

PROCUREMENT IN WORLD BANK INVESTMENT PROJECT FINANCE

PHASE I: A PROPOSED NEW FRAMEWORK

- REVISED -

The Vision: “Procurement in Bank Operations supports clients to achieve value for money with integrity in delivering sustainable development

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ABBREVIATIONS AND ACRONYMS

BMZ	German Federal Ministry for Economic Cooperation and Development
CAS	Country Assistance Strategy
CODE	Committee on Development Effectiveness
CoST	Construction Sector Transparency
CPAR	Country Procurement Assessment Review
DPO	Development Policy Operation
F&C	Fraud and Corruption, including collusion and obstructive behaviors
FY	Fiscal Year (July 1-June 30)
GDP	Gross Domestic Product
GIZ	German International Cooperation
IAGP	International Advisory Group on Procurement
ICB	International Competitive Bidding
IEG	Independent Evaluation Group
IFC	International Finance Corporation
MAPS	Methodology for Assessment of National Procurement Systems
MDBs	Multilateral Development Banks
NGO	Non-Governmental Organization
OP/BP	Operational Policy/Bank Procedure
OPCS	Operations Policy and Country Services
PforR	Program for Results Financing
PPP	Public Private Partnership
PREM	Poverty Reduction and Economic Management Network
SDN	Sustainable Development Network
SME	Small and Medium Scale Enterprise
UCS	Use of Country Systems
US	United States of America
WBI	World Bank Institute

CONTENTS

EXECUTIVE SUMMARY.....	v
I. Introduction	1
II. The Case for Change and Feedback Received.....	2
Box 1. The Main Messages from the External Consultations	3
III. Proposed Framework for Procurement in Bank Operations	4
Box 2: The Meaning of “Economy”	5
Figure 1: The Bank’s Value Proposition	6
Box 3: Mexico’s Procurement Modernization Efforts.....	8
Box 4: The Open Data and Open Contracting Initiatives	10
IV. The Proposed New Policy for Investment Project Finance	11
Box 5: Proposed Standards and Approach.....	12
Box 6: Contract Reviews by Bank Staff	14
Figure 2: Measuring Policy Impact.....	15
V. Next Steps	16
VI. Conclusions.....	17
Annex 1	19
Annex 2.....	23

PROCUREMENT IN WORLD BANK INVESTMENT PROJECT FINANCE

PHASE I: A PROPOSED NEW FRAMEWORK

EXECUTIVE SUMMARY

1. The World Bank's procurement policy governs how clients acquire works, goods, and services under projects financed by the Bank, and the roles and responsibilities of the Bank and clients in that process. The world has changed, and public procurement practices have changed with it. Similarly, the Bank's clients have changed, along with their institutional capacity. The countries that borrow from the Bank spend several trillion US dollars annually on public procurement. The Bank finances less than one percent of that amount. If the Bank can better support clients to strengthen their public procurement, the benefits could be transformational for governments, citizens, and businesses. They could be transformational for the Bank as well.

2. To determine how best to contribute to this goal, the Bank embarked on the first ever comprehensive review of its operational procurement policy and procedures in early 2012. The initial analysis of the need for change was set out in the Approach Paper and Initial Discussion Paper that launched the Review. The Bank's appreciation of the need for change has been further informed by the extensive Phase I consultations held since then and the findings of the recent IEG report "The World Bank and Public Procurement: An Independent Evaluation". In Management's view, these independent, but complementary reviews both confirm the need for modernization and provide a basis for the new direction for procurement in Bank operations.

3. This paper sets out an outline of a new framework for procurement in World Bank investment project finance and reflects the discussion with Executive Directors at a joint meeting of the Bank's Committee on Development Effectiveness and the Audit Committee on April 12, 2013. On September 30, 2013 the Committee on Development Effectiveness discussed the IEG report "The World Bank and Public Procurement: An Independent Evaluation" - the proposals detailed within this revised paper incorporate the activities necessary to address the recommendations made by IEG.

4. This paper proposes the following vision statement: "Procurement in Bank Operations supports clients to achieve value for money with integrity in delivering sustainable development." It sets out the principles that would guide implementation of the vision: economy, efficiency, effectiveness, fairness, integrity, openness and transparency, all backed by good management. It articulates a value proposition for the Bank based on sustainable development, integration, flexibility and adaptability, and championship of procurement change. It further elaborates roles for the Bank at both the global and country levels. The latter would draw on all the Bank's products guided by the Country Partnership Framework with a particular focus at the institutional level on procurement capacity building and strengthening procurement arrangements. The paper then provides a broad outline of how the operating policy that governs investment project finance would evolve. At the center of these changes is adopting, at the project level, a fit for purpose procurement approach, making progressive use of client procurement arrangements as appropriate in investment operations, while managing associated risks and taking a stronger, more risk-based approach to fulfill the Bank's assurance needs. The overall standard of procurement performance required of borrowers would be no less than that currently required.

5. The paper does not seek to elaborate the many details of the new policy and the implementation issues that will need attention. These will be examined in the next phase, where Management would articulate more fully the framework following guidance from Executive Directors, the Bank's ongoing change program, and further discussions with clients, staff, and other

stakeholders. The detailed framework would be discussed with Executive Directors in the early part of 2014, at the end of the first part of the second phase of the Review, following which Management would prepare the specific policy proposals for approval by Executive Directors in early FY15. The launch of the new policy would be during FY15. In the meantime, whilst these proposals are being developed, considered and deployed, Management will ensure that the existing scope for procurement innovation is emphasized and supported under current policy.

PROCUREMENT IN WORLD BANK INVESTMENT PROJECT FINANCE

PHASE I: A PROPOSED NEW FRAMEWORK

I. Introduction

1. The World Bank's Procurement Policy is a central part of the operational framework that governs every investment operation supported by the Bank. This affects some 1,600 ongoing projects as well as almost as many trust-funded activities under recipient execution. The policy governs how clients acquire works, goods, and services under Bank financing and the roles and responsibilities of the Bank and clients in that process. But as the world has changed, so has the way public procurement is practiced. And, as the Bank's clients have changed so has their institutional capacity. This has impacts for the development agenda and the nature of the Bank's support. The reform of procurement has the potential for substantial improvements to development effectiveness.

2. The Approach Paper to the Review of the Bank's Procurement Policy, endorsed at a joint meeting of the Bank's Committee on Development Effectiveness (CODE) and the Audit Committee in 2012, sets out the case for change and launched the first comprehensive review of the Bank's procurement policy since its founding.¹ The Review's Phase I, now closed, takes into account the views and opinions of external stakeholders and staff as well as undertakes additional analysis. The majority of these views confirm the need for change to the policy and implementation of the Bank's procurement approach. This coupled with the findings from the IEG report "World Bank and Public Procurement" have informed the proposed new framework.

3. This paper sets out the outline of a proposed new framework for procurement in World Bank Investment Project Finance, as discussed with Executive Directors at a joint meeting of CODE and the Audit Committee on April 12, 2013. It does not seek to elaborate the many details and the implementation issues that need attention—these will be examined in the next phase. The next steps will include Management's articulation of the framework in more detail to reflect guidance from Executive Directors, the Bank's ongoing change program, and further discussions with clients, staff, and other stakeholders. This fuller framework would be discussed with Executive Directors in the early part of 2014, following which Management would prepare specific policy proposals for approval by Executive Directors in early FY15.

4. Following this Introduction, Section II briefly describes the case for change, as discussed with Executive Directors in 2012, and summarizes the feedback received in external and internal consultations held since then. Section III outlines the proposed new framework for procurement in Bank operations. Section IV provides a broad overview of the proposed policy changes to investment project finance needed to support this framework. Section V sets out the proposed next steps, including identifying the areas on which more detailed work will need to be done. Finally, Section VI draws the key conclusions.

