

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC54813

Project Name	Public Procurement Improvement Project
Region	SOUTH ASIA
Country	Nepal
Sector(s)	General public administration sector (100%)
Theme(s)	Public expenditure, financial management and procurement (50%), Managing for development results (50%)
Lending Instrument	IPF
Project ID	P159085
Borrower Name	Government of Nepal
Implementing Agency	Public Procurement Monitoring Office, Public Procurement Monitoring Office
Environment Category	C - Not Required
Date PID Prepared	30-Apr-2016
Estimated Date of Approval	31-May-2016
Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

1. Nepal is a land-locked country, with a population of 28.1 million and a per capita income of US\$ 717 (as of 2014). About 23.8 percent of the Nepali population lives on less than US\$ 1.25 per day, and the current annual rate of poverty reduction is 2.5 percent . Despite a decade-long armed insurgency and protracted political transition, it has made good progress in poverty reduction and human development. Nepal halved extreme poverty in seven years from 53 percent in 2003/2004 to 23.8 percent in 2010/2011, and thus attained the first Millennium Development Goal ahead of time. However, as per the post-disaster needs assessment preliminary report, population of poor is estimated to rise between 2.5 and 3.5 percentage points due to devastating earthquake of April 25, 2015.

2. Though population living below poverty line has declined, the disparity between rich and poor still remains high. The Gini Coefficient based on consumption expenditure reached 0.353 in urban area, 0.311 in rural area, and 0.328 in Nepal overall. The Gap in the indices between geographical regions and ethnic groups is much wider. In addition, Nepal has achieved gender parity in education and reductions in infant and maternal mortality.

3. Resulting the deadlock of the First Constituent Assembly in delivering new Constitution, elections were held on November 19, 2013 to elect Second Constituent Assembly (CA). After the extensive deliberation and consultation, the Parliament has recently promulgated the Constitution with several important constitutional features including federal structure of the governance, role and scope of the oversight institutions, political parties and the Judiciary incorporated.

4. Remarkably, Nepal economy grew steadily even during the height of conflict and economic

management remained prudent. The average growth during 2010-14 was 4.22% with lowest 3.4% recorded in 2012. The economic growth for the Fiscal Year 2014 was 5.5%. According to the Economic Survey of 2015, the current fiscal year growth is estimated to stagnate at 3.0 percent. This is basically owing to unfavorable climate for agriculture sector and adverse impact on non-agriculture sector activities due to earthquake of April 25, 2015 are attributable for such low economic growth rate in current fiscal year.

Sectoral and Institutional Context

5. There is a growing recognition within the country that enhancing performance and improving governance with accountability in spending public resources is a prerequisite to further expediting poverty reduction, and improving the investment climate with accelerated private sector led growth. These are priority objectives of the Government's strategy as laid out in the Thirteenth Plan (2013-2016). With a multi-tier governance structure, the scope and the challenges for sound, efficient public procurement is bound to increase. The recent disaster (earthquake of 25th April 2015), although, has been a great loss for the country, has also provided opportunities for the government to look afresh in the development agenda ensuring better accountability and good governance. The Government is committed to initiate Second Phase of Public Financial Management (PFM) Reform Action for which public procurement is considered to be a critical area for improvement to demonstrate effectiveness in service delivery.

6. The journey of public procurement reform started as early as in 2002 with the Country Procurement Assessment Report (CPAR) using the Bank's Institutional Development Fund (IDF) grant. Based on the recommendations of the CPAR, the GoN initiated the process of implementing reforms. Initially the Financial Comptroller General Office took lead in framing the Public Procurement Act (PPA) which was passed in the Parliament in 2007. Within the same year, the PPA was supplemented with the Public Procurement Regulations, followed by the establishment of the Public Procurement Monitoring Office (PPMO) under the Office of the Prime Minister. PPMO is the nodal agency to regulate and monitor public procurement in Nepal. Subsequently, ADB provided three Technical Assistances (TA) to PPMO during 2008-2010 focusing mainly on the following areas: standard tender documents for goods/ works/ consultants' services, capacity development and training activities through National Administrative Staff College (NASC), and initiation of e-procurement. In 2011, the Bank provided an IDF grant to develop a long term strategy and standard operating process of PPMO. Since 2012, through TAs, ADB has been continuing its engagement with PPMO in successive phases by developing and operationalizing the e-GP system. JICA also contributed in carrying out a capacity assessment of PPMO in 2013. Over the years, though several assistances were provided in reforming the system, most of them were in a piece-meal basis to cater the immediate demand, without laying an appropriate strategic framework. The major achievements and challenges are: uniform law governing all public procurement though its enforcement and compliance remains challenging; establishment of PPMO as the nodal agency, however, its capacity is largely constraint due to inadequate skilled professionals and frequent turnover of key officials; development of 79 national trainers and provided major procurement training of three weeks to 100 officials; operationalizing the e-GP platform in five key sector agencies with its initial phase.

