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CHAPTER 1: PROJECT AND PROCUREMENT INITIATION

1.1 WHAT IS A PROJECT? – WHAT IS PUBLIC PROCUREMENT? – THEIR RELATIONSHIP

In the literature **project** is defined in general as “a temporary endeavour undertaken to produce a unique outcome.”

In more concrete terms, a project exists only after a decision has been made to address a specific need, funding is available to support its execution, and measurable goals and objectives are well defined. A project has a defined start (the approval, or decision to proceed) and a defined end (the achievement of the goals and objectives). It is a one-off activity and would not normally be repeated. All projects are different but they have certain common features which are critical for their success, especially:

- A clear and well-defined scope that can be achieved in a limited time
- A clear and an agreed deadline for the outcomes to be achieved
- Resources that are made available to achieve the outcomes of the project
- A project owner who expects the outcomes to be delivered in time and who will be responsible for the management of the investment, bear all related costs, and be liable for the safe functioning
- An experienced project team and in particular a project manager whose capabilities match the complexity of the project
- Defined and visibly managed processes that are appropriate for the scale and complexity of the project

There are three key dimensions to a project, commonly known as the “**magic triangle**” of a project, characterised by the following figure:

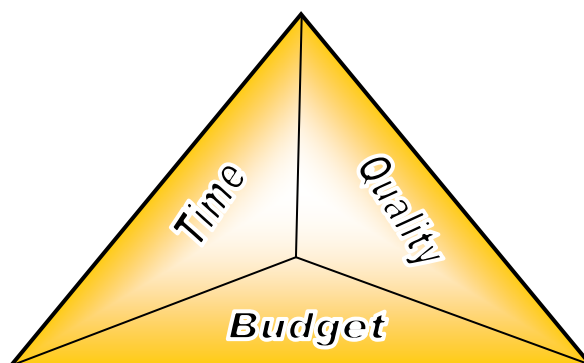



Figure 1-1: The “magic triangle” of a project

 <p>REPUBLIC OF CYPRUS TREASURY OF THE REPUBLIC Public Procurement Directorate</p>	<p>PUBLIC PROCUREMENT BEST PRACTICE GUIDE</p>	<p>Page 4 of 75</p>
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These three dimensions (time, quality, and budget) are interdependent. This means that if the value of one changes then the value of the others will change accordingly. For example, in order to maintain the quality when the time decreases, the budget should be increased.


Examples for different types of public projects are:


- The Public Procurement Directorate (Treasury of the Republic of Cyprus) decided to undertake a project titled: Measures to Develop the Implementing Capacity of the Cypriot Authorities in applying the European Public Procurement Legislative Package until the summer of 2007. The project consists of the following activities:
 - Improving implementing capacity. This will be achieved by establishing an action plan for the improvement of the national public procurement system, developing a Public Procurement Best Practice Guide/ System and a Code of Ethics manual and finally by developing a Training Strategy and conducting training seminars for people involved in public procurement process.
 - Harmonization of National Legislation with the European Directives in public procurement.
 - Preparation of e-procurement study to be used for procuring at a later stage the implementation of the e-procurement system.

The estimated project budget is € 1.100.000.

- A Municipal Sewage Council plans to expand and upgrade the waste water treatment facilities within the next three years in order to cover the continuously increasing drainage needs (extension of Municipality's region, increase of population, connections and incorporation of new networks), as well as to protect and upgrade the quality of the marine aquatic environment, which is characterised as a "receiver" of industrial wastes. The total budget of the project is estimated at €5.500.000 and the duration of the construction at 3 years.
- The Department of Information Technology Services (DITS) decides to purchase, install and maintain 400 notebooks for various governmental departments and governmental services. The overall project budget, including 5 years guarantee and maintenance services, is €420.000 and the delivery period is 6 months after the signing of the contract.

The setting-up or design or definition of a public project is closely linked with public procurement. If a public body aims to implement a particular project, e.g. to build a school, to rehabilitate a road, to equip governmental departments with computers, software, to deliver IT training, etc. it will have to purchase works, supplies or services correspondingly.

 The term **Public Procurement** includes all stages of the process of acquiring goods, services or works, involving the use of public money to accomplish specified public purposes, *beginning with the identification of a need and ending with the completion of a contract and the disposal of the asset.* **Public procurement involves more than just purchasing** by Contracting Authorities (which are obliged to follow the Laws 11(I)/2006 and 12(I)/2006 of public procurement) from suppliers using defined procurement methods.

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Generally, procurement begins with a design phase (*Chapter 1*) in which the needs are identified, investment is appraised, business case is developed, feasibility study is performed, costs, risks and time are estimated, Project Fiche is prepared and approved and Project Management Team is appointed. This is followed by the pre-tendering phase (*Chapter 2*) which involves the strategic considerations regarding the conduction of procurement. Then comes the tendering phase (*Chapter 3 & 4*) in which tender documents are prepared, proposals are invited, evaluated, and accepted or rejected. Award of the contract is followed by the implementation phase (*Chapters 6*) in which the execution of the contract is managed.

1.2 INSTITUTIONAL FRAMEWORK OF A PROJECT

Every project finds itself in the middle of different stakeholders, individuals and organisations who are actively involved in the project, or whose interest may be affected in a positive or negative manner as a result of project execution or successful project completion. The institutional framework of a project usually consists of:

- **Project Beneficiaries,**
- **Project Owner,**
- **Contracting Authority,**
- **Implementing Agency,** and
- **Funding Agency**


Project Beneficiaries

The Beneficiaries of a project are the future users, those for which the project is implemented, those whose needs have to be satisfied and taken into account when the project is set up. Their close involvement into the needs assessment is important whenever it is possible. If the needs assessment is flawed or wrong the whole project will be a failure. The end beneficiary of all public projects – directly or indirectly – is the general public, the citizen.

Project Owner

The project owner is the legal entity which takes the legal responsibility for the project once it has been implemented. Normally, the mastermind of the project, i.e. the entity that instigated and conceived the project will later become the project owner. Its commitment is a prerequisite for the project success. The project owner is the representative of the beneficiaries.

The project owner will be responsible for the maintenance and the operational cost of the project. From this point of view, a cost-efficient solution over the whole life-cycle of the investment and a reasonable scope of the project are in the best interest of the project owner. It will, therefore, meticulously check the cost-benefit analysis and insist that a solution is found which the project owner can afford also on the long run.

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Small straightforward projects may be implemented (managed) by the project owner, either with own capacities or by contracting economic operators for single components. But it cannot be expected that public project owners will be staffed to meet all challenges to implement all projects they own. For most of its projects, a project owner will have to assign the implementation of the whole project to an economic operator by conducting a tendering process. The tendering process is conducted either with own resources (in this case the Project Owner is also the Contracting Authority) or it may be formally assigned to another Contracting Authority.

Contracting Authority

The Contracting Authority is the central government or the legal person governed by public law which is responsible for conducting the public procurement process and concluding the contract on its behalf (in this case it is also the Project Owner), or on behalf of a third party, which is the Project Owner. If the Contracting Authority is adequately staffed to support the project implementation, it also undertakes the role of the Implementing Agency.

Implementing Agency

The implementing agency is an entity with sufficient technical and managerial know-how and capacity to put the project design (the stipulations in the Project Fiche) into reality. This requires, amongst others, adequate authority, control, financial resources, technical competence, legal expertise, and managerial capacity to implement the project. If the project owner is a public entity, e.g. a municipality, a regional administration, or a department at central level, the implementing agency would, ideally, be an entity in the public sector, depending on the scope, the territorial coverage, or the importance of project. The public sector is, therefore, usually organised in such a way that important publicly owned projects can be implemented by public implementing agencies. However, in many cases, the project management or the implementation itself is contracted out to private firms. It should be noted that in any case the responsibility of decision making remains to the implementing agency.



No matter whether done by a public or a private entity, the services for the implementation of a project are not free of charge. Related costs have to be included in the project budget.

Funding Agency

The project owner may be in a position to self-finance its project, have the project co-financed from other sources, or finance the project entirely from external resources. The funds may be made available from the regular budget of the project owner or, in the case of external funding, in the form of a grant or a loan.



It is worth remembering that for public projects the taxpayer/citizen is the original “source of funding”, providing funds, dominantly via the taxation system. As the general public is the original provider/co-provider of funds, the public interest is the supreme criterion when deciding on scope and design of a project. Cost-efficiency in terms of initial cost and, as important, operational cost is of highest importance.

For this Guide, we assume that financing projects from national public budgets and/or EU support funds will be the most frequent situation. External funding by means of grants/loans or public-private mixed contracts is thus considered to be only of marginal interest to the target group of the Guide.



The public administration may consider borrowing as a source of funds for investments. However, a meticulous cost-benefit analysis has to give evidence that reliable revenues justify this method of financing for an important investment.

Example 1-1: Project's Institutional Framework

Project title: *“Measures to develop the implementing capacity of the Cypriot Contracting Authorities in applying the European Public Procurement Legislative package”.*

Overall objective: *Building of the appropriate institutional capacity for the effective implementation of the *acquis communautaire* in relation to public procurement in Cyprus and for the application of best practices in public procurement from the point of identification of needs up to and including the disposal of the assets.*

Institutional Framework

- **Project Beneficiaries:** Public Procurement Directorate (PPD), all Contracting Authorities which are obliged to follow the Laws 11(I)/2006 and 12(I)/2006 of public procurement
- **Project Owner:** Treasury of the Republic
- **Contracting Authority:** Treasury of the Republic
- **Implementing Agency:** Public Procurement Directorate
- **Funding Agency:** EU Transition Facility Programme for 2004

The graph below illustrates the course of action to set up and implement a project. Starting on top and following the graph clock-wise the steps to follow become apparent. The graph also symbolises the central role of the result of the project design process.

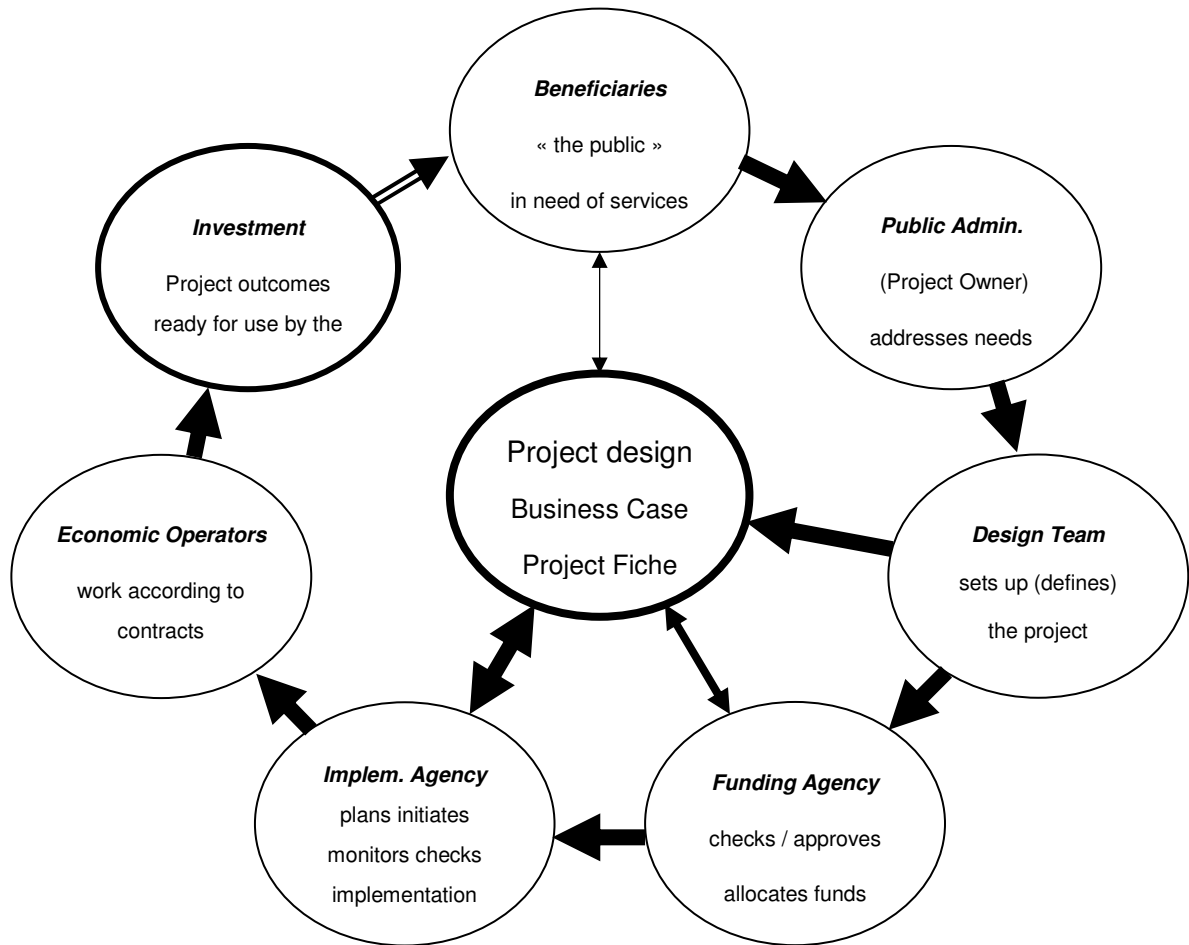


Figure 1-2: Course of action to set up and implement a project

1.3 PROJECT LIFE CYCLE

The **Project Life Cycle** refers to a logical sequence of activities to accomplish the project's goals or objectives. Regardless of scope or complexity, any project goes through a series of phases during its life. Typically the Project Life Cycle consists of four primary phases, as it is presented in the following diagram:

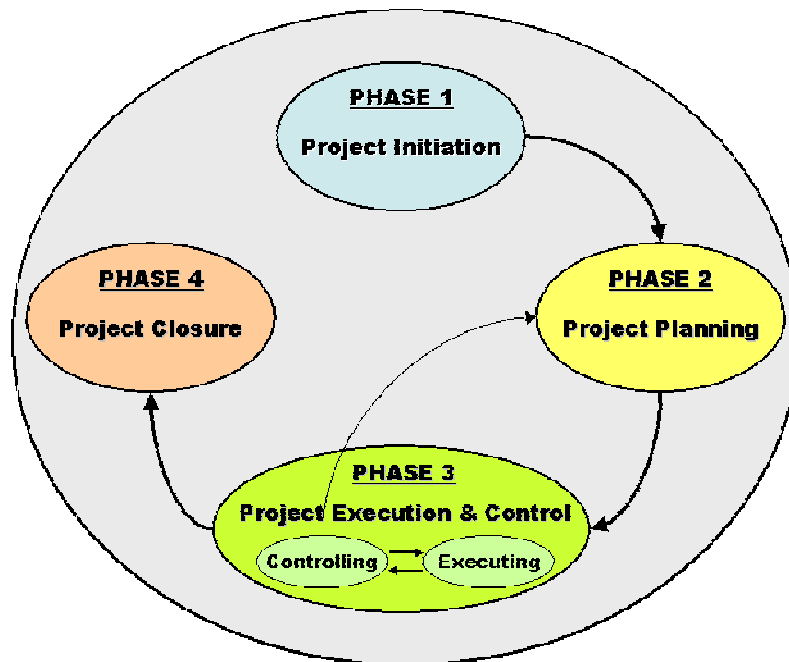


Figure 1-3: Project Lifecycle

- **Phase 1: Project Initiation.** In this phase a business problem or an opportunity is identified and a Business Case which provides alternative solutions is defined. Prior, during or after the development of the Business Case, a Cost/ Benefit Analysis and a feasibility study are usually conducted to identify the alternative with the maximum net benefit and investigate the likelihood of each solution option addressing the business problem. As an outcome of the Business Case a final recommended solution is put forward. Once the recommended solution is approved, the Executive and the Project Manager are appointed in order to participate in the preparation of the “Project Fiche”, which outlines the scope, objectives, activities, structure, budget, implementation schedule, risks, constraints and assumptions of the project. When the Project Fiche is approved, the remaining members of the Project Management Team are appointed.
- **Phase 2: Project Planning.** This phase includes the planning of all the elements/ parameters of the project so to be ready for implementation. In this perspective, the following plans must be developed: Activities Schedule (definition of activities and tasks sequence, time scheduling), Risk Plan (highlighting of possible risks and actions to mitigate them), Resource Plan (determination of the labor, equipment, material needed in each task/stage), Cost Plan (identification of the internal and external costs and their occurrence in time), Quality Plan (setting of quality targets for the project deliverables and definition of processes for quality assurance and control), Issue Management Plan (definition of process for identifying, assessing and resolving issues related to the project), Change Management Plan (definition of process for managing requests for changes that have a direct impact on the project), Acceptance Plan (setting of acceptance criteria for the project deliverables and definition of the processes for executing the acceptance tests), Communication Plan (definition of information to be distributed to the stakeholders and selection of the appropriate distribution methods). In

addition, it is a common practice during this Phase to define the Performance Indicators to be used in a later stage for monitoring the project implementation progress and evaluating the project's performance against predefined objectives and targets.

