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# Regional Forum on Project Design and Implementation - Procurement

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**31 July 2019**



# **ADB New Procurement Framework Overview & Strategic Procurement Planning**



# Key Drivers



Increased lending operations



Evolving needs of developing member countries



Harmonization with multilateral development banks



Need to improve delivery systems



# Policy and Procedures

2013/2015		2017		
Procurement Policy		<p><i>Board approved</i></p>		<p><i>Board approved Policy</i></p>
Procurement and Consulting Procedures				<p><i>President issued Regulations</i></p>
Applicability	<ul style="list-style-type: none"> <li>• Ongoing</li> <li>• Projects with concept note prior to 1 July 2017</li> <li>• Phase-out</li> </ul>	<p>Projects with concept note on/after 1 July 2017</p>		



# Expected Impacts

With the implementation of the new policy and framework, ADB expects to:

- Improve project **quality** and deliver greater value-for-money;
- **Reduce time** to deliver procurement outcomes;
- Attract more **quality** suppliers bidding for projects;
- **Lower** transaction **costs**;
- **Strengthen** DMC procurement **capacity**;
- **Improve** borrower and supplier **relationships**.

All leading to a stronger, better, faster, more relevant ADB and improved development outcomes.



# Procurement Framework

## ADB Procurement Policy

(Goods, Works, Nonconsulting and Consulting Services)

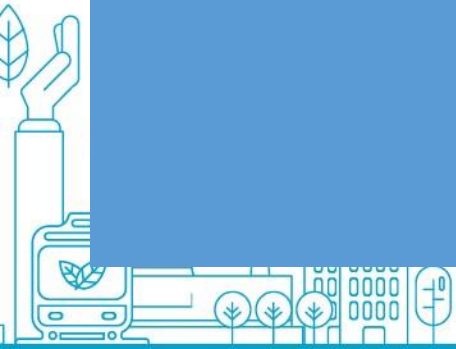
### Procurement Regulations for ADB Borrowers

(Goods, Works, Nonconsulting and Consulting Services)

Staff Instructions

Standard Bidding Documents and User Guides

## Guidance Notes



# Procurement Framework

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## Guidance Notes

Preparation and Planning	Procurement Methods	Bidding Procedures	New Principles and Practices	Complaints, Compliance, and Eligibility	Specialized Areas
<ul style="list-style-type: none"><li>• Procurement Risk Framework</li><li>• Strategic Procurement Planning</li><li>• Procurement Review</li><li>• Alternative Procurement Arrangements</li></ul>	<ul style="list-style-type: none"><li>• Open Competitive Bidding</li><li>• Consulting Services Administered by ADB Borrowers</li><li>• Nonconsulting Services Administered by ADB Borrowers</li><li>• Framework Agreements</li></ul>	<ul style="list-style-type: none"><li>• Price Adjustment</li><li>• Prequalification</li><li>• Subcontracting</li><li>• Domestic Preference</li></ul>	<ul style="list-style-type: none"><li>• Value for Money</li><li>• Quality</li><li>• Contract Management</li><li>• Abnormally Low Bids</li></ul>	<ul style="list-style-type: none"><li>• Bidding-Related Complaints</li><li>• Noncompliance in Procurement</li><li>• Standstill Period</li><li>• State-Owned Enterprises</li></ul>	<ul style="list-style-type: none"><li>• Fragile, Conflict-Affected, and Emergency Situations</li><li>• E-Procurement</li><li>• Public-Private Partnerships</li><li>• High-Level Technology</li></ul>









# Principles of Procurement

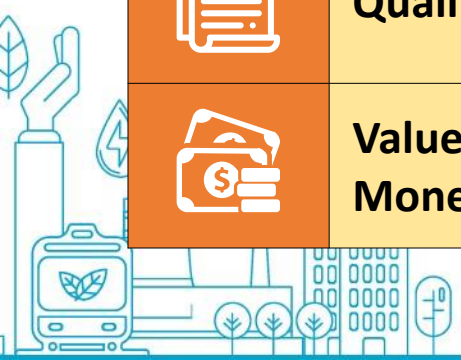
- The New Procurement Framework supports a Principles-Based approach to Procurement Planning and focusses on meeting the policy principles rather than responding to thresholds.
- It is important to understand that Procurement Planning decisions are to be based on satisfying the principles, rather than simply following a process or financial thresholds.





# Procurement Principles with Expected Outcomes

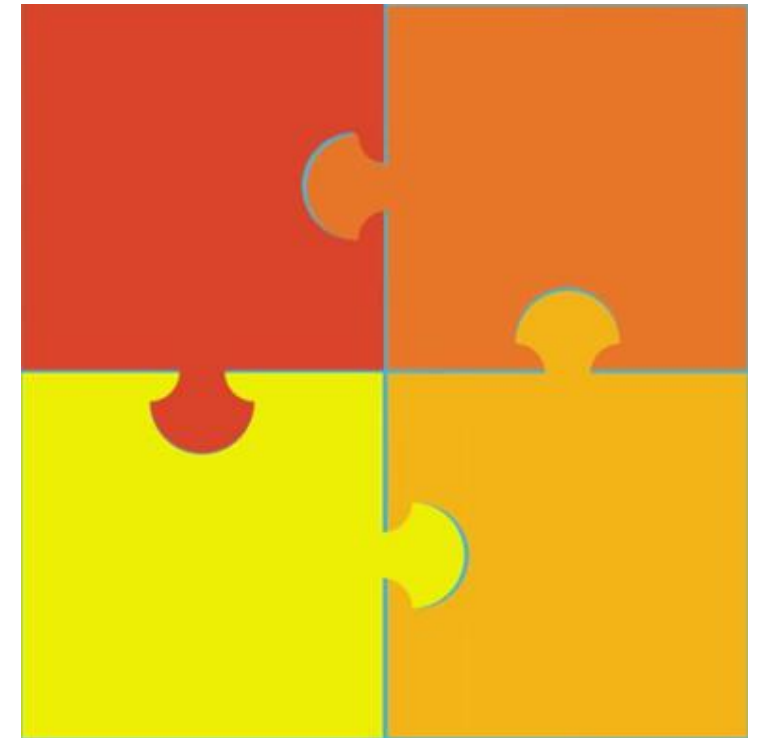
Principle		Outcomes
 <b>Fairness</b>	Equal opportunity; equitable distribution; and credible mechanisms for addressing procurement-related complaints.	
 <b>Economy</b>	Using price, quality, and any nonprice attributes to deliver viable projects.	
 <b>Efficiency</b>	Ensures procurement processes are proportional to value and risks.	
 <b>Transparency</b>	Deliver relevant procurement information publicly in a consistent and timely manner; appropriate reporting; and confidentiality.	
 <b>Quality</b>	Structured arrangements delivering appropriate outputs in an effective manner to achieve project outcomes and objectives.	
 <b>Value for Money</b>	Obtain optimal benefits through effective, efficient, and economic use of resources.	



# Implications of the New Procurement Framework

## Fit-for-Purpose

- Major shift from one-size fits all approach to a fit-for-purpose approach.
- Fitness for purpose requires procurement arrangements to appropriately reflect the strategic needs and circumstances of the situation.
- In case a standardized approach cannot effectively and efficiently meet project outcomes and development objectives, including in capacity-constrained environments, a customized approach may be adopted, entailing transaction-specific methods and documentation.



Fit-for-Purpose



# Timeline – When does the NPF apply?

- **New Projects:** Framework applies to all projects with concept notes approved on or after 1 July 2017.
- **Projects under preparation:** requests from borrowers with quality assurance meetings scheduled on or after 1 October 2017 will be considered for use of the framework.
- **Ongoing projects under implementation:** requests from borrowers for procurement transactions to be initiated after 1 October 2017 will be considered for use of the framework.
  - Projects can apply to transition from the 2015 Procurement Guidelines to the New Procurement Framework through this request.



# Summary - Improvements and Increased Guidance

Expanded Procurement Risk Assessments (PRF and SPP)

Contract Management Plan now part of Borrower Obligations

Strengthened Support for the use of E-procurement systems

Formal Recognition of additional Contracting Types (e.g. DBO, HLT)

Non-Consulting Services a distinct procurement type

Reinforced Guidance on FCAES Situations

More guidance on dealing with Complaints, HLT SOE, PPP, etc.



