



**MBA CLASS 4**

**Subject Profile: PROJECT MANAGEMENT**

**Session 8**

**PROJECT PROCUREMENT MANAGEMENT**

On completion of this Session, you will be able to:

1. Define types, methods and formats of procurement
2. Prepare tender document
3. Develop procurement process
4. Supervise contract implementation

#### ACTIVITIES:

- **Lecturing**
- **Reading for comprehensive:**
- **Group discussion:** Types, formats and methods of procurement, procurement procedure.

**Presentation:** List of goods/works/services to be purchased in your new project and what you prepare for procuring them

- **Home exercise:** Draw out a reporting system of your new project
- **Assessment:** Self-assessment

#### LEARNING TOOLS

- PMBOK Guide
- Lecture notes
- Assignment material

## Project procurement management

Project procurement management is the process of acquiring identified goods, works and services from outside of the organization, in order to complete a Project.

### **PRICIPLES OF PROJECT PROCUREMENT**

- **Transparency:** Procurement processes and procedures should be documented and availability for public review.
- **Value:** Procurement should result in the public getting (best) value for its expenditures
- **Accountability:** Those who spend the public's funds must be accountable for these expenditures and must be able to explain the process and procedures used.

# 1. Types, methods and formats of project procurement

## 1.1. Types of project procurement

### Types of procurement

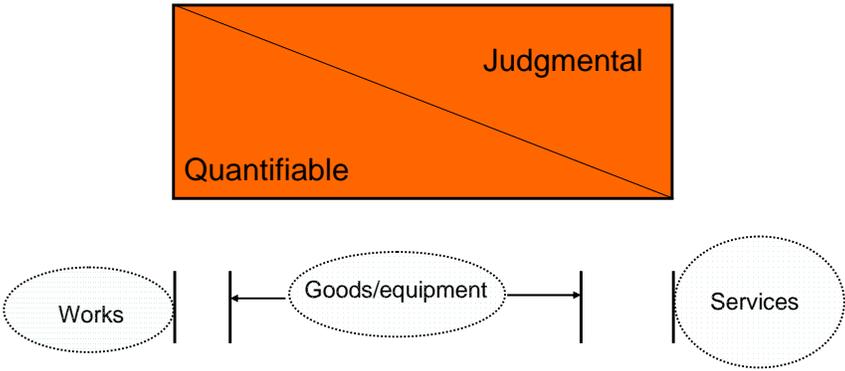


- Procurement of works
- Procurement of goods
- Procurement of services

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4

### Procurement spectrum



Source: WB Institute

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5

The descriptions of types of procurement and their appropriate management requirements are shown as follow:

	Descriptions	Management
Procurement of works	<ul style="list-style-type: none"> <li>For example, contract for road, bridge construction etc.</li> <li>Usually, technical requirements and specification are identified and published. The bid is based mostly on competitive bidding on cost.</li> </ul>	<ul style="list-style-type: none"> <li>It is important to identify and announce accurate specification and construction requirements in bid document.</li> <li>Popular contracts are Unit price and lump sum contracts.</li> </ul>
Procurement of service	<ul style="list-style-type: none"> <li>Services are various (design, auditing, monitoring...) and based on expertise, reputation of individuals and companies and they are in difficulty quantified.</li> <li>Successful procurement of service is a process to select appropriate bidder who best satisfies requirements in TOR</li> </ul>	<ul style="list-style-type: none"> <li>Can find out and invite competent bidders is an important task of procurement.</li> <li>Evaluation and negotiation are important in selecting appropriate bidder who submits the best proposal and ready to implement it.</li> </ul>
Procurement of goods	<ul style="list-style-type: none"> <li>Simple procurement like stationary equipment and furniture and complicated like sea ships, airplane generator.</li> <li>Procurement of goods are usually based on price from suppliers based on requirement in bidding document.</li> </ul>	<ul style="list-style-type: none"> <li>Successful selection of appropriate provider requires credible process of data collection on goods/equipment and suitable methods of evaluation of bid.</li> </ul>

It is clear from the spectrum:

- Works: building, roads, bridges have measurable features/specifications (kg, m2, number, unit price v.v.) which are

located in left side of the spectrum and that means they can be totally (100%) quantifiable.

