MDB Heads of Procurement Sustainable Procurement Forum- 17 Sept 2024

Session 2: The Role of the Procurement Cycle in Sustainable Public Procurement

Our Panel

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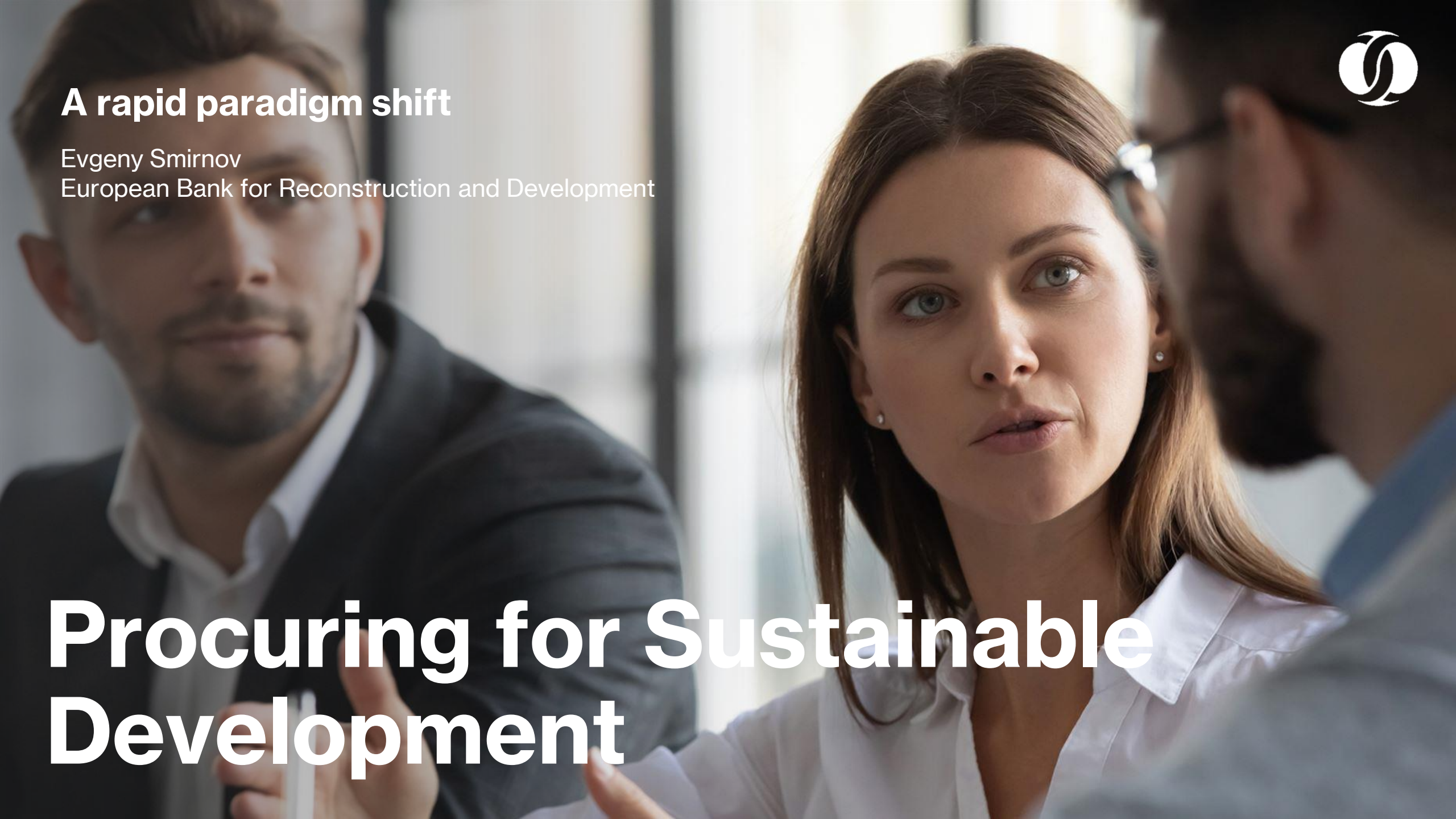


A rapid paradigm shift

Evgeny Smirnov
European Bank for Reconstruction and Development

Procuring for Sustainable Development

Paradigm Shift

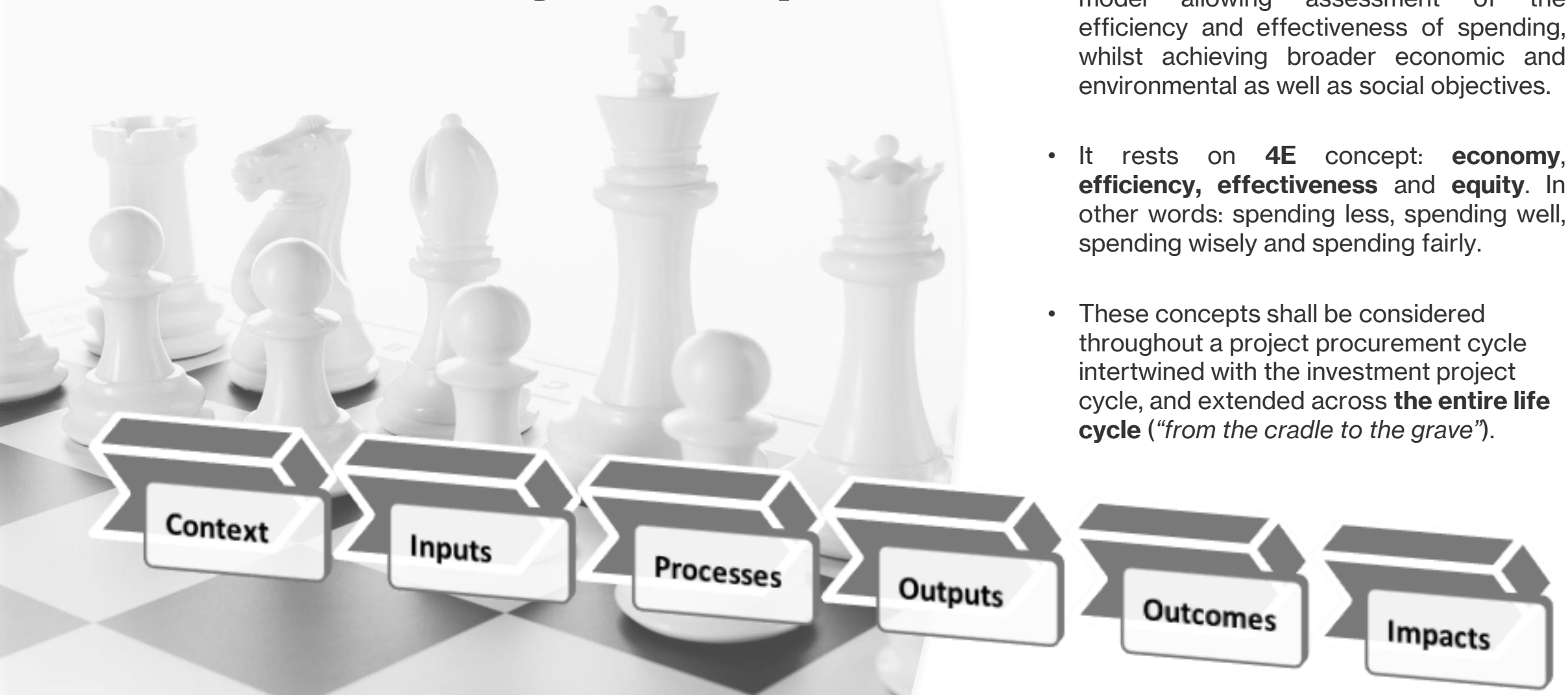
- Historically, procurement was viewed as a **compliance function** in support **public finance management**
- The shift towards **strategic procurement** involves a focus on achieving broader long-term **development and/or organizational goals**
- Strategic procurement emphasizes *sustainability considerations, value for money, innovations, market relationship management, proactive contract management*