7. Concurrently with the procurement reform, a major PFM program has been continuing under a Multi-Donor Trust Fund (MDTF) for about six years with major support to the Office of Auditor General (OAG) and Financial Controller General's Office (FCGO). The on-line submission of program and budget and Treasury Single Account (TSA) system has been in operation since last three years. The budget process is partially integrated with the procurement

planning. During preparation of the budget, it is mandatory to submit procurement plan. However, such a plan may need subsequent revision depending on the actual allocation of budget.

8. In Nepal, the budget process is partially integrated with the procurement planning. During preparation of the budget, it is mandatory to submit procurement plan. Major responsibility for the management of the public finance in Nepal rests by law with the Parliament, Ministry of Finance, the National Planning Commission (NPC), the Public Procurement Monitoring Office (PPMO) and the Financial Comptroller General Office. Procurement of goods, works and services in Nepal is carried out in accordance with the provisions of the Public Procurement Act of 2007 (PPA) and accompanying regulations. Procurement operations are decentralized to procuring entities all over the country. Nepal's annual procurement volume is over US\$1 billion comprising of significant proportion from external sources, and it is increasing fast with the economic growth.

9. The PPMO under the Office Prime Minister and the Council of Ministers (OPMCM), as per the PPA, has the mandate to support procuring entities, monitoring and oversight. PPMO functions are to prepare a public procurement policy and recommend implementation measures to the Government. The office also coordinates procurement, including debarment proceedings, and supports capacity building through professional development plans and training for public officials and bidders. It also plans and coordinates technical assistance on public procurement and functions as the secretariat of the Procurement Review Committee. The PPMO reports to the Government annually. It also monitors public procurement through site visits and documents. Other functions include: a) developing indicators for continuous monitoring of the public procurement proceedings; b) providing the support of electronic Government Procurement (e-GP) platform for public procurement entities to facilitate and use e-procurement; c) advising on public procurement; d) establishing and maintaining websites dedicated to public procurement management; e) developing and issuing standard bidding documents for civil works, goods, and consultancy; f) issuing manuals, directives, instructions, and technical notes for public procurement.

10. There are numerous challenges facing public procurement in Nepal, including low capacity of the PPMO and most procuring entities, and a weak private sector, aggravated by law enforcement issues. The function of public procurement at the local levels (e.g., districts), where capacity to implement procurement is almost non-existent, needs more attention. The review of Nepal Public Procurement Strategic Framework I (NPPSF I) demonstrated that progress over the three year period is mixed but much below expectations. Important initiatives like online bidding and the development of e-government procurement system has taken place but the overall achievements fell short of the targets and expectations of the stakeholders. Public procurement environment continues to suffer due to weak compliance of PPA/PPR, and the low capacity of PPMO, procurement entities and the private sector. Procurement performance continues to be affected by process variances due to lack of standardized documents, guidelines and technical notes. PPMO has not been able to play a lead role in the enforcement of PPA/PPR in the face of deteriorating political economy and rising fiduciary risk associated with public procurement (PP environment has been deteriorating). The shortfalls in the achievement are mainly due to lack of resources and expertise with PPMO. PPMO did not receive national priority and organized donor support commensurate with its importance. Programs and measures have been implemented on a piecemeal basis, and not in an organized and sustained manner largely due to the inadequacy of required resources. The recently concluded Public Expenditures and Financial Accountability (PEFA) assessment clearly establishes the shortcomings in public procurement in demonstrating the transparency, competition and complaints mechanisms in procurement practices. These include: a) procurement plan not published; b) limited data availability on public procurement to determine its efficiency & transparency (e.g. the share of direct contracting); c) rampant practice of splitting the contracts to bring them under the threshold to avoid competitive tendering; d) low credibility of

procurement complaint mechanism (only 22 complaints registered in 2013).

