

66677

**THE WORLD BANK'S PROCUREMENT POLICIES AND
PROCEDURES:**

POLICY REVIEW

APPROACH PAPER

Operations Policy and Country Services

March 29, 2012

ABBREVIATIONS AND ACRONYMS

APEC	Asia and Pacific Economic Cooperation
CICA	Confederation of International Construction Associations
CODE	Committee on Development Effectiveness
ESRP	Environmentally and Socially Responsible Procurement
EU	European Union
FIDIC	International Federation of Consulting Engineers
GAC	Governance and Anti-Corruption
GPA	Government Procurement Agreement
GSD	General Services Department
IAGP	International Advisory Group on Procurement
ICB	International competitive bidding
IEG	Independent Evaluation Group (formerly called OED)
IFC	International Finance Corporation
INT	Integrity Vice Presidency
MDB	Multilateral Development Bank
OECD	Organisation for Economic Co-operation and Development
OP/BP	Operations Policy/Bank Procedure
OPCS	Operations Policy and Country Services Vice-Presidency and Network
PforR	Program-for-Results Financing Instrument
PPP	Public-Private Partnership
UN	United Nations
UNCITRAL	United Nations Commission on International Trade Law
WTO	World Trade Organization

**THE WORLD BANK'S PROCUREMENT POLICIES AND PROCEDURES:
POLICY REVIEW**

APPROACH PAPER

CONTENTS

I. INTRODUCTION.....	1
II. RATIONALE.....	2
III. OBJECTIVES AND SCOPE.....	5
IV. PHASES AND TIMING	7
V. THE STARTING POINT	8
VI. NEXT STEPS.....	9
VII. OVERALL DIRECTION.....	11
VIII. COLLABORATION.....	14

THE WORLD BANK'S PROCUREMENT POLICIES AND PROCEDURES: POLICY REVIEW

APPROACH PAPER

I. INTRODUCTION

1. As the World Bank adapts to its changing role in a changing world, and aligns its policies and processes with its modernization agenda and commitments to enhance development effectiveness, the Bank will continue to exercise its leadership in procurement for development and remain in the forefront of public procurement as a setter of international standards. Major underpinnings of the review are to incorporate worldwide best practices, support the Bank's borrowers in strengthening their own procurement systems, simplify whenever possible, and enhance flexibility.

2. Open and competitive procurement has been the mainstay of the Bank's policies on the procurement of goods, works, and services under Bank-financed operations since the Bank's founding. These policies reflect four main considerations: the need for economy and efficiency, the interest in ensuring that all eligible bidders have equal opportunity to compete, the desire to encourage the development of domestic industries, and the importance of having a transparent procurement process. By adopting international competitive bidding (ICB) at the outset, the Bank has been in the vanguard in the pursuit of open and competitive public procurement, which is now a feature of many international, regional, and bilateral trade agreements, as well as many national systems.

3. The Bank's procurement policies and procedures were originally shaped by the nascent practices for large-scale, stand-alone infrastructure investments. They have since evolved to reflect changes in the Bank's operations and conditions in member countries. Over the years, new demands have emerged, most noticeably to strengthen borrower procurement policies, use country systems, and curb fraud and corruption. New instruments and ways of delivering development assistance have further caused the Bank to adapt the original policy framework to these differing needs. New ways to carry out public procurement have also become common, especially the use of technology.

4. As a consequence, the Bank has periodically updated its policies and procedures, as laid out in the "Procurement and Consultant Guidelines" (the Guidelines) applicable to the Bank's borrowers (the "red" book —"Procurement Guidelines"—governing the procurement of goods, works, and non-consulting services, and the "green" book—"Consultant Guidelines"—governing the selection and employment of consultants), as well as OP/BP11.00 - *Procurement*. Such periodic updates over the years embody significant cumulative changes that represent the evolution of a policy that has served the Bank and its borrowers well. Much progress has been achieved, in particular with regard to transparency of the bidding processes, enhanced business