Key Factors in Sustainable Procurement

- **Social Factors**, such as labour standards and human rights, to ensure that the goods, works and services are produced, carried out and delivered in an ethical and socially responsible manner.
- **Environmental Factors**, such as greenhouse gas emission, resource efficiency and waste reduction, to minimize the negative impact on the environment throughout the lifecycle of goods and services.
- **Economic Factors**, such as whole-life costing and value for money, to ensure that the procurement process is financially sustainable in the long-term.

Sustainability and Value for Money Concept

- **Value for Money** involves developing the model allowing assessment of the efficiency and effectiveness of spending, whilst achieving broader economic and environmental as well as social objectives.
- It rests on **4E** concept: **economy**, **efficiency, effectiveness** and **equity**. In other words: spending less, spending well, spending wisely and spending fairly.
- These concepts shall be considered throughout a project procurement cycle intertwined with the investment project cycle, and extended across **the entire life cycle** (*"from the cradle to the grave"*).



Considerations at Initial Stages of Project Cycle

Key Activities:

- Feasibility and engineering studies
- Environmental and social impact assessment
- Client's capacity assessment
- In-depth economic analysis
- Market early engagement and studies
- Development of project delivery strategy

Key Focus Areas:

- Sustainability and environmental aspects
- Social impact
- Risk assessment
- Life cycle and circular economy considerations
- Maximizing public value

Key Outputs:

- Costing of necessary Inputs
- Clearly defined Outputs and Outcomes
- Articulation of potential Impact

Evaluation Methods and Tools

Julie Farmer

SPP Forum

September 2024

Why do we need an evaluation process?

Good evaluation process = better deals; better overall assessment of performance; meeting expectations, achieve VfM; manage risks; ensures informed decision making

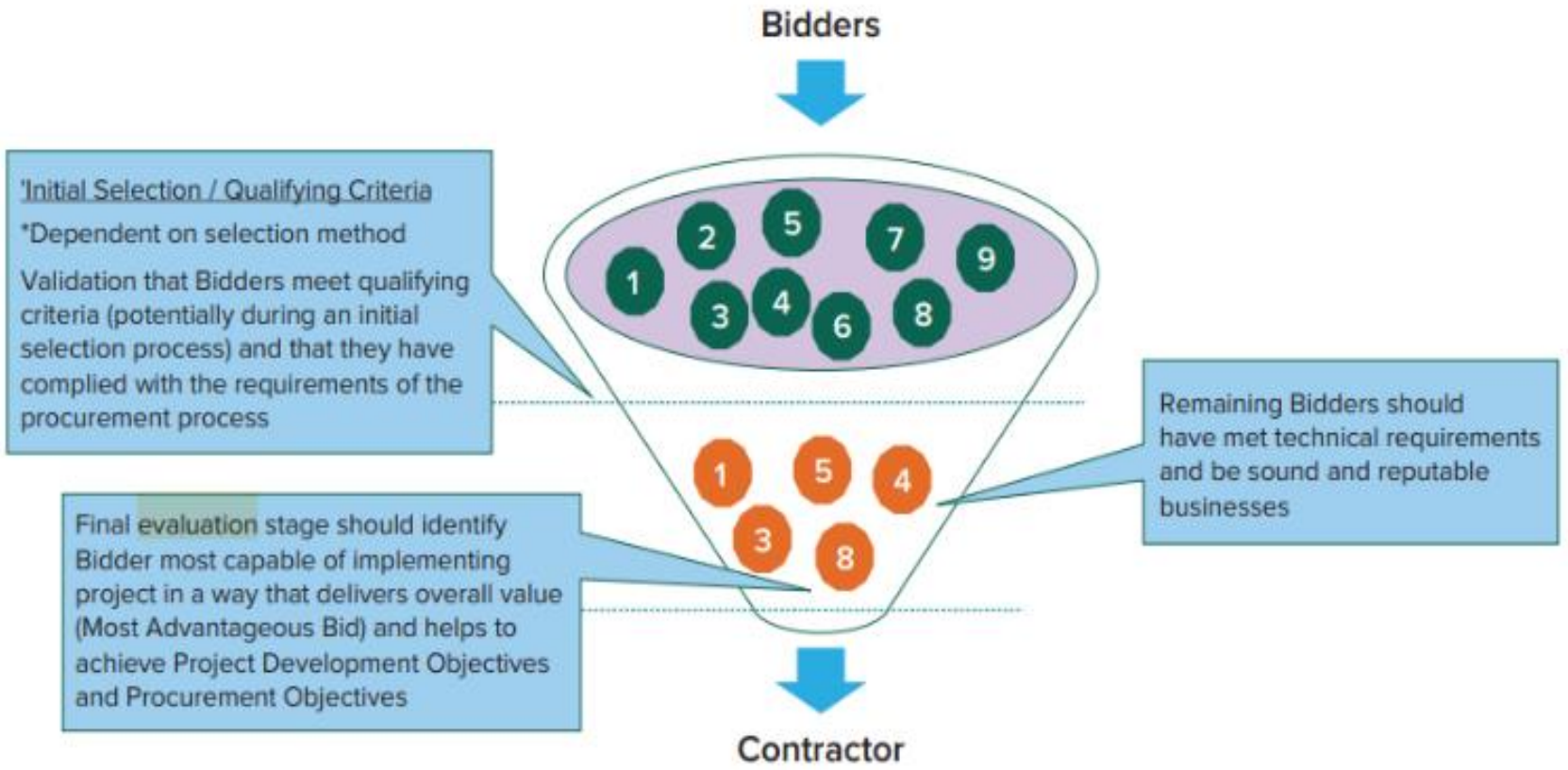
- An evaluation process can be a useful tool at various stages of the procurement process including:

  (1) preliminary examination for responsiveness to formal qualification requirements
  (2) evaluation for compliance with technical requirements
  (3) price/financial evaluation and
  (4) post qualification/due diligence

- Having a **structured evaluation plan** will ensure:
  - all suppliers are treated fairly
  - innovation is suitably rewarded
  - the appropriate level of sustainability is applied
  - risks are managed
  - contracts are awarded based on sustainability and value for money principles

Choosing the right bidder

The evaluation process should be designed to identify the Bidder that can most effectively help the borrower to achieve their objectives including their sustainability objectives



Evaluation Process - introducing sustainability factors

Introducing sustainability factors into the bid evaluation process adds another layer of complexity

- It is new to many borrowers
- Some of the sustainable solutions are novel or involve new technology so can be difficult to evaluate
- Introducing sustainability factors may create an unlevel playing field particularly for local contractors
- Sustainability factors are often difficult to assess
- Evaluations can appear subjective
- Legislation and jurisprudence may impact the approach to be taken
- Highly likely to receive the most scrutiny
- Is more susceptible to corruption

Evaluation Process - introducing sustainability factors

When applying the evaluation approach borrowers should look for signs that Bidders have not fully understood the project's E&S risks

- **Price**, in combination with other elements of the bid, appears **so low that it raises material concerns as to the capacity of the Bidder** to perform the contract for the offered price
- **Price** does **not appear to provide sufficient margin for profit**, indicating that the Bidder hopes to cut costs or increase revenue during the course of the project;
- **Little or no connection between the key E&S risks** outlined in the bid documents and the Bidder's **cost submission**
- The Bidder has **not provided sufficient detail on their proposed supply chains**, or the Primary Suppliers who will provide goods or materials that are essential for the core functions of the project
- The Bidder has **not demonstrated any experience or understanding** of the requirements for managing E&S risks in a similar project
- It appears that the Bidder has **not fully disclosed previous performance on E&S**, including material breaches or failed projects.

Market analysis to support the evaluation process

Allows you to identify:

- How leading businesses in the sector have **evolved the specifications** of their product or service to reduce carbon emissions, waste, pollution, or other negative environmental or social outcomes
- Whether there is **scope for innovation** in the sector, for example, are there market-led proposals that could lead to sustainability requirements that could be incorporated into the specification
- Whether there are **widely used standards and/or labels** that could be used to verify the sustainability credentials of a product or service, or that suppliers can be asked to manufacture/construct to (e.g. Energy Star for products, or Green Star for a building)

Example: If carbon emission reduction is a key requirement for a construction project then market analysis could be used to identify whether it is feasible for suppliers to:

- use low carbon materials e.g., low carbon concrete
- re-use materials e.g., construction debris
- source locally e.g., within a 50-mile radius of the project site
- hire rather than purchase equipment

Criteria supporting SPP

- Design, materials, and construction methodology e.g.:
  - use of low carbon materials e.g. cement / sustainably sourced timber etc.
  - use of recycled materials
- Eco-labelling and certifications
- Green supply chains
- Reduction and management of carbon emissions
- Full life-cycle approach
- Green product design
- Waste recycling
- Reduced energy use
- Resource sustainability
- Cultural Requirements
- Support of local SMEs
- Gender initiatives

Example Category	Example Verification
Technical capability/past experience of the Bidder:	The Bidder must provide comprehensive information verifying their experience, with credible references in the following fields:
■ **The Bidder/Proposer must provide verification of sufficient experience in sustainable construction**	■ Use of building materials produced in an environmentally responsible manner (for example, certified sustainable timber, reconstituted concrete) ■ Energy efficient construction in accordance with internationally recognized environmental standards and that the construction/s has been independently audited and accredited to that standard
Use of local labor/SMEs	Engage and manage suitably skilled/experienced local Subcontractors and tradespeople as well as unskilled tradespeople who shall receive skills/trade training during the project. Provide references from training/apprenticeship organizations or partners that you have worked with in previous projects or intend to work with as part of this Bid.
Sustainably sourced materials	Procure local, sustainably sourced materials to be used in the works. Confirm as a dollar cost percentage of total construction value for materials procurement.
Waste reduction	Nominate, as a dollar cost percentage of the total construction value, proposed prefabricated elements to be used in the works (and supported with necessary break-up figures). Provide information on any waste reduction qualifications or credentials held by your organization or any of your key personnel.
Waste elimination	Nominate the percentage of construction waste that will be removed from the region or recycled/reused in the region.

