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**THE WORLD BANK'S PROCUREMENT POLICIES AND
PROCEDURES:**

POLICY REVIEW

INITIATING DISCUSSION PAPER

Operations Policy and Country Services

March 29, 2012

ABBREVIATIONS AND ACRONYMS

AAA	Analytic and advisory work
APEC	Asia and Pacific Economic Cooperation
BRIC	Brazil, Russia, India, and China
CDD	Community-driven development
CICA	Confederation of International Construction Associations
CODE	Committee on Development Effectiveness
COMESA	Common Market for Eastern and Southern Africa
CoST	Construction Sector Transparency
CPAR	Country Procurement Assessment Report
CPIA	Country Policy and Institutional Assessment
DAC	Development Assistance Committee
DFID	Department for International Development
DIR	Detailed Implementation Review
DPL	Development Policy Loan
EAP	East Asia and Pacific Region
ECA	Eastern and Central Asia Region
ESRP	Environmentally and Socially Responsible Procurement
EU	European Union
FIDIC	International Federation of Consulting Engineers
FY	Fiscal year
G-20	Group of 20 major world economies
GAC	Governance and Anti-Corruption
GDP	Gross Domestic Product
GPA	Government Procurement Agreement
GSD	General Services Department
IAD	Internal Audit Department
IAGP	International Advisory Group on Procurement
IBRD	International Bank for Reconstruction and Development
ICB	International competitive bidding
ICT	Information and Communications Technology
IDA	International Development Association
IDF	Institutional Development Facility
IEG	Independent Evaluation Group (formerly OED)
IFC	International Finance Corporation
IL	Investment Lending
INT	Integrity Vice Presidency
ITAG	International Technical Advisory Group
LAC/LCR	Latin America and Caribbean Region
LEG	Legal Department
MAPS	Methodology for Assessment of National Procurement Systems

MDB	Multilateral Development Bank
MERCOSUR	Common Market for the South
MIGA	Multilateral Investment Guarantee Agency
MNA	Middle East and North Africa Region
NAFTA	North America Free Trade Agreement
NCB	National Competitive Bidding
OECD	Organisation for Economic Co-operation and Development
OED	Operations Evaluation Department (now IEG)
OP/BP	Operations Policy/Bank Procedure
OPCOR	Operations Risk Management Department (includes Procurement Anchor)
OPCS	Operations Policy and Country Services Vice-Presidency and Network
OPRC	Operations Procurement Review Committee
ORAF	Operational Risk Assessment Framework
Part I	Borrowing Member
Part II	Non-borrowing Member
PAS	Procurement Accredited Staff
PCN	Project Concept Note
PEFA	Public Expenditure and Financial Accountability
PforR	Program-for-Results Financing Instrument
PPP	Public-Private Partnership
P-RAMS	Procurement Risk Assessment and Management System
PS	Procurement Specialist
PSB	Procurement Sector Board
QAG	Quality Assurance Group
RPM	Regional Procurement Manager
SAR	South Asia Region
SDB	Standard Bidding Document
SMEs	Small and Medium-sized Enterprises
SWAp	Sector-wide Approach
TA	Technical Assistance
TI	Transparency International
TTL	Task Team Leader
UK	United Kingdom
UN	United Nations
UNCAC	United Nations Convention against Corruption
UNCITRAL	United Nations Commission on International Trade Law
US	United States of America
WTO	World Trade Organization

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INITIATING DISCUSSION PAPER

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FOREWARD

As the World Bank adapts to its changing role in a changing world, and aligns with its broader modernization and Investment Lending (IL) reform agenda and commitments to enhance development effectiveness, the Bank will continue to exercise its leadership in procurement in development and remain in the forefront of public procurement as a setter of international standards. Major underpinnings of this Policy Review are to incorporate worldwide best practices, support the Bank's borrowers in carrying out their own procurement strengthening and building capacity, simplify whenever possible, and enhance flexibility. The Bank's current model of procurement oversight is based on risk assessment, decentralization, and delegation of authority. It has served the Bank and borrowers well but experience shows that risk avoidance and focus on compliance have limited the effectiveness in implementing the Bank's Procurement policies and in using the flexibility that those policies afford.

Management has laid out a phased approach to the review and will, in parallel, enhance implementation of the current procurement policies. This will include making greater use of the flexibility that the recently-revised January 2011 "Procurement and Consultant Guidelines" (the Guidelines) applicable to the Bank's borrowers ("Procurement Guidelines" governing the procurement of goods, works, and non-consulting services, and "Consultant Guidelines" governing the selection and employment of consultants) and OP/BP11.00 - *Procurement* already offer. This would be achieved through issuing guidance notes and new templates and bidding documents, in particular regarding: (i) implementation in small and fragile and conflict-affected states and for emergency operations, (ii) supporting the implementation of and drawing lessons from the first Program for Results (PforR) operations, and (iii) continuing to lead the harmonization process with other Multilateral Development Banks. In addition, a range of reforms, as part of the Bank's ongoing modernization and IL reform agenda, and development of integrative and innovative tools are underway to strengthen internal procedures and enhance the capacity of Procurement staff to discharge the Bank's fiduciary mandate. Finally, the Bank will pursue various initiatives with regard to capacity building, *inter alia*, under the harmonization umbrella and the post-Busan agenda.

The purpose of this paper is to initiate a discussion with key stakeholders on the conduct of the review of the Bank's procurement policies, procedures, and practices as they apply to Bank-financed operations. The views and opinions of stakeholders are important inputs to shape the review and its outcome. Such consultations will continue throughout the review process to the presentation of its findings and the formulation of any eventual modifications to the Bank's procurement policies and procedures.

The goal of the review is to position the Bank's procurement policies and procedures in the context of the Bank's modernization agenda and its multi-faceted international commitments. These include enhancing development effectiveness and advancing related policy goals of trade and competition, governance and anti-corruption, public sector management, and accelerated investment in infrastructure, among other things. At the same time, as a leader in promoting best practices in public procurement, the goal is for the World Bank to adapt and incorporate new concepts and methods increasingly reflected in public procurement worldwide. The review is to examine not only the policies that apply under Bank-supported operations, but how those policies are put into effect, including the Bank's procurement oversight and monitoring model.

The Committee on Development Effectiveness and the Audit Committee of the Board of Executive Directors endorsed going ahead with the policy review, as presented in Management's Approach Paper and this accompanying Initiating Discussion Paper, on February 29, 2012. The process of carrying out the review has several stages described in the Approach Paper. The initial step was to carry out an in-house diagnosis of the Bank's procurement policies and procedures in order to establish the baseline for the review. The results of the in-house diagnosis are reflected in this paper. The next step is to open a discussion with key stakeholders, starting in May 2012, in order to flesh out the scope of the review and to identify and frame the key issues that ought to be addressed, building on the analysis contained in this paper, additional studies, and inputs provided by stakeholders. This phase of the review will generate a proposal for an overall framework for the Bank's procurement policies for the Bank's Board of Executive Directors to consider in late 2012 or early 2013. Once agreement on the framework is secured, the next phase of the review will entail the drafting and adoption of a new policy statement, accompanied by recommendations on the overall strategic direction, implementation measures, and any other matters complementary to the new policy by about the end of 2013. The review will further benefit from an evaluation to be carried out by IEG by 2013 and be aided by continuous consultations with stakeholders.

THE BANK'S PROCUREMENT POLICIES AND PROCEDURES: POLICY REVIEW

INITIATING DISCUSSION PAPER

EXECUTIVE SUMMARY

1. Open and competitive procurement has been the mainstay of the Bank's policies on the procurement of goods, works, and services under Bank-financed operations since the Bank's founding. These policies reflect four main considerations: the need for economy and efficiency, the interest in ensuring that all eligible bidders have equal opportunity to compete, the desire to encourage the development of domestic industries, and the importance of having a transparent procurement process.
2. The Bank's procurement policies and procedures were originally shaped by the nascent practices for large-scale infrastructure projects at the time of the Bank's founding. They have since evolved to reflect changes in the Bank's operations and the conditions in member countries. As a consequence, the Bank has periodically updated its policies and procedures, as laid out in OP/BP11.00 – *Procurement*, and the Procurement and Consultants Guidelines applicable to the Bank's borrowers. The last such update took place in January 2011 when Management agreed with the Board of Executive Directors to undertake a review of the Bank's current approach to procurement.
3. Such updates over the years embody significant cumulative changes that represent the evolution of policies that have served the Bank and its borrowers well. Much progress has been achieved, in particular with regard to transparency in the bidding processes, enhanced business opportunities, and access to information. The end result is that the Bank's Guidelines are comprehensive and widely considered as setting international standards and principles that have served as models and inputs to procurement reforms worldwide; their principles and provisions have been adopted by many other international financial institutions and vetted through an extensive harmonization process. The implementation of these policies, however, is key to their effectiveness. Operational experience shows that their complexity and prescriptiveness, while reflecting the complexity of procurement processes, limit their positive impact, particularly in countries that lack procurement capacity and sound institutional, legal, and governance systems. In addition, although the Bank's formal procurement oversight model is risk-based and allows for decentralization and delegation of authority to sign off on procurement decisions, full use of the flexibility allowed under the Guidelines has been hampered by risk avoidance and a primary focus on compliance.
4. This Initiating Discussion Paper has been prepared to launch the policy review. It provides an initial analysis of the current state of the Bank's procurement policies and practices and the global context in which Bank-financed procurement occurs. It outlines the Bank's larger modernization and IL reform agenda and related policy goals. Its aims to provide the starting point and baseline and to help frame the scope and content of the policy review so that all parties can contribute to a discussion of the main issues and future directions.
5. There are a number of reasons for undertaking a review of the Bank's procurement policies and how they are applied. First, the Bank's business has changed dramatically since the original procurement

policies were adopted. Designed for major infrastructure operations, the Bank's procurement policies have been increasingly less well-tuned to the different ways that the public and private sectors can collaborate; the needs of operations across an array of sectors, relying on simpler and smaller-value contracts; the new instruments and delivery mechanisms that have emerged over time; and the large diversity and number of implementing entities, especially for small, dispersed contracts that are inherent in sector-wide approaches and output and community-based activities, which make up a significant share of the Bank's operations. The transformation of the Bank's procurement policies from dealing with one-off, stand-alone infrastructure projects that tend to be ring-fenced, to national procurement systems across sectors and delivery mechanisms is still incomplete. Moreover, these policies now need to be seen in the context of an increasingly complex set of development objectives; for example, fraud and corruption have emerged as a high priority as part of the Bank's focus on governance and anti-corruption.

6. Not only has the Bank's business changed, but there have also been major transformations of the global economy.

- The market for items financed by the Bank has been transformed over the past twenty years, the result of globalization and integration. Merchandise exports from developing countries have multiplied many times. New giants have appeared among the world's top companies. Multinational corporations increasingly produce where their markets are and sell via local affiliates. There are also new ways for the public and private sectors to collaborate. Meanwhile, exports from high-income countries have become more specialized, emphasizing higher-value and technologically-driven goods and services. The result is that supplying countries for Bank-financed operations are increasingly developing countries; a large share of contracts awarded international competitive bidding are now won by companies in their home countries.
- The international legal framework for public procurement has changed profoundly. Adopted over the past twenty years, there are now many international instruments and agreements, notably the WTO's Government Procurement Agreement (GPA), that relate in one way or another to public procurement, although with varying objectives. There are also many regional and bilateral agreements that include procurement regulations, such as the EU's Directives on Public Procurement, which have created demands for open and transparent public procurement for countries adhering to these agreements. Moreover, UNCITRAL's Model Law on Public Procurement, with a new version enacted in 2011, has played an important role in setting international standards for public procurement laws. These instruments, agreements and models have accompanied a growing recognition of the size and importance of the markets offered by public procurement around the world. Public procurement is now big business: the market for contestable public procurement among developing countries is estimated at around US\$825 billion or more per year.
- Along with these trade and legal instruments, agreements, models, and standards, new concepts and practices of what makes for good public procurement have emerged. The use of technology and e-government has vastly changed the way public procurement can be executed. Modern public procurement systems are further driven by the desire of governments, whether developing or developed, to get better value for money, to get best-fit-

for-purpose, and to make their procurement systems faster and cheaper. These reforms reflect an important change in perception—from viewing public procurement as a set of bureaucratic rules and procedures, more and more governments now see it as a strategic function and a key public sector management tool at the core of delivering quality public services and giving taxpayers good value. These changes entail striking the right balance of procurement policies and procedures among principles, rules and compliance, results, and performance, while accounting for risks and implementation capacity.

- Issues of governance and probity are embedded in these new approaches to public procurement, with the expectation of high ethical standards on the part of both private firms and public sector counterparts. Public procurement is thus at the nexus of governance, anti-corruption, and competition, offering opportunities to build on the common values of openness, transparency, fairness, competition, value for money, and accountability. There are synergies that can be exploited and go well beyond compliance with rules and procedures.

7. The Bank’s borrowing members have not been left out of these transformations. Improved procurement capacity among the Bank’s members, especially high and upper middle-income countries, has driven up client expectations of the sort of support they receive from the Bank to reform their procurement policies and build their overall implementation capacity. Many countries are advanced in adopting new legal structures and putting in place institutions to handle public procurement, with some in the vanguard of using e-procurement systems to simplify and automate procurement transactions. These new systems are producing high returns. At the same time, the Bank’s work with fragile and conflict-affected countries that often lack capacity and sound institutional, legal, and governance systems, frequently calls for a strategy geared toward simplification and adaption to their respective capacity. Small countries can also face unique challenges. Thus, there is increasingly a need to differentiate and provide support adapted to the specific needs of borrowers and to broaden the range of procurement methods to be followed.

8. The way that the Bank works with its clients has also changed, as part of the Bank’s larger agenda to modernize. There is less a “one-size-fits-all” approach; internal processes for investment lending are shifting toward differentiating by risk and to managing those risks. Furthermore, the international community has come together to endorse commitments to enhance the effectiveness of development programs, in the Paris Declaration, with specific actions to be taken to strengthen procurement capacities in the Johannesburg Declaration. These have further evolved to culminate in the recent Cuzco Declaration of the Procurement Task Force of the OECD/DAC Use of Country Systems Cluster and inputs to the Busan Fourth High Level Forum on Aid Effectiveness. All of this requires the Bank, along with other donors and MDBs, to reassess how it uses country systems, encourages harmonization, and emphasizes developing local procurement capacities. Work has advanced on this agenda, but there remains much more to do.

9. Finally, the efficiency and effectiveness of the Bank’s internal processes and structures are factors that need to be taken into consideration as the Bank modernizes its operations to fit this changing world. The Bank’s internal review and clearance procedures were originally designed when the Bank dealt with a few clients in a few sectors entailing a few large contracts implemented by a single implementing agency, aided by external consultants. The procedures have evolved to reflect the increasing complexity

of Bank work and the diversity of the portfolio of operations, now requiring the Bank's specialized Procurement staff to deal with both a small number of very large and complex contracts and an increasing number of low-value contracts: top 100 contracts reviewed by the Bank in FY11 represent about 1 percent of the total number of contracts that were reviewed but close to half of their total value. Thus, the review of a large number of relatively small contracts competes with capacity building and system-wide improvements for staff time and attention. Given that the internal resources devoted to procurement are relatively small and the workload for these specialists has grown over time, there may be ways to increase the value-added of the Bank's work to have a multiplier effect on the entire range of borrower public procurement, with considerable potential for generating savings for borrowers and private bidders alike.

10. It should be highlighted that, although the Bank has continuously updated its policies and procedures, there has not been a fundamental and comprehensive review of the Bank's procurement policies, starting from first principles and including the Bank's own internal practices, since the Guidelines were introduced in 1964. The review in 1997 changed aspects of the Bank's procedures but did not examine the underlying policies, although the Guidelines were slightly revised. Other reviews have modified specific provisions, largely to encompass new methods as well as aspects of the Bank's review and clearance procedures. Instead, changes to the Bank's Guidelines over time have been largely incremental, in response to new concerns, instruments, and innovations in the delivery of development assistance, as the need arose. These changes have largely been based on consensus among stakeholders. The end result is a set of policies that serve the Bank and its clients well, stand out as a benchmark, and are used as input for public procurement reform worldwide; however, these changes have added new requirements, making procurement, in the eyes of many borrowers and staff, complex and time-consuming. All of these factors lend support for undertaking a comprehensive review of the Bank's current policies and practices.

11. Indeed, the Bank's interests in reviewing its procurement policies and practices go well beyond the specific transactions under Bank-financed operations to the attainment of the larger goal of improving development effectiveness by encouraging the use of country systems and harmonization, building competitive local industries, strengthening public sector management, improving governance and anti-corruption, promoting sustainability, accelerating investment in infrastructure, and deepening international trade, among others. All these agendas converge, in some way or another, with public procurement. Thus, the review can help to identify both the opportunities and the trade-offs in realizing these policy goals, to exploit synergies that advance the Bank's agenda, and to position the Bank for the future. Our borrowers have changed and so has the global context in which the Bank operates; how to respond is the challenge.

THE BANK'S PROCUREMENT POLICIES AND PROCEDURES: POLICY REVIEW

INITIATING DISCUSSION PAPER

I. INTRODUCTION

1. The World Bank's procurement policies are guided by four main principles: the need for economy and efficiency, the interest in ensuring that eligible bidders have equal opportunity to compete, the desire to encourage development of domestic industries, and the importance of having a transparent procurement process. Specific procurement procedures, originally designed for large-scale, stand alone infrastructure projects, have evolved since the Bank's founding, taking into account changes in the Bank's operations, development priorities, and conditions in member countries. As a consequence, the Bank has periodically updated its policies and procedures, which define both how procurement is to be carried out by borrowers under Bank financing (OP11.00) and how the Bank oversees that process and applies its policies (BP11.00). Two sets of Guidelines exist for borrowers to follow: the "Procurement Guidelines" ("red" book) governing the procurement of goods, works, and non-consulting services¹ (*Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits by World Bank Borrowers*) and the "Consultant Guidelines" ("green" book) governing the selection and employment of consultants² (*Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits by World Bank Borrowers*). At the time of the latest update to the Guidelines and OP/BP11.00 in January 2011, Management agreed with the Board of Executive Directors to carry out a review of the present policies and procedures, as a further step in aligning them with rapidly evolving business and client needs and the Bank's modernization agenda.

2. This Initiating Discussion Paper contains an initial diagnosis and analysis of the current state of play with respect to the Bank's procurement policies and procedures. It provides the underlying rationale for the review, introduces some of the dimensions to be covered, and acts as the starting point for soliciting inputs from stakeholders³ for shaping the review and identifying the specific issues to be addressed. The Discussion Paper begins with an overview of the evolution of the Bank's procurement policies and those factors that helped shape them. It then examines the global trends that create the context in which procurement under Bank-financed operations is carried out today. It further examines the changes to the Bank's business over time and the impact that these changes have had on the Bank's procurement policies and practices. It reviews the internal processes and structures to apply the Bank's policies to assess their effectiveness and consistency with the global context and the Bank's agenda. The final section synthesizes the rationale for embarking on this review of the Bank's procurement policies and highlights some of the challenges.

¹ Non-consulting services are services in which the physical aspects of the activity dominate, such as drilling, mapping, and similar operations, and which are bid and contracted on the basis of performance of a measurable physical output.

² Consulting services refer to activities of an intellectual and advisory nature.

³ Stakeholders include, inter alia, shareholders, client countries, representatives of national procurement bodies, policymakers, practitioners, bilateral and multilateral development partners, international organizations, private sector representatives and business associations, civil society organizations and actors, and experts and academics.

II. THE EVOLUTION OF THE BANK'S PROCUREMENT POLICIES AND PRACTICES

3. **The Starting Point.** Open and competitive procurement has been the mainstay of the Bank's policies since the Bank's early days, shaped by the then nascent practices for large scale infrastructure investments developed, among others, by the United States Department of Defense at the end of World War II. According to the Bank's archives, the prime driver behind the Bank's adoption of international competitive bidding (ICB) was its first Engineering Advisor, retired U.S. General R. A. Wheeler. His starting premise was that the Bank should not finance a project if the proposal came from a source with a vested interest in the project's approval, by selling equipment or services or by engaging in construction works. This stance put the Bank at the vanguard in espousing open and competitive public procurement at a time when most governments favored their own industries or negotiated directly with firms that they had handpicked. The motivation behind ICB was further linked to the Bank's assessment of whether or not borrowers' domestic industries, at the time, were capable of providing the items to be financed; thus, ICB was viewed as the counterpart to foreign exchange financing provided by the Bank.

4. Starting in 1951, ICB was gradually introduced as the normal procedure to be followed. In 1956, it was decided that only Bank members plus Switzerland would be eligible to bid. In 1958, in dealing with Mexico, it was agreed that, if local firms were able to win an ICB contract, the Bank would limit its financing to the foreign exchange component only. In 1961, the first written procurement rules were compiled to provide guidance for staff and, in 1964, the first formal instructions on ICB were approved by the Bank's Board of Executive Directors. Preferences for domestic suppliers were introduced in 1966 and the specification of currency for bid comparisons was regulated in 1971. The first formal instructions on selecting consultants, mainly for large engineering endeavors, were issued in 1966.

5. **The Next Decade.** Through the 1970s, the Bank's procurement requirements remained largely as outlined above. Procurement was primarily under ICB with the Bank reviewing and approving all contracts, exercising the Bank's fiduciary obligation under the Articles to ensure that the Bank's financing was used for the purposes intended.⁴ Contracts considered too small or too scattered to be let economically under ICB were not financed by the Bank and were awarded using local procurement procedures that were uniformly accepted as satisfactory to the Bank. As new lending services developed, different procurement procedures were allowed: for example, lines of credits (typically providing finance to the private sector) used normal commercial practices without ex-ante specificity as to what those were. In these early years, consultants were selected on terms and conditions satisfactory to the Bank without specificity as to what this meant, albeit with a decided preference for quality as the sole selection criterion. The attention paid to the proposed procurement arrangements in those first decades was cursory. A sample of project documents from the 1970s shows that procurement was dealt with in one paragraph in the main text of the project document plus an optional annex providing a list of the specific items to be procured. This stance was well-suited to the projects financed at the time: lines of credit for industry, infrastructure—ports, highways, telecommunications, power—and school construction along with the accompanying technical assistance needed for implementation. Only in the late 1970s did projects in areas such as rural development, urban renewal, and women's health emerge.

⁴ At some point in the Bank's early years, explicit approval of contracts by the Bank was replaced by the Bank providing its "no objection" to proceed, acknowledging the Bank's role as financier and not a party to the contracting process.

6. **Changes in the 1980s.** The Bank’s procurement practices evolved markedly in the 1980s, influenced by the concerns raised by borrowers and by OED.⁵ The first change was to open the door for more variation in allowed procurement methods. Alternatives to ICB became common: for example, international or local shopping (also called prudent shopping) was authorized for minor, off-the-shelf items. The second main change was to set predefined cut-offs in terms of contract size above which ICB was required and below which national competitive bidding (NCB) or local shopping was allowed. This change was accompanied by the introduction of random *ex-post* reviews by the Bank of smaller, less complex contracts (called “post review”) after such contracts had been awarded to verify that they had been let according to the Bank’s Guidelines, in lieu of *ex ante* review of all contracts through the bidding process by the Bank and its “no objection” prior to award and signature (called “prior review”). In addition, the Bank’s stance towards the selection of consultants, primarily based on quality alone, was modified to introduce price as one of the factors that could be considered.

7. A review of project documents from this period shows that these policies were not set in stone. There was considerable pragmatism as to what was accepted: for example, under a telecommunications project in Egypt, the main suppliers had already been selected with the Bank’s loan topping up the suppliers’ credits provided from already awarded bilateral sources. Moreover, industries in some of the Bank’s larger borrowers were becoming a competitive force. Under a regional development project in Brazil, approved in 1981, 59 road construction firms pre-qualified, none of which was foreign. Based on that experience, the next phase of the project did not require any ICB although foreign firms were not excluded from bidding. This was also the case in an education project in Mexico, whereby the Bank financed works for 100 training centers let under “normal government competitive procedures.”

8. **Increased Local Cost Financing.** One of the key factors driving these changes was the increased financing of local costs by the Bank, starting in the late 1970s, in response to the lack of domestic resources as borrowing countries encountered fiscal difficulties, which constrained the counterpart financing available for the Bank-supported operations. This resulted in a concomitant increase in the use of national procurement procedures below the thresholds set for ICB. It also introduced a wide variation in what could be financed—from salaries and operating costs to conditional grants and transfers for which no procurement method was mandated; a more recent change was made in 2004, when the Bank accepted to finance local taxes.

