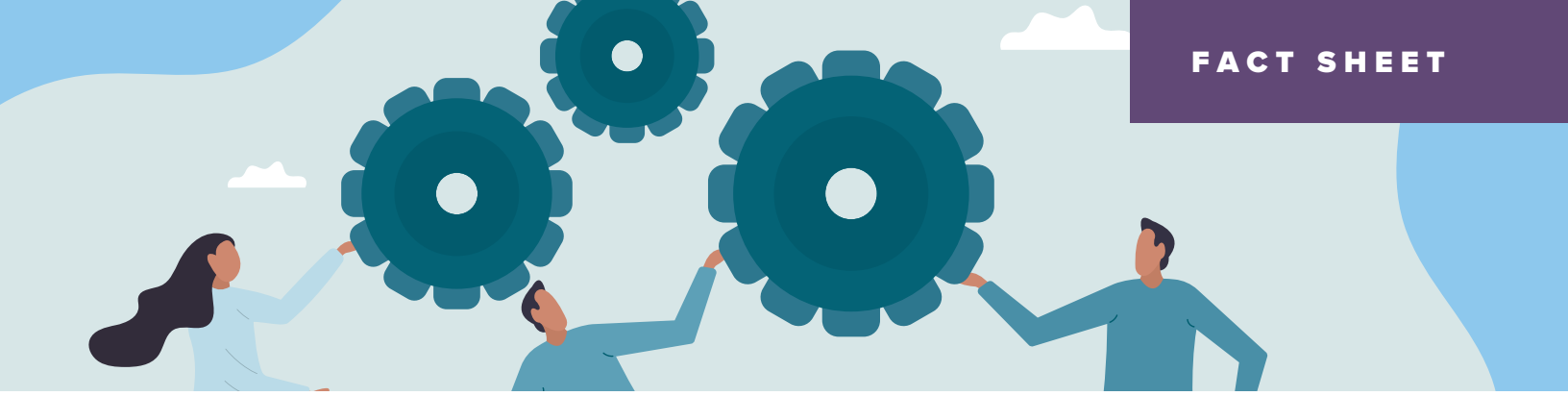

FACT SHEET

AGGREGATION IN PROCUREMENT

Purpose

The World Bank's Procurement Regulations are guided by the following core procurement principles: value for money, economy, integrity, fit for purpose, efficiency, transparency and fairness.

In applying these principles, Borrowers should consider opportunities to maximize value for money, achieve economies of scale and improve efficiency of procurement, while preserving fitness for purpose, integrity, transparency and fairness. Aggregated procurement is a key measure that should be considered in assessing such opportunities.

This Fact Sheet highlights the opportunities that aggregation may offer, providing practical tips to assist Borrowers to assess its use as part of a procurement strategy.

What is Aggregation?

Aggregated procurement refers to the process of combining discrete elements of procurement requirements, lots or processes together into a combined package to achieve:

- **Cost Savings:** By combining demand, Borrowers open up the potential to negotiate discounted pricing, reduce shipping costs and reduce the cost of the procurement process itself.
- **Improved market attractiveness:** Aggregating procurements or lots together may attract different suppliers to bid. For example, for works, international bidders will typically need a procurement to be at least US$10M to be worthwhile bidding, and in markets where supply is limited the figure may be even higher.
- **Improved Contract Outcomes:** Aggregated procurement increases the size of orders placed with a supplier, and so has the potential to enhance competition by attracting new suppliers, which often leads to better contractual terms, additional support, or more innovative solutions.
- **Streamlined Processes:** Standardizing procurement processes across countries or projects can lead to greater speed of procurement and operational efficiency.

Grouping similar procurements together, such as works, goods or services across different projects that are specified in the same or a similar way or have a common objective, presents enormous potential to improve value for money by increasing the attractiveness of procurements, mitigating or removing the risk of incompatibility by unifying specifications, and increasing efficiency.

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Aggregation may take several forms, for example:

- **Programmatic pipeline of opportunities:** Creation of a clear pipeline of projects within a program such as in a Multi-Phase Programmatic Approach (MPA) is, in itself, a form of aggregation if the opportunities are presented to the market in a planned and coherent fashion;
- **Common bidding documents:** where the required output is the same across several projects and could be specified in the same way, bidding documents could be prepared on an overarching bases and used by different Borrowers to procure their own requirements through open competition; and
- **Common/pooled procurement process:** The basic structure of each procurement required to deliver an overall program or group of projects with common requirements could follow a standard approach so that the bidder experience is similar from project to project.

