PROCUREMENT GUIDANCE

Project Procurement Strategy for Development

Short Form Detailed Guide

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THE WORLD BANK
IBRD • IDA

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Common Abbreviations and Defined Terms

This section explains the common terms and abbreviations used in this Guidance Document. Defined terms are written using capital letters.

Abbreviation / term	Full terminology / definition
BAFO	Best and final offer.
Bank	IBRD and/or IDA (whether acting on its own account or in its capacity as administrator of trust funds provided by other donors).
Bid	An offer, by a firm or joint venture, in response to a Request for Bids, to provide the required Goods, Works or Non-consulting Services.
Bidder	A firm or joint venture that submits a Bid for Goods, Works, or Non-consulting Services in response to a Request for Bids.
BOO	Build, own, operate.
BOOT	Build, own, operate and transfer.
Borrower	A borrower or recipient of Investment Project Financing (IPF) and any other entity involved in the implementation of a project financed by IPF.
BOT	Build, operate, and transfer.
CDD	Community-driven development.
CIP	Incoterm meaning Carriage and Insurance Paid to (named place of destination).
Competitive Dialogue	A selection method for Goods, Works or Non-consulting Services described in Paragraphs 6.39 to 6.41 and Annex XIII of the Procurement Regulations.
Complaint	A procurement-related complaint as described in Paragraphs 3.26 to 3.31 and Annex III, Procurement-related Complaints of the Procurement Regulations.
Consultant	A variety of private entities, joint ventures, or individuals that provide services of an advisory or professional nature. Where the Consultant is an individual they are not engaged by the Borrower as an employee.
Consulting Services	Covers a range of services that are of an advisory or professional nature and are provided by Consultants.

Abbreviation / term	Full terminology / definition
	These Services typically involve providing expert or strategic advice e.g., management consultants, policy consultants or communications consultants. Advisory and Project related Consulting Services include, for example: feasibility studies, Project management, engineering services, finance and accounting services, training and development.
Core Procurement Principles	The Bank's Core Procurement Principles (value for money, economy, integrity, fit for purpose, efficiency, transparency and fairness) are set out in detail in Section III. C of the Bank Policy: Procurement in IPF and Other Operational Procurement Matters.
CQS	Consultant's qualifications based selection.
EOI	Expression of Interest.
FA	Framework Agreement.
FBS	Fixed-budget Based Selection; a method of evaluating the selection of Consultants where Proposals are based on a fixed budget.
Fraud and Corruption	The sanctionable practices of corruption, fraud, collusion, coercion and obstruction defined in the Anti-Corruption Guidelines and reflected in paragraph 2.2a of Annex IV of the Procurement Regulations.
Goods	A category of procurement that includes: commodities, raw material, machinery, equipment, vehicles, Plant, and related services such as transportation, insurance, installation, commissioning, training, and initial maintenance,
IBRD	International Bank for Reconstruction and Development, which is part of the World Bank Group.
IDA	International Development Association, which is part of the World Bank Group.
Incoterms	The international commercial terms for goods published by the International Chamber of Commerce (ICC).
Initial Selection (IS)	The shortlisting process used prior to inviting request for Proposals in the procurement of Goods, Works or Non-consulting Services.
Investment Project Financing (IPF)	The Bank's financing of investment Projects that aims to promote poverty reduction and sustainable development. IPF supports Projects with defined development objectives,

Abbreviation / term	Full terminology / definition
	activities, and results, and disburses the proceeds of Bank financing against specific eligible expenditures.
LCS	Least-cost-based Selection: a method of evaluating the selection of Consultants based on the lowest price.
Legal Agreement	An agreement with the Bank providing for a loan for a Project, including Procurement Plan and all documents incorporated by reference. If the Bank enters into a Project agreement with an entity implementing the Project, the term includes the Project agreement.
Most Advantageous Bid/Proposal	As defined in Annex X, Evaluation Criteria of the Procurement Regulations.
NGO	Non-governmental Organization.
Non-consulting Services:	Services, which are not Consulting Services. Non-consulting Services are normally bid and contracted on the basis of performance of measurable outputs, and for which performance standards can be clearly identified and consistently applied. Examples include: drilling, aerial photography, satellite imagery, mapping, and similar operations.
PESTLE	A PESTLE (Political, Economic, Social, Technology, Legislative and Environment) is analysis tool for supporting assessment of each of these factors.
Plant	A category of procurement relating the provision of equipped facilities, such as those executed on the basis of design, supply, installation, commissioning, maintenance, modification and protection.
PPP	Public-Private Partnership.
Prequalification	The shortlisting process, which can be, used prior to inviting request for Bids in the procurement of Goods, Works or Non-consulting Services.
Probity Assurance Provider	A third party that provides specialist probity services for concurrent monitoring of the Procurement Process.
Procurement Approach	Procurement approach is the overall design of "fit for purpose" procurement to award contracts that deliver the Project Development Objectives and Value for Money. This includes the procurement arrangements, procurement risk management, contract strategy, market engagement, requirements drafting and contract management (where appropriate).

Abbreviation / term	Full terminology / definition
Procurement Arrangements	Procurement arrangements are the combination of Selection Methods and Market Approaches.
Procurement Plan	The Borrower's Procurement Plan for IPF Projects, as referred to in Paragraphs 4.4 and 4.5 of the Procurement Regulations, and incorporated by reference in the Legal Agreement.
Procurement Process	The process that starts with the identification of a need and continues through planning, preparation of specifications/ requirements, budget considerations, selection, contract award, and contract management. It ends on the last day of the warranty period.
Procurement Regulations	The "World Bank Procurement Regulations for IPF Borrowers".
Project Procurement Strategy for Development (PPSD)	A Project-level strategy document, prepared by the Borrower, that describes how procurement in IPF operations will support the development objectives of the Project and deliver VfM.
Proposal	An offer, in response to a request for proposals, which may or may not include price, by one party to provide Goods, Works, Non-Consulting Services or Consulting Services to another party.
Proposer	An individual entity or joint venture that submits a Proposal for Goods, Works, and Non-consulting Services in response to a request for proposals.
QBS	Quality-based Selection.
QCBS	Quality and Cost-based Selection.
REoI	Request for Expressions of Interest.
RFB	Request for Bids as a selection method.
RFP	Request for Proposals as a selection method.
RFQ	Request for Quotations as a selection method.
Shortlist	The shortlisting process used prior to inviting request for Proposals in the procurement of Consulting Services.
SOEs	State-owned Enterprise or institution.
Standard Procurement Documents (SPDs)	Procurement documents issued by the Bank to be used by Borrowers for IPF financed Projects. These include, GPN, SPN, EOI, REOI, Standard Prequalification documents, Initial Selection documents, Request for Bids Documents, and Request for Proposals Documents.

Abbreviation / term	Full terminology / definition
SWOT	A SWOT (Strengths, Weaknesses, Opportunities and Threats) is an analysis tool that can support the Borrower Capability Assessment, Market Analysis and Procurement Risk Assessment.
UN Agency	UN Agency broadly refers to the United Nations departments, specialized agencies, and their regional offices, funds, and programs.
VfM	Value for Money.
Works	A category of procurement that refers to construction, repair, rehabilitation, demolition, restoration, maintenance of civil work structures, and related services such as transportation, insurance, installation, commissioning, and training.

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Section I. Introduction

The Project Procurement Strategy for Development (PPSD) is a methodology that is used to determine the optimum procurement approach to deliver the right procurement result.

The PPSD requires Borrowers to consider, among other things, the market situation, the operational context, previous experience and the risks present – then from this, determine the right procurement approach that will yield the right type of response from the market. By designing the right procurement approach, there is far more likelihood of the right bidders participating, better bids being received, and an overall increased chance of achieving value for money. Therefore, determining the right procurement approach, informed by appropriate analysis is a critical activity that subsequently impacts every following step of the procurement process, and onwards into Project implementation.

This Procurement Guidance is for use when drafting the Short Form PPSD - template attached in Annex I. This summary Guidance provides a structured approach for Borrowers to use a modern set of procurement tools and techniques to achieve best Value for Money (VfM) in Projects financed through Investment Project Financing (IPF).

As with the overall preparation of the PPSD, the use and application of these tools needs to be proportionate to the level of market research and information required to develop a "fit for purpose" procurement approach. There is not an expectation that all the tools detailed will be used, but only those most appropriate to the individual Project circumstances. As a minimum the Borrower should use both the Supply Positioning (detailed in PPSD Preparation and the Project Cycle Sub-Section of the PPSD Guidance) and Supplier Preferencing tools (detailed in the next Sub- Section of the PPSD Guidance) to inform the right procurement approach.

The level of detail in the PPSD should be proportionate to the risk, value, context, nature and complexity of a Project.

This PPSD Guidance should be read in conjunction with the World Bank Procurement Regulations for IPF Borrowers.

For reference, a more detailed Guidance on the PPSD is also available should more information and explanation of tools detailed, be required. Also available, are a series of short briefing videos that explain the use of key procurement tools in the PPSD process, see www.worldbank.org/procurement. Examples of completed Short Form PPSDs will be published as case studies in the future.

Section II. Background

The PPSD and the Procurement Plan are documents that the Borrower prepares as part of the Project preparation process for Projects financed through IPF. The Bank reviews the PPSD together with the Procurement Plan as part of Project appraisal and reaches agreement with the Borrower on the Procurement Plan no later than completion of loan negotiations.

No formal clearance of the PPSD is required, however, the PPSD summary (as detailed below), will form part of the Bank's Project Appraisal Document (PAD), that summarizes all activities relating to a Project's preparation and the Bank will consider the PPSD summary as part of the overall PAD package and determine whether the whole package can be cleared.

The agreed outputs from the PPSD are summarized by the Bank and included in the Bank's PAD. Also as part of Project preparation, a Procurement Plan is prepared based on the analysis in the PPSD and this is subject to the Bank's no objection. The Procurement Plan should be updated periodically to reflect actual needs and changing circumstances. Any updates to the Procurement Plan should be submitted to the Bank for its review and no objection. Any changes to the Procurement Pan should be justified, as appropriate, by the Borrower through a revised PPSD.

In situations of urgent need of assistance because of a natural or man-made disaster or conflicts recognized by the Bank, the Borrower should only prepare a high-level, summary PPSD, as soon as practicably possible. In these situations, the PPSD can be reviewed with the Bank later during implementation.

2.1 Selecting the Appropriate PPSD Approach and Template

The vast majority of Projects financed by the Bank will use this Short Form PPSD Guidance and its associated template (Annex I). The table overleaf details the type of procurement/contract, procurement risk, and value thresholds that should be used to determine when the Short Form PPSD template should be completed. If the scope of the procurement (based on contract type, cost and procurement risk) under a Project does not include any contract, which exceeds the value thresholds in the table overleaf then normally a Short Form PPSD template, should be used.

The procurement risk rating as shown in the table overleaf should be agreed between the Borrower and the Bank. The Borrower and the Bank should also agree when a Short Form PPSD is required.

	Thresholds for Use of the Short Form PPSD Template as a Function of Procurement Risk			
Type of Procurement/Contract	Estimated Contract Cost (US$ millions)			
Works	< 200	< 115	< 75	< 50
Goods IT and non-consulting services	< 125	< 75	< 50	< 30
Consultant services	< 40	< 30	< 20	< 15
Procurement Risk	Low	Moderate	Substantial	High

2.2 PPSD Preparation and the Project Cycle

The preparation of the PPSD should begin as early as possible in the Project Cycle, which normally will be at the Project Concept stage, once the major contracts in the Project have been identified.

The PPSD provides the basis for preparing the Procurement Plan, which includes a description of the procurement contracts, the procurement risks, the contract values, the approach(s) to market and the selection methods. One, single, Short Form PPSD should be prepared for all contracts that are required for a Project. The PPSD should describe the procurement approach in sufficient detail for all the procurements to be undertaken during, at least, the first 18 months of the Project and should be updated for the remaining procurements, as important information becomes known. Accordingly, a Procurement Plan should be prepared and agreed with the Bank for the first 18 months of the Project prior to negotiations. The Procurement Plan should be updated every 12 months or earlier.

Supply Positioning is a procurement technique that can be used to determine where research and analysis should be focused in preparing the PPSD and any subsequent updates. It simply categorizes specific procurements based on their relative supply risk and value within the Project.

Supply Positioning is a tool to help:

- determine the appropriate level of analysis and focus for each contract within the Project;
- estimate how much time, effort, and due diligence is required; and
- identify where the Borrower should focus its effort, and in what manner.

Supply Positioning should be carried out at a Project level. Each contract within the Project is then assessed in terms of the following supply risk factors:

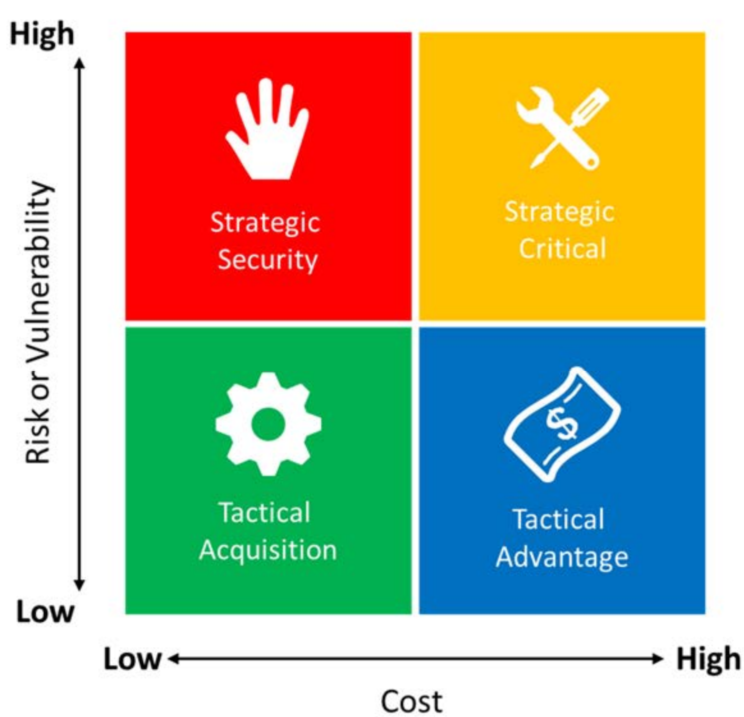
- Borrower skills and previous experience in procuring and managing this type of contract;
- difficulty of specifying, or the uniqueness of the contract/Project requirements;
- competitiveness of the market and the number of potential suppliers in the market;
- contract implementation risks; and

- criticality of the contract to Project delivery and PDOs.

