CROWN AGENTS
ACCELERATING SELF-SUFFICIENCY & PROSPERITY

FINANCIAL MANAGEMENT OF DEVELOPMENT PROJECTS

13 - 24 May 2019

Daily Agenda

Day 4

1. Procurement in development context and principles
2. Types of Procurement (Goods, Works and Consultancy)
3. Types of Contract – financial implications
4. Defining procurement success

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Financial Management of Development Projects
16 May 2019

PROCUREMENT

Robert Graham

Session Introduction

Session Aim

Define and examine critical aspects of procurement and within the context of development and development projects

Session Learning Objectives – by the end of this course, you will be able to:

- Identify and understand the principles of procurement
- Select different procurement types and methods
- Undertake procurement planning
- Understand different contract types
- Define procurement success

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Session Agenda

Our Learning Journey – how we will achieve our objectives:

1. Linking procurement with financial management
2. Learning the 7 objectives of procurement
3. Exercise, the key principles of procurement
4. Discussion what are the key causes of poor procurement?
5. Exercise Efficiency and effectiveness
6. Exercise setting Key Performance Indicators (KPIs)
7. Session close

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Linking Procurement with Financial Management

- Procurement plays a pivotal role in a country's development strategy projects are expected to carry it out efficiently and with high standards of conduct in order to ensure high quality of service delivery and safeguard the public interest.

- Effective budget preparation relies on reliable forecast of expenses for public procurement

- Efficient development procurement relies on timely allocation of budget funds

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Group Discussion

What is the role of procurement in your organisation or project? Strategic or back office?

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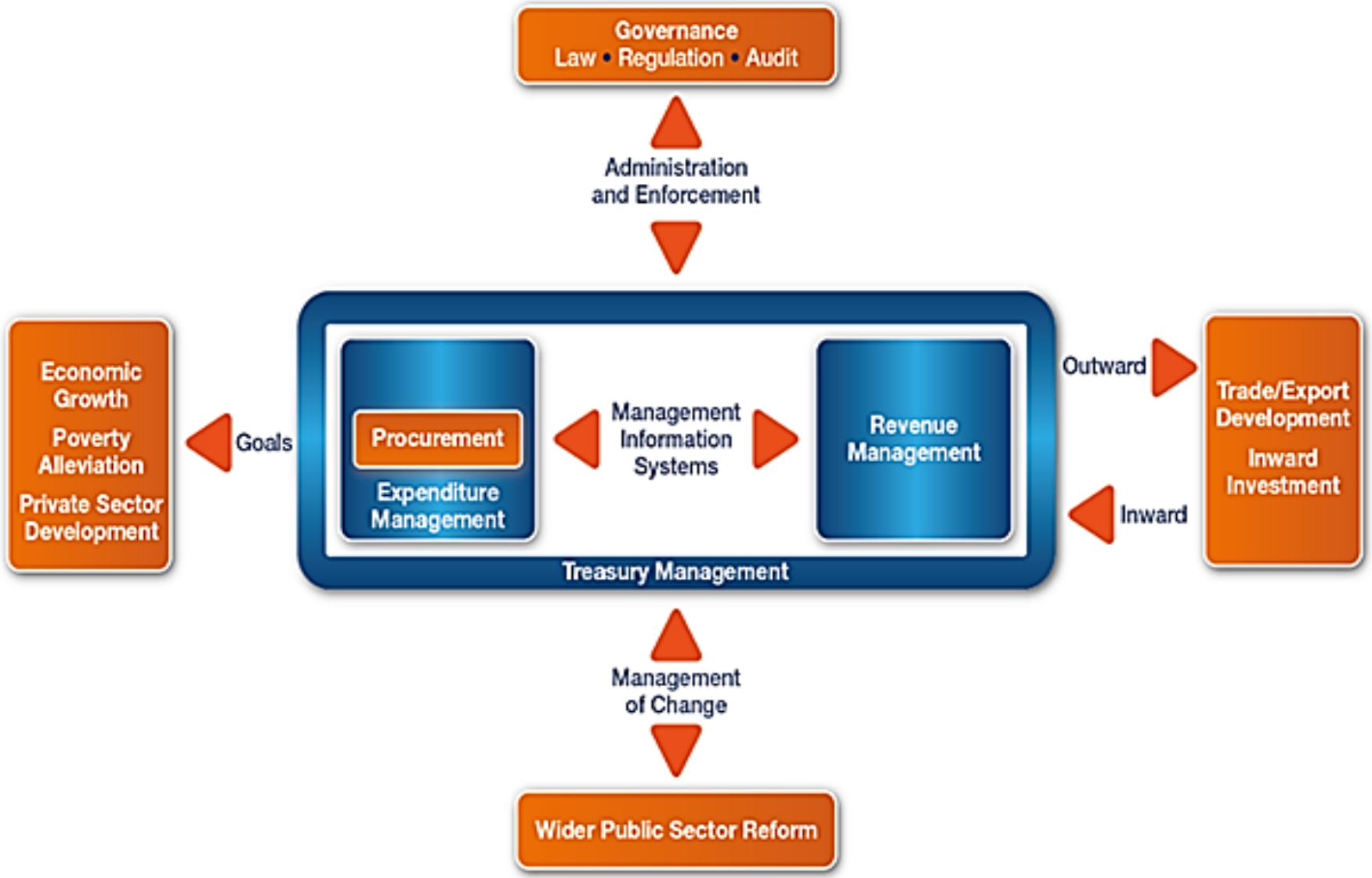
Procurement in Development Context