Evaluation Methodologies

- Any **scoring methodology, weightings and contract award criteria** must be clearly defined in the procurement documents to **ensure transparency** and a common understanding by all bidders of how tender responses will be evaluated and scored
- They must **be proportionate** to the works, supplies or services that are the subject-matter of the contract
- Criteria must **allow objective comparison** of tenders and not discriminate against or favor potential contractors
- There must be **a clear methodology** to evaluate responses
- As well as being involved in developing relevant requirements for a procurement, **subject matter experts** can provide valuable input when evaluating tender responses for sustainability criteria

Evaluation approach (Part one)

Type	Criteria	Test	Pick and Mix Example Criteria
			Following preliminary examination, Bid/Proposals that are determine complete with no material deviations etc. are then evaluated for substantial responsiveness
Step 1. Substantially responsive	Process criteria	Meets requirements without material deviation, reservation, or omission	May include: • detailed Works methodologies for evaluation • Sexual Exploitation and Abuse/Sexual Harassment (SEA/SH) management plan (if high risk SEA/SH) • Code of Conduct
Step 2. Qualification	Mandatory criteria	Pass / fail	Bidders submission assessed for: • Relevant regional/global experience similar to the project requirements • Related construction experience and relevant track record • Specific experience in managing Environmental and Social risks in similar Works projects

Evaluation approach (Part two)

Type	Criteria	Test	Pick and Mix Example Criteria
Step 3. Minimum Requirements	Minimum technical / performance requirements	Pass / fail	Must meet the specified minimum/ essential technical/ performance/ functional requirements and standards
Step 4. Qualitative	Rated Criteria	Weighted and scored	Inter alia: • Overall level of sustainability innovation in the Bid/Proposal • Appropriate site team structure and composition with sufficient resources for monitoring OHS risks and working conditions • Highly experienced Project Manager, qualified experts and appropriate personnel, including environmental or social expertise as required • clear analysis of project E&S risks and appropriate mitigation measures included as part of the E&S Management Strategy and Implementation Plan (E&S MSIP) • Code of conduct includes relevant actions that show credibility in identifying and addressing social issues • Effective supply chain management plans • Appropriate plans to manage safety, and prevent accidents

Financial cost model

	Option A: Costs are integrated in the Bill of Quantities (BoQ)	Option B: Costs are included as specific E&S line items in the BoQ	Option C: Costs are set aside as provisional sums for E&S activities
Description	Costs are integrated into the broader construction delivery methodology	Mitigations priced independently and included as stand-alone line items	Provisional sums set aside for discrete E&S-related activities, such as SEA and SH awareness and sensitization
Pros	• Can show that E&S activities are integrated as normal into project operations, (e.g. OHS considerations are key for all parts of the works methodology)	• Borrowers can check that Bidders have allowed appropriate costs for E&S mitigations • Enables triangulation of credibility of the bidder's proposed E&S methodology/MSIP prior to award	• Allows Contractor to propose additional sustainability outcomes beyond minimum requirements • Borrower can hold onto provisional sum until mitigations are delivered • **Enables triangulation of credibility**
Cons	• No guarantee E&S is sufficiently included in the bid (difficult to assess credibility/triangulate) • Can benefit Bidders who do not include costs for E&S mitigations	• Bidders need detailed knowledge of E&S risks to accurately scope and cost mitigation actions/MSIP • May lead to more queries and clarifications from bidders as they seek to understand project issues to inform their costing (however, may lead to less change post award)	

Evaluation Practicalities

Social Issues

- Helps create a level playing field
- May be difficult to assess
- Legislation and jurisprudence difficulties in some regions/countries

Net zero supply

What is procurement's role in measuring and reducing supply chain emissions?

Economic factors

- May be difficult to assess
- Legislation and jurisprudence difficulties in some regions/countries

Bridging the green

How do we help borrowers overcome the real or perceived green premium?

