

# Project Administration Instructions

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## DOMESTIC PREFERENCE SCHEME

### A. Introduction

1. ADB's domestic preference scheme shall be applied only in evaluating bids under international competitive bidding (ICB). Procurement through other methods such as National Competitive Bidding, Shopping, and Limited International Bidding are not eligible for the domestic preference scheme. The scheme grants a margin of preference for domestically manufactured goods to be procured and domestic contractors (ref para 17) to be engaged under ADB-financed projects.

### B. Domestic Preference for Goods

2. All borrowers may request preference for the procurement of domestically produced goods. Related incidental services are not eligible for the preference.

3. The scheme provides that

- domestically manufactured goods are eligible for preference compared with imported goods only if the proportion of domestic value added is equal to 30 percent or more of the EXW (ex works, ex factory, ex warehouse, ex showroom, or off-the-shelf, as applicable) bid price;
- the 30 percent domestic value added must be applied to the total EXW bid price of goods and not just to one item in a list;
- domestic preference cannot be applied to goods offered in a schedule if one item has more than 30 percent domestic value added but the total domestic value added does not result in the required minimum 30 percent of the total price of the schedule; and
- ADB will not object if the borrower stipulates a minimum that is more than 30 percent domestic value added.

4. Where there is any doubt about eligibility for preference for any domestic goods for which bids have been invited, the borrower or its consultant assesses the proportion of domestic value added locally to see if it meets the required minimum.

5. Domestic value added generally comprises domestic labor, the domestic content of materials, domestic overheads and profits from the stage of mining the raw material until final assembly. If calculating domestic value added is difficult and time consuming, a rule based on the direct import content of the goods can be used as a proxy for these calculations. If the direct import content under cost, insurance, and freight (CIF or CIP) is less than 50 percent of the quoted EXW price, the goods are eligible for the preference.

6. Before agreeing to include domestic preference in the financing agreement or bidding documents, ADB must be satisfied that the borrowing country has the manufacturing capacity and experience for adding the minimum value required to goods intended to benefit from the preference. If at the time of signing the financing agreement, inadequate information is known about the goods to be procured (for example, in a sector project), provision of preference may be included in the financing agreement (the

financing agreement would be written as if manufacturing capacity exists for some of the goods to be procured). In such cases, the capacity to produce the required goods domestically would be assessed when bidding documents are prepared for the goods to be procured.

7. Bidders are required to certify, as part of their bid, the existence of the necessary manufacturing capacity where local value is to be added.

8. Eligibility for preference for goods is determined by referring to the source of domestic goods and not to the nationality of the bidder. Therefore preference is given not to the bidder but to the goods where the domestic value added is 30 percent or more. The nationality of the bidder or supplier is irrelevant. A foreign bidder submitting a bid for goods with domestic value added of 30 percent or more in the borrowing country would be entitled to the scheme provided

- the bidder quotes the bid price in local currency or in a mix of currencies as specified in the bidding documents, which will include customs and import duties in the borrowing country for imported components and raw materials; and
- the bidder indicates separately the percentage or amount of the quoted bid price that is to be paid in local and foreign currency to reflect costs of imported components and raw materials included in the bid.

9. Such a foreign bidder, having effected the above, is not allowed to take advantage of the evaluation of its bid under CIF or CIP (exclusive of taxes and duties in the borrowing country for the imported components and raw materials included in the bid). The foreign bidder would be treated as a domestic bidder who may claim the preference.

10. The margin of preference is limited to 15 percent of the CIF or CIP price before tariffs on imported goods.

**C. Domestic Preference for Turnkey Contracts and Contracts for Goods and Related Services involving Multiple Items**

11. A margin of preference may be applied to domestically manufactured goods in single-responsibility turnkey (including design-build) contracts, and large and complex contracts for goods and related services:

- with discrete items of goods and supplies grouped in one contract package, and
- where the cost of goods and supplies for permanent works is estimated prior to bidding to equal or exceed 60 percent of such works.