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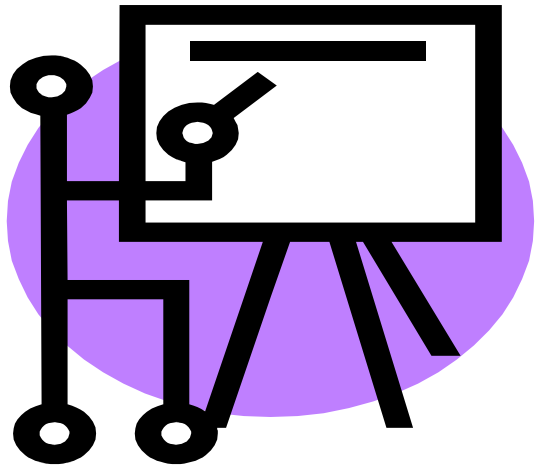
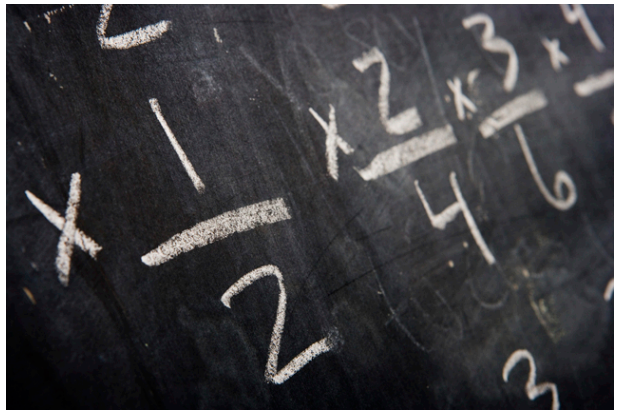
Discussion Is there more to procurement than acquiring a product or service?





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Simply …..

Procurement is the process of meeting these objectives:

- Identifying what is needed
- Determining the best way to supply this need
- Ensuring that the “5 rights” **right quality**, in the **right quantity**, is delivered to the **right place**, at the **right time**, for the **right price**
- Two more rights, **right sustainability** and **right rights**
- The complete process is done in a fair and transparent manner

