

MINISTRY OF AGRICULTURE AND FORESTRY  
DEPARTMENT OF PLANNING AND FINANCE

THE WORLD BANK - IDA

LAO AGRICULTURE COMPETITIVENESS PROJECT  
LACP - P161473

PROJECT PROCUREMENT STRATEGY FOR  
DEVELOPMENT

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## I. PROJECT OVERVIEW

Country:	Lao People's Democratic Republic
Full Project Name:	Lao Agriculture Competitiveness Project (LACP)
Total Finance (\$):	US\$ 29.3 million, in which: IDA US\$ 25.0 million Government US\$ 0.5 million Private US\$ 3.8 million
Project Number:	P161473
Summary of Project Development Objectives	The Project Development Objective (PDO) is to increase competitiveness of selected agricultural value chains in the project areas.

### A. PROJECT SUMMARY

1. The Lao Agriculture Competitiveness Project's Development Objective is to increase competitiveness of selected agricultural value chains in the project areas. The project's Executive Agency is the Ministry of Agriculture and Forestry (MAF), with its Department of Planning and Finance (DoPF) as the main implementing agency. Other implementation partners include technical departments in MAF as well as in Ministry of Industry and Commerce (MoIC). At provincial level, the department of Agriculture and Forestry (PAFO) will implement project activities in the five following provinces: Khammouane, Bolikhamxay, Xayabouly, Vientiane province, and Vientiane Capital. The project implementation timeframe is tentatively from March 2018 to June 2023. As described in the Project Appraisal Document, the project will have three components:
2. Component A: Improved Agricultural Efficiency and Sustainability (est. US\$ 18.8 million, of which International Development Association (IDA) would finance around US\$ 16.8 million). This component will support: (a) the increased adoption of improved varieties and high quality seeds, (b) the increased application of good agricultural practices, (c) the provision of critical productive infrastructure, and (d) the strengthening of public services delivery.
3. Component B - Enhanced Agricultural Commercialization (est. US\$ 6.9 million, of which IDA would finance around US\$ 4.6 million). The project will support: (a) establishing an Agriculture Value Chain Grant Facility (AVCGF), (b) measures to better link farmers to markets, and (c) studies to improve the enabling environment for agro-enterprise and value chain development.
4. Component C - Project Management (est. US\$ 3.6 million, of which IDA would finance US\$ 3.6 million). The component will support (a) project management; and (b) monitoring and evaluation.
5. Total financing under the project will be US\$ 29.3 million, out of which about US\$ 17 million will go towards supporting to agribusiness and farmer organizations under the form of matching grants and infrastructure improvement. The remaining procurable activities include goods and consulting services and operational costs. The following section described the main project procurement packages per component.

### B. DESCRIPTION OF MAIN PROCUREMENT PACKAGES

6. The LACP implementation will require procurement of works, goods, services and works under the project components. Procurement of works will support the implementation of components A and B to undertake improvement of infrastructures for seed processing and extension, as well as critical productive infrastructure, mainly irrigation. Procurement of goods will be needed to provide equipment for seed processing and certification and Good Agricultural Practice (GAP) extension, as well as support to project management (vehicles, office equipment, etc.). Consulting Services will be needed to provide capacity building and technical advisory service as well as project management assistance. In particular, the matching grant facility under component B will require the use of management consultant services. Table 1 provides a summary of the estimated costs of procurement package per category: Works, Goods, and Consulting services

**Table 1: Estimated costs**

Components	Total		IDA		GOV		PRIV	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>Total Project costs</b>	<b>29,293</b>	<b>100</b>	<b>25,000</b>	<b>85</b>	<b>500</b>	<b>2</b>	<b>3,793</b>	<b>13</b>
A. Matching Grant	11,990	41	8,197	68	-	-	3,793	32
B. Civil Works	4,980	17	4,980	100	-	-	-	-
C. Land compensation	500	2	-	-	500	100	-	-
D. Operating cost	3,171	11	3,171	100	-	-	-	-
E. Goods_Equipment	396	1	396	100	-	-	-	-
F. Goods_Vehicle	714	2	714	100	-	-	-	-
G. Training & Workshops	1,448	5	1,448	100	-	-	-	-
H. National Consultants	4,809	16	4,809	100	-	-	-	-
I. International Consultants	1,285	4	1,285	100	-	-	-	-

7. The projected distribution of procurement packages by category is as follow: Works 17%, Good 4%, consulting 21%
8. Procurement under the project will be carried out in accordance with Procurement Regulations for IPF Borrowers of World Bank dated July 1, 2016, revised November 2017. Approaches to national markets (Request for Bids and Request for Quotations) will be carried out in accordance with the national regulations including the Procurement Decree #03, dated January 9, 2004 and Implementation Rule and Regulations (IRR) #0063 issued by the Ministry of Finance (MOF) on March 12, 2004 and #0861/MOF, dated May 5, 2009 (amended version). Harmonized Bidding Documents and Request for Quotations will be used for procurement of works, goods, and non-consulting services under the project. The procurement method and conditions used for procurement under the matching grant mechanism will be specified in the grant manual. Procurement of works, goods and/or services by the grantees will comply with acceptable commercial practice and due diligence.

## **II. OVERVIEW OF COUNTRY, BORROWER AND MARKETPLACE**

### **A. OPERATIONAL CONTEXT**

9. This section provides an overview of the context in which the project will be implemented, and the conditions under which the procurement process will take place. It is essentially based on a simplified PESTLE analysis as suggested in the Procurement Guidance: Project Procurement Strategy for Development Short Form Detailed Guide<sup>1</sup> (World Bank, 2016).