9. **Greater Prescription and Standardization.** A corollary to these changes was greater codification and prescription in the Bank’s policies and procedures, starting in the 1980s. Pre-defined limits according to the country, contract size and procurement method, ICB, NCB, limited forms of competition, and shopping became common. These limits not only determined the procurement method but the size and nature of the contracts for prior review by the Bank and those subject to post review. Towards the end of the 1980s, standardized treatment of procurement was evident in project documentation, with procurement requirements provided in a specific table. This was also when the Bank began to require the use of standard bidding documents (SDBs) for ICB, although this was not formally mandated until 1993, and to provide borrowers with model contracts and specific guidance on different

⁵ A search of the Bank’s archives reveals two reviews by OED of the Bank’s procurement policies and procedures in this period. One was on the use of consultants (see “The Role and Use of Consultants in Bank Group Projects”, Report no. 1824, dated December 8, 1977) and the other on the procurement of works and goods (see “An Interim Report on Procurement Issues in Bank-Financed Projects”, Report no. 3557, dated July 15, 1981).

types of procurements. Importantly, the use of standardized documents was seen as a major advance in streamlining procurement processes and spurred countries to adopt their own SDBs based on the Bank's models. These changes were codified into formal Bank policy with the issuance of OP/BP11.00 in March 1989 covering works and goods, replacing the former Operational Manual Statement, OMS 2.40. OP/BP11.10 governing consulting services was issued in 1990.

10. Emphasis on Macro-Policies and Institutions. Other changes to the Bank's business took hold in the 1980s in response to demands on the Bank to enhance its role in the aftermath of sharp jumps in oil prices, the recycling of "petro-dollars", and ensuing strains on borrowers' budgets. Many of the Bank's borrowers were in recession with mounting debts. Research into development effectiveness at the time revealed an explicit link between the strength of macro-policies and institutions and successful development. This focus on policies and institutions, in turn, led to the introduction in 1981 of a new lending instrument to support structural adjustment, now called Development Policy Loans (DPLs). Such operations provide budget support while countries undertake policy reforms. Based on an assessment of the respective government's ability to manage its public finances, these operations usually do not entail any specific procurement (see Box 1). DPLs have since become a major part of the Bank's business.

Box 1: The Application of Procurement Policies to Program Lending

The Bank's Articles of Association provide for financial support to programs as distinct from stand-alone projects, as exercised in the Bank's early years of support for post-war reconstruction. During the 1960s and 1970s, program loans were employed in special cases to offset balance of payment deficits and to support general imports based either on a negative list (e.g., any import other than military or luxury goods) or a positive list of eligible imports (e.g., fertilizer, petroleum, grains, manufacturing inputs). These early operations followed normal commercial practices by private importers with some, unspecified form of competitive tendering by public sector entities. This stance was subsequently modified when policy-based lending, then called Structural Adjustment loans (SALs) and Sector Adjustment loans (SECALs), was introduced in 1981. The first such operations required that the Bank's standard approach to ICB, including prior review, be followed for all large contracts whether by public or private importers. Later that year, as this new instrument was mainstreamed and the first experiences showed the impracticality of following ICB procedures, new instructions were issued to simplify those requirements, standardize the negative list, and abolish mandatory prior review. The 1989 updating of the Bank's Procurement Guidelines continued the requirement to follow ICB for large contracts under SALs and SECALs, and added measures to ensure that public procurement rules were acceptable. An OED review (see "A Review of Procurement in Policy-based Lending", Report no. 8341, dated January 19, 1990) showed that the requirements for ICB were effectively circumvented, as eligible imports below the ICB threshold were sufficient in value to avoid financing contracts to be let under ICB. The OED review further concluded that the Bank's procurement policies—requiring specific procurement methods, supervision by the Bank of how imports were procured, and submission of supporting documentation—could not usefully be applied in program loans, considering the need for rapid disbursement and the fact that imports had already taken place. Instead of focusing on justifying individual import transactions, OED advocated concentrating on the overall procurement environment, with specific agreements to make improvements as needed. In 2004, when SALs and SECALs were replaced by DPLs, it was clarified that the Bank's procurement policies do indeed continue to apply, but only if any loan proceeds are to be used for a specific purpose and not as general revenue. Such instances are rare.

11. Country Procurement Capacities. The Bank's new focus on macro-policies and institutions was accompanied by an enlarged role for the Bank in assessing public expenditures, public sector management and institutions, including country procurement systems and capacities. Up to that point, the Bank seemed sanguine about local procurement processes and capacities, especially in the early years when the Bank did not finance much in the way of locally-procured items. That changed in the mid-1980s with the introduction of Country Procurement Assessment Reviews (CPARs) to evaluate the adequacy of borrower procurement capacity, rules, and procedures, and to lay out a plan for improving

that capacity. At the start, CPARs were limited to countries acknowledged to have weak procurement capacity, but, through the 1990s, they became one of the foundations for assessing underlying fiduciary risks. CPARs were made mandatory in 2002, becoming one of the core pieces of analytical work for all countries. By FY05, all borrowing countries have had at least one CPAR and many have had several.

12. **Focus on Results.** In the early 1990s, attention began focusing on getting results on the ground in response to questioning of the Bank's effectiveness as a development agency. At that point, the rate of satisfactory outcomes for Bank-financed investment operations had fallen to 66 percent,⁶ prompting the Bank to undertake a comprehensive review of its Portfolio Management by a Task Force led by then Vice President Wapenhans in 1992. This review revealed a gap in terms of the Bank's ability to live up to stakeholder expectations and led to a series of internal reforms to realign the Bank's operations, structures, and processes to achieve greater results on the ground.

13. One of the imbalances identified by the Portfolio Management Task Force was the Bank's internal capacity to deal with procurement. The Bank's business was being rapidly transformed: the number of contracts subject to prior review, whereby the Bank oversees the bidding process and issues its "no objection" before the contract can be awarded and signed, had grown from 3,100 contracts in FY88 to 11,300 in FY96. At the same time, the average size of contracts reviewed by the Bank had shrunk from US\$2.4 million in FY88 to US\$1.1 million in FY96, in constant prices. Reflecting sector shifts in the Bank's lending, the share of contracts in the social sectors, typically involving smaller contracts than those in infrastructure, had increased from 7 percent to 40 percent of the number of contracts reviewed. Another factor in this expanding workload was the requirement for the Bank to review all contracts let on a non-competitive basis regardless of size, the implications of which are analyzed later in this paper.

14. The Bank's subsequent 1997 Strategic Compact envisioned a more responsive and effective Bank with procurement as one of the core services to be improved. The first step was the almost doubling of the number of professional Procurement staff, up from 81 in FY98 to 156 in FY03. Another was the decentralization of country program management and technical skills to Bank offices in borrowing countries. Thus, many of these newly-hired Procurement staff were located in country offices in order to provide direct, hands-on advice and support to clients. Furthermore, based on several diagnostic studies, a plan to strengthen the overall procurement function was adopted in 1998.⁷ This plan called for a balanced approach between the Bank's fiduciary functions and its developmental role with increased emphasis on upstream work and help for countries to develop capacities and to improve their procurement practices. In order to free up resources for this, concomitant measures were taken to streamline and rationalize internal processes by lifting the thresholds for prior reviews and reinforcing post reviews and audits. As discussed further in subsequent sections, the impact of these efforts was short-lived.

15. **Governance and Anti-Corruption.** One of the concerns that shaped the evolution of the Bank's procurement policies in the past twenty years is how to deal with corruption, which became an explicit part of the Bank's agenda in the mid-1990s. Procurement policies were revised in 1996 to define

⁶ This measure is the rate of satisfactory realization of the project's intended outcomes, as assessed in the Bank's Project Completion Report and verified by OED/IEG.

⁷ "The World Bank Procurement Function- Adjusting to Emerging Needs", Board Paper SecM97-854, dated October 28, 1997, and Audit Committee Paper AC98-3, dated January 28, 1998.

corruption and to make it a reason for misprocurement,⁸ cancellation of loan proceeds and disbarment of the supplier from bidding on future Bank-financed contracts for a period. Further refinements were made to the Bank's Guidelines in 1997 and again in 1999. This was followed by the establishment of the Integrity Department (INT) in 2001 to deal with all allegations of fraud and corruption under Bank-financed operations.⁹ Another step was to heighten the Bank's ability to ascertain fiduciary risks: the Public Expenditure and Financial Accountability (PEFA) program was founded in 2001 as a multi-donor partnership to assess country conditions with respect to public expenditure, procurement, and financial accountability.¹⁰ The Bank's Guidelines were again amended in 2004 to broaden the definition of corruption and to give the Bank the right to inspect bidding documentation and in 2006 as part of the reform of the Bank's sanctions regime. Among other things, the definition of corruption was expanded to include obstructive and competition-limiting behavior, such as bid-rigging, collusion, and price-fixing. These steps were followed by adoption of the Bank's Governance and Anti-Corruption (GAC) agenda in 2007, which laid out a multi-pronged program to combat corruption and improve governance among borrowers. INT's work in carrying out Detailed Implementation Reviews (DIRs), for example of five health sector operations in India in 2008, brought to the fore issues of risk management, quality assurance, and contract administration, and its investigations into specific allegations of fraud and corruption have revealed clearly the nexus between corruption and procurement. The most recent change to the Bank's Guidelines in early 2011 was to reflect agreement with other multilateral development banks on cross-debarment and temporary suspensions of firms from being able to bid on new Bank-financed contracts.

16. As part of the Bank's focus on governance and anti-corruption, the companion piece on procurement prepared under the GAC II umbrella positions the Bank's work on procurement reform in the context of the broader GAC agenda. Consistent with the recommendations of the IDA Controls Review, this piece recognizes the strategic importance of procurement as a core public sector function and the synergies between anti-corruption efforts and procurement reform.¹¹ It acknowledges the inter-dependency between any given country's procurement system and the wider institutional capacities of the public sector and its political economy. As the Bank moves ahead on its GAC agenda, the companion piece provides the backstop for focusing the Bank's efforts on procurement reform towards systemic gains, holistic approaches, and integration of procurement into GAC implementation strategies. Importantly, the focus of these efforts is on modernizing public procurement systems, going beyond individual Bank-financed operations.

17. **Harmonization and Alignment.** A parallel concern to corruption and governance has been the explosion of actors, agreements, and rules that govern public procurement in the international arena. This has created competing and often conflicting demands under donor-financed programs on developing nations. The need for harmonization is particularly acute in the Africa Region given the active donor

⁸ Misprocurement is the term used by the Bank to indicate that a particular procurement is judged not to have followed the Bank's Procurement Guidelines. In such cases, the Bank can decline to finance the contract in question and cancel the corresponding amount of the loan or allow those monies to be used for another purpose.

⁹ INT is now the Integrity Vice-Presidency.

¹⁰ Procurement is specifically addressed under the PEFA Performance Indicator number 19, which assesses competition, value for money and controls, complemented by other indicators that assess budgeting, compliance and audits that cover procurement processes. As of 2009, PEFAAs have been completed for some 100 countries, many of which have had repeat assessments.

¹¹ The IDA Controls Review is discussed in the Section III of this paper.

participation in that Region. A central axis of the effort on harmonization has been among MDBs led by the Bank. Such harmonization had, in fact, started with joint work on CPARs in the late 1990s and was carried forward, under the impetus of the Consensus on Financing for Development reached at the Monterrey meeting in 2002, to harmonize specific policies with respect to procurement, financial management and social-environmental safeguards. These efforts have since been folded into the broader commitment to harmonization sponsored by the OECD/DAC Working Party on Aid Effectiveness and Donor Practices, in which the World Bank is a key party. This work is supported by two fora: one is the MDB-sponsored round tables on specific topics and the other is the MDB technical working groups. Harmonization discussions have proceeded, with regular meetings of the heads of procurement every nine months. So far, agreements have been reached on the alignment of MDB policies with the Bank's Guidelines, cross-debarment, labor standards, use of master procurement documents for all categories of procurement, e-procurement, and a guidance note on the application of Public-Private Partnership (PPP) arrangements in Bank-financed operations. Specific working groups continue to collaborate on knowledge products, pre-qualification, request for proposals for consulting services, and the approach to national procurement reform.

18. Strengthening and Using Country Systems. Harmonization of procurement policies among MDBs is part of the larger agenda to strengthen country ownership and management of development programs, formalized under the Rome Declaration on Harmonization in 2003. Participants to that meeting recognized the high transactional costs that donor-driven demands place on countries and agreed to integrate wherever possible development assistance into the financial management and accountability frameworks of implementing partners. In the case of procurement, this built on earlier round tables in 2002, organized by the World Bank and the OECD/DAC, as a sub-group of the Working Party on Aid Effectiveness, and the agreement on strengthening country procurement capacities set out in the Johannesburg Declaration in 2003. That declaration laid out the broad framework towards strengthening country procurement capacities and greater reliance on country systems, endorsed at the high level forum on Aid Effectiveness in Paris in 2005. The Paris Declaration articulated five main goals, one of which was the use of country systems increasingly over time. The 2008 Accra Agenda, in turn, defined the actions, including those by the World Bank, needed to put the Paris Declaration into practice. Recently, the Procurement Task Force, operating under the Use of Country Systems cluster of the OECD/DAC and co-chaired by the Bank, issued a declaration at its last meeting in Cuzco in May 2011 to recommend further innovative orientations. These have since been presented at the November 2011 Fourth High-level Forum on Aid Effectiveness (HLF4) in Busan, Republic of Korea where the use of country systems was recognized as the default approach for development cooperation.

19. As a follow-up to the Paris Declaration, the Procurement Joint Venture of the OECD/DAC under the Bank's leadership took on the task of developing the tools and mechanisms for effecting measurable improvement in local procurement systems and encouraging the use of national systems as those systems improved. One of the results of this work was the development of a methodology to assess national procurement systems (MAPS), described later in this paper. The next step was the piloting of the use of country procurement systems in Bank-financed operations. After extensive discussion and consultation with the Board and stakeholders on the approach, the Bank launched the piloting program in FY09. As

indicated in the last progress report,¹² the program proved to be time-consuming and was ultimately not successful in reaching the final stage of actually using country systems in a project. Nevertheless, at the end of the piloting program, four countries had been conditionally cleared to be able use their respective country systems; so far none has chosen to do so. The key lesson from this experience is that expecting countries to have national procurement systems that are unequivocally equivalent to the Bank's policies—all or nothing—is an unrealistic expectation. It is more likely to be the case that country systems have strengths and weaknesses and that some national agencies are more capable than others. Moreover, the piloting program demonstrated that procurement reform is a complex and lengthy process that requires progressivity and gradualism. At the same time, the piloting program was successful in demonstrating how to benchmark national procurement capacities and stimulating interest in procurement reform. As a result, there is now great interest and synergy among donors and countries alike in improving local procurement capacities.

20. Investment Lending Reform. As part of its modernization agenda, the Bank is pursuing innovations to investment lending (IL). One of these is incorporating **risk-based approaches**. The main element is the introduction of a new Operational Risk Assessment Framework (ORAF), rolled out in FY11, allowing the Bank to differentiate loan processing by risk and to track risks systematically over time. Procurement related risks have been integrated into this framework, fed by work over the past several years to develop a dynamic procurement risk model, called Procurement Risk Assessment Management System (P-RAMS), that also rolled out in FY11. Risk-based approaches have further been adopted in appraising borrower procurement capacity and setting thresholds for prior review. A related notion is to adjust the Bank's supervision effort to these risks and to convert the Bank's traditional compliance focus to one more geared towards implementation support. Another innovation is the recently-approved new lending instrument, **Program-for-Results** (PforR), to support improvements in sector or other development programs with more direct linkage between results and disbursements. Thus, in contrast to the focus on individual procurements under sector investment loans (SILs), PforR operations focus on the underlying fiduciary systems, changing the locus of the Bank's work from individual procurement transactions to overall systems, performance and outcomes.

21. Current State of Play. These changes to the Bank's procurement policies and how the Bank deals with procurement have happened, by and large, without any fundamental reexamination of the approach to procurement adopted at the Bank's founding. The 1997 reform effort, aimed at reorienting the Bank's efforts towards upstream work and borrower capacity building while reinforcing ex-post review and auditing, has not been as effective as originally hoped as it did not address the underlying drivers of the Bank's approach to procurement, which still relied on procedural compliance with the Guidelines, and thus did not change the incentives for Bank staff and borrowers alike. This, coupled with natural resistance to change and tendencies to avoid taking risks, heightened by the Bank's emphasis on anti-corruption, meant that the changes introduced in 1997 were gradually eroded over time. Nonetheless, the continuous updating and modification to the Bank's policies have allowed the Bank to

¹² See “Use of Country Procurement Systems in Bank-supported Operations: Proposed Piloting Program” (R008-36/3), April 2008, “Piloting Program is Use of Country Systems: First Progress Report” (SecM2009-513), October 2009, “Use of Country Procurement Systems in Bank-Supported Operations: First Progress Report on the Piloting Program”, (R2009-0314 and IDA/R2009-0317), December 2009, and “Piloting Program in the Use of Country Procurement Systems: Second Progress Report”, October 2010. A final report, drawing lessons from experience, is expected to be submitted to the Board in FY12.

accommodate new demands and priorities, to address issues as they emerged, and to adjust to new lending vehicles: substantial revisions of the Bank’s Guidelines for goods, works, and non-consulting services were undertaken in 1977, 1984, 1994, and 2004 and for the selection of consultants in 1981, 1997, and 2004, before the last round for both in early 2011. These changes have been largely guided by compromises among members and have entailed strong didactic features so that the Guidelines have become more prescriptive over time.¹³ As a result, with each round of revision, provisions were added, layering new specificity, and thereby making the Bank’s Guidelines complex and cumbersome in the eyes of many borrowers and staff. The Guidelines now comprise about 70 pages each and the number of Standard Bidding Documents (SBDs) and forms of contract whose use is mandatory under ICB and other documents that apply to different categories of procurement and projects total 30 items (see Annex 1).

22. The end result is that the Bank’s policies and procedures remain true to the overarching principles of open competition and transparency, originally adopted at the Bank’s inception, and to the Bank’s fiduciary obligations as laid out in the Bank’s Articles of Agreement. The periodic updates over the years embody significant cumulative changes that represent an evolution to a policy that serves the Bank and its borrowers well. The Guidelines are comprehensive, thoroughly vetted, and considered as setting international standards and principles, and serving as models and inputs to procurement reform efforts worldwide. However, operational experience shows that their complexity and prescriptiveness, while reflecting the complex nature of procurement, limits their positive impact, particularly in borrowing countries that lack capacity. The Guidelines remain largely rules-based and driven by compliance with specific procedures. In the meantime, there are outstanding demands to be addressed: commitments for harmonization, capacity building, and the use of country systems have yet to be fully realized; new priorities have been articulated with respect to the GAC agenda; greater use of PPP financing has been advocated by the G-20; and new instruments, such as PforR, are being developed and implemented. Indeed, the Bank’s interests in encouraging borrowers to reform their public procurement systems goes well beyond individual Bank-financed operations to attaining larger development goals of improving overall development effectiveness. This entails, among other things, encouraging harmonization and the use of country systems, building competitive local industries, strengthening public sector management, improving governance and anti-corruption, promoting sustainability, overcoming the infrastructure deficit, and deepening international trade policy. These agendas all converge with public procurement. Thus, the review can help to identify both the opportunities and the tradeoffs in meeting the Bank’s policy goals, to exploit synergies that can advance these policy goals, and to position the Bank as a leader in public procurement for the future.

III. GLOBAL TRENDS AFFECTING THE BANK’S PROCUREMENT POLICIES

23. The above account of the evolution of the Bank’s procurement policies and practices sets the stage for a closer examination of the factors that shape how that Bank’s procurement policies may need to be changed to serve clients in the future. The drivers for change over the past twenty years have been: (i) the rise of globalization and integration; (ii) the new concepts, tools and technologies that constitute best practices in public procurement worldwide; (iii) the growing differentiation among borrower capacities; and (iv) the changes in the Bank’s business in response to client needs. With respect to the first,

¹³ A separate background note by Francoise Bentchikou traces the origins of the Bank’s approach to procurement and describes the key policy decisions and decision-making processes.

globalization, the main impact has been the emergence of new suppliers, many from Part II (borrowing) countries, for items financed under Bank-supported operations. Expanded markets have been complemented with new approaches in public procurement, reinforced by international agreements and instruments for the first time. This has led to a shift in the perception of public procurement from a set of arcane, bureaucratic rules to a strategic function critical to getting value for money in a large market worldwide. Many borrower capacities have changed, too, with high and middle-income countries positioned to move ahead rapidly in modernizing their procurement systems while some small countries and those considered fragile and conflict-affected may need different approaches. Finally, the Bank's business has changed and will continue to change; from an institution that once focused on stand-alone, large scale infrastructure investments, the Bank now supports development efforts across a wide gambit of sectors, instruments and delivery mechanisms. As explored below, these new realities ultimately affect the Bank's procurement policies and procedures, their relevance, and their effectiveness.

A. Globalization and Integration

24. One of the most dramatic changes in the past twenty years has been the globalization and integration of world trade and investment that boomed during the 1990s. The impact on procurement under Bank-financed operations is, first and foremost, the greater pool of potential suppliers. No longer are the world's highest-income countries the main suppliers under Bank-financed operations, as they were in the early years. Available data on disbursements by supplying countries show that Western European countries, the United States, Canada and Japan accounted for 62 percent of IBRD disbursements in the period 1966-1970.¹⁴ The concentration under IDA credits was greater, with these countries accounting for over 80 percent of total disbursements in 1971. As described below, that is no longer the case with suppliers from Part II countries taking the lead.

25. **Expanding Global Exports.** World markets have vastly changed since the Bank's founding. According to the World Development Indicators for 2010, the export of goods from developing countries grew from US\$543 billion in 1990 to US\$4,954 billion in 2009. Exports of goods by developing countries now amount to close to 60 percent of exports of goods by high-income countries. The greatest rate of growth was in East Asia and the Pacific Region: exports went from US\$144 billion to US\$2,086 billion—an increase of almost fifteen times. For Brazil, Russia, India, and China (BRIC), the transformation has been the greatest in capital goods (excluding automobiles): these countries now account for some 20 percent of world exports as of 2009.¹⁵ Among all developing countries, China stands out: its export of goods showed a 28-fold increase. In comparison, the increase in the export of goods among high-income countries was just under three times between 1990 and 2009. Trade in all services (consulting, banking, etc.) by developing countries also jumped: the export of services multiplied about seven times in the same period. Export of services, including consulting, by developing countries now amounts to 28 percent of that by high-income countries.

26. **Emerging New Giants in Construction.** The emergence of Chinese companies as global giants is the most dramatic in construction. Five Chinese companies are among the world's top ten contractors (ranked by total revenue) as of 2010, according to the Engineering News-Record. Chinese firms, starting

¹⁴ See "The World Bank Since Bretton Woods", Table G-1 and G-2, Brooking Institute, 1973.

¹⁵ See "Report to Congress on Export Credit Competitiveness and the Export-Import Bank of the USA", Export-Import Bank, January 1, 2009 to December 31, 2009.

in about 2000, have begun to replace firms from high-income countries on the list of the largest. It should be noted these rankings largely reflect the increase in the size of China's domestic market in which Chinese firms prevail. Based on revenues from abroad (that is, outside their respective home countries), the top ten list of international construction companies is composed of firms from OECD countries with the largest Chinese company ranked number thirteen.