The combined assessment of these supply risk factors should be categorized, rated, and ranked. Each contract should be plotted on the Supply Positioning Model.

The relative cost estimate of each contract should be plotted on the x-axis. Relative cost in Supply Positioning is a relative value and is calculated on the basis of the relative cost of the contract when compared to the estimated total Project procurement cost. The determination of high cost is typically any contract that is 1% or more of the estimated total Project procurement costs. Mapping contracts in the Supply Positioning Model will place the contract in one of the four named quadrants. Contracts shouldn't be artificially broken down into smaller lots at this stage (although that could be appropriate once the PPSD analysis is complete and determines that this is required as part of the procurement approach), while the opportunity to package similar contracts together should also be considered in the preparation of the PPSD.

If any contract in a Project is categorized as Tactical Acquisition, this indicates a relatively low level of supply risk and therefore requires proportionately less research and analysis. If any of the contracts are categorized as Strategic Security or Strategic Critical, this indicates a relatively high level of supply risk and therefore requires a greater level of analysis, due diligence, and effort to be applied, while under normal circumstances, contracts that are Tactical Acquisition should simply have the procurement approach summarized in Section 6 of the PPSD Template (Preferred arrangements for lower value lower risk contracts).



On completion of the Supply Positioning assessment, the Borrower should use its judgement to make sure the contract placement on model is realistic. The use of Supply Positioning at this stage of the PPSD preparation is designed to help Borrowers identify where effort needs to be focused. Where data or information is not available, the Borrower should state their "assumptions" and use their best judgement. These "assumptions" and judgements should be reviewed as the PPSD is being prepared and if necessary the Borrower should revisit the Supply Positioning assessment, if there are any material changes to the "assumptions" and / or judgements made.

Section III. PPSD Completion

3.1 Introduction

The Short Form PPSD takes the Borrower through a series of key stages that help shape the design of a procurement approach to produce a "fit for purpose" set of procurement arrangements. The procurement approach should be designed to ensure that the suppliers (including contractors and consultants) that are most capable of delivering VfM, and the PDOs are motivated to bid, and that the right supplier is ultimately selected for award.

3.2 The Contents of a Short Form PPSD

A "fit for purpose" procurement approach should be outlined within the seven sections of the PPSD as follows:

a) Project Overview;
b) Strategic Assessment of Operating Context and Borrower Capability;
c) Procurement Risk Analysis;
d) Procurement Objectives;
e) Procurement Approach Options and Recommendations;
f) Preferred Arrangements for Low-Value Low-Risk Contracts; and
g) Summary of PPSD to Support the Preparation of the PAD by the Bank.

A description of the content that should be considered in each PPSD Section is detailed in this Guidance as follows.

3.3 Project Overview

This Section of the PPSD is mainly descriptive; its purpose is to briefly summarize the Project in terms of scale and requirements. Much of the information required here could be drawn from the Project Concept Note. This Section should include:

a) A summary of the key Project Development Objectives; and
b) Project Description — For each contract/sub-contract, there should be a short description of what is required from suppliers including the cost estimate.

3.4 Strategic Assessment of Operating Context and Borrower Capability

This Section of the PPSD assesses three different, but interrelated dimensions of capability and risk:

a) Operational Context;

b) Borrower Capability; and
c) Project Implementation Unit (PIU) and Market Analysis.

This Section is also designed to provide the ***appropriate and proportionate levels*** of research and analysis that will inform and ***provide the justification*** for the selected procurement approach.

At the end of each Sub-Section of the PPSD Template, the Borrower should document the conclusions that can be made based on the individual assessments undertaken. The conclusions should be focused on the factors that will need to be considered and addressed in the procurement approach, such as a Borrower's Capability Building requirements, Market Engagement approach, and an overview of the options available for the procurement approach for each contract.

3.5 Operational Context

The PPSD should analyze and take into consideration the operational context factors that may affect the procurement approach, the motivation of bidders to participate, and the likely success of any subsequent contracts. This should include:

a) **Governance aspects**: fragile or conflict-affected situations that may raise security concerns; state involvement in the specific economic sector (such as state owned enterprises receiving government subsidies), legislative processes that may regulate the market/bidders; the overall legal framework; and disaster or emergency situations;
b) **Economic aspects**: a small economy that may result in a lack of competition or difficulty attracting international bidders; high inflation that may require use of another currency or inflation protection terms that protect a bidder so they are motivated to participate; any domestic preference that may motivate local businesses, but endanger international competition; track-record of on-time payment to suppliers, and exchange rate volatility;
c) **Sustainability aspects**: sustainable procurement requirements, such as use of government environmental standards (e.g. energy/water efficiency targets); social impacts associated with working in sensitive environments; importing of labor and labor standards; and
d) **Technological aspects**: speed of technological change; need for information transfer and security so there is not a continued dependency on the bidders; internet access and restrictions; cell phone access and coverage; opportunity for, and dependency on, the use of technology for Project delivery.

A PESTLE (Political, Economic, Social, Technology, Legislative and Environment) analysis is a useful tool for supporting this assessment. A full explanation of a PESTLE analysis is detailed in Annex II, but the diagram below illustrates some of the points to be considered in undertaking the Operational Context assessment using a PESTLE.

Political	• Government type, stability • Fragility and conflict • Regulation, rule of law	• Bureaucracy, corruption • State involvement in the economy • Small states
Economic	• Growth • Inflation • Exchange rates	• Commodity prices • Unemployment • Labour supply
Social	• Demographics • WB social standards • Education, health	• Affected communities • Conflict; Civil unrest • Attitudes
Technology	• Emerging technologies • Information availability • Pace of change	• R&D expense • Everyday technology access
Legal	• State involvement • Employment law	• Contract/Commercial law • Health and safety
Environment	• Climate change • Local legislation • WB environmental standards	• Waste disposal • Impact and remediation

The PESTLE analysis may provide a lot of information so it is important to consider what the findings actually mean for the procurement approach. The priority is to identify factors that could impact the procurement approach both positively and negatively, while drawing conclusions from this information to inform the procurement approach that is being designed and detailed in the PPSD.

The PESTLE is particularly helpful at identifying risks, which should be considered as part of Procurement Risk Management in Section IV of the PPSD Guidance.

3.6 Assessment of Borrower previous Experience, Capability and Project Implementation Unit (PIU)

The objective of this assessment is to identify any known factors, both enablers and constraints, which may have an impact on both the delivery of the Project and the procurement approach being developed. This assessment is independent of the assessment that the Bank undertakes on the Borrower's capability as part of the PAD. It should also help identify any targeted, early interventions such as training or enhanced support that the Borrower may benefit from, whether from the Bank, or other sources.

The Borrower should consider the following factors in assessing their capability and resource "needs" to plan, design and deliver the procurement approach:

a) Previous experience/track record (good and bad) in implementing similar Projects/procurements, and implementing World Bank Projects;

b) Contract Management capacity, capability and track record in following through on commitments made during the procurement process and contained in the contract;

c) Track-record and market reputation for making contractual payments on-time;
d) Complaints Management and dispute resolution systems that are credible, independent, and engender trust in all parties, through prompt/fair dealing with of complaints;
e) Procurement capacity (previous experience, technical capability in designing and preparing specifications, and bidding documents, experience in supervision of construction contracts (if applicable), testing of procured items, availability of resources and track record) to undertake successful fit for purpose procurement planning, procurement process, bid/proposal evaluation, supplier selection, and contract award;
f) Project implementation arrangements;
g) Administrative arrangements, including delegated authority levels to facilitate timely decision making;
h) Inspection arrangements;
i) Contract packaging;
j) Lessons learned from the implementation of other similar Projects;
k) Reliance on, criticality of, and use of professional advisors such as consultants to augment Borrower capability;
l) Experience using Alternative Procurement Arrangements; and
m) The need to request Bank hands-on expanded implementation support.

Borrowers should work with the Bank to understand how Projects/contracts of a similar nature have been delivered in the past, and what lessons can be incorporated into the proposed procurement approach. This analysis should not only focus on what didn't go well and could have been improved, but also what went well and why?

Areas to consider include:

a) What was the marketplace?
b) Which suppliers bid and which suppliers declined to bid, and why?
c) Was the Project delivered to time, cost, and quality, and why, or why not?
d) Were there any disputes, and what were the causes?
e) Overall, were there good marketplace and supplier participation levels and why?
f) What type of specification was used, did it deliver the right result, and are there any elements of that specification that may be relevant to this Project/contract?
g) What type of procurement approach was used, and with the benefit of hindsight, was this the correct approach, could the approach be made more effective?
h) What was the approach to contract management, and how effective was this at keeping the Project and supplier under the right level of control?
i) What staff resourcing did the Borrower use, and were any areas identified post Project where the Borrower would have benefited from additional capacity?

The use of a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis is a tool that can support the Borrower Capability assessment. Annex III provides an overview of a SWOT analysis. The table below details some of the considerations and questions Borrowers may wish to take into account in preparing this Section of the PPSD Template.

Strengths	Weaknesses
• What implementation advantages does your organization have? • What does your organization do better than anyone else? • What resources does your organization have access to? • What do stakeholders see as your organization's strengths?	• What could your organization improve? • What should your organization avoid? • What are stakeholders likely to see as your organization's weaknesses? • What factors negatively impact on results?
Opportunities	**Threats**

• Where can you find good opportunities?
• Useful opportunities can come from such things as:
  • Changes in technology and markets on both a broad and narrow scale
  • Changes in government policy related to the requirements
  • Changes in social patterns, population profiles, lifestyle changes
  • Local events.
• What are the trends?
	• What would happen if delivery of the goods/services/works failed?
	• What are the obstacles to delivery?
	• What do suppliers do that cause concern?
	• Are stakeholders' needs changing?
	• Is changing technology threatening your organization's position?
	• Are there any budget restrictions?
	• Could any of your organization's weaknesses seriously threaten delivery?
	• What systems and procedures are in place to identify failure early?
	• What is the reputational risk?
	• Are there any political, policy or legal changes that could threaten the procurement?
	• What challenges are there relating to the geography/geographic location of the Project?

The Borrowers assessment of its previous experience, capability, strengths and weaknesses should be supported, demonstrated and corroborated by reference to credible third party audit reports or similar documentation. In developing the procurement approach the Borrower should demonstrate experience in undertaking similar types of procurement (and procurement arrangements) and successful implementation. Where the proposed procurement approach hasn't been used previously (or were not previously successfully implemented), the Borrower should explain how they would obtain the capability and capacity to implement the procurement approach. Any associated risks should be considered as part of the Procurement Risk Analysis in Section 3 of the PPSD template.

3.7 Market Research and Analysis

The objective of market research and analysis is to develop an appropriate understanding of the market sectors that have been identified as having the potential to bid for the goods, services, and/or works required for a contract within a Project. This is to ensure the eventual procurement approach maximizes the likelihood of the right bidders participating, and the right supplier being selected (minimizing failed procurement processes due to no bids, or the wrong types of bids).

This Section of the PPSD should explain how a market works, and how this impacts the Borrower's approach to the market. It should look at the market from both the perspective of the Borrower and suppliers operating in that market to determine what will motivate the right suppliers to participate in this procurement.

This information should then be analyzed to design the procurement approach to ensure the right markets and suppliers are targeted, so that the procurement approach maximizes market interest – noting that high value/profile procurement is not always sufficient motivation for the right bidders to participate.

3.8 Market Analysis Scope

Market analysis is undertaken to gain a common understanding of the current supply market in order to be able to clearly:

a) identify the type of market;
b) describe the nature of competition and how it really works;
c) establish supply market capability;
d) estimate the total and available supply market capacity;
e) know the factors influencing the market, and how this may affect bidder participation;
f) understand how factors influencing the market may drive change and the impact of this change;
g) know who the key suppliers are and their plans for the future;
h) identify costs associated with the supply of goods, services and works;
i) identify pricing methods the suppliers use in this market;
j) establish pricing trends in terms of actual prices and pricing methods;

k) understand current best practice pricing methods and the availability of cost and price benchmarks;

l) identify risk associated with a market and describe how the risk should be managed;

m) assess the Borrower's previous experience of achieving VfM when operating in similar markets;

n) describe how other customers in the market achieve VfM, and get the right result; and;

o) determine whether the Borrower's contract is likely to have any positive or negative impact on the market (Will the right suppliers bid? In the right way? To get the right result?).

3.9 Market Analysis Outputs

The output from market research and analysis should be an understanding of:

a) market capability to meet the Borrower's needs including typical experience levels, package sizes, and financial performance;

b) previous experience in the market by the Borrower, and other customers including on World Bank and non-World Bank Projects;

c) market view of the Borrower (from a supplier's perspective) in terms of attractiveness for contracting with (e.g., reliability of payment, procurement capability, timeliness in decisions, complaints handling, and imposing onerous conditions), i.e. are the right suppliers likely to bid, noting these areas;

d) modifications to the requirements (if needed) to align them to the market's capability, or actions to influence the market place so that it is willing and able to meet the requirements unchanged;

e) the nature of competition and what is needed to ensure appropriate levels of participation;

f) current good practice for procuring from the market including pricing methods, risk allocation, and benchmarks of performance and cost;

g) risks identified, and the mitigation actions, including, allocating risk to the party best placed to manage the risk. This should be documented in Section 3 of the PPSD Template; and

h) markets risk tolerance (as there is usually a cost in transferring a risk to another party and if the Borrower attempts to transfer too much risk to suppliers, it may result in few or no supplier bids, or a bid that too expensive to select).

