skills expectation for entry-level staff.

93. **The Framework will require enhanced procurement skills, including new procurement techniques, with a greater need to justify the Bank’s position while exercising common sense judgment and risk management.** Management will significantly invest in raising its overall procurement capacity to support implementation of the Framework. A professional procurement development program will be developed by Management and initiated using highly skilled external and internal trainers who can specifically develop staff’s general and strategic procurement knowledge in FY16. This technical procurement training will be augmented by the GGP with additional academic courses and general non-technical, behavioral training. OPCS in collaboration with the GGP will carry out the same independent skills assessment in FY17 and FY19 for all staff working on operational procurement matters, so that progress can be measured on an identical basis with the baseline established in figure 2 - targeting the Bank’s average score to be at least 72% and comparable to the global consulting sector by end FY17.

94. **While broad procurement skills are being enhanced, Management believes the Bank has enough key staff with the requisite skills to begin incremental implementation of this new Framework.** If the Policy is approved, the Framework will become effective at an agreed date for all subsequent new projects. An advanced group of procurement staff will be trained and allocated quickly to support new projects and the most significant procurements under the new Framework, while other staff are developing their skills. Additionally, for procurements of low to moderate risk/value, it is anticipated that the procurement approach may be very similar to the Bank’s current framework, and this also gives Management confidence that this new Framework can be readily implemented. Given the timelines for projects and procurements, this

incremental approach to implementation will maximize benefits early while minimizing implementation risk.

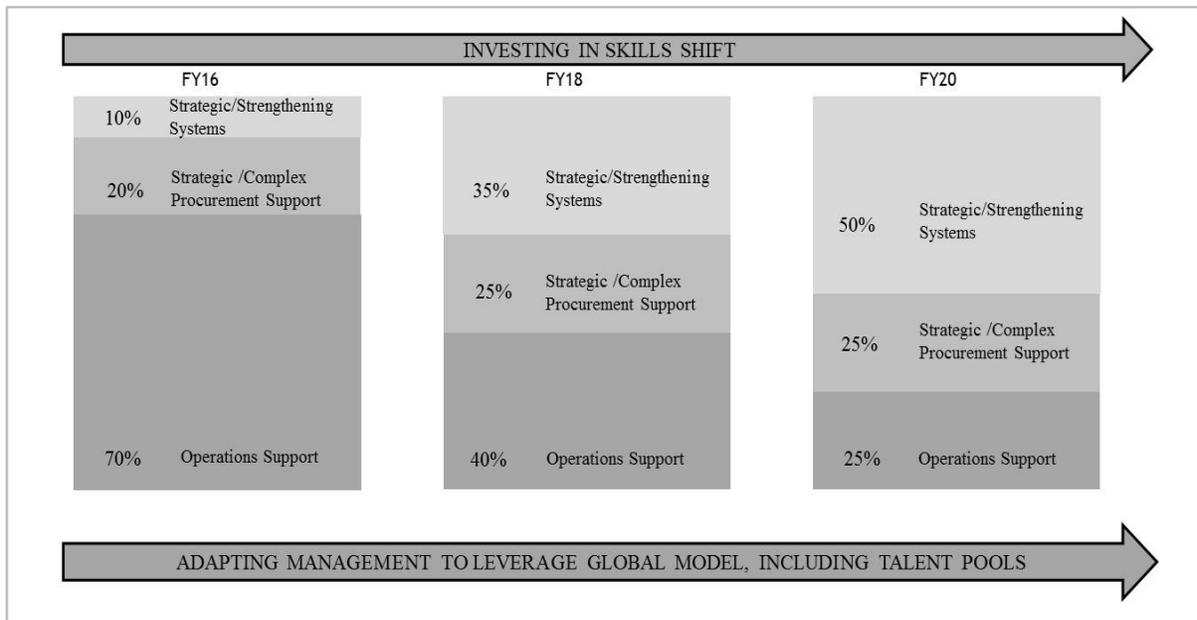
95. **Management will draw on the experience from the independent skills analysis to construct a similar assessment model to accredit any staff member to undertake procurement-related activities**, linked to an appropriate training program. An online test will be developed that any Bank staff involved with procurement functions, including TLs, will be required to take to continue providing support to IPF procurements. This online test will build on the findings of the independent skills analysis and will include questions related to critical aspects of the new Framework. Individuals' accreditation level would then be set according to their actual score, by level of seniority, and will be reviewed periodically. In Management's view, TLs should be encouraged to take this test and receive an appropriate level of procurement accreditation so that general knowledge of the Framework becomes embedded, with broadened responsibility for procurement. While this new accreditation procedure is being developed, the current accreditation procedure will be applied.

IV. IMPLEMENTING THE NEW FRAMEWORK

96. **The Framework will enhance efficiency, provide greater clarity, and reduce churning.** It also introduces new requirements: it includes aspects that both increase and decrease the responsibilities of Bank procurement staff (see Table 2).