opportunities, and access to information. The Bank's Guidelines are comprehensive and are widely considered as setting international standards and principles that have served as models and inputs to procurement reforms worldwide; their principles and provisions have been adopted by many other international financial institutions and vetted through an extensive harmonization process. The implementation of the policy, however, is key to their effectiveness. Operational experience shows that their complexity and prescriptiveness, while reflecting the complexity of procurement processes, limit their positive impact, particularly in borrowing countries that lack procurement capacity and sound institutional, legal, and governance systems. In addition, although the Bank's procurement oversight is risk-based and allows for decentralization and delegation of authority to sign off on procurement decisions, full use of the flexibility allowed under the Guidelines has been hampered by risk avoidance and a primary focus on compliance.

5. During the last update, which took place in January 2011, Management agreed with the Board of Directors to undertake a review of the Bank's current approach to procurement under Bank-financed operations, the first such review since the Bank's founding. This paper outlines the approach that Management proposes to follow in carrying out the review.

II. RATIONALE

6. There are a number of reasons, summarized below and expanded in the accompanying Initiating Discussion Paper, for undertaking a review of the Bank's procurement policies and how they are now applied. First and foremost, the Bank's business has changed dramatically since its founding, when the original procurement policies were adopted. The Bank's procurement policies, designed for infrastructure investments, have become less well-tuned to the Bank's evolving portfolio in all sectors and to new lending instruments and ways of doing business—from innovations by which the public and private sectors interact under Public-Private Partnership (PPP) financing to the ever-increasing number of smaller, dispersed contracts, sector-wide approaches, and performance-based and community-based activities, which now make up a significant share of the Bank's operations.

7. The Guidelines have also accommodated new concepts and ways of carrying out public procurement. Innovative methods and procedures have been incorporated in the most recent versions, and concepts such as output-based procurement and life-cycle evaluation are already incorporated. Further, the Bank's procurement policy played a catalytic role in enhancing transparency, efficiency, and fairness in procurement, and became a bulwark in the fight against fraud and corruption. At the same time, procedures that are prescriptive (in particular with regard to ICB), while effective in a ring-fenced project environment, may have limited impact on the overall effectiveness of country systems. Countries can lack capacity to apply the Guidelines and the Bank itself faces challenges and resource constraints in exercising its procurement oversight. Borrowers and staff often find the procedural provisions too prescriptive, complex, and time-consuming.

8. The Bank now has new financing instruments, such as Development Policy Loans and Guarantees. It increasingly uses new delivery mechanisms, such as community-driven development, and operates across a wide range of sectors and countries. It has a new focus on results—for example, through the recently approved Program-for-Results (PforR) instrument. It also seeks to respond to borrower requests and international commitments to increase the use of country systems and to strengthen national capacity. Fraud and corruption has further emerged as a high priority as part of the Bank's focus on governance and anticorruption.

9. Not only has the Bank's business changed, but there have also been major transformations of the global economy over the past twenty years that have had a marked impact on the world in which the Bank operates. For example:

- The market for items financed by the Bank has been transformed, the result of globalization and integration. Merchandise exports from developing countries have multiplied many times over and new giants have appeared among the world's top companies. Multinational corporations produce where their markets are and sell through local affiliates. PPP financing and outsourcing also provide new ways for the public and private sectors to collaborate. Meanwhile, exports from Part I countries have become more specialized, emphasizing high-value and technologically-driven goods. As a result, supplying countries for Bank-financed operations are increasingly Part II countries, with national companies playing a dominant role in winning ICB contracts in their home countries.
- New international instruments and agreements, notably the WTO's Government Procurement Agreement (GPA), as well as many regional and bilateral agreements, such as the EU's Directives on Public Procurement, have created new demands for open and transparent public procurement. Moreover, UNCITRAL's Model Law on Public Procurement has played an important role in setting international standards for public procurement laws. The adoption of these instruments and signing of agreements have accompanied a growing recognition of the size and importance of the markets offered by public procurement around the world. Public procurement is big business.
- Along with these new international instruments and agreements, new concepts and practices of what makes for good public procurement have emerged. The use of technology, including electronic tools and platforms, has vastly changed the way public procurement is executed. The benefits of e-procurement are much more than improved efficiency through computerization of processes: e-procurement represents a powerful information and management tool that underpins the strengthening of public procurement systems and that can transform the provision of public services. Modern public procurement systems are further driven by the desire of governments, whether in developing or developed countries, to get better value for money and to