New Technologies

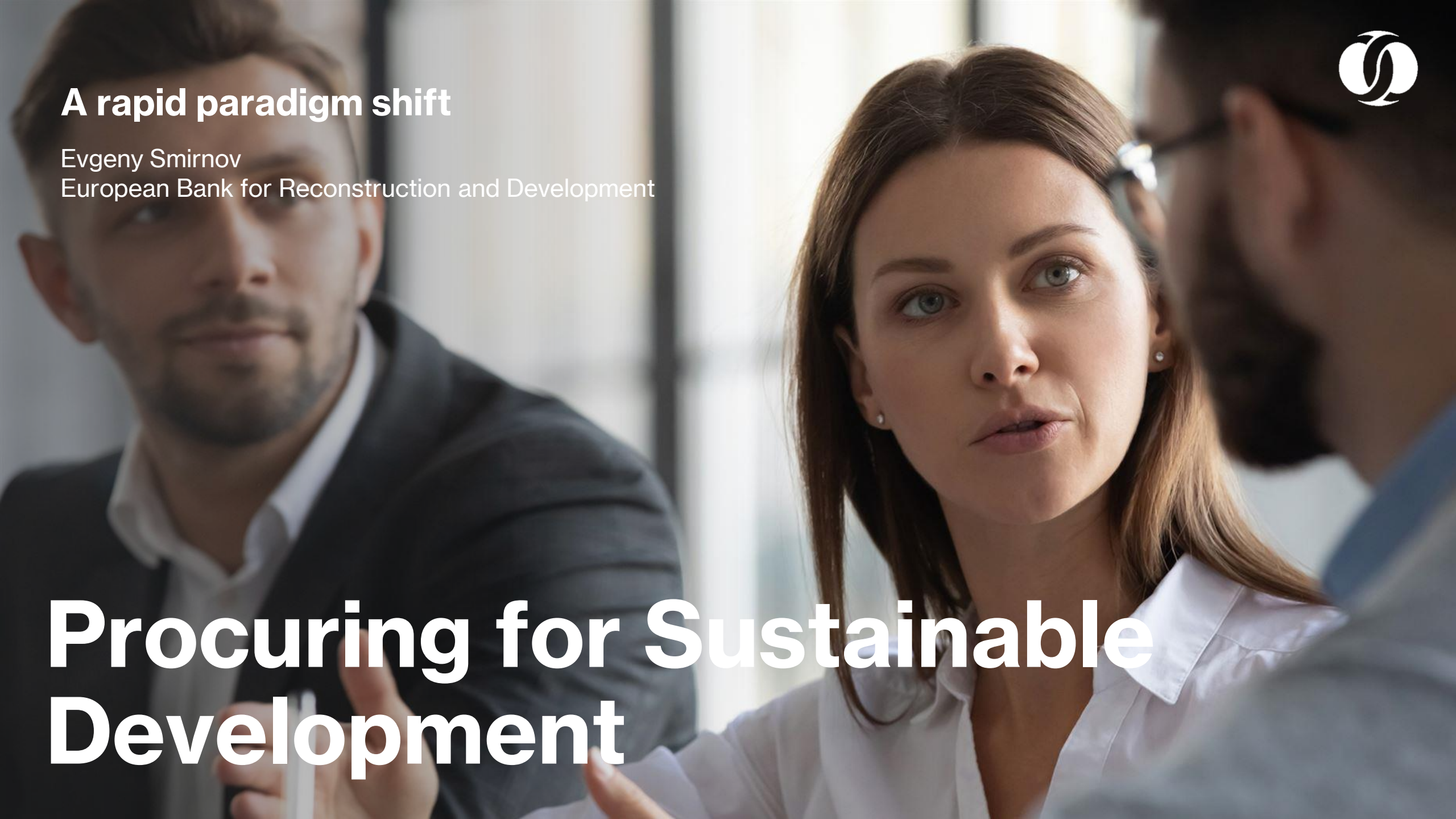
Impact of AI and social media

Thank You!

Julie Farmer

SPP Forum

September 2024



A rapid paradigm shift

Evgeny Smirnov
European Bank for Reconstruction and Development

Procuring for Sustainable Development

Considerations at Contracting Phase of Project Cycle

- **Contracting strategy** shall consider the entire life cycle of facilities/product in the context of the entire project.
- **Contract terms and conditions** should be designed to achieve the project's objectives and should be suitable for its specific requirements and developed via a dialogue with the market.
- **Comprehensive environmental and social provisions** shall be included to provide for effective measures to adhere high level of the respective standards during production/delivery/construction and in respect of the final product/facilities.
- **Systematic contract management** shall be inbuilt in the conditions with the focus on monitoring and execution, including control of the milestones and key performance indicators linked to the project objectives based on a dualistic approach, namely **incentive-based instruments** (positive inducements or benefits) and **penalties for non-compliance** (penalties, sanctions, or adverse consequences, such as fines, liquidated damages, termination rights).
- **Active cooperation and value engineering** shall be encouraged to enhance project outcomes and increase value for money beyond the original scope.

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ASIAN INFRASTRUCTURE INVESTMENT BANK

Sustainable Procurement: AIIB Experiences

PHOTO: SEMBCORP

Jingrong He

Senior Procurement Specialist

AIIB

AIIB's Climate Commitments to Mitigate and Adapt to the Climate Change Crisis

1. **Climate finance**: AIIB has set a **50% climate finance target** for its annual financing approvals by 2025. In 2022, AIIB's climate finance **reached 56%**, surpassing the target three years early.

2. **Paris Agreement**: To mainstream climate change considerations across its operations, AIIB has committed to aligning all its new investment operations with the targets of the Paris Agreement starting from July 2023.

3. **Climate Action Plan:** In 2023 AIIB launched its first Climate Action Plan (CAP) which brings together the principles governing the Bank's climate financing and identifies crucial action areas that will steer AIIB's investments in support of its Members.

Economic Considerations

- Early Market Engagement
- Lowest Evaluated Responsive Tender
- Life Cycle Costing
- Rated Criteria

Economic Considerations

Health Project-Procurement of Single

-plane and Biplane Cathlabs

- Life-cycle Costing
  - NPV of recurrent cost

$$R \equiv \sum_{x=1}^{N+M} \frac{R_x}{(1+I)^x}$$

Where,
N = number of years of the Warranty Period, defined in Special/Particular Conditions
M = number of years of the Post-Warranty Services Period, as defined in Special/Particular Condition
x = an index number 1, 2, 3, ... N + M representing each year of the combined Warranty Service and Post-Warranty Service Periods.
Rx = total Recurrent Costs for year "x," as recorded in the Recurrent Cost Sub-Table.

I = discount rate to be used for the Net Present Value calculation, as specified in the Bid Data Sheet

- Other costs during O&M: spare parts, proprietary consumables, other proprietary cost

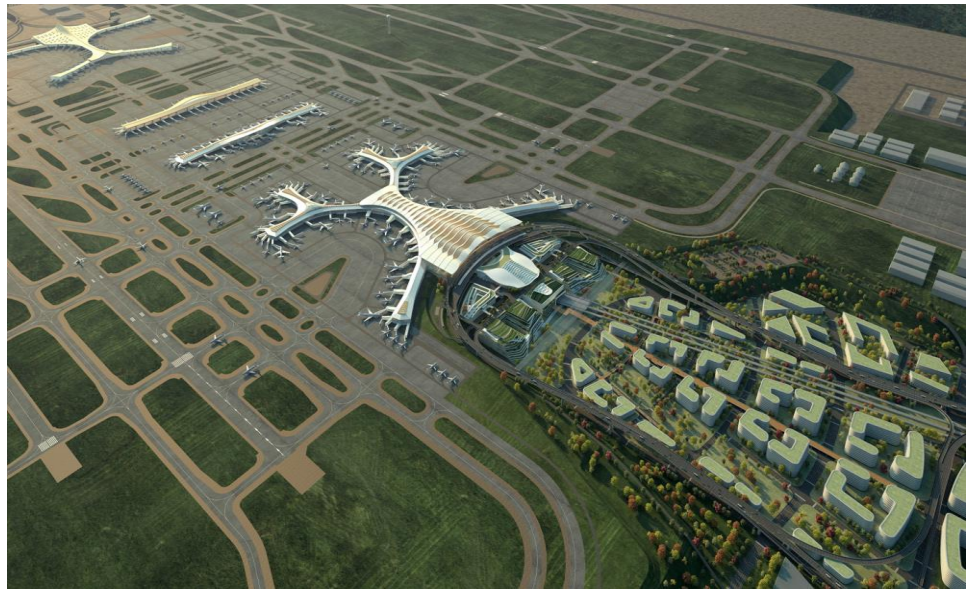
Environmental Considerations

- ESHS Requirements
- Technical Specifications

Environmental Considerations

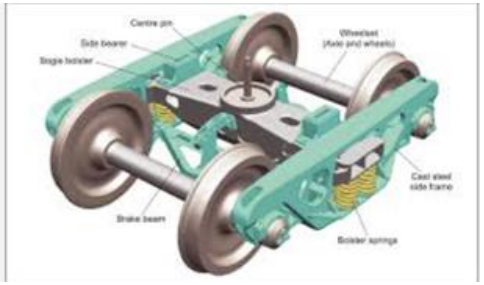
Green Airport Expansion Project – Underpass Works Connecting Terminals