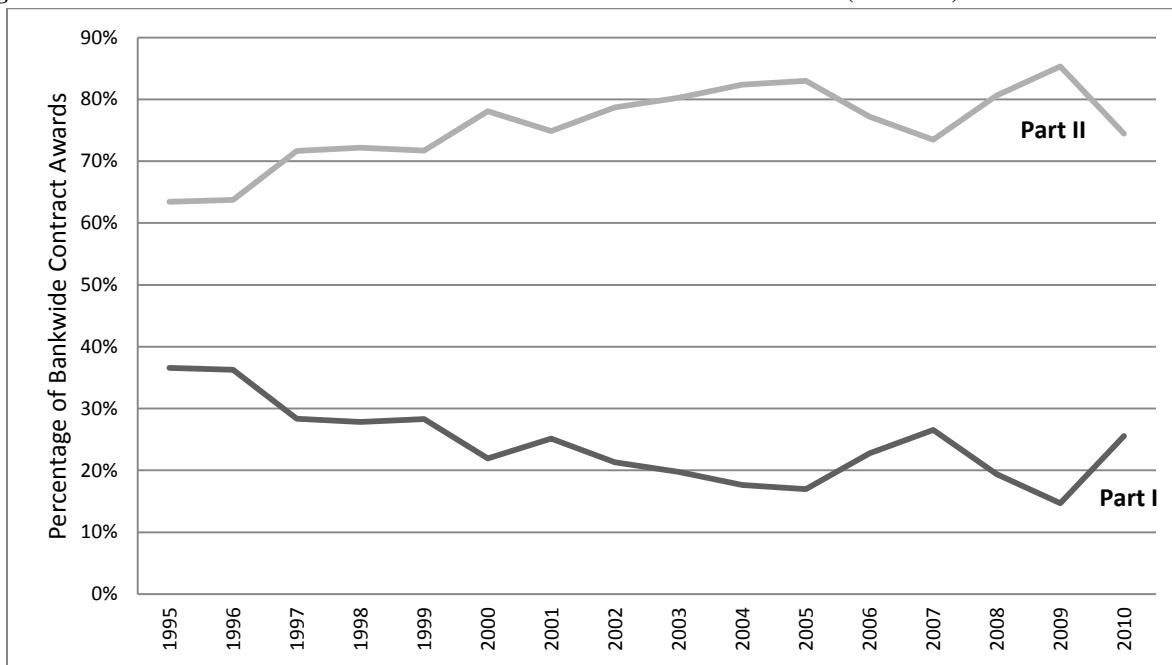
27. **Increased Specialization in Works and Goods.** Anecdotal evidence and available academic study point to the increased specialization of global construction contractors as they play to their respective comparative advantages.¹⁶ According to one study, Chinese companies tend to concentrate on markets in developing countries.¹⁷ In turn, OECD-based construction companies are increasingly specialized in large-scale, complex, and costly infrastructure undertakings such as oil and gas production, pipelines, large hydroelectric dams, power plants, mega-airports, and mass transit systems, both at home and in oil-producing countries. There has also been increased specialization of the export of goods among Part I (non-borrowing) countries towards in high-valued, technology-based products: in the case of the United States, its top exports in 2008 were aircraft, semi-conductors, passenger vehicles, auto accessories, telecommunications equipment, plastics, chemicals, and pharmaceuticals, items not usually financed by the Bank with the exception of the last.

28. **The Bank in the Global Market.** At the outset, it is important to emphasize that the Bank's financing is insignificant relative to the size of the total world market. Total exports in 2009 are estimated at some US\$12.1 trillion, while the Bank's prior review of contracts in FY10 amounted to around US\$12 billion, or less than 0.1 percent of the total. Looking at works only, the Bank remains a small player, as it always has been. The top 225 international contractors, referred to above, generated a total of US\$384 billion in revenues from their international business in 2009. In comparison, the Bank's prior review of works contracts for FY10 was about US\$6 billion— less than 1.5 percent of that market.

¹⁶ Distance and transport costs are ultimately important considerations in all exports but may be particularly so for construction, which is essentially considered a local industry given the high costs of mobilization. Thus, one would expect that if markets were competitive (and capacity comparable), local firms would win over foreign firms. There might be exceptions if distances are short, there are economies of scale, the scale and/or complexity of the operation are beyond local capacities, and/or foreign firms are aided by linguistic and cultural/social commonalities.

¹⁷ See "Localization: A Key to Success for Chinese Engineering Contractors' Internationalization", by Liu Fang and Hao Shengue, School of Economics and Management, Beijing Jiaotong University, no date.

Figure 1: Share of Contract Award Amounts to Part I and Part II Countries (FY95-10)



29. **A Microcosm of World Patterns.** Changes in the supplying countries for items financed by the Bank have mirrored what has happened in global markets. First, Part II countries are playing an increasingly dominant role among the countries that supply goods, works, and services under Bank-supported operations. The share of contracts reviewed by the Bank awarded to Part II countries, in contrast to the share by Part I members, has risen from just over 60 percent in terms of value in 1995 to over 80 percent by 2003 where it has largely stayed for the past few years (see Figure 1 above). Part II countries, notably BRICs, consistently rank among the top ten suppliers. As shown in the 2010 Annual Report on Procurement, China has been the top supplier for Bank-financed contracts, by contract award amount, three years in a row (FY08-10) while India has been among the top five and Turkey among the top ten. Other borrowing countries in the top ten for at least one of the past three years are Argentina, Brazil, Indonesia, Russia, and Vietnam. No Part I country was consistently in the top ten.

30. **Dominance of Part II Countries in Works.** The dominance of Part II countries as suppliers under Bank-financed operations is most evident in works. China has been consistently the top supplying country for civil contracts since FY95, with only FY10 being the exception; that year it ranked third after Brazil and Italy. Other Part II countries—notably India, Indonesia, Mexico, Russia, Turkey, and Vietnam—frequently appear among the top ten for works. Part I countries to rank among the top ten include France, Germany, Italy, and less frequently, Japan, Spain, Switzerland, and the United Kingdom.

31. **More Diversity of Suppliers in Goods.** Rankings among supplier countries change when looking at suppliers of goods. Although China and India still dominate, other countries—both high-income and middle-income—rank high, notably, Brazil, Egypt, France, Germany, Italy, Mexico, the Netherlands, Republic of Korea, Russia, and Turkey, to name those among the top ten. UN agencies also figure as prominent suppliers of goods in the health and education sectors. The United States, which was consistently among the top ten supplying countries for goods during the 1990s, has not ranked that high since 2006. It should be noted that this pattern for Bank-financed goods differs from global trade

patterns: China, Germany, and the United States constitute the top three merchandise exporters worldwide, far ahead of other countries in Europe and elsewhere. The inference, corroborated by the United States example provided above, is that the Bank tends to finance items not typically exported by high-income countries.

32. **A Different Story in Consulting Services.** Services show yet another distribution, with Part I countries continuing to play an important role as suppliers of consulting services. Data for the most recent years have the United States and the United Kingdom frequently among the top suppliers, along with Australia, Canada, France, and Germany. Among Part II countries, Brazil, India, Indonesia, and Russia are also among the top suppliers.¹⁸ The most likely explanation for this is generally weaker capacities among many Part II countries in technology-knowledge intensive areas, such engineering, ICT services, strategic planning, program evaluation, environment, climate change, and finance, and being able to undertake large-scale capacity building interventions. On the other hand, the vast majority of consulting contracts in terms of numbers is awarded to local individuals and firms. As part of the review, more light may be shed on the state of play of the consulting industries in Part II countries.

33. **Winning ICB Locally and Regionally.** The ability of firms in Part II countries to compete for Bank-financed contracts is further demonstrated in the extent to which local firms now win ICB works and goods contracts in their home countries. Analysis of the contracts prior reviewed by the Bank, as summarized in Table 1, shows a rising trend in the share of such contracts by number awarded to local companies and indicates that it is now relatively rare for foreign companies to win ICB tenders, especially for smaller-valued contracts. By number of contracts, the overall share of ICB won by local firms has risen to 83 percent. In the ECA and EAP Regions, local firms are overwhelmingly likely to win both large and small-valued ICB contracts. On the other hand, foreign firms still have a considerable presence in terms of large-valued contracts, especially in the Africa and MNA Regions, indicating that the degree of local competition and the size of ICB contract remain determining factors as to who is interested in bidding and who wins. Annex 2 provides additional detail on some of the Bank's largest borrowers.

¹⁸ Afghanistan and the Democratic Republic of the Congo are also high on the list, but these are anomalies reflecting the fact that the Multi-donor Trust Funds set up for these two countries finance civil service salaries. Thus, government officials being paid by the Trust Funds are counted as technical advisors. Each of these contracts is reviewed by the Bank.

Table 1: Local Companies Winning ICB Contracts

Aggregate FYs	Region	Share to Nationals by Value	Share to Nationals by Number
1996-2000	AFR	36%	50%
	EAP	78%	83%
	SAR	57%	72%
	ECA	87%	87%
	MNA	60%	60%
	LCR	88%	86%
	Bank Overall	72%	74%
2001-2005	AFR	37%	56%
	EAP	90%	89%
	SAR	73%	79%
	ECA	91%	91%
	MNA	79%	73%
	LCR	87%	89%
	Overall Bank	77%	80%
2006-2010	AFR	34%	65%
	EAP	94%	96%
	SAR	77%	75%
	ECA	94%	95%
	MNA	50%	73%
	LCR	80%	92%
	Overall Bank	74%	83%

34. China and Turkey are examples of borrowing countries that are able to compete regionally. China doubled the value of ICB works and goods contracts that it has won outside of China over the past five years. This trend has accelerated especially in Africa for works, but also in the MNA and LAC Regions for goods. In the case of Turkey, it has dramatically expanded the value of ICB contracts for works that it has won outside of Turkey over the past five years, tripling the amount. Turkey does not have the same reach as China, with most of its contracts won in the ECA Region. See Annex 3 for details.

35. **New Structures and Business Relationships.** There are other dimensions to globalization and integration that come into play when analyzing changes to the supplying countries for Bank-financed contracts. One is the extent to which multinationals based in Part I countries have affiliates throughout the world. While this phenomenon is hard to document, it is likely to be the case. According to a study by the Brookings Institute, close to 90 percent of affiliate sales by US-owned companies in China and other East Asian countries was to local and other non-US foreign countries.¹⁹ Those sales—amounting to US\$334 billion in 2004—were almost twice as much as United States exports to the East Asia region in that year. Another factor that affects the nationality of supplying countries is the trend towards corporate mergers. Since the 1990s, there has likely been considerable consolidation, especially in Europe responding to its one-market policy. An example is the merger of ASEA, a Swedish company, and Brown Boverri, a Swiss one, now called ABB, both of which had been active suppliers under Bank-

¹⁹ See “Determines of US Exports to China” by Barry Bosworth and Susan Collins, Brookings Institute, April 2008.

financed contracts in the past. With sales of almost US\$32 billion in 2009, ABB has won Bank-financed contracts with the supplying country recorded, for example, as Croatia or Sweden, and no longer Switzerland. A third factor is the increased use of out-sourcing by governments, *de facto* abandoning the use of force account except for small works. Outsourcing has changed the way private companies participate under Bank-financed operations: before, under a typical roads project, the Bank would have financed the acquisition of earth moving equipment to be used by a borrower to construct a road under force account but now the Bank finances the construction contract between the government and a private road contractor with the private contractor acquiring its own equipment. The use of PPPs is another emerging trend that changes the business relationship between the state and the private sector and how contracting is done under Bank-financed operations. The example of Caterpillar, see Box 2, illustrates the effect of these changes in global business practices.

Box 2: Changing Markets for Heavy Equipment

Caterpillar, a US-based company, is one of the world's largest manufacturers of construction and earth moving equipment, primarily used in road construction and dams. It produces where its markets are, either by acquisition or setting up affiliates. For example, it acquired the Hindustan Motor Earthmoving Equipment Division, originally owned by an Indian company, in 2001. That division now produces locally-built machines to be sold in India and regionally. Furthermore, Caterpillar has subsidiaries and dealerships throughout the world: instead of contracts being counted as supplied by the United States, Bank-financed contracts won by Caterpillar have been recorded under Belgium, Switzerland, India, and Pakistan. Even then, Caterpillar or any of its affiliates has not won a prior reviewed contract financed by the Bank since 2003, likely the effect of outsourcing. Yet, Caterpillar continues to dominate international markets for earth moving equipment with more than US\$50 billion in sales in 2008.

36. **The Impact of Globalization.** The above description of what has happened in global export markets and in the Bank's tracking of the supplying country for Bank-financed contracts subject to the Bank's prior review is consistent with what was expected of globalization and integration at the outset. International competition is clearly in place. Firms in BRICs and other rapidly advancing middle-income countries now dominate their local markets, winning an increasing share of ICB contracts, and can have strong presence in regional markets. China has especially become an important player for works and goods. At the same time, exporting firms from Part I countries have specialized in high-valued, technology-based works and goods. This specialization moves them out of the markets typically financed by the Bank. Accompanying that trend is the impact of outsourcing and PPPs on the contractual relationship between the public sector and private businesses. As a consequence of these changes, it may be time to rethink how and when ICB and other procurement methods are used, for which countries and what items, the role and justification of domestic preferences, and the interaction of the Bank's procurement policies with global trade. Importantly, the Bank's procurement Guidelines, originally designed to promote competition in closed public markets, may increasingly deal with undertakings between the state and private sector. These are areas to be explored further in the proposed review.

B. Changes in Public Procurement

37. **A New Global Outlook.** The changes provoked by globalization and integration did not stop with the emergence of new industrial giants and a new mix of supplying countries under Bank-financed operations. They also have influenced how policies, procedures, and attitudes towards public procurement have evolved. Historically, public procurement was seen as the restricted domain of each national government, a labyrinth of often obscure or idiosyncratic and unchallenged procedures,

dominated by political interests, and used to promote national interests or, worse, to collect rents and favor friends. Increasingly, there is consensus among nations that public procurement, like other markets, ought to be open to competition and, because it involves taxpayer money, operate at the highest levels of integrity, a stance that the Bank has taken since its founding. Many academics, policy makers, and practitioners now view public procurement as a strategic government function and a public sector management tool that have a direct impact on the quality and quantity of services provided to citizens. Moreover, there is widely-shared recognition that public procurement constitutes a significant market worldwide. OECD estimated that, as of 1998, the market represented by contestable public procurement is in the order to 5-7 percent of GDP.²⁰ In 2009, that would have been equivalent to US\$825 billion for developing economies.²¹ More recent estimates are even higher.

38. International Instruments and Agreements. The opening of public procurement to competition has come about gradually: overcoming protectionism has taken more than thirty years of international negotiations, with the job not complete and still jeopardized during times of economic crisis. Even though liberalization had long been on the radar screen, there was virtually no restraint under international agreements until the General Agreement on Tariffs and Trade Tokyo Round Agreement on Government Procurement came into force in 1981. The Bank's use of ICB—from the outset—obviously put it at the vanguard of institutions advocating for open competition in public procurement.

39. A critical turning point came in the early 1990s with the adoption of the second plurilateral Government Procurement Agreement (GPA) under the auspices of the WTO in 1994 and the issuance of the Model Law of Procurement of Goods, Construction, and Services by the United Nations Commission on International Trade Law (UNCITRAL) in 1993. As of 2011, 42 countries, mostly OECD members, are bound by the GPA and 23 others, mainly developing countries, are associated, either as accessing countries (9) or observers (14). Furthermore, the UNCITRAL model law plays an important role in setting standards for public procurement laws that constitute an essential step in reshaping procurement systems: 20 countries are reported by UNCITRAL's Secretariat to have passed national procurement laws inspired by the Model. In parallel, there has been a proliferation of regional trade agreements, such as the North America Free Trade Agreement (NAFTA) and customs and economic unions, such as COMESA in southern and eastern Africa and MERCOSUR in Latin America, which bind members on trade and market opening. The European Union (EU), with its single market launched in 1993, has adopted standardized procurement regulations and directives that apply to its 27 member states and are gradually adopted by Eastern European countries that are candidates to entry in the EU or serve as a model to those under its Neighborhood Policy. In parallel, the growing concern about corruption has led to the negotiation of the United Nations Convention Against Corruption (UNCAC). It came into force in 2005, with 159 countries ratifying it.

40. **Convergence and Harmonization.** There is common acknowledgement by the Bank and its development partners of the benefits of greater convergence and harmonization of procurement policies to

²⁰ OECD Journal on Budgeting, Volume 2, Number 3, ISSN 1608-7143, 2002. These estimates (about 5 percent for developing countries and 7 percent for developed) net out transfer payments (e.g. social security), wages and defense spending that frequently has limited competition. They may be greater if sub-national spending is added. More recent estimates are higher, especially for high-income countries.

²¹ This is based on a share of developing countries of the world economy estimated at 28 percent or US\$16.5 trillion out of a global GDP of US\$58.9 trillion in 2009.

enhance overall development effectiveness. Yet, there is no direct path for doing that. Moreover, the motivations for these new international instruments and agreements differ; some focus on reshaping domestic procurement systems and realizing greater transparency in public procurement, while others focus on non-discrimination, trade liberalization, and market access.

41. In order to position the Bank's procurement policies in the context of these new international instruments to get an overall sense of the degree of convergence, we carried out a comparison of the main features of the EU Directives, the WTO GPA, UNCAC, and the UNCITRAL Model Law with the Bank's Guidelines.²² This comparison illustrates the shared principles on which all these various documents are grounded, namely transparency, economy, equal access, efficiency, and integrity. At the same time, it demonstrates the extent to which the "devil is in the details": differences in vocabulary and the way that the common principles are put into practice abound. The main commonalities and specific differences are summarized below.

- Concerning **transparency**, there is consensus among the agreements, with only minor deviations on advertising requirements, publication of procurement-related regulations and documents, and timeframes for submitting and opening bids. Nevertheless, public opening of bids is not required in all agreements.
- On **equal access**, the principle of non-discrimination is reflected in all agreements. The main differences have to do with eligibility in terms of the nationality of bidders, with international agreements often promoting restricted access based on reciprocity. The EU stands out in not having an explicit "Buy Europe" policy for its members, even though it has minimum rules of origin for territories not covered by bilateral or regional agreements. There is common ground on the use of name brands, for example, but not on the use of domestic preferences, which the Bank allows and others do not. Some instruments such as the GPA and the EU framework explicitly allow social and economic considerations to come into play under certain conditions.
- With regard to **efficiency**, there is a common understanding that this is one of the main goals but there is less understanding on what efficiency means (or how to measure it). There are wide variations in the allowable procurement methods: typically the other instruments allow more flexible methods than the Bank's, including negotiations, other forms of interaction with potential suppliers, and means to speed up procurement processes, such as framework agreements, standing-offers, lists of pre-qualified suppliers, reverse auctions, and electronic procedures.²³ There are differences on when direct (no-bid) contracting may be justified. Increasingly, the test of proportionality, stemming from German law, is being applied to EU procurement processes by the courts.²⁴ On the other hand, the Bank's use of local shopping differs considerably from the practices of the others and opens a wide field in which borrowers can procure rapidly at low cost to both the bidders and the contracting agency.

²² A background paper is to be published separately and available publicly in 2012. As part of the review, we will continue to expand this dataset, comparing the Bank Guidelines with other instruments and benchmarking with other Multilateral Development Banks and so on.

²³ The latest edition of the Bank's Guidelines as of January 2011 permits framework contracts to be used.

²⁴ The test of proportionality in the context of public procurement maintains that the requirements set out in the tendering process are in alignment with and appropriate for the value and scope of what is to be contracted and do not go beyond what is strictly necessary to ensure fairness in the process.

- How the principle of **economy** is applied is perhaps the hardest to gauge and to measure, as there are many ways to evaluate bids and many factors to take into consideration. The main difference revolves around ways to assess value for money, including costs as well as benefits, the use of merit points and the evaluation of non-monetary costs and benefits, such as quality, reliability, post-sales service, and user friendliness. Generally, the other international instruments are more explicit as to what factors to take into account and allow greater incorporation of non-monetary considerations than do the Bank's Guidelines. Other differences, for example, center on the role of prior experience as a qualification criterion, as compared to other qualifications (e.g., professional standing, quality assurances). Another difference is the possibility of rejecting an abnormally low bid, which some agreements allow and the Bank does not.
- On **integrity**, the Bank has the most far-reaching requirements, in line with the UNCAC's provisions, plus specific debarment procedures. This does not mean that there is not a shared vision with these other groups, as the more recent agreements are on the same page as the Bank, and the EU has already acknowledged the necessity to cover such issues in the new directives under preparation (see Box 3).

Box 3: EU Procurement Directives

The European Commission is presently undertaking a comprehensive modernization of the EU Procurement Legislation, starting in early 2011 with the goal of having revisions ready for 2012. It completed an evaluation of the Directives' impact and effectiveness. This evaluation, as the basis for drawing fact-based lessons and to inform the policy debate, reveals that EU procedures are well understood and appreciated by the public and that compliance among member countries is on the rise, as are better reporting, structures, and adoption of e-procurement systems. Greater transparency has been one of the main impacts. It also shows that only about 20 percent of total public procurement is done in compliance with the EU directives (that is, the share of contract value above the EU thresholds) indicating that the specific national procurement rules and procedures applicable below the thresholds still prevail for the bulk of procurement carried out by EU members. The evaluation shows that EU procurement is increasingly sophisticated: among other things, framework contracts are becoming popular, especially among central or joint procurement agencies. The use of electronic means of procurement has also become increasingly sophisticated: all members now have e-procurement legislation. There is a growing interest as well in using public procurement to achieve other goals such as environmental sustainability and innovation. The EU's less orthodox methods such as competitive dialogue, restricted competition, and negotiations remain small as a share of the number of contracts although they represent a significant share of the value of contracts. It is noteworthy that open competition represents 52 percent of the total value of contracts let over the 2006-2010 period. Overall efficiency is high: the average time to award a contract is around 58 days with more complex contracts and less conventional procurement methods taking considerably more time. In terms of bidding costs, the average is estimated at Euros 28,000 per contract of which 75 percent is incurred by bidders, or about 1.2 percent of the resulting contract value. These bidding costs represent a disproportionate share of the value of small contracts—up to 29 percent—with the median cost between 6 and 9 percent of the contract value. On the positive side, advertisement and open competition are estimated to have generated 3.8 percent in savings. The end result is that the cost-benefit ratio for following the EU directives is clearly positive although there continues to be considerable scope for reducing the cost of administration. The extent of cross-border tenders is another area for potential deepening as companies still are reluctant to bid in other states.

Source: Evaluation Report: Impact and Effectiveness of EU Public Procurement Legislation, Commission Staff Working Paper, European Commission, June 27, 2011

42. The fact that the Bank's policies and procedures fall in the mainstream among these other instruments reflects the Bank's long-standing role as trendsetter on international public procurement and its active engagement with these other organizations. Yet, there are a number of areas in which the Bank has been more reactive than the others to innovations in public procurement, for example only recently

incorporating framework contracts for purchases of off-the-shelf goods and low-value non-consulting services, and integrating new concerns about environmental and social impacts that are now a more common feature of public procurement. The Bank, because of its focus on discrete projects that are often ring-fenced, has always struggled in dealing with the borrowers' institutional dimensions, including staffing capacity and ethics, independent review mechanisms, statistics and information availability, confidentiality, and supplier performance monitoring and evaluation that may be covered, to varying degrees, by international instruments or agreements. Nor has the Bank clearly established *de minimis* conditions for the application of its policies. Part of this reflects the on-going transformation of the Bank's policies originally designed for stand-alone large infrastructure contracts, which can be bid without recourse to the methods mentioned above, to a set of policies and procedures that deal with a wider range of public procurement categories, including repetitive procurement processes and small, dispersed and decentralized transactions. On the other hand, as compared to these instruments, the Bank's policies and procedures appear to be the most comprehensive and perhaps more prescriptive (e.g., provisions on the role of state-owned enterprises, turnkey contracts, purchase of commodities, use of INCOTERMS, mandatory use of SBDs). The Bank is also the only one to have separate Guidelines for consultant services, with provisions stipulating geographic dispersion and limiting the number of firms called on to offer proposals.

43. Importantly, the proliferation of international instruments governing public procurement has resulted in some of the Bank's borrowers now bound by conflicting provisions. That was not the case when the Bank was founded, nor was it the case twenty years ago, but there are now a number of countries that are parties to international and regional agreements and bound by those requirements at the same time as the Bank's Guidelines. Some participating countries in the piloting program for the use of country systems felt themselves squeezed between the test of equivalency with the Bank's Guidelines and EU requirements or specific procurement rules prevailing under bilateral agreements. Harmonization will need to address these discrepancies and a closer look is needed to assess their materiality and impact on procurement outcomes.

44. Finally, it should be highlighted that there are areas of public procurement with which none of the instruments deals in any depth. These include subcontracting, contractor performance, and remedies for breach. Rarely do any of the agreements take into account explicitly the costs of bidding on the private sector. Generally, none of the agreements deal well with the issues of contract execution, focusing on the bidding and awards processes, to the neglect of what happens next. Nor do these instruments provide for any systematic mining of procurement data and accompanying analysis in order to assess overall performance, detect trends in public procurement, and gain intelligence on industry competitiveness, let alone to counter corruption and anti-competitive behavior. Indeed, nothing is stipulated in any instrument on the fiduciary dimensions and how procurement controls, checks, and balances are integrated into overall public management systems and accountability frameworks. In the case of the Bank, given its range of implementation capacities among borrowers, these issues are at the forefront. Indeed, dealing with corruption head on, as discussed below, mandates a paradigm shift to risk management, performance, and accountability. The review will be an opportunity to examine where the Bank can fill gaps, streamline its own policies, and achieve greater convergence.