The above forms of aggregation could be considered for any group of projects with shared objectives, assuming that there is buy-in from all participating Borrowers. Other forms of aggregation could be considered depending on the specific circumstance:

- **Prime vendor (single common supplier):** The required output in different projects is the same or similar and could be procured from a single source – taking a 'horizontal' procurement approach. For example, if a group of projects require the procurement of a key element of the requirement, such as solar panels or materials required for energy distribution or metering, these could all be procured via open competition by a single procurer on behalf of all other Borrowers in the program;
- **Single procurement process separated into lots:** As above, but with individual Borrower requirements placed into lots so that each could make their own selection based on the bids received, and where a bidder may be selected to deliver more than one lot;
- **Regional Framework Agreement:** A framework-type approach is used to identify bidders able to provide the required output and taking them to a specific stage (e.g., pre-qualification, initial selection) on behalf of all projects, after which individual procurers can select from the shortlist of suppliers; or
- **Regional Bank-Facilitated Procurement (BFP):** As above but using an approach like BFP whereby specific goods or services are pre-selected and made available to procurers via direct contracting. Here, a 'catalog' could be offered to procurers who would then form the contract with the chosen supplier without further competition.

The aggregation approach should be dependent on the degree of commonality across requirements. This should include the timelines involved, the circumstances of each project or program/MPA, the appetite and ability of Borrowers to work collaboratively in this way and/or on the availability of a central resource that can act on behalf of multiple Borrowers.

When should Aggregation be considered?

Opportunities for aggregation should be considered as early as possible.

Program Level: where, for example, an MPA is being used, or where a group of projects of a similar nature are being taken forward, there may be opportunities for exploring cross-project aggregation among multiple Borrowers, or across different projects being taken forward by a single Borrower.

Project Level: the project PPSD should assess the potential for the use of aggregation within a project,

setting out how opportunities will be assessed in more detail as procurements progress. This could involve combining lots or permitting bidders to bid for multiple lots in a procurement.

Procurement Plan Level: once a Procurement Plan for an individual project has been developed and individual elements of project procurement have become known, it may become easier to identify specific aggregation opportunities.

It may be possible to group together procurements of more complexity or which form a core element of the overall requirement (for example, solar panels that are key to a number of energy projects with a shared geography and timeline), or to group more simple 'ancillary' items, such as vehicles or IT equipment.

Aggregation and PPSDs

PPSDs should assess the pros and cons of different approaches to aggregation, including examples of where such aggregation has or has not delivered benefits. Feasibility will be different from country to country – there is no 'one size fits all'. Individual projects and procurements will need to consider options carefully within the specific context.

The PPSD, which is a dynamic document, can be adjusted according to the outcome of this analysis and as procurement plans are developed and aggregation opportunities emerge. Where aggregation opportunities exist at a Program level, an individual PPSD can be adjusted accordingly.

In particular, Early Market Engagement that takes place within the context of PPSD development presents a valuable opportunity to test procurement strategy/ approach and refine potential aggregation approaches based on market feedback.

Key considerations for effective Aggregation

In considering whether to pursue opportunities of aggregation, a series of tests can be applied to assess the potential for benefits to be reaped, these tests being:

1. **Can aggregation achieve economies of scale?** For example, will pursuing this approach reduce the overall cost of the procurement process?
2. **Will aggregation drive better pricing?** For example, will increasing the size and scope of procurements of aggregated elements allow suppliers to offer discounts?
3. **Will aggregation enhance competition?** For example, will an aggregated, and therefore larger, package of procurements be attractive to a wider or higher caliber range of suppliers?
4. **Can aggregation allow for accelerated project delivery?** For example, can this approach shorten procurement timeframes for later elements within a program by adopting tried and tested procurement approaches or specifications used in earlier procurements?
5. **Can aggregation lead to improvements in quality?** For example, will the wider range of suppliers attracted to a larger procurement also lever in innovation and experience?
6. **Can any additional risks created by aggregation be successfully mitigated or managed?** For example, can the risks associated with alignment of multiple governance processes be managed so that overall timeframes are not affected? Will the works contractor seek unreasonable transfer of risk?

