

**[FINALISED] PROCUREMENT GUIDELINES FOR THE PROJECTS
FUNDED UNDER SAARC DEVELOPMENT FUND**

1. General

1.1 These Guidelines, in furtherance to and in accordance with the SAARC Development Fund (SDF) Charter and Bye Laws, describe the method of procurement that may be followed for projects to be funded by the SDF.

1.2 The project implementing agencies, borrowers, bidders, suppliers, and contractors under the SDF-financed projects are expected to observe the highest standard of ethics during the procurement and execution of contracts. Any violations may lead to cancellation of the funding and such other actions as are deemed appropriate.

2. Calling of Bids

2.1 For the projects funded under the Social Window of the SDF, the procurements of goods, services and works may be effected through an open bidding wherein the bids are called from the bidders in the Member State where the project is being implemented. This is largely because of the need to effect the procurements quickly so that these projects can take off expeditiously. In such a case, the advertisement for calling of bids may be placed in the national press in the Member State where the project is being implemented. In some cases of projects funded under the Social Window of the SDF, where it is necessary to ensure uniformity of standards, the procurement could also be effected through a centralized procurement process wherein the bids are invited from bidders from any of the SAARC Member States. In such a case, the advertisement for calling of bids may be placed in the prominent newspapers of all the Member States.

2.2 In case of projects funded under the Economic and Infrastructure Window of the SDF, the procurement may be effected through an open bidding wherein the bids are called for from the interested bidders from all the SAARC Member States. In such a case, the advertisement for calling of bids may be placed in the prominent newspapers of all the Member States. However, in some cases, where owing to non availability of technology, size of project etc., the procurement may be effected through International Competitive Bidding (ICB) with prior permission of SDF at the time of approval of the project. In such a case of ICB, it would be required that the advertisements for bids be made in well-known, relevant trade publications, in newspapers of wide international circulation in addition to the prominent newspapers of all the Member States.

2.3 In the interest of ensuring effective implementation of projects, exceptions to the provisions mentioned in Paras 2.1 and 2.2 above, may be permitted by the SDF at the time of approval of the project.

2.4 In all the above cases, the project implementing agency may also place a copy such invitation to bid on internationally known and freely accessible website(s) and the websites of the Secretariats of SAARC and SDF.

2.5 The bidding documents should provide clear instructions on the following aspects:

- Bidding forms
- Conditions of contract, both general and special
- Technical specifications
- Bill of quantities and drawings
- Schedule of prices
- Proforma of bid securities and performance securities
- The place and time for submission of bids.
- The procedures shall also include public opening of bids, publication of results of evaluation and of the award of contract.

- Prescription of earnest money, which should generally be within 1-2% of the estimated cost of the work.

2.6 Any additional information, clarification, correction of errors or alteration of specifications shall be sent promptly to all those who requested for the original bidding documents.

2.7 The bidders shall be required to submit bids valid for a period specified in the bidding documents that should be sufficient to enable the project implementing agency to complete the comparison and evaluation of bids and obtain all the necessary approvals so that the contract can be awarded within that period. It would be reasonable to specify of a period from 45 to 60 days in normal types of procurement and from 90 days to 120 days for more complex types of procurement. In such cases, the project implementing agency may also consider holding pre-bid meetings and arrange site visits, if considered necessary. In general, such modes of operations would be applicable in case of procurement of large amount of good and services, especially under the Economic and Infrastructure Windows.

2.8 The date, hour and place for receipt of bids shall be announced in the invitation to bid and all bids shall be opened publicly at the stipulated time and place and the bidders or their representatives shall be allowed to be present. Bids received after this time shall be rejected and returned unopened. While opening the financial offers, the name of the bidder and total amount of each bid shall be read aloud and recorded when opened.

2.9 The bids should be called in a two-envelope system viz. technical and financial. The technical bids should be examined first without opening the financial envelopes, which should be kept in safe custody. The technical bids should be examined on 'pre-prescribed technical criteria' and all bids, which pass the prescribed criteria, should be taken up for financial evaluation. The financial proposals of bidders whose technical proposals are not responsive shall be returned unopened.