45. **New Concepts and Approaches to Public Procurement.** The nature of public procurement itself is changing. One of the main objectives of the review will be to see where and how the Bank can

keep at the vanguard of new concepts and approaches to public procurement. The above developments in the international sphere have been mirrored by a new appreciation of the need to modernize public procurement systems, treating public procurement as a strategic government function that directly affects the quality and quantity of services provided to citizens. Many governments, whether in developing or developed countries, and regardless of their starting point, are searching for savings, faster and simpler procurement, better value overall, and flexibility at the same time as reinforcing integrity and accountability for the use of public monies. Embedded in this is the expectation of high ethical standards on the part of both private firms and public sector counterparts.

46. Generally, these changes in perceptions of what makes good public procurement are causing policy makers to rethink the role of public procurement and to adopt modern management concepts and tools. The traditional focus on rules and procedures in national procurement systems has driven behavior towards regulatory compliance, rather than performance and outcomes. Thus, procurement reform efforts around the world tend to entail a rebalancing along the continuum of compliance versus performance, rules versus principles, and transactions versus systems. Many countries have been inspired by private sector procedures, such as framework contracts and supply chain management, and are seeking ways to emulate those methods. This has also led to outsourcing of public services that have traditionally been provided in house and has led to new ways to procure those services in partnership with the private sector. The use of information technology—e-procurement—has become another feature of making procurement more transparent and cheaper and allowing improved management of procurement systems.

47. In supporting borrowers along this path, the Bank must not only keep pace with these changes but be at the forefront. This means being able to provide borrowers with a model of good public procurement that embodies these new concepts as part of the Bank's GAC agenda and its support for improving public sector management (see Box 4). It also means that the Bank has to internalize these new concepts within its own policies, reconciling any differences between what the Bank expects of borrowers under Bank-financed operations with what good public procurement demands.

Box 4: Defining Good Procurement

Public procurement is a key dimension of public administrative that efficiently and effectively links the government's financial management system with social and economic outcomes. A good public procurement framework:

- Rewards innovative processes and solutions
- Identifies best-fit-for-purpose outcomes
- Delivers optimum value for money
- Promotes supplier development and competitiveness
- Strengthens public confidence in government.

Good procurement is not about finding the least cost path from inputs to outputs but rather is a management function that adds value while protecting integrity in the use of public funds.

Source: GAC II Procurement Companion Paper

48. **Value for Money and Best-Fit-For-Purpose.** The new concepts of good public procurement challenge the premise, common among traditional public procurement systems, of awarding contracts solely on the basis of least cost: instead, many countries are adopting value-for-money methods in order to make procurement decisions on the basis of whole-life-cycle costs and benefits (see Box 5). It should be highlighted that the Bank's Guidelines have always allowed whole-life-cycle evaluations with the

proviso that the benefits and costs can be quantified.²⁵ These are thus commonly included under Bank financing for goods and ICT procurement, and in a range of power, water supply, and sanitation procurements where it makes sense. Another of the new concepts in modern public procurement is the need for collaboration with the private sector. The idea is to find the best fit through dialogue with potential suppliers in order to generate the best overall result for the contracting agency and the users of the goods and services. This new thinking, akin to the Bank's two-stage bidding, is that getting the best out of suppliers is a two-way street. But this is the antithesis of traditional procurement policies that are based on competition for each transaction and limit interactions and restrict communications between the procuring agency and possible suppliers to avoid tampering with the process. At the same time, the increased awareness about cartels heightens the need for market astute contracting agencies with sufficient knowledge of how supply markets are organized. Notably, the rapid evolution of markets and technology and the dangers of cartels means that agencies should not rely on too few suppliers (nor too many). Newcomers might have better solutions than those with established track records and may disrupt supplier coordination and collusion. Finally, interaction and knowledge-sharing between supplier and user may be important in areas where innovations are needed, making methods such as the EU's "competitive dialogue" appropriate.²⁶ However, the right balance may be hard to discern and the risks high especially in weak institutional and probity settings. A closer examination of these new methods and their potential use by the Bank is part of the policy review.

Box 5: Value For Money, Whole Life Cycle Evaluation, and Merit Points: Going Beyond Costs

Value for Money is a broad concept that governments can use to motivate and steer improvements to public sector management and outcomes. In the context of public procurement, this concept can be relatively simple, encompassing dimensions, if measured accurately, such as reasonable procurement lead times, market cost, and quality. More sophisticated approaches require detailed understanding of market structures and the delivery and actual end use, a conscious effort to standardize, rationalize and simplify, a focus on whole-life-cycle costs rather than just purchase price, a well-defined and enforceable planning cycle at various levels, viable mechanisms to protect competition and manage corruption risks, and a multi-pronged strategy to engage stakeholders frequently, openly, and equitably. While strong capacity is required to implement the full concept of value for money, its simpler aspects can be monitored and consistently improved in almost any country. Relatively small investments can begin engendering a culture of replication and performance catalytic to broader systemic improvements. In its simplest form, value for money reflects that price alone need not be the sole criterion for making a procurement decision. Instead, the determining factor is the optimum combination of whole-life costs and benefits.

Whole-Life-Cycle Costs include maintenance, management, operating costs and disposal, and the implications of risks and flexibility throughout the entire cycle. This approach can also take into account risks such as quality, performance of the contractor, failure to deliver, and not being realistic as to what is expected or missing out on alternatives. The idea is that higher costs may be translated via better quality into lower whole life costs, due to longer useful life and/or higher residual values or increased benefits, in terms of greater user satisfaction or ease of use. Merit points is a system under which additional points are awarded to bids based on qualitative dimensions such as quality, past performance, and technical aspects. More complex and more demanding than the Bank's least cost evaluation, merit points had been permitted by the World Bank in the 1980s for procurement of irrigation hand pumps, for example, and are now used in countries such as Indonesia, Morocco, Sierra Leone, and Vietnam, as well as the EU. One can see how these new approaches, whether called value for money or merit points, can capture indirect costs and benefits and externalities such as social and environmental impacts.

²⁵ Under the Bank's policies, selection is made on the basis of the "lowest evaluated bid", which allows other factors aside from cost to be considered.

²⁶ The EU's 2004 directive allows a procedure called competitive dialogue that may apply when awarding particularly complex contracts and when the contracting agency is unable to identify the best technical solution or define the appropriate form of the endeavor. This procedure opens the door for the agency to seek the views and inputs from potential suppliers at an early stage. At the end of the dialogue, suppliers are invited to submit a final tender. This method is largely intended for use on PPPs.

Conceptually appealing, these methods are still controversial and may be difficult to put into practice, given the level of subjectivity involved. Nevertheless, the idea of going beyond price is very appealing as a way to capture performance, quality, and externalities.

49. Some Early Adopters. Among the first countries to put these new concepts of public procurement into practice was the United Kingdom. Its efforts began in 1999, with a major review to identify efficiency, modernization, and competitiveness opportunities. The idea was to shift from the traditional approach of competitive tendering and bulk buying to more modern methods to achieve greater value for money. One of the results was to set up, in early 2000, a new central body, the Office of Government Commerce, to work with purchasing agencies as a catalyst to achieve best value for money. A construction initiative proved successful in saving money and was extended across the entire public sector. E-tendering was piloted along with e-auctions, e-sourcing, and measures to improve category management, demand management, and sustainability. The use of value-for-money awards was mainstreamed in 2004, with gains, as tracked by the Auditor General's Office, of 5 to 10 percent. A number of Commonwealth countries have since launched similar efforts: for example, Canada revamped its procurement policies in 2003, Australia adopted new regulations in 2004, and New Zealand undertook a renewed round of procurement reforms in 2009.

50. Members of the Asia-Pacific Economic Cooperation (APEC) also got off to an early start to reform their procurement systems under the APEC-sponsored initiative that generated a non-binding set of principles adopted in 1999. These principles emphasize transparency and openness in public procurement markets, along with value for money, effective competition, accountability, non-discrimination, and fair treatment. They complement the general principles of good public sector governance launched in 2004 as part of APEC's broader emphasis on reducing behind-the-border barriers to trade and investment. These latter principles focus on increased transparency and accountability, e-procurement, codes of conduct, and various anti-corruption mechanisms, along with realignment to balance compliance-based and performance-based approaches. APEC economies advancing on procurement reform include Chile, Hong Kong SAR (China), Malaysia, Republic of Korea, Singapore, and Thailand (see Box 6).²⁷

Box 6: Korea's Experience with Procurement Reform

The Republic of Korea was an early reformer of its public procurement system, as part of a wider effort at public sector modernization. In the late 1990s, the Government reacted to external and internal pressures: Korea became a member of the WTO in 1997 and wanted quickly to sign onto the GPA; its public procurement system was considered complicated, nontransparent, and corrupt; and it saw e-government as an opportunity to employ its comparative advantage in the rise of the information society. Early on, Korean officials envisaged internet-based e-government as the way to provide services more effectively and efficiently across agencies, while increasing citizen participation and national competitiveness. Conceptualization of a new approach to procurement started in 1995 and was piloted in 1997, ultimately linking to the tax and pension systems, local administration, education information, financial management, human resource management, and general information systems. KONEPS, the Korean On-Line E-Procurement System, acts as a centralized cyber marketplace whereby a single gateway allows suppliers and buyers to undertake electronic procurement activities, including exchanges on contract terms, bids, payment requests, and follow-up. It also serves as a single point of call for business registration, certificates, qualifications, reports on contract performance, issue notices, and e-shopping, offering standardized procedures and extensive procurement information. It is further linked to other electronic systems, including tax administration, real-time

²⁷ See APEC's "Economic Policy Report", APEC, 2007. Also see "Review of the APEC Non-Binding Principles (NBP) on Government Procurement", Government Procurement Expert Group, 2006/SOM3/GPEG/005, September 2006.

information on agency budgets, credit histories, industry associations, insurance brokers, certification institutions, and banking institutions for e-payments. The system is managed by the Public Procurement Service (PPS), a public enterprise, with technical aspects subcontracted to a private IT company. PPS directly handles all procurement over certain thresholds and provides support to decentralized agencies that use PPS's services because they are cheaper and easier than doing it themselves. Korea's procurement law authorizes a variety of methods, mainly open tendering, but also limited tendering under special conditions made known to the audit institutions, and multiple awards under framework contracts. An Independent Contract Review board controls related contracts. Corruption is deterred through tools like the code of conduct, systematic training and rotation of procurement agents. The number of illegal transactions has fallen drastically, due to the elimination of face-to-face contact and automation of business processes. Yet, no system is completely corruption-proof, and PPS works to watch for collusion and analyze bids to detect suspicious transactions. Performance is tracked via a number of indicators, including the length of processing time, number of bidders, bid protests, discounts, payments, penalties, and amendments. As of 2005, PPS processed US\$45 billion worth of transactions, 93 percent of all public procurement in Korea. Annual savings are estimated at US\$4.5 billion, mainly through lower costs for the business community. Korea's e-procurement won the UN Public Service Award in 2003 and the Global IT Award of Excellence in 2006.

Source: Korea's Move to e-Procurement, PREM Notes, Number 90, July 2004; IT and Administrative Innovation in Korea: How Does It Affect Organizational Performance, Tobin IM et al, Seoul National University, 2004; Korea E-government website; Interview with James Kang, PPS, IQPC.com.sg, website.

51. The World Bank has also modernized its internal procurement policy.²⁸ Under the General Services Department (GSD), the Bank's internal procedures were reformed in 2008, adopting a principles-based approach. This new policy focuses on managing risks, reinforcing ethical behavior through training, working directly with suppliers, measuring their performance, and assessing success on the basis of outcomes. The principles adhered to by the Bank in its own procurement are fairness, transparency, and competition, with procurement decisions based on best value defined as the optimal combination of lowest total cost of ownership, technology, innovation, efficiency, assurance of supply, and quality. This methodology is used for complex goods and services where it is imperative to evaluate factors other than cost. Other dimensions of the Bank's procurement policy for its own purchases include QuikPro, which allows direct contact with suppliers, via GSD's website, and blanket purchase orders, which accommodate frequent, repetitive procurements. There is also constant assessment of market developments and supplier performance. Importantly, the Bank has incorporated social corporate responsibility into its procurement policy that calls for the expanded use of environmentally-preferable products, diversity in hiring, and fair working conditions by suppliers.

52. **Use of Technology.** The use of technology, including electronic tools and platforms, is vastly changing the way public procurement is executed and constitutes a key part of modern public procurement. The benefits of e-procurement are much more than improved efficiency through computerization of processes. It represents a powerful information and management tool that underpins the strengthening of public procurement systems and that can transform the provision of public services. While not a panacea, many countries have been successful in lowering transaction costs, time, and prices, mainly for high-volume, low-value items that are particularly amenable to the use of framework agreements, reverse auctions, catalogues, and purchase cards. In some cases, these systems are shown to increase competition and may even be more reliable in terms of integrity than other methods. The Bank has encouraged these processes, helping to build capacity, and the Guidelines already allow the use of electronic advertisement, electronic signatures, and e-procurement platforms under certain conditions. A wide range of borrowing countries now employs some form of e-procurement, including states in Brazil

²⁸ See "The World Bank Group: Corporate Procurement Policy and Procedures Manual", Eighth Edition, General Services Department, February 2009.

(Minas Gerais) or India (Andhra Pradesh, Karnataka), with readiness assessments conducted by the Bank in a number of countries in all Regions. Examples from Latin America are showcased in Box 7. An important prerequisite is to have a solid legal framework, notably for electronic signatures, which can also facilitate the introduction of electronic reserve auctions.²⁹

Box 7: E-procurement in Latin America

Mexico: Compranet, started in 1997 and functional through the central government by 2002, handles about US\$21 billion in procurement transactions per year, dealing with 70,000 suppliers and 3,500 agencies.

Chile: CompraChile, developed during 1998-2000, handled 1.6 million transactions, equivalent to 3.5 percent of GDP, and dealt with 90,000 businesses as of 2009. Savings that year were estimated at US\$180 million. The share of small and medium-sized enterprises winning bids has grown, as has the average number of bidders, up to 5.3 per transaction.

Brazil Federal Government: Brazil's e-procurement system, Comprasnet, launched in 2000-2001 is reported to save about half of the transactions costs, while generating some 25 percent in price savings. In addition, Brazil is one of the pioneers in adopting e-reverse auctions, which permits on-line bidding, resulting in greater savings and reduced processing costs.

Minas Gerais State: Launched in 2004, the State's e-procurement system generated savings of about US\$77 million per year in prices and US\$25 million in better contract management as of 2009. The number of contracts not being let on a competitive basis dropped to just over 1,000, from a high of 12,900 in 2004. Transaction costs for the State have been reduced by 33 percent but that pales in comparison to the reduction in costs to the private sector, which fell by 81 percent.

53. Public Procurement as a Broader Policy Instrument. A controversial aspect to public procurement policy has long been the extent to which public policy goals ought to be pursued beyond those directly related to procurement. Traditionally, this has meant protection of domestic industry, which is now increasingly superseded by international and regional agreements that provide for open competition, but other social and economic goals are often interjected into the public procurement debate. One of these is according **preferences** to disadvantaged domestic groups. There is a long record of public procurement being used to advance minority businesses or reach out to small and medium-sized enterprises (SMEs), as in the United States under its Small Business Act and in South Africa's program to support historically-disadvantaged individuals and SMEs. Another area is programs for women entrepreneurs and still another is using public procurement to stimulate innovation. While there may be justification to advance these public policies, there are few metrics and evaluations of the cost and benefits.³⁰ Moreover, the extent to which preferences are allowed under international agreements varies and is subject to debate as preferences may work against competition, be subject to fraud and corruption, and discriminatory against other bidders. In fact, the interim results of the study commissioned by the Bank (mentioned below) show that countries are able to increase the share of public procurement going to SMEs without the use of side-asides by the use of e-procurement, reducing bidding costs, and providing pre-bidding support to target groups.

54. Another area of growing interest is the inclusion of environmental concerns into procurement decision-making, otherwise known as Environmentally and Socially Responsible Procurement (ESRP) or **“green” procurement**. There are many examples of cities, states, and municipalities that have already

²⁹ A chapter of the new UNCITRAL Model Law is dedicated to these aspects as there are several methods available.

³⁰ See “Balancing Socioeconomic and Public Procurement Reform Goals: Effective Metrics for Measuring Small Business Participation in Public Procurement”, by Timothy Reed, Patricia Luna, and William Pike, Challenges in Public Procurement: An International Perspective, Chapter 6, edited by Khi Tahi et al, PrAcademic Press, 2005.

adopted such criteria: the Federal Governments of the United States and Canada have adopted policies and the EU has a strategy to develop the current provisions in the 2004 Directives that introduced environmental considerations, which may be more advanced with the new set of Directives announced for 2012. At the same time, there has been little evaluation of the impacts on realizing environmental goals, costs-benefits, and alternatives. To help understand these new trends and assess their relevance for the Bank, two studies, one on “green” procurement and the other on the use of preferences to achieve supplier diversity have been commissioned and their results will feed into the review. We are also going to take a broader look at the implications of environmentally and socially sustainable procurement.

55. Making Markets Work. A complementary dimension to public procurement is competition or anti-trust policy. This is an area with much still to do, especially among developing countries. The underlying notion is that public procurement policies, if well crafted and executed, can be an important tool for enhancing competition, but are not on their own sufficient. Conversely, public procurement can be badly affected if cartels restrict competition, rig bids, and fix prices. As a result, dealing with cartels—across private and public sectors—has been high on the agenda for the EU and OECD members since the late 1990s. Hard core cartels were the subject of a study by OECD in 2002, followed by reviews of progress in implementing actions. This attention has led to increased prosecution or offers of leniency to cartel members that come forward. Indeed, debarment as a sanction for collusion is at the core of anti-trust policy in procurement. Nevertheless, the interface between competition and procurement policies does not yet seem to have received the attention that it warrants given the vulnerability of the public sector to anti-competitive behaviors.³¹ Concerns about the reciprocal impacts of procurement procedures and competition have emerged in the context of the Construction Sector Transparency Initiative (CoST).³² The question is whether processes of pre-qualification and public opening of bids enhance competition or facilitate collusion has also been raised in the context of INT’s recent study on corruption in the roads sector.³³ Opinions on this differ and can be debated and investigated further.

56. Integrity in Public Procurement. Intertwined with the above reforms is the concern about the integrity of public procurement systems. While corruption, in its many facets, goes well beyond the domain of procurement *per se*,³⁴ and anti-competitive behavior, as noted above, is conceptually separate from public procurement, these forces intersect in the sphere of public procurement. In fact, the Bank’s approach to anti-corruption puts anti-competitive behavior and fraud and corruption on the same footing.³⁵ As stated in a 2002 OECD study, “public procurement is the government activity the most vulnerable to waste, fraud, and corruption due to its complexity, the size of the financial flows it

³¹ See “Competition Policy and International Trade Liberalism: Essential Complements to Ensure Good Performance in Public Procurement Markets”, by Robert Anderson and William Kovacic, Public Procurement Law Review, Number 18, 2009.

³² CoST is a multi-stakeholder program that seeks to achieve transparency through public disclosure of information at various stages of the construction project cycle, patterned after the Extractive Industry Transparency Initiative. CoST was piloted in eight countries between 2008 and 2011, funded by DFID with the support of the World Bank, and is currently being scaled up to become a global initiative.

³³ See “Curbing Fraud, Corruption and Collusion in the Roads Sector”, INT, June 2011.

³⁴ See “Integrating Integrity and Procurement: The United Nations Convention Against Corruption and the UNCITRAL Model Procurement Law” by Christopher Yukins, International Public Procurement Conference Proceedings, September 21-23, 2006.

³⁵ The Bank’s Guidelines defines fraud and corruption as collusive practices, obstructive practices, and coercive practices, among others (see paragraph 1.16 9a).

generates, and the close interaction between the public and private sectors.³⁶ The national consequences can range from over-spending on asset acquisition, under-spending on asset maintenance, poor quality of public services and goods, and reduced government revenues. Corruption further undermines confidence in public institutions, including political bodies, the judiciary, and the police.

57. The convergence of governance and anti-corruption (GAC) and public procurement, as reflected in the Bank's GAC II agenda and the OECD's Principles for Enhancing Integrity in Public Procurement,³⁷ creates the opportunity for a synergy that can be exploited among procurement, anti-corruption, and competition, created by a set of principles shared between good procurement and good governance. These entail transparency, competition, fairness, and management accountability, as the means and the ends, contributing to both good procurement and governance outcomes, protecting citizens, and offering them value for the public money being spent. The changes to public procurement, as embodied in value for money described above, shift the focus from compliance with rules and procedures, which may have limited impact on good outcomes for procurement or governance, to principles and performance, which ought to provide greater chance for good outcomes for procurement, taking a broader perspective, and for good governance. Indeed, by the value-for-money criterion, a good procurement outcome without a corresponding good outcome for governance would be the antithesis of what good procurement is: if there was corruption or collusion in the transaction, either the price was too high or the quality and whole life costs would have been compromised along the value chain.

58. Better integration of procurement and GAC measures, however, is complex and challenging with much more to do. There may be tradeoffs in terms of competing policy goals: for example, the answer is likely not more regulations being imposed on procurement, as there are limits to which a compliance-based approach because of the high transactions costs, delays, and burdens on the private sector that may in fact detract from competition. Leading international experts on public procurement have cautioned that additional rules to curb corruption in the procurement process may in practice hamper getting best value and highlight the potential tension between efficient procurement and anti-corruption, as international procurement reform and harmonization proceed.³⁸ Instead, the better route, albeit challenging to formulate and difficult to put into practice, may be to shift towards risk mitigation, performance measurement, and accountability. Other issues relate to the acceptance of debarment proceedings in other jurisdictions and sanctions, be they national or from partner donor countries. More work is needed.

59. **The Opportunity for a New Vision.** As described above, public procurement is under rapid change. First, there have been substantial advances in articulating a vision of what public procurement ought to look like and a consensus as to the basic principles, albeit far from universal application. That is very encouraging and constitutes an opportunity for the Bank in advancing the adherence to international trade agreements and adoption of emerging international procurement standards among borrowers, enhancing harmonization, and simplifying arrangements among the parties. Next, the new concepts, techniques, and tools, already in place in a number of countries, can increasingly be shaped into a body of best practices to inform the process of reforming public procurement systems with Bank support.

³⁶ OECD Journal on Budgeting, Volume 2, Number. 3, ISSN 1608-7143, 2002.

³⁷ The broad principles of transparency, good management, prevention, accountability, and control, adopted in 2008, aim to help members achieve value for money, increase transparency, and prevent corruption though the full procurement cycle, that is, from the pre-tender phase through to contract execution.

³⁸ See "International Procurement" by Christopher Yukins, Don Wallace Jr. and Jeffrey Mareburg-Goodman, International Lawyer, Vol. 43, No. 2, Summer 2009.

Technology and e-procurement offer many new opportunities, an area in which the Bank could take a leadership role. Furthermore, there are large savings to be potentially realized, both in time and money, as well as other benefits through procurement reform efforts—for example, the reduction in the frequency of sole sourcing and increased access to public contracts for small and medium enterprises—and in the end, significant savings for tax payers. Whether it is planning, grouping purchases, value for money, outsourcing, or e-procurement, the potential for generating savings—from a low of 5 percent to 20 percent or more—exists. Even greater gains may be made to reduce the costs to private sector bidders. Whether this is achievable or not across all developing countries, or savings fall short of the goal, the opportunity is nevertheless clear. There may be more effective ways to synchronize and reinforce efforts on the Bank’s GAC agenda. These are all areas that will be explored as part of the review.

C. Changes in Borrower Capacity

60. The extent to which the changes to public procurement described above can take place among the Bank’s borrowers depends on their respective capacities. There is a strong parallel between the growing share of world markets occupied by developing countries, as a result of globalization and integration, with the growing strength of these same countries in terms of macroeconomic policies and domestic institutions. These improvements stretch from the infrastructure to handle the transport of goods to market to better schools to train workers and improved tax collection systems to finance the delivery of public services. While improvements are not uniform—and can be reversed—the general proposition is that public sector capacities among many borrowing members have improved over the past twenty years.