# Major Changes

Risk-Based Procurement

Alternative Procurement Arrangements

Tracking and Monitoring of Procurement Complaints

Decentralization and Delegation of Authority

Focus on Beginning-to-End Procurement Support

Strategic Procurement Planning



# Changes - Goods, Works & Non-consulting Services

## 2015 Guidelines

1. ICB / NCB
2. Shopping
3. Pass/Fail Criteria
4. Procurement Thresholds
5. Review (Prior, Post, Post (sampling))
6. Misprocurement



## 2017 Policy

1. OCB (includes Consulting)
2. Request for Quotation (RFQ)
3. Pass/Fail, weighted average
4. No Standardized Threshold
5. Review (Prior, Post (sampling))
6. Non-compliance



# Changes

- **OCB**
  - Thresholds Removed
  - Context Specific, Risk Based Package Selection
- **OCB (National Advertising)**
  - Bidding documents in national language
  - Bid Prices and Payment in local currency
  - Bid and performance security limited to local banks
  - Reduced bid duration
- **Evaluation Criteria**
  - Weighted Scoring is now clearly supported, where justified
  - Will allow to differentiate between offers of differing quality
  - Lowest price no longer necessarily the winning bid
- **Prequalification**
  - Number of bidders prequalified can be limited





# New Provisions in Bidding Documents

## Abnormally Low Bids (ALB)

- Can Accept, Mitigate (increase performance security), Reject
- Due diligence required by Borrower (Identify, clarify, decide)
- ADB no objection always required before rejecting.

## Standstill Period

- Used to allow unsuccessful bidders to challenge the intended award.
- 10 days recommended
- Use is optional

## Alternative Procurement Arrangements (APA)

- Allows ADB to rely on the Procurement Arrangements of Others
- Eligibility rules and anti-corruption provisions still apply.



# Major SBD Changes

## Sections 1 & 2:

- Strengthened integrity, conflict of interest clauses;
- Acceptance of SWIFT message in the form of MT760 as bid security
- Acceptance of bid security in the name of any joint venture partner
- New provision on Subcontractors to allow Specialist Subcontractors to comply with key activities requirement (only if permitted)
- Provisions on treatment of abnormally low bids;
- Standstill period (from notice of intention for award) ADB's confirmation of satisfactory resolution needed.
- Bidding related complaints



# Major SBD Changes

## Section 3:

- **Specialist Subcontractors**
- **Non Performing Contractors;**
- **Other Evaluation Criteria**
- **Allowance for specifying ‘similarity’ of previous experience**

## Section 4:

- **Letter of Bid – Debarment by ADB or blacklisting / conviction under country laws**
- **Affiliate Company Guarantee**

## Section 8:

- **Respectful Work Environment**
- **Integrity clauses**

## Section 9:

- **Notice of Intention for Award**



# Changes in Consulting Services Procurement

## Rules on shortlists relaxed:

- ✓ no maximum of 2 consultants per member country
- ✓ no requirement to shortlist a consultant from a DMC
- ✓ no need to shortlist 6 consultants.

## Eligibility criteria relaxed for experts of eligible firms

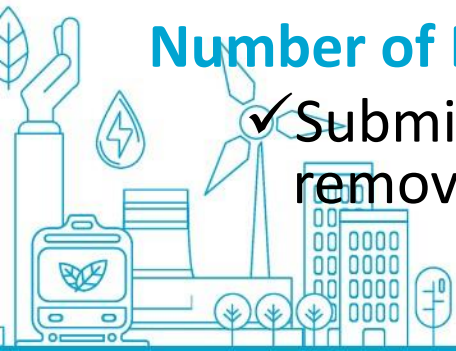
- ✓ *“Consulting firms must be legally incorporated or organized as legal entities under the laws of the eligible country”.* However, *“Experts employed or engaged by an eligible consulting firm will be considered eligible **regardless of their nationality.**”*

## Types of technical proposal (FTP/STP/BTP) – financial thresholds removed

- ✓ now dependent only on complexity,
- ✓ not complexity and value.

## Number of Borrower submissions reduced from 5 (numbered 0-4) to 3 (1-3).

- ✓ Submission 0 (Application for CSRN) and Submission 4 (Draft Negotiated Contract) removed.



# Framework Agreements Introduced

## May be considered:

When multiple consultancy assignments are planned, that are similar, that can be described under a single “generic” terms of reference, and are for a defined period, but where the precise scope, location and duration of the required services are not known at the time the Framework Agreement is established

## Benefits:

- **Procurement activities “front ended” - so when the actual services come to be required at call-off level rapid mobilization may be achieved:**
  - No need to publish a CSRN (procurement notice) for each contract
  - Shortened procurement time (e.g. for proposal preparation) due to the pre-planning which the consultant has done
  - Reduced negotiation time.
- **Allows Executing Agency to focus procurement efforts on a small number of high quality consultants**



# Where to access information online

- **Policy:**  
<https://www.adb.org/documents/adb-procurement-policy>
- **Regulations:**  
<https://www.adb.org/documents/procurement-regulations-adb-borrowers>
- **Guidance Notes (24 documents):**  
<https://www.adb.org/documents/guidance-notes-on-procurement>
- **Standard Bidding Documents (8 documents) and User Guides (9 documents):**  
<https://www.adb.org/site/business-opportunities/operational-procurement/goods-services/documents>

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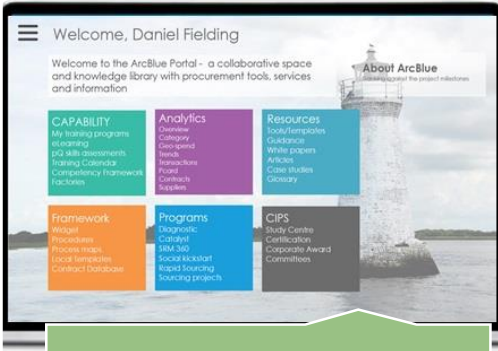
# Support Communications Activities



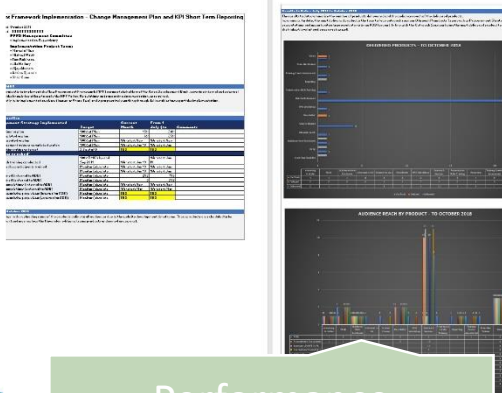
Newsletters



Brochures



Web Content



Performance Management Reports



Face to Face Training



eLearning





# eLearning

- **10 eLearning Modules being developed (20 to 40min per module):**
  - Module 1: Overview of the Procurement Framework
  - Module 2: Strategic Procurement Planning
  - Module 3: Risk Management
  - Module 4: Analysis
  - Module 5: Procurement Strategy Development
  - Module 6: Bidding Procedures
  - Module 7: Consulting Services
  - Module 8: Bid Evaluation
  - Module 9: Contract Management
  - Module 10: FCAES

Access:

<https://elearn.adb.org/enrol/index.php?id=295>



# STRATEGIC PROCUREMENT PLANNING – OVERVIEW



# Strategic Procurement Planning – Process Map

## Project Concept

- Project development objectives
- Project description and categorization
- Indicative contract packages

## Operating Environment

- Borrower capacity and capability assessment
- FCAS Considerations
- Support requirements
- External influences
- Stakeholder and communication strategy

## Market Analysis

- Porter's five forces analysis
- Supply positioning
- Supplier preferencing

## Risk Management

- Country and sector/agency procurement risk assessment
- Project procurement risk assessment
- Risk register



Analysis

## Options Analysis

- Identify strategic options
- Evaluate strategic option
- Strategy selection



Choices

## Procurement Strategy

- Procurement methods
- Bidding procedures
- Contracting strategy
- Strategic procurement planning template
- Procurement plan template



Document /  
Planning



DEVELOPING THE PROCUREMENT PLAN

# OPERATING ENVIRONMENT

## Operating Environment

- Borrower capacity and capability assessment
- Fragile, Conflict Affected Situations (FCAS) Considerations
- Support requirements
- External influences
- Stakeholder and communication strategy



# Operating Environment - Actions and Tools

## Four actions for analysing your Operating Environment

- Borrower capacity and capability assessment
- External influences
- Stakeholders and communication strategy
- Project Support



## Tools recommended for analysis:

- SWOT analysis
- External influences analysis (GEST)
- Stakeholder analysis
- Questionnaire



# SWOT as part of SPP

- Great planning starts with understanding where you are, and where you want to drive your focus to meet your objects.