2.10 The lowest financial bid should be considered for award of contract provided the price of the lowest technically acceptable bidder is comparable with the internal estimate drawn beforehand. Lack of competition shall not be determined solely on the basis of the number of bidders. Even when only one bid is submitted, the bidding process may be considered valid, if the bid was satisfactorily advertised and prices are reasonable in comparison to the internal estimate drawn beforehand. If no satisfactory contract can be concluded and a re-bidding is called, modification of the scope of the contract may be considered.

2.11 In certain circumstances rejection of bids is justified when there is lack of competition, bids are not substantially responsive or when bid prices are substantially higher than the existing budget estimate. If all bids are rejected, the Procuring entity shall review the causes justifying the rejection and consider making revisions to the conditions of contract, design and specifications, scope of the contract, or a combination of these, before inviting new bids.

3. Pre-qualification of Bidders

3.1 Pre-qualification of bidders may be taken recourse to in some cases like complex works, custom-designed equipment, repetitive works etc. This is done with a view to ensure that invitations to bid are extended to only those who are technically and financially capable. However, the pre-qualification of bidders may be done only through open system of bidding.

3.2 Pre-qualification should be based upon the capability and resources of prospective bidders to perform the particular contract satisfactorily, taking into account their experience and past performance on similar contracts, capabilities with respect to construction or manufacturing facilities, and financial position. After pre-qualification, all bidders meeting the specified criteria shall be allowed to bid.

4. Technical Specifications

4.1 The technical specifications for procurement of goods/works should be broad based so as not to restrict competition. As far as possible, internationally accepted standards with which the equipment or materials or workmanship shall comply may be specified. Where such international standards are unavailable, national standards may be specified. However, in all cases, the bidding documents shall state that equipment, material, or workmanship meeting standards of substantial equivalence will also be accepted.

4.2 References to brand names, catalog numbers, or similar classifications may be avoided and specifications shall be based on relevant characteristics and/or performance requirements. If it is necessary to quote a brand name or catalog number of a particular manufacturer to clarify an otherwise incomplete specification, the words “or equivalent” shall be added after such reference. The specification shall permit the acceptance of offers for goods which have similar characteristics and which provide performance at least substantially equivalent to those specified.

5. Price Adjustment Provisions

5.1 Price adjustment provisions are not necessary for simple supply and works contracts involving short completion periods, generally less than 12 months. However, for contracts with longer completion periods, generally beyond 12 months, price adjustment provisions may be provided.

5.2 The amount of price adjustment shall be based on changes in the cost of the major components such as steel, cement, labor, machinery & plant, fuel etc. of the contract and the calculation formula thereof shall be indicated in the bidding document.

6. Currency of Bids

6.1 The currency or currencies in which the bid price may be quoted shall be specified in the bidding documents.

6.2 For the purpose of comparing prices, all bid prices shall be converted to a single currency (local currency or fully convertible foreign currency as stated in advance in the bidding documents). Such conversion shall be made by using the selling (exchange) rates for those currencies quoted by an official source (such as the central bank or by a commercial bank) on a date selected in advance. Such source and date is to be specified in the bidding documents.

7. Advance Payment

Advance payment for mobilization, machinery & plant etc. shall be specified in the bidding documents. Provision for payment of 10% interest free advance for mobilization is considered desirable being an international practice. The amount and timing of other advances such as for machinery & plant, materials etc may also be specified in the bidding documents.

8. Performance Guarantee

Bidding documents shall stipulate some form of guarantee to be submitted by the successful bidder to ensure that the contract will be executed fully. This security can be in the form of a bank guarantee or any other form as may be specified. Generally, performance guarantee equivalent to 10% of the contract value is considered reasonable.

9. Liquidated Damages

Provisions for liquidated damages should be included in the conditions of contract when delays in the delivery of goods, completion of works or failure of the goods or works to meet performance requirements would result in extra cost, or loss of revenue or loss of other benefits to the project or to the project-implementing agency. As per standard international practice, liquidated damages @ 2% per month with a cap of 10 % of contract value would be in order.

