

Corporate
Evaluation

Evaluation of ADB's Procurement System, 2014-2021



Independent
Evaluation

ADB

Raising development impact through evaluation

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Evaluation of ADB's Procurement System, 2014–2021

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NOTE

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Abbreviations

ADB	–	Asian Development Bank
APA	–	alternative procurement arrangement
COVID-19	–	coronavirus disease
CPS	–	country partnership strategy
CRF	–	corporate results framework
CSPRA	–	country sector/agency procurement risk assessment
DMC	–	developing member country
e-GP	–	electronic government procurement
FCAS	–	fragile and conflict-affected situations
IDS	–	Integrated Disbursement System
IED	–	Independent Evaluation Department
IT	–	information technology
LCC	–	life-cycle costing
MDB	–	multilateral development bank
PARD	–	Pacific Department
PASS	–	Procurement Accreditation Skills Scheme
PPF	–	Procurement Policy Framework
PPFD	–	Procurement, Portfolio, and Financial Management Department
ProcDash	–	Procurement Statistics Dashboard
SIDS	–	small island developing states
SPP	–	strategic procurement planning
TA	–	technical assistance
TACP	–	Technical Assistance Claims Partner
VfM	–	value for money

Contents

Acknowledgments	Page v
Foreword	vi
Executive Summary	vii
I. Introduction: Evaluating the Procurement Policy Framework	1
II. A Promising Start	2
A. Modernizing ADB's Procurement Policy	3
B. Reforming ADB's Procurement System and Practices: What Has Been Implemented So Far?	4
III. Procurement Reform Challenges	8
A. VfM is Not Clearly Communicated nor Reflected in the Corporate Results Framework	9
B. Risk is Not Assessed Based on a Contract's Criticality, but Rather on Its Size	10
C. Adoption of Strategic Procurement Planning is Ongoing across DMCs	11
D. High Bar to Implementing Procurement Innovations	13
E. Insufficient Capacity Development, Incentivization, and Integration of ADB Staff	14
F. Insufficient Planning and Coordination for DMC Capacity Development Support	17
G. Little Improvement in Procurement Data Transparency and Governance	19
IV. Recommendations for Delivering Value for Money	21
Appendixes	
1. Theory of Change for the 2017 Procurement Policy Framework	23
2. Evaluation Methodology	24
3. Monitoring and Measuring the Progress of ADB's Procurement Reforms	27
4. Methodology for Assessing the Relevance of Reform Elements	34
5. Comparison of End-to-End Procurement Processing Time by Country Groups	35
6. Findings from ADB and DMC Perception Surveys on Procurement	36
Supplementary Appendixes (available upon request)	
1. List of Participants from Stakeholder Meetings/Group Interviews/Focus Groups Discussions	
2. Regression Analysis Report: Determinants of Asian Development Bank's Procurement Performance between 2011 and 2020	
3. Comparative Approaches in the Procurement of MDBs, Focusing on VfM Approaches, Challenges, and Good Practice Benchmarks	
4. ADB Data Management Systems Assessment Report	
5. Questionnaire for the ADB Perception Surveys on Procurement	
6. Questionnaire for the DMC Perception Surveys on Procurement	

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IED remains fully responsible for this report.

Foreword


Procurement plays a big part in development effectiveness and the quality of public procurement practices is a major determinant of effective public spending. The Asian Development Bank (ADB) generates around \$9.5 billion a year for the procurement of goods and services through loans and grants to its client countries. Before 2017, ADB's procurement processes largely followed a rule-based system with an emphasis on compliance. Since then, ADB adopted a more principles-based approach in its Procurement Policy Framework (PPF) which introduced quality and value for money (VfM) as two new core procurement principles.

This formative evaluation takes stock of the progress made with PPF implementation since its inception. It identifies lessons and proposes directions to continue strengthening ADB's procurement system for delivering VfM. It examines what ADB accomplished during 2017–2021 comparing it to the baseline of 2014–2017. It did so by consulting with developing member country (DMC) officials and stakeholders, interviewing technical and professional staff within and outside ADB, reviewing related documents and literature, and analyzing procurement data, among other evaluation methods.

The evaluation found that PPF provided a solid foundation for ADB to modernize its procurement system. Procurement is now largely harmonized with that of other multilateral development banks. ADB has published and updated guidance notes, rolled out strategic procurement planning, supported procurement capacity development, decentralization, and delegation of procurement authority closer to the field, modernized procurement data management systems, and increased procurement efficiency.

Yet much remains to be done and procurement reforms are still in the early stages of implementation—which effectively began in 2019 only to be delayed by the coronavirus disease (COVID-19). Apart from the need to clearly message and better communicate key procurement concepts such as VfM, the evaluation identified the following areas for improvement: prioritize and manage contracts based on their criticality, not only their size; strengthen the transparency and governance of procurement by improving data systems design, integration, and management; invest in long-term ADB and DMC procurement capacity building; and promote interdepartmental collaboration to ensure procurement planning becomes an integrated, holistic practice that aims for quality and VfM.

ADB must continue its promising start and ensure that the necessary behavioral changes and process improvements at the corporate level remain salient as it takes on the pressing challenges of making procurement more sustainable and “green” in the years ahead.


Emmanuel Jimenez
Director General
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Executive Summary

The Asian Development Bank (ADB) has been modernizing its procurement practices under the 2017 Procurement Policy Framework (PPF). This evaluation assesses what has worked in the PPF's early implementation and the challenges that need to be overcome to achieve value for money (VfM).

The potential impact of a country's procurement system on broader public policy objectives is significant. For example, well-designed procurement can support sustainability by promoting green products and services or supporting microenterprises and local economic development. The impact underpins VfM. Varying across countries, VfM is about using resources in a way that creates and maximizes public value.

ADB and other multilateral development banks (MDBs) needed to modernize procurement with enhanced focus on quality and VfM, by explicitly introducing them as two standalone core procurement principles. The stress was on compliance with rules and procedures, which differed across MDBs, frustrating cofinancing and other aid harmonization efforts. Under the PPF, ADB can now use alternative procurement arrangements (APAs), including country procurement systems. Given that the dollar volumes spent through public procurement by most developing member countries (DMCs) are greater than aid flows, raising the quality of country public procurement systems is essential for better development outcomes.

A Promising Start

ADB has committed and invested significant resources and effort in operationalizing PPF objectives since 2017. ADB has increased the outposting of procurement staff, delegated procurement authority closer to the field, released and updated procurement guidance notes, supported hundreds of training courses and workshops, updated its procurement data management systems, and provided the flexibility needed to apply fit-for-purpose procurement methods such as APAs. ADB introduced the use of strategic procurement planning (SPP) at the project concept stage to identify the relative risk and importance of procurement packages and to assess the alternative qualitative evaluation methodologies to balance price and quality. SPP is the key tool in the PPF for assuring VfM throughout the procurement cycle, as it helps identify market constraints and capacity constraints of the executing and implementing agencies, socio-economic issues at the project location, and fit-for-purpose procurement approaches, among others.

Challenges Remain

Adopting the PPF is one of the largest changes that ADB undertook to improve development effectiveness. However, as changing 50 years of procurement practice is not straightforward, the evaluation found the following challenges.

ADB has not provided its stakeholders with clear messaging and directions for some essential procurement concepts. Key PPF principles and objectives—such as risk-based procurement, quality, and VfM—are difficult to measure. Most PPF performance indicators are time-related measures, and the corporate results framework emphasizes disbursement speed and volume, not quality or VfM. Without attention to transactions' quality, shortcuts might be taken to achieve "better performance" at the expense of risk-based procurement principles.

ADB's focus on disbursement volume had additional ramifications, as it used a contract-size threshold classification method for procurement risk management. This method assumed that procurements posed risks proportional to their size, and that the largest procurement package was the most critical for project success. Even under the PPF, prior review is still conducted for nearly all large contracts, not necessarily for risky or more critical ones.

Changing ADB staff mindsets and procurement practices in line with the PPF require simultaneously reinforcing training, performance incentives, and business processes. The institutional tendency to revert to risk aversion and rule-based decision-making remains, as the burden of risk-taking is left to the decision of project team leaders or DMC officials. They have little to gain from trying innovative procurement or evaluation criteria but more to lose if procurement happens to fail. PPF reforms need broad adoption within ADB, not limited to Procurement, Portfolio, and Financial Management Department's initiatives alone.

Greater collaboration and knowledge sharing among team members have become essential as procurement has become more integrated, requiring considerations of wider social and economic policies, including sustainable procurement practices. While procurement policies, rules, regulations, and procedures are the domain of procurement specialists, success cannot be guaranteed without a complete team effort by project officers, project analysts, and technical and country management teams. By integrating the knowledge and experience of key stakeholders, ADB can take better advantage of the flexibility and innovations made

possible by the PPF and reach a consensus on the optimal “value” to be delivered through procurement.

To ensure that capacity building contributes to development effectiveness, ADB needs to adopt a strategic approach to develop capacity that recognizes the need to position procurement within country systems for overall public financial management and other public sector reforms. In projects, the approach must include skills stocktaking, and testing and accreditation of procurement capacity of ADB staff and DMC officials. In a few cases, ADB has used policy-based lending to support procurement reforms. ADB's capacity development support can also be better tailored to DMCs' different needs.

The utilization of SPP varied substantially based on each country's capacity. While DMCs with low procurement capacity could not adopt SPP as quickly as others, early adopters experienced delays due to additional requirements or cumbersome processes. These hindrances could partly explain why countries classified as more creditworthy by ADB had significantly shorter procurement times on average than other DMC groups during 2017–2021, as they would have been able to implement fit-for-purpose approaches with ADB's capacity development support.

Innovations supported by PPF were not applied uniformly across DMCs. Considerable diversity in the quality of DMC systems and skill levels made using alternative evaluation measures such as merit point criteria and life-cycle costing challenging for DMC staff. The number of contracts awarded using these methods served as a proxy for the capacity of ADB staff and DMC officials to design and implement procurement approaches. But the use of these approaches is also influenced by DMCs' own procurement limitations.

The biggest gains for development effectiveness can be expected through strengthening DMCs' procurement systems, rather than building capacity to comply with ADB procurement procedures. ADB has yet to present a consistent, systematic approach for strengthening DMC public procurement systems in its country partnership strategies, even though a third of ADB resources used country procurement systems through policy-based and results-based lending before 2020.

ADB has modernized its systems for procurement data collection, contract management, and performance measurement, but many processes remain heavily dependent on manual input by DMC officials, ADB project staff, or procurement specialists. As a result, the systems suffer from inconsistent data quality and availability across projects, countries, or departments. For effective quality control of procurement data, ADB can start by detailing the integration requirements for existing systems and ensuring their timely integration.

The resulting data management system would monitor both real-time and historical data on procurement progress against agreed plans, bottlenecks and their causes, complaints and actions taken, registered bidders, bids submitted, cost estimates, among others.

Recommendations

Delivering quality and VfM to DMCs through procurement is a long-term endeavor that requires strong and sustained commitment from ADB. In considering the extent to which PPF implementation has helped achieve optimal VfM to meet DMCs' procurement requirements, the evaluation found that ADB is moving in the right direction but faces significant challenges. Despite pockets of good practice and innovation across ADB's portfolio, there are no systems ensuring quality or VfM in procurement outcomes.

The evaluation recommends the following:

- (i) Clearly message and better communicate key procurement principles and objectives.
- (ii) Prioritize and manage procurement contracts not only by size but also by how critical they are to project success.
- (iii) Strengthen the transparency and governance of procurement by further improving procurement data system design, integration, and management.
- (iv) Commit strategic long-term investments to continue building on current initiatives to develop ADB and DMC procurement capacity.
- (v) Promote interdepartmental collaboration to ensure that SPP is an integrated and holistic practice that considers quality and VfM, including wider social and economic objectives and sustainable procurement.

Links between Findings and Recommendations

Findings, Issues, and References	Recommendations
<ul style="list-style-type: none"> - Asian Development Bank (ADB) has described what Procurement Policy Framework (PPF) reforms would achieve in its guidance notes, policy papers, and annual reports but does not communicate clearly what some of the key procurement concepts mean in practice (para. 27). - The current corporate results framework (CRF) maintains its focus on readily measurable, low-level outputs such as disbursement speed and quantity rather than improvements in quality or value for money (para. 28). 	1. Clearly message and better communicate key procurement principles and objectives.
<ul style="list-style-type: none"> - ADB does not monitor and manage more than 70% of its contracts through the Procurement Review System because they are considered low risk, a category that assumes that the size of a contract is proportional to its risk (para. 31). - The current contract value-based threshold does not account for two key realities: (i) procurements do not pose risks that are proportional to their size, and (ii) the most critical procurement package for project success is not always among the largest (para. 32). 	2. Prioritize and manage procurement contracts not only by size but also by how critical they are to project success.
<ul style="list-style-type: none"> - ADB has continued to modernize its procurement data collection, contract management, and performance measurement. But many of the processes remain heavily dependent on time-intensive manual input by developing member country (DMC) executing and/or implementing agency officials, ADB project staff, or procurement specialists. As a result, the processes suffer from inconsistent data quality and availability across projects, countries, or departments (para. 52). - Too many siloed information technology systems cover different components of ADB's procurement, contracting, and disbursement processes (para. 53-54). - Without clear reporting requirements and integrated data management systems, ADB does not have the tools and integration it needs to measure its procurement data and monitor its performance effectively (para. 54). 	3. Strengthen the transparency and governance of procurement by further improving procurement data system design, integration, and management.
<ul style="list-style-type: none"> - ADB staff capacity development is undertaken in silos and implemented in an ad-hoc manner, often varying across regional departments (para. 20). - To maximize the benefits for DMCs from procurement and project implementation, ADB prioritizes short, high-intensity trainings on compliance with ADB's procurement standards and practices versus long-term procurement capacity development for DMC partners (para. 36). - ADB has not designed or implemented measures to test or accredit procurement capacity among DMC officials, resulting in inefficient planning and implementation of ADB-financed projects (para. 37). - The lack of an ADB-wide procurement capacity development strategy undermined the relevance and effectiveness of ADB's past support, although ADB provided considerable training, workshops, clinics, and guidance notes for staff in supporting PPF implementation (para. 44). - Staff upskilling is not based on a corporate training needs assessment, nor is staff decentralization linked to any stocktaking of experienced procurement staff (para. 45). - Procurement capacity development is too often implemented as a supplementary activity within a project or regional TA rather than as key component of the Country Partnership Strategy to improve overall development effectiveness (para. 48). 	4. Commit strategic long-term investments to continue building on current initiatives to develop ADB and DMC procurement capacity.
<ul style="list-style-type: none"> - Greater collaboration and knowledge sharing among team members is essential to ensure that SPP is more integrated and holistic and to boost the more strategic use of procurement to achieve DMCs' wider social and economic objectives, particularly for environmentally sustainable growth and climate change. While procurement policies, rules, regulations, and procedures are the domain of procurement professionals, a positive outcome cannot be guaranteed without a complete team effort by procurement specialists, project officers and analysts, and technical and country management teams. (para. 47). - By combining knowledge and experience of all stakeholders through a One ADB approach, ADB could take full advantage of the flexibility and innovations introduced by the PPF and possibly reach a consensus on the optimal value to be delivered through procurement (para.47). 	5. Promote interdepartmental collaboration to ensure that strategic procurement planning is an integrated and holistic practice that considers quality and value for money, including wider social and economic objectives and sustainable procurement.

I. Introduction: Evaluating the Procurement Policy Framework

1. Procurement plays a big part in development effectiveness, and the quality of public procurement practices is a major determinant of effective public spending. According to some estimates, public procurement accounted for an estimated 12% of gross domestic product (GDP) in developing countries and nearly 30% of general government expenditures.¹ And given its links to markets and the private sector, public procurement is much more than an administrative or transactional process.

2. The potential impact of a country's procurement system on broader public policy objectives is significant. If designed well, procurement has an impact on countries' wider economic, social, and environmental objectives. For example, among others, it can encourage sustainability by promoting "green" products and services; back indigenous and female-owned micro, small, and medium-sized enterprises, and vulnerable and disadvantaged groups; and boost innovation and trade. Sound public procurement policies and practices are essential elements of good governance. By reducing the cost of public services, producing timely results, increasing the transparency and accountability of institutions, and reducing corruption, they provide the best fiduciary assurance to donors. Given the dollar volumes spent through public procurement by most developing member countries (DMCs), raising the quality of a country's public procurement system can be a critical part of the country partnership strategy (CPS) of multilateral development banks (MDBs), including the Asian Development Bank (ADB), for better development outcomes.

3. By limiting procurement to having a largely fiduciary function in investment operations, MDBs missed an opportunity to maximize development impact. To serve as a development instrument, procurement policies needed to change because they were not keeping pace with modern practices, which had introduced quality and value for money (VfM) alongside efficiency and economy. Each MDB followed its own procurement rules and procedures, which burdened developing country partners and frustrated cofinancing efforts. The ability to use country procurement systems was limited. Given that aid flows are declining relative to GDP and that countries' public procurement is significantly greater than ADB's, reforming and using the systems would deliver better development outcomes.

4. Since 2010, MDBs have made significant efforts to harmonize their procurement systems, driven by the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action.² In 2017, like other MDBs, ADB introduced a new procurement framework. Before then, ADB had separate policies and procedures to procure goods, works, and consulting services. Under the Procurement Policy Framework (PPF), the policy provisions were modernized, streamlined, and consolidated into a unified procurement policy. The operational procedures for procurement were revised to align with the new policy provisions, which were approved by the President upon the Board of Directors' approval of the new policy.

5. The principle-based PPF includes two new core principles—quality and VfM—in addition to economy, efficiency, fairness, and transparency (Box 1).³ The new principles permit the introduction of customized procurement methods as well as support for high-level technologies. The policy recognizes the need for flexible approaches and promotes procurement that is fit for purpose. The policy focuses more strongly on governance through accountability, integrity, and avoidance of conflict of interest, and on the need to tackle procurement-related complaints on time, transparently, and fairly. The policy introduces alternative procurement arrangements (APAs) and more upfront and focused procurement planning, while emphasizing the use of e-procurement.

¹ International Training Centre. 2021. [10 Surprising Facts on Public Procurement](#).

² The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action recognize that while volumes of aid and other development resources must increase to achieve global development objectives such as the Sustainable Development Goals, aid effectiveness must also increase significantly as must donor partner country efforts to strengthen governance and improve development performance. Harmonization of donor processes, especially of procurement practices, was a key objective of the Accra Agenda for Action.

³ ADB's procurement policy document defines quality as "a principle which requires that the procurement arrangements are structured to procure inputs and deliver outputs of appropriate standard in a timely and effective manner to achieve the project outcomes and development objectives, taking into account the context, risk, value, and complexity of procurement."

