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Regional Forum on Successful Project Design and Implementation

22–24 January 2024 | Islamabad, Pakistan

SESSION 5: PROCUREMENT



Mr. Bisma Husen

Principal Procurement Specialist
Procurement Division 1

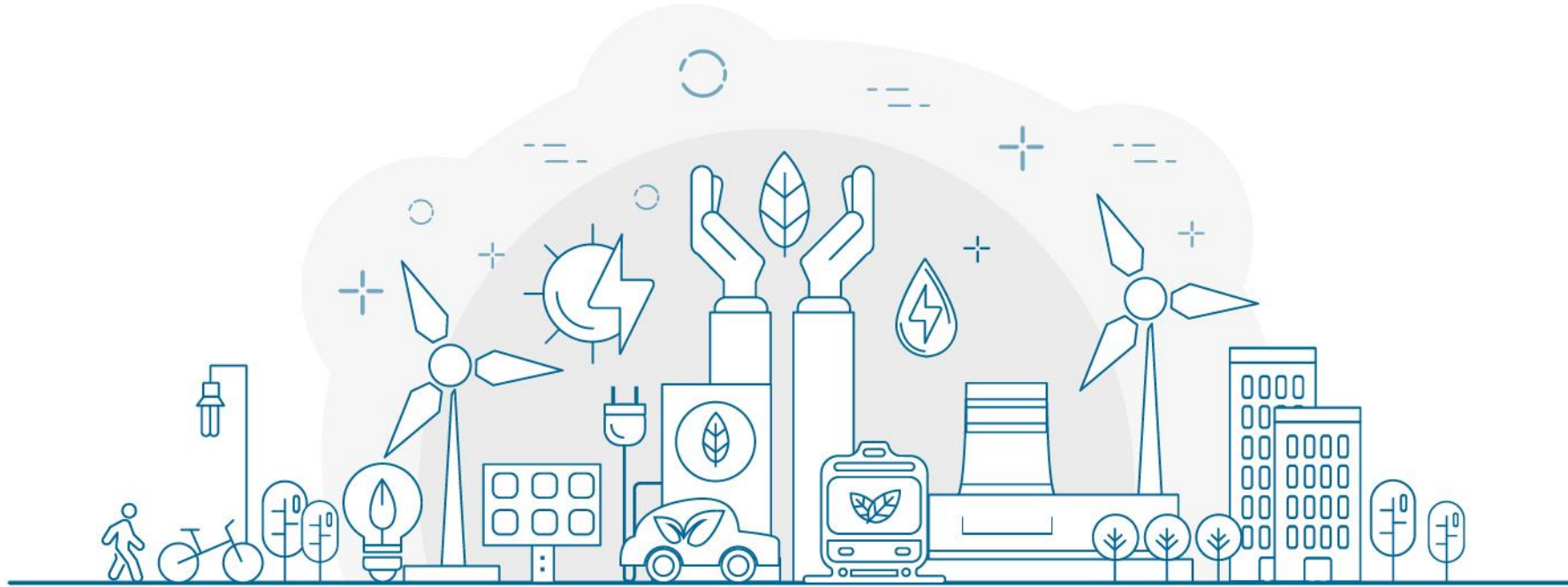
Procurement, Portfolio and Financial Management Department
Asian Development Bank



Mr. Mohsen Khan

Senior Procurement Office
Pakistan Resident Mission
Asian Development Bank





SESSION 5: **Procurement Readiness**

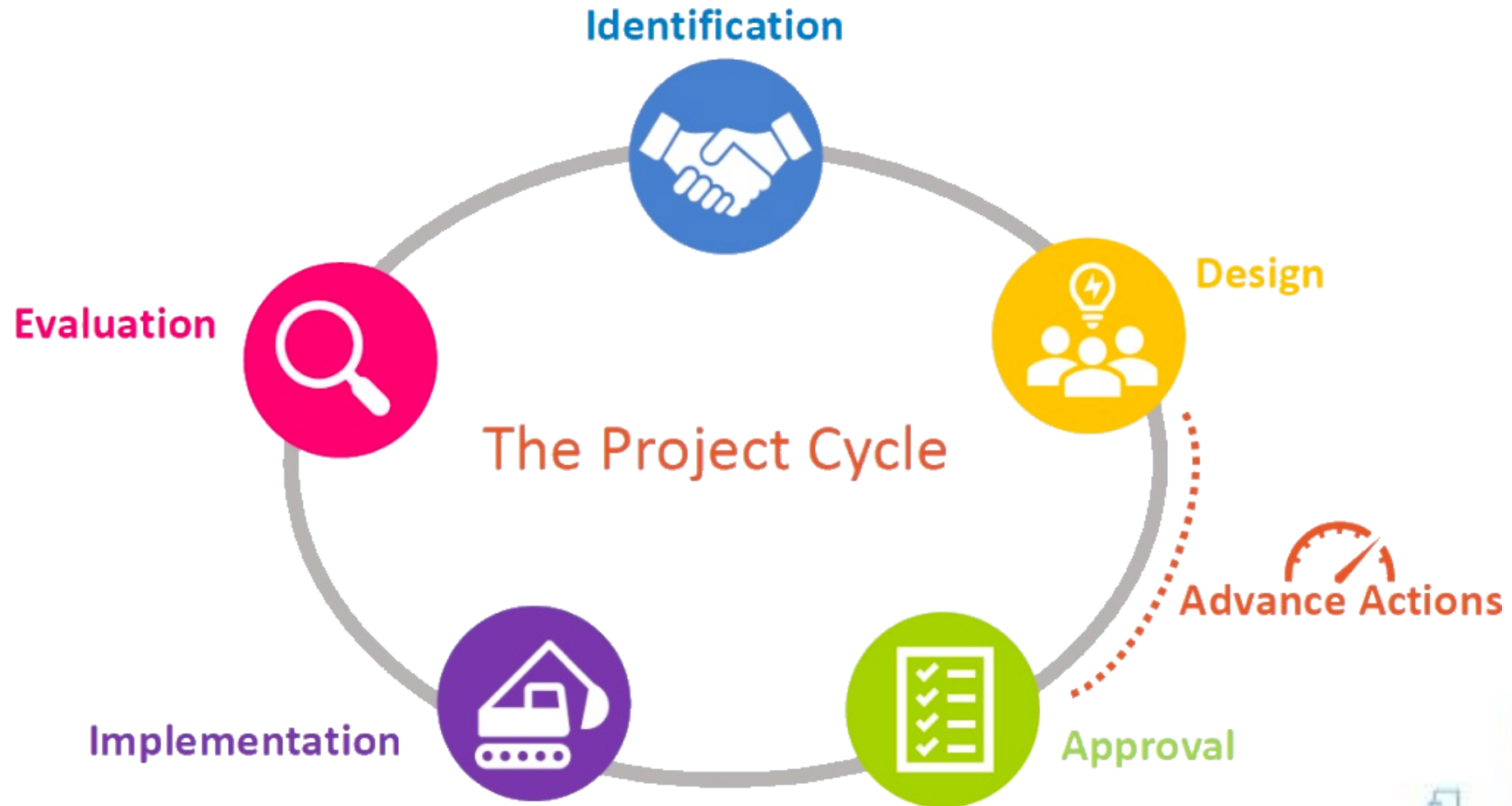
Bisma Husen, Principal Procurement Specialist, ADB
Mohsen I. Khan, Senior Procurement Officer, ADB