10. Force Majeure

The conditions of contract in the bidding document shall contain provisions which stipulate that failure on the part of the borrower and/or selected bidder to perform their obligations under the contract will not be considered a default, if such failure is the result of an event of force majeure as defined in the conditions of contract.

11. Settlement of Disputes

Suitable provisions dealing with the settlement of disputes through the SAARC Arbitration Council shall be incorporated in the conditions of contract.

12. Confidentiality

After the public opening of bids, information relating to the examination, clarification, and evaluation of bids and recommendations concerning awards shall not be disclosed to bidders or other persons not officially concerned with this process until the publication of contract award.

13. Evaluations and Comparison of Bids

13.1 The purpose of bid evaluation is to determine the cost to the borrower of each bid in a manner that permits a comparison on the basis of their evaluated cost. The bid price read out at the bid opening shall be adjusted to correct any arithmetical errors. Also, for the purpose of evaluation, adjustments shall be made for any quantifiable nonmaterial deviations. Price adjustment provisions applying to the period of implementation of the contract shall not be taken into account in the evaluation.

13.2 A detailed evaluation and comparison of bids setting forth the specific reasons on which determination of lowest evaluated bid is based shall be prepared by the project implementing agency.

14. Calling of bids through Limited Bidding Process:

Where the value of procurement for any single item of work or goods is less than equivalent of US\$ 50,000 (fifty thousand) instead of open bidding, quotations from potential bidders may be obtained. In such a case when quotations are invited, the number of potential bidders may not be less than three.

15. Direct Contracting

Direct contracting is contracting without calling for bids i.e. from a single source. This may be an appropriate method of procurement under the circumstances when/where:

(a) Additional items are required under an existing contract, which was awarded in accordance with the prescribed bidding procedures. The Procuring entity should be satisfied in such cases that no better offer is likely to be received, and that the price to be paid is not more than the original price. In any case, the value of additional items should be within 25% of the contract value.

(b) The required equipment is proprietary and obtainable only from one source.

(c) Civil and other similar nature of work is to be contracted that is a natural extension of an earlier or ongoing job and the Procuring entity is satisfied that the engagement of the same contractor will be more economical.

[Finalised] DISBURSEMENT PROCEDURES

1.1 General:

The purpose of guidelines contained herein is to lay down the Disbursement Procedures for the projects funded by the SAARC DEVELOPMENT FUND (SDF). It intends to provide guidelines to the borrowers/recipients, executing agencies, co-financiers, suppliers etc. for the efficient withdrawal of loan/grant proceeds.

1.2 Definitions:

The following definitions are used in these guidelines:

- The term “**disbursement**” refers to the withdrawal of proceeds from the SDF financed grant or loan account.
- The term “**financing agreement**” refers to a loan/grant agreement, or a combined grant and loan agreement, as appropriate; the related counterparty is referred to as the “**recipient**” in a grant and the “**borrower**” in a loan/grant.
- The term “**grant account**” or “**loan account**” means the account opened by the SDF in its books in the name of the recipient of grant or borrower respectively, and to which the amount of the grant or loan/grant will be credited.
- The term “**closing date**” refers to the grant closing date or loan closing date as appropriate, and means the date the SDF terminates the right of the recipient or borrower to make withdrawals from the grant or loan/grant account respectively.

1.3 Significant Dates

- **Approval date:** The date on which the SDF approves the loan/grant.
- **Signature date:** The date on which the borrowers/recipients and the SDF sign the loan/grant Agreement. This date determines the start date for commitment fees, where applicable, and the repayment schedule of the loan/grant.
- **Effective date:** The date on which the SDF determines that the borrower/recipient has satisfied all conditions for effectiveness of the loan/grant agreement.
- **Deadline for last disbursement/closing date:** The date specified in the loan/grant agreement after which no withdrawals can be made from the loan/grant account.
- **Repayment date:** The date on which the borrowers/recipients make debt service payments (interest charges and principal) to the SDF. The repayment dates are determined during negotiations and are specified in the Loan/Grant Agreement.