Box 1: What is Value for Money?

Value for money (VfM) is the use of public resources in a way that creates and maximizes public value. VfM is not simply about the lowest bid price, but a choice based on an intervention's whole-of-life costs and benefits. The definition differs from country to country, depending on what each values in policy outcomes and the use of public funds. Countries use VfM as part of decision-making on any proposal involving the use of public resources. For instance, some countries define value in relation to the well-being of the public, covering economic, social, and environmental impacts. It is a national objective, so it cannot be created in one area at the cost of another. The introduction of VfM principles in the Asian Development Bank's Procurement Policy Framework means that procurement is no longer just about achieving transactional dimensions of economy and efficiency, in which time and cost savings are optimized, but about considering wider social, economic, and environmental objectives of the investment in a way that optimizes overall public value.

Source: Asian Development Bank (Independent Evaluation Department).

6. This evaluation assesses the early implementation of the 2017 PPF and the extent to which it has contributed to ADB's capacity to deliver optimal VfM in the use of public resources. The evaluation comes after 5 years of PPF implementation. Findings on the first 5 years (2017–2021) can provide valuable insight to the PPF's potential long-term effectiveness and the space to make timely course corrections in its content, approach, and implementation. The evaluation is included in the 2020–2022 Work Program of the Independent Evaluation Department (IED) approved by ADB's Board of Directors and is conducted in line with IED's mandate to evaluate ADB policies and related business processes.

7. The evaluation used qualitative and quantitative methods to answer three questions based on the theory of change for the PPF (Appendix 1). The overarching evaluation question was, "To what extent has PPF implementation contributed to achieving optimal VfM in response to DMCs' procurement requirements?" The two sub-questions were, "To what extent has ADB been effective in establishing a procurement delivery system that achieves improved procurement efficiency, governance, and transparency in the use of ADB funds to meet the objectives of its development agenda?" and "To what extent has ADB's efforts to build its own procurement capacity and that of its DMCs helped improve the efficiency and effectiveness of its procurement operations?"

8. To answer the questions, ADB staff, partner executing and implementing agencies, and contractors and suppliers were consulted through virtual missions and focus group discussions. Country assessments in India, Mongolia, Papua New Guinea, the Philippines, Tonga, and Uzbekistan were conducted to gauge the extent to which the PPF was understood and being implemented. Regression analysis was undertaken to assess what factors contributed to good procurement outcomes. IED analyzed ADB's portfolio, assessed procurement data management systems, and undertook a stakeholder perception survey. Procurement data management systems and VfM approaches in other MDBs were compared, and ADB's corporate documents and IED's evaluation reports reviewed (Appendix 2). The evaluation is formative and hence did not assess VfM outcomes but considered progress toward it. The outbreak of the coronavirus disease (COVID-19) pandemic from 2020 onward interrupted global supply chains and country priorities. It may have had a negative impact on PPF implementation and procurement efficiency over the evaluation period, which is difficult to separate from other factors.

II. A Promising Start

9. ADB began modernizing its procurement practices by adopting the PPF in 2017. According to the 2021 Annual Procurement Report,⁴ in the 5 years since the inception of the PPF, ADB has made good progress in implementing it. The report indicates that, with joint efforts of ADB and DMCs, the number of projects adopting the PPF increased from 39 in 2018 and 69 in 2019 to 86 (50% of project approvals) in 2020 and 73 (67% of project approvals) in 2021. In 2021, 54 projects in more than 18

⁴ ADB. 2022. [2021 Annual Procurement Report](#). Manila.

countries adopted electronic government procurement (e-GP). The total project value amounted to \$8.9 billion, 20% higher than in 2020 (\$7.4 billion). The rest of the section considers what has worked to change ADB's procurement practices from compliance with rules and procedures to a more risk-based system since the introduction of the PPF. While these results signal a promising start, PPF implementation is still at an early stage.

A. Modernizing ADB's Procurement Policy

10. The PPF is anchored on the principles of economy, efficiency, fairness, transparency, quality, and VfM. Reforms initiated in 2014 under ADB's Midterm Review of Strategy 2020 laid the foundation for a risk-based approach to procurement governance in the 2015 procurement guidelines. The PPF then introduced the procedural and institutional arrangements governing procurement and consultant recruitment. The arrangements cover the rules, procedures, and practices that regulate procurement, and the human and other resources needed to deliver and organize procurement transactions. The arrangements support the delivery of ADB development assistance to DMCs by providing goods, works, and services, while underpinning the ability of ADB to meet its own and DMCs' development agendas.

11. By adopting the PPF, ADB has harmonized its procurement policies and practices with those of other MDBs.⁵ Now ADB has most of the standard policy features of other MDBs' procurement processes. The differences between the procurement frameworks of various MDBs are significant and harmonization exists largely in operational documents (bidding documents, procurement plan templates, and so on). Recent changes in the bidding documents introduced by the World Bank (e.g., in its environmental and social framework safeguards) have created more differences even in these operational documents. To maintain a certain level of harmonization of procurement policies and practices, ADB has continued to actively participate in annual Heads of Procurement of MDBs meetings and in the MDB e-GP Working Group (Box 2).⁶

Box 2: Multilateral Development Bank Electronic Government Procurement Working Group

The Multilateral Development Bank (MDB) Electronic Government Procurement (e-GP) Working Group developed an e-GP tool kit and hosts a series of biannual e-GP conferences. The group's work is ongoing, and the Asian Development Bank remains active in establishing agreed minimum standards and quality and in harmonizing required documentation. The benefits include reducing the administrative burden on borrowing countries, as well as producing efficiency and cost saving for MDBs. The group includes the African Development Bank, the Development Bank of Latin America, the Caribbean Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank, the Islamic Development Bank, the New Development Bank, and the World Bank.

Source: Asian Development Bank. 2021. [2020 Annual Procurement Report](#). Manila.

12. With the PPF, ADB formalized its shift from compliance with rules and procedures to a more risk-based system throughout procurement planning and implementation. The Strategy 2020 Midterm Review identified quality and VfM as critical to improving the development effectiveness of ADB and underlined the need to reform and rationalize its business processes. Quality was to be improved through changes in procurement planning, specifications, bid evaluation, contract award, and contract management. Additional selection criteria beyond the lowest responsive bid or price would contribute to quality procurement, ultimately leading to greater VfM. The PPF supported the delivery of VfM by providing flexibility for innovation and fit-for-purpose approaches, while factoring in the associated risks. Innovations in procurement procedures, such as the introduction of merit point criteria and life-cycle costing into the bidding criteria, would support strategic procurement planning (Box 3).

⁵ Procurement is the only major policy area across the MDBs where a function goes beyond harmonization permitting full mutual reliance upon the policy and procurement oversight of another MDB.

⁶ Procurement, Portfolio, and Financial Management Department noted that since 2020, the MDB Heads of Procurement have met as often as every other week virtually to address emerging and time-critical issues such as COVID-19. These online meetings covered issues including medical equipment and vaccine procurement, supply chain mapping, sustainable procurement, and core labor standards.

Box 3: Use of Qualitative Bid Evaluation Criteria as Determined by Strategic Procurement Planning

Merit point criteria are normally used when (i) quality needs to be compared across bidders based on their qualifications, experience, and performance; (ii) complex solutions are required; or (iii) procurement involves high-level technology that improves the quality of the goods and works.

Life-cycle costing provides an alternative to price comparison of offers complying with technical standards set by the borrower's design and specifications. A contract is awarded to the bidder that meets the technical requirements and offers the lowest evaluated cost over the life of the asset. Life-cycle costing has predominantly been applied to large civil works contracts to build power plants and substations and to upgrade and maintain roads.

Source: Asian Development Bank. 2022. [2021 Annual Procurement Report](#). Manila.

13. The adoption of the PPF has introduced the opportunity to remove restrictions on business processes. For example, ADB's typical business process involves at least two consultants for a given project: one for preparation and one for implementation. But for smaller projects in the Pacific, involving two consultants can cause delays. The PPF provides flexibility for the Pacific Department (PARD) to apply the "one project, one consultant" approach, reducing the time from concept to completion by 9–15 months.

B. Reforming ADB's Procurement System and Practices: What Has Been Implemented So Far?

14. ADB has committed to improving procurement practices, data systems, and capacities, despite the COVID-19 pandemic. The evaluation found that ADB has invested significant resources and efforts to achieve PPF objectives, such as decentralizing and delegating procurement authority, and publishing guidance notes. However, their outcomes and impacts are not yet evident or are hard to verify, since procurement reforms are still in the early stages of implementation, which started in earnest in 2019, only to be delayed by the pandemic. The following are some of ADB's key accomplishments and the evaluation's assessments of them.⁷

1. Development and Update of the Operational Procedures under the Procurement Policy Framework

15. The main mechanism supporting the PPF was the development and update of the operational procedures such as staff instructions, procurement regulations for borrowers, and guidance notes. Designed to be more advisory than prescriptive, the guidance notes present information essential to implementing the PPF. Of the 26 guidance notes,⁸ the most referred to by ADB staff are for strategic procurement planning (SPP) and the procurement risk framework,⁹ which suggest templates for project preparation. Revisions to the two guidance notes in December 2021 reduced the workload by deleting the requirement for a separate project procurement risk assessment and merging it into the SPP. The notes provide more practical guidance for SPP, particularly for undertaking market assessments, using the public contract award databases, and reviewing previous bid evaluation reports.

16. However, participants in ADB stakeholder group interviews expressed concerns that proliferation of guidance notes might replicate the previous prescriptive approach, potentially catering to ADB's compliance-driven, risk-averse culture. For instance, there were perceptions of diminished clarity resulting from the 2017 PPF, which marked a transition to risk-based procurement and called for broader guidance to encourage a more dynamic process and greater flexibility to adapt to evolving procurement needs. ADB's effort to provide clarity through guidance notes has, in effect, restored some of the prescriptive instructions from the previous guidelines. Such an arrangement requires referencing

⁷ See Appendix 3 for a comprehensive list of ADB's accomplishments related to PPF and its reforms.

⁸ The guidance notes are accessible at <https://www.adb.org/documents/guidance-notes-on-procurement>

⁹ Based on findings from IED's group interviews with ADB project officers.

several documents, making it challenging to keep track of periodic changes or updates and potentially inhibiting creative ideas and solutions.

2. Strategic Procurement Planning

17. SPP was introduced to improve risk-based procurement while delivering VfM. SPP helps procurement planners identify the relative risk and importance of various procurement packages and suggests where to focus to protect their clients' interests. Measuring the scope and quality of SPP is a way to assure VfM at the bidding stage by recognizing the competitive market environment, identifying potential bidders, and raising market interest. An assessment of alternative qualitative evaluation methodologies enables a balance between price and quality. Potential concerns with SPP are that it needs to take place before the concept paper to be useful and that it could delay project preparation, particularly for capacity-challenged DMCs. When SPP reports an executing agency with sufficient capacity in a low-risk procurement environment, transactions can proceed and be subject to post review on a sampling basis under the PPF (Box 4).

Box 4: Challenges of Exercising Flexibility in Procurement: Prior Review versus Post Review

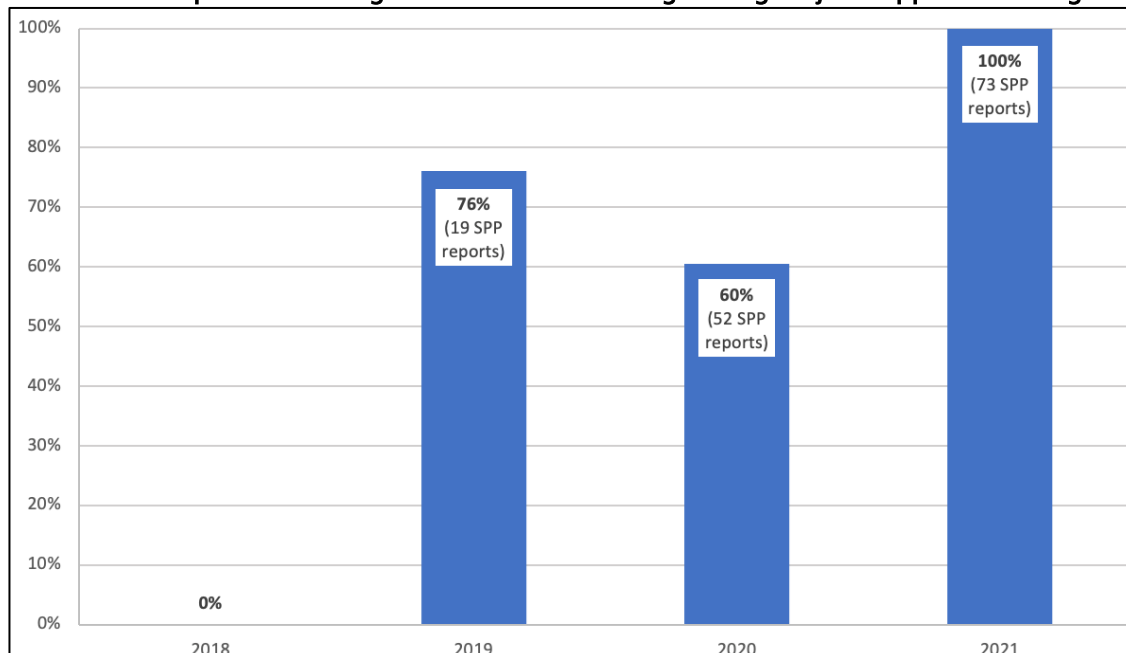
One objective of risk-based procurement is to reduce the number of prior due diligence reviews by the Asian Development Bank (ADB) for procurement transactions of developing member countries (DMCs). The objective was to empower DMCs to conduct procurement based on an approved or updated strategic procurement plan, without ADB's prior review of every procurement process, within the boundaries of identified risks. The number of contracts subject to post review rose steadily from 0.5% to 2.0% of total contracts between 2017 and 2020. In 2021, however, the number of post-reviewed contracts jumped significantly to 814 (22.5% of total contracts), albeit with a relatively low average contract value of \$927,500.

The initial set of low numbers may be the result of the high-risk rating of the agency, based on bid evaluation report recommendations for award frequently not agreed to by ADB. Also, the majority of the projects awarding contracts in during 2017-2020 would likely have been approved before 2017 PPF came into effect. The low number may also be the result of the reluctance of DMC agencies to use post review, since it would transfer to them a residual risk of ADB declaring a misprocurement, which they are unwilling to bear. While the large number of post-reviewed contracts in 2021 suggested an increased willingness to accept the risks of post reviewing, it also reflected the persistent "smaller is less risky" mindset on procurement, as the average value of prior-reviewed contracts (\$9.7 million) was ten times larger than those post-reviewed.

Sources: ADB (Independent Evaluation Department), interviews with ADB project officers; Procurement, Portfolio, and Financial Management Department data.

18. Use of SPP commenced in earnest in 2018 with the issuance of the related guidance note, but its adoption has varied substantially across countries given their procurement capacities. According to Procurement, Portfolio, and Financial Management Department's (PPFD) Annual Procurement Reports for 2020 and 2021, SPP reports were completed for all sovereign investment projects (excluding emergency loans) each year. These figures are misleading as they follow different targets for those two years. Up until 2020, SPP completion was measured against all projects that had fact-finding missions during the year, while for 2021 onwards, it was measured for all investment projects approved that required SPP. Figure 1 shows the annual ratio of SPP completion for all investment projects approved that required SPP, which presents a positive trend from 0% in 2018 to 100% in 2021.

19. The evaluation notes that SPP reports are not routinely published or made public. Many SPP reports and the project procurement risk assessments that they incorporate include data on market participants and details of red flags and issues observed in previous procurements. The reluctance to publish SPP reports on ADB's website, which hinders the dissemination of examples of good practice, is a substantial barrier to building capacity and increasing DMC ownership of the SPP process.

Figure 1: Positive Uptake in Strategic Procurement Planning among Projects Approved during 2018–2021*

* The figure shows the rate of strategic procurement planning (SPP) completion for all investment projects approved that required SPP each year, along with the total number of SPP reports completed each year for clarity.

Source: Asian Development Bank (Independent Evaluation Department) using data from Procurement, Portfolio, and Financial Management Department.

3. Supporting Procurement Capacity Development

20. ADB has supported procurement capacity development for ADB and DMC staff to ensure that the PPF reforms and related guidance notes can be implemented effectively. Effective procurement reform is possible when ADB staff and DMC partners have the skill sets and experience to translate PPF principles into operational practice, and if the environment in which ADB staff and DMCs operate serves to improve such efforts. Training to build procurement capacity is vital in supporting PPF implementation and should be provided systematically and strategically across the region. However, ADB staff capacity development is undertaken in silos and implemented in an ad-hoc manner, often varying across regional departments.

21. The silo approach is best illustrated by the varying approaches ADB's regional departments have taken in having their staff accredited through the Procurement Accreditation Skills Scheme (PASS).¹⁰ Considering that PARD operates in fragile and conflict-affected situations (FCAS) and in countries with limited capacity and high risks, the presence of PASS-accredited staff would be most needed and beneficial. But the evaluation found that PARD has the lowest number of PASS-accredited staff, in headquarters and resident missions, which can be partly attributed to PARD's lower overall volume of transactions and lack of systematic support for PASS accreditation of staff. Recognizing that PASS accreditation is time intensive and can hinder staff participation, the South Asia Department (SARD) provided an enabling environment utilizing a rotating scheme for staff participation. The workload of staff was reduced to allow them to become accredited. Once accredited, staff take on more work from other staff so they can become accredited as well. The approach has been extended to SARD resident missions, which have the highest number of PASS-accredited staff among all regional departments.

¹⁰ PASS is a blended learning program composed of certification at Level 1 (self-paced learning) and Level 2 (workshop and final exam), and accreditation at Level 3 (validation of experiences involving eligible procurement transaction). For reaccreditation or PASS renewal, staff take a final exam, which is updated with new policies and procedures to assess if staff procurement skills are up to date.

