



The World Bank

## Procurement Policy Review Feedback Summary

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**Date:** June 27 & 28, 2012

**Venue:** London, United Kingdom

**Total Number of Participants: 10**

### Overview and General Reactions

Extensive discussions were held on a bilateral basis over the two days with the key UK officials in charge of procurement and procurement reform at the central state level and at DFID and those responsible for the Bank within DFID. The list of officials is provided.

The discussions focused on two interlinked themes. The first was the ongoing transformation of the UK Government's procurement system both at the central level and within DFID. The second theme was the expectations for the reform of the Bank's procurement policies. Each of these is addressed in turn.

#### *1. Reform of the UK's Public Procurement System in DFID and Government Wide*

Starting in 2011, the UK Government is presently in the midst of modernizing its public procurement system. The key features of this reform entail:

- Repositioning the procurement process towards achieving greater value for money. This encompasses a profound organizational transformation to change behaviors, professionalize skills and reorient policy instructions. Part of this is to increase the comfort level in applying greater discretion and judgment. It includes risk identification and management and also entails heightened creativity and treating procurement as part of the problem solving process.
- Defining new responsibilities to Commercial Advisors who understand local markets and work upstream on design. The objective is to increasingly adopt a broader commercial focus rather than one that is narrower, on procurement only.
- Heightening supply chain management, including a redefinition of relations with key suppliers and their sub-contractors along with direct collaboration with the private sector via making markets and competitive dialogue. In line with its new 'lean' principles, the Government seeking to reduce current use of EU negotiated mechanism 'competitive dialogue' across government departments. This also entails stronger centralization of purchases, interaction with the main suppliers, and early market engagement including "smart" procurement and more use of "design and build."
- Refocusing efforts on where there is greatest value added of the procurement process, notably, in the design/pre-tendering stage and during contract implementation.
- Targeting major projects with gateway reviews at critical points, more monitoring of contract execution, added oversight/governance, and providing support by experts and commercial advisors, along with recourse to a panel of experts.
- Linking procurement with financial management and budgets, based on sound principles, messaging and consistency with fiscal goals.
- Increasing efficiency, particularly elapsed time, by adopting lean sourcing principles that form part of standard operating procedures (SOPs) used by contracting agencies in all but the most complex procurement. These SOPs replace thousands of pages of instructions. The time limit for the completion of non-complex procurements is now 120 days.
- Centralizing procurement where it makes sense (e.g. common items such as energy use) and keeping other areas closest to the customers (e.g. specialized items).
- Providing a tool kit and support to staff on areas such as e-procurement and framework agreements and investing in new systems—for example, the cloud store and dynamic procurement—and staff training. At the central level, surpluses on the new central purchasing fund are used for staff training and systems development.

- Adding transparency and facilitating the feedback from users—e.g. “mad or bad” hotlines.
- Increasingly, using public procurement to achieve broader policy goals, such as fiscal deficit reduction, market-making/industrial policy, promotion of SMEs, initiatives on extractive industries, and CoST. As a whole, the UK Government is undertaking thirteen policy initiatives through procurement.

The essence of the transformation is predicated on treating procurement as a process, not a set of individual transactions, and recognizing the strategic importance of the process upfront, followed by managing that process. The UK’s approach is full cycle. Some questions to be addressed include:

- How is the process using competition? Is it on the basis of defined inputs or defined outputs?
- How markets are expected to respond?
- What are the cost drivers?
- What is the thinking behind the choice of procurement method?
- How is the project being designed to manage contract execution and delivery? What are the breaking/turning points? Is there flexibility to scale up or scale back as needed?
- What can be done to get more competition?

As the pre-conditions for such a transformation, UK authorities highlighted the need for:

- Adopting change management principles and approaches—many reforms need a sense of urgency or “burning platform” to get off the ground and entail a change of organizational culture.
- Securing early executive buy-in.
- Establishing a clear record and proving your results with data to monitor a core set of simple, easily measured targets. Examples of the central reporting, data and indicators were provided.

At the same time, the UK’s approach to reforming its procurement system is consistent with the EU’s directives with the UK supporting simplification and flexibility at the EU level.

## *2. Expectations for the Framework and Outcome of the Bank’s Procurement Policy Review*

These discussions involved both DFID’s Procurement officials and the DFID team responsible for the Bank.