- Services: provided by consultants, engineers, lawyers based on expertise and located in right side. They are, 100%, judgmental.
- Goods: though they may have the same technical specifications (power, speed etc.) but they are, in many cases, different in quality depended on manufacturers, time of exploring etc which are not easy described and/or measurable. That why goods are located between left and right sides in the spectrum. Because of nowadays we can have many information on the quality of the goods, the “position” of goods from time to time is “moving” to the left side of the spectrum (more measurable).

## 1.2. Methods of project procurement (Table 1)

### Procurement methods

- International Competitive Bidding (ICB)
- National Competitive Bidding (NCB)
- International and Local shopping
- Direct Contracting
- Force Account

Table 1: Methods of procurement in ODA projects

<b>Name</b>	<b>When applicable?</b>	<b>How to apply?</b>
<b>International Competitive Bidding (ICB)</b>	<ul style="list-style-type: none"> <li>• Big project (10 millions USD and more<sup>1</sup>) needs experiences and goods from international supplier.</li> <li>• Follow the suggestion and/or agreement with donors/banks.</li> </ul>	Bid should be published to all eligible international bidders. The objectives are to increase the alternatives and equal opportunities of providers selection
<b>National Competitive Bidding (NCB)</b>	<ul style="list-style-type: none"> <li>• Local providers can meet procurement requirements.</li> <li>• International providers not or not much interest in bidding.</li> <li>• Require local bidding.</li> </ul>	Bid should be published to all eligible local bidders but not prevent the involvement of international bidders.
<b>International and Local shopping</b>	<p>Applied when the value of contract is not big enough for attracting bidders to participate in ICB or NCB</p> <ul style="list-style-type: none"> <li>• Suitable for existing goods or goods with popular standards and descriptions; works with not big value.</li> <li>• When there are only few providers</li> <li>• When quick supply is a urgent requirement of project.</li> </ul>	<ul style="list-style-type: none"> <li>• Should invite not less than 5 providers and from more than one country by invitation in English in bid country (if ICB). The bid must be opened officially and evaluated as like as bidding.</li> <li>• By requesting providers to submit at least 3 quotations</li> <li>• Cost and capability of product/.service provision is a main selection factor.</li> <li>• Donor should receive copies of (i) Report on offered prices and evaluation (ii) Explanation on bid selection (iii) signed contract</li> </ul>
<b>Direct Contracting</b>	<ul style="list-style-type: none"> <li>• Equipment/service is unique and can buy from only one provider.</li> <li>• The same items can buy from specialized providers</li> <li>• Work expanded from the existing or just finished by the same provider/contractor.</li> </ul>	Need to convince that direct contracting is economy and do not influence on quality of the product/service.
<b>Force Account</b>	<ul style="list-style-type: none"> <li>• When products had been purchased via ICB and now need to purchase more and there is a ready budget for that purchase.</li> <li>• When buyer can show that similar bidding is not necessary.</li> <li>• The order follows the same procedure of previous purchase within 18 months and value of new purchase is not exceed 30% value of the first order</li> </ul>	<ul style="list-style-type: none"> <li>• Provided contractors should be invited and if this number is quite big, 5 providers with lowest prices will be invited</li> <li>•</li> </ul>

<sup>1</sup> World Bank recommendation

1.3. Format of project procurement (table 2)

## Procurement formats

One envelop

Two envelops

Two stages

When?

How?

