



The World Bank

## Procurement Policy Review Feedback Summary

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**Date:** October 3, 2012

**Venue:** Washington DC, USA

**Total Number of Participants:** 8

### Overview and General Reactions

A meeting with US development partners was held at the World Bank on October 3, 2012, in Washington, DC. This was a follow-up to earlier multi-stakeholder consultations, held in July 2012, in order to allow the participants to discuss common concerns in more depth and to get additional feedback. Participants represented USAID, the Millennium Challenge Corporation (MCC), and the US Treasury Department as well as the World Bank.

The meeting was primarily a chance for the Bank to learn more about the current innovations, practice and approaches to procurement by MCC and USAID. Each agency provided background and examples of their respective efforts to improve procurement and develop local capacities, use country systems, and transform their internal processes and policies. Their different modus operandi and business models were highlighted to situate how the two institutions function. MCC deals with partners that have entered into specific compacts and thus had already surpassed certain institutional and policy thresholds while USAID operates with partners possessing a wide range of capacities. USAID is decentralized while MCC is highly centralized. These differences have an impact on each institution's approach to procurement.

With that as background, views were exchanged and suggestions made on a range of concerns that the Bank is addressing in its review:

- **Country Capacity.** The discussion of country capacity addressed the question how to define and use procurement systems at the country level. Since every country context is different and low capacity is a major challenge to procurement in many developing countries, the policy review needs to clarify whether procurement has different roles and meanings in different country contexts and how it can be used most efficiently in these different contexts. There needs to be greater clarity and specificity as to the nomenclature used as these issues are debated and analyzed. Furthermore, reform of procurement policies cannot be effective if country capacity is not being built accordingly. As a result, countries need a core cadre of procurement specialists who understand rules as well as general procurement frameworks. But, in some countries, the procurement profession was practically nonexistent in the civil service and there are few established procurement units across the public sector. In these cases, the procurement function must be defined, established and maintained across government offices. Capacity building in country systems should thus be made an integral part of the Bank's development support. The MCC offered its most real example of this with its partner country, Indonesia, wherein a significant amount, about US\$50 million, is specifically allotted to foster a professional procurement cadre within their country system to enhance standards and best practices as part of the institutional reform of procurement practices and capacity development. Some remarks were made that this parallels the 1102 Federal Contracting Series in the U.S. Federal Government personnel system, which sets qualification standards for contract specialists. (See FAI.gov.)
- **Donor Capacity.** Participants noted that the World Bank also needs to have the appropriate technical specialists to work with clients in preparing the documentation needed for the procurement process. When procuring medical devices, for example, the Bank needs specialists who are familiar with the medical device field so that bidding documents incorporate the relevant provisions and specifications. In addition, the Bank needs to address weaknesses in its internal procurement processes so that the public can be confident that Bank procurement will be transparent going forward.
- **Risk Management.** In addition to capacity building, which is a long-term objective, the Bank will need short and mid-term risk mitigation strategies. These processes are dynamic and actions on both fronts have to take place simultaneously. In assessing risks, USAID employs a risk management model similar to that used widely in the private sector. Rigorous documentation of risk assessments is a key feature. Further, there is the need for balance: mechanisms such as the Bank's "ring fencing" of projects, while intended to lower risks, should not result in greater dependency. Sustainability is essential and all donors should more easily acknowledge the upside to taking risks—the potential for greater reward and development impact.
- **Harmonization and Country Systems.** The arguments in favor of harmonization and use of country systems are well accepted, yet there remain challenges, especially as development agencies move from the use of specific rules and standards to risk based approaches at the same time as they adopt country systems. It was noted that USAID has an overall target of 30 percent of USAID program funding for local capacity development by 2015, with this figure compiled using

four different channels—government systems, local credit facilities, direct grants and contracts to NGOs and local contractors, and grants to bilateral and multilateral development partners who then expend such funds through government systems. On the other hand, in its early years, MCC based its approach to country systems on basic country procurement principles but confronted a significant lack of uniformity among partner countries. It has since shifted to a more uniform set of procurement guidelines based on the World Bank’s procurement policies, tailored to the MCC model. Thus, there are various ways to move forward.

