

## PROCUREMENT ASSESSMENT

<b>Proposed Project Name:</b> Papua New Guinea Microfinance Expansion Project	<b>Proposed Amount:</b> \$24.06 million
<b>Executing Agency:</b> Bank of Papua New Guinea (central bank)	<b>Source of Funding:</b> ADF/Cofinancing/Government/Beneficiaries
<b>Assessor:</b> Jeremy Cleaver, PARD/PLCO Anders Pettersson, COSO	<b>Date:</b> 23 June 2009

### Expected Procurement

The proposed microfinance project will largely focus on the provision of training and capacity development, an improved legal and regulatory environment, and increased ability of microfinance institutions (MFIs) to provide loans to micro and small enterprises. Procurement for the proposed project consists of consulting services procured under quality- and cost-based selection (QCBS). An estimated 494 person-months (113 international, 75 business mentors, 306 national) of consulting services are required to (i) support the regulatory and supervisory framework for MFIs, (ii) strengthen the institutional and operational capacity of MFIs, (iii) raise standards of financial literacy among savers and borrowers, and (iv) implement project activities. Most consultants will be recruited through a firm using QCBS with a standard quality:cost ratio of 80:20. However in order to assist with project start up, the government has requested that the international microfinance training and curriculum development specialist and the national microfinance institutional development specialist be engaged as individuals under advance action. Business mentors will be hired through a firm using QCBS with a quality:cost ratio of 70:30. A professional services firm will be engaged through QCBS to provide management services for a proposed risk-share facility (RSF) with a quality:cost ratio of 80:20. A large amount of training services will be delivered through the project across PNG, including community and borrower literacy training, business development skills and training of MFI staff. Field level service delivery contractors, which may include individuals, NGOs, women's groups, MFIs or other such providers, will be engaged to deliver this training. A panel will be established within the National Centre for Financial Inclusion (NCFI) to manage this process. A flexible approach will be taken for the engagement of contractors.

A small number of contracts (less than five) for the delivery of management information systems (MIS) for MFIs will be procured using international competitive selection. The total value of these contracts combined is expected to be about \$900,000. In addition, a number of smaller contracts will be procured for studies and surveys using national competitive bidding with a total combined value of \$500,000 and a number of smaller contracts will be procured for workshops using shopping, with a total combined value of \$670,000. Other small contracts will be procured for vehicles, furniture, computers and other sundry project related items. There are no public works to be procured and all procurement will be done on the basis of prior review.

### Assessment of the National Environment

A Papua New Guinea (PNG) procurement assessment was carried out in March 2010 by the PNG Central Supply and Tenders Board (CSTB) using the Organization for Economic Cooperation and Development–Development Assistance Committee (OECD–DAC) methodology for assessing procurement systems. Public procurement in PNG is governed by the Public Finances (Management) Act 1995 (PFMA).

The scores for Pillar I indicate that the legal and regulatory framework needs strengthening, and while the framework for public procurement is established in law and supporting regulations and instructions, there are significant opportunities for achieving a higher degree of clarity and legitimacy through a deepening and consolidation of the legal framework, both in terms of adjustments of the legal framework or a more targeted legislative reform, for example with a separate Procurement Act. While progress made in the area of issuing guidelines and manuals have indeed been beneficial, it is also clear that the status of these documents are not sufficiently established for them to have a real impact on how procurement is undertaken.

The scores for Pillar 2 show that progress has been made in terms of the institutional framework, and in particular, the functioning of the CSTB. It is still assessed as relevant to maintain the type of oversight the CSTB provides. However, several functions assigned to CSTB are not being carried out (procurement audits, monitoring of procurement trends, etc.) mainly due to capacity constraints. Overall, institutional capacity is considered to be weak and insufficient to develop good procurement. There is also a concern that the dual role of the CSTB facilitating procurement, making contract award decisions and at the same time controlling and overseeing procurement is clearly a conflict of interest that will need to be addressed at some point. An appropriate time for this separation of responsibilities could take place once institutional capacity has been developed and embedded in procuring entities.