61. **Changes in Public Sector Capacities.** The main measure to gauge these changes is the evolution of the average country ratings of the Bank’s Country Policy and Institutional Assessment (CPIA).³⁹ Unfortunately, there is no specific rating for public procurement, with the closest measure being the rating of the overall quality of public sector management. Using that measure starting in FY98 (when the CPIA was last adjusted in a significant way), as shown in Figure 2, there has been a clear distinction in terms of public sector capacity by income levels and a discernible upward trend over the past decade, especially for high-income Bank borrowers. This trend is less marked for upper middle-income countries and relatively weak for lower middle and low-income countries.

³⁹ A number of high-income countries graduated in the mid-2000s from Bank lending and therefore have ceased to be covered in the CPIA. This affected the CPIA ratings reported in FY09. Data for that year were adjusted to take this into account.

Figure 2: CPIA for Public Sector Management by Average per Capita Income Level

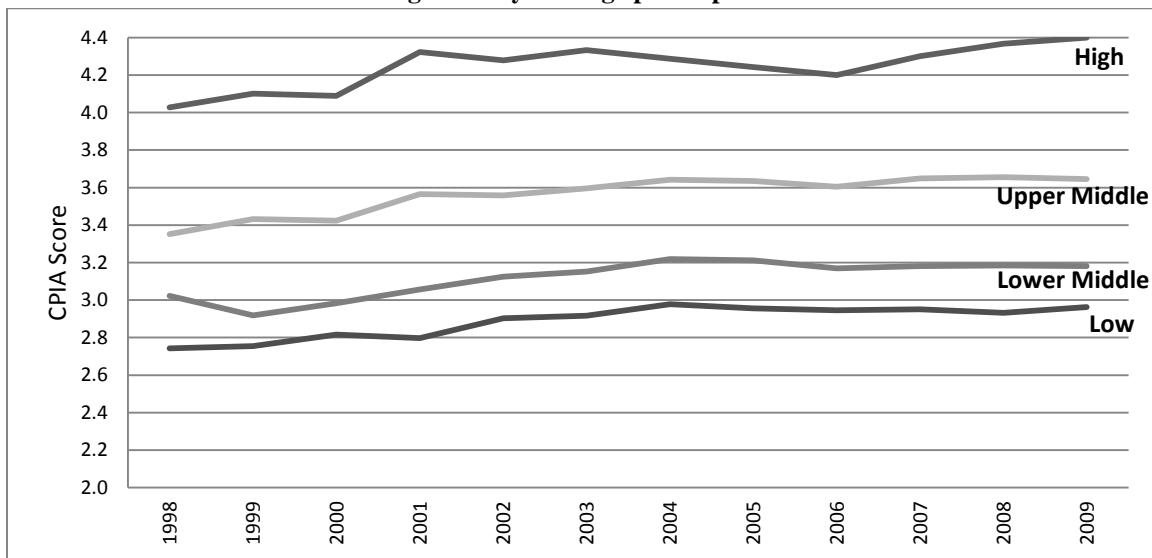
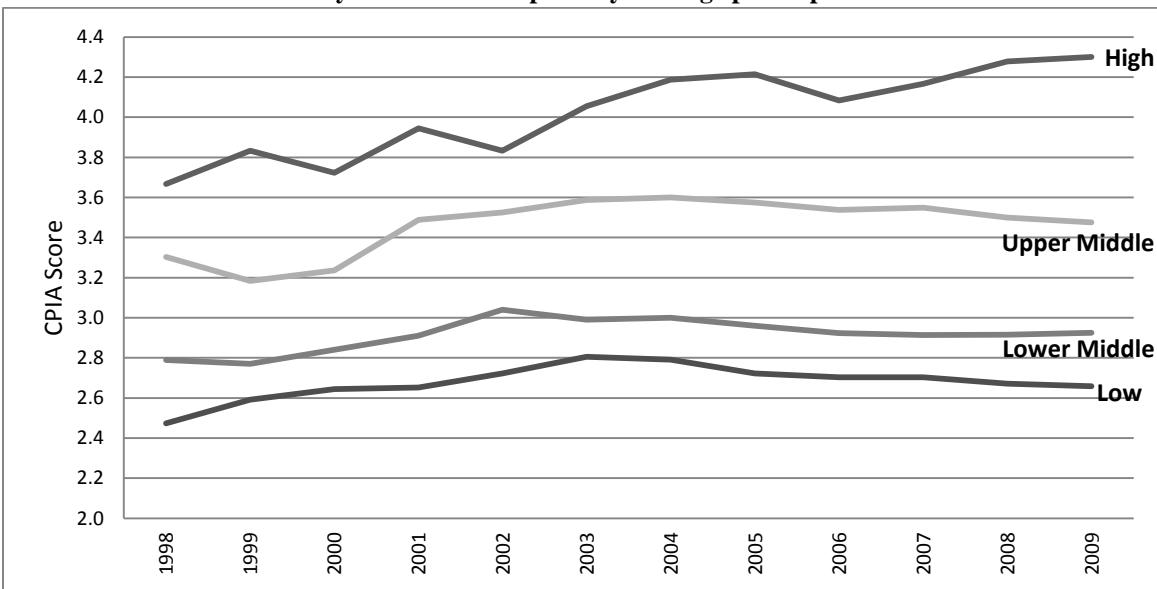


Figure 3: CPIA for Accountability and Anti-corruption by Average per Capita Income Level

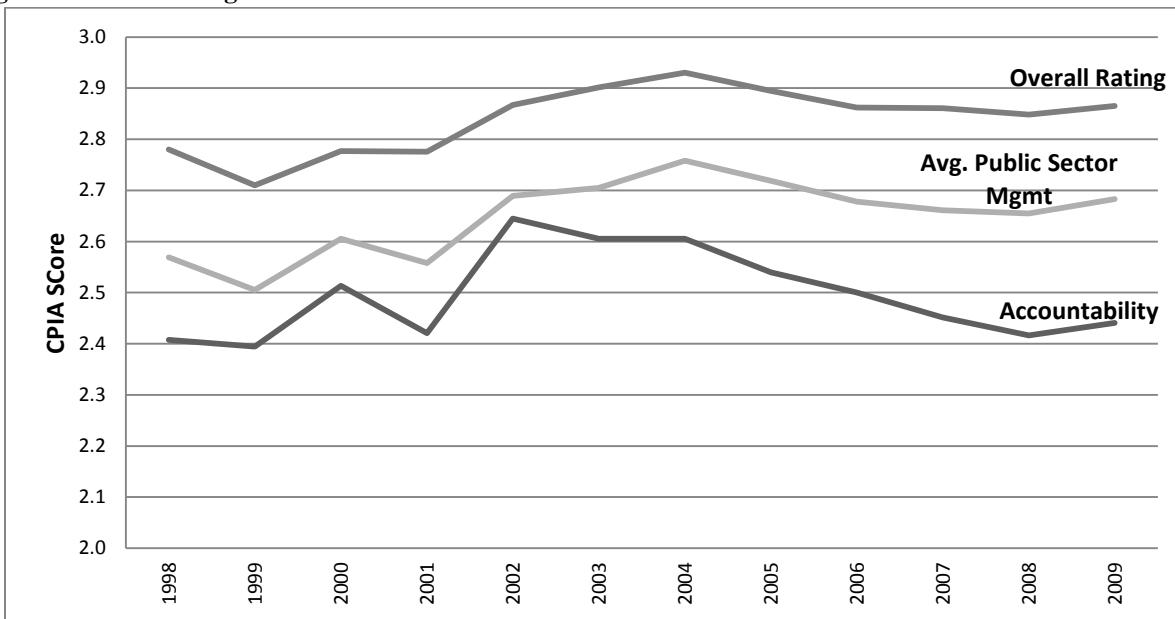


62. A similar pattern holds with respect to the evolution of the CPIA rating on accountability and anti-corruption, as shown in Figure 3. Again, there are wide differences among countries, related to average per capita income with high-income countries showing the strongest performance and the most rapid improvements. On the other hand, the ratings on accountability and anti-corruption for middle and low-income countries show little sustained increase.

63. Signs of progress in strengthening public sector capacities among fragile and conflict-affected states (FCS) and post-conflict countries, those with average CPIA ratings of 3.2 or less, are less clear with little change in ratings on public sector management and the ratings on accountability falling back to the initial levels over the period. As shown below in Figure 4, this group of countries experiences more ups and downs. These results point to the greater challenges and risks in working with the fragile countries on procurement reform, a conclusion shared in IEG's review of the Bank's work with low-income

countries under stress.⁴⁰ That review saw the Bank's procurement policies as too cumbersome for most of these countries and not adapted to low capacity or high-risk environments. Recent revision to the Bank's policy on rapid response to crisis and emergencies support (OP/BP8.00) allows flexibility in the usual procurement policies in order to encourage faster startup and to allow simpler procedures, but more may be done, in particular with regard to procurement capacity building support, risk taking, reliance on other partners, and eventually the consideration of new specific policy provisions.

Figure 4: CPIA in Fragile and Conflict-Affected Countries



64. **New Methods for Assessing Procurement Capacities.** As noted in the first section of this paper, the need for better tools for assessing country procurement capacity systematically came into focus a decade ago. The first concerted effort began in 2002-2003 with the creation of a round table, comprised of thirteen donors, eight multi-lateral organizations, and nine partner countries to devise a new methodology for assessing procurement capacity as required under the 2003 Johannesburg Declaration. This led to the formation in 2005 of an OECD/DAC Procurement Joint Venture co-chaired by the Bank with the mandate to fulfill the Paris Declaration on Aid Effectiveness with respect to the use of country systems for procurement. One of the products of the joint venture under the Bank leadership is the "Methodology for Assessment of National Procurement Systems" (MAPS). MAPS was tried in 22 countries in its pilot phase and used by the Bank in its piloting program for the use of country systems. MAPS is the first tool to evaluate procurement capacities comprehensively and allow comparisons over time and across countries systematically. The results for the 22 countries under the pilot show that average level of capacity is relatively high with respect to regulations, documentation, legislation, and ethics (all above 2 on the three point scale), but lower in appeals, institutional capacity, controls, and mainstreaming (all below 2 on the three point scale).⁴¹

⁴⁰ See "Engaging with Fragile States: An IEG Review of World Bank Support to Low-Income Countries Under Stress", IEG, 2006.

⁴¹ See "Compendium of Country Examples and Lessons Learned from Applying the Methodology for Assessment of National Procurement Systems", OECD, 2008.

65. **A Range of Country Capacities.** A more in-depth examination of changes to country capacity has been carried out for discussion by the OECD/DAC Global Cluster on Country Systems: Task Force on Procurement.⁴² While only a snapshot, these case studies provide insight into how country procurement capacities have changed over time. Below are brief accounts of eight countries demonstrating the wide range of procurement capacities and circumstances among borrowers:

- **Ghana** is an example of a country consolidating reform of its procurement system. Reforms began in 1996 as part of a wider program to improve public sector management. The 2003 CPAR helped to orient reforms that were enacted in a new Procurement law. That law established new structures, rules, and procedures; it set up a new central Procurement authority and an Appeals and Complaints Panel, issued standard bidding documents, and developed training modules. However, there remains much to be done, especially to align regulations with the new law, create incentives for procurement staff, operationalize the new structures, add transparency, and increase efficiency.
- **Mauritius**, one of the Africa Region's best performers across a number of dimensions, has moved considerably from its UK-inspired procurement system before independence in 1968 to a modern one, based on the UNCITRAL Model Law and adopted in 2006. This new legal framework paved the way for a new central Procurement Board (that oversees policy), a set of standard procurement documents, an active program to build a local procurement profession, a forum for interacting with the private sector on common interests, a challenge and appeal system, and a multi-institutional oversight structure which ensures compliance and reviews performance. Mauritius actively benchmarks its system with international good practices, including those of the WTO, and recognizes that this is a dynamic process requiring continuous improvement.
- **Rwanda** is making up ground from the internal strife that occurred in 1994 and to overcome long-standing deficiencies in its procurement system. As of 2004, when a CPAR was conducted, Rwanda was still operating under a pre-independence 1959 Belgian Royal Decree, although it had set up a new procurement tender board in 1997, under the auspices of the Ministry of Finance. That board operated quite well but soon became overwhelmed by processing all high-value contracts. The recommendations made in the 2004 CPAR have been taken to heart and Rwanda has since made considerable progress. It approved a new procurement law in 2007, developed standardized bidding documents, reformed the tender board, added transparency, created a credible complaints mechanism, and increased outreach and staff training. A number of items are still pressing, including staff capacity. Nevertheless, Rwanda's achievements as highlighted in the 2008 PEFA remain impressive for any country, let alone one in post-conflict.
- **Brazil**, a mature country in terms of its use of technology and the depth and breadth of its economy, has a very active industrial sector and a generally-developed public administration. It also has a long history of reforming its public procurement system. Early mistakes were made; for example, the new law introduced in 1993 was overly complex and detailed. By the late 1990s, Brazil introduced technological innovations for the purchase of off-the-shelf goods and non-complex services and was one of the first countries to pilot an e-procurement system. In

⁴² The country studies were finalized in June 2011 for presentation at the Fourth Highlevel Forum on Aid Effectiveness.

2004, it instituted a new system of simplified procurement, reducing the proportion of contracts let on a non-competitive basis. It uses a reverse auction procedure, which is largely automated. The current system is transparent, open, and competitive; it is evidence-based and data-driven; there is a strong control environment; and procurement staffing is professional and well-compensated. Since Brazil is a large federal country, the capacity demonstrated at the central level may not exist in all states, but some states such as Minas Gerais are advancing as well.⁴³

- **Panama** is an upper middle-income country that has lagged in terms of the efficiency and effectiveness of its public services. The 2001 CPAR showed that it had a long way to go to have a modern procurement system. Supported by a Bank-financed TA project that accompanied a DPL, it has made strides to improve the legal framework, with a new law passed in 2006, and to create the supporting institutional structure and capacity. New framework contracts have been developed. There has been progress on several fronts although the new law ought to be revised and more still needs to be done. Signs, however, are encouraging: Panama has one of the region's best e-procurement systems that generated US\$20 million in savings on one contract alone in 2009.
- **Indonesia**, recognizing that its public procurement system was not working well, is committed to making improvements. As pointed out in the 2001 CPAR, the main difficulties were to ensure that the same standards were applied at national, provincial, and district levels, an important dimension given the country's physical make-up and its decentralized administrative structure, and to reinforce its national policy making capacity. Improved procurement regulations were enacted in 2003 and a National Public Procurement Authority, as the driver and central focal point for procurement policy reform initiatives, was set up in 2007. Since then, a single, national e-procurement system has been developed, including e-tendering and e-purchasing through a catalogue, along with a master plan for human resource development—laying out plans for accreditation, systems for complaints handing, and indicators for measuring compliance and performance. The goal is to have a fully-integrated system for oversight and monitoring linked to audit and evaluation systems. This work is an ongoing process leading up to a new Public Procurement Law with all of the supporting regulations and standard documents in 2012.
- **Morocco** started early to modernize its public procurement system, amending the main legislation in 1998 and significantly aligning policies with international best practices. Since then, it has taken steps to incorporate features needed to comply with the country's international commitments with the EU and under its United States bilateral free trade agreement. It has also advanced in the use of SDBs, in making procurement information public, and in linking procurement with its public expenditure management systems. Morocco is currently working to make sure that its public procurement rules are consistently applied across the public sector and reforming its Central Procurement Board. Issues of governance and anti-corruption are being addressed, with Morocco collaborating closely with the OECD. There is more to do on strengthening complaints handling, enhancing the human resources devoted to procurement, and developing its internal control and audit systems as part of a comprehensive program dedicated to fraud and corruption.

⁴³ See "How Procurement Modernization Helped Improve Transparency and Efficiency in Minas Gerais, Brazil", IBRD Results, March 2010.

- **Afghanistan** has a very long way to go. Donors operate in parallel to the Government's procurement system that uses a procurement agent while attempting to create the structures and capacity needed for the long run. A new procurement law was passed in 2005, a procurement policy unit was set up, and regulations were issued in 2007, including standard bidding documents. Nevertheless, effective implementation remains elusive and capacity development, the key constraint, has been made even more difficult by perceptions of high levels of corruption.

66. **Wide Ranging and Diverse Opportunities.** The picture that emerges from the above synthesis of country procurement capacities is one of wide differences that may vary by political economy, local conditions, size, income level, and even by region. Thus, certain borrowing countries, especially high and upper middle-income countries, may be able to advance rapidly towards reforming their procurement systems, adopting new concepts such as value for money for high-impact, high-value, and complex procurement. For others, the path might be modest and take longer. Some may first work towards using e-procurement to simplify procurement processes and make them more transparent for high-volume, low-value transactions. Other countries may have to focus on putting in place the underlying legal and institutional foundations. Fragile and conflict-affected states will likely face particular challenges in reforming their procurement systems and small countries may face capacity and market constraints. Moreover, as shown in the results of the piloting of the use of country systems, client capacity is not uniform across all dimensions of the procurement function; that is, particular borrowers may be quite good at some things but not others. The bottom line is that the Bank's approach to procurement needs to be tailored to these increasingly differentiated capacities and to respond to the wide range of opportunities that exist to help countries improve their procurement systems. The review will examine ways in which this may be achieved.

D. Changes in the Bank's Business

67. Since the Bank's founding, there have been profound changes in global markets, borrower capacities, and development priorities, with commensurate shifts in how the Bank works, what it does, and what it finances. All of these changes, in one way or other, have had an impact on the relevance and application of the Bank's procurement policies and procedures. Indeed, the organizations that make up the World Bank Group have different business models and follow distinct procurement policies: IFC and MIGA follow commercial practices, while IBRD and IDA adhere to the Bank's Guidelines. In this section, we analyze how these changes have had an impact on the Bank's procurement policies and procedures and how they are applied.

68. **New Sectors.** The most dramatic shift since the Bank's founding has been the expansion into sectors beyond infrastructure. Importantly, the Bank has moved from primarily a financier of large-scale infrastructure to becoming the world's largest external supporter of education, an advocate for the reform of health delivery systems, and a proponent of community-driven development, rural livelihoods, and conditional social transfers for the poor. Through the early 1960s, infrastructure dominated, with about half of the Bank's lending concentrated in only two sectors—transport and power. Support for social sectors began in the mid-1960s (coinciding with the creation of IDA) and accounted for 5 percent of total lending in 1965, rising to 11 percent in 1971.

69. These shifts across sectors, which accelerated during the 1980s and 1990s, have had an important impact on procurement under Bank-financed operations. The nature of the contracts and their size changed considerably. Borrowers undertaking procurement and managing project implementation have also changed; instead of large, centralized public enterprises and development banks, implementation of many Bank-financed operations is increasingly decentralized and undertaken at the level of sub-national governments, towns, local schools, hospitals, farmers, and community associations. Data on prior reviewed contracts over the past fifteen years,⁴⁴ presented in Table 2, show waning activity in sectors such as industry and telecommunications, combined with a steady presence in social sectors and resurgence in water and transportation. These data further expose the dichotomy between the social sectors and infrastructure: health and education account for 12 percent of the value of the contracts reviewed by the Bank in the FY06-10 period and 28 percent of the number of such contracts while water, energy, and transportation represent 36 percent of the number of contracts reviewed and 73 percent of the value of those contracts. Contracts in agriculture, public administration, education, and health averaged about US\$530,000 while the average contract size in infrastructure reached US\$2.5 million. Yet, the way that procurement is carried out for the social sectors is largely the same as for infrastructure.

Table 2: Prior Review Contracts: Number, Amounts, and Average Size by Sector

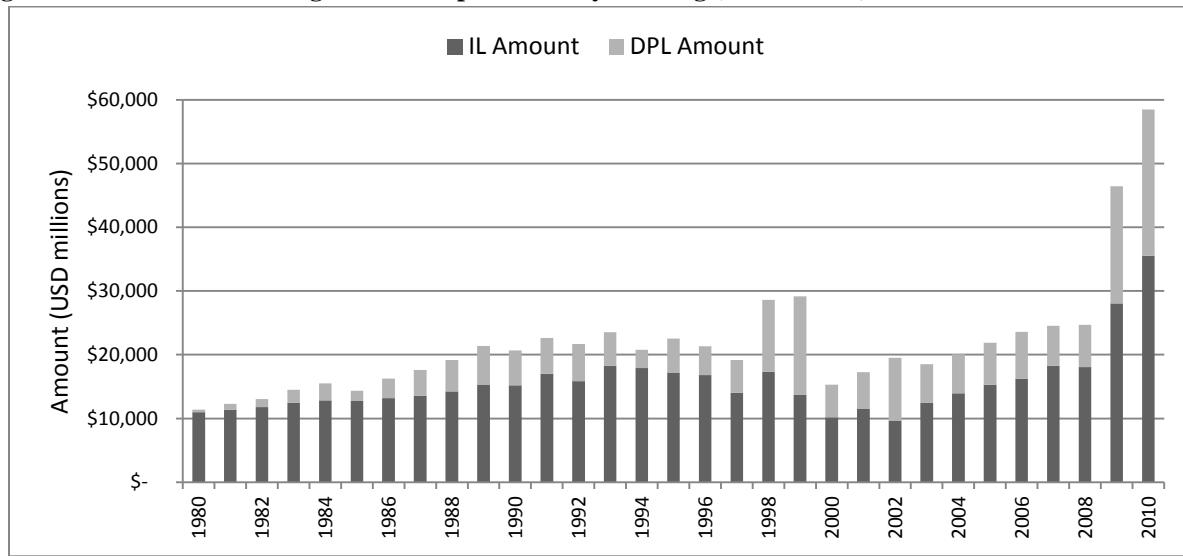
Major Sector	FY 96-00		FY 01-05		FY 06-10				
	Number	Amount (US\$'M)	Average (US\$'M)	Number	Amount (USD' M)	Average (US\$'M)	Number	Amount (US\$'M)	Average (US\$'M)
Agriculture	4,413	3,335	0.755	3,733	2,293	0.614	4,797	2,733	0.569
Public Admin. & Law	10,729	6,018	0.560	7,548	3,840	0.508	7,270	3,462	0.476
Info & Communication	433	721	1.664	402	263	0.655	529	213	0.403
Education	7,085	3,201	0.451	4,993	2,513	0.503	4,453	1,869	0.419
Finance	996	638	0.641	1,183	737	0.623	1,238	903	0.729
Health & Social Services	7,724	3,804	0.492	7,654	4,149	0.542	7,198	4,502	0.625
Energy & Mining	4,338	11,512	2.654	3,622	4,607	1.272	4,221	8,867	2.100
Transportation	7,203	17,603	2.443	6,117	17,611	2.878	5,414	20,304	3.750
Water	5,129	7,038	1.372	4,294	4,401	1.024	5,185	8,715	1.680
Industry & Trade	1,737	1,341	0.772	1,353	866	0.640	1,187	596	0.502
Not Assigned	31	2,884	0.094	44	4	0.107	27	14	0.525
TOTAL	49,817	55,220	1.108	40,943	41,290	1.008	41,519	52,183	1.256

70. **New Instruments and Delivery Mechanisms.** The second main shift in the Bank's business has been the introduction of new lending instruments and new ways of delivering support. The mainstay of the Bank's business from the start has been Sector Investment Loans (SILs). In many ways, these are the operations, principally in the infrastructure sectors, for which the Bank's procurement policies were originally designed and remain best-suited. Over time, other lending instruments were added: notably, Sector Maintenance and Investment Loans (SIMs), which support sector-wide investments of a

⁴⁴ These data on contract award and procurement method are limited to those contracts prior reviewed by the Bank. That system covers all ICB, a large number of NCB contracts and practically all other contracts that fall outside of these two main procurement methods because they involve alternative non-competitive methods such as force account, direct contracting, limited competition or sole sourcing regardless of their size. The Bank has no *de minimis* threshold.

programmatic nature, and Financial Intermediary Loans (FILs), which provide credit to private businesses, in about 1950; Technical Assistance Loans (TALs), in 1966; Emergency Recovery Loans in about 1970; and Adaptable Program Loans (APLs) and Learning and Innovation Loans (LILs) in the mid-1990s. It should further be noted that a growing part of the Bank's business is the management of funds provided by third parties as grants and trusts. All of these instruments, as shown in Table 3, for the most part use the same procurement procedures as SILs, with the exception of DPLs, FILs, Guarantees, and the new PforR financing instrument.