At the end of the market research stage, Borrowers should:

a) develop an approach to engage with the market. This is the approach the Borrower takes to directly engage with suppliers so they can provide feedback, and ideas on the planned specification / requirements, and to create the right marketplace that is motivated to bid for the contracts; and

b) identify High Level Procurement Arrangement Options — an overview of the options available for the procurement approach for each Project contract as outlined in Section VI of the PPSD Guidance.

3.10 Sources of Information

Information for market analysis can come from a variety of sources. As a starting point, where possible, the Borrower should seek to use previous research, examine previous experience and their track record, for similar Projects/contracts, in similar circumstances.

There is also a large amount of information available in the public domain to supplement Bank and Borrower specific sources. These are listed in Annex IV.

3.11 Undertaking Market Analysis

There are a number of procurement tools and techniques available to support market analysis that help, not only in structuring the research, but also for analyzing the information to draw conclusions and develop the procurement approach.

As with the overall preparation of the PPSD, the use and application of these tools needs to be proportionate to the level of market research and information required to develop a "fit for purpose" procurement approach. There is not an expectation that all the tools will be used, but only those most appropriate to the individual circumstances. As a minimum the Borrower should use both the Supply Positioning (detailed in PPSD Preparation and the Project Cycle Sub-Section of the PPSD Guidance) and Supplier Preferencing tools (detailed in the next Sub-Section of the PPSD Guidance) to inform the right procurement approach.

In addition, a full description of the key tools and techniques to support market analysis listed below is provided in the appendices as referenced below.

a) SWOT – Annex III;
b) Porter's Five Forces Analysis – Annex V;
c) PESTLE – Annex II;
d) Supplier Preferencing – Annex VI;
e) Supply Positioning and Supplier Preferencing – Annex VII;
f) Supply Chain Analysis – Annex VIII;

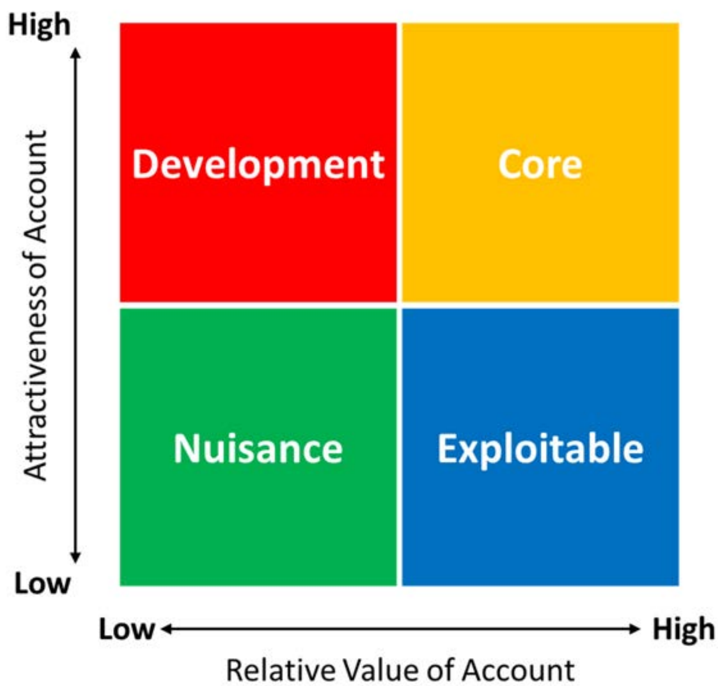
There is also a detailed PPSD Guidance that may be used as a further reference source for more detail on these techniques, as well as a series or short videos see www.worldbank.org/procurement.

3.12 Supplier Preferencing

One of most useful tools in supporting market analysis is Supplier Preferencing. Through its application Borrowers can identify and describe the typical approach suppliers will take to working with them based on their segmentation in the model. To determine the accuracy of the assessment, the Borrower should consider real experience in how suppliers respond to bids, the level of success and how suppliers react when there are implementation problems – this serves as a general proxy to assess how important the Borrower is to that supplier as a customer.

Supplier Preferencing is a tool that identifies how a supplier views a Borrower (as a customer) and depending on this view, how the supplier is likely to behave. Supplier preferencing categorizes these "views" into 4 segments as detailed in the diagram below. For a detailed description of Supplier Preferencing and its application, see Annex VI.

In high-level terms, this will determine how attractive the Borrower is as a customer to the supplier. This in turn will determine the level of willingness or reluctance the supplier will exhibit in wanting to bid for work and the corresponding level of effort the supplier will make in meeting the Borrower's requirements. This is a tool that helps determine the extent that the Borrower can influence a market, through its procurement approach, to achieve the PDOs and Procurement Objectives (see Section V of the PPSD Guidance).



Again, the value of a contract does not in itself make a procurement or a Borrower attractive to a potential supplier. Rather, the whole package of value, coupled with Borrower behavior informs how the supplier is likely to react. The ideal classification is that potential suppliers will see Borrowers as good customers that they already treat as "core" or that that they would like to grow the relative value of the account through "development". Unfortunately, some suppliers may see the Borrower as a "nuisance" to be avoided due to high costs of doing business, or as someone that can be "exploited" over the short term. Truthfully understanding this dynamic, and how it can be changed to get the right, motivated supplier is critical in ensuring a successful procurement result.

The outcome of this analysis should allow a Borrower to establish the factors listed below and design a procurement approach to maximize market interest, and actual participation in the procurement:

a) What changes the Borrower needs to make to be more attractive to the market?

b) How to motivate the market to bid and provide a good solution to meet the Borrower's requirements?

c) How to engage with the market to optimise the level of supplier participation in a bidding process?

3.13 Market Engagement

Market engagement is a way of discussing the Borrower's requirements with a marketplace and the suppliers it contains.

In undertaking market engagement Borrowers should ensure the core principles of fairness and transparency are upheld by treating all potential suppliers equally. It is particularly important that the Borrower manages the market engagement in a manner to avoid perceived or actual conflict of interest situations, in the procurement process, including, but not restricted to the market engagement itself, the final requirements / specification or selected procurement arrangements.

Market engagement can help establish the marketplace's ability to meet the Borrower's requirements, provide ideas on alternative approaches for meeting the requirements, highlight potential risks early in the Project Cycle, and provide an insight into likely marketplace interest. Simply, it can also motivate the right suppliers to bid. This information should then be used to develop a procurement approach that manages risk in the right way for everyone, is overall more attractive to the marketplace, generates greater competition, and ultimately maximizes the opportunities to meet the Borrower's PDOs.

Market Engagement can be undertaken through a number of different ways including concept viability exercises, supplier questionnaires, market sounding exercises, supplier conferences, trade events, paid for market research, and publication of outline procurement strategies for consultation.

Section IV. Procurement Risk Analysis

Procurement risk analysis is the process of identifying and minimizing the likelihood of a risk occurring, and minimizing the impact to the Project. The Procurement risk analysis sets out the plan for tackling risks.

The major risks identified from the analysis in Section III of the PPSD Guidance should be summarized and evaluated, along with any other relevant risks identified through brainstorming. The Procurement Risk Analysis defines the risks, describes the mitigation action and allocates the risk to an owner.

4.1 Approach to Procurement Risk Analysis

To make the identification and analysis of procurement risk manageable, the Borrower should structure the assessment around eight key areas, which are:

a) market complexity and competitiveness;
b) delivery and supply security;
c) suppliers and supplier relationships;
d) Borrower experience, capacity and capability;
e) cost trends;
f) technical innovation – the degree and rate of change;
g) sustainability (environmental, economic, social); and
h) business and operating environment.

When considering how and where identified risks could be mitigated, consideration should be given to the stages in the procurement process detailed below.

a) **Market engagement** – to make sure the Borrower has an understanding of how the market functions and to demonstrate to suppliers the benefits of working with the Borrower;
b) **Prequalification and Initial Selection** – to make sure that only suppliers capable of delivering the requirements are invited to bid;
c) **Specification** – to make sure the Borrower clearly states the detailed specification or performance requirements;
d) **Contract Strategy** (contract type, conditions of contract, pricing mechanisms, etc.) – to make sure bids are competitive and ultimately deliver demonstrable VfM;
e) **Selection Methods and Market Approaches** – to make the procurement arrangements have selected can deliver the PDOs and VfM;
f) **Evaluation Methods** – to make sure the most appropriate supplier is selected and all risks are managed and understood; and

g) **<u>Contract Management</u>** – to make sure suppliers fulfil their contractual obligations and that any issues are dealt with efficiently and effectively in a fair and transparent manner.

Once this analysis is complete, the Borrower should consider how to deal with the risks, developing appropriate mitigation plans, allocating risks to "appropriate parties" to address (noting that inappropriately transferring risks to the supplier, may reduce competition, or result in no bids or a sub-optimal bid following the procurement process).

Section V. Procurement Objectives

The Borrower should develop a list of Key Procurement Objectives based on an assessment of the PDOs, the procurement risk, the Borrower Capability and the Market Analysis.

The Key Procurement Objectives should be described in enough detailed that if achieved, will support the delivery of the PDOs and achieve VfM.

The Procurement Objectives need to be SMART – Specific, Measurable, Achievable, Relevant and Time Bound. It is also important that the Procurement Objectives are prioritized.

Section VI. Procurement Options and Recommendation

This Section of the PPSD template summarizes the options for the procurement approach for each of the contracts in the Project. The supporting evidence or justification for each procurement approach should be drawn from the previous sections of the PPSD, with enough detail to logically explain the recommended procurement approach.

The output of this Section will be a:

a) Procurement Approach stating how the Borrower is going to approach the market, select the right supplier, and finalize the contract;

b) Set of procurement methods and approaches built up from the individual procurement methods that combine to inform the bidding document; and

c) Procurement Plan that summarises how each contract within the Project will be procured.

All the analysis and research undertaken, as part of the PPSD needs to be brought together to design the different procurement approaches that are available to deliver the Procurement Objectives and PDOs. It is likely there will be a number of different procurement approaches available. This Section is concerned with generating alternative procurement approaches that could deliver the Procurement Objectives and PDOs and then determining which one is most likely to succeed. Where possible, the Borrower should develop a number of alternative procurement approaches making sure that they can realistically achieve the stated Procurement Objectives.

The selection of the recommended procurement approach should only take place once all realistic options have been identified, described and appraised. At a minimum the options analysis should describe each procurement approach option in sufficient detail to enable evaluation of the options in terms of their ability to satisfy the Procurement Objectives.

The template (which is a Sub-Section of Section VI of the short form PPSD Guidance) below details all the various procurement approaches and methods that should be considered in developing the right procurement approach.

A template should be completed for each option generated, with the justification column only completed once the option analysis has been completed, and then only to justify the final recommended procurement approach.

	Attribute	Selected Approach	Justification
Requirements	Specifications	Conformance/Performance	
	Additional Sustainability Requirements	Yes/No	
Contract Strategy	Contract Type	A. Traditional B. Design and Build C. Design, Build, Operate, Maintain D. Design and Build – Turnkey or Prime Contractor E. EPC and EPCM	
	Pricing and Costing Mechanism	A. Lump Sum B. Performance based contracts C. Schedule of Rates/Admeasurement D. Time and Materials E. Cost Plus	
	Supplier Relationship	Adversarial/Collaborative	
		A. None, Fixed Price B. Negotiated C. Percentage	
	Form of Contract (Terms and Conditions)	State any special conditions of contract	

	Attribute	Selected Approach	Justification
Selection Methods	Selection Method	A. Request for Proposals (RFP) B. Requests for Bids (RFB) C. Requests for Quotations (RFQ) D. Direct Selection	
	Selection Arrangement	A. Competitive Dialogue B. Public Private Partnerships (PPP) C. Commercial Practices D. United Nations (UN) Agencies E. e-Reverse Auctions F. Imports G. Commodities H. Community Driven Development I. Force Accounts J. Framework Agreements K. Cross Project Opportunities	
	Market Approach	A. Type of Competition 1. Open 2. Limited 3. International 4. National 5. No Competition – Direct Selection B. Number of Envelopes/Stages 1. Single Envelope 2. Two Envelopes 3. Single Stage 4. Multi Stage C. BAFO (Yes/No) D. Negotiations (Yes/No)	
	Pre / Post Qualification	A. Pre-Qualification B. Post-Qualification	

	Attribute	Selected Approach	Justification
Evaluation Methods	Evaluation Selection Method	A. Quality Cost Based Selection (QCBS) B. Fixed Budget Based Selection (FBS) C. Least Cost Based Selection (LCS) D. Quality Based Selection (QBS) E. Consultant's Qualifications Based Selection (CQS) F. Direct Selection	
	Evaluation of Costs	A. Adjusted Bid Price B. Life-Cycle Costs	
	Domestic Preference	Yes / No	
	Rated Criteria	List the type of criteria to be used (mandatory/desired)	

6.1 General Considerations in Designing a Procurement Approach

A. Supply Positioning and Supplier Preferencing

Aligning the needs of the Borrower and the likely behaviors of suppliers who may bid for World Bank financed Projects is one of the more fundamental parts of the procurement approach design.