- Rated Criteria
- ESHS Requirements: 10% of Technical Scores



Environmental Considerations

- Metro Modernization Project- Procurement of Metro Carts
  - Lowest Evaluated Responsive Tender
  - ES requirements for mitigating environmental impact at the manufacturing and supply stage
  - TS requirement of using energy recuperation systems to reduce electricity consumption
  - TS requirement of bogies (wheel assemblies) to last throughout the life cycle of the train



Social Considerations

- Job Creation
- Gender Impact

Social Considerations

National Restoration and Rural Productive Capacity Project-Small works

- Small value, labor-intensive contracts benefiting residents and returning migrants with short-term employment.
- At least 23% of workers engaged in road and community pond maintenance programs are women.
- At least 25% of women are employed as unskilled workers.


Celebrating
FIDIC
years
1913-2023

Sustainability and FIDIC

- FIDIC core principle since 1913
- Project Sustainability Management (2004)
- Project Sustainability Management 2nd ed. (2013)
- Project Sustainability Logbook (2013)
- Project Sustainability Logbook User Instructions, Repertoire, Monitoring Tables (2013)
- Decarbonisation of the infrastructure sector (2023)
- Playbook for Nature-positive Infrastructure Development (2024)

Disclaimer

Information presented is still under review and may change before publication by FIDIC

FIDIC Carbon Management Guidance

- Started development March 2023
- To introduce carbon management in FIDIC Contracts
- Lifecycle approach
- Draft A fully reviewed by the FIDIC Contracts Committee
- Draft B under preparation
- Accelerated review process accepted by the Board

Key Aspects

- Prioritizes adaptability, simplicity, and alignment with already known FIDIC mechanisms

- **Stand alone, Ready to use, Future-proof, Adaptable**

- Adjustable to different:
  - levels of sophistication of the participants
  - project characteristics
  - employers and/or funders sustainability objectives
  - FIDIC contract forms
  - aspirational objectives, qualitative and quantitative obligations

Guidance Contents

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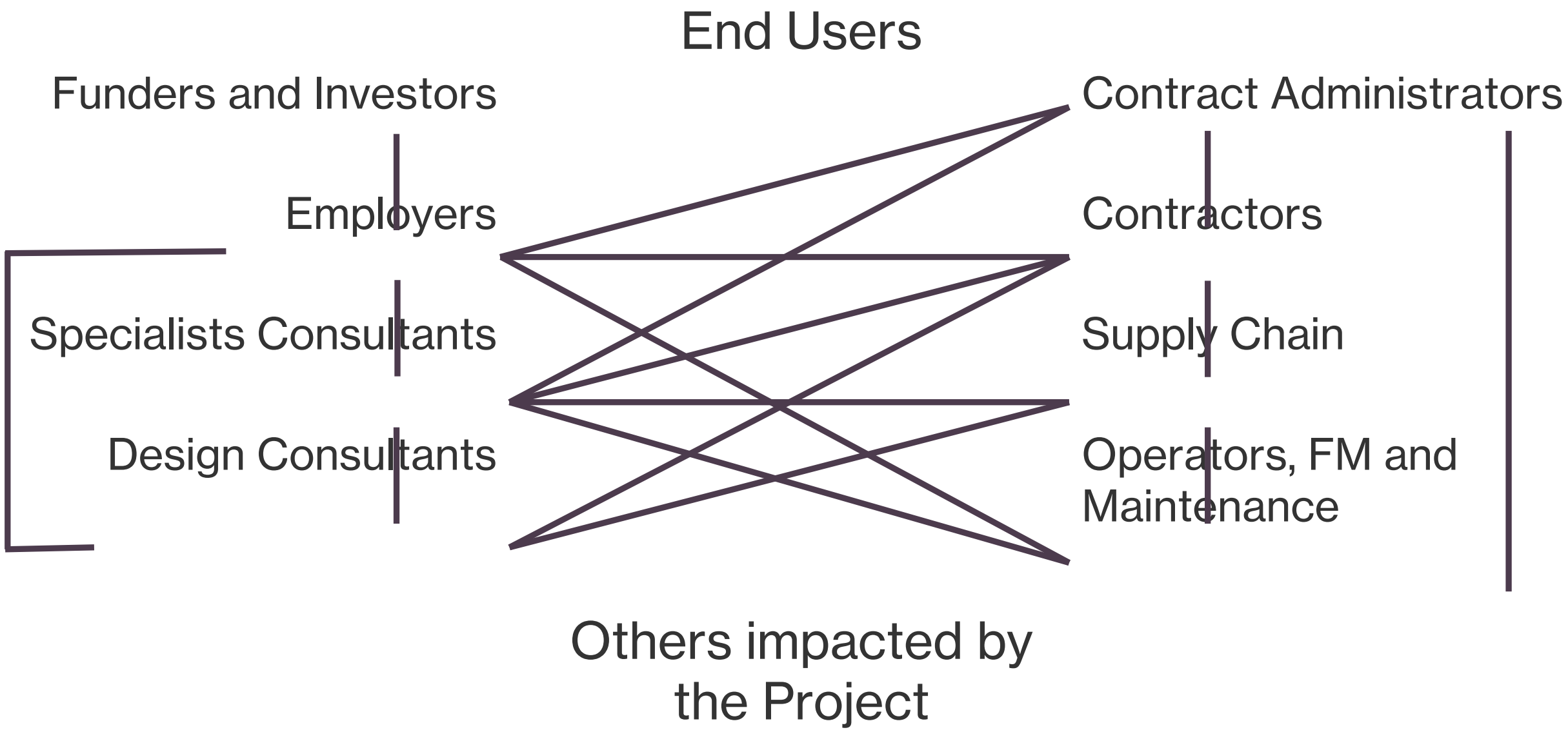
- Defined Terms necessary for a Lifecycle approach
- Particular Conditions Guidance and Guide for FIDIC Works Contracts
- Examples

