Guidance Note on Procurement Planning and Strategy

December 2018

IsDB
البنك الإسلامي للتنمية
Islamic Development Bank

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Common Abbreviations and Defined Terms

Common abbreviations and defined terms that are used in this Guidance Note. Defined terms are written using capital letters.

Abbreviation / term	Full terminology / definition
Annex	An Annex to this Guidance Note
Applicant	A Firm, Supplier, Contractor (including sub-Contractors) or Individual that submits an Application in response to an invitation for Prequalification, Initial Selection or Shortlisting.
Beneficiary	A Beneficiary is the recipient of IsDB Project Financing. This term includes any entity involved in the implementation of an IsDB financed project on behalf of the Beneficiary.
Bid	An offer, by a Bidder, in response to a Request for Bids, to provide the required Goods, and/or Works and/or related services.
Bidder	A Firm that submits a Bid for the provision of Goods, and/or Works and/or related services.
Consultant	A Consultant Firm or Individual Consultant that provides Consultant Services. A Consultant is independent of both the Beneficiary and IsDB.
Consultant Service(s)	A Consultant Firm or Individual Consultant that provides Consultant Services. A Consultant is independent of both the Beneficiary and IsDB.
Fraud and Corruption	The sanctionable practices of corruption, fraud, collusion, coercion or obstruction defined in IsDB's *Guidelines on Combatting Fraud and Corruption* and in *IsDB Group Anti-Corruption Guidelines on Preventing and Combating Fraud and Corruption in IsDB Group-Financed Projects*.
Goods	A category of procurement that includes, for example: consumables, equipment, machinery, vehicles commodities, raw materials or industrial Plant. The term may also include related services, such as: transportation, insurance, installation, commissioning, training or initial maintenance.
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.
PPP	Project Procurement

Abbreviation / term	Full terminology / definition
Prequalification	The shortlisting process, which can be used prior to inviting Request for Bids in the procurement of Goods, Works and related services.
Probity Assurance Provider	A third party that provides specialist probity services for concurrent monitoring of the Procurement Process.
Procurement	The function of planning for, and sourcing Goods, Works, Non-consulting Services, and/or Consulting Services to meet required objectives.
Procurement Documents	A generic term used in these Guidelines to cover all Procurement Documents issued by the Beneficiary. It includes: GPN, SPN, EOI, REOI, Prequalification document, RFB and RFP, including any addenda.
Procurement Process	The whole Procurement lifecycle 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.
Project Procurement Guidelines	Covers the Project Procurement Guidelines know as 'Guidelines for the procurement of Goods, Works and related services under IsDB Project Financing, September 2018' and Guidelines for the Procurement of Consultant Services under IsDB Project Financing, September 2018.
Proposal	An offer, by a Proposer, in response to a Request for Proposal to provide the required Consultant Services.
Proposer	A Firm that submits a Proposal for the supply of the required Consultant Services.
Rated Criteria	Rated criteria is when price and technical factors are rated, the contract price and the total combined score of the successful Bid/Proposal. Rated criteria may include but are not limited to: i) quality of methodology and work plan; ii) performance, capacity, or functionality features; and iii) sustainable procurement.
Standard Bidding Documents (SBDs)	Standardized procurement documents issued by IsDB to be used by Beneficiaries for IsDB financed projects. These include IsDB's standard documents for, e.g.: GPN, SPN, Prequalification, LOI, RFB and RFP.
Substantially Responsive Bid	A bid that is assessed to be complete and without major deviations from the eligibility, technical and commercial requirements in the Procurement Documents.
Value for Money (VfM)	VfM means obtaining the optimum benefits with the effective, efficient, fair and economic use of resources. This requires an evaluation of relevant costs and benefits, along with an assessment of risks, and non-price attributes and/or life cycle

Abbreviation / term	Full terminology / definition
	costs, as appropriate. The lowest price alone may not necessarily represent VfM.
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 1 - Introduction

1.1 Overview

This Guidance Note is intended to assist Beneficiaries by expanding on and explaining IsDB's 2018 Project Procurement Guidelines[1].

This note identifies additional information for the reader to consider when applying IsDB's Project Procurement Guidelines when conducting procurement planning and strategy development, when required by IsDB.

A Procurement Plan must always be completed for each project under the project by the Beneficiary for all procurements under the project. In certain circumstances for high risk and/or high value projects/procurements IsDB may request that a Procurement Strategy be produced as well as the mandatory Procurement Plan. When requested by IsDB to produce a Procurement Strategy, the Beneficiary should follow this best practice guide and use the templates provided in Annexes I, II, and III.

The purpose of this guidance is to provide a structured approach to the Procurement Planning stage of IsDB's Procurement Cycle detailed below.

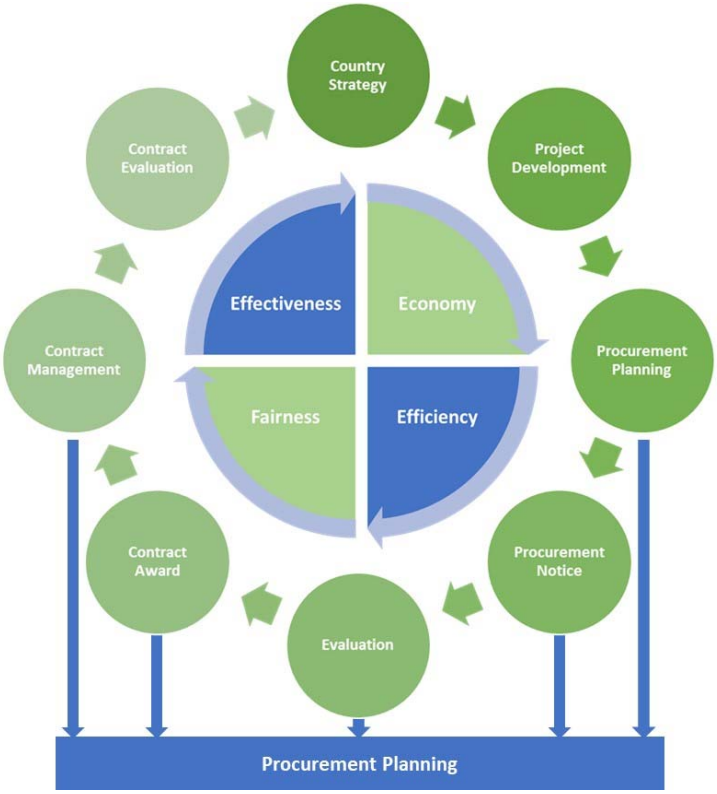

Figure I – Procurement Cycle

[1] https://www.isdb.org/procurement

1.2 Background

The Procurement Plan and Procurement Strategy, when required, are documents that the Beneficiary prepares as part of the Project preparation process.

A Procurement Plan must always be completed for the project by the Beneficiary for all procurements. In certain circumstances and for high risk and high value projects IsDB may request that a Procurement Strategy should be produced as well as the Procurement Plan. When requested by IsDB to produce a Procurement strategy the Beneficiary should follow this best practice guide and use the templates included.

The Procurement Plan must be reviewed by IsDB as part of Project appraisal and agreement should be reached with the Beneficiary on the Procurement Plan no later than the completion of loan negotiations.

If a Procurement Strategy is required to be developed by IsDB it is not required to be cleared but should be shared with IsDB for reference. Also, as part of Project preparation, a Procurement Plan is prepared based on the analysis in the Procurement Strategy and is subject to no-objection by IsDB.

In situations of urgent need of assistance because of a natural or man-made disaster or conflicts recognized by IsDB, the Beneficiary should only prepare a high-level, summary Procurement Plan, as soon as practicably possible.

For projects that are financed in whole or in part by an IsDB loan or grant the Procurement Plan is specifically referred to in the financing agreement between IsDB and the Beneficiary. The Beneficiary may not begin the procurement process without IsDB's no-objection if the relevant contract is not included in the procurement plan endorsed by IsDB. The completed Procurement Plan is based on the analysis conducted when completing the Procurement Strategy when required and is inputted into the Procurement Plan to facilitate IsDB's oversight of the Beneficiary's procurement contracts, through Bidding up to contract award.

Section 2 - Procurement Planning & Strategy

2.1 Procurement Plans

The Beneficiary is required to prepare during the early stages of project processing or soon after the framing of the project concept note (PCN) for the planned procurement a finalized Procurement Plan.

The Procurement Plan needs to cover the first eighteen (18) months of project implementation, and it should be updated periodically at reasonable intervals through the procurement and project cycle.

The finalized Procurement Plan and a summary of the Procurement Strategy, if required, will become part of the Project Appraisal Document (PAD) and shall be reviewed in detail by the Beneficiary at the project start up workshop to facilitate smooth and timely project implementation.

The Procurement Plan will at a minimum detail the Goods and Works packages including the requirements, cost estimates, indicative disbursement, implementation schedules, Prior and Post Review approaches, related thresholds, nature and extent of IsDB monitoring and supervision, and other relevant factors. Cases such as, for new Beneficiaries or in situations where the Beneficiary's implementation capacity is limited, or where abbreviated Prior Reviews or Post Reviews are envisaged, IsDB may decide to assess the capacity of the Beneficiary to implement the Procurement Plan and undertake capacity and/or risk assessments.

In emergency situations, if it is not possible for the Beneficiary and IsDB to complete the Procurement Plan for the procurement in a project, such completion may be deferred to the implementation phase of the project.

The Procurement Plan should be posted on Beneficiary project related website and the IsDB website as soon as possible, but in all events after Finance Agreement effectiveness, along with any material updates thereto as and when circumstances require.

The Procurement Plan, approved by IsDB during loan negotiations, is incorporated by reference in the Financing Agreement, making it legally binding.

2.2 Procurement Strategy

When requested by IsDB for high risk and/or high value procurements the Beneficiary is required to develop a Procurement Strategy Document.

The Procurement Strategy addresses how procurement activities will support the development objectives of the project and deliver the best Value for Money (VfM). The Procurement Strategy helps Beneficiaries by using different procurement and management tools to provide adequate justification for the selected selection methods in the Procurement Plan. The level of detail and analysis in the Procurement Strategy shall be proportional to the risk, value and complexity of the procurement as agreed with IsDB.

The Beneficiary prepares the Procurement Strategy if required by IsDB during project preparation, and IsDB reviews the Procurement Strategy and agrees to the Procurement Plan, by no objection before the completion of the negotiation with the Beneficiary.

The Procurement Strategy covers the following areas:

- Identification of the specific project needs;
- Assessment of the operating context and its potential impact on the procurement;
- Assessment of the implementing agency's capacity, resources and previous experience in procuring these types of activities;
- Assessment of the adequacy, behaviour and capabilities of the market to respond to the procurement; and
- Justification of the proposed procurement arrangements based on market analysis, risk and operating context and the project's circumstances.

The Beneficiary may prepare a high level, simplified Procurement Strategy in situations of urgent need of assistance because of a natural or man-made disaster or conflicts recognized by IsDB, provided that the simplified procurement arrangements in the Procurement Strategy are consistent with IsDB's Core Procurement Principles.

The following Sections of this Guidance Note explain in detail how to complete a Procurement Strategy using the templates provided in the Annexes. It also provides best practice management tools and techniques needed to assess the market, suppliers and risks.

Section 3 - Project Overview

The first step of completing a Procurement Strategy Document as detailed below and using the template provided in Annex IV is to briefly summarize the Project in terms of the scale and requirements. This information can be obtained from the Project Concept Note.

The Project overview should include the following information about the project and should be detailed in Section 1 of the template in Annex III.