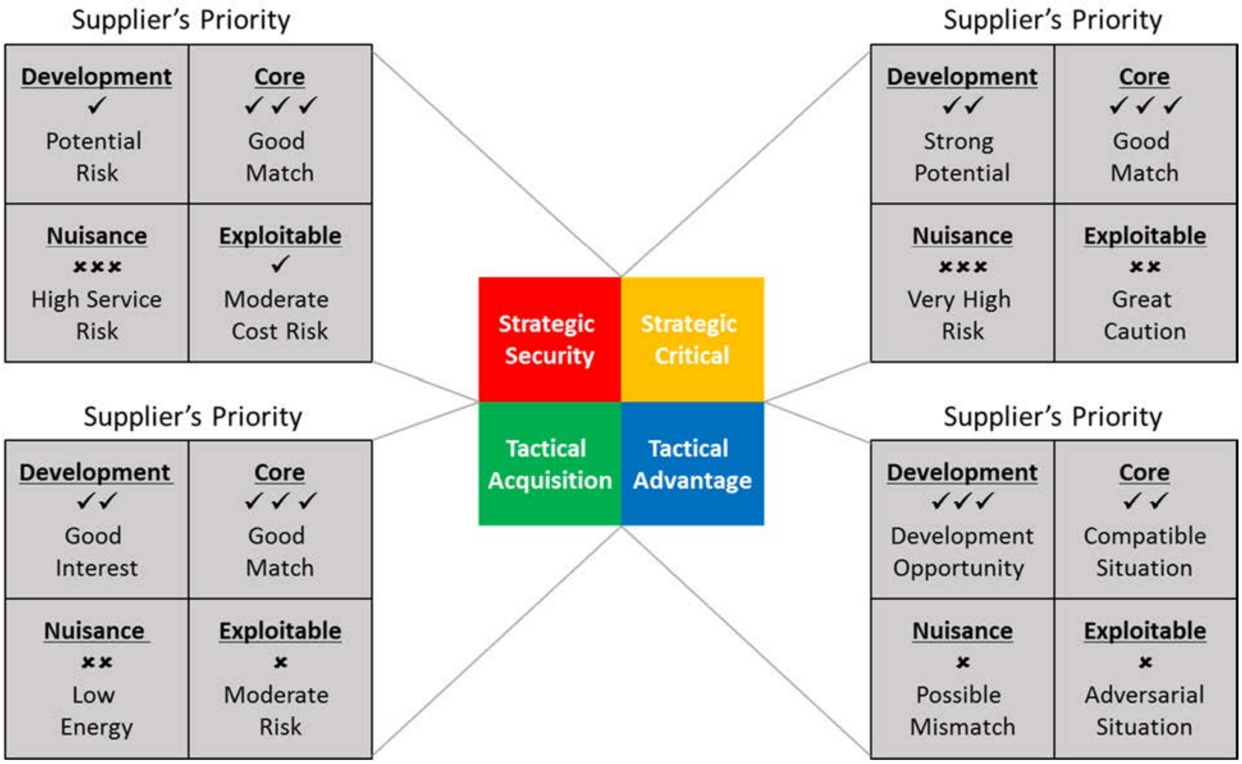
As described earlier in Section II of the PPSD Guidance, Supply Positioning is a procurement tool that is used to assess the criticality of the goods, services, and works to the Borrower by evaluating contract risk and value. The table below demonstrates that it can also provide an overview of the possible procurement approaches and mitigation measures, segmented by the Supply Positioning categorization that a Borrower should consider in developing its procurement approach.

Buyer's Priority	Description	Approach	Arrangement
Strategic Security *Security of supply*	• Low-cost goods/services/works • Strategically important • Shortage of reliable suppliers	• Ensure supply	• Long term contracts • Build reserve of stock • Consider alternative products
Strategic Critical *Security of supply at a good price*	• High costs specialist goods/services/works • Limited number of suppliers	• Manage suppliers	• Med/long term contract • Contingency planning
Tactical Acquisition *Purchasing efficiency*	• Routine purchases • Low-value/low-risk goods/services/works • Many potential suppliers	• Minimal attention	• One-off contracts/purchase orders • E-purchasing • Procurement cards
Tactical Advantage *Improving value through leverage tactics*	• High-cost/low-risk goods/services • Many potential suppliers	• Drive tactical advantages	• Short term contracts • Ongoing active sourcing for competitive price

Equally Supplier Preferencing can identify the typical approaches Borrowers can expect from suppliers based on their segmentation of Borrowers. The table below provides an overview of a supplier's likely approach to a Borrower (as a customer) in each category.

Supplier's Priority	Description	Approach	Arrangement
Development *Supplier nurtures relationship, performs well and provides incentives*	• Customer has potential • Customer highly sought after • Work hard to exceed Customer's expectations • Exceptional service levels	• High attention	• Nurture the Customer • Secure further business • Price using 'special deals' and marginal costing
Core *Supplier seeks to 'lock-in' customer*	• Supplier core business • Give high level of service and response • Increase profitability in low key manner • Ensure ongoing profitability	• Proactive customer management	• Look after the Customer through excellent service and delivery • Retain and expand business • Receptive to 'strategic alliances' • Seek to 'lock in' Customer through long term contracts
Nuisance *Supplier gives minimum attention and seeks to withdraw*	• Little profit made • Customer difficult and/or expensive to service • Poor at paying bills • Provide poor service • Supplier's overall objectives:	• No attention	• Give it low attention • Short term contracts • Withdraw from business
Exploitable *Supplier seeks short term advantage*	• In unique position of strength • Increase prices – reduce service costs • Seek short-term advantage • Prepared to risk losing Customer	• Minimal attention	• Drive for best price • Maximise profit in the short-term

Supply Positioning and Supplier Preferencing are most insightful when used together. Comparing the findings of both Supplier Preferencing and Supply Positioning allows the Borrower to identify and assess whether the typical procurement approach of a Borrower based on the Supply Positioning segmentation is aligned with the typical approach of individual suppliers as determined by Supplier Preferencing.



Where alignment between the Borrower and the Supplier on the procurement approach is high, this is a good indication that the indicative procurement approach is likely to deliver the expected benefits. However, where there is little alignment, this is equally a good indication that the indicative procurement approach may not be effective in delivering the expected benefits.

The comparison of these two models is particularly helpful at identifying:

a) potential risks that need to be considered in developing a "fit for purpose" procurement approach;
b) where Borrowers may need to change supplier perceptions of them by making changes for example, asking the Bank to make direct payments to suppliers if the supplier is concerned about the Borrower's track record in payment timeliness;
c) elements that need to be addressed in the Market Engagement approach to positively position the market as to why a supplier would want to do business with the Borrower;
d) actions that need to be included within the risk register, and contingency planning to address highlighted risks;
e) potential areas that could be covered under pre-qualification to ensure that suppliers with the best match to the Borrower are qualified to bid; and
f) potential evaluation criteria to ensure that questions are included in the request for bids or proposals that ensure suppliers provide information that allows the most aligned suppliers to be identified.

Misalignment of Borrower and supplier approaches can be managed, as long as the reasons for the misalignment are known and understood. Some of this information will come from the results of the Supply Positioning and Supplier Preferencing comparison, but also from the SWOT and PESTLE evaluations. Again, just because a procurement is high value, does not make the procurement or indeed the Borrower necessarily attractive to the market.

B. Types of Competition

Knowledge of the type of competition that exists is prerequisite to being able to develop the right procurement approach. For example, in a monopolistic/oligopoly market (where one, or few supplier(s) hold all the power) designing a procurement approach that is characterized by competitive bidding, with significant risk transfer to the supplier and with supplier selection being based on lowest evaluated cost, is not likely to be successful. In these circumstances, a negotiated approach based on open book pricing potentially linked to a longer-term contract is more likely to be more effective. Therefore, the type of market will have a direct influence on the procurement and will help the Borrower determine the:

a) type of competitive bidding (as determined by the level of completion and the availability of substitutes/alternatives);
b) most effective pricing, or costing mechanism (as determined by the market pricing approach); and
c) level of risk transfer the market will realistically bear (as determined by the relative strength and power of the buyer and the supplier's motivation to participate).

The table below lists five different types of competition that broadly exist in markets and describes the individual characteristics of each type.

	Perfect Competition	Imperfect Competition	Oligopoly	Monopoly	Monopsony
Number of Suppliers	Many suppliers	Fewer larger suppliers	Few large suppliers	One supplier	One buyer (usually one or two suppliers)
Market Power	No market power	Little market power	High market power	Absolute market power	Dependency
Substitutes	Homogeneous goods, works and services that are interchangeable	Differentiated supply with close substitutes	Differentiated supply: degree of substitution limited	No substitutes	No substitutes – make?
Price	One market price: suppliers are 'price takers'	Price competition	Seeking of price stability by price leadership or collusion	Price set by one 'price maker': potential for price discrimination	Price set by need to achieve return on investment
Profit	Normal profits	Small abnormal profits, short term	Abnormal profits, depending on competition	Abnormal profits	Questionable Return on Investment and Strategic Focus
Barriers to Entry	Minimal barriers to entry	Limited barriers to entry	Barriers to entry	Significant barriers to entry	Investment case hard to justify

The management technique, "Porter's Five Forces" Analysis (as described in Annex V) can be used for a more detailed assessment of competition and the factors that determine the type and level of competition, if further evaluation of the market place is required to support the design of the procurement approach.

6.2 Design of Procurement Approach

Application of the right procurement approach should be considered in each of the following five (4) stages:

a) Requirements (specification type and sustainable procurement requirements);
b) Contract Strategy (contract type, pricing/costing mechanism, supplier relationship, and conditions of contract);
c) Selection Methods (approved selection methods, particular types of approved selection arrangements, and market approach options);
d) Evaluation Methods (rated criteria or lowest evaluated cost); and

6.3 Requirements

While the PPSD is not directly concerned with the drafting of Project/contract requirements, the selection of the appropriate type of specification has a critical impact on the procurement approach, and subsequent level of market interest.

6.4 Specifications

The two main types of specification are:

a) **Conformance specifications**, sometimes known as technical, detailed, input or design specifications; and
b) **Performance specifications**, sometimes known as outcome based specifications.

Conformance Specification

Conformance specifications are used where a thorough understanding of the requirements already exists, and there is little/no desire for the supplier to innovate. Conformance specifications work best for simple purchases of goods, services, and works, where there is a focus on defining specific quantities and specifications for the requirements, unit price costing, and specifics around the time, place, and manner for delivery and acceptance.

Performance Specification

Performance specifications are used where the understanding of what is required in terms of outcomes can be described, the Borrower is uncertain of the best process or method to deliver the requirements, or suppliers are known to have the capability to design "fit for purpose" solutions. They are particularly effective at allowing suppliers to bring their own expertise, creativity, innovation, and resources to the bidding process without restricting them to predetermined methods or detailed processes.

As a general rule, performance based specifications focus on achieving results, whereas conformance specifications focus on meeting specified design and resource requirements.

6.5 Sustainable Procurement

Sustainable procurement derives from the concept of sustainable development, which has been defined as "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs." Sustainable development defines three pillars for consideration: environmental, social, and economic.

The inclusion of additional sustainable procurement aspects beyond the Banks requirements in a procurement approach is discretionary. A proportionate approach should be followed when setting requirements for the sustainable procurement management measures. Sustainable procurement Guidance can be found at www.worldbank.org/procurement.

6.6 Contract Strategy

A Contract Strategy determines the contract type, the price and cost model, and the desired on-going supplier relationship to achieve the right result over the term of the contract.

6.7 Contract Type

The contract type is the selection of the appropriate contract form, and terms and conditions. The selection of contract type should be informed by the type of specification, the procurement risk assessment, and the market analysis. It should also consider the market's capability, the Borrower's capacity, and the operational environment in which delivery will be taking place.

The selection of contract type is Project specific so consideration also needs to be given to the PDOs and Procurement Objectives. Contract type for goods and services is normally on the basis of supply or supply and ongoing support, while infrastructure Projects have a larger range of options including:

a) Traditional – Design and Build separated;
b) Design and Build;
c) Design, Build, Operate, Maintain;
d) Design and Build – Turnkey or Prime Contractor;
e) EPC and EPCM;
f) Design, Build and Operate;
g) Build, Own and Operate; or
h) Build, Operate and Transfer.

6.8 Price and Costing Mechanism

The choice of the price and costing mechanism should be made at the time the Contract Type and the SPD are selected. Each price and cost mechanism will determine the risk allocation between the Borrower and supplier. Therefore, the cost and price selection should be informed by the contract strategy, the type of specification, the Procurement Risk Analysis, and the Strategic Assessment of Operating Context and Borrower Capacity.

There are five main pricing and costing models and their use is determined by the SPD selected:

a) Lump Sum;

b) Performance Based Contracts;

c) Schedule of Rates/Admeasurement – Contract based on unit prices;

d) Time and Materials – Time based contracts; or

e) Cost Plus – Reimbursable cost contracts.

The table below summarizes the various benefits and risks of each different pricing methodology and under which circumstances they are best used.