With respect to Pillar 3, which assesses procurement operations and market practices, this can be considered the weakest area in the PNG context. On an overall level, it is only lately that procurement has grown to be acknowledged as an important policy tool for development, and the approach to procurement is still under development. No cadre of strong procurement professionals exists, and there is little incentive for a public civil servant to engage and improve skills in procurement. Likewise, the private sector's capacity to engage with public sector is limited. For example, there are few small and medium sized businesses engaging in major contracts, leading to limited competition. The private sector is not organized to any significant degree, and does not enter into dialogue with government on procurement policy and market operations.

Under Pillar 4, the complaints and review mechanisms raise strong concerns, since the complaint and review function is carried by firstly the CSTB and secondly, the Ombudsman Commission, and neither organization has a specialized function or mechanism in place to review procurement related complaints. The CSTB can in many cases be considered a stakeholder in the process, and thus be in conflict in interest which is not adequate, and the Ombudsman Commission does not have the necessary capacity or skills to undertake procurement investigations in a meaningful manner. A common opinion from stakeholders from all sides was the pervasive lack of accountability or consequences of malpractice in the procurement process and/or contract implementation.

### **General Agency Resource Assessment**

The Bank of PNG (BPNG) acted as the executing agency for ADB's Microfinance and Employment Project from 2001 to 2010. During this time, the project implementation unit (PIU) oversaw procurement of more than \$7.5 million worth of contracts, including nearly \$4.0 million worth of consulting services. Although procurement processes can be slow in PNG, the project did not experience any significant issues with the procurement activities and BPNG had enough resources to oversee these processes. The Governor of BPNG was the chairman of the steering committee of the project and has agreed to be the Chairman of the steering committee for the proposed project. BPNG, the Institute of Banking and Business Management (IBBM) and the Department of Treasury will be implementing agencies in the proposed project. Each agency has significant experience with ADB procurement rules and regulations as BPNG and IBBM were implementation agencies during the previous project. A new project management unit (PMU) will be established within BPNG and staffed with three full time staff, while individual PIUs will be established in each implementing agency. The PMU will be staffed by a project manager, a project accountant and an administrative assistant. In addition, a number of project consultants have, as part of their terms of reference (TORs), time allocated to assist with the procurement of various contracts as detailed below, including a national procurement specialist to assist with procurement of field level service providers. ADB staff will seek opportunities for executing agency and implementing agency staff to attend project implementation seminars where possible.

### **Agency Procurement Processes Goods and Works**

There is relatively little in terms of the procurement of goods in the project and no procurement of works. As detailed above, the PMU to be established within BPNG will undertake procurement of any goods. A consultant (MIS specialist) will be engaged by the project. One of the consultant's TORs is to assist the PMU by overseeing the procurement process for the MISs. The other procurement processes for

contracts for studies and surveys and workshops will be overseen by other consultants including the microfinance training and curriculum development specialist, the MFI product innovations and market development specialist, the microfinance institutional development specialist, and the procurement specialist.

#### **Agency Procurement Processes, Consulting Services**

As detailed above, BPNG has recently undertaken ADB financed procurement of consulting services for the ADB Microfinance and Employment Project, which closed in June 2010 after nine years. During this time, that project procured nearly \$4.0 million in consulting services and no significant problems arose. Apart from the international and national consulting services, which will be procured through a firm under QCBS, there will be a number of service contracts procured during the project. This will include a relatively large number of field level service contractors to deliver training services, as well as a third party manager for the proposed RSF. Assistance to the PMU for this procurement is also built into the TORs for consultants to the project. A national procurement specialist is included in the project for nine person months to assist generally. A panel to be formed by a number of key consultants including the microfinance and lead specialist, the microfinance training and curriculum development specialist, a national microfinance institutional development specialist and the two national training specialists will assist with procurement of field level service contract. The risk fund management specialist will assist with structuring of the RSF and procurement of the manager. Although it may take some time to identify and engage national consultants, the project team is comfortable that such consultants would be available for the project.