make their procurement systems faster and cheaper. These reforms reflect an important change in perception: from viewing public procurement as a set of bureaucratic rules, an increasing number of governments now see procurement as a strategic function at the core of delivering quality public services and giving good value to taxpayers. The mantra now followed by the leading public procurement agencies in an increasing number of countries is how to get value for money and pursue best-fit-for-purpose objectives, with new ways for contracting agencies to interact with supplying companies. Generally, these changes introduce new flexibility in public procurement policies and entail rebalancing these policies between compliance and performance and between rules and principles.

- Increasingly, issues of governance and probity have become embedded in these new approaches to public procurement, with the expectation of high ethical standards on the part of both private firms and public sector counterparts. Public procurement is thus the nexus of governance, anticorruption, and competition, offering opportunities to build on the common values of openness, transparency, fairness, competition, value for money, and accountability. There are synergies to be more fully exploited that go well beyond compliance with specific procurement procedures.
- The Bank's borrowing members have not been left out of these transformations. Improved procurement capacity among the Bank's borrowing members, especially high and upper middle-income countries, has driven up client expectations of the support they receive from the Bank to reform their procurement policies and to build the corresponding institutions. Many countries are advanced in adopting new legal structures and putting in place institutions to handle public procurement, and some are at the vanguard of using e-procurement systems to simplify and automate procurement transactions, especially to handle low-value, high-volume procurements. These new systems are producing high returns. At the same time, the Bank's work with small countries and with fragile and conflict-affected states and post-conflict countries frequently calls for a differentiated strategy geared toward simplification and adaption to their respective capacities and circumstances. All of this is accompanied by the Bank's shift in investment lending policies and processes towards differentiating by risk and managing those risks.
- The Bank is now party to international commitments on harmonization and convergence. Since the early 2000s, the international community has come together to endorse commitments to enhance the effectiveness of development programs, as articulated in the Paris Declaration, with specific actions to be taken to strengthen procurement capacities under the Johannesburg Declaration. These have further evolved to culminate in the Cuzco Declaration and inputs to the Busan Fourth High Level Forum on Aid Effectiveness. This requires the Bank, along with other donors

and Multilateral Development Banks (MDBs), to reassess how it uses country systems, encourages dialogue on harmonization, and builds local procurement capacities.

- Finally, the efficiency and effectiveness of the Bank's internal review and clearance processes and its procurement supervision and oversight model have to be taken into consideration. The Bank's own costs are driven by the number of contracts subject to prior review—processes designed for when the Bank dealt with few clients in a few sectors entailing a few contracts managed by external consultants. Procedures mandate that the Bank's specialized procurement staff now have to deal with both a small number of very large contracts—the top 100 contracts account for about 1 percent of the number of contracts and half of the value of the contracts subject to prior review by the Bank in FY11—and a large number of small and diverse contracts. Thus, extensive prior review requirements compete with capacity building and system-wide improvements for staff time and attention. As the accompanying Discussion Paper shows, the internal resources devoted to procurement are relatively small, and the workload for these specialists has grown over time. There may be ways to increase the value-added of the Bank's work to have a multiplier effect on the entire range of borrower public procurement with considerable potential for generating savings for borrowers and private bidders.

