

PROCUREMENT GUIDANCE



Contract Management

General Principles

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Common abbreviations and defined terms

This section explains the common abbreviations and defined terms that are used in this guidance. Defined terms are written using capital letters.

Abbreviation / term	Full terminology / definition
Bank	IBRD and/or IDA (whether acting on its own account or in its capacity as administrator of trust funds provided by other donors).
Borrower	A Borrower or recipient of Investment Project Financing (IPF) and any other entity involved in the implementation of a project financed by IPF>
CMP	Contract Management Plan.
KPIs	Key Performance Indicators, critical measures that are included in a contract to monitor performance, and to ensure deliverables are met.
PDO	Project Development Objectives.
Project Procurement Strategy for Development (PPSD)	A Project-level strategy document, prepared by the Borrower, that describes how procurement in IPF operations will support the project development objectives and deliver VFM.
SMART	Specific, Measurable, Attributable, Relevant, and Time-bound. Refers to the principle that when KPIs or other contract measures are set, they should be SMART so they actually help the Borrower to measure real results, in the most efficient, insightful manner.
SRM	Supplier Relationship Management. A modern procurement technique that focuses on building strong business relationships between critical suppliers and their key clients – generally of most benefit when there are situations of mutual dependency between buyer and supplier.
VfM	Value for Money.

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Section I. Introduction

Purpose

This Guidance serves as an introduction for Borrowers on the general principles of Contract Management, its links to program management, and the connection to broader Supplier Relationship Management (SRM).

This Guidance is not a comprehensive “how to” guide for contract management – such approaches need to be determined on a contract by contract basis, reflecting the agreed contract terms.

This Guidance should be read with reference to the World Bank Procurement Regulations for IPF Borrowers, the Guidance on Project Procurement Strategy for Development (Long Form Detailed Guidance), and the Guidance on Value for Money. This guidance is non-mandatory. It provides advice only and demonstrates good practice. It is subject to the Regulations, which take precedence.

Effective Contract Management is critical for ensuring the supplier/contractor/consultant, and the Borrower meet their contractual commitments to time, cost, quality and other agreed matters. It requires systematic and efficient planning, execution, monitoring, and evaluation to ensure that both parties fulfil their contractual obligations with the ultimate goal of achieving VfM and contractual results. It involves:

- tracking and monitoring cost, time, quality and deliverables;
- collaborating to improve performance and promote opportunities for ongoing innovation e.g. value engineering in appropriate contracts;
- being clear on roles and responsibilities of both Borrower and supplier/contractor/consultant;
- managing relationships with the supplier/contractor/consultant and key stakeholders;
- managing payments in accordance with agreed terms;
- being proactive throughout the contract to anticipate problems and issues before they arise; and
- managing problems and issues as they arise, quickly, effectively, fairly, and in a transparent manner.

From the Borrower’s perspective, effective Contract Management also:

- ensures the supplier/contractor/consultant delivers upon its commitments;
- obtains best Value for Money (VfM) during the life of the contract;
- manages supply risks for the duration of the contract;
- continually challenges to drive best value in its contracts;
- ensures effective contracts that continue to deliver the requirements;
- demonstrates best procurement practice in the management of contracts; and
- provides evidence to support any audits.

While Contract Management is typically positioned within a Procurement and/or Project Management/Delivery function in a Borrower’s organization - it has significant upstream and downstream effects to an organization’s broader operations and finance groups (Figure I). In addition to managing individual contracts, many Borrower organizations have programs of multiple contracts that also need to be managed in a joined-up manner. Therefore, a robust, integrated Contract Management program can be used to increase contract standardization and visibility across the entire Borrower organization – ensuring no contract expires unintentionally, and is managed appropriate to deliver VfM (securing supply and value for the Borrower, in a planned and coherent manner on an ongoing basis).