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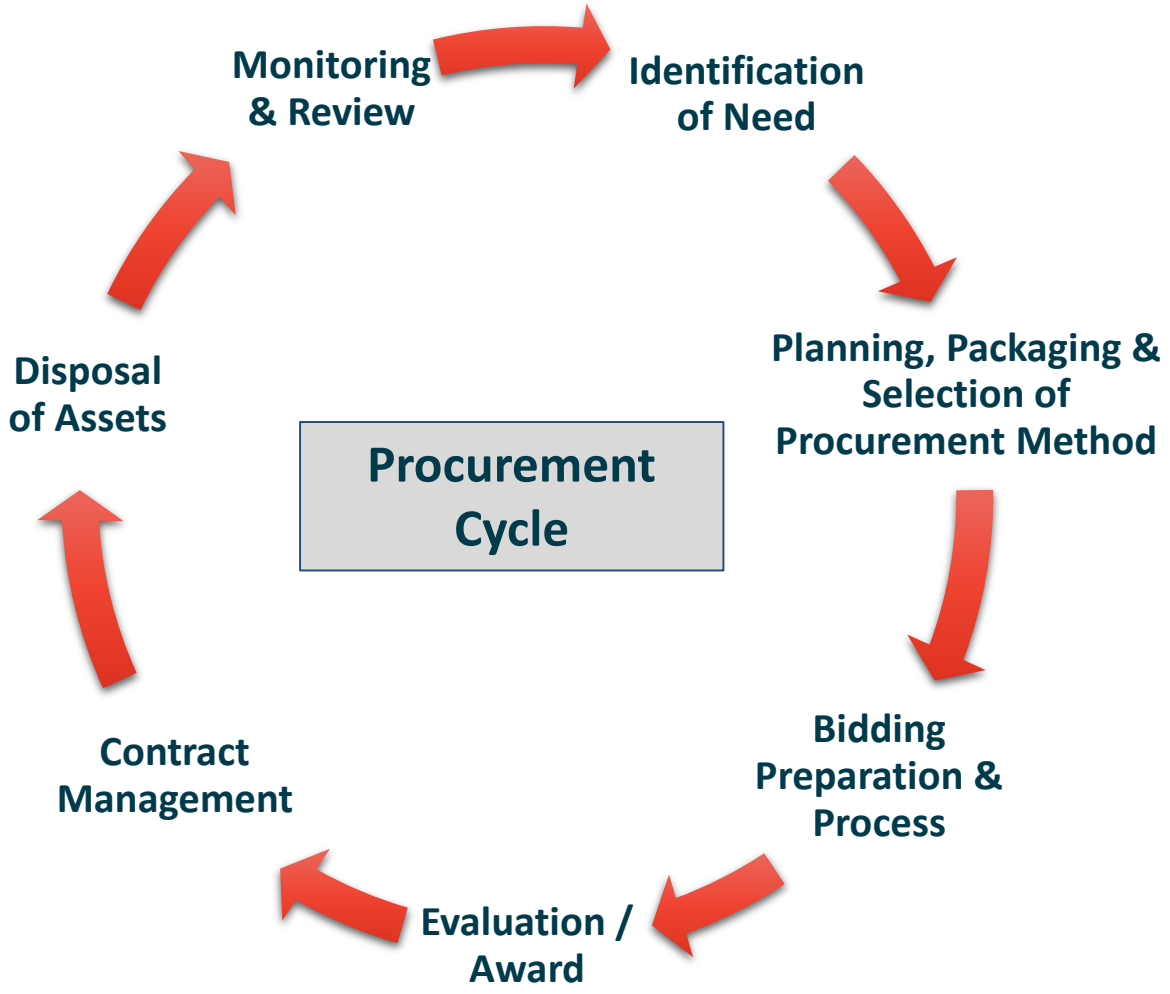
The Procurement Cycle



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Key Principles of Procurement – Exercise 1

- Transparency
- Fairness
- Accountability
- Competition
- Value for Money
- Ethical Approach
- Professionalism

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First Principles of Procurement visual exercise

Transparency

Fairness

Ethical

Value for Money

Competition

Professionalism

Accountability

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Principles of Procurement

The application of the procurement principles should lead to:

- Increased efficiency in the procurement function
- Procurement being more effective
- Confidence in the procurement functions
- Improved achievement of government/project objectives
- Reduced risk of corruption

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Procurement Considerations that guide Development Partners

World Bank Guidelines based on:

- Need for economy and efficiency
- Equal opportunity for all eligible bidders
- Encouraging development of domestic contracting, manufacturing and consultants
- Transparency
- High quality consultancy services

