PROCUREMENT GUIDANCE

Project Procurement Strategy for Development

Long Form Detailed Guidance

July 2016

THE WORLD BANK
IBRD • IDA

Published July, 2016 – First Edition

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Common Abbreviations and Defined Terms

This section explains the common abbreviations and defined terms that are used in this Guidance. Defined terms are written using capital letters.

Abbreviation / term	Full terminology / definition
BAFO	Best and final offer.
Bank	IBRD and/or IDA (whether acting on its own account or in its capacity as administrator of trust funds provided by other donors).
Bid	An offer, by a firm or joint venture, in response to a Request for Bids, to provide the required Goods, Works or Non-consulting Services.
Bidder	A firm or joint venture that submits a Bid for Goods, Works, or Non-consulting Services in response to a Request for Bids.
BOO	Build, own, operate.
BOOT	Build, own, operate and transfer.
Borrower	A borrower or recipient of Investment Project Financing (IPF) and any other entity involved in the implementation of a project financed by IPF.
BOT	Build, operate, and transfer.
CDD	Community-driven development.
CIP	Incoterm meaning Carriage and Insurance Paid to (named place of destination).
Competitive Dialogue	A selection method for Goods, Works or Non-consulting Services described in Paragraphs 6.39 to 6.41 and Annex XIII of the Procurement Regulations.
Complaint	A procurement-related complaint as described in Paragraphs 3.26 to 3.31 and Annex III, Procurement-related Complaints of the Procurement Regulations.
Consultant	A variety of private entities, joint ventures, or individuals that provide services of an advisory or professional nature. Where the Consultant is an individual they are not engaged by the Borrower as an employee.
Consulting Services	Covers a range of services that are of an advisory or professional nature and are provided by Consultants.

Abbreviation / term	Full terminology / definition
	These Services typically involve providing expert or strategic advice e.g., management consultants, policy consultants or communications consultants. Advisory and Project related Consulting Services include, for example: feasibility studies, Project management, engineering services, finance and accounting services, training and development.
Core Procurement Principles	The Bank's Core Procurement Principles as set out in Section III. C of the Bank Policy: Procurement in IPF and Other Operational Procurement Matters.
CQS	Consultant's qualifications based selection.
EOI	Expression of Interest.
FA	Framework Agreement.
FBS	Fixed-budget Based Selection; a method of evaluating the selection of Consultants where Proposals are based on a fixed budget.
Fraud and Corruption	The sanctionable practices of corruption, fraud, collusion, coercion and obstruction defined in the Anti-Corruption Guidelines and reflected in paragraph 2.2a of Annex IV of the Procurement Regulations.
Goods	A category of procurement that includes: commodities, raw material, machinery, equipment, vehicles, Plant, and related services such as transportation, insurance, installation, commissioning, training, and initial maintenance,
IBRD	International Bank for Reconstruction and Development, which is part of the World Bank Group.
IDA	International Development Association, which is part of the World Bank Group.
Incoterms	The international commercial terms for goods published by the International Chamber of Commerce (ICC).
Initial Selection (IS)	The shortlisting process used prior to inviting request for Proposals in the procurement of Goods, Works or Non-consulting Services.
Investment Project Financing (IPF)	The Bank's financing of investment Projects that aims to promote poverty reduction and sustainable development. IPF supports Projects with defined development objectives, activities, and results, and disburses the proceeds of Bank financing against specific eligible expenditures.

Abbreviation / term	Full terminology / definition
LCS	Least-cost-based Selection: a method of evaluating the selection of Consultants based on the lowest price.
Legal Agreement	An agreement with the Bank providing for a loan for a Project, including Procurement Plan and all documents incorporated by reference. If the Bank enters into a Project agreement with an entity implementing the Project, the term includes the Project agreement.
Most Advantageous Bid/Proposal	As defined in Annex X, Evaluation Criteria of the Procurement Regulations.
NGO	Non-governmental Organization.
Non-consulting Services:	Services, which are not Consulting Services. Non-consulting Services are normally bid and contracted on the basis of performance of measurable outputs, and for which performance standards can be clearly identified and consistently applied. Examples include: drilling, aerial photography, satellite imagery, mapping, and similar operations.
PESTLE	A PESTLE (Political, Economic, Social, Technology, Legislative and Environment) is an analysis tool for supporting assessment of each of these factors.
Plant	A category of procurement relating the provision of equipped facilities, such as those executed on the basis of design, supply, installation, commissioning, maintenance, modification and protection.
PPP	Public-Private Partnership.
Prequalification	The shortlisting process, which can be, used prior to inviting request for Bids in the procurement of Goods, Works or Non-consulting Services.
Probity Assurance Provider	A third party that provides specialist probity services for concurrent monitoring of the Procurement Process.
Procurement Approach	Procurement approach is the overall design of “fit for purpose” procurement to award contracts that deliver the Project Development Objectives and Value for Money. This includes the procurement arrangements, procurement risk management, contract strategy, market engagement, requirements drafting and contract management (where appropriate).
Procurement Arrangements	Procurement arrangements are the combination of Selection Methods and Market Approaches.
Procurement Plan	The Borrower’s Procurement Plan for IPF Projects, as referred to

Abbreviation / term	Full terminology / definition
	in Paragraphs 4.4 and 4.5 of the Procurement Regulations, and incorporated by reference in the Legal Agreement.
Procurement Process	The process that starts with the identification of a need and continues through planning, preparation of specifications/ requirements, budget considerations, selection, contract award, and contract management. It ends on the last day of the warranty period.
Procurement Regulations	The "World Bank Procurement Regulations for IPF Borrowers".
Project Procurement Strategy for Development (PPSD)	A Project-level strategy document, prepared by the Borrower, that describes how procurement in IPF operations will support the development objectives of the Project and deliver VfM.
Proposal	An offer, in response to a request for proposals, which may or may not include price, by one party to provide Goods, Works, Non-Consulting Services or Consulting Services to another party.
Proposer	An individual entity or joint venture that submits a Proposal for Goods, Works, and Non-consulting Services in response to a request for proposals.
QBS	Quality-based Selection.
QCBS	Quality and Cost-based Selection.
REoI	Request for Expressions of Interest.
RFB	Request for Bids as a selection method.
RFP	Request for Proposals as a selection method.
RFQ	Request for Quotations as a selection method.
Shortlist	The shortlisting process used prior to inviting request for Proposals in the procurement of Consulting Services.
SOEs	State-owned Enterprise or institution.
Standard Procurement Documents (SPDs)	Procurement documents issued by the Bank to be used by Borrowers for IPF financed Projects. These include, GPN, SPN, EOI, REOI, Standard Prequalification documents, Initial Selection documents, Request for Bids Documents, and Request for Proposals Documents.
SWOT	A SWOT (Strengths, Weaknesses, Opportunities and Threats) is analysis is a tool that can support the Borrower Capability assessment, Market Analysis and Procurement Risk Assessment.

Abbreviation / term	Full terminology / definition
TOR	Terms of Reference.
UN Agency	UN Agency broadly refers to the United Nations departments, specialized agencies, and their regional offices, funds, and programs.
VfM	Value for Money.
Works	A category of procurement that refers to construction, repair, rehabilitation, demolition, restoration, maintenance of civil work structures, and related services such as transportation, insurance, installation, commissioning, and training.

Contents

Section I. Introduction

The Project Procurement Strategy for Development (PPSD) is a methodology that is used to determine the optimum procurement approach to deliver the right procurement result.

This Procurement Guidance is for use when drafting the Long Form Project Procurement Strategy for Development (PPSD) which is used for the highest value and / or risk procurements financed by the Bank. This detailed Guidance provides a structured approach for Borrowers to use a modern procurement set of tools and techniques to achieve best Value for Money (VfM) in Projects financed through Investment Project Financing (IPF).

The level of detail in the PPSD should be proportionate to the risk, value, context, nature and complexity of a Project/contract.

As with the overall preparation of the PPSD, the use and application of these tools needs to be proportionate to the level of market research and information required to develop a "fit for purpose" procurement approach. There is not an expectation that all the procurement tools will be used, but only those most appropriate to the individual Project/contract circumstances.

The PPSD asks the Borrower to consider, among other things, the market situation, the operational context, previous experience and the risks present – then from this, determine the right procurement approach that will yield the right type of response from the market. By designing the right procurement approach, there is far more likelihood of the right bidders participating, better bids being received, and an overall increased chance of achieving value for money. Therefore, determining the right procurement approach, informed by appropriate analysis, is a critical activity that subsequently impacts every following step of the procurement process, and onwards into Project implementation.

This detailed PPSD Guidance should be read in conjunction with the Procurement Regulations for IPF Borrowers. This guidance should also be used as a good technical resource for Borrowers seeking to apply strategic procurement more generally.

For reference, there are a series of short training videos that explain the use of key procurement tools in the PPSD process, see www.worldbank.org/procurement. Examples of completed Long Form PPSDs will be published as soon as they are available.

For lower value / risk procurements please see the short form PPSD guidance.

Section II. Background

The PPSD and the Procurement Plan are documents that the Borrower prepares as part of the Project preparation process for Projects financed through IPF. The Bank reviews the PPSD together with the Procurement Plan as part of Project appraisal and reaches agreement with the Borrower on the Procurement Plan no later than completion of loan negotiations.

No formal clearance of the PPSD is required, however, the PPSD summary (as detailed below), will form part of the Bank's Project Appraisal Document (PAD), that summarizes all activities relating to a Project's preparation and the Bank will consider the PPSD summary as part of the overall PAD package and determine whether the whole package can be cleared.

The agreed outputs from the PPSD are summarized by the Bank and included in the Bank's PAD. Also as part of Project preparation, a Procurement Plan is prepared based on the analysis in the PPSD and this is subject to the Bank's no objection. The Procurement Plan should be updated periodically to reflect actual needs and changing circumstances. Any updates to the Procurement Plan should be submitted to the Bank for its review and no objection. Any changes to the Procurement Pan should be justified, as appropriate, by the Borrower through a revised PPSD.

In situations of urgent need of assistance because of a natural or man-made disaster or conflicts recognized by the Bank, the Borrower should only prepare a high-level, summary PPSD, as soon as practicably possible. In these situations, the PPSD can be reviewed with the Bank later during implementation.

A PPSD is a structured, analytical approach that is designed to support procurement planning with the aim of developing the right procurement approach to enables Borrowers to achieve VfM with integrity in delivering sustainable development.

This Guidance has been structured in a linear manner to help the Borrower fill out the detailed PPSD template. As the Borrower completes the PPSD sequentially, there may be a need to revisit earlier Sections based on information gathered in a subsequent Section.

2.1 Selecting the Appropriate PPSD Template

Most Projects will use the Short Form PPSD Template and the associated Short Form PPSD Guidance.

For those Projects that have significant procurement contracts (by value and risk) the Long Form PPSD Template should be used as detailed in Annex I. Table I overleaf details the type of procurement/contract, risk, and value thresholds that should be used to determine when the Long Form PPSD Template should be completed. ***If a Project meets the criteria in in figure I, then a Long Form PPSD is required*** to be completed for the Project (i.e. if a procurement is a "Works" procurement, and it is low risk, and it's value is greater than or equal to US$200m, a Long Form PPSD must be completed.)

The procurement risk rating as shown in Table I should be agreed between the Borrower and the Bank. The Borrower and the Bank should also agree when a Long Form PPSD is required.

	Thresholds for Use of the Long Form PPSD Template as a Function of Procurement Risk			
Type of Procurement/Contract	Estimated Contract Cost (US$ millions)			
Works	≥ 200	≥ 115	≥ 75	≥ 50
Goods IT and non-consulting services	≥ 125	≥ 75	≥ 50	≥ 30
Consultant services	≥ 40	≥ 30	≥ 20	≥ 15
Procurement Risk	Low	Moderate	Substantial	High

Table I – Thresholds for Completing a Long Form PPSD

Further analysis of the procurement risks associated with individual contracts or the Project is undertaken Section V of this Guidance.

2.2 PPSD Preparation and the Project Cycle

The preparation of the PPSD should begin as early as possible in the Project Cycle, which normally will be at the Project Concept stage, once the major contracts in the Project have been identified. Where circumstances allow, the Borrower should start the preparation of the PPSD after the Project feasibility stage where decisions on the technical solution and associated contract types (see Section 8.4 Contract Strategy of this Guidance) start to be made.

The PPSD provides the basis for preparing the Procurement Plan, which includes a description of the procurement contracts, the procurement risks, the contract values, the approach(s) to market and the selection methods. One, single, Long Form PPSD should be prepared for all contracts that are required for a Project. The PPSD should describe the procurement approach in sufficient detail for all the procurements to be undertaken during, at least, the first eighteen (18) months of the Project and should be updated for the remaining procurements, as important information becomes known. Accordingly, a Procurement Plan should be prepared and agreed with the Bank for the first eighteen (18) months of the Project prior to completion of loan negotiations. The Procurement Plan should be updated every twelve (12) months or earlier.

The information available to support the development of the PPSD will be different for each Project and there may often be information gaps that need to be addressed through research and market engagement (as further detailed in Section IV of this Guidance).

A single Long Form PPSD should be prepared for all Projects that have one or more contracts over the thresholds stated in Table I. **The level of detail in the PPSD should be proportionate to the risk, value, context, nature and complexity of a Project.** Section 4.3.1 of this Guidance, Supply Positioning, details a procurement technique that can be used to determine where research and analysis should be focused for preparing the PPSD and any subsequent updates.

A Procurement Activity Schedule is not required. The justification for all procurement approaches must be included in the PPSD and the Procurement Plan, including any revisions. Therefore, the PPSD may involve research and analysis of multiple marketplaces, with a number of procurement approaches designed for each market.

2.3 Overview

The PPSD is the cornerstone for ensuring that the procurement approach is properly planned and designed. This will enable the selection of the most appropriate suppliers by providing the suppliers with the best opportunity to demonstrate the value they can offer through the selection process.

The best opportunity for achieving VfM in contracts is at the planning stage of the procurement process. The PPSD is structured to ensure that consideration is given to all the appropriate procurement tools, techniques and methods at this planning stage. It is also structured to provide the earliest opportunity for VfM to be designed into the procurement approach before the formal procurement process commences. Figure I demonstrates the importance of early procurement planning. For additional context on VfM, see VfM Guidance document at www.worldbank.org/procurement.

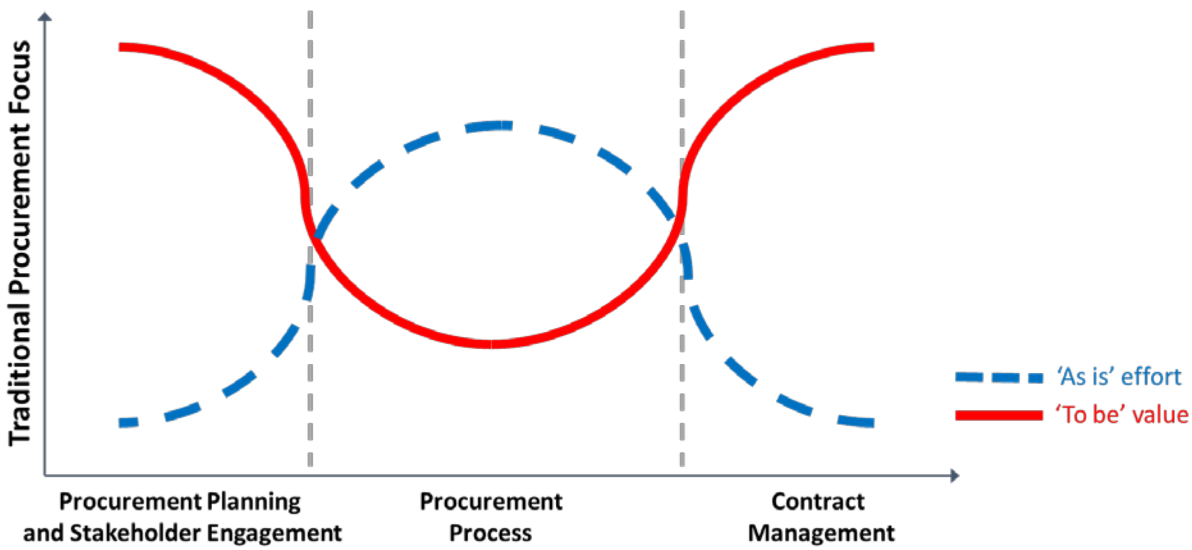


Figure I – Opportunity and Influence in Delivering VfM in the Procurement Process

Additionally, the active management of the contracts within a Project post-award helps to ensure that suppliers meet their contractual obligations and are incentivized and enabled to deliver VfM.

2.4 The Three "D" Procurement Planning Approach

The World Bank's strategic approach to procurement for delivering VfM is structured around three stages outlined in Figure II and further described in the Sections below.

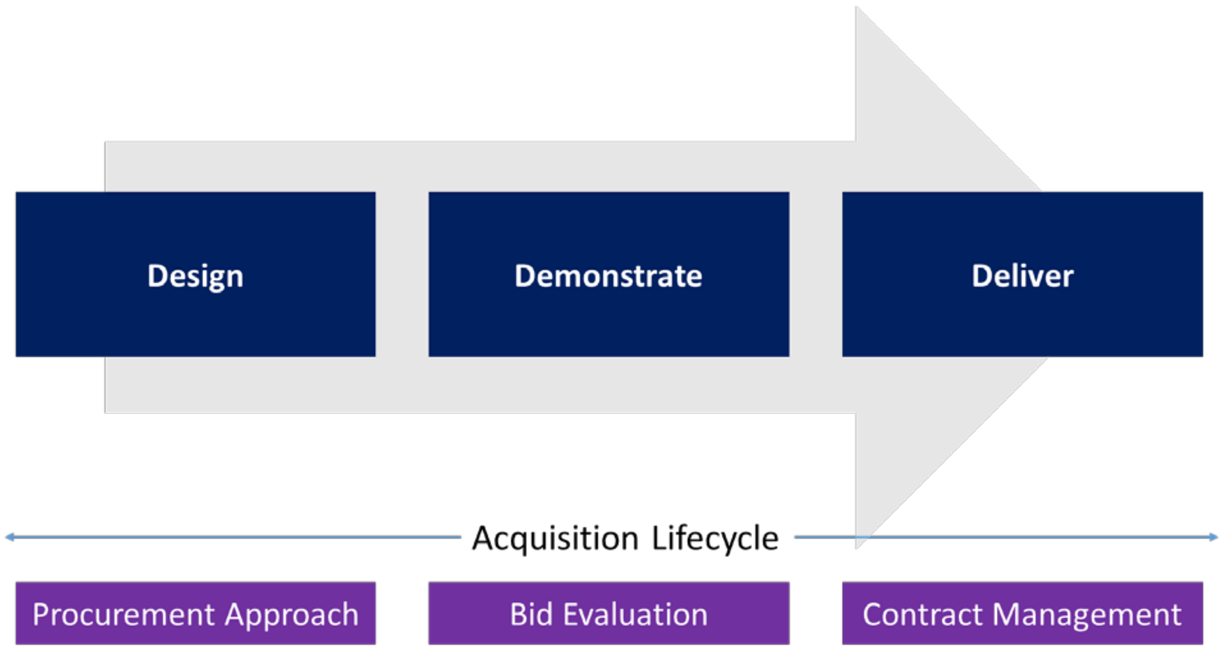


Figure II – The Three "D" Procurement Planning Approach

2.5 Design

The Design stage is documented in the PPSD and will result in a set of proposed "fit for purpose" procurement approaches for the contracts within a Project that have been justified by ***appropriate and proportionate levels*** of research and analysis. A "fit for purpose" procurement approach is the optimum tailored procurement approach for delivering the Project Development Objectives (PDOs) taking into consideration the individual circumstances, and business and operating environment of that particular procurement.

2.6 Demonstrate

The Demonstration stage is primarily about evaluation of bids and proposals. It is a critical procurement stage and must be planned carefully to ensure that the evaluation method considers a range of criteria that adds value, reduces risk and evaluates costs over the life cycle of the procured assets. This approach will ensure suppliers are given the best opportunity to demonstrate their value proposition in their bids or proposals throughout the selection process.

Detailed guidance on the use and application of evaluation criteria is available in a separate guidance document, see www.worldbank.org/procurement.

2.7 Deliver

The Delivery stage focuses on actively managing contracts to ensure that the VfM that has been designed into the procurement approach is operationalized through effective contract management.

Detailed guidance on the use and application of Contract Management is available in a separate guidance document.

2.8 The Contents of a PPSD

The Long Form PPSD takes the Borrower through a series of key stages that help shape the design of the procurement approach to produce a "fit for purpose" set of procurement arrangements. The procurement approach should be designed to ensure that the suppliers (including contractors and consultants) that are most capable of delivering VfM and the PDOs are motivated to bid, and that the right supplier is ultimately selected for award.

A "fit for purpose" procurement approach should be outlined within eight Sections of the PPSD Template as follows:

1. Project Overview;
2. Strategic Assessment of Operating Context and Borrower Capability;
3. Procurement Risk Analysis;
4. Stakeholder Analysis;
5. Procurement Objectives;
6. Procurement Approach Options and Recommendations;
7. Preferred Arrangement for Low-Value Low-Risk Activities; and
8. Summary of PPSD to Support the Preparation of the PAD by the Bank.

A detailed description of the content that should be considered in each PPSD Section of the PPSD Template (Annex I) can be found in this Guidance.

Section III. Project Overview

This part of the PPSD template (Annex I) is mainly descriptive; its purpose is to briefly summarize the Project in terms of scale and requirements. Much of the information required here should be drawn from the Project Concept Note.

In addition to the data elements in Table II, there are five elements that should be included in the Project Overview outlined in A-E below:

Country:	
Full Project Name:	
Total Finance ($):	
Project Number:	

Table II – Project Overview

A. Project Description — For each contract/sub-contract, there should be a short description of what is required from suppliers including the cost estimate;
B. Project Development Objectives (PDOs) — The PDOs should be consistent with the PDO identified in the Project Concept Note;
C. Result Indicators — Result indicators should be "SMART" indicators (Specific, Measurable, Attributable, Relevant, and Time-bound) and linked to Project outcomes. Each PDO should be measured by one or more outcome indicators;
D. Proposed contract summary — A summary of the proposed contracts within the Project including a Supply Positioning model for identified contracts; and
E. Legal/Policy Requirements — A statement of any legal or policy requirements such as the application of Alternative Procurement Arrangements, use of Stated Owned Enterprises for restricted contracts such as aerial mapping, and any policy requirements including sustainability requirements.

Section IV. Strategic Assessment of Operating and Borrower Capacity

This part of the PPSD template (Annex I) assesses three different but interrelated dimensions of capability and risk:

a) operational Context;
b) borrower Capability; and
c) project Implementation Unit (PIU) and Market Analysis.

This Section of the PPSD is designed to provide the ***appropriate and proportionate levels*** of research and analysis that will inform and ***provide the justification*** for the procurement approach and support the analysis required to complete the remaining Sections of the PPSD.

At the end of Sub-Section of the PPSD Template, the Borrower is required to document the conclusions that can be made based on the individual assessments. The conclusions should be focused on the factors that will need to be considered and addressed in the procurement approach.

The outputs of the Strategic Assessment section include the following:

a) **Resourcing Plan** — The Borrower's view on any capability building requirements needed to augment their own resource levels (Section 4.2 of this Guidance);
b) **Market Engagement Plan** — The approach the Borrower takes to directly engage with suppliers to provide feedback and ideas on their specified requirements and to create marketplace interest in bidding for contracts (Section 4.3 of this Guidance); and
c) **High Level Procurement Approach Options** — an overview of the options available for the procurement approach for each contract (Section 4.3 of this Guidance).

4.1 Operational Context

The PPSD should analyze and take into consideration the operational context factors that may affect the procurement approach, the motivation of bidders to participate, and the success of any subsequent contracts. Most of this information is available through research and analysis undertaken by the Bank and presented in the Project preparation documents for the Project and in other similar Projects. This should include:

A. **Governance aspects:** fragile or conflict-affected situations that may raise security concerns; state involvement in the specific economic sector (such as state owned enterprises receiving government subsidies), legislative processes that may regulate the market/bidders; the overall legal framework; and disaster or emergency situations;
B. **Economic aspects:** a small economy that may result in a lack of competition or difficulty attracting international bidders; high inflation that may require use of another currency or inflation protection terms that protect a bidder so they are motivated to participate; any domestic preference that may motivate local businesses, but endanger international competition; track record of on-time payment, and exchange rate volatility;

C. **Sustainability aspects:** sustainable procurement requirements, such as use of government environmental standards (e.g. energy/water efficiency targets); social impacts associated with working in sensitive environments; importing of labour and labour standards; and

D. **Technological aspects:** speed of technological change; need for information transfer and security so there is not a continued dependency on the bidders; internet access and restrictions; cell phone access and coverage; opportunity for, and dependency on, the use of technology for Project delivery.

A PESTLE (Political, Economic, Social, Technology, Legislative and Environment) analysis is a useful tool for supporting this assessment. A full explanation of a PESTLE analysis is detailed in Annex II, but Figure III below illustrates some of the points to be considered in undertaking the Operational Context assessment using a PESTLE.

Political	• Government type, stability • Fragility and conflict • Regulation, rule of law	• Bureaucracy, corruption • State involvement in the economy • Small states
Economic	• Growth • Inflation • Exchange rates	• Commodity prices • Unemployment • Labour supply
Social	• Demographics • WB social standards • Education, health	• Affected communities • Conflict; Civil unrest • Attitudes
Technology	• Emerging technologies • Information availability • Pace of change	• R&D expense • Everyday technology access
Legal	• State involvement • Employment law	• Contract/Commercial law • Health and safety
Environment	• Climate change • Local legislation • WB environmental standards	• Waste disposal • Impact and remediation

Figure III – PESTLE

The PESTLE analysis will provide a lot of information so it is important to consider what the findings actually mean for the procurement approach. The priority is to identify factors that could impact the procurement approach both positively and negatively, while drawing conclusions from this information to inform the procurement approach that is being designed and detailed in the PPSD.

The PESTLE is particularly helpful at identifying risks, which should be considered as part of Procurement Risk Management Plan in Section V of this Guidance.

4.2 Assessment of Borrower Capability and Project Implementation Unit (PIU)

The objective of this assessment is to identify any known factors, both enablers and constraints, which may have an impact on both the delivery of the Project and the procurement approach being developed. This assessment is independent of the assessment that the Bank undertakes on the Borrower's capability in the PAD. It should also help identify any targeted early interventions such as training or enhanced support that the Borrower may benefit from, whether from the Bank, or other sources.

The Borrower should consider the following factors in assessing their capability and resource needs to plan and design the procurement approach and the subsequent implementation:

a) previous experience/track record (good and bad) in implementing similar Projects/procurements and implementing World Bank Projects;
b) contract Management capacity and capability to follow through on commitments made during the procurement process and contained in the contract award;
c) track-record and market reputation for making contractual payments on-time;
d) complaints Management and dispute resolution systems that are credible, independent, and engender trust in all parties, through prompt/fair dealing of complaints;
e) procurement capacity (previous experience, technical capability in designing and preparing specifications and bidding documents, experience in supervision of construction contracts (if applicable), testing of procured items, availability of resources and track record) to undertake successful fit for purpose procurement planning, procurement process, bid/proposal evaluation, supplier selection, and contract award;
f) reliance on, criticality of, and use of professional advisors such as consultants to augment Borrower capability;
g) project implementation arrangements;
h) administrative arrangements, including delegated authority levels to facilitate timely decision making;
i) inspection arrangements;
j) contract packaging;
k) lessons learned from the implementation of other similar Projects;
l) reliance on, criticality of, and use of professional advisors such as consultants to augment Borrower capability;
m) experience using Alternative Procurement Arrangements; and
n) the need to request Bank hands-on expanded implementation support.

Section 4.3.8 of this Guidance, Previous Borrower and Bank Experience of Similar Projects, also lists a series of questions the Borrower should consider when preparing this Section of the PPSD.

The use of a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis is a tool that can support the Borrower Capability assessment. Annex II provides an overview of a

SWOT analysis. Figure IV below details some of the considerations and questions Borrowers may wish to take into account in preparing this Section of the PPSD.