¹ *The World Bank's Procurement Policies and Procedures: Initiating Discussion and Approach Papers*, February 10, 2012, AC2012-0010, CODE2012-0007

II. The Case for Change and Feedback Received

5. For most projects financed by the Bank, the successful delivery of real, tangible results and the achievement of development outcomes rely on good procurement. The countries that borrow from the Bank spend several trillion US dollars annually on public procurement. By comparison, the Bank finances less than one percent of that amount. If the Bank can better support clients to strengthen their public procurement, the benefits could be transformational for governments, citizens, and businesses. Such a change could also be transformational for how the Bank operates.

6. The Bank has long been a global leader in good procurement for development. Its approach to procurement has served its clients and partners well. To sustain its leadership in a world that has changed profoundly since the current procurement architecture was developed, the Bank needs a new approach. The initial analysis of the problems and the need for change was set out in the Approach Paper and Initial Discussion Paper that launched the current Review in 2012.

7. That analysis has been further informed by the Phase I consultations held since then.² External consultations took place between May 2012 and February 2013 with participation of more than 2,000 representatives of government, implementing agencies, Multilateral Development Banks (MDBs), other development partners, civil society, private sector, academia, and public procurement experts from 96 countries. An on-line facility was established for additional public comment. Stakeholders saw the Bank's initiative as timely and welcomed it. A summary of the main messages received appears in Box 1.

8. Among the many views heard during the consultations, businesses reported wanting the Bank to retain its leadership role, especially for the highest value and most complicated contracts. They also want the Bank to make sure that there continues to be a level playing field for bidders and to emphasize value for money. Others, especially participants from developing countries, want procedures that are less complicated notably for low-value contracts. Many want to see much more encouragement and support from the World Bank for client countries to improve or reform their procurement systems. In a competitive, globalized business environment, open and fair access to the multi-trillion dollar bidding opportunities represented by public procurement is seen as critical to the growth of many businesses, both locally and internationally.

² Details of consultation feedback, summaries of meetings with an international advisory group, and copies of background papers can be found on the webpage dedicated to the Policy Review, www.worldbank.org/procurementconsultations. Background papers include analytics studies on Domestic Preferences, Lessons from Completed Cases of Fraud and Corruption, "Green" Procurement, Supplier Diversity, Comparison of International Procurement Instruments, and Use of Country Systems.

Box 1. The Main Messages from the External Consultations

- The need for a robust set of principles, reflecting new concepts in public procurement, and stressing the overarching importance of supporting development effectiveness, value for money, integrity and sustainability.
- The need for procurement methods that are context specific, proportional, and best fit for purpose, that allow for innovation, and that reflect modern, international good practice.
- The greater use of client procurement arrangements and institutions, with appropriate arrangements to manage associated risks throughout the whole project cycle, including in regard to Bank monitoring of contract execution, as well as recourse to the Bank and dispute resolution.
- Accompanying the use of client procurement arrangements, more support for capacity building, especially in lower income countries, and across all the actors—private business, NGOs, civil society and public institutions.
- The deployment of e-procurement and other technologies with attendant benefits in terms of time, cost, and transparency. This can reduce the potential for fraud and corruption, and allow data mining and analysis.
- Special attention to fragile and conflict affected countries and small economies with poorly developed markets, weak capacity, and limited options for economies of scale and competition.
- A strategic approach informed by upfront analysis of markets, industry practices, and competition, including the impact on local industry.
- Coverage of the full procurement cycle, from design through planning, tendering, contract execution and completion. This would balance compliance with specific rules during the tendering process with more attention to quality, results and performance.
- New thinking about the Bank’s approach to fraud and corruption, taking a holistic stance, looking at contract execution as well as tendering, integrating with local accountability institutions, and using new technologies and transparency initiatives.
- Renewed international partnerships with standard-setters, MDBs and donors, and other relevant global organizations.
- Clarification of the Bank’s role with respect to that of borrowers and development partners, as well as clarification of roles internally in the Bank.
- Bank’s direct oversight of procurement processes focusing on the largest and most complex and innovative contracts, and indirect oversight increasingly relying on country systems as well as civil society and independent observers at large.
- Metrics to measure results on the ground, changes to borrower/country capacity and professionalism, and the contribution of the Bank.

9. Consultations were also held within the Bank, and the views expressed by external stakeholders resonated with those inside the Bank — in particular, endorsement of the need for client capacity building, institutional strengthening and support for public procurement systems. Many anticipated the need for a major cultural shift and change in behaviors. Feedback also

emphasized the need to address the many implementation issues, including incentives, skills, systems, organizational arrangements, and budget. These will be addressed during Phase II.

10. Input was also sought from an International Advisory Group on Procurement (IAGP).³ IAGP is comprised of outside experts and practitioners and acts as a sounding board and source of expertise. Inaugurated in 2012, the Group has met twice and held informal exchanges. Members emphasized that development effectiveness should be the overarching objective of the Bank's procurement policy, highlighting value for money and integrity. They focused on risks and how to manage them. They urged the Bank to be clear about what is mandatory and what is advisory and stressed the need to reposition procurement within the Bank, to professionalize the function, to evaluate the Bank's internal processes and its appetite for risks, and to make sure that the institution adapts. Management will continue to work closely with the IAGP through the remaining phase.

11. The IEG report "The World Bank and Public Procurement: An Independent Evaluation" has provided a valuable input to the development of this revised paper - which incorporates the activities necessary to address the recommendations made by IEG. As the Review proceeds, further inputs and consultations are anticipated. The Bank will continue to engage with clients and other stakeholders and development partners, including in particular MDBs in pursuance of the harmonization agenda, on the final design.

III. Proposed Framework for Procurement in Investment Project Finance

12. Based on all of these inputs and additional analysis, it is proposed to put in place a new framework to guide procurement in Bank operations. The framework would comprise a vision and guiding principles, a strategy for implementation, and amended operating policies and procedures that govern procurement in the Bank's principal financing instrument, investment project finance.

13. ***Vision.*** The following vision is proposed: "Procurement in Bank Operations supports clients to achieve value for money with integrity in delivering sustainable development." This vision seeks in the first instance to maximize development results. The Bank would do this by continuing to be a global advocate for good procurement and by supporting clients to strengthen the performance of their institutions and procurement arrangements.

14. ***Guiding Principles.*** The overarching goal of achieving value for money and delivering sustainable results would be underpinned by several principles. These include economy, efficiency, effectiveness, integrity, openness and transparency, and fairness. These principles are consistent with international best practice in public procurement today, and they include economy and efficiency, which have guided the Bank's work in procurement since its inception.

15. ***Economy*** covers a number of dimensions, starting with price but also including competitiveness, quality, life cycle costs and benefits, and all three dimensions of sustainability

³ The IAGP's composition, TORs and minutes of meetings can be found at www.worldbank.org/procurementconsultations.

(economic, environmental and social). Open competitive bidding is seen as strongly contributing to economy but there will be circumstances when alternatives to full competition can be justified. (See also Box 2.)