97. **The GGP is responsible for general procurement delivery activities, day to day procurement support to operations, and operational implementation of this Framework.** The GGP will reorient its fiscal and human resources accordingly and will participate in a skills development program in support of the Framework. Over time the GGP will further reorient itself, following strengthening of borrower agencies to devote more of its time to institutional strengthening while still maintaining stringent fiduciary assurance (Figure 3). For the skills transition of procurement staff, the GGP needs to fully implement this Framework, streamlining prior review as outlined, raising procurement skills broadly to lift expertise, utilizing alternative procurement arrangements when it makes sense to do so, and strengthening Borrower procurement systems so they can be more fully relied upon.

Figure 3. – Skills transition of Procurement Staff from FY16 to FY20



Note: Figure 3 illustrates the planned shift in time allocation of accredited procurement staff to specific activities.

98. **The GGP has outlined an implementation strategy and plan** (Annex K). Management has worked with the GGP to ensure that appropriate resources are available for successful implementation, recognizing that the Framework allows resources to be reallocated where they will deliver the greatest benefit, with some existing activities being significantly streamlined while new work is created in other areas.

99. **To further support implementation of the Framework the GGP will leverage wider synergies available within the Global Practice.** Good governance is achieved through integrated fiduciary risk management. Stakeholders saw the direct link between a country's procurement system and its broader governance framework. Procurement does not work in isolation but is part of a broader governance system; thus, procurement capacity needs to be

delivered in partnership with improved overall governance strengthening. The Bank’s new Systematic Operations Risk-rating Tool includes an integrated fiduciary risk assessment that requires subject matter specialists to work together to determine all fiduciary risks, including procurement risks, and their impact on development outcomes. The Bank’s procurement specialists are now largely part of an integrated team of public openness and integrity specialists in the GGP. The activities detailed in this Framework should be delivered as part of an integrated fiduciary risk management and capability-building approach that brings together individuals with unique technical specialist knowledge as a team that leverages the best possible support for clients.

100. Implementation of the Framework will also include parallel running of existing Bank Procurement arrangements. Presently the Bank is parallel running procurements under the 2004 Guidelines (modified in 2006 and 2010), as well as those under the current 2011 Guidelines. This parallel management reflects the substantial time period of legal agreements for complex projects under IPF. Naturally, parallel running of two different procurement systems will present complexities for Bank staff and Borrowers. The proposed Framework is a significant departure from the existing policy and will require Bank staff to seek new accreditation. In Management’s view parallel running of two procurement systems can best be achieved, through accrediting staff in the new Framework and allocating those newly accredited staff to support new projects. Further, the identification and training of GGP staff in Global Talent Pools in specific new methods such as competitive dialogue will support quicker implementation of new procurement methods, recognizing that not all GGP staff need to be an expert in every aspect of the Framework – as the GGP can now deploy niche talent globally as needed.

101. While savings and greater efficiency are anticipated, additional costs will also be associated with implementing the new Framework. For example, if a new method of procurement is optimal for a particular procurement that an implementing agency has not used before, capacity building and hands-on expanded implementation support by the Bank would be required. Similarly, an approach that warrants more Bank implementation support and contract management support will have cost implications in terms of people and travel. Additional project-related procurement activities that require funding (beyond the Bank staff/budget assumptions made in Table 2 below) will be identified and agreed with the Borrower for financing from project funds or other available sources.

Table 2. Delta Analysis: Changing Activity Allocation of Bank Procurement Staff

Key work items	Resource implications	Starting from
1. Capacity building at agency and country level.	Expands existing work. At the agency level, additional funding needs will be identified and funded at the project level (linked to chosen procurement method).	FY16
2. More resources focused on high-value / high-risk procurement activity and less on low-value / low-risk activities.	More prior review and clearances in more significant procurements, far less prior review below identified thresholds.	FY16
3. Support and review of the Project Procurement Strategy for Development (PPSD).	New activity, builds on existing work undertaken in the Procurement Plan and PRAMs.	FY16