Country:	*Insert the Country of the Project*
Region:	*Insert the Region of the Project*
Sector:	*Insert Sectors Covered by the Project*
Project Name:	*Insert Project Name*
Project Number:	*Insert Project Number*
Total Financing:	*Add Total Financing Amount*
Project Description:	*For each contract/sub-contract, there should be a short description of what is required from the Firm, Supplier, Contractor (including sub-Contractors) or Individual including the cost estimate.*
Project Development Objectives:	*The Project Development Objectives should be consistent with the Project Development Objectives identified in the Project Concept Note.*
Result Indicators:	*Result indicators should be "SMART" indicators (Specific, Measurable, Attributable, Relevant, and Time-bound) and linked to Project outcomes. Each Project Development Objectives should be measured by one or more outcome indicators.*
Proposed Procurement Summary:	*A summary of the proposed contracts within the Project including a Supply Positioning model for identified contracts.*
Legal/Policy Requirements:	*A statement of any legal or policy requirements such as the application of Alternative Procurement Arrangements, use of Stated Owned Enterprises for restricted contracts such as aerial mapping, and any policy requirements.*

Template I – Project Overview

Section 4 - Assessment of Operating and Beneficiary Capacity

The second step of completing the Procurement Strategy Document as detailed and using the template in Annex IV is the Assessment of the Operating and Beneficiary Capacity to deliver the project and the stated development objectives. This information should be summarised in Section 2 of the template.

4.1 Operational Context

The Procurement Strategy should analyse and take into consideration the operational context factors that may affect the procurement approach, the motivation of Bidders or Proposers to participate, and the success of any subsequent contracts. Most of this information is available through research and analysis undertaken by IsDB and presented in the Project Preparation Documents for the Project and in other similar Projects. 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/Proposers; 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 or Proposers, high inflation that may require the use of motivated to participate, any domestic preference that may motivate local businesses, but endanger international competition, track record of on-time payment, 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 labour and labour standards.

D. Technological Aspects:

- Speed of technological change; need for information transfer and security so there is not a continued dependency on the Bidders or Proposer, internet access and restrictions, cell phone access and coverage, opportunity for, and dependency on, the use of technology for Project delivery.

4.2 PESTLE Analysis

A PESTLE (Political, Economic, Social, Technology, Legislative and Environment) analysis is a useful tool for supporting this assessment. The diagram in the following figure 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	• GDP • Inflation • Exchange rates	• Import tariffs • Commodity pricing • Employment rates
Social	• Education rates • Demographics • Conflict	• Health standards • Communities • Political Involvement
Technology	• Technology advances • R&D costs • Access	• Regulations • Availability • Block chain
Legal	• Contract law • Court system • Employment law	• State involvement • Health and Safety • Disputes
Environmental	• Legislation • Climate Change • Sustainability	• Disposal • Standards

Figure II – PESTLE Analysis

The PESTLE analysis helps to provide a lot of information, so it is important to consider what the findings 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 Procurement Strategy.

The PESTLE is particularly helpful at identifying risks, which should be considered as part of Procurement Risk Management Plan in Section V of this Guidance Note.

4.3 Assessment of Beneficiary Capability and Project Implementation Unit (PIU)

The objective of the Assessment of Beneficiary Capability and Project Implementation Unit (PIU) 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 IsDB undertakes on the Beneficiary's capability in the PAD. It should also help identify any targeted early interventions such as training or enhanced support that the Beneficiary may benefit from, whether from IsDB, or other sources.

The Beneficiary should consider the following factors in assessing their capability and resource needs to plan and design the procurement approach and the subsequent implementation:

A. Previous experience/track record (good and bad) in implementing similar Projects/procurements and implementing IsDB Projects;
B. Contract Management capacity and capability to follow through on commitments made during the procurement process and contained in the contract award;
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 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. Reliance on, criticality of, and use of professional advisors such as consultants to augment Beneficiary capability;
G. Project implementation arrangements;
H. Administrative arrangements, including delegated authority levels to facilitate timely decision making;
I. Inspection arrangements;
J. Contract packaging;
K. Lessons learned from the implementation of other similar Projects;
L. Reliance on, criticality of, and use of professional advisors such as consultants to augment Beneficiary capability;
M. Experience using Alternative Procurement Arrangements; and
N. The need for hands-on-support to undertake a fit for purpose procurement, from planning, contractor/consultant selection, and contract award.

4.4 Previous Beneficiary and IsDB Experience of Similar Projects

The Beneficiary should work with IsDB to understand how Projects of a similar nature have been delivered in the past. This analysis should focus on what went well and why, and what did not go well and could have been improved.

Areas to be considered as part of this assessment include:

- What was the marketplace?

- Which Firms, Suppliers, Contractors (including sub-Contractors) or Individuals submitted a Bid or Proposal, and which declined and why?
- Was the Project delivered to time, cost, and quality?
- Were there any complaints or disputes and what was the cause?
- Overall were there good marketplace and supplier participation levels and why?
- 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/procurement?
- What type of procurement approach was used, did it deliver the right result, and are there any elements of the specification that may be relevant to this contract?
- What was the approach to contract management and how effective was this at keeping the Project and Firm, Supplier, Contractor (including sub-Contractors) or Individual under the right level of control?

4.5 SWOT Analysis

Another management tool that can be used to help the Beneficiary assess the operating and Beneficiary capacity is a SWOT analysis. SWOT stands for strengths, weaknesses, opportunities and threats. Strengths and weaknesses are an analysis of the internal influences on a Beneficiary's organization, over which the Beneficiary has an element of control. Opportunities and threats are an analysis of external influences on a Beneficiary's organization, which the Beneficiary tends to have less control.

When using a SWOT analysis, the objective is to help Beneficiary's develop a full awareness of all the factors, positive and negative, that may affect the delivery of the procurement and the Project. It assists with the identification of the procurement approach that will best deliver the procurement approach and the Project development objectives.

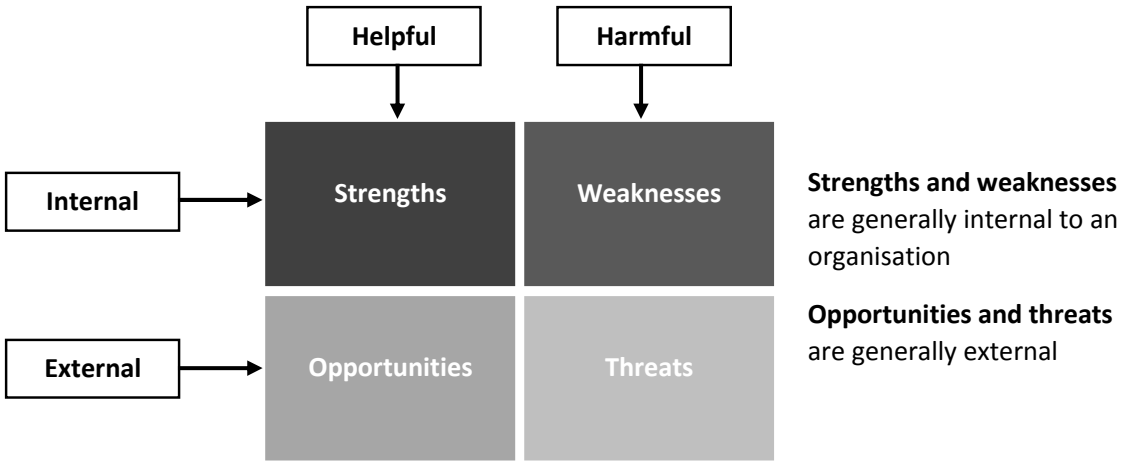

Figure III – SWOT Analysis

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

• Where can you find good opportunities?
• Useful opportunities can come from such things as:
  o Changes in technology and markets on both a broad and narrow scale
  o Changes in government policy related to the requirements
  o 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 obstacles to delivery?
	• What do suppliers do that causes concern?
	• Are stakeholders needs changing?
	• Is changing technology threatening your organisations position?
	• Are there any budget restrictions?
	• Could any of your organisations weaknesses seriously affect 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?

Table I – SWOT Analysis

The Beneficiary's 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 Beneficiary should demonstrate experience in undertaking similar types of procurement (and procurement arrangements) and successful implementation. Where the proposed procurement approach has not been used previously (or were not previously successfully implemented), the Beneficiary 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 V of this Guidance Note. At the end of this Section a Resourcing Plan should be created. This is the Beneficiary's view on any capability building requirements needed to augment their own resource levels.

Section 5 - Stakeholder Analysis

The third step of completing a Procurement Strategy Document and using the template in Annex IV is to complete the Stakeholder Analysis for the project as detailed below. This information should be included in Section 3 of the template.

5.1 Overview

In the development of a Procurement Strategy, key stakeholders with an interest in or impact on the Project should be identified so that their respective views can be appropriately considered in the design of the procurement approach. The Beneficiary should produce a Stakeholder Management Plan as outlined in the following figure. The Stakeholder Management Plan outlines how each stakeholder will be engaged throughout the procurement process to ensure their expectations and objectives are appropriately met and managed.

Stakeholder		Interest (Responsible, Accountable, Consulted, Informed)	Stakeholder Objectives from the Procurement	Stakeholder Management Approach
Name	Role			

Table II – Stakeholder Management Plan

Identifying and managing stakeholder relationships is a critical part of managing a Project. Stakeholders are a good source of information and can influence the ease with which a Project is delivered. Other stakeholders will be the recipient of the requirements delivered and involving these individuals in the design of the procurement approach and management of the contract(s) increases ownership. The Stakeholder analysis should be focused on each individual stakeholder's needs (from a Project perspective), as well as what their on-going involvement should be post contract award.

Stakeholder analysis can be undertaken in three stages:

- Stakeholder Identification;
- Stakeholders Interest and Objectives; and
- Stakeholder Categorisation.

5.2 Stakeholder Identification

A stakeholder is a party that is affected by or can affect the outcome of an activity within the Project. Stakeholders can include:

- Parties who can influence the Project;
- Parties who want a say in which procurement approach is selected;
- Parties who can make a Project fail or succeed through participation or opposition; and

- Parties who can contribute financial and technical resources.

Typically, stakeholders are:

- Governments – Federal and State;
- Beneficiaries;
- Individuals who are impacted by the Project;
- Non-Governmental Organizations (NGOs), Civil Society, and special interest groups;
- Other Beneficiaries in cross jurisdictional procurements; and / or
- IsDB functions and team members.

Stakeholder mapping is undertaken by brainstorming who has an interest in the Project from conception all the way through to Project delivery.

5.3 Stakeholders Interest and Objectives

Having identified the stakeholders, next their objectives should be defined. To keep stakeholder's objectives focused on the procurement approach, stakeholder engagement needs to be framed around the following:

- Identifying the issues and challenges that the Beneficiary has with the procurement or with the supply market;
- Identifying the needs and requirements by establishing what the drivers are by considering:
  - What do the Beneficiaries/users need from this Project?
  - What does the Beneficiaries require of this supply market and suppliers?
- Identifying what IsDB expects from the Project.

This approach is aimed at capturing both current and future objectives and considering them as "must haves" and "wants", which are requirements that a stakeholder would not accept a procurement approach without the possibility of them being delivered. These needs, therefore, must be specific and easy to understand so that they can be defined and summarized into a Stakeholder's Objective for the Procurement.

Beneficiaries should confirm this information by talking directly with stakeholders wherever possible. However, this is not always possible, so for those stakeholders who cannot be contacted directly, the best approach is for the Project team to "theorize" what that stakeholder's views may be.