Box 2: The Meaning of “Economy”

A point made frequently in the external consultations was that the Bank’s procedures allow for awarding contracts on the basis of the lowest price alone. This is not the case. The Bank’s Procurement Guidelines allow considerable latitude to include factors other than price, such as quality and after-sales service. However, in applying the policy, Bank staff and counterparts often choose the lowest evaluated bid based on price alone, perhaps because it is less complicated to do or is perceived to be less risky. It may also conform to local practices and procurement rules that require decisions to be made on the basis of the lowest price. A further contributing factor may be that economy is commonly understood as “the least expensive good,” “something not extravagant,” “which avoids unnecessary waste,” “the careful, thrifty, frugal, and prudent management of money,” and “restraint.” While positive attributes, these definitions are insufficient to accommodate modern concepts of sustainability, quality, and whole-life costs that underpin value for money. The strategic procurement approach should be on a whole life basis - which generates benefits to the procuring entity and the economy, but also to society whilst minimizing damage to the environment (reflecting the confines of the borrowers own procurement policy). This points to the importance of using terms that portray accurately the policy’s intentions and can be easily understood.

16. *Efficiency*, while broadly understood, can be difficult to apply to procurement. The Bank proposes to pursue efficiency by creating space for a sense of proportionality, taking a more risk based approach, focusing effort on higher risk and/or higher value activities and less on low risk and/or low value contracts. It would reflect general precepts of public procurement law; time sensitivity, giving more weight to timeliness generally and overcoming delays, but particularly to respond to the needs of certain procurements, for example, in the health sector, those facing rapid technological change, or when an emergency is faced; and cost-effectiveness of the process, to allow for new technologies, such as e-procurement, or innovative approaches such as framework agreements.

17. By aiming for *effectiveness*, the Bank would support finding the “right solution” to clients’ problems by applying a “fit-for-purpose” approach. This aligns procurement with satisfying the needs of the ultimate users—in effect, delivering sustainable development. Within this, the Bank will also provide more support to sustainable procurement as part of country and institutional capacity development, and within key projects (reflecting the confines of the borrowers own procurement policy).

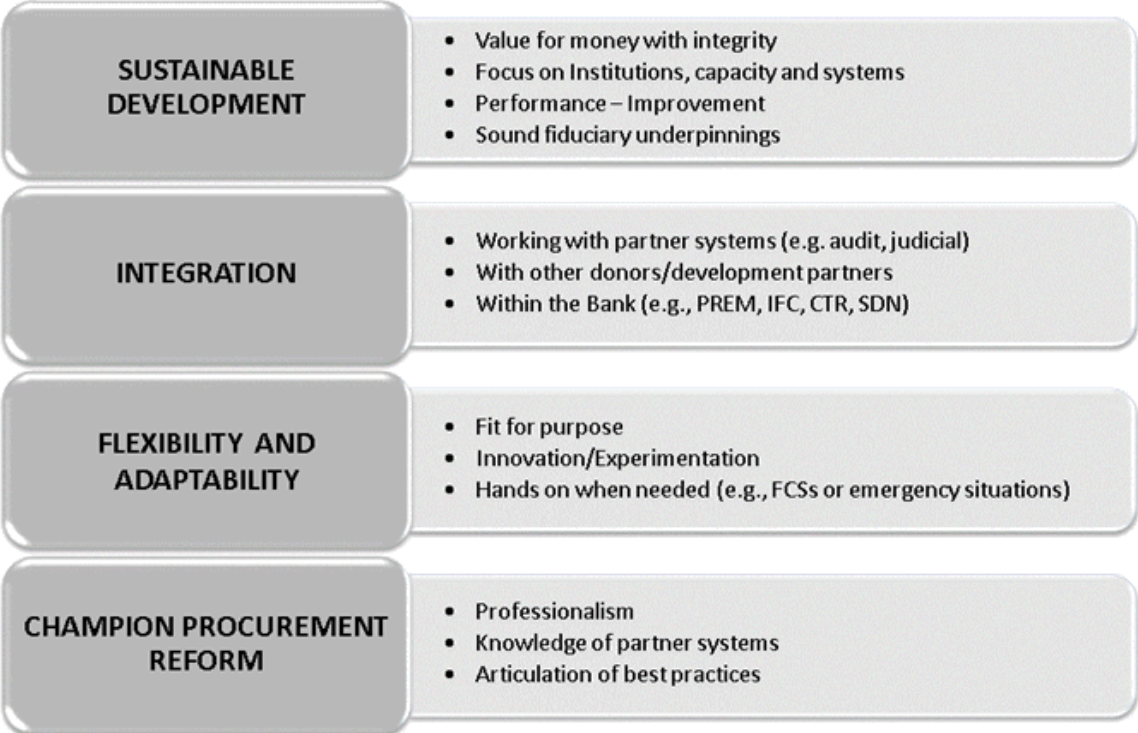
18. The Bank would promote the highest standards of *integrity* among all players—bidders, contracting authorities and oversight agencies—to protect procurement from fraud and corruption (F&C). It would help institutions to strengthen their own procurement arrangements to prevent, detect, and respond to F&C, which would involve working with both procurement agencies and the private sector. The Bank would promote *openness and transparency* in all stages of the procurement cycle both as an inherent quality of good procurement and to contribute to standards of accountability in overall public administration, for example, by maintaining the mandatory publication of tender notifications for Bank-financed International Competitive Bidding contracts, as accessible through the World Bank website. The Bank would

pursue the principle of *fairness* through equal treatment and opportunity of bidders, the equitable distribution of rights and obligations between contracting authorities and contractors, suppliers and consultants, and credible mechanisms for addressing complaints and providing recourse. Throughout the application of these principles, the Bank would support borrowers to put in place good procurement management practices.

19. *A strategic approach to procurement.* To give effect to the proposed vision and the guiding principles, the Bank would articulate and implement a strategic approach to procurement in its operational work. At the center of this strategy would be the Bank’s efforts to help clients “do” procurement well through their own institutions and arrangements as appropriate. This would align the interests of client governments, for whom good procurement is essential to their development efforts; the private sector, for whom public procurement represents an attractive market nationally (building local contract capacity) and internationally; and the Bank and other donors whose development assistance needs to be managed with integrity and the impact of whose support is leveraged by wider system improvements and concrete development results.

20. *The Bank’s Value Proposition.* The Bank’s value proposition, through its knowledge transfer and assistance advice, would emphasize sustainable development centered on achieving value for money, supporting clients in pursuing sustainable procurement goals, integration, and exercising adaptability and leadership (see Figure 1). This would lead to a shift in the Bank’s relative emphasis in several areas. More attention would be allocated to support client (procurement) arrangements and institutions, assessing institutional, sector, and market context, to help borrowers better execute and manage contracts, and to achieve transparency and responsiveness in handling of complaints. The Bank would free up resources to do this by being more targeted and risk-based in its surveillance of individual transactions.

Figure 1: The Bank’s Value Proposition



21. *At the global level*, the Bank would continue to work with borrowers, stakeholders, partners and other international organizations including MDBs to be a leading advocate for good procurement. This would include identifying broadly accepted international principles and practices. Its focus would shift from using a single procurement framework under Bank financed operations—i.e., its own—to accommodating and working with the wide range of arrangements found across the spectrum of its clients. In each case, the Bank would advocate and support implementation of good procurement principles and of the practices that reflect these principles.

22. *At the country level*, the nature and extent of the Bank’s work on procurement will vary. In some countries, where the Bank’s direct financial support is not needed, the role may be advisory bringing to the table international experience; in others, it may be to ensure good procurement on the projects or programs financed by the Bank; and in yet others it may involve several Bank instruments working to strengthen client procurement arrangements and institutions to enhance capacity. These efforts would be linked with the country’s efforts at strengthening public sector management and increasing the effectiveness of public spending. Not all of the Bank’s instruments would be used in each country—the choice and level of effort would depend on individual country conditions in the context of the Bank’s Country Partnership Framework and priorities. In addition to investment project finance, the Bank can, among others, support country procurement reform and capacity building through Development Policy Operations (DPOs), Program for Results Financing (PforR) which focuses on results and strengthening procurement performance of the institutions that implement the Bank-financed program, and trust funds and grants where available and appropriate, as well as through formal and informal knowledge and learning products.