These considerations are best addressed through competition

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World Bank Procurement Reforms

- Managing expectations – tolerance of risk, timelines
- Development of Human Resources “best in class”
- Funding the capacity building
- Addressing the whole procurement cycle
- Measuring the impact of the reforms – project outcomes

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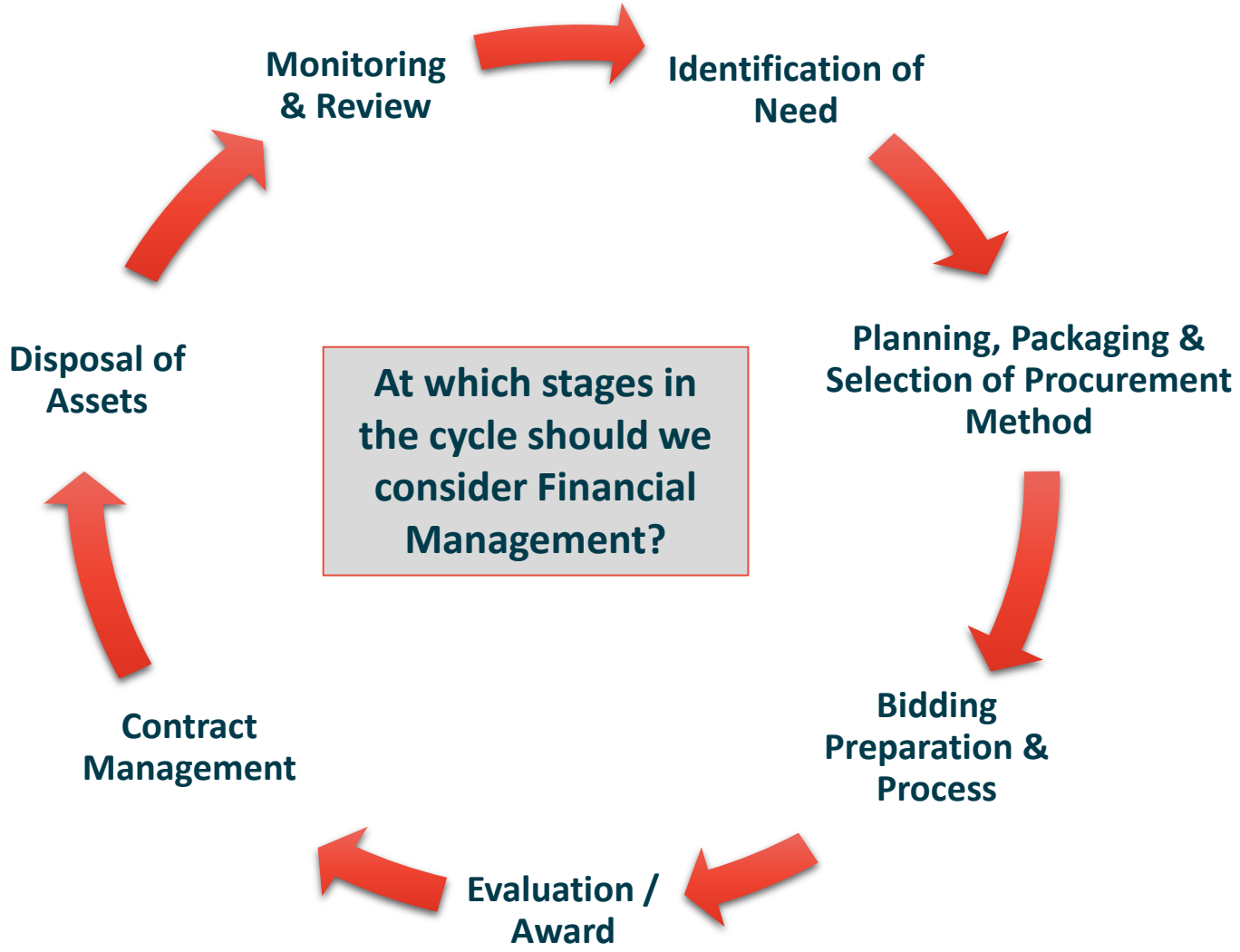
The Procurement Cycle and Financial Management