Key work items	Resource implications	Starting from
4. Generally providing more hands-on expanded implementation support, in FCS, small states and identified low-capacity environments.	More resources than at present; this should be identified and funded by project. Target critical agencies in the portfolio and high-risk projects for extended hands-on expanded implementation support (~8% of the portfolio - 107 high-risk projects under implementation support).	FY16
5. Performance assessment of agencies to determine use of APAs.	New activity (replaces historic use of country systems work). Can ultimately lead to far less work for the GGP if the APA is agreed; Bank staff can largely be released from supporting procurements for that agency.	FY16
6. Tailored/additional probity / supervision, e.g., for negotiations, best and final offers, competitive dialogue.	More resources, mixture of Bank staff time and external third parties.	FY16
7. Contract management support in most significant activities (typically over OPRC thresholds).	More resources than current levels of implementation support; this should be identified and funded by project.	FY17
8. Sustainable procurement.	New technique, training need for Bank procurement staff.	FY16
9. New procurement methods, e.g., competitive dialogue.	New methods will require training Bank procurement staff. Approach will be to train a cadre of staff in new methods, as opposed to all staff in detail.	FY16
10. Complaints support and monitoring.	New activity in OPCS for senior-level support. Centrally led by OPCS with support from GGP and task teams.	FY16
11. Prior reviews optimized.	Significantly less resources in lower-value, lower-risk areas. More prior review in higher-risk, higher-value areas. The resource mix of the GGP will need to be reoriented to increase the percentage of staff that are subject matter experts, releasing resources from transactional compliance-related activities.	FY16
12. More post reviews in areas not prior-reviewed, 10% sampling basis.	As prior review decreases, 10% sampling for post review increases correspondingly.	FY16
13. More use of third-party monitoring for post reviews.	Less Bank procurement staff resources, funding for third-party monitoring. Identified and funded through the project or GGP overhead.	FY16
14. Procurement activities undertaken by other MDBs/Agencies/Organizations.	Less activity than present as procurement is largely delegated to another organization.	FY17
15. Fewer problems, actions, and interventions required because of better planning and fit-for-purpose approaches to procurement.	Less activity than present.	FY17
16. Optimized national procurement, streamlined review to accept national arrangements.	Less activity than present. Streamlined criteria for use of national procurement makes the assessment easier.	FY17

Key work items	Resource implications	Starting from
17. Enhanced accreditation and more accreditation of task team leaders.	New accreditation system (online test), with more OPCS oversight. Increase procurement actions of TLs as more are accredited, reduce volumes for procurement specialists. Led by OPCS.	FY17
18. External Sectoral engagement program to improve procurement arrangements.	New activity to identify and work with key sectors to identify ways to lift performance and simplify and streamline activities. Led by OPCS.	FY17
19. Creation of Framework Agreements to simplify procurements for Borrowers.	Resources exist for negotiation of agreements with UN agencies. New activity would be Framework Agreements with other organizations. Led by OPCS with support from internal Bank procurement staff.	FY16
20. Increased OPRC review.	Increased review of significant procurements over OPRC thresholds i.e., upfront strategy, regular review during implementation, and contract management review.	FY16

102. **Country capacity building will need to be appropriately funded, including from a country’s own resources, borrowing, reimbursable advisory services, and the Bank’s budget.** Management does not propose to increase baseline funding to support capacity-building work; rather, it will seek to establish an MDTF to which shareholders will be asked to contribute; several shareholders have already expressed an interest. The program of systemic capacity building at the country level will be commensurate with the funding available. Management will have continued dialogue on the program of strategic capacity building with CODE and the AC, discussing progress to ensure that Executive Directors are satisfied with the depth and reach of activities. Management will report to CODE and the AC on the program of strategic capacity building annually from FY16. If it transpires in FY16 that sufficient MDTF funding cannot be secured, Management will discuss priorities and funding options with CODE and AC at that time.

103. **The new Framework is a significant change for Bank procurement staff and will require prioritization of GGP resources to further target staff based on their strategic, subject matter, and/or general procurement experience.** A cadre of staff will be identified by the GGP and targeted to support the most significant procurements in the IPF portfolio (that is, the procurements that are subject to OPRC review). In addition, a separate group of staff will also be identified who can support strategic capacity building and assessment of performance of procurement systems at the agency level. Staff who have specialist knowledge in sectors such as power, water, rail, medical, and education will be identified to provide specialist input and be a focal point on major specialist procurements through Global Talent Pools. Procurement specialists will continue to support general activities, agency procurement assessments, and capacity building at the agency level.

104. Under the new Framework the primary responsibilities⁴⁵ of the Director, Public Integrity and Openness (responsible for procurement staff), in the Governance Global Practice (GGP) are:

- Operational implementation of the new Framework;
- Operational support to procurement activities, including hands-on expanded implementation support to identified borrowers;
- Providing fiduciary assurance to operations and issue clearances within accreditation levels;
- Taking staffing decisions (recruitment, promotion, work allocation, etc.);
- Staff development and general training;
- Deputy chair of the Professional Accreditation and Standards Panel for Procurement, providing advice on standards and accreditation;
- Developing and implementing a framework for building country procurement and integrity systems; and
- Reporting back to CODE and the AC annually on progress in implementing the Framework.

105. The new Framework is a significant change for OPCS as it increases the activities that require its lead technical support, such as increased review of the most complex contracts financed by the Bank, complaints support, and external sectoral engagement. Apart from procurements for which OPRC would previously have provided oversight that in the future will be delegated to another organization under an agreed APA, there is no reduction in workload for OPCS. Rather, the new Framework places significant extra demands on OPCS resources. OPCS will need to be augmented with senior staff who can support the strategic activities identified in this paper supporting complaints matters, engaging with international business on strategic programs to improve procurement arrangements, providing more review of the highest-risk and highest-value procurements, and so on. To ensure successful implementation of the new Framework (reflecting that it includes new methods and techniques that are currently unfamiliar to many procurement staff), OPCS will lead, with support from the GGP, the procurement and implementation of a professional procurement training and development program for Bank staff. Once embedded, OPCS will seek to transfer ongoing management and budget for training in the new Framework to the GGP.