10. This policy review is timely. Other actors, notably the EU, are presently reviewing and revising their procurement policies. It should be highlighted that, although the Bank continuously updates its policies, there has not been any fundamental and comprehensive review since the Guidelines were introduced. Past reviews have modified provisions, largely to encompass new methods as well as aspects of the Bank's oversight procedures, but these have not addressed the underlying policies. Instead, changes over time have been largely incremental, in response to new concerns, lending instruments, and innovations in the delivery of development assistance, as the need arose. Such changes have added new provisions and requirements to improve procurement processes but have resulted in making procurement in the eyes of a number of borrowers and staff more complex and time-consuming, especially for projects that do not entail large and complex contracts.

III. OBJECTIVES AND SCOPE

11. The purpose of the review is to define a path for eventually revising the Bank's procurement policies, internal procedures and practices to ensure that they remain in tune with the changing world and that they continue to serve our borrowers well. The overarching goal is to position the Bank's approach to procurement in the broad context of the Bank's modernization agenda and its multifaceted international commitments to enhance development effectiveness and the mutually reinforcing and complementary goals of harmonization, use of country systems, advancement of global trade and competition, governance and anti-corruption, public sector

management, and accelerated investment in infrastructure. At the same time, the goal is for the Bank to help its borrowers to adapt and adopt best practices while ensuring that its policies address the full range of client capacities and operational needs. It is important for the Bank to complete the transformation of its policies, started many years ago, from a system designed for stand-alone major infrastructure investments to one that addresses the needs of public procurement systems in their entirety. Finally, in its role as a leading development institution and leader in promoting best practices in public procurement, the Bank continuously has to strive to realize its fullest potential in its own cost-effectiveness and to maximize its value-added.

12. Since the review would be the most comprehensive review of the Bank's procurement policies, procedures, and practices ever, the approach is to take a step back and start from first principles. This makes it a major, multidimensional undertaking with significant implications beyond what the Bank does: these policies must be transparent, equitable, and efficient, while contributing to sustainable procurement capacity in the Bank's member countries. The review needs to be methodical, inclusive, thorough, and evidence-based. The outcome should meet the needs of the Bank's shareholders, strike the appropriate balance between the sometimes conflicting interests of member countries and international actors, and reflect the outstanding commitments by the Bank and the rest of the donor community to strengthen country procurement capacity. The resulting procurement policies, procedures, and practices should continue the evolution from a system largely designed for stand-alone large infrastructure projects to one that is capable of addressing the needs of public procurement systems in a world that both is increasingly globalized and has diverse traditions of public administration.

13. The review covers both the Bank's operational procurement policies and procedures, and their application by the Bank and borrowers. An important dimension of the review is to gain feedback from clients and other stakeholders on what issues they see as important and where improvements can be made. Starting from first principles, the review begins with the clarification of the underlying policy objectives and their strategic alignment, identifying areas of congruence, inconsistencies, and competing demands where trade-offs need to be made. Given the many meaningful goals that can be pursued, it is essential to define which of these goals are the most important. The review will examine the best way to structure the policies and procedures, and define the organizing principles behind these policies, looking for ways to get the best fit with the varying demands of the Bank's business, sectors, instruments, delivery mechanisms, client capacities, and risks. Against the backdrop of international instruments and agreements and best practices of leading procurement agencies, the review will further explore areas in which there may be gaps and areas to improve and/or simplify. Through studies, fact-finding, and analysis, the review can assess the relevance and applicability to the Bank and its borrowers of the many new concepts and innovative approaches to public procurement that have emerged in recent years, including value for money and best-fit-for-purpose, e-procurement, sustainable procurement or Environmentally and Socially Responsible Procurement (ESRP), the use of preferences, interactive ways of working with potential bidders, and methods to increase

efficiency. It will look for ways to simplify the demands on clients and bidders alike and to increase the Bank's cost-effectiveness and value-added.