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OECD DAC Methodology for Assessment of National Procurement Systems

Pillar I – Legislative and Regulatory Framework

- Laws and regulations meet agreed standards
- Standard documents and guidance documents available

Pillar II – Institutional Framework and Management Capacity

- Procurement integrated with other parts of government, particularly financial management systems
- Functioning regulatory body
- Support and monitoring systems e.g. information systems, capacity development

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OECD DAC Methodology for Assessment of National Procurement Systems

Pillar III – Procurement Operations and Market Practices

- Efficient procurement operations and practices
- Functioning public procurement market
- Contract administration and dispute resolution provisions exist

Pillar IV – Integrity and Transparency of the Public Procurement System

- Effective control and audit systems
- Efficient appeals mechanism
- Access to information
- Ethics and anticorruption measures in place

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Group Discussion

- What are the key causes of poor procurement within a national system?

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Key elements of a procurement system

- Procurement planning - identification of requirements
- Selection of suppliers, contractors, consultants
- Award of contract
- Contract financing
- Contract performance
- Contract administration
- Completion of the contract
- Resolution of all claims and warranties
- (Disposal of assets)
- Monitoring and control

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Use of National systems

- Whilst supporting the OECD DAC MAPS self assessment tool few DPs have accepted 100% use of national systems for all projects across all sectors in any country

Development Partners will often:

- re-assess the self assessment
- introduce further criteria to meet their own fiduciary requirements and/or
- Require use of their own procedures for some/all procurement

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Kyrgyz Health & Social Protection SWAp Project

Health Sector Fiduciary Assessment – to identify financial management and procurement risks – led to:

- Revision / update of standard bidding documents
- Introduction of ad hoc tender committees (as opposed to permanent)
- Establishment of procurement units and internal control units within line ministries
- Training of auditors in ex-post reviews
- Introduction of electronic advertisement of procurement bulletins and notices
- Introduction of multi year rolling procurement plans
- Enforce rules on completion of procurement documentation
- Publicise findings and decisions on corruption cases

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Kyrgyz Health & Social Protection SWAp Project

Actual procurement procedures to be followed:

- Works – National procedures subject to certain conditions being complied with
- Goods – National procedures ≤ US$ 100,000
  World Bank procedures > US$ 100,000
- Services – World Bank procedures

A specific procurement manual was prepared for this project

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Procurement for a development project

Once the decision on the procedures (guidelines) to be used is made, the project will implement procurement in accordance with the following:

- Financial thresholds
- Procurement Methods
- Review methods

The above will make up the -

- Procurement plans

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Group Discussion

- What do we mean by goods, works and services?

- What are the differences for procurement?

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Procurement Guidelines (WB)

Goods and Works (Red Guidelines)

- Physical deliverables
- Open competition through wide advertising (may pre-qualify for Works)
- Price a key evaluation criteria
- Detailed specifications plus standard bidding documents
- Single stage bidding
- Negotiations very rare
- Bid and Performance securities required

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Procurement guidelines (WB)

Consultancy Services (Green Guidelines)

- Varied deliverables
- Proposals from a shortlist of qualified consultants (usually developed through open advertising for EOIs)
- Technical competence a key evaluation criteria
- Terms of Reference plus standard proposal documents
- Two stage evaluation process technical & financial
- Negotiations normal
- Performance securities discretionary

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Procurement methods

Goods and Works

- International Competitive Bidding (ICB)
- Limited International Bidding (LIB)
- National Competitive Bidding
- Shopping
- Direct Contracting

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Procurement methods

Consultancy Services

- Quality and Cost Based Selection (QCBS)
- Quality Based Selection (QBS)
- Fixed Budget (FBS)
- Least Cost Selection (LCS)
- Consultants Qualifications (CQS)
- Single Source Selection (SSS)

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Procurement thresholds

The financial thresholds for a specific method of procurement will vary according to the size and complexity of the project.