#### **Political / Governance aspects**

10. Lao PDR is commonly recognized for the stability of its political system and the overall level of security. In 2016, Lao PDR ranked higher than its four neighboring countries for political stability and absence of violence. Peace and stability maintained over the past decades has provided a strong foundation for economic growth and increasing foreign investment. The domestic private sector has also benefited from the stable business environment. Between 2011 and 2016, significant progress has been made on Government Effectiveness and Corruption control as well as other related Worldwide Governance Indicators<sup>2</sup>. Still, the Government has identified corruption as a constraint to attain its economic and social development objectives at horizon 2020 and has made commitments to tackle this issue and raise public awareness.
11. In the past decade, the Government of Lao PDR has gradually improved its legal framework to tackle corruption. The Anti-Corruption Law was first issued in 2005 and revised as Law #27 effective on 18

<sup>1</sup> PPSD guidance available here: <http://pubdocs.worldbank.org/en/123601488224013672/PPSD-Short-Form-Final.pdf>

<sup>2</sup> World Bank: Worldwide Governance Indicators <http://info.worldbank.org/governance/wgi/>

December 2012. The State Inspection Agency has conducted hundreds of inspections in the last five years and corruption cases have been prosecuted.

12. Conclusion: The political, security, economic situation and institutions and policies of the government and related agencies are favorable for the implementation of the project. Nevertheless, corruption can be a potential risk that may affect the efficiency and the effectiveness of the project implementation.

### **Economic Aspects**

13. Lao PDR has demonstrated strong potential for sustained economic growth, with a stable economy over the last decade. The inflation rate has been decreasing in recent years and maintain at 1.6% in 2016. The Kip/US\$ exchange rate is relatively maintained stable under the tight management of the exchange rate policy. Lao PDR will face reduced funding from external sources and a need to increase domestic financing for agriculture development. Project assistance from external donors is expected to transition out of Lao PDR in the foreseeable future. The World Bank (WB)'s financial support for the Agriculture Sector is also expected to rapidly decline. The WB, along with other donors, supports the Government of Lao PDR commitment towards the development of a competitive commercial agriculture sector that is attractive to private sector investment in production and processing. It is expected that all goods and services will be available either in country or from suppliers in neighboring countries only.
14. In the context of increasing involvement of the private sector in the country's socio-economic development, a key issue is the growing competition from companies in the informal sector. A recent paper published by the WB confirmed and analyzed the conclusion of the Enterprise Survey<sup>3</sup> (ibid.). The note<sup>4</sup>, titled "Formal informality", identified competition from the informal sector as the single most important constraint faced by the registered companies operating in the formal sector.
15. At project level, it is expected that this context of informal business practices will directly impact the procurement processes. It is important to ensure that all service providers and contractors are duly registered and demonstrate consistent track records in complying with the tax regulations and other regulatory requirements.
16. Conclusion: As mentioned above the relatively stable exchange rate and low level of inflation (compared to previous years) do not impose potential risks to the project implementation. Nevertheless, informal business practices may impose potential negative impact to the project implementation.

### **Technological Aspects**

17. Most of the goods and services to be procured under the project will involve off-the-shelf goods and technologies within the capabilities of MAF and the National Program Coordination Office (NPCO). The project intends to mobilize technologies that have been tested and used in the past.
18. At community level, various types of technologies are available to an ever-wider portion of the rural population. This technological shift comprises: Information and Communication technologies (mobile network, cell phones, cameras, internet access, computers and printers), improved production equipment (hand tractor, pumps, drip lines and sprinklers, shade nets, plastic mulching, sprayers, etc.), small scale processing machinery, renewable energies (solar cells, biogas digesters, micro hydro turbines, etc.). Impact of technologies on efficiency and productivity generally depends on initial investment costs and adequate use. The project will facilitate access to technologies that are affordable and sustainable. The role of project teams at provincial and district levels will be to provide the farmers' organizations with supplier-independent information on the procurement conditions and on the O&M costs for each of the potential technology.
19. Conclusion: there is no substantial risk relating to the technological aspects. Nevertheless, it is a challenge for the PIAs to prepare good technical specifications in order to purchase equipment of expected quality.

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<sup>3</sup> World Bank (2016) Enterprise Surveys <http://www.enterprisesurveys.org>

<sup>4</sup> Imboden, Anders Stensrud; Hoppe, Mombert. 2017. *Formal informality : informal practices of formal firms as a key business constraint*. Washington, D.C. : World Bank Group.  
<http://documents.worldbank.org/curated/en/979281509632059588/Formal-informality-informal-practices-of-formal-firms-as-a-key-business-constraint>.

## **Environmental Aspects**

20. During the preparation of the LACP, environmental and social safeguards issues have been addressed in accordance with environmental and social safeguards policies of the Government of Lao PDR and the World Bank.
21. In the Environmental and Social Management Framework developed for LACP, specific Environmental Code of Practice (ECOP) have been prepared for the following project elements: (i) Rehabilitation of Irrigation Schemes; (ii) Storage facilities including workers' safety measures among others; (iii) Packaging facilities and processing, including waste management measures among others; (iv) Rice mills; and (v) Physical Cultural Resources (specifically chance find).
22. Procurement approaches will be instrumental in ensuring that some of the social and environmental measures are taken in account, for example workers health and safety measures. Moreover, climate change mitigation and adaptation are also to be included in the terms of reference when procuring equipment, goods, or civil works contractors.
23. Upgrading of irrigation infrastructures will include 5 schemes that depend on existing reservoirs. Under the WB Operational Policy for Dam Safety (OP 4.37), it is required that a Panel of Expert is commissioned to undertake dam safety assessment and make recommendations. A procurement activity has been included in the project.
24. Conclusion: there will be certainly a number of environmental impacts involved with civil works under the project. Nevertheless, these works are all of small scale and without any requirement of site clearance or resettlement. Therefore, the environmental and social impact caused by the project activities are not substantial and be manageable.