106. Under the new Framework the primary responsibilities of the Chief Procurement Officer, Operations Policy and Country Services (OPCS) are:

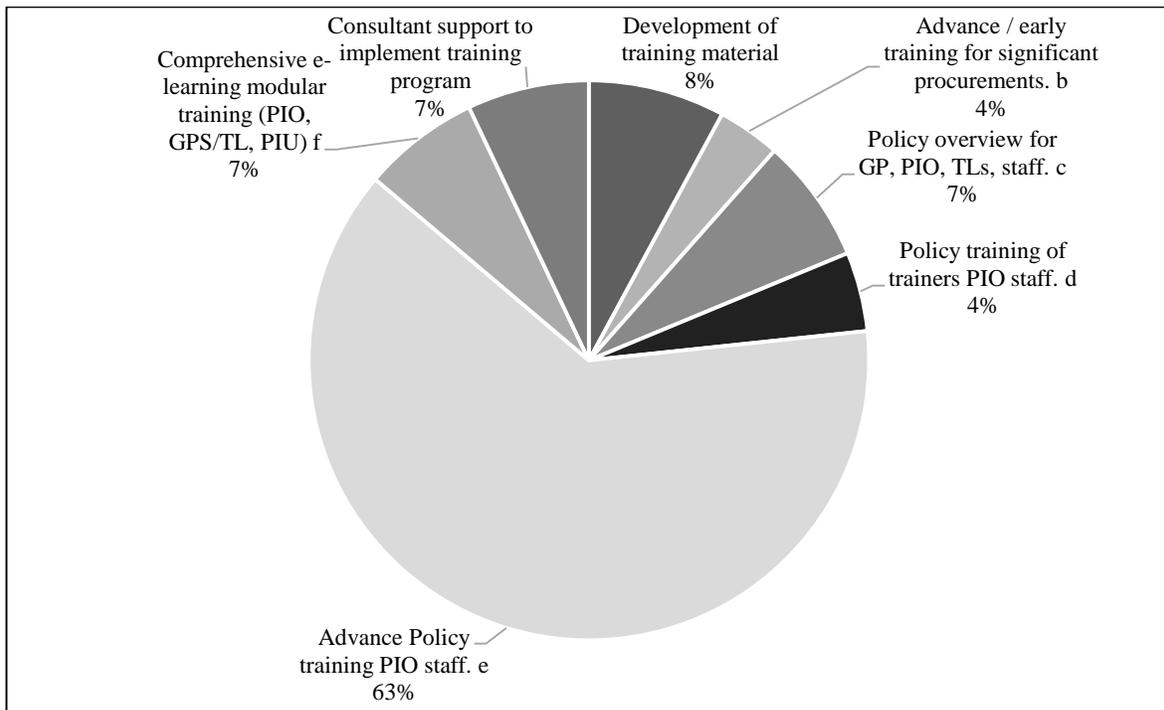
- Leading and representing the Bank in operational procurement policy matters both internally and externally;
- Overseeing the Framework;
- Designing and implementing training in support of the new Framework, in collaboration with the GGP;

⁴⁵ The roles and responsibilities outlined for the PIO Director and CPO will be used to set the new ADM Framework.

- Interpreting, and proposing amendments to the Procurement Policy and Directive;
- Interpreting and amending the Procedures, Procurement Regulations; and issue procurement-related Guidance;
- Clearing requests for waivers of the new Procurement Policy and Directive, seeking advice from Director, Public Integrity and Openness, and Legal Advisors;
- Deciding on waivers of the Procedures for Bank Staff, and of the Regulations, with advice from Director, Public Integrity and Openness, and Legal Advisors;
- Chairing OPRC, and deciding on requests for procurement clearance of the highest-risk and highest-value procurements;
- Clearing the proposals for the use APAs;
- Leading, designing and implementing a new accreditation system for Bank staff, within the terms of reference of the Procurement Accreditation and Standards Panel;
- Chairing the Professional Accreditation and Standards Panel for Procurement, deciding on professional matters e.g. standards, accreditation and technical training in the Framework;
- Accrediting individual Bank staff to provide procurement clearances in accordance with the Accreditation Procedure;
- Leading external sectoral engagement programs, with external parties;
- Monitoring and reporting at a corporate level the procurement-related complaints; and
- Reporting back to CODE and the AC annually on the application of the Framework.