Kyrgyz Health & Social Protection SWAp Project (value US$ 21 million)

Civil Works Procurement	≥ US$ 500,000 – ICB
	< US$ 500,000 – NCB, DC
2. Goods Procurement	≥ US$ 100,000 – ICB
	< US$ 100,000 – NCB, Shopping
3. Consultancy Services Procurement	≥ US$ 100,000 – QCBS, QBS, FBS, LCS
	< US$ 100,000 – CQS, SSS

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Review methods

- Prior Review - the WB will review and give “No Objection” to

  ✓ Draft prequalification and bidding documents
  ✓ Draft evaluation report and recommendation for award
  ✓ Requests to extend bid validities
  ✓ Amendments to contract

- Post Review – the WB will review all procurement documentation during supervision missions or at some other stage.

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Objectives of Procurement Planning

- Establishes direction and goals for the procurement for all parties involved in the procurement process
- Ensures that a framework is established for monitoring and review of performance
- Provides early advice of opportunities to potential suppliers
- Provides the primary source of information for contract management planning
- Ensures that the procurement team has the knowledge, skills and qualifications to carry out the task

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A good procurement plan should -

- ✓ have a purpose (goals and targets)
- ✓ be based on best information and data available
- ✓ be co-ordinated
- ✓ be flexible
- ✓ be comprehensive
- ✓ be understood
- ✓ be achievable (sufficient resource!)

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Procurement planning value

Exercise (10 minutes)

The planning process is a valuable tool in managing the procurement function.

- Identify three or more benefits to your organisation or project.

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What is a Contract?

- A legally binding agreement entered into by two or more parties to create one or more legal obligations between them

- Usually written

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What is a Contract?

An offer, which must be distinguished from an “invitation to bid”

An acceptance, which must be unqualified

Consideration, “the price for which a promise is bought” or in other words an exchange of value

Intention to create legal relations – must be entered into voluntarily and deliberately

Capacity, must be legally able to enter into a contract

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Types of contract

Goods and Works:

Lump Sum

Unit Prices

Reimbursable cost + fees

Turnkey

Management Contract

Consultancy Services:

Lump Sum

Time based Contract

Retainer and/or contingency (success) fee Contract

Percentage Contract

Framework Agreements

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Financial Instruments

Securities

Bid Security (Bid Bond)

Performance Security

Advance Payment Security

Payment Methods

Letter of Credit (preferred)

Open Account

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Securities

- A bid security will protect the purchaser from:
  - *Bidders who are not serious*
  - *Bidders changing their bids*
  - *Bidders withdrawing their bids*
  - *The successful Bidder not providing a performance guarantee*
- A performance security will protect the purchaser from:
  - *Non-performance of the contract*
  - *Non-performance of the warranty obligations*
  - *Non-performance on any supporting services, i.e. installation, commissioning*
- An advance payment security will protect the purchaser from:
  - *Payment for Goods/Works that are not received*