PROCUREMENT READINESS TO INCREASE PROJECT READINESS

Advance Actions in Procurement
Value for Money



PROJECT CYCLE



ADVANCE ACTION INCREASES PROJECT READINESS

PROJECT READINESS

Land Acquisition: Completed

DESIGN readiness: DED and EIA approved; sub-projects identified

PROCUREMENT readiness: PC-1 approved; major and CSC package(s) advertised

ADVANCE ACTIONS IN PROCUREMENT INVOLVES

Parallel government processing: issuance of PC-1

Advance contracting: selection of DED consultant

Procurement documents: issuance of Bidding Documents, RFP

FINANCING MODALITIES TO EXECUTE ADVANCE ACTIONS

PRF: Project Readiness Financing

SEFF: Small Expenditure Financing Facility



PROCUREMENT READINESS

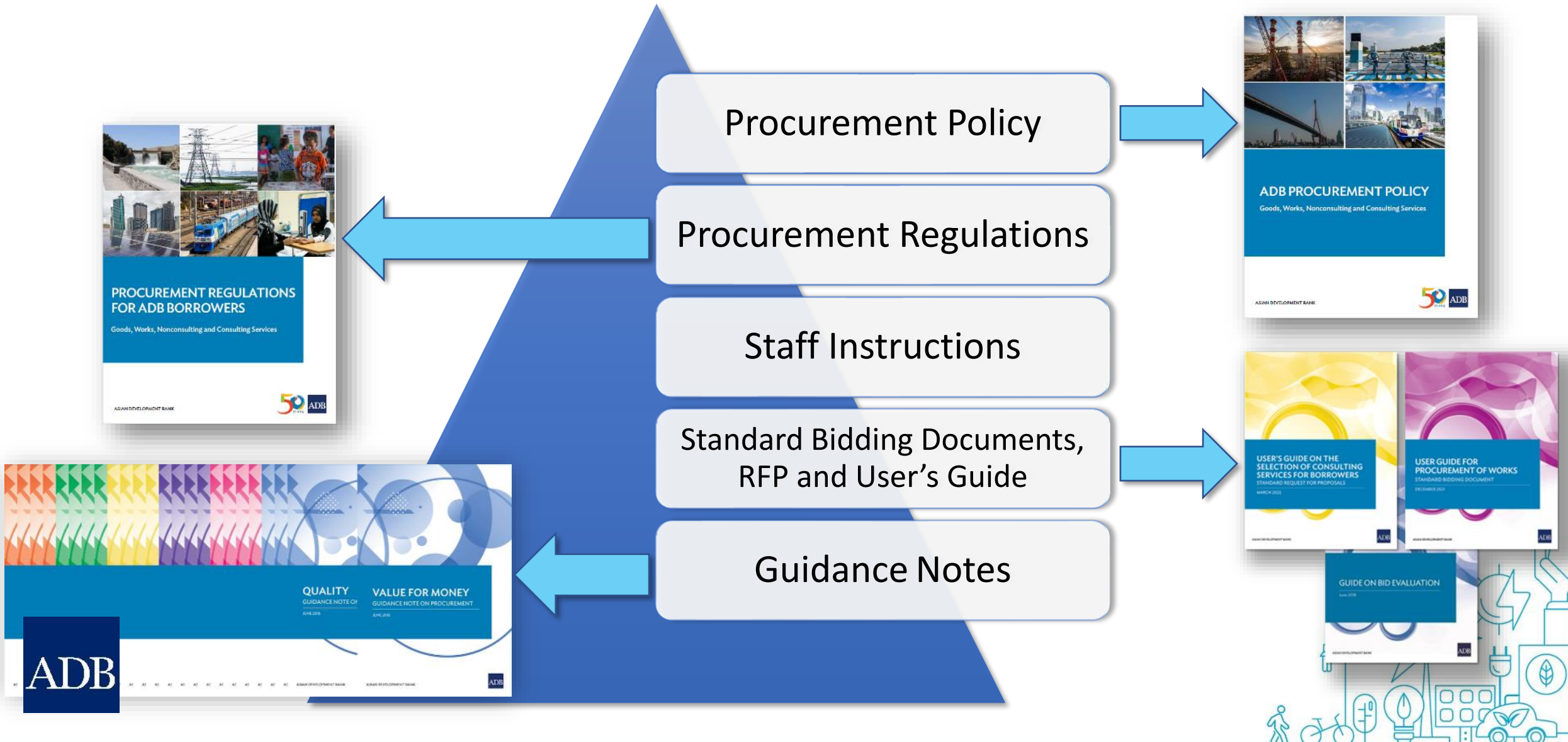
- Before loan NEGOTIATION
- Strategic Procurement Planning (SPP) Report completed
- Procurement Plan finalized
- Individual Consultants engaged
- Draft SBD for Goods and Works finalized & approved
- IFB for Works & Goods published
- BER (TBER / PBER) approved, and contract awarded ... *(not applicable for Pakistan)*
- Construction Supervision Consultant firms Shortlisted
- RFP issued to the shortlisted firms.
- CSC hired ... *(not applicable for Pakistan)*