Strengths

- What implementation advantages does your organisation have?
- What does your organisation do better than anyone else?
- What resources does your organisation have access to?
- What do stakeholders see as your organisation's strengths?

Weaknesses

- What could your organisation improve?
- What should your organisation avoid?
- What are stakeholders likely to see as your organization's weaknesses?
- What factors negatively impact on results?

Opportunities

- Where can you find good opportunities?
- Useful opportunities can come from such things as:
  - Changes in technology and markets on both a broad and narrow scale
  - Changes in government policy related to the requirements
  - Changes in social patterns, population profiles, lifestyle changes
  - Local events.
- What are the trends?

Threats

- What would happen if delivery of the goods/services/works failed?
- What are the obstacles to delivery?
- What do suppliers do that cause concern?
- Are stakeholders' needs changing?
- Is changing technology threatening your organisation's position?
- Are there any budget restrictions?
- Could any of your organisation's weaknesses seriously threaten delivery?
- What systems and procedures are in place to identify failure early?
- What is the reputational risk?
- Are there any political, policy or legal changes that could threaten the procurement?
- What challenges are there relating to the geography/geographic location of the Project?

Figure IV – SWOT Analysis

The Borrowers assessment of its previous experience, capability, strengths and weaknesses should be supported, demonstrated and corroborated by reference to credible third party audit reports or similar documentation. In developing the procurement approach the Borrower should demonstrate experience in undertaking similar types of procurement (and procurement arrangements) and successful implementation. Where the proposed procurement approach hasn't been used previously (or were not previously successfully implemented), the Borrower should explain how they would obtain the capability and capacity to implement the procurement approach. Any associated risks should be considered as part of the Procurement Risk Analysis in Section V of this Guidance.

At the end of this Section a Resourcing Plan should be created. This is the Borrower's view on any capability building requirements needed to augment their own resource levels.

4.3 Market Research and Analysis

The objective of market research and analysis is to develop an appropriate understanding of the market sectors that have been identified as having the potential to bid for the goods, services, and/or works required for a contract within a Project. This is to ensure the eventual procurement approach maximizes the likelihood of the right bidders participating, and the right supplier being selected (minimizing failed procurement processes due to no bids, or the wrong type of bids).

This Section of the PPSD should explain how a market works and how this impacts the Borrower's approach to the market. It should look at the market from both the perspective of the Borrower and suppliers operating in that market, simply to determine, what will motivate the right suppliers to participate in the procurement.

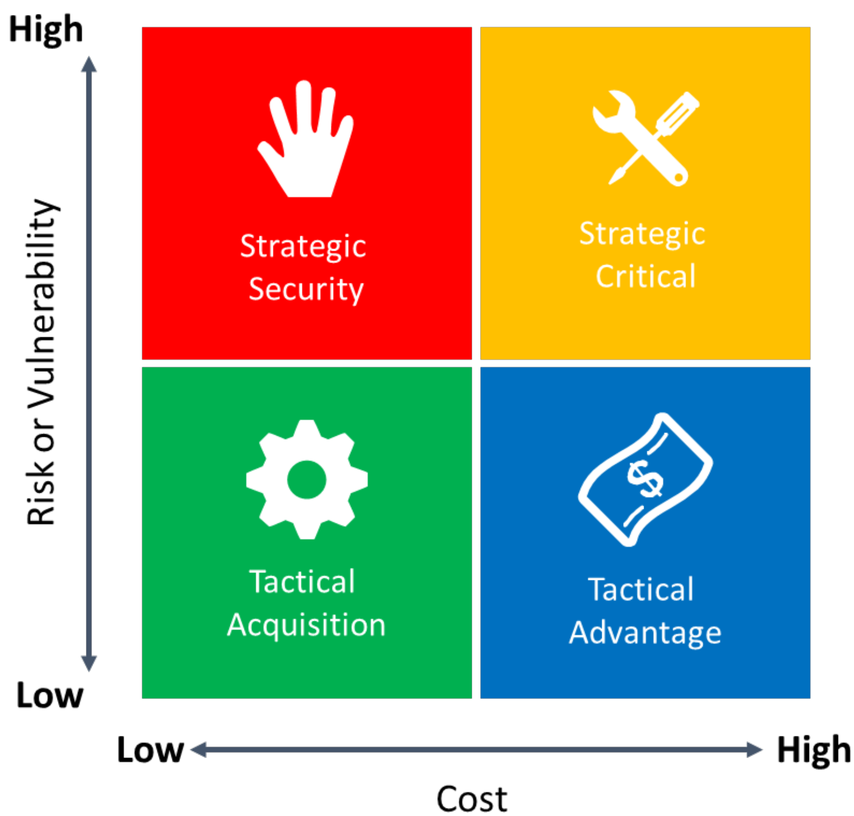
This information should then be analyzed to design the procurement approach to ensure the right markets and suppliers are targeted, so that the procurement approach maximizes market interest – noting that high value/profile procurement is not always sufficient motivation for the right bidders to participate.

Most Projects will have multiple individual procurement contracts, many of which will be low value and low risk. A Supply Positioning model as described in Section 4.3.1 of this Guidance below should be used to assess how much analysis each of the contracts in a Project will require, ensuring a proportionate approach is taken on the overall analysis of all contracts.

4.3.1 Supply Positioning Model

Supply Positioning is a procurement technique that can be used to determine where research and analysis should be focused in preparing the PPSD and any subsequent updates. It simply categorizes specific procurements based on their relative supply risk and value.

Each contract (or category of contracts, if there are many contracts that are the same) should have an assessment of its supply risk and relative value in order to position the contract on the Supply Positioning matrix as shown in Figure V.



Buyer's Priority	Description
Strategic Security *Security of supply*	• Low-cost goods/services/works • Strategically important • Shortage of reliable suppliers
Strategic Critical *Security of supply at a good price*	• High costs specialist goods/services/works • Limited number of suppliers
Tactical Acquisition *Purchasing efficiency*	• Routine purchases • Low-value/low-risk goods/services/works • Many potential suppliers
Tactical Advantage *Improving value through leverage tactics*	• High-cost/low-risk goods/services • Many potential suppliers

Figure V – Supplier Positioning Matrix

Supply Positioning is a tool to help:

a) determine the appropriate level of analysis and focus for each contract within the Project;
b) estimate how much time, effort, and due diligence is required; and to
c) identify where the Borrower should focus its effort, and in what manner.

Supply Positioning should be carried out at a Project level. Each contract within the Project is then assessed in terms of the following supply risk factors:

a) borrower skills and previous experience in procuring and managing this type of contract;
b) difficulty of specifying, or the uniqueness of the Project/contract requirements;
c) competitiveness of the market and the number of potential suppliers in the market;
d) contract implementation risks; and
e) criticality of the contract to Project delivery and PDOs.

The combined assessment of these supply risk factors should be categorized, rated, and ranked. Each contract should be plotted on the Supply Positioning Model.

The relative cost estimate of each contract should be plotted on the x-axis. Relative cost in Supply Positioning is a relative value and is calculated on the basis of the relative cost of the contract when compared to the estimated total Project procurement cost. The determination of high cost is typically any contract that is 1% or more of the estimated total Project procurement costs. Mapping contracts in the Supply Positioning Model will place the contract in one of the four named quadrants. Contracts shouldn't be artificially broken down into smaller lots at this stage (although that could be appropriate once the PPSD analysis is complete and determines that this is required as part of the procurement approach), while the opportunity to package similar contracts together should also be considered in the preparation of the PPSD.

If any contract in a Project is categorized as Tactical Acquisition, this indicates a relatively low level of supply risk and therefore requires proportionately less research and analysis. If any of the contracts are categorized as Strategic Security or Strategic Critical, this indicates a relatively high level of supply risk and therefore requires a greater level of analysis, due diligence, and effort to be applied (see Annex II for detailed tools and techniques to support a market analysis).

Supply Positioning should be used as a guide to determine the level of effort required. Under normal circumstances, contracts that are Tactical Acquisition or Tactical Advantage can have the procurement approach summarized in Section 7 of the PPSD Template (Preferred arrangement for lower value lower risk activities). The main exception to this, is where the preferred procurement approach is either not fully competitive or is inherently risky, such as competitive dialogue or negotiations. In these circumstances a more robust analysis and justification is required.

On completion of the Supply Positioning assessment, the Borrower should use its judgement to make sure the contract placement on model is realistic. The use of Supply Positioning at this stage of the PPSD preparation is designed to help Borrowers identify where effort needs to be focused. Where data or information is not available, the Borrower should state their "assumptions" and use their best judgement. These "assumptions" and judgements should be reviewed as the PPSD is being prepared and if necessary the Borrower should revisit the Supply Positioning assessment, if there are any material changes to the assumptions and / or judgements made.

4.3.2 Markets

The definition of a market is broad. It can be where:

a) buyers and sellers come together; and
b) providers of goods, works and services operate;

Markets can be complex and they are often segmented based upon factors such as scale, specializations, or geography (e.g., transport sub-segments can include heavy engineering, rural roads infrastructure, highways and bridges).

Some suppliers can be generalists, covering a whole segment, while others may be specialists, operating in a single sub-segment.

Therefore a market analysis needs to consider the supply chain and identify the markets and suppliers that exist at different points in the supply chain. For example, in a construction market, this could be quarries, converters, manufacturers, installers, consultants and prime contractors.

4.3.3 Why Do Market Analysis?

The benefits of market analysis include:

a) it will ensure that contract lots are designed to align with the target market;
b) supplier awareness, engagement, and opinion will lead to increased confidence around the procurement approach being followed and encourage a competitive bid;
c) insight will be gained into market possibilities and potential innovative solutions;

d) a better understanding of risk at an earlier stage of the Project cycle will ensure the selected procurement approach is designed to manage or mitigate identified risks; and

e) there will be a better understanding of where a Project's requirements fit into the market place, the market place's capability of meeting those requirements and how the requirements could either be shaped to fit the market place or how the market place needs to be shaped to meet the requirements.

4.3.4 Market Analysis Scope

Market analysis is undertaken to gain a common understanding of the current supply market in order to be able to clearly:

a) identify the type of market;

b) describe the nature of competition and how it really works;

c) establish supply market capability;

d) estimate the total and available supply market capacity;

e) know the factors influencing the market, and how they may effect bidder participation;

f) understand how factors influencing the market may drive change and the impact of this change;

g) know who the key suppliers are and their plans for the future;

h) identify costs associated with the supply of goods, services and works;

i) identify pricing methods the suppliers use in this market;

j) establish pricing trends in terms of actual prices and pricing methods;

k) understand current best practice pricing methods and the availability of cost and price benchmarks;

l) identify risk associated with a market and describe how the risk should be managed;

m) assess the Borrower's previous experience achieving VfM when operating in similar markets;

n) describe how other customers in the market achieve VfM, and get the right result; and

o) determine whether the Borrower's contract is likely to have any positive or negative impact on the market (Will the right suppliers bid? In the right way? To get the right result).

Figure VI illustrates many of the influences that need to be considered when undertaking market research and analysis.

Figure VI – Supply Market Influences

4.3.5 <u>Market Analysis Outputs</u>

The output from market research and analysis should be an understanding of:

a) the target market and any potential changes, particularly the impacts of changes in supply and demand;
b) how best to interact with the supply market to attract the right suppliers to bid;
c) how the Borrower can maximize their influence with suppliers in the market;
d) how suppliers will be motivated to bid and innovate;
e) the expected levels of performance suppliers will provide;
f) how the Borrower will incentivize suppliers to perform;
g) a set of ideas for how VfM will be achieved; and
h) how opportunities, threats, and risks will be managed at different procurement stages (Pre-qualification through to Contract Management).

Typically, the market analysis should be structured into the headings below, which covers the information obtained through the research but more importantly what this information means for the Borrower when applied to the Borrower's requirements.

This analysis should then be summarized into the following sections:

A. <u>Research</u>

a) Supply Positioning Model — Identify the risk and value thresholds of the Project;
b) Segmentation of the market by geography (local, national, international), and specialization or differentiation;

c) Market sector dynamics — Nature and extent of competition, levels of experience, capability and innovation, and external influences and factors;
d) Market trends — Technology, new services, ownership structures and alliances, market growth, and new entrants;
e) Financial — Sources of cost and value, cost stability, pricing strategies and mechanisms, and cost and financial benchmarks; and
f) Procurement trends — Procurement approaches of other entities procuring similar contracts, typical contract terms, common issues that inhibit or contribute to achieving VfM, typical responses, and lessons learned.

B. Analysis and Action

a) Market capability to meet the Borrower's needs including typical experience levels, package sizes, and financial performance;
b) Previous experience in the market by the Borrower and other customers including on World Bank and non-World Bank Projects;
c) Market view of the Borrower (from a supplier's perspective) in terms of attractiveness for contracting with (e.g. reliability of payment, procurement capability, timeliness in decisions, complaints handling, and imposing onerous conditions), i.e. are the right suppliers likely to bid, noting these areas;
d) Modification to the requirements (if needed) to align them to the market's capability, or actions to influence the market place so that it is willing and able to meet the requirements unchanged;
e) The nature of competition and what is needed to ensure appropriate levels of participation;
f) Current good practice for procuring from the market including pricing methods, risk allocation, and benchmarks of performance and cost;
g) Risks identified and a management plan based on allocating risk to the party best placed to manage the risk; and
h) Markets risk tolerance (as there is usually a cost in transferring a risk to another party and if the Borrower attempts to transfer too much risk to suppliers, it may result in few or no supplier bids, or a bid that is too expensive to select).

At the end of the market research stage, Borrowers should:

a) develop a Market Engagement Plan — the approach the Borrower takes to directly engage with suppliers to provide feedback and ideas on their specified requirements and to create marketplace interest in bidding for contracts; and
b) identify High Level Procurement Approach Options — an overview of the options available for the procurement approach for each Project contract as outlined in Section VIII of this Guidance.

4.3.6 Sources of Information

Information for market analysis can come from a variety of sources. As a starting point, where possible, the Borrower should seek to use previous research/examine previous experience/their track record for similar Projects/contracts in similar circumstances.

The next step is to augment this information with other sources. The World Bank has numerous sources of market research that Borrowers may access to inform their procurement decisions. This includes World Bank sector analysis and experience of counterparts in other jurisdictions.

Sometimes the best approach is to talk to a number of suppliers to gather market intelligence (of course without being overly influenced or directed to one supplier's approach, to ensure fairness) through Market Engagement. Borrowers are encouraged to engage early with suppliers to build improved knowledge and understand the target market. This process must be completed before advertising the opportunity to bid.

There is also a large amount of information available in the public domain to supplement Bank and Borrower specific sources. These include:

a) project feasibility reports;
b) market analysis reports;
c) industry representative groups/trade associations/industry governing bodies;
d) specialist industry research groups;
e) government-sponsored industry consolidations;
f) trade journals;
g) supplier annual report and accounts;
h) contacts in other organizations;
i) internet searches;
j) own knowledge from previous projects/contracts;
k) other buyers' and Borrowers experiences;
l) commodity indices;
m) government statistics;
n) government agencies and tax authorities;
o) stakeholder knowledge, e.g., World Bank sector specialists; and/or
p) suppliers.

Analysis of the market will often require more than just desk research. The Borrower should engage with the market and suppliers to review the market, as appropriate. Figure VII outlines several sources of market information to consider:

Figure VII – Sources of Market Information

4.3.7 Market Engagement

Market engagement is a way of discussing the Borrower's requirements with a marketplace and the suppliers it contains. It is particularly useful if there is a need to create a market or increase supplier participation because of a lack of market interest, especially where there is an incumbent supplier, or the requirement is novel.

In undertaking market engagement Borrowers should ensure the core principles of fairness and transparency are upheld by treating all potential suppliers equally. It is particularly important that the Borrower manages the market engagement in a manner to avoid perceived or actual conflict of interest situations, in the procurement process including but not restricted to the market engagement itself, the final requirements / specification or selected procurement arrangements.

Market engagement can help establish the marketplace's ability to meet the Borrower's requirements, provide ideas on alternative approaches for meeting the requirements, highlight potential risks early in the Project Cycle, and provide an insight into likely marketplace interest. Simply, it can also motivate the right suppliers to bid. This information should then be used to develop a procurement approach that manages risk in the right way for everyone, is overall more attractive to the marketplace, generates greater competition, and ultimately maximizes the opportunities to meet the Borrower's PDOs.

Market engagement can be undertaken through a number of different ways including concept viability exercises, supplier questionnaires, market sounding exercises, supplier conferences, trade events, paid for market research, and publication of outline procurement strategies for consultation.

Borrowers should consider the following when undertaking any Market Engagement:

a) engage early and widely with the marketplace and suppliers to give them an opportunity to shape the requirement;
b) work with all suppliers on an equal basis to ensure openness of access to staff and information;
c) establish good communication channels and keep potential bidders informed;
d) maintain genuine competition throughout the process — do not leave bidders in the competition if you do not believe they are capable of winning;
e) be transparent about the procedures and top-level criteria for evaluation of bids;
f) maintain the commercial confidentiality of information received from suppliers;
g) be willing to consider commissioning pilots, paid studies, Proof of Concept exercises, Design and Build exercises, etc.;
h) be open to novel approaches;
i) focus on the desired outcomes;
j) be willing to reconsider the requirement and scope, and the packaging of the requirement for procurement;
k) be willing to consider a range of commercial/contractual options (e.g. multiple suppliers, geographical split);
l) consider what the position will be in the event of future rebidding — frame the requirement in a way that will help to avoid lock-in of the supplier;
m) ensure you have the commitment and support of senior management in dealing with the marketplace;
n) have a good understanding of the risks involved for both suppliers and the Borrower;
o) apply rigorous project management procedures to any procurement exercise and make these visible to the marketplace and suppliers; and
p) ensure that all the necessary skills are available to the procurement project team.

4.3.8 <u>Previous Borrower and Bank Experience of Similar Projects</u>

Borrowers should work with the Bank to understand how Projects of a similar nature have been delivered in the past. This analysis should not only focus on what didn't go well and could have been improved, but also what went well and why.

Areas to be considered include:

a) What was the marketplace?
b) Which suppliers bid and which suppliers declined to bid and why?
c) Was the Project delivered to time, cost, and quality and why or why not?

d) Were there any disputes and what was the cause?
e) Overall were there good marketplace and supplier participation levels and why?
f) What type of specification was used, did it deliver the right result and are there any elements of that specification that may be relevant to this Project/contract?
g) What type of procurement approach was used, did it deliver the right result, and are there any elements of the specification that may be relevant to this contract;
h) What was the approach to contract management and how effective was this at keeping the Project and supplier under the right level of control?
i) What resourcing did the Borrower use and were any areas identified post Project that the Borrower would have benefited from additional capacity?

4.3.9 Project and Contract Cost

As part of the market analysis, Borrowers should pay particular attention to the likely costs of each contract and make an assessment on whether the current contract estimate appears contemporary and realistic. Data to benchmark costs can come from wide variety of sources including previous experience in similar Projects, consultancy firms/technical advisors, cost benchmark reports, government data sources and cost benchmarking firms.

Borrowers should use information gathered from market analysis to highlight any risks to contract estimates caused by influences such as inflation, resource shortages, lack of market capacity driving up prices, specific risks (such as logistical difficulties) within the Project that may lead to suppliers loading their bids/proposals with high contingency sums, etc.

Borrowers should also include any risks associated with contract cost estimates in the Procurement Risk Management Plan.

4.3.10 How to Undertake Market Analysis

There are a number of procurement tools and techniques available to support market analysis that help not only in structuring the research, but also for analyzing the information to draw conclusions and develop the procurement approach.

The key tools and techniques to support market analysis are:

A. SWOT - Strengths, weaknesses, opportunities and threats;
B. Porter's Five Forces Analysis;
C. PESTLE - Political, Economic, Social, Technological, Legal and Environmental;
D. Supplier Preferencing;
E. Supply Positioning and Supplier Preferencing;
F. Supply Chain / Value Chain Analysis.

As with the overall preparation of the PPSD, the use and application of these tools needs to be proportionate to the level of market research and information required to develop a "fit for purpose" procurement approach. There is not an expectation that all the tools will be used, but only those most appropriate to the individual circumstances. For a detailed description of each tool and technique, see Annex II.

4.3.11 Supplier Preferencing

One of most useful tools in supporting market analysis is Supplier Preferencing. Through its application Borrowers can identify and describe the typical approach suppliers will take to working with Borrowers based on their segmentation in the model. To determine the accuracy of the assessment, the Borrower should consider real experience in how suppliers respond to bids, the level of success and how suppliers react when there are implementation problems – this serves as a general proxy to assess how important the Borrower is to that supplier as a customer.

Supplier Preferencing is a tool that identifies how a supplier views a Borrower (as a customer) and depending on this view, how the supplier is likely to behave. Supplier preferencing categorizes these "views" into 4 segments as detailed in Figure VIII below. For a detailed description of Supplier Preferencing and its application, see Annex II.

In high-level terms, this will determine how attractive the Borrower is as a customer to the supplier. This in turn will determine the level of willingness or reluctance the supplier will exhibit in wanting to bid for work and the corresponding level of effort the supplier will make in meeting the Borrower's requirements. This is a tool that helps determine the extent that the Borrower can influence a market, through its procurement approach, to achieve the PDOs and Procurement Objectives (see Section VII of this Guidance).

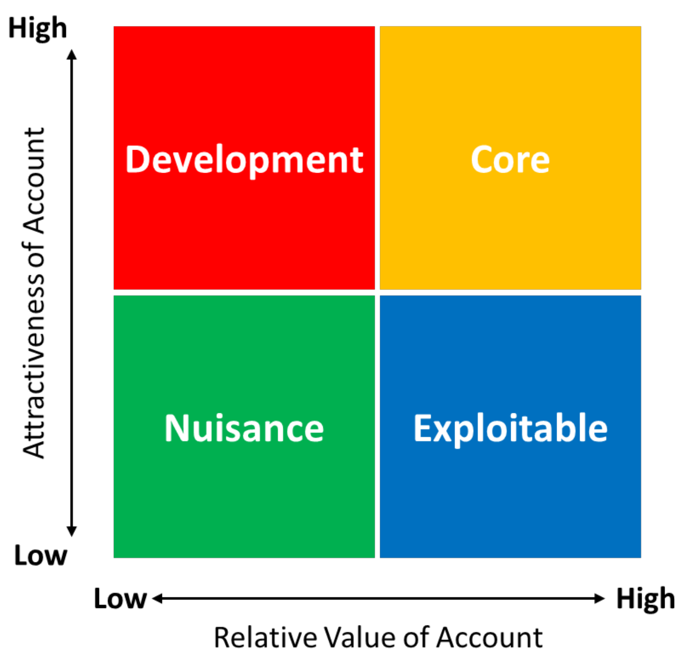


Figure VIII – Sources of Market Information

Again, the value of a contract does not in itself make a procurement or a Borrower attractive to a potential supplier. Rather, the whole package of value, coupled with Borrower behavior informs how the supplier is likely to react. The ideal classification is that potential suppliers will see Borrowers as good customers that they already treat as "core" or that that they would like to grow the relative value of the account through "development". Unfortunately, some suppliers may see the Borrower as a "nuisance" to be avoided due to high costs of doing business, or as someone that can be "exploited" over the short term. Truthfully understanding this dynamic, and how it can be changed to get the right, motivated supplier is critical in ensuring a successful procurement result.

The outcome of this analysis should allow a Borrower to establish the factors listed below and design a procurement approach to maximize market interest, and actual participation in the procurement:

a) What changes the Borrower needs to make to be more attractive to the market?
b) How to motivate the market to bid and provide a good solution to meet the Borrower's requirements?
c) How to engage with the market to optimise the level of supplier participation in a bidding process?

Section V. Procurement Risk Analysis

Procurement risk analysis is the process of identifying and minimizing the likelihood of a risk occurring and minimizing the impact to the Borrower's PDOs, business, and stakeholders if the risk does occur. It also looks at identifying and maximizing the likelihood of an opportunity occurring and maximizing the impact/benefit to the Borrower's PDOs, business, and stakeholders if the opportunity materializes. The Procurement risk analysis sets out the plan for tackling risks and opportunities.

This is where all the risks identified from Section IV of this Guidance are summarized and evaluated in a Procurement Risk Management Plan as seen in Table III below. This plan defines the risks, assesses their impact, describes the mitigation action and allocates the risk to an owner.

Risk management is important because it supports the recognition, evaluation and prioritization of potential failures and their effects. It enables Project delivery by identifying and tracking actions, which eliminate or mitigate the chance of the potential failure occurring. Its intent is to maximize positive impact and minimize adverse impact to the procurement approach and Procurement Objectives.

Table III should be used to create the Risk Management Plan by summarizing and recording the overall risk management analysis.

Risk Description	A Likelihood Rating	B Impact Rating	Overall Risk Score (A*B)	Description of proposed mitigation through the procurement process	Risk Owner	Procurement Process Stage

Table III – Risk Management Plan

Procurement risk management is primarily concerned with managing impacts on the contract schedule, cost, and performance (including the delivery of the stated requirements). Through a structured approach to risk management, Borrowers should identify how opportunities and risks will be managed at different stages of the procurement process. The procurement process stages below should be used as a starting point to filling out Table III.

- **Market engagement** – to make sure the Borrower has an understanding of how the market functions and to demonstrate to suppliers the benefits of working with the Borrower;
- **Prequalification** – make sure that only suppliers capable of delivering the requirements are invited to bid;

- **Specification** – make sure the Borrower clearly states the detailed specification or performance requirements and provides the supplier with freedom to use its expertise to be innovative in its delivery;
- **Procurement arrangements (contract type, conditions of contract, pricing mechanisms, etc**.) - make sure bids are competitive and ultimately deliver demonstrable VfM;
- **Evaluation** – make sure the most appropriate supplier is selected and all risks are managed and understood; and
- **Contract Management** – make sure suppliers fulfil their contractual obligations and that any issues are dealt with efficiently and effectively in a fair and transparent manner.

5.1 Approach to Procurement Risk Analysis

There are numerous approaches to performing a risk analysis. The PPSD uses a technique that looks at identifying the risk (the problem), the likelihood of the risk (event) occurring, the criticality of the risk if it occurs, and the impact of the problem (risk). The combination of these factors allows a determination of the risk rating.

To make the identification and analysis of procurement risk manageable, the Borrower should structure the assessment around eight (8) key areas, which are:

a) market complexity and competitiveness;
b) delivery and supply security;
c) suppliers and supplier relationships;
d) borrower experience, capacity and capability;
e) cost trends;
f) technical innovation – the degree and rate of change;
g) sustainability (environmental, economic, social); and
h) business and operating environment.

Quantifying risk and allocating a rating is subjective, but the use of the criteria described below, in conjunction with information from the Strategic Analysis in Section IV of this Guidance, should help the Borrower make the analysis more objective.

a) previous experience and judgement of the Borrower;
b) understanding key decision drivers of both suppliers and the Borrower;
c) identification of key delivery dependencies;
d) analysis of any assumptions made; and
e) root cause analysis.

Once the risks have been identified, they need to be assessed, rated and ranked by priority. Each risk (considering likelihood and impact) can then be rated in terms of criticality using the ratings below. This will provide a classification of the criticality of the risk in terms of overall risk to the Procurement Objectives.

1 = Very Low (VL)

2 = Low (L)

3 = Medium (M)

4 = High (H)

5 = Very High (VH)

The Borrower should plot each risk on a risk criticality matrix based upon its rating (Figure IX). The matrix provides the Borrower with an indication of what the priority is for each risk, by segmenting the risk classification into 4 main groupings.

It may not be possible to address all risks through the procurement approach and the risk management plan, for reasons such as resource shortages or lack of practical mitigations measures. The risk matrix will indicate if the residual risk is too high, which would be indicated by a number of "red" and "yellow" still being unresolved.