23. It is envisaged that when the Country Partnership Framework, including the lending program, is determined, the procurement profile, including opportunities and risks, can be concurrently appraised. The procurement profile for a country would be informed by an appraisal diagnostic of the sectors in which engagement is planned, the broad market conditions (competitiveness, price trends, innovations, etc.) in those sectors, the institutions likely to be involved in implementation, and their procurement arrangements. In the event of any unexpected lending, not detailed in the Country Partnership Framework, then supplementary appraisals to determine the appropriate fit for purpose procurement system to be used would be undertaken as needed.

24. *At the project level*, the decision regarding the specific procurement arrangements to be used would be based upon “fit-for-purpose”, reflecting scale and risk. Such decisions would, in the first instance, be informed by the views of the borrower. In deciding which procurement arrangements are the most “fit for purpose” in an individual operation, the Bank would base the decision on an analysis of the sector, market and project context, as well as on its existing knowledge in these regards. This would be done by reference to the Bank’s procurement principles and policy standards adapted to the specific context of the operation. The overall standard of procurement performance required of borrowers would be no less than currently required. Any gaps identified would lead to agreement on actions to be taken to address them, support where appropriate to implement these actions, and monitoring of their implementation over time. The Bank’s Procurement Guidelines would therefore become one of several, different “fit for purpose” approaches that could be used in an individual operation. The procedures and methods contemplated in the current Guidelines, would be revised, modernized and reorganized

into operational policy (OP), bank procedures (BP) and a new “Public Procurement tool kit”, including standard bidding documents and other templates, and related products to be deployed in accordance with country conditions, the profile of the Bank’s country program, and the particular needs and risks of the operation.

25. The Bank’s tool kit would be expanded to include more training material and guidance on improving client procurement arrangements and institutions and incorporating new and innovative procurement methods and techniques as well as best practice from experiences that are being currently identified and will be regularly updated. This would capture the approaches and results from the many successful procurement reforms seen in many countries. There are success stories from previous Bank engagements on which to build, such as support to Mexico at the federal level (Box 3), to the State of Minas Gerais in Brazil, for modernization of public procurement regimes in Poland and Turkey, for capacity building operations in Bangladesh and Bhutan, for the ongoing work in Tunisia and Morocco on strengthening their procurement systems, and for the efforts being made by many African countries—from Senegal to Mauritius—to modernize their procurement arrangements.

Box 3: Mexico’s Procurement Modernization Efforts

The federal government’s public procurement in Mexico represents over US\$80 billion in government business, about 40 percent of the federal budget and 8 percent of GDP. A 1 percent saving, as estimated by the Public Contracting Agency, would thus translate to close to US\$800 million in annual savings. Up to 2009, the system was characterized by ineffective and inefficient use of resources, resulting in waste and poor outcomes, as noted by the joint Bank-IDB Country Procurement Assessment Review (CPAR) done in 2007. It was over-regulated, and focused heavily on controls and compliance. It lacked strategic vision and coordination with other agencies. Acquisitions were poorly planned and electronic systems obsolete, while procurement professionals were ill-prepared. Since 2009, Mexico has transformed its system, re-orienting it to results and outcomes and away from processes and compliance. There has been massive de-regulation: 586 regulations were eliminated. Global good practices have been introduced: framework agreements, consolidated purchases and reverse auctions. An updated e-procurement system has been implemented, processing 70,000 transactions per year with 54,000 private sector users. The impacts are considerable: some US\$650 million in savings have been realized over 2009-2011. Contracts awarded to SMEs have increased by 36 percent, representing about US\$10 billion in contracts annually. Social witnessing is practiced in all large contracts (where members of public/NGOs, etc., are freely able to witness the opening of tenders and other key stages of the procurement process to maximize transparency), and 308 government agencies have certified procurement units. The Bank engaged in Mexico as a partner, in an advisory capacity, helping to develop groundbreaking approaches to framework agreements for pharmaceuticals, events, airline tickets, and technology purchases, harmonized bidding documents, risk management tools, procurement performance indexes, and a professionalization program. Among the services provided by the Bank—with no direct lending—were access to the Bank’s knowledge and the facilitation of knowledge exchanges and partnerships among countries.

26. *Client demand for “hands-on” support and innovation.* Just as country conditions vary, so will the nature of demand for Bank support from clients. In some instances, clients may request support that goes beyond what the Bank might need to cover its fiduciary assurance needs alone. For example, while the Bank may feel comfortable with a given level of contract prior-reviewing, some borrowers may ask for more (including on low value, low risk contracts) as they see value in the Bank’s advice in this area. Some governments and other donors may also value a quality assurance and advisory role in procurement from the Bank. Some borrowers may want support for their project/procurement teams to help in sourcing suppliers, writing

specifications, evaluating bids, or preparing reports. In Fragile and Conflict-affected Situations (FCS), where capacity may not exist and it is difficult to recruit skilled services, the Bank may be requested to provide even more hands-on assistance. As a first step, a FCS hub has been formed and guidelines issued to staff to encourage them to take advantage of existing flexibility in applying the current Guidelines.

27. Some of these demands may push traditional boundaries of the Bank’s procurement work. These include a more direct role in contract execution, relying on other internationally accepted procurement arrangements, MDB procurement systems, and initiating strategic dialogue with regular top suppliers across Bank projects to improve performance with potential benefits for clients. Providing these services will sometimes present challenges for the Bank, including potential conflict of interest, and resource requirements in the context of competing priorities. Inevitably, innovation and a more “hands-on” approach will also present new risk profiles on occasion. In such cases, the Bank will propose appropriate risk mitigation measures. Phase II will elaborate these areas in more detail.

28. The Bank will help its clients to innovate (see Box 4). One important area is in use of e-procurement tools. These can help reduce costs, improve transparency, and facilitate small firms to compete by lowering bidding costs. As the procurement review takes place in parallel to that on the Bank’s safeguards policies, the Bank will also step-up its engagement on how procurement can better support borrowers to meet their sustainable development objectives, while taking care not to create rigidities or impose standards. The background study on “Green” Procurement⁴ underscores that provisions already exist for whole-life costing and appropriate user/technical specifications, but that room remains to help clients strengthen their national policy on sustainability, especially for the most environmentally and socially sensitive operations. Finally, there is an array of other procurement methods that should be promoted where appropriate—for example, design-and-build, strategic alliances, PPP, competitive dialogue, or the use of qualitative methods—where the Bank can help to advise national clients on their potential use. The new framework would seek to support these alternate procurement methods and share knowledge and experience with clients, while putting in place appropriate arrangements to manage associated risk and to build capacity.

⁴ See www.worldbank.org/procurementconsultations.

Box 4: The Open Data and Open Contracting Initiatives

There are several initiatives, launched in the past few years, which aim to bring as much data as possible about development into the hands of stakeholders. The World Bank has opened access to its wealth of information—8,000 different time series, along with statistics on debt, financial indicators, operations and micro- surveys—through its Open Data policy. The latest initiative is Open Contracting, a collaborative effort with German International Cooperation (GIZ), German Federal Ministry for Economic Cooperation and Development (BMZ), Construction Sector Transparency (CoST), Integrity Action, Oxfam, the Philippines Government, Transparency International, and the World Bank Institute, whose goal is to facilitate the creation of global principles and standards on the disclosure of information on public contracts, starting with large-scale ventures in infrastructure, forestry, extractive industries, and service delivery concessions. Disclosure would cover pre-award, award, and implementation. Along with working on standards, the initiative will also support capacity building and best practices. These international efforts are mirrored with new approaches and tools for how contract data are processed and transmitted between the Bank’s borrowers and the Bank. The Open Contracting piloting program, scheduled to launch in July 2013, will explore the development of communication protocols to transfer procurement data between Bank systems and those used by borrowers. The long-run ambition is for procurement plans and contract information to flow freely between the Bank and its borrowers, with open access to the public. The building of prototypes is underway.