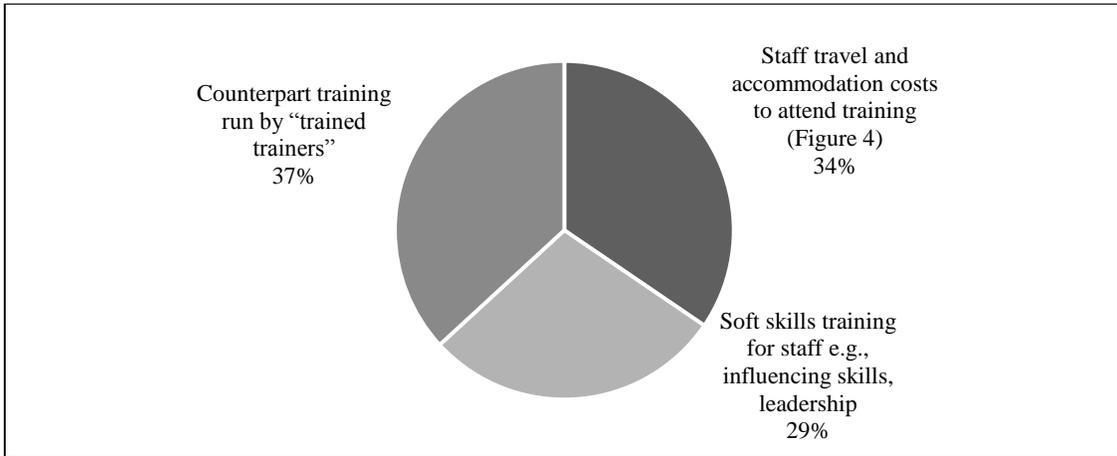
107. **Establishment funding will be required to launch the new Framework over the next five years.** Items that will require establishment funding include training and mentoring of Bank procurement staff. The estimated composition of establishment funding is outlined in Figure 4 and Figure 5 below. As is normal Bank practice, staff salary costs associated with attending any training will be absorbed by Management as overhead and are not included in the composition figures detailed.

Figure 4. Estimated Composition of Establishment Funding (OPCS) ^a



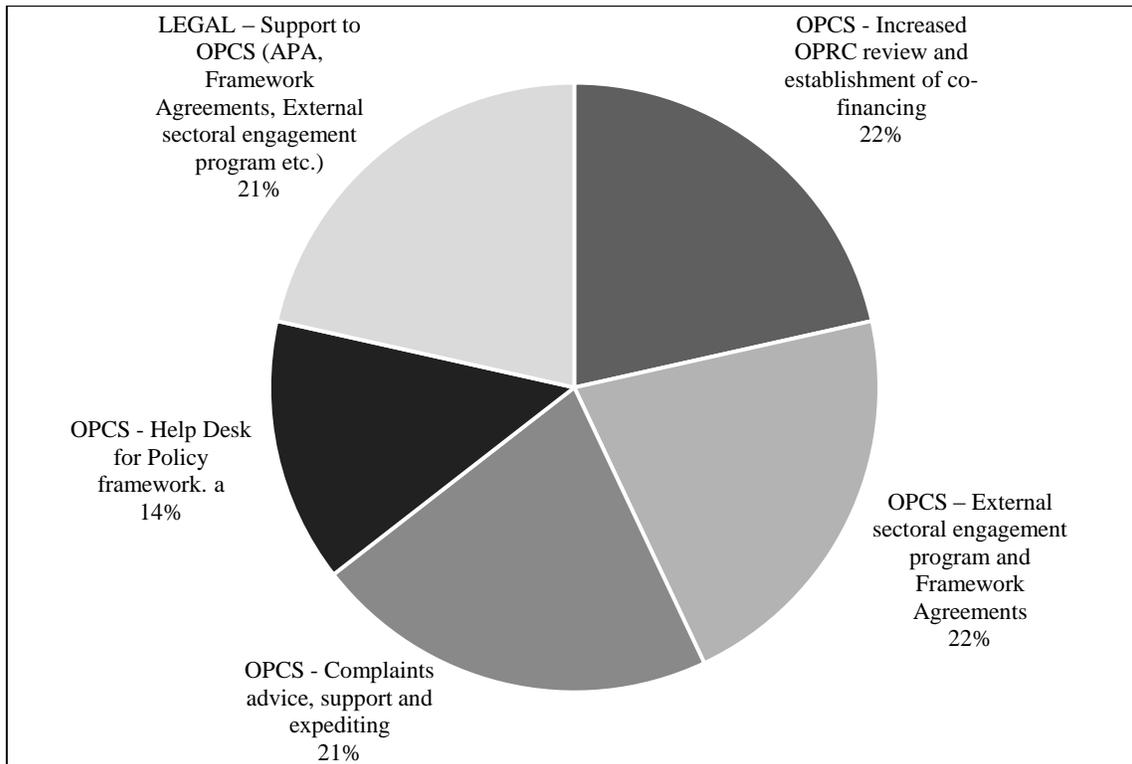
- a) **Composition of implementation training for the new Policy:** Initial training on the new Framework will be led from OPCS during its introduction and, once embedded, ongoing training will be led by the GGP (with support from OPCS).
- b) **Advance training for Bank staff supporting significant procurements:** Advance training for key staff involved in applying the new Framework to the most significant procurements.
- c) **New Policy features training overview:** General presentation of the key features of the new Framework to all Public Integrity and Openness (PIO) staff through a four hour virtual session. One session for each Region.
- d) **Training of trainers:** Training of 60 trainers from Washington-based and field-based PIO staff. The aim is to develop a network of highly trained key staff who will deliver training and advisory support to PIO staff at Washington and Regional levels.
- e) **Training on targeted features:** Face-to-face training on targeted new features of the Framework for all PIO staff. The training will be delivered either in the form of three-day workshops to be attended by all PIO staff or six regional forums to be attended by PIO staff in the Regions. The targeted features are procurement strategy, new procurement methods, contract management, assessment of alternate procurement systems, and change and stakeholder management.
- f) **Comprehensive e-learning modular training on the new Framework:** Development of 4 major e-learning modules (Policy, Directive, Procedure, and Regulations). The e-learning should be customized to fit the needs of each of the key user groups (PIO staff, Global Practices/Task Leaders (TLs), Project Implementation Units (PIUs)).