Figure 5: Investment Lending and Development Policy Lending (US\$ Million)



71. Some new instruments do not entail any procurement subject to the Bank's Guidelines. A significant departure in the way that the Bank operates, dating from the early 1980s, is policy-based lending, now called **DPLs**. This changed the landscape for the application of the Bank's procurement policies: for all intents and purposes, the Bank's funds are made available under DPLs for use as general revenue and are not tied to any specific procurement activity. They can, however, be effective in leveraging improvement to public procurement systems through the inclusion of procurement reforms. Figure 5 below shows that DPLs have become an important part of the Bank's lending, tending to peak during periods of economic crisis, as in 1998-1999 and again in 2009-2010. Another instrument for which the Bank's procurement policies only broadly apply is **Guarantees**. Although always part of the Bank's legal mandate, guarantees were not mainstreamed until the mid-1990s and are still used only exceptionally. The expectation is that the private actors involved will follow what is in their best interests, using prevailing standard commercial practices. Finally, many operations are exploring innovations such as **output or performance-based** delivery. The new PforR instrument is an example of transforming this approach to a new instrument, with its own procurement policy, based primarily on national procurement procedures.

72. New delivery mechanisms have also had an impact on the Bank's procurement policies. **PPPs**, launched after a wave of privatization in the 1980s and 1990s, entail new ways of channeling financing to the private sector. The Bank's Guidelines do apply to PPPs with changes made in 1997 and again in 2004. The most recent changes in 2011 have addressed most of the remaining tensions between the open competition required under the Guidelines and the flexibility implied in working in partnership with a

private entity. Furthermore, discussions with IFC continue on harmonization across the Bank Group, drawing upon IFC's experience with PPPs as part of this review. A guidance note prepared under the umbrella of MDBs harmonization has been issued, and more coordination, internally and with co-financiers, is taking place in line in particular with the G-20 Infrastructure Action Plan and the World Bank Infrastructure Strategy focusing on transformational projects to position the Bank to take the lead in accelerating investment in infrastructure.⁴⁵ It has also proven difficult to realize the full gains using **Sector-Wide Approaches (SWAs)**, under SIMs, where funds are often pooled with other donors, as there is no common platform. Another challenge has been how to accommodate the thousands of small purchases made under **Community-Driven Development (CDD)** operations that are the mainstay of the Bank's poverty reduction agenda. Changes were introduced in 1999 to allow simplified procurement processes, but tensions remain over the efficiency and economy of the formalistic, procedural procurement under the Bank's Guidelines, which requires competitive purchasing in comparison to procurement that relies on the community-based methods. Studies show that community-based modes can deliver good value for money.⁴⁶ Another mechanism is **Conditional Transfers** that have become successful in reducing poverty, along with achieving goals such as increasing school attendance. For these transfers, the Bank's Guidelines do not apply as such transfers involve no procurement. Table 3 summarizes the procurement procedures employed in each of these instruments and delivery mechanisms.

Table 3: The Mix of Procurement Methods by Instrument, Nature and Application

Instrument	Applicable Policy	Choice of Methods, Nature and Application
Development Policy Loans (DPLs)	The Bank's policy under OP/BP8.60 applies.	There is no procurement unless a portion of the Bank's financing is used for a specific purpose other than general revenues. If a specific purpose was agreed, then the Bank's Procurement Policies under OP/BP11.00 would apply. This option is rare.
Specific Investment Loans (SILs)	<p>The Bank's policies under the Guidelines and OP/BP11.00 apply.</p> <p>Funds are used to acquire the goods, works, and non-consulting services needed for the realization of the project's goals, subject to certain restrictions laid out in OP/BP6.00 that deal with specific matters such as taxes, food, land acquisition, etc.</p> <p>There are restrictions on the ability of UN organizations to compete.</p>	<p>Goods, Works, and Non-consulting Services</p> <p>(1.) ICB is followed for larger, more complex goods, works, and non-consulting services, with contracts packaged to appeal to international suppliers to the extent possible. In practice, all ICB procurement is reviewed by the Bank.</p> <p>(2.) NCB, based on national procurement systems and modified to be in conformity with Bank requirements, is followed for medium-sized contracts below the threshold for ICB and above the limit for local shopping. There may be a limit to the total amount contracted under this method. The first few NCB procurements would usually be reviewed by the Bank. The balance would be captured in the post review process.</p> <p>(3.) Local Shopping requires written submission of three quotes for goods, works, and non-consulting services below a set limit, usually in the range of up to US\$20,000 to \$50,000 per transaction. There may be a limit to the total amount of the loan contracted under this method. These transactions are not prior-reviewed by the Bank and are captured in the post review process.</p>

⁴⁵ Part of that agenda is to examine the bottlenecks in expanding support for PPPs and facilitating co-financing of infrastructure investments.

⁴⁶ For an example, see "Community Based Procurement: Value for Money Analysis", which studies 22 CDD operations in India. Innovative ways to procure under CDD operations are also being pursued in the case of Indonesia.

	<p>There are also restrictions on the participation of public sector entities, such as universities, media outlets, and research organizations.</p> <p>Firms and individuals that have been debarred by the Bank cannot compete for new contracts for stipulated periods.</p>	<p>(4.) Limited forms of competition and no-bid contracts such as Direct Contracting, Force Account, or Sole-Source are allowed if approved by the Bank. Each case must be reviewed by the Bank, although RPMs now have the discretion to fix a lower limit at no greater than US\$10,000.</p> <p>Commodities</p> <p>Specific processes are allowed for the bulk purchases under some modified version of competitive bidding. Each case must be reviewed by the Bank.</p> <p>Health Sector Goods and Textbooks</p> <p>These items require special bidding documents and contract forms. Health sector goods includes pharmaceuticals, vaccines, condoms, nutritional supplements, and oral and injectable hormonal forms of contraception.</p> <p>Information and Communications Technology</p> <p>Given the complexity of large scale ICT systems development (e.g., tax administration, statistics, public financial management systems), particular procedures have been developed for these cases. Such procurements would usually be reviewed by the Bank.</p> <p>Consulting Services</p> <p>There is a choice of evaluation mechanisms that combines price and quality based on an agreed short list of firms from diverse sources (no more than six per short list and from more than three countries). The decision of which method to use is agreed with the Bank. Terms of reference, the short list, evaluation methodology, final selection, and contract are reviewed by the Bank for major assignments above a certain amount. Smaller contracts would be captured in the post review process. Different thresholds for review by the Bank apply depending on whether the consultant services are to be provided by a firm or by an individual. Simplified procedures based on review of CVs are generally allowed for the contracting of individual consultants. Depending on the amount, these may be reviewed by the Bank. The balance would be captured in the post review process. Sole-sourcing may be allowed subject to the Bank's approval. Such contracts are reviewed by the Bank. Contracting of all legal services/advisers needs agreement of the Legal Department.</p> <p>Salaries</p> <p>Typically salaries for staff engaged to work on a project are treated as individual consultants as above. Under sector-wide operations (SWAs), salaries may be eligible and not subject to any procurement.</p> <p>Operating Costs (e.g., gasoline, maintenance, utility costs, office supplies, rent, bank charges)</p> <p>No specific procurement is involved with the implementing agency allowed to make such minor purchases according to an agreed operating plan. In the case of sector-wide operations, these costs may also be eligible and typically are allowed without any specific procurement, as in the above case of salaries. Minor purchases of equipment and small works may or may not be allowed under operating costs and may instead be procured according to the rules for works and goods as summarized above. Under sector-wide operations, operating costs may be eligible and not subject to any procurement. Such eligible costs may include supplies, inputs, and minor works.</p> <p>Transfer and Grants (e.g. conditional transfers, R&D, incentives)</p>
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		<p>No procurement is involved, with the beneficiaries selected according to agreed criteria. Such transactions are subject to financial and other audits and may be scrutinized on a sample basis to verify eligibility.</p> <p>Sub-Projects (e.g. community programs)</p> <p>Beneficiaries are expected to follow the Bank's usual processes, albeit these can be simplified while maintaining preference for competition. Local shopping is likely a common method. The use of funds is subject to various forms of community controls, third party inspections, and social and financial audits as well as subject to occasional on-site visits by supervisory staff.</p> <p>Private-Public Partnerships (PPPs)</p> <p>If the private partner had been selected on the basis of a competitive process, normal commercial practices can be followed. However, if the partner was not selected on a competitive basis, the operation needs to follow the Bank's Guidelines.</p>
Sector Maintenance and Investment Loans (SIMs)	The Bank's policies under OP/BP11.00 apply.	As above for SILs.
Financial Intermediary Loans (FILs)	Commercial Practices are used as allowed under OP/BP11.00.	<p>Sub-Loans</p> <p>Recipients are expected to follow normal commercial practices that yield procurement outcomes in their best interests. Since recipients have to repay the sub-loans, there is convergence with the Bank's broad principles of economy and efficiency.</p> <p>Other Components</p> <p>If the operation includes other components besides sub-loans (e.g., consultants, goods, works), then the Bank's standard procurement policies apply as outlined above.</p>
Technical Assistance Loans (TALs)	The Bank's policies under OP/BP11.00 apply.	<p>Consultants</p> <p>Typically these operations would consist mainly of the contracting of consultants selected according to the Bank's Guidelines.</p> <p>Other Components</p> <p>TALs may also include some other elements, including IT systems, works, and goods. The Bank's standard policies for works and goods would apply as outlined above.</p>
Crisis and Emergency Response Loans	Simplified procurements allowed under OP/BP8.00 apply	Typically such operations would include rehabilitation works, replacement of goods and equipment, essential inputs such as medicines, school materials, and provision of social safety nets. The standard procurement policies still apply, but processes can be simplified, thresholds adjusted, and direct contracting permitted as needed to expedite the recovery effort and implementation. If there is a quick-disbursing component, borrower emergency procedures may apply.
Adaptable Program Loans (APLs), Learning and Innovation Loans (LILs)	The Bank's policies under OP/BP10.00 apply	The procurement processes under these operations are the same as for SILs.
Trust Funds and Grants	Depending on the purpose of the grant or trust fund, the relevant Bank policy applies.	The above policies apply, in conformity with Bank policy depending on the nature of the procurement (goods, works, non-consulting services, consulting services), the size of the transaction, and the purpose and objectives of the grant/trust fund.

Guarantees	There is no procurement.	There is no procurement, since the use of funds is triggered by the conditions set out in the guarantee agreement. Beneficiaries of guarantees are expected to carry out the operation supported by the guarantee with due diligence and attention to economy and efficiency, as is in their interests, typically following normal commercial practices.
Program for Results	Procurement and other fiduciary requirements are set out in OP/BP9.00.	The Bank's financing supports overall program goals and achievements. Thus, de facto, there is no procurement in accordance with the Bank's Guidelines per se. Instead, the procurement transactions that occur under the program follow the borrower's normal practices, which are subject to review and assessed ex ante by the Bank. Thus, any corrective actions and improvement to those borrower systems are incorporated into the program design with the process monitored by the Bank. If the borrower's program contains any high-value contracts that would normally have been subject to review by the Bank's OPRC, such contracts would be excluded from the financing provided under the PforR.

73. **Is there Best-Fit-For-Purpose?** As evident in the above discussion on the changes to the Bank's business, the Bank's procurement policies have had to adapt. In some cases, these policies simply do not apply and, in other cases, existing policies have been revised to accommodate the new ways of doing business, accompanied by additional guidance and clarifications for Bank staff and borrowers on how to deal with these new applications. In many cases, these accommodations have resulted in a difficult balance of maintaining the integrity of the Bank's Guidelines and responding to the demands of these new applications. It is not clear that we have yet found the best-fit-for-purpose especially with respect to finding innovation solutions (e.g., PPP operations), improving response time and costs (e.g., emergency operations), and meeting the test of proportionality for high-volume, low-value contracts found in social sector operations and community-based programs. Nor is it clear if the mix of methods is sufficiently nuanced to the varying level of risks and institutional capacity in borrowing members, especially in fragile and post-conflict states. Small countries, too, may have difficulties in undertaking regional initiatives, attracting bidders, and achieving economies of scale. These are among the issues to be addressed as part of the review.

IV. THE BANK'S ROLE, INTERNAL STRUCTURES, PROCESSES AND CAPACITY

74. This section of the Discussion paper synthesizes the Bank's role in procurement and assesses how the Bank is set up internally to implement the Bank's procurement policies. It first looks at the core functions, staffing, resources, and workloads. It next analyzes how the Bank exercises its fiduciary responsibility and provides oversight of procurement transactions via prior and post reviews. It then provides an overview of available, albeit limited, assessments of the quality of this work and summarizes the responses to surveys of Bank staff on where the Bank should go next. It ends with questions that can be pursued as part of the review.

75. **The Bank's Role in Procurement.** Without effective procurement to deliver the right quantity and quality of goods, works, and services at the right time, it is obvious that Bank-supported operations would struggle to realize their development objectives. The Bank's role starts with an assessment of the capacity of implementing agencies to carry out the required procurement, given the nature and attributes of the operation, and the level of associated risk. That level of risk then determines the scope and

intensity of the supervision arrangements by the Bank during implementation and the actions by the borrower that will be necessary to maintain risks at an acceptable level. The borrower, in turn, prepares a procurement plan, to be updated annually, that covers the activities necessary to ensure that procurement will be carried out efficiently and professionally. This includes the estimated costs, packaging of bids, and procurement methods according to the specific thresholds agreed with the Bank in conformity with the Bank's Guidelines. The procurement plan further incorporates, as necessary, actions to address implementing agency deficiencies and to mitigate risks. As with all Bank-supported operations, once a loan has been approved, the borrower carries the primary responsibility for implementation in accordance with the legal agreement reached between the two parties with the Bank providing advice and support as implementation proceeds.

76. Fiduciary Obligations. While the Bank is not a direct party to individual procurement transactions, the Bank has a critical fiduciary role, as also in the case of financial management and social-environmental safeguards. In the case of procurement, the Bank has an obligation to ensure that the Bank's financing is used for the purposes intended. This entails two things: first, that borrowers adhere to specific requirements as laid out in OP/BP11.00 and the Guidelines, and, second, that the Bank has in place processes to verify outcomes and take remedial action. The long-standing operative interpretation is that the Bank can put in place itself such arrangements, as in the case of the Bank's prior reviews, or see that such arrangements are in place on the part of the borrower, as is done through financial audits. At the time of the Bank's founding, there was a compelling reason for this hands-on approach given the long-standing absence of international standards governing public procurement combined with weak country procurement capacities, including the lack of appropriate accountability mechanisms. Increasingly, the Bank's aim is to undertake these fiduciary functions on an integrated basis.

77. Beyond Projects. The Bank's interest in procurement goes well beyond the specific Bank-supported operations to include the broader questions of overall public sector management, governance and anti-corruption, sustainability, competitiveness, harmonization, and advances in global trade policy, among other things. Thus, in parallel to the work that the Bank carries out on individual operations, there is an accompanying agenda, not addressed by the Bank's procurement policies, *per se*, geared towards country-level procurement reform and capacity building. Such efforts are incorporated in the Bank's ongoing country policy dialogue, analytical work, and policy advice (AAA). These efforts can be supported by DPLs, specific sector investment operations, technical assistance programs, TALs, or financed by the Bank's Institutional Development Fund (IDF). This broader agenda understandably includes the Bank's country management units and sector units such as the Poverty and Economic Management Units (PREM) and many actors beyond the Bank's Procurement specialists, ranging from public sector management specialists, sector specialists, lawyers, and colleagues in INT.

78. Staffing and Organization. Because of the Bank's fiduciary obligations, a select cadre of Bank staff has been empowered, under BP11.00, to work as part of task teams with borrowers on procurement matters and to sign off inside the Bank and with borrowers on the individual transactions requiring the Bank's "no objection". For each project financed by the Bank, the Task Team Leader (TTL) has the primary responsibility to ensure that procurement is carried out in accordance with the Bank's policies and procedures and, *inter alia*, obtain appropriate internal clearances before signing off on the borrower's actions, recommendations, and/or decisions with respect to procurement under the project. Specialized Procurement specialist (PS), located in dedicated procurement units in each of the Bank's six regional

operating vice-presidencies and Procurement Accredited Staff (PAS) in sector units provide this support, at their respective level of authority and accreditation. TTLs are generally not accredited in procurement themselves. High-level PS's are typically located in the field as Country Coordinators. Each of the regional procurement units is headed by a Regional Procurement Manager (RPM). RPMs and high-level PSs play key roles in helping TTLs and more junior PS staff deal with procurement problems and coming up with solutions. They also deal with sensitive matters, innovative methods, exceptions, and complex transactions for which there is no ready answer. These units are supported by the anchor policy unit and the Legal Department who provide additional support and advice to regional management, as well as PSs and PASs.

Table 4: Number of Procurement Staff by Region/Unit, FY11

AFR	EAP	ECA	LCR	MNA	SAR	OPCPR	SDN	LEG	Bank-wide
61	42	34	26	13	32	9	1	2	220

79. As shown in Table 4, there are 220 PS in total, as reported in the FY11 Annual Report on Procurement.⁴⁷ They represent about 6 percent of the total number of professional staff working in the Bank's regional vice-presidencies. Most of these staff —70 percent— are located in country offices and almost all responsibility for handling procurement, both for lending and supervision, has been delegated to country offices within the limits of the level of accreditation of the procurement staff located in those offices. As of FY11, 87 percent of the number of investment operations under preparation and implementation were in the hands of PS located in country offices. Increased levels of decentralization have been particularly noticeable in the EAP Region, moving to 99 percent of all operations in FY11, and in the SAR Region, to 89 percent in FY11. These decentralized procurement staff are at the front line in dealing with clients and, as reported in the staff survey, are those on whom TTLs rely to handle the bulk of procurement work.

80. In addition to these PSs, there are another 80-90 Bank staff and consultants accredited to discharge procurement responsibilities and make procurement decisions up to their level of accreditation, bringing the total to about 300 PAS in the Bank. The great majority of these PAS tends to be engineers and other specialists in infrastructure who do not work full time on procurement matters but are able to play the PS role. Based on the results of the staff surveys, it does not seem that these PAS play a major role in procurement processes beyond the operations on which they work directly.

81. The Procurement Sector Board (PSB) has aimed at professionalizing the Procurement network and is responsible for accrediting staff as procurement proficient. In parallel to this policy review, Management will further review the skills mix and the balance between staff at various grade levels and between HQ-based and field-based staff, and the staffing needs in large country offices and key offices serving several countries. At the same time, Management is engaged in strengthening the network's management structure, including an increase in the number of RPMs to manage and better support the cadre of highly-decentralized PSs and the renewal of the PSB in line with the current Bank-wide review of the functions and best practice of networks boards.

⁴⁷ See "Financial Management and Procurement in World Bank Operations: Annual Report for FY11", dated February 29, 2012.

82. **Roles and Responsibilities.** Procurement staff, under the leadership of each Region's RPM, are mandated with the following tasks:

- Carrying out country capacity assessments (CPARs, PEFAs), participating in public expenditure reviews and other related AAA, benchmarking of the MAPS, contributing to development policy operations, providing technical assistance, and supporting capacity building (e.g., IDF for capacity building, non-lending TA, e-procurement pilots) and procurement reform.
- Assessing borrower risks and capacities for individual Bank-financed investment operations, working through the details of the procurement methods and plans, and signing off on that plan prior to loan approval.
- Providing advice and support during the course of implementation, including updating of procurement plans, carrying out prior reviews of designated contracts with the related sign-off by the Bank, and overseeing and/or carrying out post review of a sample of other contracts, along with internal reporting and participation in portfolio management exercises.
- Dealing with bidder complaints and misprocurement during the course of implementation.

83. PSs typically deal with the full spectrum of the above roles and responsibilities, which have grown over time. As expected, the most senior staff, often based at Headquarters, play a larger role in areas such as carrying out CPARs and in exercises such as the piloting program of the use of country systems. These senior staff are also more likely to deal with complaints and INT investigations.

84. The anchor unit of the Procurement Sector Network plays the central role with a specific mandate for:

- Updating the Bank's policies and procedures, collaborating with other parts of the Bank on new instruments, GAC, anti-corruption initiatives, etc.
- Reporting to the Board annually on the Bank's procurement activities.
- Generating tools, systems, guidance, and providing training and information programs for the larger community including staff, borrowers, and the private sector.
- Servicing the Operational Procurement Review Committee (OPRC), the committee that reviews high-value, complex transactions whose contract values are above the thresholds established for review by RPMs.
- Collaborating with the international network of organizations on public procurement, harmonization, development effectiveness, and results.

85. **Resources and Workloads.** The Bank's total administrative budget allocated to the six regional procurement units was estimated to be about US\$35 million for FY11. This breaks down roughly as US\$22 million for staff salaries and benefits, US\$5 million for indirect costs (e.g., field benefits, office space, IT), and US\$8 million for variable costs such as travel and consultants. Out of a total regional

administrative budget of US\$1,065 million for all six Regions, the share devoted to procurement represents approximately 3.3 percent.

86. The resources allocated to these dedicated regional procurement units (excluding time spent on procurement by other members of task teams, lawyers, and other specialists) are primarily devoted to project supervision, with just over half for reviewing contracts, according to estimates provided by the regional procurement units. On average, procurement units spend about 10 percent—or US\$3.5 million—on capacity building, analytical studies, procurement reform, and policy advice. This is followed by about 20 percent—or US\$7 million—on new project preparation and appraisal. The balance, 70 percent or US\$24.5 million, is spent on supervision and implementation support. According to PSs, the majority of that time—some 80 percent or roughly US\$20 million of the Bank’s total effort—would likely be spent on prior and post reviews of contracts. There are notable variations among regions. The Africa and SAR Regions devote a larger share than the average on lending, while the MNA and LAC Regions direct a greater share than the average to capacity building and policy advice. In turn, the ECA Region spends a larger share of its resources on joint financial management-procurement fiduciary reviews.

87. Comparing the FY11 level of resources with the number of new operations approved that year, the number of operations under implementation and the effort on reviewing contracts in FY11, we can derive an approximation of the level of effort per operation for lending and supervision and per contract for prior and post reviews.⁴⁸ Table 5 shows that, on average, about US\$23,890 is devoted to each new investment operation, US\$13,460 to each operation under supervision, US\$1,822 for each contract subject to prior review and about US\$232 for each contract subject to post review. With the average size of a contract under prior review being US\$1.4 million and the average under post review estimated to be US\$168,000 (see Table 6), the Bank’s contract review effort represents a very small fraction of average contract value, about 0.15 percent.⁴⁹ In terms of Bank-wide averages for lending costs and for supervision, the amounts spent on procurement are in the range of 5-10 percent of the total for supervision and lending. It should be noted that the number of transactions reviewed by PSs does not capture all of the procurement effort related to Trust Funds and IDFs, nor do these figures break out the time and effort by PSs in dealing with INT investigations and DIRs. According to anecdotal accounts, such activities are both time-consuming and demanding although time-recording data are not sufficiently detailed to be able to break out the actual time being spent on such activities by PSs.

Table 5: Estimated Bank Administrative Resources Devoted to Procurement (FY11)

	Lending	Supervision	Prior Review	Post Review
Number of Transactions	293	1,820	9,683	8,430
Administrative Budget (US\$'000)	7,000	24,500	17,640	1,960
Average Cost (US\$)	23,890	13,460	1,822	232

⁴⁸ This analysis assumes that all preparation and appraisal effort is attributed to the new investment operations approved in the year, while some of these efforts would undoubtedly have been directed at potential operations in the pipeline. It also assumes that all of these efforts are directed mostly at investment lending while a portion would have gone to DPLs, for example. Another assumption is that 80 percent of supervision resources are devoted to contract review—90 percent of that for prior review and 10 percent for post review. Note that the number of operations under supervision includes those financed by recipient-executed trust funds. Finally, costs do not include the effort put in by staff for the review of large, complex transactions by the OPRC.

⁴⁹ There are insufficient data to assess how much of the Bank’s efforts goes into large complex contract reviews. One would assume that these large contracts underwent considerable scrutiny, well above the average.

88. **Prior Reviews.** From the point of view of the allocation of the Bank's administrative budget and cost-effectiveness, the above analysis shows that the driver is the number of contracts subject to prior review. These reviews are skewed in terms of value versus the number of contracts being reviewed. Out of the number of contracts under prior review in FY11, the largest 100 contracts in terms of value, close to 1 percent of the total number, accounted for US\$6.3 billion or 46 percent of the total value of prior review contracts.⁵⁰ The largest 1,000 contracts, roughly 10 percent of the number of contracts, amounted to US\$11.3 billion or 83 percent to the total value. This leaves 90 percent of the total number of contracts, some 8,683 contracts, to account for the remaining US\$2.3 billion, averaging about US\$267,000 per contract.