4. Outposting Procurement Specialists

22. Procurement specialists have been outposted to regional departments and resident missions as part of ADB's ongoing push for decentralization and delegation of procurement authority away from ADB headquarters.¹¹ Decentralization and delegation of procurement authority were meant to minimize the communication gap and distance between ADB and DMCs but were not implemented universally, as much of the high-value procurement is still managed from ADB headquarters.¹² The contribution of outposted staff is generally appreciated, but two concerns remain: (i) outposted staff seem to be overloaded and respond slowly, forcing project officers to look to other avenues for solutions; and (ii) outposted staff expertise is uneven, resulting in inconsistent guidance. Regardless, the evaluation's regression analysis of ADB's procurement portfolio data revealed a positive relationship between the number of outposted procurement staff in the DMC and its procurement performance, especially when procurement specialists work closely with sector specialists, implying that outposting procurement specialists has contributed to project success.¹³

5. Modernizing Procurement Data Management Systems

23. As part of its procurement reforms, ADB has started modernizing its procurement data management systems, specifically its information technology (IT) systems. Modernization is essential to increase efficiency in operations and obtain better insights on projects' fund utilization. Since 2017, ADB has launched three key IT systems: the Integrated Disbursement System (IDS), the Technical Assistance Claims Partner (TACP), and the Procurement Dashboard (ProcDash). IDS went live in July 2021, replacing the 1981 mainframe system. An IDS update was essential since it hosts the procurement contracts of ADB- and executing agency-administered projects, against which disbursements are made. The TACP enables consultants under ADB-administered contracts to submit claims from anywhere in the world. ProcDash is a public web-based reporting platform presenting analytical data on ADB-financed contract awards and disbursement, along with a downloadable database of contract awards. Many ADB procurement- and contract-related data management systems are now partly integrated ensuring improved data flows.

24. In DMCs, ADB support has catalyzed the development and adoption of e-GP systems (Box 5). More than 50 e-GP systems were assessed and cleared for use by the executing agencies to process tenders in ADB-funded projects. DMCs' rapid shift to use e-GP offers great potential for improved efficiency and transparency, provided ADB can keep up and ensure that ADB-financed procurement does not introduce inefficiency into the DMCs' overall procurement process. For 2021, around 54% of ADB's reported e-GP represents e-advertised bidding, where bidding advertisement is the only component communicated electronically to the public, while almost no other procurement process is managed electronically.

Box 5: ADB Support for Developing and Utilizing Domestic Electronic Government Procurement Systems

Just as the Asian Development Bank (ADB) is evolving its internal information technology (IT) systems, developing member countries have actively implemented e-bidding systems to modernize procurement. A survey conducted by ADB in 2020 reported that 24 countries in Asia and the Pacific have launched electronic government procurement (e-GP). More than 50% of these systems have existed for a decade. ADB has taken measures to assess the e-GP systems and authorize their use to handle procurement in ADB-funded projects. ADB has provided technical assistance to a few developing member countries to implement e-GP. In 2021, 54 projects were using e-GP systems, of which 25 had full e-bidding functionality. Transactional data (e.g., tender published date, bid submission date, and award of contract date), automatically recorded in the e-bidding systems, are being manually input into ADB systems for procurement tracking. If the data could be imported

¹¹ According to PPF, the outposting of procurement specialists dates back to 2010.

¹² While retaining responsibility for procurement at ADB headquarters might seem prudent at first glance, it would be so under the PPF only if risk assessment was done with proper due diligence through SPP. Even now, the criticality of a procurement is not widely considered within ADB, while retaining responsibility for the larger procurements in headquarters appears to cater to the prevailing preference for pushing through with bigger and faster procurements, in line with organizational incentives.

¹³ H. Wang. 2022. *Determinants of Asian Development Bank's Procurement Performance between 2011 and 2020*. Unpublished. (Supplementary Appendix).

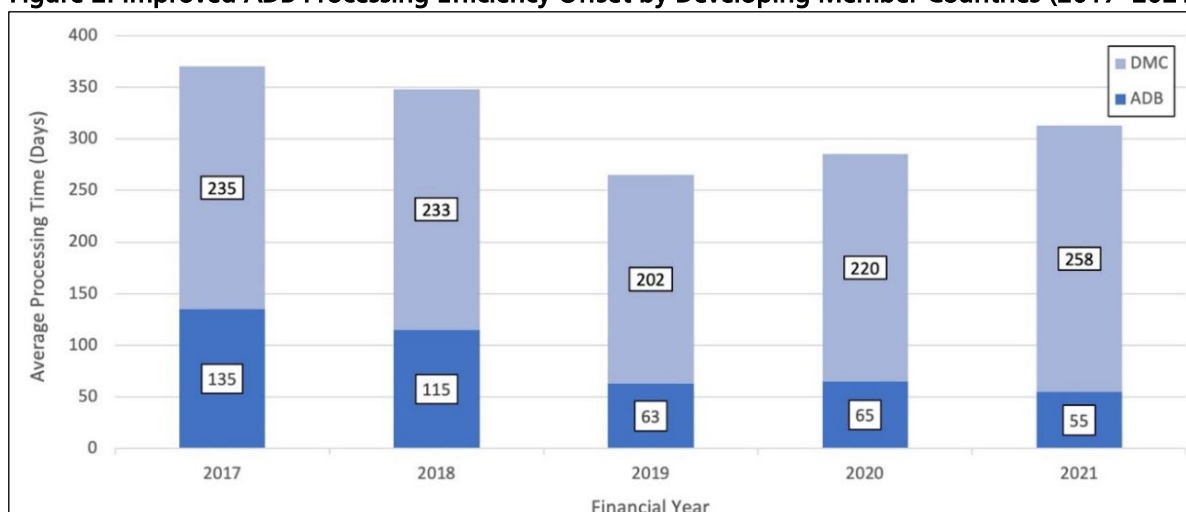
directly from the country e-GP systems into ADB's systems via IT system integration, the latency associated with manual input would decrease and data quality would improve. In recent years, many countries have adopted the Open Contracting Data Standard to report procurement data.

Source: ADB e-GP survey, Independent Evaluation Department.

6. Improving Procurement Efficiency

25. Improvements from PPF implementation are mostly in inputs and processes but have not been observed or measured for outcomes and development impacts. Even before the PPF's adoption, procurement efficiency had been key in driving and monitoring procurement, as evidenced by the use of procurement efficiency indicators in corporate results frameworks (CRFs). ADB has focused mostly on improving its procurement efficiency through timelier transactions, emphasizing quick disbursement, and reducing end-to-end procurement time. The portfolio analysis for 2017–2021 shows that the overall end-to-end procurement time increased slightly to 313 days in 2021 compared with the 2016 baseline (300 days). But ADB consistently reduced its portion of end-to-end procurement processing time year-on-year, which resulted in a 59% reduction in the average time to process procurement at its end compared with 2017.¹⁴ While ADB reduced its procurement time over the evaluation period, DMCs did not significantly improve their average processing time (Figure 2). This and other procurement reform challenges are discussed in the next section.

Figure 2: Improved ADB Processing Efficiency Offset by Developing Member Countries (2017–2021)



ADB = Asian Development Bank, DMC = developing member country.

Note: The figure shows the corresponding contributions from ADB and DMCs on the average end-to-end procurement processing time for ADB's yearly project portfolio.

Source: Asian Development Bank (Independent Evaluation Department) using data from Procurement, Portfolio, and Financial Management Department.

III. Procurement Reform Challenges

26. Because PPF reforms are ongoing and the reform rollout is delayed because of COVID-19, many of the outcomes or impacts have not yet manifested. The evaluation found that although ADB has successfully implemented certain aspects of the PPF, it has yet to contribute significantly to achieving optimal VfM. To ensure VfM, ADB will need to clarify and sharpen its communications with stakeholders to reach a consensus on what VfM is, how procurement will contribute to achieving value, and how to measure and monitor it during and after the intervention. Otherwise, PPF reform will face the following challenges: inadequate attention to risk; uneven rollout of procurement innovations; insufficient capacity development, incentivization, and integration of ADB staff; lack of a strategic approach for

¹⁴ ADB. 2022. *2021 Annual Procurement Report*. Manila.

DMC capacity development support; and insufficient improvement in data transparency and governance. This section examines the challenges and how they can be overcome.

A. VfM is Not Clearly Communicated nor Reflected in the Corporate Results Framework

27. The PPF introduced new procurement concepts and approaches that have not been clearly messaged or well communicated. Consultations with ADB staff and government officials indicated that many key procurement concepts are not clearly understood, including VfM. ADB's complex definition of and unclear messaging on key procurement concepts limit effective application of the PPF. ADB has described what PPF reforms would achieve in its policy papers, guidance notes, and annual reports but does not communicate clearly what some of the key procurement concepts mean in practice. Box 6 shows examples of often-repeated terms, many broadly or ambiguously defined and containing many related concepts. Clear messaging and better communication would help reduce any misunderstanding that might arise during procurement planning and negotiations.

Box 6: Key Procurement Concepts are Not Clearly Defined by ADB

Risk-based procurement is an approach that allows the borrowers, through the regulations, a risk-based oversight function for the review of procurement transactions by the Asian Development Bank (ADB). This approach requires comprehensive procurement risk assessments at country-level and, if applicable, at sector levels to focus on systemic problems and capacity constraints.

Quality requires that the procurement arrangements are structured to procure inputs and deliver outputs of appropriate standard in a timely and effective manner to achieve the project outcomes and development objectives, taking into account the context, risk, value, and complexity of procurement.

Value-for-money (VfM) enables the borrower to obtain optimal benefits through effective, efficient, and economic use of resources by applying, as appropriate, the core procurement principles and related considerations, which may include life-cycle costs and socioeconomic and environmental development objectives of the borrower. Price alone may not sufficiently represent VfM. Optimum VfM is achieved through strategic procurement planning, which develops suitable procurement strategy, including the design of procurement approach.

Sources: ADB. 2017. [Improving ADB Project Performance through Procurement Reforms](#). Manila; and ADB. 2022. [2021 Annual Procurement Report](#). Manila.

28. The current CRF maintains its focus on readily measurable, low-level outputs such as disbursement speed and quantity rather than improvements in quality or VfM. ADB introduced the CRF in 2008 and revised it several times, with the most recent (2019–2024) approved in 2019 in line with Strategy 2030. But the procurement-related results framework and tracking indicators (CRF levels 3 and 4) that are monitored and used to assess the performance of ADB procurement operations are mostly carryovers from prior CRFs or variations thereof. The PPF performance indicators that reflect VfM are not fully incorporated into the CRF. PPF reforms can be effectively implemented through a correlating results framework that highlights critical aspects of the reform process. However, lack of alignment with the CRF undermines the PPF's emphasis on flexibility, quality, and VfM.

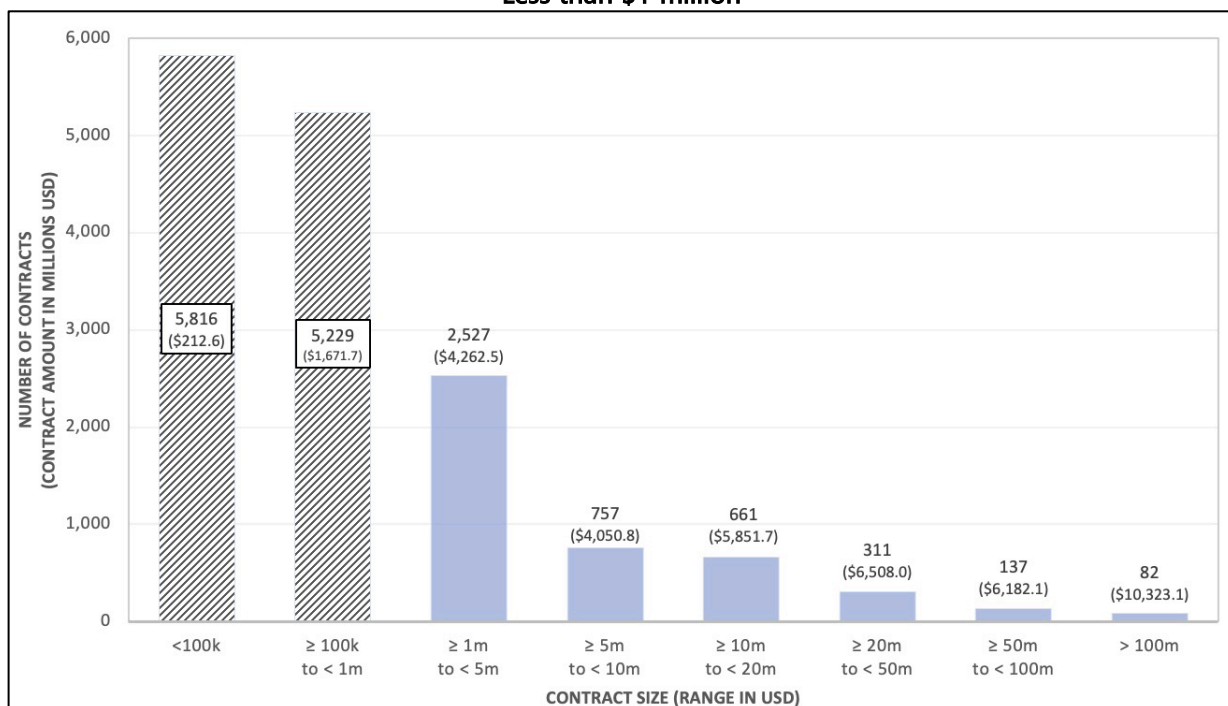
29. Four of the six PPF impact indicators for PPF measure the number of days to carry out procurement transactions: namely for end-to-end procurement, approval of bid evaluation reports, loans, and technical assistance (TA) consultant recruitment. The other two impact indicators measure the number of canceled bids or rebids and the percentage of evaluation reviews with one review round, but both are proxies for time since more canceled bids and more than one review mean that the process takes more time. If no attention is paid to transaction quality, shortcuts can be taken to achieve "better performance" at the expense of risk-based procurement principles. Consultations with ADB staff revealed that time is a critical factor when considering different bid approaches. For instance, the one-stage one-envelope process has recently become preferred by various ADB regional departments over the one-stage two-envelope process, which needs more time.

30. Emphasis on procurement speed could provide incentives that might undermine quality and VfM. CRF's procurement-related indicators incentivize ADB staff to continue prioritizing speed and the quantity of transactions rather than focus on quality and VfM. For example, for the three outcome indicators that ADB uses to measure progress in PPF implementation—the use and quality of SPP, the use of qualitative evaluation measures such as merit point criteria and life-cycle costing, and the time to comply with PPF requirements—attention to staff time use supersedes all other performance considerations in practice. Although time is important, better quality- or VfM-related indicators might shift incentives.

B. Risk is Not Assessed Based on a Contract's Criticality, but Rather on Its Size

31. Before the SPP rollout, ADB used a contract-size threshold classification method for procurement risk management. The Procurement Review System (PRS) tracked procurement milestones for executing agency-administered projects until the contract award, when tracking was transferred to the IDS. However, based on the contract-size threshold, only transactions of at least \$10 million were entered into the PRS before 2018, when the threshold was reduced to \$1 million. Even so, the lowered threshold still limits the visibility of smaller contracts for ADB, while constraining its ability to monitor and measure procurement performance. Small contracts were only worth about \$1.9 billion, or 4.8% of the total value contracted, but they accounted for 11,045 contracts (71%) in 2018–2021 (Figure 3). ADB does not monitor and manage more than 70% of its contracts through the PRS because they are considered low risk, a category that assumes that the size of a contract is proportional to its risk.

Figure 3: Asian Development Bank Does Not Monitor or Manage the Procurement Risk of Contracts Less than \$1 million



Note: Visibility of smaller contracts through the Asian Development Bank's current contract management system: operational procurement threshold for goods, works, and other related services (2018–2021).

Source: Asian Development Bank (Independent Evaluation Department) using data from [Procurement Statistics Dashboard](#).

32. The current contract value-based threshold does not account for two key realities: (i) procurements do not pose risks that are proportional to their size, and (ii) the most critical procurement package for project success is not always among the largest. These critical procurements or contracts, irrespective of their financial amount, could negatively impact project performance if not procured with the required quality and efficiency. Depending on how critical the contract is for project success, project officers and procurement specialists should conduct prior due diligence in an agile manner, regardless

of value thresholds. Doing so requires understanding how critical a contract is for project success, which SPP could provide through proper upstream prior due diligence on technical procurement requirements.

C. Adoption of Strategic Procurement Planning is Ongoing across DMCs

33. With the PPF, the task of identification and risk assessment of critical procurement packages for a project was incorporated into the SPP process, but the evaluation found the application of SPP varied substantially by country based on its capacity. Some lacked capacity (FCAS/small island developing states [SIDS]), while others found the task cumbersome (the People's Republic of China, India). The SPP guidance implies that procurement staff should change their mindsets and embrace risk-adjusted procurement to focus more on riskier and highly complex operations than on less risky ones. Accredited specialists train others to use specialized evaluation methods such as rated criteria in requests for proposals to meet international quality assurance and risk management standards. All these factors taken together contribute to improved procurement systems and VfM; and need to be seen as an interconnected system rather than individual processes. While some DMCs could not adopt the SPP as quickly as others, early adopters experienced delays because of SPP's additional requirements or found following through with the SPP to be cumbersome as it involved repeating exercises that added little value to procurement.

34. Consultations during country case assessments with executing and/or implementing agencies that perceived SPP as additional work adding little value were more prevalent in countries with relatively advanced procurement capacity. The perception could partly explain why countries in Group C were the only ones that had a shorter procurement time on average than other DMC groups in 2017–2021, as they already had the capacity to implement fit-for-purpose approaches. For the executing and/or implementing agencies lacking capacity to produce their own SPP reports, SPP was carried out mostly through consultants. The result was low levels of DMC involvement and minimal transfer of procurement capacity or knowledge, which partly explains the increased delays in the DMCs' portion of procurement processing time for Group B countries (Table 1).¹⁵

Table 1: Procurement Time Improvement is Driven by Developing Member Countries' Capacity: Comparison of Average Procurement Time by Country Group (2017–2021)

Average Procurement Time (2017–2021)	Country Group 1			Country Group 2			Statistical Significance
	Projects	Mean (days)	Std. Err. (days)	Projects	Mean (days)	Std. Err. (days)	
ADB processing time (Group A vs. others)	152	71.2	9.2	630	67.0	2.9	-
DMC processing time (Group A vs. others)	152	193.1	9.4	630	198.9	5.4	-
Total processing time (Group A vs. others)	152	264.2	14.6	630	266.0	6.7	-
ADB processing time (Group B vs. others)	229	64.4	3.9	553	69.3	3.9	-
DMC processing time (Group B vs. others)	229	224.3	8.6	553	186.8	5.6	***
Total processing time (Group B vs. others)	229	288.7	10.0	553	256.1	7.6	*
ADB processing time (Group C vs. others)	330	59.0	3.5	452	74.3	4.4	*
DMC processing time (Group C vs. others)	330	170.8	7.4	452	217.5	6.0	***
Total processing time (Group C vs. others)	330	229.8	8.7	452	291.8	8.3	***

ADB = Asian Development Bank, DMC = developing member country, std. err. = standard error.

Notes:

1. DMCs are placed in three categories: adequate, limited, and lack of creditworthiness. ADB uses a three-tier classification system: Group A (concessional assistance only), Group B (ordinary capital resources [OCR] blend), and Group C (regular OCR only). ADB. 2022. [Operations Manual: Policies and Procedures](#). Classification and Graduation of Developing Member Countries. OM Section A1. Manila.

