



Technical Assistance Report

Project Number: 49406-001
Regional—Policy and Advisory Technical Assistance (R-PATA)
December 2015

Enhancing Procurement Performance of Developing Member Countries in ADB Projects

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Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
AfDB	–	African Development Bank
DMC	–	developing member country
MDB	–	multilateral development bank
OSFMD	–	Operations Services and Financial Management Department
PPP	–	public–private partnership
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

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POLICY AND ADVISORY TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 49406-001	
Project Name	Enhancing Procurement Performance of Developing Member Countries in ADB Projects	Department /Division	OSFMD/OSP1
Country	REG	Executing Agency	Asian Development Bank
2. Sector		ADB Financing (\$ million)	
✓ Multisector	ADB's corporate management, policy and strategy development		0.75
		Total	0.75
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
4. Drivers of Change		Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Client relations, network, and partnership development to partnership driver of change	No gender elements (NGE)	✓
Knowledge solutions (KNS)	Knowledge sharing activities		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Regional	High
6. TA Category:	B		
7. Safeguard Categorization	Not Applicable		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		0.75	
Policy and advisory technical assistance: Technical Assistance Special Fund		0.75	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		0.75	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		No	

I. INTRODUCTION

1. Based on the midterm review of the long-term strategic framework of the Asian Development Bank (ADB), Strategy 2020, ADB aims to incorporate global best practices in its various engagements.¹ Procurement is a critical area that influences ability of the executing agencies to spend project funds effectively and efficiently. ADB's developing member countries (DMCs) are benefiting from the improvements already made by its mainstreaming of the 10-point action plan. These actions were implemented starting August 2014, and have since helped improve internal efficiency and cost effectiveness in ADB's internal procurement processes.

2. ADB recognizes that its current one-size-fits-all procurement approach needs to be reviewed and updated. DMCs need a procurement approach that will allow them to respond to their changing needs, reflect the growing strengths and range of executing agency capabilities, and better account for wide range of capacities of procuring entities involved in its various projects. This will help DMCs adopt and incorporate the new public procurement concepts and methods increasingly used worldwide.

3. This policy and advisory technical assistance (TA) will enable ADB to support DMCs in strengthening their procurement systems by developing and adopting a new ADB procurement framework to be applied under its financed transactions and administered projects. The framework will be based on a comprehensive examination of the procurement and consultant selection policies that currently apply. It will incorporate the emerging best practices and innovations in public procurement. The new framework will also help ADB support DMCs in speeding up the disbursement of project funds. It will therefore help strengthen country procurement systems by encouraging the use of alternative procurement arrangements in ADB-financed transactions and its administered projects. The design and monitoring framework is in Appendix 1.²

II. ISSUES

4. A significant portion of ADB's financing to DMCs flow through government procurement systems. As public expenditures rapidly grow, contracting is becoming strategically important. Borrowers are now demanding procurement tools that go beyond compliance monitoring of inputs. Governments globally are making efforts to enhance efficiency and effectiveness in the use of public funds. Stronger procurement systems are needed to ensure that governments deliver value for money and that risks are well managed throughout the project cycle.

5. Rapid globalization has resulted in a transformation of the markets that DMCs use to procure goods, works, and services. In parallel, new international instruments and agreements have created greater demand for open and transparent procurement. These include the Agreement on Government Procurement of the World Trade Organization,³ the Model Law on Public Procurement by the United Nations Commission on International Trade Law,⁴ and the

¹ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

² The TA first appeared in the business opportunities section of ADB's website on 17 December 2015.

³ World Trade Organization. https://www.wto.org/english/tratop_e/gproc_e/gp_gpa_e.htm

⁴ United Nations Commission on International Trade Law. <https://www.uncitral.org/pdf/english/texts/procurem/ml-procurement-2011/2011-Model-Law-on-Public-Procurement-e.pdf>

European Union's Directives on Public Procurement.⁵ The use of technology, especially e-procurement, is changing the way public procurement is executed.

6. In addition, developing country demand for greater use of their country procurement systems has been growing in projects funded by development partners.⁶ These governments also want development partners to agree to the use of harmonized procurement procedures. Goods, works, and services under ADB-financed operations are governed by procurement and consultant selection policies that aim to promote open and fair competition. They have been vetted continually through a strict harmonization process with other multilateral development banks (MDBs) and adapted to changes in DMC demand and in ADB's operations.

