

GUIDANCE

**Value for Money
in Public Procurement**

15 July 2024

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GUIDANCE

Value for Money in Public Procurement

Section I: Purpose

As set out in Section III, Article 2.5 PPR, the Bank's concerns for value for money through efficient, effective, and economic use of resources covers an entire project even if Bank funds are only applied to a portion of such project. This note provides guidance to the Clients, Bank project teams as well as other external stakeholders in relation to the Value for Money concept and its application in Public Sector Operations of the Bank.

Section II: Definitions

Terms used in this Guidance have the following meanings:

Appraisal	refers to the assessment made before decisions are taken of the economic, social, environmental, public account and impacts that a project or a contract may have.
Benefit-Cost Ratio (BCR)	refers to PVB/PVC ratio and indicates how much benefit is obtained for each unit of cost.
Benefits management	refers to a project management area that involves the identification, quantification, analysis, planning, tracking, realisation, and optimisation of the benefits that a project or a contract seeks to deliver. It is intended to ensure that stakeholders realise the planned benefits from their engagement and/or investments.
Cost-Benefit Analysis	refers to analysis, which assesses the value of as many of the costs and benefits of a project or a contract as feasible, including items for which the market may not provide a satisfactory measure of economic value.
Distributional Impacts	refers to consideration of the variance of project or contract impacts across different social groups, business or regions.
Evaluation	refers to a systematic analytical process, which examines the effectiveness of a project, or a contract based on actual results. This can include impact evaluation (the difference it made), economic evaluation (whether its benefits justified its costs) and process evaluation (how it was delivered).
Life Cycle Cost Analysis (LCCA)	refers to a method to evaluate the total cost of owning, operating, and maintaining facilities or project over its entire lifespan.
Net Present Value (NPV)	refers to a measure of the total economic impact of a project or a contract (the sum of all benefits and costs).

Optimism Bias	refers to the demonstrated systematic tendency for project developers and appraisers or people involved in procurement of a contract to be over-optimistic about key project parameters, including capital costs, operating costs, works duration and benefits delivery.
Present Value of Benefits (PVB)	refers to the sum of all discounted benefits and dis-benefits not included in the definition of the PVC over the set period and gives the value of these impacts in the prices of a given base year.
Present Value of Costs (PVC)	refers to the sum of discounted costs and revenues under a project over the evaluated period, which gives the value of the impacts in the prices of a given base year.
Quantified Risk Assessment	refers to assessment of an expected value (defined as the average of all possible outcomes, taking account of the different probabilities of those outcomes occurring) of the cost of the project or the contract to be calculated.
Use of Public Resources	refers to capital and other resource expenditure, operation and management of assets and raising revenue.

Terms not defined in this Guidance have the same meaning as set out in the Procurement Policies and Rules.

Section III: Scope

1. Foreword

The Value for Money concept is a fundamental consideration underpinning the Bank's Procurement Policies and Rules in its engagement both with public and private sector Clients.

In their drive in increasing their revenues, profit or capitalisation, private sector Clients inherently strive to achieve the best value for money through their established commercially driven practices.

The public sector in countries and economies of the Bank's operation shall be assisted in its commitments to ensure that investments are done in the most efficient way and provide the greatest benefits to economies and society. It is important that in addition to overarching investment decisions their procurement and contracting approaches are based on clear and robust value for money considerations.

In order to achieve that the Bank promotes the application of the Value for Money concept for procurements conducted by Clients under a Bank Operation. The concept involves the quality of economic considerations in the planning, preparation, carrying out the procurement and managing contracts. The application of the Value for Money concept provides Clients and the Bank with a comprehensive, consistent, and robust approach for assessing the costs and impacts of the contracts and respective proposals by the market players. It is underpinned with the use of appropriate procurement methods, encouraging the achievement of established considerations, and contracts, which fairly balance the risks of the stakeholders, ensuring delivery of the expected values.

This document outlines the Bank's approach to use of value for money considerations throughout the procurement cycle and provides guidance on how to apply it in practice with the focus on assessing value for money during the decision-making process on the clients' side. The important consideration in this is ensuring that this document sets out a clear approach for looking beyond the upfront cost when making value for money judgements, to take the full range of impacts of a contract and the respective proposals into consideration.

Other relevant resources could be consulted, as appropriate, to ensure approaches and methods used are consistent with best practice and proportionate to the nature, magnitude, complexity and value of the contracts in question, and taking into account the economic background and political context in the respective country or economy of the Bank's operation.

2. Introduction to the Value for Money Concept

Value for money is one of the key considerations of any decision involving the use of funds. It shall form a critical notion at the heart of economic consideration for any investment decision, and, therefore, for procurement considerations, allowing to achieve the intended value and impact.

It shall provide strategic fit and shall be supported by a persuasive case for the intended purpose and transition impact.

Within the context of a given project it shall maximise public value to the society through an appropriate project delivery, and especially contracting strategy, thus providing for the selection of the optimal combination of works, goods, services and related activities.

It shall be commercially viable and attractive to the supply side to generate sufficient competition, wherever possible.

It shall be affordable and fundable over time from the available resources.

The approach shall be designed with a view that it can be delivered transparently and successfully by the client and the stakeholders involved in the given legal and economic framework.