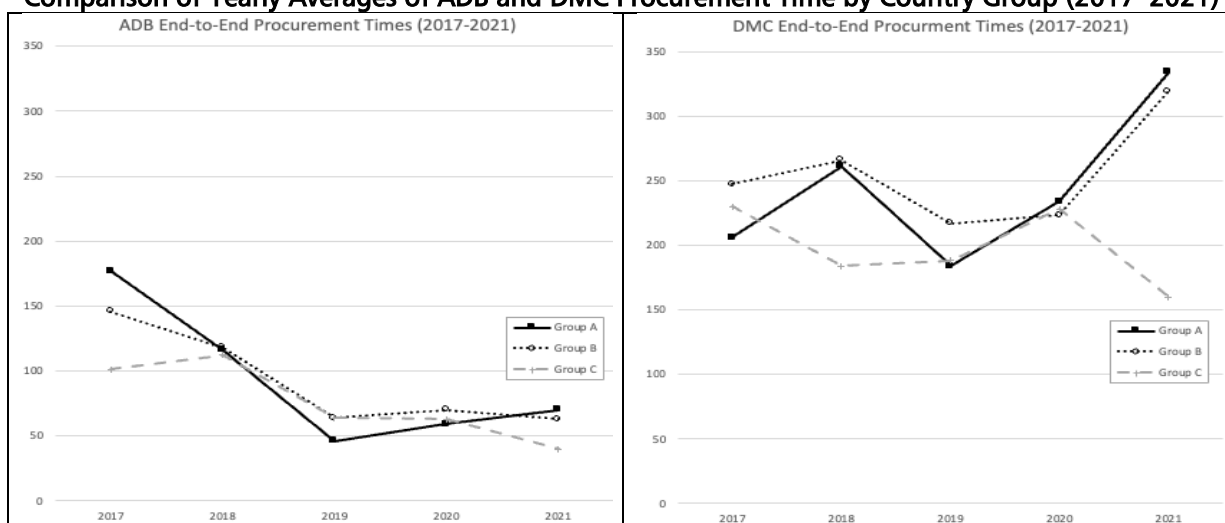
2. Statistical significance of the difference between the two country groups is designated as follows: - means they are not statistically significant in their difference, * means $P \leq 0.05$ or 95% possibility of statistically significant difference, ** means $P \leq 0.01$ or 99% possibility, and *** means $P \leq 0.001$ or 99.9% possibility.

Source: Asian Development Bank (Independent Evaluation Department) using data from Procurement, Portfolio, and Financial Management Department.

¹⁵ Procurement capacity might not be the only factor here, as language barriers, different portfolio makeup, and varying sociopolitical situations could significantly affect procurement performances. See Appendix 5 for a more comprehensive comparison of end-to-end procurement processing time by country group.

35. The trend of procurement performance being dependent on DMC capacity—as proxied by ADB's country classification—based on creditworthiness—becomes evident when comparing performance over time. Figure 4 shows how groups of countries with lower procurement capacity (Groups A and B) suffered a significant increase in procurement time in 2021, while the average procurement time for Group C, which includes countries with advanced procurement capacity, was not negatively impacted, unlike ADB procurement times, which followed downward trends across all country groups.

Figure 4: Procurement Efficiency Varies by Developing Member Country (DMC) Procurement Capacity: Comparison of Yearly Averages of ADB and DMC Procurement Time by Country Group (2017–2021)

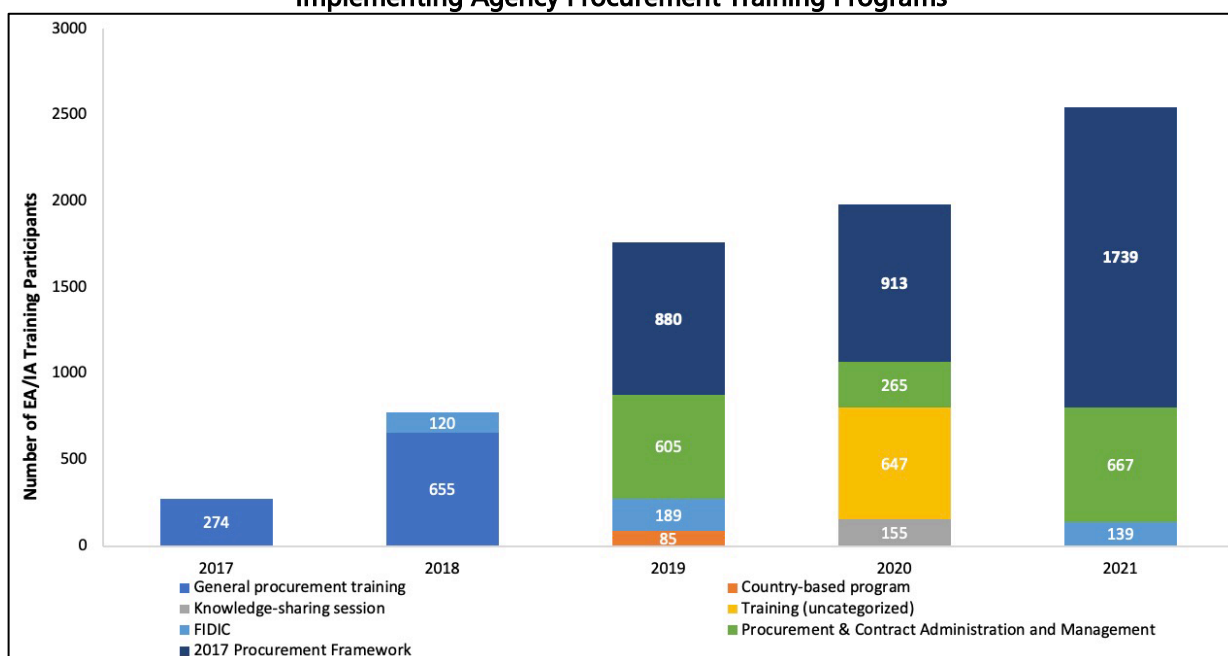


Source: Asian Development Bank (Independent Evaluation Department) using project-level procurement processing data from the Procurement, Portfolio, and Financial Management Department.

36. IED country evaluations flagged DMC capacity issues, which are more pronounced in FCAS and SIDS despite many years of procurement capacity building. DMC and ADB staff observed several reasons why ongoing procurement training was needed: high staff turnover in DMC agencies or their implementing units; continuing and frequent changes to ADB template bidding documents and guidance notes, leading to the need for frequent training updates; DMC staff not working solely on ADB-financed procurement; and limited English language skills. To maximize the benefits for DMCs from procurement and project implementation, ADB prioritizes short, high-intensity trainings on compliance with ADB's procurement standards and practices, versus long-term procurement capacity development for DMC partners. The short-term gains for ADB and the DMC might be considerable, but the effectiveness and sustainability of capacity improvement could diminish rapidly after procurement.

37. ADB has not designed or implemented measures to test or accredit procurement capacity among DMC officials, resulting in inefficient planning and implementation of ADB-financed projects. Even as recently as 2021, 2017 PPF training was still the main content of PPF's training for DMCs (Figure 5). Of the 3,705 executing and implementing agency participants, almost half participated in PPF training, suggesting that the rollout and uptake of the new system are lengthy and ongoing. Country consultations found that a substantial number of DMC interviewees were still working on ongoing projects approved before the PPF and thus had not yet had an opportunity to apply what they had learned from their training. Even so, ADB's existing training and workshops for DMC officials have supported greater compliance, not procurement capacity development or SPP. For example, the PASS accreditation training continues to encourage compliance rather than risk-based procurement decision-making. And updated PASS course content has had only minor adjustments since the adoption of the PPF, with a focus on integrating new rules, not new skills. ADB's provision of capacity development training and workshops for DMC officials helped keep them updated with changing procurement regulations and processes, but evidence of improved DMC procurement capacity that can be attributed to ADB's training support is limited.

Figure 5: 2017 Procurement Policy Framework Rollout Is Still the Main Content of Executing and Implementing Agency Procurement Training Programs



EA = executing agency, FIDIC = International Federation of Consulting Engineers, IA = implementing agency, PPF = Procurement Policy Framework.

Note: Excludes project design and implementation training in 2021, as it had only 7 participants.

Source: Asian Development Bank (Independent Evaluation Department) using data from Procurement, Portfolio, and Financial Management Department.

D. High Bar to Implementing Procurement Innovations

38. ADB's guidance notes and SPP training have not translated to significant capacity growth in DMCs as proxied by the increase in the use of innovative procurement practices. In most DMCs, implementing agency staff transfer in and out of project procurement roles with the establishment of project implementation units, making it challenging to ensure that they have the skills to use alternative evaluation measures such as merit point criteria and life-cycle costing. Without sufficient capacity development or policy reform, DMCs cannot be expected to follow the PPF and take advantage of the flexibility it offers since their domestic laws and regulations require them to be rule-based or risk-averse. Although procurements under ADB-financed projects are governed by the PPF, many DMCs feel they cannot depart from their national laws and regulations, especially when ADB and DMCs have differences of opinion. And when faced with governance, integrity, and transparency issues, being flexible is not easy. ADB cannot expect DMCs to simply adopt PPF reforms. ADB must first systematically assess the DMCs' procurement systems and then provide a customized capacity-strengthening package such as training courses, accreditation, and policy reform support.

39. Although originally touted as an innovation that would bring fit-for-purpose procurement solutions to DMCs, APAs using DMCs' rules and procedures have not been used as expected. In fact, there has been no APA using DMCs' rules and procedures (Table 2). Besides using the procurement systems of other MDBs and development agencies, APAs promote the use of DMC procurement systems, where possible. And if a standard approach cannot meet project outcomes and development objectives, especially in capacity-constrained environments, a customized approach may be adopted, using transaction-specific methods and documentation. This approach includes APAs with multilateral,

bilateral, and accredited government agencies, depending on the circumstances when their application is deemed appropriate.¹⁶

40. But APAs have not been widely implemented largely because of the high bar of entry set by ADB. Since 2017, ADB has approved only five projects using APAs with MDBs, in 2019 and 2020 (Table 2), and APAs using DMC procurement systems are still in the pipeline. The uptake of APAs could be slow because they do not have carte blanche approvals but require ADB to enforce associated conditions, caveats, assessments, approval processes, and supplementary fiduciary oversight on procurement transactions. Until these roadblocks are minimized, the use of APAs in ADB-funded investment projects will remain unattractive for DMCs.

Table 2: Few Projects Have Been Approved under Alternative Procurement Arrangements (2017–2021)

Project Name	ADB (\$ million)	Cofinancing (\$ million)	Total (\$ million)	Status
UZB: Power Generation Efficiency Improvement	450.0	EBRD: 240.0	690.0	<ul style="list-style-type: none"> • ADB lead • Project implementation agreement signed with EBRD on 3 July 2019
KIR: South Tarawa Water Supply Project	13.0	World Bank: 13.0	26.0	<ul style="list-style-type: none"> • ADB lead • Project APA signed with World Bank in February 2019
SOL: Urban Water Supply and Sanitation Sector	37.0	World Bank: 15.0	52.0	<ul style="list-style-type: none"> • ADB lead • Project implementation agreement signed with World Bank on 30 January 2020
KIR: Outer Island Transport Infrastructure Investment Project	12.0	World Bank: 30.0	42.0	<ul style="list-style-type: none"> • World Bank lead • Project implementation agreement signed with World Bank on 15 September 2020
TAJ: Power Sector Development Program	105.2	EBRD: 25.0	130.2	<ul style="list-style-type: none"> • ADB lead • Project implementation agreement signed with EBRD on 11 December 2020
TOTAL	617.2	323.0	940.2	

ADB = Asian Development Bank, EBRD = European Bank for Reconstruction and Development, KIR = Kiribati, SOL = Solomon Islands, TAJ = Tajikistan, UZB = Uzbekistan.

Note: Not shown in the table are four projects approved under alternative procurement arrangements in early 2022, for which Memoranda of Understanding were signed with United Nations agencies in 2021.

Source: Asian Development Bank (Procurement, Portfolio, and Financial Management Department).

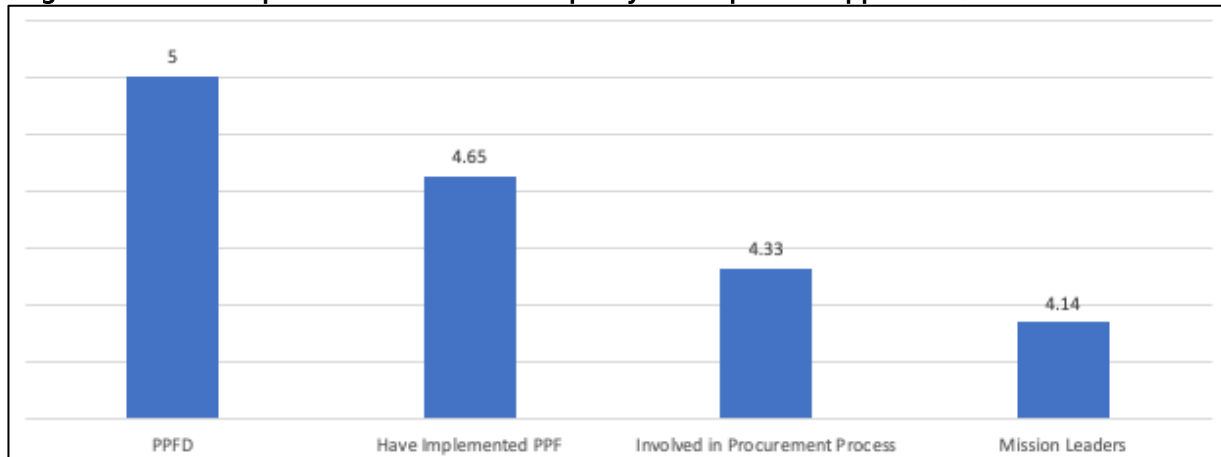
E. Insufficient Capacity Development, Incentivization, and Integration of ADB Staff

41. ADB staff's procurement capacity and performance cannot improve without the right set of incentives accompanying training and workshops. The CRF's procurement-related indicators show how ADB staff would be incentivized to continue to prioritize speed and quantity of procurement transactions rather than change their focus to quality and VfM. While numerous workshops and trainings have been related to procurement capacity development for ADB project officers, stocktaking of procurement skills has been scant. Hence, the institutional tendency to revert to risk aversion and rule-based decision-making will likely remain entrenched. The burden of risk-taking is left to the decision of project team leaders or DMC officials, who have little to gain from trying innovative procurement or evaluation criteria but more to lose if procurement fails. The lack of support from ADB was reflected in the staff survey (Appendix 6). Staff in the frontline of operationalizing the PPF,

¹⁶ ADB may agree to (i) apply the procurement rules and procedures of another multilateral or bilateral agency or organization involved in the project, and may agree to such a party taking a leading role in providing implementation support and monitoring project procurement activities; or (ii) rely on the procurement rules and procedures applied by an agency or entity of the borrower accredited by ADB, provided that in each case (a) such arrangements are compatible with the value, risk, or complexity of the procurement; (b) such arrangements are consistent with the core procurement principles; (c) unless waived, ADB's member country eligibility restrictions continue to apply; and (d) ADB's Anticorruption Guidelines and contractual remedies in applicable financing agreements with the borrower continue to apply. ADB. 2017. *ADB Procurement Policy: Goods, Works, Nonconsulting and Consulting Services*. Manila.

specifically mission leaders and staff involved in procurement, had a significantly lower perception of the procurement capacity development support they had received (Figure 6). ADB needs to wholly commit to the PPF and not leave it as a one-time initiative for PPFD to wrestle with alone. Changes in incentives, messaging, and processes are needed to foster confidence among ADB and DMC staff to take reasonable risks and pay attention especially to the procurement package that may be critical to project success.

Figure 6: Staff Perceptions of Procurement Capacity Development Support Lower for Frontline Staff



PPF = Procurement Policy Framework; PPFD = Procurement, Portfolio, and Financial Management Department.

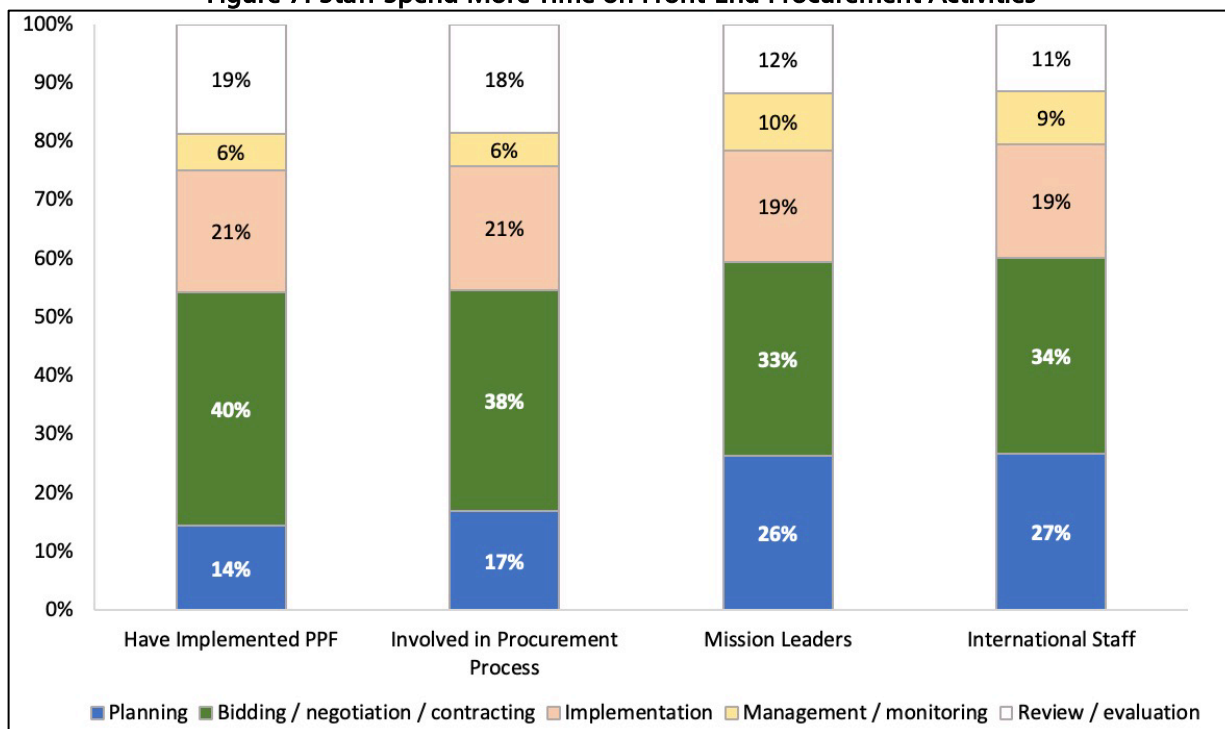
Note: Result of the perception survey to the statement, "ADB has supported improvement of my procurement capacity and performance," where the responses ranged from 1 (*strongly disagree*) to 6 (*strongly agree*).