7. ADB's DMCs have often blamed delays in MDB-supported projects due to cumbersome procurement requirements and compliance-driven procedures. As these countries evolve economically, they want their development partners to focus on building country procurement capacity and improve country procurement policies. There is also increasing demand for greater flexibility and responsiveness in development partners procurement rules.

8. The World Bank responded to these demands by approving a comprehensive reform of its procurement policy in 2015.⁷ The new World Bank policy adopts a broader range of modern procurement methods based on value for money and fit for purpose. The new framework will be implemented during 2016 and upon assessment of World Bank's institutional readiness to make the transition. The policy revisions also address the World Bank's new organization structure institutionalized in 2014, and its need to operate in a wide variety of sectors beyond infrastructure.

9. The African Development Bank is also in the process of implementing the full use of acceptable country procurement systems for simple contracts. African Development Bank procedures will be used for complex contracts. Other MDBs, including the Inter-American Development Bank and the European Bank for Reconstruction and Development, have committed to fully exploring ways to make their procurement policies more flexible in response to client demands.

10. ADB has progressively moved towards decentralization and delegation of procurement authority and decisions to regional departments. However, implementation is hampered due to risk avoidance and excessive focus on procedural compliance. ADB also faces challenges and resource constraints in overseeing procurement in DMCs that lack capacity to apply the procedures imposed by its current guidelines. Borrowers and ADB staff often find the procedural provisions too complex, prescriptive, and time-consuming to implement.

11. DMCs have requested ADB to update its procurement and consultant selection policies to ensure that these policies continue to serve their evolving development needs. These updates will also be important to ADB's effort to modernize its procurement and consultant selection rules and regulations in ways that will enhance support for the use of country systems,

⁵ European Commission. 2015. http://ec.europa.eu/environment/gpp/eu_public_directives_en.htm

⁶ Organisation for Economic Co-operation and Development. 2005. *The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action*. <http://www.oecd.org/dac/effectiveness/34428351.pdf>

⁷ World Bank. 2015. *Procurement in World Bank Investment Project Financing Phase II: The New Procurement Framework*. http://consultations.worldbank.org/Data/hub/files/consultation-template/procurement-policy-review-consultationsopenconsultationtemplate/phases/phase_ii_the_new_procurement_framework_-_board_paper.pdf

improve governance and combat corruption, and make use of best practices while still responding to the particular capabilities and operational needs of individual clients.

III. THE POLICY AND ADVISORY TECHNICAL ASSISTANCE

A. Impact and Outcome

12. The impact will be the enhanced effectiveness of DMC spending in ADB-financed projects that adoption of a modern principle-based procurement framework will help bring about. The outcome will be improved quality of DMC procurement decision making leading to better operational efficiency and higher transparency. The key outputs are (i) procurement framework (covering proposal for improvement to existing procurement and consultant selection policies and procedures) designed to benefit and strengthen DMC current and emerging development needs developed, (ii) use of alternative DMC procurement arrangements for ADB financed projects increased, and (iii) capacity enhancement initiatives to support implementation of new procurement policy and procedures developed.

B. Methodology and Key Activities

13. The new framework will be developed based on the review and experience of the existing procurement policy and procedures, and in consultation with various internal and external stakeholders. This will be supported by developing a new procurement and consultant selection policy, applicable procedures (including mainstreaming e-procurement to improve process efficiency), and guidance notes for the DMC (and ADB staff) to apply them.

14. A risk-based methodology for assessment of borrower procurement systems, and their acceptance as alternative procurement arrangements will be developed. This will be piloted in 2-3 DMCs selected based on ADB's experience in using national procurement procedures in various countries.

15. ADB will also increase focus on building capacities of executing agencies to provide appropriate fiduciary comfort and implement the project procurement in the most time-efficient and cost-effective manner possible.

16. The risks of change management have to be mitigated through upgrading skill gaps within DMCs, executing agencies as well as ADB staff.

C. Cost and Financing

17. The TA is estimated to cost \$750,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-V). The cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

18. The TA will be implemented from December 2015 to December 2018. ADB's Operations Services and Financial Management Department will play the principal role in administration and supervision of this TA.

19. The TA will require an estimated 20 person-months of services from seven international consultants and 50 person-months of services from five national consultants. When needed, support will be obtained from other experts.

20. The TA work will include a review of ADB's past and current procurement policy-related initiatives. ADB has already developed a concept note for the planned procurement policy review and carried out initial internal consultations.