5.4 Stakeholder Categorisation.

RACI is a management tool that is used to categorize a stakeholder's interest and influence over the Stakeholder's Objectives. For each objective, a stakeholder's interest can be categorized as:

R = Responsible, is a person who performs an activity or a task successfully.

A = Accountable, is a person who is ultimately accountable for the quality and overall success of delivery of the Project.

C = Consulted, is a person who provides feedback and contributes to an activity or task, where the input adds value and is essential for successful implementation.

I = Informed, is a person who needs to be notified of decisions, results, or action taken but does not need to be involved in the decision-making or delivery.

The Beneficiary could ask the following questions should help Beneficiary's define stakeholder interest and influence and allow a stakeholder to be categorized under a RACI.

- What are their needs, influencing factors and likes?
- Why might they object or oppose something?
- How will they be affected personally by the outcome of the Project?
- What is their responsibility?
- What is their power and level of influence?
    - What is their interest?
    - How do they expect to be involved and why?
- How predictable are they?

The list of stakeholders and their objectives may be long and, in some cases, may conflict with each other. Further stakeholder engagement may be required to clarify conflicting objectives as well as prioritizing the key objectives that the procurement approach must deliver.

5.5 Stakeholder Management Approach

Stakeholder engagement should be an ongoing activity that needs to be continued throughout the life of a Project. Therefore, a high-level stakeholder management approach should be created.

Beneficiaries can use the information gathered for the Stakeholder Management Plan to determine the best approach, type, and nature of an ongoing engagement. The following figure is a simple matrix that helps map each stakeholder by their power and influence against their interest and objectives in the project and provides an indication of the possible management approach for type of stakeholder.

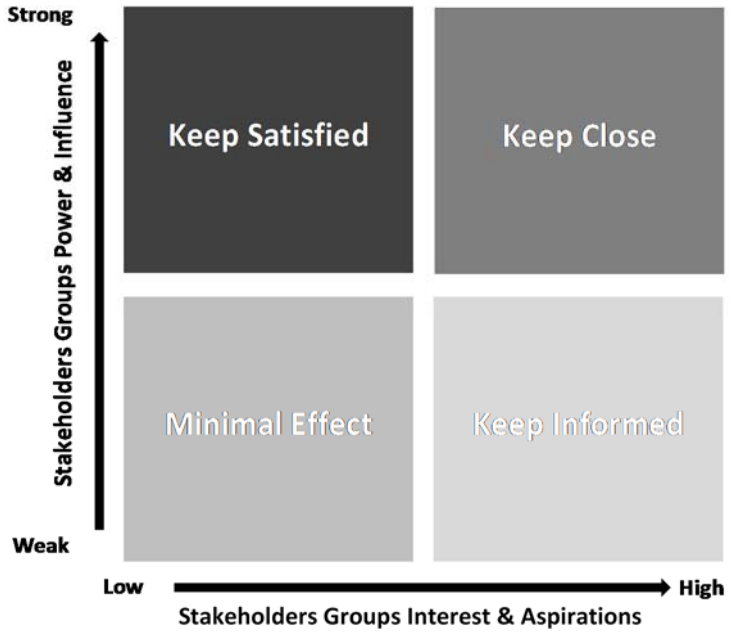

Figure IV – Risk Actions and Responses

Interest	Influence	Strategy
Low	*Weak*	Minimal Effort
Low	Strong	Keep Satisfied
High	Weak	Keep Informed
High	Strong	Keep Close

Once the Beneficiary has collected all this information, it should be summarized into table II above, the Stakeholder Management Plan.

Section 6 - Procurement Risk Assessment

The forth step of completing a Procurement Strategy Document and using the template in Annex IV is to complete the Procurement Risk Assessment for the project as detailed below. This information should be included in Section 4 of the template.

6.1 Overview

Procurement risk analysis is the process of identifying and minimizing the likelihood of a risk occurring and minimizing the impact to the Beneficiary, IsDB and stakeholders if the risk does occur. The analysis also looks at identifying and maximizing the likelihood of an opportunity occurring and maximizing the impact/benefit to the Beneficiary, IsDB and stakeholders if the opportunity materializes. The Procurement risk analysis sets out the plan for managing risks and opportunities.

Risks identified from Section IV of this Guidance are summarized and evaluated in a Procurement Risk Management Plan as detailed in the following table. The Procurement Risk Management Plan defines the risks, assesses their impact, describes the mitigation action and allocates the risk to an owner.

Risk management is important because it supports the recognition, evaluation and prioritization of potential failures and their effects. It enables Project delivery by identifying and tracking actions, which eliminate or mitigate the chance of the potential failure occurring. Its intent is to maximize positive impact and minimize adverse impact to the procurement approach and objectives. The table below should be used to create the Risk Management Plan by summarizing and recording the overall risk management analysis.

Risk Description	A	A	Overall Risk Score (A*B)	Description of Proposed Mitigation	Risk Owner	Procurement Stage
	Likelihood Rating	Impact Rating				

Table III – Risk Management Plan

Procurement risk management is primarily concerned with managing impacts on the contract schedule, cost, and performance (including the delivery of the stated requirements). Through a structured approach to risk management, Beneficiary's should identify how opportunities and risks will be managed at different stages of the procurement process.

The following procurement process stages should be used to complete Table III above.

- ***Market Engagement***
    - Ensuring the Beneficiary understands how the market functions and to demonstrate to Firms, Suppliers, Contractors (including sub-Contractors) or Individuals the benefits of working with the Beneficiary.
- ***Prequalification***
    - Ensuring that only Firms, Suppliers, Contractors (including sub-Contractors) or Individuals capable of delivering the requirements are invited to Bid.
- ***Specification***
    - Ensuring the Beneficiary clearly states the detailed specification or performance requirements and provides the Firms, Suppliers, Contractors (including sub-Contractors) or Individuals with freedom to use its expertise to be innovative in its delivery.
- ***Procurement Arrangements***
    - Ensuring Bids or Proposals are competitive and ultimately deliver demonstrable Value for Money.
- ***Evaluation***
    - Ensuring the most appropriate Firms, Suppliers, Contractors (including sub-Contractors) or Individuals is selected, and all risks are managed and understood.
- ***Contract Management***
    - Ensuring Firms, Suppliers, Contractors (including sub-Contractors) or Individuals fulfil their contractual obligations and that any issues are dealt with efficiently and effectively in a fair and transparent manner.

6.2 Procurement Risk Analysis Approach

The risk analysis should look at identifying the risk (the problem), the likelihood of the risk (event) occurring, the criticality of the risk if it occurs, and the impact of the problem (risk). The combination of these factors allows a determination of the risk rating.

To make the identification and analysis of procurement risk manageable, the Beneficiary should structure the assessment around eight (8) key areas detailed below.

- The market complexity and competitiveness;
- Delivery and supply security;
- Suppliers and supplier relationships;
- Beneficiary's experience, capacity and capability;
- Pricing trends;
- Technical innovation;

- Sustainability (environmental, economic, social); and
- The business and operating environment.

Quantifying risk and allocating a rating is subjective, but the use of the criteria described below, in conjunction with information from the Assessment of Operating and Beneficiary Capacity in Section IV help the Beneficiary make the analysis more objective:

- Previous experience of the Beneficiary and IsDB;
- The key decision drivers of the Firm, Supplier, Contractor (including sub-Contractors) or Individual and the Beneficiary;
- Identification of key delivery dependencies;
- Assumptions analysis; and
- Root cause analysis.

Once the risks have been identified, they then need to be assessed, rated and ranked by priority. Each risk while considering the likelihood and potential impact then need to be rated in terms of criticality using the following ratings. This provides a classification of the criticality of the risk in terms of overall risk to the Procurement Objectives.

1 = Almost Certain 2 = Likely

3 = Moderate 4 = Unlikely

5 = Rare

The Beneficiary should plot each risk on a risk criticality matrix based upon its risk rating. The matrix below provides the Beneficiary with an indication of what the priority is for each identified risk, by segmenting the risk classification into six (6) main groupings.

It may not be possible to address all risks through the procurement approach and the risk management plan, for reasons such as resource shortages or lack of practical mitigations measures. The risk matrix will indicate if the residual risk is too high, which would be indicated by a number of “red” and “yellow” still being unresolved.

CONSEQUENCE
How serve could the outcomes be if the risk event occurred?

LIKELIHOOD
What's the chance of the risk occurring?

	INSIGNIFICANENT 1	MINOR 2	SIGNIFICANT 3	MAJOR 4	SEVERE 5
ALMOST CERTAIN 1	MODERATE 5	SUBSTANTAIL 10	SUBSTANTAIL 15	HIGH 20	HIGH 25
LIKELY 2	MODERATE 4	MODERATE 8	SUBSTANTAIL 12	HIGH 16	HIGH 20
MODERATE 3	MODERATE 3	MODERATE 6	SUBSTANTAIL 9	SUBSTANTAIL 12	HIGH 15
UNLIKELY 4	VERY LOW 2	MODERATE 4	SUBSTANTAIL 6	SUBSTANTAIL 8	HIGH 10
RARE 5	VERY LOW 1	VERY LOW 2	MODERATE 3	MODERATE 4	SUBSTANTAIL 5

OVERALL RISK SCORE HIGH MODERATE SUBSTANTIAL LOW

Figure V – Risk Management Analysis Matrix

Once this analysis is complete, the Beneficiary should consider how to deal with the risks, developing appropriate mitigation plans, allocating risks to specific owners to address. It should be noted that inappropriately transferring risks to the Firm, Supplier, Contractor (including sub-Contractors) or Individual, may reduce competition, or result in no Bids, sub-optimal Bid or higher Bids. Risk mitigations actions fall into four main types:

- ***Avoid***
  - Choosing not to accept the risk as the risk is considered too great
- ***Minimise***
  - Reduce or control through improved monitoring or process improvements
- ***Spread or Transfer***
  - Transferring or sharing the risk by diversifying, sub-contracting, outsourcing, entering joint venture, hedging or insurance
- ***Accept***
  - By deciding that the risk is within agreed risk tolerances acceptable to the Beneficiary and IsDB

The Beneficiary needs to consider each risk using these four types of action to develop individual management mitigation actions. The following figure outlines typical actions and responses to a risk depending upon the risk classification.

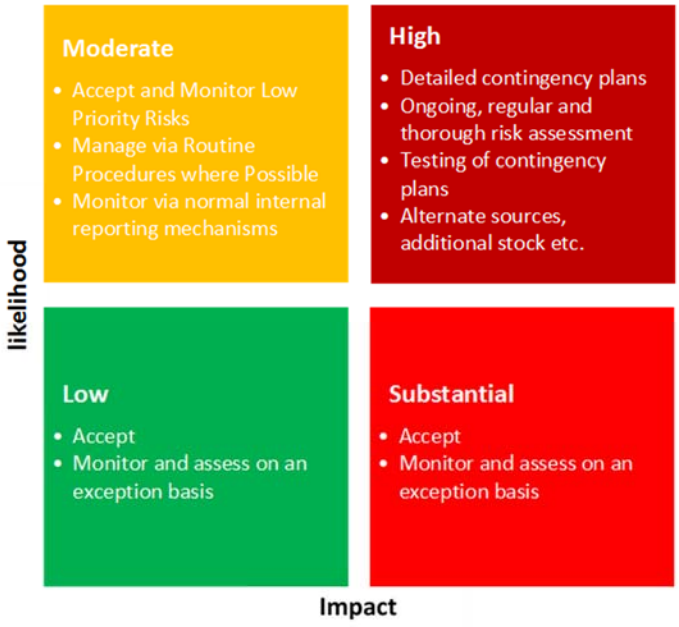

Figure VI – Risk Actions and Responses

The final step of risk management is for the Beneficiary to allocate a risk owner who will be responsible for ensuring implementation of mitigation measure and monitoring the risk

throughout the procurement process to ensure the mitigation remains effective in managing the allocated risk.