Risk Management Analysis Matrix

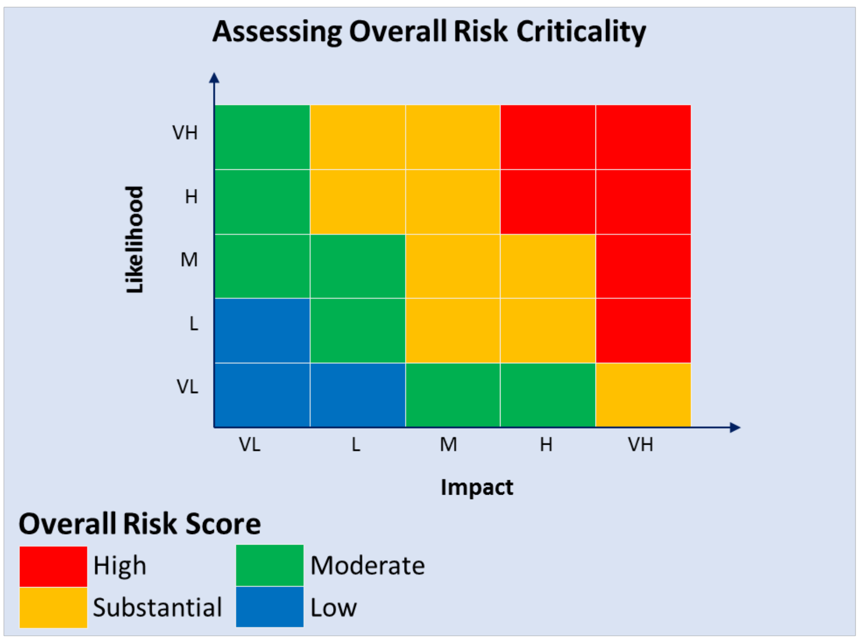


Figure IX – Assessing Risk Criticality

Once this analysis is complete, the Borrower should consider how to deal with the risks, developing appropriate mitigation plans, allocating risks to specific owners to address (noting that inappropriately transferring risks to the supplier, may reduce competition, or result in no bids or a sub-optimal bid following the procurement process). Risk mitigations actions fall into four main types:

- **Avoid:** Choosing not to accept the risk e.g. an activity is avoided as the risk is considered too great;
- **Minimise:** Reduce or control through improved monitoring, changing the process, defining a new procedure, etc.;

- **Spread or Transfer:** Transferring or sharing the risk by diversifying, sub-contracting, outsourcing, joint venture, hedging or insurance; and
- **Accept:** By deciding that the risk is within agreed risk tolerances.

The Borrower needs to consider each risk using these four types of action to develop individual management mitigation actions. Figure X outlines typical actions and responses to risk depending upon the risk classification.

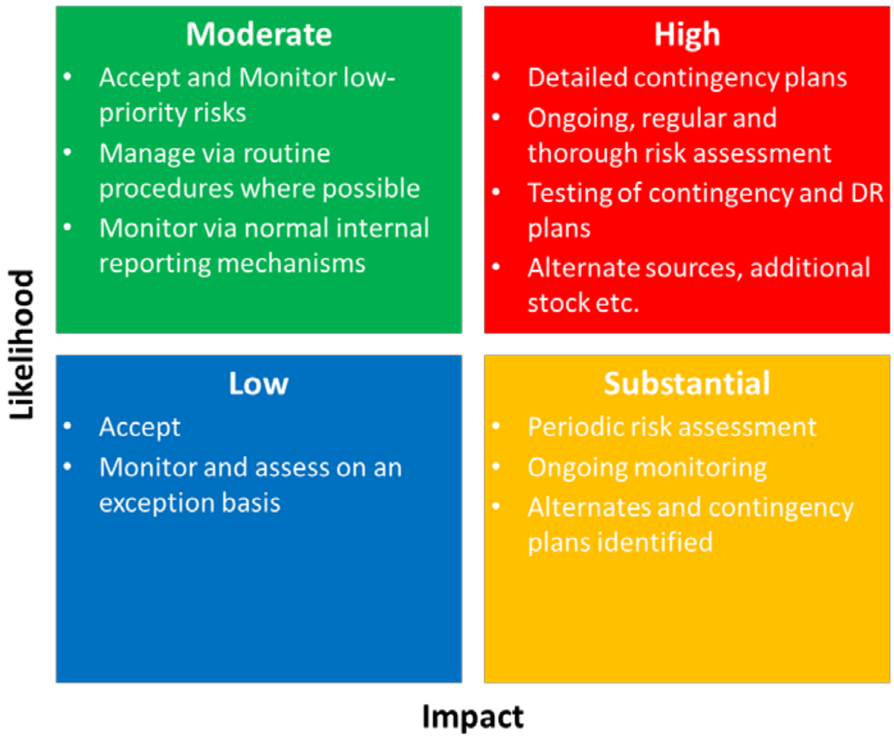


Figure X – Risk Actions and Responses

The final step of risk management is for the Borrower to allocate a risk owner who will be responsible for ensuring implementation of mitigation measure and monitoring the risk throughout the procurement process to ensure the mitigation remains effective in managing the allocated risk.

This same process should be repeated to identify and address opportunities that may affect the Project. The focus should be how to maximize the likelihood of an opportunity occurring and maximize the impact/benefit to the Borrower's PDOs, business, and stakeholders if the opportunity materializes. This could help to pull schedules forward, reduce cost, or provide additional benefit to the Project that otherwise wouldn't have occurred if the opportunity hadn't been managed.

Section VI. Stakeholder Analysis

This Section of the PPSD template (Annex I) is where the key stakeholders are identified with an interest in or impact on the Project so that their respective view can be appropriately taken into account in the design of the procurement approach. The output of this Section will be a Stakeholder Management Plan (Table IV) that outlines how each stakeholder will be engaged throughout the procurement process to ensure their expectations and objectives are appropriately met and managed.

Stakeholder (Name and Role)	Interest (Responsible, Accountable, Consulted, Informed)	Stakeholder Objectives from the Procurement	Stakeholder Management Approach

Table IV – Stakeholder Management Plan

A stakeholder analysis should be performed early in development of the PPSD. Identifying and managing stakeholder relationships is a critical part of managing a Project. Stakeholders are a good source of information, can influence the ease with which a Project is delivered, and some stakeholders will be the recipient of the requirements delivered and involving these individuals in the design of the procurement approach and management of the contract(s) will increase ownership.

Stakeholder analysis is focused on each individual stakeholder's needs (from a Project perspective), as well as what their on-going involvement should be post contract award.

Stakeholder analysis can be undertaken in three stages:

a) identify the stakeholders through stakeholder mapping;
b) establish their interest or requirements from the Project defined as Stakeholder Objectives; and
c) specifying their ongoing involvement through stakeholder categorisation by completing a Responsible Accountable, Consulted, Informed analysis (RACI).

6.1 Stakeholder Identification

A stakeholder is someone who is affected by or can affect the outcome of an activity within the Project. This includes:

a) people who can influence the Project;
b) people who want a say in which procurement approach is selected;
c) people who can make a Project fail or succeed through participation or opposition;
d) those who can contribute financial and technical resources; and
e) those whose attitude has to change for the Project to succeed.

Typically stakeholders are:

a) Governments – Federal and State;

b) Beneficiaries;
c) Individuals who are impacted by the Project;
d) Non-Governmental Organizations (NGOs), Civil Society, and special interest groups;
e) Other Borrowers in cross jurisdictional procurements; and / or
f) Bank functions and Task Team members.

Stakeholder mapping is undertaken by brainstorming who has an interest in the Project from conception all the way through to Project delivery.

6.2 Identification of Stakeholder Objectives

Having identified stakeholders, the next step is to define their objectives. In order to keep stakeholder's objectives focused on the procurement approach, stakeholder engagement needs to be framed around the following:

a) identifying the issues and challenges that the Borrower has with the procurement or with the supply market;
b) identifying the needs and requirements by establishing what the drivers are by considering:
   i. What do the beneficiaries/users need from this Project?
   ii. What does the Borrower require of this supply market and suppliers?
c) identifying what the Bank expects from the Project.

This approach is aimed at capturing both current and future objectives and considering them as "must haves" and "wants", which are requirements that a stakeholder would not accept a procurement approach without the possibility of them being delivered. These needs, therefore, must be specific and easy to understand so that they can be defined and summarized into a Stakeholder's Objective for the Procurement.

Borrowers should confirm this information by talking directly with stakeholders wherever possible. However, this is not always possible, so for those stakeholders who can't be contacted directly, the best approach is for the Project team to "theorize" what that stakeholder's views may be.

6.3 Stakeholder Interest - RACI Analysis

RACI is a management tool that is used to categorize a stakeholder's interest and influence over the Stakeholder's Objectives. For each objective, a stakeholder's interest can be categorized as:

R = responsible, is a person who performs an activity or a task successfully.

A = accountable, is a person who is ultimately accountable for the quality and overall success of delivery of the Project.

C = consulted, is a person who provides feedback and contributes to an activity or task, where the input adds value and is essential for successful implementation.

I = informed, is a person who needs to be notified of decisions, results, or action taken but doesn't need to be involved in the decision-making or delivery.

Asking the following questions should help Borrower's define stakeholder interest and influence and allow a stakeholder to be categorized under a RACI.

a) What are their needs, influencing factors and likes?
b) Why might they object or oppose something?
c) How will they be affected personally by the outcome of the Project?
d) What is their responsibility?
e) What is their power and level of influence?
    i. What is their interest?
    ii. How do they expect to be involved and why?
f) How predictable are they?

The list of stakeholders and their objectives may be long and in some cases may conflict with each other. Further stakeholder engagement may be required to clarify conflicting objectives as well as prioritizing the key objectives that the procurement approach must deliver.

6.4 Stakeholder Management Approach

Stakeholder engagement is an ongoing activity that needs to be continued throughout the life of a Project. Therefore, a high-level stakeholder management approach needs to be created.

Borrowers can use the information gathered for the Stakeholder Management Plan to determine the best approach, type, and nature of an ongoing engagement. Figure XI is a simple matrix that maps each stakeholder by their power and influence against their interest and objectives and provides an indication of the possible management approach for different types of stakeholder.

Interest	Influence	Strategy
Low	Weak	Minimal Effort
Low	Strong	Keep Satisfied
High	Weak	Keep Informed
High	Strong	Keep Close

Figure XI – Stakeholder Management Approaches

Once the Borrower has collected all this information, it should be summarized into the table in Table IV.

Section VII. Procurement Objectives

This Section of the PPSD Template (Annex I) looks at how to develop Procurement Objectives that align with the PDOs. The Procurement Objectives will be used to test alternative procurement approaches to ensure they deliver the Project requirements.

Defining the right Procurement Objectives is critical. The Borrower should use these objectives as the basis for:

a) refining the specification of requirements and supplier incentives;
b) establishing the allocation of risk between the Borrower and the supplier;
c) developing the evaluation criteria used to select the supplier who will deliver the contract; and
d) documenting the Key Performance Indicators (KPIs) that will be used to monitor contract delivery to ensure that the contract continues to meet the Project requirements.

Figure XII illustrates the relationship between each of these factors.

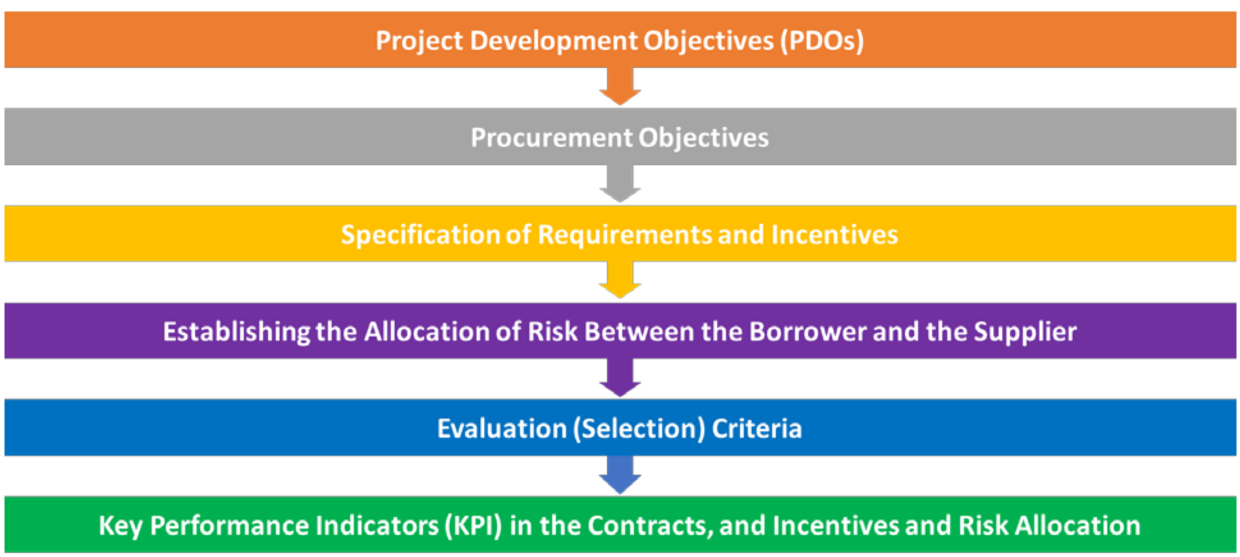


Figure XII - Strategic Alignment of Objectives

7.1 Drafting Procurement Objectives

The Borrower should develop Key Procurement Objectives using information already gathered in Sections III and VI of this Guidance respectively, on the PDOs and Stakeholder Analysis (Figure XIII). The Key Procurement Objectives should be detailed enough that if achieved will support the delivery of the Project's Development Objectives and achieve VfM.

Project Development Objectives (PDOs) (Section III)	• As set out in the approved Project Concept Note • Considered mandatory unless, exceptionally, analysis demonstrates need for adjustment
Stakeholder Analysis (Section VI)	• Specific objectives of key stakeholders that do not conflict with the Project Development Objectives • Distinguish between needs and wants and prioritise the objectives to be addressed through procurement
Procurement Objectives (Section VII)	• Objectives derived from analysis of the current approach and of the supply market • Prioritise to identify those objectives to be addressed through the procurement strategy

Figure XIII – Procurement Objectives Information Sources

7.2 RAQSCI Model

The RAQSCI model is a tool that the Borrower should use to structure and organize the Procurement Objectives. It is also an effective way to ensure that the Procurement Objectives are comprehensive. Failure to identify all the Procurement Objectives at this stage could result in the design of an ineffective procurement approach being designed and selected. Figure XIV below describes the various components of a RAQSCI Model.

R	Regulatory	Compliance with the law and regulatory standards
A	Assurance of Supply	Standards of availability and accessibility
Q	Quality	Standards of consistency and fitness for purpose
S	Service	Applicable standards
C	Cost	Cost and price targets/constraints, reduction
I	Innovation	Continuous improvement, customer experience, competitive advantage and efficiency

Figure XIV – RAQSCI Model

The Procurement Objectives need to be SMART – Specific, Measurable, Achievable, Relevant and Time-bound. It is also important that Procurement Objectives are prioritized. As part of due diligence, the Borrower should have the Procurement Objectives quality assured by the key stakeholder, (at a minimum those in the Borrower and the Bank) and identified in both the RACI and stakeholder management plan.

Section VIII. Design of Procurement Approach and Recommendation

This Section of the PPSD Template (Annex I) summarizes the options for the procurement approach for each of the contracts in the Project. The supporting evidence or justification for each procurement approach should be drawn from the previous sections of the PPSD, with enough detail to logically explain the recommended procurement approach.

Each option should be assessed against the Procurement Objectives to determine the "recommended" procurement approach.

The output of this Section will be a:

a) procurement approach stating how the Borrower is going to approach the market, select the supplier, and finalize the contract;
b) set of selection methods and market approaches built up from the individual procurement methods that combine to produce a bidding document; and
c) procurement Plan that summarises how each contract within the Project will be procured.

All the analysis and research undertaken, as part of the long form PPSD needs to be brought together to design the different procurement approaches that are available to deliver the Procurement Objectives. It is likely there will be a number of different procurement approaches available. This Section is concerned with generating alternative procurement approaches that could deliver the Procurement Objectives and then determine which one is most likely to succeed.

The selection of the recommended procurement approach should only take place once all realistic options have been identified, described and appraised. At a minimum the options analysis should describe each procurement approach option in sufficient detail to enable evaluation of the options in terms of their ability to satisfy the Procurement Objectives.

The template in Table V details all the various procurement approaches and methods that need to be considered in developing the right procurement approach options.

A template should be completed for each option generated, with the justification column completed once the option analysis has been completed, and then only justify the final recommended procurement approach.

	Attribute	Selected Approach	Justification
8.3 Requirements	8.3.1 Specifications	Conformance/Performance	
	8.3.2 Additional Sustainability Requirements	Yes/No	
8.4 Contract Strategy	8.4.1 Contract Type	A. Traditional B. Design and Build C. Design, Build, Operate, Maintain D. Design and Build – Turnkey or Prime Contractor E. EPC and EPCM	
	8.4.2 Pricing and Costing Mechanism	A. Lump Sum B. Performance based contracts C. Schedule of Rates/Admeasurement D. Time and Materials E. Cost Plus	
	8.4.3 Selection of Cost and Price Mechanism	A. Specification Type B. Contract Type C. Required Allocation of Risk D. Operational Environment E. Capacity of Borrower F. Type of Market	
	8.4.4 Supplier Relationship	Adversarial/Collaborative	
	8.4.5 Price Adjustments	A. None, Fixed Price B. Negotiated C. Percentage	
	8.4.6 Form of Contract (Terms and Conditions)	State any special conditions of contract	

	Attribute	Selected Approach	Justification
8.5 Selection Methods	8.5.1 Selection Method	A. Request for Proposals (RFP) B. Requests for Bids (RFB) C. Requests for Quotations (RFQ) D. Direct Selection	
	8.5.2 Selection Arrangement	A. Competitive Dialogue B. Public Private Partnerships (PPP) C. Commercial Practices D. United Nations (UN) Agencies E. e-Reverse Auctions F. Imports G. Commodities H. Community Driven Development I. Force Accounts J. Framework Agreements K. Cross Project Opportunities	
	8.5.3 Market Approach	A. Type of Competition 1. Open 2. Limited 3. International 4. National 5. No Competition – Direct Selection B. Number of Envelopes/Stages 1. Single Envelope 2. Two Envelopes 3. Single Stage 4. Multi Stage C. BAFO (Yes/No) D. Negotiations (Yes/No)	
	8.5.4 Qualification	A. Pre-Qualification B. Post-Qualification	

	Attribute	Selected Approach	Justification
8.6 Evaluation Methods	8.6.1 Evaluation Selection Method	A. Quality Cost Based Selection (QCBS) B. Fixed Budget Based Selection (FBS) C. Least Cost Based Selection (LCS) D. Quality Based Selection (QBS) E. Consultant's Qualifications Based Selection (CQS) F. Direct Selection	
	8.6.2 Evaluation of Costs	A. Adjusted Bid Price B. Life-Cycle Costs	
	8.6.3 Domestic Preference	National/international	
	8.6.4 Rated Criteria	List the type of criteria to be used (mandatory/desired)	
8.7 Contract Management	8.7.1 Contract Management Approach	Outline the approach to be used	
	8.7.2 Key Performance Indicators (KPIs) – Measures	List the key measures of success for contract management	

Table V – Procurement Approach

8.1 General Considerations in Designing a Procurement Approach

A. Supply Positioning and Supplier Preferencing

Aligning the needs of the Borrower and the likely behaviors of suppliers who may bid for World Bank financed Projects is one of the more fundamental parts of the procurement approach design.

As described earlier in Section IV of this Guidance, Supply Positioning is a procurement tool that is used to assess the criticality of the goods, services, and works to the Borrower by evaluating contract risk and value. Table VI below demonstrates that it can also provide an overview of the procurement approaches and mitigation measures, segmented by the Supply Positioning categorization that a Borrower should consider in developing its procurement approach.

Buyer's Priority	Description	Approach	Arrangement
Strategic Security *Security of supply*	• Low-cost goods/services/works • Strategically important • Shortage of reliable suppliers	• Ensure supply	• Long term contracts • Build reserve of stock • Consider alternative products
Strategic Critical *Security of supply at a good price*	• High costs specialist goods/services/works • Limited number of suppliers	• Manage suppliers	• Med/long term contract • Contingency planning
Tactical Acquisition *Purchasing efficiency*	• Routine purchases • Low-value/low-risk goods/services/works • Many potential suppliers	• Minimal attention	• One-off contracts/purchase orders • E-purchasing • Procurement cards
Tactical Advantage *Improving value through leverage tactics*	• High-cost/low-risk goods/services • Many potential suppliers	• Drive tactical advantages	• Short term contracts • Ongoing active sourcing for competitive price

Table VI – Supply Positioning categorization

Equally Supplier Preferencing can identify the typical approaches Borrowers can expect from suppliers based on their segmentation of Borrowers. Table VII overleaf provides an overview of a supplier's likely approach to a Borrower (as a customer) in each category.

Supplier's Priority	Description	Approach	Arrangement
Development *Supplier nurtures relationship, performs well and provides incentives*	• Customer has potential • Customer highly sought after • Work hard to exceed Customer's expectations • Exceptional service levels	• High attention	• Nurture the Customer • Secure further business • Price using 'special deals' and marginal costing
Core *Supplier seeks to 'lock-in' customer*	• Supplier core business • Give high level of service and response • Increase profitability in low key manner • Ensure ongoing profitability	• Proactive customer management	• Look after the Customer through excellent service and delivery • Retain and expand business • Receptive to 'strategic alliances' • Seek to 'lock in' Customer through long term contracts
Nuisance *Supplier gives minimum attention and seeks to withdraw*	• Little profit made • Customer difficult and/or expensive to service • Poor at paying bills • Provide poor service • Supplier's overall objectives:	• No attention	• Give it low attention • Short term contracts • Withdraw from business
Exploitable *Supplier seeks short term advantage*	• In unique position of strength • Increase prices – reduce service costs • Seek short-term advantage • Prepared to risk losing Customer	• Minimal attention	• Drive for best price • Maximise profit in the short-term

Table VII – Supplier Preferencing

Supply Positioning and Supplier Preferencing are most insightful when used together. Comparing the findings of both Supplier Preferencing and Supply Positioning allows the Borrower to identify and assess whether the typical procurement approach of a Borrower based on the Supply Positioning segmentation is aligned with the typical approach of individual suppliers as determined by Supplier Preferencing.

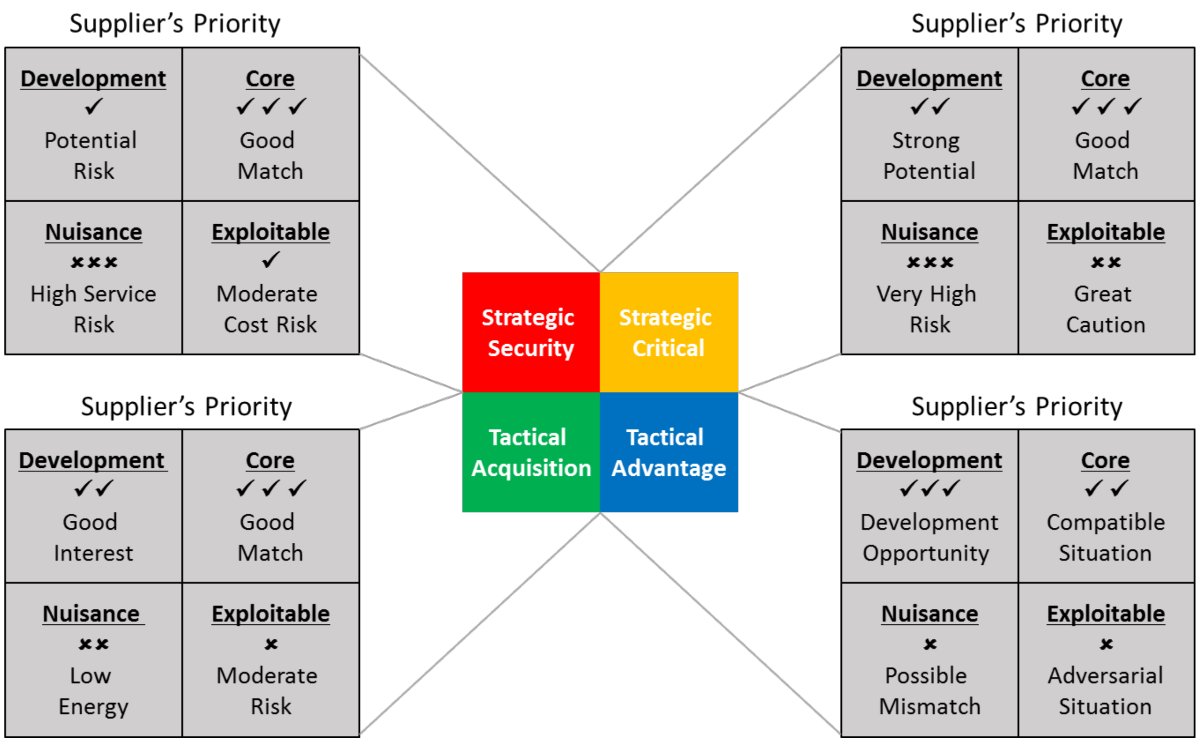


Figure XV – Supply Positioning and Supplier Preferencing

Where alignment between the Borrower and the Supplier on the procurement approach is high, this is a good indication that the indicative procurement approach is likely to deliver the expected benefits. However, where there is little alignment, this is equally a good indication that the indicative procurement approach may not be effective in delivering the expected benefits.

The comparison of these two models is particularly helpful at identifying:

a) potential risks that need to be considered in developing a "fit for purpose" procurement approach;

b) where Borrowers may need to change supplier perceptions of them by making changes for example, asking the Bank to make direct payments to suppliers if the supplier is concerned about the Borrower's track record in payment timeliness;

c) elements that need to be addressed in the Market Engagement approach to positively position the market as to why a supplier would want to do business with the Borrower;

d) actions that need to be included within the risk register, and contingency planning to address highlighted risks;

e) potential areas that could be covered under pre-qualification to ensure that suppliers with the best match to the Borrower are qualified to bid; and

f) potential evaluation criteria to ensure that questions are included in the request for bids or proposals that ensure suppliers provide information that allows the most aligned suppliers to be identified.

Misalignment of Borrower and supplier approaches can be managed, as long as the reasons for the misalignment are known and understood. Some of this information will come from the results of the Supply Positioning and Supplier Preferencing comparison, but also from the SWOT and PESTLE evaluations. Again, just because a procurement is high value, does not make the procurement or indeed the Borrower necessarily attractive to the market.

B. Types of Competition

Knowledge of the type of competition that exists is a prerequisite to being able to develop the right procurement approach. For example, in a monopolistic/oligopoly market (where one, or few supplier(s) hold all the power) designing a procurement approach that is characterized by competitive bidding, with significant risk transfer to the supplier and with supplier selection being based on lowest evaluated cost, is not likely to be successful. In these circumstances, a negotiated approach based on open book pricing potentially linked to a longer-term contract is more likely to be more effective. Therefore, the type of market will have a direct influence on the procurement and will help the Borrower determine the:

a) type of competitive bidding (as determined by the level of completion and the availability of substitutes/alternatives);
b) most effective pricing, or costing mechanism (as determined by the market pricing approach); and
c) level of risk transfer the market will realistically bear (as determined by the relative strength and power of the buyer and the supplier's motivation to participate).

Table VIII below lists five different types of competition that broadly exist in markets and describes the individual characteristics of each type.

	Perfect Competition	Imperfect Competition	Oligopoly	Monopoly	Monopsony
Number of Suppliers	Many suppliers	Fewer larger suppliers	Few large suppliers	One supplier	One buyer (usually one or two suppliers)
Market Power	No market power	Little market power	High market power	Absolute market power	Dependency
Substitutes	Homogeneous goods, works and services that are interchangeable	Differentiated supply with close substitutes	Differentiated supply: degree of substitution limited	No substitutes	No substitutes – make?
Price	One market price: suppliers are 'price takers'	Price competition	Seeking of price stability by price leadership or collusion	Price set by one 'price maker': potential for price discrimination	Price set by need to achieve return on investment
Profit	Normal profits	Small abnormal profits, short term	Abnormal profits, depending on competition	Abnormal profits	Questionable Return on Investment and Strategic Focus
Barriers to Entry	Minimal barriers to entry	Limited barriers to entry	Barriers to entry	Significant barriers to entry	Investment case hard to justify

Table VIII – Different types of Competition

The management technique, "Porter's Five Forces" Analysis (as described in Annex II) may be used for a more detailed assessment of competition and the factors that determine the type and level of competition, if further evaluation of the market place is required to support the design of the procurement approach

8.2 Design of the Procurement Approach

Application of the right procurement approach should be considered in each of the following five (5) stages (illustrated in Figure XVI):

a) requirements (specification type and sustainable procurement requirements);
b) contract Strategy (contract type, pricing/costing mechanism, supplier relationship, and conditions of contract);
c) selection Methods (selection methods, selection arrangements, and market approach options);
d) evaluation Methods (rated criteria or lowest evaluated cost); and
e) contract Management Approach.