21. Once the framework is developed, additional consultations may be required to ensure that it is robust, aligned with global best practices, and takes into account ADB's changing business landscape without compromising ADB's fiduciary requirements. These requirements are detailed in the concept note.⁸

22. TA funds will be disbursed in accordance with the *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

IV. THE PRESIDENT'S DECISION

23. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$750,000 on a grant basis for Enhancing Procurement Performance of Developing Member Countries in ADB Projects, and hereby reports this action to the Board.

⁸ ADB. 2015. *Concept Note on ADB Procurement Policy Review 2015—2016*. Manila

DESIGN AND MONITORING FRAMEWORK

Impact the Technical Assistance is Aligned with			
Enhanced effectiveness of DMC spending in ADB-financed projects through the adoption of a modern principle-based procurement framework			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Improved quality of DMC procurement decision-making to increase operational efficiency and transparency	a. Project procurement turnaround time reduced by mid-2018 b. DMC spending efficiency increased by mid-2019 c. Reduction in incidents of procurement-related complaints by end of 2019	Procurement service standard monitoring system (CMS and PRS) TA progress reports and disbursement reports	DMCs' own procurement policies and procedures do not align sound procurement principles in the new framework.
Outputs 1. Procurement framework developed 2. Use of alternative DMC procurement arrangements for ADB-financed projects increased 3. Capacity enhancement initiatives to support implementation of new procurement policy and procedures developed	1a. Standards for implementing new principle-based policy drafted and agreed 1b. New ADB procurement policy submitted for approval 1c. New procurement procedures drafted 2a. Number of alternative procurement systems assessed and approved increases by end of 2018 3a. Number of capacity-building activities to introduce the new procurement policy (e.g., training and briefing sessions) by mid-2018 3b. ADB procurement business model strengthened by end of 2017	TA progress report TA progress report TA progress report	New procurement methods cannot be applied effectively because skill and capacity gaps of DMCs, executing agencies, and ADB are not adequately addressed.
Key Activities with Milestones 1.1 Prepare draft new framework by Jun 2016 1.2 Conduct consultations on the new proposed framework between Jul–Sep 2016 1.3 New procurement policy, procedures and guidance notes complete by Dec 2016 1.4 Conduct ADB internal and external consultations on new policy and procedures between Jan–Mar 2017, followed by ADB Board approval 2.1 Finalize methodology for assessing alternative procurement systems by Jul 2016			

Key Activities with Milestones
3.1 Conduct staff procurement skills assessment by Dec 2016 3.2 Change management and implementation plan by April 2017 onwards
Inputs ADB: \$750,000
Assumptions for Partner Financing Not applicable.

ADB = Asian Development Bank, CMS = Consultant Management System, DMC = developing member country, MDB = multilateral development bank, PPP = public-private partnership, PRS = Procurement Review System, TA = technical assistance.

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN

(\$'000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	450.0
ii. National consultants	150.0
b. International and per diem	75.0
c. Reports, communication, and translation	25.0
2. Contingencies	50.0
Total	750.0

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-Others).
Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Three Consultants to Support Development of New ADB Procurement Policy Framework

1. Activities under the Asian Development Bank (ADB) policy and advisory technical assistance (TA) for Enhancing Procurement Performance of Developing Member Countries in ADB Projects will include (i) the drafting of a new ADB procurement framework, (ii) benchmarking of procurement practices of other multilateral development banks, (iii) procurement skills analysis, (iv) the drafting of procurement policies and procedures, and (v) preparation of guidance notes for new procurement areas.

2. ADB's review of its current procurement policy is expected to result in development of the new procurement framework under this TA. This framework will have six key elements: (i) a principle-based modern procurement policy, (ii) flexible procurement methods, (iii) technology-enabled efficient procurement processes, (iv) systematic capacity building of executing agencies, (v) ADB's acceptance of well-functioning borrower procurement systems for its projects, and (vi) training of ADB staff for better procurement decision making and support.

3. To help in the design of the new procurement framework, ADB's Operations Services and Financial Management Department (OSFMD) will hire national and international consultants. The scope of work planned includes a review of ADB's past and current procurement policy-related initiatives, including those carried out under the Midterm Review of Strategy 2020 Action Plan. This will be done to gain a full understanding of the current procurement policy and how it is being implemented and thereby help in the development of the new framework. OSFMD has developed a concept note for the planned procurement policy review and carried out initial internal consultations. Further consultations may be required to ensure that the framework developed is robust, in line with global best practices, and takes into account the changing business landscape of ADB without compromising the fiduciary requirements. This has been discussed in detail in the concept note.