Figure 5. Estimated Composition of Establishment Funding (GGP)



108. **Ongoing funding will be required in OPCS and Legal to staff new activities.** (see **Figure 6**). Management has allocated ongoing funding, so that staff can be recruited following Board approval of the recommendation in this paper.

Figure 6. Estimated Composition of Ongoing Funding

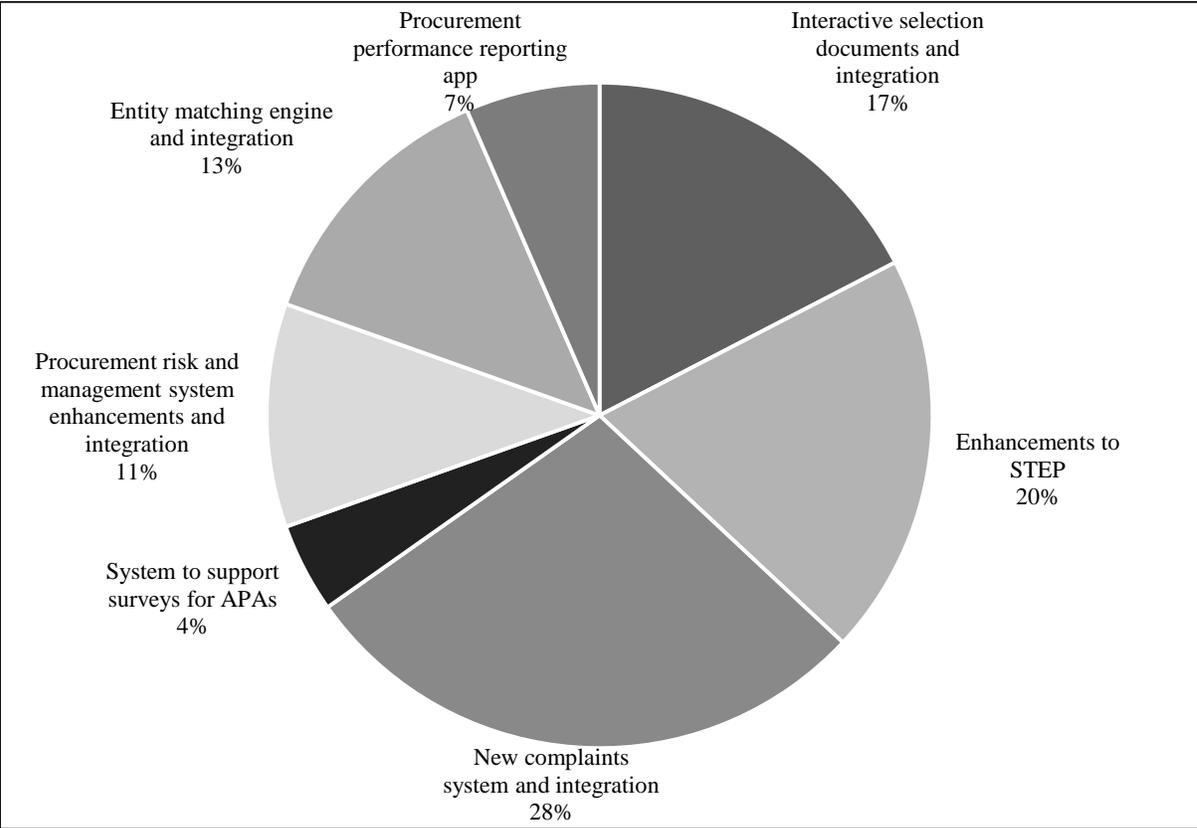


^a Establish Help Desk service (HDS) for the new Framework: 24/6 HDS in Washington to provide advisory support on the new Framework to all PIO staff, GPs/TLs, and clients' PIUs. Two staff will be dedicated to this service, advising on Policy as well as the e-learning modules.