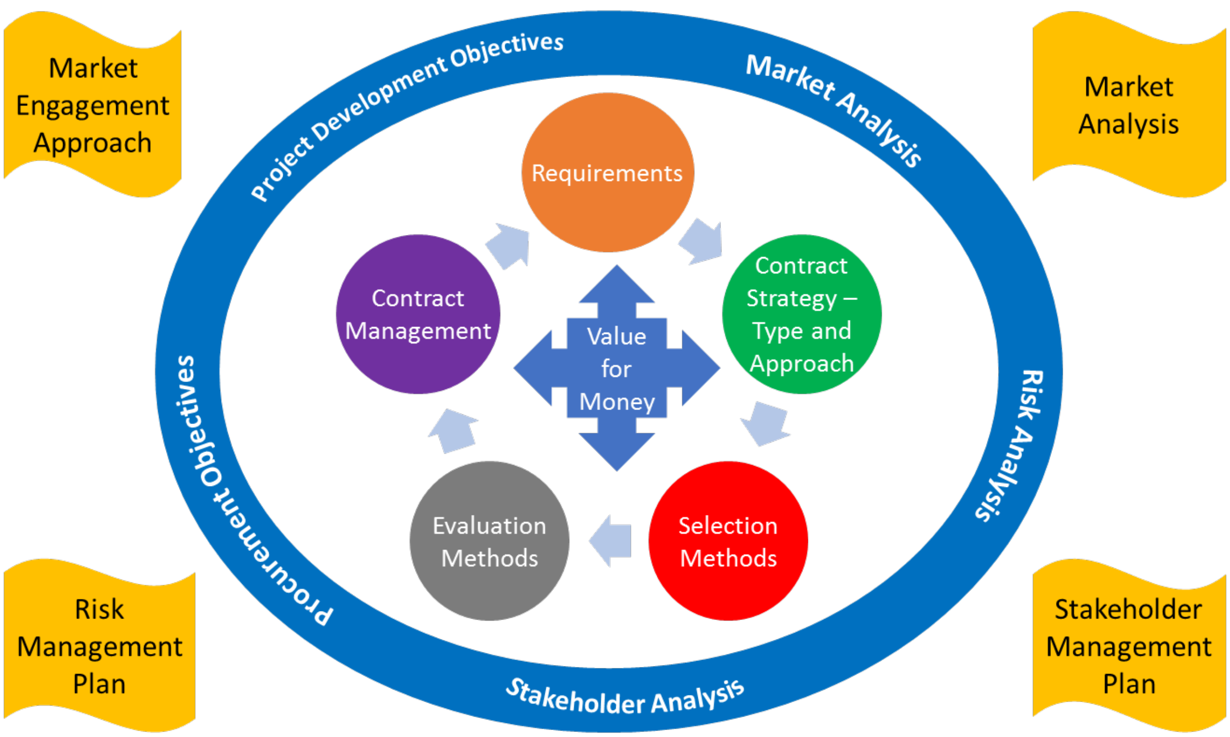


Figure XVI – Developing a Procurement Approach

8.3 Requirements

While the PPSD is not directly concerned with the drafting of Project/contract requirements, the selection of the appropriate type of specification has a critical impact on the procurement approach, and subsequent level of market interest. For example, it impacts:

a) lead-time before going to market;
b) selection of procurement methods (bidding approach and Standard Procurement Document (SPD));
c) transfer of risk between the Borrower and the supplier;
d) level of supplier innovation;
e) bid or proposal evaluation method and complexity;
f) likelihood of delivering the PDOs;
g) level of supplier flexibility in design and delivery; and
h) the level of Borrower control over design and delivery.

8.3.1 Specifications

Figure XVII illustrates that there are two main approaches to specifying the requirements and how these can influence the factors described above. The two main types of specification are:

a) conformance specifications sometimes known as technical, detailed, input or design specifications; or
b) performance specifications, sometimes known as outcome based specifications.

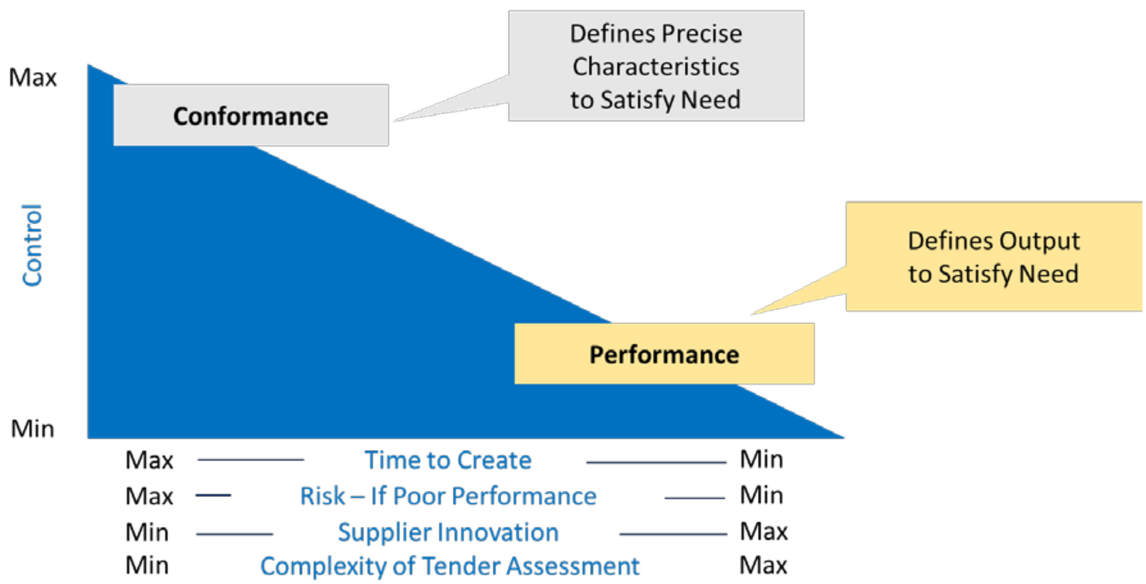


Figure XVII – Specification Types

A. Conformance Specification

Conformance specifications are used where a thorough understanding of the requirements already exists, and there is little/no desire for the supplier to innovate. In these circumstances the Borrower normally has a comprehensive understanding of the requirement and is able to describe it in detail. This includes its technical, design, and functional requirements as well as being able to describe exactly how the supplier must perform and deliver the requirements.

Conformance specifications work best for simple purchases of goods, services, and works, where there is a focus on defining specific quantities and specifications for the requirements, unit price costing, and specifics around the time, place, and manner for delivery and acceptance.

The main risk of a conformance specification is if the specification is incorrect, such as the design doesn't function, then all the risk lies with the Borrower because they have specified exactly what they want.

B. Performance Specification

Performance specifications are used where the understanding of what is required in terms of outcomes can be described, the Borrower is uncertain of the best process or method to deliver the requirements, or suppliers are known to have the capability to design fit for purpose solutions.

Performance based specifications focus on outcomes or results rather than detailing the process of production, construction, and delivery. They are particularly effective at allowing suppliers to bring their own expertise, creativity, innovation and resources to the bidding process without restricting them to predetermined methods or detailed processes. This allows suppliers to reduce cost, and passes the risk of both cost and performance (supplying something that works) to the supplier.

As a general rule, performance based specifications focus on achieving results, whereas conformance specifications focus on meeting specified design and resource requirements.

Performance based specifications should be drafted such that suppliers are allowed maximum flexibility when meeting the requirements, whereas conformance specifications exclude flexibility, unless alternative bids are permitted.

Additional context on specification types and writing specifications can be found in Annex III.

8.3.2 Additional Sustainable Procurement Requirements (non-mandatory)

Sustainable procurement derives from the concept of sustainable development, which has been defined as "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs." Sustainable development defines three pillars for consideration: environmental, social, and economic.

The inclusion of additional sustainable procurement requirements in a procurement approach beyond those required by the bank is discretionary so the Borrower can determine the extent to which they implement further sustainable procurement practice-provided these practices are applied in ways that are consistent with the Bank's Core Procurement Principles. A proportionate approach should be followed when setting requirements for the additional sustainable procurement management measures.

Generic sustainable procurement requirements can be applied in any contract. However, consideration of additional specific sustainable procurement requirements is most effective when the unique risks (identified in the procurement risk analysis) associated with each Project are individually addressed.

The intention to adopt additional sustainable procurement requirements in the procurement process should be identified at the planning stage of the PPSD.

Early consideration of additional sustainable procurement requirements ensures they are included in the overall procurement approach. The procurement approach can be designed to consider additional sustainable procurement requirements at a number stages. These are:

a) qualification of suppliers;
b) performance and/or detailed technical specifications;
c) evaluation criteria;
d) contract terms and conditions; and / or
e) KPIs that are used to assess ongoing performance;

To obtain further information on writing sustainable procurement requirements into specifications see Annex III, or consult guidance on available tools and techniques to support sustainable procurement requirements analysis at www.worldbank.org/procurement.

8.4 Contract Strategy

A Contract Strategy determines the contract type, the price and cost model, and the desired on-going supplier relationship to achieve the right result over the term of the contract.

8.4.1 Contract Type

The contract type is the selection of the appropriate contract form, and terms and conditions. The type of specification, the procurement risk assessment, and the market analysis should inform the selection of contract type. It should also consider the market's capability, the Borrower's capacity, and the operational environment in which delivery will be taking place.

The selection of contract type is Project specific so consideration also needs to be given to the PDOs and Procurement Objectives. Contract type for goods and services is normally on the basis of supply or supply and ongoing support, while infrastructure Projects have a larger range of options including:

A. Traditional – Design and Build separated;
B. Design and Build;
C. Design, Build, Operate, Maintain;
D. Design and Build – Turnkey or Prime Contractor;
E. EPC and EPCM;
F. Design, Build and Operate;
G. Build, Own and Operate; or
H. Build, Operate and Transfer.

8.4.2 Price and Costing Mechanism

The choice of the price and costing mechanism should be made at the time the contract type and SPD/bidding document are selected. Each price and cost mechanism will determine the risk allocation between the Borrower and supplier. Therefore, the cost and price selection should be informed by the contract strategy, type of specification, the procurement risk assessment, and strategic analysis from Section IV of this Guidance.

There are five main pricing and costing models and their use is determined by the SPD /bidding document selected:

A. Lump Sum;
B. Performance Based Contracts;
C. Schedule of Rates/Admeasurement – Contract based on unit prices;
D. Time and Materials – Time based contracts; or
E. Cost Plus – Reimbursable cost contracts.

The following is a more detailed description of each of the five costing models.

A. Lump Sum Contracts

A lump sum contract is one where the supplier agrees to perform the scope of services for a fixed contract amount. Payment percentages or amounts may be linked to the completion of contractual milestones or determined as a percentage of the value of the work to be performed.

Lump sum contracts may be appropriate when the:

a) scope of the contract can be clearly and accurately specified and can be linked to apparent milestones and payments at the time of selection (e.g., simple civil works or consulting services with clearly identifiable deliverables); and/or
b) supplier is responsible for delivering the completed works, (e.g. industrial plant or pre-built information technology solutions, such as in turnkey contracts), and paid on a lump sum basis per contractual milestones.

B. Performance Based Contracts

Performance Based Contracts are contractual relationships where payments are made for measured outputs (performance targets) instead of inputs. The outputs aim at satisfying functional needs in terms of quality, quantity, and reliability.

Performance based contracts may be appropriate for:

a) rehabilitation of roads and operation and maintenance of the roads by a contractor for specified periods;
b) the provision of non-consulting services to be paid on the basis of outputs; and
c) operation of a facility to be paid based on functional performance.

C. Schedule of Rates /Admeasurement

A contract that is based on estimated quantities of items and contractual unit prices for each of these items. Payment is made based on the actual quantities and contractual unit prices.

This type of contract is appropriate for works, when the nature of the work is well defined, but the quantities cannot be determined with reasonable accuracy in advance of construction, such as in roads or dams.

For goods and non-consulting services, it is appropriate when the required quantities are known and unit prices are sought from bidders.

D. Time and Materials

Time based contracts are contracts where the payment is made based on agreed rates and time spent plus reasonable incurred reimbursable expenses.

These types of contractual arrangements may be used for:

a) emergency situations, repairs, and maintenance works; or
b) consulting services, when it is difficult to define or fix the scope and duration of the services (e.g., complex studies, supervision of construction, and advisory services).

This type of contract is not appropriate for goods and industrial plants.

E. Cost Plus

Cost Plus contracts are contracts that require reimbursable based payments for all actual costs plus an agreed fee to cover overhead and profit.

These types of contracts may be appropriate for exceptional fit-for-purpose circumstances such as emergency repairs and maintenance work. To minimize risk to the Borrower, suppliers under these contracts must make all their records and accounts available for inspection by the Borrower or by some agreed neutral third party. The contract should also include appropriate incentives to limit costs.

Table IX summarizes the various benefits and risks of each different contract type and under which circumstances they are best used.

Type	Requirements	Advantages	Disadvantages
Lump Sum/Firm Price	• Work can be accurately specified • Access date & programme duration are known • Risk can be reasonably identified	• Full extent of cost & liability known before work commences • Cost control responsibility of the contractor • Supervision minimal	• Contractor may include excessive contingency to cover risks • Contract basis may be undermined by significant variations • Contractor may seek to "cut corners"
Schedule Rates/ Admeasurement (Bill of Quantities & Schedule of Rates)	• Work can be accurately foreseen but not accurately measured at outset • There is an indication of the extent of the work at tender stage	• Permits appointment of contractor before full extent of work is known • Offers opportunity of assessing the cost of work during the contract	• Contractor may price the bill to his commercial advantage by increasing/decreasing the rate for work judged to be under/over estimated • Work supervision & QS Services required
Time & Materials	• Minimum specification • High confidence & trust in the contractor • Used where the work cannot be foreseen accurately enough to estimate cost	• Allows early appointment of contractor • Minimal specification required at outset	• Cost control difficult • High supervision • No incentive to improve productivity • No incentive for completion
Cost Plus Fixed Fee	• Minimal specification • Sufficient detail of work to enable contractor to estimate managerial resources and profit • High confidence & trust in the contractor	• Incentive to complete early & economically as fee is fixed • Allows early appointment of contractor • Tendering time reduced	• If varied or delayed contractor will try to revise fee • No incentive to productivity • High supervision • Difficult to accurately assess costs to set fee
Cost Plus Percentage	• Minimal specification • High confidence & trust in the contractor	• Allows early appointment of contractor • Tendering time reduced	• Cost control difficult – the higher the cost the higher the % return • No incentive to productivity • High supervision

Table IX – Pricing and Costing Approaches

8.4.3 Selection of the Cost and Price Mechanism

When selecting the appropriate price and cost mechanism, the Borrower should consider:

A. **Specification type** – conformance or performance based and how well the requirements can be scoped at the contract outset and how quickly the work needs to start;
B. **Contract type** – certain types of contracts look to pass risk to the supplier (such as design, build, operate, and maintain) therefore, the price mechanism needs to be one that is consistent with that approach;
C. **Required allocation of risk** – risk is allocated to the party best able to manage the risk;
D. **Operational environment** – includes events that are difficult to predict and known issues such as high inflation, delivery and insurance (covered by the use of INCOTERMS);
E. **Capacity of the Borrower** – familiarity with the pricing mechanism and availability of resources to manage the contract; and
F. **Type of market** – what will motivate suppliers to bid and deliver.

Figure XVIII maps a number of factors expressed in terms of flexibility and control, time to develop scope, risk, and supplier motivation, which should be used to support this assessment.

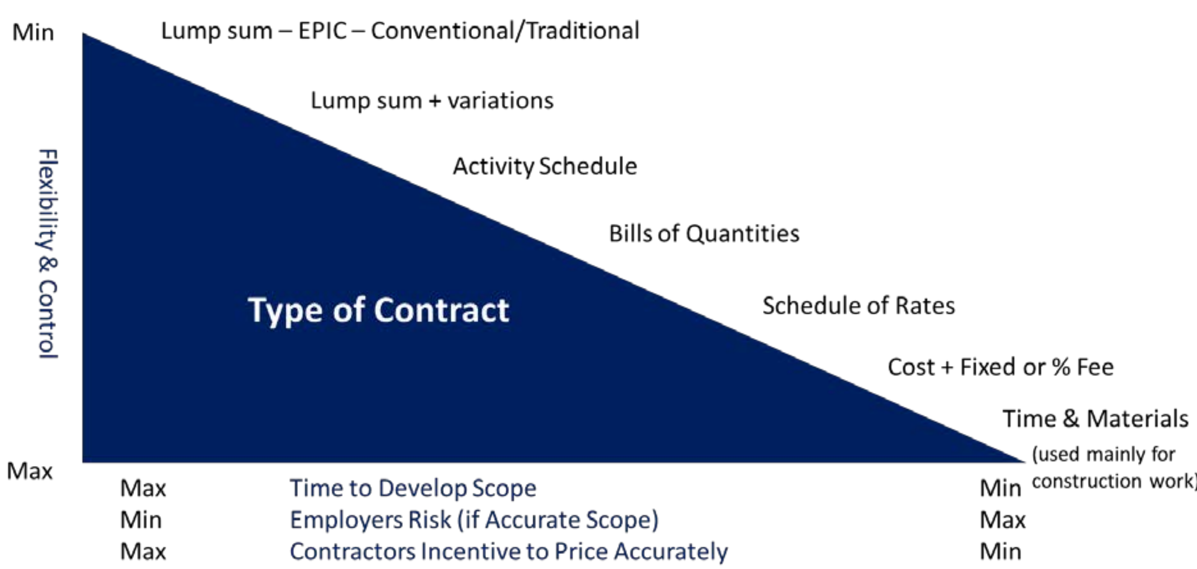


Figure XVIII – Contract Type and Payment Mechanism Analysis

8.4.4 Supplier Relationship

The selection of the contract type and price and cost mechanism can determine the likely relationship with the supplier during the contract and Project delivery. The relationship spectrum can range from adversarial to collaborative. Figure XIX illustrates the full spectrum of typical Borrower/supplier relationships that can exist and how the relationship can influence behaviors around trust, communications, and decision-making.

For example, an adversarial relationship can be seen as 'win-lose' where both the Borrower and supplier work independently of each other and often to each other's detriment, as this is where one party normally gains at the expense of the other. A collaborative relationship can be seen as 'win-win', where both the Borrower and supplier work together for mutual contractual and Project delivery benefit.

Both types of relationships have merit depending on the individual Project/contract circumstances. However, it is essential that the Borrower understands the implications of the decisions on contract type (which often determines risk transfer) and the implications pricing and costing mechanisms can have on supplier relationships.

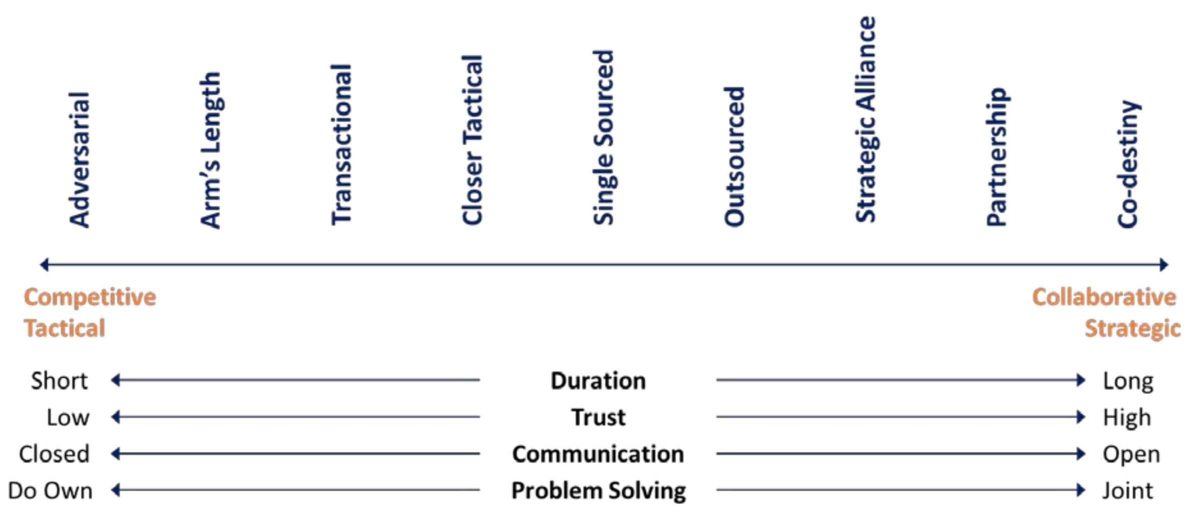


Figure XIX – Supplier / Borrower Relationship Spectrum

A. Adversarial Approach

An adversarial approach to the relationship may be appropriate where some or all of the following are present:

a) strong competition in the market;
b) many suppliers and a large supply market;
c) suppliers have little power;
d) off the shelf for standard goods, services, and works;
e) no need or benefit for high degree of trust between the Borrower and suppler;
f) the cost of switching to a new supplier is low to nil;
g) one off purchases; and / or
h) short-term relationship, with no long-term commitment.

B. Collaborative Approach

A collaborative approach to the relationship may be appropriate where some or all of the following are present:

a) long-term commitment where there is mutual trust, openness, and transparency;
b) agreed shared interests and objectives;
c) shared risk and reward;
d) a win-win approach is possible;
e) relationship is one of equal partners; and / or
f) agreement that there should be joint effort to eliminate waste and increase efficiencies and cost savings, where both the Borrower and supplier can benefit from seeking ways to reduce cost and add value.

8.4.5 Price Adjustments

World Bank Standard Procurement Documents offer the option for either fixed prices or adjustable price contracts where adjustments are made to reflect any changes in major cost activities of the contract, such as labor and materials. For procurements, where the Bank has agreed that the Borrower's national procurement arrangements may be applied, the Borrower should consider how price adjustments mechanisms will be addressed in the most appropriate manner.

Price adjustment provisions are usually not necessary in simple contracts involving delivery of goods or completion of works, non-consulting services and consulting services within eighteen (18) months, but must be included in contracts, which extend beyond eighteen (18) months.

Contracts of shorter duration (less than eighteen (18) months) can also include similar provisions for price adjustments when future local or foreign inflation is expected to be high.

The market research analysis report should provide all the information needed to establish cost trends and drivers in the market as well as an assessment on the business environment of the Borrower. The Borrower should use this information to justify the selection of price adjustments.

8.4.6 Form of Contract (Terms and Conditions)

The final part of the PPSD Strategy is selecting the terms and conditions of contract. In many instances, the decisions made on the approved selection methods and SPD (or as agreed with the Bank, the Borrower's own national procurement arrangements) will determine the conditions of contract. However, as a check and balance, the Borrower should establish a determination that is consistent with the overall procurement approach.

The value and complexity of the contract, procurement risk, uncertainties in contract performance, allocation of risks between the Borrower and supplier, and the desired relationship type drive decisions on the most appropriate form of contract.

The form of contract used should have the following attributes:

a) be comprehensive enough to meet all the objectives of the procurement;

b) reflect the full specification of the goods, consulting services, non-consulting services and works;
c) be consistent with the conditions specified for the procurement process;
d) manage risk appropriately;
e) define and protect the rights and obligations of the Bank, Borrower, and supplier;
f) be fair to both the Borrower and supplier, particularly where clauses cover risk transfer, limitations or exclusions of liability, indemnities, warranties, and intellectual property; and
g) comply with relevant local laws.

Table X details a comparison of using the Bank's Standard Contract Terms and Conditions and the risks of using Bespoke Terms and Conditions. This should be used to validate the choice of Terms and Conditions being proposed in the procurement approach.

Bespoke	Standard
Drafting may be inconsistent and of poor quality	Carefully considered and subject to continuous improvement
Document tailored precisely to match need	Document may not match need well but can be tailored
Can be expensive and time consuming to produce	Cost effective and readily available
Supplier staff may misinterpret document	Well known to long term suppliers
Client staff may misinterpret document	Well known to client staff
Suppliers' may load tenders to take account of uncertainty or onerous terms	Should secure competitive bids if terms reasonable
Bank maintains a variety of standard conditions of contract for use in specific circumstances. Use is mandatory unless the Bank agrees otherwise.	

Table X - Comparison of Contract Terms and Conditions

The Borrower may include economic, social, and environmental considerations in contract performance clauses, provided they have been agreed with the Bank and were included in the Standard Procurement Documents.

8.5 Selection Methods

Having determined the contract type and pricing mechanism, the next stage of the procurement approach is to choose the selection method and market approach. There are three decisions to be made:

a) Selection Method;
b) Selection Arrangement; and
c) Market Approach.

There are numerous combinations of these three options, however, some are mutually exclusive. Tables XI(a) and XI(b) document the options available.

Please note, when applied, further details on the content of each of the documents are contained in the SPDs and the associated guidance note.