Source: Asian Development Bank (Independent Evaluation Department), ADB Staff Perception Survey.

42. PPFD has decentralized and delegated procurement authority to regional departments and resident missions without a clear strategy for sustainable procurement capacity transfer to DMCs. The PPF reforms coincided with an increase in the number of outposted PPFD staff to resident missions, from three to seven before 2017, to nine in 2017–2020, and to eleven in 2021.¹⁷ However, outposting has not been strategically linked with procurement risks. It is up to the regional departments to determine staff complements and allocations. In addition to outposted staff, PPFD country focals are assigned to the remaining countries (often more than one) and perform the same duties as outposted staff except that they are in ADB headquarters. Significant benefits have not been observed in more efficient use of staff time: 75%–86% of respondents said most of their efforts were in front-end procurement activities (planning, bidding, negotiation, contracting) rather than back-end ones (implementation, procurement complaints tracking, management, monitoring, review, evaluation) as illustrated in Figure 7.

43. The system of country focals provides more flexibility for management and allows rapid response to changes in demand. The assignment of roles appears geared to cost efficiency. Resident mission national staff oversee nationally advertised procurement (except for projects or packages assessed as higher risk and managed by headquarters), and outposted staff oversee procurement in DMCs with larger portfolios or a larger proportion of internationally advertised procurement. Decentralization and delegation of procurement authority were meant to minimize the communication gap between ADB and DMCs but were not implemented universally because most high-risk procurement is still managed from ADB headquarters.

¹⁷ While the number of outposted specialists may vary from year to year, 24 procurement specialists were outposted or strategically placed in 2021. Of these, 11 were outposted to resident missions (Mongolia, the People's Republic of China, India, Pakistan, Bangladesh, Nepal, Georgia, Uzbekistan, the Philippines, Indonesia, and Papua New Guinea), while 13 went to regional departments in ADB headquarters. Source: Asian Development Bank (Procurement, Portfolio, and Financial Management Department).

Figure 7: Staff Spend More Time on Front-End Procurement Activities

PPF = Procurement Policy Framework.

Note: Ratio of survey respondents identifying which procurement activities that they spent the most time on.

Source: Asian Development Bank (Independent Evaluation Department), ADB Staff Perception Survey.

44. The lack of an ADB-wide procurement capacity development strategy undermined the relevance and effectiveness of ADB's past support, although ADB provided considerable training, workshops, clinics, and guidance notes for staff in supporting PPF implementation. In the road map of PPFD to upskill its talent base, each staff member was to have 10 training days by 2022, from 3 days in 2019. Staff participation rates improved, with average annual training days for PPFD staff at 4.9 days in 2020 and 5.2 days in 2021. Lacking was a strategic approach for systematically building procurement capacity beyond mandatory PASS accreditation for project administration unit heads and procurement specialists and officers. PPFD guidance advises that PASS is "essential for ADB staff who review, process, and approve project-related documents and requirements," but the program is not designed to train staff as procurement specialists.¹⁸ An innovative example of more sustainable practices to institutionalize and systematically increase staff procurement capacity has been undertaken in the Viet Nam Resident Mission (Box 7). Without corporate attention to the level and location of procurement skill sets, planning and executing a strategy to develop staff competencies will remain challenging.

Box 7: Lessons on Procurement Capacity Development from ADB Viet Nam Resident Mission

In 2015, the Viet Nam Resident Mission took steps to develop national staff internal procurement capacity. Several analysts assisted the resident mission procurement team in reviewing procurement transactions in 2013–2017. Resident mission staff reviewed draft bidding documents and/or bid evaluation reports following the guidance and oversight of outposted procurement specialists and/or procurement officers, thus freeing up senior staff's time. The practice was voluntary, with staff determining the depth of their own involvement and some registering it in their work plan as a part-time assignment to the procurement unit. Gaining experience, project analysts were positioned to progress to national procurement officers.

Source: Asian Development Bank (Independent Evaluation Department).

¹⁸ It was noted by PPFD that because of ADB's New Operating Model and the expectation that regional department-based procurement staff will now report to PPFD, the Budget, People, and Management Systems Department and PPFD have committed to review the PASS program and develop a new approach in the first half of 2023.

45. By pushing for more outposting of procurement specialists to regional departments and resident missions, ADB has enabled PPF to readily provide guidance and procurement support, bringing significant benefits across the region. But outposting has not been expanded much beyond the scope of its initial rollout, which has been based on financial volume rather than portfolio complexity or DMC capacity. Along with the meager stocktaking of existing procurement skills, DMC staff have no mechanism for procurement training, testing, and accreditation comparable to the pathway offered to ADB staff. Staff upskilling is not based on a corporate training needs assessment, nor is staff decentralization linked to any stocktaking of experienced procurement staff. ADB needs to commit to equipping itself with the mechanism and capacity to train its staff on procurement, and to measure, monitor, and accredit their ability to effectively carry out PPF reforms.

46. Beyond outposting, ADB needs to push for greater changes in its workplace culture to take full advantage of its procurement expertise. Despite prior efforts at cultural transformation in ADB, silos still prevail in procurement, as became evident when interviewed sector specialists appeared to distance themselves or cordon themselves off from procurement, unless another department asked for sector-related advice or comments. ADB has attempted to increase open engagement across departments through the Cultural Transformation Initiative (2021) and plans to take it a step further with its New Operating Model following the recent Organizational Review (2022).¹⁹ ADB will expand the range of operations services, including for safeguards, procurement, and financial management, which will be housed in bank-wide central units. Procurement will join cross-functional project teams, which will be empowered to resolve more issues within the team during processing and take more decisions when administering projects, thereby streamlining quality assurance.

47. Greater collaboration and knowledge sharing among team members are essential to ensure that SPP is more integrated and holistic, and to boost the more strategic use of procurement to achieve DMCs' wider social and economic objectives, particularly for environmentally sustainable growth and climate change. While procurement policies, rules, regulations, and procedures are the domain of procurement professionals, a positive outcome cannot be guaranteed without a complete team effort by procurement specialists, project officers and analysts, and technical and country management teams. SPP and designing of complex procurement documents cannot be done solely by procurement specialists; they need technical and other related inputs, advice, and guidance from project officers and technical specialists. By combining knowledge and experience of all stakeholders through a One ADB approach, ADB could take full advantage of the flexibility and innovations introduced by the PPF and possibly reach a consensus on the optimal value to be delivered through procurement.

F. Insufficient Planning and Coordination for DMC Capacity Development Support

48. Although procurement efficiency of ADB staff has visibly improved, the same cannot be said of DMCs. To ensure that capacity building contributes to procurement effectiveness, ADB needs to adopt a strategic approach for its capacity development support, along with methodologies for stocktaking, testing, and accreditation of procurement capacity of ADB staff and DMC officials. Procurement capacity development needs to be tailored to the needs of DMCs as they vary widely. For example, agencies implementing policy- and results-based lending (PBL and RBL) are assumed to not require any ADB-supported procurement training since country systems are used under PBLs and RBLs. Countries with well-developed national procurement systems (and possibly e-GP systems) may need only training on ADB procedures. Countries with weak national procurement systems (i.e., FCAS and SIDS) may need constant training on good procurement practice and ADB procedures. Procurement capacity development is too often included as a supplementary activity within a project or regional TA, rather than as a key component in the CPS to improve overall development effectiveness.

¹⁹ ADB. 2022. [*Organizational Review: A New Operating Model to Accelerate ADB's Transformation Toward Strategy 2030 and Beyond*](#). Manila.

49. A strategic approach to capacity development is necessary in countries with larger ADB-financed portfolios or a sector pipeline of projects. The approach could involve affiliating with a training institution or using self-study modules with case studies for learning outreach. For countries where ADB's engagement is intermittent, project-by-project capacity development may be sufficient. DMC executing and implementing agencies remarked during consultations that a strategic approach appeared lacking despite the existence of a clear project pipeline. For example, staff of the Department of Public Works and Highways in the Philippines, a major executing agency, had not received procurement training since 2016.

50. ADB has not presented a consistent strategy or systematic approach for strengthening public procurement systems within its CPSs. The country sector/agency procurement risk assessment (CSPRA) was meant to inform CPS preparation with regard to procurement, but it appears to have been less than effective in the role. The CSPRA provides data to resident missions and project officers on the procurement environment and is intended to inform CPS preparation. But the CSPRA typically does not propose specific TA. CPSs have few references to procurement capacity building (Table 3). And corresponding country operations business plans, recently replaced with indicative country pipeline monitoring reports, showed only a few instances of procurement-related TA linked with the CSPRA. CSPRAs are not up to date, which limits their usefulness in informing procurement transactions. The one for Papua New Guinea, for example, has not been updated since 2017. The situation is concerning, given ADB's transition to a risk-based procurement approach and the need to enable informed decision-making and mitigate risks.

Table 3: Country Partnership Strategies Make Limited References to Procurement Capacity Building

Country	Reference	Title
Azerbaijan	CPS, 2019–2023	Strengthening the Asia Pacific Public Electronic Procurement Network (REG-9680)
Thailand	CPS, 2018–2023	Strengthening Project Readiness, Procurement and Financial Management in Southeast Asia (REG-9923)
Lao PDR	CPS, 2017–2020	
Cambodia	CPS, 2019–2023	
Indonesia	CPS, 2020–2024	
Viet Nam	CPS, 2016–2020	
Bangladesh	CPS, 2021–2025	Capacity Building for Improving Portfolio Performance (TA-9560)
Papua New Guinea	CPS, 2021–2025	Pacific Private Sector Development Initiative, Phase IV (Project Number 53072-001) (REG)
Pacific Region	Pacific Approach, 2021–2025	

CPS = country partnership strategy, Lao PDR = Lao People's Democratic Republic, REG = regional, TA = technical assistance.

Note: In addition to the listed TAs, there was also Strengthening of Public Procurement for Improved Project Implementation, 2016–2021 (TA 9158 in Mongolia), but was not added to the table, as it does not appear in Mongolia's CPS for 2012–2014, 2014–2016, or 2017–2019.

Source: Asian Development Bank (Independent Evaluation Department).

51. Development effectiveness is better achieved by strengthening country procurement systems rather than solely building capacity to meet ADB's procurement procedures (Box 8). Empowering DMCs for full handover of the procurement role in sovereign investment operations remains a work in progress, however, and still has a long way to go. Yet handover has been achieved through PBL, RBL and financial intermediary loans. In 2021, use of these modalities reached 56% of total sovereign operations (Figure 8). Although resources disbursed are linked to achievement of agreed policy reforms and program results for PBLs and RBLs respectively, fungibility of government's own funds means that these resources are used for capital and operating expenditures using government's own public procurement policy rules and procedures. Nevertheless, for sovereign investment projects, the use of ADB's procurement policy and regulations with prior review and no objection at each stage of procurement is still the norm. While the jump in 2020 reflects ADB's COVID-19 pandemic response and is not expected to continue, at least one-third of ADB's resources used country procurement systems before the pandemic. Working with other development partners and MDBs that provide budget support might be the best way to build country procurement capacity as part of an overall approach to improving public financial management and other public sector reforms. While PBL has been used to

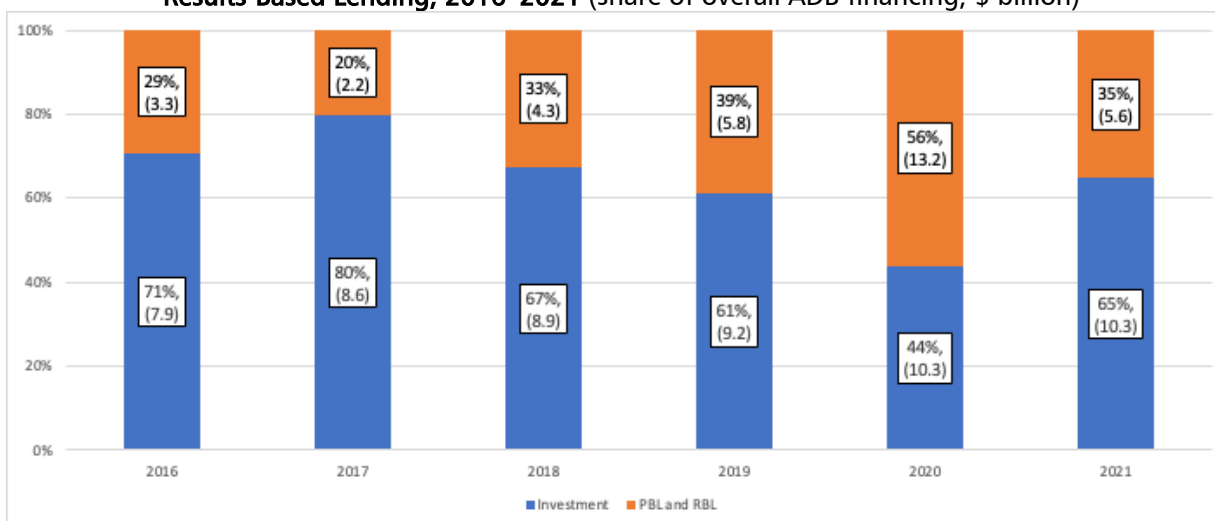
support DMC procurement reforms,²⁰ the evaluation found few such examples over the evaluation period.

Box 8: Domestic Procurement Capacity Strengthening in Fragile and Conflict-Affected Situations and Small Island Developing States: Papua New Guinea

The Asian Development Bank (ADB) supported PNG Power Limited (PPL) in procurement. PPL is responsible for generating, transmitting, distributing, and retailing electricity throughout Papua New Guinea (PNG) and is the implementing agency for most ADB energy sector programs. The State-Owned Reform Program supported development of the PPL procurement policy, clarifying financial delegation authorities and limits, and processes to commit PPL funds. The PPL board approved the revised procurement framework (guided by and in part modelled on ADB's 2017 Procurement Policy Framework) and new processes to support increased gender equality. Officials from the governments of Australia and New Zealand stated that the procurement reforms supported through the program were arguably one of ADB's greatest contributions to PNG development, particularly given the urgent need for sustained state-owned enterprise procurement reform and that only 12% of the population have access to electricity.

Source: ADB (Independent Evaluation Department).

Figure 8: An Increasing Share of ADB Resources Is Channeled through Country Systems. Policy- and Results-Based Lending, 2016–2021 (share of overall ADB financing; \$ billion)



ADB = Asian Development Bank, PBL = policy-based lending, RBL = results-based lending.

Source: Asian Development Bank (Independent Evaluation Department) using data from [Procurement Statistics Dashboard](#).

G. Little Improvement in Procurement Data Transparency and Governance

52. ADB has continued to modernize its procurement data collection, contract management, and performance measurement. But many of the processes remain heavily dependent on time-intensive manual input by DMC executing and/or implementing agency officials, ADB project staff, or procurement specialists. As a result, the processes suffer from inconsistent data quality and availability across projects, countries, or departments. The lack of overall data integration does not help. Nine IT systems are used to process ADB's procurement data, with at least 25 integration areas among them; about 40% of integration has not yet been automated.²¹ Key data inputs—such as the contract award information and consultant selection number—are not automatically transferred across all the systems. Manual input by ADB project staff or procurement specialists is time-consuming and error-prone, which could result in inconsistent referencing of a package in different systems. For effective quality control

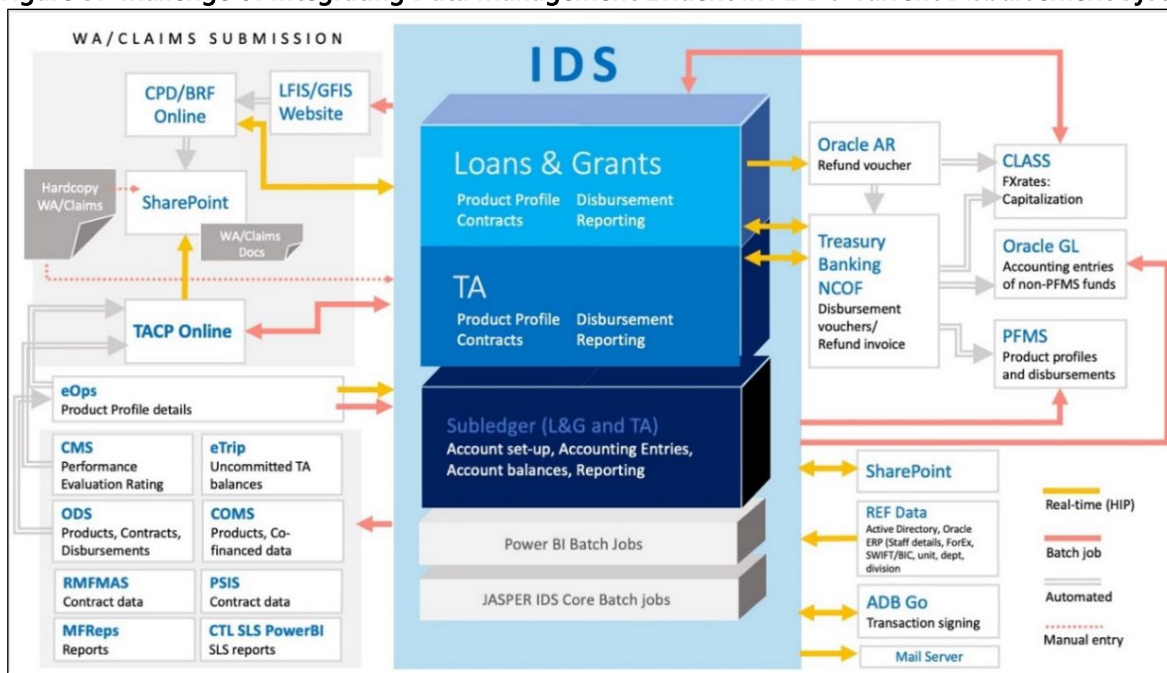
²⁰ A rare example of PBL being used to support DMC procurement reforms was in Indonesia—being one of the largest recipients of ADB's PBL—where the country procurement systems are used.

²¹ R. Somasundaram. 2022. *Evaluation of Procurement Data Systems in ADB*. Unpublished. (Supplementary Appendix).

of procurement data, ADB should define in detail the integration requirements for the IT systems and integrate them quickly.