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Table 2: Evaluation formats in procurement

<b>Formats</b>	<b>When applied?</b>	<b>How applied?</b>
“One envelop”	Applied for good and works procurement.	Technical and financial proposals are opened officially at the bid opening ceremony. Those Bid meets main requirements and has lowest offered price is selected
“Two envelops”	Applied only for procurement of service	Technical proposal and financial proposal in separate envelops are submitted. Evaluate all the technical proposals first. Those bids have achieved minimum scores (usually 70% of max scores) will come to the next step where their financial proposals will be opened and

		evaluated.
“Two stages”	<ul style="list-style-type: none"> <li>• Applied for procurement of goods and works of value of 500 billions VND<sup>2</sup> and more.</li> <li>• Applied for procurement of goods and works with special hi-tech /complicated equipment and or technology.</li> <li>• For turn-key project.</li> </ul>	<ul style="list-style-type: none"> <li>• Stage 1: bidders submit initial technical proposals and financial solutions (without price) for buyers to study and discussions for specification and requirements.</li> <li>• Stage 2: The bidders participated in the stage 1 submit technical and financial detail proposals</li> </ul>

## 2. Tender document preparation

Tender (bidding) document must be carefully prepared in order to give the bidders accurate information on bid. The main list of tender document may include:

### The List of Tender Document

- Invitation for Bid
- Instructions to Bidders
- The Bid Data Sheet
- Evaluation and Qualification Criteria
- General Conditions of Contract
- Special Conditions of Contract
- Schedule of Supply
- The Technical Specifications and Drawings
- Bidding Forms
- Eligibility for procurement in projects

The following standard criteria must be included in the TOR which will be sent to all bidders before the tender start:

<sup>2</sup> Vietnam Regulation

## Evaluation and Qualification Criteria

The criteria may include:

- Resource Specifications
- Quantity
- Quality
- Cost
- Space
- Location
- Storage
- Time schedule
- Reliability
- Maintenance
- Guarantee
- Support
- Tender response formats
- Selection process

### 3. Bidding process

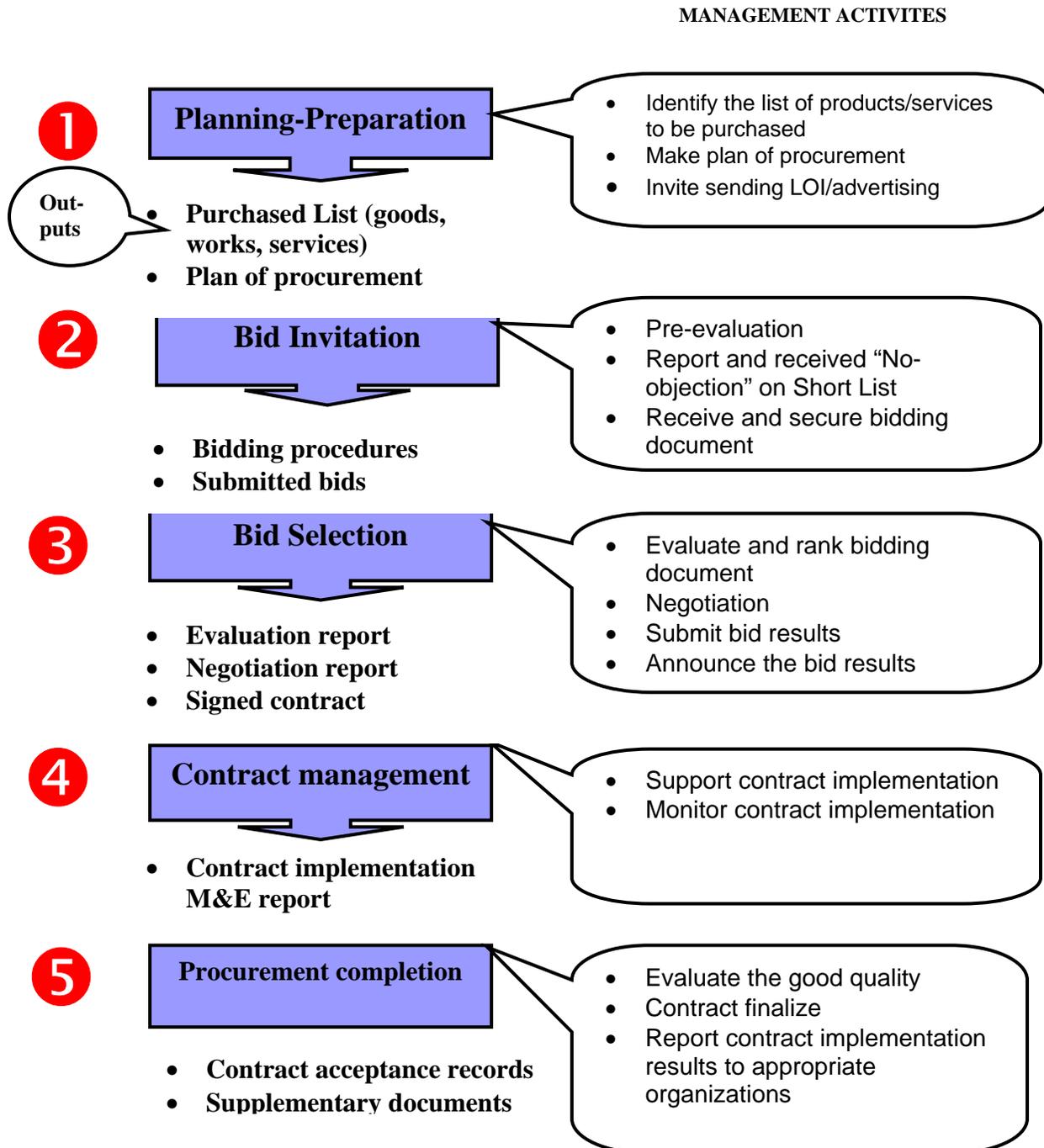
There are 5 steps of project procurement.