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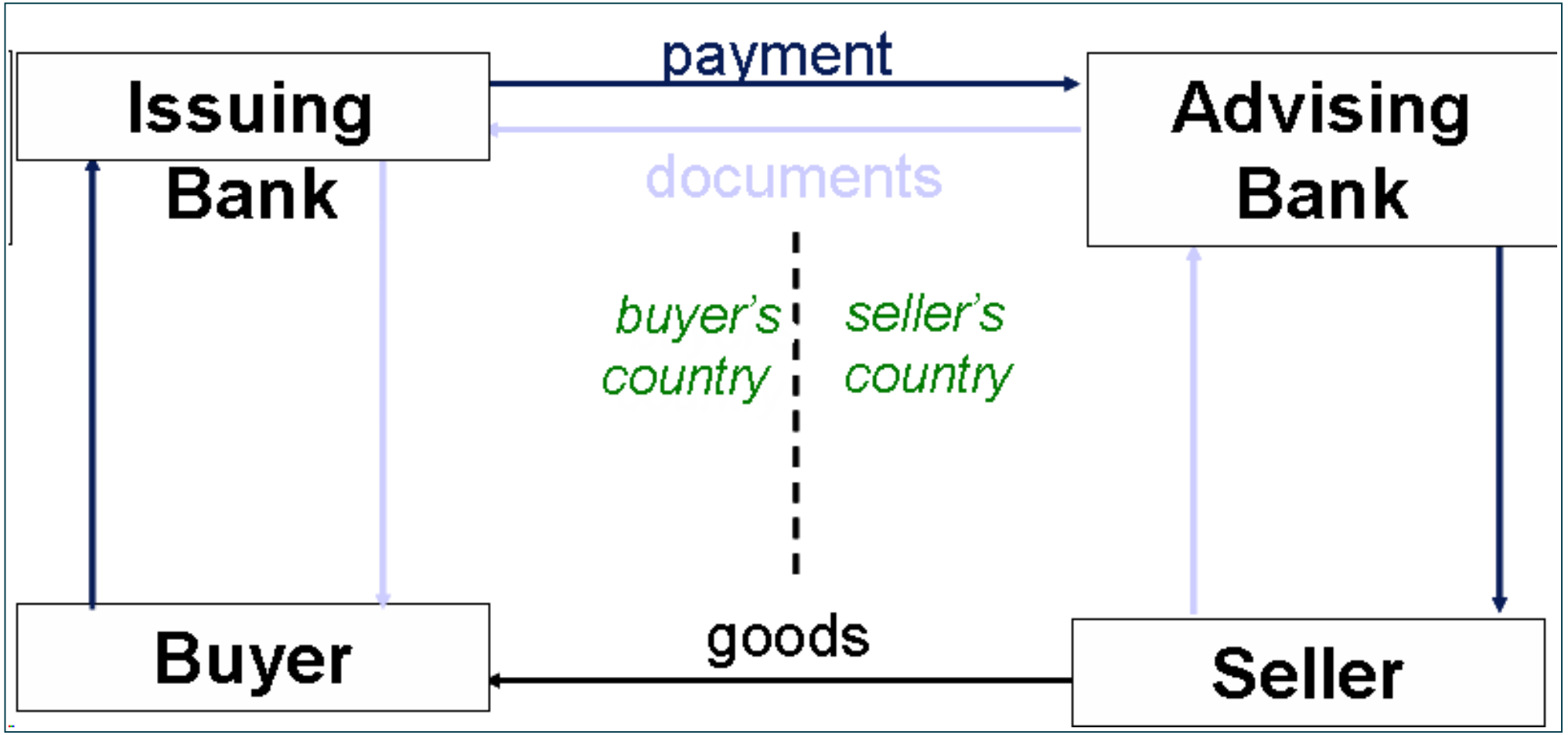
Letters of Credit



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Bank Transfer

"SWIFT" = Society for Worldwide Interbank Financial Telecommunications

- Electronic clearing house
- Authenticated messages

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Defining procurement success

- What constitutes procurement ‘success’
- How can we assess ‘progress’
- Efficiency and effectiveness and their relationship
- The procurement decision triangle
- Selecting and defining areas for assessment/audit
- KPIs to define and evaluate procurement effectiveness

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Defining ‘success’ and ‘progress’

- Can be defined in many ways:
  - Efficiency
  - Effectiveness
  - Compliance
  - Outcomes
  - Value

- Some of these parameters are subjective, some are not…..

Exercise 2 What is the difference between Efficiency & Effectiveness?

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How can we tell if the procurement function is performing?

- Effective
  - adequate to accomplish a purpose
  - producing the intended or expected result

- Efficient
  - performing or functioning in the best possible manner with the least waste of time, money and effort (best use of resources)

It can often be difficult to achieve both

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Defining Key Areas for Assessment

- In order to monitor we need indicators
- Top level groupings
- Based on the law/regulations
- Example:
  - Institutional structure
  - Physical equipment
  - Procurement processing
  - Record keeping
  - Reporting
  - Complaints process

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Key Performance Indicators (KPIs)

- A standard way of measuring and benchmarking performance against a target or an established best practice standard.