The parties involved in a project shall appoint people, who understand the Value for Money concept and are dedicated to ensuring these considerations at all phases and in all areas of a project. This includes the project scoping, structuring and implementation.

To ensure evidence-based judgement the stakeholders shall receive straightforward, clear and consistent information on value for money for each contract and the project, as a whole.

Value for money should be considered as part of the decision-making process for any contract, involving the Bank's financing, as well as the project, as a whole.

Value for money should also be assessed after the contract and the project has been completed, by using benefits management and evaluation to identify its actual impacts. Although ex-post assessments are not discussed in this Guidance, it is important to ensure that it provides fact-based information to facilitate value for money use in new contracts and projects.

3. Meaning of Value for Money

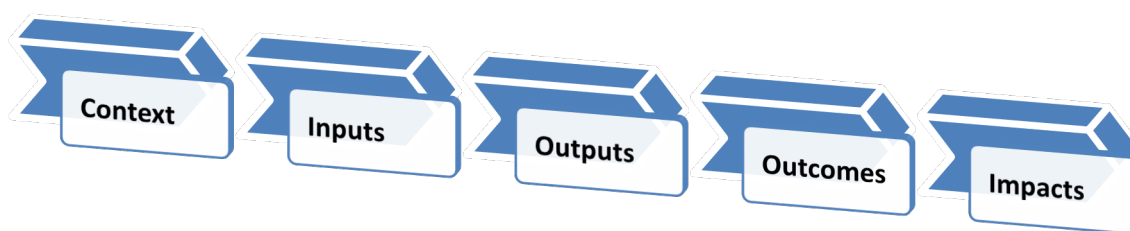
Achieving value for money can be described as using resources in a way that creates and maximises value. In case of the public sector – the value is perceived to be a public value.

In case of the public sector, the use of public resources can be defined as public sector capital and resource expenditure, management of assets, and raising revenues. Public value is defined as the total well-being of the public in a given city, region or country as a whole. In the context of the Bank's investments, this covers all the economic, social and environmental impacts of a contract or a project as a whole.

This means that value for money shall be considered at a national, regional or municipal level, not just in terms of how a contract achieves its direct objective or purpose, or what effect it will have on or near the site, where the contract is implemented. This ensures that the assessment focuses on the impacts of a contract that are 'additional' (lead to a net increase in overall public value).

Considering the process through which a contract may have an impact on public value assists with understanding how value for money can be achieved. The diagram below shows an outline 'logic map' for a contract, which provides a framework for understanding this process.

Diagram 1. Logic map of a contract value for money assessment



Within the logic map framework of, the aforementioned considerations have the following meaning:

- **Context** refers to the issues a contract aims to address;
- **Inputs** refers to the human, financial, intellectual and material resources required to implement a contract;
- **Outputs** refers to the tangible deliverables of the contract, for example, an infrastructure facility or industrial plant;
- **Outcomes** refers to the short- and medium-term results of a contract, which may have an effect on the public value; and
- **Impacts** refers to the longer-term effects of a contract on the well-being of the public at a given level. It is the wider public value attributable to a contract.

From this logic map, it follows that value for money is primarily driven by how **economical** the procurement of inputs is; how **efficiently** those inputs are converted into outputs; and how **effectively** those outputs achieve outcomes.

In this context:

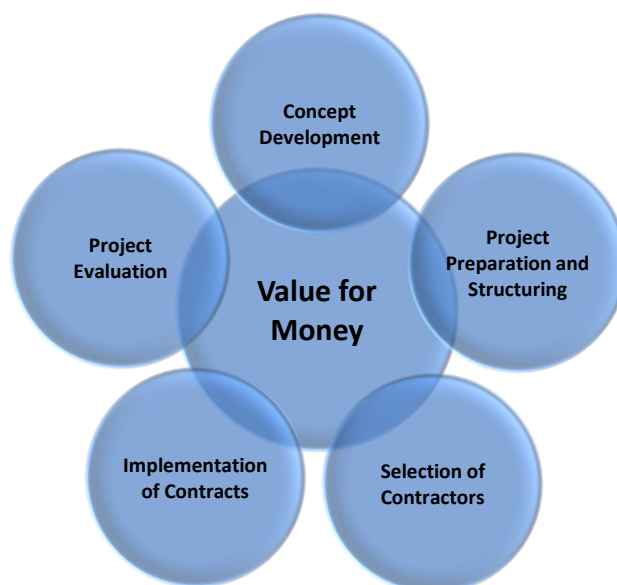
- **Economy** is seen as a measure of whether Inputs of appropriate quality and required scope were procured at minimised costs or achieving the highest net present or other economic value;
- **Efficiency** is seen as an assessment of how well and timely Inputs are converted into Outputs;
- **Effectiveness** is seen as an appraisal of how well the Outputs achieve Outcomes and lead to Impact.

4. Value for Money and the Project Procurement Cycle

The Value of Money concept shall be considered throughout the lens of the project procurement cycle as shown in the diagram below.

It shall be taken into consideration that the procurement cycle is closely intertwined with the Bank's project cycle, which starts from the moment a potential Client applies for financing from the Bank for the development of a project and the Bank considers that this project is potentially suitable for financing and ends with the completion of a project.