This same process should be repeated to identify and address opportunities that may affect the Project. The focus should be how to maximize the likelihood of an opportunity occurring and maximize the impact/benefit to the Project if the opportunity materializes. This could help to pull schedules forward, reduce cost, or provide additional benefit to the Project that otherwise would not have occurred if the opportunity had not been managed.

Section 7 - Procurement Objectives

The fifth step of completing a Procurement Strategy Document and using the template in Annex IV is to complete the Procurement Objectives as detailed below. This information should be included in Section 5 of the template. This Section of the Procurement Strategy looks at how to develop Procurement requirements that align with the Project Development Objectives.

7.1 Overview

The Procurement Objectives are important as they are used to test alternative procurement approaches that a Beneficiary could use to deliver the Project objectives. Defining the right Procurement Objectives is critical and the Beneficiary should use these objectives to enable it to:

- Refine specifications and Firms, Suppliers, Contractors (including sub-Contractors) or Individuals incentives;
- Establish the right risk allocation between the Beneficiary's and the Firms, Suppliers, Contractors (including sub-Contractors) or Individuals;
- Develop the right evaluation criteria used to select the Firm, Supplier, Contractor (including sub-Contractors) or Individual who can deliver the contract; and
- Document the Key Performance Indicators (KPIs) that will be used to monitor contract delivery to ensure that the contract continues to meet the Project requirements.

Detailed in the following figure is the relationship between each of these factors.

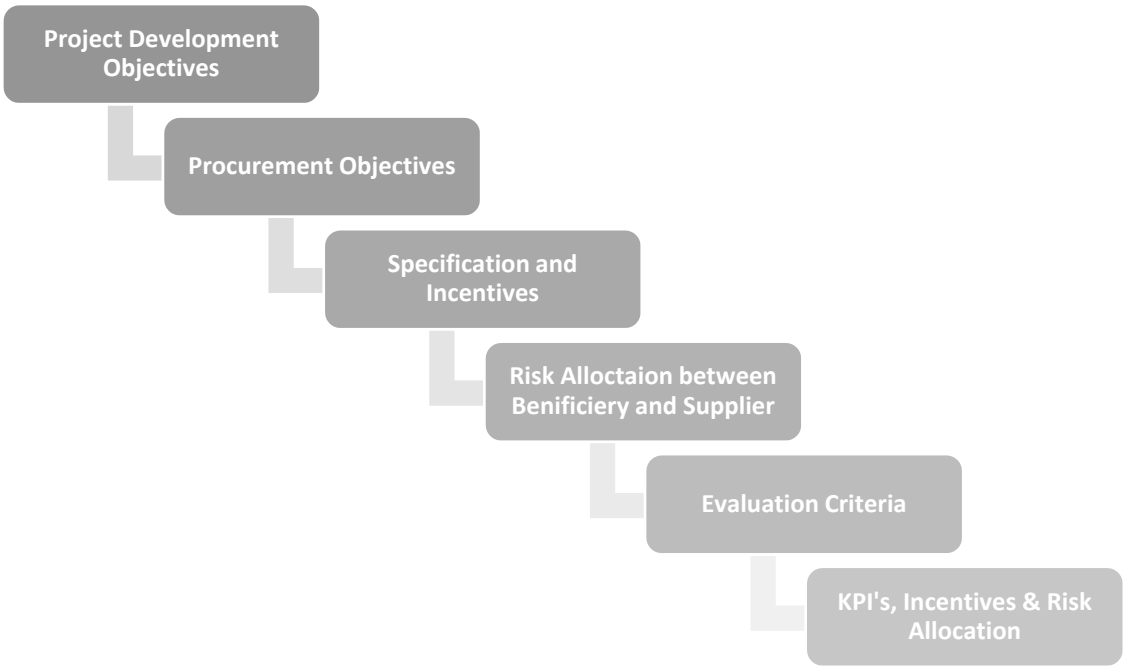

Figure VII – Strategic Alignment of Objectives

7.2 Drafting Procurement Objectives

The development of the Procurement Objectives should be carried out using the information gathered when completing Sections 1 to 4 of the Procurement Strategy. The Key Procurement Objectives should be detailed enough that if achieved will support the delivery of the Project's Development Objectives and achieve Value for Money for the Beneficiary and IsDB.

Project Development Objectives (Section 1)	• Detailed in the Project Concept Note • Considered mandatory unless, exceptionally, analysis demonstrates need for adjustment
Stakeholder Analysis (Section 3)	• Key stakeholder's specific objectives that do not conflict with the Project Development Objectives • Prioritization of the needs and wants and objectives to be addressed through procurement
Procurement Objectives (Section 5)	• Objectives derived from analysis of the current approach and of the supply market • Objects prioritization to identify objectives to be addressed through the procurement strategy

Figure VIII – Procurement Objectives Information Sources

7.3 RAQSCI Model

The Beneficiary next should structure and organize the Procurement Objectives which can be done with the RAQSCI model management tool. It is also an effective way to ensure that the Procurement Objectives are comprehensive. Failure to identify all the Procurement Objectives at this stage could result in the design of an ineffective procurement approach being designed and selected. The various components of a RAQSCI Model are detailed in the following figure.

Figure IX – RAQSCI Model

The Procurement Objectives need to be SMART – Specific, Measurable, Achievable, Relevant and Time-bound. It is also important that Procurement Objectives are prioritized. As part of due diligence, the Beneficiary should have the Procurement Objectives quality assured by the key stakeholder, (at a minimum those in the Beneficiary and IsDB) and identified in both the RACI, as detailed in Section 5.4, and stakeholder management plan, as detailed in Section 5.5.

7.4 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 the destination. A Beneficiary will buy goods and services from many suppliers, each of which comprises a supply chain. The upstream supply chains extend from the Beneficiary to the suppliers and their supply chains back to the raw material, while the downstream supply chain extends from the Beneficiary to the final destination, usage and disposal of the goods, services, and works as detailed in the following figure.

Figure X – Supply Chain Map

Mapping the supply chain is a useful tool for identifying potential risks to the Beneficiary 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 Beneficiary or the contracted supplier.

There are several sources of information that can help the Beneficiary's 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.

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 Beneficiary 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 Beneficiary's to identify individual mitigation measures that need to be considered in designing the procurement approach.

The second purpose of supply chain mapping is termed value chain analysis. This assesses 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 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).

Section 8 - Market Research and Analysis

The sixth step of completing a Procurement Strategy Document as detailed and using the template in Annex IV is to complete detailed Market Research and Analysis using some of the tips and tools explained in this section. This information should be included in Section 6 of the template.

8.1 Overview

Market analysis is important to allow the Beneficiary to develop a good understanding of the structure of the market and its sector, and how they operate. The procurement plan should be tailored to ensure that Bidders or Proposers find the contract packages attractive and are motivated to provide innovative solutions within their Bid or Proposals. Market analysis will often require more than just office-based research, and the Beneficiary may need to undertake early supplier engagement to gain the necessary data and intelligence.

Market analysis information can be obtained by using the following strategic procurement tools:

- Supplier Positioning Matrix; and
- Supplier Preferencing Matrix.

Other sources of information can be used to gain valuable information on the market and the suppliers in that market place such as:

- Company annual reports;
- Internet searches
- Commodity indexes,
- Trade journals and associations,
- Stakeholder knowledge and experience, and
- Collaboration with other Multi-Lateral Development Banks.

8.2 Supplier Positioning Matrix

Supply Positioning Matrix is a procurement technique that can be used to determine where research and analysis should be focused in preparing the Procurement Strategy. It simply categorizes specific procurements based on their relative supply risk and value.

Each contract should have an assessment of its supply risk and relative value to position the contract on the Supply Positioning Matrix as detailed in the following figure X.

Identifying how important the Goods, Works, Services and Consultancy Services are to the project will help inform:

- The approach you take to the Firms, Suppliers, Contractors (including sub-Contractors) or Individuals; and
- The amount of time and resources needed.

Using supplier positioning helps to get a better understanding of how the market functions. It is also important to determine how Firms, Suppliers, Contractors (including sub-Contractors) or Individuals view doing business with your organization and government and how they behave as a result.

Many Firms, Suppliers, Contractors (including sub-Contractors) or Individuals evaluate their customers' value to determine the amount of effort they will exert to maintain the account or to keep and win future business. This can help an organization to identify changes that may need to be made to be seen as a more attractive customer which in turn can create more competition among Firms, Suppliers, Contractors (including sub-Contractors) or Individuals.

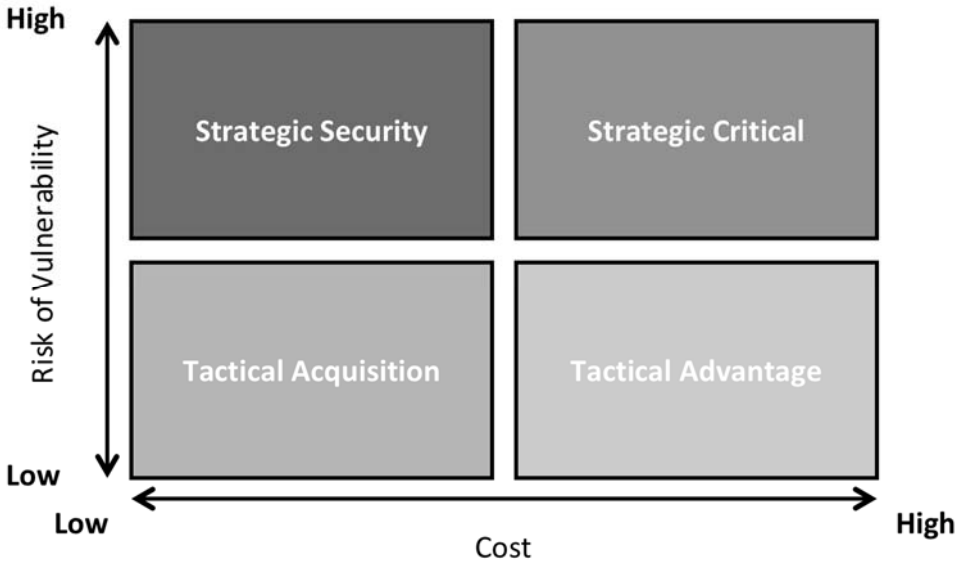

Figure XI – Supplier Positioning Matrix

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

- The Beneficiary's skills and previous experience in procuring and managing this type of contract;
- The difficulty of specifying, or the uniqueness of the Project/contract requirements;
- The competitiveness of the market and the number of potential Firms, Suppliers, Contractors (including sub-Contractors) or Individuals in the market;
- Contract implementation risks; and
- The criticality of the contract.

The combined assessment of these supply risk factors should be categorized, rated, and ranked and then 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 based on 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 should not be artificially broken down into smaller lots at this stage (although that could be appropriate once the Procurement Strategy 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 Procurement Strategy.

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.

Supply Positioning should be used as a guide to determine the level of effort required. Under normal circumstances, contracts that are Tactical Acquisition or Tactical Advantage can have the procurement approach summarized in the Procurement Strategy Template in Annex IV. The main exception to this, is where the preferred procurement approach is either not fully competitive or is inherently risky, such as PPP's. In these circumstances a more robust analysis and justification is required.