## **B. CLIENT CAPABILITY AND PMD-DoPF ASSESSMENT**

### **Experience and capability of implementing agency**

25. Department of Planning and Finance (DoPF) under MAF will remain the implementing agency for LACP. MAF-DoPF has over 15 years of experience implementing WB-financed projects. MAF established a Project Management Division (PMD) on Oct 28, 2013. It is a Central Project Management Office (CPMO) equivalent to an administrative Divisional Level in MAF to manage the day-to-day management and implementation coordination of the program. The CPMO has 8 full time government officers and receives only key technical and fiduciary support by consultants financed by donor-funded projects. Since 2014, MAF has implemented a number of projects and programs with procurement packages involving international and national competitive bidding and selections under the World Bank and other donors financed projects as indicated in Table 2 below.

**Table 2: Management Capability of the MAF (2014 - 2016)**

Year	Sector	Number of contract packages/ form of selection of contractors				Value (US\$)			
		Total	National Procurement	International Competitive Procurement	Others	Total	National Procurement	International Competitive Procurement	Others
2014	Goods	16	15	1		645,331	370,331	275,000	
	Works	-	-	-		-	-	-	
	Consulting services	7	7	-		162,450	162,450	-	
2015	Goods	1	1	-		116,518	116,518	-	
	Works	-	-	-		-	-	-	
	Consulting services	9	6	3		2,328,620	59,279	2,269,341	
2016	Goods	2	2	-		16,565,569	89,600	16,475,969	
	Works	6	4	2		260,686	260,686	-	
	Consulting services	7	7	-		1,090,041	544,771	545,270	

26. It is a normal practice that a project procurement committee (PPC) will be appointed for each project at central level. PPC members can involve in more than one project at a time and their capacity has been strengthened over time. Technical MAF departments are responsible for developing technical designs, specification of goods, and Terms of References as well as managing contracts.
27. Procurement activities can be implemented either at central or provincial level depending on market conditions. Implementing agencies including PAFO at provincial level can be delegated to procure some goods, small-scale civil works and consultant selection packages with direct support from the project's procurement consultants. At MAF level, DoPF provides operational support, interagency coordination and monitoring of procurement activities of the project. DoPF is responsible for administering the overall implementation process for procurement activities at central level including request for expression of interest, shortlisting and preparation of bid/selection evaluation and recommendations to a procurement committee chaired by the Minister of MAF or the alternative authorized person.
28. It is important to note that CPMO has limited staff and past donor-financed projects often recruited procurement specialists and supporting staff to assist the implementation of procurement activities. In LACP, DoPF proposes to hire a procurement specialist to assist CPMO in executing procurement activities in a timely manner but also strengthening its procurement and operational capacity in project implementation.

#### **Contract management capability and capacity**

29. During the pre-appraisal mission, consultations with project stakeholders indicated that the Executing Agency and Implementing partners have adequate capability and capacity for contract management. Some lessons can be drawn from past donor's funded projects as follows. Civil works contract management was reported to have some capacity issues: (i) if the procurement package for civil work was procured at the central level, the provincial authority had less interest to manage the contracts signed at the central level even such civil works were to deliver in their respective provinces; and (iv) informal sub-contracting of civil works, although prohibited, was reported as a widespread practice and often impeded proper contract management and compromised delivery quality.
30. The above issues were analyzed during the project preparation and will be addressed by the following actions: (i) small-scale procurement packages and mandate of contract management should be delegated to the provincial level whenever possible to ensure that provincial implementing agencies are directly and actively involved in managing contracts and monitoring physical implementation progress of project activities with some support from project technical assistance at provincial level and the procurement specialist from MAF; and (iv) any anticipated sub-contracting of civil works must be included at bidding

process to ensure fair competition and in the signed contract as informal/unanticipated subcontracting often compromises the value for money and quality of output delivery.

#### **Complaint management and dispute resolution system**

31. The project will establish and follow an administrative process of resolving complaints and disputes within MAF that is in compliance with Article 40 of Decree on Government Procurement of Goods, Works, Maintenance and Services No. 03/PM dated January 09, 2004 as well as the World Bank's operational regulations.
32. Bidders knowing about an improper act by the procuring entity or project executing agency in relation with procurement may file a written complaint and submit evidence to the chairperson of the procurement committee. Such complaint must be considered and resolved in accordance with the rules and regulations in the Decree on Government Procurement of Goods, Works, Maintenance and Services No. 03/PM dated January 09, 2004 as well as the World Bank's operational regulations.
33. MAF has not received any complaints so far for past projects. However, it is a requirement that information on procurement operations including request for expression of interest, bidding requirements, contract awarding and explanation to unsuccessful bidders/consultants are regularly disclosed and published on the MAF's website to ensure transparency and fair competition. LACP will also follow this good practice of disclosure and publication of procurement related information.
34. A summary of the strengths, weaknesses, opportunities, and threads regarding the capacity of the PIAs are presented as follows:

## SWOT analysis

Strengths	Weaknesses
<p>MAF DoPF has prior operational experiences in World Bank-financed projects.</p> <p>Provincial departments also have prior operational experiences in project implementation.</p>	<p>MAF and provincial departments are new to the new WB procurement framework that is applied for LACP.</p> <p>CPMO's operational capacity to administer procurement of multiple packages at the same time in a timely manner remains limited in which there will be multiple packages under LACP.</p> <p>Limited experiences in managing contracts for civil works in MAF and provincial departments but LACP will support rehabilitation of irrigations schemes.</p> <p>Both MAF and provincial departments have limited experience to engage with the private sector while matching grants for agribusinesses will be supported under LACP.</p>
Opportunities	Threats
<p>Some small-scale procurement packages for goods, consultants and civil works can be delegated to implementing agencies at provincial level.</p> <p>Effective and efficient procurement operation can contribute to minimize environmental and social risks.</p> <p>Climate change mitigation and adaptation aspect should be considered in procurement process such as specifications, TORs and designs to ensure sustainability and mitigation of impacts<sup>5</sup></p> <p>Implementation of AVCGF will enable MAF and provincial departments to formalize engagement with the private sector.</p>	<p>Bureaucratic delays in coordination between MAF/MoIC's line technical departments, provincial agencies and district offices can affect operational processes.</p> <p>Governance issues in enforcing rule of law. can impact procurement operation and therefore project implementation.</p> <p>Conflicts of interests and impartiality in procurement remain a persist issue in the country context and can potentially compromise fair competition.</p> <p>Informal practices often discourage fair competition.</p> <p>Limited suppliers may also lead to supply low quality of goods.</p> <p>Limited availability of qualified consultants can delay selection process.</p>

## Key Conclusions

35. The MAF has adequate experience to administer and supervise procurement activities under the project. But because of the limited number of staff in DoPF, the implementation of procurement activities needs to be supported by an experienced procurement consultant to be financed by the project, MAF has rules and procedures to deal with complaints and disputes. Information on procurement operations are regularly disclosed and published to enhance transparency and fair competition.
36. Some small-scale procurement packages of works, goods and services will be procured at the provincial level with a project coordination unit to be established at the PAFO. The procurement consultant at CPMO will provide training on procurement to and assist provinces in preparing procurement documents, and support provinces to be compliant with procurement procedures and regulations.

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<sup>5</sup> For instance, the design specifications for Civil Works will include provisions to encourage the contractors to use locally available construction materials whenever possible and use of insulation for building to reduce energy consumption



matching grant management services was regularly commissioned to an independent international consulting firm or specialized technical organization to ensure transparency and fairness of matching grant management and implementation. In Lao PDR, the European Union-funded Enhancing Milled Rice Production Project (EMRIP) in Lao PDR had an arrangement with SNV Netherlands Development Organization, a specialized development organization, as the entity to provide manage the matching grant facility and provide technical services to strengthen capacity of 21 rice mills in rice value chain development. The EMRIP closed in 2016 and its impact on rice value chain development in the targeted provinces (Vientiane Capital, Bolikhamxay, Khammouane, Savannakhet, Champassak, and Salavan) was significant and remains visible among stakeholders including rice millers, MAF and PAFO staff, and rice farmers. EMRIP helped establish contract arrangements between farmer and rice mills for the first time for rice quality improvement at farm level and to increase milling efficiency of rice mills at postharvest processing stage in the project areas resulting in improvement in milled rice quality. Given that SNV Netherlands Development Organization have such experience of exceptional worth for the assignment; and there is a limited pool of consulting firms whose have expertise in matching grant and rice value chain development, MAF may consider to recruit SNV with single source selection to implement the AVCGF to ensure transparency, fairness and a timely implementation of the AVCGF.

42. *TA for implementation support.* This is to select a consultant to provide a wide range of agricultural technologies for good agriculture practices (GAP) in rice and horticulture production to assist farmer groups to adopt techniques of GAP and organic farming, nutrition sensitive agricultural activities. This assignment is critical to the success of the project implementation and its nature is relatively complex. Therefore, it is also considered as an activity of substantial risk. The implementation of these activities will require qualified and specialized national and international experts to assist MAF and PAFOs. As the project focuses in five different provinces and project activities to support farmers are at the village level with strong coordination and extension support from DAFO, PAFO and MAF, it is desirable that technical expertise for these areas may be mobilized and packaged for selecting a consulting firm, instead of hiring separately individual national and international consultants. The latter is proven to be very challenging for MAFO and PAFO to manage and supervise each individual consultant. The market analysis suggests that while there may be some qualified consulting firms for providing such services, the Food and Agriculture Organization of the United Nations (FAO)—the United Nations’ technical agency on agricultural development can be directly contracted for this complex assignment because it possesses of exceptional qualifications and experience to provide this TA. Particularly, it has strong experiences and qualification to satisfy the requirements of providing technical agricultural services in GAP and organic farming to support farmer groups. FAO has established a representative office in Vientiane and managed a number of successful projects. FAO is capable to quickly mobilize needed international experts from its Regional office in Bangkok or headquarters in Rome. Currently FAO is active in providing technical support in many agricultural areas in Lao PDR. Its activities are strongly correlated and relevant to the LACP in but not limited to development of agricultural technologies and practices for rice, vegetables/fruit and its capability of enabling sustainable intensification of production by using environmentally-sound approaches that can minimize use of agrochemicals but promote nutrition-sensitive agriculture, value chain development and contract farming, and the work on agricultural policies and strategies. These practices have been validated and extended at community level using Farmer Field Schools (FFS), which are participatory farmer-focused processes to foster locally-adapted learning and to improve adoption of new agricultural practices. In addition, FAO has also provided support capacity building of public agricultural institutions at provincial and district level in a full range of agricultural development including planning and management, regulation/standards, and effective service provision, as well as enhancing the functional capacities of farmer groups and small-medium enterprises aimed at enhancing market access. FAO has maintained a strong relationship and cooperation with the Government at national and provincial levels in policy dialogues, operational support in adopting nutrition-sensitive agriculture approaches.
43. International project advisor: This position is important to the project implementation and it is not easy to find qualified candidates for the position. The assignment is therefore considered a substantial risk activity.