- **Phase 3: Project Execution & Control.** This phase involves the execution of each activity and task defined at the Project Schedule. During the implementation of the activities and tasks a series of management processes are undertaken to monitor and control: time, resources, cost, risks, quality, issues, changes, deliverables acceptance procedure, communication, etc.

The Implementing Agency is fully responsible for the achievement of all project outcomes. However, in case that an Implementing Agency decides to subcontract the execution of parts or of the whole project, it assumes the function of and the responsibilities for monitoring and controlling the contractors.

- **Phase 4: Project Closure.** This phase includes all activities and tasks that ensure that the project is completely finished and the contract is properly closed. It also includes the evaluation of the processes used in the project and of the outcomes achieved.

These phases are sequential and can be broken down into smaller and more manageable activities. In this Chapter we focus on **Phase 1: Project Initiation**. During this phase **three stages** can be distinguished:

1. **Inception and Prioritising Stage:** This is the stage where the needs are identified and addressed and where the project idea is formulated.
2. **Design Stage:** This is the intellectual process to develop the project starting from the first idea; the result is a comprehensive description of the project that is technically approved by the project owner.
3. **Project Approval and Appointment of Project Management Team Stage:** This is the final stage where the project is officially approved, the necessary funds are allocated and the Project Management Team (apart from the Executive and the Project Manager who have been appointed in the Design Stage) is appointed.

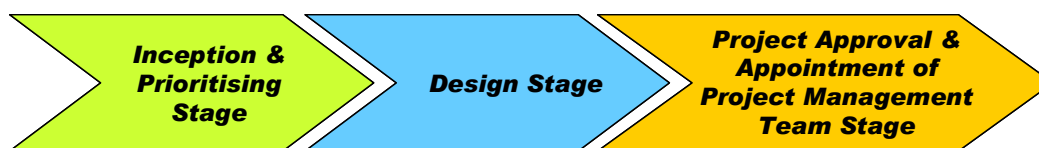


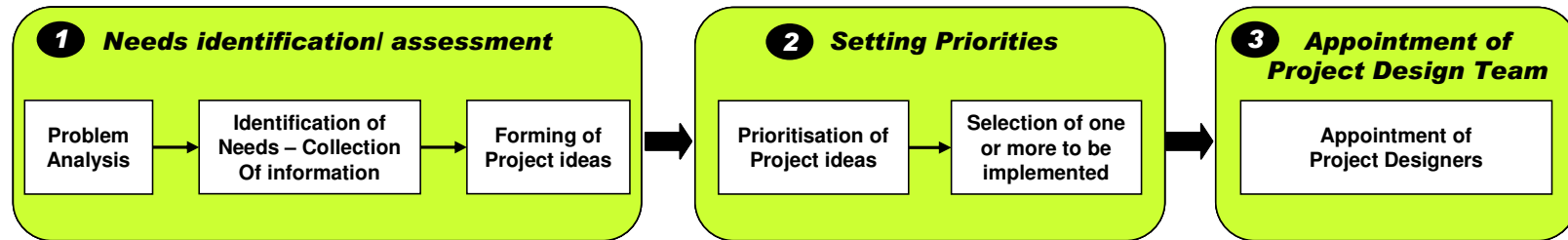
Figure 1-4: The three stages of Project Initiation

The specific steps/ activities involved in each one of the above stages, as well as the order in which they are undertaken are presented in the following flowchart (Figure 1-5). Analytical description and guidance on how to perform each of these steps/ activities, is given in the following subchapters (1.4 – 1.6).

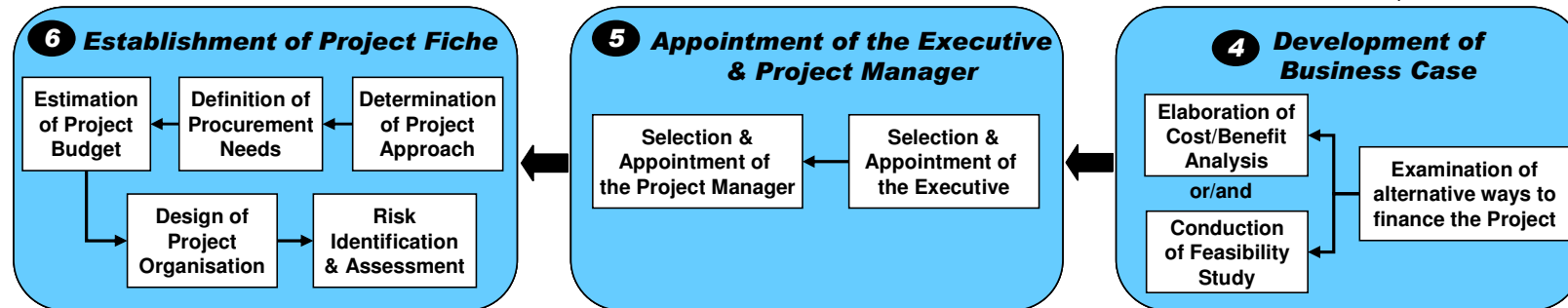


It is noted that the activities, tools and techniques involved in each of the other phases of the Project Life Cycle are described in Chapter 7 of this Guide.

INCEPTION & PRIORITISING STAGE



DESIGN STAGE



PROJECT APPROVAL & APPOINTMENT OF PROJECT MANAGEMENT TEAM STAGE

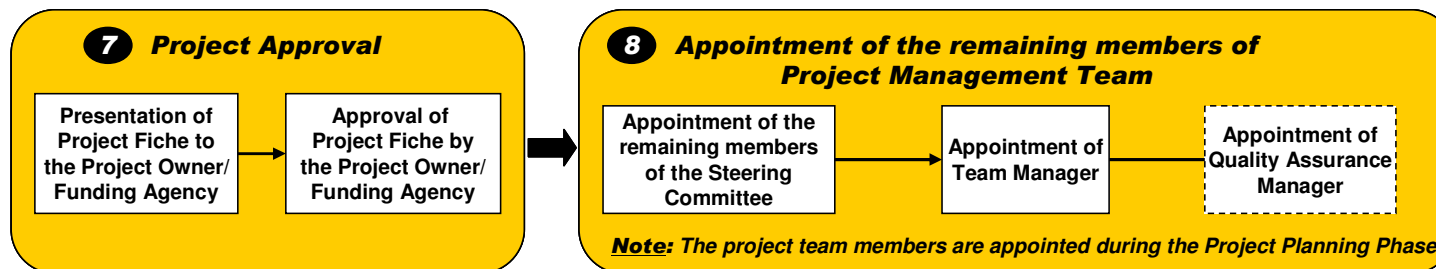


Figure 1-5: Flowchart of steps/ activities that take place in the three stages of Project Initiation

1.4 PROJECT INITIATION/ INCEPTION & PRIORITISING STAGE

This section discusses the tasks of identifying the need for a project. The need for a project may be identified in many ways, including suggestions from politicians, local elected officials (e.g. Mayors), municipality staff, the public, etc. Once the needs are identified, research should be conducted to prioritize the need for one project relative to others competing for limited funds. After the decision to proceed with a project has been reached, the team to design and tune the implementation approach should be appointed. The abovementioned steps that should be followed during this stage are presented in the following figure.

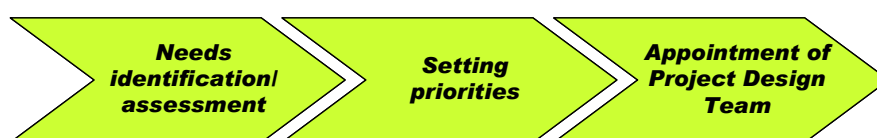


Figure 1-6: Steps to be followed in the Inception & Prioritising Stage

1.4.1 Needs identification/ assessment

Project is typically authorized as a result of one or more of the following:

- A market demand (e.g. The Urban Buses of Nicosia Company authorizes a project to renew the bus fleet by buying buses running with natural gas in response to gasoline shortages and due to environmental reasons)
- A business need (e.g. The Ministry of Labour and Social Insurance develops a new organizational unit for monitoring and controlling the collection of the contributions in order to reduce the contributions payment evasion)
- A customer request (e.g. The Electricity Authority of Cyprus authorizes the project to build a new substation to serve a new industrial park)
- A technological advantage (e.g. The Department of Information Technology Services (DITS) authorizes a project to upgrade the existing PCs of the Ministry of Finance in order to be able to run the new taxation software which is high demanding in terms of memory and CPU power)
- A legal requirement (e.g. EU publishes new directives and the national legislation must be changed in order to adopt the new policy)
- A social need (e.g. The Water Board of Larnaca decides to take advantage of the desalination technology in order to provide potable water and cover the increasing needs of its region).


A project idea can be developed in three main ways:

- top-down
- bottom-up
- combined way


In the top-down approach, decision makers, politicians or civil servants, who are responsible for the permanent analysis of economic and social developments under their authority, will identify situations that need improvement, and/or try to find opportunities for a more prosperous development. Then they request the executive public administration bodies to develop a project idea, e.g. to improve the public infrastructure, or public services in health and education.

The bottom-up approach starts by the general public, coming up with requests to the decision makers, politicians or civil servants to act. If such requests are accepted, the executive public administration bodies are again asked to act.

Probably the less frequent way of starting public administration projects is the combined way, when executive organs find reserves and start to act on the base of their own initiative.

 Regardless of the approach according to which the project idea can be developed, a full and accurate analysis of the existing problems, needs and opportunities is essential for the achievement of a properly planned project addressing the real needs of specific target groups.

Problem Analysis¹

 Problem analysis identifies the negative aspects of an existing situation and establishes the “**cause and effect**” **relationships** between the identified problems. It involves three main steps:

1. Definition of the framework and subject of analysis;
2. Identification of the major problems faced by target groups and beneficiaries (What is/are the problem/s? Whose problems?); and
3. Visualisation of the problems in form of a diagram, called a “**problem tree**” (see *Tool 1-1*) or “**hierarchy of problems**” to help analyse and clarify cause–effect relationships.

The analysis is presented in diagrammatic form (see *Figure 1-6*) showing effects of a problem on top and its causes underneath. The analysis is aimed at identifying the real bottlenecks which stakeholders attach high priority to, and which they wish to overcome. A clear problem analysis thus provides a sound foundation on which to develop a set of relevant and focused project objectives.

¹ The technique of Problem Analysis presented in this section is part of the “Logical Framework Approach” proposed by the EU in the Volume 1 “Project Cycle Management Guidelines” of the Aid Delivery Methods (March 2004).

Tool 1-1: Creating a “Problem Tree”

Creating a problem tree should ideally be undertaken as a participatory group event.

- **Step 1:** The aim of the first step is to openly brainstorm problems which stakeholders consider to be a priority. This first step can either be completely open (no pre-conceived notions as to what stakeholder’s priority concerns/problems might be), or more directed, through specifying a ‘known’ high order problem or objective (e.g. improved river water quality) based on preliminary analysis of existing information and initial stakeholder consultations.
- **Step 2:** From the problems identified through the brainstorming exercise, select an individual start-up problem.
- **Step 3:** Look for related problems to the starter problem
- **Step 4:** Begin to establish a hierarchy of cause and effects:
 - Problems which are directly causing the starter problem are put below
 - Problems which are direct effects of the starter problem are put above
- **Step 5:** All other problems are then sorted in the same way – the guiding question being “What causes that?” If there are two or more causes combining to produce an effect, place them at the same level in the diagram.
- **Step 6:** Connect the problems with cause-effect arrows – clearly showing key links
- **Step 7:** Review the diagram and verify its validity and completeness. Ask yourself/the group – “Are there important problems that have not been mentioned yet?” If so, specify the problems and include them at an appropriate place in the diagram.
- **Step 8:** Copy the diagram onto a sheet of paper to keep as a record, and distribute (as appropriate) for further comment/information.

Important points to note about using the problem tree tool are:

- The quality of output will be determined by who is involved in the analysis and the skills of the facilitator. Involving stakeholder representatives with appropriate knowledge and skills is critical;
- A workshop environment involving groups of up to 25 people is an appropriate forum for developing problem trees, analyzing the results and then proposing next steps;
- The process is as important as the product. The exercise should be treated as a learning experience for all those involved, and an opportunity for different views and interests to be expressed; and
- The product of the exercise (the problem tree) should provide a robust but simplified version of reality. If it is too complicated, it is likely to be less useful in providing direction to subsequent steps in the analysis.

Once complete, the problem tree represents a summary picture of the *existing negative situation*. In many respects the problem analysis is the most critical stage of project planning, as it then guides all subsequent analysis and decision-making on priorities.

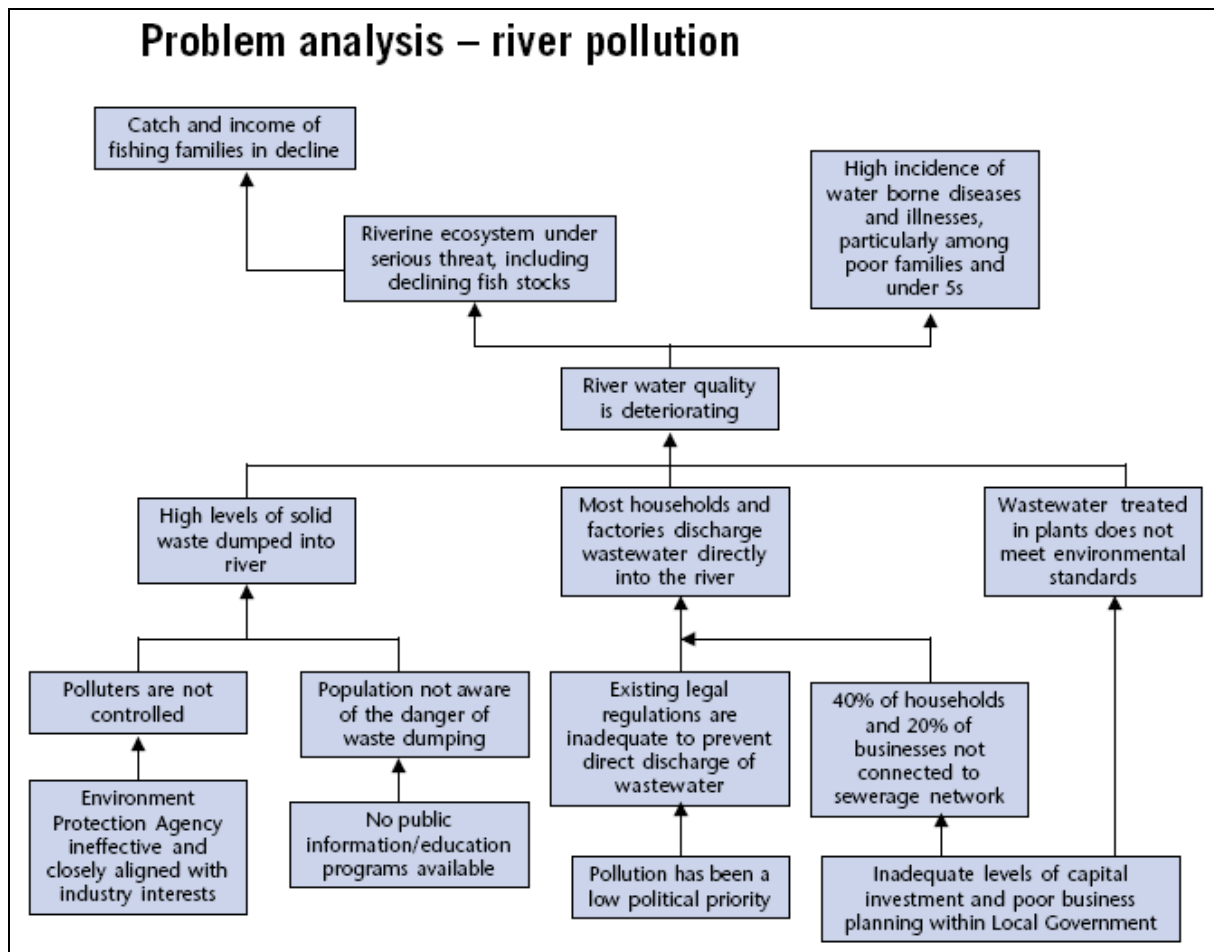


Figure 1-7: Example of a problem tree

Identification of needs – Collection of information



Apart from organising workshop with stakeholders (*refer to previous section “Problem Analysis”*), information for the identification of needs can also be collected through desk research, interviews, surveys, or review of relative documentation or focused studies. The easiest way of obtaining needs assessment information is to interview people, but interviews have limitations as well. The ideal procedure is to collect information via more than one ways, like:

- **Questionnaires and interview with focus groups** (*management team members, users, end users, beneficiaries etc*).