DESIGN READINESS

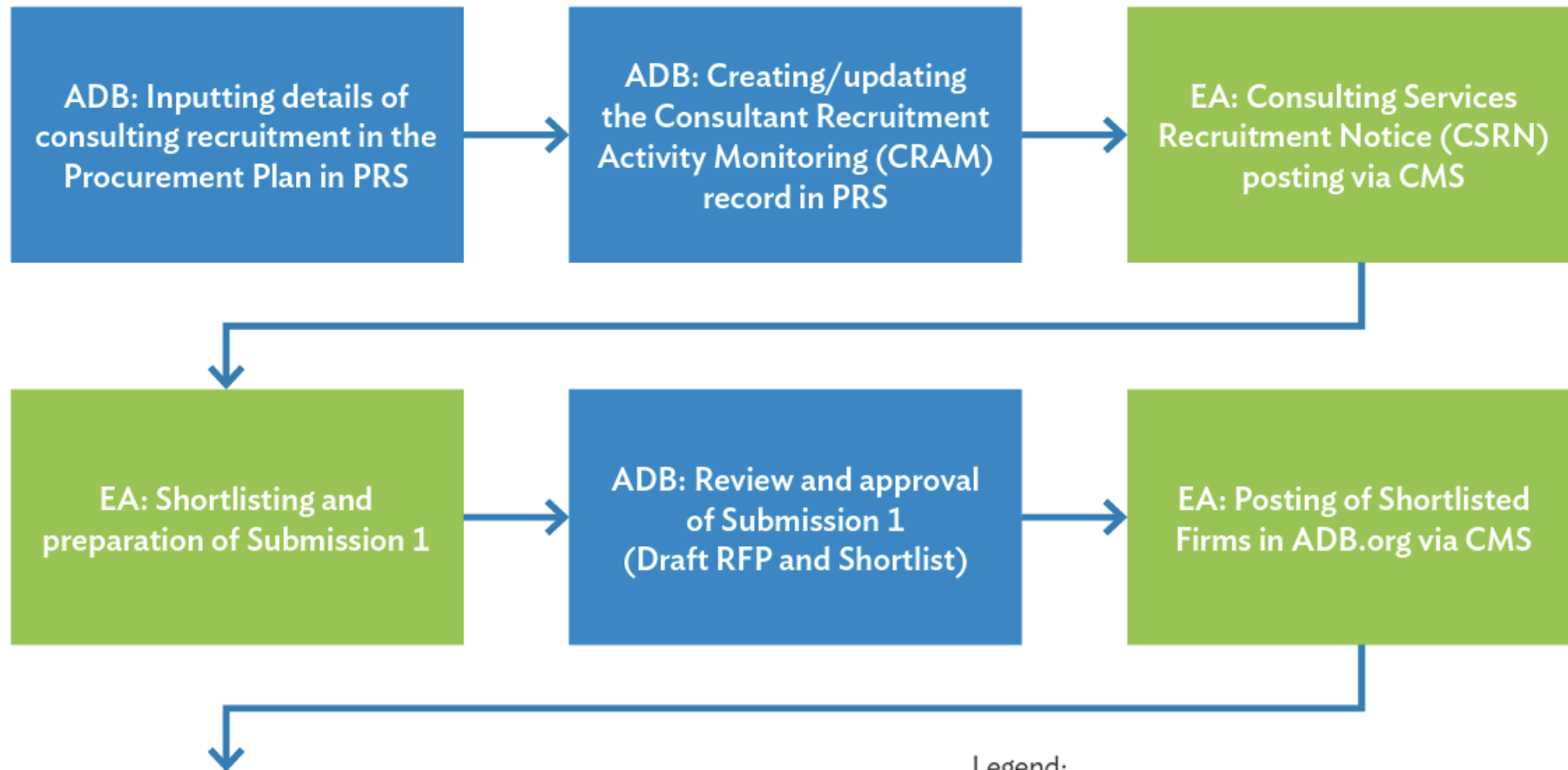
- DED finalized
- Project Appraisal Completed at Government Level
- Necessary approvals secured by the Govt.



ADB Procurement Framework



SELECTION OF CONSULTANT (DED)



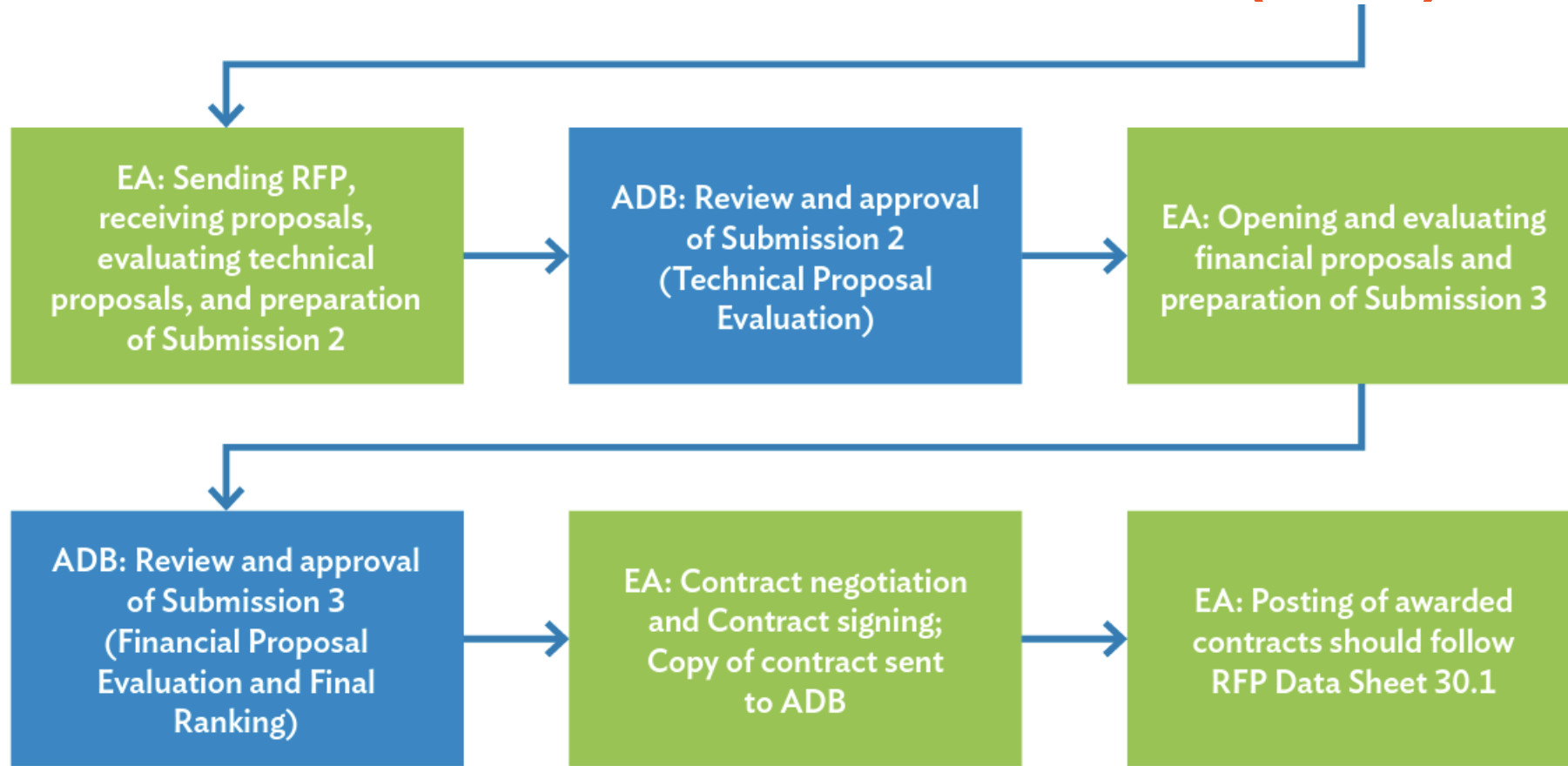
Legend:

ADB Responsible

EA Responsible



SELECTION OF CONSULTANT (DED)



Legend:

ADB Responsible

EA Responsible



SELECTION OF CONSULTANT (PRIOR REVIEW)



STRATEGIC PROCUREMENT PLANNING (SPP)

Analysis

Where are we now?
Data gathering (research, strategic tools)



Choices

Where do we want to be?
Generation and evaluation of strategic options



Planning

How to get there?
SPP Document



SPP Process Map – Seven Steps

1. Project Concept

- Project development objectives
- Project description
- Indicative works, goods and services to be packed

ANALYSIS

2. Operating Environment

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

3. Market Analysis

- Contract awards / bid evaluation report analysis, interview and market sounding
- Supply positioning
- Supplier preferencing

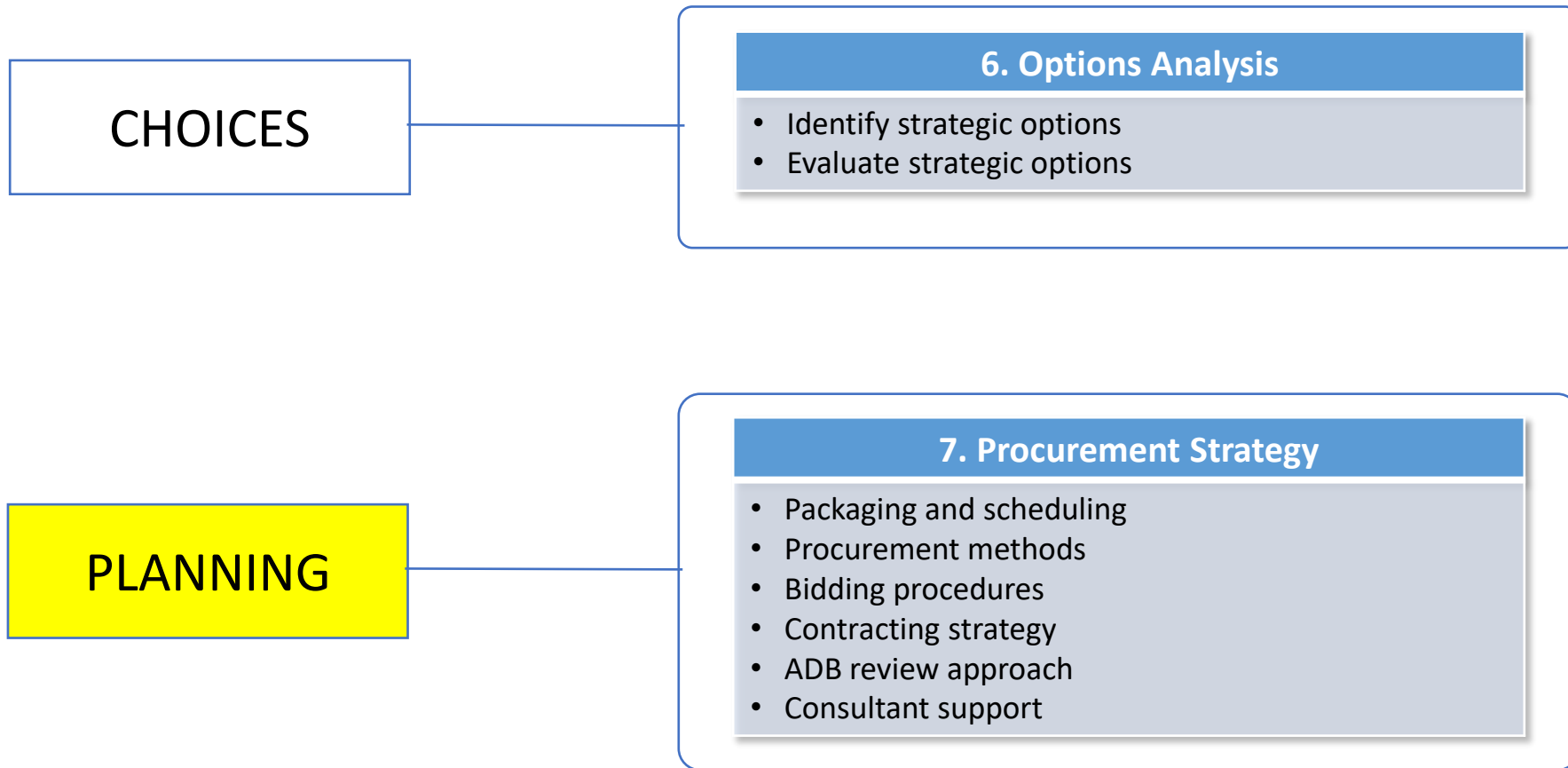
4. Sustainable Procurement

- Consideration of project-specific sustainability goals
- Other sustainability considerations
- Refer to ADB's Guidance Note on Sustainable Public Procurement for details

5. Risk Management

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

SPP Process Map – Seven Steps



Procurement of Goods or Works or Non-consulting Service

Nature	Supply of Goods, Civil Works, Services (Non-Consulting), Turnkey (design-supply-install), etc.
Size	Scope, magnitude, nature, location, market condition
Contract Type	Unit Price, Lump Sum, Hybrid
Slicing	Multiple lots bid package
Methods	OCB, LCB, RFQ, Direct Contracting, etc.
Qualification	Pre-qualification or Post- qualification
Bid Submission	1S1E (Single-State One-Envelope), 1S2E, 2S2E, 2S