109. **The new Framework changes the work pattern of procurement specialists in the GGP (Table 2).** No change in GGP headcount is currently anticipated, as resource efficiencies have been identified to offset new activities. The delta analysis of the new Framework shows that initiatives to focus prior-review activities save significant procurement resources (up to the equivalent of 60 Bank staff) that can be used to resource new activities.

110. **Further investment will also be required to develop, enhance, and/or integrate systems to support the new Framework.** Items that may need additional funding for system development include complaints handling, surveys for APAs, and interactive selection documents and their integration elsewhere in the Bank (see Figure 7). Management will discuss capital funding options and prioritization with the Information Technology Services team.

Figure 7. Composition of Estimated IT System Costs



^a **Interactive selection documents:** Development and dissemination of interactive selection documents that will help avoid or lessen human errors and streamline the process by which Borrowers prepare and Bank staff prior-review these documents.

^b Development of STEP: STEP is being launched by OPSOR. It will need to be reviewed periodically and enhanced as needed. Further features could include, for example, workflows for complaint management.

111. **The implementation of the Framework will be adequately resourced and funded by Management, and will be reviewed on an annual basis to ensure it remains sufficient to deliver the commitments in this paper.** Management has sought to minimize the implementation costs of the new Framework by reducing low-value-added activities where possible and redeploying existing resources appropriately this makes the program affordable, even during the period of fiscal constraint.

112. If the Executive Directors agree with the recommendation, the new Framework would become effective during FY16 once a series of readiness actions have been completed. Critical actions have been identified that will need to be completed before the Framework can become fully operational as follows:

- The Procurement Policy, Directive, Procedure and Regulations have been finalized, all related technical changes to other rules have been made, and the Bank's model legal agreements have been revised to reflect the Framework;
- Communication of the new Framework through various media, face to face, virtual briefings etc. to Borrowers and affected Bank staff, private sector and CSO's – the Bank will initially target communications to Borrowers and TLs with projects in the pipeline from January 1, 2016;
- Staff are in place to support new activities and key staff have been trained;
- Existing standard bidding documents have been updated to include use of Value for Money rated criteria, standstill periods, open data etc.;
- Guidance materials have been published to further support Borrowers for Project Procurement Strategy for Development, complaints handling, sustainable procurement and the methodology to assess Borrower implementing agencies for Alternative Procurement Arrangements; and
- The STEP system is live and available for use by Borrowers and Bank staff to track and monitor procurements, with training delivered to identified users.

113. The Framework would also be available for use in selected existing IPF operations which would be reviewed to identify the most significant projects in the portfolio that involve procurement over OPRC thresholds that have not yet started. Management, after the necessary internal assessment and analysis, and with Borrower agreement, would amend the relevant legal agreements accordingly. Such amendments would be processed internally as Level Two restructurings requiring approval by Management, unless an APA is proposed which Management would bring to the Executive Directors' for approval. This case-by-case approach, targeting the most significant projects first, will ensure a smooth transition to the new Framework for existing activities.

114. This incremental transition to the new Framework will provide time for Bank staff to be trained in the new Framework and for the GGP to reorient its resources. The independent skills assessment has shown that the Bank has a cadre of best-in-class, highly capable staff. Key staff will be fast-tracked and given advance training on the new Framework and will then provide support to the most significant procurements (over OPRC thresholds) while the wider program of training all Bank staff is completed.

V. ENDORSEMENT AND NEXT STEPS

115. **As part of the modernization of the Bank’s Framework for procurement, this paper explains how a range of complex issues have been addressed.** The paper includes a new Procurement Policy, Directive and Procedure for Bank Staff, and Procurement Regulations for Borrowers, which replace the current OP 11.00, BP 11.00, and the Guidelines for Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers (January 2011), and the Guidelines for Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers (January 2011).

116. **Recommendation.** Management seeks Board approval (following CODE and AC endorsement) of its proposed resolution of complex issues as detailed in this paper, and the content of the draft Policy, “Procurement in Investment Project Financing” (Annex C), which will replace the current OP 11.00 (Procurement).

117. **Next steps.** If the Board supports the proposed new Framework and approves the Policy, Management will undertake the following actions to ensure smooth implementation of the new Framework:

- **Staff Guidance and Training.** OPCS will provide staff with Guidance to support the Framework. A comprehensive training program will be implemented from FY16 to FY20 that will support smooth implementation of the Framework. Online training will also be developed in FY16.
- **Accountability, Decision-making, and Quality Assurance.** The Framework is consistent with the Bank’s Accountability and Decision-Making Framework (ADM). The detailed internal ADM Framework has been set out as far as possible, focusing on critical activities and those involving OPCS. The ADM Framework will be augmented, including internal Governance Global Practice decision-making if the Board approves the new Framework for procurement.
- **Communications and outreach.** There has already been significant consultation on the proposed Framework. Procurement staff who reached out to client countries and shareholders will brief their clients on the new Framework. The Bank will also engage with interested media on the Framework and will reach out to interested stakeholders and experts across the globe.