29. *Bank Procurement skills.* This proposed new framework would have significant implications for Bank skills, training, incentives, organization, resources, systems, and processes. The Bank has recently enlarged and refreshed its procurement management and leadership team. As greater clarity emerges on the new framework, the Bank will undertake an independent skills survey of its entire family of procurement professionals (presently around 220 full-time staff members), assessing such aspects as strategic procurement, sustainable procurement, contract management, procurement reform/transformation support etc. This will include updating the core procurement competencies to be more consistent with recognized international standards. This assessment will then inform actions to address skills gaps, including training and education programs, so that Bank procurement skills and organization are aligned with the new framework. Such support would go beyond procurement staff and include the task team leaders and task teams at large.

30. *Benefits to clients.* The Bank will support clients in their efforts to improve their public procurement by filling gaps, streamlining their procedures and processes, overcoming bottlenecks, and providing more support for capacity building and professionalization. Better procurement should offer substantial financial and time savings to borrowers. There will be more flexibility to accommodate borrower preferences in the procurement regime to apply in Bank-financed operations, while ensuring that good procurement principles and standards still apply. By focusing more on client procurement arrangements and institutions, the impact of the Bank’s work (its “procurement footprint”) is likely to be felt on a greater scale and be more sustainable, however it is anticipated that this will be difficult to quantify, as it initially relies on good baseline data being available in countries. Procurement efforts of Bank staff would be more aligned with borrower efforts to strengthen their broader public financial accountability regime and public sector management. Where requested, borrowers could receive more “hands-on” support from the Bank, adapted to country and sector needs. This may offer particular benefits in fragile states. Procurement would also provide more space for innovation. And the Bank would aim for faster project execution.

31. *Benefits to the Bank.* The aim would be to provide task teams with improved responsiveness to client needs and preferences, faster project execution, better integration of procurement within project teams, an ability to innovate, more space to agree on common approaches with other donors, and a more risk-based approach to transaction oversight. Procurement staff would benefit by forming part of a function whose value to Bank operations is enhanced, and from planned investments in training to discharge their new role. Phase II will see further identification and where possible quantification of these benefits, as well as potential costs and risks, to both borrowers and the Bank.

IV. The Proposed New Policy for Procurement in Investment Project Finance

32. The Review is intended to propose changes to the operational policies that govern procurement in investment project finance. These policy changes will support the strategic framework for procurement in Bank operations described in the previous section. This section sets out an overview of the changes to be proposed. Future work under the Review will elaborate the detailed implications of this framework, as discussed below, and will seek feedback on these proposals.

33. The Bank's primary aim is to help its client countries build and implement sound procurement arrangements and institutions. At the same time, it seeks assurance that acceptable procurement practices are applied to the financial resources that it transfers to clients. The intention is to achieve value for money with integrity in delivering sustainable development, while at the same time assuring that the Bank's resources are used for the intended purposes. The policy framework for investment project finance would reflect these aims.

34. *Client Procurement Arrangements and Institutions.* Where senior political support exists, the Bank will support borrowers to put in place good procurement through sound policies and their effective implementation.

35. Where a borrower requests to use its own procurement arrangements and institutions in a particular Bank operation, the overall standard of procurement performance required by the Bank will be no less than present. The proposed outline of the draft standards and approach to be used for this purpose are described in Box 5, and will be further elaborated in Phase 2. These are rooted in the Bank's key principles, providing space to apply a range of "fit-for-purpose" procurement approaches adapted to the country, institution, sector, market and project context. Recognizing that there is no single global standard of good procurement, that approaches exclusively based on the rigid application of rules have limitations, and that the legal and administrative traditions of borrowers are diverse, the Bank will work with each borrower's institutional framework to strengthen procurement arrangements and institutions as needed. This would be undertaken in the context of the country's broader efforts at improving public financial management and public sector management.

36. Before analyzing the client procurement arrangements and institutions to be used in a specific operation it supports, the Bank would first examine the overall country legal and institutional framework by reference to the guiding principles of its policy. Countries would not be rated "pass/fail" on their overall procurement systems. Where the assessment reveals weaknesses—as it sometimes will—the Bank will agree with the borrower actions and capacity-

building measures as appropriate to address them. As a starting point, subject to further refinement and upgrading, the Bank will rely on its framework to assess procurement arrangements (CPARs and joint fiduciary assessments), in particular as set out in the Methodology for Assessment of National Procurement Systems (MAPS), to provide it with a structured and objective understanding of the arrangements in place. The final decision on the appropriateness of the client procurement arrangements and institutions, as well as the specific procurement arrangements to support any individual operation, will rest with the Bank as part of its obligation to provide fiduciary assurance.

Box 5: Draft Outline of Standards and Approach

In the proposed new policy framework, the Bank envisages that the procurement arrangements to be agreed for each investment operation would seek to:

- Optimize consideration of price, quality and other factors to generate desired development results on a sustainable basis
- Ensure competitive processes (where competition exists)
- Include proportional bidding instructions that are clear and easy to follow
- Establish a level playing field among bidders
- Undertake procurement planning strategically
- Reduce cycle times
- Provide recourse and ensure access to dispute resolution
- Provide integrity
- Allow for quality assurance, compliance checks, audits, inspections, third party verification
- Require transparency
- Consider externalities as appropriate

In reaching agreement on such arrangements for each investment operation that the Bank finances, it will:

- Understand and document the proposed client procurement arrangements and institutions. This will include the rules that would be followed and the borrower's capacity to do so
- Identify any weaknesses in the arrangements and assess the risks that they pose
- Agree with borrowers the actions to be taken to address such weaknesses and improve performance
- Monitor the agreed arrangements, including the agreed actions, during implementation
- When performance lapses, take remedial action, including where appropriate the application of the Bank's remedies

37. ***Fit for purpose approach at the project level.*** For each investment operation, the Bank will agree with each borrower the specific procurement arrangements that will apply, consistent with the guiding principles of its policy (see Box 5). This will imply more adaptability in defining and agreeing on the specific procurement rules, methods and procedures that will be utilized, taking a “fit for purpose” approach and relying on the client/borrower procurement arrangements, institutions, methods and procedures when appropriate. Engagement would be informed by a specific assessment of the institution concerned, inter alia the different elements of its procurement arrangements and the applicable legal and institutional aspects, its performance

capability, the market and sector context, and the specific risks and needs of the operation.⁵ Where the analysis reveals weaknesses—as it sometimes will—the Bank will agree with the borrower on project-specific short-term measures to mitigate assessed risks and/or to make improvements.⁶ The Bank will monitor agreed upon arrangements during project implementation and apply appropriate remedies in the event that agreements reached are not followed. The final decision on the procurement method to be employed will rest with the Bank as part of its obligation to provide fiduciary assurance.

38. In cases where a borrower requests the use of the Bank’s current Procurement Guidelines, methods and procedures (for example, if it does not yet have credible institutions or determines that the Bank’s procedures are most “fit for purpose” for the needs of the given activity), this will be agreed.

39. ***Decision making and accountability.*** To ensure independent decisions are made in the final determination of the most “fit for purpose” procurement approach for an individual operation (or portfolio of operations), this “clearance” will be made within the Procurement management structure (Chief Procurement Officer and/or Regional Procurement Manager) as appropriate. It is proposed that there will be early discussions across all parties to establish the appropriate procurement approach during the preparation of the Country Partnership Framework.