Type	Requirements	Advantages	Disadvantages
Lump Sum/Firm Price	• Work can be accurately specified • Access date & programme duration are known • Risk can be reasonably identified	• Full extent of cost & liability known before work commences • Cost control responsibility of the contractor • Supervision minimal	• Contractor may include excessive contingency to cover risks • Contract basis may be undermined by significant variations • Contractor may seek to "cut corners"
Schedule Rates/ Admeasurement (Bill of Quantities & Schedule of Rates)	• Work can be accurately foreseen but not accurately measured at outset • There is an indication of the extent of the work at tender stage	• Permits appointment of contractor before full extent of work is known • Offers opportunity of assessing the cost of work during the contract	• Contractor may price the bill to his commercial advantage by increasing/decreasing the rate for work judged to be under/over estimated • Work supervision & QS Services required
Time & Materials	• Minimum specification • High confidence & trust in the contractor • Used where the work cannot be foreseen accurately enough to estimate cost	• Allows early appointment of contractor • Minimal specification required at outset	• Cost control difficult • High supervision • No incentive to improve productivity • No incentive for completion
Cost Plus Fixed Fee	• Minimal specification • Sufficient detail of work to enable contractor to estimate managerial resources and profit • High confidence & trust in the contractor	• Incentive to complete early & economically as fee is fixed • Allows early appointment of contractor • Tendering time reduced	• If varied or delayed contractor will try to revise fee • No incentive to productivity • High supervision • Difficult to accurately assess costs to set fee
Cost Plus Percentage	• Minimal specification • High confidence & trust in the contractor	• Allows early appointment of contractor • Tendering time reduced	• Cost control difficult – the higher the cost the higher the % return • No incentive to productivity • High supervision

When selecting the appropriate price and cost mechanism, the Borrower should consider:

a) **Specification type** – conformance or performance based and how well the requirements can be scoped at the contract outset and how quickly the work needs to start;

b) **Contract type** – certain types of contracts look to pass risk to the supplier (such as design, build, operate, and maintain) therefore, the price mechanism needs to be one that is consistent with that approach;

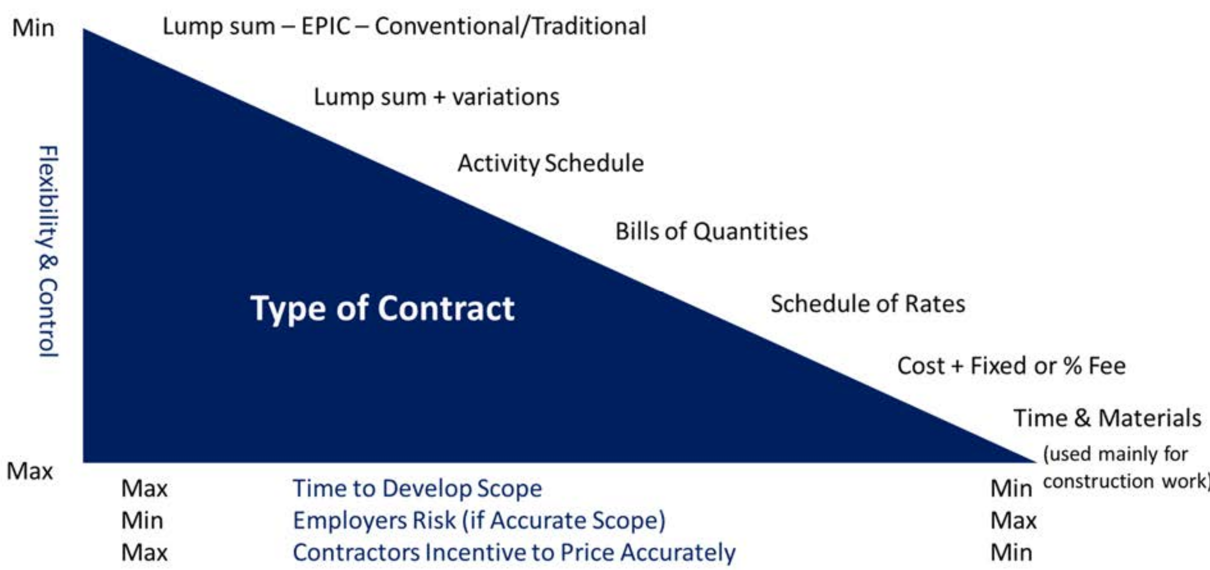
c) **Required allocation of risk** – risk is allocated to the party best able to manage the risk;

d) **Operational environment** – includes events that are difficult to predict and known issues such as high inflation, delivery and insurance (covered by the use of INCOTERMS);

e) **Capacity of the Borrower** – familiarity with the pricing mechanism and availability of resources to manage the contract; and

f) **Type of market** – what will motivate suppliers to bid and deliver.

The diagram overleaf outlines a number of factors expressed in terms of flexibility and control, time to develop scope, risk, and supplier motivation, which should be used to support this assessment.



6.9 Supplier Relationship

The selection of the contract type and price and cost mechanism, generally determines the likely relationship with the supplier during contract and Project delivery. The relationship spectrum can range from adversarial at one extreme, to highly collaborative at the other.

6.10 Adversarial Approach

A more adversarial/tactical approach to the relationship may be appropriate where some or all of the following are present:

• Strong competition in the market;	• Many suppliers and a large supply market;
• Suppliers have little power;	• Off the shelf for standard goods, services, and works;
• No need or benefit for high degree of trust between the Borrower and suppler;	• The cost of switching to a new supplier is low to nil;
• One off purchases;	• Short-term relationship, with no long-term commitment.

6.11 Collaborative Approach

A collaborative approach to the relationship may be appropriate where, some or all of the following, are present:

• Long-term commitment where there is mutual trust, openness, and transparency;	• Agreed shared interests and objectives;
• Shared risk and reward;	• A win-win approach is possible;
• Relationship is one of equal partners;	• Agreement that there should be joint working where both the Borrower and supplier can benefit from seeking ways to reduce cost and add value.

6.12 Price Adjustments

The Banks Standard Procurement Documents offer the option for either fixed prices or adjustable price contracts where adjustments are made to reflect any changes in major cost activities of the contract, such as labor and materials. For procurements, where the Bank has agreed that the Borrowers national procurement arrangements may be applied, the Borrower should consider how price adjustment mechanisms will be addressed in the most appropriate manner.

The market research analysis report should provide all the information needed to establish cost trends and drivers in the market as well as an assessment on the business environment of the Borrower. The Borrower should use this information to justify the selection of the appropriate price adjustment mechanism.

6.13 Form of Contract (Terms and Conditions)

The final part of the Contract Strategy is selecting the terms and conditions of contract. In many instances, the decisions made on the approved selection methods and SPD (or as agreed with the Bank, the Borrowers own national procurement arrangements) will determine the conditions of contract. However, as a check and balance, the Borrower should establish a determination that is consistent with the overall procurement approach.

Decisions on the most appropriate form of contract are driven by the value and complexity of the procurement, procurement risk, uncertainties in contract performance, allocation of risks between the Borrower and supplier and the desired supplier relationship.

6.14 Selection Methods

Having determined the contract type and pricing mechanism, the next stage of the procurement approach is to choose the selection method and market approach. There are three decisions to be made:

a) Selection Method;

b) Selection Arrangement; and
c) Market Approach.

There are numerous combinations of these three options, however, some are mutually exclusive. The two tables over the page document the options available for Goods, Non-consulting Services and Works and Consulting Services.

Please note, when applied, further details on the content of each of the Bank's Standard Procurement Documents is contained in the Bank's Standard Procurement Documents and the associated guidance notes.

In determining the right combination of the procurement arrangements to design the approach to market, the decision on the type of selection method is primarily driven by the level of competition in the market, the number of capable suppliers available, the specificity of the requirements, and the inherent risks involved in delivery. This information should come from the:

a) Market Analysis including the cost and complexity of the contract as determined by the supply position model;
b) Market Engagement approach; and
c) Procurement Risk Analysis.

Applying this information to each contract and then to the chosen combination should help keep the activities that make this element of the procurement approach consistent.

The table below lists some of the alternative market approaches and provides an indication of the circumstances where each method is best suited for use. The main market approaches could include:

Market Approach	Characteristics	Usage
Open Competition	• Openly advertised for all to compete • Bank's preferred approach	• Widespread use
Limited Competition	• Competition between invited firms	• Limited pool of capable firms • Justified departure from open process
Direct Award	• Negotiation with one selected firm	• Only one suitable firm • Justified invitation to preferred firm
Pre-Qualification (Restricted)	• Openly advertised but competition limited to the most competent firms meeting minimum standards	• Large & complex projects where bid costs are likely to limit market interest
Negotiations	• Post competition negotiation with first placed firm, moving to next best firm if negotiations cannot be concluded	• Limited to international competition subject to prior review
Competitive Dialogue	• Dialogue with pre-qualified firms to identify proposals/solutions to meet the clients broadly defined objectives • Commercial confidence must be maintained and participants must be treated equally, requiring rigorous dialogue process	• Where requirements cannot be specified with sufficient certainty to allow use of a competitive process not requiring dialogue

Approved selection methods: Goods, Works and Non-consulting Services

Goods, Works, and Non-consulting Services	Open	Limited	Direct	Inter-national	National	PQ	IS	Single-stage	Multi-stage	BAFO	Negotiation	Rated criteria
Selection methods												
Request for Proposals	✓	✓	x	✓	✓	x	normally	✓	✓	✓	✓*	normally
Request for Bids	✓	✓	x	✓	✓	optional	x	✓	x	✓	✓*	not normally
Request for Quotations	✓	✓	x	✓	✓	x	x	✓	x	X	x	x
Direct Selection	x	X	✓	x	x	x	x	✓	x	X	✓	x
Selection arrangements												
Competitive Dialogue	✓	✓	x	✓	✓	x	required	x	✓	X	x	✓
Public-Private Partnerships	✓	✓	✓	✓	✓	✓	x	✓	✓	✓	✓	✓
Commercial Practices	As per acceptable commercial procurement practices											
UN Agencies	As per Paragraphs 6.47 and 6.48											
E-Auctions	✓	✓	x	✓	✓	✓	x	✓	x	X	x	x
Imports	✓	✓	x	✓	x	x	x	✓	x	✓	x	x
Commodities	✓	✓	x	✓	✓	✓	x	✓	x	X	x	x
Community-driven Development	✓	✓	✓	x	✓	x	x	✓	x	X	x	x
Force Accounts	x	X	✓	x	✓	x	x	x	x	X	x	x

✓ This market approach option is available
X This market approach option is not available
PQ = Prequalification
IS = Initial Selection
* This refers to negotiations after a competitive process as per Paragraphs 6.34 to 6.36 for the Procurement Regulations for IPF Borrowers

Selection Methods for Consulting Services

Consulting Services	Market approach options					
Approved selection methods and arrangements	Open	Limited	Direct	Inter-national	National	Shortlist
Selection methods						
Quality Cost Based Selection	✓	x	x	✓	✓	✓
Fixed Budget Based Selection	✓	x	x	✓	✓	✓
Least Cost Based Selection	✓	x	x	✓	✓	✓
Quality Based Selection	✓	x	x	✓	✓	✓
Consultant’s Qualification Based Selection	✓	✓	x	✓	✓	x
Direct Selection	x	x	✓	x	x	x
Selection Arrangements						
Commercial Practices	As per acceptable commercial Procurement practices					
UN Agencies	As per Paragraphs 7.27 and 7.28					
Non Profit Organizations (such as NGOs)	✓	✓	✓	✓	✓	✓
Banks	✓	✓	✓	✓	✓	✓
Procurement Agents	✓	✓	✓	✓	✓	✓
Selection Methods for Individual Consultants						
Selection of Individual Consultants	✓	✓	✓	x	x	x

✓ **This market approach option is available**
X **This market approach option is not available**

6.15 Evaluation Methods

Evaluation methods are concerned with establishing the process by which supplier bids and proposals are assessed to determine the supplier that offers the best VfM (and will therefore deliver the right result/PDOs).

The principle of VfM means the effective, efficient, and economic use of resources, which requires the evaluation of relevant costs and benefits, along with an assessment of risks, and non-price attributes and/or life cycle costs, as appropriate. Price alone may not necessarily represent VfM.

The evaluation criteria must be designed to enable the Borrower to achieve best VfM in procurements financed by the Bank.

There are two methods for selecting suppliers based on identifying the most advantageous bid/proposal:

a) when rated criteria are used, the substantially responsive bidder that meets the qualification criteria, and has submitted the best evaluated bid/proposal is selected; and
b) when rated criteria are not used, the bidder that meets the qualification criteria and whose bid/proposal has been determined to be (i) substantially responsive to the bidding/request for proposals document, and (ii) the lowest evaluated cost (lowest evaluated bid/proposal) is selected.

The evaluation criteria needs to be appropriate to the type, nature, market conditions, and complexity of what is being procured and must be clearly specified in detail in the RFB/RFP document (www.worldbank.org/procurement).

6.16 Options Analysis to Determine the Preferred Procurement Approach

There will often be more than one procurement approach option for the combination of procurements that could be used for a contract. Option analysis is the last analytical stage of the PPSD.

To select the preferred procurement approach a comparative analysis needs to be undertaken of each potential procurement approach. This involves two main activities:

a) an evaluation of likely benefits of each potential procurement approach against the Procurement Objectives; and
b) a review of the Procurement Risks to establish which procurement approach best addresses the known risks.

Before an options analysis can begin, each of the procurement options summarized in individual templates (Section VI of the PPSD Guidance) should be summarized as a short narrative.

6.17 Evaluation of Procurement Approach against Procurement Objectives

The table below is a simple tool to undertake this evaluation. The different procurement approaches (as summarized above) need to be listed in the first column with the Procurement Objectives listed in the first row.

A simple rating is then applied to assess whether each individual procurement approach meets each of the Procurement Objectives. The ratings are:

-1 = does not meet the objective; 0 = meets the objective; 1 = exceeds the objective.

Once all the procurement approaches and Procurement Objectives have been assessed, the points for each option need to be summed together. Finally each option should be ranked from highest to lowest score, noting that any option that fails to meet an objective should be eliminated.

Procurement Objectives

Procurement Approach

Strategy Option	Project 'Must Have' Objectives										Total
	1	2	3	4	5	6	7	8	9	10	
1											
2											
3											
4											
5											

6.18 Review of the Procurement Risks to establish procurement approach that best addresses the known risks

The second stage is to look at the procurement risk analysis undertaken earlier and evaluate how each procurement option addresses the risks identified. This analysis needs to be completed on any of the remaining procurement options after undertaking the above evaluation. This stage is based on making an assessment of the legacy risk that may exist for each procurement approach, and whether the overall risk has reduced because of the application of that particular approach. The final output should be to update procurement risk table in Section 3 of the PPSD Template, for the preferred procurement approach.