IV. PHASES AND TIMING

14. A staged approach will be used in carrying out the policy review in order to carefully weigh different aspects, analyze best practices, conduct a comprehensive fact-finding exercise, and allow time for extensive consultations with stakeholders. The review will be carried out in two phases and would likely take about two years to complete. In parallel with this phased approach, as part of the Bank's modernization and Investment Lending reform agenda, Management will take steps to enhance the implementation of the current procurement policy and strengthen, and streamline when possible, internal procedures to discharge the Bank's fiduciary mandate. This will include making greater use of the flexibility that the Guidelines already offer in areas such as: (i) enhancing the roll-out of the recently-revised January 2011 Guidelines (in particular non-ICB provisions of Section III of the Procurement Guidelines, and non-QCBS methods of Section III of the Consultant Guidelines); (ii) addressing implementation issues in the fragile and conflict-affected states, small countries, and emergency operations; (iii) improving the application of the current policy through guidance notes and new templates and bidding documents (e.g., turnkey contracts, text books, non-consulting services, simplified forms of contract for low-value contracts, and standard templates for framework contracts); (iv) considering areas where strengthening the use of country systems may be appropriate, taking into account multilateral trade agreements; (v) supporting the implementation of the first PforR operations and drawing lessons from these for the broader procurement policy and procedures in Bank operations; and (vi) continuing to lead the harmonization process with other MDBs, *inter alia* with regard to standard bidding documents and forms of contract, procurement under PPP arrangements, and e-procurement platforms. It will, in addition, include further work to develop electronic tools and reporting integrated in the Bank's internal procurement review and monitoring procedures. Finally, the Bank will continue to emphasize capacity building under the harmonization umbrella and the post-Busan agenda, the elaboration of a guidance note to staff on how to conduct the policy dialogue with borrowers on procurement reforms, and a stock-taking report on capacity building, drawing lessons and proposing a strategy to go forward.

15. The **first phase** of the review will identify and elaborate those areas where changes may be needed. It is anticipated that this first phase would be completed by about December 2012. The identification of specific issues to be addressed would be based on the results of consultations with stakeholders, literature reviews, advice and inputs from a group of international experts, analyses of the Bank's procurement track record, and benchmarking with other organizations. A number of studies will be undertaken to deepen our knowledge on specific topics such as the use of domestic preferences, sustainable procurement and ESRP considerations, and the lessons to be drawn from the Bank's findings on fraud and corruption. An extensive and inclusive process of consultations with a broad cross section of stakeholders will take place, starting in May 2012. The end product of this first phase, by about December

2012, is to be a set of recommendations that would lay out: (i) the overarching framework for the future evolution of the Bank's procurement policies; (ii) the principles to guide the formulation of those policies and how they are to be applied; and (iii) the specific parameters and dimensions that would be modified, along with their justification. There would also be an ancillary set of recommendations dealing with the overall strategic direction, implementation, and other dimensions going beyond what would normally be contained in the Bank's policy documents. This phase will benefit from the results of a parallel effort by IEG to evaluate the Bank's procurement policies, expected to be ready in FY13. In addition, the review will be informed by practices in IFC as well as those of the corporate procurement unit in the General Services Department (GSD). At the end of the first phase, Management would present these recommendations and a proposal for an overarching framework and guiding principles for the eventual revisions to the Bank's procurement policies to the Board of Executive Directors for their consideration before proceeding.

16. The **second phase**, beginning in about early 2013, will entail the actual drafting of a revised statement of operational policies and accompanying procedures, including recommendations of specific revisions to the Guidelines applicable to borrowers, to be presented to the Board of Executive Directors for their consideration. Efforts will be made by both Management and IEG to ensure that there is ample coordination as these two exercises proceed and to ensure that the results of the IEG evaluation feed into this second phase. The conclusions of this phase would also address any of the ancillary questions critical for the implementation of the new policy framework, *inter alia*, with regard to procurement monitoring and oversight procedures. It will entail additional rounds of consultations with stakeholders and may also require further analytical work. At this stage, it is difficult to gauge how much time the second phase would take, but the drafting of a revised policy statement would likely not be completed before the end of 2013 and could require several iterations.