Diagram 2. Project Procurement Cycle



The assessment and development of value for money considerations for a project and each related contract shall commence at the earliest possible stage of the project cycle and continues throughout each phase of the procurement cycle.

The above depicted phases of the project procurement cycle have the following meaning:

- **Concept Development** the phase during which the principal Context, and potential Outputs, Outcomes and Impact of the project are formulated;
- **Project Preparation and Structuring** phase includes feasibility and engineering studies, client's capacity assessment and other due diligence, in-depth economic analysis, environmental and social impact assessment, market early engagement and studies,

development of a project delivery and the respective contracting strategies, finalisation of the procurement plan for the project. During this phase the Context is further clarified, and for each planned contract necessary Inputs are estimated and costed, Outputs and Outcomes are clearly defined, and potential Impact is articulated;

- **Selection of Contractors** is a critical phase, which is intended to ensure that qualified and capable contractors are engaged to ensure that the intended Outputs, Outcomes and Impacts (mutually referred to as the Objectives) are timely achieved. This phase involves (a) preparation of procurement documents, reflecting the Context and articulating the required Outputs and desired Outcomes and Impact for a contract; (b) carrying out the procurement process adequate to the Context and the Objectives; and (c) signing contracts with the selected contractors;
- **Contract Implementation** is the most critical phase to achieve the planned Objectives, which shall involve proactive contract management and administration on the clients' side and is supported by a comprehensive monitoring by the Bank;
- **Evaluation** represents the final phase of the project procurement cycle, where the Outputs are verified, Outcomes and Impact are measured, to ensure that the desired efficiency of the investments was attained and in order to take lessons learned for future engagement.

5. Principles of Value for Money Assessment

WHAT is value for money assessment?

Although the underlying relationship between the use of public resources and public value is complex, a useful assessment of value for money can be made through a comparison of the cost of public resources expected to be used for a contract and its expected impact on public value, as defined earlier in this Guidance.

The aim of the assessment is to help the clients to devise and obtain the most effective solution ensuring that the expected costs of a contract are justified by its expected benefits to the public, including both positive and negative impacts of the project on the economy, society, environment, and public accounts. Consideration of these impacts is combined with an understanding of how these impacts are expected to vary across social groups, region and sectors of economy.

Whilst devising an approach at the Project Preparation and Structuring phase, the assessment shall always consider whether there may be alternatives to achieve an objective or solve a particular problem, which may deliver better value for money. During the Selection of Contractors phase, similar considerations shall be given whilst selecting the proposal, which is offering the best value for money and credibly demonstrating how it can be achieved. At the Contract Implementation phase the focus shall be on proactively managing a contract in a way enabling to achieve the value proposed by the selected contractor, or wherever possible, even improving it.

In combining these elements, the value for money assessment determines whether the resources are being used in a way that maximises public value.

WHEN is value for money assessed?

Project Preparation and Structuring Phase involves the appraisal of options. In general, initial appraisal is the process of assessing the costs, benefits and risks of alternative ways to meet the intended Objectives. It helps to understand the potential effects, trade-offs and overall impact of

options by providing an objective evidence base for decision making. The appraisal of social value, also known as public value, is based on the principles and ideas of welfare economics and concerns overall social welfare efficiency, not simply economic market efficiency. Social or public value therefore includes all significant costs and benefits that affect the welfare and wellbeing of the people, not just market effects.

The appraisal is conducted through a three-stage process. The first stage is the consideration of a longlist of options and the selection of a rational and viable set of options for the shortlist analysis. The second stage concerns the shortlist analysis using public cost benefit analysis or public cost effectiveness analysis. The final stage is the identification of the most economically advantageous option.

A contract should initially be considered from the perspective of the needs to deliver the required outcome or achieve a specific objective, and not from the perspective of a preconceived solution.

Longlist analysis and selection of the shortlist must be based on consideration of a range of comparable options, filters and tests in consultations with experts, stakeholders and market, where appropriate; as well as relevant evidence from the evaluations of past contracts of a similar type.

Shortlist appraisal is where the expected costs and benefits of financing are estimated, including the cost of risks and risk management. Costs and benefits shall be viewed from both achieving the Objectives and the perspective of the society and sustainability of the intervention.

Depending on the key criteria chosen, the appraisal is finalised with selecting the options that maximises public value.

These options shall command formation of the project delivery strategy, including risk matrix, contracting strategy, respective procurement methods and implementation arrangements.

Selection of Contractors Phase follows the outcome of the appraisal and focuses on development and implementing a procurement process, which will bring the expected results. It involves intertwined initial activities, such as (a) the development of comprehensive requirements, reflecting the Objectives and the needs of the project (referred to as the Requirements); (b) the selection of an appropriate procurement method proportionate to the nature, complexity and magnitude of the Requirements; (c) the elaboration of qualification criteria for contractors ensuring that they may be capable to perform under the resulting contract; (d) the development of an evaluation methodology, resulting in the determination of the value for money adequate to the appraisal; (e) drafting contract terms and conditions appropriate for the Requirements and enabling achievement of the Objectives. All these considerations should be reflected in a set of detailed procurement documents for the specific contract.