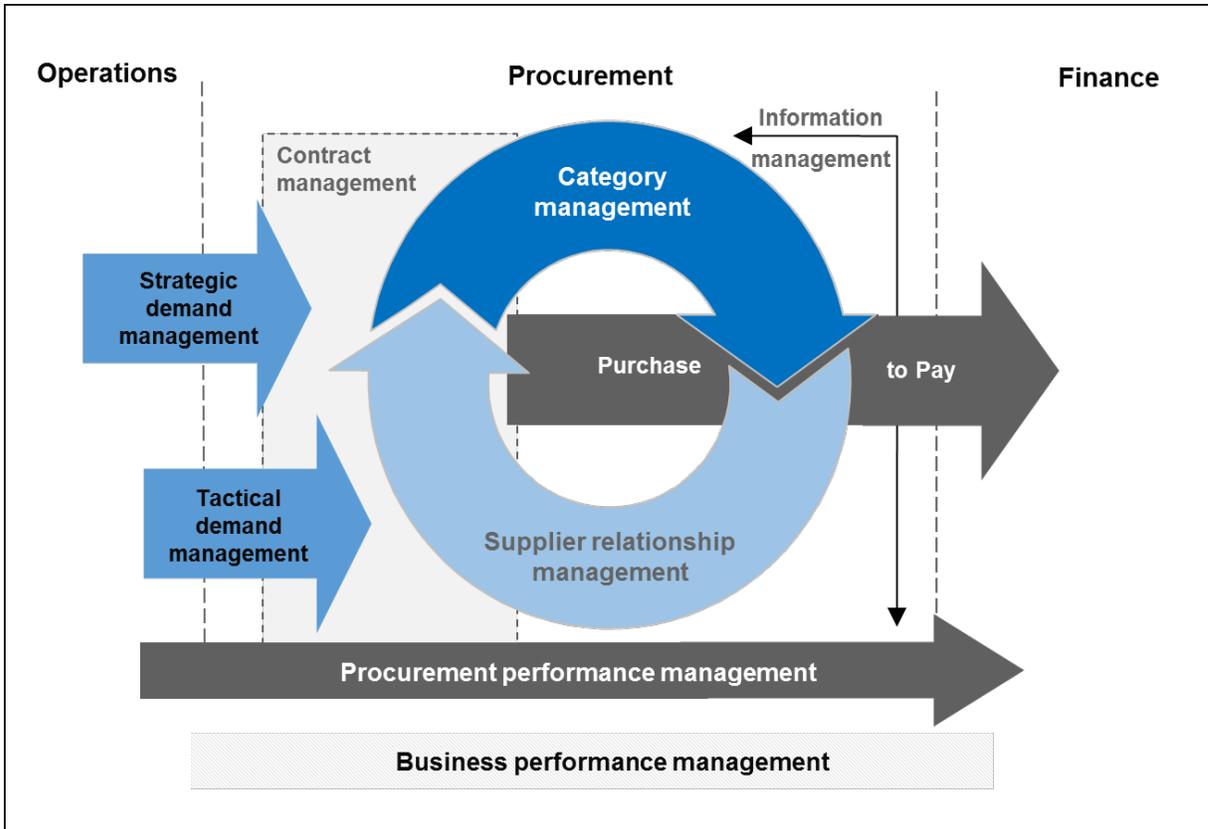


Figure I – Borrower Programmatic Contract Management Overview

Section II. Overarching Principles

Effective Contract Management enables Borrowers to holistically manage contracts from planning, through to execution and beyond. The key value Contract Management provides is the ability to look at the end-to-end lifecycle of a given contract. Contract Management directly impacts a Borrowers delivery of services to its citizens, the cost, degree of compliance, and reporting of results. Contract Management primarily focuses on creating, executing and managing contracts across three (3) key implementation phases:

- Plan contract
- Execute contract; and
- Manage contract.

The “Plan” phase enables the successful execution of contracts. During the “Execute” phase, Borrowers engage the supplier/contractor/consultant following an agreed procurement process. Lastly, in the “Manage” phase, Borrowers monitor and manage supplier/contractor/consultant performance to ensure that contractual commitments made are actually delivered, and that benefits are optimized (monitoring, may also include Bank supervisory activities). Figure II below outlines the contract management framework with the three (3) phases with defined capabilities and associated functions.

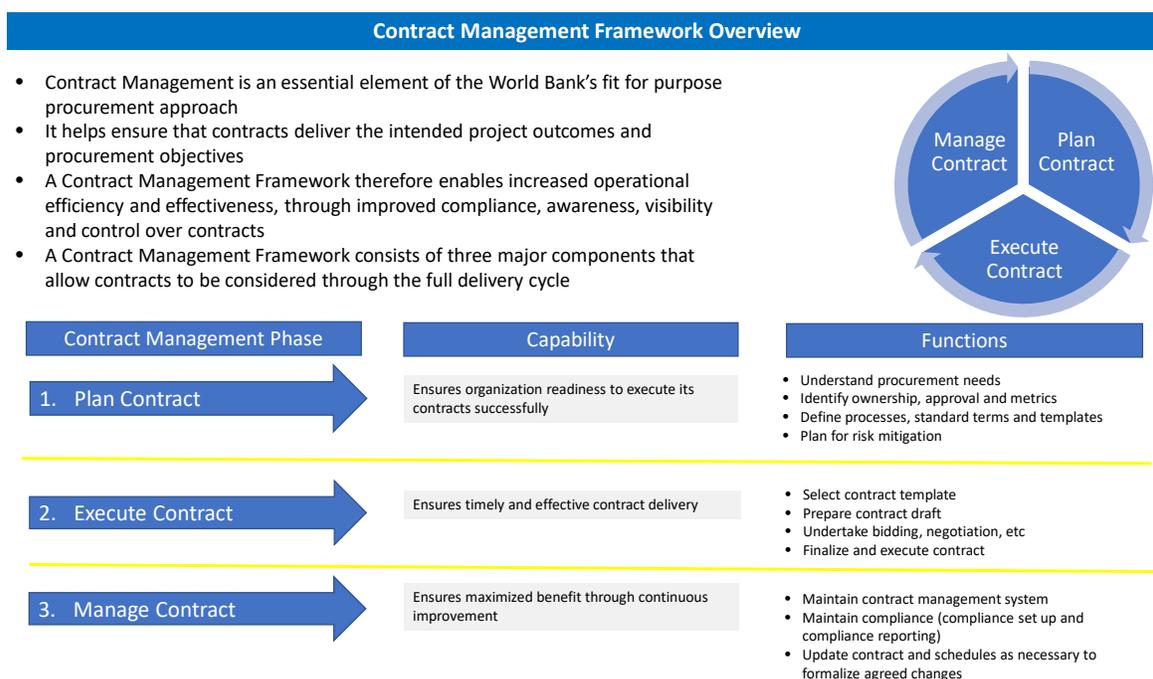


Figure II – Contract Management Lifecycle Framework

Contract Management good practice (including VFM)

Figure III below highlights good contract management practice that Borrowers may wish to consider as part of developing a Contract Management program across either a specific project, or across multiple activities. Specifically, figure III highlights good international practice that organizations with high performing Contract Management programs have typically employed.