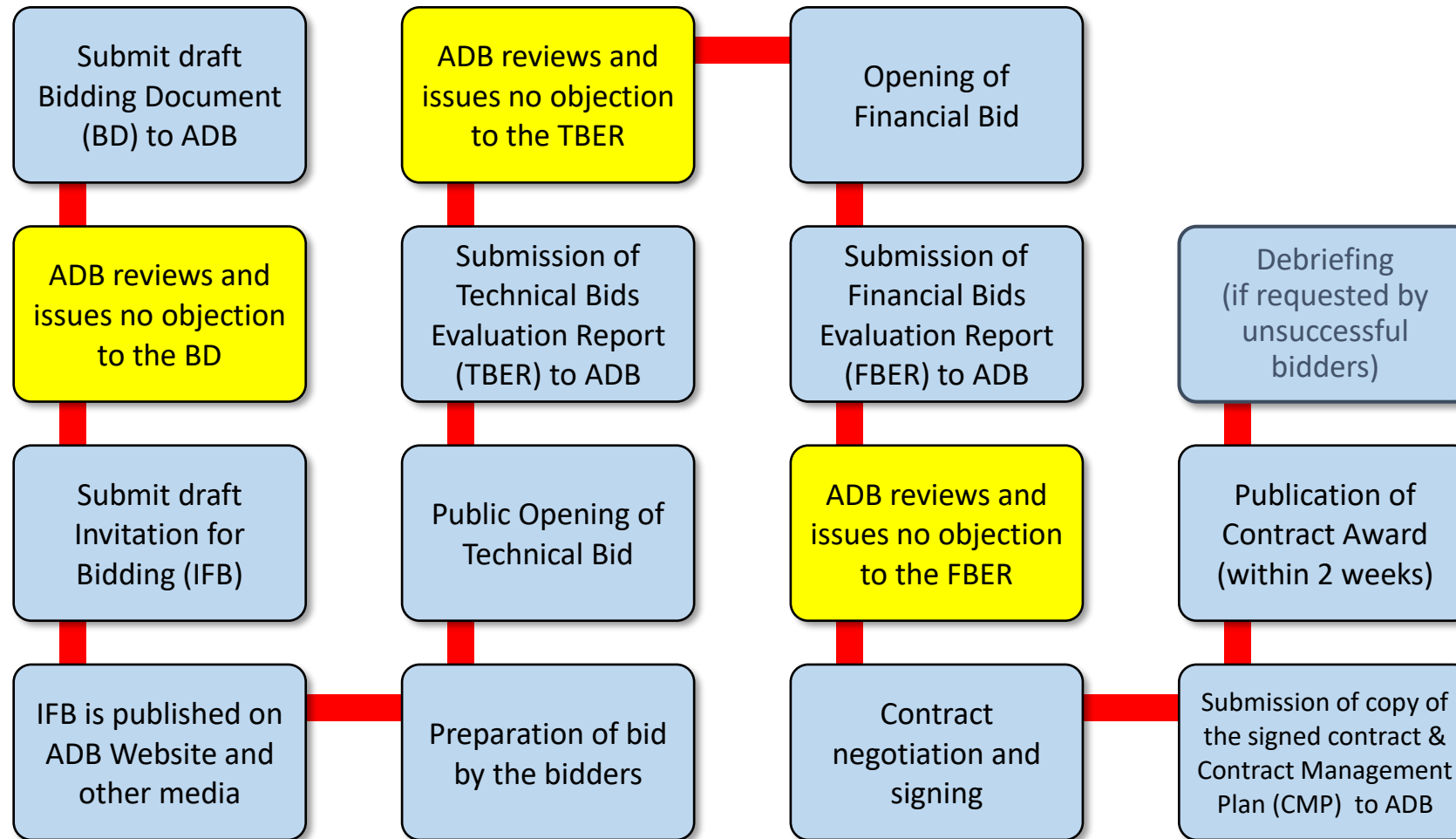
Procurement Methods and Arrangements

ADB Procurement Regulations (Sec. II)

- OCB: Open Competitive Bidding
- LCB: Limited Competitive Bidding
- Framework Agreements
- RFQ: Request for Quotations (previously “Shopping”)
- Electronic Reverse Auction
- Direct Contracting
- Force Account

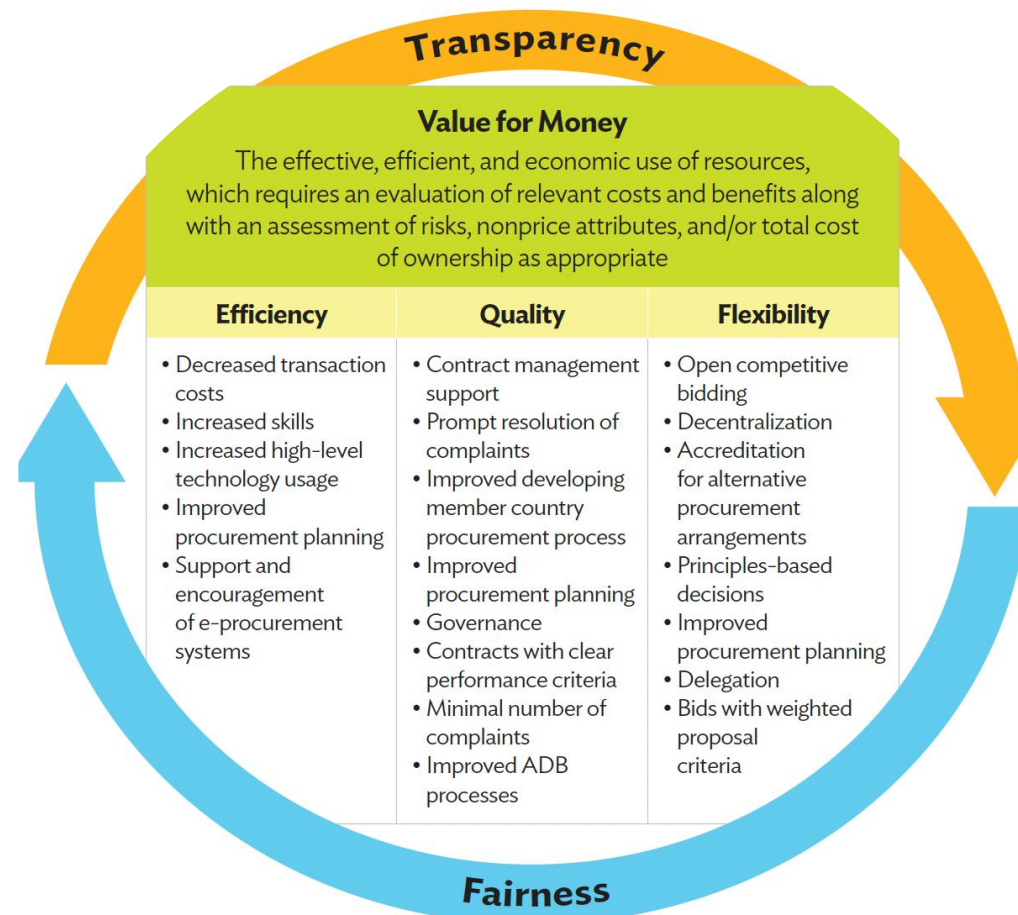


PROCUREMENT (OCB WORKS, 1S2E, PRIOR REVIEW, Post-Q)



VALUE FOR MONEY

Life Cycle Cost (LCC) Evaluation – Total Cost of Ownership (TCO) – Merit Point Criteria (MPC)



VFM IN PROCUREMENT CYCLE

VALUE FOR MONEY IN THE PROCUREMENT CYCLE

VFM is crucial throughout the entire ADB procurement cycle, from identifying needs to project closure. Opportunities to enhance VFM include ensuring transparency, aligning procurement modalities with risk and value, specifying technical requirements, and selecting appropriate evaluation criteria.