1.4 Agreement

The main legal document for the SDF financed project is an ‘**Agreement**’ signed by the borrower/recipient, which sets out the terms and conditions of the loan/grant.

1.5 Procurement of Goods and Works

The procurement of goods and works financed by the SDF are governed by the Procurement Guidelines. Specific provisions set out in the loan/grant agreement will complement these guidelines and compliance with which will be an obligation for the borrower(s)/recipient(s).

1.6 Reallocating loan/grant Proceeds

Loan/grant proceeds may be used only for the purposes for which the loan/grant was granted. SDF, at the Borrower/Recipient's request, may agree to reallocate unallocated funds or other categories to another allowable category for the purposes of the project.

1.7.1 Currency of the loan/grant

The loan/grant amount is expressed in currencies chosen by the borrower/recipient and agreed to by SDF Board. The disbursements are made accordingly.

1.8 Compliance with the List of Goods, Works and Services

The list of goods, works and services by category of expenditure is agreed at project approval stage and included in the disbursement letter. Disbursements are made within the limit of the amounts allocated to each category. Changes, if any, to the list of goods, works and services may be made only with prior approval.

1.9 *Persons authorized to sign disbursement requests*

The borrower/recipient is required to designate officials authorized to sign withdrawal applications and provide copies of their specimen signatures.

1.10 *Payment on the basis of a Statement of Expenditure*

1.10.1 Reimbursements made by the SDF to cover expenses incurred by the Borrower/Recipient should be supported by documents showing evidence of payments made. Such documents include duly verified invoices, bank debit advice or bank statements, receipts, shipping documents such as bills of lading, cheques, encashed bills of exchange and letters of credit paid.

1.10.2 However, if SDF deems that a Borrower/Recipient has fulfilled certain conditions, the Borrower/Recipient may be permitted to submit only detailed statements of expenditure duly endorsed by the Borrower/Recipient and executing agency. During the negotiation of the loan/grant, the Borrower/Recipient and the SDF may agree upon the types of expenditure in respect of which detailed statements of expenditure will be required. The disbursement letter shall specifically mention these types of expenditure.

1.11 Submission of Disbursement Requests by the Borrower/Recipient

The SDF must receive an original disbursement application signed by the Borrower/Recipient's duly authorized representative(s). To expedite the processing of disbursement requests, the borrower/recipients should:

- Send a copy of the relevant contract.
- Ensure that the disbursement requests are signed by the authorized signatories;
- Ensure that the information contained in the request is consistent with the supporting documents;
- Attach, applicable supporting documents,
- Ensure availability of resources under the relevant expenditure category;
- Ensure that all disbursement conditions have been fulfilled;
- Ensure that required audit reports have been sent to the SDF.

1.12 Items verified by SDF

The items verified by the SDF when processing requests would include the following:

- The eligibility of the goods, works and services.
- Receipt of the required supporting documents or statements of expenditure.
- Availability of resources under the loan/grant or category to cover the request.

- Conformity of signatures on the disbursement request with the specimens of authorized signatures communicated to the SDF.

1.13 Ineligible Expenditure

If the SDF determines that any amount of the loan/grant was used to pay for an expenditure that is not eligible pursuant to the loan/grant agreement, the SDF may, at its discretion, require the borrower/recipient to take one of the two actions listed below.

- Refund an equivalent, or
- In exceptional cases, provide substitute documentation evidencing other eligible expenditures.

1.14 Suspension of Disbursements

The disbursements may be suspended if the borrower/recipient fails to comply with conditions specified in the loan/grant agreement. The suspension may be lifted if the borrower/recipient complies with the conditions prescribed.

2. DISBURSEMENT METHODS

The disbursement methods selected during project approval are based on project characteristics, the categories of expenditures to be financed and the capacity of the executing agency to manage project resources. Disbursements are made using one or, a combination of the methods outlined below:

2.1 Reimbursement:

The SDF may reimburse the borrower/recipient for expenditures eligible for financing that are in compliance with the loan/grant agreement that the borrower/recipient has financed from its own resources. The originals or certified copies of the following documents shall be required:

- Supplier's invoice or certificate stating the country of origin of the goods and/or services
- A copy of the contract or purchase order
- A provisional acceptance report for goods supplied or a works implementation certificate.
- A copy of the letter of credit, where necessary.
- Any evidence of payment.

