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Enabling poor rural people  
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## **Review of IFAD's project procurement guidelines and their implementation**

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For: **Review**

## **Note to Executive Board Directors**

This document is submitted for review by the Executive Board.

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# Review of IFAD's project procurement guidelines and their implementation

## A. Background

1. At its eighty-third session in December 2004, the Executive Board approved the amended Guidelines for the Procurement of Goods, Works and Consulting Services under IFAD Loans and Grants (the Procurement Guidelines). At that time, it was agreed that both the policy and implementation of the guidelines would be reviewed in three years' time. The actual implementation of the guidelines was delayed for operational reasons until 1 July 2006, and the review was therefore deferred until 2008 in order to provide a sufficient implementation period upon which to base it. However, since revised General Conditions for Agricultural Development Financing (the General Conditions) were to be submitted to the Executive Board in April 2009, it was decided to postpone the review until December 2009. This decision was communicated to and discussed with the Audit Committee.
2. The introduction to the Procurement Guidelines states: "A large number of IFAD projects involve cofinancing with cooperating institutions, some of which have published their own procurement guidelines. When a cooperating institution with established guidelines assumes responsibility for project administration and supervision on behalf of IFAD, then its own procurement guidelines will normally be followed unless otherwise agreed with IFAD. The IFAD guidelines should be followed for all projects administered by cooperating institutions that do not have their own procurement guidelines and for all projects directly supervised by IFAD. These guidelines will be applicable to all loans and grants covered by the IFAD *General Conditions for Agricultural Development Financing*."
3. Previously, most projects were subject to the procurement guidelines of the relevant cooperating institution. With the increase of direct supervision by IFAD, it was recognized that the Procurement Guidelines did not adequately regulate all aspects of project-related procurement. The revised General Conditions, approved in April 2009, addressed this problem by adopting a new approach to procurement financed by IFAD loans and grants. Section 7.05(a) of the General Conditions provides that:
 

"Procurement of goods, works and services financed by the Financing shall be carried out in accordance with the provisions of the Borrower/Recipient's procurement regulations, to the extent such are consistent with the IFAD Procurement Guidelines. Each Procurement Plan shall identify procedures which must be implemented by the Borrower/Recipient in order to ensure consistency with the IFAD Procurement Guidelines."
4. The introduction to the revised General Conditions points out that, "(b)y specifying that the borrower's or recipient's procurement regulations must be consistent with IFAD's procurement guidelines, and by requiring the borrower/recipient and the Fund to agree on mandatory procedures ensuring such consistency, the new provision implements a much more predictable and coherent approach to procurement, governed by the Fund's procurement guidelines" (EB 2009/96/R.3/Rev.1).
5. In adopting this approach, IFAD is following guidance given in the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. As the Paris Declaration states (paragraph 17):
 

"Using a country's own institutions and systems, where these provide assurance that aid will be used for agreed purposes, increases aid

effectiveness by strengthening the partner country's sustainable capacity to develop, implement and account for its policies to its citizens and parliament. Country systems and procedures typically include, but are not restricted to, national arrangements and procedures for public financial management, accounting, auditing, procurement, results frameworks and monitoring."

6. The Paris Declaration requires that there be "assurance that aid will be used for agreed purposes", and IFAD's use of country systems for procurement will always be subject to confirmation that the systems are adequate and that procurement implementation complies with these. This will enable the Fund to focus its limited resources on the critical aspect of implementation of project procurement in order to meet its obligations towards its Members.
7. The Procurement Guidelines are just that: guidelines and not a comprehensive set of rules, forms and procedures for procurement. As IFAD increasingly assumed responsibility for direct supervision, it was faced with a difficult decision on how best to use its limited resources. Applying the World Bank's approach, which requires projects to use the Bank's rules and procedures, would have obliged IFAD to develop its own comprehensive set of procurement regulations and to allocate significantly more resources to supervision.
8. Given the size of the projects financed by IFAD, the nature of items being financed (e.g. microfinance funds, capacity-building/training of local staff, operating costs) and the type of procurement involved (often with community participation), it was decided that the best – and most sustainable – use of the Fund's resources would be to support the use of the borrowers' or recipients' procurement guidelines where these are assessed as encompassing the basic principles of competition, efficiency, economy, fairness, integrity, transparency and good governance, and to support the development of national procurement capacity in the process. The choice was made, therefore, to adopt an approach to procurement in the revised General Conditions that differs from the approach followed by the World Bank for its project procurement activities, which often relate to infrastructure projects and civil works. Based on its experience with projects in the field, and in view of its unique mandate and specific characteristics, IFAD is convinced that this approach is the right one to take. It also represents the best way to ensure the most efficient and effective use of the Fund's resources.
9. IFAD recognizes that direct supervision entails increased responsibilities. To fulfil these responsibilities, the Fund must carefully assess national procurement rules and capacity, looking not just at the legal framework but also at such aspects as procurement cycle management, organizational structure and functions, support and internal control systems, record-keeping, staffing capacity, the general procurement environment (both public and private sector), and plans for capacity-building and supervision. IFAD already has extensive experience in working with borrowers'/recipients' procurement systems, but it needs to train its staff and implement new procedures to deal with these challenging issues.
10. The approach to procurement introduced by the revised General Conditions has three main consequences. First, the presumption now is that the borrower/recipient will use its own procurement regulations and procedures. Second, IFAD must now take a more active role in assessing and monitoring these regulations and procedures in order to ensure that they are consistent with the Procurement Guidelines. Third, IFAD now needs to revise the Procurement Guidelines so that they focus less on the details of procurement methods, and more on the principles that Member States must adhere to in implementing the projects that it finances.
11. Applying this approach will require an initial investment in developing the revised guidelines and in building staff capacity to ensure that the guidelines are followed correctly. The following section sets out a plan of action for achieving these objectives. As indicated above, IFAD will not need to develop its own

comprehensive set of procurement regulations, but will need to determine that the borrowers'/recipients' systems are aligned with IFAD's guidelines and that procurement is carried out in compliance with their regulations.