ACHIEVING VFM IN THE PROCUREMENT CYCLE

Four key stages to achieve VFM: planning, identifying requirements, using evaluation criteria, and contract management.



VFM THROUGH SPP

Thorough SPP and a fit-for-purpose procurement strategy are essential for successful procurement.

Early Preparation and Considerations

- Market conditions, operational context, client capability, risks, and appropriate procurement modalities.

Risk Management in Procurement

- Significant procurement risks, such as delays or low capability, can be addressed during planning.

Fitness for Purpose Plan

Encouraging VFM in Procurement Approach

Options for Procurement Approach

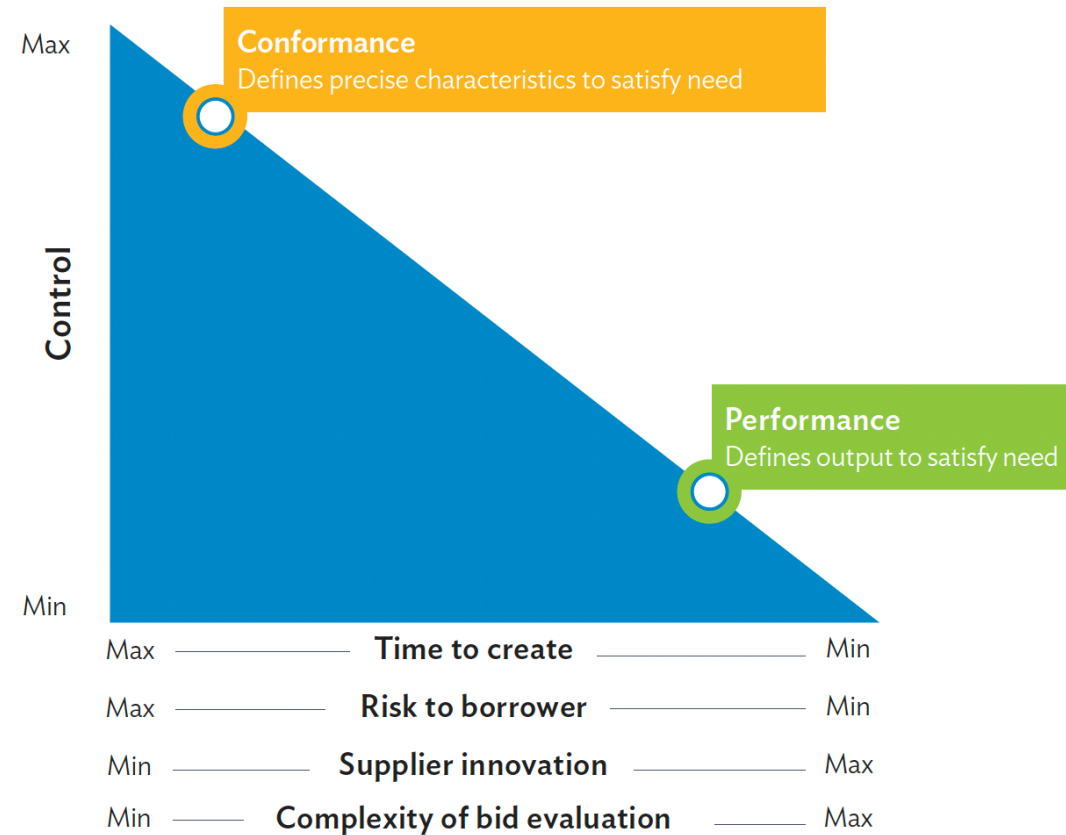
- Various contract forms, procurement modalities, and bidding arrangements.
- Competitive bidding, advertising arrangements, PQ, bidding processes, and contract forms like lump sum, time-based, or framework contracts.

Decision Factors

- Choosing the appropriate option depends on market competition, prospective bidders, requirement specificity, urgency, financing, borrower capacity, and inherent risks.
- Trade-offs between cost and benefit should be considered, including time/resources, transaction costs for bidders, and the risk of not achieving desired outcomes.



VFM THROUGH SPECIFICATION



max = maximum, min = minimum.

Source: Asian Development Bank.



VFM THROUGH EVALUATION CRITERIA

Defining Evaluation Criteria

- Criteria must be proportionate, appropriate, and quantifiable.
- Bidding document should specify and apply criteria consistently.
- Changes to criteria require addenda circulated to all bidders.

Consistency in Application

- Evaluation criteria must be consistently applied to all bids
- Considerations include type, nature, market conditions, complexity, risk, and value.

Prequalification Process

- Prequalification assesses applicants' suitability before bid submission.
- Appropriate for large or complex projects, consulting services, and situations where a standing list of prequalified bidders is needed.

COST

Evaluation of cost using a methodology appropriate to the procurement approach, such as evaluated bid price or evaluated bid price plus the running or recurrent cost over the useful lifetime of the asset on a net present cost basis (also known as the “total costs of ownership”)

QUALITY

Evaluation of quality using a methodology to determine the degree to which the goods, works, nonconsulting, or consulting services meet the requirements

RISK

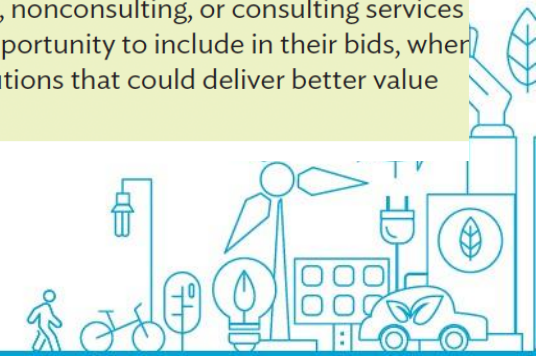
Criteria that mitigate the relevant assessed risk

SUSTAINABILITY

Criteria that consider stated economic, environmental, and social benefits in support of the project objectives, and may include the flexibility of the bid to adapt to possible changes over the project life cycle

INNOVATION

Criteria that allow assessment of innovation in the design and/or delivery of the goods, works, nonconsulting, or consulting services and that give bidders the opportunity to include in their bids, when appropriate, alternative solutions that could deliver better value for money



VFM THROUGH EVALUATION CRITERIA

Nonprice Criteria

- Lowest price doesn't always represent VFM.
- Nonprice criteria such as quality, responsiveness to objectives, and fitness for purpose are crucial.