# Questions to Consider

- **Strengths and Weaknesses axis**

- What are the Governance enforcement levels within the organisation
- How efficient is the Internal Administration
- What is the Capability assessment of the organisation
- What is the Capacity assessment of the organisation
- What is the Financial Health assessment of the organisation
- What is the experience (specific, market, related, discipline, subject, deliverables etc.) of the organisation
- What is the knowledge (specific, related, market, discipline, subject, deliverables etc.) of the organisation

- **Opportunities and Threats Axis**

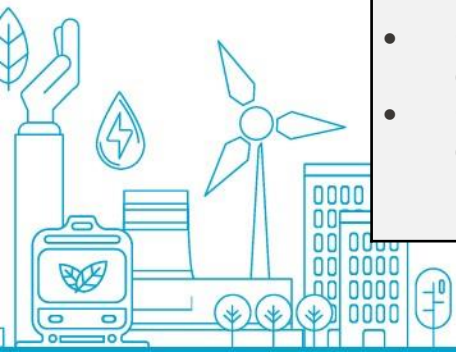
- Is there any Similar activity within local/region
- What is the Market support for strategic aims
- What is the Political support for strategic aims
- What is the Access to Labour
- What is the Access to Capital/cashflow
- What is the Reliance on new/old technology to achieve aims





# Infrastructure - SWOT Example

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Employment and training opportunities in the field of construction.</li> <li>• Private sector housing and commercial building demands of Construction of the multi building projects on the favourable locations in the country.</li> <li>• Good structured national transportation network in the country.</li> <li>• Low cost well- educated and skilled labour force is now widely available across the country.</li> <li>• Sufficient availability of raw material and natural resources in the country.</li> </ul>	<ul style="list-style-type: none"> <li>• Distance between construction projects reduces business efficiency.</li> <li>• High cost in incurred in large labour force</li> <li>• Lack of clearly defined processes and procedures for construction and its management.</li> <li>• Huge amount of money needs to be invested in this industry.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Continuous private sector housing increase will create more construction opportunities.</li> <li>• Public sector projects through Public Private Partnerships will bring further opportunities.</li> <li>• Renewable energy projects will offer opportunities to develop dams, solar plants and nuclear plants.</li> <li>• Financial supports like loan and insurance and growth in income of people is in support of construction industry.</li> <li>• Government policies inviting foreign companies will increase demand for factories and plants.</li> <li>• Growth in educational and research sector will increase the demand of universities, schools and institutions.</li> </ul>	<ul style="list-style-type: none"> <li>• Current economic situation may have an adverse impact on construction industry.</li> <li>• Political and security conditions in the region and late legislative enforcement measures are always threats to any industry.</li> <li>• Infrastructure safety is a challenging task in construction industry.</li> <li>• Lack of political willingness and support on promoting new strategies.</li> <li>• Natural abnormal casualties such as earth quake and floods are uncertain and can prevent the construction boom.</li> <li>• Inefficient accessibility in planning and concerning the infrastructure.</li> <li>• Competitors are emerging in the industry very frequently.</li> </ul>



# GEST as part of SPP

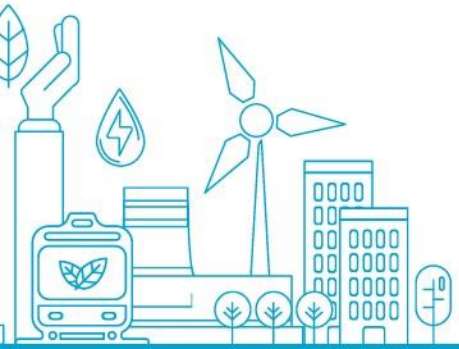
- There are 4 components to GEST analysis. All are externally focussed:

Governance

Economic

Sustainability

Technology



# Questions to Consider - GEST

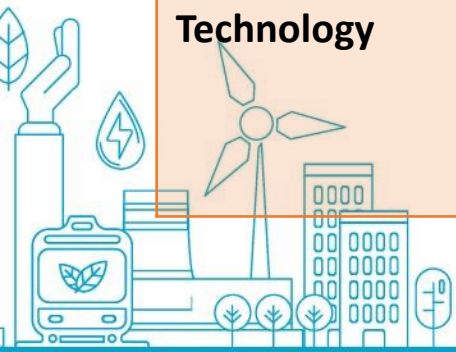
- GEST analysis **external** drivers of change specific to the project, which are beyond the control of the project, but may have substantial impact.

<b>GOVERNANCE</b>	<ul style="list-style-type: none"><li>• Government type and stability</li><li>• Fragility and conflict</li><li>• Regulation and rule of law</li></ul>	<ul style="list-style-type: none"><li>• Levels of bureaucracy</li><li>• Government corruption</li><li>• State involvement in the economy</li></ul>
<b>ECONOMIC</b>	<ul style="list-style-type: none"><li>• Rates of economic growth</li><li>• Rates of inflation</li><li>• Exchange rates</li></ul>	<ul style="list-style-type: none"><li>• Commodity prices</li><li>• Levels of unemployment</li><li>• Labor supply</li></ul>
<b>SUSTAINABILITY</b>	<ul style="list-style-type: none"><li>• Climate change impacts</li><li>• Local environmental standards</li><li>• Recycling capability</li></ul>	<ul style="list-style-type: none"><li>• Waste disposal</li><li>• Environmental impacts and remedies</li><li>• Corporate social responsibility drivers</li></ul>
<b>TECHNOLOGY</b>	<ul style="list-style-type: none"><li>• Emerging technologies</li><li>• Information availability</li><li>• Pace of change adoption</li></ul>	<ul style="list-style-type: none"><li>• Access to latest technology</li><li>• IT systems capability and interfaces</li><li>• Access and use of e-procurement systems</li></ul>