Roles of Main Stakeholders



FIDIC Carbon Management Principles

CMP1

Tenderers proposed Carbon Emissions Budget must be used as evaluation criterion

CMP2

All stakeholders must collaborate to improve the project's Carbon Balance Sheet throughout the project's lifecycle

CMP3

It is crucial to promote measures that lead to fewer emissions rather than relying on removals or offsets

FIDIC Carbon Management Principles

CMP4

Employers must establish a clear and unambiguous Carbon Emissions Calculation Methodology

CMP5

Employers are responsible for removing the project's emissions and must not transfe that obligation to others

CMP6

All stakeholders should promote the continuous transformation of the industry's supply chain

Procurement for Services and Works

MDBs Pledge October 2023

“Using procurement as a catalyst for change”

FIDIC Carbon Management Guidance

“carbon emissions are a critical resource, requiring efficient management in the same way as financial resources”

Procurement for Services and Works

- Ready to use examples of sustainability Eligibility Requirements and Evaluation Criteria

- Carbon Emissions Budget as evaluation criteria

- Carbon Emissions Calculation Methodology is the catalyst for

Multi Rated Criteria for Works

a% Price
b% Technical (including sustainability)
c% Carbon Emissions Budget (CAPEX)
d% design related Performance Guarantees (OPEX)

Services Agreements

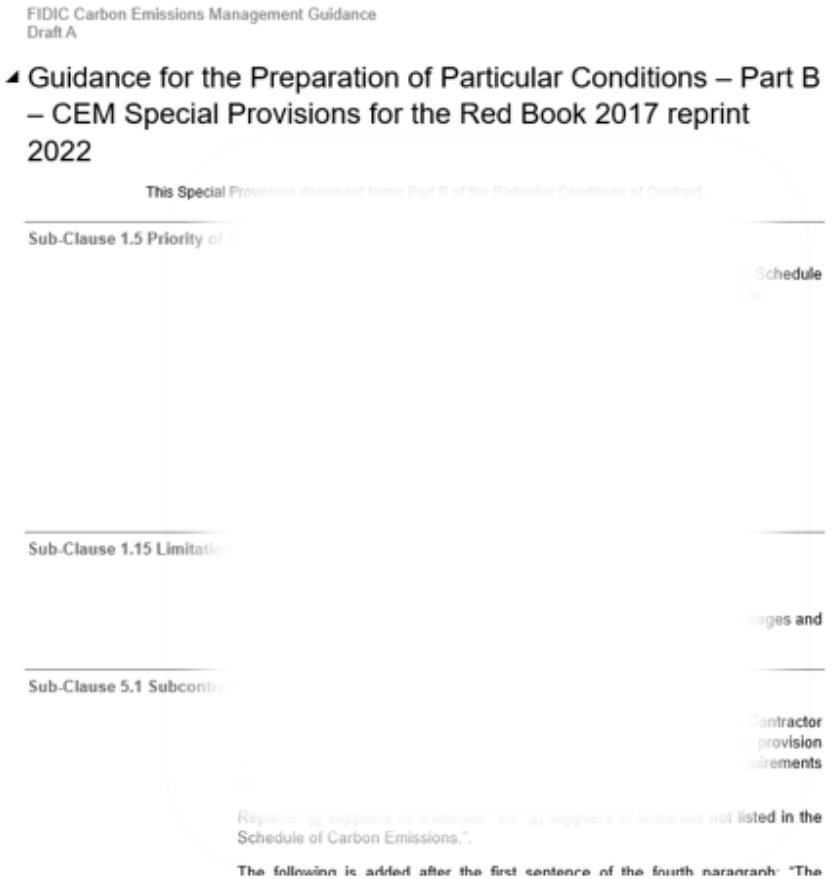
- Guidance on aligning the FIDIC White Book and its Appendices with the CMPs
- Guidance on adjustments of Services Scope of Work for different project phases. Adaptable to different services
- Managing the Project Carbon Balance Sheet is key

- 10 Main Considerations:
  - Alignment with the project's Carbon Emissions Target
  - Transparency and accountability
  - Lifecycle perspective
  - Quantitative and qualitative measures
  - Flexibility and adaptability
  - Continuous improvement
  - Innovation and best practices
  - Regular monitoring and reporting
  - Capacity building
  - Obligations of Subconsultants

Works Contracts

- Guidance on Employer's Requirements and Schedule of Performance Guarantees

- Guidance on Preparation of Particular Conditions for each FIDIC Works Contract
  - Contract Data and Special Provisions
  - New Clause and Schedule of Carbon Emissions


FIDIC Carbon Emissions Management Guidance
Draft A

Guidance for the Preparation of Particular Conditions – Part B – CEM Special Provisions for the Red Book 2017 reprint 2022

This Special Provisions document forms Part B of the Particular Conditions of Contract