These activities are followed by carrying out the procurement process, where based on the evaluation methodology and qualification criteria, stipulated in the procurement documents, the client select the contractor, who offer the best value for money. Before proceeding with a contract award the selected option shall be compared with the planned value for money, identified at the appraisal.

Contract Implementation Phase targets ensuring that the parties to a contract strictly follow their contractual obligations to deliver the planned value for money. It requires systematic and proactive contract management with a focus on achieving the value for money, which involves planning, administering, execution, monitoring activities as well as communication and cooperation by the

parties to ensure timely completion of the contract in full scope with due quality and within the contract price.

To effectively manage a contract clients shall develop a contract management plan aligned with the contract implementation program by the contractor, with milestones and key performance indicators, leading to achieving the expected value for money. These milestones and indicators shall be correlated with the Objectives, well defined, measurable and time bound.

Active cooperation with the contractors and use of the value engineering approach shall be pursued to increase the originally intended value for money.

This phase culminates with assessment of the achieved value for money upon completion the contract vis-à-vis the one, intended upon selection of the contractor.

Evaluation Phase focuses on the assessment of the achieved value for money of specific contracts and cumulative value of synergy of all contracts under the project are calculated on the basis of the same methodology used at the Project Preparation and Structuring phase. The results are compared with the initially planned values. Divergences are analysed in order to identify their causes in order to enhance the appraisal methodology for future projects, as well as adjust the methods, contractual framework and management system used in achieving value for money.

HOW is value for money assessed?

A value for money assessment comprises of the following key elements: (a) the development of appropriate options; (b) a comparison of such options; (c) the measurement of contract costs and impacts; and (d) the consideration of risks and uncertainties. These elements are discussed in detail below.

A full assessment using these four elements culminates in the expected value for money results and provides a framework for ensuring that the Bank and the client use financial resources for a given contract in a manner that maximises public value.

(a) Options Development

At the initial phases of a project, development of a wide range of possible alternatives to address an identified problem or meet a particular objective as well as potential contracting strategy should be considered before a specific approach is chosen. These should reflect a variety of approaches and scales of intervention.

First, the base line option shall be developed. It may be based on a preconceived or commonly used solution. Then different options shall be developed and compared against this base line scenario, to measure the comparative impacts of the given options.

Developing options is especially important during the early stages of decision making. In any event, even if a particular option is chosen as the preferred one, alternatives should be retained in a value for money assessment until it is established with sufficient degree of confidence that the preferred option offers the best value for money and achieves its wider objectives.

Upon completion of options development, all benefits and challenges of each option, as well as key risks and uncertainties of each case should be accounted for through appropriate scenario testing.

(b) Comparison of Options

The approach to options comparison is similar to the initial options development, where all proposals received by a client in the course of a procurement process are compared against each other in accordance with the evaluation methodology and criteria set out in the procurement documents. All benefits and challenges of each option, as well as key risks and uncertainties of each case in order to select the best value for money option.

(c) Measuring Costs and Impacts

A value for money assessment should provide easily interpretable and comparable conclusions in a consistent manner to measure option costs and benefits.

Costs

For the purposes of a value for money assessment, ‘**costs**’ refers to both the costs of the contract and revenues/benefits it will enable the client to generate and the benefits for the public.

Costs and revenues to public sector bodies and businesses not directly involved in the contract shall be considered as part of the ‘**impacts**’ of the contract and as such shall not be counted as direct contract costs.

The costs of an option should in all cases be expressed appropriately in monetary terms (i.e. monetised) to arrive at the Present Value of Costs (PVC).

Where necessary and appropriate, ‘risk-adjusted’ cost estimate may be calculated through a quantified risk assessment, taking into account of different possible outcomes and their likely probabilities. To account for the tendency to be overly optimistic about expected costs, an appropriate level of optimism bias could be applied to the risk-adjusted cost estimate. It shall result in the final value, which should be used as the PVC, as the best approximation to the expected value of the costs of an option.

Impacts

For the purposes of a value for money assessment, impacts refers to the positive and negative impacts of an option on the client and public. Impacts include effects on the economy, environment, society, public accounts and the client.

In a value for money assessments clients and the Bank’s staff shall differentiate between monetised and non-monetised impacts, which shall be treated differently at different stages of the project and the contract procurement cycles and presented separately, as appropriate.

Monetisation of Impacts

Wherever possible, it is preferable for impacts to be measured in monetary values. Monetisation is the most objective form of expressing value and shall be used as the primary approach to the extent possible. It provides a powerful tool for comparing costs and impacts and arriving at interpretable conclusions, whilst substantially reducing risks of corruption and manipulation with the outcome of proposal evaluation. When monetary values are used, to ensure valuations are comparable across impacts and across time, they should be:

- **expressed in market prices:** adjusting for the fact that clients may perceive prices differently to businesses;
- **discounted:** adjusting to addresses the time value of money, acknowledging that a certain amount of money today is worth more than the same amount in the future (bringing future cash flows back to their present value, reflecting the opportunity cost of tying up capital over time or the required rate of return on an investment); and
- **deflated:** adjusting cash flows for the effects of inflation or changes in purchasing power over time (converting nominal cash flows (not adjusted for inflation) into real ones (adjusted for inflation), enabling a more accurate assessment of the actual purchasing power of money over time);

in order to arrive at ‘**present values**’ for each option.