## Bidding process

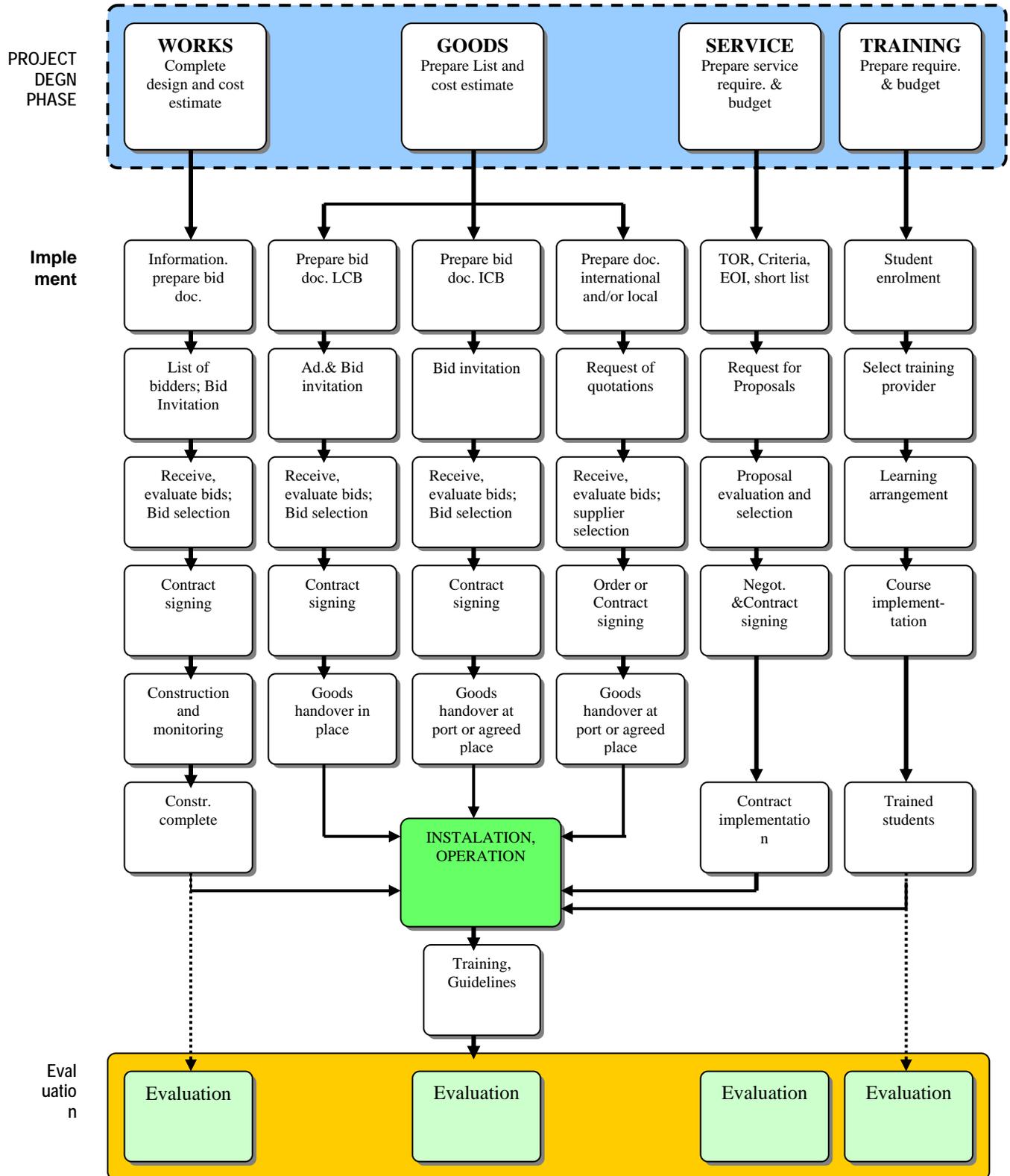


Fig. 1 shows descriptions of management activities and outputs of each step while Fig. 2 –process of procurement with different types and methods of procurement.