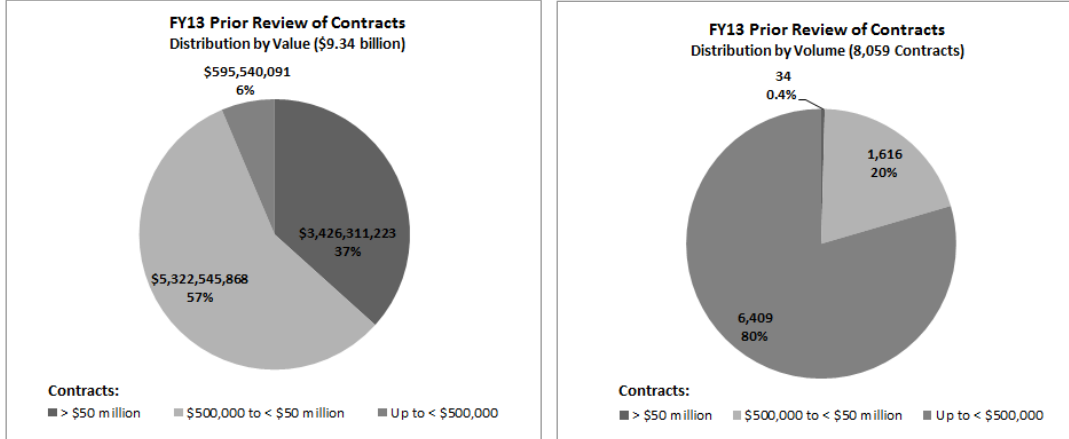
40. ***Fiduciary assurance.*** The new framework would see the Bank strengthen the assurance it receives that the transactions that it finances are subject to appropriate procurement practices and that Bank funding is used for the purposes intended. Procurement resources would be focused on the highest risk and highest value contracts, reducing the review of lower value and/or lower risk contracts (see Box 6). Changing this focus would release resources to increase support for higher added value activities such as upstream procurement strategy development and downstream contract management. At the same time, Bank staff would evaluate and monitor the performance of client “fit for purpose” procurement arrangements and institutions at all stages of contract implementation. The Bank would seek to further advance transparency through initiatives such as “open-contracting,” examining how third party verification processes and external audits can provide better assurance, and improving complaints handling mechanisms. No change is anticipated to the Bank’s legal remedies.

⁵ This analysis would include a review of the strategic context, such as understanding the market, the sector and the user’s requirements and more ex ante discussion with borrowers on the options as part of the country engagement strategy, pipeline development, project design, and preparation.

⁶ The proposed new policy framework therefore responds to the lessons of the Bank’s Piloting Program on the Use of Country Systems (UCS). First, it acknowledges that few countries have a single, unitary, uniform procurement system but rather multiple systems. Second, it goes beyond the legal framework to include the institutions that manage and oversee the procurement process. At this stage, it is not possible to determine how countries or particular borrowers will show their preferences between their own arrangements and the Bank’s procurement tool kit.

Box 6: Contract Reviews by Bank Staff

In FY13 Bank staff prior-reviewed (i.e., review prior to contract signing) 8,082 contracts (see below). These account for about \$9.4 billion. The trigger for a prior review is based on a combination of risk/value, market conditions and/or where the contract has been subject to International Competitive Bidding (ICB). As such prior review of lower value contracts can be warranted in high risk environments.



The graph above illustrates that 80% of prior reviews by volume, account for 6% of the total value of these contracts, see below for more detailed breakdown:

Prior Review Contract Type:	Total Value:	No. Contracts:	Mean Value of each Prior Review:	Median Value of each Prior Review:
Civil Works	\$6,150,981,752	1,051	\$5,853,897	\$698,815
Goods & Services (Non-Consulting)	\$1,843,997,225	1,885	\$978,300	\$181,508
Consultants	\$1,371,139,425	5,146	\$266,448	\$35,367
TOTAL	\$9,366,118,401	8,082	\$7,098,644	\$915,690

Additionally, Bank staff members and/or consultants review another approximately 10,000 contracts on an ex-post sampled basis, typically these contracts are not ICB and are of low value.

41. The Bank would remain committed to fighting fraud and corruption in procurement. Consistent with the thrust of the proposed framework, the Bank would seek ways by which it can help borrowers strengthen their anti-corruption efforts. Fraud and corruptions guidelines will remain in force, and therefore, the proposed new framework would not affect the Bank’s right to investigate and conduct audits in the case of any allegations of fraud and corruption. The framework’s proposed emphasis on more transparency, contract execution, and improved complaint handling will also enhance anti-corruption measures.

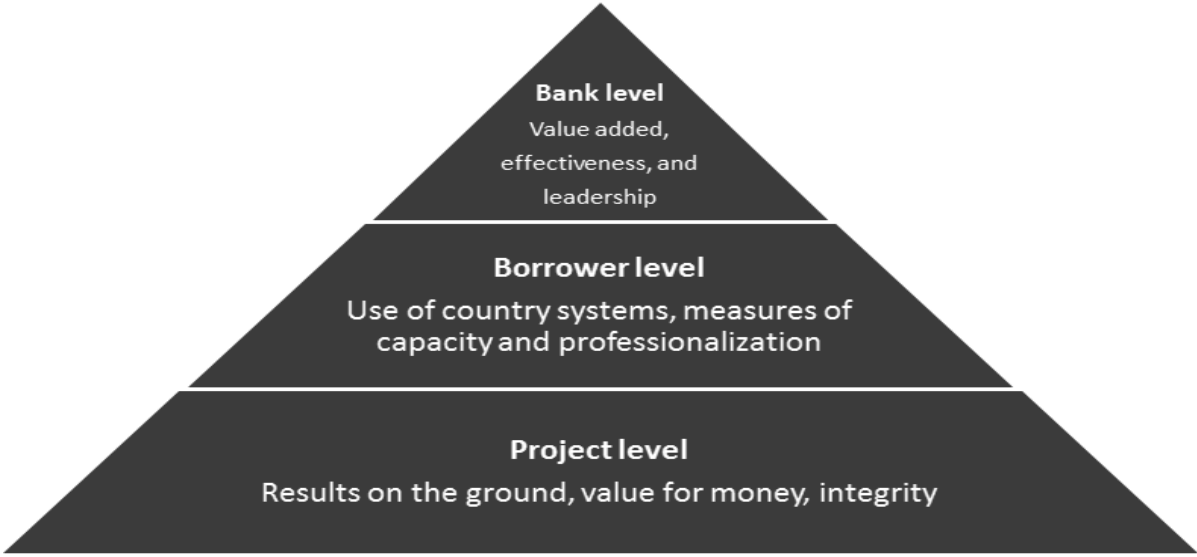
42. *Recasting the Bank’s Procurement Guidelines.* The operational policy for procurement (OP 11.0) includes specific reference to the application of the Bank’s Procurement Guidelines. The Guidelines include a combination of policy principles, Bank procedures and detailed processing requirements (such as the precise number of consultants to bid). As the Procurement Guidelines are currently classified as operational policy, any deviation from the specific text requires Board approval of the Guidelines in their entirety and modifications (such as adaptations to evolving procurement methods) are infrequent. Following standard practice of the Bank’s operational policy framework, the current Procurement Guidelines, as they now stand, would be modernized, revised and reorganized into: (i) an operational policy (OP) statement reflecting Board approved principles and requirements, (ii) statement of Bank procedures (BP) describing

specific procedures to be followed by staff and oversight mechanisms, and (iii) a tool kit of recommended good practice methods, processes, standard bidding documents, templates and supporting documentation to serve as guidance to staff and borrowers. The tool kit of good practice guidance materials would constitute a reference point to clients and staff and would be regularly updated in accessible language.