After this assessment, it should be possible to now identify the final preferred procurement approach.

Section VII. Preferred Arrangements for Low-Value/Low-Risk Contracts

This Section of the template is used to record the procurement approaches for contracts that were identified as part of the Supply Positioning analysis (Section II of the PPSD Guidance) as not requiring a detailed assessment and justification for the selected procurement approach.

Section VIII. Summary of PPSD to Support the Preparation of the PAD by the Bank

The final stage of the template, is to provide a short summary of the recommended procurement approach (and to inform the Procurement Plan), that the Bank will use as part of preparing its Project Appraisal Document (PAD). The summary should be a short description of the recommended procurement approach, and a synopsis of the justification for that approach. The following points should be considered in completing this Section.

a) how the procurement approach enables the delivery of VfM in achieving the PDOs, particularly if the recommended approach is less than open competition, or uses new procurement techniques to the Borrower, or presents a high, or substantial risk.

b) the key procurement risks identified, and the mitigating measures proposed (e.g. relating to the Country, Market Sector, Agency's capacity assessment, and the complexity of the procurement, and the proposed procurement approach);

c) the oversight and monitoring arrangements for procurement, including applicability and need for the Bank to provide hands-on expanded implementation support; whether APA are proposed; any proposed additional oversight (e.g. probity assurance) required, e.g. due to risk in the proposed procurement arrangements (such as use of negotiations, competitive dialogue), and confirmation that an acceptable Procurement Plan covering the first 18 months of Project implementation is available; and

d) the procurement arrangements for the high or substantial risk contracts within the Project in the table below:

Contract Title, Description and Category	Estimated Cost US$ and Risk Rating	Bank Oversight	Procurement Approach/ Competition: • National • International • Open • Limited • Direct • Sole Source	Selection Methods: • Pre/post Qualification • SPD (RFP/RFB) • Competitive Dialogue • Framework Agreement • E-Reverse Auction • QCBS/QBS etc. • Negotiation • BAFO	Evaluation Method: • Rated Criteria (VfM) • Lowest Evaluated Cost

Annex I. PPSD Short Form Template

1 Project Overview

Completion of the template should focus on describing the details of each of the higher value / risk contracts identified through the application of Supply Positioning as described in the PPSD Preparation and Project Cycle Section of the PPSD Guidance Note. All similar contracts, having similar approaches should be consolidated and described under one heading.

Country:	
Full Project Name:	
Total Finance ($):	
Project Number:	
Summary of Project Development Objectives	

For each key contract detail a short one-line summary of the requirement including the cost estimate.

2 Overview of Country, Borrower and Marketplace

a. Operational Context

- Governance aspects
- Economic Aspects
- Sustainability Aspects
- Technological Aspects

Key Conclusions

b. Client Capability and PIU Assessment

- Experience
- Need for hands-on support
- Contract management capability and capacity
- Complaints management and dispute resolution systems

Key Conclusions

c. Market Analysis

- Market sector dynamics
- Financial
- Procurement trends

Key Conclusions

3 Procurement Risk Analysis

Risk Description	Description of Mitigation	Risk Owner

4 Procurement Objective

1.
2.
3.
4.
5.

5 Recommended Procurement Approach for the Project

- **Contract and Estimated Cost:**
- **Procurement Approach** (select from options and complete table below):

Attribute	Selected arrangement	Justification Summary/Logic
Specifications	Conformance/Performance	
Sustainability Requirements	Yes/No	
Contract Type	A. Traditional B. Design and Build C. Design, Build, Operate, Maintain D. Design and Build – Turnkey or Prime Contractor E. EPC and EPCM F. Other:____________________	
Pricing and costing mechanism	A. Lump Sum B. Performance based contracts C. Schedule of Rates / Admeasurement D. Time and Materials E. Cost Plus	
Supplier Relationship	A. Adversarial/Collaborative	

Price Adjustments	A. None, fixed price B. Negotiated C. Percentage	
Form of Contract (Terms and Conditions)	D. State any special conditions of contract	
Selection Method	A. Request for Proposals (RFP) B. Requests for Bids (RFB) C. Requests for Quotations (RFQ) D. Direct Selection	
Selection Arrangement	A. Competitive Dialogue B. Public Private Partnerships (PPP) C. Commercial Practices D. United Nations (UN) Agencies E. e-Reverse Auctions F. Imports G. Commodities H. Community Driven Development I. Force Accounts J. Framework Agreements K. Cross Project Opportunities	
Market Approach	A. Type of Competition 1. Open 2. Limited 3. International 4. National 5. No Competition – Direct Selection B. Number of Envelopes/Stages 1. Single Envelope 2. Two Envelopes 3. Single Stage 4. Multi Stage B. BAFO (Yes/No) C. Negotiations (Yes/No)	
Pre / Post Qualification	A. Pre-Qualification B. Post-Qualification C. Initial Selection	
Evaluation Selection Method	A. Quality Cost Based Selection (QCBS) B. Fixed Budget Based Selection (FBS) C. Least Cost Based Selection (LCS) D. Quality Based Selection (QBS) E. Consultant's Qualifications Based Selection (CQS) D. Direct Selection	
Evaluation of Costs	A. Adjusted Bid Price B. Life-Cycle Costs	
Domestic Preference	Yes / No	
Rated Criteria	List the type of criteria to be used (mandatory/desired)	

6 Preferred arrangement for low value, low risk activities (if applicable)

Activity	Category	Estimated cost	Procurement arrangement

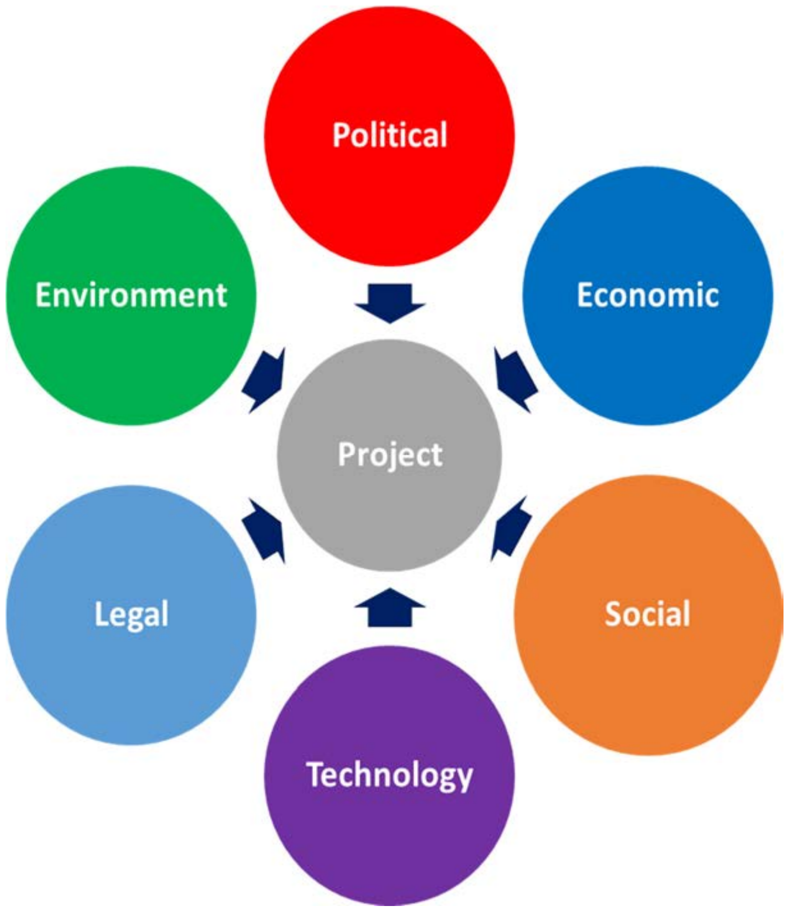
7 Summary of PPSD to be inform the Bank's preparation of the PAD

Contract Title, Description and Category	Estimated Cost US$ and Risk Rating	Bank Oversight	Procurement Approach/ Competition: • National • International • Open • Limited • Direct • Sole Source	Selection Methods: • Pre/post Qualification • SPD (RFP/RFB) • Competitive Dialogue • Framework Agreement • E-Reverse Auction • QCBS/QBS etc. • Negotiation • BAFO	Evaluation Method: • Rated Criteria (VfM) • Lowest Evaluated Cost

Annex II. PESTLE Analysis

A. PESTLE Analysis

PESTLE stands for Political, Economic, Social, Technological, Legal, and Environmental. It is a tool for understanding what external forces influence and shape a market place and the suppliers that work in that market place.



PESTLE analysis is an assessment of a Borrower's operating and business environmental influences and how they directly affect the Borrower, or indirectly affect the Borrower, via their suppliers.

The purpose of a PESTLE is to provide information and "intelligence" to guide the overall design of the procurement approach. In a similar way to the SWOT analysis, the procurement approach needs to maximize opportunities identified and minimize any identified threats. This will help Borrowers make decisions on the tailored procurement approach that will best align procurement arrangements to deliver the Project requirements.

In particular, it provides a 'big picture' understanding of the operating and business environment in which the Borrower exists. It is a very effective tool to support risk management as it identifies a broad spectrum of risks that may affect the procurement approach.

The diagram below provides an overview of the various factors that need to be considered when completing a PESTLE analysis. Each of the factors should be considered in the form of a question such as "what is" and "is there". The responses to these questions needs to be descriptive as opposed to "yes" or "no" responses. The PESTLE needs to be completed on the basis of what are the relevant factors specific to the Project needs, how will the factors affect the Project's delivery, or what does it mean for the procurement approach for the Project's delivery.

Political	• Government type, stability • Fragility and conflict • Regulation, rule of law	• Bureaucracy, corruption • State involvement in the economy • Small states
Economic	• Growth • Inflation • Exchange rates	• Commodity prices • Unemployment • Labour supply
Social	• Demographics • WB social standards • Education, health	• Affected communities • Conflict; Civil unrest • Attitudes
Technology	• Emerging technologies • Information availability • Pace of change	• R&D expense • Everyday technology access
Legal	• State involvement • Employment law	• Contract/Commercial law • Health and safety
Environment	• Climate change • Local legislation • WB environmental standards	• Waste disposal • Impact and remediation

B. Political

The key considerations under political factors are:

- What is the degree of government intervention in the economy – is it a free market, state run, mixture with a bias towards state run, etc.?
- How stable is the government – is there an election coming up, has the government recently changed?
- How is the country governed – is it provincial, federal, national, etc.?
- Have there been any recent issues of fraud?

- Does the World Bank consider the country to be a Small State, in a situation of fragility or in conflict or emergency?
- Does the rule of law apply throughout the country?
- What impacts do government attitudes to international trade have – does it encourage international trade, is their protectionism for domestic industry?
- What goods, services, or works does government want to provide itself through state owned enterprises?
- What industries does the government provide business support for?
- What political decisions impact vital areas for business such as:
  - o The education of the workforce?
  - o The health of the nation?
  - o The quality of the infrastructure, such as the road and rail system?
- Are there any trends in government decisions?
- What are the other factors in the current political climate?

C. Economic

The key considerations under economic factors are:

- What are the effects of interest rates, taxation changes, economic growth, inflation and exchange rates on the behaviour of organizations? For example:
  - o Higher interest rates may deter investment because it costs more to borrow money;
  - o A strong currency may make exporting more difficult as the exchange rate may raise the prices;
  - o Inflation may provoke higher wage demands from employees and raise costs;
  - o Higher national income growth may boost demand for a supplier's products;
  - o Unemployment results in less spending.
- What are the forecasted future trends for these factors?
- Is there a balanced and skilled workforce available?
- Are commodity prices stable (especially those linked to the Project requirements)?
- Are there any currency restrictions in place?
- What other factors are there in the current economic climate?

D. Social

The key considerations under social factors are:

- Are there any changes in social trends that can impact the demand for a supplier's products, and the availability and willingness of individuals to work? For example:
  - o What is the effect of a growing population?

  - What is the impact of an increase in costs for suppliers who are committed to paying a fair wage to their employees?
  - Are there any impacts of recruiting employees from outside the host country?
  - What is the approach to the provision of education and health services and what impact does this have?
  - Is there any conflict in the country (on what basis) and what impact does this have?
  - Are there any specific issues that will have an impact at a community level?
  - What are the effects of changing attitudes to work?
- What are the key recommendations of the Environmental and Social Impact Assessment (ESIA)?
- What other factors are there in the current social/cultural climate?

E. Technological

The key considerations under technological factors are:

- What new technologies have created new products and new processes e.g. computer-aided design?
- Do these technologies:
  - Reduce costs;
  - Improve quality;
  - Encourage innovation; and
  - Improve risk management.
- How have these emerging technologies benefited consumers and the organisations providing the products?
- What is the rate of technological change and what is the effect?
- How available is everyday technology such as computers, mobile phones, intranet, cloud computing, voice over internet protocol (VoIP) and Software as a Service (SaaS)?
- What other factors are there in the current technological climate?

F. Legal

The key considerations under legal factors are:

- How do legal requirements or any legal changes impact on the way Borrowers or suppliers operate? For example:
  - Health and safety laws;
  - Disability discrimination legislation;
  - The minimum wage;
  - Employment law;
  - Laws related to business competition; and
  - Laws related to the environment (e.g. sustainability, carbon emissions, etc.)

- How might legal changes affect Borrower costs or supplier costs?
- What are specific local laws that may impact suppliers and contracts?
- Will changes in law(s) require new systems and procedures have to be developed?
- Will changes in law(s) change demand for goods, services and works?
- What other factors are there in the current legal climate?