**Low/medium risk activities:**

44. Other procurement activities under the project including procurement of works, goods and other consulting services are considered low/medium risk activities because those activities are of small value and relatively simple nature.
45. Lao PDR is a small landlocked country with limited manufacturing capacity and supply of goods and services. Most of the suppliers concentrate, in the capital, Vientiane and most of the goods are imported from neighboring countries. In the last decade, the private sector including small and medium enterprises has emerged in the Capital and has progressed to provincial centers in the country. Some goods can now be procured at provincial level with positive effect on costs and time of goods delivery.
46. Experiences from previous projects under MAF show that most of procurement packages were small and most bidders were also local. Potential foreign bidders did not express interest due to small scale procurement packages. The average number of bidders that participated in previous projects is illustrated in Table 3 below. Most of the goods required under the project—LACP—are readily available on domestic markets at competitive prices.

**Table 3: Summary of average bid response in previous packages**

Description	Average number of bid response	Comments
Request for Bids	7 to 8	
Request for Quotations	7 to 8	
Consulting Services (firm)	7 to 8	
Consulting Services (IC)	7 to 8	

47. *Civil works - upgrade of critical productive infrastructures.* The project intends to procure contractors' services to undertake the repair and upgrade of irrigation systems in each target province. Each target province is allocated between US\$ 900,000 and US\$ 1,000,000 for irrigation systems upgrade. The list of works to be financed under the project will be finalized during the project implementation. However, it is known that the works in general include small-scale upgrade and rehabilitation of irrigation systems, works are therefore of small value and relatively simple in nature. The market research shows that foreign contractors will not be interested in these works; and at the same time there are many local contractors that have sufficient capacity and experience to execute this type of works. To increase the attractiveness of the works under procurement, the interest of the contractors and consequently the level of competition, the works should be lumped into contracts as much as possible. Given such nature of works, procurement of these works will be implemented by implementing departments at provincial level because such arrangement will facilitate better the procurement process and contract implementation and management with the expectation that mainly local contractors or enterprises will participate in bidding for those small-scale works.
48. *Infrastructures for seed processing.* The works include upgrade or repair of the seed processing infrastructures at various locations in different localities: NAFRI, PAFOs, DAFOs in the five project provinces. Those infrastructures will include simple civil engineering structures such as drying pads, warehouse, etc. The works therefore are of very small value and simple in nature. It also found that many local contractors have sufficient qualifications and experience to execute these types of works. Given that the works are scattered in various locations and of small value, it is anticipated that the interest of bidding is mainly from the local contractors. The works should also be combined with each other into contracts as much as possible to increase the interest of the potential bidders as well as to reduce the transaction cost.
49. *Goods and equipment.* Goods and equipment to be procured under the project are not sophisticated equipment and of small value. It found that these are in general available and/or easy to procure either in the Capital or local provinces because many shops or suppliers are able to provide such goods/equipment. Some goods such as office furniture and some equipment such as computers and printers are readily available and can be supplied by many local retail shop or companies; and some other equipment such as laboratory and analysis equipment, seed processing machinery may need to be imported based on technical specifications. To increase the interest from the potential suppliers, the goods/equipment will be combined into package as much as possible. Current market analysis has shown that importers often provide some after-sale services but service quality remains low with sometimes delays in providing spare parts as well as lack of competent

maintenance advice. Therefore, after-sale services should be paid attention during the procurement process and to ensure they are properly implemented during the contract implementation.

50. *Vehicles.* New motor vehicles for project use will be procured with a total estimated cost of US\$ 630,000. Vehicle retailers with official accreditation and authorized distribution from manufacturers are well-established in Vientiane Capital. Motor vehicle market has been well developed and matured to encourage competition of different brands of equivalent specifications. This market appears to be adequate to provide competitive prices and sufficient quality of after-sale services and maintenance. Experience from other projects that have been under implementation demonstrated that most bidders participating in procurement of vehicles are from Lao PDR. There are more than seven motor vehicles retailing branches located in Laos namely: Toyota, Mitsubishi, Nissan, Isuzu, Mazda, Ford and Chevrolet that appears sufficient to ensure relatively high level of competition.
51. *Individual consulting services.* MAF has a long track record in selecting and recruiting individual consulting services. Yet, the pool of available national consultant in the agriculture sector remains small and is often not well-define. No database of existing consultants is established in the agriculture sector to provide information and facilitate access to available consultants. Experiences of past projects show that it is sometimes challenging to fill some technical positions of consultants. In this project, various individual consultants will be hired including a number of technical consultants. Most of the positions are able to be filled by national consultants although there may be some difficulties or delays in selections some of the technical consultants.
52. *Consulting firm services.* In Lao PDR, consulting firms often retain only a small number of in-house experts under their payroll. Thus, for large consulting assignments consulting firms often recruit individual consultants who are generally independent or freelance to perform such required tasks. It is a common practice that consulting firm will apply a margin fee but they do not necessarily provide adequate management supervision or technical back-stopping to their staff to deliver the required outputs in good quality. Under our project, except two critical assignments that have been mentioned above, the other firm consulting assignments are of relatively small value and not very complicated; and therefore, a number of national consulting firms are able to participate and have sufficient capacity to provide the services.

### **Key Conclusions**

53. Regarding two critical TAs under the project including the TA for management of matching grants and the TA to support implementation, they are considered substantial risk activities. The competition level of the market for these two assignments is very limited. For the first assignment, SNV Netherlands Development Organization has experience of exceptional worth for the assignment; MAF therefore may consider recruiting SNV on the basis of direct selection for such assignment. For the TA to support implementation it identified that FAO is exceptionally qualified to provide this TA; MAF therefore consider to select FAO for this TA on direct selection basis.
54. The other consulting assignments are mostly of relatively small scale with cost estimate ranging from US\$ 20,000 to below US\$ 200,000. There are sufficient national consulting firms and individuals having the qualifications and experience to provide such type of consulting services.
55. Civil works and goods/equipment required for the project are mostly of small value and simple nature. Many local/national contractors and suppliers have sufficient capacity and experience to execute such type of works or provide such kinds of goods/equipment.

