

# GUIDANCE ON SHOPPING METHOD OF PROCUREMENT

## General

1. This note gives guidance on the use of shopping as a procurement method, which is prescribed by the *Procurement Guidelines*, para. 3.5. It is considered as a local procurement method conducted within a borrowing member country, although foreign bidders from other ADB member countries have the right to offer quotations in a shopping procedure. Shopping is intended to be a simple and rapid procurement method, but is one of the least competitive procurement methods and may be abused.

## When is Shopping Appropriate?

2. Shopping may be used when more competitive methods are not justified on the basis of cost or efficiency such as:

- (a) To procure small amounts of off-the-shelf goods or standard specification commodities;
- (b) To engage contractors for simple civil works of small value; and
- (c) To procure contracts with a combination of off-the-shelf goods and very urgent minor civil works such as in emergency projects or for urgent relief-type operations including re-establishment of vital services like utilities, communications, shelter, and vital supplies which stem from disasters or conflict.

3. Because of the risk of abuse in procurement under shopping, the use of this method is restricted to cases when the justification for it is beyond contention. Borrowers may not use shopping only as a way to bypass more competitive methods or divide large procurements into smaller contracts solely to allow the use of shopping.

4. When the nature of the specifications is complex or the type of procurement requires an elaborate, detailed evaluation system (i.e., efficiencies, delivery times, etc.) that needs substantial documentation, or when the work requires more than simple construction tools and equipment, a formal bidding process instead of shopping is used. Shopping is not appropriate in these cases, because it is a method that should not require complex documentation or all the formalities of a bidding process.

## Thresholds

5. Generally, the threshold for shopping does not exceed \$100,000 but project teams may set lower thresholds when the executing agency (EA) is considered as a medium or high risk one in administering procurement on the basis of the capacity assessment.

## Number and Origin of Quotations to be Compared

6. The Guidelines requires the purchaser/employer to obtain and compare at least three quotations to establish reasonableness of price. Comparison of two quotations is justified only when there is evidence satisfactory to the Bank that there are only two reliable sources of supply. It is possible that not all the suppliers invited will respond to the request for quotations. To minimize the risk of getting only one or two quotations, EAs are advised to initially request or invite more than three quotations. EAs may also at the time of the request, verify whether those being invited will make an offer or not. EAs may also combine direct invitations with local advertisements.

## **Firms to be Invited**

7. The borrower exercises due diligence to satisfy itself that the firms invited to quote are reputable, well established, and are suppliers of the goods or services being purchased as part of their normal business. In case the borrower receives unsolicited quotations, these may be accepted after carrying out a similar due diligence exercise to verify the nature and reputation of the firms. Civil works contractors registered, not with national agencies, but with local government units may be invited. It is preferable not to invite the same firms in case of several contracts under shopping, except if other firms are not known to exist in the project location or if some firms perform exceptionally well. In all cases, due diligence includes checking against ADB's sanctions list. The process should be open to whoever wants to bid, however, even if not invited provided they are reputable and well established suppliers.

## **Form of Requests**

8. The purchaser/employer requests quotations by letter, fax, telex, electronic messaging, etc., (with proof of receipt and record keeping). The request includes the description and quantity of the goods, as well as the required delivery time and place for the goods or services, including any installation requirements, as appropriate. The request indicates the date by which the quotations are needed. In extremely urgent cases, described in para. 2 (c) (restoration of vital services), quotations for civil works shall normally be in the form of a lump sum based on cost estimates carried out by the borrower, or if not possible, by the contractors. Alternatively, quotations may be requested in the form of unit rate prices (if work quantities are available with a reasonable degree of reliability) or "cost plus fee" arrangements (when quantities cannot be reasonably determined in advance).

## **Prices and Currencies**

9. Prices for goods (including previously imported items) are requested to be quoted EXW (ex works, ex factory, ex warehouse ex show room or off-the-shelf, as applicable), including all custom duties and sale and other taxes already paid or payable on the raw materials and components. Prices for civil works are requested, inclusive of all taxes and duties payable by the contractor. Prices are to be quoted in the local currency.

## **Submission of Quotations**

10. Suppliers submit their quotations in writing, i.e., by fax, telex, letter, or electronic messaging (copies to be kept for the records). No bid or performance securities are required. The Employer should exercise flexibility with requirement for strict time and date for submission of quotations and for public opening, although normally requests for quotations indicate the deadline for submission of quotes, within one or two weeks of the initial request. In case the purchaser/employer has not received at least three quotations within the time set, it may verify with the suppliers who did not submit quotations whether they intend to do so and how soon. Unless there is extreme urgency or there are already three or more quotations available, the client may give a reasonable amount of additional time, say three more days, to get additional quotations. In such a situation, the EA shall not open or evaluate the quotations already submitted until the additional time has lapsed. Thereafter, the EA may proceed with the comparison of the proposals received.

## **Comparison of Quotations**

11. Invited suppliers/contractors may submit only one quotation. Quotations are compared in terms of prices up to the final goods destination, or at works location. This may require adding to the quoted price for goods, the estimated cost of inland transportation and insurance, if any. If the EA intends to consider

other factors than just lowest price, the intention should be indicated in the request for quotation. For example, a slightly higher price may be justified for faster delivery or immediate availability in cases of extreme urgency, when late delivery may result in heavy consequences for the purchaser. Thus, the minimum overall evaluated price would result in award, i.e. a combination of price and delivery time, in which case delivery time would be evaluated in monetary terms and added to price.

12. The Purchaser/Employer shall hold information regarding the quotations in strict confidence until award is made. The Purchaser/Employer may clarify quotations with any of the invited firms if necessary but shall not mention quotations from other invited firms.

### **Record of Award**

13. The client documents the award decision and its rationale and keeps it for review and audit by the Bank, as needed. The record contains also the list of firms invited the reason why the firms were invited, and the list and value of the quotations received. The EA must clearly demonstrate that the award is based on sound economic criteria.

### **Review Requirements**

14. Because of the small value and nature of contracts, procurement under shopping is normally subjected to the Bank's post review instead of prior review. However, because of the risk of abuse, shopping needs close supervision. The project division may conduct post review of contracts during the Bank supervision missions, but in any case should ensure that a representative sample of procurement carried out under shopping by each EA is reviewed.

### **Questions**

15. Any questions on use of the shopping method should be addressed to the Director General, Operations Services and Financial Management Department.