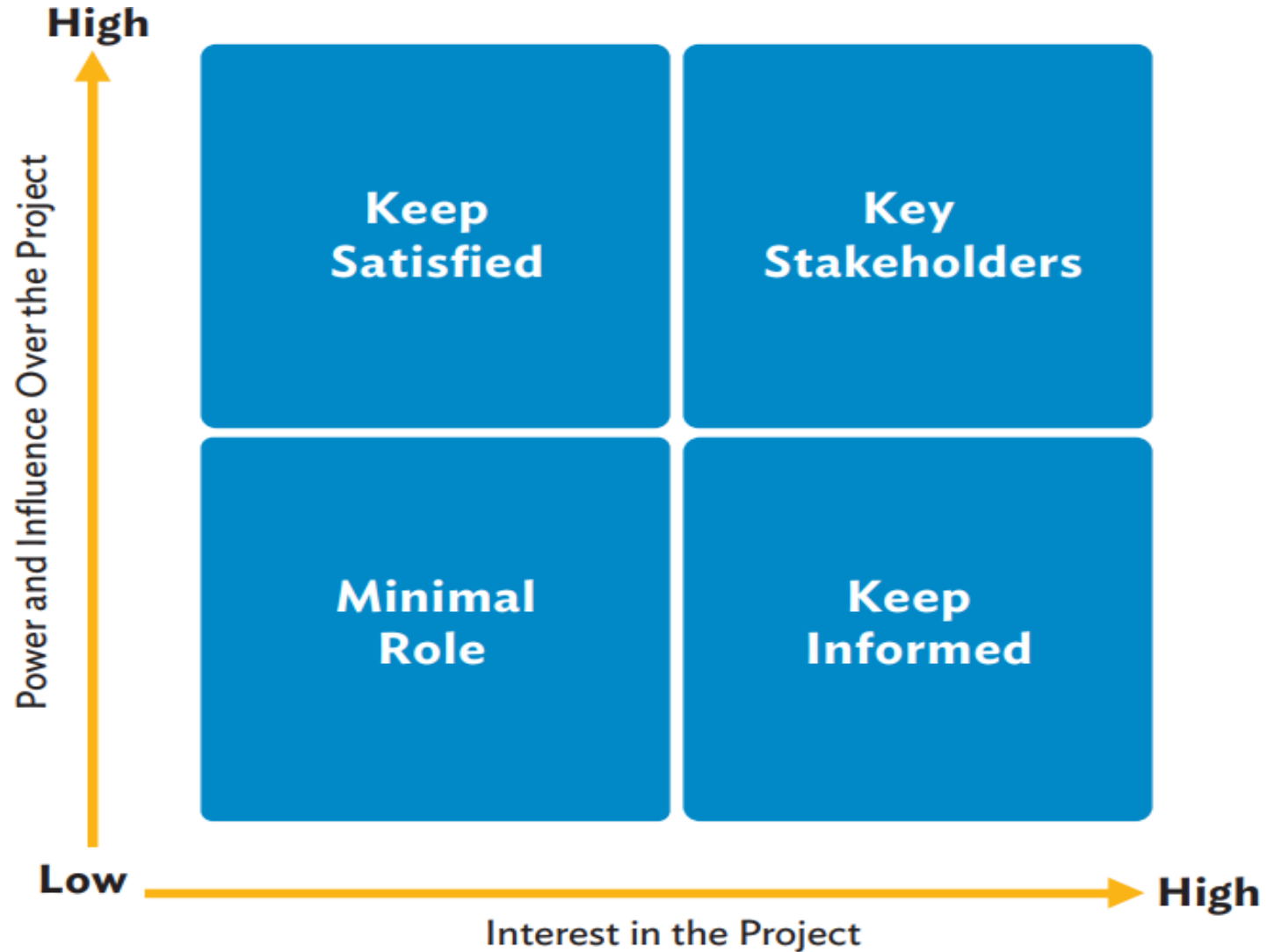
# GEST Example – Energy Initiative

<b>Governance</b>	<ul style="list-style-type: none"><li>• Government incentives of up to US\$10,000 for private purchase of new battery electric vehicles or plug-in hybrids</li><li>• Government goal to raise the annual production capacity to 2,500,000 plug-in hybrid by the end of 2020</li><li>• Road Space Rationing scheme (New energy vehicles are exempted)</li><li>• Vehicle quota system that inhibits the purchasing of new conventional autos</li></ul>
<b>Economic</b>	<ul style="list-style-type: none"><li>• Increasing inflation rate</li><li>• Increasing labor cost</li><li>• The city's economic outlook is healthy according to the key economic indicators</li><li>• Stable foreign currency exchange rate</li><li>• September is the traditional peak season of automobile</li><li>• Rapidly increasing lithium-ion battery price</li></ul>
<b>Sustainability</b>	<ul style="list-style-type: none"><li>• Environmental protection is a key consideration to most consumers</li><li>• Most consumers found the government subsidies very attractive</li><li>• To recharge vehicles at home or workspace is impractical to most people due to the residential design</li><li>• Most drivers regard new energy vehicle technology as unsafe and immature</li><li>• Comparing to internal combustion engines, electric vehicles are more environmental friendly</li></ul>
<b>Technology</b>	<ul style="list-style-type: none"><li>• Younger consumers are open to new technologies</li><li>• Slow charging</li><li>• Battery range is a concern</li><li>• Lack charging stations</li></ul>

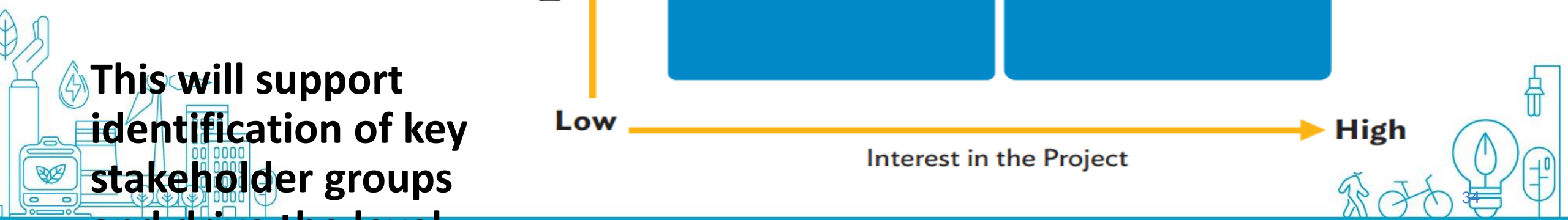


# Stakeholder Analysis - Mapping Tool

By understand WHO and HOW stakeholders are involved, you can now plot out the level of interest and influence each stakeholder group has on your project.



This will support identification of key stakeholder groups



# Stakeholder Communication

Stakeholder Name and Role	[Name]
Interest in the Project	[e.g., sponsor, beneficiary, bidder, project manager, executing agency, etc.]
Support and Influence Level	[Support level: e.g., project champion, opponent, neutral, supporter] [Influence level: e.g., decision maker, influencer, gatekeeper, follower]
Objections, Drivers, Needs, and Levers	[What issues or problems do they have that need resolving? What action to take to address any issues this stakeholder may have?]
Action	[How does the stakeholder feel about the project and procurement activities? What motivations do they have? What do they need from the project and how can they be influenced?]
Responsible, Accountable, Consulted, or Informed	[Categorize the stakeholder as: “responsible,” “accountable,” “consulted,” or “informed.”]
Communicate What, When, and How?	[Communication format, e.g., e-mail, face to face, videoconferencing, etc. By whom? How frequently?]

- **Communication is essential to the success of a project, especially with your key stakeholders;**
- **Start small and build momentum;**
- **Build ownership and leverage (key stakeholders);**
- **Provide support through change and communication activities.**





# Support Requirements

- **Consider resource requirements to successfully implement the project:**
  - I. procurement capability to undertake fit-for-purpose SPP processes, bidding, and contract awards;
  - II. experience in implementing similar projects;
  - III. contract management capability and experience;
  - IV. level of reliance on external consultants; and
  - V. whether a complaints management system is in place.
  
- **Consider what might be required to obtain the resources:**
  - I. Funding
  - II. Recruitment
  - III. Internal resources





DEVELOPING THE PROCUREMENT PLAN

# MARKET ANALYSIS

## Market Analysis

- Porter's five forces analysis
- Supply positioning
- Supplier preferencing



# ADB - Market Analysis Requirements

- **Actions to undertake:**

- Target markets and segmentation
- The market's capability to meet the project's needs
- The nature and level of competition within the target market
- Pricing trends and methodologies
- How the market views the Project (its attractiveness)



## Tools to use:

- Porter's five forces analysis
- Supply positioning
- Supplier preferencing
- Questionnaire\*



# Market analysis

## 1. What does the market look like?

How many suppliers in the market?  
Are all products the same?  
Are all services the same?  
Are there links to other markets?

## 2. How competitive is the market?

How do suppliers compete (price, service, quality)?  
Maturity of the goods or services on offer?  
Are there any trends (pricing, quality, service)  
Where is the lifecycle of the product/service?

## 3. Is there a supply chain?

Are suppliers heavily reliant on other sectors/markets?  
Distribution  
Are all supply chain links value adding?  
Inventory or stockpiles  
Complexity

## 4. Are substitutions available?

Cheaper  
New  
Better fit for purpose

## 5. How does your organization fit?

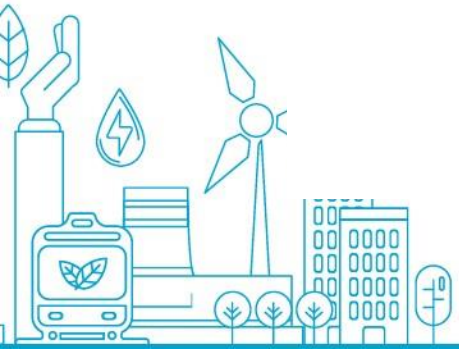
Preferred customer  
Payment planning  
Reputation  
Ease of management



# Porter's 5 Forces



- Used for analysing the competitive intensity and attractiveness of an industry's profitability.
- The “five forces” affect a supplier's ability to serve its customers and make a profit.



# Defining and using Porter's 5 Forces

## Bargaining Power of Buyers

**The bargaining power of the borrower (buyer) is likely to be high when:**

- I. the buyer has high purchasing volumes;
- II. the buyer has many alternative sources of supply;
- III. the planned procurement spending for low-risk, high-value contracts is a large proportion of the project costs;
- IV. the buyer has low switching costs; and/or
- V. the buyer has full market intelligence and understanding.



# Defining and using Porter's 5 Forces

## Bargaining Power of Suppliers

**The bargaining power of the supplier/s is likely to be high when:**

- i) there is a concentration of potential bidders rather than a fragmented supply;
- ii) the switching costs for the borrower are high;
- iii) the borrower is not an important or attractive customer to bidders; and/or
- iv) the supply market is dominated by a few, global potential bidders.



# Defining and using Porter's 5 Forces

Likelihood of  
New Entrants

**Dependant upon the extent to which there are barriers to entry:**

- (i) economies of scale;
- (ii) cost of market entry;
- (iii) access to distribution channels and the ability to “buy into” established infrastructure and networks;
- (iv) the experience-curve, where it is difficult for a new competitor to break into a supply market where a well-established supplier knows the marketplace;
- (v) expected retaliation, where the retaliation of the existing supplier(s) would make entry too difficult and costly; and/or
- (vi) legislation or state intervention, which can severely inhibit companies entering a market.