11. The Government of Nepal (GON), supported by different development partner active in the country, is implementing several initiatives to strengthen the capacity of the PPMO, procuring entities, and oversight bodies, and to modernize the system through the introduction of electronic-Government Procurement (e-GP). However, it appears that the resources needed to successfully complete the ongoing and additional initiatives for improving different aspects of public procurement are limited. Furthermore, the GON has realized that in order to solve the current public procurement capacity and other issues, it needs to have a more focused and comprehensive approach. Prepared through wider consultation with all stakeholders (including procurement entities, private sector/bidding communities and development partners), the Nepal Public Procurement Strategic Framework (NPPSF II) 2013-2016 has listed three key areas of intervention/actions to improve the performance of public procurement. They are a) Standardization of Public Procurement Process and Dissemination; b) Capacity Enhancement of Public Procurement System; and c) Operationalization and Mainstreaming of e-GP. The capacity constraints of procurement entities have been largely responsible for executing timely procurement and timely award of contract. The transition of traditional procurement to e-GP represents an important phase in procurement reform process in Nepal. A review of the implementation progress reveals that the success of e-GP will greatly depend on (i) the readiness and acceptability of the bidding communities, Procuring Entities (PEs) and oversight agencies, (ii) availability of support including logistics to switch over, and (iii) uninterrupted IT services including round the clock access to the central server of e-GP. These are the areas where PPMO, in collaboration with the key sector agencies, has to invest major efforts in terms of training, technical backstopping and infrastructure support. With these initiatives, it is imperative that the performance of the public procurement is measured and disseminated to the stakeholders with a set of key measurable performance indicators and increasing accessibility to the data on public procurement through e-GP.

12. According to the annual report of the Auditor General, 5 key sectors: roads, irrigation, urban development, defense and health are the high spending agencies constituting 75.86% of the total Capital Expenditures . The annual expenditures of two other agencies, Nepal Electricity Authority (NEA) and Nepal Telecom, are reported to be high.

Relationship to CAS/CPS/CPF

13. The proposed project supports the implementation of the GON's strategy to make public procurement an effective tool of public expenditure. It is also consistent with the objectives of the Country Partnership Strategy (CPS) for Nepal for FY 2014-2018, dated May 1, 2014. The section on 'Foundations and Cross-Cutting Dimensions' under Pillar II of the CPS, says that the Bank remains committed to continue its dialogue on public procurement reform in coordination with other development partners, with the aim of harmonizing public procurement practices and developing the overall procurement capacity at regulatory, implementation, and at service provider (private sector) levels. The proposed project is fully consistent with this commitment of the Bank.

II. Project Development Objective(s)

Proposed Development Objective(s)

The project development objective (PDO) is to improve project implementation and service delivery to the citizens progressively with enhanced public procurement performance, largely focusing on the five key sector agencies.

Key Results

- ? Enhanced public integrity and governance structure in PPMO and key sector agencies;
- ? Improved monitoring of the implementation of PPA;
- ? Professionalized procurement capacity with institutionalization and sustainability;
- ? Improved procurement performance of the key sector agencies; and
- ? Enhanced public procurement accountability with civic engagement and stakeholders.

III. Preliminary Description

Concept Description

The proposed project is a part of the public procurement improvement initiative planned for an intervention of about five years. Nevertheless, recognizing the availability of funds from the Multi-Donor Trust Fund (MDTF), at this stage, only part of the intervention with a duration of about 30 months is being processed. Addressing the priority issues of PPMO and five key sector agencies (KSAs7), the project will concentrate on three major areas: (i) public procurement governance and oversight; (ii) procurement capacity development and institutionalization; and (iii) procurement performance monitoring and open contracting with e-GP platform. In consultation with the PPMO, these KSAs have been chosen on the basis of their large share of annual capital expenditures and the numbers of contract these agencies let out in a year. In due course of time, with the availability of additional fund from the MDTF, the remaining activities under the above three components will be further undertaken for other sector agencies as well.

The details of components are as follows:

Component 1 ? Public Procurement Governance and Oversight: This component would aim to improve governance and accountability of the public procurement system with necessary oversights. This would help reinforce the policy reform processes and practices of PPMO including its own strengthening so that it can more effectively fulfill the mandated oversight functions. Key areas would cover PPMO; public integrity; policy reform actions; grievance redress mechanism; procurement audits; information disclosure; right to information functions; etc. Major sub-components are described below.

i. Strengthening PPMO: This subcomponent would strengthen PPMO. In order to play its role more effectively, PPMO needs substantial enhancement in its structure and operational model including its set up, type of staffing, capacity, skills mix, and inputs of consultants as and when necessary. This will be done in a way to be compatible with the future needs taking cognizance of the rapidly changing technology in the sector, with specific reference to advanced procurement technologies, like e-GP.

ii. Reinforcing public integrity and governance: The subcomponent would strengthen public integrity, governance, and accountability of the public procurement system, and would be achieved by implementing a number of accountability actions. Key areas of activities would include: implementing grievance redress mechanism; post procurement audits by Auditor General's Office; public disclosure of invitation of bids and bidding outcomes with brief reasons for the rejection of bids; disclosure of procurement processes and plans; validity of contract data; red flags in procurement; and implementing demand side of good governance including civic engagement, possible third party monitoring, and citizen oversight.

iii. Advancing policy reforms: This would help update the policy reform actions with secondary legislations. Activities include: updating the secondary legislations; standardization of procurement

procedures; updating standard bidding documents including preparation of remaining model documents; preparation of bid evaluation guidelines, contract management manual and technical notes including specific to sectoral needs.