Key Area	Leading Practice
People	<ul style="list-style-type: none"> Organization has identified contract management 'champions' Contracts can be segregated based on department ownership, vendor types, and spend Contract administrators within all relevant functional groups and aligned enterprise-wide Specific contract information made available to pre-authorized resources
Performance	<ul style="list-style-type: none"> Contract renewal process is performed in a timely manner identifying all required resources prior to the renewal date Implemented contracts are reviewed to verify compliance with changing regulatory environment Periodic meetings are held with top level vendor officials and buyers to discuss vendor performance Customer satisfaction surveys are used to evaluate vendor performance
Process	<ul style="list-style-type: none"> Contracting process is streamlined through use of risk-assessed templates and standard contracting language Creation of vendor contracts is integrated with vendor selection, verification, and performance measurements PO templates are pre-populated with approved suppliers and corresponding supplier profile data Standardized process for contract creation across the business and process are standardized companywide
Policy	<ul style="list-style-type: none"> Terms and conditions are specific to each contract type Vendor reporting requirements are reviewed to identify potential compliance issues There are both standard procedures and defined roles and responsibilities for implementing, monitoring, and enforcing contract compliance Common procurement data definitions should be established across the company
Technology	<ul style="list-style-type: none"> Contract information is automatically integrated with vendor information contained in the master file Contract obligations and contract compliance are clearly visible System functionality includes ability to scan images of required documents and attach to master contract System is configured to provide advance notice of contract expiration, insurance expiration and status of resolution

Figure III – Contract Management Leading Practices

Section III. Fit-for-Purpose Contract Management

To determine the optimum, fit-for-purpose approach to Contract Management, the Borrower should utilize the following tools in the PPSD Guidance:

- Supply positioning – to inform how critical the procurement is to the Borrower/overall project, and therefore to inform how much resource/effort the Borrower should spend on contract management; and
- Supplier preferencing – to inform the Borrower about focused/committed the supplier/contractor/consultant is likely to be in practice in delivering the contract, resolving unanticipated problems, and working with the Borrower in a collaborative manner.

In particular, the supply positioning model (see PPSD) provides a useful guide to inform the Borrower how best to establish the approach and frequency of contract management meetings - see figure IV below:

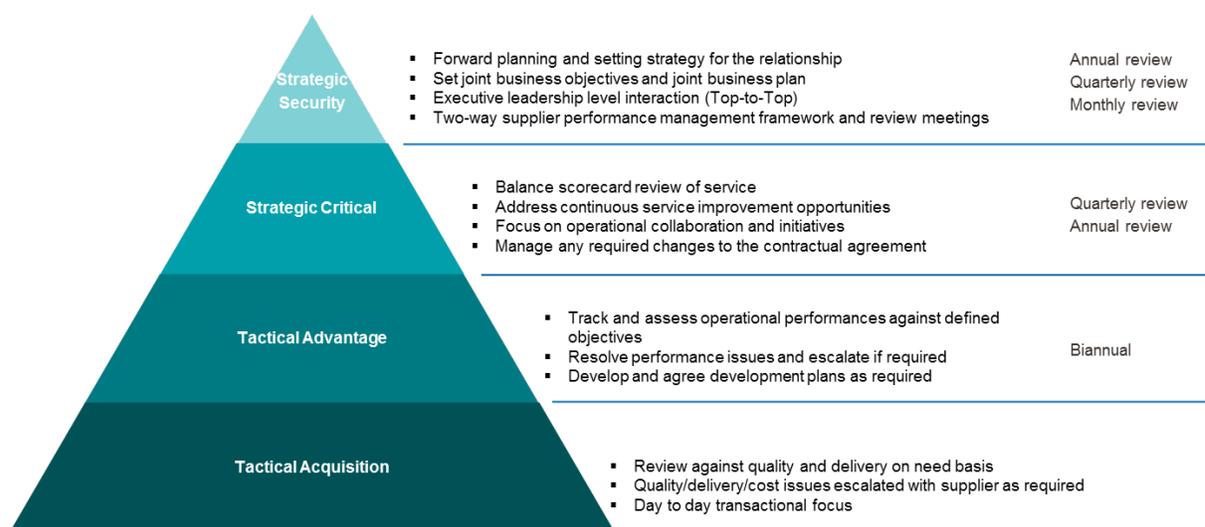


Figure IV – Supplier Positioning interlink with Contract Management approach

As illustrated in figure IV above, the Borrowers contract management approach and effort should link to the degree of criticality of the procurement to the project financed by the World Bank and/or others. However, the Borrowers contract management approach must also be proportional (based on supplier positioning matrix and nature, size, complexity, risk and value). Critical contracts, or those with greater degrees of unknowns (e.g. performance based contracts, design build operate contracts etc.) will require more active contract management, including the setting of key performance indicators (KPIs). Whereas lower risk contracts, or those with very clearly defined requirements will require less active contract management.

Section IV. Balanced Scorecard Approach

Borrower’s may wish to consider applying a balanced scorecard approach as part of their contract management plan. A balanced scorecard involves both quantitative, as well as qualitative measures. A balanced scorecard is a modern management technique to monitor, track, visualize, rate and benchmark the supplier/contractor/consultant performance, see Figures V, VI and VII below:

Objectives	Process
<ul style="list-style-type: none"> ▪ Monitor adherence of agreed upon KPI's ▪ Identify supplier performance shortfalls and excellence ▪ Benchmark suppliers' performance against peers ▪ Early identification of shortfalls allows proactive rather than reactive Supplier Management ▪ A quantitative factual approach with SMART metrics: <ul style="list-style-type: none"> ❑ Specific - easily defined and understood ❑ Measurable - easy to record and analyze ❑ Achievable - demanding but attainable ❑ Relevant - performance and business related ❑ Timely - regularly reported 	<ul style="list-style-type: none"> ▪ Each scorecard is tailored to the specific supplier relationship ▪ Suppliers will have a clear view of how their performance is being measured (shared and agreed during supplier on-boarding) ▪ Scorecard is completed by the Supplier Performance Management owner, with support from the appropriate team members in providing the data analysis ▪ Scorecard is reviewed with the supplier as part of the regular supplier performance review ▪ Outputs from review inform action planning to resolve low performance ▪ KPIs should be reviewed after 3 review periods and replaced if no longer applicable

Figure V – Balanced Scorecard Key Features

Balanced Scorecard Structure (example)

Delivery	Effectively and timely provide contractually obligated deliverables and outcomes
Support	Successfully meets contractual requirements relating to agreed SLAs
Quality	Effective and quality delivery of products and services
Partnership & Innovation	Commitment to collaborative working with World Bank Borrower, introducing new products, services and technologies to support World Bank’s business vision
Governance & Risk	Adherence to World Bank’s processes and reporting, compliance, risk and regulations
Financial	Transparency of financial information, efficient invoicing, level of travel spend