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

Aligning the needs of the Beneficiary and the likely behaviours of Firms, Suppliers, Contractors (including sub-Contractors) or Individuals who may bid for IsDB financed Projects is one of the more fundamental parts of the procurement approach design. Supply Positioning is a procurement tool that is used to assess the criticality of the goods, services, and works to the Beneficiary by evaluating Project risk and value.

Supply Positioning also provides an overview of the procurement arrangements and mitigation measures, segmented by the Supply Positioning categorization that a Beneficiary should consider in developing its procurement approach. The following figure outlines the typical procurement approaches applicable to each Supply Positioning segment.

Purchasers Priority	Description	Approach	Arrangement
Strategic Security	• Low cost goods/services or works • Strategically important • Shortage of reliable suppliers	Ensure Supply	• Long term contracts • Build reserve of stock • Consider alternative products
Strategic Critical	• High costs specialist goods/services/works • Limited number of suppliers	Manage Suppliers	• Med/long term contract • Contingency planning
Technical Acquisition	• Routine purchases • Low-value/low-risk goods/services/works • Many potential suppliers	Minimum Attention	• One-off contracts/purchase orders • E-purchasing • Procurement cards
Tactical Advantage	• High-cost/low-risk goods/services • Many potential suppliers	Drive Tactical Advantage	• Short term contracts • Ongoing active sourcing for competitive price

Table IV – Supplier Positioning Table

Equally, using Supplier Preferencing, it is possible to identify and describe the typical approach Firms, Suppliers, Contractors (including sub-Contractors) or Individuals may take when working with Beneficiary's based on the segmentation.

8.3 Supplier Preferencing Matrix

Supplier Preferencing is a strategic tool that enables Beneficiaries to identify how a Firm, Supplier, Contractor (including sub-Contractors) or Individual may view them as a customer and how likely they are to respond during a procurement process. The matrix helps to consider how attractive the project and contract may be to potential a Firm, Supplier, Contractor (including sub-Contractors) or Individual and, therefore, how likely they will contribute to fulfilling the project's development objectives. Supplier Preferencing can help to determine the level of willingness or reluctance the Firm, Supplier, Contractor (including sub-Contractors) or Individual will exhibit in wanting to Bid for work and the corresponding level of effort the Firm, Supplier, Contractor (including sub-Contractors) or Individual will make in meeting the Beneficiary's requirements.

Supplier Preferencing helps determine the extent that the Beneficiary can influence a market, through its procurement approach, to achieve the project objectives using the matrix in the following figure.

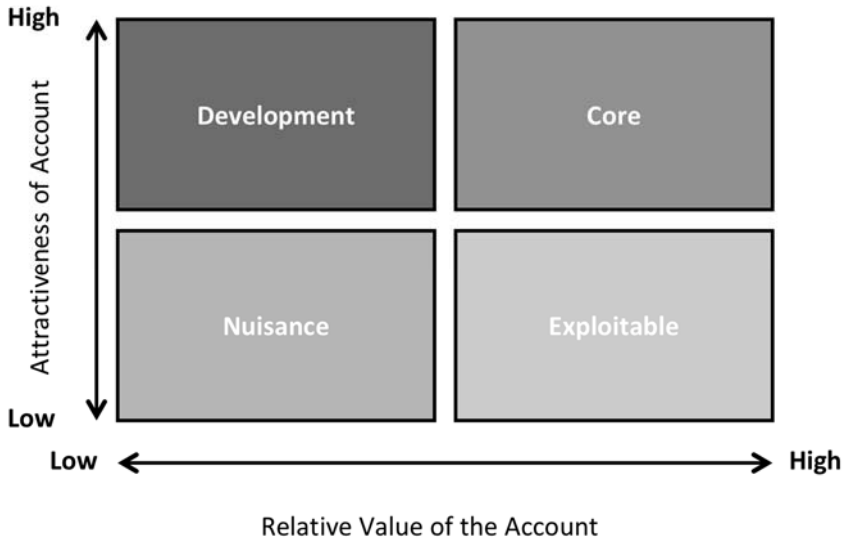

Figure XII – Supplier Preferencing Matrix

A Firm, Supplier, Contractor (including sub-Contractors) or Individual see customers as either development, core, nuisance or exploitable dependant on the attractiveness and relative value of the account. Detailed in the following table are the types of approach and arrangement that might be taken dependant on how a Firm, Supplier, Contractor (including sub-Contractors) or Individual views a customer (Beneficiary).

Supplier's Priority	Description	Approach	Arrangement
Development	• 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 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	• Little profit made • Customer difficult and/or expensive to service • Poor at paying bills	No Attention	• Give it low attention • Short term contracts • Withdraw from business

	• Provide poor service • Supplier's overall objectives		
Exploitable	• 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

Table V – Supplier Preferencing Table

Supply Positioning also provides an overview of the procurement arrangements and mitigation measures, segmented by the Supply Positioning categorization that a Beneficiary should consider in developing its procurement approach. The following table outlines the typical procurement approaches applicable to each Supply Positioning segment.

Type of Relationship	Priority	Description	Approach	Arrangement
Low value strategic	Security of service	• Low cost services • Strategically important • Shortage of providers	Ensure supply	• Long term contracts support security of supply • Consider developing additional capacity in the supplier community • Maintain a closer relationship to manage problems proactively
High value strategic	Security of service at a good price	• High cost services • Limited number of suppliers, maybe a single supplier scenario	Manage providers	• Med/long term contract to support security of supply • Contingency planning • Maintain a closer, more collaborative relationship
Low value non-strategic	Maximise efficiency in sourcing services	• Low-value/low-risk services • Many potential suppliers	Less attention	• Standard outcome agreements of shorter term • Standard measures, monitoring and reporting • Closer monitoring of those suppliers falling below average standards, volumes or outcomes
High value non-strategic	Improving value through actively working with suppliers to seek efficiencies	• High-cost/low-risk services • Many potential suppliers	Ensure value	• Shorter term contracts enable change to achieve better value • On-going active sourcing for competitive price • Less common for contracts for social services

Table VI – Type of Contractual Relationship

Equally, using Supplier Preferencing, it is possible to identify and describe the typical approach Firms, Suppliers, Contractors (including sub-Contractors) or Individuals will take to working with Beneficiaries based on the segmentation. Table VI above provides an overview of a Firms, Suppliers, Contractors (including sub-Contractors) or Individuals likely approach to the Beneficiary in each category.

Comparing the findings of both Supplier Preferencing and Supply Positioning allows Beneficiaries to identify and assess whether the typical procurement approach of a Beneficiary based on the Supply Positioning segmentation is aligned with the typical approach of individual Firms, Suppliers, Contractors (including sub-Contractors) or Individuals as determined by the Supplier Preferencing.

Where alignment between the Beneficiary and the Firm, Supplier, Contractor (including sub-Contractors) or Individual on the procurement is high, this is a good indication that the indicative procurement approach is likely to deliver the expected benefits, however, where there is no alignment this is equally a good indication that the indicative procurement approach may not be effective in delivering the expected benefits. The following figure outlines the different connotations of alignment with an indication of the likely effectiveness of the indicative procurement approach.

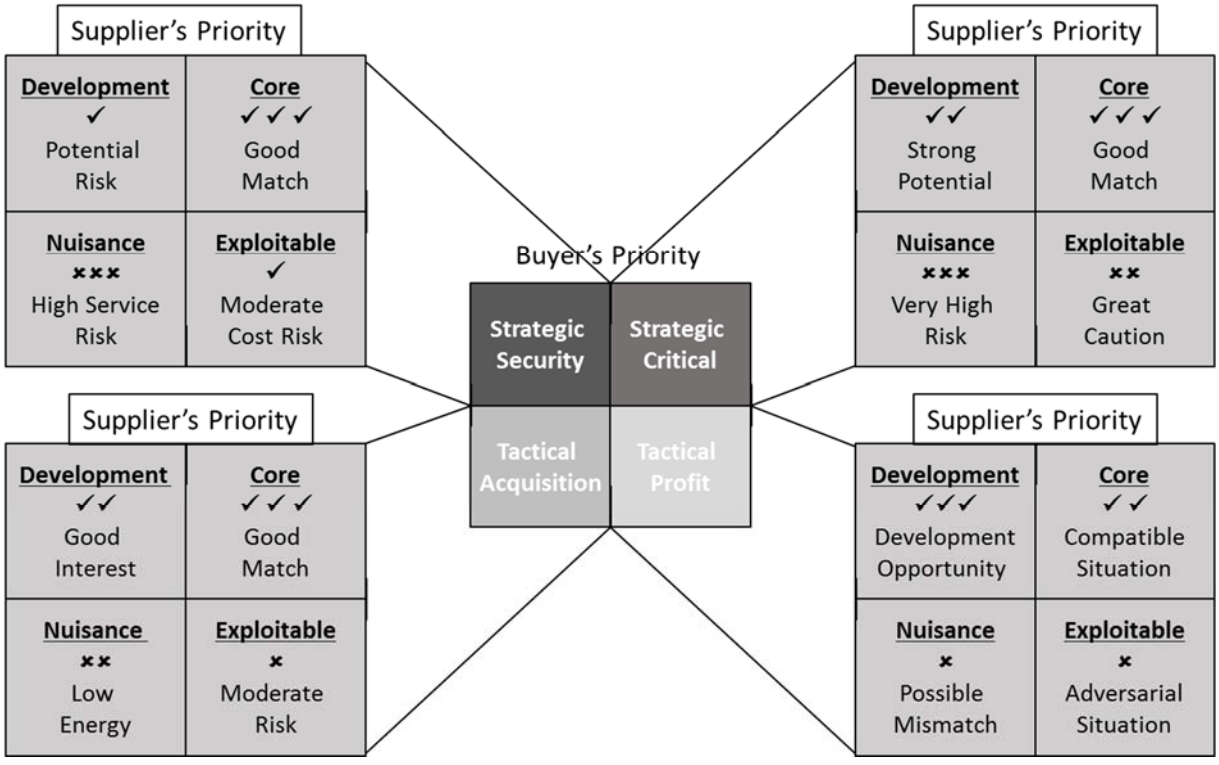

Figure XIII – Alignment of Supply Positioning and Supplier Preferencing

Where alignment between the Beneficiary and the Firm, Supplier, Contractor (including sub-Contractors) or Individual 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:

- Potential risks that need to be considered in developing the procurement approach;
- Where Beneficiaries may need to change Firms, Suppliers, Contractors (including sub-Contractors) or Individuals perceptions of them by making changes;
- Elements that need to be addressed in the Market Engagement approach to positively position the market as to why a Firm, Supplier, Contractor (including sub-Contractors) or Individual would want to do business with the Beneficiary;
- Actions that need to be included within the risk register, and contingency planning to address highlighted risks;
- Potential areas that could be covered under pre-qualification to ensure that Firms, Suppliers, Contractors (including sub-Contractors) or Individuals with the best match to the Beneficiary are qualified to bid; and
- Potential evaluation criteria to ensure that questions are included in the Standard Bidding Documents that ensure Firms, Suppliers, Contractors (including sub-Contractors) or Individuals provide information that allows the most aligned Firms, Suppliers, Contractors (including sub-Contractors) or Individuals to be identified.

8.4 Types of Competition

To be able to develop the right procurement approach to deliver the project objectives, knowledge of the type of competition that exists is critical. 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 Firm, Supplier, Contractor (including sub-Contractors) or Individual 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 likely to be more effective.

The type of market has a direct influence on any procurement and knowing what market exists helps the Beneficiary to determine:

- The type of competitive bidding most suitable to deliver the project objectives (as determined by the level of completion and the availability of substitutes/alternatives);
- The most effective pricing, or costing mechanism (as determined by the market pricing approach); and

- The level of risk transfer that 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 that apply of each type.