89. There are several reasons why there is such a large number of relatively small contracts reviewed by the Bank. The first reason is the thresholds set for the review of ICB may not have kept pace with the changes in markets and borrower capacity. In fact, ICB remains the procurement method of choice (see Box 8) and the changes in thresholds under the 1997 reform did not have a sustained effect: the number of contracts subject to prior review dropped from 11,307 in FY96 to 6,999 in FY03, but the number has since crept back up reaching 10,414 in FY10 and 9,683 in FY11. The second reason is that, up until recently, there was no *de minimis* level set for prior review that has been required for all procurement awarded on a non-competitive basis, such as limited competition, negotiations, force account, direct contracting, and sole sourcing, regardless of size. This has been compounded by the lack of clarity over what constitutes a sole source contract versus items that should be categorized as operating costs. Moreover, project authorities with an abundance of caution submit for the Bank's contracts for prior review that would normally have been below the thresholds. As a result, small printing jobs, the purchase of minor office equipment, and the salaries paid to clerks, drivers, and office security staff are frequently reviewed by the Bank. With the latest changes to put in place a minimum cutoff for prior review, such items may no longer be subject to prior review, only post review.

Box 8: Reliance on ICB

Despite the many changes in the nature of the Bank's business, ICB has retained its central role as the procurement method of choice. Over the period FY96-FY10, ICB represented 77 percent of the value of the contracts subject to prior review by the Bank and 50 percent of their number in that period. Next in importance was NCB, representing 17 percent of value and 35 percent of number. Non-competitive forms of procurement—direct contracting, force account, limited competition, and sole sourcing/direct contracting—accounted for 5 percent of the value and 12 percent of the number of reviewed contracts. Over the period FY96-10, there has been a modest shift away from ICB, especially in the EAP and ECA Regions, in terms of the number of ICB contracts. In terms of value, only the EAP Region shows a decrease in the share of ICB. See Annex 4 for details.

90. **Thresholds.** In order to get a better handle on the level of effort and extent of the Bank's reviews, we analyzed the three sets of thresholds that govern whether or not a contract is reviewed and by whom. Typically, these thresholds differ by the value and type of procurement whether (i) works including turnkey, supply and installation of plant and equipment, goods, ICT systems, and non-consulting services, or (ii) consulting services, and if consulting services, whether involving individuals or firms. Each type of procurement, thus, has a particular threshold as set out below.

⁵⁰ These figures are as of a cutoff date of March 14, 2012. Since information on contract award in any given fiscal year may not be entered until later, these data may change over time as additional entries are made.

- **Procurement Method.** The first set of thresholds defines which procurement method is to be used, differentiating among ICB, NCB, and shopping by size and nature of the contract for goods, works, and non-consulting services. Similarly, ceilings are set for the composition of short lists constituted only of local companies for consultants. These thresholds, determined by the RPMs, are calibrated for each country and/or sector on the basis of the country market conditions, local market development, and the ease of procuring items locally. As noted earlier, the share of ICB for contracts reviewed by the Bank has remained stable over the past fifteen years in terms of value.
- **Prior Review Thresholds.** The second set stipulates the thresholds above which contracts are to be subject to prior review by the Bank. BP11.00 sets out the maximum values for those thresholds by type of procurement and risk category. Within those maxima, thresholds are set for each specific project on the basis of the assessment of the capacity of the implementing agency and risks. In practice, all ICB contracts are subject to prior review. Other types subject to prior review include the exceptions to competition noted above for force account, sole sourcing, and direct contracting, along with all requests for contract amendments with a change in the scope of works or in an amount above 15 percent of the contract value or contract termination. The first NCB contracts are subject to prior review and possibly all depending on risks and capacity. Shopping would normally fall below the thresholds for prior review and only be subject to post review. The maximum thresholds for prior review, depending on risks and capacity, range from a high of US\$20 million to a low of US\$5 million for works, from a high of US\$5 million to a low of US\$0.5 million for goods and ICT systems, and from a high of US\$2 million to a low of US\$0.2 million for consulting services with firms. Limits for individual consultants are lower.
- **Thresholds for Internal Bank Review Decisions Authority.** BP11.00 lays out the maximum contract size that PSs and PASs, RPMs, and the OPRC are respectively authorized to clear. These thresholds cover variation orders and modifications to signed contracts, and termination. The OPRC-level sign off is US\$50 million for works, turnkey, and supply and install contracts, US\$30 million for goods, US\$20 million for ICT systems and non-consulting services, US\$15 million for consulting services, US\$5 million for direct and single-source contracts with consultants firms, and US\$ 1 million for single-source contracts with individual consultants.

91. In practice, the prior review thresholds set by the Regions for many projects are lower than the maximums allowed although the current policy does not restrict regular updates. There may also be implications in terms of the costs to bidders that need to be taken into account. On the other hand, ICB thresholds are usually set at different levels for works and goods, hence reflecting differences in local markets for different categories of procurement. This creates situations where procurement processes for goods are subject to more prior review than those for works. A few examples illustrate these points. In Chile, the ICB threshold for works is set at US\$5 million, as is the prior review threshold, which reflects a low risk, while the ICB threshold is much lower for goods when most observers would say that Chile has a developed local market. In China, the ICB threshold is set at US\$20 million for works and US\$500,000 for goods with risks generally deemed low. In Poland, the Bank prior reviews all works contracts at or above the US\$15 million ICB threshold (recently raised from \$10 million) while the ICB threshold for goods is set at US\$1 million. In India, the ICB threshold for works may be set as low as US\$300,000

while the prior review threshold may not exceed US\$300,000 for goods and US\$200,000 for consulting firms.

92. Coverage by the Bank's Review Mechanisms. Pulling information together, we have estimated the share of disbursements subject to the Bank's prior and post reviews. As shown below in Table 6, prior reviews covered roughly 32 percent of the total disbursements in FY11 and about 9 percent of the total estimated number of contracts, with post reviews covering another 6 percent of the total disbursed and 8 percent of the number of contracts. Looking at only disbursements under investment operations (that is, excluding disbursements under DPLs), the share of prior and post reviews by value rises to 63 percent for prior review and 13 percent for post review, thus covering around 75 percent of total disbursements under investment operations. The review coverage by the number of contracts is in the range of 20 percent. These levels are in line with historical levels.⁵¹

Table 6: Estimated Share of Total Disbursements Subject to Specific Procurement Reviews (FY11)

Contracts	Total Disbursement	DPLs	% DPLs	Investment Lending	Prior Review Contracts	Estimated Disbursement *	% Prior Reviewed	Post Reviewed	% Post Reviewed	Balance Not Subject to Review	% Balance Not Subject to Review
Value (US\$'M)	21,879	10,582	48.4	11,297	13,623	7,071	32.3	1,421	6.5	2,805	12.8
Number	80,000-100,000	0	0	80,000-100,000	9,683	NA	9.3	8,430	8.4	60,000-80,000	<80.0
Average Size (US\$'000)	NA	0	0	<113	1,401	NA	NA	169	NA	<35	NA

* Estimated Disbursement of prior reviewed contracts has been adjusted for large multi-year contracts and the share of Bank financing.

93. The above analysis is only intended to be indicative of the scope of the Bank's review process as it is based on very rough estimates. First, since large contracts are disbursed over multiple years, there is not a one-to-one relationship between contract review in any one year and disbursements in that same year. An adjustment was thus made to spread the disbursement of large contracts over time. Moreover, the Bank does not necessarily finance 100 percent of the value of all contracts; there is usually a small percentage of local costs financed by the borrower. We have estimated the percentage of the contract value actually financed at 88 percent, based on a review of the 100 largest contracts in the FY10 database. Finally, it should be noted that we are not able to determine the total number of transactions under lines of credit and sector-wide and CDD operations. The figure for the total number of contracts is thus a rough estimate based on the likely sample size of the post reviews.

94. Regardless of the quality of the underlying data, the main message from the above analysis is that the Bank's contract review process covers a significant share of the value of contracts under investment loans and that this review is skewed towards a relatively small number of large value contracts with a significant number of smaller-value contracts either subject to prior review or subject to random post review and other forms of verification. The smallest contracts, most of which were awarded on the basis of shopping or other simplified procurement procedures, rely on other mechanisms, such as financial

⁵¹ OED's 1981 review of procurement posited that about 80 percent of the value of contracts and 20 percent of the number of contracts were subject to review.

audits, internal control systems, social audits, and third party verification to ensure adequate fiduciary control and oversight. More and more, the Bank is taking an integrated approach to its fiduciary obligations combining financial and performance audits with procurement oversight. Thus, the potential range for adopting different risk-reward tradeoffs, choice of procurement method, and mix of review and alternative oversight measures seems large, depending on the Bank's risk tolerance and the effectiveness of risk mitigation. It may further be that the concepts of prior review and post reviews are no longer as congruent with some aspects of the Bank's business. Redefinition of when and how contracts are reviewed may need to be reconsidered along with other ways to assess performance, thus rebalancing compliance and outcomes. These are areas that the review will explore.

95. Waivers to Bank Policies. Deviations from the Bank's Guidelines must be set forth in the project documents and approved by the Board of Executive Directors at the time of the loan's approval. Any deviations during implementation may be authorized by the responsible Managing Director and are reported to the Board. A review was recently carried out on the waivers since July 2009 approved by Management on the Bank's procurement policies, among other policies, to discern the extent to which these policies are generally being implemented by borrowers and whether or not there are particular areas that may pose more difficulties during implementation than others.⁵² The results of this review reveal a low level of procurement waivers approved by the Bank's Management—seven relating to the participation of UN agencies and four dealing with reasons of economy and time delays. In the case of UN agencies, the deviation being sought was exemption from the Bank's standard requirements on the right to audit accounts (which goes against the UN agencies' rule of one audit) and on fraud and corruption (substituting the agency's rules in the place of the Bank's). All in all, the results of the review show a high level of conformity.

96. The Bank's Remedies. Part of the Bank's fiduciary responsibilities is to take action if borrowers have not followed the policies and procedures set forth in the Guidelines. This normally takes the form of declaring misprocurement. Misprocurements totaled US\$32 million in FY11, involving 52 contracts in 11 countries. Some of the cases of misprocurement originated with complaints from bidders, others from the Bank's prior review, and still others from post reviews. The average size of a contract declared to have not been let in compliance with the Bank's Guidelines in FY11 was US\$623,000. It should be noted that, based on the information presented in recent Annual Reports on Procurement, there does not seem to be any particular trend with respect to the number and value of misprocurement declared by the Bank. In the case of complaints from bidders, the Bank's role is to track such complaints and make sure that the borrower adequately deals with them. As with misprocurement, the number of complaints from bidders has remained stable, averaging 340 per year over the past six years. In FY11, there were 359 complaints, a small fraction of the total number of contracts financed by the Bank.

97. Quality of the Bank's Procurement Work. The Bank's procurement work is routinely subject to both internal and external evaluation by IEG and the Bank's Quality Assurance Group (QAG). These studies show that the quality of the Bank's procurement has been satisfactory, albeit with areas that could

⁵² See "Review of Operational Waivers", R2011-0184. Dated July 26, 2011, and "Operational Policy Waivers Granted Under Implementation and for Trust-funded and Other Operations Not Approved by the Board" (May 1, 2011 through June 30, 2011), SecM2011-0431, dated August 30, 2011. It should be noted that any waivers identified prior to loan approval are indicated in the Board approval documentation and are granted at the time of approval. Management has the authority to approve waivers sought during implementation.

be improved. With respect to QAG, the initial assessments rated the Bank's work on procurement high especially at the design stage: procurement was rated as satisfactory in 95 percent of the 2002 quality-at-entry sample, as compared to 86 percent overall. However, changes in methodology in the 2009 lending portfolio assessment tightened how procurement capacity assessments were rated and added GAC dimensions and the degree of risk mitigation. These changes brought the results down to 93 percent satisfactory at the design stage and 84 percent for supervision. The reasons cited for the decline were the diversity and complexity of the Bank's portfolio and the increased scope of GAC-related work.

98. With respect to IEG, a number of its reviews have been cited earlier in the paper. The most recent evaluation by IEG on procurement was the 2008 review of CPARs as part of a study of the Bank's fiduciary diagnostic tools. That evaluation found the Bank's procurement work to be satisfactory in 64 percent of CPARs from FY00 to FY05, with the highest ratings achieved on informing the Bank of the borrower systems and the lowest for effectively integrating issues and risks into Bank operations and influencing borrower procurement reforms. Although Management did not concur with some of IEG's conclusions, most recommendations have since been taken on board; with the introduction of PEFAs, MAPs, P-RAMS, and ORAF into the Bank's toolkit, there is undoubtedly more impact on both the Bank's appreciation of risks and the paths to improving borrower procurement systems. The country case studies summarized earlier bear this out.

99. It should be emphasized that, although there have been very few stand-alone operations, there are many avenues by which the Bank can and does support procurement reform and capacity building (see Box 9). In particular, an IEG evaluation found that the Bank under Public Sector Management operations, including DPLs, has provided increased volumes of support for procurement reform, among other things. An evaluation of decentralization by IEG also showed that the Bank was providing support for procurement in all twenty countries included in that study. IEG's review of the Bank's progress in harmonization and alignment in low-income countries contained feedback from other donors and governments on the extent to which the Bank has been helping these countries to strengthen their capacities. But there is little that pulls these diverse sources together and this is one of the areas that the review aims to examine. It also should be noted that, in parallel to the review of the Bank's procurement policies, IEG is to carry out an evaluation of those by FY13.

Box 9: Direct Support for Procurement Reform and Capacity Building

There have been three projects dedicated solely to procurement reform and capacity building supported by the Bank. The first was the US\$4.5 million Bangladesh Procurement Reform Project approved in 2002. It was rated as moderately satisfactory in meeting its goals. The second, a follow up and much larger loan of US\$23.6 million for Bangladesh was approved in July 2007. The third was the US\$1.5 million credit to Bhutan approved in June 2008. Most of the Bank's direct support for procurement reform has been via IDF grants that have provided technical assistance to adopt new legal frameworks and to develop e-procurement systems. There are many other operations that endeavor to improve procurement capacities. Many of these are DPLs in which procurement reform is one of the elements. Others include Public Sector Management Projects that address procurement in concert with public expenditure management. Municipal or state-level projects often have improving purchasing as one of their objectives. This is also the case for sector investment operations, in health, education, agriculture, and transport that attempt to improve sector procurement processes and capacities. Past studies have given high marks to many of these as providing greater value for money, showing savings upwards to 40 percent. Given the central role of procurement in project implementation, almost all investment operations are affected in one way or another by procurement.

100. **Internal Controls.** As part of the IDA 14 Replenishment, the Bank carried out an independent and comprehensive review of the internal controls over IDA operations and compliance with its charter and policies. The focus was largely on how the Bank handles issues of fraud and corruption in Bank-supported operations. In general, the review, carried out by IAD and IEG in 2008, showed that the Bank's internal control system functions to a high standard, albeit with some important qualifications. The rate of satisfactory process tests was 93 percent overall. In the case of procurement, there were three failures: one on the timeliness and accuracy of the data tracked on prior review contracts; another on the timeliness and lack of documentation on post reviews; and the third on missing information on internal reviews and communications with borrowers responding to complaints.

101. The IDA Control Review generated a number of recommendations to address the three areas highlighted above and to strengthen the Bank's procurement processes. Most of these are continuing or already have been put in place. Among other things, this entailed the roll-out of the procurement risk assessment tool, P-RAMS, as described earlier; changes to the risk assessment sections in the project documentation underway as part of the ORAF and IL reforms; greater harmonization with MDBs, which is underway; upgrades to the complaints handling system, which has been completed; and greater cooperation between INT and the procurement community on fraud and corruption risks, which is continuing with a new protocol on working together, data sharing, and training in the use of a new system of red flags in place to identify suspect transactions. A system for cross-checking firms involved in money laundering has also been put in place. Further work has been done on putting in place a uniform system for carrying out post reviews, which now are undertaken for close to 100 percent of investment loans. Finally, as recommended, OP/BP11.00 was updated as of January 2011.

102. **Staff Reactions.** In order to gauge reactions of staff and to gain their inputs to prepare for the review, we conducted two surveys of staff—one for PSs and the other for a select sample of senior TTLs and PAs. In their responses, there was uniformity on the importance of improving borrower capacity: this was rated the highest priority among all respondents. Both TTLs and PSs think that working towards harmonization and internationally-agreed procurement standards is a priority, followed by greater focus on results. Both groups also reflected a generally high level of satisfaction with the way in which procurement problems are resolved. Problems are indeed frequent, with 90 percent of PSs and 70 percent of TTLs reporting that they ran into issues during the course of the past year; yet, 70 percent of both groups thought that the problems were dealt with effectively. Operational staff also expressed concern about the time that is required to reach satisfactory solutions, this even though it often results from inadequate design and poor planning. PSs in particular offered a number of ideas to make the problem resolution process even more effective, such as building up case law for complex and irregular transactions. Both TTLs and PSs would like to see less effort on prior reviews.

103. There were also differences among the views of TTLs and PSs. More so than PSs, TTLs saw a valid role for the Bank in providing project entities with the legitimacy that they need to make procurement decisions. TTLs would like to see more flexibility, openness to innovate, and more of a client-orientation, replacing suspicion with trust, a view shared by some but not all PSs. TTLs in general were supportive of a move towards principles-based procurement and more cost-effective processes, along with greater incorporation of best practices and a focus on value for money and outcomes. Some TTLs were keen to understand markets better, a view not widely shared by PSs.

104. Beyond the overarching priority of capacity building and less attention to prior reviews, PSs recommended more attention to contract management and risk assessments. Beyond that, their responses were less cohesive as to where the Bank's procurement policies and procedures ought to go from there. These differences seem to reflect the state of play in each of the regions, with PSs in the LAC and SAR Regions more concerned with risk assessments, and staff in the Africa Region with governance. PSs are generally ready to put more effort into capacity building, procurement plans, results measurements, and risk assessments. Less priority was placed on understanding markets, following up on suspicious transactions, or moving to principles-based procurement. Interestingly, PSs did not view helping clients develop e-procurement systems as a high priority.

105. **Overall Effectiveness.** By the available objective measures presented above, the effectiveness of the Bank's procurement work appears to represent good value for money from the Bank's perspective in applying its current policies and procedures. The quality indicators point to largely satisfactory results and there do not seem to be any negative trends in misprocurement and bidder complaints. The bottom line is that procurement arrangements are sorted out for about 300 new operations per year, at least 1,800 operations are supervised, and approximately 10,000 contracts representing over US\$10 billion are reviewed each year. Post reviews are conducted on another 8,000 contracts each year. With 220 dedicated PSs and limited budgets, this is a considerable feat.

106. As a result, the question for the proposed review is not whether procurement is currently handled well internally but whether the policies and procedures defining what needs to be done, how, and by whom are the most appropriate. It is not clear that current efforts are directed at those activities that can generate the highest value-added and have the greatest development impact on borrowers. Nor is it clear if the whole life costs of the Bank's procurement policies and procedures, in terms of the cost of compliance on the part of borrowers and the private sector, are adequately taken into account. Some considerations that the proposed review can address are as follows:

- The lion share of those resources is directed to prior reviews that are highly skewed in terms of value versus number. There may be tradeoffs in terms of risks, compliance costs, and materiality in the prior review of high-volume, low-value, and low-risk contracts. This could also have implications for the costs to bidders. PSs and TTLs see that there should be less emphasis on such reviews. At the same time, it is not clear whether post reviews capture what is happening on the ground given the use of shopping and the vast number of small transactions that cannot be reviewed in a practicable way. There may be alternative mechanisms and more effective ways to do this on an integrated basis.
- The thresholds that determine the level of effort on reviews, as established in practice by the regions do not, at least at first reading, seem to reflect full variations in risks, borrower capacities, markets, and project or sector needs. These thresholds may now be less important given changes to markets and the Bank's business, and increased capacity in many borrower countries. More can be done to direct these efforts to the highest value-added tasks.
- Adopting integrated fiduciary approaches is high on the agenda, as reflected in the recent changes to OPCS. While at an early stage of implementation, there is considerable upside potential for such new approaches to the Bank's fiduciary work with commensurate changes to how procurement work is handled.

- The skills of PSs may not be completely aligned with what is needed to face the challenges of procurement reform and capacity building, and to respond to the Bank’s modernization agenda. For example, these staff seem to carry much of the weight of the measures implemented under the Bank’s GAC agenda and in dealing with the aftereffects of INT investigations. The skills mix dimension, and more broadly that of staffing, needs to be examined down the road.
- It is likely that too little attention has been paid on identifying the opportunities and exploiting the synergies that exist among public sector management, governance and anti-corruption, trade policy, and competition, among other policy goals. This process has only started in the case of the GAC agenda, but more could be done on trade and infrastructure, for example. The intersection between INT and the Procurement community is another area where both groups have common interests but may need to work out day-to-day modalities. The proposed review can explore these issues further.

107. Most important of all, there do not seem to be enough resources dedicated to improving borrower capacity. An ongoing study on the Bank’s procurement capacity building efforts ought to shed light on the extent of the Bank’s efforts. The fact is that much time is devoted to the day-to-day interactions between the Bank and the clients on processing procurement transactions. While these efforts, no doubt, help to build borrower capacity, that capacity is mainly vested in dedicated project implementation units and is not the same thing as engaging with clients on reforms that affect the entire national public procurement system. As a result, the support and attention now being provided to borrowers are important but not commensurate with the complexity of the issues and the international commitments that have been made to strengthen these capacities. The end result is that there is ample opportunity to direct the Bank’s focus to higher value-added activities with large potential payoffs.

V. MODERNIZING THE BANK’S PROCUREMENT POLICIES: A WAY FORWARD

108. **The Undertaking.** As part of the Bank’s modernization agenda, this exercise is the first comprehensive review of the Bank’s procurement policies and procedures since the Bank’s founding some sixty years ago. It is a major, multi-dimensional undertaking with significant implications beyond just what the Bank does. It is also a timely exercise in light of the interest on procurement reform among other actors, such as the EU (which is presently updating its directives), and the outstanding commitments of the donor community to strengthen country procurement capacity and the use of country systems, coinciding with the interest among many borrowers to strengthen their own national public procurement systems. Indeed, the Bank’s interests in encouraging borrowers to modernize their public procurement systems go well beyond what transpires under individual Bank-financed operations.

109. **The Rationale.** This Discussion Paper has analyzed a number of trends that provide the rationale for the review and lay out the opportunities for taking a step back and thinking afresh about the Bank’s procurement policies. These are as follows:

- The global market place has changed: developing countries are increasingly important suppliers for the goods and services procured under Bank-financed operations. In fact, the majority of ICB contracts let under such operations is won by nationals of the borrowing countries and a number of middle-income countries are now global players.

- In contrast to when the Bank first formulated its procurement policies, there are now international agreements and other instruments, reflecting consensus of the importance of public procurement as part of global trade and open, transparent, and competitive markets. These policies need to be deepened and extended. Harmonization remains a challenge.
- Public procurement is no longer viewed as a set of bureaucratic rules and regulations with which to be complied, with more and more governments seeing it as an important strategic function for realizing value for money and getting best fit for purpose intertwined with measures to ensure accountability, probity, and integrity.
- There is considerable upside potential to procurement reform. Not only is the size of public procurement markets significant, there are large potential savings, especially if savings to the private sector are taken into account. New tools such as e-procurement are showing the way, as demonstrated in the examples provided in the paper, on how procurement works on the ground. This is an area in which the Bank can take a leadership role
- The capacity of borrowing countries, while still very uneven, has improved considerably: a number of countries, especially high and upper middle-income, have made strides in improving their public sectors, with those improvements targeting the quality and effectiveness of public services. Their demands on and expectations of the Bank have increased. On the other hand, small countries and fragile and conflict-affected countries may need different strategies to help simplify and adapt procurement to their respective circumstances and capacities.
- The Bank's business has changed; increasingly the Bank provides support to borrowers that either does not entail specific procurement transactions, whether adjustment lending or conditional transfers, or involves transactions that are too small and dispersed for the Bank's procurement practices to apply in a cost-effective way. This trend will become more pronounced as the Bank implements the new PforR instrument.
- This is all in the context of international understandings and expectations that development programs increasingly ought to focus on improving and using country systems. The Bank's efforts and achievements in this latter regard show that more can be done.

110. Importantly, the Bank can get better value for its own money and increase the cost-effectiveness of the way it handles procurement: shifting from reviewing high-volume, low-value, and low-risk transactions to helping countries improve their procurement capacities and concentrating on those areas with high potential impact. This further means leveraging the impact of the Bank's role by focusing on systemic enhancements of the market represented by public procurement in borrower countries. It is also an opportunity to generate savings for public entities and private bidders through reduced compliance and bidding costs.