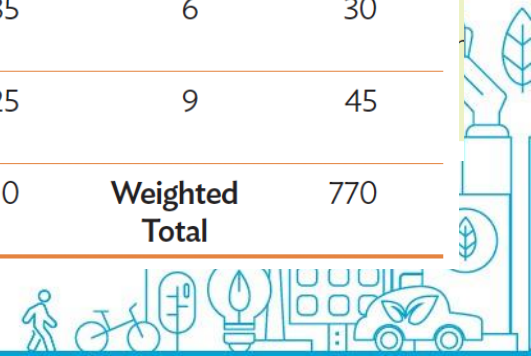
Evaluation of Bid Cost

- Quoted prices evaluated against factors affecting the actual price.
- Relevant factors specified in bidding documents.
- Enables holistic comparison of total costs for achieving VFM.

Identification of Abnormally Low Bids

- Low prices don't always ensure VFM; abnormally low bids pose a risk of nonperformance.
- Due diligence necessary for bids with unusually low prices.

No.	Criteria	Weighting	Contractor A		Contractor B	
			Score/10	Weighted Score	Score/10	Weighted Score
1	Price weighting	40	5	200	9	360
2	Proposed methodology	10	9	90	8	80
3	Work plan	10	6	60	5	50
4	Management expertise	5	4	20	7	35
5	Technical expertise	10	8	80	6	60
6	Use of high-level technology	5	7	35	7	35
7	Technical innovation	5	6	30	7	35
8	Health and safety record	5	9	45	8	40
9	Corporate social responsibility	5	7	35	6	30
10	Knowledge of organization	5	5	25	9	45
		100	Weighted Total	620	Weighted Total	770



VFM THROUGH CONTRACT MANAGEMENT

Key Aspects of Contract Management

- Involves tracking and monitoring work delivery, costs, time, and quality.
- Supplier development for improved performance and ongoing innovation.
- Clear roles and responsibilities, relationship management, payment handling, and proactive issue anticipation.
- Integrity observance and transparent problem resolution.

Borrower's Perspective on Contract Management

- Delivers VFM by ensuring supplier commitment, managing supply risks, driving the best value, maintaining effective contracts, and demonstrating procurement best practices.
- Upholds ethical standards and provides evidence for audits.

Best Practices: Contract Management Plan

- Develop a plan with Key Performance Indicators (KPIs) and milestone events.
- KPIs should be SMART directly linked to project objectives.
- Timely monitoring and reporting aligned with the contract management plan.



LIFE CYCLE COST (LCC) & TOTAL COST OF OWNERSHIP (TCO)

Understanding Total Costs

- VFM considers real or total costs, not just the purchase price.
- TCO involves acquisition, operation, maintenance, and disposal costs.

Complexity of TCO Analysis

- Conducting TCO analysis is complex and involves assumptions about future events.
- Risks exist in underestimating or overestimating costs.

Essential for Long-Term, Complex Procurements

- TCO assessment is crucial for understanding true costs in long-term, complex procurements.
- Not necessary for single purchases or low-cost products but depends on the procurement nature.

Challenges and Judgment in TCO Calculation

- Calculating TCO is difficult; no one-size-fits-all formula.
- Judgment is required in determining the extent and method of the assessment.

Formal Evaluation for Noticeably Different Options

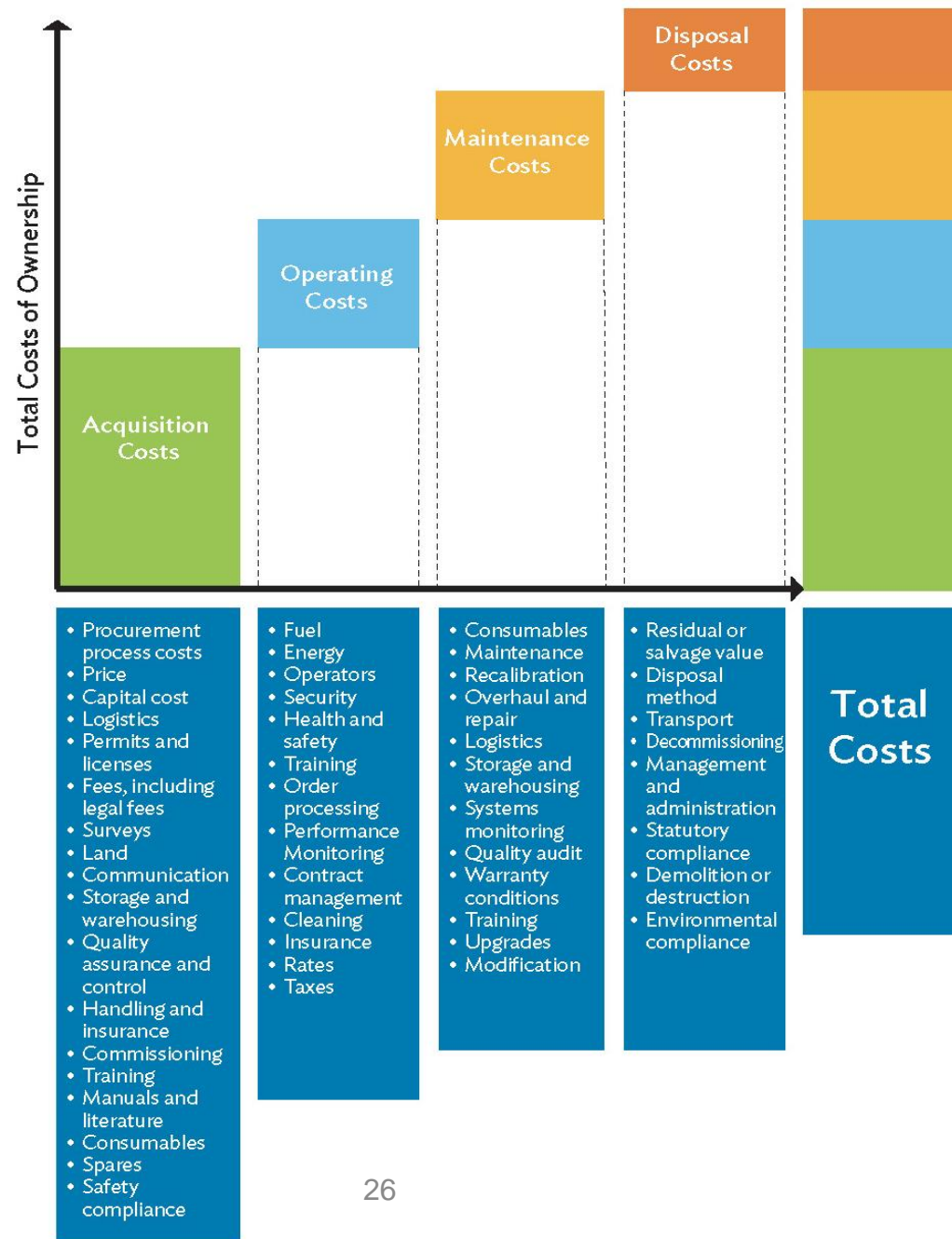
- Formal evaluation needed for options with different initial prices and varying technical features, life expectancy, ongoing costs, residual value, or disposal costs.