**Fig. 1: Process of project procurement**

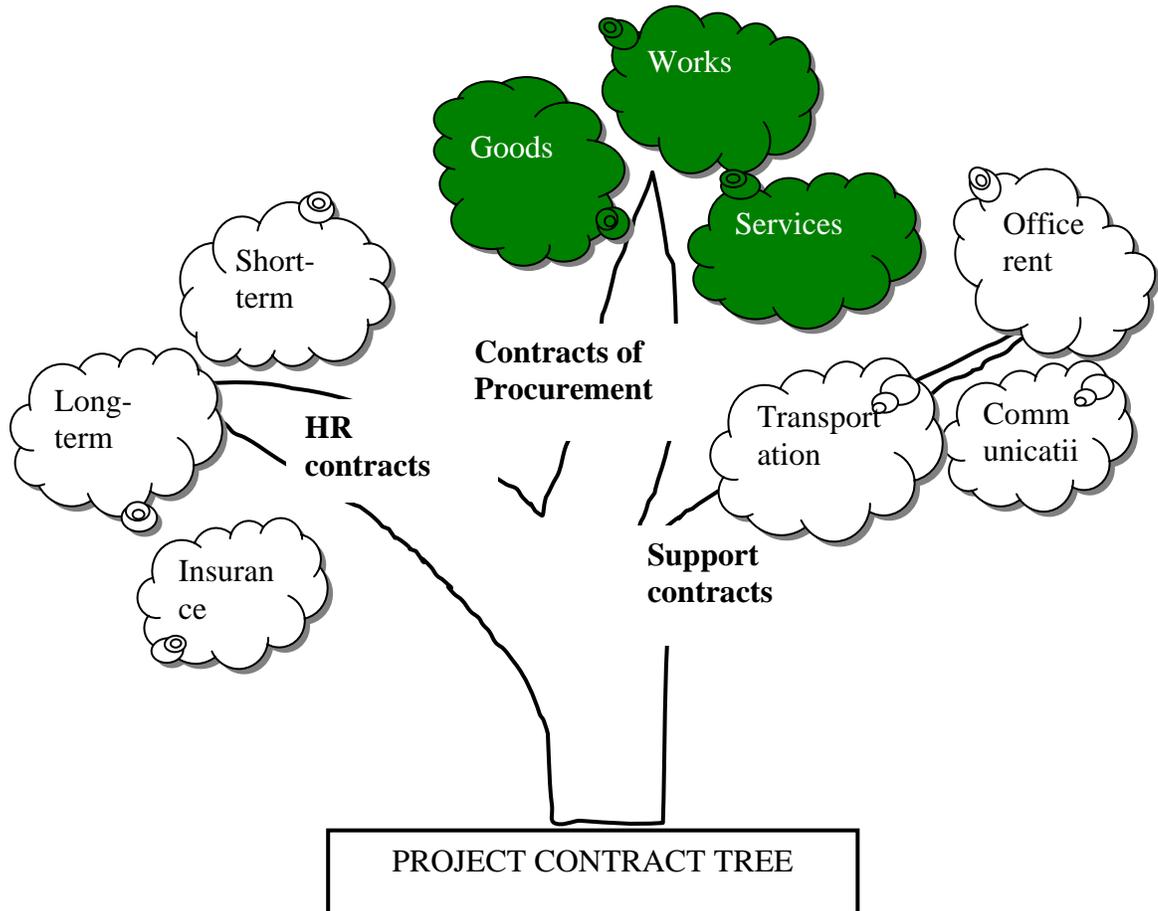


**Fig. 2: Flowchart of the procurement process**  
(Source: WB Institute)