Interviews and questionnaires involve asking individuals about their needs. Interviews can be implemented in several ways, as shown below, depending on the target group:

- Mailing questionnaires to randomly selected individuals (especially suitable for identifying the needs of the residents of a certain municipality)
- Performing telephone surveys (suitable for identifying needs/opportunities for the development of new improved products/ services for the public or for specific target groups like the public service employees etc.)

- Conducting face to face interview (suitable for the Board of Directors of Organizations governed by public law, for Directors of Departments of the central government, for the Mayor of a Municipality, for the end users of a software application, for certain employees etc)
- Organizing meetings or workshops in which focus groups can participate (suitable in cases that the beneficiary is not one entity).

Response rates vary depending on the method used. For example mailed surveys tend to have the lowest response rates. Besides, the quality of the information gathered depends very much on the phrasing of the survey questions, on whether the randomly selected individuals constitute a representative sample or whether the people being interviewed are the ones that have the expertise and knowledge to identify and describe their needs correctly.

As it has been proved in practice, what people are saying in an interview may differ from what they are actually experiencing. It is therefore important to verify the results of interviews with observations and document analysis.

- **Documentation review:** This may refer to review of country studies (World Bank, OECD, EU etc), national development plans and other relevant policy papers, annual reports, sectorial studies, business plans of public/ private organizations, job descriptions, trouble reports, written complaints, studies from adjacent projects etc. For example, an Evaluation Report of the Cypriot Health Care System compiled by the World Health Organization (WHO) could be the source for identifying projects that have to be implemented in order for the System to be effective and to cover the whole population. Similarly, the Report produced by SIGMA (Support for Improvement in Governance and Management)², dealing with the development of the Public Procurement System in Cyprus, is a good source for identifying the needs of the sector and ways to cover them.
- **Observations:** They are sometimes considered the most direct method of collecting needs assessment data (e.g. in cases that the infrastructure of an Organization or Municipality does not function properly/ efficiently), although in many cases, a great deal of inference is involved in interpreting observations. For example, by observing an employee of a Ministry performing his duties, one can identify needs for redesigning and probably automating some processes in order to make them more simple and to reduce the administrative costs. In addition the residents of a suburb in Nicosia may observe deterioration of the pavement condition and send relative photos, complaints and suggestions to the Municipality.



The following matrix is a simple tool *that suggests different ways of gathering the necessary information to be used for the needs assessment*. In the first column, you should write the type of information that needs to be collected and on the next two the sources that can be used. At the end you can choose to use only one of the sources you have noticed or to combine more than one.

² A joint initiative of the OECD and the European Union, principally financed by the EU

Tool 1-2: Tool for gathering information to be used for needs assessment

TYPE OF INFORMATION	SOURCES OF INFORMATION	
	INTERVIEW	DOCUMENTATION
<p><i>It refers to the information that must be collected e.g. Information about:</i></p> <ul style="list-style-type: none"> • a Public Organization, • the users of an Information System, • a specific market sector (health care, trade etc), • a municipality, • the processes of an Organization, • a service provided to the public • etc 	<p><i>It refers to the people or groups that should be interviewed since it is estimated that they are capable to provide information concerning the issues stated at the left column</i></p> <p><i>e.g. Interview:</i></p> <ul style="list-style-type: none"> • management team of a Public Organization, head of departments • end users • the management team of the Organizations which formulate the sectorial policy, members of the Board of Directors of relative Chambers • Municipal Council, • Citizens • etc 	<p><i>It refers to the documentation that can be reviewed to provide information concerning the issues stated at the column "Type of Information".</i></p> <p><i>e.g. Review:</i></p> <ul style="list-style-type: none"> • Business process mapping and organizational structure, • business plan, • marketing plan, • financial data • sectorial studies, • Best Practices in EU, • Statistics • etc

Example 1-2: Information to be collected for the needs assessment

In the case of the project "Measures to Develop the Implementing Capacity of the Cypriot Authorities in applying the European Public Procurement Legislative Package" (refer to subchapter 1.1), undertaken by the Public Procurement Directorate (Treasury of the Republic of Cyprus), the main needs were first the adoption of the new legislative package, approved by the European Parliament, before the end of 2005 and second the application of e-procurement (also set in the Internal Market Strategy of the European Commission) by 2009. Besides, the fact that Cyprus has been member of the EU and therefore must fully comply with the best practices used in public procurement by other members of the Union as well as the fact that the existing auditing and control mechanisms have reported inefficiencies in the procurement procedures, alerted PPD to develop a Best Practice Guide and train on it all people involved in public procurement in Cyprus.

In this context, PPD could ideally have completed the following Matrix:

TYPE OF INFORMATION	SOURCES OF INFORMATION	
	INTERVIEW	DOCUMENTATION
POLICY ISSUES	Interview General Accountant, Deputy General Accountant and Head of the Departments of the Public Procurement Directorate	Review EU Policy and new Directives on Public Procurement, Business Plan of the Public Procurement Directorate
BENEFICIARIES	Interview managers of the Contracting Authorities	Review data concerning people involved in public procurement (number, experience, duties, personal evaluation forms)
TASKS OF PEOPLE INVOLVED IN PUBLIC PROCUREMENT	Interview employees in public procurement	Review job descriptions, reports concerning the problems people in public procurement face in performing their duties
SERVICES PROVIDED		Review audit and control results, decisions of the Tenders Review Authority,
BEST PRACTICES	Interview Managers of National Organizations having similar responsibilities with Public Procurement Directorate	Review the situation in other countries and the practical application of the new processes and techniques



It should be noted that for projects concerning the development or purchasing of ERP³ software, the development of training programs, the redesign of business processes or the total reengineering of Organizations, the interviews are considered preferable sources of information comparing to documentation review.

Once the abovementioned matrix has been formulated, and interview has been selected as the best method for collecting information, the best option for conducting interviews must be selected. There are three options:

- use of questionnaires
- conduct face to face interview or via telephone
- conduct interviews to focus groups

³ ERP is the acronym of **Enterprise Resource Planning**. ERP software consists of multiple software modules that integrates activities across functional departments - from product planning, parts purchasing, inventory control, product distribution, to order tracking. Most ERP software systems include application modules to support common business activities - finance, accounting and human resources. The major ERP vendors are SAP, PeopleSoft, Oracle, Baan and J.D. Edwards.



Table 1-1: Advantages and disadvantages of interview options

	Advantages	Disadvantages
Questionnaires	<ul style="list-style-type: none"> • permit to the respondents to remain anonymous and so to describe their problems and needs without hesitation • permit the use of different types of questions like: open-ended, multiple choice etc 	<ul style="list-style-type: none"> • Their preparation needs investment in time and expertise • They can take considerable time to distribute, process, analyze and report • They only provide information directly related to the specific questions included to them • They usually present low response rates
Conduct interview face to face or via telephone	<ul style="list-style-type: none"> • The questions to be asked can be modified “on the fly” • Permit collection of useful data from many respondents in a day • If a respondent raise up a certain problem or need, a new question can be added to the interview protocol that allows the next respondent to confirm or disconfirm the issue 	<ul style="list-style-type: none"> • Depending on the nature of the similarities between the interviewer and the interviewee, the answers to questions can be negatively or positively biased • Interviews can be difficult to schedule
Focus Group	<ul style="list-style-type: none"> • The questions to be asked can be modified “on the fly” • A group of respondents can bounce ideas and issues off each other and reach a consensus about the nature of a problem or issue 	<ul style="list-style-type: none"> • Since more than one persons participate in the interview, focus groups can be difficult to schedule • If members of a focus group vary widely in status or position, there may be reluctance on the part of some respondents to participate fully.

From needs/problems/opportunities to project ideas

As soon as the problem has been analysed and needs or opportunities have been identified, objectives should be set in order to solve the problem, satisfy the needs or/and exploit the opportunities. The most common methodological approach is to convert the “negative situations” of the problem tree (refer to Figure 1-7) into “positive achievements” and develop the “objective tree” (refer to Figure 1-8). For example, the phrase “River water quality is deteriorating”, which constitutes the starter problem in the example illustrated in Figure 1-7 will be now converted into “Quality of river water is improved”. These positive situations are in fact the “Objectives” (i.e. the desirable future situation), for the achievement of which, project ideas are born.

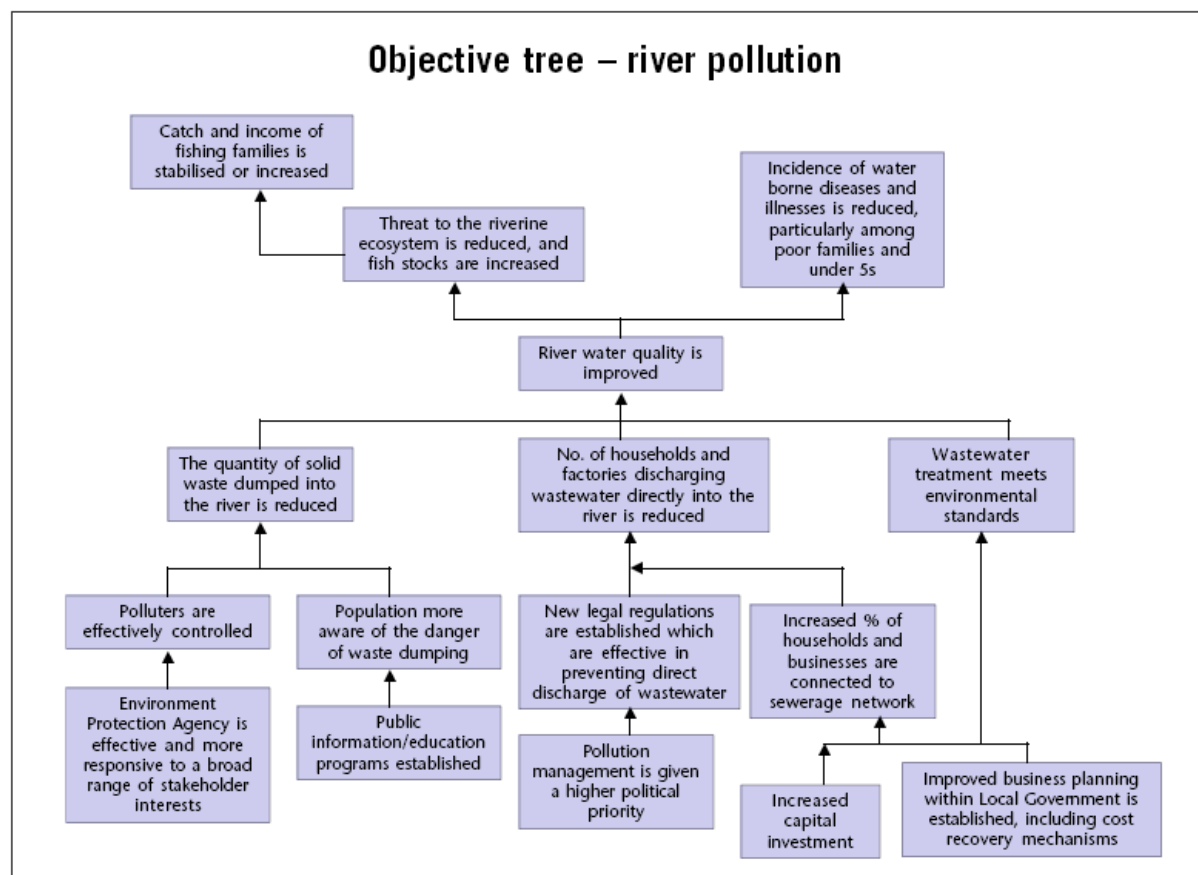


Figure 1-8: Example of an objective tree

1.4.2 Setting Priorities

After the needs have been identified and ideas for their coverage have been addressed, priorities have to be set.

Many organizations generate multiple proposals for various new projects; however budgetary and other constraints allow only a fraction of those efforts to occur. E.g. A municipality, may have identified needs for improvement in several different sectors such as health care, education, public transport, sanitation infrastructure etc. Usually, not all these needs can be satisfied simultaneously mainly due to shortage of resources. Not all proposed projects will have the same degree of urgency; so priorities have to be set.

Before a great deal of effort is expended on prioritizing and selecting the candidate projects, it may be useful to screen competing proposals by asking some important questions, such as:

- Does the project support the organization's mission?
- Does the proposed project align with the organization's strategic plan/ technical architecture?
- Is there an available funding source for this effort?
- Does the project's cost/ benefit analysis justify its initiation?

Unless a project is legislative (or otherwise) mandated, simply working through these questions will result in elimination of some proposals from further consideration.

Rating and prioritizing candidate Projects is generally performed by the executive management of the organizations. The process is formal and can take place in an as-needed basis, or can be integral part of the organizational strategic/ tactical planning and budgeting process.

The prioritisation of candidate projects and the selection of one or more to be implemented could be revealed a difficult task especially in case of large complex projects. In this case, expert judgement (consultants, professional and technical associations) should be asked.

Normally, projects that:

- contribute to the quality of life of the region or the whole country's residents,
- have critical impact to the operation of the organization/ market sector or the whole public administration of the country
- their direct and indirect costs are traded off by the benefits of their implementation
- fit with the mission and vision of an organization/ a market sector or the whole public administration of a country
- contribute to the country's economy
- contribute to the protection of environment and promote the sustainable development
- are rational continuation of projects already implemented and that integrate their results and outcomes
- are of low risk
- promote or take advantage of the technological evolutions
- make the best use of ICTs (Information-Communication Technologies) in order to improve industrial competitiveness and address key societal challenges
- enhance the knowledge and skills of the public servants
- aim at the improvement of public services
- improve the economic/ financial situation of an organization/ market sector
- may be eligible for financing by EU Funds or other International Organizations

are of first priority since the anticipated benefits from their implementation are overlapping the required whole life cost.



One of the most common priority setting aids is the **Decision Matrix**. The purpose is to compare several projects (needs) against to certain criteria. Therefore, a grid with as many rows as the alternative projects and as many columns as the criteria must be drawn. Each project must be rated against each criterion, using a three (1=criterion not met, 2=criterion met, 3=criterion met very well) or five level scale (1=criterion not met, 2=criterion

met poorly, 3=criterion met, 4=criterion met well, 5=criterion met exceptionally). Sometimes you will have criteria of different importance. One approach would be to weigh the criteria. For example, if there are three criteria, two of which are of equal weight but the third one is of twice importance, the weighting could be 25%, 25%, 50% respectively. In this case the above mentioned rating schemes could be applied and then each rating could be multiplied by the weight of the criterion.

Tool 1-3: Decision Matrix

Criteria Projects	(1) Mandatory requirement	(2) Mission/ Vision/ Goals	(3) Meeting community needs	(4) Cost/ Benefit	(5) Risk	(6) Project capacity	(7)* Project Lifetime	(8) Funding capacity	(9) National & EU policies	(10) Transfer of know- how & expertise	(11) Other	Total Rate
Project 1												
Project 2												
Project 3												
.....												
.....												
Project v												

* This criterion should be used only when comparing similar projects

The rating of the projects is performed by an individual evaluation of each project against each criterion. For each criterion a number of questions are being asked and marks are assigned to the answers given. The mean of these marks is the rate for each criterion. An indicative questionnaire for the prioritization of alternative projects is being presented below:

Tool 1-4: Questionnaire for rating projects in order to prioritise them

Name of Project:					
		Rates ⁴			
	Criteria ⁵	1	2	3	Comments
1	Mandatory requirement				
	Is the deliverable of the project specifically required by national or European law or regulation?				
2	Mission/ vision/goals.				
	To what extent does the project fit the mission of (e.g. Public Procurement Directorate)?				
	To what extent does the project fit the vision of (e.g. Public Procurement Directorate)?				
	Does the project fit with current goals?				
	Does the project fit with emerging needs?				
3	Meeting community needs				
	To what extent does the project address specific, identified local needs?				
	To what extent does the project contribute to the country's economy?				
	To what extent does the project contribute to the residents' welfare? (municipality residents, country residents)				
4	Cost/Benefit				
	Has a high level cost benefit analysis been performed?				
	Is the calculated BC ratio greater than 1?				
5	Risk				
	Does the project's impact depend on another project not yet completed?				
	Does the project involve risks with high probability and high impact?				

⁴ In case that a five level scale is selected the cells should be adapted accordingly

⁵ Criteria can be added or removed according to the nature of the examined projects

	To what extent are the preventive actions feasible and easy to be applied?				
6	Project Capacity				
	To what extent is the need for the project documented?				
	To what extent has the project effectiveness been documented?				
	To what extent is there an appropriate technology to support this project?				
7	Project Lifetime				
	To what extent is there a positive future and long range outlook for this project?				
8	Funding capacity				
	Is there a possibility of being funded by EU or other donors?				
9	National & EU Policies⁶				
	To what extent are issues like (eg, public policy, education, use of new technologies, environmental protection issues etc) included in this project?				
10	Transfer of know-how and expertise				
	To what extent does the implementation of the project involve transfer of know-how and expertise from other regions or countries?				
11	Other				
	<i>(it must be completed with other criteria suitable with the nature of the project)</i>				

Completed example for rating and prioritising projects with the use of the above Questionnaire and the Decision Matrix is presented in **Annex 1-1**.