Figure VI – Balance Scorecard Structure example

Balanced Scorecard KPIs

KPIs are measures of contract performance that are aligned to the key outcomes that the procurement approach has been designed to deliver. The KPIs should be “SMART” indicators (Specific, Measurable, Attributable, Relevant, and Time-bound). They should also be directly linked to the Project Development Objectives (PDO), and the Procurement Objectives - this will help ensure contract delivery is fully aligned with the desired outcomes. The KPIs should be included in the Contract Management Plan (CMP), and if they link to incentive mechanisms/payment decisions, they will need to be agreed and included as part of the contract before it is signed. To effectively manage a contract, it is best practice for the Borrower to develop a CMP with KPIs, and milestone events (critical stages that will be used to measure and judge progress – usually linked to payments). The Borrower should monitor the performance and progress of contracts, in accordance with the CMP, and provide timely reports to the Bank on progress (as agreed by the Bank). Figure VII below details example KPIs a Borrower may wish to consider as part of a balanced scorecard approach:

Key Performance Area		KPI Description	KPI Measurement
1. Delivery	a. On-Time Delivery	Provide contractually obligated deliverables and outcomes on agreed dates	<ul style="list-style-type: none"> On time delivery of contractually obligated deliverables as per mutually agreed plans
	b. Documentation of Deliverables	Information is managed (shared, stored and communicated) in line with expectations defined in contract or as agreed between the parties	<ul style="list-style-type: none"> Deliverables uploaded to knowledge system according to agreed timeframe. Supporting/ working documents uploaded (Templates, weekly status reports, minutes of meetings, training manual, project progress etc.)
2. Support	a. SLA Performance	Successfully meets contractual requirements relating to agreed SLAs.	<ul style="list-style-type: none"> Number of SLA breaches, based on contractually agreed limits (e.g. service/hardware calls are completed on time)
	b. SLA Documentation	Information is managed (shared, stored and communicated) in line with expectations defined in contract or as agreed between the parties	<ul style="list-style-type: none"> Deliverables uploaded to knowledge system according to agreed timeframe. Supporting/ working documents uploaded (Templates, weekly status reports, minutes of meetings, training manual, project progress etc.)
3. Quality	a. Delivery Quality	Product/service meets quality acceptance criteria	<ul style="list-style-type: none"> Number of deliveries that have met acceptance criteria (e.g. Number of defects, functionality of application, User Interface)
	b. Supplier Personnel	Teams are made up of members with expertise relevant to our business including input from Subject Matter Resource (SMR)	<ul style="list-style-type: none"> Number of people proposed, rejected or replaced due to performance issues or not meeting the expectations Number of key project resources leaving and joining for the contracted services
	c. Customer Satisfaction	Level of satisfaction received from service recipients / business users	<ul style="list-style-type: none"> Rating received by service recipients / business users
4. Partnership & Innovation	a. Relationship	Committed to building and maintaining effective relationships with senior executives.	<ul style="list-style-type: none"> Number of no shows of supplier senior executives in steering committee meetings etc. Number of dedicated supplier account management visits
	b. Flexibility & Responsiveness	Demonstrates willingness and ability to respond to non-forecasted demand and ensure timely response to sourcing requirements	<ul style="list-style-type: none"> Number of requests met without raising CRs Timely response to sourcing and ad-hoc requirements "
	c. Continuous Improvement and Innovation	Improved processes, products and services that are credible and implementable (quick wins). New	<ul style="list-style-type: none"> Number of improvement and innovation recommendations that are accepted Adherence to supplier development plan

Key Performance Area		KPI Description	KPI Measurement
		product development (services) and innovative ideas for discussion and strategic decision making	
5. Governance & Risk	a. Governance	Adheres to supplier performance management principles and meets requirements for governance	<ul style="list-style-type: none"> Number of missed deadlines for inputs (agenda and pre-reads) and outputs (reports) Actions closed from previous review meeting as agreed timeline Disputes resolved amicably as per dispute resolution framework
	b. Risk Management Compliance	Understands and adheres to requirements for risk management. Establishes and implements adequate controls to mitigate risks	<ul style="list-style-type: none"> Risks are communicated as part of governance process. Risks raised with effective mitigation plans: <ul style="list-style-type: none"> Project related risks Supplier related risks
	c. Contractual Compliance	Successfully meets legal contractual requirements and statement of work specification	<ul style="list-style-type: none"> Number of contractual breaches identified
6. Financial	a. Invoicing	Contractually compliant with the time and quality for submission of invoices	<ul style="list-style-type: none"> On time submission of invoices with supporting documents as agreed Number of invoice errors identified in the past period
	b. Cost Transparency	Supplier provides transparency into its cost breakdowns	<ul style="list-style-type: none"> Cost (invoices, financial proposals) is provided with a detailed breakdowns of activities, services, products, quantities, etc.
	c. Travel Spend	Amount spent on travel with and/or Partner Airlines.	<ul style="list-style-type: none"> Amount spent on travel using qualified and/or Partner Airlines.
	d. Price Reduction/ Discount/ Saving Opportunities	Price reductions/ discounts/ savings are consistently applied	<ul style="list-style-type: none"> Number of instances of price reductions/ discounts/ savings and the amount Identified volume discounts and other price-reducing options
	e. Penalties	Financial penalties applied due to non-compliance to SLA, delivery schedule, product quality, etc.	<ul style="list-style-type: none"> Number of instances of financial penalties applied and the amount
	f. Change Requests/ Contract Amendments	Number and value of CRs/ Contract Amendments initiated since the previous scorecard or over the reporting period	<ul style="list-style-type: none"> Total number of CRs raised/ Contract Amendments, value & scope of each CR / Contract Amendment