V. THE STARTING POINT

17. In early 2011, when the decision was made to embark on the review, OPCS carried out an initial diagnosis to serve as a baseline and to establish a common starting point for conducting the policy review. This process began by securing initial inputs from the procurement community, GSD, INT, the Legal Department, the Networks and Regions, and other parties within the Bank to help identify issues and to broadly define the scope of the review. In addition, several studies and analyses were conducted:

- A comparison of the Bank's policies with plurilateral trade agreements, specific procurement agreements such as the WTO's GPA, common procurement policies such as the EU's Directives, and standards such as the UNCITRAL model law, along with the UN Convention against Corruption.

- A synthesis of available data on country capacity, the results of the piloting of a new methodology for assessing procurement capacities, and country case studies.
- An analysis of the contracts reviewed by the Bank, including the methods used and the supplying countries.
- A search of the Bank's archives and other related studies, academic articles, and literature on public procurement to provide background and inform the proposed review.
- A review of the Bank's internal processes and structures, looking at cost-effectiveness, quality, and value-added.
- A survey of Procurement and other operational staff to secure their early inputs.

18. The results of this work are reflected in the accompanying Initiating Discussion Paper. The Discussion paper provides the historical context of the Bank's procurement policies, presents an initial diagnosis, and offers suggestions on where the review could usefully focus attention. Specifically, it contains: (i) a description of the Bank's procurement policies and their evolution over time; (ii) an analysis of the changes in global markets and the makeup of the supplying countries under Bank-financed operations; (iii) a comparison between international agreements and the Bank's Guidelines; (iv) a description of emerging best practices and innovations in public procurement; (v) an assessment of the diversity among Bank borrowers; and (vi) an overview of the changes to the Bank's business over time. It ends with an assessment of the Bank's internal capacities and processes, and an analysis of the efficiency and resources to consistently and effectively apply the current procurement regime as set out in OP/BP11.00. The Discussion Paper provides the starting point for carrying out the review.

VI. NEXT STEPS

19. Following the joint endorsement by the joint Board's Committee on Development Effectiveness (CODE) and Audit Committee of the Approach proposed by Management on February 29, 2012, the review is to proceed as follows.

Phase One

- *Organize consultations with stakeholders and shareholders.* An extensive effort is planned, starting in May 2012 and extending to September 2012, to consult with the Bank's stakeholders, including shareholders, representatives of national procurement bodies, policymakers, practitioners, bilateral and multilateral development partners, international organizations, private sector representatives and business associations, civil society organizations, and experts and academics in both Part I and Part II member countries. The first round of consultations will share with these actors the rationale and diagnosis contained

in the Initiating Discussion Paper, along with the conclusions of additional studies as they become available. This will be the opportunity to seek their reactions and inputs on the issues to be addressed, their concerns, and their views on any new directions for modifying the Bank's procurement policies. Exchanges are anticipated with development partners and relevant international bodies, such as the WTO, UNCITRAL, EU, OECD, and MDBs. Extensive internal consultations will also take place in the form of meetings and round tables with the Networks and Regions in order to inform and develop linkages with the Bank's ongoing work on risks and the GAC agenda, among other things. The Fiduciary Forum, which all Procurement Specialists are to attend in early May 2012, would be a venue to explore issues within the Bank's Procurement community.

- *Set up an International Advisory Group on Procurement.* Management is in the process of setting up an International Advisory Group on Procurement (IAGP) to advise on the proposed review. This Group is to comprise former members of the International Technical Advisory Group (originally formed for the piloting program on the use of country procurement systems), along with new members, including leading academics, policymakers, practitioners who are innovators in public procurement and public administration, and representatives of the broader development community and the private sector from among the Bank's borrowing members and donor countries. The goal is to have this Group launched in early June 2012. It would act as a resource and a sounding board for the review and for other operational policy matters relating to procurement.
- *Undertake and incorporate additional analyses.* During the preliminary work, we identified a number of areas in which we will carry out more in-depth analysis: a review of the Bank's support for procurement reform and capacity building (building on an ongoing study); education, qualification, and certification systems for public procurement worldwide; trends in public procurement (e.g., use of preferences, diversity and social policies, sustainable procurement and ESRP, innovative technologies, such as for clean and renewable energy, ICT and e-procurement, output-based procurement, value-for-money and best-fit approaches, approaches to large, complex cross-border projects, further consideration of alternative quality-based evaluation procedures, and alternative methods such as reverse and sequential auctions and for multistage bidding); and the benchmarking of the Bank's processes with selected national and international procurement agencies. We will also analyze data on the incidences of fraud and corruption (using the Bank findings) and on the use of domestic preferences. These additional studies, some of which have already started, would be completed by about September 2012. It is expected that, as the first phase progresses, dialogue with stakeholders and inputs from the IAGP may introduce additional topics to be studied.
- *Report on the findings and prepare a proposal for going forward.* The first phase of the review would culminate with a presentation of the findings, laying out the overarching