When using such methods, it is of utmost importance to distinguish between divisible (it is possible to implement only part of the project) and non-divisible projects (the project can be implemented only in full scale or not at all). Divisible project may have different relation between costs and benefits in different implementation scales.



In case of the projects that have been ranked in low positions and so never mature to become reality for various reasons, (e.g. the political priorities shift to other topics, insufficient funds, technical difficulties, and others), it is important to keep the full documentation, as any project idea can serve as an important tool/practical example/”lessons learnt” for other projects in the future.

⁶ This criterion refers to the contribution of the project to National policies and priorities.

1.4.3 Appointment of the project design team

Once the projects have been prioritized and one or more to be implemented first have been selected, a **team of project designers** must be appointed. The team will usually consist of “technical” experts and economists, possibly supported by specialised experts (e.g. ecologists) and other resource persons, e.g. representatives of the beneficiaries.

The project design team should be provided with the key elements of the project idea, in order to proceed with the design of the project and the preparation of the relative documents (Business Case, Project Fiche). These key elements should at least include:

- a down-to-earth needs assessment (*refer to subchapter 1.4.1*)
- an innovative concept for improvement of the status quo and the current situation
- a proposal for the institutional framework (*refer to subchapter 1.2*)
- a realistic idea for funding, e.g. guidelines on whether to examine the possibility of EU funding, private financing (*refer to subchapter 1.5.2*)

1.5 PROJECT INITIATION/ DESIGN STAGE

During the inception phase, the expected outcomes of a project are, very often, seen as isolated requirements. Once the project has obtained high priority, the next step is to have a closer look at different options for implementing the project. The project designers in cooperation with the project owner will define the Business Case which provides various solution options for achieving the desired project outcomes. A Feasibility Study is then conducted to investigate the likelihood of each solution option to address the business problem or exploit the business opportunity. In the framework of Business Case and usually as part of a formal Feasibility Study, a Cost/ Benefit analysis is conducted in order to identify the alternative with the maximum net benefit. As an outcome of the Business Case a final recommended solution is put forward. Once the recommended solution is approved by the project owner, the Executive and the Project Manager are appointed and a “Project Fiche” is completed, which outlines the scope, objectives, activities and deliverables, project organization, roles and responsibilities, the estimated budget and possible risks, assumptions and constrains.

The abovementioned steps that should be followed during this stage are presented in the following figure.

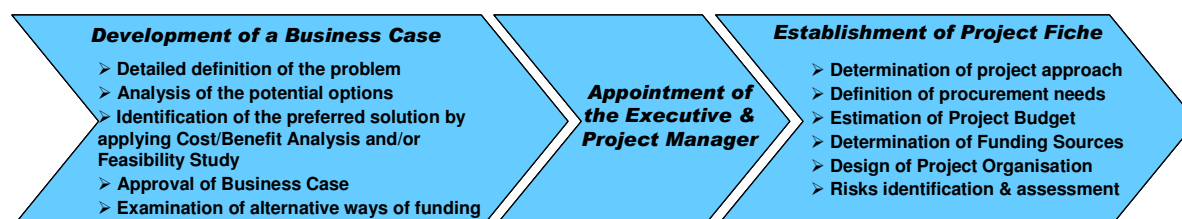



Figure 1-9: Steps to be followed in the Design Stage

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1.5.1 Development of a Business Case

Once a business need or problem or opportunity has been identified then a Business Case should be developed. A **Business Case** is a document which outlines the justification for the start-up of a project. The Business Case is an essential document for the project success since it sets the basis for managing the delivery of the project on time, within the budget and to agreed quality standards. Additionally, well-defined business cases assist organisations to:

- make the right investment decisions
- achieve whole-life value for money from investments
- respond to the effects of change on an investment decision.

More specifically, the Business Case includes:

- A detailed definition of the problem or opportunity, as well as of the project objectives.
- An analysis of the potential options available for delivering a solution to the problem, with emphasis on the alternative ways of funding the investment/ project (*refer to subchapter 1.5.1.1*). For each option the potential costs/ benefits (*refer to subchapter 1.5.1.2 and Annex 1-3*), risks and assumptions are documented. In case that the feasibility of a particular solution/ option is not clear or straightforward, a formal feasibility study may be conducted (*refer to subchapter 1.5.1.3*).
- A preferred/ recommended solution for approval and a generic implementation plan for this solution.



The Business Case is prepared by the project design team (staffed from the Project Owner) and presented to high level decision makers of the Project Owner for approval. It is the first document used in the Project Lifecycle and, once approved, allows the project to be formally defined.



Do not view the business case as just a means to obtain funding. Projects where this view prevails may suffer in the short term from a lack of focus on benefits and in the longer term from a lack of successful delivery and non-realisation of benefits.




A template with necessary guidance which can be used from the project designers in order to prepare the Business Case document can be found in the **Annex 1-2 “Business Case Template”**.

The next stage following approval of the Business Case is the appointment of the Executive and the Project Manager (*refer to subchapters 1.5.2*).

1.5.1.1 Alternative ways of funding – Public vs. Private Project Funding

The way of financing investments of the public infrastructure is a very important issue. In the past, many project ideas ended up in a drawer or in the bin for the simple reason of lack of public funds.

 Therefore, it is recommended that the design team of the project (refer to 1.4.3) in cooperation with the project owner should examine all possible alternatives of financing the investment/ project, e.g. possibilities of private financing and operation of an investment.

For carrying out infrastructure investments to meet public needs, there are basically three options:

- the traditional public-financed approach
- the EU financing or co-financing approach and
- the alternative private-financed approach

Whilst the public and EU financing approaches are in the focus of this Guide, the alternative approach of public-private arrangements will be presented briefly below for reasons of completeness.

As the consequence of funding constraints, the public administration in developed countries followed a new policy: to move from the classical system for the delivery of (traditionally public) services and investment in the infrastructure to a system where the (traditionally public) services are offered to the public and related investments implemented by the private sector. Where possible and deemed appropriate the state limits its participation in financing investments and offering services and creates, to a large extent, “pluralistic markets” consisting of public, private and “non-profit” organisations producing and offering respective services to the public. The competition between the service providers is supposed to bring about better and more cost-efficient solutions. The basic principles of such change are:

1. The state remains responsible for delivery of public services or for the public infrastructure – responsibility for **provision**.
2. **Financing** the infrastructure can be partly or fully shifted to private sources (private firms and financial institutions).
3. Potential suppliers of any ownership type have the right to compete for the opportunity to **deliver/produce** the services to the public and to build and maintain the necessary infrastructure.

The traditional approach to infrastructure investments

Traditionally, investment into the public infrastructure is done by using public funds. Like a caring father, “the state” plans, designs, builds, runs, maintains, and, if necessary, replaces facilities of the physical and social infrastructure: Among these services are public utilities (supply of water, sewerage, electricity, communication), roads, public transport (by air, rail, boat, bus), education (kindergarten, primary, secondary, and tertiary education and research facilities), health care facilities (hospitals, Physical Therapy Assistance [PTA], rescue services), cultural and recreational facilities (museums, theatres, parks, television, radio), public security services (police, jails), consumer protection (product information and expertise in cases of disputes with a supplier), social security (pensions, health insurance, nursing care insurance, welfare).

The general idea is: public funds, basically tax payers' money, are used for building and maintaining the infrastructure. "Father state" then provides the services of the infrastructure to the public; sometimes at cost, but often subsidised, or even free of charge. Citizens could feel in the role of beneficiaries. The main **advantage** of the **traditional approach** is that it can be used as an efficient development tool. A good infrastructure attracts businesses, people, generates jobs, taxes and, if used as a development tool, can avoid "desertification" of rural areas and problematic degrees of urbanisation.

However, the traditional approach has, among others, the following **disadvantages**:

1. Free or subsidised services lead to careless use of services and to deformation of the needs profiles. For example: cheap subsidised tap water of drinking quality may entails waste and misuse for all sort of purposes (car wash, irrigation, cleaning walkways, etc ...) and, hence, lead to over-sized water works.
2. The lack of competition prevents innovation and cost-efficient operation of the infrastructure. For example: Only the exposure to competition of formerly state-controlled telecommunication services accelerated innovative services at better prices.
3. Slow improvement of the infrastructure due to limited public funds.

Under monopoly conditions, without competition and with subsidised services the infrastructure does not generate enough refund for reinvestment. If this situation persists for long, the degradation of the infrastructure or its collapse is inevitable and alternative solutions have to be found.

EU financing or co-financing approach

According to the provisions of EU Regulations and the Treaty for the Accession of Cyprus in the EU, Cyprus is eligible to receive financing from the EU Structural Funds i.e European Regional Development Fund (ERDF), European Social Fund (ESF), Financial Instrument for Fisheries Guidance (FIFG)⁷ and Cohesion Fund.

More specifically, the EU funded Programmes in Cyprus are those presented in the following Table:

Table 1-2: EU funded Programmes in Cyprus

Programme	EU Fund
Target 2 - Areas with structural problems	European Regional Development Fund (ERDF)
Target 3 – Human Resource Development	European Social Fund (ESF)
Fisheries	Financial Instrument for Fisheries Guidance (FIFG)
Community Initiative INTEREG III – Transboundary Cooperation	European Regional Development Fund (ERDF)
Community Initiative EQUAL – Fighting discrimination and inequalities in the Labour Market	European Social Fund (ESF)

⁷ The Financial Instrument for Fisheries Guidance is going to be replaced by the European Fisheries Fund (EFF) for the Programming period 2007 – 2013.

Cohesion Fund – Infrastructure Projects in Sectors of Transport and Environment	Cohesion Fund
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It should be mentioned that the EU co-funding is coming up to 50% of the total public expenditure.

The selection of the projects to be financed is done with transparency and according to the provisions of the EU Regulations. More specifically, the Intermediate Bodies (*Ministry of the Interior for the Programme of Target 2, Ministry of Labour and Social Insurance for the Programme of Target 3, Ministry of Agriculture, Natural Resources & Environment for the Fisheries Programme*) are calling the potential Implementing Agencies for expressing interest and submitting the relative applications. The projects are selected according to criteria, which are predefined from the Monitoring Committees. The detailed analysis of the procedures for selecting projects eligible for funding is presented in the Circular of 28/07/2004 issued by the Managing Authority (Planning Bureau).

Useful information and guidance regarding the Programmes of the Structural Funds are provided by the Planning Bureau (www.planning.gov.cy).

Alternative approach to infrastructure investment

During the last decades, new models for infrastructure investment have been developed. Many such models, under different names, can be found these days in developed and also developing countries. The European Union uses the term **Public-Private Partnership - PPP⁸**. Such models shift most of the roles and responsibilities for infrastructure investment from the public sector to the private sector. The assumption of this new approach is that the private sector can plan, finance, build, operate, maintain, and replace facilities in a more efficient way than the public sector, thus providing better infrastructure services to the public. However, better services might have, this goes without saying, their price.

At present we witness an ongoing trend towards private service production and mixed or private financing by public providers in the fields of energy supply, water supply, waste treatment. Security services and operations of prisons are already privatised or in the process of privatisation. The state is on its retreat in virtually all sectors of the physical and social infrastructure. As a consequence, the citizen has mutated from a beneficiary to a customer – sometimes to his advantage, sometimes not.

⁸ *Public Private Partnerships (PPP) is the umbrella name given to a range of initiatives which involve the private sector in the operation of public services. The Private Finance Initiative (PFI) is the most frequently used initiative. The PFI model was first used by the British Government to permit the modernisation of the public infrastructure through recourse to private funding. The same model is used in other Member States, sometimes with major variants. For example, the PFI model inspired the development of the “Betreibermodell” in Germany. The key **difference between PFI** and conventional ways of providing public services is that the public does not own the asset. The authority makes an annual payment to the private company who provides the building and associated services, rather like a mortgage.*

Positive effects appear, when, due to competition, better services are rendered at lower prices. Telecommunication services are a shining example. However, the customers face negative consequences when, after involvement of the private sector, a monopoly persists in the market. In these cases, prices can be fixed at maximum level, even though the services are poor. Some recently privatised railway companies in Western Europe give evidence for this phenomenon. If public utilities still enjoy a monopoly position and are prevented from external competition, services are cut in unprofitable areas, whilst overall prices go up.

With private production and private financing, **profit becomes a key concern of the investment**. One of the inevitable consequences is the risk of cherry picking: profitable projects for private investors and less gainful investments for implementation by the public administration. It has to be taken in mind that the private sector has to make profit and has to pay interest to banks financing the investment. This extra cost has to be compensated by savings elsewhere. Some of these savings may come from better management and higher efficiency claimed by the private sector. But why must management and efficiency be less efficient in the public sector? Thus, and even if the financial deal between the private and the public sector is concealed to the beneficiary-customer, there is always the question whether or not new private arrangements are a better deal for the general public.

Decisions about private investments in the public infrastructure (utilities) are in the first instance a political issue. Contracts with private investors who build (and maybe operate) facilities of the infrastructure are long-term commitments for typically 25-30 years. The cost-benefit-analysis and the risk management of these instruments have to be based on forecasts for the development of many economic parameters such as: birth/mortality rate, migration rate, tax income in the territory, unemployment rate, inflation rate, etc. Predictions for these parameters can only be assumptions. Hence, the risks for the profitability of a private investment are high and need to be covered, either by large margins, comfortable price adjustment clauses, or by latent cuts into the services.




Infrastructure contracts with the private sector are normally high-value contracts, very often concluded with international partners or consortiums. Therefore, such contracts are generally more complicated than traditional procurement contracts and require highly specialised economists and lawyers. Risk sharing and risk management is a very important issue. A public administration may have difficulties to install a project design team, to appoint a negotiation group with expertise in this field, and to find persons who will execute the contract management issues properly. Where such human resources and skills do not exist public administrations may seek advice from consulting firms specialised in this area, but such expertise is very expensive. Thus transaction costs to create and execute the contract may prevail over benefits from private involvement.



Much more than any other contract, a PPP contract has to pre-empt different worst-case scenarios over a long period of time: It has to make provisions for all sorts of thinkable developments: What if, what if what if



According to the existing European Union Green Paper on Public Private Partnerships and Community Law on Public Contracts and Concessions, published by the Commission on the 30th of April 2004 the public-private partnership (PPP) is not defined at community level. In general, the term refers to forms of cooperation between

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public authorities and the business community which aim to ensure the funding, construction, renovation, management or maintenance of an infrastructure or the provision of a service.

The following elements have normally to be addressed in PPPs:

- the relatively long duration of the relationship, involving different aspects of the cooperation between the public partner and the private partner for a planned project;
- the method of funding the project, in part from the private sector, sometimes by means of complex arrangements between the various players. Nonetheless, public funds - in some cases rather substantial – may be added to the private funds.
- the roles of the partners who participate at different stages in the project (design, completion, implementation, funding); the public partner concentrates primarily on defining the objectives to be attained in terms of public needs and outputs, quality of services provided and pricing policy, and takes responsibility for monitoring the compliance with these objectives;
- the distribution of risks between the public partner and the private partner to whom the risks traditionally borne by the public sector are transferred; however, a PPP does not necessarily mean that the private partner assumes all the risks, or even the major share of the risks linked to the project; the precise distribution of risks is determined case by case, according to the respective ability of the concerned parties to assess, control and cope with this risk.

The European Union proposes to make a distinction between:

- PPPs of a purely contractual nature, in which the partnership between the public and the private sector is based solely on contractual links, and
- PPPs of an institutional nature, involving cooperation between the public and the private sector within a distinct entity.

Frequent PPP contract forms are:

- **Design-Build-Operate (DBO)** contracts, e.g. for waste water treatment;
- **Design-Build-Operate-Finance (DBOF)** contracts, e.g. for designing, building/rehabilitating, operating, and financing an airport;
- **Concession contracts**, e.g. for designing, financing, building, operating, maintaining a toll road/bridge/tunnel.

Table 1-3: Web links for information on PPP/PFI

Some more detailed but still general guidance on PPP/PFI can be found from sources such as:

http://ec.europa.eu/internal_market/publicprocurement/ppp_en.htm

<http://www.environ.ie/DOEI/DOEIPol.nsf/wvNavView/wvdPPPartnership?OpenDocument&Lang=en>

<http://www.ppp.gov.ie/>

<http://www.balfourbeattyppp.com/balfourbeattyppp/what/pfidefinition/>

http://www.hm-treasury.gov.uk/documents/public_private_partnerships/ppp_index.cfm

<http://www.pppcentrum.cz/index.php?lang=en&cmd=page&id=1152>

<http://www.fhwa.dot.gov/ppp/defined.htm>

<http://www.centre.public.org.uk/outsourcing-library/>

<http://www.pppforum.com/faq.html>

<http://www.ppp.gov.za/>

Example 1-3: PPP/PFI in the National Health Service (NHS) of the UK

PFI was and is frequently used in many public service delivery areas in UK (health, education, prisons, highways, etc.). In the area of hospital services PFI means:

- design, build facilities and operate non-clinical services;
- in some case also operate clinical services;
- consortia of builders, bankers and service operators are involved;
- land owned by NHS is sold or “given” to private operators (lease for more than 150 years);
- NHS leases back buildings and services (lease for 30-60 years).