53. ADB's siloed IT systems have only been loosely integrated through several partial updates. Procurement and contract-related data are still not seamlessly integrated across multiple IT systems partly because an overall data management strategy is lacking. On 19 July 2021, the IDS went live (Figure 9), replacing the old and outdated mainframe system of 1981. However, the IDS' shortcoming was immediately apparent as it had been designed as a lift-and-shift or a straight port of existing data from the old mainframe systems into a more modern database, without much integration of various systems. Even so, the update was one of the most significant in ADB's procurement data management systems, which have been only sporadically updated and integrated over the past decade. Additional integration planned by ADB in the form of IDS 2.0—with completion expected by the end of 2025—should further improve the governance, risk management, and control over the management of executing agency-administered contract data. Ideally, a contract-level, end-to-end transaction monitoring tool would provide richer, more accessible data for planning, risk management, and market intelligence. ADB and borrower teams would be able to interrogate real-time and historical data more deeply on procurement progress against agreed plans, bottlenecks and their causes, complaints and actions taken, bidders registered, bids submitted, cost estimates, and evaluation results.

Figure 9: Challenge of Integrating Data Management Evident in ADB's Current Disbursement System



ADB = Asian Development Bank, AR = accounts receivables, CMS = Consultant Management System, CPD = Client Portal for Disbursements, CTL = Controller's Department, eOps = eOperations, ERP = enterprise resource planning, eTrip = ADB's online travel processing system, GFIS = Grant Financial Information Services, IDS = Integrated Disbursement System, L&G = loans and grants, LFIS = Loan Financial Information Services, NCOF = net cash outflows, ODS = other debt security, PFMS = Public Financial Management Systems, PowerBI = Power Business Intelligence, PSIS = Investment Funds and Special Initiatives Division, RMFMAS = Resident Mission Financial Management and Accounting System, SLS = Service Level Standards, TA = technical assistance, TACP = Technical Assistance Claims Partner, WA = withdrawal application. Source: Asian Development Bank (Information Technology Department).

54. Three key IT systems were launched since 2017: the IDS, the TACP, and ProcDash. The update of IDS was essential, as procurement contracts in ADB and executing agency-administered projects are created in IDS, against which disbursements are made. The TACP and ProcDash play a more limited role, as the former provides external consultants access to ADB-administered contracts so they can submit their claims from anywhere in the world, while the latter offers the public analytical data on ADB-financed contract awards and disbursement. Without clear reporting requirements and integrated data

management systems, ADB does not have the tools and integration it needs to measure its procurement data and monitor its performance effectively.

IV. Recommendations for Delivering Value for Money

55. ADB made a promising start in implementing the PPF. New guidelines have broadened the menu of procurement options and introduced new concepts, ADB has outposted more procurement staff to resident missions, and DMCs have begun to use more qualitative criteria to assess bids. Procurement plans are prepared systematically and analytically. Significant resources have been committed to updating and integrating ADB data management systems and to training ADB staff and DMC partners. But replacing 50 years of rules-based procurement practices with a more modern approach is a long-term endeavor. Overall, delivering optimal VfM for DMCs through procurement will be challenging without strong and sustained commitment from ADB operations departments to roll out PPF reforms strategically and according to country context. The overarching evaluation question was, “To what extent has implementation of the PPF contributed to achieving optimal VfM in response to DMCs’ procurement requirements?” The evaluation found that ADB was moving in the right direction but faced challenges in achieving VfM. Although ADB’s portfolio has pockets of best practices and innovations, no system is in place to measure quality or VfM in procurement outcomes. The evaluation recommends the following:

56. **Recommendation 1. Clearly message and better communicate key procurement principles and objectives.** Current definitions of some of the most important principles and objectives for the PPF—such as risk-based procurement, quality, and VfM—are complex and do not lend themselves to measurement. The concepts are not clearly communicated to ADB staff and DMC officials, making it difficult for key stakeholders to agree on what the terms mean, adding to confusion and miscommunication during procurement design, planning, negotiation, and approval. The complexity and multiple facets involved in procurement make it difficult to understand whether key milestones have been attained. The current set of performance indicators in ADB’s CRF incentivizes project teams to prioritize the speed of procurement rather than reach a clear consensus with DMC partners on what quality or value mean for any given investment project at the planning stage. Without ADB’s top-down intervention to clarify and better inform how quality and value can be defined and measured, the PPF reform objectives will likely be elusive as stakeholders continue to misinterpret or ignore them because they lack clarity. The PPF tries to define concepts by referring to positives, which results in nebulous and complex statements that are hard to grasp. Framing them as the “absence of negatives” could be easier for users to understand and give rise to indicators that are easier to monitor.

57. **Recommendation 2. Prioritize and manage procurement contracts not only by size but also by how critical they are to project success.** With the current contract value-based threshold, ADB reduces the negative repercussions based on the assumption that larger procurements are more likely to fail. The assumption ignores two important realities. First, procurements do not pose risks that are proportional to their size. And second, the most critical procurement package for project success could be small. ADB should introduce a category based on how critical a contract is to reducing the risk of high-value procurement failure, while providing greater assurance of project success. Depending on how critical the contract is for project success, project officers and procurement specialists should conduct prior due diligence in an agile manner, regardless of value thresholds. Doing so would require adding an option to define contracts as critical in SPP, adding a data field in ADB’s procurement IT systems to identify critical contracts, and monitoring the completion of due diligence on critical contracts.

58. **Recommendation 3. Strengthen the transparency and governance of procurement by further improving procurement data system design, integration, and management.** ADB’s procurement data management systems do not yet fully capture required procurement data or achieve the required data completeness and quality to permit monitoring. For example, the systems do not yet permit monitoring the level of competition in procurement by analyzing the number of bids or number of responsive bids. Too many siloed IT systems cover different components of ADB’s procurement, contracting, and

disbursement processes. Although ongoing efforts by ADB, such as the “Improving ADB Data Assets Project”, aims to address such shortcomings by establishing an integrated data ecosystem, the promised improvements have yet to be realized. Procurement systems still import data inefficiently, have flows that are too slow or require offline workarounds, and inadequately provide data to ADB staff and stakeholders. The Open Contracting Data Standard (already used by some DMCs) would harmonize data transfers between systems and external parties and ensure disclosures of data in machine-readable, freely downloadable form to increase transparency and integrity in ADB-financed procurement.

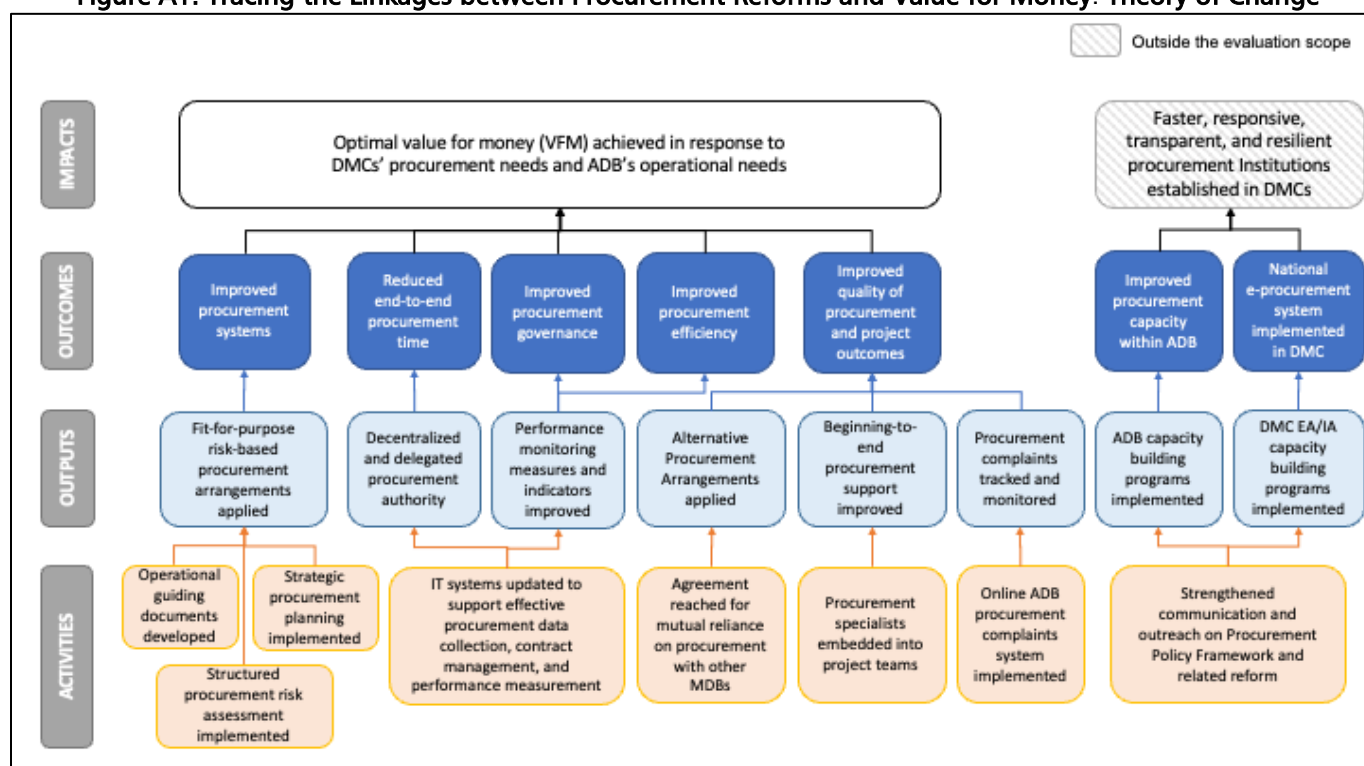
59. **Recommendation 4. Commit strategic long-term investments to continue building on current initiatives to develop ADB and DMC procurement capacity.** While numerous workshops and trainings have been related to procurement capacity development for ADB and DMCs, little stocktaking, measuring, testing, or accrediting more widely have taken place. For DMCs, a systematic approach to promote local ownership, improve performance monitoring, and integrate procurement within overall public financial management reforms is still absent. For individual projects, the burden of risk-taking is left to project team leaders or DMC executing and/or implementing agency officials, who have little to gain from trying innovative procurement or evaluation criteria but more to lose if procurement fails. Changes in incentives, messaging, and processes can foster confidence among ADB and DMC staff to take reasonable risks and pay attention to critical procurements during procurement planning and implementation. Recognizing the difficulties of mindset change and concomitant DMC systems of governance and staff turnover, ADB should provide funding and human resources to promote and incentivize support for reforming and strengthening country procurement capacity, systems, and institutions.

60. **Recommendation 5. Promote interdepartmental collaboration to ensure that SPP is an integrated and holistic practice that considers quality and VfM, including wider social and economic objectives and sustainable procurement.** ADB needs an integrated approach to procurement in operations to ensure optimal procurement and project outcomes. Outposting procurement specialists to regional departments and resident missions has been helpful, but ADB needs to encourage greater collaboration and knowledge-sharing among team members to further integrate procurement. Procurement policies, rules, regulations, and procedures, the domain of procurement professionals, cannot guarantee positive outcomes without a team effort by procurement specialists, project officers and analysts, and technical and country management teams. For example, SPP and designing of complex procurement documents cannot be done solely by procurement specialists, since they need technical and other related inputs, advice, and guidance from project officers and technical specialists. Only when the combined knowledge and experience of all stakeholders come together can ADB take full advantage of the PPF's flexibility and innovations and possibly reach a consensus on the value of procurement. A One ADB approach to procurement will mark ADB's departure from the one-size-fits-all prescriptive approach so that procurement in investment projects solves the challenges of country, project, and sector conditions.

APPENDIX 1. THEORY OF CHANGE FOR THE 2017 PROCUREMENT POLICY FRAMEWORK

1. As the Asian Development Bank lacked a theory of change for the Procurement Policy Framework (PPF), the evaluation team had to create one based on a review of PPF documents, which was refined through a joint workshop with the Procurement, Portfolio, and Financial Management Department—as part of preparations for the related evaluation approach paper during the first quarter of 2022. Figure A1 illustrates the PPF's theory of change.

Figure A1: Tracing the Linkages between Procurement Reforms and Value for Money: Theory of Change

**Assumptions:**

- ADB and DMCs share a common understanding of the significance of procurement in improving development effectiveness and impact.
- DMC officials recognize the benefit from ADB's capacity-building interventions.
- DMCs have access to sources of development financing in addition to ADB's funds.
- DMCs have long-term development priorities and are committed to implementing them and the related policy reforms.
- DMC officials recognize the importance of an efficient and transparent public procurement system.
- DMCs seek to ultimately implement their own fast, efficient, transparent, and resilient public procurement institutions.
- DMCs have political and economic stability to allow project implementation.

ADB = Asian Development Bank, DMC = developing member country, EA = executing agency, IA = implementing agency, IT = information and technology, MDB = multilateral development bank.

Sources: Asian Development Bank (Independent Evaluation Department), based on ADB procurement policy papers and reports and a workshop with Procurement, Portfolio, and Financial Management Department.

APPENDIX 2. EVALUATION METHODOLOGY

1. **The evaluation used a mix of qualitative and quantitative approaches to answer the evaluation questions.** A summary of the evaluation methods undertaken is outlined below. Data sources included Asian Development Bank (ADB) corporate documents, project documents and portfolio reports, databases, and country and regional reviews on specific issues; Independent Evaluation Department (IED) evaluation reports; and development literature on public procurement.

2. **Document and literature review.** The review covered ADB documents (policy papers, staff instructions, guidance notes, annual corporate reports on portfolio and procurement performance); IED's corporate, thematic, and country evaluations; and theoretical literature on public procurement issues and challenges in Asia and the Pacific region:

- (i) **Analysis of the evolution of the procurement system and policy together with the corporate results framework indicators.** The evaluation team reviewed corporate documents to understand the evolution of ADB's procurement policy before and during the evaluation period (2014–2021) and to identify specific reform objectives of the 2017 Procurement Policy Framework (PPF) vis-a-vis initiatives taken to achieve the objectives. The team analyzed the evolution of policy, from a menu of prescriptive procurement guidelines to a more flexible and principles-based approach designed to achieve optimal value for money (VfM) in response to procurement requirements of developing member countries (DMCs). To allow assessment of the causal chain from policy actions to intended development outcomes, the team examined to what extent the indicators in ADB's corporate results framework (CRF) were aligned with the 2017 PPF and its performance metrics. The analysis reviewed the literature on policy reforms and learning materials produced by ADB to familiarize ADB staff and borrowers with policy changes. The team examined the quality of CRF indicators and their appropriateness for assessing effectiveness of the procurement system in achieving the stated objectives.
- (ii) **Review of reports on capacity building in ADB and DMCs.** The review covered annual portfolio performance reports, annual procurement reports, knowledge and capacity development reports, and reports on the Procurement Accreditation Skills Scheme (PASS) program; and e-learning materials produced by ADB. To assess DMC capacity building, the team reviewed reports prepared with ADB technical assistance (TA) support, such as strategic procurement planning (SPP) reports and country sector/agency procurement risk assessments. The reports were supplemented with analysis of training data and statistics from the Portfolio, Procurement and Financial Management Department (PPFD) and the Budget, People, and Management Systems Department (BPMSD).
- (iii) **Review of selected country-based reports.** The review covered SPP documents in focus countries and country sector/agency procurement risk assessments. Some documents were used to assess capacity and capacity improvements; ADB support to strengthen country systems, e.g., through decentralization or by way of TA or policy-based lending; the extent to which procurement has been flexible in projects; and the use of country systems to gauge cooperation and harmonization efforts with development partners.
- (iv) **Review and synthesis of the Independent Evaluation Department's corporate, thematic and country evaluations.** The team examined findings and recommendations pertinent to ADB's procurement system.¹

3. **Portfolio analysis.** The team undertook portfolio review and data analysis covering 2014–2021 to examine trends in operational procurement and analyze portfolio and procurement data sourced from ADB data systems, including the Operational Procurement Statistics Dashboard (ProcDash), the Procurement Review System, and other PPFD reports (and the data sets they used) that contain data on

¹ The review covered country evaluations (country partnership strategy final review validations and country assistance program evaluations) and corporate and thematic evaluations (14 reports) circulated from 2014 to June 2022 for findings and recommendations on ADB's procurement system.

procurement spending and processing of procurement transactions. However, detailed analysis of procurement transactions could be undertaken only for a subset of procurement transactions since only transactions meeting a certain threshold are input in the Procurement Review System.²

4. **Regression analysis on procurement performance** was undertaken to identify country and project factors that explain variations in procurement performance across Asia and the Pacific. The analysis sought to answer the following: (i) What are the country and project characteristics that determine ADB's procurement performance? (ii) Does the PPF affect the significance of a country's economic and political characteristics in determining procurement performance? Basic data on characteristics and procurement performance indicators (such as project readiness, contract award, disbursement, safeguards) were used for projects approved from 2012 to 2020. For country characteristics (economic and political characteristics and ADB's country engagement), data on the following indicators were used: (i) gross domestic product per capita growth from ADB's Key Indicators as a measure of a country's economic condition; (ii) the governance effectiveness indicator, and political stability and absence of violence or terrorism indicators using the World Bank's World Wide Governance Indicators data set;³ and (iii) number of projects in a country in a given year and number of procurement specialists assigned to a country, using data from PPF and BPMSD, to measure ADB's engagement. The regression model examined variations that could explain whether and how procurement performance may be influenced by economic, institutional, and project-related indicators. The team estimated ordinary least squared regression for continuous performance indicators and logistic regression for binary outcome variables. Results of the analysis are in Supplementary Appendix 2.

5. **ADB stakeholder interviews.** Structured group interviews and/or focus group discussions were held during July–October 2022 with project administration unit heads; energy, transport, and water project officers; and staff in charge of procurement capacity building in ADB's five regional departments to solicit staff views on their expectations and early results of the 2017 PPF. Structured group interviews and/or focus group discussions were held with staff in departments and offices that support ADB's procurement systems and related processes (BPMSD; Information and Technology Department; Office of the General Counsel; Office of Anticorruption and Integrity; PPF; Strategy, Policy, and Partnerships Department; and Sustainable Development and Climate Change Department [SDCC]) to gather views on how the PPF reforms have affected their roles and functions. The team met with heads of the five regional departments; sector chiefs of energy, transport, and water; and the governance thematic chief, housed in SDCC.