	Perfect Competition	Imperfect Competition	Oligopoly	Monopoly	Monopsony
No. 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

Table VII – Types of Competition

8.5 Porter's Five Forces

Porter's Five Forces is a good procurement tool to use to carry out a detailed assessment of competition and the factors that determine the type and level of competition. The tool should be used if further evaluation of the market place is required to support the design of the procurement approach.

Porter's Five Forces Analysis is a 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 Beneficiary's strength in a competitive market place or defend itself against anti-competitive Firm, Supplier, Contractor (including sub-Contractors) or Individual tactics where competition is more limited.

Porter believed that the nature of competition in any industry can be considered based on the following five forces:

1. Bargaining power of suppliers (Supplier Power);

2. Bargaining power of buyers (Buyer Power);
3. Rivalry among current competitors (Competitive Rivalry);
4. Threat of substitute product/services (Product and Technology Development); and
5. Threat of new potential entrants (New Market Entrants).

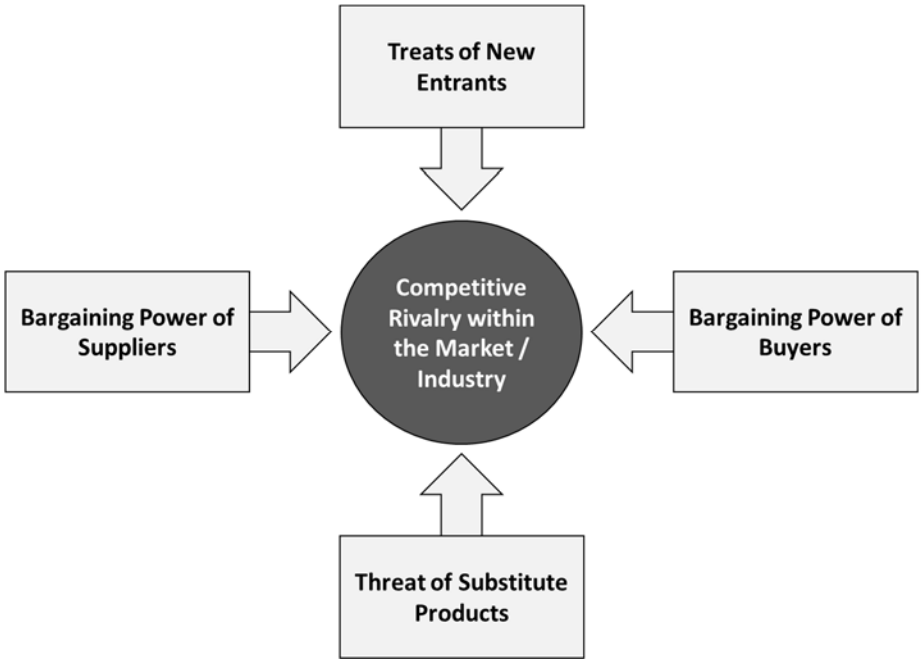

Figure XIV – Porter's Five Forces

8.5.1 Power of Suppliers

This force addresses how easily Firms, Suppliers, Contractors (including sub-Contractors) or Individuals can drive up the price of goods and services. It is affected by the number of Firms, Suppliers, Contractors (including sub-Contractors) or Individuals of key aspects of a good or service, how unique these aspects are, and how much it would cost the Beneficiary to switch from one supplier to another. The fewer the number of Firms, Suppliers, Contractors (including sub-Contractors) or Individuals, and the more a Beneficiary depends upon a Firm, Supplier, Contractor (including sub-Contractors) or Individual, the more power the Firm, Supplier, Contractor (including sub-Contractors) or Individual holds.

8.5.2 Power of Buyers

This specifically deals with the ability that buyers have to drive prices down. It is affected by how many buyers or customers a company has, how significant each customer is, and how much it would cost a customer to switch from one company to another. The smaller and more powerful a client base, the more power it holds.

8.5.3 Rivalry Amongst Current Competitors

The power of Firms, Suppliers, Contractors (including sub-Contractors) or Individuals is also affected by the force of new entrants into its market. The less time and money it costs for a competitor to enter a Firms, Suppliers, Contractors (including sub-Contractors) or Individuals market or industry and be an effective competitor, the more a Firms, Suppliers, Contractors (including sub-Contractors) or Individuals position may be significantly weakened. An industry with strong barriers to entry is an attractive feature for companies that would prefer to operate in a space with fewer competitors.

8.5.4 Threat of Substitute Products

Competitor substitutes that can be used in place of a company's products or services pose a threat. For example, if customers rely on a company to provide a tool or service that can be substituted with another tool or service or by performing the task manually. If this substitution is easy and of low cost, a company's power can be weakened as the buyer has options.

8.6.5 Risk of Entry by Potential Competitors

The importance of this force is the number of competitors and their ability to threaten a company. The larger the number of competitors, along with the number of equivalent products and services they offer, the lesser the power of a Firm, Supplier, Contractor (including sub-Contractors) or Individual. Suppliers and buyers seek out a company's competition if they are unable to receive a suitable deal. When competitive rivalry is low, a company has greater power to do what it wants to do to achieve higher margins and profits.

8.6 Procurement Approach

The evaluation of the right procurement approach should be considered to ensure that the right criteria is used so that the right Firm, Supplier, Contractor (including sub-Contractors) or Individuals is selected, that offers the best value for money, while being suitably qualified to deliver the project. This evaluation should be done using the template in Annex II under the following stages:

- Requirements (specification type and sustainable procurement requirements);
- Contracting Strategy (contract type, pricing/costing mechanism, supplier relationship, and conditions of contract);
- Selection Methods (approved selection methods and market approach options); and
- Evaluation Methods (rated criteria or lowest evaluated cost).

8.7 Specifications

There are two main types of specification that can be used for procurements financed by IsDB.

- **Conformance Specifications (Technical, Detailed, Input or Design Specifications)**

- 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 Specifications (Outcome Based Specifications)**
  - Performance specifications are used where the understanding of what is required in terms of outcomes can be described, the Beneficiary 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.

Generally, performance specifications focus on achieving results, whereas conformance specifications focus on meeting specified design and resource requirements.

8.8 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.

8.8.1 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 Beneficiary's capacity, and the operational environment in which delivery will be taking place.

Typically, the contract type for Goods and Services is normally based on supply or supply and ongoing support, while for infrastructure Projects there are more options available including:

- Traditional – Design and Build separated;
- Design and Build;
- Design, Build, Operate, Maintain;
- Design and Build – Turnkey or Prime Contractor;
- EPC and EPCM;
- Design, Build and Operate;
- Build, Own and Operate; or
- Build, Operate and Transfer.

8.8.2 Price and Costing Mechanism

At the same time as when the Contract Type and suitable Standard Bidding Document (SBDs) are selected the price and costing mechanism should also be determined.

The different price and cost mechanisms will determine the risk allocation between the Beneficiary and the Firm, Supplier, Contractor (including sub-Contractors) or Individual. Therefore, when selecting the suitable price and price mechanism, the Beneficiary should consider.

- ***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.
- ***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.
- ***Required Allocation of Risk***
  - Risk is allocated to the party best able to manage the risk.
- ***Operational Environment***
  - Includes events that are difficult to predict and known issues such as high inflation, delivery and insurance (covered using INCOTERMS).
- ***Capacity of the Beneficiary***
  - Familiarity with the pricing mechanism and availability of resources to manage the contract.
- ***Type of Market***
  - What will motivate suppliers to bid and deliver.

There are five main pricing and costing models whose use is determined by the SBD selected.

Lump Sum - A Lump Sum Contract (or Fixed Price Contract) is a contract with a single lump sum price for all the Works, and the contractor is responsible for completing the project within the agreed fixed cost set forth in the contract and Payment percentages or amounts may be linked to the completion of contractual milestones.

Lump Sum Contracts may be appropriate when the scope can be clearly and accurately specified and can be linked to apparent milestones and payments at the time of selection (e.g., simple civil works or consulting services with clearly identifiable deliverables). They are also appropriate when the supplier is responsible for delivering the completed works, (e.g. Water Treatment Plant, such as in turnkey contracts.

Performance Based Contracts - Performance Based Contracting is a results-oriented contracting method that focuses on the outputs, quality, or outcomes that may tie at least a portion of a contractor's payment, contract extensions, or contract renewals to the achievement of specific, measurable performance standards and requirements.

Performance Based Contracting may be appropriate for the rehabilitation of a Water Treatment Plant and its operation and maintenance by a contractor for specified periods or for non-consulting services to be paid based on outputs.

Schedule of Rates/Admeasurement – Contract based on Unit Prices - Schedule of Rates/Admeasurement is a contract that is based on estimated quantities of items and contractual unit prices for each of these items. Payment is made based on the actual quantities and contractual unit prices.

This type of contract is appropriate for works, when the nature of the work is well defined, but the quantities cannot be determined with reasonable accuracy in advance of construction, such as in roads or dams.

For goods and non-consulting services, it is appropriate when the required quantities are known, and unit prices are sought from Bidders.

Time and Materials – Time Based Contracts - Time and Materials is a contract when the Beneficiary agrees to pay the contractor based upon the time spent to perform the work, and for materials used, no matter how much work is required to complete construction. Time and Materials is generally used in projects in which it is not possible to accurately estimate the size of the project, or when it is expected that the project requirements would most likely change. It can also be used for Consulting Services, when it is difficult to define or fix the scope and duration of the services (e.g., complex studies, supervision of construction, and advisory services).

Cost Plus – Reimbursable Cost Contracts - A cost-plus contract, also termed a cost reimbursement contract, is a contract where a contractor is paid for all its allowed expenses, plus additional payment to allow for a profit.

These types of contracts may be appropriate for exceptional fit-for-purpose circumstances such as emergency repairs and maintenance work. To minimize risk to the Beneficiary, suppliers under these contracts must make all their records and accounts available for inspection by the Beneficiary or by some agreed neutral third party. The contract should also include appropriate incentives to limit costs.

In the following table the various benefits and risks of each different pricing methodology and under which circumstances they are best used are summarized.

Type	Requirements	Advantages	Disadvantages
Lump Sum/Firm Price	• Work can be accurately specified • Access date and 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 and QS Services required
Time & Materials	• Minimum specification • High confidence and 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 and trust in the contractor	• Incentive to complete early and 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 and 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

Table VIII – Pricing and Costing Models

8.8.3 Supplier Relationship

The selection of the contract type and price and costing mechanism, generally determines the likely relationship with the Firm, Supplier, Contractor (including sub-Contractors) or Individual during contract and Project delivery. Relationships can range from adversarial at one extreme, to highly collaborative at the other.

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

- Strong competition in the market
- Many Firms, Suppliers, Contractors (including sub-Contractors) or Individuals and a large supply market;
- Firms, Suppliers, Contractors (including sub-Contractors) or Individuals have little power;
- Off the shelf for standard goods, services, and works;
- No need or benefit for high degree of trust between the Beneficiary and Firm, Supplier, Contractor (including sub-Contractors) or Individual;
- The cost of switching to a new Firm, Supplier, Contractor (including sub-Contractors) or Individual is low to nil;
- One off purchases;
- Short-term relationship, with no long-term commitment.

A collaborative approach to the relationship may be appropriate where, some or all 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 Beneficiary and the Firm, Supplier, Contractor (including sub-Contractors) or Individual can benefit from seeking ways to reduce cost and add value.