At the outset, officials noted that procurement reform by the Bank is considered a key part of the Bank’s modernization agenda and will

be a topic for the **IDA 17 replenishment** the negotiations of which are now scheduled to end in December 2013. Thus, the timing of the Bank's review and the presentation of a revised set of guidelines are consistent with the schedule of the IDA 17 discussions.

In presenting a new policy to the Bank's Board of Directors, UK authorities would be looking for the additional **long-term value added** by the Bank's policies and their impact on shaping markets. Further, they would look for a shift in the Bank's stance towards fraud and corruption, notably, greater realism *ex ante* about the risks combined with preventive measures and greater analysis. The Bank should also seize this opportunity to make greater progress on addressing social dimensions, linking them to environmental and social safeguards.

The discussion then focused on the **hierarchy of purposes** that procurement can serve, as a way of framing the new policy. At the lowest level of the hierarchy, procurement is all about getting the works, goods and services needed for the project to realize its development objectives. This should be based on value for money. Next, the expectation is that procurement ought to be a means to generating additional value added. This could be achieving other goals such as developing local capacity or environmental sustainability. At the next level, procurement could be used to achieve specified policy impacts, such as promotion of the private sector, and finally, procurement as a strategic public sector function can contribute to realizing larger development impacts such as quality service delivery, deficit reduction and/or fiscal sustainability. There may be a role for IFC in understanding how markets work and policies that foster private sector development.

Procurement ought to be **context specific**. Clearly, not all goals would or could be realized in all countries all the time. In fragile states, for example, getting what the project needs may be the goal and nothing more. The idea would be to think this through in Country Assistance Strategies, setting out the ground rules, helping to define that approach taken in each country, identifying the hierarchy of goals, the trade-offs, and the priorities for that country. That said, there also ought to be a minimum set of goals for each country.

These goals should be reflected in **performance indicators** established to measure the realization of the goals and their impacts. Such indicators ought to measure how value is added in the procurement process. At the same time, it would be wise not to overload the public procurement system with too many goals. It may not be the right instrument to use. Priority should be given to the contributions to public goods and to specific outcomes.

In this vein, the Bank may need to take another look at issues of **procurement capacity** and methods for assessing capacity: for example, does MAPS have sufficient strategic focus and embody performance indicators? There may be some lessons that the Bank can learn from the UK's experience on carrying out procurement capability framework reviews.

Further, the Bank ought to consider, as the UK Government has done, in rebalancing where its effort is concentrated—from the tendering to **upfront design and contract execution**, including:

- Adjusting the Bank's model for the role of Procurement Specialist from compliance officers to a technical colleague as part of the

project team, with strong policy backing from the central Procurement unit.

- Placing more emphasis on market capacity, the commercial case, project planning and design, upfront budgets, definition of responsibilities, key dates, evaluation processes and supervision models.
- Being more flexible, shifting from compliance with specific standards to the use of procurement as a policy tool, with these matters discussed in the CAS in collaboration with other donors.

With reference to **F&C**, the focus should be on transparency, capacity building, auditing, professionalization, and stronger contract management, balancing flexibility, quality and the cost of delays. Transparency needs to work at the local community level for beneficiaries. There should be proportionality in terms of processes and risks. Further, there should be greater alignment and sharing of the incentives within the Bank for realizing the intended objectives (e.g. corporate scorecards, INT, added value). The particular issue of confidentiality of INT investigations needs to be addressed for donor trust funds.

On **harmonization**, there should be an enhanced ability for the World Bank (and the other Multi-lateral Development Banks) to adopt a more harmonized approach, based on mutual trust and recognition for procurement under co-financed operations.

Special emphasis should be paid to procurement in **fragile and conflict affected countries**. Working in fragile countries is all about execution. The Bank has to overcome its optimistic bias, be upfront about the risks at the start and factor in the reality of contract failure. The Bank needs to be quick in order to take advantage of new windows of opportunity. It has to take on high risks of F&C, reputation, and affecting local political, economic, and social settings. It needs to realize that its actions can shape nascent markets. It is particularly important in fragile countries to ensure that the Bank's staff are the best that they can be. And the Bank needs to be prepared for failure, to act if a country is not able to execute (e.g. outsource) and to have an exit strategy. The Bank needs to look at what the barriers to procurement are, particularly in fragile countries, and see what might be done to overcome those (e.g. blanket insurance, bid security, advancing funds) and what support IFC might be able to provide. Afghanistan was cited as an example of a country in which the Bank's approach to procurement has largely worked, and Liberia and Sierra Leone as examples in which it has not worked.