Table XI (a) Approved selection methods: Goods, Works and Non-consulting Services

Goods, Works, and Non-consulting Services	Open	Limited	Direct	Inter-national	National	PQ	IS	Single-stage	Multi-stage	BAFO	Negotiation	Rated criteria
Selection methods												
Request for Proposals	✓	✓	x	✓	✓	x	normally	✓	✓	✓	✓*	normally
Request for Bids	✓	✓	x	✓	✓	optional	x	✓	x	✓	✓*	not normally
Request for Quotations	✓	✓	x	✓	✓	x	x	✓	x	X	x	x
Direct Selection	x	X	✓	x	x	x	x	✓	x	X	✓	x
Selection arrangements												
Competitive Dialogue	✓	✓	x	✓	✓	x	required	x	✓	X	x	✓
Public-Private Partnerships	✓	✓	✓	✓	✓	✓	x	✓	✓	✓	✓	✓
Commercial Practices	As per acceptable commercial procurement practices											
UN Agencies	As per Paragraphs 6.47 and 6.48											
E-Auctions	✓	✓	x	✓	✓	✓	x	✓	x	X	x	x
Imports	✓	✓	x	✓	x	x	x	✓	x	✓	x	x
Commodities	✓	✓	x	✓	✓	✓	x	✓	x	X	x	x
Community-driven Development	✓	✓	✓	x	✓	x	x	✓	x	X	x	x
Force Accounts	x	X	✓	x	✓	x	x	x	x	X	x	x

✓ This market approach option is available
X This market approach option is not available
PQ = Prequalification
IS = Initial Selection
* This refers to negotiations after a competitive process as per Paragraphs 6.34 to 6.36 for the Procurement Regulations for IPF Borrowers

Table XI(b) – Selection Methods for Consulting Services

Consulting Services	Market approach options					
Approved selection methods and arrangements	Open	Limited	Direct	Inter-national	National	Shortlist
Selection methods						
Quality Cost Based Selection	✓	x	x	✓	✓	✓
Fixed Budget Based Selection	✓	x	x	✓	✓	✓
Least Cost Based Selection	✓	x	x	✓	✓	✓
Quality Based Selection	✓	x	x	✓	✓	✓
Consultant's Qualification Based Selection	✓	✓	x	✓	✓	x
Direct Selection	x	x	✓	x	x	x
Selection Arrangements						
Commercial Practices	As per acceptable commercial Procurement practices					
UN Agencies	As per Paragraphs 7.27 and 7.28					
Non Profit Organizations (such as NGOs)	✓	✓	✓	✓	✓	✓
Banks	✓	✓	✓	✓	✓	✓
Procurement Agents	✓	✓	✓	✓	✓	✓
Selection Methods for Individual Consultants						
Selection of Individual Consultants	✓	✓	✓	x	x	x

✓ This market approach option is available
X This market approach option is not available

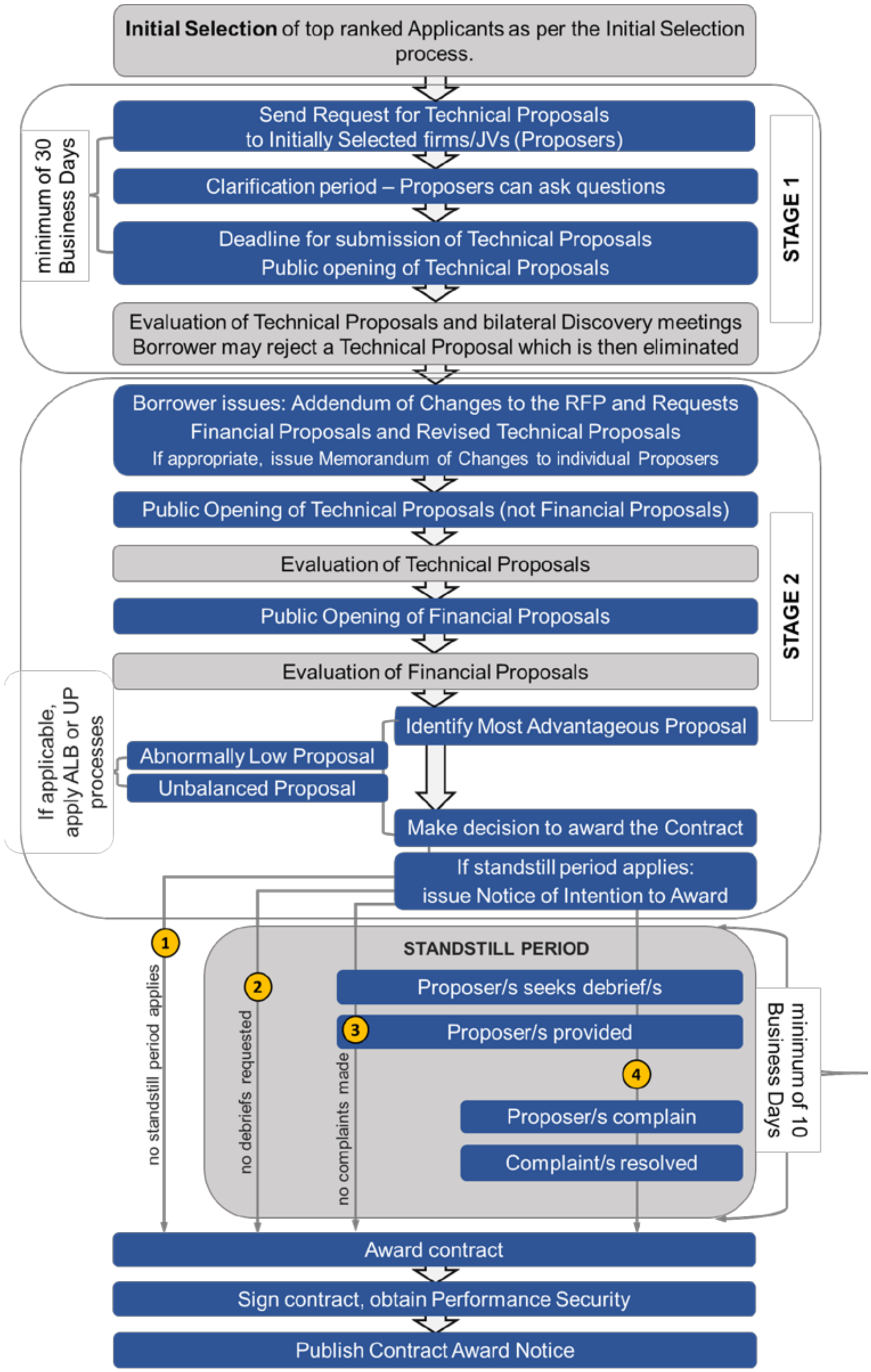
8.5.1 Selection Methods

There are four ways of inviting suppliers to submit bids or proposals for World Bank financed Projects.

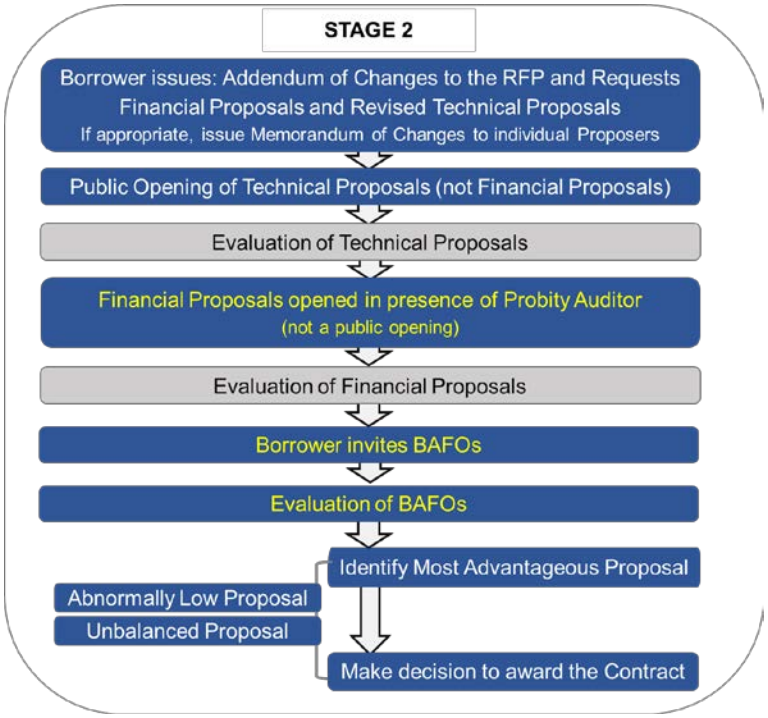
A. Request for Proposals (RFP);
B. Requests for Bids (RFB);
C. Requests for Quotations (RFQ);
D. Direct Selection.

The process flow charts outlined below illustrate the different RFP and RFB options. Further information on these process flow charts can be found in the Procurement Regulations.

Process flow chart: RFP Model 1

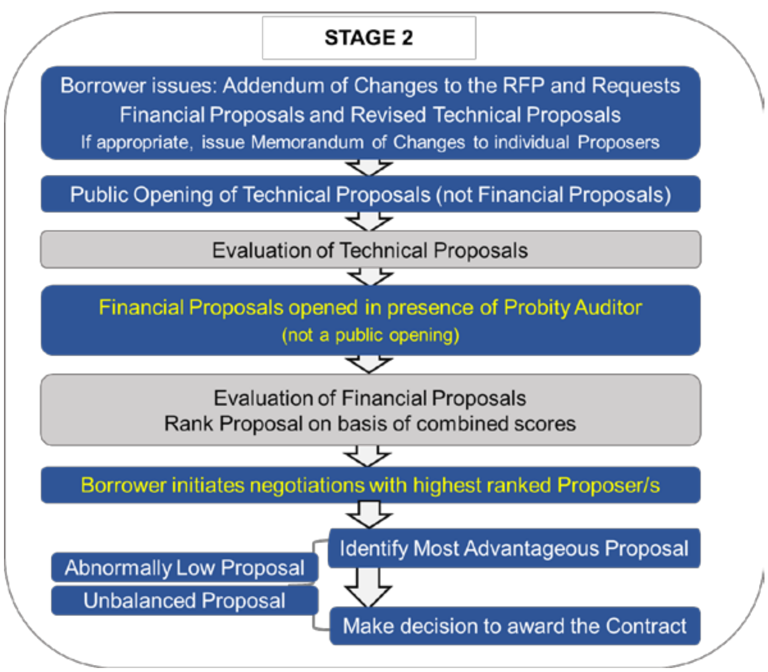


BAFO: Key process variations to RFP Model 1 for BAFO



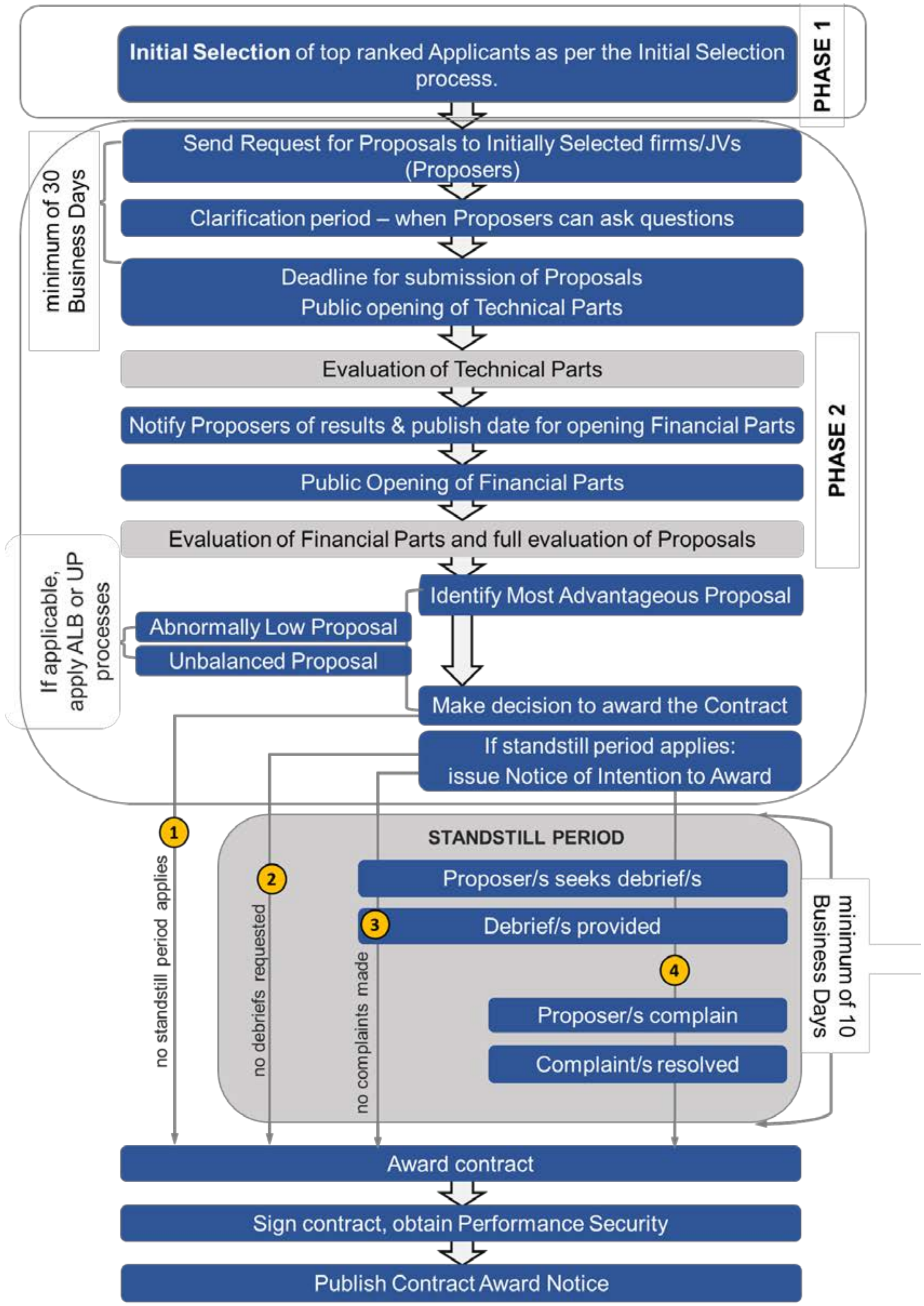
Note: key variations in process are in yellow font

Negotiations: Key process variation to RFP Model 1 for negotiations

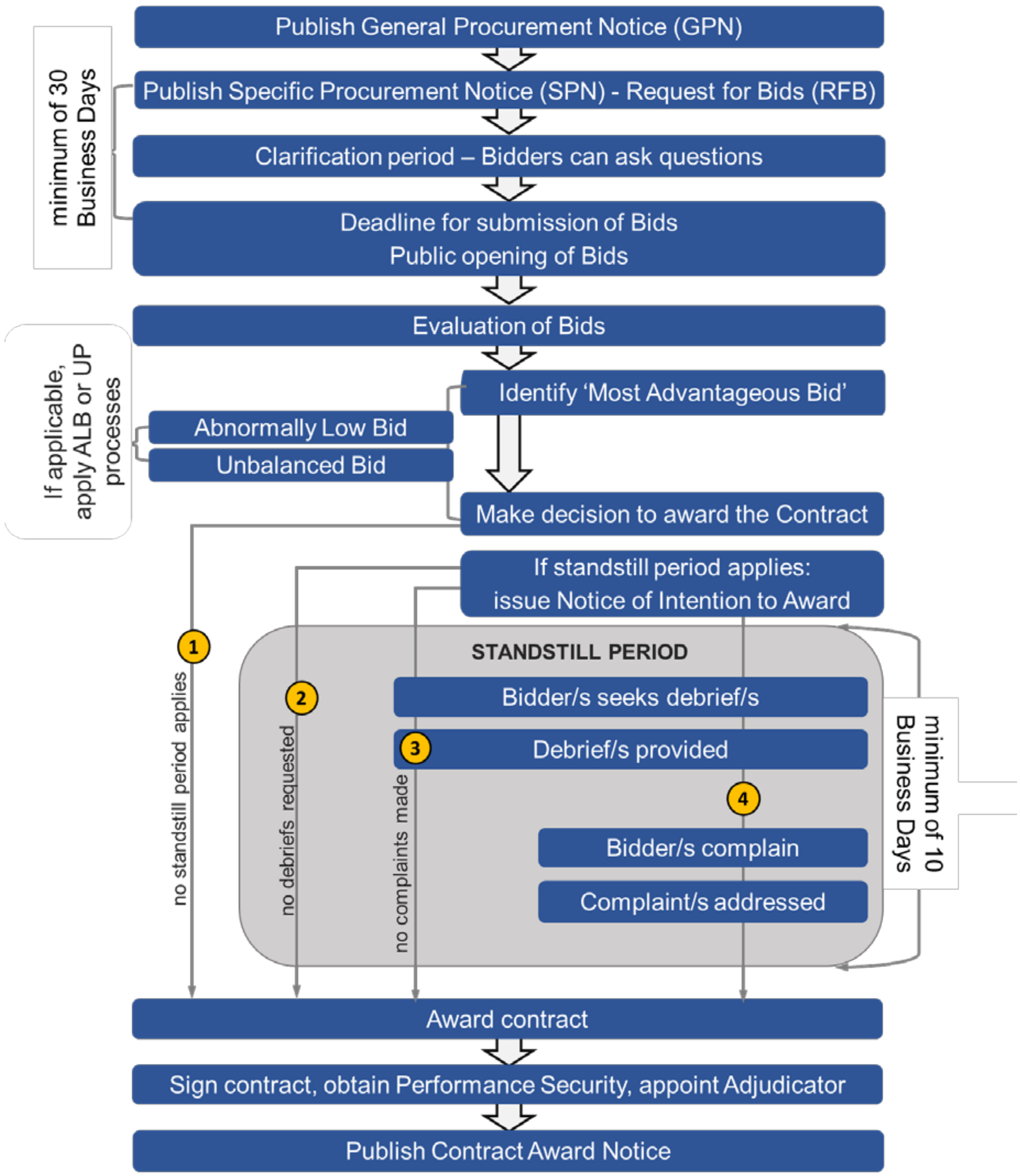


Note: key variations in process are in yellow font

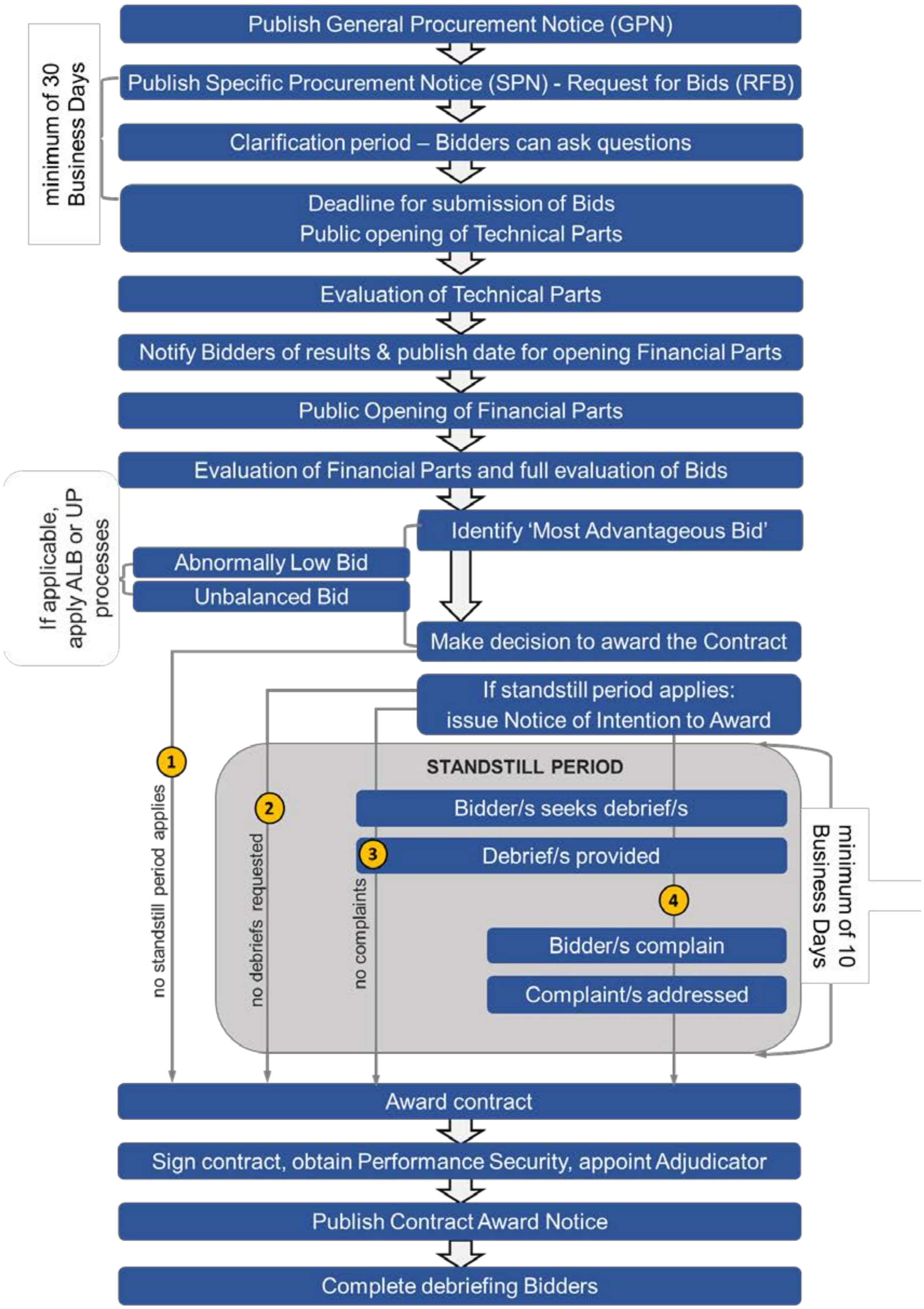
Process flow chart: RFP Model 2 (without BAFO or negotiations)



Process flow chart: RFB One-envelope process (without Prequalification)



Process flow chart: RFB Two-envelope process (without Prequalification)



A. Request for Proposals (RFP)

A RFP is a competitive method for the solicitation of Proposals. It should be used when, because of the nature and complexity of the Goods, Works, or Services to be procured, the Borrower's business needs are better met by allowing Proposers to offer customized solutions or Proposals that may vary in the manner in which they meet or exceed the requirement of the request for proposals document.

An RFP is normally conducted in a multi-stage process. To allow an evaluation of the degree to which Proposals meet the requirements of the request for proposals document the evaluation normally includes rated type criteria and the evaluation methodology.

B. Requests for Bids (RFB)

A RFB is a competitive method for the solicitation of Bids. It should be used when, because of the nature of the Goods, Works, or Services to be provided, the Borrower is able to specify detailed requirements to which Bidders respond in offering Bids.

Procurement under this method is conducted in a single-stage process. Qualifying criteria (minimum requirements normally evaluated on a pass/fail basis) are normally used with RFB. Rated-type evaluation criteria are normally not used with RFB.

C. Requests for Quotations (RFQ)

A RFQ is a competitive method based on comparing price quotations obtained from suppliers. This method may be appropriate for procuring limited quantities of readily available off-the-shelf goods or non-consulting services, standard specification commodities, or simple civil works of small value, when it is more efficient than more competitive methods.

D. Direct Selection

Proportional, fit-for-purpose, and VfM considerations may require a direct selection approach: that is, approaching and negotiating with only one firm. This selection method may be appropriate when there is only one suitable firm or there is justification to use a preferred firm.

8.5.2 Selection Arrangements

The selection arrangements are:

A. Competitive Dialogue;
B. Public Private Partnerships;
C. Commercial Practices;
D. United Nation (UN) Agencies;
E. e-Reverse Auctions;
F. Imports;
G. Commodities;
H. Community Driven Development;

I. Force Accounts;
J. Framework Agreements; and
K. Cross Project Opportunities.

A. Competitive Dialogue

Competitive Dialogue is an interactive multistage selection arrangement that allows for dynamic engagement with Proposers. It may be used only for complex or innovative procurement.

B. Public Private Partnerships (PPP)

A PPP is a long-term contract between a private party and a government entity, to provide a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance.

C. Commercial Practices

Commercial Practices refers to the use of the well-established procurement arrangements used by the private sector (normally entities not subject to the Borrower's public procurement law), for the procurement of Goods, Works, or Non-consulting Services. Commercial practices may also be used for a program of imports undertaken by private sector entities. The Bank's Core Procurement Principles are the standard for determining the acceptability of Commercial Practices.

D. United Nation (UN) Agencies

UN Agencies can be directly selected in situations where their expertise or rapid mobilization on the ground is critical, in particular, in circumstances of urgent need of assistance or capacity constraints.

E. e-Reverse Auctions

An electronic reverse auction (e-auction) is a scheduled online event in which pre-qualified/registered suppliers bid against each other on their price.

F. Imports

When the IPF provides financing for a program of imports (i.e. a program for importing eligible essential Goods by private or public sector entities, based on a list agreed between the Borrower and the Bank).

G. Commodities

Procurement of commodities refers to procuring items such as grain, animal feed, cooking oil, fertilizer, and metals. The procurement of commodities often involves multiple awards for partial quantities to assure security of supply and multiple purchases over a period of time to take advantage of favorable market conditions and to keep inventories low.

H. Community Driven Development

Procurement arrangements, specifications, and contract packaging may be suitably adapted, in a way that is acceptable to the Bank, when, in the interest of project sustainability, or to achieve certain specific social objectives of the project, it is desirable (in selected project components), to:

a) call for the participation of local communities and/or nongovernmental organizations (NGOs) in civil Works and the delivery of Non-consulting Services; or
b) increase the use of local know-how, Goods, or materials; or
c) employ labor-intensive and other appropriate technologies.

I. Force Accounts

Force Account, which refers to Works such as construction and installation of equipment and Non-consulting Services carried out by a government department of the Borrower's country using its own personnel and equipment, may be the only practical method of procurement under specific circumstances. A government-owned construction unit that is not managerially, legally, or financially autonomous is considered a Force Account unit. The use of Force Account requires that the Borrower apply the same rigorous quality checks and inspection as for contracts awarded to third parties.

J. Framework Agreements

A framework agreement (FA) is an agreement with one or more firms that establishes the terms and conditions that will govern any contract awarded during the term of the FA (a call-off contract). The terms and conditions will usually include the fee rate, charge rate or pricing mechanism. FAs may be established for the anticipated procurement of Goods, Works, or Services, as and when required, over a specified period of time. An FA does not commit either party to procure or supply. Once established, a FA provides a fast and efficient way to procure Goods, Works or Non-consulting Services. A multi-supplier FA allows a Borrower to select from a number of firms, helping to ensure that each procurement represents best value for money.

K. Cross Project Opportunities

This stage involves undertaking a review of opportunities for using contracts that currently exist and how requirements across Projects may be combined to increase leverage through economies of scale and optimized resource planning and scheduling. In addition, these opportunities serve to reduce the time spent by the Borrower putting contracts in place for a Project. These opportunities include:

a) buying goods and services from existing framework agreements if already established;
b) making use of other agreements (e.g. UN Office for Project Services (UNOPS) contracts to buy vehicles); and
c) leverage buying power across Projects (e.g. if more than one Project is being undertaken in a country and there is common expenditure then buying can be done on a combined basis).

8.5.3 Market Approaches

In addition to choosing the approved selection method and arrangement, a market approach must also be identified.

The World Bank's Procurement Principles determines that an open, competitive approach to procurement is preferred as it is the optimum solution to achieving the Core Principles. The PPSD can be used to justify an alternative approach if merited and justified by the Project's/contract's circumstances.

A. Type of Competition

The various types of competition include:

1. Open;
2. Limited;
3. International;
4. National; or
5. No Competition – Direct Selection.

These competition types are described below, along with a description of when they may be appropriate to be used. The main source of information to make the decision on the type of competition will be the market analysis report.

1. Open Competition

An open competitive approach to market is the Bank's preferred approach as it provides all eligible prospective Bidders/Proposers with timely and adequate advertisement of a Borrower's requirements and an equal opportunity to bid/propose for the required Goods, Works, or Services. Any approach, other than open competition, shall be justified by the Borrower.

2. Limited Competition

A limited competitive approach to market is by invitation only, without advertisement. It may be an appropriate method of selection where there are only a limited number of firms or there are other exceptional reasons that justify departure from open competitive procurement approaches.

3. International Competition

Approaching the international market (international competitive procurement) is appropriate when the participation of foreign firms will increase competition and may assure the achievement of best VfM and fit-for-purpose results.

Open international competitive procurement, for which international advertisement is required in accordance with these Procurement Regulations, is the preferred approach for complex, high-risk, and/or high-value contracts.

4. National Competition

Approaching the national market may be appropriate when the procurement is unlikely to attract foreign competition because of:

a) the size and conditions of the market;
b) the value of the contract;
c) activities that are scattered geographically, spread over time, or are labor- intensive; or
d) the Goods, Works, or Non-consulting Services are available locally at prices below the international market.

Approaching the national market may also be appropriate when the advantages of approaching the international market are clearly outweighed by the administrative or financial burden involved. If foreign firms wish to participate in open national competitive procurement, they are allowed to do so on the terms and conditions that apply to national firms. When approaching the national market, the country's own procurement procedures may be used.

5. No Competition - Direct Selection

Direct selection may be appropriate under the following circumstances:

a) Single-source Selection (preferred supplier from several sources):
    i. An existing contract not originally financed by the Bank, for goods, works or services, awarded in accordance with procedures acceptable to the Bank, may be extended for additional goods, works, and non-consulting services of a similar nature, if it is properly justified, if no advantage may be obtained by competition, and if the prices are reasonable;
    ii. There is a justifiable requirement to re-engage a supplier that has previously completed a contract with the Borrower to perform a similar type of contract. The justification shall show satisfactory performance of the supplier in the previous contract, that no advantage may be obtained by competition, and that the prices are reasonable;
    iii. The procurement is both very low-value and low-risk as agreed in the Procurement Plan; and/or
    iv. The case is exceptional, for example, in response to natural disasters and emergency situations.
b) Sole-source Selection (only one source possible):
    i. Standardization of goods that need to be compatible with existing goods may justify additional purchases from the original supplier. For such purchases to be justified, the advantages and disadvantages of another brand or source of equipment should have been considered on grounds acceptable to the Bank;
    ii. The required equipment is proprietary and obtainable from only one source;
    iii. The procurement of certain goods from a particular supplier is essential to achieve the required performance or functional guarantee of an equipment, industrial plant, or facility; or

iv. When the goods, works, or non-consulting services provided in the Borrower's country by a State Owned Enterprises (SOE), University, or a research centre, are of a unique and exceptional nature because of the absence of suitable private sector alternatives, or as a consequence of the regulatory framework, or because its participation is critical to Project implementation.