Clients shall seek guidance on appropriate methods for monetising impacts of different options and their elements from their economists, financial advisors and consultants; or, where appropriate, seek advice from the Bank. Different methods for identifying outcomes, impacts, and estimating their monetary values can be used. However, the preference shall be given to those, which are more widely accepted, better researched, tried-and-tested, and more robust.

Non-Monetised Impacts

Wherever beyond monetised impacts it is important or critical to provide a broader view of the total impact of a contract, as well as in the cases, where it is difficult or impossible to monetise key impacts, the Bank recommends the use of a non-monetised assessment of those impacts.

In these cases, the degree of confidence the Bank, the clients and the market may have in the non-monetised valuation will vary depending on the quality of the approach taken and the data sources used.

In general, non-monetised assessments may be appropriate at very early stages of a project, contracting strategy considerations and development of specific procurement documents in order to develop the options further; or where impacts lack a sufficient evidence base to be monetised.

Such assessments should consider:

- how and to what extent the contract will deliver the claimed benefits;
- how benefits compare with the relevant costs;
- alternative options to achieve the contract objectives that may represent better value for money; and
- any assumptions, uncertainty, risks and sensitivities of the evidence.

These considerations shall be undertaken with a view on economy, efficiency and effectiveness.

One of the options to assess the targeted impacts of non-monetised nature is based on pass/fail approach, ensuring that the critical impacts are achieved as mandatory. Alternatively, merit based rated criteria can be used for assessing impacts, which may not be monetised. Thresholds may be set for acceptability of such impacts, depending on their importance and effect on the given contract.

Whilst non-monetised factors are taken into consideration, it shall be understood that its level of bias may be substantial in respect of both selection of criteria as well as their weighting, rating and thresholds. Thus, non-monetised approach usually affects the objectivity of a holistic picture of a contract and may lead to manipulation with the outcome of evaluation of proposals, increased corruption risks and uncertainties with monitoring the impact at the contract implementation as well as with evaluating it at the post-contract phase.

(d) Consideration of Risks and Uncertainties

Before a value for money assessment can arrive at conclusions, the risk and uncertainty within the assessment shall be considered.

All analysis is based in part on assumptions about how the environment, in which the contract is implemented, is or how it is expected to be in the future. Decisions should be made about which data and assumptions to include in the analysis and how they will be used in the assessment. The resulting implications should also be considered, to ensure the limitations of the analysis are clearly understood and taken into account, as appropriate. Equally, uncertainties in both the expected costs and impacts of the contract should be clearly articulated to manage bias of the analysis and factored in the decision-making process.

Other Aspects of Analysis

In addition to the core elements of the Value for Money concept discussed above, in certain cases additional features may need to be considered.

Distributional Impact

Where appropriate, value for money assessments may consider and highlight the distributional impacts of the proposed options, i.e. how the impacts of the intervention vary across different territories, businesses and social groups. It is especially important to highlight whether, as a result of a contract particular territories, businesses or social groups are expected to disproportionately benefit or be disadvantaged; or would be subject to significant positive or negative outcomes in any of the key areas.

Sensitivity Analysis

Project modelling and respective sensitivity analysis can be used to test the impact of the key risks and uncertainties on the PVB of a contract. Such analysis can provide greater confidence in the approach and the resulting value for money conclusions drawn. Sensitivity tests should be determined on a case-by-case basis in a proportionate manner taking into account the objectives, nature and complexities of a contract, the environment in which it is to be implemented and associated risks and the likelihood of them being realised.

6. Key Considerations for Achieving Good Value for Money

In order to maximise the value for money, considering its complex nature, several essential considerations shall be factored in procurement processes. These considerations are elaborated further in this section.

Procurement Process

A well-structured competitive procurement process, which encourages participants to offer attractively priced innovative and sustainable proposals is considered to be the most efficient way to obtain the best value for money. Such process shall involve, as appropriate, a structured dialogue with the participants, to achieve the best risk balance for the contract and find most suitable solution to meet the Requirements.

In certain cases, effective negotiations with participant may be used to arrive a favourable pricing and added value and benefits.

Any procurement process shall be transparent to ensure compliance with the project legal agreements, the Bank's Procurement Policies and Rules, as well as relevant regulations. It shall promote fairness and accountability that in turn contribute to the perceived and actual value for money. The procurement process shall be well documented to reduce corruption risks, facilitate auditing, enabling organizations to review transactions for compliance and effectiveness.

The Bank's Procurement Policies and Rules provide an exhaustive list of the processes, which the Bank allows for use under projects it finances. An application of the specific process for a contract shall be discussed with the Bank's advisors during the project preparation and structuring phase taking into account the nature, complexity and magnitude of the contract, as well as the market and implementation environment.

Early market engagement and involvement of experienced advisors facilitate selection of the optimal procurement process for a contract.

Qualification Considerations

The procurement process shall involve thorough due diligence on potential contractors, as their qualification directly impacts the ability to obtain value for money.