VI. CONCLUSIONS

118. **The proposed Framework will modernize the Bank’s procurement approach and will provide more options to optimize development results.** The Framework builds on proven international good procurement practice and contains tried and tested procurement methods. It sets the rules and is designed to permit fit-for-purpose procurement approaches that have the highest likelihood of attracting the right organizations to participate in procurement and then deliver the optimal results. There is no “one-size-fits-all” procurement approach that will work in the diversity of procurements supported and financed by the Bank. Therefore, a Framework that introduces more choice, provides for sufficient planning early in the life of the project, and is adequately resourced has the highest likelihood of delivering the right development outcomes. This is such a Framework.

119. **Building overall procurement capacity is critical to effective development.** Capacity building will continue at the project and agency level. Strategic capacity development at the country level will be targeted, with specific activities agreed with CODE and the AC. Capacity building is a complex activity and thus will be subject to regular review to ensure the appropriate pace, reach, and depth, with funding mobilized as needed.

120. **This Framework has broad support from the external stakeholders who participated in global consultations.** Management anticipates that implementation of the new Framework will be challenging, as it requires new skills and different priorities, but is confident that it can be delivered efficiently and that it will be positively received by the majority of stakeholders.

121. **The Framework has been designed from the outset to reflect stakeholder needs and to be fit for purpose.** Management anticipates broad and sustained benefits from adopting the Framework, including the following:

- Improved procurement capacity in countries targeted for intensive capacity-building support, which will be measured and tracked and regularly discussed with CODE and the AC as part of a continuous program of development.
- Projects will be implemented faster overall, because more fit for purpose procurement methods will be used and performance metrics in the planning and tracking system will drive improvement both within the Bank (less churning) and with Borrowers (fewer bottlenecks).
- Better overall participation in procurement, as procurements are specifically designed through the procurement strategy to fit the project context and the dynamics of the market.
- Integrated fiduciary risk management activity, with procurement, financial management, integrity, and governance specialists working together to meet client needs.
- Improved complaints handling.
- Improved quality in many projects, as providers can differentiate proposals by VfM, offering improved quality/service that is recognized/rewarded in the evaluation.

- Enhanced delivery in FCS and small states as Bank staff will be empowered to deliver hands-on expanded implementation support, fixing many problems before they occur and transferring knowledge on good procurement practice to clients.
- Maintained cooperation with other MDBs at the Policy level, with Memoranda of Understanding in place that facilitate cofinancing using other MDB's procedures.
- Increased confidence in the Bank's procurement process, with regular reporting to CODE and AC on key metrics and progress.
- The Bank's modern Framework for procurement will be used to enhance client government knowledge; by using new techniques supported by the Bank, clients will see the benefits and will modernize their own systems.
- APAs used by agencies and entities.
- Through tailored approaches to strengthen integrity, increased use of CSOs to provide continuous probity assurance, and robust contract management in significant procurements; the Bank will seek to improve integrity in the procurements it finances.
- Recruitment and retention of skilled procurement professionals as the Bank's approaches and activities are modern and among the most significant development procurement roles on offer.

122. Management will report to CODE and the AC on progress on implementation of the new Framework annually subject to Board approval, with a 5-year review of the entire Framework in FY20. Given the degree of change required in the new Framework and the need to establish baselines to inform measurement of results, Management proposes to regularly engage with CODE and the AC on progress on a range of issues identified in this paper. A formal, detailed review of the entire Framework should be undertaken in FY20, to determine whether the Framework has been implemented successfully, and has indeed optimized procurement results. The review will also assess whether the Framework continues to meet the needs of stakeholders and the Board, and whether it needs to be maintained or enhanced to ensure continued development effectiveness.

123. A broad culture change in the Bank's procurement function will be essential if the new Framework is to be fully successful. All Bank staff will need to work together, with the support of Management and the Board, to drive this change. The creation of the GGP has provided a unique opportunity to organize resources globally in support of this Framework, recognizing the dual function of procurement as a strategic tool for capacity building and development while maintaining the traditional due diligence function of fiduciary accountability. The independent skills analysis has provided a robust baseline for optimizing general procurement skills and informing initial resource allocation. By design, the new Framework is more comprehensive than the existing Guidelines, setting firm, and clear rules where needed and introducing greater choice into the procurement system, structured by transparent procurement strategies that guide project implementation. This approach permits a fit-for-purpose application of procurement, recognizing the broad diversity of countries, clients, and projects that the Framework has to support. As stakeholders corroborated in global consultations, this Framework represents a once-in-a-generation reform that reflects best-in-class modern international procurement practice. Management believes that it will significantly improve the overall performance of the Bank's procurement system, supporting the positive development outcomes that everyone seeks.