Steps in TCO Calculation

- Common steps include estimating product/service life, listing all costs and benefits, choosing an analysis method (e.g., net present value), addressing data uncertainty, and calculating TCO.



COMMON COSTS IN TCO



Evaluation and Qualification Criteria (EQC) and Merit Point Criteria (MPC)

A. Evaluation and Qualification Criteria (EQC)

- Ensure bidder capability and alignment with contract outcomes.
- Predefined qualification criteria are pass-fail.
- Detailed EQC methodology in bidding documents.

B. Merit Point Criteria (MPC)

- Supplementary criteria assessing nonprice attributes.
- Used to identify substantially responsive bids with optimum VFM.
- Criteria, subcriteria, and evaluation methods specified in bidding documents.

C. When to Use MPC

- Complex contracts, innovative solutions, or where price alone isn't decisive.
- Ranking technical bids, evaluating solutions exceeding requirements, or when aspects are nonquantifiable.
- Borrower identifies value in using MPC.



Evaluation and Qualification Criteria (EQC) and Merit Point Criteria (MPC)

D. Benefits of MPC

- Enables ranking of technical bids.
- Rewards exceeding minimum requirements.
- Facilitates objective evaluation and comparison of solutions.
- Allows premium for bids minimizing environmental impact or proposing higher standards.

Options for Applying MPC

- Option 1: Bidders achieve a minimum technical score.
- Option 2: Combined technical and price score determines the most advantageous bid.

How to Structure MPC

- Criteria and subcriteria aligned with Employer's Requirements.
- Weights assigned based on relative importance.
- Sample criteria provided for works contracts.
- Iterative exercises to understand decision impacts.



Evaluation and Qualification Criteria (EQC) and Merit Point Criteria (MPC)

Technical and Price Ratio

- Technical–price ratio determines premium on quality vs. price.
- Higher ratio (90:10 to 60:40) values quality.
- Lower ratio (50:50 to 10:90) prioritizes price.

Rating of Merit

- Merit points assigned consistently.
- Objective evaluation through scoring system.
- Risks mitigated by qualified evaluators.

Combined Technical and Price Evaluation

- Formula calculates bidder's price score inversely proportional to its price.
- Most widely used formula for comprehensive assessment.
- Other formulas subject to discussion and agreement.



Global Practice of MPC

- Asian Development Bank: No restriction nor prescription on technical–price ratio.
- International Federation of Consulting Engineers: 80/20 in identifying the most economically advantageous tender (FIDIC Procurement Procedures Guide, 1st Edition 2011). At least 80% of the total score to truly value the technical aspect (Proposed Alternative Mechanism to Award Construction Works Contracts), 1st Edition 2017).
- World Bank: the relative weight to be assigned to rated criteria should generally not exceed 30%, but it may be set as high as 50% if justified to achieve value for money.
- European Union: No restriction nor prescription on technical–price ratio.
- Associated General Contractors of America : No restriction nor prescription on technical–price ratio.



CASE STUDY

DREAMS

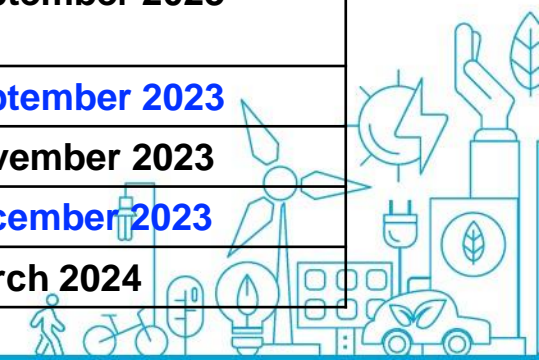


DREAMS-1: Processed in 2023

Loan Signing: Dec 2023
Expected Effectiveness: March 2024
Total Project Cost: \$225 Mil

ADB COL	\$180 Mil
Govt. Share	\$45 Mil

Component	Readiness Timeline
Signing of PRF Loan 6029-PAK: Punjab Urban Development Projects	April 2020
Loan 6029-PAK: Punjab Urban Development Projects Effectiveness	June 2020
Concept Clearance of DREAMS by ADB	April 2023
Factfinding Mission of DREAMS by ADB	May 2023
Detailed Design of DREAMS-I completed	June 2023
DREAMS PC-I presented to provincial government (PDWP) for approval	June 2023
Strategic Procurement Planning Report Finalized by ADB	June 2023
PC-1 approval by provincial government	July 2023
PC-1 approval by ECNEC	August 2023
Submission of Bidding Documents for Works' Package CW-01, 04 lots (\$116.87 million) to ADB	August 2023
Approval of Bidding Documents for Works' Package CW-01, 04 lots (\$116.87 million) by ADB	September 2023
IFB published on ADB Website & Newspapers	September 2023
MRM (ADB)	November 2023
Signing of Loan 4396-PAK: DREAMS Project	December 2023
Expected Effectiveness	March 2024



Issues Due to Lack of Preparedness (PICIIP PAK-3562)

The project lost 18 months in start-up delays due to:

- Indecision on project scope by the government in the initial 2 years
- Preparation and approval of water and sanitation sub-sector plans for project cities
- Delay in Identification, feasibility, detailed design and procurement of selected investments

Upto 2 years went into land acquisition, including:

- Conducting Independent Valuation Study (IVS)
- LARP preparation and approvals
- Government's land acquisition process (IVS integrated)

Preparation of EIA/IEE/EMPs and submission to ADB and relevant Government departments

Upto 3 years have gone into hiring of ODBM Consultant firm and preparation of operational plans and business models for water and sanitation companies.

5 years have gone by and water and sanitation companies have not been established yet that will take over the project investments