# Defining and using Porter's 5 Forces

Likelihood of  
Substitutes

**The risk of substitutes will differ between industry sectors. Industries where there are high levels of innovation and use of high-level technologies will have a high risk of substitution.**

**Influenced by:**

- (i) the borrower's switching costs,
- (ii) the availability of alternative materials,
- (iii) access to high-level technology, and/or
- (iv) life cycles and industry innovation.



# Defining and using Porter's 5 Forces

Competitive  
Rivalry

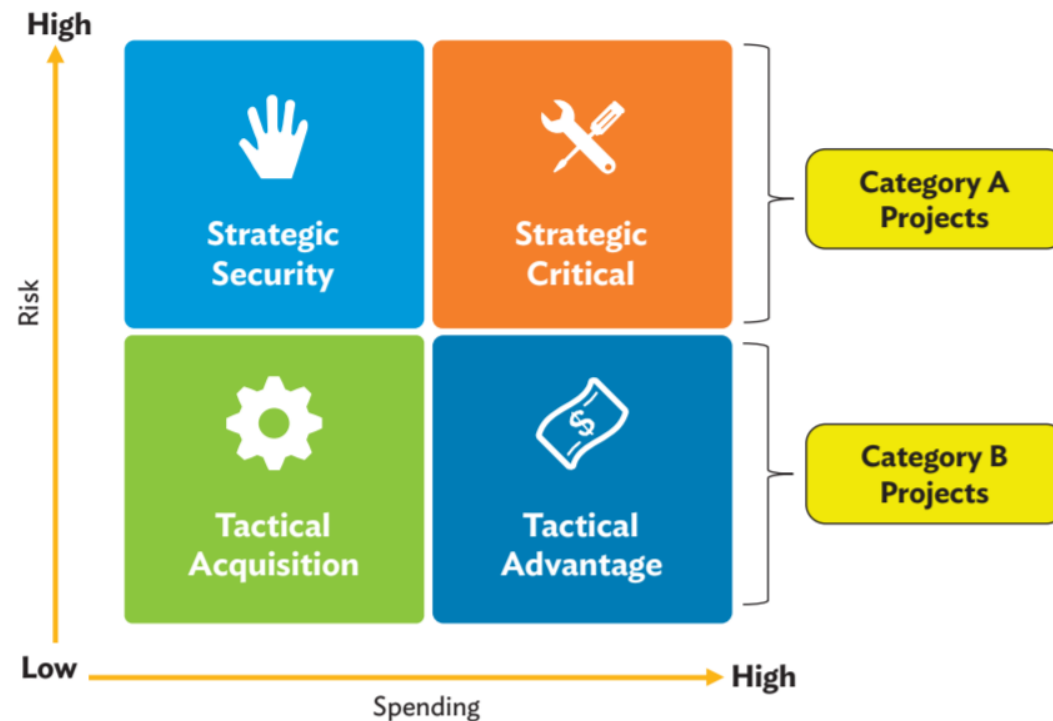
**The extent of competitive rivalry between an individual supplier and their competitors. The most competitive markets will be those in which:**

- I. new entrants are likely;
- II. there are multiple, equally balanced bidders within the market;
- III. the borrower can exercise control over the bidders;
- IV. the threat of substitutes and new technologies is high;
- V. high fixed costs can lead to competitors cutting prices to gain market share; and/or
- VI. the market has high exit barriers, e.g., expensive fixed assets.



# Supply Positioning

- Use the supply positioning tool to consider how to differentiate the procurement approaches for the proposed contract packages and lots within any given project.
- Position contracts and level of risk: acquisition, and tactical



level of spending  
tactical



# Supply Positioning - Example



# Key Supply Positioning Principles



This directs contract management approach + Supplier management approach...

...helps define the capability requirements of suppliers in preparing bid documentation.



# Supplier Preferencing

Some typical characteristics that may make a project and its contracts attractive or unattractive to suppliers.

**Table 2: Supplier Preferencing Examples of Project or Contract Attractiveness**

<b>Attractive Characteristics</b>	<b>Unattractive Characteristics</b>
<ul style="list-style-type: none"><li>• Profitable projects</li><li>• Good contract management processes</li><li>• Transparent complaints handling</li><li>• Reliable payment processes</li><li>• Security in country</li><li>• Minimized bureaucracy</li><li>• Stable government</li><li>• Business growth opportunities</li><li>• Forward planning</li><li>• Easy to service during contract execution</li><li>• Information sharing</li><li>• Good risk management</li><li>• Efficient customs processes</li></ul>	<ul style="list-style-type: none"><li>• Delayed or erratic payments</li><li>• Security concerns</li><li>• Unreliable supply chains</li><li>• Onerous terms and conditions</li><li>• Poor borrower planning</li><li>• Uncertain or unmanageable risks</li><li>• Limited local labor</li><li>• Lack of support market capability</li><li>• Difficult logistics and customs</li><li>• Bureaucratic processes</li><li>• Low profit margins</li><li>• Lack of trust in relationship management</li><li>• Delayed evaluation processes</li><li>• Uncertainty on project execution dates</li></ul>





DEVELOPING THE PROCUREMENT PLAN

# RISK MANAGEMENT

## Risk Management

- Country and sector/agency procurement risk assessment
- Project procurement risk assessment
- Risk register





# What is Risk Management, and why is it important?

- Risk management is the process of identifying, assessing, mitigating and monitoring of risks.
- The purpose of risk management is to reduce the likelihood of a risk happening and to minimize the impact.



# Identifying Risks



# Identifying Risks



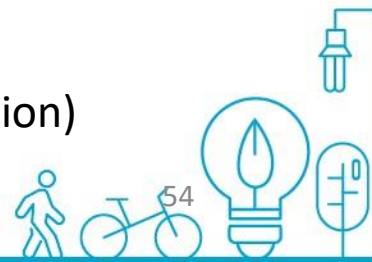
- Adequate number of bids
- Prices vs budget
- Collusion
- Conflict of interest - bidder
- Conflict of interest – EA/Procurement
- Bidder challenge to process fairness
- Scope/terms of reference – accuracy
- Bidders not meeting requirements



# Identifying Risks



- Preliminaries risks (insurance certificates, project plan, etc.)
- Project management risks
- Contract management risks
- Quality risks
- Schedule risks (contractor start date vs schedule, progress slippage)
- Sustainability risks (health, safety, environmental, community)
- Cost risks (change control, price adjustments)
- Contractor/supplier financial stability
- Stakeholder support risks (e.g. community/CSO)
- Handover risks (from contract implementation to operation)



# Identifying Risks



- Functionality/serviceability risks
- Operability risks
- Sustainability risks (health, safety, environmental, community)
- Technology/systems/data risks
- Operational cost risks



# Identifying Risks

## Procurement

- Adequate number of bids
- Prices vs budget
- Collusion
- Conflict of interest - bidder
- Conflict of interest – EA/Procurement
- Bidder challenge to process fairness
- Scope/terms of reference – accuracy
- Bidders not meeting requirements

## Contract Implementation

- Preliminaries risks (insurance certificates, project plan, etc.)
- Project management risks
- Contract management risks
- Quality risks
- Schedule risks (contractor start date vs schedule, progress slippage)
- Sustainability risks (health, safety, environmental, community)
- Cost risks (change control, price adjustments)
- Contractor/supplier financial stability
- Stakeholder support risks (e.g. community/CSO)
- Handover risks (from contract implementation to operation)

## Operation

- Functionality/serviceability risks
- Operability risks
- Sustainability risks (health, safety, environmental, community)
- Technology/systems/data risks
- Operational cost risks



# Assessing Risks

Risk assessment involves the following steps:

- (i) Estimating the likelihood of the risk;
- (ii) Estimating the consequence of the risk;
- (iii) Determining the risk rating;
- (iv) Prioritizing risks for treatment.