43. The updated statement of Bank procurement policy will be outlined during the second part of the next phase of the Review and would apply to all new investment operations approved after the policy’s adoption. During a transition period the current Bank’s Guidelines would continue to be valid for ongoing operations, with borrowers having the option of pursuing amendments to the legal agreements for ongoing operations to apply the new policy if appropriate.

44. *Internal changes.* The proposed changes underscore the need for a major transformation of the Bank’s internal skills, incentives, organization, roles, and responsibilities. These changes will be designed to be consistent with the Bank’s change agenda and its reforms of decision-making and accountability in operations. It would also include a review of internal controls to ensure that they are adequate for the new framework. Finally, the new framework would be supported by a series of metrics designed to measure its success. They would apply at the project level, at the client/national partner level, and at the level of the Bank as a whole (see Figure 2).

Figure 2: Measuring Policy Impact



45. *Comparison of proposed new policy to current arrangements.* Annex 1 provides a broad overview of how the proposed new procurement policy for investment project finance compares to current arrangements. Three hypothetical examples of how the new policy might play out in specific operations are provided in Annex 2. These are provided for illustrative purposes only at this stage and subject to change in response to guidance from the Committee and further discussions as the Review proceeds.

V. Next Steps

46. As outlined in the Review's Approach paper, following the consideration of the results of the work under Phase I by CODE and the Audit Committee on April 12, 2013, and the input of IEG's report, the Review would proceed to Phase II. Given the nature of the changes being proposed, the fact that other relevant initiatives are taking place during the next several months (as discussed below), and the need to allow more time for discussion of the details and their implications, Management will put in place an additional formal engagement point with Executive Directors—effectively dividing Phase II into two parts to allow for this dialogue to occur—before proceeding to the approval stage of the policy statement as originally planned. The end date for the review remains unchanged.

47. Phase II would articulate the new framework proposed in this paper in a fuller strategy for how the Bank would support client procurement performance and would provide the outline of a new statement of procurement policy. It would also address the many detailed implementation issues, including those related to transition support for both clients and staff and the accompanying changes to the Bank's organization, capacity, and systems. Phase II would also see more dialogue with staff, clients and external stakeholders. It would ensure that the proposals are consistent with any relevant decisions made in the context of the Bank's change agenda. Management therefore plans to come back to Executive Directors to discuss the results of Phase II in the early part of 2014.

48. Following that discussion, work would begin on the final part of Phase II. This would lead to the preparation of the detailed policy proposal to be presented to Executive Directors for approval early in FY15. This last part of Phase II would also include provision for appropriate public consultation. The launch of the new policy would be during FY15.

49. Among the issues that Management would explore in more detail in Phase II are the following:

- What are the benefits of this approach and how will they be measured? How will the benefits be seen by borrowers, shareholders, and other stakeholders? Will there be savings in time and/or cost for borrowers and for project implementation?
- What are the risks posed by this approach? How will they be managed? Specifically, how will the risk of fraud and corruption be addressed?
- What specific measures will the Bank take to strengthen institutions procurement?
- How does this approach fit within the Bank's overall change agenda? What is the specific change agenda that will apply to procurement? What changes may be needed to internal structures and decision-making?
- What are the staffing and cost implications? How will the new policy affect staff skills, incentives, knowledge and training?
- How will the Bank work with other international players and partners, including the MDBs?

- How will the areas noted for more emphasis in the future (contract execution, transparency, complaints mechanisms) be managed?

50. During the course of Phase II, Management would keep the Board informed of progress via CODE and the Audit Committee and periodic informal briefings. The consultations website would also remain active. As highlighted above, collaboration would continue with clients, stakeholders, other development partners, notably the MDBs, and IAGP.

VI. Conclusions

51. There are compelling reasons—laid out in the various background documents and articulated by a wide array of internal and external World Bank stakeholders—that provide the direction and rationale for why the World Bank’s procurement approach must change. These changes can be transformational for the Bank’s clients and for the Bank itself.

52. This paper proposes a vision statement “Procurement in Bank Operations supports clients to achieve value for money with integrity in delivering sustainable development.” The proposed new framework reflects the complexity and the diversity of the Bank’s business and the situations clients face. It takes into account the need for proportionality in the way that procurement is carried out. It supports the strengthening of client procurement arrangements at an institutional level. Moreover, it constitutes a significant opportunity to lift the strategic importance of public procurement and to articulate explicitly the Bank’s value proposition as a champion of procurement reforms.

53. There will be many challenges during implementation of this new framework. It implies a shift in culture, behaviors and incentives within the Bank and in the way that the Bank works with other actors. While there are many challenges ahead, the new policy is anticipated to have a significant impact on development effectiveness through direct and measurable benefits.

COMPARISON OF PROPOSED NEW POLICY FRAMEWORK FOR INVESTMENT PROJECT FINANCE TO CURRENT ARRANGEMENTS

This table provides a broad overview of how the proposed new procurement policy for investment project finance compares to current arrangements. It is not a complete treatment. It does not refer to the broader agenda of capacity-building and strengthening of procurement systems at the country level although strengthening client institutional capability is a central theme of the proposed new framework and capacity building efforts and procurement reforms would form part of the Bank's larger country engagement, the resources for which would be part of the country dialogue and priorities. Moreover, it is for illustrative purposes only and is subject to change as the Review proceeds.

Dimensions	Current Procurement Policy and Procedures	Proposed New Procurement Policy Framework
Vision	The current Guidelines and OP/BP11.00 do not explicitly link procurement to development effectiveness or provide an overall statement of the overarching goal and vision.	The proposed new framework is grounded in an explicit statement of what the policy is intended to achieve—achieving value for money with integrity in delivering sustainable development.
Guiding Principles	The Guidelines provide a statement of the principles of economy and efficiency as contained in the Bank's Articles of Agreement. It also provides for open eligibility and opportunity, development of local industry, and transparency.	The new framework lays out a comprehensive and integrated set of guiding principles. It makes the guiding principles more explicit and modernizes the Bank's approach to procurement, by adding effectiveness, openness and transparency, integrity, and fairness, all underpinned by good management. The framework will continue to provide for open eligibility and opportunity, development of local industry and transparency.
Scope of the Policy	The policy applies to the full procurement cycle in principle but in practice the Bank's Guidelines emphasize the tendering phase. They provide some guidance on upstream activities—procurement planning—and very little on downstream activities—contract execution and management—with the exception of Bank approval of modifications to contracts subject to prior review and the right to inspect and audit.	The new framework endeavors to provide attention across the full cycle, with more emphasis on upstream strategic procurement planning, to help prevent problems downstream, and more emphasis on actual contract execution to focus on getting results. This means working more closely with technical colleagues on quality assurance and with financial management colleagues on internal controls, reporting, and auditing, and working with clients to facilitate implementation.
Progressive use of a Clients Procurement arrangements and Institutions in Operations	In terms of procurement methods, National competitive bidding (NCB) is based on country procedures but with adaptations to meet Bank Guidelines (side letters in the Loan Agreements). Other elements of the country legal and regulatory system and procurement sub-systems are used.	At the request of the borrower and subject to agreement by the Bank, alternate procurement methods and procedures (such as an Implementing agency's own procurement system), other than the World Bank Guidelines could be utilized under the new fit for purpose approach. These methods and procedures would reflect the Bank's Guiding Principles and performance standards. As needed, the Bank can agree corrective actions with the borrower to close any gaps in practice and monitor these during implementation, and apply appropriate remedies in the event that they are not followed. Further details will be elaborated in