## **III. PROCUREMENT RISK ANALYSIS**

56. From the above analysis, there will be a number of potential risks that may negatively affect the procurement implementation of the project. Nevertheless, these risks are manageable. Such key risks and proposed risk mitigation measures are shown in Table 4 below.

**Table 4: Procurement risk analysis**

<b>Risk Description</b>	<b>Risk rating</b>	<b>Description of Mitigation Measures</b>	<b>Risk Owner</b>
Limited knowledge and experience of the CPMO' staff including MAF-DoPF with World Bank's Procurement Regulations that may cause the project implementation delays and non-compliances.	Substantial (3)	Provide procurement training for CPMO' staff, including initial training during project preparation and in-depth procurement trainings during project implementation; Recruiting a procurement consultant to assist the CPMO carrying out procurement activities	DoPF
Lengthy internal procurement reviewing process that may cause the project implementation delays	Substantial (3)	Prepare and adopt a project operation manual (POM), including a chapter on procurement comprising of clear rules, step by step procedures and responsibilities, timeline requirements for procurement activities, actions and decisions, sample documents and evaluation report for small procurements, etc.	DoPF
Governance risks associated with conflict of interest, fraud and corruption, which may adversely affect the efficiency and effectiveness of the project implementation.	Substantial (3)	- Enhanced disclosure of procurement information, including publication of the annual procurement plan and a quarterly summary of the contract award information for all procurement packages on MAF's website and in newspapers.	DoPF
		- Establish a procurement complaint handling mechanism consistent with the Government Procurement Rules & Regulations of MOF, and the World Bank's requirements.	MoF
		- Require staff involved in procurement to declare their interest and sign a declaration form	DoPF
		- Monitoring and reporting on implementation of actions Point 3 (i) to (vi) for strengthening transparency and procurement training for the project.	DoPF

## IV. PROCUREMENT OBJECTIVES

58. The project procurement objectives are presented as follows:

- All project implementing agencies (PIAs) carry out procurement in accordance with the approved procurement plan and in compliance with the Bank's Procurement Regulations.
- PIAs conclude the procurement process of all packages in timely manner and able to select contractors, suppliers and consultants that have sufficient capacities and qualifications to successfully execute works, supply of goods and equipment and perform consultancy services as required.
- Civil works contracts are completed in accordance with required design and standards;
- Goods and equipment contracts are delivered in accordance with the required technical specifications;
- Consultant contracts are successfully performed by the consultants meaning that the consultants successfully completed all required tasks and delivered all contract's deliverables with quality accepted by MAF;
- All contracts are completed in timely manner and within the budget;

## A. PROCUREMENT RESULT INDICATORS (PRI)

59. The following result indicators will be used to monitor the attainment of the above procurement objectives:

Key Performance Areas		KPI Description	KPI Measurement
1. Publishing	Publishing of REOI and IFB.	REOIs or IFBs were published on Website and Newsletter in English and Local Language.	<ul style="list-style-type: none"> <li>• Hard &amp; Soft copies of REORs &amp; IFBs are kept and filed in folders &amp; PC.</li> </ul>
2. Competition	Open opportunity and fair competitions.	Equal opportunity and fair competitions among eligible Contractors/ Suppliers/Consultants in providing works, goods and consulting services.	<ul style="list-style-type: none"> <li>• Numbers of Contractors/ Suppliers/ Consultants in expressed of their interest &amp; numbers of Bidders submitted their bids.</li> </ul>
3. Delivery	a. On-Time Delivery.	Provide contractually obligated deliverables and outcomes on agreed dates.	<ul style="list-style-type: none"> <li>• On time delivery of contractually obligated deliverables as per mutually agreed plans.</li> </ul>
		Information is managed (shared, stored and communicated) in line with expectations defined in contract or as agreed between the parties.	<ul style="list-style-type: none"> <li>• Deliverables uploaded to knowledge system according to agreed timeframe.</li> <li>• Supporting/ working documents uploaded (Templates, weekly status reports, minutes of meetings, training manual, project progress etc.)</li> </ul>
4. Quality	a. Delivery Quality	Product/service meets quality acceptance criteria	<ul style="list-style-type: none"> <li>• Number of deliveries that have met acceptance criteria (e.g. Number of defects, functionality of application, User Interface )</li> </ul>
	b. Supplier Personnel	Teams are made up of members with expertise relevant to our business including input from Subject Matter Resource (SMR)	<ul style="list-style-type: none"> <li>• Number of people proposed, rejected or replaced due to performance issues or not meeting the expectations</li> <li>• Number of key project resources leaving and joining for the contracted services</li> </ul>
	c. Client Satisfaction	Level of satisfaction received from service recipients / business users	<ul style="list-style-type: none"> <li>• Rating received by service recipients / business users</li> </ul>
5. Financial	a. Invoicing	Contractually compliant with the time and quality for submission of invoices	<ul style="list-style-type: none"> <li>• On time submission of invoices with supporting documents as agreed</li> <li>• Number of invoice errors identified in the past period</li> </ul>
	b. Cost Transparency	Supplier provides transparency into its cost breakdowns	Cost (invoices, financial proposals) is provided with a detailed breakdowns of activities, services, products, quantities, etc.
	d. Change Requests/ Contract Amendments	Number and value of CRs/ Contract Amendments initiated since the previous scorecard or over the reporting period	Total number of CRs raised/ Contract Amendments, value & scope of each CR / Contract Amendment