framework, principles, broad parameters, and main features of the subsequent updating of the Bank's procurement policies. It would also contain a set of ancillary recommendations outlining the broad strategic direction, implementation, and other dimensions such as staffing, skill mix, responsibilities, and resources. This proposal would be completed by about December 2012 for consideration by the Board early in the next calendar year; the timing of this work ought to coincide with the completion of the IEG evaluation of the Bank's procurement policies, which will help to inform Management's formulation of a new approach to procurement. The proposal would also set out any additional analysis and consultations needed to secure the reactions and additional inputs from stakeholders before eventually drafting a new policy statement and its accompanying implementation plan.

Phase Two

- *Draft a new statement of policies.* Following the Board's endorsement of the framework proposal, the second phase of the review would begin around March 2013. It would be accompanied by additional consultations and analysis to probe more deeply into the particular topics and to expand understanding and consensus on the proposed new framework ancillary matters relating to how the proposed policy would be implemented and possible related changes to the internal Operational Policies and Business Procedures (OP/BP) would be addressed at the same time.
- *Present the draft policy statement for approval by the Board.* Given the possible need for several iterations, it is difficult to define when a new draft policy statement and the accompanying proposals on matters such as implementation would be considered by the Board and when the statement would be adopted. The expectation is to have the new policy approved by December 2013.

VII. OVERALL DIRECTION

20. At this stage, it would be premature to lay out with any specificity what changes to the Bank's policies and procedures might eventually be appropriate. The analysis done so far, as presented in the accompanying Initiating Discussion Paper, provides the starting point for exploring a number of areas that ought to be addressed and fleshed out more fully during the consultative process. In particular, it is clear that the review will have to define the goals and objectives of any new approach to procurement and the criteria to be used to assess and weigh those objectives and their results. Indeed, there is a long list of policy objectives that will have to be narrowed, prioritized, and laid out in a hierarchical fashion as part of the review.
21. The areas highlighted below describe the scope of the analysis and do not presume a specific outcome. Among other things, the review should explore whether and how feasibly to:
 - Articulate a robust set of objectives and principles of public procurement that can apply across a range of instruments, sectors, and modalities upon which specific procurement

practices and standards can be grounded, results can be measured, and innovations can be introduced over time. These principles would be anchored in the Bank's modernization agenda, in particular the reform of investment lending as well as other priority corporate initiatives such as GAC, while providing the flexibility to adapt as these priorities evolve in the future.