8.9 Price Adjustments

IsDB's Standard Bidding 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 labour and materials. For procurements, where IsDB has agreed that the Beneficiary's national procurement arrangements may be applied, the Beneficiary should consider how price adjustment mechanisms will be addressed in the most appropriate manner.

The market research analysis conducted as part of the Procurement Strategy development 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 Beneficiary. The Beneficiary should use this information to justify the selection of the appropriate price adjustment mechanism.

8.10 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 SBD (or as agreed with IsDB, the Beneficiary's own national procurement arrangements) will determine the conditions of contract. However, as a check and balance, the Beneficiary 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 Beneficiary and supplier and the desired supplier relationship.

8.11 Selection Methods

Having determined the contract type and pricing mechanism, the next step is to choose the selection method and market approach which include the:

- Selection Method;
- Selection Arrangement; and
- Market Approach.

There are numerous combinations of these three options, however, some are mutually exclusive. In determining the right combination of the procurement arrangements to design the approach to market, the decision on the type of selection method is mainly 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 market analysis including the cost and complexity of the contract as determined by the supply positioning model, the market engagement approach and the 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 following table lists some of the alternative market approaches and provides an indication of the circumstances where each method is best suited for use.

Market Approach	Characteristics	Usage
Open Competition	• Openly advertised for all to compete • IsDB's preferred approach	• Widespread use
Limited Competition	• Competition between invited Firms, Suppliers, Contractors (including sub-Contractors) or Individuals	• Limited pool of capable Firms, Suppliers, Contractors (including sub-Contractors) or Individuals • Justified departure from open process
Direct Award	• Negotiation with one selected Firm, Supplier, Contractor (including sub-Contractors) or Individual	• Only one suitable Firm, Supplier, Contractor (including sub-Contractors) or Individual • Justified invitation to preferred Firm, Supplier, Contractor (including sub-Contractors) or Individual
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, Supplier, Contractor (including sub-Contractors) or Individual, moving to next best if negotiations cannot be concluded	• Limited to international competition subject to prior review

Table IX – Selection Methods

8.12 Evaluation Methods

Selecting the right evaluation method by which Firms, Suppliers, Contractors (including sub-Contractors) or Individuals Bids or Proposals are assessed to determine the Firm, Supplier, Contractor (including sub-Contractors) or Individual that offers the best VfM while demonstrating the ability to deliver the project.

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

There are two methods for selecting a Firm, Supplier, Contractor (including sub-Contractors) or Individual based on identifying the most advantageous bid/proposal:

- When rated criteria are used, the substantially responsive Bidder or Proposer that meets the qualification criteria, and has submitted the best evaluated Bid/Proposal is selected; and
- When rated criteria are not used, the Bidder/Proposer that meets the qualification criteria and whose Bid/Proposal has been determined to be (i) substantially responsive to

the Procurement Documents, and (ii) the lowest evaluated cost (lowest evaluated bid/proposal) is selected.

Evaluation criteria's need 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 Procurement Documents.

8.13 Contract Management

Contract management is a formal process that focuses on ensuring both the Firm, Supplier, Contractor (including sub-Contractors) or Individual and the Beneficiary meet their contractual commitments as defined in the contract. Contract Management requires systematic and efficient planning, execution, monitoring, and evaluation to optimize performance while managing risks to ensure that both parties fulfil their contractual obligations with the goal of achieving VfM.

Contracts that are managed effectively with the aid of a contract management plan can assist the Beneficiary to:

- Ensure that the supplier delivers upon their commitments;
- Obtain the best VfM during the life of the contract;
- Manage supply risks for the duration of the contract;
- Continually challenges to drive best value in its contracts;
- Ensure effective contracts that continue to deliver;
- Demonstrate best procurement practice in the management of contracts; and
- Provides evidence to support any audits.

When defining the contract management strategy and approach, it is important to understand the level of influence the Beneficiary may have over the Firm, Supplier, Contractor (including sub-Contractors) or Individual, which is informed by the supply preferencing model analysis as detailed earlier in this guidance. It is also important to understand how much influence the Beneficiary needs over the Firm, Supplier, Contractor (including sub-Contractors) or Individual which is informed by the supply position model and procurement risk analysis.

The Beneficiary should also consider:

- How the Firm, Supplier, Contractor (including sub-Contractors) or Individual will be managed through review meetings, progress reports, risk logs, action plans, etc.;
- The key milestones and when they should be reviewed;
- The level of resources required to manage the contract effectively; and
- How performance will be assessed against pre-agreed measures, including key performance indicators.

The approach to contract management should be proportionate to the value, risk, length, type, and complexity of the contract and the type of market/suppliers who will be fulfilling the

contract. Depending on the nature of the relationship with the Firm, Supplier, Contractor (including sub-Contractors) or Individual, the level of effort may change for the Beneficiary.

For simple and low value contracts, the contract management plan should include, as a minimum, the following:

- Key roles and responsibilities;
- Key contractual dates and delivery milestones;
- Payment milestones; and
- Record keeping requirements.

For high value, high risk, or complex contracts identified in the Procurement Plan, the contract management plan shall typically contain a summary of contract details such as:

- Identified potential risks (such as delays in the contractor's right of access to site, payment delays and other defaults in the Beneficiary's contractual obligations that could potentially lead to contractual disputes) and its mitigation;
- Key contacts, roles and responsibilities of the parties;
    - The names and contact details of the key contacts for each party shall be clearly identified in the contract;
    - Ensuring that each party has established the necessary authorizations and delegations for its personnel at the beginning of the contract to ensure all contracting decisions are valid and enforceable.
- Communication and reporting procedures;
- Key contractual terms and conditions that relate to delivery;
- Contractual milestones including critical path (identified to ensure early detection and mitigation of issues) and payment procedures consistent with contractual provisions;
- Key contract deliverables;
    - Contract deliverables shall be identified and properly described so they can be easily monitored;
    - Key contract deliverables shall be updated to account for change orders during the execution of the contract.
- KPIs and measurement process;
- Contract variation/change control mechanisms;
- Record keeping requirements; and
- Issues management and escalation plan.

The approach to managing each contract needs to be determined in advance and where described in the Procurement Documents to ensure the Firm, Supplier, Contractor (including sub-Contractors) or Individual allocates adequate resources to supporting effective contract management. The Firm, Supplier, Contractor (including sub-Contractors) or Individuals bid

response, along with the Beneficiary's contract management requirements, need to be combined into a Contract Management Plan. The Contract Management Plan should be developed during contract creation and ideally completed at the time the contract is signed. The plan should be developed in consultation with the successful Bidder/Proposer.

8.14 Key Performance Indicators (KPIs)

KPIs are measures of contract performance that are aligned to the key outcomes that the procurement approach has been designed to deliver. The KPIs should be specific, measurable, attributable, relevant and time-bound (SMART). They should also be directly linked to the Development and Procurement Objectives which helps ensure contract delivery is fully aligned with the desired outcome.

KPIs should be included in the contract management plan, and if they link to incentive mechanisms/payment decisions, they will need to be agreed and included as part of the contract with the Firm, Supplier, Contractor (including sub-Contractors) or Individual before it is signed.

Section 9 - Procurement Options and Recommendations

The final step of completing a Procurement Strategy Document as detailed and using the template in Annex IV is to determine the Procurement Options and Recommendations for the project. This information should be included in Section 7 of the template.

9.1 Options Analysis

There will often be more than one procurement approach option for the combination of procurements that could be used for a contract.

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

- An evaluation of likely benefits of each potential procurement approach against the Procurement Objectives; and
- A review of the Procurement Risks to establish which procurement approach best addresses the known risks.

The options analysis is designed to summarize the procurement options available for the project. The options analysis should be based on the research and analysis undertaken as part of the market analysis. Typically, there will be different procurement options available to the Beneficiary. It is critical that the options are assessed correctly to ensure that the most fit-for-purpose approach is selected.

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 desired procurement and development objectives.

Strategy Option	Project and Sustainable Development Objectives										Total
	1	2	3	4	5	6	7	8	9	10	
1											
2											
3											
4											
5											

Table X – Options Analysis

9.2 Analysis of each Procurement Approach

The final stage of the process is to undertake a Strengths, Weaknesses, Opportunities and Treats (SWOT) analysis of preferred procurement approach. The SWOT analysis as detailed in the figure below and in Section III of this Guidance Note should be carried out based on the strengths and weaknesses of the procurement approach, and the opportunities and threats that may arise during implementation of the approach.

Figure XV – Procurement Approach SWOT Analysis

The analysis of each procurement approach is concerned with:

- The fine tuning the preferred approach;
- Ensuring that there is a thorough understanding of the procurement option and making sure that nothing has been missed
- Attempting to future proof the option by considering what could go wrong in implementation; and
- Identifying any final refinement that could be made to improve its effectiveness.

Once this analysis has been completed, the only remaining step is to fully document the preferred procurement approach taking on board any refinements identified via the SWOT analysis.

9.3 Procurement Approach Assessment

Once the Beneficiary has completed the market and options analysis an assessment of the procurement approach for each contract in the project should be completed. Any supporting evidence or justification for each procurement approach should be drawn from the previous sections of this Guidance Note.

The output of completing the Procurement Options and Recommendations assessment are:

- A Procurement Approach stating how the Beneficiary is going to approach the market, select the right Firm, Supplier, Contractor (including sub-Contractors) or Individual, and finalize the contract;
- A set of procurement methods and approaches built up from the individual procurement methods that combine to inform the Procurement Documents; and
- A Procurement Plan that summarises how each contract within the Project will be procured.

All the analysis and research undertaken as part of procurement planning and strategy should to be brought together to design the different procurement approaches that are available to deliver the Procurement Objectives and Project Development Objectives (PDOs). It is likely there will be several 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 Beneficiary should develop several 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.

A template is provided in Annex II of this Guidance Note which should be used to detail 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.

Annex I - Example Procurement Plan

PROCUREMENT PLAN PURPOSE (VERSION# DATE: dd/mm/yy)

Procurement Plan Purpose
This procurement plan shows the particular contracts required to carry out the Project. It is used to provide information about the procurement of goods, works and services, how vendors will be chosen, what kind(s) of contract(s) will be used, how vendors will be managed, and who will be involved at each stage of the process. Project information for the procurement plan is in Table 1

Table - 1: Project Information

Country	
Name of Beneficiary	
Project Name	
Project Pipeline Number	
Project Code (After Approval)	
Date of Approval (tentative)	
Date of Signature (tentative)	
Date of Effectiveness (tentative)	
Amount IsDB financing	
Mode of Financing	
Executing Agency	
Expected date of General Procurement Notice	
Project Implementation Period	
Period covered by this plan (12 months from approval)	After 12 months, PIAR to be carried out and Procurement Plan to be updated for remaining period

PROCUREMENT PACKAGE SUMMARY

Table 2: Procurement Package summary Goods and Works

Procurement Method	**Number of packages**	**Total amount U$S**
International Competitive Bidding limited to Member Countries (ICB-MC)		
International Competitive Bidding (ICB)		
Limited International Bidding (LIB)		
National Competitive Bidding (NCB)		
Shopping		
Direct Contracting or Single Source		
Force Account		
Community Participation		

Specialized Agencies		
Commercial Practices		
Subtotal Goods and Works		

Table 3 Procurement Package Summary - Consultancy Services/Technical Assistance

Method of Short-listing*	**Number of packages**	**Total amount US$**
International Firms		
Member Country Firms		
National Firms		
Subtotal Consultancy Services Technical Assistance		
Consultancy		
Total Procurement Package		

PROCUREMENT DESCRIPTION

Procurement Description
The list of indicative Procurement Packages is presented in Table 4 below with the related procurement method, the expected date for advertisement.