Figure VII – Balanced Key Performance Indicators example

Section V. Contract Management Challenges, Risks and Potential Mitigations

Without effective Contract Management, Borrowers can struggle to deliver projects e.g. Borrowers will need to manage multiple contracts in order to construct a civil engineering project to time, quality and cost expectations. Figure VIII highlights typical challenges that Borrowers may encounter when developing an effective contract management approach:

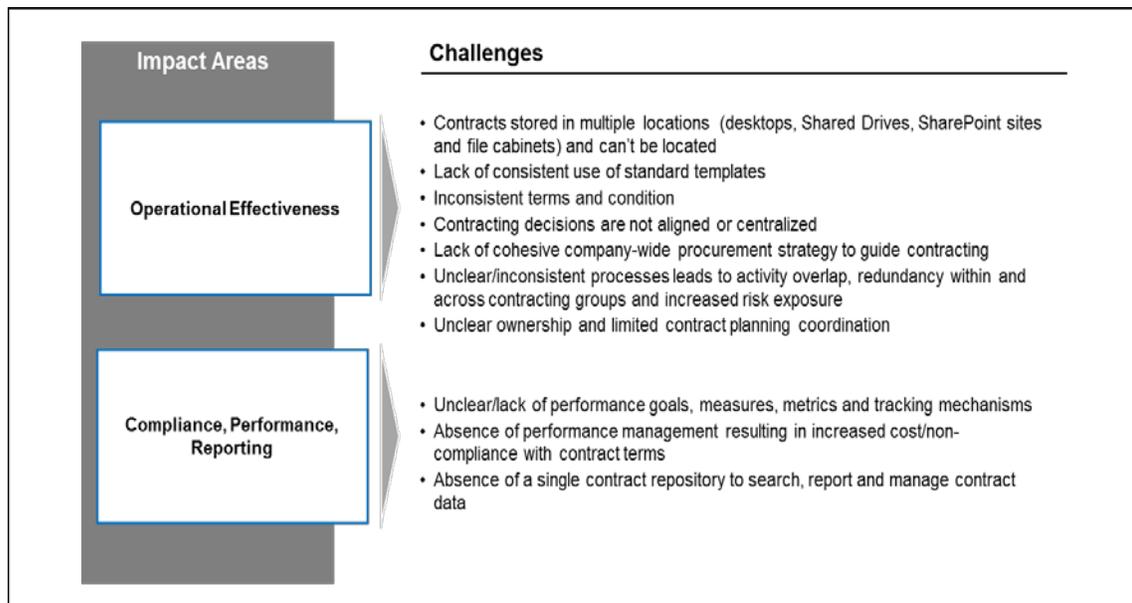


Figure VIII - Contract Management Challenges

To help avoid and/or to mitigate the risks associated with these Contract Management challenges, a risk management plan should be developed by Borrowers. The following are risk factors and mitigating actions that Borrower may consider for their risk management plan as part of a PPSD, and to monitor during the duration of the contract:

RISK 1 – LACK OF UPFRONT SETTING OF CONTRACT MANAGEMENT REQUIREMENTS:

Poor contract preparation and management leads to ongoing substandard delivery of goods, works, non-consulting services of consultants, with increased costs, and other inefficiencies.

RISK 1 - Example mitigations:

A. Start-up implementation:

- Current and proposed contracts are reviewed to ensure proper preparation and implementation, for example:
 - procedures, controls and working instructions and documentation;

- systems and data access control (administrative, operational, technical, reporting, financial etc.);
- management performance reports;
- nomination of contact persons from both the Borrower side and supplier
- training of supplier, as required; and/or
- getting supplier/consultant/contractor staff familiar with the site, factory, installations and Code of Conduct.

B. Monitoring and control:

- Supplier/consultant/contractor work is frequently inspected and audited on compliance to contract terms and conditions;
- Borrower's organization management monitor (standard) performance and Borrower-contractor working relationship and satisfy themselves that the management control system is efficient and effective;
- Meetings are organized in line with contract specifications to prevent avoidable loss or delay without consuming excessive time; actions and agreements resulting from meetings are documented;
- Management minimizes the opportunity for and cost of contract variations.
- Deviations and modifications are contractually settled according to the agreed contractual change procedure and are authorized correctly;
- Services outside the scope of the contract are not provided without prior written costing and agreement (using agreed contractual change procedure) and are then controlled in accordance with the contract; and/or
- A Borrower complaints or disputes procedure is in place as agreed with the Bank, which documents grievances and incidents where contract requirements have not been fulfilled. Appropriate action is taken in time to recover losses or to mitigate future claims as agreed with the Bank.

C. Performance management:

- The Borrower sets contract performance KPI's/objectives in the contractual agreement, and monitors the achievement based on actual results and developments e.g.:
 - efficiency and effectiveness improvements;
 - budget or cost reductions; and/or
 - realization of more fixed prices/tariffs and jobs in a specified time etc.

RISK 2 – LITTLE OR NO ENFORCEMENT OF CONTRACT DELIVERABLES, RESULTING IN PAYMENTS NOT APPROPRIATELY CONTROLLED OR MANAGED:

Borrower incurs avoidable loss by not appropriately enforcing terms and conditions of contract during the contract period, and there is insufficient monitoring of incorrect or over-payments.

RISK 2 - Example mitigations:

A. Goods, Work, Non-Consulting Services and Consulting quotation

- Assignment and quotation of individual jobs within the contract are properly compared;
- Responsibilities and authorities of new jobs are identified in accordance with the change control procedures of the agreed contract; and/or
- Job engagements are properly documented and confirmed.