- Identify the tradeoffs between key and sometimes conflicting objectives and the principles of transparency, fair treatment, access, economy, and competition, as well as tradeoffs between rules-based and principles-based approaches.
- Provide a unified platform by which the Bank can retain a leadership role and both advocate and model best international practices in its dialogue with borrowing countries on public procurement reform. This platform would be multidimensional, linked to different aspects of the Bank's development agenda on trade policy, public sector management, competition, and governance and anti-corruption, as well as capacity building.
- Incorporate into the Bank's policies and procedures the flexibility to adopt additional concepts and approaches that have emerged over the past twenty years, drawing on the experience of others (inter alia, the financing of PPP arrangements across the World Bank Group), and the use of international agreements and instruments. It would also look ahead to the new concerns facing public procurement, particularly the concepts and practices of sustainable procurement and ESRP.
- Seek to exploit more fully the potential for e-procurement as a tool not only to improve the transparency and efficiency of public procurement but also the management, delivery, and quality of public services.
- Assess the weight of the Bank's approach to procurement oversight and strike the appropriate balance between procedural compliance, risk management, borrower capacity, performance, and results.
- Move from the current one size fits all approach to all categories of procurement and situations on the basis of an analysis of the necessary added flexibility to adapt to differing needs, reflect the growing strengths and diversity of borrower capacities in the application of the Bank's procurement policies and procedures, and better account for risks. This would include different approaches between, for example, entities that are well-endowed institutionally and those in small or fragile and conflict-affected states.
- Develop new and innovative ways for the Bank to provide the incentives and the means to strengthen country procurement systems, drawing on the lessons of the piloting program for the use of country procurement systems, the early implementation of the PforR financing instrument, and other relevant experience.

- Incorporate the full procurement cycle and new ways in which the Bank and borrowers can receive assurances in both contract bidding and execution phases, including quality evaluation and monitoring, contract management, and contractor performance; the possible use of third-party oversight and extended, integrated and more comprehensive audits; the role of supervising engineers; changes to bidding documents and contractual forms; and how Procurement staff work with other units, inter alia, with regard to governance and fraud and corruption.
- Embody an integrated fiduciary system of clear accountabilities, controls, remedies, and recourse mechanisms that brings a level of comfort and reassurance in keeping with the Bank's GAC agenda, and the Bank's management of risks and risk profile while retaining high standards and exercising the Bank's fiduciary responsibilities.
- Accommodate and promote increased harmonization with other development partners and convergence with emerging international standards.
- Expand opportunities for harmonization to cover partnerships and co-financing mechanisms, Recipient-Executed Trust Funds, and the involvement of other development institutions such as UN agencies and global funds in Bank-financed operations in emergency situations and fragile and conflict-affected states.
- Reflect the organizational, business processes, resources, and skills implications of any new policy proposal, both for borrowers and for the Bank, with further strengthening of both borrower and Bank information and management systems. This would include a framework to monitor the impact and outcomes of any policy changes.
- Increase the cost-effectiveness and value-added of the Bank's internal processes, with commensurate gains for borrowers and the private sector.

22. The Bank's procurement policy must remain robust, streamlined, and efficient both for the Bank and borrowers to implement, while adhering to a set of agreed principles as well as rules and procedures appropriately adapted to different situations of capacity and risk, maturity of markets, and soundness of country systems. While maintaining compliance with the Bank's Articles of Agreement, these policies should support realizing the development objectives of effectiveness, sustainability, and capacity building and advancing the Bank's overall development agenda. A range of procedures based on risks would be grounded in the set of commonly accepted principles. The Bank could thus position itself for the future to: (i) tailor the application of its policies better to individual borrower capacities; (ii) adapt to the specific requirements of individual operations with greater efficiency; (iii) incorporate new concepts, approaches, and procurement methods more easily as its business changes, innovations occur, and lessons emerge over time; (iv) work more effectively with development partners on enhancing harmonization and use of country systems; (v) develop synergies between

procurement and such areas as public sector management and governance and anti-corruption; and (vi) achieve greater cost-effectiveness and value-added in the use of its resources, with downstream gains for borrowers and the private sector.

VIII. COLLABORATION

23. Throughout the review, Management will regularly inform the Board of Directors of progress through CODE and the Audit Committee. Widespread consultations with all parts of the Bank will include dialogue with IEG in the context of its planned evaluation of procurement, as well as on the results of earlier evaluations that included findings on procurement. External consultations will include inputs from and discussions with the IAGP, borrowers and other shareholders, multilateral and bilateral development agencies, organizations such as the OECD, APEC, EU, WTO, and UNCITRAL, and industry associations such as FIDIC and CICA. A specific meeting is to be arranged with the MDB Heads of Procurement in June 2012, with regular contacts continuing as the review proceeds.