Table 4 - List of Indicative Procurement Packages IsDB financed items

Project Components (as in PAD)	Contract Package #	Contract Package – Type and Description	Budget US$	Procurement/Selection Methods *	Expected date for advertisement	Remarks

NA = not applicable

*Procurement Method for Goods, Works to be mentioned in Table 4

1. International Competitive Bidding limited to Member Countries (ICB-MC) – Indicate whether Domestic Preference will apply when ICB/MC is used
2. International Competitive Bidding (ICB)) – Indicate whether Domestic Preference will apply when ICB is used
3. Limited International Bidding (LIB)
4. National Competitive Bidding (NCB)
5. Shopping
6. Direct Contracting or Single Source
7. Force Account
8. Community Participation
9. Specialized Agencies
10. Commercial Practices

* Selection Method used for Consultants to be mentioned in Table 4

1. Quality and Cost-Based Selection (QCBS)
2. Quality Based Selection (QBS)
3. Least Cost Selection (LCS)
4. Fixed Budget Method (FB)
5. Consultant Qualification Selection (CQ)
6. Sole-Source/Direct Contracting

For all packages review of the procurement methods will be carried out by IsDB as per its procurement guidelines and as specified in the Financing Agreement.

Annex II - Procurement Options and Recommendations Template

	Attribute	Selected Approach	Justification
Requirements	Specifications	Conformance/Performance	
Contract Strategy	Contract Type	**A.** Traditional **B.** Design and Build **C.** Design, Build, Operate and 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	
	Price Adjustments	**A.** None, Fixed Price **B.** Negotiated **C.** Percentage	
	Form of Contract (Terms and Conditions)		
Selection Methods	Selection Method	**A.** Request for Bids (RFB) **B.** Request for Proposals (RFP) **C.** Request for Quotations (RFQ) **D.** Direct Selection	
	Selection Arrangement	**A.** Public Private Partnerships (PPP) **B.** Commercial Practices **C.** United Nations (UN) Agencies **D.** Imports **E.** Commodities **F.** Community Driven Development **G.** Force Accounts **H.** Framework Agreements	
	Market Approach	**A.** Type of Competition 1. Open 2. Limited 3. International 4. National 5. No Competition (Direct Selections) **B.** Number of Envelopes/Stages 1. Single Envelope	

		2. Two Envelope 3. Single Stage 4. Multi Stage **C.** BAFO (Yes/No) **D.** Negotiations (Yes/No)	
	Pre / Post Qualification	**A.** Pre-Qualification **B.** Post-Qualification	
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	
	Evaluation Criteria	List the type of Criteria to be used (Mandatory/Desired)	

Annex III - Project Overview Template

Country:	*Insert the Country of the Project*
Region:	*Insert the Region of the Project*
Sector:	*Insert Sectors Covered by the Project*
Project Name:	*Insert Project Name*
Project Number:	*Insert Project Number*
Total Financing:	*Add Total Financing Amount*
Project Description:	*For each contract/sub-contract, there should be a short description of what is required from the Firm, Supplier, Contractor (including sub-Contractors) or Individual including the cost estimate.*
Project Development Objectives:	*The Project Development Objectives should be consistent with the Project Development Objectives identified in the Project Concept Note.*
Result Indicators:	*Result indicators should be "SMART" indicators (Specific, Measurable, Attributable, Relevant, and Time-bound) and linked to Project outcomes. Each Project Development Objectives should be measured by one or more outcome indicators.*
Proposed Procurement Summary:	*A summary of the proposed contracts within the Project including a Supply Positioning model for identified contracts.*
Legal/Policy Requirements:	*A statement of any legal or policy requirements such as the application of Alternative Procurement Arrangements, use of Stated Owned Enterprises for restricted contracts such as aerial mapping, and any policy requirements.*

Annex IV - Procurement Strategy Template

SECTION 1. PROJECT OVERVIEW	
Country:	*Insert the Country of the Project*
Region:	*Insert the Region of the Project*
Sector:	*Insert Sectors Covered by the Project*
Project Name:	*Insert Project Name*
Project Number:	*Insert Project Number*
Total Financing:	*Add Total Financing Amount*
Project Description:	*For each contract/sub-contract, there should be a short description of what is required from the Firm, Supplier, Contractor (including sub-Contractors) or Individual including the cost estimate.*
Project Development Objectives:	*The Project Development Objectives should be consistent with the Project Development Objectives identified in the Project Concept Note.*
Result Indicators:	*Result indicators should be "SMART" indicators (Specific, Measurable, Attributable, Relevant, and Time-bound) and linked to Project outcomes. Each Project Development Objectives should be measured by one or more outcome indicators.*
Proposed Procurement Contract Summary:	*A summary of the proposed contracts within the Project including a Supply Positioning model for identified contracts.*
Legal/Policy Requirements:	*A statement of any legal or policy requirements such as the application of Alternative Procurement Arrangements, use of Stated Owned Enterprises for restricted contracts such as aerial mapping, and any policy requirements.*
SECTION 2. ASSESSMENT OF OPERATING AND BENEFICIARY CAPACITY	
2a. Operational Context	
Governance Aspects	*Summary of the Governance Aspects of the Project*
Economic Aspects	*Summary of the Economic Aspects of the Project*
Sustainability Aspects	*Summary of the Sustainability Aspects of the Project*

Technological Aspects	*Summary of the Technological Aspects of the Project*

Conclusions on Operational context to be addressed through the procurement approach

2b. Assessment of Beneficiary Capability and Project Implementation Unit (PIU)

This subsection should describe features of the PIU that need to be addressed to ensure that VfM is achieved. This subsection should address the following topics, as relevant to the Project:

A. *Experience implementing similar Projects and implementing IsDB Projects;*
B. *Experience of use of Alternative Procurement Arrangements;*
C. *The need for hands-on support to undertake a fit for purpose procurement planning, contractor/consultant selection, and contract award;*
D. *Contract management capacity and capability;*
E. *Complaints management and dispute resolution systems;*
F. *Procurement capacity (previous experience, availability of resources and track record) to undertake successful fit for purpose procurement planning, procurement process, bid/proposal evaluation, supplier selection and contract award;*
G. *The need for hands-on-support to undertake a fit for purpose procurement, from planning, contractor/consultant selection, and contract award;*
H. *The reliance on, criticality of and use of professional advisors such as consultants to augment Beneficiary capability; and*
I. *Lessons learned from the implementation of other similar Projects.*

At the end of the Beneficiary's capability assessment, a Resourcing Plan should be created.

Conclusions on Client Capability and PIU Assessment to be addressed.

SECTION 3. STAKEHOLDER ANALYSIS

Identify the main stakeholders who have an interest or impact on the Project and whether their interest is one of responsibility, accountability, to be consulted or informed. The identified Stakeholders will need to be engaged to understand what objectives they have from the procurement.

Stakeholder		Interest (Responsible, Accountable, Consulted, Informed)	Stakeholder Objectives from the Procurement	Stakeholder Management Approach
Name	Role			

SECTION 4. PROCUREMENT RISK ASSESSMENT

This subsection analyses and prioritizes the risks identified from Section 2 that relate to the Operational Context, Market Analysis and PIU Assessment that could be mitigated through the procurement approach.

Risk Description	A	A	Overall Risk Score (A*B)	Description of Proposed Mitigation	Risk Owner	Procurement Stage
	Likelihood Rating	Impact Rating				

SECTION 5. PROCUREMENT OBJECTIVES	
Based upon the Strategic Analysis, Risk Assessment and Stakeholder Analysis, detail the key Procurement Objectives that if achieved will support the delivery of the Project's Development Objectives and achieve value for money. The Procurement Objectives need to be SMART — Specific, Measurable, Achievable, Realistic and Time-bound. The procurement objectives should be tested with the identified Stakeholders to ensure agreement on the prioritized list of Procurement Objectives.	
Prioritized Procurement Objectives	
1	
2	
3	
4	
5	

SECTION 6. MARKET RESEARCH AND ANALYSIS

This subsection should identify the specific contracts to be procured and include a market analysis of each of the target market segments that is proportional in detail to the relative risk and value of the contract within the Project conducted through a Supply Positioning Model. If different markets fulfil different contracts within the Project, the market analysis should research each market.

For low-value, low-risk contracts it will generally be sufficient to detail the procurement approach in Section VII without further supporting analysis.

For all other contracts, the level of analysis to support the justification for the preferred procurement arrangement should be proportional to the procurement risk and value of the contract.

This subsection should address the following topics, as relevant to the Project:

A. Research
   i. Supply Positioning Model — Identify the risk and value thresholds of the project;
   ii. Segmentation of the market by geography (local, national, international), specialization or differentiation;
   iii. Market sector dynamics — Nature and extent of competition, levels of experience, capability and innovation, external influences and factors, Supplier Preferencing;
   iv. Market trends — Technology, new services, ownership structures and alliances, market growth, new entrants;
   v. Financial — Sources of cost and value, cost stability, pricing strategies and mechanisms, cost and financial benchmarks; and
   vi. Procurement trends — Procurement s of other entities procuring similar contracts, typical contract terms, common issues that inhibit or contribute to achieving value for money, typical responses and lessons learned.
B. Analysis and Action

At the end of the Market Research stage, Beneficiaries should develop a range of Procurement Approach Options and a Market Engagement Plan.

Conclusions on the Market Analysis to be addressed through the procurement approach.

SECTION 7. PROCUREMENT APPROACH OPTIONS AND RECOMMENDATIONS

Please detail the options and the recommended procurement arrangement for the contracts detailed in the Project description and the justification for the recommended procurement arrangements based on the analysis. This Section should be completed for each contract required. Items are identified in previous sections of the Procurement Strategy and should be included. After the options analysis please detail your recommended procurement approach/arrangement.

Contract Description	
Contract Category (Works, Goods, Consultancy Firms and Individuals, and Non-Consultancy Services)	
Estimated Cost	

Contract Approach

The output of this section will be a:

- *Procurement Approach stating how the Beneficiary is going to approach the market, select the supplier, and finalize the contract;*
- *Set of selection methods and market approaches; and*
- *Procurement Plan that summarizes how each contract within the Project will be procured.*

The following table should be completed.

	Attribute	Selected Approach	Justification
Requirements	Specifications	Conformance/Performance	
Contract Strategy	Contract Type	**A.** Traditional **B.** Design and Build **C.** Design, Build, Operate and 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	
	Price Adjustments	**A.** None, Fixed Price **B.** Negotiated **C.** Percentage	

	Form of Contract (Terms and Conditions)		
Selection Methods	Selection Method	**A.** Request for Bids (RFB) **B.** Request for Proposals (RFP) **C.** Request for Quotations (RFQ) **D.** Direct Selection	
	Selection Arrangement	**A.** Public Private Partnerships (PPP) **B.** Commercial Practices **C.** United Nations (UN) Agencies **D.** Imports **E.** Commodities **F.** Community Driven Development **G.** Force Accounts **H.** Framework Agreements	
	Market Approach	**A.** Type of Competition 1. Open 2. Limited 3. International 4. National 5. No Competition (Direct Selections) **B.** Number of Envelopes/Stages 1. Single Envelope 2. Two Envelope 3. Single Stage 4. Two Stage **C.** BAFO (Yes/No) **D.** Negotiations (Yes/No)	
	Pre / Post Qualification	**A.** Pre-Qualification **B.** Post-Qualification	
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)	

SECTION 8. SUMMARY OF THE PROCUREMENT STRATEGY

For any additional information, such as Standard Bidding Documents (SBDs), Guidance, training materials and briefing, please see

www.isdb.org/procurement

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