# Estimating the Likelihood of the Risk

## Risk Likelihood

Descriptor	Likelihood Score	Description	Indicative Probability
Almost certain	5	Expected to occur	> 95%
Likely	4	Probably will occur	66%–95%
Possible	3	May occur at some stage	26%–65%
Unlikely	2	Would be surprising if it occurred	5%–25%
Rare	1	May never occur	< 5%



# Estimating the Consequence of the Risk

## Risk Consequence

Descriptor	Consequence Score <sup>a</sup>	How the risk identified affects the achievement of					
		Economy	Efficiency	Fairness	Transparency	Quality	Value for Money
		(1)	(2)	(3)	(4)	(5)	(6)
Insignificant	1						
Minor	2						
Moderate	3					✓	
Major	4						✓
Severe	5						

Remove principles – just descriptor + consequence



# Determining the Risk Rating

Risk Rating Matrix

		Risk Consequence					
		Insignificant	Minor	Moderate	Major	Severe	
		1	2	3	4	5	
Risk Likelihood	Almost Certain	5	Medium	Medium	High	Extreme	Extreme
	Likely	4	Medium	Medium	High	High	Extreme
	Possible	3	Low	Medium	Medium	High	High
	Unlikely	2	Low	Low	Medium	Medium	High
	Rare	1	Low	Low	Low	Medium	Medium



# Treating Risks

## Avoid

- Avoid the risk by deciding not to proceed with the project or activity.

## Reduce

- Reduce the likelihood of the occurrence, e.g., procurement approach, contract terms and conditions, contract management activities, quality control manuals, training, etc.
- Reduce the consequence of the occurrence, e.g., contingency planning, relocation of an activity or operation, etc.

## Transfer

- Transfer the risk to another party, e.g., contract terms, regarding liability and indemnity, insurance, etc.

## Accept

- Accept the risk without mitigation. This may occur because
  - the risk rating is so low as to not warrant mitigation,
  - there is no treatment available, and/or
  - the costs of treatment outweigh the benefits.



# Example of completed register

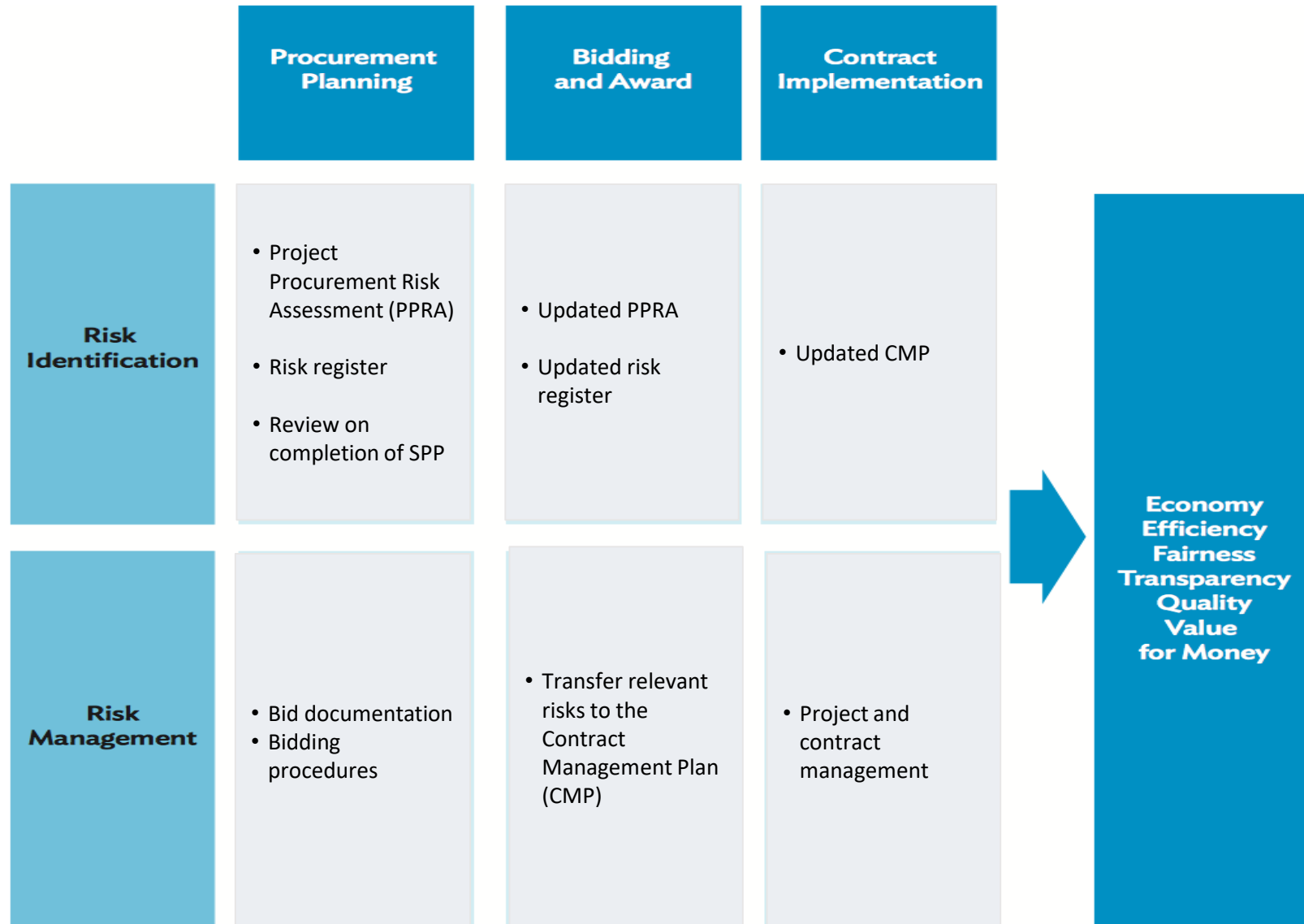
Risk Description	Likelihood (L) (1-5)	Impact (I) (1-5)	Risk Score (L x I)	Proposed Mitigation	Risk Owner
Variation in scope or costing after contract award	2	4	8	Improve specifications and cost estimates	Borrower
Abnormally low bids	2	3	6	Use ADB's processes for handling abnormally low bids	ADB and the borrower
Inadequate information for technical specifications	2	4	8	Early supplier involvement	ADB and the borrower
Evaluation period takes too long	3	4	12	ADB to support the borrower to speed up the process	ADB and the borrower
Poor contract management	2	3	6	Improve the borrower's capacity in contract management	Borrower
Security or civil unrest issues	2	4	8	Provide security support and secure facilities	Borrower