B. Number of Envelopes/Stages

1. Single Stage – One Envelope

Single-stage procurement is most appropriate when the specifications and requirements are sufficient to enable submissions of complete Bids/Proposals. Single stage-one envelope procurement requires submission of both technical and financial Bids/Proposals in one envelope.

2. Single Stage - Two Envelopes

If appropriate, a two-envelope process may be used in single-stage procurement. The first envelope contains the qualifications and technical part and the second envelope the financial (price) part; the two-envelope are opened and evaluated sequentially.

3. Multi Stage

It may often be impractical to prepare complete technical specifications in advance for the procurement of:

a) large complex facilities for which a turnkey contract will be awarded for the design and build of a Plant;
b) Works of a complex and special nature; or
c) complex information and communication technology that is subject to rapid technological advances.

In the first stage, Proposals are invited on the basis of a conceptual design or performance or functional specification, subject to the Borrower's conducting confidential discovery and clarification meetings to learn about possible solutions. In the second stage, the request for bids/request for proposals document may be amended to reflect the discoveries made in the confidential meetings, and issued to the qualified Bidders/Proposers, requesting them to submit final Proposals. As required in the request for bids/request for proposals document, the second stage may be submitted in one (1) envelope, or two (2) envelopes for the technical and financial parts respectively where the two envelopes are opened and evaluated sequentially.

C. Best and Final Offer (BAFO)

BAFO is an option under which the Borrower invites Bidders/Proposers that have submitted substantially responsive Bids/Proposals to submit their best and final offer. Such a process may be appropriate when the procurement process would benefit from Bidders'/Proposers' having a final opportunity to improve their Bids/Proposals, including by reducing prices, clarifying or modifying their Bid/Proposal, or providing additional information.

D. Negotiations

Negotiations can take place following Bid/Proposal evaluations and before final contract award. Any negotiation shall be in accordance with the requirements of the request for bids/request for proposals document. Negotiations may involve terms and conditions, price, and/or social, environmental, and innovative aspects, as long as they do not change the minimum requirements of the Bid/Proposal.

8.5.4 Pre / Post Qualification and Initial Selection

Pre-qualification and post qualification are methods used to ensure suppliers with appropriate skills, experience, track record capacity, and capability, are invited bid or are awarded contracts. It is a critical activity in ensuring successful selection of suppliers and ultimately getting Projects delivered.

This can take three forms:

A. Pre-qualification;
B. Initial selection; and
C. Post-qualification.

Prequalification and Initial Selection are processes used to shortlist Applicants in the procurement of Goods, Works and Non-consulting Services. These processes ensure that only those with appropriate and adequate capacity, capability and resources are invited to submit Bids/Proposals. In undertaking a Prequalification or Initial Selection the Borrower shall use the Bank's Standard Prequalification document/Initial Selection document.

Prequalification or Initial Selection is appropriate for large or complex contracts, or in other circumstances, such as: the need for custom-designed equipment, Plant, specialized services, some complex information and technology, procurement under turnkey, design and build, or management contracting in which the high costs of preparing detailed Bids/Proposals could discourage competition.

The assessment of an Applicant's qualifications shall not take into consideration the qualifications of other firms such as its subsidiaries, parent entities, affiliates, subcontractors (other than specialized subcontractors if permitted in the Prequalification/Initial Selection document), or any other firm different from the firm that submitted the Prequalification/Initial Selection Application.

When the time elapsed between the Borrower's decision on the list of prequalified/ initially selected Applicants and the issuance of request for bids/request for proposals documents is longer than twelve (12) months, the Bank may require that a new Prequalification/Initial Selection process is conducted through re-advertisement.

A. Prequalification

Prequalification is normally used with Requests for Bids and is optional depending on the nature and complexity of the Goods, Works or Non-consulting Services. In Prequalification, minimum requirements are normally assessed on a pass/fail basis against such criteria as: eligibility, experience, technical capability and financial resources. These take into account objective and measurable factors such as: experience, satisfactory past performance, successful completion of similar contracts over a given period, capability of construction and/or manufacturing facilities, financial situation, and eligibility. All Applicants that substantially meet the minimum qualification requirements are invited to submit a Bid.

B. Initial Selection

Initial Selection is normally be used with Request for Proposals and should be used for all Competitive Dialogue processes. It enables the Borrower to invite only the highest ranked Applicants to submit Proposals. Initial selection involves a two-step process. The first step is similar to the Prequalification process described above. This establishes the long-list of Applicants. Long-listed Applicants are then evaluated against rated criteria. After ranking the combined rated criteria scores the Borrower selects the highest ranked Applicants to submit Proposals.

C. Post-Qualification

If Bidders/Proposers have not been prequalified/ initially selected, the Borrower should specify appropriate qualification requirements in the request for bids/request for proposals document to verify that a Bidder/Proposer that would be recommended for contract award has the capability and resources to effectively carry out the contract. The assessment of a firm's qualifications shall not take into consideration the qualifications of other firms such as its subsidiaries, parent entities, affiliates, subcontractors (other than specialized subcontractors if permitted in the request for bids/request for proposals document), or any other firm different from the firm that submitted the Bid/Proposal.

8.5.5 Selecting the Right Combination

In determining the right combination of the activities to designing the approach to market, the decision on the type of selection method is primarily driven by the level of competition in the market, the number of capable suppliers available, the specificity of the requirements, and the inherent risks involved in delivery. This information should come from the:

a) Market Analysis including the Value and complexity of the contract as determined by the supply position model (Section 4.3.1 of this Guidance)
b) Market Engagement Strategy (Section 4.3.7 of this Guidance); and
c) Procurement Risk Analysis (Section V of this Guidance);

Applying this information to each contract and then to the chosen combination of selection methods and market approaches should help keep all he contracts that make up the Project consistent.

8.6 Evaluation Methods

Evaluation methods are concerned with establishing the process by which supplier bids and proposals are assessed to determine the supplier that offers the best VfM (and will therefore deliver the right result/PDOs).

The principle of VfM means the effective, efficient, and economic use of resources, which requires the evaluation of relevant costs and benefits, along with an assessment of risks, and non-price attributes and/or life cycle costs, as appropriate. Price alone may not necessarily represent VfM.

The evaluation criteria must be designed to enable the Borrower to achieve best VfM in procurements financed by the Bank.

There are two methods for selecting suppliers based on identifying the most advantageous bid/proposal:

a) when rated criteria are used, the substantially responsive bidder that meets the qualification criteria, and has submitted the best evaluated bid/proposal is selected; and
b) when rated criteria are not used, the bidder that meets the qualification criteria and whose bid/proposal has been determined to be (i) substantially responsive to the bidding/request for proposals document, and (ii) the lowest evaluated cost (lowest evaluated bid/proposal) is selected.

The Borrower needs to ensure that the evaluation criteria are comprehensive enough to cover the issues raised in Sections IV and V of this Guidance. The evaluation criteria need to be appropriate to the type, nature, market conditions, and complexity of what is being procured and must be clearly specified in detail in the RFB/RFP document.

8.6.1 Evaluation Selection Methods

The decision on the type of evaluation method that should be used will determine which of the following selection methods will be used in the SPD/bidding documents for evaluation of suppliers. They are:

A. Quality Cost Based Selection (QCBS);
B. Fixed Budget Based Selection (FBS);
C. Least Cost Based Selection (LCS);
D. Quality Based Selection (QBS);
E. Consultant's Qualifications Based Selection (CQS); and
F. Direct Selection.

Methods A-E can only be used for consulting services.

The evaluation criteria shall be appropriate to the nature and complexity of the procurement. The description of each selection method below includes a description of the circumstances in which use of each method is best suited.

The following are approved selection methods for Consulting firm:

a) Quality Cost Based Selection (QCBS);
b) Fixed Budget Based Selection (FBS);
c) Least Cost Based Selection (LCS);
d) Quality Based Selection (QBS);
e) Consultant's Qualifications Based Selection (CQS);
f) Direct Selection; and
g) Commercial Practices.

A. Quality and Cost-based Selection

QCBS is a competitive process among Shortlisted consulting firms under which the selection of the successful firm takes into account the quality of the Proposal and the cost of the services. The request for proposals document shall specify the minimum score for the technical Proposals. The relative weight to be given to the quality and cost depends on the nature of the assignment. Among the Proposals that are responsive to the requirements of the request for proposals document and are technically qualified, the Proposal with the highest combined (quality and cost) score is considered the Most Advantageous Proposal.

B. Fixed Budget-based Selection

Like QCBS, FBS is a competitive process among Shortlisted consulting firms under which the selection of the successful firm takes into account the quality of the Proposal and the cost of the services. In the request for proposals document, the cost of services is specified as a fixed budget that shall not be exceeded. FBS is appropriate when:

a) the type of Consulting Service required is simple and can be precisely defined;
b) the budget is reasonably estimated and set; and
c) the budget is sufficient for the firm to perform the assignment.

The request for proposals document specifies the budget and the minimum score for the technical Proposals. The Proposal with the highest technical score that meets the fixed budget requirement is considered the Most Advantageous Proposal.

C. Least Cost-based Selection

Similar to QCBS, LCS is a competitive process among Shortlisted consulting firms under which the selection of the successful firm takes into account the quality of the Proposal and the cost of the services. LCS is generally appropriate for assignments of a standard or routine nature (such as engineering designs of non-complex Works), for which well-established practices and standards exist.

The request for proposals document specifies the minimum score for the technical Proposals. Among the Proposals that score higher than the minimum technical score, the Proposal with the lowest evaluated cost is considered the Most Advantageous Proposal.

D. Quality-based Selection

Under QBS, the Proposal quality is evaluated without using cost as an evaluation criterion. If the request for proposals requests both technical and financial Proposals, the financial Proposal of only the highest technically qualified firm is opened and evaluated to determine the Most Advantageous Proposal. However, if the request for proposals document requests only technical Proposals, the firm with the highest-ranked technical Proposal is invited to submit its financial Proposals for negotiations.

QBS is appropriate for the following types of assignments:

a) complex or highly specialized assignments for which it is difficult to define precise TOR and the input required from the firm, and for which the Borrower expects the firm to demonstrate innovation in its Proposals;
b) assignments that have a high downstream impact; and
c) assignments that can be carried out in substantially different ways, so that Proposals will not be comparable.

E. Consultant's Qualification-based Selection

The Borrower shall request expressions of interest (REOI), by attaching the TOR to the REOI. At least three qualified firms shall be requested to provide information about their relevant experience and qualifications. From the firms that have submitted an EoI, the Borrower selects the firm with the best qualifications and relevant experience and invites it to submit its technical and financial Proposals for negotiations. Advertisement of REoIs is not mandatory.

CQS is appropriate for small assignments or emergency situations in which preparing and evaluating competitive Proposals is not justified.

F. Direct Selection

Proportional, fit-for-purpose, and VfM considerations may require a direct selection (single-source or sole-source selection), approach, that is: approaching and negotiating with only one firm. This selection method may be appropriate when only one firm is qualified, a firm has experience of exceptional worth for the assignment, or there is justification to use a preferred firm.

8.6.2 Evaluation of Costs

Evaluation of costs can be on the basis of:

A. Adjusted bid price; and/or
B. Life-cycle costs.

A. Adjusted Bid Price

Adjustments of Bid price include arithmetic correction, any discounts, and other adjustments specified in the request for bids/ request for proposals document for evaluation purposes, including adjustments for deviation in the delivery/implementation schedule and/or payment terms, and corrections for minor deviations or omissions.

B. Life-cycle costs

Life cycle costing should be used when the costs of operation and/or maintenance over the specified life of the Goods or Works are estimated to be considerable in comparison with the initial cost and may vary among different Bids/Proposals. It is evaluated on a net present cost basis.

8.6.3 Domestic Preference

When open international competitive procurement is used to procure Goods or Works, a margin of domestic preference may be provided in the evaluation of Bids/Proposals for the following:

a) Goods manufactured in the Borrower's country, compared with Goods manufactured abroad. The preference is fifteen percent (15%) added to the Carriage and Insurance Paid (CIP) price of the Goods manufactured abroad; and
b) Works in member countries below a specified threshold of per capita gross national income (as defined annually by the Bank), when comparing Bids/Proposals from eligible domestic firms with those from foreign firms. The preference is seven and a half percent (7.5%) added to the price offered by the foreign firms.

Domestic preference shall not be applied to Plant.

8.6.4 Rated Criteria for Assessing Quality

Rated-type criteria, that is, non-price attributes assessed with merit points, are used, when benefits may not be quantifiable (or the evaluation criteria cannot be expressed in monetary terms), and the benefits associated with these rated criteria are expected to vary among different Bids/Proposals.

The rated-type criteria, and sub-criteria as appropriate, are prioritized, assigned merit points, and weighted according to their relative importance in meeting the desired outcome. The number of sub-criteria should be kept to the minimum essential.

Rated criteria may include, but are not limited to, the following features as relevant:

a) quality of methodology and work plan;
b) performance, capacity, or functionality features; and
c) sustainable procurement.

8.7 Contract Management

Contract management is a formal process that focuses on ensuring both the supplier and the Borrower meet their contractual commitments to time, cost, and quality. It requires systematic and efficient planning, execution, monitoring, and evaluation to optimize performance while managing risks to ensure that both parties fulfil their contractual obligations with the ultimate goal of achieving VfM and contractual results. It involves:

a) tracking and monitoring of delivery and costs;
b) contract administration;
c) being clear on roles and responsibilities of both Borrower and supplier;
d) managing relationships with both the supplier and key stakeholders;
e) being proactive throughout the contract to anticipate problems and issues before they arise; and
f) managing problems and issues as they arise, quickly, effectively, fairly, and in a transparent manner.

From the Borrower's perspective contract management:

a) ensures the supplier delivers upon their commitments;
b) obtains best VfM during the life of the contract;
c) manages supply risks for the duration of the contract;
d) continually challenges to drive best value in its contracts;
e) ensures effective contracts that continue to deliver the PDOs;
f) demonstrates best procurement practice in the management of contracts; and
g) provides evidence to support any audits.

8.7.1 Contract Management Approach

The approach to defining the contract management requirements should consider:

a) an understanding of the level of influence the Borrower may have over the supplier, which is informed by the supply preferencing model analysis;
b) an understanding of how much influence the Borrower needs over the supplier, which is informed by the supply position model and procurement risk analysis;
c) how the supplier will be managed through review meetings, progress reports, risk logs, action plans, etc.;
d) the key milestones and when they should be reviewed;
e) the level of resources required to manage the contract effectively; and
f) how performance will be assessed against pre-agreed measures, including key performance indicators.

The approach to contract management should be proportionate to the value, risk, length, type, and complexity of the contract and the type of market/suppliers who will be fulfilling the contract.

Depending on the nature of the relationship with the supplier, the level of effort may change for the Borrower.

For simple and low value contracts, the Contract Management Plan should include, as a minimum, the following:

a) key roles and responsibilities;
b) key contractual dates and delivery milestones;
c) budget and payment milestones; and
d) record keeping requirements.

For high value, high risk, or complex contracts identified in the Procurement Plan, the Contract Management Plans shall typically contain a summary of contract details such as:

a) identified potential risks (such as delays in the contractor's right of access to site, payment delays and other defaults in the Borrower's contractual obligations that could potentially lead to contractual disputes) and its mitigation;
b) key contacts, roles and responsibilities of the parties;

i. the names and contact details of the key contacts for each party shall be clearly identified in the contract;

ii. ensuring that each party has established the necessary authorizations and delegations for its personnel at the beginning of the contract to ensure all contracting decisions are valid and enforceable.

c) communication and reporting procedures;

d) key contractual terms and conditions that relate to delivery;

e) contractual milestones including critical path (identified to ensure early detection and mitigation of issues) and payment procedures consistent with contractual provisions;

f) key contract deliverables;

i. contract deliverables shall be identified and properly described so they can be easily monitored;

ii. key contract deliverables shall be updated to account for change orders during the execution of the contract.

g) KPIs and measurement process;

h) contract variation/change control mechanisms;

i) record keeping requirements; and

j) issues management and escalation plan.

The approach to managing each contract needs to be determined in advance and where described in the bidding documents to ensure the supplier allocates adequate resources to supporting effective contract management. The supplier's bid response, along with the Borrowers contract management requirements, need to be combined into a Contract Management Plan. The Contract Management Plan should be developed during contract creation and ideally completed at the time the contract is signed. The plan should be developed in consultation with the successful supplier.

8.7.2 Key Performance Indicators (KPIs)

KPIs are measures of contract performance that are aligned to the key outcomes that the procurement approach has been designed to deliver. The KPIs should be "SMART" indicators (Specific, Measurable, Attributable, Relevant, and Time-bound). They should also be directly linked to the PDOs and the Procurement Objectives and this will help ensure contract delivery is fully aligned with the desired outcome.

The KPIs should be included in the contract management plan, and if they link to incentive mechanisms/payment decisions, they will need to be agreed and included as part of the contract before it is signed.

8.7.3 Options Analysis

Before an options analysis can begin, each of the procurement options summarized in individual activity templates should be summarized as a short narrative.

Option analysis is the last analytical stage of the PPSD. To select the preferred procurement approach a comparative analysis needs to be undertaken of each procurement approach. This involves three main activities:

a) an evaluation of likely success of each potential procurement approach against the Procurement Objectives;

b) a review of the Procurement Risks to establish which procurement approach best addresses the known risks; and

c) a SWOT Analysis of each procurement approach.

8.7.4 Evaluation of Procurement Approach against Procurement Objectives

The model in Figure XX is a simple tool to undertake this evaluation. The different procurement options (as summarized above) need to be listed in the first column with the Procurement Objectives listed in the first row.

A simple rating is then applied to assess whether each individual procurement approach meets each of the Procurement Objective. The ratings are:

-1 = does not meet the objective;

0 = meets the objective;

1 = exceeds the objective.

Once all the procurement approaches and procurement objectives have been assessed, the points for each option need to be summed together. Finally each option should be ranked from highest to lowest score, noting that any option that fails to meet an objective should be eliminated.

Procurement Objectives

Procurement Approach

Strategy Option	Project 'Must Have' Objectives										Total
	1	2	3	4	5	6	7	8	9	10	
1											
2											
3											
4											
5											

-1	Does not meet the objective
0	Meets the objective
1	Exceeds the objective

Figure XX – Option Analysis

8.7.5 Review of the Procurement Risks to establish the procurement approach that best addresses the known risks

The second stage is to look at the procurement risk analysis undertaken earlier and evaluate how each procurement option addresses the risks identified. This analysis needs to be completed on any of the remaining procurement options after undertaking the above evaluation. This stage is based on making an assessment of the legacy risk that may exist for each procurement approach, and whether the overall rating of the probability and impact have reduced because of the application of that particular approach. The final output should be an updated procurement risk plan for the preferred procurement approach.

After this assessment, it should be possible to now identify the final preferred procurement approach.

8.7.6 SWOT Analysis of each procurement approach

The final stage of the process is to undertake a Strengths, Weaknesses, Opportunities and Treats (SWOT) analysis of preferred procurement approach. The SWOT analysis (Figure XXI) should be carried out on the basis of the strengths and weaknesses of the procurement approach, and the opportunities and threats that may arise during implementation of the approach.

Figure XXI – Procurement Approach SWOT

This final analysis is only concerned with:

a) fine tuning the preferred approach;
b) ensuring that there is a thorough understanding of the procurement option;

c) making sure nothing has been missed;
d) attempting to future proof the option by considering what could go wrong in implementation; and
e) identifying any final refinement that could be made to improve its effectiveness.

Once this analysis has been completed, the only remaining step is to fully document the preferred procurement approach taking on board any refinements identified via the SWOT analysis.

Section IX. Preferred Arrangements for Low-Value Low-Risk Activities

This part of the PPSD template (Annex I) is used to record the procurement approaches for activities that were identified as part of the Supply Positioning analysis in Section IV of this Guidance as not requiring a detailed assessment and justification for the selected procurement approach.

Section X. Summary of PPSD to Support the Preparation of the PAD

The final stage of the PPSD template (Annex I) is to provide a short summary of the recommended procurement approach, which the Bank will use as part of preparing its PAD. The summary should be a description of the recommended procurement approach and a synopsis of the justification for that approach.

The following points should be considered in completing this Section.

A. How the procurement arrangements enable the delivery of VfM in achieving the PDOs, particularly if the recommended approach is less than open competition or uses new procurement techniques to the Borrower, or presents a high, or substantial risk. This should include supporting justification from this PPSD as appropriate.

B. The key procurement risks identified and the mitigating measures proposed (e.g. relating to the Country, Market Sector, Agency's capacity assessment, and the complexity of the procurement and the proposed procurement arrangements);

C. The oversight and monitoring arrangements for procurement, including applicability and need for the Bank to provide hands-on expanded implementation support; whether Alternative Procurement Arrangements are proposed; any proposed departure from Policy thresholds or additional oversight (e.g. probity assurance) required e.g. due the risk and value of contracts (Operational Procurement Review Committee) or due to risk in the proposed procurement arrangements (e.g. negotiations, competitive dialogue) and confirmation that an acceptable procurement plan covering the first eighteen (18) months of Project implementation is available; and

D. The procurement arrangements for the high or substantial risk activities within the Project in the Table XII:

Contract Title, Description and Category	Estimated Cost US$ and Risk Rating	Bank Oversight	Procurement Approach/ Competition: • National • International • Open • Limited • Direct • Sole Source	Selection Methods: • Pre/post Qualification • SPD (RFP/RFB) • Competitive Dialogue • Framework Agreement • E-Reverse Auction • QCBS/QBS etc. • Negotiation • BAFO	Evaluation Method: • Rated Criteria (VfM) • Lowest Evaluated Cost

Table XII – High Risk Procurement Arrangements

Annex I. Long Form PPSD Template

1. Project Overview

Where relevant, the information required in this Section of the PPSD can be drawn from the Project Concept Note.

Country:	
Full Project Name:	
Total Finance ($):	
Project Number:	

A. Project Description:

B. Project Development Objectives:

C. Result Indicators:

D. <u>Proposed Procurement Contract Summary:</u>

E. <u>Legal/Policy Requirements:</u>

2. <u>Strategic Assessment of Operating Context and Borrower Capability</u>

2.1 Operational Context

A. Governance aspects

B. Economic aspects

C. Sustainability aspects

D. Technological aspects

Conclusions on Operational context to be addressed through the procurement approach.

2.2 Assessment of Borrower Capability and Project Implementation Unit (PIU)

This subsection should describe features of the PIU that need to be addressed to ensure that VfM is achieved. This subsection should address the following topics, as relevant to the Project:

A. Experience implementing similar Projects and implementing World Bank Projects;
B. Experience of use of Alternative Procurement Arrangements;
C. The need for hands-on support to undertake a fit for purpose procurement planning, contractor/consultant selection, and contract award;
D. Contract management capacity and capability;
E. Complaints management and dispute resolution systems;
F. Procurement capacity (previous experience, availability of resources and track record) to undertake successful fit for purpose procurement planning, procurement process, bid/proposal evaluation, supplier selection and contract award;
G. The reliance on, criticality of and use of professional advisors such as consultants to augment Borrower capability; and
H. Lessons learned from the implementation of other similar Projects.

At the end of the Borrower's capability assessment, a Resourcing Plan should be created.

Conclusions on Client Capability and PIU Assessment to be addressed.

2.3 Market Research and Analysis

This subsection should identify the specific contracts to be procured and include a market analysis of each of the target market segments that is proportional in detail to the relative risk and value of the contract within the Project conducted through a Supply Positioning Model. If different markets fulfil different contracts within the Project, the market analysis should research each market.

For low-value, low-risk contracts it will generally be sufficient to detail the procurement approach in Section VII without further supporting analysis.

For all other contracts, the level of analysis to support the justification for the preferred procurement arrangement should be proportional to the procurement risk and value of the contract.

This subsection should address the following topics, as relevant to the Project:

A. Research

   1. Supply Positioning Model — Identify the risk and value thresholds of the project;

2. Segmentation of the market by geography (local, national, international), specialization or differentiation;
3. Market sector dynamics — Nature and extent of competition, levels of experience, capability and innovation, external influences and factors, Supplier Preferencing;
4. Market trends — Technology, new services, ownership structures and alliances, market growth, new entrants;
5. Financial — Sources of cost and value, cost stability, pricing strategies and mechanisms, cost and financial benchmarks; and
6. Procurement trends — Procurement s of other entities procuring similar contracts, typical contract terms, common issues that inhibit or contribute to achieving value for money, typical responses and lessons learned.

B. Analysis and Action

At the end of the Market Research stage, Borrowers should develop a range of Procurement Approach Options and a Market Engagement Plan.

Conclusions on the Market Analysis to be addressed through the procurement approach.

3. Procurement Risk Analysis

This subsection analyses and prioritizes the risks identified from Section II that relate to the Operational Context, Market Analysis and PIU Assessment that could be mitigated through the procurement approach.

Risk Description	A Likelihood Rating	B Impact Rating	Overal l Risk Score (A*B)	Description of proposed mitigation through the procurement process	Risk Owner	Procurement Process Stage

4. Stakeholder Analysis

Identify the main stakeholders who have an interest or impact on the Project and whether their interest is one of responsibility, accountability, to be consulted or informed. The identified Stakeholders will need to be engaged to understand what objectives they have from the procurement.

Stakeholder Management Plan			
Stakeholder (Name and Role)	Interest (Responsible, Accountable, Consulted, Informed)	Stakeholder Objectives from the Procurement	Stakeholder Management Approach

5. Procurement Objectives

Based upon the Strategic Analysis, Risk Assessment and Stakeholder Analysis, detail the key Procurement Objectives that if achieved will support the delivery of the Project's Development Objectives and achieve value for money. The Procurement Objectives need to be SMART — Specific, Measurable, Achievable, Realistic and Time-bound. The procurement objectives should be tested with the identified Stakeholders to ensure agreement on the prioritized list of Procurement Objectives.

Prioritized Procurement Objectives (expand as necessary):

1.
2.
3.
4.
5.

6. Procurement Approach Options and Recommendation

Please detail the options and the recommended procurement arrangement for the contracts detailed in the Project description and the justification for the recommended procurement arrangements based on the analysis above. This Section should be completed for each contract required. Sections A-D below were identified in previous sections of this PPSD Long Form. After the options analysis please detail your recommended procurement approach/arrangement.

A. **Contract description:**

B. **Contract category** (Works, Goods, Consultancy Firms and Individuals, and Non-consultancy services):

C. **Estimated cost:**

D. **Contract approach** (complete table below):

	Attribute	Selected approach	Justification
Requirements	8.3.1 Specifications	Conformance/Performance	
	8.3.2 Sustainability Requirements	Yes/No	

	Attribute	Selected Approach	Justification
8.4 Contract Strategy	8.4.1 Contract Type	A. Traditional B. Design and Build C. Design, Build, Operate, Maintain D. Design and Build – Turnkey or Prime Contractor E. EPC and EPCM F. Other________	
	8.4.2 Pricing and Costing Mechanism	A. Lump Sum B. Performance based contracts C. Schedule of Rates/Admeasurement D. Time and Materials E. Cost Plus	

	8.4.3 Selection of Cost and Price Mechanism	Required Allocation of Risk	
	8.4.4 Supplier Relationship	Adversarial/Collaborative	
	8.4.5 Price Adjustments	A. None, Fixed Price B. Negotiated C. Percentage	
	8.4.6 Form of Contract (Terms and Conditions)	State any special conditions of contract	

	Attribute	Selected Approach	Justification
8.5 Selection Methods	8.5.1 Selection Method	A. Request for Proposals (RFP) B. Requests for Bids (RFB) C. Requests for Quotations (RFQ) D. Direct Selection	
	8.5.2 Selection Arrangement	A. Competitive Dialogue B. Public Private Partnerships (PPP) C. Commercial Practices D. United Nations (UN) Agencies E. e-Reverse Auctions F. Imports G. Commodities H. Community Driven Development I. Force Accounts J. Framework Agreements K. Cross Project Opportunities	
	8.5.3 Market Approach	A. Type of Competition 1. Open 2. Limited 3. International 4. National 5. No Competition – Direct Selection B. Number of Envelopes / Stages	

		1. Single Envelope 2. Two Envelopes 3. Single Stage 4. Multi Stage C. BAFO (Yes/No) D. Negotiations (Yes/No)	
	8.5.4 Qualification	A. Pre-Qualification B. Initial Selection C. Post-Qualification	

	Attribute	Selected approach	Justification
8.6 Evaluation Methods	8.6.1 Evaluation Selection Method	A. Quality Cost Based Selection (QCBS) B. Fixed Budget Based Selection (FBS) C. Least Cost Based Selection (LCS) D. Quality Based Selection (QBS) E. Consultant's Qualifications Based Selection (CQS) F. Direct Selection	
	8.6.2 Evaluation of Costs	A. Adjusted Bid Price B. Life-Cycle Costs	
	8.6.3 Domestic Preference	National/international	
	8.6.4 Rated Criteria	List the type of criteria to be used (mandatory/desired)	
8.7 Contract Management	8.7.1 Contract Management Approach	Outline the approach to be used	
	8.7.2 Key Performance Indicators (KPIs) – Measures	List the key measures of success for contract management:	

The output of this section will be a:

a) Procurement Approach stating how the Borrower is going to approach the market, select the supplier, and finalize the contract;
b) Set of selection methods and market approaches; and
c) Procurement Plan that summarises how each contract within the Project will be procured.