B. Break-down, purchase and preparation

- Agreements are made on calculations, planning, inspections/maintenance and final preparation timing;
- Supplier/contractor/consultant performs a sufficient breakdown of contracted work, which may include:
 - applied concept or framework;
 - specified performance standards;
 - analysis of activities;
 - functional and technical specifications;
 - consideration of relevant regulations and warranties;
 - failure/malfunction solving procedures;;
 - decision scheme of rules with cost-benefit analyses;
 - research into modification or improvement possibilities; and
 - concept evaluation, review and improvement.
- Purchasing by contractor, where applicable, complies with agreed contract conditions:
 - specified services and performance specifications in line with top-level contract;
 - service adjustment/change control procedure;
 - testing and storage requirements for materials and goods;
 - compliance to order specifications (type, regulations, procedures and standards);
 - inspection of purchasing documents; and/or
 - verification of specifications of purchased goods.

- Contractor performs sufficient work or job preparation to avoid subsequent safety/competence claims, incidents or other inefficiencies:
 - ESHS briefings and relevant “authority-to-work” permits are given or issued to contractor staff prior to commencement of work;
 - required staff headcount and competences are determined; and/or
 - required sequence and critical path of activities (incl. inspections) are determined and assigned.

C. Execution

- Borrower’s organization staff monitors supplier / contractor / consultant activity to ensure that all work is carried out in accordance with the agreed order/contract specification and to avoid losses to Borrower’s organization or contractor and subsequent contractor claims;
- Logistics arrangements and procedures, where applicable, at worksite are in place and actively managed to avoid congestion, downtime/demurrage and claims. Consider:
 - transport and distribution;
 - goods receiving and inspection on conformity with purchase order;
 - stock control (physical and administrative);
 - packing and storage of (repaired) products; and/or
 - goods shipping.
- Contract assets are recorded on receipt in a standard data system and tracked to avoid unauthorized use or disposal. Consider:
 - general goods supplied;
 - critical and/or chemical consumable goods;
 - items removed from site for repair or storage;
 - contractor equipment and/or hired plant brought onto site; and/or
- Hours worked by contractor / consultant staff are accurately recorded.

D. Inspection and release

- Before handover and release occur, the work performed and assets delivered are formally:
 - checked, inspected or tested to ensure that they comply with functional and technical specifications; and/or
 - then authorized and released by a responsible official.
- Inspection and verification work performed by contractor complies with contract specifications. Consider that:
 - specified inspection and verification methods and instruments are used;
 - checks, inspection and tests are formally recorded; and/or
 - inspection and test instruments are registered, calibrated and comply with applicable standards and regulations.

E. Invoicing and payment

- Supplier/contractor/consultant claims for payment are adequately verified by Borrower's organization in accordance with the agreed contract, for example:
 - work invoiced is confirmed by Borrower's organization via comparison with activity and progress measurements (e.g. Gantt charts, milestone charts or time sheets);
 - contractor / consultant time sheets and claims for labor are reconciled to adequate records, then signed off for authorization at the agreed level;
 - invoices for work performed are checked prior to payment by;
 - (1) comparison with supporting documentation authorized by a responsible party; and
 - (2) verification that amounts charged/quality delivered etc. are as specified in the agreed contract; and/or
 - a responsible party, who checks that the previous controls have been fully performed and that contractor / consultant has provided all necessary documentation as specified in contract, approves payments.
- Auditor/Controller/Oversight function ensures that procedures have been followed and that Borrower's organization does not pay unjustified charges:
 - an up-to-date specimen signature listing is available to persons responsible for processing invoices and credit notes;
 - adequate procedures ensure that all rebates due are received;
 - invoices and credit notes are accurately coded/recorded;
 - a contract control account exists to record all related costs and is reconciled on a regular basis;
 - costs associated with the contract and payments are properly reported for management's attention; and/or
 - a process exists to agree on retention amounts for disputed items which are charged unfairly or are still outstanding.

RISK 3 – NO CONCLUDING CONTRACT REVIEW, SO ACTUAL RESULTS ARE NOT CLEAR:

No final review of contract before it expires so the final result is unclear, no benchmarks of supplier/contractor/consultant performance lead to poor continued execution of future contracts - and thus more avoidable losses for the Borrower continue.

RISK 3 - Example mitigations:

- Final contract reviews aimed are performed before the contract has expired, focusing on achievement of any KPI's and agreed deliverables;
- Interim and post-completion contract reviews are carried out; lessons learned are defined and demonstrably implemented; and/or

- Borrowers benchmark their practices against other similar organizations and can demonstrate that this has improved local contract (administration) practices.

RISK 4 – POOR CONTRACT REPORTING AND COMMUNICATION PROCESS LEADS TO CONFUSION, POOR PERFORMANCE AND MISSED OPPORTUNITIES:

Significant internal and external contract information may not be captured, reported and communicated in a productive, consistent, confidential and timely manner.

RISK 4 - Example mitigations:

- Borrower has determined and scheduled the format, content and frequency of reported information in accordance with defined business plans (objectives, KPIs and actions) to ensure effective, efficient, consistent, confidential and/or timely management reporting (information model or reporting structure);
- Proper reports are timely available to enable employees and managers to carry out their duties and responsibilities;
- Borrower acts promptly on problems regarding proper reporting (as planned) to enable adequate communications and process performance control;
- Communication plans and procedures are in place to facilitate and control the overall communication process; and/or
- Borrower has implemented various communication channels to enable:
 - communication of all significant business plans that impact the contract, organizational performance results and issues as appropriate (top-down)
 - promotion of an open/free and safe environment for employees to raise issues, opinions, improvement ideas etc. (bottom-up).

RISK 5 – POOR CONTRACT MANAGEMENT MEETINGS LEAD TO CONFLICT, MISUNDERSTANDING, AND BAD RESULTS:

Inefficient and ineffective contract management meetings may frustrate the monitoring and achievement of objectives, cause avoidable conflict between parties, and frustrate the overall communication process.

RISK 5 – Example Mitigations:

- Borrower has implemented a contract management meeting structure to enable efficient and effective communications and process performance control, covering:
 - all relevant departmental or process participants;
 - appropriate frequency;
 - standard agenda listing in line with defined procurement strategy and policy plans;
 - required management reports and business/action plans; and

- required minutes and ‘action & decisions overview’.
- Proper meetings are held in a timely manner to enable employees and managers to carry out their duties and responsibilities in accordance with the agreed contract; and/or
- Borrower acts promptly on problems regarding ineffective and inefficient meetings to ensure proper communications and process performance control.