- **A Framework for Assessing and Using Country Systems.** There was some discussion about the meaning of the term “country systems” and how to assess those systems. Current practice by US agencies builds on five stages: initial assessment, monitoring and evaluation, capacity building, feedback, and recourse for participants. Some of these stages were discussed in detail. The assessment phase should be flexible, allowing for country variations, but based on a common template. It should focus on institutional capacity and risks. It was noted that the Bank’s approach under the new PforR financing instrument might provide interesting experiences for assessing country needs and tailoring projects according to needs, capacity, and other specific circumstances. PforR supports borrowers’ programs after assessing their quality, including its results framework, expenditure framework, supporting systems, and the scope for systems-strengthening measures. In addition, the M&E phase should be based on fact-finding, feedback and then correction. The recourse phase has to deal with what to do if things still do not work out. Devising appropriate remedies and a better system for dealing with complaints and missteps are needed.
- **Credible M&E Systems.** This is a critical part of the process, enabling the general public, shareholders, and development partners to have confidence in procurement carried out under development programs. The Bank’s capacity to do this may need to be strengthened: it could consider improved processes, given that current bidding processes are considered too complicated and modeled for the “largest” contracts. At the other end of the spectrum, operations such as CDDs, with large numbers of small transactions, also need a new model for audits and contract monitoring. A robust evaluation process would enable the Bank to articulate why and how a change to its procurement practices is making a positive impact, both in terms of programmatic results and developing capacity of partner country governments in procurement.
- **Internal Controls.** Credibility further depends on the strength of the institution’s internal control framework. While the World Bank should not overemphasize compliance, for its own sake, and needs to develop a strong focus on results, the Bank’s internal control mechanisms need to reflect high standards and integrity. To operationalize a stronger focus on results, quality and the ability to measure quality must be built into the tenders, evaluation and award processes so that, during contract administration, technical quality and the extent to which the intended results were achieved can be measured. In the case of USAID, its framework extends through the entire procurement cycle, from the beginning through to the final audit. As noted above, good documentation is vital in order to provide an audit trail and to support decision-

making. USAID also has a separate quality assurance unit with new procedures adopted under ADS Chapter 220 (see USAID's webpage).

- **Internal Capacity.** The simultaneous shift from rules based procurement procedures to risk based procedures and from a high percentage of procurement done by USAID to a greater share by partners using country systems has posed a challenge for USAID staff. They have had a difficult time dealing with the ensuing diversity and the flexibility inherent in these new approaches to procurement. The number of specialized procurement staff is thus growing within USAID in order to deal with the many changes. Experience also shows that the need for procurement experts to interact better with sectoral experts and for more "cross-the-table talk" between industry and in-house experts on fast moving sectors such as medical devices and ITC, for example.

The discussion raised questions on two specific **eligibility criteria** for bidders and how the Bank's review might address them. One was the current limitation on the participation of state-owned enterprises (SOEs). At present US legislation is restrictive, while the Bank allows somewhat more flexibility depending on the independence of the SOE from the government. Another was the revenue criteria placed for NGOs that make it hard for NGOs to participate in bidding opportunities. Both of these areas can be discussed further as part of the Bank's review.

The Treasury Department provided some additional feedback, since the July consultations, from the **US private sector**. Among the many voices being heard as part of the Bank's procurement policy review, the US private sector shares the concerns expressed with respect to the weaknesses in country capacities and would welcome greater harmonization of procurement practices across different World Bank offices as well as across MDBs and other development agencies. There needs to be consistency in the application of the rules, for example, the number of years of experience, and credit given by the Bank for experience in neighboring countries as part of qualifications. Procurement processes need to be user-friendly and transparent, and there needs to be a mechanism for redress. Ideally, an independent and accessible ombudsman would be responsible for dealing with concerns from the private sector. Procurement rules need to be clear and specific: when rules are ambiguous, bidders may inadvertently be exposed and held liable. It was noted that, if there is continuing interest on the part of the US private sector to provide inputs to the review at this stage, the Bank is open to arranging more opportunities.

The meeting concluded with a discussion of how to **measure success** of the Bank's review and the ensuing changes to the Bank's procurement policies. Participants suggested that a stronger focus on results of World Bank procurement policies would constitute a good measure of the review's success. While compliance has to remain an important feature, the revised World Bank procurement policy should also acknowledge that procurement is effective when it creates development results and impact. Participants further committed to continue the exchange and to share materials for the review.