## 4. Contract administration

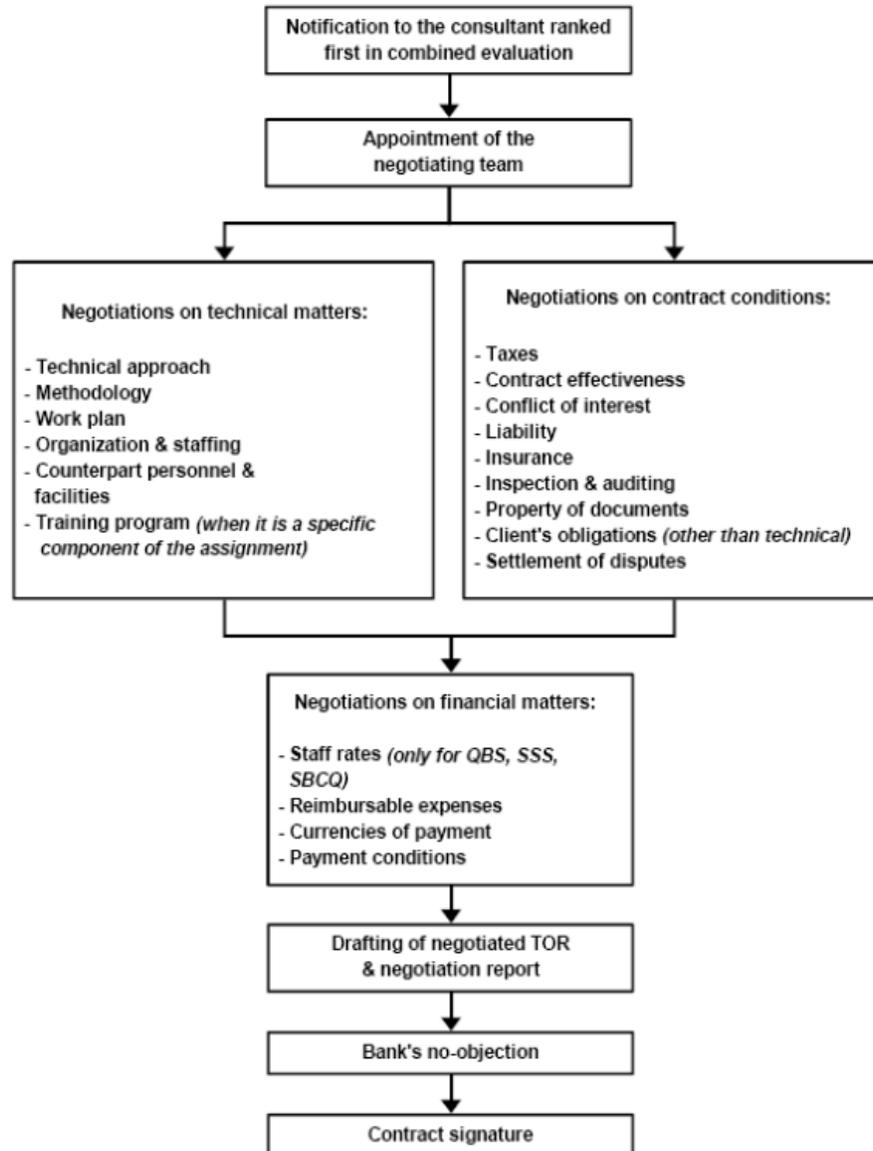
Contracts of procurement are parts of Project Contract Tree.