#### **Process Control and Oversight**

The Governor of BPNG, or his delegate, will sit as the Chairman of the project steering committee. In addition, representatives of the Department of Treasury and the IBBM will also sit on the steering committee. The project manager will oversee and guide procurement processes, assisted in most cases by project consultants. For training and capacity development activities, a NCFI will be established as the PIU for such activities. The NCFI will be staffed with a number of key international and national consultants, to assist the PMU in managing the engagement of field level service contractors through the project. A panel will be established by the NCFI to set the criteria for contractor participation, screen the market for relevant contractors in each area, undertake expression of interest processes, and recommend contractors for engagement in each area. A national procurement consultant will be engaged to assist with the management of this process.

#### **Records Keeping and Audit**

Records from the ADB Microfinance and Employment Project have been kept throughout the project in the PIU office. There are no provisions for storage facilities that are fire and theft proof. A concern is how easily records will be able to be retrieved after project completion.

#### **Summary Assessment and Recommendations**

Although BPNG is experienced in ADB financed procurement, implementation consultants will still be needed to supplement its procurement capacity. The PMU will be staffed with appropriate staff and supported by implementation consultants. Relevant agency, PMU and PIU staff will be provided the opportunity to attend ADB procurement training to ensure familiarization with revised ADB's guidelines and procedures. Delays in evaluation and award of contracts should be minimized.

<b>Specific Recommendations, Project Implementation</b>		
<b>Capacity Constraint</b>	<b>Recommended Action</b>	<b>Responsibility and comment</b>
Newly established PMU and PIUs unlikely to have significant experience with ADB procurement policies and procedures	Seek opportunities for project implementation staff to attend ADB procurement and project implementation training	ADB
Potential implementation delays due to slow establishment of PMU and engagement of consultants	Request ADB Management approval for advance contracting to begin engagement of consulting services	BPNG to create PMU in BPNG and project implementing units in each implementing agency  Project team to request approval for advance contracting during Staff Review Meeting  COSO
<b>General Recommendations, Executing Agency Capacity</b>		
<b>Capacity Constraint</b>	<b>Recommended Action</b>	<b>Responsibility and comment</b>
General lack of procurement capacity in PNG	Staff the PMUs and PIUs with capable staff, supported by international and national consultants, particularly in key procurement areas	ADB, Government of PNG
<b>General Recommendations, Procurement Environment</b>		
<b>Capacity Constraint</b>	<b>Recommended Action</b>	<b>Responsibility and comment</b>
The dual role of the CSTB facilitating procurement, making contract award decisions and at the same time controlling and overseeing procurement is clearly a conflict of interest	Separate responsibilities	Government of PNG
No cadre of strong procurement professionals exists, and there is little incentive for a public civil servant to engage and improve skills in procurement	Ensure that procurement skills are developed in Government institutions	Government of PNG
Neither the CSTB nor the Ombudsman Commission, has a specialized mechanism in place to review procurement related complaints	Establish complaints mechanism	Government of PNG

<b>Prior Review Thresholds</b>			
The following procurement shall be subject to ADB prior review as described in Appendix 1 of the <i>Procurement Guidelines</i> and Appendix 1 of the <i>Guidelines on the Use of Consultants</i>			
<b>Works Contracts</b>		<b>Goods and Related Services Contracts</b>	
None		All international competitive bidding contracts	
		All national competitive bidding contracts	
<b>Consulting Services Contracts</b>			
<ul style="list-style-type: none"> <li>Individual engagement of international microfinance training and curriculum development specialist and national microfinance institutional development specialist under advance action.</li> <li>QCBS with 80:20 for quality:cost weighting for most international and national consultants</li> <li>QCBS with 70:30 for quality:cost weighting for field level service contractors</li> <li>QCBS with 80:20 for quality:cost weighting for RSF manager</li> </ul>		Number of submissions (Para. 2.3 Guidelines refer)  Two (2) submissions - shortlist and draft RFP, overall evaluation and final ranking for QCBS. Requirements for engagement of field level service contractors may be relaxed, though an initial list of potential contractors in each location, plus a list of final evaluations and recommendations will be provided.	
Approved by ADB		Designation	
Agreed by Executing Agency		Designation	

The agreement of the executing agency is in no way indicative of borrower or executing agency's acceptance and agreement to and any all of the findings and recommendations contained herein with the exception of specific recommendations, project implementation.