6. **Perception surveys.** The evaluation team administered online perception surveys to (i) ADB staff involved in procurement transactions during the evaluation period, and (ii) DMC staff of executing and implementing agencies who had participated in or supported procurement for ADB-financed investment projects. The survey aimed to understand staff perception of ADB's procurement system, the 2017 PPF, and the extent to which staff had incorporated procurement reforms into their work. The survey was administered from 19 July to 8 August 2022 to 1,905 ADB staff in headquarters and resident missions, with 633 staff responding, for a response rate of 33.2%. Staff from the following departments took part: Central and West Asia Department, East Asia Department, Pacific Department, PPF, Private Sector Operations Department, South Asia Department, Southeast Asia Department, and Sustainable Development and Climate Change Department. The DMC executing and implementing agency staff perception survey was administered from 26 July to 19 August 2022 to 675 DMC staff, whose contact information was provided to IED by ADB's resident missions. A total of 152 responses were collected, which represented less than 1% of DMC officials who had received ADB-financed procurement capacity training during 2020–2021 (about 20,000). The team deemed the sample too small to be representative. Responses to all 32 comparative questions showed a significantly more positive perception from DMC

² The \$10 million threshold for reporting in the Procurement Review System was reduced to \$1 million in 2018.

³ The governance effectiveness indicator captures perceptions of the quality of a variety of government service and policy deliveries, political stability and absence of violence or terrorism measures, perceptions of the likelihood of political instability, and politically motivated violence.

respondents than from ADB staff, pointing to a strongly biased pool of respondents. Appendix 6 presents key findings from the survey.

7. **Country assessments.** Using a country assessment framework developed for the evaluation, the team collected data on procurement systems and performance in countries selected for case assessment: India, Mongolia, Papua New Guinea, the Philippines, and Uzbekistan. To ensure good representation, case countries were selected considering (i) ADB regional distribution, (ii) procurement volume, (iii) country capacity, and (iv) number of projects using the 2017 PPF. Within each country, the evaluation team selected up to 10 projects (depending on the size of the country portfolio) for in-depth assessment. Projects included those using the 2017 PPF and those approved before its adoption.

8. In addition to reviewing country-specific reports,⁴ the team held virtual evaluation missions to gather feedback and insights from stakeholders in-country on ADB's procurement system. Discussions centered on stakeholders' views and insights on (i) the shift to a risk-based system, and (ii) the relevance of ADB support to DMC procurement system capacity. Stakeholders the team met included ADB counterparts in central authorities (typically ministries of finance), line ministries, executing and implementing agencies of sample projects, ADB country directors, and resident mission staff involved in procurement system. The team held focus group discussions with contractors to solicit feedback based on their own experience in ADB's procurement process.

9. The portfolio review and data analysis provided complementary data and analysis on procurement information on case countries and sample projects. To the extent that case countries implemented policy- and results-based lending and TA, the team examined operations to determine the extent to which they supported DMC procurement systems and procurement capacity of agencies.

10. **Study on ADB's procurement data management systems.** The study examined ADB's overall approach to procurement data collection, management, and analysis to inform policy implementation and performance monitoring; and decisions on fiduciary oversight of procurement of goods, works, and non-consulting and consulting services. The objective was to determine how effectively the systems in place could help ADB improve performance and mitigate risks associated with the volume of transactions and financial interests; mitigate the complexity of the process; and promote interaction among public officials, businesses, and multiple stakeholders. IED investigated the extent to which the configuration and quality of ADB's procurement data collection and management systems were fit for purpose to advise ADB management and staff and borrowers on operational procurement planning and implementation, contract management, and related risk assessments and mitigation throughout the project cycle. The team conducted interviews and walk-throughs, where possible, with staff responsible for procurement-related ADB systems, including the Consultant Management System, eOperations, the Integrated Disbursement System, ProcDash, the Procurement Review System, the procurement complaints tracking system, and Technical Assistance Claims Partner; as well as with the team that designed ADB's sovereign operations (SovOps) system. The study's findings are in Supplementary Appendix 4.

11. **Background study on value-for-money approaches in other multilateral development banks.** The study was undertaken to understand what VfM meant, how it was measured, and how multilateral and bilateral development agencies aimed to achieve it (Supplementary Appendix 3). The study reviewed other development organizations' procurement policies and corporate reports and interviewed procurement officers in peer organizations.

⁴ These included country partnership strategies and country operations business plans (now called indicative country pipeline monitoring reports); country, sector/agency procurement risk assessments and/or governance risk assessments; and project documents for sample projects, including procurement plans, and strategic procurement planning documents.

APPENDIX 3. MONITORING AND MEASURING THE PROGRESS OF ADB'S PROCUREMENT REFORMS

1. **The reforms included in the 2017 Procurement Policy Framework (PPF) can be effectively implemented through a related results framework that highlights critical aspects of the reform process.** These are quality, delivery system and timeliness, risk management, fitness for purpose, capacity, and fairness. Although the Asian Development Bank (ADB) has yet to present a results framework in a formal document with reporting requirements, data specifications, format, and data sources, the Procurement, Portfolio Management, and Financial Management Department (PPFD) produced a performance metrics framework to track progress against the 2017 PPF. The framework was presented in the 2020 Annual Portfolio Performance Report and has been used in annual procurement reports since then. This appendix will use the elements included in PPFD's PPF-related performance metrics to assess the reforms' relevance and efficacy.¹

2. **Relevance and efficacy of the reform elements and indicators need to be assessed to make sure that the reform is headed in the right direction and is making a real difference.** The appendix assesses the relevance of each reform element (RE) in the monitoring framework to achieving value for money (VfM) in procurement. The appendix then assesses the relevance of each results indicator (RI) to measuring VfM in procurement and the efficacy of reform elements as measured by the corresponding RIs.² All RIs have baselines measured in 2016, which were compared with 2021 performance. An issue that could distort results is that while the 2017 PPF is increasingly applied, it is still not applied completely.

3. **Improvement in quality (RE 1) was to be attained through changes in procurement planning, specifications, bid evaluation, contract award and contract management.** The PPF requires that each stage of the process be structured to deliver timely and effective project objectives, considering context, risk, and complexity. Additional selection criteria beyond the lowest responsive bid or price contribute to achieving quality procurement, ultimately leading to greater VfM. As multilateral development bank (MDB)-financed operations have often been criticized for lengthy procurement transactions, improvements in this area should be measured.³ Portfolio analysis for the evaluation shows a positive trend overall across the six impact indicators, mainly because of improvements in ADB's internal logistics. For instance, the overall reduction in end-to-end procurement time resulted from an overall decline in ADB processing time, while executing agencies in developing member countries (DMCs) saw little improvement or even worsening of their processing time (Table A3.1). The lack of improvement significantly impacted procurement times for small island developing states and especially for fragile and conflict-affected situations (Box A3.1).

¹ This does not include policy- and results-based programs, emergency loans, and multitranches financing facility tranches with concept papers approved before July 2017.

² See Appendix 4 for the detailed methodology of assessment and ratings. The section assesses whether the result indicators adequately capture the likely impact of REs and measure progress in achieving VfM. The relevance of each indicator is rated based on these two criteria on a six-point scale, from *highly satisfactory* to *highly unsatisfactory*, while efficacy is given one of the following ratings: *high* if the RI target met or exceeded the indicator and assessment can be informed by additional evidence, *substantial* if at least two-thirds of targeted change was realized by the target date, *modest* if less than two-thirds but more than one-tenth of targeted change was realized by the target date, and *negligible* if less than 10% of targeted change or no progress was made in achieving the RI target. When evidence is insufficient to assess the achievement of the target and no credible additional evidence is presented, the target is considered not verified, and efficacy is rated *negligible*.

³ The six impact indicators related to RE 1 measure the time to comply with the requirements of the procurement framework. Four indicators measure the number of days to carry out procurement transactions. The other two measure the number of canceled bids and/or rebids and the percentage of evaluation reviews with one review round. Both are proxies for time since more canceled bids and more than one review means the process took more time.

Table A3.1: Procurement Efficiency Varies by Developing Member Country (DMC) Procurement Capacity: ADB and DMC Procurement Time for Fragile and Conflicted Affected Situations versus Others

Average Procurement Time (2017–2021)	FCAS countries			Non-FCAS countries			Statistical Significance
	Projects	Mean (days)	Std. Err. (days)	Projects	Mean (days)	Std. Err. (days)	
ADB processing time	40	113.9	29.9	742	65.4	2.7	-
DMC processing time	40	246.9	18.1	742	195.2	4.9	**
Total processing time	40	360.8	34.4	742	260.5	6.1	**

ADB = Asian Development Bank, DMC = developing member country, FCAS = fragile and conflict-affected situations, std. err. = standard error.

Note: Statistical significance of the difference between the two groups is designated as follows: - means they are not statistically significant in their difference, * means $P \leq 0.05$ or 95% possibility of statistically significant difference, ** means $P \leq 0.01$ or 99% possibility, and *** means $P \leq 0.001$ or 99.9% possibility.

Source: Asian Development Bank (Procurement, Portfolio, and Financial Management Department).

Box A3.1: One Consultant for One Project in Fragile and Conflict-Affected Situations and Small Island Developing States

Recognizing the unique constraints faced by fragile and conflict-affected situations and small island developing states in the Pacific, the Pacific Department (PARD) has introduced a “one project, one consultant” approach. A single consultant is engaged from project preparation to physical implementation. The Asian Development Bank’s typical business process involves at least two consultants per project: one for preparation and the other for implementation. But for smaller projects in the Pacific, involving two consultants can cause significant delays. The new approach is easier than the old one to implement under the Procurement Policy Framework. PARD estimates that, in time, the new business process is expected to reduce the project period, from concept to completion, by 9–15 months.

Source: Asian Development Bank (Independent Evaluation Department).

4. **To accurately capture improvements in quality and VfM, more relevant indicators must be introduced and monitored.** Doing so would ensure that shortcuts are not taken to achieve efficiency at the expense of procurement principles. Bank-wide, total end-to-end procurement time worsened from a baseline of 300 days (2016) to 313 days in 2021, which may have been partly caused by disruption from the coronavirus disease (COVID-19) pandemic and the inclusion of eligible projects not using the 2017 PPF. However, other timeliness measures of ADB improved over the period. The number of canceled bids and/or rebids increased from a baseline of 3 to 13, which may have resulted from uncertainty caused by the pandemic and could also indicate worsening of procurement processes, since other indicators improved despite all projects facing the same uncertainties. Evaluation report approval time decreased from a baseline of 45 to 31, exceeding the target of 40 days. While the decrease is impressive, given that the 2017 PPF offered additional options to incorporate market innovations and modernization, including sustainability requirements, an accompanying indicator to assess quality, such as the bid evaluation report or the level of competition for each contract, would have been more informative. The share of contracts with one review declined from a baseline of 90% to 68%. Time taken for loan consultant recruitment decreased from a baseline of 22.3 days to 19.3 days (13% improvement). Total cycle time for TA consultant recruitment decreased from a baseline of 212 days to 167 days (21% improvement). Overall, the efficacy of RE 1 can be seen as modest as three out of the six indicators were found to be *substantial* while the rest were *negligible* (or showed no improvement or even worsening of performance [Table A3.2]).

Table A3.2: Relevance and Efficacy of Procurement Reform Element 1: Quality

RI No.	RI Name	Baseline for RI (2016)	Target for RI	Actual Value for RI (2021)	Relevance Rating	Efficacy Rating
RI 1a	End-to-end procurement time	300 days	n/a	313 days	Moderately satisfactory (4/6)	Negligible (1/4)
RI 1b	Number of canceled bids or rebids	3 bids	n/a	13 bids	Moderately satisfactory (4/6)	Negligible (1/4)

RI No.	RI Name	Baseline for RI (2016)	Target for RI	Actual Value for RI (2021)	Relevance Rating	Efficacy Rating
RI 1c	Time for approval of evaluation report for transactions	45 days	< 40 days	31 days	Moderately satisfactory (4/6)	Substantial (3/4)
RI 1d	Number of evaluation report reviews with one review round	90%	n/a	68%	Satisfactory (5/6)	Negligible (1/4)
RI 1e	Loan consultant services recruitment using QCBS or FTP (days)	22.3 days	n/a	19.3 days	Satisfactory (5/6)	Substantial (3/4)
RI 1f	TA consultant recruitment using QCBS (days)	212 days	n/a	167 days	Satisfactory (5/6)	Substantial (3/4)

FTP = full technical proposal, QCBS = quality- and cost-based selection, RI = results indicator, TA = technical assistance.

Notes: Indicators RI 1a to RI 1d apply to transactions of \$10 million and more, and RI 1e to transactions of \$5 million and more.

Source: Asian Development Bank (Independent Evaluation Department), using data from the Procurement, Portfolio, and Financial Management Department.

5. **ADB's governance review (2013) intended to change the mindset of ADB and DMC stakeholders from compliance to risk management (RE 2) and promote a results-based approach to procurement.**⁴ The project team—procurement specialists, project officers, and sector specialists—would focus on the riskiest, most complex, and highest-value procurements. Doing so would help achieve VfM in at least two ways. First, a greater focus on high-risk projects, with related risky and complex procurements, should help mitigate risks and lead to better procurement outcomes. Second, spending less time on low-risk, low-value transactions should free up staff time for capacity, systems, and institutional development (Box A3.2).

Box A3.2: Procurement Risk Management in Uzbekistan

Of eight projects sampled during the country case assessment of Uzbekistan, four were rated as having *moderate risk* (two pre-2017 Procurement Policy Framework [PPF], two under the 2017 PPF) and three as having *high risk* (one pre-2017 PPF, two under 2017 PPF). Yet their procurement risk management systems and tools were not reviewed, indicating that procurement risk management activities are often overlooked or ignored even with the introduction of the 2017 PPF.

Source: Asian Development Bank (Independent Evaluation Department).

6. A purpose of strategic procurement planning (SPP) is to help procurement planners identify the relative risk and importance of various procurement packages, and where to focus their attention to protect their clients' interests. The quality of an SPP report is critical to improving VfM but is challenging to measure. The second set of indicators in Table A3.3 aims to measure the use and quality of SPP.⁵ The two indicators, however, do not give a complete picture of progress toward a critical goal of risk management (Box A3.3). Such change in focus could be measured by monitoring the number of high-risk, complex contracts that are elevated to ADB's Procurement Committee for approval compared with the number approved by sector directors.

⁴ Risk management is mainly an issue for ADB during the country partnership strategy, project design, and procurement planning, and mainly for DMCs during project implementation and contract management. ADB and DMCs assess risks during SPP based on their likelihood, consequences, and overall impact.

⁵ Measuring the scope and quality of SPP reports is a way to assure VfM at the bidding stage by recognizing the competitive market environment, identifying potential bidders, and raising market interest. An assessment of alternative qualitative evaluation methodologies enables balancing price and quality. Potential concerns about SPP reports are that they need to be prepared before the concept paper to be useful and could delay project preparation, particularly for capacity-challenged DMCs. The 2017 PPF acknowledges that if SPP indicates the excellent capacity of the executing agency and low procurement risk, transactions can proceed and be subject to post review on a sample basis.

Table A3.3: Relevance and Efficacy of Procurement Reform Element 2: Risk Management and Strategic Procurement Planning

RI No.	RI Name	Baseline for RI (2016)	Target for RI	Actual Value for RI (2021)	Relevance Rating	Efficacy Rating
RI 2a	Percentage of SPP completed	0%	100%	100%	Moderately satisfactory (4/6)	Substantial (3/4)
RI 2b	Percentage of SPP meeting minimum quality requirements	0%	85%	90%	Moderately satisfactory (4/6)	Substantial (3/4)

RI = results indicator, SPP = strategic procurement planning.

Source: Asian Development Bank (Independent Evaluation Department).

Box A3.3: Piloting Strategic Procurement Planning in Uzbekistan

Of the four projects under the 2017 Procurement Policy Framework (PPF), the Central Asia Regional Economic Cooperation Corridor 2 (Pap–Namangan–Andijan) Railway Electrification Project–Additional Financing is the only one that has strategic procurement planning (SPP). Although SPP is complete, it does not offer the depth of information that is typical of SPP, such as detailed market research or procurement options analysis. The lack of detail and analysis reduces the strategic value and purpose of the SPP. Tenders are active for this project but no awards have been made, making it difficult to tie any procurement contract award outcomes to SPP.

Source: Asian Development Bank (Independent Evaluation Department).

7. The share of SPP completed moved from a baseline of 0 to 100%, which implies that all sovereign investment projects (excluding emergency loans) that required SPP in 2021 had completed them.⁶ The share of SPP meeting minimum quality requirements moved from a baseline of 0 to 90%, exceeding the target of 85%. However, the indicator was undermined because of the following issues with the measurement criteria. First, putting the SPP through a self-assessment would make the possibility of a failing grade highly unlikely and vulnerable to point manipulation post assessment. The existing scale uses loose and subjective wording, such as “minimum requirements with minor deficiencies,” to lower the bar in attaining the acceptable rating (Table A3.4). Lastly, the overall scale is skewed upward by the criteria definition to ensure that an SPP report would receive at least a 2.0 rating, as evidenced by not a single SPP report out of 36 receiving a rating below 2.0.

Table A3.4: ADB's Criteria for Assessment of Strategic Procurement Planning Reports

Criteria	Rating
Good. Analysis is comprehensive and relevant, informs the procurement strategy, and clearly links analysis to the VfM statement.	4–4.9
Acceptable. Meets the minimum requirements, with minor deficiencies, and informs the procurement strategy. Some linkage between analysis, procurement strategy, and the VfM statement	3–3.9
Inadequate. Analysis is insufficient and/or irrelevant. Analysis is only partly used for the procurement strategy and the VfM statement.	2–2.9
SPP was not carried out or analysis is significantly flawed. No relation between analysis, strategy, and the VfM statement	1–1.9

SPP = strategic procurement planning, VfM = value for money.

Sources: Asian Development Bank. 2022. *2021 Annual Procurement Report*. Manila; Procurement, Portfolio, and Financial Management Department database.

8. Despite shortcomings of the quality of the SPP indicator, the positive results in RI 2 indicators can be partly attributed to the outposting of procurement specialists from PPF to regional departments and resident missions, especially if procurement specialists worked closely with sector specialists. Quantitative analysis undertaken by IED found a positive relationship between the procurement staff

⁶ It should be noted that until 2020, SPP completion was measured against all projects that had fact-finding missions during the year, but from 2021 onwards, it was revised to be measured for all investment projects approved each year that required SPP (in line with the President's Planning Directions for 2020).

outposting and country procurement performance, which was confirmed by focus group discussions with ADB staff.⁷ However, it is not clear whether outposting resulted in a shift in the critical aspect of risk management or a change in the mindset of ADB and DMC staff away from the culture of compliance. The shift has not yet been measured and—based on stakeholder interviews—is yet to be fully achieved. Performance in this area is *modest*.

9. **Fit for purpose (RE 3) means procurement arrangements are appropriately applied to reflect strategic needs and circumstances.** In case a standardized approach cannot effectively and efficiently meet project outcomes and development objectives, including in capacity-constrained environments, a customized approach may be adopted, entailing transaction-specific methods and documentation. Methods include alternative procurement arrangements (APAs) with multilateral, bilateral, and accredited government agencies, depending on the circumstances under which their application is deemed appropriate.⁸ Since 2017, ADB has approved only five projects under APAs with other MDBs, in 2019 and 2020 (Table A3.5), while others are in the pipeline (Box A3.4).