12. A complete revision of the Procurement Guidelines, focusing on the above basic principles, will be submitted to the Executive Board for approval in September 2010. The revised guidelines will give Member States that are implementing projects a clear idea of what IFAD expects, and will give IFAD staff involved in direct supervision the tools they need to assess national procurement rules and national capacity, and to supervise implementation in order to ensure that procurement is carried out correctly. In the meantime, the Fund has begun to implement a comprehensive plan of action.

## **B. IFAD's plan of action for procurement**

13. With the introduction of direct supervision, IFAD began to undertake functions previously carried out by cooperating institutions, including procurement review.
14. In July 2007, the Programme Management Department (PMD) established the Supervision Support Unit to facilitate the transition to direct supervision, to ensure oversight of the process, and to monitor performance of tasks related to direct supervision such as loan administration and procurement review. Internal quality controls were put in place for loan disbursements and procurement, including review and monitoring tools (checklists for processing withdrawal applications, procurement review and internal tracking sheets); corporate quality standards for procurement supervision were defined and related procedures were formulated. The unit also developed a supervision training curriculum and, between September 2007 and October 2008, trained about 200 staff across IFAD in the responsibilities associated with direct supervision.
15. With the completion of the initial stage of transition to direct supervision, the functions of the Supervision Support Unit were transferred to the regional divisions. A new procurement certification programme, implemented by Crown Agents, an international development company, will train managers and Professional and General Service staff involved in procurement throughout IFAD. Training will be compulsory for all IFAD staff required to carry out procurement reviews or other functions related to project-related procurement, and this includes all Professional staff of PMD and of the Loans and Grants Unit of the Financial Services Division (FC).
16. During project design, applicable procurement systems are assessed by IFAD. Country programme managers and procurement specialists review the systems directly, and also draw on the work of other international organizations and international financial institutions (IFIs). The comprehensive procurement reviews carried out by the World Bank are a particularly important source of information for these reviews. IFAD's review of procurement systems is not limited to the written rules and regulations: it requires an evaluation of how procurement is actually carried out in practice. If the borrower's/recipients' procurement system is not consistent with the Procurement Guidelines, IFAD and the Member State identify actions that can be taken to make them consistent. If that is not possible, other approaches, such as the use of World Bank systems, are considered. IFAD will only permit the use of procurement systems that are consistent, or can be made consistent, with the Procurement Guidelines.
17. During project implementation, IFAD conducts a prior review of large contracts and examines withdrawal applications, statements of expenditure and other financial documentation to ensure that procurement is being carried out correctly. The General Conditions (Section 4.09) allow IFAD to require recipients of financing to refund amounts that have not been used for eligible expenditures. This means that, if subsequent reviews or audits show that procurement was not carried out correctly, the money must be returned to the Fund. Supervision missions carried

out by IFAD always have a strong focus on procurement, and IFAD's country presence staff are expected to keep themselves informed about procurement-related issues.

18. The external audit of IFAD-funded projects provides a critical independent tool for assessing adherence to correct procurement practices. The auditor's terms of reference include compliance with procurement procedures. The audit reports are reviewed by both PMD and FC, and issues, including those pertaining to procurement, are actively followed up with the project authorities. If any of the findings relate to fraud or corruption, then the Office of Audit and Oversight is notified and appropriate investigative actions are taken in coordination with the borrower/recipient. A report detailing the results of the project audits, the issues commonly raised and the remedial actions taken is presented annually to the Audit Committee by FC. The report on fiscal year 2008 indicates that about 7 per cent (11 per cent in 2007) of audit report qualifications were due to exceptions in the application of the procurement procedures (none related to fraud). This led to remedial actions such as withholding disbursements until specified actions were put in place and/or refunds made for ineligible expenditures as indicated above. Audit report qualifications will continue to be monitored as an indicator of trends in individual borrower's/ recipient's procurement performance.
19. With the introduction of the new model financing agreement, the procurement plan has become a key tool for monitoring procurement. The plan sets out acceptable methods of procurement, thresholds for review by IFAD, and procedures that the borrower/recipient must implement in order to ensure consistency with the Procurement Guidelines, among other things. Since the procurement plan (which is linked to the annual workplan and budget) can be updated at any time, IFAD and the borrower/recipient can revise procurement methods and thresholds in response to changing circumstances without having to amend the financing agreement.
20. The following are the key elements of IFAD's plan of action for procurement over the next year:
  - (a) **Beginning in October 2009:** Enhancing and strengthening staff capacity (basic training and certification of procurement specialists at headquarters and country offices);
  - (b) **By 2010:**
    - (i) Disseminating operational guidelines and tools for:
      - Streamlining the processes and instruments (delegation of authority and introduction of performance tools);
      - Identifying appropriate thresholds for prior and post review;
      - Increasing the use of technology, and developing and implementing improved IT support applications (tracking systems, webpages, best practices, record-keeping, etc.);
      - Enhancing partnerships and improving outreach (collaboration with borrowers and other IFIs);
    - (ii) Gathering and analysing data on actual procurement implementation (by borrower/recipient, method, volume, amount, etc.); and
    - (iii) Establishing a certification mechanism to reduce the risk of procurement work being carried out by inadequately skilled staff.
  - (c) **September 2010:** Revised Procurement Guidelines submitted to Executive Board for approval.