Qualified contractors possess the technical expertise and quality management systems required to deliver on their proposal (especially when they involve innovative solutions), meeting or exceeding expectations, whilst comply with relevant regulations and industry standards.

Similarly, financially stable contractors are more likely to fulfil their contractual obligations, reducing the risk of disruptions.

For more information, please refer to EBRD Guidance on Qualification Assessment (<https://www.ebrd.com/procurement/project-procurement/policies-guidelines.html>).

Requirements

Clearly defined Requirements ensure that the procured goods, works or services meet the Objectives and client's expectations, whilst promoting completion, sustainability and innovation, which allow to obtain good value for money.

Generally, the Requirements can be expressed in (a) a detailed conformance-based form; (b) a performance-based manner with focus on achieving certain functionality, results, outcome or outputs; or (c) a combination of them.

Conformance-based requirements have minimal contribution to obtaining the best value for money, because they inhibit innovation and alternative advanced solutions. However, such requirements may be suitable, when the expected proposals are homogeneous, with limited or no differentiation between them other than price. They work best for acquisition of simple goods, services, or works, as well as in the situations where the participants in a procurement process may possess limited capabilities for innovative or alternative approaches and products.

Performance-based requirements are usually the most suitable option to ensure the best value for money, as they are focused on the outputs and allow for alternative ways of achieving them, yet simultaneously ensuring that the Objectives are met. The approach relies on high qualification of the participants in a procurement process and their ability to provide substantially different and often innovative solutions. The use of such requirements normally needs to be supported by a comprehensive procurement process.

Beyond the types of requirements described above, a key catalyst for obtaining the best value for money is the focus on sustainability, life cycle considerations, circular economy, and the respective requirements.

Contracts

Balanced and fair risk allocation reflected through contract conditions underpinned by effective and proactive contract management system are critical for obtaining value for money, because they help create a fair, transparent and mutually beneficial relationship between the parties involved and ensure that the Objectives are achieved as proposed at the procurement process phase.

A balanced contract allocates risks fairly between the parties, allowing each party to assume responsibility for the risks that they are best able to manage or control.

Balanced contract conditions ensure that both parties have a clear understanding of their rights, obligations, and expectations, thus reducing the likelihood of misunderstandings or disputes.

Contracts may include mechanisms to promote innovations and performance incentives that encourage parties to meet or exceed their obligations, leading to increased efficiency, and ultimately, greater value for money. A well-balanced contract shall include provisions for changes or modifications when circumstances require, ensuring adoptability to changing conditions, and continuity in providing value throughout its duration. To enhance value for money, contracts shall promote a systematic and organized approach to optimise the value of contracts or the related projects as a whole, often referred to as value management.

Contracts shall promote transparency in the dealings between the parties supported by accountability mechanisms, contributing to the overall success of the contract and the achievement of value for money.

In order to ensure the contract efficiency, a robust contract management system promoting close collaboration between the parties and rigorous control, shall be used. Such systems shall provide real-time monitoring of contract performance, helping parties to maintain control over their contractual commitments and ensuring that they are implemented in a timely manner, and allowing for timely adjustments and/or corrective actions.

Contract management system shall help identify, assess, monitor and manage risks associated with contracts. It shall help to optimise costs and maximise benefits to the parties. It shall have quick access to up-to-date contract data to facilitate decision-making and a comprehensive accountability mechanism to enhance transparency.

Evaluation Methodologies

Evaluation of proposals shall follow the methodologies appropriate for the subject contract and involve conventional participants' qualification assessment, administrative, legal and technical evaluation in respect of their overall compliance with the Requirements (normally based on Pass/Fail approach), coupled with the economic evaluation.

In standard economic evaluation, where the majority of impacts are measured in monetary values, the value for money results is primarily formed by one of two metrics: the Benefit Cost Ratio or the Net Present Public Value. These metrics provide a primary indication of the extent to which a contract is expected to represent value for money, based on different methods of factoring in the Present Value of Costs and the Present Value of Benefits calculations.

Other impacts, risks and uncertainties may be then considered to arrive at a final value for money results and wider conclusions.

Benefit Cost Ratio

The Benefit Cost Ratio (BCR) and its derivatives is the most common and easy manner to interpret value for money metric. It provides a representation of the relative relationship between benefits and costs and allows easy comparison of different options and between schemes.

The Benefit Cost Ratio is calculated as follows:

$$BCR = \frac{PVB}{PVC}$$

where

BCR is the Benefit Cost Ratio,

PVB is the Present Value of Benefits, and

PVC is the Present Value of Costs.

Generally, the Present Value is calculated as follows:

$$PV_{t=0} = \frac{FV}{(1+r)^n}$$

where

PV is the Present Value,

FV is the Future Value,

r is the discount rate (rate of return), and
 n is the number of periods.

The BCR indicates how much benefit is expected for each unit of cost. A BCR of greater than one indicates that the benefits outweigh the costs.

The most commonly used derivative of the BCR is the least cost or lowest evaluated price-based evaluation approach. It may be appropriate in the cases, when the PVB is expected to be constant, for example, in cases of acquisition of simple goods, works and services, usually described through conformance-based requirements. In such cases, assuming non variable PVB, the selection is focused on the lowest PVC. When time is not factored into evaluation, such selection methods are further simplified by relinquishing present value calculations.