7. Preferred Arrangement for Low Value Low Risk Activities

This Section of the PPSD is used to record the procurement approaches for contracts that were identified as part of the Supply Positioning analysis in Section II as not requiring a detailed assessment and justification for the selected procurement approach.

Contract	Category	Estimated Cost	Procurement Approach and Method

8. Summary of PPSD to Support the Preparation of the PAD by the Bank

The final stage of the PPSD is to provide a short summary of the recommended procurement approach, which the Bank will use as part of preparing its PAD. The summary should be a description of the recommended procurement approach and a synopsis of the justification for that approach.

Annex II. How to Undertake Market Analysis

There are a number of procurement tools and techniques available to support market analysis that help not only in structuring the research, but also for analyzing the information to draw conclusions and develop the procurement approach.

The key tools and techniques to support market analysis are:

1. Strengths, Weaknesses, Opportunities and Threats (SWOT);
2. Porter's 5 Forces Analysis;
3. PESTLE;
4. Supplier Preferencing;
5. Supply Positioning and Supply Preferencing; and
6. Supply Chain Analysis.

As with the overall preparation of the PPSD, the application of these tools needs to be proportionate to the level of market research and information required to develop a fit for purpose procurement approach. In most instances, it is envisioned that each of the tools will need to be utilized.

1. SWOT Analysis

SWOT is an analysis of the internal influences on a Borrower's organization, over which the Borrower has an element of control. Opportunities and Threats are an analysis of external influences on a Borrower's organization, over which the Borrower tends to have far less control.

When using a SWOT analysis (Figure XXII), the objective is to help Borrower's develop a full awareness of all the factors, positive and negative, that may affect the delivery of the procurement and Project. It will assist with the identification of the procurement approach that will best deliver the fit for purpose procurement approach and the Project requirements.

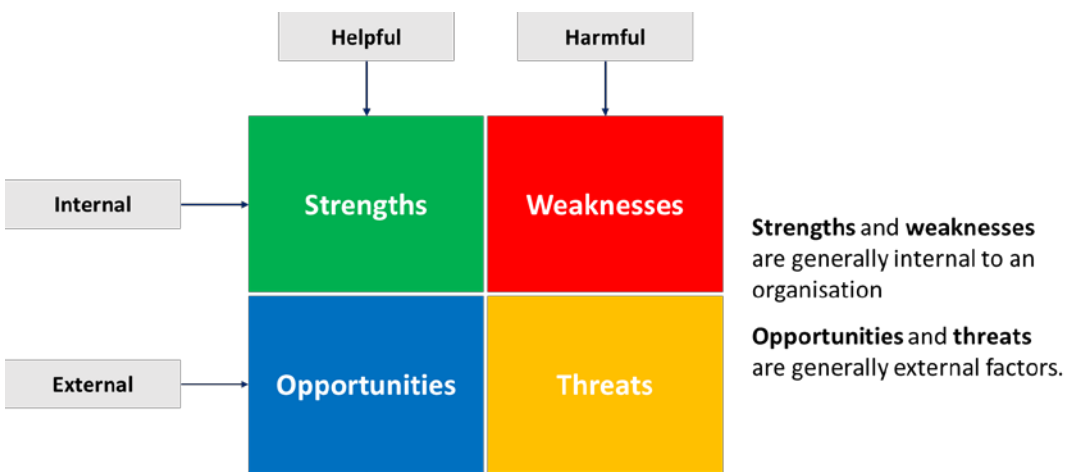


Figure XXII – SWOT Analysis Model

Strengths are the qualities that enable the Borrower to deliver a successful Project. Strengths can be either tangible or intangible. Basically, these are "what the Borrower does well" and are seen as core expertise including staff capability, experience, financial resources, effective processes, and reputation, etc.

Weaknesses are what may prevent a Borrower delivering a successful Project and can be seen to limit the achievement of optimum VfM. Weaknesses in a Borrower may be insufficient capacity, poor governance and decision-making, etc. Weaknesses are controllable and need to be identified and either minimized or eliminated, wherever possible.

Opportunities are factors that exist in the external business environment within which a Borrower operates. Opportunities are factors that allow a Borrower to take advantage of conditions in its business environment to better plan and improve the execution and implementation of procurement approaches that enable it to deliver a Project successfully.

A fundamental element of developing a fit for purpose procurement approach is to identify and leverage opportunities whenever they arise, to achieve the benefit of these opportunities. Opportunities may arise from a variety of sources such as a supplier's ability to offer innovation, strong competition in a marketplace, attractiveness of the contract, and utilizing new technology.

Threats arise when conditions in the external environment jeopardize the delivery of a Project. Examples of threats are; unrest among stakeholders, quickly changing technology, and increasing competition leading to excess capacity, price wars, and reduction of industry profits.

Figure XXIII outlines a summary of the typical issues that a Borrower should consider when completing a SWOT analysis, while Figure XXIV is an example of how these considerations can be summarized into a number of key questions.

Figure XXIII - SWOT Analysis Considerations

Strengths

- What implementation advantages does your organization have?
- What does your organization do better than anyone else?
- What resources does your organization have access to?
- What do stakeholders see as your organization's strengths?

Weaknesses

- What could your organization improve?
- What should your organization avoid?
- What are stakeholders likely to see as your organization's weaknesses?
- What factors negatively impact on results?

Opportunities

- Where can you find good opportunities?
- Useful opportunities can come from such things as:
  - Changes in technology and markets on both a broad and narrow scale
  - Changes in government policy related to the requirements
  - Changes in social patterns, population profiles, lifestyle changes
  - Local events.
- What are the trends?

Threats

- What would happen if delivery of the goods/services/works failed?
- What are the obstacles to delivery?
- What do suppliers do that cause concern?
- Are stakeholders' needs changing?
- Is changing technology threatening your organization's position?
- Are there any budget restrictions?
- Could any of your organization's weaknesses seriously threaten delivery?
- What systems and procedures are in place to identify failure early?
- What is the reputational risk?
- Are there any political, policy or legal changes that could threaten the procurement?
- What challenges are there relating to the geography/geographic location of the Project?

Figure XXIV - SWOT Analysis Questions

2. Porter's Five Forces Analysis

Porter's Five Forces Analysis is a tool used to evaluate a market to determine the level of competition and where the balance of power resides, between suppliers and buyers, within that market. Its purpose is to help identify the type of competition that exists and how the procurement approach can take advantage of a Borrower's strength in a competitive market place or defend itself against anti-competitive supplier tactics where competition is more limited.

2.1 Porter's Five Forces Dimensions

According to Porter (Figure XXV), the nature of competition in any industry can be considered on the basis of the following five forces:

1. Bargaining power of suppliers (supplier power);
2. Bargaining power of buyers (buyer power);
3. Rivalry among current competitors (competitive rivalry);
4. Threat of substitute product/services (product and technology development); and
5. Threat of new potential entrants (new market entrants).

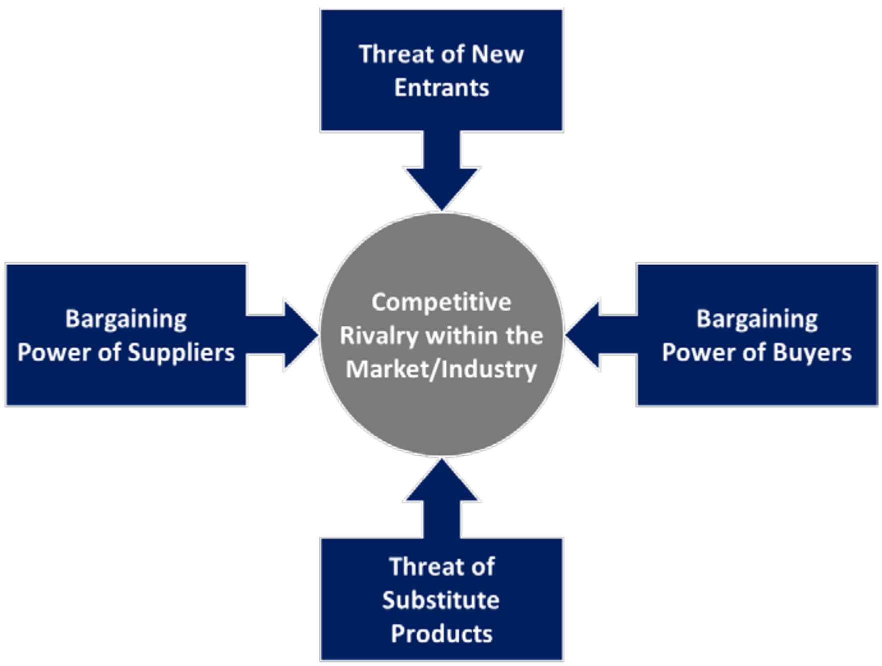


Figure XXV– Porter's Five Forces Analysis[1]

[1] Reference - Michael E Porter's five forces of competitive position model

Bargaining Power of Suppliers

Bargaining Power of Suppliers refers to the potential for suppliers to increase their prices. When suppliers are in a position of strength, they can increase their profits by increasing their prices. A supplier's strength can be determined by assessing:

a) the availability of substitutes. A strong supplier's goods, services, and works tend to be unique;
b) the cost of switching to another supplier's product. A strong supplier exists where the buyer (Borrower) has to pay high switching costs to move to an alternative supplier's product; and
c) the importance of goods, service, and works to the buyer (Borrower). A strong supplier exists where the buyer has a strong dependency or need for the supplier's product.

Bargaining Power of Buyers

Bargaining Power of Buyers refers to a buyer's ability to drive down the prices charged by the suppliers in the market; or to increase supplier costs in the market by demanding better quality and service. The buyer's strength can be determined by assessing:

a) the size of their requirement. A buyer is in a strong position when the requirement is large either to the market in general or especially in relation to an individual supplier's size within that market;
b) the ease with which the buyer can procure from other suppliers. A buyer is in a strong position when there are many other suppliers providing the same or similar services, goods, and works in the market, at a lower or similar cost and the buyer would not be subject to any switching costs; and
c) the number of other buyers in the market. A buyer is in a strong position when there are few other buyers in the market for an individual supplier's goods, services, and works.

Rivalry Amongst Current Competitors

Rivalry among current competitors refers to the competitive struggle for market share between suppliers in a market. Extreme rivalry amongst established suppliers poses a strong threat to profitability. The strength of rivalry in a marketplace can be determined by assessing the:

a) extent of barriers to exit and entry;
b) amount of fixed costs a supplier has to bear;
c) competitive structure of industry;
d) presence of global customers;
e) absence of switching costs;
f) growth rate of the market; and
g) demand conditions.

Threat of Substitute Products

Threat of substitute products refers to the availability of other goods, services or works that have the ability to satisfy customer needs equally as effectively. Substitutes create an upper limit on the price that suppliers can charge in a market. The smaller the number of close substitutes, the greater the opportunity for a supplier to increase their prices.

The combined impact and interrelationship of Porter's Five Forces differs from market to market. Jointly they determine the competition, profitability, and the behaviors of suppliers within a market because they shape the prices that can be charged, the costs that can be borne, and the investment required to compete in the industry.

From a Borrower's perspective, this tool will help determine where the balance of power lies in the market and what level of influence and impact the Borrower's requirements will have on the market. The tool is used to determine the type of market and ultimately the type of competition that exists within that market.

Risk of Entry by Potential Competitors

Risk of entry by potential competitors refers to suppliers who are not currently competing in the marketplace, but have the potential to do so if given a choice. Entry of new suppliers increases the market capacity, increases competition for market share, and lowers the current prices. The threat of entry by potential competitors can be determined by assessing the extent of barriers to entry such as:

a) economies of scale available to suppliers currently in the market;
b) customer brand loyalty to existing supplier goods, services, and works;
c) government regulation;
d) customer switching costs;
e) cost advantage enjoyed by existing suppliers in the market;
f) ease of distribution; and
g) the value of set up costs and capital investment.

3. Types of Competition

Table XIII lists five different types of competition that broadly exist in markets and describes the individual characteristics of each type.

	Perfect Competition	Imperfect Competition	Oligopoly	Monopoly	Monopsony
Number of Suppliers	Many suppliers	Fewer larger suppliers	Few large suppliers	One supplier	One buyer (usually one or two suppliers)
Market Power	No market power	Little market power	High market power	Absolute market power	Dependency
Substitutes	Homogeneous goods, works and services that are interchangeable	Differentiated supply with close substitutes	Differentiated supply: degree of substitution limited	No substitutes	No substitutes – make?
Price	One market price: suppliers are 'price takers'	Price competition	Seeking of price stability by price leadership or collusion	Price set by one 'price maker': potential for price discrimination	Price set by need to achieve return on investment
Profit	Normal profits	Small abnormal profits, short term	Abnormal profits, depending on competition	Abnormal profits	Questionable Return on Investment and Strategic Focus
Barriers to Entry	Minimal barriers to entry	Limited barriers to entry	Barriers to entry	Significant barriers to entry	Investment case hard to justify

Table XIII – Types of Competition

Knowledge of the type of competition that exists is a prerequisite to being able to develop the right procurement approach. For example, in a monopolistic/oligopoly market (where one, or few supplier(s) hold all the power) designing a procurement approach that is characterized by competitive bidding, with significant risk transfer to the supplier and with supplier selection being based on lowest evaluated cost, is not likely to be successful. In these circumstances, a negotiated approach based on open book pricing potentially linked to a longer-term contract is more likely to be more effective. Therefore, the type of market will have a direct influence on the procurement and will help the Borrower determine the:

a) type of competitive bidding (as determined by the level of completion and the availability of substitutes/alternatives);
b) most effective pricing or costing mechanism (as determined by the market pricing approach); and
c) level of risk transfer the market will realistically bear (as determined by the relative strength and power of the buyer and the supplier's motivation to participate).

4. <u>PESTLE Analysis</u>

PESTLE stands for Political, Economic, Social, Technological, Legal, and Environmental. It is a tool for understanding what external forces (Figure XXVI) influence and shape a market place and the suppliers that work in that market place.

Figure XXVI - PESTLE Analysis

PESTLE analysis is an assessment of a Borrower's operating and business environmental influences and how they directly affect the Borrower, or indirectly affect the Borrower, via their suppliers.

The purpose of a PESTLE is to provide information and "intelligence" to guide the overall design of the procurement approach. In a similar way to the SWOT analysis, the procurement approach needs to maximize opportunities identified and minimize any identified threats. This will help Borrowers make decisions on the tailored procurement approach that will best align procurement approach to deliver the Project requirements.

In particular, it provides a 'big picture' understanding of the operating and business environment in which the Borrower exists. It is a very effective tool to support risk management as it identifies a broad spectrum of risks that may affect the procurement approach.

Figure XXVII provides an overview of the various factors that need to be considered when completing a PESTLE analysis. Each of the factors should be considered in the form of a question such as "what is" and "is there". The responses to these questions needs to be descriptive as opposed to "yes" or "no" responses. The PESTLE needs to be completed on the basis of what are the relevant factors specific to the Project needs, how will the factors affect the Project's delivery, or what does it mean for the procurement approach for the Project's delivery.

Political	• Government type, stability • Fragility and conflict • Regulation, rule of law	• Bureaucracy, corruption • State involvement in the economy • Small states
Economic	• Growth • Inflation • Exchange rates	• Commodity prices • Unemployment • Labour supply
Social	• Demographics • WB social standards • Education, health	• Affected communities • Conflict; Civil unrest • Attitudes
Technology	• Emerging technologies • Information availability • Pace of change	• R&D expense • Everyday technology access
Legal	• State involvement • Employment law	• Contract/Commercial law • Health and safety
Environment	• Climate change • Local legislation • WB environmental standards	• Waste disposal • Impact and remediation

Figure XXVII - Overview of Factors to Consider in Undertaking a PESTLE Analysis

Political

The key considerations under political factors are:

a) What is the degree of government intervention in the economy – is it a free market, state run, mixture with a bias towards state run, etc.?

b) How stable is the government – is there an election coming up, has the government recently changed?

c) How is the country governed – is it provincial, federal, national, etc.?

d) Have there been any recent issues of fraud?

e) Does the World Bank consider the country to be a Small State, in a situation of fragility or in conflict or emergency? (For more information www.worldbank.or/procurement)

f) Does the rule of law apply throughout the country?

g) What impacts do government attitudes to international trade have – does it encourage international trade, is their protectionism for domestic industry?

h) What goods, services, or works does government want to provide itself through state owned enterprises?

i) What industries does the government provide business support for?

j) What political decisions impact vital areas for business such as:

   i. The education of the workforce?

   ii. The health of the nation?

iii. The quality of the infrastructure, such as the road and rail system?

k) Are there any trends in government decisions?

l) What are the other factors in the current political climate?

Economic

The key considerations under economic factors are:

a) What are the effects of interest rates, taxation changes, economic growth, inflation and exchange rates on the behaviour of organizations? For example:
   i. Higher interest rates may deter investment because it costs more to borrow money;
   ii. A strong currency may make exporting more difficult as the exchange rate may raise the prices;
   iii. Inflation may provoke higher wage demands from employees and raise costs;
   iv. Higher national income growth may boost demand for a supplier's products;
   v. Unemployment results in less spending.

b) What are the forecasted future trends for these factors?

c) Is there a balanced and skilled workforce available?

d) Are commodity prices stable (especially those linked to the Project requirements)?

e) Are there any currency restrictions in place?

f) What other factors are there in the current economic climate?

Social

The key considerations under social factors are:

a) Are there any changes in social trends that can impact the demand for a supplier's products, and the availability and willingness of individuals to work? For example:
   i. What is the effect of a growing population?
   ii. What is the impact of an increase in costs for suppliers who are committed to paying a fair wage to their employees?
   iii. Are there any impacts of recruiting employees from outside the host country?
   iv. What is the approach to the provision of education and health services and what impact does this have?
   v. Is there any conflict in the country (on what basis) and what impact does this have?
   vi. Are there any specific issues that will have an impact at a community level?
   vii. What are the effects of changing attitudes to work?

b) What are the key recommendations of the Environmental and Social Impact Assessment (ESIA)?

c) What other factors are there in the current social/cultural climate?

Technological

The key considerations under technological factors are:

a) What new technologies have created new products and new processes e.g. computer-aided design?
b) Do these technologies:
   i. Reduce costs;
   ii. Improve quality;
   iii. Encourage innovation;
   iv. Improve risk management.
c) How have these emerging technologies benefited consumers and the organisations providing the products?
d) What is the rate of technological change and what is the effect?
e) How available is everyday technology such as computers, mobile phones, intranet, cloud computing, voice over internet protocol (VoIP) and Software as a Service (SaaS)?
f) What other factors are there in the current technological climate?

Legal

The key considerations under legal factors are:

a) How do legal requirements or any legal changes impact on the way Borrowers or suppliers operate? For example:
   i. Health and safety laws;
   ii. Disability discrimination legislation;
   iii. The minimum wage;
   iv. Employment law;
   v. Laws related to business competition;
   vi. Laws related to the environment (e.g. sustainability, carbon emissions, etc.)
b) How might legal changes affect Borrower costs or supplier costs?
c) What are specific local laws that may impact suppliers and contracts?
d) Will changes in law(s) require new systems and procedures have to be developed?
e) Will changes in law(s) change demand for goods, services and works?
f) What other factors are there in the current legal climate?

Environmental

The key considerations under environmental factors are:

a) How is the growing desire to protect the environment impacting Projects?
b) How is the general move towards more environmentally friendly products and processes affecting demand patterns and business opportunities?
c) Are there any regulations, standards, or requirements of the Borrower, including local or national requirements?

d) What is the country's attitude to Health and Safety?
e) How might these impact the procurement approach?
f) What other factors are there in the current environmental climate?

The PESTLE analysis will provide a lot of information so it is important to consider what the findings actually mean for the procurement approach. It is important to identify factors that could impact it both positively and negatively, while drawing conclusions from this information to inform the procurement approach being developed.

The PESTLE is particularly helpful at identifying risks, which should be considered as part of the Procurement Risk Management in Section V of this Guidance, and find ways to reduce them or work around them.

5. Supplier Preferencing

Supplier Preferencing is a tool that identifies how a supplier views a Borrower (as a customer) and depending on this view, how the supplier is likely to behave. Supplier preferencing categorizes these "views" into 4 segments as detailed in the Figure XXVIII.

In high-level terms, this will determine how attractive the Borrower is as a customer to the supplier. This in turn will determine the level of willingness or reluctance the supplier will exhibit in wanting to bid for work and the corresponding level of effort the supplier will make in meeting the Borrower's requirements. This is a tool that helps determine the extent that the Borrower can influence a market, through its procurement approach, to achieve the PDOs and Procurement Objectives (see Section VII of this Guidance).

The outcome of this analysis should allow a Borrower to establish the factors listed below and design a procurement approach to maximize market interest, and actual participation in the procurement:

a) What changes the Borrower needs to make to be more attractive to the market?
b) How to motivate the market to bid and provide a good solution to meet the Borrower's requirements?
c) How to engage with the market to optimise the level of supplier participation in a bidding process?

Supplier preferencing considers two dimensions in assessing the attractiveness of a Borrower and the business (contracts) it has to offer. These are the:

a) value of the business to the supplier; and
b) overall attractiveness of the business to the supplier.

The first dimension is the value of the Borrower's business (potential contracts) to the supplier as a proportion of the supplier's turnover. Turnover information can be obtained from a supplier's annual accounts or from other sources such as market analysis reports. Normally, the higher the proportion, the more motivated the supplier will be to bid for the contracts.

The second dimension is how attractive the Borrower's business is to a supplier. Normally, the higher the attractiveness, the more motivated the supplier will be to bid for the contract.

Using these two dimensions, the analysis can be placed into a Supplier Preferencing matrix by simply classifying attractiveness and relative business value as low or high on the basis of Figure XVIII.

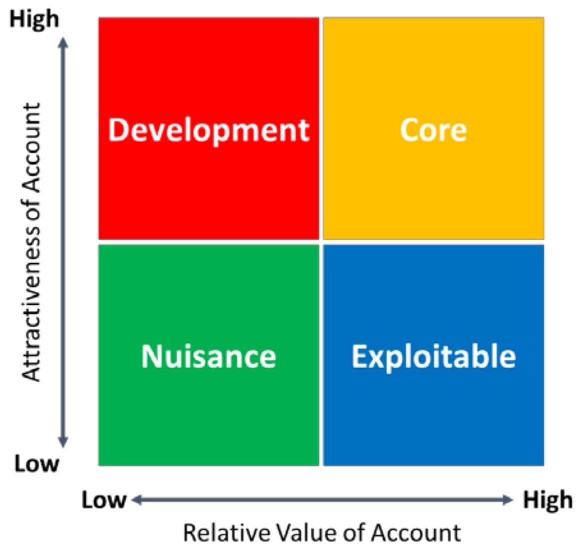


Figure XXVIII – Supplier Preferencing Matrix

Again, the value of a contract does not in itself make a procurement or a Borrower attractive to a potential supplier. Rather, the whole package of value, coupled with Borrower behavior informs how the supplier is likely to react. The ideal classification is that potential suppliers will see Borrowers as good customers that they already treat as "core" or that that they would like to grow the relative value of the account through "development". Unfortunately, some suppliers may see the Borrower as a "nuisance" to be avoided due to high costs of doing business, or as someone that can be "exploited" over the short term. Truthfully understanding this dynamic, and how it can be changed to get the right, motivated supplier is critical in ensuring a successful procurement result.

A. Borrower Business Attractiveness

Attractiveness is determined using a number of criteria. These include payment record, ease of doing business with the Borrower, compatibility with the supplier's business strategy, any cultural affinities that may exist between the supplier and the Borrower and levels of trust, and the Borrower's business development potential and the perceived image to the supplier of being associated with the Borrower or a specific Project.

It is equally important to consider both what makes a Borrower both attractive and unattractive and this gives a clear indication on what the Barrower will need to do to increase overall attractiveness. Criteria to consider are:

1. Attractive Characteristics

- ✓ Profitability;
- ✓ In-country security;
- ✓ Stable/predictable government;

- ✓ Good forward planning;
- ✓ Manageable risks;
- ✓ Opportunities for additional business;
- ✓ Effective communication and information sharing;
- ✓ Cultural fit and understanding;
- ✓ A good 'reference' Project;
- ✓ Stable and reliable payment;
- ✓ Low levels of bureaucracy;
- ✓ Easy to service from an account or contract management perspective;
- ✓ Support from the World Bank;
- ✓ A good transparent complaints handling mechanism.

2. **<u>Unattractive Characteristics</u>**

- ✗ High levels of bureaucracy;
- ✗ Reputation for onerous, lengthy, or expensive procurement processes;
- ✗ Poor planning;
- ✗ Slow, erratic, or uncertain payment;
- ✗ Uncertain or unmanageable risks;
- ✗ Security concerns;
- ✗ Low profitability - demanding contracts with low margins;
- ✗ Onerous terms and conditions;
- ✗ Turnover of personnel leading to dysfunctional behaviour;
- ✗ Do not keep their word;
- ✗ Poor supply market capability;
- ✗ Immature supply chains;
- ✗ Logistically difficult to service;
- ✗ Suppliers not allowed to get it right through lack of information sharing; and / or
- ✗ Low levels of support from the World Bank.

It is important to recognize that it is not only a supplier's capability and capacity to deliver the Borrower's requirements that delivers successful Projects, but also the supplier's motivation and willingness to deliver what is needed to meet the requirements. This is often harder to determine, but through the use of market engagement and carefully worded questions in qualification and / or bid and proposal documents, it is possible to validate, or challenge, the findings of supplier preferencing. Equally important, is that supplier preferencing should help the Borrower put in place a plan of action to improve its general attractiveness to market and operationalize this plan throughout the procurement approach through careful design and planning.

By applying the Supplier Preferencing model and determining which quadrant is applicable to a Borrower, it is possible to identify the typical behaviors a supplier may exhibit when doing business with that Borrower.

Equally, this classification is particularly helpful in identifying risk and also which suppliers within a market should and should not be targeted. As mentioned above, these conclusions need to be covered in the market engagement plan, any qualification exercise, supplier selection, bid evaluation strategy, and risk management plan.

Table XIV summaries the typical action suppliers will take depending upon their classification of a Borrower. Beneath this table is a description of actions by classification type.

Quadrant	Description	Action
Development	• Low-value • But Still Attractive	Get Further Business
Core	• High-value • Highly Attractive • Supplier's Core Business	Retain and Expand
Nuisance	• Low-value • Little Profit	Withdraw
Exploitable	• High-value • But not Attractive	Maximise Profits

Table XIV – Supplier Behaviours by Supplier Preferencing Quadrant

B. Supplier Classification

1. Development

Borrowers that are considered Development will be ranked highly in the supplier's list of priorities, as the Borrower will be considered as worth investing time and effort in. A Borrower will be seen as attractive and while the value of business is relatively low, suppliers will be keen to win new contracts and make sure current contracts are operating effectively. The Borrower will be characterized as:

a) having potential;
b) highly sought after; or
c) worth working hard for to exceed Borrower expectations.