### 4.1. Contract negotiation

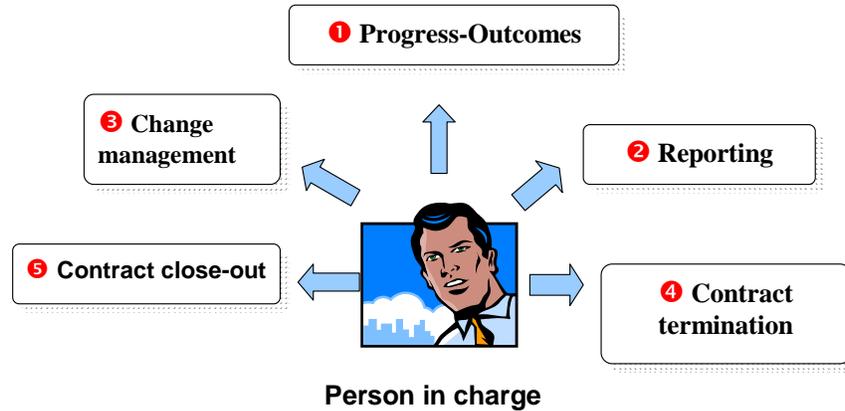
Fig. 3 shows the standard contract negotiation process.

**Fig. 3: Contract negotiation process.**



#### 4.2. Procurement contract management activities

# Procurement contract management



## 4.3. Monitoring contract of project procurement

A Check List in Table 3 is can be used for monitoring the progress of procurement contract implementation.

**Table 3: Procurement progress check list**

No.	CHECKING ITEMS	✓
	<b>Planning and preparation</b>	
1	Procurement list is prepared?	
2	Having information on competent bidders?	
3	Having clear and approved procurement plan?	
4	Having nominated competent procurement staff ?	
5	Having plan for mobilization experts for bid evaluation and selection?	
6	Bid documents are ready?	
	<b>Bid invitation and selection</b>	
7	Evaluation committee/group have discussed and agreed on evaluation procedures and criteria?	
8	Bids are opened in front of bidders/bidders' representatives?	
9	There is a minute of bid evaluation and evaluation results?	
10	There is a minute of negotiation?	
	Results of bid evaluation and negotiation have been reported to donors/project owners?	
11	Having complete signed contract?	
12	<b>Contract supervision</b>	
13	Changes and adjustments of contract content have been discussed and agreed among buyer and provider and reported to donor/project owner and approved by them?	
14	Good transport and handling are followed an agreement?	
15	Contractor is not behind schedule?	
16	Quality and quality of provided good are acceptable?	
17	Project receives regularly progress report from contractor?	
	<b>Finalizing procurement</b>	
18	Good are completely handled with full supporting document?	
19	Handling training has been conducted?	
20	Contract is paid?	
21	Contract is audited?	
22	There is a complete minute of contract completion?	
23	Procurement results have been reported and included in project reports?	