RISK 6 – POOR SENIOR MANAGEMENT CONTROL REINFORCES POOR CONTRACT MANAGEMENT PRACTICE ON THE GROUND:

The specific contract management approach is not effectively monitored or controlled against agreed/expected organizational performance objectives and standards.

Example mitigations:

- Borrower senior staff (and the Bank as appropriate) supervise the process operations in a sufficiently detailed manner to ensure adherence to applicable policies, procedures and contracts/Service Level Agreement’s;
- Borrower senior staff (and the Bank as appropriate) frequently reviews actual performance against (budgeted) objectives and standards (including analyses of deviations) to ensure the achievement of objectives; and/or
- Borrower senior staff (and the Bank as appropriate) reviews and maintains a detailed action plan (which includes complete indication of the responsible person, due dates, follow up etc.) to ensure effective follow-up of any improvement actions to achieve objectives.

Section VI. Contract Management Plan (CMP)

CMP definition

Per Annex V, Procurement Regulations for IPF Borrowers, Section 3. Specific Elements of the PPSD. The PPSD provides the basis for the Borrower to prepare the Procurement Plan and the subsequent CMP. The PPSD will identify those contracts requiring a CMP. For contracts identified in the PPSD, the Borrower shall develop a CMP with KPIs and milestone events. The Borrower shall monitor the performance and progress of contracts, in accordance with the CMP, and provide timely reports to the Bank. The Bank may use the information gathered to benchmark performance.

Typical content of a CMP

As described in Annex XI, Procurement Regulations for IPF Borrowers, for contracts identified in the PPSD, the CMP shall typically contain:

- identified potential risks (such as delays in the contractor's right of access to site, payment delays, and other defaults in the Borrower's contractual obligations that could potentially lead to contractual disputes), and their mitigation;
- key contacts and roles and responsibilities of the parties;
- the names and contact details of the key contacts for each party;
- ensuring that each party has established the necessary authorizations and delegations for its personnel at the beginning of the contract is an important prerequisite to ensuring that all contracting decisions are valid and enforceable;
- communication and reporting procedures;
- key contractual terms and conditions;
- contractual milestones, including critical path (identified to ensure early detection and mitigation of issues), and payment procedures consistent with contractual provisions;
- key contract deliverables, identified and properly described, and updated to account for change orders during the execution of the contract;
- KPIs and a description of the measurement process (if required);
- contract variation/change control mechanisms; and
- record-keeping requirements.

Timeframe for a CMP

A CMP should be initiated during the period when the contract is being written, and be fully complete at the time the contract is signed. This is important so that all parties fully understand and are clear on how measurements will be applied (in particular KPI's and any linkages made to payment decisions).

Section VII. Contract Management Governance

Figure IX, based on the Borrower’s determination of the criticality of the contract (using the supply positioning model in the PPSD Guide, see also section IV), illustrates the approach that may be used to set the overall contract management governance agenda on an annual, bi-annual, quarterly or monthly basis as appropriate. This example is only a guide and should be adjusted to meet the Borrower’s needs on a project case by case basis.

Supplier Governance Agenda for Governance plan					
Governance Agenda			Governance Plan*		
Agenda #	Agenda for meeting	Desired Outcome	Strategic Security	Strategic Critical	Tactical Advantage
1	Minutes of previous meeting	Confirm actions from previous meeting have been completed	A/Q/M	A/Q	B
2	Core business update	Outline of each parties business priorities for the forthcoming year	A/Q	A	-
3	Set joint objectives and joint business plan	Agree what both parties wish to achieve from the relationship in the forthcoming year and how they will work together to achieve the stated objectives	A	A (optional)	-
4	Review joint business plan	Review progress against the agreed 'Joint business plan'	A/Q	A (optional)	-
5	Balanced scorecard	Assess the supplier’s overall performance against targets in their balanced scorecard	A/Q/M	A/Q	B
5a	Delivery & Support	Review deliverables (on-time delivery), SLA performance and knowledge management	A/Q/M	A/Q	B
5b	Quality	Review delivery quality, supplier personnel and customer satisfaction	A/Q/M	A/Q	B
5c	Partnership & Innovation	Review delivery relationship, flexibility and continuous improvement & innovation	A/Q/M	A/Q	B
5d	Governance & Risk	Review delivery governance, risk management & compliance and contractual compliance	A/Q/M	A/Q	B
5e	Financials	Review invoicing, cost transparency, travel spend, price reduction/discount, penalties and change requests	A/Q/M	A/Q	B
6	Voice of supplier	Review outcome of "Voice of supplier" and any action items from the same	A	A	-
7	Contract landscape	Review current contract status of supplier including contract value, program status, RFP status etc.	A/Q	A/Q	B

Figure IX – Example topics for Contract Management Governance meetings with indicative frequencies based on criticality

Records

The Borrower shall retain all Procurement Documents and records of procurements financed by the Bank, as required in the Legal Agreement.

Section VIII. Supplier Relationship Management

As part of an organization wide and/or Government integrated approach to contract management, some Borrowers may wish to consider adopting a broader Supplier Relationship Management (SRM) approach.

SRM is a modern, strategic procurement approach that some organizations, and Governments use to improve the overall performance of their key strategic suppliers/contractors/consultants. There are many examples of countries using SRM to improve the overall performance of public procurement, by targeting their largest and most significant suppliers for specific improvement programs (usually focused on cutting unnecessary costs, improving procurement arrangements, and adopting agile procurement processes). SRM is often part of a broader procurement development, modernization or reform program – as to deliver it effectively requires resources, commitment and high degree of procurement maturity. If Borrowers are interested in SRM, then they should contact their local World Bank representative to discuss opportunities.