PPP contracts mean increased transaction costs for pricing, contracting, administration, overheads, marketing, monitoring and billing. These extra costs are not always “repaid” by increased efficiency.

The success of PFI generally differs from case to case. According to the Treasury research 88 % of PFI projects were implemented in time or earlier and with no costs overruns for the public sector. 70 % of non-PFI projects were late and 73 % of non-PFI projects ran over budget.

The success of PFI in hospital projects is too early to asses. It has to be judged on the base of final outcomes. However, in all investigated cases the final costs overran significantly planned estimates – the increase was from 33% in Wellhouse to 229 % in Swindon.

PFI has impacts on main capacity indicators – the number of beds, nurses and doctors in all investigated hospitals is decreasing. Would this imply shortened services to citizens? At this point in time, it is impossible to predict this.

General short term conclusions based on findings about PFI in UK hospital sectors are as follows:

- PFI increases capital costs and leads to capacity reductions;
- Private involvement in health sector increases;
- The financial crisis of NHS deepens.

It remains to be seen, whether the long term consequences are more optimistic or not.

1.5.1.2 Cost/ Benefit Analysis

The **Cost/ Benefit Analysis (CBA)** is an economic assessment tool/ technique for comparing the anticipated benefits of proposed investments/ projects with the corresponding costs to help users identify the alternative with the maximum net benefit (benefits minus costs). The more the benefits exceed the costs, the more the end users (society) will benefit from the project activity or policy decision.



In this context, the CBA can be used not only during the development of Business Case for the identification of the most preferable solution option, but also during the Inception & Prioritising Stage in order to give a higher priority to the investments/ projects which prove to be more profitable efficient not only in monetary but also in socioeconomic terms (refer to subchapter 1.4.2 “Setting Priorities”).



It should be noted, that wherever possible the CBA should be undertaken from a national perspective rather than government or departmental perspective. This is often termed “*economic CBA*” and is preferred because the actions of one agency or department can impose costs or benefits on individuals or the nation as a whole (e.g. increasing the size of a programme operated by a particular department may assist the operation of the department but may nonetheless require a large increase in income tax on individuals). In other words, economic CBA seeks to capture all benefits and costs regardless of to whom they accrue. Of course, in case of investments or projects where costs and benefits are limited to impacts on an individual agency or department (e.g. purchase of new notebooks for a department, lease or buy decision for an agency building), a “*financial CBA*” should be used. That is to consider only the benefits and costs to an individual agency or department.



The elaboration of a CBA is usually a complicated and sophisticated task that should be carried out by specialised professionals or assigned to external advisors, since it involves advanced calculations and financial analysis, which require a relevant background knowledge and familiarisation with investment appraisal techniques. Especially in cases of large investments/ projects, where the CBA may be a prerequisite in order to apply for EU funding (e.g. investments for waste treatment, water supply and depuration, transport, etc.), the CBA should be conducted very carefully and by specialised experts in order to justify the request for co-financing and receive the relative approval.



However, for the purposes of this Guide a ***simplified approach for conducting CBA*** is presented in **Annex 1-3** in order to facilitate users with little economic or financial knowledge in identifying whether an investment or a project is worth implementing.


The most important parts of a CBA are the following:


- Determining the lifetime of the investment/ project (period of analysis)
- Identifying all relevant costs and benefits of a given investment/ proposal/ option
- Valuing all relevant costs and benefits of a given investment/ proposal/ option (assigning monetary values)
- Preparing the cashflows for the analysis period


- Discounting of cashflows to present values
- Calculating the Net Present Value (NPV)
- Evaluation of alternative options and selection of the preferred option

1.5.1.3 Feasibility Study

A **Feasibility Study** is the analysis of a business problem to determine if it can be solved effectively. The operational (will it work?), economical (costs and benefits) and technical (can it be built?) aspects are part of the study. Results of the study determine whether the solution is feasible in all the above aspects and thus should be implemented.

 It should be noted that the economic feasibility of an option or a project is typically assessed through a Cost/ Benefit Analysis (*refer to subchapter 1.5.1.2*), which can be performed either in the framework of a Feasibility Study or as a separate study and then incorporate its results in the overall Feasibility Study.


 Conducting a feasibility study is usually a complicated task that should be undertaken by specialised professionals or assigned to external consultants with relevant experience in conducting such studies, as well as with relevant background to the scopes under consideration. Feasibility studies for large scale projects are usually conducted by a team of experts in order to cover all aspects of solution's feasibility. For example, in case of a bridge construction project, it is necessary to appoint an architect or civil engineer in the feasibility study team in order to examine the technical feasibility of the proposed solution, an economist or financial analyst to examine the economical feasibility, an environmental expert to assess the environmental impacts of each solution and a transport specialist to examine the operational efficiency (e.g. forecasted vehicle load, impact on traffic) of the constructed bridge.

 Especially in cases of large investments/ projects, which are proposed for receiving EU funding (e.g. investments co-financed by the Cohesion Fund or ISPA) the Feasibility Study is a prerequisite of the application folder and should be conducted very carefully and by specialised experts in order to justify the request for co-financing and receive the relative approval.

Feasibility Study is usually undertaken as part of the overall Business Case process to add more rigour to the solution options presented in the Business Case. For this reason, the topics defined in both the Business Case and Feasibility Study documents are quite similar. However, the feasibility study may be conducted prior to the Business Case in order to minimise the alternative solutions by excluding those which are either infeasible or they proved to be the least feasible. In this case the results of the Feasibility Study should be included in the Business Case document either under the relevant heading or as an annex (if they are too analytical and extended).

Even though the Feasibility Study is usually outsourced to specialised consultants, the project designers should be accustomed with the basic topics included in a Feasibility Study

in order to be in a position to provide the appropriate input to the external consultants, as well as to interpret the results in order to use them in the presentation of the Business Case.

 The **topics that are usually included in a Feasibility Study** and some basic guidance on how to deal with each topic are presented below.

Tool 1-5: Typical Contents of a Feasibility Study

- **Executive Summary:** *Outline the problem or opportunity, the project requirements, the feasibility assessment results and the overall outcome.*
- **Problem Statement:** *Firstly, describe the **business environment** which contains the business problem (or opportunity) by taking into account the external environment (e.g. products and services available, technology and commercial or operational trends, statutory or legislative changes), the business vision, strategy or objectives, the business organisation (e.g. units relevant to this project, internal communication lines), and the Business processes (e.g. procurement, supply chain management, IT systems, HR management, strategic planning, finance/accounting, manufacturing/logistics, engineering). Then provide **a full description of the core problem (or opportunity)**, refer to the reasons why the problem exists (or provide support evidence that the opportunity exists), describe the impact it is having on the business (or the positive impact that the realisation of the opportunity will have), and state the timeframes within which it must be resolved (or for which the opportunity will likely exist).*
- **Requirements Statement:** *List the key **business drivers** for this project (e.g. changes to legislative framework, a particular citizens' need that must be covered within a certain period, limited timeframe for the absorption of EU funds). For each business problem (or opportunity) describe the detailed **business requirements** (e.g. training of employees in the new procedures, establishment of a new business unit, 20% increase in the existing connections to the water supply network, upgrade of existing IT networks)*
- **Feasibility Assessment:** *Provide a detailed description of each solution option. Assess the feasibility (or likelihood) of each solution option to meet the requirements defined above. To assess the overall feasibility of each option, break the solution down into components and rate the feasibility of each component. To ensure that the feasibility ratings are accurate, use all appropriate methods possible to identify the likely feasibility of the solution. For example, if adopting new technology, develop a small prototype and test it to see if the resultant benefits match those expected from the exercise, or if considering changes in business processes perform staff surveys and interviews, or if considering to purchase, rent or lease a new product/ service undertake market surveys. Then describe the actual result of the assessment in comparison with the expected result. Finally, describe also the risks and assumptions associated with the feasibility of each option.*
- **Feasibility Ranking:** *List the criteria used to rank the alternative options (e.g. technical feasibility/ implementability, environmental impacts/ sustainability, economic viability, social acceptance) and describe the scoring/ weighting mechanism used to produce the overall result.*
- **Feasibility Result:** *Based on the feasibility ranking, identify which option has achieved the highest total score and thus is the most feasible for implementation. Summarise the key reasons why this option is most likely to meet the business requirements.*

- **Appendix:** Attach any documentation relative to the study such as: results of a cost/benefit analysis performed to examine the economic viability of each option, market research documents and statistics, risk assessment reports, detailed feasibility assessment results, etc.

In order to give an example of the use of a feasibility study in practice, we will examine the case that a Municipality is thinking to create a green park for its citizens and wants to identify which of the two available places will be the best for its location. The following example summarises the basic contents of the feasibility study which was carried out by a private consulting company on behalf of the Municipality. **It should be noted that the example is very simplified and represents only a snapshot of a feasibility study in order to serve the purposes of this Guide and be understandable from people who don't have the expertise in elaborating feasibility studies.**

Example 1-4: Summarised contents of a feasibility study for the selection of the best location of a green park

- **Executive Summary:** The scope of the study is to examine the feasibility of creating a Municipal green park at two different sites in order to decide which of the two options is preferable.
- **Problem statement:** The large increase of the Municipality's population in combination with the consequent increase of the residence and commercial buildings have limited the open spaces where the citizens could spend a few hours of calmness and their kids could find a place to play and have fun. The Municipality's objective is to create a green park to cover this emerging need, but it is not sure about which of the two available sites (Site A is located very close to the centre of the town and Site B is located a few km out of town at the foot of a small hill) to select.
- **Requirements Statement:** Creation of a green park that will include a variety of trees, a small lake (30 m² surface), walking and jogging paths (aprox. 800 m long), a café with capacity for 80 people and a 200 m² playground for the kids. The cost of built should be no more than €700.000.
- **Feasibility Assessment:** In order to assess the feasibility of each option the main characteristics for each Site were analytical described: accurate topographical site, dimension in m², proximity (to the centre of the town, the nearest bus station, the nearest motorway), adequacy of water reserves.
 - **Site A:** The whole area is Municipality's property. Land surface 780 m², 800 meters and 10 minutes walking from city centre, the area is served regularly by city bus with frequency of lines 5' to 10', duration 4 minutes and ticket cost €0,60. The main problem of the area is the high noise levels, since it is located near the centre of the town and next to the busiest road.
 - **Site B:** The 2/3 of the area is owned by the Municipality and the other 1/3 is private property of several individuals. Land surface 1,050 m², 6 kilometres from the city centre, the area is nearby the highway that connects the town with the airport and has a parking space for 100 cars. It is also served regularly by the city bus with frequency of lines 15',

duration 10' and ticket cost €1,00. The area has significant resources of water and the greatest percentage of its surface is covered with trees. However, the place is having a big problem with mosquitoes, since it is located near a small stream.

- **Feasibility Ranking:** The two basic categories of criteria that were used to evaluate the alternative choices were: a) **Benefit of Implementation** (all factors that contribute in the success of the choice) and b) **Requirements of Implementation** (restrictions and cost). The criteria used for each category were:
 - The criteria for the **Benefit of Implementation** were: proximity to the town centre, accessibility, services provided by public transport, position in relation to inhabited areas, accessibility cost
 - The criteria for the **Requirements of Implementation** were: legal restrictions, specific physical restrictions (water reserves, noise), cost of land acquisition, sufficiency of networks (electricity, telecom), landscape morphology

Each of the above criteria were scored/ weighted by two parameters:

- **Significance:**
 - Grade 3: High significance
 - Grade 2: Medium significance
 - Grade 1: Low significance
- **Intensity:**
 - High ● (it corresponds in grade 5 in a scale from 1 to 5),
 - Low ○ (it corresponds in grade 1 in a scale from 1 to 5),
 - Intermediate grades ●○○○

The scoring of the comparative evaluation is being presented in following tables.

Table A: Ranking of the **Benefit of Implementation** criteria

Evaluation Criteria	Significance Degree	Intensity		Score		Documentation
		Site A	Site B	A	B	
Proximity to the town centre	2	●	○	10	4	Site A: 800m from town centre, Site B: 5 km. Quite big difference in the distances.
Accessibility	3	●	○	12	9	Site A: 10' on foot, Site B: You can't go on foot but you could drive (available parking)
Services provided by public transport	3	○	○	6	6	Both sites are serviced by the same public transport.
Position in relation to inhabited areas	1	●	○	4	2	Site A: Near to town centre with population of 80.000, Site B: 5 km away from inhabited areas
Accessibility cost	2	●	○	8	6	Site A: No cost if you walk or €0,60 if you take the bus, Site B: €1 by bus or ~€0,80 by car (fuel cost). Site A receives a higher score because it has lower accessibility cost.
			TOTAL	40	27	

Table B: Ranking of the **Requirements of Implementation** criteria

Evaluation Criteria	Significance Degree	Intensity		Score		Documentation
		Site A	Site B	A	B	
Legal restrictions	1	●	○	4	2	Site B requires alienation of land from individuals, where Site A is totally owned by the Municipality. Site A receives a higher score because it has fewer legal restrictions.
Specific restrictions	3	○	●	6	12	Site A: Has no adequate water resources and problem with high noise levels Site B: Has



						mosquitoes' problem but this problem can easily be solved, so it receives higher score.
Cost of land acquisition	3	●	◐	15	6	Site A: No cost of land acquisition (Municipality's property) Site B: ~ €100.00 to buy the land from the individuals
Landscape morphology	3	◐	●	6	15	Site A: The landscape needs many interventions to be transformed into a green park, Site B: The morphology of the area is identical for a green park, since it is located near a hill with many trees and is also crossed by a small stream.
Sufficiency of networks	2	◐	◐	6	6	Both Sites have no problem with the established electricity and telecommunication networks
			TOTAL	37	39	

- Feasibility Result:** According to the results of the feasibility assessment model, **Site A scored 77 points** in the two categories of criteria, while **Site B scored 66 points**. Therefore, **the option to create a green park in the centre of the town (Site A) proves to be more feasible than the option to create it a few kilometres away (Site B)**. The main reasons that Site A predominates Site B in terms of feasibility is that it is located in the town centre (i.e. it is easier and faster accessible) and it doesn't involve any acquisition of land (i.e. no cost for land acquisition and no legal restrictions).



The conclusions of the feasibility study should outline in depth the various alternatives examined and the implications and strengths and weaknesses of each. The project designers need to study carefully the feasibility study and challenge its underlying assumptions. Don't expect one alternative to "jump off the page" as being the best one. Feasibility studies do not suddenly become positive or negative. As you gather information and investigate alternatives, neither a positive nor negative outcome may emerge. The study will help you assess the trade-off between the risks and rewards of moving forward with the project. Remember, it is not the purpose of the feasibility study or the role of the project designer/ consultant to decide whether or not to proceed with a project idea, it is the role of the decision makers.

1.5.2 Appointment of the Executive and Project Manager

Once the business case is approved by the Project Owner and a recommended solution has been put forward, the Executive and the Project Manager must be appointed, so that the "Project Fiche" can be prepared and decisions can be taken.

The process to be followed is:

- Selection of the Executive from the Project Owner
- Selection of a person who possess all the skills and qualifications to manage the project (Project Manager)
- Confirmation of the availability of the selected people and checking of their commitment to carry out these roles
- Appointment of the Executive and Project Manager

- Confirmation of their appointments via agreement to job descriptions.



For large projects or projects of strategic importance, agreed job descriptions should be signed by the persons undertaking each role. For small or low risk projects it may not be necessary to have formal job descriptions but the selected persons should have read and understood the responsibilities contained in the role descriptions included in the “Project Fiche” (refer to 1.5.3.4).