- A KPI is your description of success or progress

- To set KPIs we must decide:
  - what are important areas for performance, control, improvement
  - what will indicate success in these areas
  - what will indicate constraints or problems in these areas

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Good Key Performance Indicators:

- are measurable without greatly increasing administrative costs
- are useful in assessing performance
- are unambiguous to ensure that interpretation of data is simple and correct
- are S.M.A.R.T

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KPIs

NON-SMART KPI

- There must be a drastic improvement in supplier after-sales service to decrease down time of office electrical equipment

SMART KPI’s

- Suppliers must repair any reported breakdown within 3 hours of the report arriving with the supplier

- There must be a supplier repair team available between 9-5 on every working day.

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Exercise 3 Good and Bad Key Performance Indicators

You can use KPIs for almost any aspect of procurement objectives, strategies, functioning, processes, performance, results etc.

The important thing is identifying:

- What you want to monitor
- How you are going to define success and
- How you are going to collect data and evaluate it

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KPI Health Check

- Are KPIs derived from higher level objectives?
- Do the measures link with high level objectives?
- Do they have owners (achievement and monitoring)?
- Are they too ambitious?

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Types of monitoring

- Different types of assessment / audit will require different focus areas
- Therefore, clarity is required as to the type of assessment being undertaken
- How do the following types of assessment / audit differ:
  - Value for Money
  - Compliance
  - Investigation
  - Financial audit

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Value for Money

- Usually case-specific TCQ triangle
- In its purest form, focus is on finding the optimum combination of whole-life costs and quality to meet the customer requirements
- Not the lowest price…..
- ….or the highest specification
- First areas to assess would therefore be:
  - The overall ‘need’ for the procurement
  - Pre-defined parameters for measuring success
  - Eventual outcomes

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Types of value

1. **Traditional cost down**
    - Specification improvement – simplify and standardise
    - Volume leverage – consolidate volumes
    - Price improvement – price and cost analysis
2. **Outcomes**
    - Collaboration and consortia
    - Environmental sustainability – reduced carbon footprint
    - Corporate Social responsibility – support local economy
3. **Broader value**
    - Improved innovation – access supplier know how
    - Risk mitigation – risk analysis
    - Improved quality levels – conformance to specification
    - Improved performance – supplier scorecards / customer surveys

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Value for Money

Next, the contract itself should be reviewed

- Areas to consider would be:
  - Overall cost of the contract
  - Are all costs justified?
  - Is there anything that could have been removed/adjusted without impacting on the final outcome?
  - Were there any over-runs or cost increases?

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Value for Money

- Also looks at internal efficiency
  - Can we work ‘smarter’?
  - Are unnecessary costs being incurred?
  - Was the procurement approach right?
  - What could be improved?

- By pulling all of these strands together we can obtain an overall picture of whether value for money can be said to have been achieved
- It is usually a post contract activity

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Compliance

- Focus is on ensuring that processes and procedures are followed
- Can be case-specific or more general
- It can take place at any time

- Consider areas you would assess for your project/organisation

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Where do we look for compliance?

STRUCTURE

Roles and responsibilities

Reporting lines

Interface with stakeholders

RESOURCES

Finances

Computers, internet vehicles,

Offices, secretaries telephones

SYSTEMS

Work processes

Planning MIS

Fin Management

Procurement system

CULTURE

Attitudes

Style

Behaviour Values

Ownership

PEOPLE

Skills Knowledge

Numbers

Deployment

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Investigation

- Usually as a result of a complaint or ‘whistle-blowing’
- Can be looking at one specific procurement case or a range of cases depending on the stimulus
- Not so much concerned with VFM or compliance
- Linked to wrong-doing, manipulation, coercion, fraud…
- Focus is on gathering evidence to validate or discount the allegations or suspicions
- It can take place at any time

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Financial audit

- Were all payments made in accordance with the contract?
- Are all financial records in order?
- It is a post contract activity

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Benefits of Good Procurement

Delivery of good, works and services leads to achievement of project objectives/improved public service delivery

Increased value for money leads to budget savings or debt/price reduction

Transparency leads to reduced corruption

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Session close

Let’s wrap up the session:

- Recap of key learning
- Final questions?
- Revisit session objectives – achieved?
- Application of learning – update your action plans
- What’s next?

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THANK YOU /

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