SRM involves among other things, effective communication of contract management metrics used to measure and manage the supplier's/contractor's/consultant's performance across all key performance dimensions including cost, quality, and delivery. Evaluating performance enables shared return and operational excellence. It also enables performance to be integrated into future procurement decisions (by the supplier/contractor/consultant citing relevant references/previous experience in their bid documents).

Key objectives of an SRM approach may include:

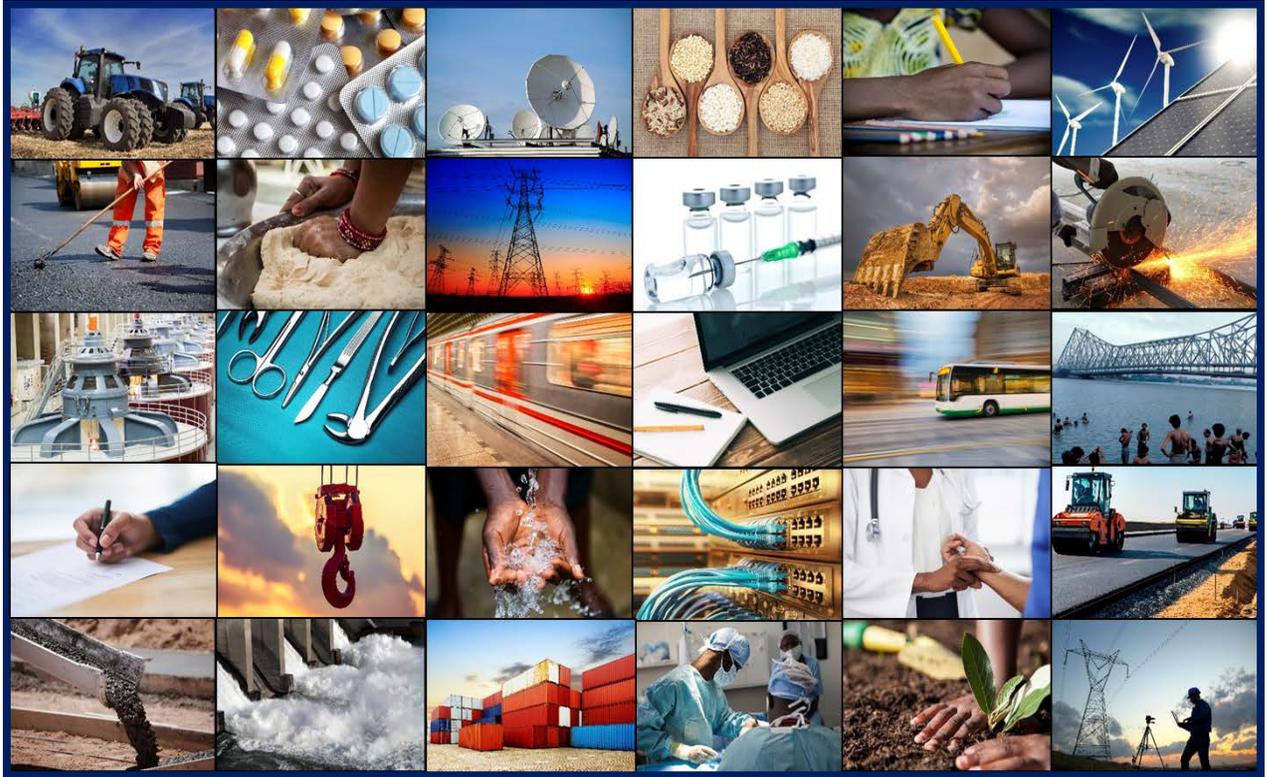
- Defining and updating KPIs for various supplier/contractor/consultant services and monitor performance against agreed KPIs;
- Identifying areas where the supplier/contractor/consultant is not performing to expectations and working/partnering with the supplier/contractor/consultant to identify improvements;
- Providing a standard, comprehensive view of supplier/contractor/consultant performance across the Borrower's organization and/or country as a whole;
- Improving visibility of strategic supplier/contractor/consultant engagement across the Borrower's organization and/or country as a whole;
- Setting clear roles, accountability and responsibilities for owning, managing and driving innovation and quality performance; clear ownership of the relationship with strategic suppliers/contractors/consultants;
- Effective and open communication and collaboration with suppliers; regular meetings and performance reviews; and/or
- Defining the appropriate escalation routes to address issues/ disputes in supplier/contractor/consultant performance; and effective risk management.

Key SRM activities may include:

- Continuously and automatically monitor supply base performance and compare to established targets and benefits based on balance scorecard;

- Proactively manage supplier/contractor/consultant performance with emphasis on improvement (in particular eliminating unnecessary costs/processes);
- Mandate policy and procedures regarding measurement of contract compliance and penalties for non-conformance;
- Establish clear visibility into negotiated contract price/service level agreements and identified resources are responsible for ensuring performance levels are being met;
- Utilize balanced scorecards and metric dashboards developed mutually with suppliers/contractors/consultants and use it to communicate performance expectations and opportunities for corrective /preventive actions;
- Compare supplier/contractor/consultant execution data from procurement activities to contract data for performance evaluation;
- Conduct periodic meetings with top level supplier/contractor/consultant officials to review and/or reward performance;
- Centralize electronic storage of contract performance history, meetings and current agreements; and/or
- Automate data input from reliable data sources to drive the reporting of aggregate supplier/contractor/consultant performance.

SRM is a complex topic, and must be managed carefully to avoid any perceptions, real or otherwise of conflict of interest, or fraud and corruption. However, when managed appropriately SRM can deliver significant improvement benefits to the buyer and supplier/contractor/consultant. The World Bank has many examples of SRM approaches, if Borrowers are interested in SRM they should contact their local World Bank representative to discuss opportunities.



For additional information about the World Bank Procurement Framework, including Standard Procurement Documents (SPDs), Guidance, briefing, training and e-learning materials see www.worldbank.org/procurement