The Executive should:

Checklist 1-1: Characteristics that the Executive should possess


- be a senior reputable figure approved by the Department/ Agency Management Board*
- have a good understanding of the business issues associated with the project*
- have the authority to take decisions and to ensure whether the project achieves its objectives*
- have good relationships with all the stakeholders so that they accept to be represented by him/ her*
- have sufficient experience and knowledge to carry out his/her responsibilities*
- be active, with good communication skills and ability to influence people*
- be fair and accountable*

Correspondingly, the **Project Manager should:**

Checklist 1-2: Characteristics that the Project Manager should possess

- be a professional with University Degree or Post Graduate studies in a discipline which is relevant to the industry within which the current project is being undertaken*
- have experience in project management. Depending on the scale and complexity of the current project, the minimum experience required to undertake this role successfully must be outlined. Experience may be defined in terms of:*
 - *the types of projects the person has been involved with*
 - *the industries within which the projects were undertaken*
 - *the size and level of complexity of the projects managed*
 - *the number of years spent in managing projects*
- be able to apply standard project management approaches and methodologies*
- be able to produce a detailed project plan and maintain it*
- be able to direct, manage and motivate the project team*
- be able to plan and manage the employment of resources in order to meet the milestones set in project plan*
- understand the financial aspects*
- be able to define appropriate quality targets and standards*
- have the knowledge of quality assurance and control techniques to ensure that the targets*

- and standards are met*
- have the knowledge on how to apply change management processes effectively*
 - be able to build and sustain effective communications with the other roles*
 - be accountable methodical, inspirational and motivational.*

 Before finalise the selection of the Executive and Project Manager, it is suggested to answer the **questions in the following checklist**. The purpose of these questions is to ensure that the most significant criteria for the selection of the appropriate persons have been used.


Checklist 1-3: Summarised checklist for the selection of the Executive and Project Manager

1. Does the proposed Executive have the appropriate authority to support the project adequately?	
2. Do the selected people have the skills, knowledge and expertise to undertake their tasks?	
3. Does the selected Project Manager have previous experience in the field?	
4. Has the selected Project Manager participated in training programmes concerning project management methodologies, practices and tools?	
5. Apart from the professional experience and qualifications the selected people possess, do they have the interpersonal characteristics required to ensure that they will fulfil successfully their duties?	
6. Has the availability of the appointees been checked for the whole project execution period?	
7. Are any appointees likely to change job in the near future? If yes, does this mean that they can not participate any longer at the project?	

1.5.3 Establishment of Project Fiche

The **Project Fiche** is a key document which forms the basis for the initiation of the project. It outlines the purpose of the project, the way the project will be structured and how it will be successfully implemented. It describes the project's:

- Scope, objectives, main activities and deliverables
- Project organization, roles and responsibilities
- Provisional budget, possible risks, assumptions and constrains.

 Project Fiche is being completed by the Project Manager after the Business Case and Feasibility Study have been approved but before the **Project Team** is formally appointed. After being reviewed by the Executive, the Project Fiche is being presented to the Senior Management of the Project Owner in order to be approved. By signing the Project Fiche, the Project Owner (representing the beneficiaries), the implementing agency and the funding agency enter in an agreement for the implementation of the project.



A **template of Project Fiche** is being presented in **Annex 1-4**. In this template except of the suggested contents, guidance and examples are being provided. Furthermore, in the same **Annex a completed Project Fiche⁹** is being presented in order to facilitate the understanding on how each section should be completed.



In case of a **Project that is proposed for receiving EU funding, the Final Beneficiaries should complete and submit standardized Project Fiches** (Project Fiche for Projects funded by the European Social Fund (ESF), Project Fiche for Infrastructure Projects, and Project Fiche for Grant Schemes). The templates of these Project Fiches are available in the Planning Bureau's site www.planning.gov.cy and include information concerning the scope and objective of the project, the physical object of the project, data indicating the feasibility and maturity of the project, elements of financial planning – budget included as well as monitoring indicators. Instructions on how to complete these Project Fiches are available at Planning Bureau's site as well as in the Circular No 3 issued on the 17th of November 2004. The current editions of the templates of the above mentioned Project Fiches are presented in the **Annex 1-5**.

The preparation and compilation of the Project Fiche has as prerequisites the following:

- Determination of the project approach
- Defining procurement needs of a project
- Estimation of the project Budget
- Design of the Project Organization
- Major risks identification


1.5.3.1 Determination of Project Approach

In the design phase of a project the project designers should determine the time frame for the project implementation. In order to achieve this, an initial breakdown of the project into smaller components (subprojects or components or tasks or activities) and determination of the time needed to implement each one, should be made. The breaking down aims to facilitate the formulation of the implementation approach and help the project manager to develop an appropriate project plan at a later stage. Each project usually dictates the breaking down method to be applied which normally will be one of the following:


- **Time Sequence:** This way is preferable when some steps must be completed before others start. For example, in case of a training project, this can be broken to: the training needs identification component, the training programme preparation, the training programme implementation and finally the training programme evaluation.

⁹ This example refers to existing Cypriot Project that has been funded by EU Transition Funds. Therefore, all the information included is based on the "Standard Summary Project Fiche" which was submitted to the EU for approval.

- **Structurally:** Any large size project has structural elements that give the project shape. For example, the construction projects that include design and build, are usually divided in these two components, which sometimes are being awarded to different subcontractors. Projects that include business process reengineering and development of IT systems (to support the implementation of the new processes) are divided into two components one related to the processes themselves and another related to the IT system.
- **According to the organizational unit/ contractor that is planned to implement the project.** In this case the work components are broken down according to the organizational units that are going to implement each component. Accordingly, when the project is going to be implemented by external resources, the work components must be split according to their future assignments to different contractors.

 After the breaking down of the project into components/ activities, the time needed for implementing each one should be determined. This should be done by asking yourself the following questions:

- Are there any historical data regarding the durations for the implementation of similar previous activities? Such data or information should be taken into account when estimating activities' duration.
- Are there any links or constraints between the components/ activities of the project? For example, in order to start implementing one activity another one should have finished first (Finish-to-Start) or the implementation of two activities should finish at the same time (Finish-to-Finish).
- Are there any dependencies with other projects? Are there any components/ activities which come as a result or require input from the components/ activities of another project?
- Are there any deadlines that should be strictly observed? For example, in case of a project regarding the harmonization of the Cypriot Law with the EU Directives, the deadlines defined by the EU should be respected and treated as fixed milestones.
- Are there any identified possible risks that may affect the timely implementation of some activities? In this case incorporate an additional timeframe, called "time reserve" or "contingency" in order to provide for scheduled risk.
- Are there any components/ activities that are going to be procured? If so, then provide time for the whole procurement process (preparation of tender documents, announcement, tendering process, evaluation of tenders, contract award).

 Analytical Work Breakdown Structure and time scheduling of project's activities are prepared during the Planning phase, which is presented in Chapter 7 of this Guide.

Example 1-5: Breaking down a project into components

PPD designs to implement the following project: "Measures to develop the implementing capacity of the Cypriot Authorities in applying the European Public Procurement legislative package".

The project breakdown leads to three components:

Component 1: Improving the implementing capacity of the Cypriot Authorities

Component 2: Harmonization of legislation

Component 3: e-procurement study.

The **first component** includes the following:

- Preparation of a set of recommendations concerning the role, organization, processes of the PPD, as well as the services that has to provide in the future, according to the new legislative framework
- Compilation of an Action Plan for the PPD in order to be ready to undertake its new role
- Preparation of a Best Practice Procurement Guide giving guidance on the practical aspects of the procurement process, starting from the identification of the needs up to the contract management and contract closure
- Proposal of a training programme and provision of training courses/ seminars which will help the staff in the public sector and semi-governmental organizations to assimilate the provisions of the new Directives as well as the best practices indicated by the Best Practice Guide.

The **second component** includes the following:

- Comparison of the national legislation with the new EU Directives concerning Public Procurement (EC/17/2004 and EC/18/2004) and drafting the changes that have to be done in the national laws
- Drafting of new legislation (two national laws) which has to include the necessary amendments

The **third component** includes the following:

- Preparation of a study concerning the application of e-procurement in Cyprus
- Preparation of Terms of Reference to be used for launching the implementation phase of e-procurement.

The above presented is a typical example of breaking a project down into its structural elements. Each of the components includes activities that are logically and thematically correlated, formulating a cohesive unity which leads to discrete deliverables.

1.5.3.2 Definition of Procurement Needs

It is useful to enquire, already during the design phase of a project, to what extent procurement will be necessary during the implementation phase of the project, because there might be components in the project that the implementing agency can execute with own capacities. This will influence the technical solutions, staffing, and the project budget.

The implementing agency of a project is responsible for the timely, cost-efficient, and good-quality delivery of the entire project. Depending on its in-house capacity - in terms of know-how, available equipment, and workload - it will decide what share of the project outputs it will implement with own forces and what share will have to be implemented through procurement.

In-house production is the method to implement certain tasks using internal “technical” resources. This approach requires holding ready capacities in terms of equipment, qualified staff, and other resources. It may be justified if there is a stable amount of work that can be carried out in a cost-efficient manner.

The appeal of this approach is that it takes just in-house management decisions to mobilise these resources. These capacities can operate like a “fire brigade”. There is no need to go through the preparatory work of procurement. No specification writing, no request for offers,

no evaluation, no contract, no loss of time. This is the option to choose for time-critical or mission-critical tasks. IT help desks are a typical example. In certain circumstances it can be reasonable to establish own capacities in order to be flexible and “independent”.

However, this scenario can be expensive, if the workload is not stable and part of the capacity would be idle. These days, almost any delivery can be made available from external providers at short notice.

Implementation through procurement uses external (technical) resources to implement part or the entire delivery, i.e. project execution under one or several contracts.



It is necessary to understand and to accept that by purchasing goods, services and/or works, part of the control on the execution is given away to an outside entity (an economic operator) that is not under the project management’s immediate control.



The only controls left to an implementing agency that lets execution to external resources are the clauses of the respective contracts. In this case, exact and complex planning, professional procurement and close monitoring become the key functions of project implementation. Flexibility and “independence” are limited, because necessary changes can only be made by negotiating modifications in existing contracts or by establishing new ones which can be time consuming, expensive, or simply impossible for one or the other reason.

When implementing projects through procurement, the professional profile of the implementing agency shifts from “execution” to “organising the execution” (through planning purchasing, monitoring, administering).

If unfamiliar with procurement, project designers may, in the project’s setting-up phase, seek advice from procurement experts on questions such as:

- procedures to be followed and related delays for procurement exercises they envisage
- market situation (competition, sources, shortages, etc)
- logistic issues
- cost implications



In case it is decided to proceed with the procurement exercise, project designers should also investigate whether there is the opportunity to benefit from existing Framework Agreements provided that they are entitled to do so (or to consider using the tool of Framework Agreements for the implementation phase).

Example 1-6: Defining the procurement needs of a project

PPD designs to implement the following project: “Measures to develop the implementing capacity of the Cyprus Authorities in applying the European Public Procurement legislative package”.

As it has been presented above, the project breakdown has lead to the following three components:

Component 1: Improving the implementing capacity of the Cypriot Authorities

Component 2: Harmonization of legislation

Component 3: e-procurement study.

The first component include three basic activities, each of which deals with different kind of services: Compilation of Action Plan, Compilation of a Best Practice Guide, Formulation of training strategy and implementation of training programmes. The diversity of specialization needed for the implementation of these activities, the expertise needed by countries which have been formerly members of the EU and thus are more familiarised with the *acquis communautaire*, in conjunction with the limited number of human resources available by PPD, lead the Public Procurement Directorate to decide to take advantage of the Technical Assistance Funds and to outsource the implementation of the component to consulting companies.

The second component includes the drafting of Laws and thus demands legal expertise. Taking into consideration that from the 18 employees of PPD, no one is lawyer, PPD decided to hire legal advisor to implement this component.

The third component includes compilation of a study concerning the application of e-procurement in Cyprus as well as the preparation of relative Tender Documents. The implementation of this component requires expertise in e-procurement systems of other EU countries, as well as IT specialisation and expertise. Therefore, PPD decided to take advantage of the Technical Assistance Funds and to procure the implementation of the component.

1.5.3.3 Estimation of Project Budget – Determination of Funding Sources


The **Project Budget** includes a reasonable estimate of the financial support required to conduct the project, including justification of budget expenses. How much will have been spent for a project until it is completed depends on various direct and indirect costs occurring in all phases of project lifecycle.

The common categories of **direct costs** (expenses which can be specifically identified for a particular project) are:

- personnel (salaries, wages, allowances & fringe benefits)
- materials & equipment (premises, furniture, office equipment, machines, tools, vehicles, etc)
- travel (transportation, accommodation, per diems, etc)
- external advisors/ consultants (providing expertise and technical support such as elaboration of feasibility studies, etc)
- maintenance costs, if it is included in the scope of the project (regular and irregular maintenance/ service of infrastructure, equipment, vehicles, etc)
- training, if required (training material, lecturers, rent of venues, per diems)
- **cost for acquiring goods, services or works (procurement costs, contracting fees)**
- contingencies (cost to cover risks and related unforeseeable expenditures; high risks identified in the risk assessment may entail substantial allocation for this line item)

The **indirect costs** are those incurred through common activity and, therefore, cannot be specifically identified for a particular project. The most typical example of indirect costs is the overhead costs of the implementing agency (e.g electricity, water, heating, telecommunications, office rental and maintenance, administration support).

Taking all considerable cost elements together, the project designers shall develop a provisional project budget, including estimations and forecasts on the most relevant expenditures to be expected. In addition they should identify the sources from which the project will be funded and the contribution of each source to the financing of the project. Attention should be paid in case of EU co-funded projects, where the costs which are not eligible for funding (e.g. salaries and wages of public servants are not eligible expenses) should be excluded from the project budget.

 A simple form, which can help project designers to calculate the provisional project budget and determine the funding sources, is presented below:

Tool 1-6: Calculating the Provisional Project Budget & Determining the Funding Sources

COST ANALYSIS	UNITS	COST/UNIT (€)	TOTAL COST (€)
1. Project Initiation Costs			
1.1 Personnel (involved in the project design i.e. Project Fiche, Technical Drawings, CBA, Feasibility Studies, etc.)			
1.2 Material & Equipment (e.g. stationary, other consumables)			
1.3 Travel (e.g. for market research, interviews, site visits)			
1.4 External advisors/ consultants (e.g. Project Fiche, Technical Drawings, CBA, Feasibility Studies, etc.)			
1.5 Contingencies			
1.6 Overheads/ Administration costs			
1.7 Other (e.g. surveys, pilot projects, prototypes, etc.)			
SUBTOTAL 1:			
2. Procurement Costs¹⁰			
2.1 Personnel (involved in the procurement process e.g. preparation of Tender Documents, participation in Evaluation Committees, etc.)			
2.2 Material & Equipment (e.g. stationary, other consumables)			
2.3 Travel (e.g. market research, interviews, site visits)			
2.4 External advisors/ consultants (e.g. Preparation of Tender Documents, legal advice etc.)			
2.5 Contingencies			
2.6 Overheads/ Administration costs			
2.7 Other (e.g. publication expenses)			
SUBTOTAL 2:			

¹⁰ Costs associated with the tendering process i.e. procurement planning/strategy, preparation of tender documents, tender announcement, tender evaluation, contract award. For more details refer to subchapter 1.8.3 "Procurement Costs"

3. Project Execution & Control ¹¹			
3.1 Activity/ Component 1			
3.1.1 Personnel (involved in the project & contract management or/and in the production of deliverables)			
3.1.2 Material & Equipment (e.g. construction material, usage of machinery, consumables, software licenses, etc)			
3.1.3 Travel (e.g. site visits & inspections, meetings, etc.)			
3.1.4 External advisors/ consultants (involved in the project & contract management or/and in the production of deliverables)			
3.1.5 Contingencies			
3.1.6 Overheads/ Administration costs			
3.1.7 Other costs (e.g. communications, publicity actions, cost of capital, tax, etc.)			
3.2 Activity/ Component 2			
3.2.1 Personnel			
3.2.2 Material & Equipment			
3.2.3 Travel			
3.2.4 External advisors/ consultants			
3.2.5 Contingencies			
3.2.6 Overheads/ Administration costs			
3.2.7 Other costs			
3.3 Activity/ Component 3			
3.3.1 Personnel			
3.3.2 Material & Equipment			
3.3.3 Travel			
3.3.4 External advisors/ consultants			
3.3.5 Contingencies			
3.3.6 Overheads/ Administration costs			
3.3.7 Other costs			
3.x Activity/ Component			
			SUBTOTAL 3:

¹¹ Costs associated with the production of deliverables (e.g. supply of goods, delivery of services, performance of works, etc.) and project & contract management. The cost estimation should be made separately for each activity/ component (refer to subchapter 1.5.3.1 "Determination of Project Approach"). The total cost for project execution and control is given by adding up the estimated cost of each activity.

4. Project Closure			
4.1 Personnel (involved in the closure of the contracts, the evaluation of project performance, etc.)			
4.2 Material & Equipment (e.g. stationary, other consumables)			
4.3 Travel (e.g. site visits & inspections, meetings, etc.)			
4.4 External advisors/ consultants (e.g. technical support for project & contract closure, legal advice, evaluation of project performance etc.)			
4.5 Contingencies			
4.6 Overheads/ Administration costs			
4.7 Other costs (e.g. communications, publicity actions, etc.)			
		SUBTOTAL 4:	
		TOTAL BUDGET:	

FUNDING SOURCES	% CONTRIBUTION	AMOUNT (€)
Funding Agency (own budget resources)		
EU Funds		
Grants/Loans		
Other contributions (e.g. Private Funds)		
		TOTAL FUNDS:



Note: The Total Budget must be covered by the Total Funds.