111. **Starting from First Principles.** Taken together, these developments make a compelling case for the Bank to undertake a comprehensive review of its procurement policies to provide borrowers with the best practices that the global community has to offer. To remain a leader in this field and to be credible and influential in our dialogue with member countries on procurement reform, the Bank needs to be both advocating and modeling public procurement policies and practices that are at the forefront. At the same

time, the Bank needs to be able to adapt its policies and practices to find the best fit with differing borrower needs, capacities, and risks. Based on global trends and new directions for public procurement, with emphasis on value for money and best fit procurement, the way ahead will likely be to move the Bank's policies along the continuum from prescriptions to principles, while adapting to risks and capacity.

112. At this stage, it is premature to lay out what changes to the Bank's policies and procedures might eventually be appropriate. Nonetheless, the analysis done so far, as presented in this Paper, provides the starting point for exploring a number of areas that ought to be addressed and fleshed out more fully during the consultative process. In particular, it is clear that the review will have to define the objectives of any new approach and the criteria to be used to assess and weigh those objectives and measure their results. Indeed, there is a long list of policy objectives that will have to be narrowed, prioritized, and laid out in a hierarchical fashion as part of the review.

113. Among other things, the review should explore how feasibly to:

- Articulate a robust set of objectives and principles of public procurement that can apply across a range of instruments, sectors, and modalities upon which specific procurement practices, standards, and codes can be grounded, results measured, and innovations introduced over time. These principles would be anchored in the Bank's modernization agenda, in particular the reform of investment lending as well as other priority corporate initiatives such as GAC, while providing the flexibility to adapt as these priorities evolve in the future.
- Identify the tradeoffs between key and sometimes conflicting objectives and the principles of transparency, fair treatment, access, economy, and competition, as well tradeoffs between rules-based and principles-based approaches.
- Provide a unified platform by which the Bank can retain a leadership role and both advocate and model best international practices in its dialogue with borrowing countries on public procurement reform. This platform would be multi-dimensional, linked to different aspects of the Bank's development agenda on trade policy, public sector management, competition, and governance and anti-corruption, as well as capacity building.
- Incorporate into the Bank's policies and procedures the flexibility to adopt additional concepts and approaches that have emerged, drawing on the experience of others (*inter alia*, with regard to the financing of PPP arrangements across the World Bank Group), and the use of international agreements and instruments. The review would also look ahead to the new concerns facing public procurement, particularly the concepts and practices of sustainable procurement and ESRP.
- Seek to exploit more fully the potential for e-procurement as a tool not only to improve the transparency and efficiency of public procurement but also the management, delivery, and quality of public services.
- Assess the weight of the Bank's approach to procurement oversight, and strike the appropriate balance between procedural compliance, risk management, borrower capacity, performance, and results.

- Move from the current one size fits all approach to all categories of procurement and situations on the basis of an analysis of the necessary added flexibility to adapt to differing needs, to reflect the growing strengths and diversity of borrower capacities in the application of the Bank's procurement policies and procedures, and to better account for risks. This would include different approaches between, for example, entities that are well-endowed institutionally and those in small or fragile and conflict-affected states that face particular challenges.
- Develop new and innovative ways for the Bank to provide the incentives and the means to strengthen country procurement systems, drawing on the lessons of the piloting program for the use of country procurement systems, the early implementation of the PforR financing instrument, and other relevant experience.
- Incorporate the full procurement cycle and new ways in which the Bank and borrowers can receive assurances in both contract bidding and execution phases, including quality evaluation and monitoring, contract management, and contractor performance; the possible use of third-party oversight and extended, integrated, and more comprehensive audits; the role of supervising engineers; changes to bidding documents and contractual forms; and how procurement staff work with other units, *inter alia*, with regard to governance and fraud and corruption.
- Embody an integrated fiduciary system of clear accountabilities, controls, remedies, and recourse mechanisms that brings a level of comfort and reassurance in keeping with the Bank's GAC agenda, and the Bank's management of risks and risk profile while retaining high standards and exercising the Bank's fiduciary responsibilities.
- Accommodate and promote increased harmonization with other development partners and convergence with emerging international standards.
- Expand opportunities for harmonization to cover partnerships and co-financing mechanisms, Recipient-Executed Trust Funds, and the involvement of other development institutions such as UN agencies and global funds in Bank-financed operations in emergency situations and fragile and conflict-affected states.
- Reflect the organizational, business processes, resources, and skills implications of any new policy proposal, both for borrowers and for the Bank, with further strengthening of both borrower and Bank information and management system. This would include a framework to monitor the impact and outcomes of any policy changes.
- Increase the cost-effectiveness and value-added of the Bank's internal processes, with commensurate gains for borrowers and the private sector.

114. **The Constituency for Change.** Gaining consensus among key stakeholders is likely to be hard: experience has shown that past modifications to the Bank's procurement policies and procedures have come about as the result of compromises that may not always have been optimal, resulting in revisions that have tended to be incremental and gradual, and that follow rather than lead. This time, we will propose to start from principles first, take a step back, and work from there with detailed modifications to the Bank's procurement policies and procedures only emerging once the overall framework has been laid

out and agreed. Ample time will be allocated for consultations, guided by empirical evidence, analysis, concrete experiences, and benchmarking. The objective is to make the outcome of this policy review a “win-win” across the range of the Bank’s stakeholders, first agreeing on the ends, and then the means.

115. **The Challenges.** We will need to be mindful of the challenges ahead, highlighted below:

- **Competing Goals.** As part of the review, it will be important to clarify the objectives of the Bank’s procurement policies and how they relate to the different dimensions of the Bank’s larger development agenda. There are many meaningful goals to pursue, but any given set of policies can only do so much. Which are the most important? The challenge will be to reconcile potentially competing goals between changes to the Bank’s procurement policies and the Bank’s other priorities, particularly with respect to trade, harmonization, capacity building, public sector management, and governance and anti-corruption efforts. As noted in the paper, a tension has already been perceived between some of these goals, for example, if anti-corruption is taken to mean adding more controls and checks on procurement process, while the new approaches of public procurement, which emphasize value for money and best fit, go in the other direction towards principles. As the Bank moves ahead in the review, careful thought would need to be given to how to mesh different policy objectives.
- **Differentiating by Risk and Capacity.** The review will be guided by the underlying thrust of the Bank’s investment lending reform agenda that moves the Bank from one-size-fits-all to more differentiated application of policies based on risks and borrower capacity. The premise is that the Bank should be able to differentiate among borrower implementing agencies, allowing better equipped borrowers greater choice and variation in the procurement methods, depending on those risks. This places greater onus on the Bank than before to be able to assess risks and borrower capacities in a reliable and consistent manner, which may be most problematic for fragile, low-income, and post-conflict countries. The tools for doing this are relatively new and not yet fully road-tested. Moreover, there are subjective elements to such assessments. This likely calls for a careful, gradual approach.
- **Exercising Influence and Persuasion.** This is another potential constraint over the medium term. The present system may make it easier for Bank staff to ensure that the correct procedures are followed than it is to assess risks and borrower capacities and to measure outcomes. It also may be more expedient to have clients stick to the Bank’s Guidelines than it is to convince them of the merits of a particular procurement process over another. The opportunities for exercising the Bank’s “veto” power (i.e., issuing the Bank’s no-objection) may be reduced and a shift to principles and greater differentiation among clients would, in fact, step up the demands placed on Bank staff. On the other hand, the Bank’s influence may have greater impact on development effectiveness if it is applied to system-wide changes in public procurement and not limited to individual transactions.

116. **The Ultimate Objective.** The Bank’s procurement policy must remain robust, streamlined, and efficient both for the Bank and borrowers to implement, while adhering to a set of agreed principles, as well as rules and procedures appropriately adapted to different situations of capacity and risk, maturity of markets, and soundness of country systems. Maintaining compliance with the Bank’s Articles of Agreement, these policies should support realizing the objectives of effectiveness, sustainability, capacity

building, and advancing the Bank's overall development agenda. A range of procedures based on risks would be grounded in the set of commonly accepted principles. The Bank could thus position itself for the future to: (i) better tailor the application of its policies to individual borrower capacities; (ii) adapt to the specific requirements of individual operations with greater efficiency; (iii) incorporate new concepts, approaches, and procurement methods more easily as its business changes, innovations occur, and lessons emerge over time; (iv) work more effectively with development partners on enhancing harmonization and the use of country systems; (v) develop synergies between procurement and such areas as public sector management and governance and anti-corruption; and (vi) achieve greater cost-effectiveness and value-added in the use of its resources, with downstream gains for borrowers and the private sector.

ANNEX 1

Index of Standard, Sample and Trial Documents (as of November 2010)

To Be Used for Projects with PCNs on or after October 15, 2006⁵³

Consultant—Standard Request for Proposals	<i>Revised May 2010</i>
Prequalification Document	<i>Revised September 2010</i>
Procurement of Goods	<i>Revised May 2010</i>
Procurement of Health Sector Goods	<i>Revised May 2010</i>
Procurement of Information Systems: Single Stage	<i>December 2009</i>
Procurement of Plant Design, Supply, and Installation	<i>December 2008</i>
Procurement of Works and User's Guide	<i>Revised August 2010</i>
Procurement of Works—Civil Law	<i>March 2007</i>
Procurement of Works—Smaller Works	<i>Revised November 2010</i>
Sample Health Works Agreement between World Bank Borrower and UN Agency	<i>July 2009</i>
Standard Form of Agreement for Consultant's Services between Bank, Borrower and UN Agencies	<i>June 2007</i>

To Be Used for Projects with PCNs prior to October 15, 2006

Bid Evaluation Form: Procurement of Goods or Works
Consultant-Standard Request for Proposals
Consultant-Standard Request for Proposals-Bank executed Projects
Consultant-Sample Evaluation Report
Prequalification Document-Procurement of Works and User's Guide
Procurement of Works
Procurement of Health Sector Goods
Procurement of Information Systems—Single-stage
Procurement of Information Systems—Two-stage
Procurement of Textbooks
Procurement of Works
Procurement of Works—Smaller contracts
Supply and Installation of Plant and Equipment

Sample and Trial Editions

Bid Evaluation Form: IS Single State
Design Build and Operate Solid Waste Facility
Output and Performance-based Road Contracts
Procurement of Management Services
Procurement of Non-Consultant Services
Procurement of Simple Works (September 2010)

Note: Specific requirements for the procurement of pesticides, petroleum products, and commodities have been archived.

⁵³ This takes into account the changes in 2006 to OP/BP11:00 with respect to F&C and reform of the Bank's sanctions.

ANNEX 2

Table A1: Specific Borrowers Winning Local ICB Contracts

Country	Total ICB	Total ICB to Nationals	% ICBs to Nationals	Total ICB	Total ICB to Nationals	% ICBs to Nationals
1996-2000	Amount (USD)			Number		
Argentina	1,705,349,850	1,671,337,483	98.01%	332	313	94.28%
Brazil	2,623,315,511	2,395,241,181	91.31%	637	569	89.35%
China	8,406,759,655	6,253,571,134	74.39%	2,212	1,718	77.68%
Indonesia	1,344,140,346	887,474,691	66.03%	437	403	92.22%
India	2,998,955,516	2,219,126,715	74.00%	1,007	873	86.74%
Mexico	336,779,704	313,130,685	92.98%	581	549	94.49%
Philippines	601,771,073	210,940,469	35.05%	232	133	57.33%
Poland	738,068,683	476,480,414	64.56%	329	178	53.95%
Russia	1,447,395,092	394,163,150	27.23%	476	131	27.62%
Turkey	799,870,658	644,208,441	80.54%	219	138	62.79%
Vietnam	802,709,545	248,085,160	30.91%	298	105	35.23%
	Average: 66.82%			Average: 70.15%		
2001-2005	Amount (USD)			Number		
Argentina	896,117,519	871,868,589	97.29%	173	156	90.17%
Brazil	2,077,960,657	1,868,953,514	89.94%	660	606	91.87%
China	5,568,429,173	4,922,457,061	88.40%	1,727	1,476	85.47%
Indonesia	168,742,490	138,947,691	82.34%	79	68	86.08%
India	3,931,482,298	3,083,300,425	78.43%	876	776	88.53%
Mexico	328,020,587	318,627,339	97.14%	459	454	98.84%
Philippines	222,265,927	114,623,835	51.57%	114	76	66.67%
Poland	427,119,865	212,775,295	49.82%	139	98	70.86%
Russia	660,907,022	430,849,238	65.19%	329	196	59.50%
Turkey	664,922,564	486,588,256	73.18%	240	131	54.58%
Vietnam	706,843,676	313,982,635	44.42%	512	337	65.82%
	Average: 74.34%			Average: 78.03%		
2006-2010	Amount (USD)			Number		
Argentina	1,791,307,266	1,596,235,645	89.11%	188	178	94.94%
Brazil	2,762,597,321	2,036,850,135	73.73%	173	166	95.96%
China	5,067,586,519	4,833,808,058	95.39%	547	526	96.16%
Indonesia	592,484,736	477,309,867	80.56%	78	68	87.17%
India	3,091,625,801	2,519,985,596	81.51%	320	280	87.55%
Mexico	145,265,960	135,265,960	93.12%	267	267	99.81%
Philippines	149,106,793	70,774,978	47.47%	41	21	50.00%
Poland	55,939,814	29,771,665	53.22%	13	11	80.77%
Russia	1,447,765,142	1,283,319,052	88.64%	298	267	89.60%
Turkey	945,070,160	639,907,226	67.71%	99	81	82.16%
Vietnam	1,130,756,069	810,440,552	71.67%	849	704	82.98%
	Average: 76.56%			Average: 86.10%		

ANNEX 3

Table A2: China – ICB Awards to China across Regions Excluding Awards in China

		Amount (USD)			Number		
FY	Region	Civil Works	Goods	Overall Result	Civil Works	Goods	Overall Result
1996-2000	AFR	403,478,462	17,696,700	421,175,162	94	20	114
	EAP	166,038,333	83,341,307	249,379,640	18	43	61
	ECA	23,819,255	20,120,988	43,940,243	6	8	14
	LCR	12,470,178	2,998,046	15,468,223	4	4	8
	MNA	8,535,860	7,377,022	15,912,882	3	9	12
	SAR	445,480,798	81,200,466	526,681,264	24	63	87
	Result	1,059,822,886	212,734,529	1,272,557,414	148	146	294
2001-2005	AFR	612,863,532	35,787,433	648,650,965	98	25	123
	EAP	193,343,357	39,376,198	232,719,555	24	62	85
	ECA	128,173,235	12,346,505	140,519,740	15	8	23
	LCR	-	1,714,377	1,714,377	-	3	3
	MNA	9,975,406	18,620,333	28,595,739	3	4	7
	SAR	133,590,985	87,855,744	221,446,729	7	57	64
	Result	1,077,946,514	195,700,590	1,273,647,105	146	158	304
2006-2010	AFR	1,479,222,453	115,724,277	1,594,946,730	84	45	129
	EAP	94,047,453	79,582,233	173,629,685	25	77	101
	ECA	114,106,102	14,131,368	128,237,470	4	15	19
	LCR	8,073,666	165,411,171	173,484,836	2	1	3
	MNA	49,331,519	52,978,664	102,310,183	3	11	14
	SAR	176,338,265	62,471,759	238,810,024	8	78	86
	Result	1,921,119,458	490,299,470	2,411,418,928	126	226	351
	Total	4,058,888,858	898,734,590	4,957,623,447	420	529	949

Table A3: Turkey – ICB Awards to Turkey across Regions Excluding Awards in Turkey

FY	Region	Amount (USD)			Number		
		Civil Works	Goods	Overall Result	Civil Works	Goods	Overall Result
1996-2000	ECA	15,656,537.3	85,583,883.7	101,240,421.0	4.0	15.0	19.0
	LCR	-	184,828.8	184,828.8	-	1.0	1.0
	MNA	3,988,244.4	452,715.9	4,440,960.2	0.5	1.0	1.5
	SAR	-	3,786,639.5	3,786,639.5	-	6.0	6.0
	Result	19,644,782	90,008,068	109,652,849.5	5	23	27.5
2001-2005	ECA	24,280,446.6	16,216,127.1	40,496,573.7	9.0	18.0	27.0
	LCR	-	588,265.8	588,265.8	-	1.0	1.0
	MNA	-	6,910,102.1	6,910,102.1	-	1.0	1.0
	SAR	73,955,220.7	42,706,236.8	116,661,457.4	3.0	4.5	7.5
	Result	98,235,667	66,420,732	164,656,399.1	12	25	36.5
2006-2010	AFR	94,835,811.2	223,561.3	95,059,372.4	2.0	1.0	3.0
	ECA	180,726,779.8	22,213,219.9	202,939,999.7	9.0	31.0	40.0
	MNA	34,872,553.7	12,378,767.2	47,251,320.9	1.0	5.0	6.0
	SAR	-	14,721,271.7	14,721,271.7	-	16.0	16.0
	Result	310,435,145	49,536,820	359,971,964.7	12	53	65.0
	Total	428,315,593.7	205,965,619.6	634,281,213.3	28.5	100.5	129.0

ANNEX 4

Figure A1: ICB Contract Amounts across Regions (FY1996-2010)

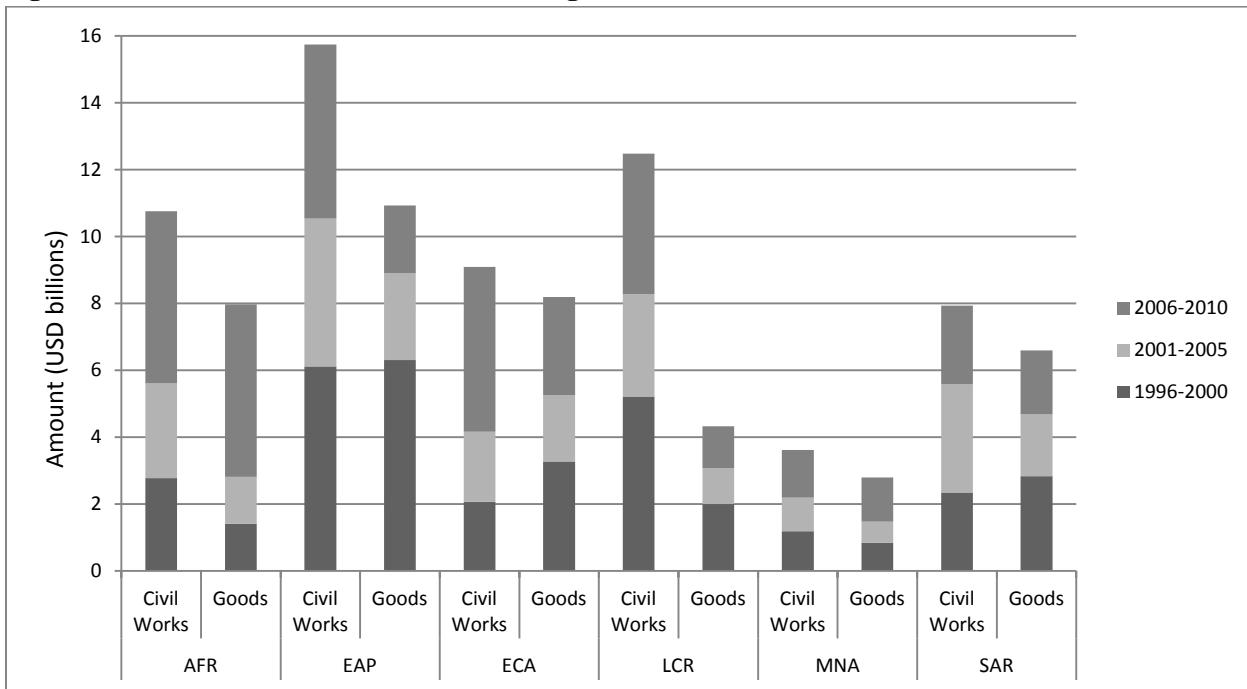


Figure A2: ICB Number of Contracts across Regions (FY1996-2010)

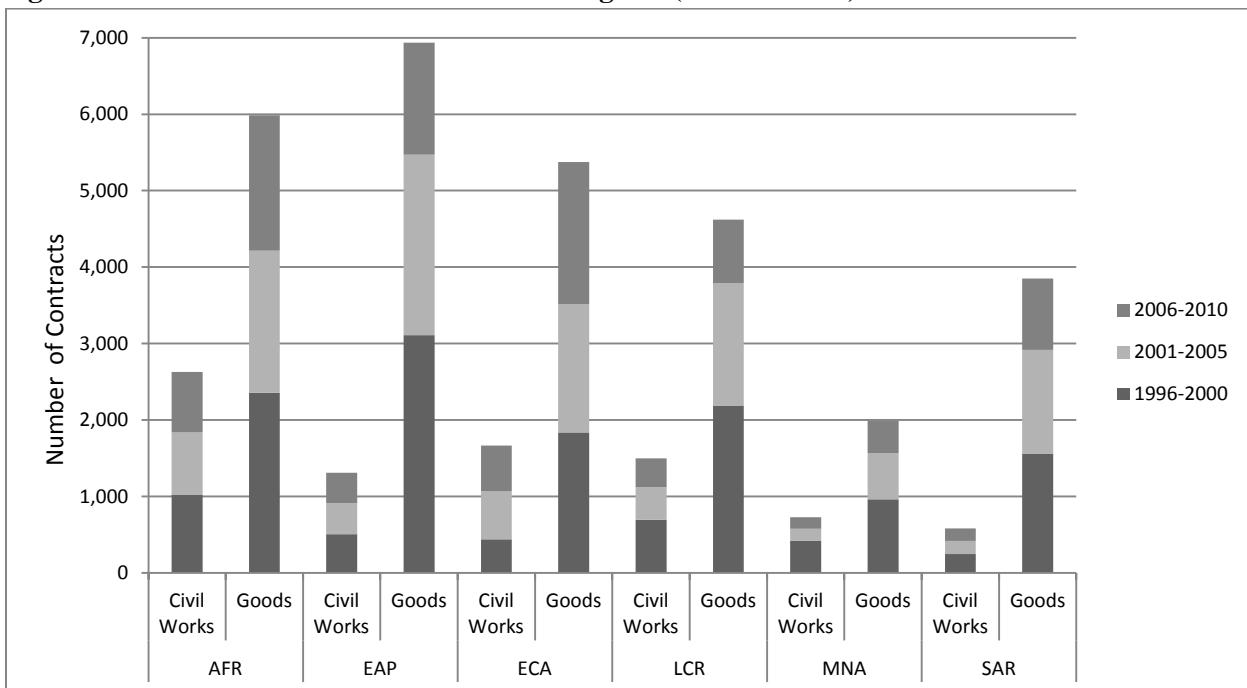


Table A4: Share of ICB out of Total Prior Review Contract Awards across Regions (FY1996-2010)

		Civil Works		Goods		Overall Result	
Region	Fiscal year	Amount	Number	Amount	Number	Amount	Number
AFR	1996-2000	79%	40%	80%	71%	79%	58%
	2001-2005	79%	39%	73%	70%	77%	56%
	2006-2010	87%	48%	77%	65%	84%	59%
AFR	Result	83%	42%	76%	69%	81%	57%
EAP	1996-2000	79%	32%	92%	74%	85%	63%
	2001-2005	72%	23%	87%	70%	77%	54%
	2006-2010	62%	15%	86%	60%	67%	36%
EAP	Result	71%	22%	90%	69%	77%	51%
ECA	1996-2000	81%	36%	82%	60%	81%	53%
	2001-2005	83%	37%	91%	66%	86%	54%
	2006-2010	90%	37%	93%	65%	91%	55%
ECA	Result	86%	37%	88%	63%	87%	54%
LCR	1996-2000	76%	33%	63%	58%	72%	49%
	2001-2005	81%	32%	68%	62%	77%	52%
	2006-2010	79%	31%	83%	52%	80%	43%
LCR	Result	78%	32%	69%	58%	76%	49%
MNA	1996-2000	62%	29%	84%	71%	70%	49%
	2001-2005	50%	17%	79%	67%	59%	42%
	2006-2010	71%	23%	91%	57%	79%	41%
MNA	Result	61%	24%	86%	66%	70%	45%
SAR	1996-2000	57%	10%	90%	75%	72%	40%
	2001-2005	67%	9%	78%	75%	71%	42%
	2006-2010	56%	11%	78%	73%	64%	40%
SAR	Result	60%	10%	83%	74%	69%	40%
Bank-wide Result		74%	28%	83%	66%	77%	50%

Figure A3: Prior Review Contract Awards by Procurement Method for Civil Works and Goods (FY1996-2010)