## V. RECOMMENDED PROCUREMENT ARRANGEMENTS FOR THE PROJECT

60. Procurement arrangements are defined based on the current context and the market analysis described above.

### A. WORKS

61. Based on the above analysis, civil works that are of small value and simple nature will be combined into contracts as much as possible. This will limit the number of packages and as a result will decrease the transaction costs as well as increase the interest of the potential contractors. The procurement approach for civil works are summarized in the table 5 below:

**Table 5: Procurement approach for civil works**

Attribute	Selected Arrangement	Summary Justification/Logic
<b>Specifications</b>	Conformance	The works are of small value with simple nature.
<b>Additional sustainability requirement</b>	No	The civil works mainly include upgrade and rehabilitation of the existing structures. Therefore, additional sustainability is not needed.
<b>Contract Type</b>	Traditional	Traditional type of contract is appropriate for this type of works.
<b>Pricing and Costing Mechanism</b>	Lump Sum Schedule of Rates	Lump Sum or Schedule of Rates.
<b>Supplier Relationship</b>	Adversarial	Works are of small value to be executed in short time. It should ensure that the contractors will execute the contracts properly meaning in time completion, within cost, and in accordance with the required standards.
<b>Price Adjustments</b>	None, fixed price	This is appropriate because the works are simple, small value and can be completed in relatively short period.
<b>Form of Contract (Terms and Conditions)</b>	None specific	No special condition is needed.
<b>Selection method</b>	Request for Bids (RFB) Request for Quotations (RFQ)	Given the works with simple nature and of small value, selection of RFB or RFQ method is appropriate.
<b>Selection Arrangement</b>	None	
<b>Market Approach</b>	Type of Competition Open/Limited National Single Envelope Single Stage	The market approach for civil works under the project is national because given the small size and simple nature of the works, there will not be interest from foreign contractors. For small contract (cost less than US\$ 200.000) RFQ method is appropriate to increase the efficiency of the process and in such case the market approach will be limited.
<b>Pre/Post Qualification</b>	Post	No package of large value and complex nature that would require pre-qualification.
<b>Evaluation Selection Method</b>	N/A	
<b>Evaluation of Costs</b>	Adjusted Bid Price	
<b>Domestic Preference</b>	No	
<b>Evaluation method</b>	Lowest Evaluated Cost	For this type of works Lowest Evaluated Cost is appropriate.

## B. GOODS

62. Goods required under the project are of small value and mostly not complex in nature, except the vehicles, which is relatively more costly. The procurement approach for goods and equipment are summarized in the table 6 below:

**Table 6: Procurement approach for goods**

Attribute	Selected Arrangement	Summary Justification/Logic
<b>Specifications</b>	Conformance	The goods are mostly of small value and not complex.
<b>Additional sustainability requirement</b>	No	
<b>Contract Type</b>	Traditional	Traditional type of contract is appropriate for this type of works.
<b>Pricing and Costing Mechanism</b>	Lump Sum	Lump Sum
<b>Supplier Relationship</b>	Adversarial	It should be ensured that the goods will be delivered according to agreed schedule and in accordance with the required technical specifications with the contractual price.
<b>Price Adjustments</b>	None, fixed price	
<b>Form of Contract (Terms and Conditions)</b>	None specific	No special condition is needed.
<b>Selection method</b>	Request for Bids (RFB) Request for Quotations (RFQ)	Given the goods with simple nature and of small value, selection of RFB or RFQ method is appropriate.
<b>Selection Arrangement</b>	None	
<b>Market Approach</b>	Type of Competition Open/Limited National Single Envelope Single Stage	The market approach for goods, except procurement of vehicles, under the project is national because given the relatively small value and simple nature of goods, there will not be interest from foreign suppliers. For small contract (cost less than US\$ 100,000) RFQ method is appropriate in order to increase the efficiency of the process and in such case the market approach will be limited. Regarding the procurement of vehicles, which is relatively large amount and competition level of the market is high; because lots of suppliers are available in the country; therefore national market approach is appropriate and will be used.
<b>Pre/Post Qualification</b>	Post	No package of large value and complex nature that would require pre-qualification.
<b>Evaluation Selection Method</b>	N/A	
<b>Evaluation of Costs</b>	Adjusted Bid Price	
<b>Domestic Preference</b>	No	
<b>Evaluation method</b>	Lowest Evaluated Cost	For this type of goods Lowest Evaluated Cost is appropriate.

## C. CONSULTING SERVICES

63. The consulting assignments under the project include both firm and individual consultant assignments. The table 7 hereunder describes the procurement arrangements:

**Table 7: Procurement approach for consulting services**

Attribute	Selected Arrangement	Summary Justification/Logic
<b>Specifications</b>	Performance	It is appropriate for consulting services
<b>Contract Type</b>	Traditional	
<b>Pricing and Costing Mechanism</b>	Lump Sum or Time based	Lump Sum or Time-based will be determined as appropriate based on the nature of each consulting assignment.
<b>Supplier Relationship</b>	Collaborative	Most of the consulting assignments are not short term; PIAs and consultants share interests and objectives; win-win approach is possible and necessary. PIAs and consultants should therefore be in collaborative relationship to ensure the success of the implementation.
<b>Price Adjustments</b>	Fixed or adjusted price	Price adjustment should be applicable for long term contracts (such as more than 18 months).
<b>Form of Contract (Terms and Conditions)</b>	None specific	
<b>Selection method</b>	Request for Proposals (RFP) Direct Selection	RFP will be used for all firm consultant assignments. Direct Selection will be used for two critical TA assignments with justifications given in the sections above; and will be used for a number of individual consultants who will continue their current duties based on the good performance. Other individual consultants will be selected competitively.
<b>Selection Arrangement</b>	None	
<b>Market Approach</b>	Open/Limited National/International Direct Selection Single Envelope/Two envelopes Single Stage	National market approach will be used for most of the consulting assignments. International market approach will be used for relatively large and critical assignments for which international experience is important and beneficial to the project implementation. Limited approach is applicable for small firm assignments to ensure the efficiency of the implementation.
<b>Pre/Post Qualification</b>	Shortlist	
<b>Evaluation Selection Method</b>	Quality Cost Based Selection (QCBS) Consultant's Qualifications Based Selection (CQS) Direct Selection	QCBS will be used for relatively large firm consultant assignments (over US\$ 300,000) while CQS will be used for smaller assignment. Direct selection will be used for two critical TA assignments with justifications given in above sections.
<b>Evaluation of Costs</b>	Adjusted Bid Price	
<b>Domestic Preference</b>	No	
<b>Related Criteria</b>	Most advantageous Proposal	

## **D. SUMMARY OF PPSD TO BE INFORM THE BANK'S PREPARATION OF THE PAD**

64. The MAF-DoPF has prepared a Project Procurement Strategy for Development (PPSD) with the support from the Bank team, and the document (available a separate project files) has been agreed with the Bank before negotiation. The PPSD presents how procurement activities will support the development objective of the project and deliver the best value for money under a risk based approach. In addition, the PPSD include the rationales for procurement decisions including the selection of the approach to market and procurement methods. The PPSD and the procurement plan of the project shall be regularly updated as appropriate during the project implementation.
65. About US\$8.2 million will be financed as matching grant, which will be ranging from US\$25,000 to US\$150,000 per farmer or agribusiness. The matching grant will be provided to the relevant private companies and farmers on competitive basis. The procurement items under matching grant include farm equipment of relatively small values. The procurement method used for procurement under the matching grant will be acceptable commercial practice. The remaining budget of the project will finance procurement of goods, works and consulting services, non-consulting services and other activities such as training and workshops. The procurement of goods comprises of vehicles, office equipment, furniture, and lab equipment, which seems of relatively simple nature and small size of value. The market research as part of the PPSD showed that there are a sufficient number of potential suppliers in the country that have the capacity to supply this type of goods. Therefore, it proposes to use RFB method for the contracts with cost of equivalent or above US\$ 100,000 or RFQ method for the contracts with cost below US\$ 100,000 with national market approach. The civil works activities include construction of critical productive infrastructure, and construction/upgrade of small scale infrastructure for extension, GAP, and seed multiplication in the project provinces. The scale of civil works is relatively small ranging from US\$ 10,000 to about US\$ 1 million; and there are many national or local contractors that have the capacity to execute such kind of works as demonstrated by the PPSD. It thus proposes to use RFQ method for contracts less than US\$ 200,000 and RFB method for contracts of equivalent or above US\$ 200,000 with national market approach. The consulting services under the project comprises of (i) two critical consulting assignments including a TA for management of matching grants with estimate of about US\$ 600,000, and a TA for supporting implementation on different technical aspects of the project with cost estimate of about US\$ 770,000; (ii) several firm consulting assignments such as project financial audit, communication campaign for nutrition social behavior change, baseline, mid-term and final assessment with cost estimate ranging from US\$100,000 to 400,000; and (iii) various assignments for individual consultant such as project advisor, technical assistant, procurement, financial management, safeguard, design of irrigation system, strengthening of WUA and O&M with cost estimate ranging from US\$30,000 to US\$180,000. Regarding the TA for management of matching grants, the PPSD shows that SNV Netherlands Development Organization appears to have experience of exceptional worth for the assignment through carrying out a similar assignment under the European Union-funded Enhancing Milled Rice Production Project (EMRIP) in Lao PDR, which was closed in 2016; and given that there is a limited pool of consulting firms whose have expertise in matching grant and rice value chain development, MAF may consider to recruit SNV on the basis of direct selection to implement the AVCGF to ensure the success and a timely implementation of the AVCGF. For the TA to support implementation on a wide range of agricultural technologies for good agriculture practices (GAP) in rice and horticulture production to assist farmer groups to adopt techniques of GAP and organic farming, nutrition sensitive agricultural activities under the project, the PPSD demonstrates that FAO is exceptionally qualified to provide this TA; MAF therefore consider to select FAO for this TA on direct selection basis. The other consulting assignments are mostly of relatively small scale with cost estimate ranging from US\$ 20,000 to below US\$ 200,000. The PPSD has shown that there are sufficient national consulting firms and individuals having the qualifications and experience to provide such type of consulting services. It hence suggests that CQS and competitive selection method should be used for firm assignment and individual assignment respectively with national market approach. International market approach should also be considered for the contracts that need international experience and international consultants would be beneficial to the project implementation. In addition, based on the PPSD the QCBS method is encouraged to be used for relatively large contracts such as contracts with cost estimate of equivalent or above US\$ 300,000.

66. The PPSD also includes analysis and assessment of potential risks that may affect the success of the procurement process and proposed risk mitigation measures as well as allocation of risks to the party that is in best position to take the risks. The procurement arrangement is summarized in the table below. The full PPSD is available for reference as a separate project file.

## **E. PROCUREMENT PLAN**

67. Based on the PPSD a procurement plan for the project has been developed with total of 78 packages including 30 goods and works packages and 48 consulting services packages. The detailed procurement plan is available as a separate project document, which will be updated annually or as needed to reflect the current status of the implementation of each package or to add new packages as needed.