Net Present Public Value

In many cases, it is more appropriate to calculate and report the Net Present Public Value (NPPV), which is calculated as follows:

$$NPPV = \sum_{t=0}^N \frac{B_t - C_t}{(1 + r)^t}$$

where

$NPPV$ is the Net Present Public Value,

B_t is the Benefits (revenues) for the given period (t),

C_t is the Costs for the given period (t),

r is the discount rate (rate of return), and

N is the number of periods.

Unlike the BCR, the NPPV does not measure the likely benefits relative to the likely costs. Instead, it measures the total impact on public value of a contract. It is simply the sum of all benefits net of costs. A positive NPPV indicates that there is expected to be an overall gain in public value, as a result of the contract.

Life Cycle Cost Analysis

As a variation of a NPPV approach, Life Cycle Cost Analysis (LCCA) is used as a method to evaluate the total cost of owning, operating, and maintaining equipment or facilities over its entire lifespan. It involves assessing costs not only at the initial acquisition stage but also throughout the equipment or facilities' life cycle, including design, construction, operation, maintenance, and disposal phases. Sometimes LCCA is referred to as the Total Cost of Ownership (TCO).

The goal of the LCCA is to provide a comprehensive understanding of the costs associated with different options or alternatives. This allows to make informed choices based on the total cost of ownership rather than just the upfront costs. By considering the entire life cycle, the LCCA helps identify the most cost-effective option over the long term, even if it involves higher upfront costs.

Life Cycle Costs is calculated as follows:

$$LCC = \sum_{t=0}^N \frac{CC_t + OC_t + MC_t}{(1+r)^t} + \frac{DC - RV}{(1+r)^N}$$

where

LCC is the Life Cycle Cost,

CC_t is the Capital Cost for the given period (t),

OC_t is the Operating Cost for the given period (t),

MC_t is the Maintenance Cost for the given period (t),

DC is the Disposable Cost,

RV is the Residual Value,

r is the discount rate (rate of return), and

N is the number of periods.

It shall be noted that use of this evaluation method normally requires a comprehensive procurement process, allowing a client to engage in an encompassing dialogue with the participants and make a comparative analysis of different proposals of a similar kind to identify and rectify potential omissions and imbalances. The procurement process shall enable verification of information provided by the participants in respect of operating and maintenance costs by making inquiries with third parties, soliciting additional evidence, verifying consistency of the information and calculations provided.

In many instances, LCCA may be simplified, for example, by omitting inclusion of the Disposable Cost and Residual Value into calculations, due to high level of uncertainty.

Similarly, calculations of Operating and Maintenance Costs may be limited to the major components, representing their substantial volume and allowing reasonable verification. The clients are advised to provide definite present values for inputs to calculations Operating and Maintenance Costs, such as utility tariffs, market price of consumables, personnel salary level (for different professional groups of operational staff), or some inputs by the client.

Given evident challenges of a realistic assessment of certain cost on a long-term time horizon, it may be prudent in some cases to limit the time period for calculations to a certain major milestone in the life cycle of the equipment or facilities (for example, a major overhaul).

Internal Rate of Return

Another variation of the NPPV approach is the use of the internal rate of return (IRR), a metric used in financial analysis to estimate the profitability of potential investments. The IRR is a discount rate that makes the NPPV equal to zero in a discounted cash flow analysis:

$$NPPV = \sum_{t=0}^N \frac{CF_t}{(1+IRR)^t} = 0$$

where

CF_t is the Cash Flow for the given period (t),

IRR is the Internal Rate of Return, and

N is the number of periods.

Economic Rate of Return

A more comprehensive variation of NPPV approach is the use of the Economic Rate of Return (ERR), a metric evaluating the profitability of an investment or contract. It represents the percentage increase in economic value resulting from an investment, relative to its cost. The ERR takes into account both the initial investment and the expected future benefits or returns generated by the investment over a specific period of time.

In essence, if the ERR is greater than a certain threshold (usually the cost of capital or the required rate of return), the investment is considered economically worthwhile. As a result, it is commonly used in cost-benefit analysis and evaluation of proposals to determine the potential returns of various options.

The Economic Rate of Return is calculated using the following formula:

$$NPPV = \sum_{t=0}^N \frac{B_t - C_t}{(1 + ERR)^t} = 0$$

where

$NPPV$ is the Net Present Public Value,

ERR is the Economic Rate of Return,

B_t is the Benefits (revenues) for the given period (t),

C_t is the Costs for the given period (t), and

N is the number of periods.

Non-Monetised Evaluation

In situations where certain aspects of a contract prove challenging or impossible to monetise, adoption of a non-monetised approach may be contemplated. Although quality of goods works and services are usually well reflected through NPPV or LCCA evaluation discussed above, in some cases, for example for IT systems procurement or advisory service procurement, alternative approach based on rated criteria in conjunction with Pass/Fail criteria may be more appropriate.

Where such approach is justified, special attention shall be paid to ensure maximum objectivity of the evaluation methodology, as use of rated criteria is notorious for inadvertent bias, heightened risks of manipulation with outcomes of evaluation and corruption.