If an opportunity for aggregation passes one or more of these tests, it should be explored further. However, if the opportunity is likely to be detrimental to any of the test factors, then a Borrower will need to consider carefully and in the light of wider project objectives whether there is merit in aggregating.

Aggregation Risks and Mitigations

Aggregated procurement, while beneficial in many ways, can introduce risk, especially when projects span different countries or regions with different legal frameworks. By being aware of these risks and implementing appropriate safeguards, organizations can successfully leverage the benefits of aggregated procurement while mitigating potential downsides.

Potential Risk	Mitigations
Supplier Dependence and Risk Concentration – Aggregation often means placing large contracts with a smaller number of suppliers, which can create dependency on those suppliers. If a supplier faces financial instability, production delays, or quality issues, it could have a significant impact for several Borrowers.	• Diversifying suppliers within the aggregation strategy or including contract clauses that address supply chain disruptions can reduce this risk. • Use of Joint Ventures and supply chain and sub-contracting diversification, as is common within Bank projects, will mitigate this risk.
Political and Geopolitical Risks – in cases of cross-border aggregated procurement, political instability or geopolitical tensions in one country can disrupt the entire procurement strategy. Changes in government, trade restrictions, or sanctions can suddenly affect the ability to procure certain goods or services from specific regions.	• Including "force majeure" clauses in contracts that account for geopolitical events or political changes can offer some protection. Diversifying suppliers and sourcing from areas less prone to supply chain risk can also help.
Logistical Complexity and Delays – managing logistics for aggregated procurement, especially when orders span multiple countries, is complex. Shipping delays, customs issues, and local infrastructure challenges can cause significant disruptions in supply chains.	• Effective supply chain management systems, including clear communication with suppliers and logistics partners, can help anticipate and manage delays. Additionally, building in buffer time for transportation and customs clearance is good practice. • Refer to the Bank's Bank Supply Chain Management Guidance for more details of mitigation of this risk.[2]
Delays and project Timescale issues – aggregation causes the procurement to slow down while consensus is sought among Borrowers at every stage.	• Agreement up front on chosen procurement process and documentation and delegation of certain decisions to a central team or Project Management office (PMO) acting on behalf of more than one Borrower can mitigate this risk.
Supply chain management risks – where an aggregated approach reallocates responsibility for a key element of the supply chain – for example, where a key commodity is procured under a separate procurement rather than via an EPC approach, suppliers may not be willing to take on the resulting interface risk, preferring to adhere to an EPC structure and retain control.	• Careful consideration of benefits versus drawbacks and a focus on interface risk and treatment of consequential losses in contractual documents can help assess the significance of this risk.

2 https://thedocs.worldbank.org/en/doc/1c3b517f003b53a2e2e170e93124be84-0290032023/original/World-Bank-Supply-Chain-Management-Guidance.pdf

Potential Risk	Mitigations
Competition – scaling up contracts/aggregating may deter or encourage firms from different regions depending on their context, creating a risk that key players who could deliver the requirement in theory may be deterred or excluded. Bigger contracts may attract international suppliers, but exclude local firms. If contracts are too small, internationals won't be interested.	• Mitigation comes through scaling the contract appropriate to the context and targeting the contract to the appropriate market. Assessment of likely impact should take place at individual contract level. Early market engagement can help identify how best to target the opportunity to the right market.
Market capacity – bringing multiple or larger aggregated contracts to market could create capacity issues among suppliers.	• Procurement launches should be carefully planned, incorporating market feedback, so that as many players as possible can participate.

Conclusion

Every project will contain some potential for the use of aggregation, and in many cases will offer considerable benefits. However, applicability will vary from project to project. By using the tests set out above within the context of PPSD development, considering the risks and their mitigations and carrying out early market engagement, a Borrower can assess whether aggregation has the potential to enhance the procurement process and offer improved value and quality within project timescales.

Next Steps

- Borrowers should fully consider opportunities for aggregation within the context of PPSD development.
- Early market engagement plan should be drawn up that include consideration of the potential for aggregation.
- Engagement with Bank teams will support this process and allow access to examples of successful aggregation and risk identification.

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