Dimensions	Current Procurement Policy and Procedures	Proposed New Procurement Policy Framework
Use of the Procurement Guidelines	The current guidelines are mandatory for all borrowers. Although waivers and exceptions can be approved by the Board at the time of loan approval or by Management after loan approval, this is rarely done.	<p data-bbox="964 222 1521 254">Phase II.</p> <p data-bbox="964 285 1521 737">In the future, if this proposed framework is agreed the current Guidelines, as they now stand, would be modernized, revised and reorganized into: (i) an operational policy (OP) statement reflecting Board approved principles and requirements, (ii) statement of Bank procedures (BP) describing specific procedures to be followed by staff and oversight mechanisms, and (iii) a tool kit of recommended good practice methods, processes, standard bidding documents, templates and supporting documentation to serve as guidance to staff and borrowers. The tool kit of good practice guidance materials would constitute a reference point to clients and staff and would be regularly updated in accessible language.</p> <p data-bbox="964 831 1521 947">The tool kit of good practice guidance materials would constitute a reference point to clients and staff and would be regularly updated in accessible language.</p>
Choice of Procurement Method	In the case of works, goods and non-consulting services, the current guidelines stipulate that ICB is the method of choice (the default). Other competitive methods (e.g. NCB, local shopping) are possible if the tender will not likely attract international competition based on the size of the contract and its nature. Non-competitive methods can be used if justified and approved by the Bank. For consulting services, there is an analogous procedure comparable to ICB.	Preference for open competitive methods would continue. However, the range of possible methods would no longer be based on the “positive” list set out in the current guidelines but could be open to a broader range of methods including the borrower’s or another method as agreed with the Bank. The choice would be based on best fit for purpose, and selected on the basis of criteria that go beyond value, including project needs, market conditions, sector and industry practices, complexity, risks and borrower capacity, and meet performance standards. Recognized international practice, and methods contemplated in the borrower’s or other multilateral institution’s policies, could also be used.
Use of Standard Bidding Documents	The Bank’s standard bidding documents are mandatory for ICB, subject to minimal changes. For NCB, the borrowers’ standard bidding documents may be used if they are acceptable to the Bank and consistent with Bank policy. For consultants, the Bank’s standard forms are required. Alternatives can be used subject to the Bank’s review.	Standard bidding documents (SBDs) would remain available, although some will be simplified for use in standard processes and contracts and the current SBDs could be used with modifications to fit the particular sector and market. They could also be used as templates as part of the Bank’s tool-box for the borrower to draw upon.
Strategic Procurement Planning	A procurement plan is needed for each operation and is subject to the Bank’s review and no-objection. The plan lists contracts, procurement methods, the Bank’s review requirements, and thresholds for	The new framework foresees an even more strategic procurement planning function, with the procurement plan assuming an enhanced role as a planning and monitoring tool.

Dimensions	Current Procurement Policy and Procedures	Proposed New Procurement Policy Framework
	publication. This plan is published and updated regularly.	
Fiduciary Assurance	The Bank prior-reviews contracts above certain thresholds (determined by country and by nature of the contract) and post-reviews a sample of the remaining contracts. In practice, all ICB and consulting contracts above the threshold are subject to prior review, while the first two let under NCB are reviewed, along with all contracts let under non-competitive procedures. Each year, around 10,000 contracts are prior-reviewed, amounting to around 10% of the total by number and 50% by value, and a further 10,000 are post-reviewed on a sample basis.	The Bank would strengthen its fiduciary assurance. While a smaller number of contracts would be subject to prior-review by Bank staff, these would be selected through a more rigorous risk-based approach. Bank staff would pay more attention to the performance of the clients “fit for purpose” procurement arrangements at all stages of contract implementation, and would seek to further advance transparency through initiatives such as “open-contracting”, examine how third party verification processes and external audits can provide better assurance, and improve complaints handling mechanisms.
Remedies	The Bank may declare mis-procurement and either cancel the associated monies or reallocate them to another activity.	No change is planned to the Bank’s legal remedies.
Fraud and Corruption	The current Procurement Guidelines, supported by the Anti-Corruption Guidelines, obligate the highest ethical standards, require borrower to include a clause in the bidding documents and contracts that allows the Bank to inspect and audit, and permit borrowers to introduce an undertaking by the bidder to observe the country’s laws.	Existing rights and obligations would not be altered. In addition, the Bank would enhance its effort by providing more attention to national anti-corruption measures and institutions, contract execution, transparency and open contracting.
Sustainability	The current policy and procedures are neutral with respect to social and environmental sustainability. The guidelines do not prevent such concerns being taken into account in life cycle costs and benefits, but this flexibility is rarely used.	<p>The proposed new framework provides opportunities to advance and accommodate borrower sustainable procurement policies and approaches (including green sustainable procurement), quality evaluation, corporate and social responsibility provisions, as well as integrity issues. Phase II, in coordination with the parallel review of safeguards policies, will elaborate this area further.</p> <p>It is proposed to promote the benefits of sustainable procurement to the borrowers at both a systemic policy level and at a project level identifying key projects with sustainability impacts. More support will be provided to borrowers to assess value for money, including such issues as guaranteed lifespan, consumables, energy consumption, disposal costs etc – so that better procurement decisions can be taken.</p> <p>The Bank will include sustainable procurement as part of its own internal procurement capacity development, ensuring internal skills remain contemporary.</p>

ILLUSTRATIVE EXAMPLES OF USING THE NEW FRAMEWORK

Example One: a medium size, low income country, with a weak overall procurement capacity and relatively high risks in terms of integrity. Nevertheless, the institutional setting is stable and there is a long tradition of community self-help and a reliable track record of community driven development (CDD). The Bank is considering a new CDD operation and has carried out an assessment of the central agency that would oversee the new operation and the capacity at the local levels. It has worked with the central agency before and is aware of its strengths and weaknesses. The Bank has further examined the local markets for the typical items to be financed. Besides the CDD component, the operation is to include the contracting of an agency to assess the operation's impacts. This requires independence, ability to manage a large field presence, and a high degree of analytical and research capability. Given this profile, the procurement arrangements agreed for this operation are: (i) local community based procedures for the CDD component; and (ii) the Bank's procedures for the M&E component. The Bank would be closely involved in this critical contract and carry out prior review. For the CDD component, the Bank would work closely on monitoring, quality assurance and auditing.

Example Two: a large, upper-middle income country which is upgrading its feeder roads in an under-developed, isolated region. Country capacity is relatively high, as is that of the implementing agency. Environmental and social risks are gauged as low. Overall construction capacity is high, but there may be localized constraints. Local procurement procedures are generally acceptable but need upgrading with respect to price adjustments. The main risks are not procurement per se but contract administration and ensuring that the contractors complete the works on a timely basis and up to quality standards and can deal with local conditions on the ground. The Bank and borrower agree to use the local procurement procedures with the needed revision and to focus attention on contract management, execution and quality assurance. The Bank's direct fiduciary oversight of contracts would be limited and its main value added would be on upstream procurement planning and on downstream execution.

Example Three: a small, lower-middle income country in which a major investment is being considered to develop a new energy source. The scale of the investment is high in relation to the size of the economy. The potential rewards are also very high. It is breaking new ground in terms of the technology. There are few potential suppliers, all foreign based, although local companies could be sub-contracted and/or participate in joint ventures. Social and environmental concerns are high, as there may be negative consequences on local populations. While the country is not considered a high risk in terms of fraud and corruption per se, the high profile of the investment and its revenue-benefit stream could change that landscape. All stakeholders understand these risks and want the investment to succeed. The borrower requests the Bank's procurement procedures be used. The Bank would be closely involved in all dimensions and carry out prior reviews of the majority of contracts.