Table A3.5: Projects Approved under Alternative Procurement Arrangements (2017–2021)

Project Name	ADB (\$ million)	Cofinancing (\$ million)	Total (\$ million)
UZB: Power Generation Efficiency Improvement	450.0	EBRD: 240.0	690.0
KIR: South Tarawa Water Supply Project	13.0	World Bank: 13.0	26.0
SOL: Urban Water Supply and Sanitation Sector	37.0	World Bank: 15.0	52.0
KIR: Outer Island Transport Infrastructure Investment Project	12.0	World Bank: 30.0	42.0
TAJ: Power Sector Development Program	105.2	EBRD: 25.0	130.2
TOTAL	617.2	323.0	940.2

ADB = Asian Development Bank, EBRD = European Bank for Reconstruction and Development, KIR = Kiribati, SOL = Solomon Islands, TAJ = Tajikistan, UZB = Uzbekistan.

Note: Not shown in the table are four projects approved under alternative procurement arrangements in early 2022, for which Memoranda of Understanding were signed with United Nations agencies in 2021.

Source: Asian Development Bank (Procurement, Portfolio, and Financial Management Department).

Box A3.4: Piloting Alternative Procurement Arrangements that Use Developing Member Countries' Procurement Systems

The Asian Development Bank (ADB) has been proactively pursuing the implementation of alternative procurement arrangements (APAs) in India to enable the use of executing agencies' procurement systems. ADB is expected to take the lead on the proposed APA in the Delhi–Gurugram–SNB Regional Rapid Transport System RRTS Corridor Project, which was being prepared for procurement and at the final stages of approval as of the fourth quarter of 2022. Despite the project being cofinanced by several multilateral development banks, ADB will be leading procurement, as per the preference of the Government of India.

Source: ADB (Independent Evaluation Department).

10. Although there is no explicit measure for quality, the fact that each APA needs to be approved by another development partner provides an independent quality check. Though APA allows ADB to apply the procurement rules and procedures of other agencies or organizations, no borrower has yet been accredited to use its procurement rules and procedures (Box A3.5). When the related results indicator (RI-3) was revised to reflect yearly approved projects under APAs, contrary to the cumulative

⁷ H. Wang. 2022. *Determinants of Asian Development Bank's Procurement Performance between 2011 and 2020*. Unpublished.

⁸ ADB may agree to (i) apply the procurement rules and procedures of another multilateral or bilateral agency or organization involved in the project, and may agree to such a party taking a leading role in providing implementation support and monitoring project procurement activities; or (ii) rely on the procurement rules and procedures applied by an agency or entity of the borrower accredited by ADB, provided that in each case (a) such arrangements are compatible with the value, risk, or complexity of the procurement; (b) such arrangements are consistent with the core procurement principles; (c) unless waived, ADB's member country eligibility restrictions continue to apply; and (d) ADB's Anticorruption Guidelines and contractual remedies in applicable financing agreements with the borrower continue to apply. ADB. 2017. *ADB Procurement Policy: Goods, Works, Nonconsulting and Consulting Services*. Manila.

approvals that ADB had reported in its *2021 Annual Procurement Report*, it showed that no new projects had been approved under the APA in 2021 (Table A3.6).

Box A3.5: Obstacles to Broader Application of Alternative Procurement Arrangements

A possible explanation for the low uptake of alternative procurement arrangements (APAs) among borrowers is that, to implement ADB-funded projects, they still prefer to use Asian Development Bank (ADB) procurement policy, procedures, and fiduciary management, and consider them among the most valuable benefits of ADB financing. Although the low uptake may be partially true for low-capacity, high-risk developing member countries (DMCs), it does not explain the lack of motivation among the more developed and capable DMCs. The application of APA through a borrower agency is not a 'carte blanche' approval, as there is increased risk exposure for ADB. The risk requires ADB to enforce associated conditions and caveats, assessments, approval process, supplementary fiduciary oversight on procurement transactions, and so on. Unless these roadblocks are removed or minimized, using APAs in ADB-funded investment projects will remain unattractive for DMCs.

Source: ADB (Independent Evaluation Department), focus group discussion with ADB project officers.

Table A3.6: Relevance and Efficacy of Procurement Reform Element 3: Fit for Purpose and Alternative Procurement Arrangement

RI No.	RI Name	Baseline for RI (2016)	Target for RI	Actual Value for RI (2021)	Relevance Rating	Efficacy Rating
RI 3	Number of approved projects under APAs	0	n/a	0	Moderately satisfactory (4/6)	Negligible (1/4)

APA = alternative procurement arrangement, RI = results indicator.

Source: Asian Development Bank (Independent Evaluation Department).

11. **Capacity building (RE 4) to improve DMC public procurement systems includes using country systems for ADB project procurement, enabling local businesses to bid effectively, and improving oversight.** DMC system quality and skill levels are considerably diverse (Box A3.6). In Bangladesh, ADB and the Islamic Development Bank concluded a life-cycle costing (LCC) bid evaluation with the government in 2013.⁹ In most DMCs, executing agency staff switch in and out of procurement positions, making it challenging to ensure that the DMCs have the skills to use alternative evaluation measures such as merit point criteria and LCC. Deploying the evaluation methods when DMC officials lack the necessary skills can lead to low quality and unclear bid evaluation reports that result in delays.

Box A3.6: Varying Procurement Capacity within a Developing Member Country

As India has been advanced in its procurement practices, the introduction of the 2017 Procurement Policy Framework (PPF) has had little to no impact on the procurement review processes for states or agencies with relatively mature procurement systems and/or extensive procurement experience. Some of the states and agencies even conducted market research and what could be considered strategic procurement planning even before the PPF was introduced. The PPF, however, has raised awareness of the need to improve procurement capacity and process among less experienced states and agencies.

Source: Asian Development Bank (Independent Evaluation Department).

12. **Application of bid evaluation criteria in certain procurements as determined by SPP can contribute to improved VfM.** The number of contracts awarded using merit point criteria, quality scoring system (QSS), and LCC can serve as a proxy for the capacity of ADB officers and DMC officials to design and implement new procurement approaches. However, these procurement approaches are also influenced by DMCs' inherent procurement regulations, processes, and bureaucracies, which may significantly hinder their use. Encouragingly, the use of QSSs and LCC increased over the evaluation period. Fifteen contracts were awarded from 2016 to 2021 under merit point criteria and QSS, with seven in 2021, indicating an overall increase in uptake over time. Under LCC, 102 contracts were awarded in 2016–2021, with 39 in 2021 (Table A3.7). Although the performance was impressive for both indicators,

⁹ See [Bangladesh: Power System Efficiency Improvement Project](#).

they lacked time-bound targets, making it difficult to know whether the results were above expectations or not.

Table A3.7: Relevance and Efficacy of Procurement Reform Element 4: Capacity Building

RI No.	RI Name	Baseline for RI (2016)	Target for RI	Actual Value for RI (2021)	Relevance Rating	Efficacy Rating
RI 4a	Number of contracts awarded using merit point criteria and quality scoring system	0	n/a	7	Moderately satisfactory (4/6)	Substantial (3/4)
RI 4b	Number of contracts awarded using life-cycle costing	0	n/a	39	Moderately satisfactory (4/6)	Substantial (3/4)

RI = results indicator.

Source: Asian Development Bank (Independent Evaluation Department).

13. **Fairness (RE 5) means equal opportunity for and treatment of eligible bidders, equitable distribution of rights and obligations between borrowers and bidders, open competition as the preferred procurement option, and prompt resolution of complaints, which will improve market confidence.** The 2017 PPF, regulations, and guidance documents all embody these principles. Indicators for complaints received and the proportion of those closed within the year are directly related to the transparency and governance of ADB's procurement system. However, these indicators offer incomplete pictures of fairness, as the exact reason for "increased performance" is uncertain. For complaints received, a rise could be the result of (i) a more open and receptive environment offered by ADB, (ii) a decline in procurement transparency or governance, (iii) an increase in the number of new executing and/or implementing agencies with less ADB procurement experience, or (iv) better tracking and monitoring of complaints because of the use of the procurement complaints tracking system. As the first two reasons are almost directly opposite in nature and the third is external, the indicator would benefit greatly from the inclusion of information on the nature of the complaints. For complaints closed, the same shortcomings exist, as delays in complaint closure are not always caused by a lack of transparency but could be the result of the complexity of a procurement, a contract, the complaint, or even the political situation.

14. The number of procurement complaints increased from 35 in 2019 to 91 in 2021, and consulting service complaints increased from 30 to 46 (Table A3.8). The most likely reason is that ADB and DMCs are more transparent about the complaint process so that more bidders came forward with complaints, and ADB systems can better track them. From 2019 to 2021, procurement cases closed decreased from 89% to 66%, and consulting services complaints closed decreased from 100% to 98%. The reduction in procurement cases closed is a concern. One reason for the delay in resolving complaints is that only a few regional department staff have access to the complaint system and may not have the expertise or knowledge to resolve complaints.

Table A3.8: Relevance and Efficacy of Procurement Reform Element 5: Fairness

RI No.	RI Name	Baseline for RI (2016)	Target for RI	Actual Value for RI (2021)	Relevance Rating	Efficacy Rating
RI 5a	Number of complaints received	65 (35, 30)*	n/a	137 (91, 46)*	Moderately unsatisfactory (3/6)	Modest (2/4)
RI 5b	Share of complaints closed	94% (89%, 100%)*	n/a	77% (66%, 98%)*	Moderately unsatisfactory (3/6)	Modest (2/4)

RI = results indicator.

* Results for complaints about procurement and consulting services.

Source: Asian Development Bank (Independent Evaluation Department).

APPENDIX 4. METHODOLOGY FOR ASSESSING THE RELEVANCE OF REFORM ELEMENTS

1. This appendix explains the methodology for assessing the relevance of reform elements (REs) in supporting the achievement of value for money (VfM). The documentation of policy, regulations, and guidance notes should respond to the following questions:

- Do the REs (individually or combined) tackle constraints or have a major impact on achievement of VfM?
- Do the REs (individually or combined) make a substantive and credible contribution to achieving VfM?

2. The assessment analyzed the credibility of the results chain that runs from each RE or set of related REs. In assessing RE relevance, procurement arrangements are not expected to be sufficient to achieve objectives, but they are expected in specific country contexts to move meaningfully along the results chain in the theory of change from the RE to VfM.

- Results chain. How the RE in particular country contexts (and taking into account known constraints) is expected to make meaningful progress to achieve VfM.
- The clarity and credibility of the results chain linking the RE to the achievement of VfM.
- The extent to which the RE is expected to
 - tackle constraints or have a major impact on achievement of VfM and
 - make a substantive and credible contribution to achieving VfM.

3. For each RE, the evaluator assigned a notional rating based on a six-point scale from *highly unsatisfactory* to *highly satisfactory*.

	Highly Satisfactory	Satisfactory	Moderately Satisfactory	Moderately Unsatisfactory	Unsatisfactory	Highly Unsatisfactory
Clarity and credibility of the results chain	An explicit, comprehensive, and convincing results chain links the RE(s) to the achievement of VfM, grounded in credible analytical work at the country level (and incorporating lessons learned from similar operations or experiences).		Credible results chain linking the RE(s) to the achievement of VfM is outlined but not explicitly described or grounded in credible analytical work.	Description of the results chain linking the RE(s) to the achievement of VfM is only partly convincing.	Description of the results chain linking the RE(s) to the achievement of VfM is unconvincing.	There is no reference to a results chain linking the RE(s) to the achievement of VfM.
Importance of RE to the achievement of outcome	The RE(s) is (are) the dominant factor in the achievement of VfM.	RE(s) makes (make) a major contribution to the achievement of VfM.	RE(s) makes (make) a moderate contribution to the achievement of VfM.	RE(s) makes (make) a minor contribution to the achievement of VfM.		RE(s) makes (make) no discernable contribution to the achievement of VfM.

RE = reform element, VfM = value for money.

Source: Adapted from guidance material, Independent Evaluation Group, World Bank.

APPENDIX 5. COMPARISON OF END-TO-END PROCUREMENT PROCESSING TIME BY COUNTRY GROUPS

Procurement Time (2018–2021)	Group 1			Group 2			Statistical Significance ⁺
	Projects	Mean	Std. Err.	Projects	Mean	Std. Err.	
ADB review time (FCAS vs. non-FCAS)	40	113.9	29.9	742	65.4	2.7	-
DMC review time (FCAS vs. non-FCAS)	40	246.9	18.1	742	195.2	4.9	**
Total review time (FCAS vs. non-FCAS)	40	360.8	34.4	742	260.5	6.1	**
ADB review time (SIDS vs. non-SIDS)	15	101.3	24.2	767	67.2	3.0	-
DMC review time (SIDS vs. non-SIDS)	15	272.5	43.7	767	196.3	4.7	-
Total review time (SIDS vs. non-SIDS)	15	373.7	42.3	767	263.5	6.2	**
ADB review time (FCAS/SIDS vs. others)	47	106.0	25.6	735	65.4	2.7	-
DMC review time (FCAS/SIDS vs. others)	47	245.8	17.0	735	194.7	4.9	**
Total review time (FCAS/SIDS vs. others)	47	351.8	30.5	735	260.1	6.2	**
ADB review time (Group A vs. others)	152	71.2	9.2	630	67.0	2.9	-
DMC review time (Group A vs. others)	152	193.1	9.4	630	198.9	5.4	-
Total review time (Group A vs. others)	152	264.2	14.6	630	266.0	6.7	-
ADB review time (Group B vs. others)	229	64.4	3.9	553	69.3	3.9	-
DMC review time (Group B vs. others)	229	224.3	8.6	553	186.8	5.6	***
Total review time (Group B vs. others)	229	288.7	10.0	553	256.1	7.6	*
ADB review time (Group C vs. others)	330	59.0	3.5	452	74.3	4.4	*
DMC review time (Group C vs. others)	330	170.8	7.4	452	217.5	6.0	***
Total review time (Group C vs. others)	330	229.8	8.7	452	291.8	8.3	***

Note: Statistical significance of the difference between the two groups is designated as follows: - means they are not statistically significant in their difference, * means $P \leq 0.05$ or 95% possibility of statistically significant difference, ** means $P \leq 0.01$ or 99% possibility, and *** means $P \leq 0.001$ or 99.9% possibility.

ADB = Asian Development Bank, FCAS = fragile and conflict-affected situation, SIDS = small island developing states, std. err. = standard error.

Source: Asian Development Bank (Procurement, Portfolio, and Financial Management Department).

APPENDIX 6. FINDINGS FROM ADB AND DMC PERCEPTION SURVEYS ON PROCUREMENT

Asian Development Bank (ADB) staff perception survey

- Survey methodology: Online survey via SurveyMonkey administered to 1,905 staff
- Total participation: 642 valid respondents (representing about one-third of entire population of project officers in the regional departments; the Portfolio, Procurement, and Financial Management Department [PPFD]; and the Sustainable Development and Climate Change Department [SDCC])

Key findings from the ADB perception survey

- **Weak knowledge dispersion within ADB.** In the 2017 Procurement Policy Framework, ADB introduced six major reforms: (i) risk-based procurement, (ii) alternative procurement arrangement, (iii) use of open competitive bidding, (iv) tracking and monitoring of procurement complaints, (v) focus on beginning-to-end procurement support, (vi) decentralization and delegation of authority. On a scale of 1 to 6 (*very high*), ADB project officers' understanding of each reform averaged near *moderately low* for five reforms (3.11–3.37 out of 6), while only "use of open competitive bidding" received 3.83 out of 6, close to *moderately high*. Even within PPFD, the average did not exceed *moderately high*, 4.5 out of 6.
- **Weak information technology (IT) system within ADB.** Among 13 survey questions on the procurement process, 12 averaged 4.24–4.65, giving a generally positive assessment of ADB. The exception was "ADB's IT system effectively meets my procurement data/contract management needs," for which ADB officers' feedback averaged 3.55, almost *neutral*. The low rating holds true regardless of department, position, level, and sector.
- **Inflated capacity development achievement.** Of nine questions on ADB's support for procurement knowledge and capacity, all averaged 4.06–4.68, giving ADB a generally positive assessment. However, the average was buoyed by a statistically significant positive bias from PPFD staff, who self-assessed its achievement at 4.78–5.26 (a difference of 0.45–0.88).
- **Low sustainability of procurement reforms in developing member countries (DMCs).** Of 11 questions on ADB's support for procurement capacity development in DMCs, 10 averaged 4.11–4.40, giving ADB's support a generally positive assessment. However, an exception was the "sustainability of key procurement reforms introduced by ADB in the DMCs," which received 3.8 (nearly *neutral*). The low rating holds true regardless of department, position, level, and sector.
- **Ranking of conditions for achieving value for money (VfM).** Of the seven conditions needed to achieve VfM, ADB in general ranked *most needed* "selection of a procurement modality proportional to the risk, value, context and strategic importance of the procurement," and *least needed* "selection of the appropriate contractual form." However, PPFD ranked *highest* the "adequate specification of technical requirements, along with the cost and non-cost elements needed to achieve them" and *lowest* "the development of an effective contract management plan," illustrating a striking difference in priorities.
- **Ranking for capacity development support for DMCs.** Of ADB's seven capacity-building support initiatives, (1 being *most needed* and 7 *least needed*), ADB rated *most needed* (2.85) support to DMCs' executing and implementing agency officials, and *least needed* (5.50) support for more private sector participation.
- **Ranking of areas for future procurement reform.** Of the seven possible procurement reforms, (1 being *top priority* and 7 *lowest priority*), ADB rated procurement efficiency improvement the *highest priority* (3.31), and support for e-procurement system implementation in DMCs the *lowest* (4.59). The ratings suggest that ADB staff continue to perceive efficiency, systems, and capacity as priorities over procurement quality, governance, and sustainability.

DMC executing and implementing agency staff perception survey

- Survey methodology: Online survey via SurveyMonkey administered to 675 staff
- Total participation: 152 valid respondents (representing less than 1% [about 20,000] of those trained in 2020–2021)

Key findings from the executing and implementing agency staff perception survey

- With less than 1% of the total population responding and with only 6 out of the 40 DMCs with more than 5 valid respondents, the evaluation team concluded that the sample was not large or diverse enough to be representative. Responses to all 32 comparative questions between ADB and DMC executing and implementing agency staff showed a significantly more positive perception from the executing and implementing agency respondents, which points to a strongly biased pool of respondents, who would have been vetted by the resident mission.
- For future surveys, executing and implementing agency staff should be directly contacted based on e-mail information gathered before or during their procurement capacity training programs, not through a list compiled by the resident missions.