Sub-Clause 1.5 Priority of

Schedule

Sub-Clause 1.15 Limitati

ages and

Sub-Clause 5.1 Subcontr

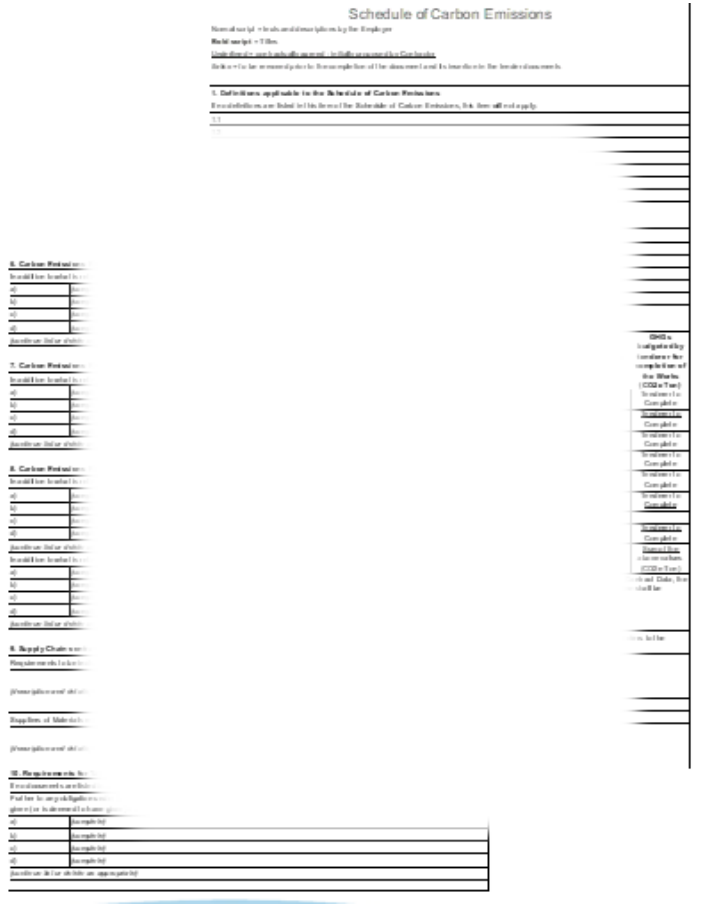
ontractor
provision
irements

Replace "(g) suppliers of Materials" for "(g) suppliers of Materials not listed in the Schedule of Carbon Emissions.".

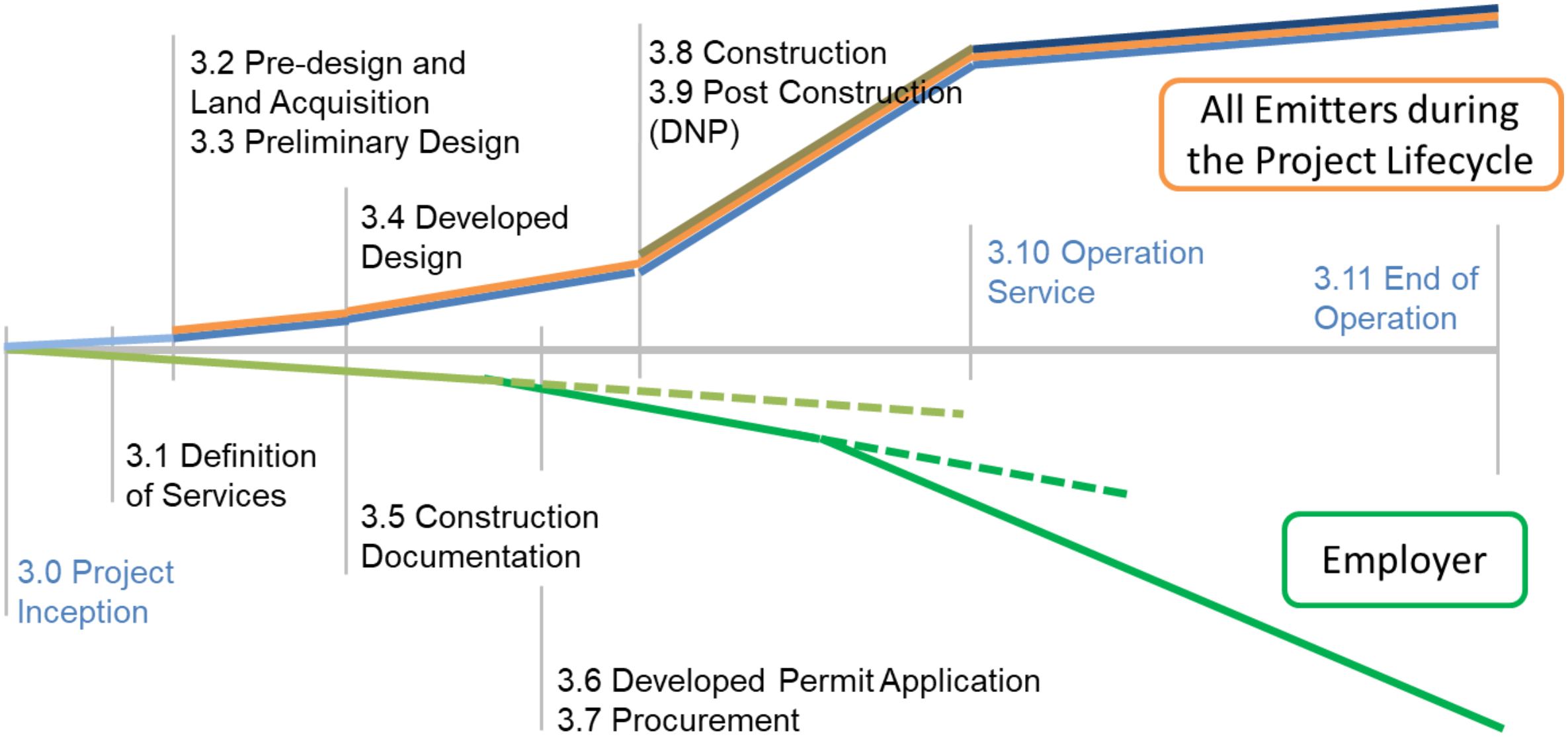
The following is added after the first sentence of the fourth paragraph: "The

Schedule of Carbon Emissions

- Mechanism to adapt Clause A and Special Provisions:
  - Carbon Emissions Objectives
  - Carbon Emissions Milestones
  - Carbon Emissions Calculation Methodology
  - Employer's Carbon Emissions Data
  - Carbon Emissions Risk Register Requirements
  - Carbon Emissions Risk Management Plan Requirements
  - Carbon Emissions Reports
  - Supply Chain Contracts
  - Requirements for Taking Over
  - Requirements for Completion



Lifecycle approach – Project Phases



Lifecycle approach

- One project is not one contract. Each project has its own strengths, challenges and objectives
- Projects require an active and continuous management and a Carbon Balance Sheet
- New technology and tools used to improve results throughout the lifecycle
- The Carbon Emissions Calculation Methodology needs to be project and/or contract specific

FIDIC Carbon Management Guidance

Stand alone, Ready to use, Future-proof, Adaptable

Thank you

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Session 2