You should not lie when calculating necessary project budget. Some project owners show an irresponsible optimism (or shall we say: they are lying) when estimating lifetime and/or initial cost of some prestigious project just to have it approved. It is true: once an important project has started it is almost impossible to stop it. But such light-hearted optimism doesn't pay off. It is not worth the experience, because heavy cost overrun is bad for the reputation and for more important investment in the future.



What is important in this regard is the need to plan and control the project related costs sometimes over several financial (budget) years. Some projects are co-financed and funded from several budgets. This may limit the possibility for budget revisions, i.e. shifting funds between budget lines. It is worth mentioning that funding may influence the applicable procedures to incur expenditures.

1.5.3.4 Design of Project Organisation

The main objective of this task is to design the appropriate **Project Organisation** structure (roles and responsibilities). This structure is temporary, specifically designed to manage the project to its successful conclusion and to meet the requirements defined in the Project Fiche. This structure depends:

- mainly on the size and complexity of the project
- on whether the project includes procurement or not

In this perspective, the organization chart will be specific to each project. However, for the purposes of this Guide, an organization structure is being presented, which is quite generic, compatible with **PRINCE2 methodology**¹² and sufficiently flexible to be mapped to any environment.

A fundamental principle is that the project organization structure has four layers which undertake:

- Direction of the project
- Day to day management
- Team management and
- Execution of the project

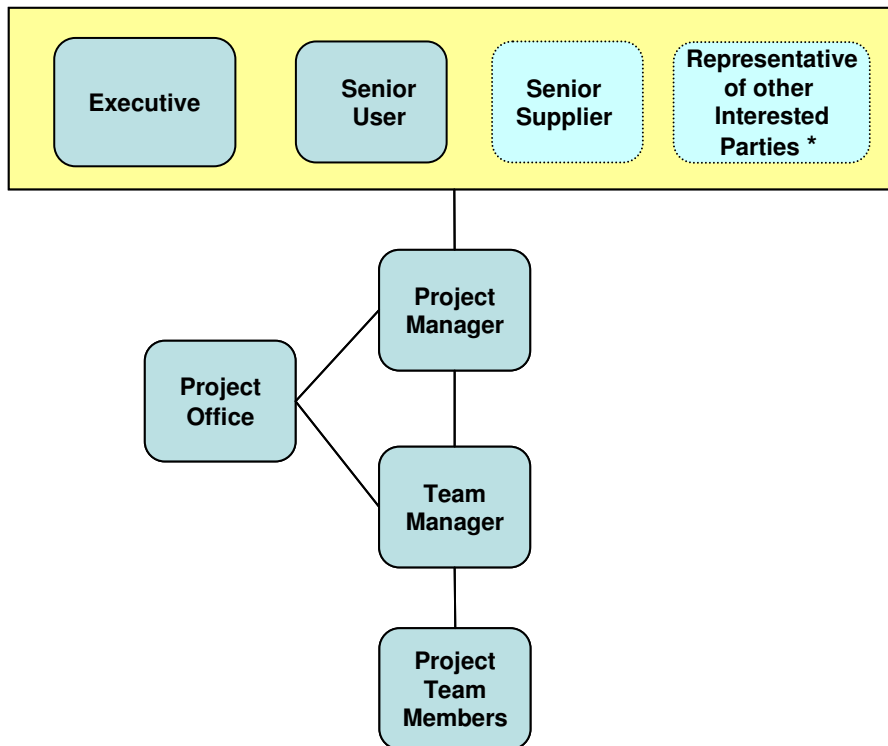
The **Project Management Team** performs the first three layers while the Project Team performs the last layer either by performing "production" work or by cooperating with the team members of the Contractor in case that the implementation of the project is outsourced.



The roles indicated in the following figure and described below, explain the normal responsibilities and tasks of each member of the Project Management Team. It is noted that these roles can be shared, divided or combined according to the project's needs. Thus, **some responsibilities for a role can be moved to another role or delegated but they should not be dropped. The Project Management Role can not be shared, neither can the Project Manager or Project Steering Committee decision making roles be delegated.** The Project Steering Committee may however delegate some or all of its Quality Assurance responsibilities to another role, usually called Quality Assurance Manager.

¹² **PRINCE**, which stands for *Projects in Controlled Environments*, is a project management method covering the organisation, management and control of projects. PRINCE was first developed by the Central Computer and Telecommunications Agency (CCTA) now part of the Office of Government Commerce (OGC) in 1989 as a UK Government standard for IT project management. Since its introduction, PRINCE has become widely used in both the public and private sectors and is now the UK's de facto standard for project management. Although PRINCE was originally developed for the needs of IT projects, the method has also been used on many non-IT projects. The latest version of the method, PRINCE2, is designed to incorporate the requirements of existing users and to enhance the method towards a generic, best practice approach for the management of all types of projects.

Project Steering Committee



*** Note:** In some cases, apart from the Project Owner and the representatives of the Beneficiaries that will use the output of the project, representative(s) of other interested parties may participate at the Project Steering Committee (e.g. representatives of the Planning Bureau in case of EU funded projects).



Figure 1-10: Project Organisation Structure

Project Steering Committee

The **Project Steering Committee** should represent at managerial level the business, user and supplier interests. The products of the project should meet the business need and give value for money. Therefore, there should be representation of the business to ensure that these prerequisites are fulfilled throughout the project. In addition representation is needed from those who will use the final products, as well as from the supplier who provides all the necessary resources and skills for the creation of the end products.



In certain business environment it is difficult to consider and discuss issues having the supplier represented on the Project Steering Committee, because there might be questions of confidentiality or conflicts of interest. Besides the customer representatives may not wish to discuss everything in front of the supplier. However, and since the participation of the Supplier's Representative in the Project Steering Committee seems necessary if the Project Steering Committee is to enable full decision making (the main objectives are full communication and agreed decisions by all parties), it is usual that the Supplier's representative participates only to Project Steering Committee meetings during which decisions on the contract will be taken.

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The Project Steering Committee consists of three roles, which should be assigned to individuals:

- **Executive**
- **Senior User**
- **Senior Supplier**



The Project Steering Committee should always be chaired by the Executive.

The general responsibilities of the Project Steering Committee include:

- To approve project, stage and contingency plans
- To authorise any major deviation from agreed plans
- To approve changes
- To authorise the start of each stage
- To sign off the completion of each stage
- To ensure that necessary resources are committed to the project
- To provide overall guidance and direction to the project, ensuring it remains within any specified constraints
- To arbitrate on any conflicts within the project
- To negotiate a solution to any problems between the project and the contractor
- To approve the appointment of the Project Manager
- To authorise the implementation of any contingency plans and funds
- To judge whether constraints of time, budget and resources are reasonable
- To assure that all products have been delivered satisfactorily and that they meet all acceptance criteria
- To disseminate information about the project to the stakeholders and the public.




The decision making process of the Steering Committee is based on the majority rule¹³. Depending on the nature of the project, experts' opinion may be sought to provide input to decisions made by the Project Steering Committee. For example the views of technical specialists, experts from other Departments of a Ministry or other external advisor may be required.



The Project Steering Committee is responsible for assuring that the project remains on course to deliver products of the required and defined quality (Quality Plan – Refer to Chapter 7). Although the Project Steering Committee Members receive regular reports from the Project Manager, there is a need in the project organisation for monitoring all

¹³This is the practice followed in Cyprus and in other European countries as well. However, according to some project management methodologies like PRINCE2 the Executive is the key decision maker with advice and commitments from the other members of the Project Board/Steering Committee.

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aspects of the project's performance and products produced, independently of the Project Manager. **According to the size, complexity and risk of the project, the Project Steering Committee may decide to introduce specific additional resources to address some of its Assurance activities.**

The members of the Project Steering Committee are not working full time in the project; they execute their responsibilities in addition to their permanent work. They are regularly informed about the progress of the project but they are asked for joint decision making at key points in the project. Therefore, the frequency of their meetings is not definite, it should be appropriate to the scale and complexity of the project.

Executive

The Executive's role is to ensure that the project meets its objectives and delivers the projected benefits. He/ She must be senior and must ensure for the successful delivery of the project. The specific responsibilities of the Executive throughout the project are listed below:

- Chairing the Project Steering Committee
- Participating in the decision making process as chairman of the Project Steering Committee
- Ensuring that there is a consistent organisational structure and plans for resources, budget, time, quality and risks
- Authorising expenditure and set stage tolerances
- Monitoring and controlling the progress of the project at strategic level
- Ensuring that any proposed changes of scope, cost or timescale are checked against their possible effects on the project
- Ensuring that all risks are being tracked and mitigated effectively
- Organising consultation between the owner and other stakeholders of the project
- Participating in a dialogue process with the supplier's representatives to minimise customer – supplier problems by timely resolution
- Closing the project formally (sign off that the aims and objectives of the project have been met)
- Ensuring that the expected benefits have been realised and informing the stakeholders

The Executive is also responsible for overall business assurance of the project. Business assurance covers:

- Keeping the project in line with customer strategies
- Monitoring project finance on behalf of the customer
- Monitoring the business risks to ensure that these are under control
- Monitoring any supplier and contract payments
- Monitoring changes to Project Plan

- Assessing the impact of potential changes to the Project Plan (refer to Chapter 7).



It is noted that the Business Assurance Responsibilities can be delegated to a third party.

Senior User

The Senior User represents the interests of all those who will use the products of the project and receive the anticipated benefits. The Senior User role is responsible for:

- Providing user resources
- Ensuring that the project produces outcomes that meet user requirements
- Ensuring that the products provide the expected user benefits

More analytically, the responsibilities of Senior User are:

- Ensuring that analytical specifications of the desired outcome of the project have been given
- Making sure that progress towards the outcome required by the users remains consistent from the user perspective
- Promoting focus on the desired project outcome
- Approving the descriptions (specifications) of the project products (interim or final) that will affect the users directly
- Prioritising and transferring user opinions to Project Steering Committee meetings, in order to help the Committee take decisions on whether to implement recommendations on proposed changes
- Participating in the decision making process as member of the Project Steering Committee
- Resolving user requirements and priority conflicts
- Ensuring that the products are signed off once completed
- Representing fully all the interests of the different user groups that they represent.

The assurance responsibilities of the Senior User are:

- Monitoring the development of the project products to ensure that they will meet the user's needs
- Evaluating the potential or recommended changes from the user point of view
- Quality checking of the deliverables at all stages.



It is noted that the Business Assurance Responsibilities can be delegated to a third party.



This role may require more than one person to cover all the user interests.

Senior Supplier

The Senior Supplier is accountable for achieving the results required by the Senior User within the time and cost set by the Project Fiche. The Senior Supplier is also responsible for assuring the quality of the deliverables produced.

The responsibilities of the Senior Supplier are:

- To agree the objectives for supplier activities
- To make sure that progress towards the outcome remains consistent from the supplier perspective
- To ensure that the supplier resources required for the project are made available
- To transfer the supplier's opinion in the Project Steering Committee meetings
- Participating in the decision making process as member of the Project Steering Committee
- To resolve priority conflicts regarding the suppliers' work
- To promote and maintain focus on the desired project outcome from the supplier's point of view.

The assurance responsibilities of the Senior Supplier are:

- Advising on the selection of development strategy, design and methods
- Monitoring potential changes and their impact on the correctness, completeness and integrity of products against their product description from a supplier perspective
- Monitoring any risks in the production aspects of the project
- Ensuring that quality control procedures are used correctly, so that products adhere to requirements.



It is noted that the Business Assurance Responsibilities can be delegated to a third party.




This role may require more than one person to cover all the user interests.

Project Manager

The **Project Manager** leads and manages the project team, with the authority and responsibility to run the project on a day to day basis. His/ Her prime responsibility is to ensure that the project produces the required deliverables, to the required standard of quality and within the specified constraints of time and cost.

The Project Manager is responsible for:

- Recruiting, directing and motivating suitable skilled and qualified project team members
- Establishing standards and guidelines for the project

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- Planning and monitoring the project (resource, time, scope, financial, quality and risk planning)
- Establishing a clear communications plan for the project
- Documenting the customer acceptance criteria for each project deliverable
- Producing the Project Plan, the Progress Reports as well as the End Project Report
- Taking responsibility of the overall progress and corrective actions if necessary
- Controlling expenditure to ensure delivery within the approved project budget
- Managing the approval of all project change requests
- Raising project risks and recommended mitigation plans for approval
- Resolving all project issues currently affecting the project
- Identifying and obtaining any support and advice required for the management, planning and control of the project
- Gaining customer acceptance of each deliverable produced by the project
- Being responsible for project administration
- Undertaking all actions necessary to close the project.



In cases that the project includes procurement and the outcomes of the project are being produced by a supplier, the Project Manager does not compile the Inception Report, either the Progress and the End Project Report.



The Project Manager's role is to manage the work, not to do it. Besides, the Project Manager must avoid becoming involved in low level detail since he/she has to know what is going on in every part of the project at any time.


Team Manager

The use of a separate person in the role of **Team Manager** is optional. Normally, the Project Manager decides to employ a different person in this role, when the project is large and complex, when the planning for the production of certain products as well as the monitoring process needs special knowledge and skills or when the project is being executed in more than one geographical locations and the team members are working in different places.

The Team Manager's main responsibility is to ensure that the products defined by the Project Manager are being produced according to the time and cost schedule and meet the appropriate quality standards. The Team Manager takes direction from the Project Manager and reports to him.

The specific responsibilities of the Team Manager are:

- To prepare plans for the team's work and control their implementation
- To direct, motivate, manage and monitor the team's work

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- To inform the Project Manager about deviations from the plans and recommend corrective actions
- To make effective use of the available human resources
- To ensure that quality controls of the team's work are planned and performed
- To identify any risks related to the actions of the work packages of his/her responsibility
- To attend stages assessment sessions
- To manage specific risks or other project issues after their communication to the Project Manager.

Project Office

In cases of large projects where the volume of Project Manager's work is large, administrative help can be useful. The same happens when certain support tools and software applications are used in the project management processes and the Project Manager has insufficient expertise in their use.


The exact responsibilities of the **Project Office** could be:


- Operating a central filing system for the project
- Providing expertise in the planning, monitoring and control software used
- Updating plans with actual data
- Producing management reports
- Organising communication events


1.5.3.5 Risk Identification & Assessment

Project risk is an uncertain event or condition that, if it occurs, has a positive or negative effect on a project objective. A risk has a cause and if it occurs a consequence. In order to maximize the probability and consequences of positive events and minimize the probability and consequences of adverse events to project objectives, risk management processes must be established.

During the Project Initiation Phase, the risks that might affect the project must be identified and their characteristics must be documented in the **Risk Log**. The Risk Log is a document that needs to be created during the preparation of Project Fiche and be refined at the next phases of the Project Management Cycle. The Risk Log is a control tool for the Project Manager providing a quick reference to the key risks facing the project, what monitoring activities should be taking place and by whom.

 A **template of Risk Log** is presented in **Annex 1-6**. In this template except of the suggested structure, guidance is also provided. Furthermore, in the same Annex a **completed Risk Log¹⁴** is presented in order to facilitate the understanding on how each section should be completed.


 When Project Owner studies the Project Fiche, also examines the Risk Log and must decide whether project initiation can be justified or whether there are serious threats for the project's success. Pragmatically, the Project design team (or the Project Manager if he/she has been appointed) should have discussed informally with the representatives of the Project Owner any known risks that seem to threaten the project's viability.

 Risk identification is an iterative process. The risks identified and registered in the Risk Log during the preparation of Project Fiche, are evident, normally concerning availability of resources, impending or mooted legislation, dependencies with other projects and their results. These risks should be refined during the Planning Phase when the Project Plan is being created. Generally, **there should be a check for any new risks every time the Risk Log is reviewed, at least at the end of each stage**. The Project Steering Committee has the responsibility to continually check external events for external risks.

Risks Identification

Techniques to be used for the identification of possible risks during the Project Initiation Phase are being presented below:

- Performing structured review of the Business Case Document as well as the project's approach recorded in the Project Fiche
- Performing brainstorming. The project design team usually performs brainstorming, although a multidisciplinary set of experts can also perform this technique. Under the leadership of a person who plays the role of the facilitator, these people generate ideas about possible project risks.
- Risks can be identified by interviews of experienced project managers or subject – matter experts. The appropriate individuals have to be identified, the design team briefs them on the project and the interviewees based on their experience identify risks
- The design team uses as a guide an almost standard checklist of possible risks, which is usually developed based on historical information and knowledge that has been accumulated from the implementation of different scale and type projects. Since it is impossible to build an exhaustive list of risks, care should be taken to explore items that do not appear at a standard checklist if they seem relevant to the specific project.