For this Borrower classification, the supplier is likely to offer very good service and show considerable interest in resolving any issues. Correspondingly, Borrowers should actively encourage receiving bids from such suppliers. Bids and any subsequent contracts are likely to be very competitively priced, with exceptional service levels, as the supplier will be seeking to nurture the Borrower to secure future bidding opportunities.

2. Core

Borrowers that are considered as Core are highly valued by suppliers both in terms of existing contracts but also future opportunities. This is based upon the current level of business that the Borrower provides and also the Borrower's long-term potential for further business. Suppliers will invest significant effort to retain the current business and as such the Borrower can expect:

a) to be treated as an important customer;
b) to have a beneficial relationship that drives value for both the Borrower and supplier;
c) to receive a high level of service and response as the supplier will want to retain and expand the business;
d) the supplier to attempt to increase profitability slowly, while sharing the benefits with the Borrower; or
e) suppliers to be receptive to 'partnerships'.

Identifying the value to the Borrower of working with suppliers who behave in this manner is critical in successful contracts and Projects. Therefore, consideration of these factors should be at both supplier qualification and bid evaluation stages.

Bid evaluation using rated criteria offers the best opportunity for Borrowers to identify and attribute value to suppliers and bids that offer these benefits. It will of course be important to undertake the necessary due diligence to ensure the supplier will actually operate in this manner, because suppliers often bid exhibiting the factors in Core, but then revert to behaviors in Nuisance and Exploitable during delivery.

3. Nuisance

Borrowers that are considered Nuisance will be given minimum attention and the supplier is likely to seek to withdraw from any current contracts and not pursue any new bidding opportunities. Suppliers will rank a Borrower as very low in its list of priorities as the view of the Borrower will be typically characterized as:

a) little profit to be made;
b) difficult and/or expensive to service; and / or
c) poor at paying bills.

As a result of a Borrower being considered Nuisance, the supplier is likely to offer poor service and show very little interest in resolving any delivery, quality, or contractual issues. Correspondingly Borrowers should be very cautious about receiving bids from such a supplier and should also consider whether they should try and exit any existing contracts.

4. Exploitable

Borrowers that are considered as Exploitable will be ranked highly by suppliers due to the value of business, but the supplier will seek short-term advantage from what the supplier will perceive to be a position of strength.

As a result of the Borrower being viewed as unattractive, suppliers will seek to maintain the business as long as it does not involve any particular effort for them. The converse may also occur, where effort is applied by the supplier, it seeks to exploit the Borrower through raising prices on existing contracts or submitting bids with higher prices which if they win will continue the pattern of increasing prices.

Suppliers may also seek to reduce their own costs through reducing the costs of serving the Borrower. Price increases can occur beyond just straightforward price increases, Borrowers can anticipate requests for contract variations for volume increases, extension of time, unforeseen circumstances, etc.

Working with these suppliers will be a real challenge for the Borrower, so considerable effort will need to be placed into contract management. However, the situation can be recovered if the Borrower is able to identify why the supplier sees them as unattractive and then seeks to address these issues. Issues can often be traced to low profitability and late payment.

Suppliers will be prepared to risk losing the Borrowers business. Suppliers and contracts will need to be carefully managed and contingency plans may be needed to deal with the risk of a supplier withdrawing from contracts.

6. Supply Positioning and Supply Preferencing

Aligning the needs of the Borrower and the likely behaviors of suppliers who may bid for World Bank financed Projects is one of the more fundamental parts of the procurement approach design.

As described earlier in Section IV of this Guidance, Supply Positioning is a procurement tool that is used to assess the criticality of the goods, services, and works to the Borrower by evaluating Project risk and value.

Supply Positioning also provides an overview of the procurement arrangements and mitigation measures, segmented by the Supply Positioning categorization that a Borrower should consider in developing its procurement approach. Table XIV outlines the typical procurement approaches applicable to each Supply Positioning segment.

Buyer's Priority	Description	Approach	Arrangement
Strategic Security *Security of supply*	• Low-cost goods/services/works • Strategically important • Shortage of reliable suppliers	• Ensure supply	• Long term contracts • Build reserve of stock • Consider alternative products
Strategic Critical *Security of supply at a good price*	• High costs specialist goods/services/works • Limited number of suppliers	• Manage suppliers	• Med/long term contract • Contingency planning
Tactical Acquisition *Purchasing efficiency*	• Routine purchases • Low-value/low-risk goods/services/works • Many potential suppliers	• Minimal attention	• One-off contracts/purchase orders • E-purchasing • Procurement cards
Tactical Advantage *Improving value through leverage tactics*	• High-cost/low-risk goods/services • Many potential suppliers	• Drive tactical advantages	• Short term contracts • Ongoing active sourcing for competitive price

Table XV– Supply Positioning Indicative Procurement Approaches

Equally, through the use of Supplier Preferencing, it is possible to identify and describe the typical approach suppliers will take to working with Borrowers based on the segmentation. Table XV provides an overview of a supplier's likely approach to the Borrower (as Customer) in each category.

Supplier's Priority	Description	Approach	Arrangement
Development *Supplier nurtures relationship, performs well and provides incentives*	• Customer has potential • Customer highly sought after • Work hard to exceed Customer's expectations • Exceptional service levels	• High attention	• Nurture the Customer • Secure further business • Price using 'special deals' and marginal costing
Core *Supplier seeks to 'lock-in' customer*	• Supplier core business • Give high level of service and response • Increase profitability in low key manner • Ensure ongoing profitability	• Proactive customer management	• Look after the Customer through excellent service and delivery • Retain and expand business • Receptive to 'strategic alliances' • Seek to 'lock in' Customer through long term contracts
Nuisance *Supplier gives minimum attention and seeks to withdraw*	• Little profit made • Customer difficult and/or expensive to service • Poor at paying bills • Provide poor service • Supplier's overall objectives:	• No attention	• Give it low attention • Short term contracts • Withdraw from business
Exploitable *Supplier seeks short term advantage*	• In unique position of strength • Increase prices – reduce service costs • Seek short-term advantage • Prepared to risk losing Customer	• Minimal attention	• Drive for best price • Maximise profit in the short-term

Table XVI – Supplier Preferencing Indicative Supplier Approaches

Comparing the findings of both Supplier Preferencing and Supply Positioning allows the Borrower to identify and assess whether the typical procurement approach of a Borrower based on the Supply Positioning segmentation is aligned with the typical approach of individual suppliers as determined by Supplier Preferencing.

Where alignment between the Borrower and Supplier on the procurement is high, this is a good indication that the indicative procurement approach is likely to deliver the expected benefits, however, where there is no alignment this is equally a good indication that the indicative procurement approach may not be effective in delivering the expected benefits.

Figure XXIX below outlines the different connotations of alignment with an indication of the likely effectiveness of the indicative procurement approach.

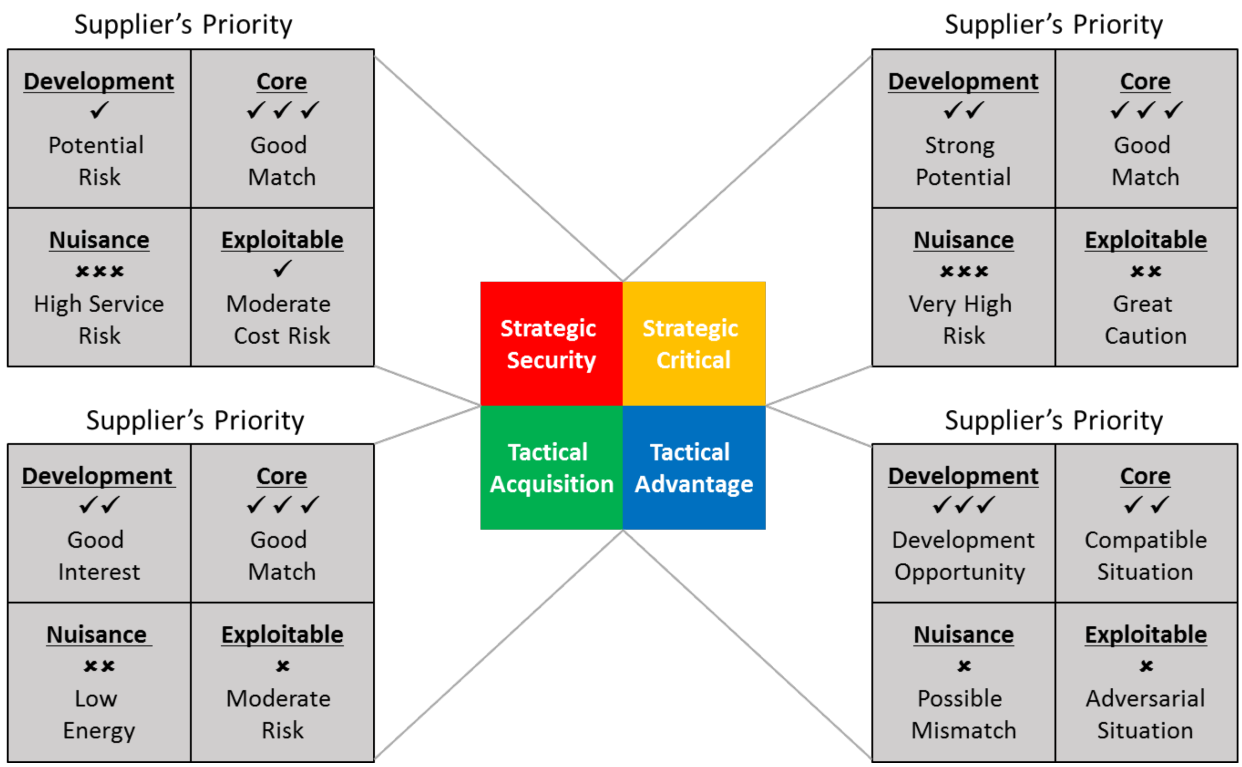


Figure XXIX – Alignment of Supply Positioning and Supplier Preferencing

The comparison of these two models is particularly helpful at identifying:

a) potential risks that need to be considered in developing a fit for purpose procurement approach;

b) where Borrowers may need to change supplier perceptions of them by making changes for example, asking the Bank to make direct payments to suppliers if the supplier if the supplier is concerned about the Borrower's track record in payment timeliness;

c) elements that need to be addressed in the Market Engagement Strategy to positively position the market as to why a supplier should want to do business with the Borrower;

d) actions that need to be included within the risk register and contingency planning to address highlighted risks;

e) potential areas that could be covered under pre-qualification to ensure that suppliers with the best match to the Borrower are qualified to bid; and

f) potential evaluation criteria to ensure that questions are included in the request for bids or proposals that ensure suppliers provide information that allows the most aligned suppliers to be identified.

Misalignment of Borrower and supplier approaches can be managed, as long as the reasons for the misalignment are known and understood. Some of this information will come from the results of the Supply Positioning and Supplier Preferencing comparison, but also from the SWOT and PESTLE evaluations. Again, just because a contract is high value, does not make the contract or indeed the Borrower necessarily attractive to the market. Figure XXX outlines some of the typical responses to the misalignment that Borrowers can design into their procurement approach to manage the risks of misalignment.

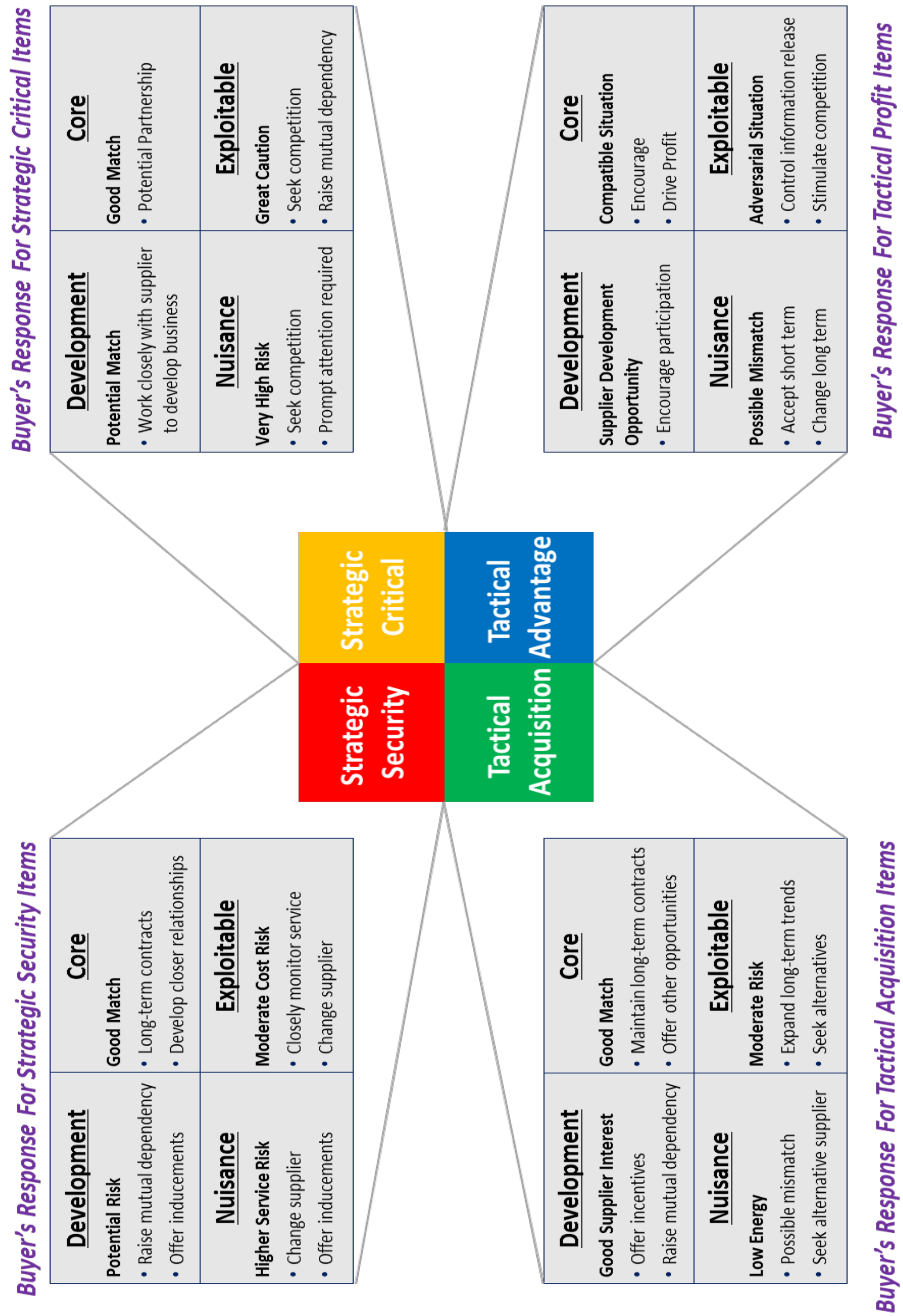


Figure XXX - Typical Procurement Approaches Based on the Alignment of Supply Positioning and Supplier Preferencing

7. Supply Chain and Value Chain Analysis

A supply chain comprises of the tiered network of suppliers involved in producing, handling or distributing goods, service, and works from raw materials through final delivery and usage and disposal. It maps the flow and movement of goods and services from their source to final destination. A Borrower will buy goods and services from many suppliers, each of which comprises a supply chain in its own right. The upstream supply chains extend from the Borrower to the suppliers and their supply chains back to the raw material, while the downstream supply chain extends from the Borrower to the final destination, usage and disposal of the goods, services, and works. Figure XXXI illustrates a simple supply chain map.

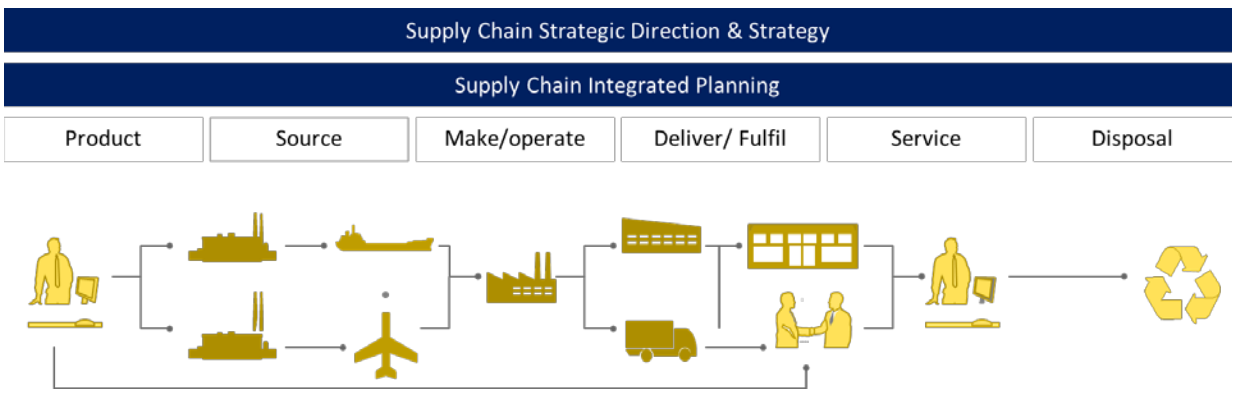


Figure XXXI – Supply Chain Map

Mapping the supply chain is a useful tool for identifying potential risks to the Borrower that may occur upstream or downstream from the supplier. Typically the longer the supply chain, the greater the risk to delivery as the supplier will have less control in managing each stage or supplier within the overall supply chain. Another way of expressing this is that each step in the supply chain creates a dependency that is not in the direct control of either the Borrower or the contracted supplier.

There are a number of sources of information that can help the Borrower map supply chains. The starting point is desk-based research through the use market analysis reports, searches on the internet and specialist industry magazines. Other sources include previous supplier bid or proposal submissions.

Borrowers and the Bank also have technical specialists who have a thorough understanding of both markets and suppliers within them.

Finally, the most effective way is to go out and undertake market engagement and ask suppliers or their industry representatives' questions about how supply chains operate in a market or a region.

Using this information, the Borrower should be able to map and identifying each step and dependency in a supply chain and understand whether there are any inherent risks in how the supply chain operates.

Undertaking this type of risk assessment at each stage of a supply chain will allow Borrower's to identify individual mitigation measures that need to be considered in designing the procurement approach. For example, these measures can range from not allowing subcontractors to be used by the supplier or letting multiple contracts to manage risks associated with shortages of supply.

The second purpose of supply chain mapping is termed value chain analysis. This makes an assessment of whether each step in the supply chain adds value or could be considered unnecessary by not adding value, or worse, creating greater risk. In both of these instances, this leads to unnecessary cost thereby creating inefficiency. The procurement approach should be designed to consider how these inefficient activities could be reduced or eliminated.

For example, typically procurement approaches focus primarily on contracting with the supplier at the end of the supply chain. Supply chain analysis encourages consideration of whether there is a more appropriate procurement approach that may involve contracting with multiple suppliers in the supply chain, especially if the analysis identifies stages in the supply chain that add no value and/or create increased risk. This type of procurement approach may allow complete stages in the supply chain to be removed.

This combined supply chain and value chain analysis is another tool that focuses the procurement approach on reducing threats (risks) and taking advantages of opportunities (reduction or elimination of non-value adding activities).

Annex III. Specifications

1. Specification Writing

The Borrower should consider the following points when drafting and quality assuring specifications:

a) address the risks identified in the procurement risk assessment;
b) identify key deliverables based on the PDOs;
c) clearly state the requirements based on the PDOs;
d) consider future needs, especially where the contract, Project delivery, or asset operation is spread over a number of years;
e) use plain language;
f) be technically accurate;
g) be easy to read;
h) contain clear timescales;
i) set SMART performance criteria;
j) use appropriate standards where they exist;
k) reflect whole-life costs, if appropriate;
l) include health and safety considerations; and
m) provide flexibility for subsequent requirements.

Equally, when drafting specifications avoid:

a) breaching copyright or propriety rights;
b) excluding areas of risk that are best addressed in the specification;
c) using trade names;
d) using brand names;
e) excluding site information where it is critical that the supplier is aware of health and safety implication, access arrangements, security arrangements, etc.;
f) using needless acronyms or technical language;
g) discriminating on the basis of nation, state, or region;
h) being ambiguous; and
i) being biased towards any particular supplier, brand, or country.

It should be noted that the type of specification used will determine the ultimate selection of the SPDs for goods, works, and services, with the exception of consulting services.

Conformance specifications are used with Request for Bids, while performance specifications are used with the Request for Proposals (which includes both Competitive Dialogue and PPP).

Conformance specifications are normally evaluated on the basis of lowest conforming price, while performance specifications are normally evaluated on rated criteria.

2. Writing additional Sustainable Procurement Requirements into Specifications

Additional Sustainability requirements beyond those required by the bank may arise from one of the following sources:

a) borrower's policies on economic, social, and environmental sustainability such as equality requirements, health and safety requirements, vehicle emission standards, packaging, etc.; and / or
b) risks and opportunities identified through analysis of the market or the business and operating environment. Sustainability risks and opportunities that are to be managed through the procurement process may also be identified through the Environmental and Social Impact Assessment (ESIA). The Bank requirements for ESIA are outlined in Environmental and Social Standards 1 (ESS1).

Where possible, the additional sustainable procurement requirements should be evidence based (i.e., with supporting data), be based on existing social-label criteria, eco-label criteria, or on information collected from stakeholders in industry, civil society, and international development agencies.

The Borrower may adopt international sustainability standards covering a wide range of product and service groups, provided they are consistent with Bank's Core Procurement Principles.

Specifications should address additional specific sustainability requirements through either precise conformance (technical) or performance specifications. Specific requirements should set a sustainability standard that is to be met by suppliers or that allows suppliers to propose their ideas, innovations, and approaches to managing the sustainability risk.

Additional Sustainable procurement requirements may specify materials to be used in production and/or the method of production, packaging or service delivery. However, all conformance (technical) specifications should bear a link to the subject matter of the contract, and can only include those requirements that are related to the production of the goods, works, general, or consulting services being procured. The Borrower should not require production processes that are proprietary or otherwise only available to one supplier, or to supplies in one country or region, unless such a requirement is justified to the satisfaction of the Bank.

3. Evaluation Criteria

A. Quality - Rated Criteria for assessing Quality

Rated type criteria, refers to criteria that are evaluated on merit points as they cannot be fully assessed in monetary terms.

The merit points are assigned based on the degree by which the proposal meets or exceeds the requirements detailed in the bidding/request for proposals document.

The criteria can be mandatory rated type criteria, where it may lead to the rejection of a proposal if the minimum or maximum requirements, as the case may be, are not reached. The criteria can also be classified as desirable rated criteria, in which case there is no minimum/maximum threshold that would trigger the rejection of a proposal. The merit points in the rated criteria are awarded based on a ranking system that shall be fully disclosed in the bidding/request for proposals document.

There are some limitations on where rated criteria can be used:

a) in international competitive procurement, rated type evaluation criteria shall only be used with RFPs; and/or
b) in national competitive procurement, rated type evaluation criteria and procedures may be used with the prior agreement of the Bank.

B. Evaluating Sustainable Procurement

Evaluation criteria may require additional sustainable procurement technical competence to be demonstrated beyond the banks requirements. In practical terms, this may require that the bidder:

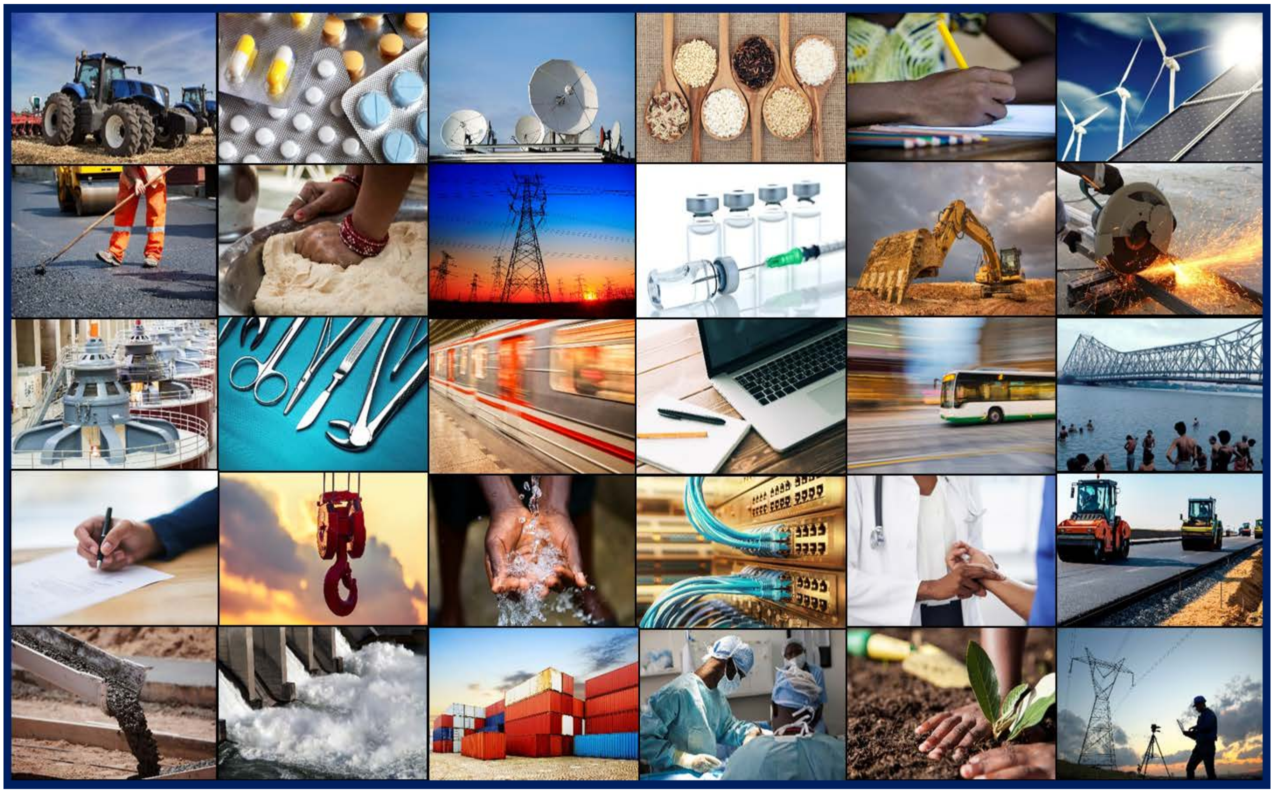
a) has previous experience in successfully executing contracts with similar requirements;
b) employs, or has access to, personnel with the required educational and professional qualifications, practices and experience to deal with the sustainable procurement elements of the contract;
c) owns, or has access to, the necessary technical equipment for environmental protection; and/or
d) has the means to deliver on the sustainable procurement aspects of the contract.

For service and works contracts only, the Bank procurement procedures allow for requirements, specifically at the selection stage, about the environmental management measures that the supplier will be able to apply in performing the contract. This is restricted to relevant circumstances, so if sustainable procurement management measures are not relevant to the contract in question, the Borrower may not require the supplier to demonstrate its ability to apply them.

Sustainable procurement measures can serve to demonstrate the technical capacity for contracts where the nature of the works justifies applying sustainable procurement management measures or schemes during the performance of a contract. Those measures must be directly linked to the performance of the contract.

Internationally recognized certification or accreditation schemes may be used to demonstrate a supplier's ability to apply environmental management measures. Such schemes may include EN/ISO 14 001 or other systems, which conform to the relevant international standards on certification and environmental management, may be recognized. Suppliers may also be able to demonstrate that they apply equivalent sustainable management measures, even without certification.

More information on Evaluation Criteria is available at www.worldbank.org/procurement.



For additional information, such as Standard Procurement Documents (SPDs),
Guidance, briefing, training and e-learning materials see
www.worldbank.org/procurement

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