Risk owner assigned

Risk owner build up to this slide

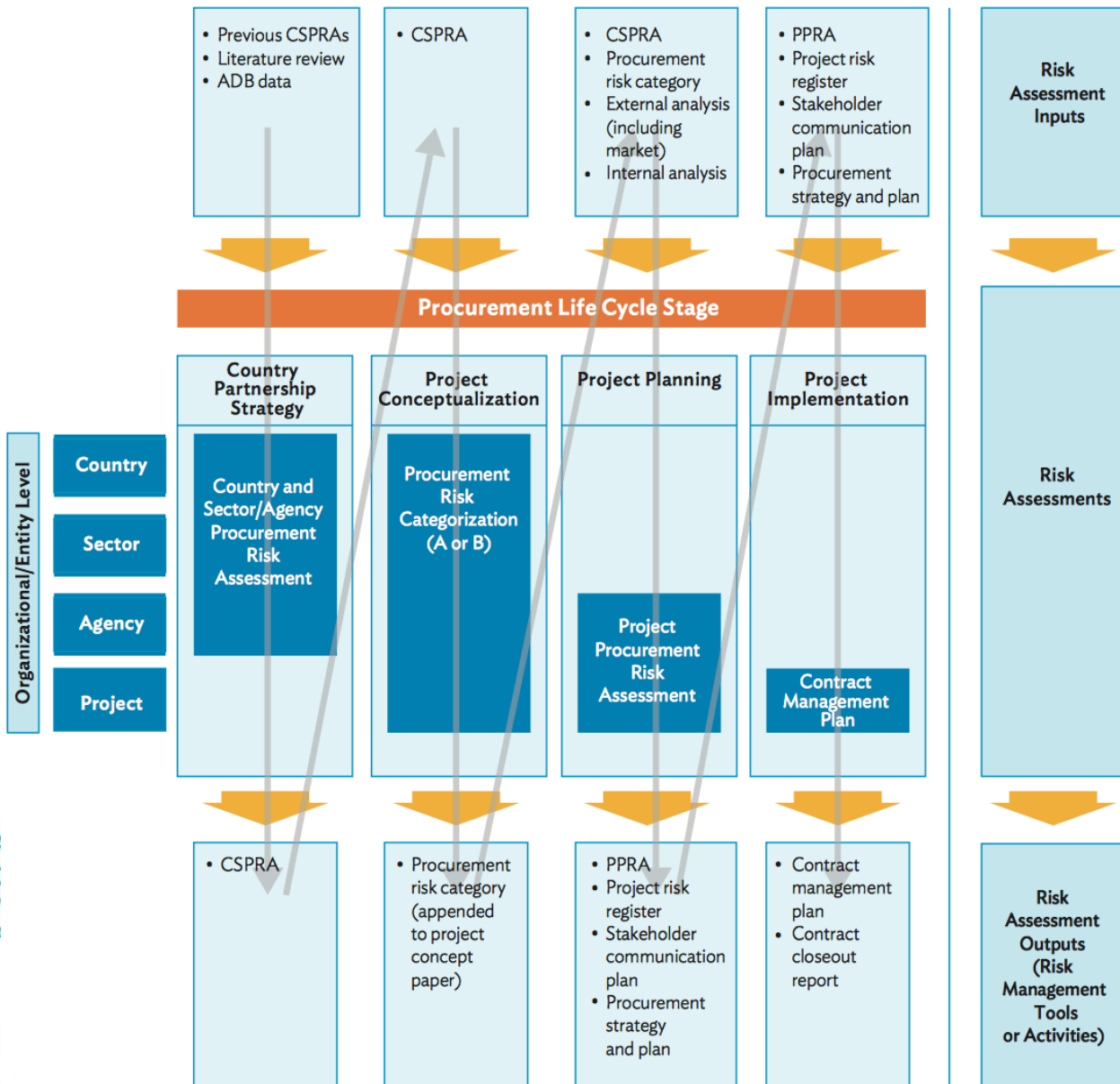


# Ongoing Risk Management



# Procurement Risk Framework

# network



Procurement Cycle Stage	Risk Management Tool	Allocation of Responsibilities	
		Asian Development Bank	Borrower
Country Partnership Strategy	Country and Sector/ Agency Procurement Risk Assessment	Responsible	Consulted
Project Conceptualization	Procurement Risk Categorization	Responsible	Consulted
Procurement Planning	Project Procurement Risk Assessment	Accountable	Responsible
Implementation and Contract Management	Contract Management Plan	Consulted	Responsible





DEVELOPING THE PROCUREMENT PLAN

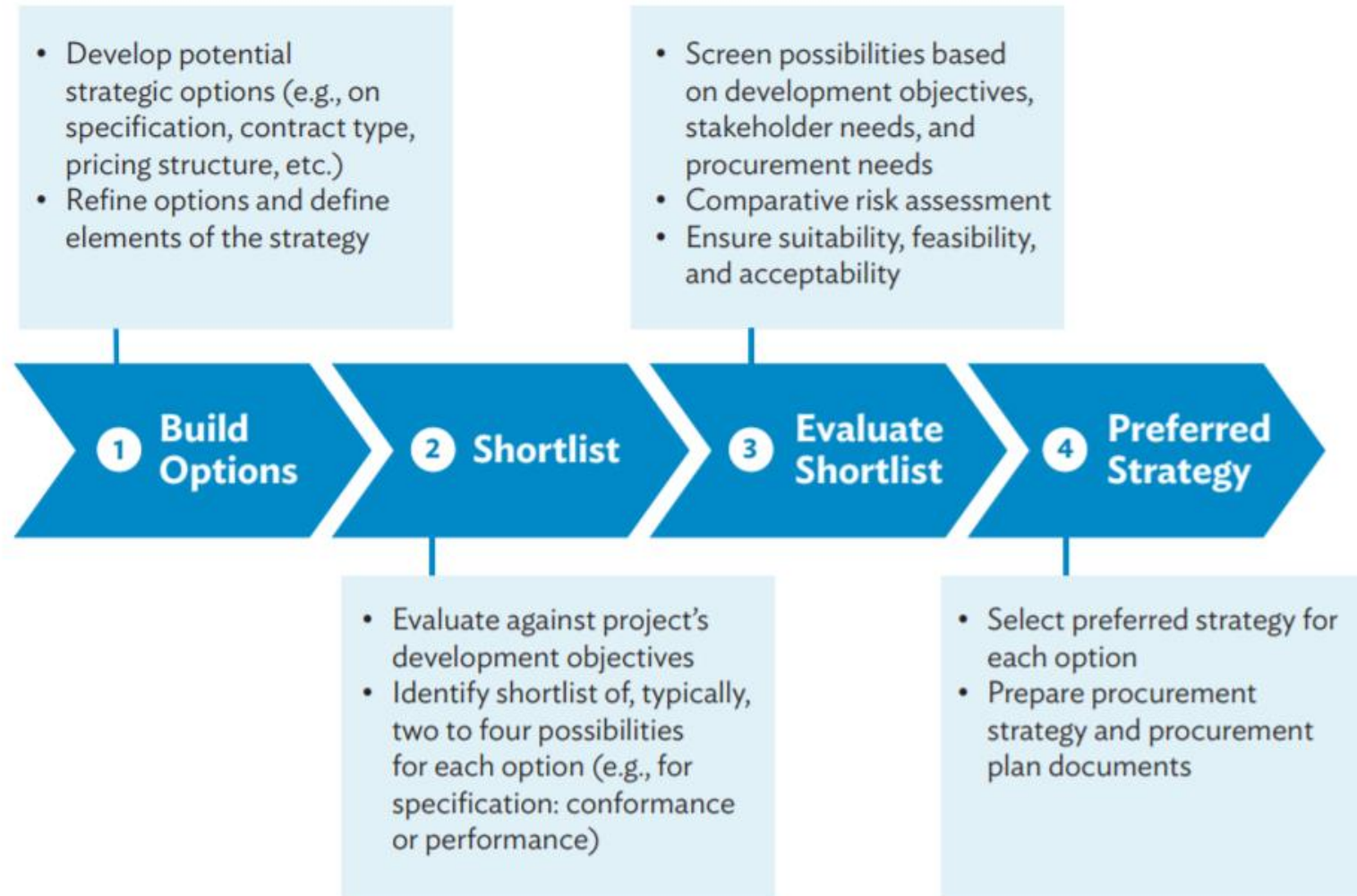
# OPTIONS ANALYSIS

## Options Analysis

- Identify strategic options
- Evaluate strategic option
- Strategy selection



# Evaluating Strategic Options - Process



# ADB - Options Available for Consideration

## Procurement Approach

- **Alternative Procurement Arrangement (APA)**
  - Full or Partial
  - Using Co-financier's or EA's procedures
- **Procurement from Specialized Agencies**
- **Procurement in FCAS (incl. emergency situations)**
- **Using Procurement Agents**
- **PPP**
- **Procurement of HLT**
- **Community Participation in Procurement**
- **Procurement under Loans Guaranteed by ADB**



# ADB - Options Available for Consideration

## Procurement Methods

- **Open Competitive Bidding (OCB)**
  - International advertisement or national advertisement
  - Prequalification or Post-qualification
  - Different bidding procedures: 1S1E, 1S2E, 2S, 2S2E
  - For selection of consulting firms: QCBS, QBS, CQS, FBS, LCS
  - Selection of Individual Consultants (IC)
- **Limited Competitive Bidding (LCB)**
- **Framework Agreements (FA)**
- **Request for Quotations (RFQ)**
- **Electronic Reverse Auction (ERA)**
- **Direct Contracting (DC)**
  - Goods, Works, Consulting, Non-consulting Services, Firms, Individuals
- **Force Account (FA)**



# ADB - Options Available for Consideration

## Contractual Arrangements

- **Performance-Based Contracts**
- **Design – Build (DB)**
- **Design – Build – Operate (DBO)**
- **Turnkey**
- **Lump-Sum**
- **Time-Based**

## Technical Specifications/TORs

- **Conformance**
- **Performance (Output-Based)**



# ADB - Options Available for Consideration

## Evaluation Methods

- **Cost**
- **Quality**
- **Combination of cost and quality**

## Other Considerations

- **Domestic preference**
- **Price adjustment**
- **Standstill period**

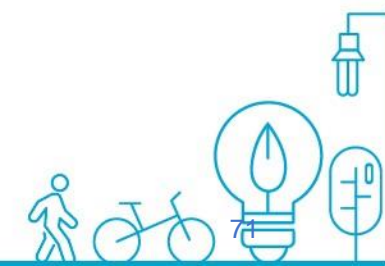
## Review by ADB

- **Prior Review**
- **Post Review (sampling)**



# Evaluating Strategic Options - Table

	Feasibility (1-10)	Suitability (1-10)	Acceptability (1-10)	Overall (3-30)
<b>Option 1</b> Open competitive bidding with detailed specification and prequalification	7	8	9	24
<b>Option 2</b> Limited competitive bidding with detailed specification	7	4	5	16
<b>Option 3</b> Open competitive bidding for design-build-operate contract type based on preliminary design by the borrower	7	4	4	15
<b>Option 4</b> Open competitive bidding for design-build contract type	7	5	5	17





# Questions to Consider – Options Analysis

- **Suitability:**

- Will the option meet the project's overall development objectives?