G. Environmental

The key considerations under environmental factors are:

- How is the growing desire to protect the environment impacting Projects?
- How is the general move towards more environmentally friendly products and processes affecting demand patterns and business opportunities?
- Are there any regulations, standards, or requirements of the Borrower, including local or national requirements?
- What is the country's attitude to Health and Safety?
- How might these impact the procurement approach?
- What other factors are there in the current environmental climate?

The PESTLE analysis will provide a lot of information so it is important to consider what the findings actually mean for the procurement approach. It is important to identify factors that could impact it both positively and negatively, while drawing conclusions from this information to inform the procurement approach being developed.

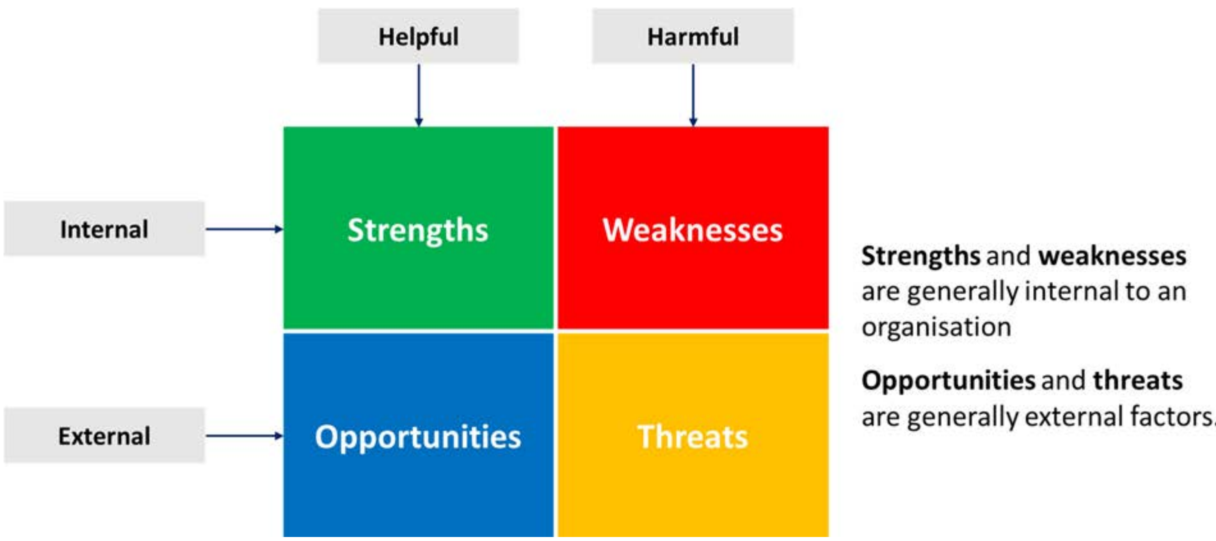
The PESTLE is particularly helpful at identifying risks, which should be considered as part of the Procurement Risk Analysis in Section IV of the PPSD Guidance, and find ways to reduce them or work around them.

Annex III. SWOT Analysis

SWOT Analysis

SWOT stands for Strengths, Weaknesses, Opportunities and Threats. Strengths and Weaknesses are an analysis of the internal influences on a Borrower's organization, over which the Borrower has an element of control. Opportunities and Threats are an analysis of external influences on a Borrower's organization, over which the Borrower tends to have far less control.

When using a SWOT analysis, the objective is to help Borrower's develop a full awareness of all the factors, positive and negative, that may affect the delivery of the procurement and Project. It will assist with the identification of the procurement approach that will best deliver the "fit for purpose" procurement approach and the Project requirements.



Strengths are the qualities that enable the Borrower to deliver a successful Project. Strengths can be either tangible or intangible. Basically, these are "what the Borrower does well" and are seen as core expertise including staff capability, experience, financial resources, effective processes, and reputation, etc.

Weaknesses are what may prevent a Borrower delivering a successful Project and can be seen to limit the achievement of optimum VfM. Weaknesses in a Borrower may be insufficient capacity, poor governance and decision-making, etc. Weaknesses are controllable and need to be identified and either minimized or eliminated, wherever possible.

Opportunities are factors that exist in the external business environment within which a Borrower operates. Opportunities are factors that allow a Borrower to take advantage of conditions in its business environment to better plan and improve the execution and implementation of procurement approaches that enable it to deliver a Project successfully.

A fundamental element of developing a "fit for purpose" procurement approach is to identify and leverage opportunities whenever they arise, to achieve the benefit of these opportunities. Opportunities may arise from a variety of sources such as a supplier's ability to offer innovation, strong competition in a marketplace, attractiveness of the contract, and utilising new technology.

Threats arise when conditions in the external environment jeopardize the delivery of a Project. Examples of threats are; unrest among stakeholders, quickly changing technology, and increasing competition leading to excess capacity, price wars, and reduction of industry profits.

The table below outlines a summary of the typical issues that a Borrower should consider when completing a SWOT analysis, while the tabling following it is an example of how these considerations can be summarized into a number of key questions.

	Strengths		Weaknesses	
Internal to Organisation	• Advantages of proposition • Capabilities • Competitive advantages • Unique Selling Points (USP) • Resources, Assets, People • Experience, knowledge, data • Financial reserves, likely returns • Marketing – reach, distribution, awareness	• Innovative aspects • Location and geographical • Price, value, quality • Accreditations, qualifications, certifications • Processes, systems, IT, communications • Cultural, attitudinal, behavioural • Management cover, succession	• Disadvantages of proposition • Gaps in capabilities • Lack of competitive strength • Reputation, presence and reach • Financials • Own known vulnerabilities • Timescales, deadlines and pressures • Continuity, supply chain robustness	• Cash flow, start-up cash-drain • Effects on core activities, distraction • Data reliability, plan predictability • Morale, commitment, leadership • Accreditations, etc. • Processes and systems, etc. • Management cover, succession
	Opportunities		**Threats**	
External to Organisation	• Market developments • Competitors' vulnerabilities • Industry or lifestyle trends • Technology development and innovation • Global influences • New markets – vertical, horizontal • Niche target markets • Geographical – export, import • Market need for new USPs	• Market response to tactics e.g., surprise • Major contracts, tenders • Business and product development • Information and research • Partnerships, agencies, distribution • Market volume demand trends • Seasonal, weather, fashion influences	• Political effects • Legislative effects • Environmental effects • IT developments • Competitor intentions • Market demand • New technologies, services, ideas • Vital contracts and partners • Obstacles faced	• Insurmountable weaknesses • Employment market • Financial and credit pressures • Economy – home, abroad • Seasonality, weather effects

Strengths

- What implementation advantages does your organization have?
- What does your organization do better than anyone else?
- What resources does your organization have access to?
- What do stakeholders see as your organization's strengths?

Weaknesses

- What could your organization improve?
- What should your organization avoid?
- What are stakeholders likely to see as your organization's weaknesses?
- What factors negatively impact on results?

Opportunities

- Where can you find good opportunities?
- Useful opportunities can come from such things as:
  - Changes in technology and markets on both a broad and narrow scale
  - Changes in government policy related to the requirements
  - Changes in social patterns, population profiles, lifestyle changes
  - Local events.
- What are the trends?

Threats

- What would happen if delivery of the goods/services/works failed?
- What are the obstacles to delivery?
- What do suppliers do that cause concern?
- Are stakeholders' needs changing?
- Is changing technology threatening your organization's position?
- Are there any budget restrictions?
- Could any of your organization's weaknesses seriously threaten delivery?
- What systems and procedures are in place to identify failure early?
- What is the reputational risk?
- Are there any political, policy or legal changes that could threaten the procurement?
- What challenges are there relating to the geography/geographic location of the Project?

Annex IV. Source of Market Research Information

- Project Feasibility Reports;
- Market analysis reports;
- Industry representative groups/trade associations/industry governing bodies;
- Specialist industry research groups e.g. Gartner, Key Note;
- Government-sponsored industry consolidations;
- Trade journals;
- Supplier annual report and accounts;
- Contacts in other organizations;
- Internet searches;
- Own knowledge from previous Projects;
- Other buyers' and Borrowers experiences;
- Commodity indices;
- Government statistics;
- Government agencies and tax authorities;
- Stakeholder knowledge, e.g., World Bank sector specialists; and
- Suppliers

Annex V. Supplier Preferencing

Supplier Preferencing is a tool that identifies how a supplier views a Borrower (as a customer) and depending on this view, how the supplier is likely to behave as a result. In high-level terms, this will determine how attractive the Borrower is to the supplier. Noting that a large value contract does not automatically mean that the procurement or the Borrower are attractive. This in turn will determine the level of willingness or reluctance the supplier will exhibit in wanting to bid for work and the corresponding level of effort the supplier will make in meeting the Borrower's requirements. This is another tool that helps determine the extent that the Borrower can influence a market, through its procurement approach, to achieve the PDOs.

The outcome of this analysis should allow a Borrower to establish:

- what changes the Borrower needs to make to be more attractive to the market;
- how to motivate the market to bid and provide a good solution to meet the Borrower's requirements; and
- how to engage with the market to optimise the level of supplier participation in a bidding process.

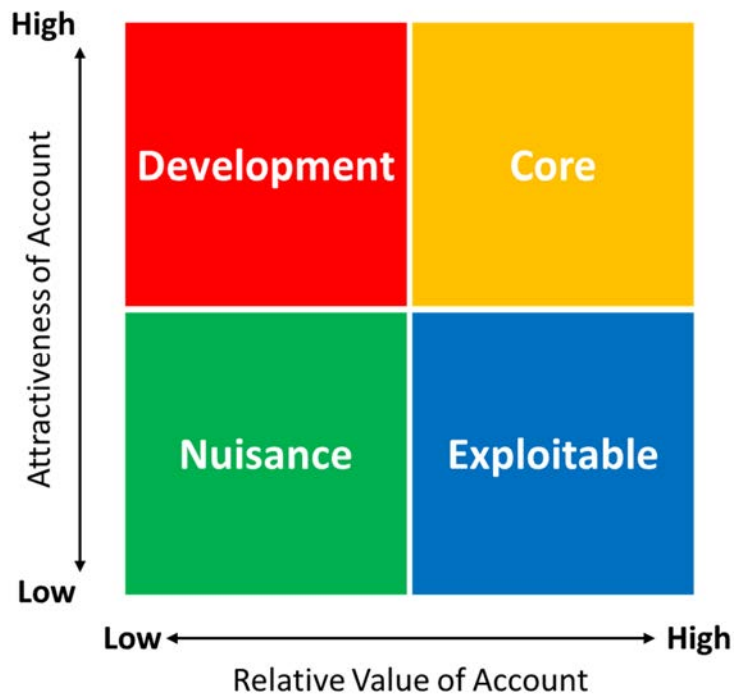
Supplier preferencing considers two dimensions in assessing the attractiveness of a Borrower and the business (contracts) it has to offer. These are the:

- value of the business to the supplier; and
- overall attractiveness of the business to the supplier.

The first dimension is the value of the Borrower's business (potential contracts) to the supplier as a proportion of the supplier's turnover. Turnover information can be obtained from a supplier's annual accounts or from other sources such as market analysis reports. Normally, the higher the proportion, the more motivated the supplier will be to bid for the contracts.

The second dimension is how attractive the Borrower's business is to a supplier. Normally, the higher the attractiveness, the more motivated the supplier will be to bid for the contract.

Using these two dimensions, the analysis can be placed into a Supplier Preferencing matrix by simply classifying attractiveness and relative business value as low or high as shown overleaf.



Borrower Business Attractiveness

Attractiveness is determined using a number of characteristics. These include payment record, ease of doing business with the Borrower, compatibility with the supplier's business strategy, any cultural affinities that may exist between the supplier and the Borrower and levels of trust, and the Borrower's business development potential and the perceived image to the supplier of being associated with the Borrower or a specific Project.

It is equally important to consider both what makes a Borrower both attractive and unattractive and this gives a clear indication on what the Barrower will need to do to increase overall attractiveness. Criteria to consider are:

1. **Attractive Characteristics**
    - ✓ Profitability;
    - ✓ In-country security;
    - ✓ Stable/predictable government;
    - ✓ Good forward planning;
    - ✓ Manageable risks;
    - ✓ Opportunities for additional business;
    - ✓ Effective communication and information sharing;
    - ✓ Cultural fit and understanding;
    - ✓ A good 'reference' Project;

- ✓ Stable and reliable payment;
- ✓ Low levels of bureaucracy;
- ✓ Easy to service from an account or contract management perspective;
- ✓ Support from the World Bank; and
- ✓ A good transparent complaints handling mechanism.

2. **Unattractive Characteristics**

- ✓ High levels of bureaucracy;
- ✓ Reputation for onerous, lengthy, or expensive procurement processes;
- ✓ Poor planning;
- ✓ Slow, erratic, or uncertain payment;
- ✓ Uncertain or unmanageable risks;
- ✓ Security concerns;
- ✓ Low profitability - demanding contracts with low margins;
- ✓ Onerous terms and conditions;
- ✓ Turnover of personnel leading to dysfunctional behaviour;
- ✓ Do not keep their word;
- ✓ Poor supply market capability;
- ✓ Immature supply chains;
- ✓ Logistically difficult to service;
- ✓ Suppliers not allowed to get it right through lack of information sharing; and
- × Low levels of support from the World Bank.

It is important to recognize that it is not only a supplier's capability and capacity to deliver the Borrower's requirements that delivers successful Projects, but also the supplier's motivation and willingness to deliver what is needed to meet the requirements. This is often harder to determine, but through the use of market engagement and carefully worded questions in qualification and / or bid and proposal documents, it is possible to validate, or challenge, the findings of supplier preferencing. Equally important, is that supplier preferencing should help the Borrower put in place a plan of action to improve its general attractiveness to market and operationalize this plan throughout the procurement approach through careful design and planning.