12. The following provisions apply to turnkey and eligible large and complex contracts for goods and related services:

- Preference margins will not apply to the whole package, but only to locally manufactured goods within the package. Goods offered from abroad will be quoted under CIF or CIP, and goods offered locally will be quoted EXW (free of sales and similar taxes).
- Components, such as design, works, installation, and supervision, will be quoted

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- separately, and will not be subject to preference.
- Bids are not to be classified into categories A, B, or C. When comparing bids, only the CIF or CIP price in each bid of the goods offered from outside the borrower's country will be increased by 15 percent.
- The scheme is not applicable for part of a schedule, which includes several items, if the bidding documents state that the evaluation will be on a schedule basis and not on an item basis.
- Preference will not be applied to any related services or works included in the package.
- Bidding documents must specify how the preference is to be applied, and bidders must not be permitted to modify the mix of local and foreign equipment after bid opening.

## **D. Domestic Preference for Works Contractors**

13. Preference will only be extended to domestic contractors for civil works in countries with an annual per capita GNP (GNI) that is less than the limit set in the World Bank Operational Manual OP3.10 - Annex D. The limit is set each year. The current eligibility threshold as well as current GNIs for ADB client countries can be found at COSOpedia.<sup>1</sup>

14. Preference may be applied to works including construction, land clearing and leveling, land development, field drainage, well drilling, site clearing for urban projects, installation of water supply mains, erection of electricity lines, aerial photography, mapping, or crop spraying. For contracts for goods and related services, if the combined CIF or CIP and EXW cost of equipment to be used in the permanent works is less than 60 percent of the total value of works, then such contracts will be classified as civil works. The scheme does not apply to consulting services contracts.

15. ADB determines which contractors are genuine domestic contractors and therefore eligible for preference. ADB ensures that specific criteria for eligibility are agreed upon and included in the procurement plan and/or bidding documents. ADB will not object if the borrower wishes to grant preference to state-owned construction corporations or firms, provided that they are eligible to bid. The Central Operations Services Office advises on any problems arising when applying the scheme. The Office of the General Counsel advises on any specific legal issues arising when applying the scheme. If necessary, the procurement committee makes the final decision.

16. Bidders are required to submit evidence of the eligibility of individual firms and joint ventures for preference as part of the bid. Preference applies to prime contractors and to nominated subcontractors only (nominated subcontractors are subcontractors of the prime contractor who are selected by the employer through a separate bidding process). Bidding documents and contracts will specify limitations on subcontracting by domestic contractors to foreign contractors that will safeguard the essential intent of the preference scheme. For example, a domestic contractor qualifying for preference under majority local ownership will not subcontract more than 50 percent of the works to a foreign contractor.

## **E. Implementing the Preference Scheme**

17. Domestic preference for goods, turnkey contracts, and works will be applied only if

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<sup>1</sup> COSOpedia is an online knowledge sharing facility.

- requested by the borrower, and
- provision is made in the financing agreement (or through a separate exchange of letters), and
- bidding documents specify how the preference will be applied when comparing bids, and
- the country has remained eligible at the time of advertising the contract.

18. Provision for implementing the scheme is included in the procurement plan. If provision is not included in the procurement plan and the borrowing country subsequently wishes to adopt the scheme, arrangements can be specified in an exchange of letters or subsequent updates to the procurement plan. Even after provision for preference is included either in the procurement plan or by an exchange of letters, its application to individual contracts is still at the option of the executing agency or borrower. The procurement plan states the basis for comparison of bids for goods, turnkey contracts, or works, and the sequence for comparing them, when the scheme is applied.

19. The User's Guides to ADB's Standard Procurement Documents (SPD) include appropriate provisions for the use of the domestic preference scheme. Where other procurement documents than ADB's SPDs are used, the borrower shall incorporate the relevant domestic preference provisions from ADB's SPDs.

20. For works, ADB ensures that the borrower's decision does not adversely affect competition and that all firms qualifying as domestic contractors meet ADB's and the borrower's criteria.

## References

1. [Procurement Guidelines](#).
2. R108-91: *Review of Domestic Preference Scheme*, 8 August
3. R27-86: *Review of Domestic Procurement Policies*, 17 June