2.2 Reimbursement Guarantee:

2.2.1 In this disbursement method, the SDF provides an irrevocable undertaking to reimburse a commercial bank for payments made or to be made to a supplier against a letter of credit. The letter of credit issued by the borrower/recipient's bank gets operative only when the SDF issues reimbursement guarantee to the commercial bank.

2.2.2 It is the borrower/recipient's responsibility to make all necessary arrangements with the advising and/or confirming bank regarding charges and fees in respect of letters of credit guaranteed by the SDF, including interest on payments there-under from the date of payment by the commercial bank to the date of reimbursement by the Bank.

2.2.3 Upon receipt of the payment request, the SDF will make payment directly to the confirming and/or advising bank and at the same time notify the borrower/recipient of the disbursement made.

2.3.1 Special (Designated) Account:

2.3.1 In this disbursement method, the SDF makes an advance disbursement from the loan/grant account to a Special Account. However, before the SDF authorizes establishment of a Special Account, the borrower/recipient must have adequate administrative capability, internal controls, and accounting and auditing procedures to ensure effective use of the Special Account. The size of the initial advance shall depend on the nature of the project and eligible items of expenditure, as well as on the capacity of the executing agency to efficiently manage the resources placed at its disposal.

2.3.2 The main categories of goods, works and services to be financed by the Special Account shall be determined at project approval stage; and agreed with the borrower/recipient during negotiations. The SDF and the borrower/recipient may, during project implementation, modify the types of expenditures to be financed by mutual consent.

2.3.3 The special account is to be audited at the end of each financial year, as well as on completion of the project. Provisions shall be included in the terms of reference of the auditor to review documents relating to the use of the special account, including creation of a revolving fund, to ensure that:

- The requests for replenishment of the revolving fund submitted are consistent with relevant information;
- The internal controls and procedures are reliable enough to justify the requests for replenishment; and
- The goods and services financed from the special account have been received by the project.

2.4 Direct payment:

In this disbursement method, at the borrower/recipients request, the SDF agrees to pay a designated agency/supplier directly for eligible expenditures. The supporting documents required for direct payment are:

- A supplier's invoice or certificate stating or certifying the country of origin of the goods and/or services.
- A copy of the contract or purchase order and a copy of the non-objection notice from the Bank if the payment is for the first time or is an advance.
- A Bank guarantee bond covering the entire contract.
- A provisional acceptance report for the goods supplied/ a report or a certificate of proper implementation of works.

3. ACCOUNTING MANAGEMENT, FINANCIAL COMMUNICATION AND AUDIT

3.1 Accounting Management

3.1.1 The loan/grant agreements require the borrower/recipient to maintain accounts and books as well as prepare financial statements for projects financed from the SDF's resources.

3.1.2 Although accounting standards and practices may differ from country to country, the accounts of the project shall, irrespective of the system adopted, comply with the principles of transparent management and provide exhaustive information on the accountability of funds provided to the project and disclosure of expenditure and specific information on components financed by the SDF.

3.1.3 The borrower/recipient is expected to have a sound accounting system, proven administrative and financial management capacity, and satisfactory internal control systems.

3.1.4 The borrower/recipient and/or executing agency must maintain all supporting documents and make them available for examination by auditors and the SDF during supervision missions.

3.2 Financial Communication

3.2.1 The borrower/recipient is required to regularly communicate accounting and financial information on the project to the SDF. The information should contain details as per the SDF's existing formats and tools.

3.2.2 The borrower/recipient is required to preserve project documents and supporting documents, and to make them available to the SDF's experts and audit missions for verification, if required.

3.3 Audit

3.3.1 It is necessary that the project accounts are audited each year. The borrower/recipient must have the accounts of the project audited by qualified and independent auditors.

3.3.2 The audit reports should be submitted to the SDF within six months after the end of the financial year to which they relate.