In order to achieve fair and reasonable results the following steps shall be followed:

- the critical elements that contribute to the success of the Objectives for the procurement process, shall be identified;

- the essential features, and requirements listed;
- criteria shall be grouped into categories such as technical, financial, contractual and other aspects, in line with the Objectives, features and requirements;
- a balance between qualitative and quantitative criteria shall be ensured;
- weights shall be assigned to each criterion based on its importance to the overall success of the contract in question;
- it shall be ensured that weights reflect the relative significance of each criterion;
- a scoring system for each criterion shall be developed (as a numerical or a descriptive scale);
- the scoring system shall be aligned with the importance of the criteria;
- minimum acceptable levels or thresholds for the criteria and their groups shall be established;
- clear instructions for application of the scoring system shall be articulated;
- the established criteria shall be verified on a compliance with legal and regulatory requirements;
- relevant stakeholders, including end-users and subject matter experts, shall be involved in the identification and prioritisation of criteria, their relative weights and points allocation;
- wherever possible market shall be consulted on appropriateness of the scoring system before commencement of a procurement process;
- application of the methodology shall be well documented to allow for comprehensive debriefing of the participants in a procurement process and audit of the decisions taken.

As a general rule, the overall number of rated criteria should be kept to the essential minimum, as having too many of them often serves to temper the important parameters of proposals and makes identification of the best proposal challenging.

7. Other Considerations

Assessing Impacts

As discussed earlier in the Guidance to provide a holistic, transparent and useful view of a contract's impact on public value, a value for money assessment may include considerations of three types of monetised impacts (*'established'*, *'evolving'* and *'indicative'*), non-monetised impacts, and uncertainty.

The way each of these types of impact is used in the assessment inherently varies. Some of the methods for identifying outcomes, impacts and estimating their monetary values are more common than others, as they are well researched and tested, and perceived to be reliable and robust.

Established Monetised Impacts are used for estimating the impact and its monetary value. It is broadly accepted, well researched, tried and tested. This method is used where values can be derived from current and predicted future market prices or derived from respective quantifiable research. It is usually used to generate an initial value for money metrics.

Evolving Monetised Impacts are used when some evidence exists to support the estimation of a monetary value, but this is less widely accepted, researched or tested. It is usually applied after

initial value for money metric has been established to adjust the value for money assessment results.

Indicative Monetised Impacts are the valuation method, which is not considered sufficiently reliable to be definitive. It is used when an uncertainty in the magnitude of the impact is high.

Non-monetised Impacts are used to estimate the magnitude of the impact. An approach to the assessment may vary and usually is based on using binary approach (Pass/Fail), scale of impact or weighted score. A range of evidence source and/or experts' judgement are usually used for this type of assessment.

Given a very subjective and often non-conclusive nature of the last two methods, they represent a less preferred option and usually only considered as additional to the regular assessment (often in conjunction with each other). These impacts do not usually feed into the initial or adjusted value for money metrics. However, if these methods are used, their results shall be appropriately documented.

Uncertainty considerations in a value for money assessment involve recognising and addressing the potential risks and uncertainties associated with the costs, benefits, and outcomes of a contract. It entails identifying and quantifying uncertainties, carrying out sensitivity analysis and developing mitigation strategies, as necessary. Uncertainties and their potential effects shall be documented to provide a more realistic picture of the potential outcomes.

When selecting appropriate types of impacts to use for the assessment, due attention should be given to the quality and robustness of underlying data and to the magnitude, nature and complexity of the contract. Proportionate sensitivity analysis and testing should be used to provide an understanding of the impact of the uncertainties.

Differentiating Impact Types in Value for Money Assessment

Each type of impact is included in the value for money assessment sequentially. This enables the generation of an assessment of value for money, in which we have the most confidence. This can then be adjusted to account for other impacts, which are more uncertain.

Only the most established impacts shall be included in the Present Value of Benefits at first. This stage of the assessment generates **an initial value** for money metric. The evolving monetised impacts are subsequently added to the original assessment to generate **an adjusted value** for money metric.

The final stage of the value for money assessment provides for consideration of **indicative monetised** impacts and **non-monetised** impacts. This involves determining whether these impacts, either individually or collectively, are likely to materially alter the overall value for money of the contract.

Documenting Value for Money Value

Given complex nature of application of a Value for Money approach, systemic documenting the key information, decisions and reasoning is important to ensure consistency, transparency and accountability in the decision-making process through the entire life cycle.

The recorded information shall highlight the benefits, costs, as well as impacts, risks, assumptions and uncertainties present in the analysis (including their sensitivities, where assessed).

Section IV: Disclosure

This Guidance will be disclosed on Bank's website.

Section V: Effective Date

This Guidance is effective on 15 July 2024.

Section VI: Decision Making Framework

Procurement Director, PPAD is accountable for this Guidance.

Associate Director, Policy Advisor, PPAD is responsible for this Guidance.

Section VII: Related Documents

1. EBRD Procurement Policies and Rules, as published on the Bank's website.
2. Standard Procurement Documents, as published on the Bank's website.
3. Guidance on Qualification Assessment, as published on the Bank's website.