4. The three consultants will

- (i) review past and current procurement policy-related initiatives within ADB;
- (ii) review current procurement bottlenecks related to procurement efficiency and effectiveness in ADB operations;
- (iii) recommend a new procurement policy framework based on the six elements described in para. 2 and in line with international best practices in public procurement, including those with which other multilateral development banks have experience;
- (iv) make recommendations on changing ADB's current procurement organizational structure to meet ADB business requirements effectively and efficiently;
- (v) assess potential fiduciary risks in transitioning to the new framework and develop mitigation measures;
- (vi) participate in discussions with OSFMD management to prioritize implementation of the new framework;
- (vii) provide inputs and peer review of the new policy and procedures, borrower and staff capacity development programs, and monitoring arrangements, emerging areas like procurement of innovative technologies and others as may be required;

- (viii) support the preparation of user guides, new standard bidding documents and contracts forms, bid evaluation guides, training materials, and e-learning for Procurement Accreditation Skills Scheme; and
- (ix) support consultations with key engineering associations and contractor associations

5. These consultants must have the following minimum qualifications:

- (i) a bachelor's degree (a master's degree is preferred);
- (ii) strong work experience in project management and procurement, preferably gained working with a host of private sector, government institutions, and multilateral development agency-financed projects;
- (iii) strong analytical understanding of issues, challenges, and opportunities related to procurement reforms; and
- (iv) demonstrated knowledge of and experience in analysis and interpretation of procurement-related quantitative and qualitative information.

B. Two International Consultants to Support Use of Alternative Procurement Systems

6. The consultants' work will include developing a methodology and guidance for evaluating and using alternative procurement systems in ADB-financed projects. The consultants will also help prepare guidance for assessing procurement systems for results-based lending operations. This work will involve a review of similar past and current initiatives for use of country systems by other entities, and understanding of best practices. The consultants will also serve as peer reviewers when needed for the ongoing procurement policy development work.

7. The tasks include:

- (i) review of the past and current initiatives within ADB;
- (ii) review initiatives by other MDBs and their experience in implementing country systems;
- (iii) recommend a robust methodology and provide suitable guidance for ADB to use alternative procurement arrangements;
- (iv) define the criteria based on which such arrangements can be assessed and deemed acceptable by ADB or another development partner;
- (v) recommend a methodology for procurement under ADB-financed results-based lending, including lessons learned from other MDBs and identifying operations most suited for results-based procurement arrangements; and
- (vi) provide inputs and peer review of the new policy and procedures, borrower and staff capacity development programs, and monitoring arrangements as required.

8. These consultants must have the following minimum qualifications:

- (i) a bachelor's degree (a master's degree is preferred);
- (ii) strong work experience in project management and procurement, preferably gained working with the private sector, government institutions, and multilateral development agency-financed projects;
- (iii) strong analytical understanding of issues, challenges, and opportunities related to procurement reforms; and
- (iv) demonstrated knowledge of and experience in analysis and interpretation of procurement-related quantitative and qualitative information.

C. Two consultants to Develop Guidance Note on Public–Private Partnership Procurement

9. To help strengthen ADB’s involvement in public–private partnership (PPP) projects, OSFMD will engage a consultant to undertake the following tasks:

- (i) review ADB’s PPP engagements, including technical assistance;
- (ii) review past and current PPP initiatives by other MDBs;
- (iii) recommend a robust methodology for ADB to support procurement in PPP operations prepared or under preparation by its executing agencies, along with appropriate safeguards that may be required using a risk-based approach;
- (iv) define criteria based on which such systems can be assessed and deemed acceptable by ADB or another development partner; and
- (v) study and recommend international good practices relevant to ADB’s current and potential PPP engagements, including those related to staff skills and training needs.

10. The consultants must have the following minimum qualifications:

- (i) a bachelor’s degree (a master’s degree is preferred);
- (ii) strong working experience in procurement and PPP operations design and implementation, preferably those financed by a multilateral agency;
- (iii) strong analytical understanding of issues, challenges, and opportunities related to PPP implementation; and
- (iv) demonstrated knowledge and experience in analyzing and interpreting procurement-related quantitative and qualitative information in the PPP space.

11. The consultants should be able to work in a regional or multinational environment, comfortable working under tight deadlines, and skilled in information and communication technologies, i.e., Microsoft Word, Excel, Project, and PowerPoint.

12. The minimum general experience of the consultants should be 10 years, and experience relevant to the specific assignment should be at least 7 years. Regional and/or country experience in ADB DMCs is also preferred.