- **Feasibility:**

- Will the option work?
- Can it be achieved in an acceptable cost and time frame?
- Does the market have the capacity?
- Are the required resources available?

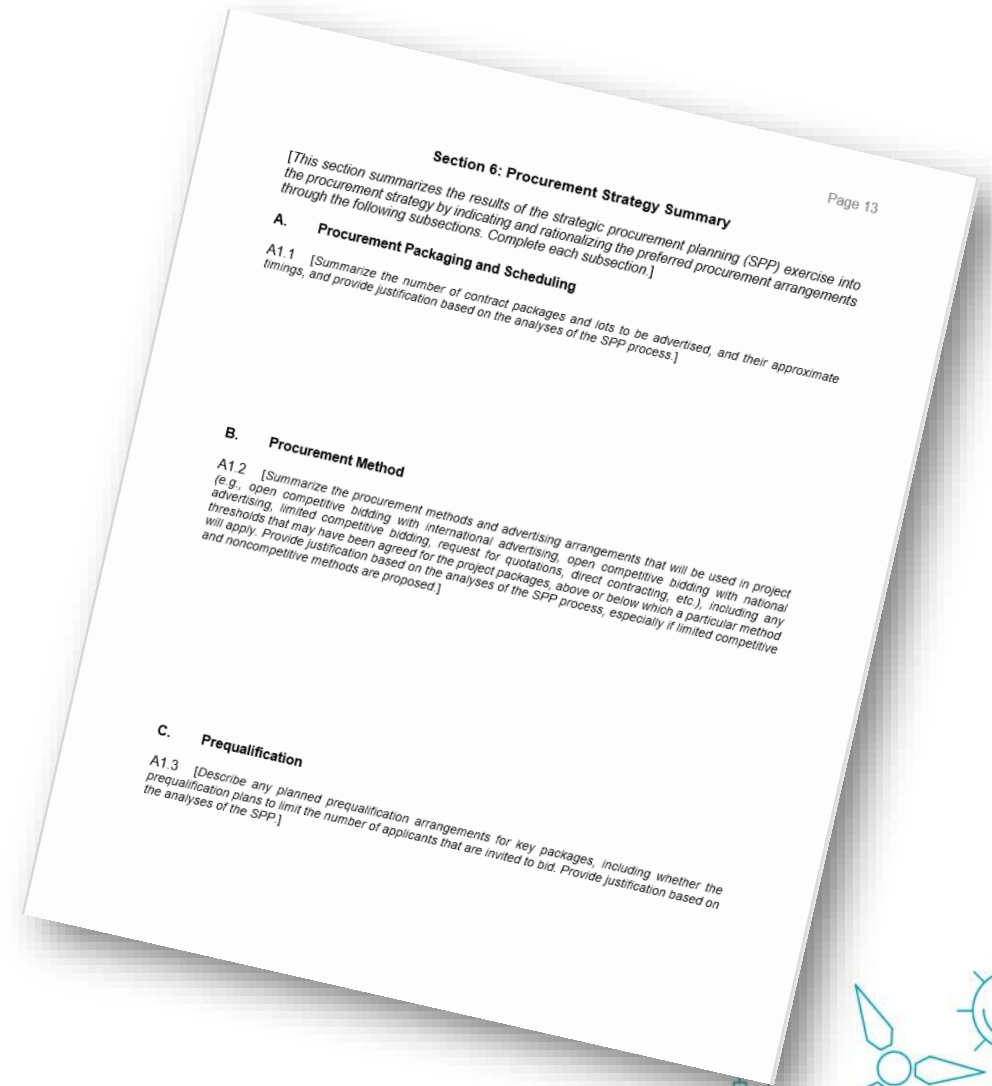
- **Acceptability:**

- Will the identified stakeholders support and buy-in to the option?



# Considerations

- Packaging is not based on financial thresholds – it is based on seeking Quality and VFM by combining market capability, risk assessment and operating environment.
- Through the options analysis we can determine what packages of works are best suited to project outcomes.



# Pricing and costing Decisions

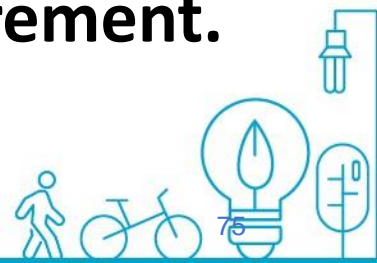
The plan requires clarity on key area related to Pricing and Costing, including:

1. Type of Pricing – Lump Sum / Outputs Based / Inputs Based/ Time & Materials, etc.
2. Application of Pricing adjustment
3. Currency
4. Costing of packages is directly linked to Design costing estimations.



# Strategy Selection

- **The final step of the SPP process is to synthesize the analyses, preferred options, and strategy into the project procurement plan.**
- **The borrower prepares the project procurement plan and its results shall be inputted and endorsed in ADB's PRS.**
- **The procurement plan must have five sections and shall provide basic project data, including project name; number; country; name of executing and/or implementing agency(ies); project financing amount, including financing from ADB and any co-financing; project closing date; etc.**
- **A SPP template is provided to support the delivery of this requirement.**



# Link between Strategic Procurement Planning (SPP) and your Procurement Plan

- The outcomes from your SPP analysis will inform the decisions that need to be documented in your SPP Template, including the final summary.
- The last part of the SPP Template outlines some of the key next steps and considerations required to complete a procurement plan and all procurement activities for your project.
- All decisions need to have robust justification. Use the analysis and summaries of each SPP activity to provide justification for the decisions made.
- Ensure decisions are clear, concise and founded on the principles important to ADB
- The application of the planning and analysis of the market will make for better procurement outcomes, supporting the project.



# E-Procurement



## Procurement Policy 2017

- To facilitate transparency and efficiency in the procurement process, ADB encourages borrowers to continually modernize their procurement systems, including procurement through electronic means (e-procurement)

## Procurement Regulations for ADB Borrowers

- E-procurement tools are recommended for communications with bidders, advertisements, notices and amendments, distribution of procurement documents, submission of bids or proposals, and disclosure of contract awards. These arrangements should be adequate, efficient, and secured, and should not prevent participation of potential bidders
- Any e-procurement system used for ADB-financed transactions shall be accessible and secure, ensure integrity and confidentiality, and have sufficient audit trail features





# Benefits of e-Procurement

Benefits	HOW
Increase Efficiency and Reduce Procurement Time	<p>Significantly reduces processing and communication times in procurement for both buyers and bidders through an automated, electronic system, compared to a manual, paper-based one.</p> <p>Offers the opportunity to fully integrate the procurement process into an agency's other systems, such as budget, general ledger, asset register, inventory, and accounts payable, thus adding to the functionality of these systems and improving overall efficiency.</p>
Reduce Risk	<p>Supports the development of reliable and effective internal monitoring and feedback reporting mechanisms.</p> <p>Establishes an analytical base for policy and business process improvements, thereby reducing operational risks.</p> <p>Automated processes reduce the risk of mistakes that could compromise the procurement.</p>



# Benefits of e-Procurement

Benefits	HOW
Improve Transparency and Fairness	<p>Supports the timely online publication and disclosure of information pertaining to procurement plans, opportunities, processes, and results, thereby enhancing the transparency and accountability of the procurement process.</p> <p>Encourages transparent, easy to access, and secure system solutions with proper confidentiality features that attract more competition and build trust among participants in the procurement process.</p> <p>Supports the creation of audit trails that improve the integrity of the procurement process.</p> <p>Supports the creation of procurement complaints handling functionality, improving the fairness, integrity, and accountability of public procurement.</p>
Deliver Value for Money	<p>A cross-government e-procurement system minimizes duplication of processes, provides greater supplier efficiencies, removes duplicated effort and costs across multiple agencies, and leverages government buying power through framework agreements.</p>



# ADB Support to e-Procurement

RETA 8520 – Asia Pacific Public Electronic Procurement Network (2013-2019)

RETA 9680 – Strengthening Asia Pacific Public Electronic Procurement Network ( 2018-2022)



# Questions