Component 2 ? Procurement Capacity Development and Institutionalization: The component would help the above five Key Sector Agencies- KSA and six Other Sector Agencies- OSA to improve organizational capacity with a view to enhance their performance in conducting and managing procurement. Attempts would include progressive institutionalization with greater sustainability of the procurement training system. While the component is dedicated to procurement management and capacity development, it will have direct linkages with Component 3 in specific reference to the performance measurement resulting out of the activities of Component 2. The subcomponents are described in the following paragraphs:

- i. **Procurement management improvement:** This subcomponent would help improve procurement management at the key sectoral agencies. Major areas of activities would include: operationalization of dedicated and functional procurement units; strengthening procurement units with qualified staff and equipment; reinforcing agencies' internal audit of procurement; exposure to innovative and proven practices; and twinning with better functioning institutions in other countries of the region.
- ii. **Capacity building and institutionalization:** This subcomponent would aim to enhance procurement capacity of the key sectors with greater institutionalization. Workforce Study in Nepal has identified over 47,000 procuring entities (cost centers) under about 350 agencies. It is estimated that the selected five KSA would be having over 500 cost centers excluding Village Councils. The total number of procurement entities under six OSA is estimated to be around 350 (excluding schools, colleges etc.). The major activities include capacity enhancing of key sector agencies and other sector agencies by designing and implementing massive training program of various types of targeted long and short training courses to cover audiences (policy level/entry civil servants, procurement officers, estimators, auditors and accountants, bidding community, e-procurement learning, etc.). A network with PPMO, the National Administrative Staff College (NASC) and its affiliates in the regions, the Ministry of Local Development and its Local Development Training Academy will be developed to support gradual operationalization of e-learning. Under the component a testing and certification/accreditation program would also be established and made operational.
- iii. **Citizen engagement and behavioral change communication:** The subcomponent would deal with possible citizen engagement in the monitoring of public procurement including behavioral change among the stakeholders that participate in public procurement services (for example, procurement officials, bidding community, beneficiaries, etc.). Specific attention will be provided in the area of gender sensitivity and the formation of civic engagement forums. Activities would include: formation of citizen engagement forum, developing communication strategy; awareness program for agencies/beneficiaries; education program; advocacy campaign at the grass root decentralized levels; social media campaign, engagement of beneficiary groups; and government-contractors' forum.

Component 3 ? Performance Monitoring and Open Contracting with e-GP Platform: This component would help monitoring and evaluation of performance of the public procurement system, in particular reference to the five KSA. The e-GP system is already there in the PPMO. Also, the detailed requirements of open contracting has been studied. In the proposed operation, the performance measurement and open contracting modules will be developed and integrated within

the e-GP framework. The focus would be on the measurement of performance by developing a set of indicators with its data collection procedures and analysis including open contracting, specifically using the e-GP platform to ensure better integrity of data with efficient use of time at the working levels of the agencies. Subcomponents are described below.

i. **Developing and implementing procurement performance measurement system:** This subcomponent would help in developing a set of key performance indicators to measure efficiency, transparency, effectiveness, and value for money aspects of the public procurement system in general, and five KSA in particular. Once the indicators are developed, a specific module would be introduced with necessary features within the existing e-GP system of PPMO, with direct connectivity to the key sectoral agencies who actually implement procurement. It would be an on-line automated system, without requiring duplication of data entry as procurement events occur; the system would automatically capture those data. Also, PPMO would have a dedicated wing for research and analysis of those indicators, and the performance reports at national as well as agency level would be published on the website.

ii. **Implementing open contracting:** The aim is to make the procurement data more open, accessible and useful to policy makers, development partners, civil society, and private sector for development effectiveness, using principles of open contracting. Key activities would include: creating/expanding the public database with database already on e-GP sites; standardizing contract data with key features; incorporating visualization features including mechanism to receive and respond to public comments/complaints; facilitating dialogue between PPMO and key implementing agencies; capacity building to increase coverage of procurement information and using contracting data for policy making; creating tool to track individual department's publication of contracting data; leveraging non-state actors to monitor public contracting and contractor performance at the local level.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	4.8	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
Borrower			0.8

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