By applying the Supplier Preferencing model and determining which quadrant is applicable to a Borrower, it is possible to identify the typical behaviors a supplier may exhibit when doing business with that Borrower.

Equally, this classification is particularly helpful in identifying risk and also which suppliers within a market should and should not be targeted. As mentioned above, these conclusions need to be covered in the market engagement plan, any qualification exercise, supplier selection, bid evaluation strategy, and risk management plan.

The table below summaries the typical action suppliers will take depending upon their classification of a Borrower. Overleaf this table is a description of actions by classification type.

Quadrant	Description	Action
Development	• Low-value • But Still Attractive	Get Further Business
Core	• High-value • Highly Attractive • Supplier's Core Business	Retain and Expand
Nuisance	• Low-value • Little Profit	Withdraw
Exploitable	• High-value • But not Attractive	Maximise Profits

Supplier Classification

1. Development

Borrowers that are considered Development will be ranked highly in the supplier's list of priorities, as the Borrower will be considered as worth investing time and effort in. A Borrower will be seen as attractive and while the value of business is relatively low, suppliers will be keen to win new contracts and make sure current contracts are operating effectively. The Borrower will be characterized as:

- Having potential;
- Highly sought after; and
- Worth working hard for to exceed Borrower expectations.

For this Borrower classification, the supplier is likely to offer very good service and show considerable interest in resolving any issues. Correspondingly, Borrowers should actively encourage receiving bids from such suppliers. Bids and any subsequent contracts are likely to be very competitively priced, with exceptional service levels, as the supplier will be seeking to nurture the Borrower to secure future bidding opportunities.

2. Core

Borrowers that are considered as Core are highly valued by suppliers both in terms of existing contracts but also future opportunities. This is based upon the current level of business that the Borrower provides and also the Borrower's long-term potential for further business.

Suppliers will invest significant effort to retain the current business and as such the Borrower can expect:

- To be treated as an important customer;
- To have a beneficial relationship that drives value for both the Borrower and supplier;
- To receive a high level of service and response as the supplier will want to retain and expand the business;
- The supplier to attempt to increase profitability slowly, while sharing the benefits with the Borrower; and
- Suppliers to be receptive to 'partnerships'.

Identifying the value to the Borrower of working with suppliers who behave in this manner is critical in successful contracts and Projects. Therefore, consideration of these factors should be at both supplier qualification and bid evaluation stages.

Bid evaluation using rated criteria offers the best opportunity for Borrowers to identify and attribute value to suppliers and bids that offer these benefits. It will of course be important to undertake the necessary due diligence to ensure the supplier will actually operate in this manner, because suppliers often bid exhibiting the factors in Core, but then revert to behaviors in Nuisance and Exploitable during delivery.

3. Nuisance

Borrowers that are considered Nuisance will be given minimum attention and the supplier is likely to seek to withdraw from any current contracts and not pursue any new bidding opportunities. Suppliers will rank a Borrower as very low in its list of priorities as the view of the Borrower will be typically characterized as:

- Little profit to be made;
- Difficult and/or expensive to service; and
- Poor at paying bills.

As a result of a Borrower being considered Nuisance, the supplier is likely to offer poor service and show very little interest in resolving any delivery, quality, or contractual issues. Correspondingly Borrowers should be very cautious about receiving bids from such a supplier and should also consider whether they should try and exit any existing contracts.

4. Exploitable

Borrowers that are considered as Exploitable will be ranked highly by suppliers due to the value of business, but the supplier will seek short term advantage from what the supplier will perceive to be a position of strength.

As a result of the Borrower being viewed as unattractive, suppliers will seek to maintain the business as long as it does not involve any particular effort for them. The converse may also occur, where effort is applied by the supplier, it seeks to exploit the Borrower through raising prices on existing contracts or submitting bids with higher prices which if they win will continue the pattern of increasing prices.

Suppliers may also seek to reduce their own costs through reducing the costs of serving the Borrower. Price increases can occur beyond just straight forward price increases, Borrowers can anticipate requests for contract variations for volume increases, extension of time, unforeseen circumstances, etc.

Working with these suppliers will be a real challenge for the Borrower, so considerable effort will need to be placed into contract management. However, the situation can be recovered if the Borrower is able to identify why the supplier sees them as unattractive and then seeks to address these issues. Issues can often be traced to low profitability and late payment.

Suppliers will be prepared to risk losing the Borrowers business. Suppliers and contracts will need to be carefully managed and contingency plans may be needed to deal with the risk of a supplier withdrawing from contracts.

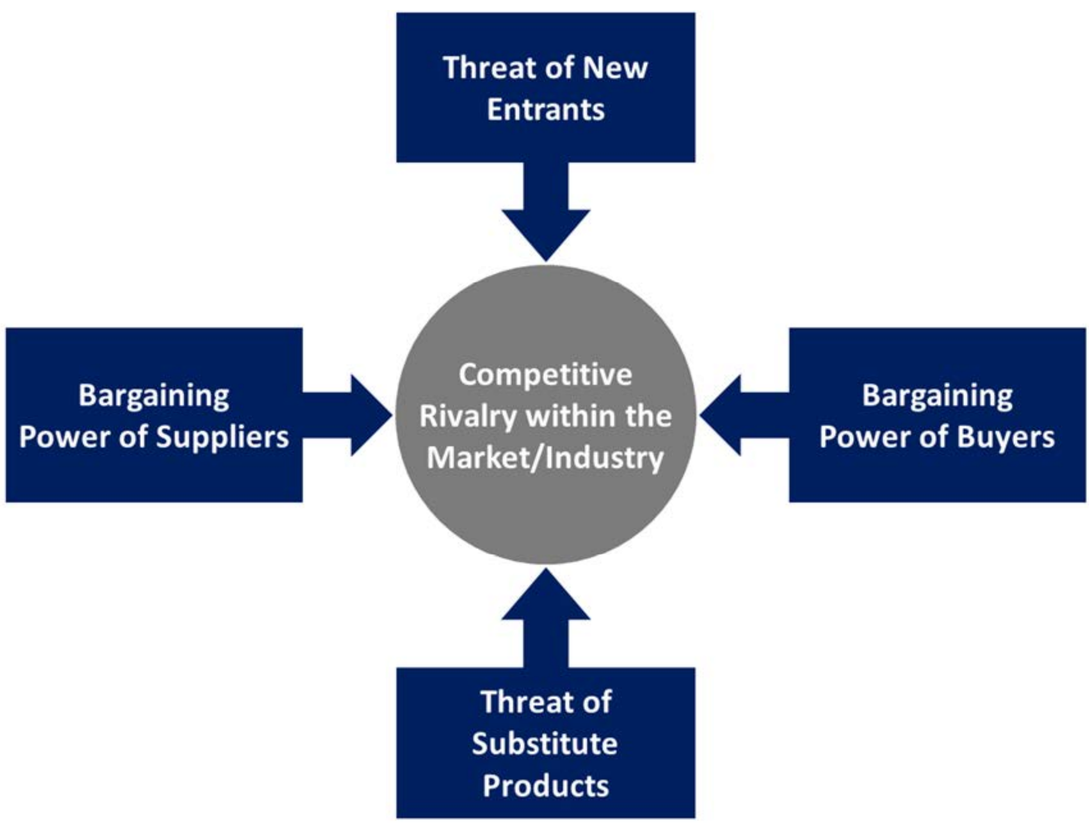
Annex VI. Porter's Five Forces Analysis

"Porter's Five Forces" Analysis is a common, management tool used to evaluate a market to determine the level of competition and where the balance of power resides, between suppliers and buyers, within that market. Its purpose is to help identify the type of competition that exists and how the procurement approach can take advantage of a Borrower's strength in a competitive market place or defend itself against anti-competitive supplier tactics where competition is more limited.

A. Porter's Five Forces Dimensions

According to Porter the nature of competition in any industry can be considered on the basis of the following five forces:

- bargaining power of suppliers (supplier power);
- bargaining power of buyers (buyer power);
- rivalry among current competitors (competitive rivalry);
- threat of substitute product/services (product and technology development); and
- threat of new potential entrants (new market entrants).



1. Bargaining Power of Suppliers

Bargaining Power of Suppliers refers to the potential for suppliers to increase their prices. When suppliers are in a position of strength, they can increase their profits by increasing their prices. A supplier's strength can be determined by assessing:

- the availability of substitutes. A strong supplier's goods, services, and works tend to be unique;
- the cost of switching to another supplier's product. A strong supplier exists where the buyer (Borrower) has to pay high switching costs to move to an alternative supplier's product; and
- the importance of goods, service, and works to the buyer (Borrower). A strong supplier exists where the buyer has a strong dependency or need for the supplier's product.

2. Bargaining Power of Buyers

Bargaining Power of Buyers refers to a buyer's ability to drive down the prices charged by the suppliers in the market; or to increase supplier costs in the market by demanding better quality and service. The buyer's strength can be determined by assessing:

- the size of their requirement. A buyer is in a strong position when the requirement is large either to the market in general or especially in relation to an individual supplier's size within that market;
- the ease with which the buyer can procure from other suppliers. A buyer is in a strong position when there are many other suppliers providing the same or similar services, goods, and works in the market, at a lower or similar cost and the buyer would not be subject to any switching costs; and
- the number of other buyers in the market. A buyer is in a strong position when there are few other buyers in the market for an individual supplier's goods, services, and works.

3. Rivalry Amongst Current Competitors

Rivalry among current competitors refers to the competitive struggle for market share between suppliers in a market. Extreme rivalry amongst established suppliers poses a strong threat to profitability. The strength of rivalry in a marketplace can be determined by assessing the:

- Extent of barriers to exit and entry;
- Amount of fixed costs a supplier has to bear;
- Competitive structure of industry;
- Presence of global customers;
- Absence of switching costs;
- Growth rate of the market; and

- Demand conditions.

4. Threat of Substitute Products

Threat of substitute products refers to the availability of other goods, services or works that have the ability to satisfy customer needs equally as effectively. Substitutes create an upper limit on the price that suppliers can charge in a market. The smaller the number of close substitutes, the greater the opportunity for a supplier to increase their prices.

The combined impact and interrelationship of Porter's Five Forces differs from market to market. Jointly they determine the competition, profitability, and the behaviors of suppliers within a market because they shape the prices that can be charged, the costs that can be borne, and the investment required to compete in the industry.

From a Borrower's perspective, this tool will help determine where the balance of power lies in the market and what level of influence and impact the Borrower's requirements will have on the market. The tool is used to determine the type of market and ultimately the type of competition that exists within that market.

5. Risk of Entry by Potential Competitors

Risk of entry by potential competitors refers to suppliers who are not currently competing in the marketplace, but have the potential to do so if given a choice. Entry of new suppliers increases the market capacity, increases competition for market share, and lowers the current prices. The threat of entry by potential competitors can be determined by assessing the extent of barriers to entry such as:

- Economies of scale available to suppliers currently in the market;
- Customer brand loyalty to existing supplier goods, services, and works;
- Government regulation;
- Customer switching costs;
- Cost advantage enjoyed by existing suppliers in the market;
- Ease of distribution; and
- The value of set up costs and capital investment.

Annex VII. Supply Chain and Value Chain Analysis

A supply chain comprises of the tiered network of suppliers involved in producing, handling or distributing goods, service, and works from raw materials through final delivery and usage and disposal. It maps the flow and movement of goods and services from their source to final destination. A Borrower will buy goods and services from many suppliers, each of which comprises a supply chain in its own right. The upstream supply chains extend from the Borrower to the suppliers and their supply chains back to the raw material, while the downstream supply chain extends from the Borrower to the final destination, usage and disposal of the goods, services, and works. The diagram below illustrates a simple supply chain map.

Mapping the supply chain is a useful tool for identifying potential risks to the Borrower that may occur upstream or downstream from the supplier. Typically the longer the supply chain, the greater the risk to delivery as the supplier will have less control in managing each stage or supplier within the overall supply chain. Another way of expressing this is that each step in the supply chain creates a dependency that is not in the direct control of either the Borrower or the contracted supplier.

There are a number of sources of information that can help the Borrower map supply chains. The starting point is desk based research through the use market analysis reports, searches on the internet and specialist industry magazines. Other sources include previous supplier bid or proposal submissions.

Borrowers and the Bank also have technical specialists who have a thorough understanding of both markets and suppliers within them.

Finally, the most effective way is to go out and undertake market engagement and ask suppliers or their industry representatives' questions about how supply chains operate in a market or a region.

Using this information, the Borrower should be able to map and identifying each step and dependency in a supply chain and understand whether there are any inherent risks in how the supply chain operates.

Undertaking this type of risk assessment at each stage of a supply chain will allow Borrower's to identify individual mitigation measures that need to be considered in designing the procurement approach. For example, these measures can range from not allowing sub-contractors to be used by the supplier or letting multiple contracts to manage risks associated with shortages of supply.

The second purpose of supply chain mapping is termed value chain analysis. This makes an assessment of whether each step in the supply chain adds value or could be considered unnecessary by not adding value, or worse, creating greater risk. In both of these instances, this leads to unnecessary cost thereby creating inefficiency. The procurement approach should be designed to consider how these inefficient activities could be reduced or eliminated.

For example, typically procurement approaches focus primarily on contracting with the supplier at the end of the supply chain. Supply chain analysis encourages consideration of whether there is a more appropriate procurement approach that may involve contracting with multiple suppliers in the supply chain, especially if the analysis identifies stages in the supply chain that add no value and/or create increased risk. This type of procurement approach may allow complete stages in the supply chain to be removed.

This combined supply chain and value chain analysis is another tool that focuses the procurement approach on reducing threats (risks) and taking advantages of opportunities (reduction or elimination of non-value adding activities).

For additional information, such as Standard Procurement Documents (SPDs),
Guidance, briefing, training and e-learning materials see
www.worldbank.org/procurement

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