 The **Checklist** presented below has been developed for **PRINCE2 Methodology** and **could be used as a starting point for identifying the main areas of risks** for projects implemented using in sourcing or outsourcing.

¹⁴ This example refers to existing Cypriot Project that has been funded by EU Transition Funds.



Checklist 1-4: Risk identification

Strategic/ Commercial risks	
Under performance to specification	
Management will under-perform against expectations	
Collapse of contractors	
Insolvency of Funding Source (<i>applicable only in case of Private contribution in the funding</i>)	
Failure of suppliers to meet contractual commitments, this could be in terms of quality, quantity, timescales or their own exposure to risk	
Insufficient capital revenues	
Market fluctuations	
Fraud/ theft	
Partnerships failing to deliver the desired outcome	
The situation being non insurable (or cost of insurance outweighs the benefit)	
Lack of availability of capital investment	
Economic/ financial/ market	
Exchange rate fluctuation	
Interest rate instability	
Inflation	
Shortage of working capital	
Market developments will adversely affect plans	
Legal and regulatory	
New or changed legislation may invalidate assumptions upon which the activity is based	
Failure to obtain appropriate approval, e.g. planning consent	
Unforeseen inclusion of contingent liabilities	
Failure to achieve satisfactory contractual arrangements	
Unexpected regulatory controls or licensing requirements	
Changes in tax structure	
Organisation/ Management/ Human factors	
Management incompetence	
Inadequate corporate policies	
Inadequate adoption of management practices	
Poor leadership	
Key personnel have inadequate authority to fulfil their roles	
Key personnel have inadequate time to deal with the project due to heavy workload	
Poor staff selection procedures	
Lack of clarity over roles and responsibilities	
Vested interests creating conflict and compromising the overall aims	
Group interests given unwarranted priority	

Indecision or inappropriate decision making	
Lack of operational support	
Inadequate or inaccurate information	
Health and safety constraints	
Political	
Change of governmental policy (national or international)	
Change of government	
War or disorder	
Adverse public opinion/ media intervention	
Environmental	
Natural disasters	
Storms, flooding, tempests	
Pollution incidents	
Transport problems, including aircraft/vehicle collisions	
Ecosystem (flora, fauna) disturbance	
Technical/ Operational/ Infrastructure	
Inadequate design	
Professional negligence	
Human error/ incompetence	
Infrastructure failure	
Operation lifetime lower than expected	
Residual value of assets lower than expected	
Increased dismantling/ decommissioning costs	
Safety being compromised	
Performance failure	
Residual maintenance problems	
Scope "creep"	
Unclear expectations	
Breaches in security/ information security	
Lack of inadequacy of business continuity	

Risk Assessment

Risk assessment is the process of assessing the impact and probability of identified risks.

Risk Probability is the likelihood that a risk will occur. **Risk impact** is the effect on project elements if the risk event occurs. For example, major damage to a building is relatively unlikely to happen (low probability), but would have enormous impact on business continuity.

Conversely, occasional personal computer system failure is fairly likely to happen (high probability), but would not usually have a major impact on the business.



Impact should be considered under the elements of:

- Scope
- Timescale
- Quality of deliverables
- Benefit
- People/ resources



When considering a risk's probability, another aspect is when the risk might occur. Some risks will be predicted to occur further away in time than others, so attention has to be paid on the more immediate ones.



In order to increase the visibility of risks and assist management decision making, the **probability/ impact risk rating matrix** (or **Risk Profile** – as it is called in **PRINCE2 Methodology**) can be used. It is a graphical representation of information normally found in Risk Logs. An example of a completed Risk Rating Matrix is presented in the figure below (Tool 1-7).

The **horizontal axe represents the risk's impact** and its scale reflects the severity of its effect on the project. Impacts can be ordinal or cardinal, depending on the culture of the organization conducting the analysis. *Ordinal scales* are simply rank ordered values, such as very low, low, medium, high and very high. *Cardinal scales* assign values to these impacts. These values could be linear or nonlinear (e.g. 0,1 – 0,3 – 0,5 – 0,7 – 0,9). Both approaches intend to assign a relative value to the impact if the risk in question occurs. However, the ordinal scales are the ones most in use.

The vertical axe represents the risk's probability. Assessing risk probability may be difficult and expertise of individuals, who have managed similar projects in the past, may be needed. An ordinal scale, representing relative probability values such as: very low (= very unlikely), low, medium, high, very high (= almost certain), could be used. Alternatively, specific probabilities could be assigned by using a general scale like 0,1 – 0,3 – 0,5 – 0,7 – 0,9.

The thick black line represents the “risk tolerance line”. This line is defined for a specific project by agreement between the Executive and Project Manager and indicates how much risk the Project Steering Committee is prepared to take. It may be prepared to take comparatively large risks in some areas and none at all in others, depending on the characteristics of the project, as well as the general policy of the organisation regarding the risk tolerance. For example in case of an EU funded project, the Project Steering Committee may have very little financial risk tolerance, but allow for more risk tolerance in terms of political changes. When setting the risk tolerance line, it is important to find the optimum balance of accepting a risk's occurrence against the cost of limiting that risk. In any case, the risk tolerance line should reflect not only the acceptance or not of individual (specific) risks, but also the organisation's overall tolerance of exposure to risk.

Risks with high probability and high impact are positioned above and right of the “*risk tolerance line*” and usually need more thorough examination and aggressive formal risk management.

Tool 1-7: Risk Rating Matrix

Probability	Very High					
	High		2*	4*		
	Medium	1*		3*	5*	
	Low					
	Very Low					
		Very Low	Low	Medium	High	Very High

Impact

* The numbers in the cells represent the ID numbers of the identified risks of a certain project.

1.6 PROJECT INITIATION/ PROJECT APPROVAL & APPOINTMENT OF PROJECT MANAGEMENT TEAM STAGE

Once the Project Fiche has been presented to the Senior Management of the Project Owner and has been signed, the project is ready to start being analytically planned. This is the point when the remaining members of the Project Management Team must be appointed.




Figure 1-11: Steps to be followed in the last stage of Project Initiation

1.6.1 Project Approval



The analysis of prerequisites for approval and of possibilities and chances for funding of the project is important already during setting up the project. Without funds and formal approvals the project cannot be implemented.

The Project Manager normally presents all relevant documents of the project (e.g. Business Case, Project Fiche) to the superior level of the Project Owner (e.g. in case of Municipalities to the Municipal Council, in case of organisations governed by the public law to the Board of Directors) and asks for its approval. In case of projects funded by the EU, the relevant documents should be presented to the responsible Community Bodies or to the national special structures that have been appointed for the management of programmes under the European Structural Funds. Even in this case, the relevant documentation should be firstly reviewed and approved by the Project Owner.

 Not only the question “Will the project be supported?” is important already in inception phase. The way and sources of funding may influence the financial procedures during project implementation. The project management may be obliged to follow special rules and regulations for structuring the project budget, for percentages of allocations, for procurement, for making commitments, for incurring expenditures and for keeping accounts. In the case of co-financing, several budgets may have to be established and administered (refer to 1.5.3.3 “*Tool 1-8: Calculating the Provisional Project Budget & Determining the Funding Sources*”).


1.6.2 Appointment of the remaining members of Project Management Team

Having identified and appointed the Executive and the Project Manager, it is now the right moment to identify candidates for the rest of the roles (i.e. members of the Project Steering Committee, Team Manager, Quality Assurance Manager (where appropriate)) included at the project management team structure. It should be noted that the Project Team members are appointed later on, during the Project Planning phase.

The **Project Steering Committee members** except from having the authority to represent the users of the final products of the project and perhaps the supplier should be able to:

- understand project plans and monitor progress against plan
- understand and act on the factors that affect the successful implementation and delivery of the project
- formulate and maintain good relationships with all the stakeholders
- understand very well how the project is being affected by various parameters

The **Team Manager** must possess similar skills with the Project Manager (refer to 1.5.2) but he must be more experienced in the technical aspects of the project. This means that the Team Manager must have educational background and professional experience relative to the project’s subject.


 Before finalise the selection of the Project Management Team Members, it is suggested to answer the **questions in the following checklist**. The purpose of these questions is to ensure that the most significant criteria for the selection of the appropriate persons have been used.

Checklist 1-5: Summarised checklist for the selection of the remaining members of the Project Management Team

1. Can the proposed Project Steering Committee members make the commitments required by them?	
2. Are all the stakeholders being represented in the Project Steering Committee?	
3. Have all the roles and responsibilities been allocated?	
4. Do the selected people have any similar previous experience (i.e. participation in Project Steering Committees, performing project management and administration activities, etc.)?	
5. Do the selected people have participated in training programmes concerning project	

management methodologies, practices and tools?	
6. Apart from the professional experience and qualifications the selected people possess, do they have the interpersonal characteristics required to ensure that they will fulfil successfully their duties?	
7. Has the availability of the appointees been checked for the whole project execution period?	
8. Are any appointees likely to change job in the near future? If yes, does this mean that they can not participate any longer at the project?	

1.7 REVIEWING THE PROJECT INITIATION PHASE

 This section presents a summary **Checklist** that can be used for reviewing the tasks of each stage of the Initiation Phase in order to ensure that all parameters have been taken into account and the proposed approach to meeting the business needs has been adequately examined and proved to be effective and feasible. Therefore, **this Checklist can be used at the end of each stage, as well as at the end of the Project Initiation Phase** to facilitate the involved personnel to perform their tasks (e.g. the design team to develop and justify the Business Case, the Project Manager to prepare the Project Fiche and the senior management of the Project Owner to check whether all the elements of the project have been appropriately defined in order to give their approval for implementing the project).

Checklist 1-6: Reviewing the Project Initiation Phase

A/A	Critical Questions	Yes	No	N/A
Inception & Prioritising Stage				
1.	Is there a clear understanding of the business problem(s) or need(s)? Have you shared views with stakeholders?			
2.	Has the problem(s) been analysed?			
3.	Is there an adequate documentation or information to support the analysis?			
4.	Have the priorities for solving the identified problems or covering the identified needs been set?			
5.	Has the project/ investment with the highest priority been selected?			
6.	Has a project design team been appointed?			
7.	Is the project design team provided with a down-to-earth needs assessment, an innovative concept for improvement of the current situation, a proposal for the institutional framework and a realistic idea for funding?			
Design Stage				
8.	Is there only one option meeting the business needs?			
9.	Have the alternative ways of funding been considered?			
10.	If there are several options, have they been appraised in relation to the anticipated costs & benefits? (i.e. Has a Cost/Benefit Analysis been performed?)			
11.	If there are several options, have they been appraised in relation to their likelihood to achieve the expected outcome? (i.e. Has a Feasibility Study			

	been performed?)			
12.	If there are several options, have they been appraised in relation to the associated risks and assumptions? (i.e. Has a Risk Assessment been performed?)			
13.	Is the Business Case complete?			
14.	Is the preferred/ recommended solution selected?			
15.	Have the Executive and Project Manager been appointed?			
16.	Do the Executive and the Project Manager possess the qualifications and skills needed for the performance of their duties?			
17.	Have the project objectives been clearly set? Do they specify the direct benefits that the target group will derive the implementation of the project?			
18.	Are the objectives set consistent with the problem analysis?			
19.	Do the project results/outcomes/deliverables describe tangible improvements to the problem?			
20.	Has the project been broken down into smaller components/ activities?			
21.	Is procurement needed to implement the project?			
22.	If procurement is necessary, has the number of contracts been defined?			
23.	Are there components/activities for which support/advice from external specialists is needed?			
24.	Is the provisional project budget estimated (including both internal and external costs)?			
25.	Are the funding sources described and analysed (including their % contribution in the total budget)?			
26.	Is there a clearly defined project organisation with agreed roles and responsibilities?			
27.	Have the most important risks for the whole project lifecycle been identified?			
28.	Has the impact of the risks on the project scope, timescale, deliverable, benefits and resources been assessed?			
29.	Is the Project Fiche prepared? Are all sections of the Project Fiche completed?			
Project Approval & Appointment of Project Management Team				
30.	Has the Project Fiche been approved?			
31.	Have the remaining members of the Project Management Team been selected?			

1.8 PROCUREMENT INITIATION

For certain projects the implementation with own resources can cover only parts of a project. Substantial parts of a project, however, have to be implemented through procurement in virtually all projects. Therefore, the present sub-chapter deals with procurement initiation.



The Contracting Authority, depending on its capacities (personnel, equipment, etc.) can either perform the procurement exercise with its own resources (in-house

procurement) or formally assign it to another Contracting Authority or purchase procurement support services from external consultant (outsourcing procurement).

The implementation process has economic, technical, commercial, administrative, logistic, legal, and budgetary aspects. The focus of procurement is on procedural, commercial and administrative aspects.

During the pre-bidding phase, people with relevant capabilities have to prepare detailed economic and technical parameters of deliverables to be purchased. During the bidding phase, procurement experts take the lead to make sure that all procedural requirements are respected. Other contributions have to come from lawyers, logistic experts, administrators and, of course, the Project Management Team.

1.8.1 Defining roles and responsibilities in the procurement process

The following table indicates the ideal structure of a big Contracting Authority (which is usually an Implementing Agency too) and the main responsibilities of its cooperating services with due regard to procurement.

Table 1-4: Ideal structure of a big Contracting Authority

Head of Technical Department	Supervising several projects
Project Managers Project A Project B Project C	Identifying and planning procurement activities; proposing procurement plan for their projects; approval of procurement requests, within the limits of approved budgets; proposing amendments to existing contracts, if necessary assisting in technical negotiations.
Technical staff	Drafting specifications and ToR; suggesting sources for delivery; helping with the evaluation of bids; checking and endorsing/correcting invoices against signed contracts and progress of works/delivery.
Head of Finance Department	Supervising the accounts and cash flow
Budget Service	Setting up budgets (allocations) according to signed project documents; processing budget revisions (budget line transfers) as requested by project managers and approved by funding agencies
Payment Service	Checking invoices against contracts and related financial commitments and processing endorsed invoices
Chief of Procurement Service	Planning, coordinating, and monitoring procurement activities for the implementing organisation (serving several projects). Supervising compliance with rules and procedures
Procurement staff	Processing valid procurement requests, checking specifications and ToR for completeness and plausibility, maintaining procurement files up to date, drafting tender documents, collaborating with technical, legal, and finance services; assisting in bid openings/evaluations, preparing award decisions, providing advice on rules and procedures; creating financial commitments according to valid contracts.
Legal Adviser	Providing legal advice on contracts and in cases of disputes, claims; assisting in negotiations.
Chief of IT Group	Guaranteeing stable data exchange and consistent computerised financial records and files.

This structure is ideal and not applicable to all Cypriot Contracting Authorities. This is due to the fact that the majority of them do not deal with big procurement volumes and thus no separate procurement unit prove to be necessary. However, there are departments of the central government such as the Public Works Department and the Department of Information Technology Services, as well as organisations governed by the public law such as the Electricity Authority of Cyprus, which possess specialised procurement units and staff with adequate procurement skills.



As a general rule, the necessity of a separate procurement unit in a Contracting Authority depends primarily on its mission and objectives and secondarily on the procurement volume that undertakes.

Apart from the roles and responsibilities described in the above table, there is also a number of other competent organs which participate in the procurement process and which are responsible for the proposals' evaluation or/and the contract award decision. The names,

roles and responsibilities of these organs vary depending on the type of the Contracting Authority as it is shown in the following table (Table 1-5).

Table 1-5: Roles and responsibilities for proposals' evaluation and contract award decision in various types of Contracting Authorities

	TYPES OF CONTRACTING AUTHORITIES					
COMPETENT ORGANS	Ministries/ Independent Offices/ Independent Authorities (Reg 71/2004)	Municipalities (Reg 489/2004)	Organisations governed by the Public Law/ Communities (Reg 492/2004)	Electricity Authority of Cyprus (EAC)* (Reg 490/2004)	Cyprus Ports Authority* (Reg 487/2004)	Water Boards of Nicosia, Lemesos & Larnaca (Reg 491/2004)
Tender Board	<ul style="list-style-type: none"> ▪ Establishes ad-hoc Technical Committees ▪ Authority to reject proposals, cancel the competition or award contracts in case that: <ul style="list-style-type: none"> ○ the contract value exceeds the authority of the evaluation committee, or ○ the evaluation committee didn't manage to reach a decision due to equality in votes or ○ the Head of the Contracting Authority doesn't agree with the 	<ul style="list-style-type: none"> ▪ The Tender Board is the Municipal Council of each Municipality ▪ Determine the procedure and the bodies for evaluation and award of the contract ▪ Establishes the Tender Committee from the members of the Municipal Council ▪ Authority to reject proposals, cancel the competition or award contracts in case that the contract value exceeds the authority of the Tender Committee 				

* The roles and responsibilities presented in this table for the Electricity Authority of Cyprus, the Cyprus Ports Authority and the Water Boards of Nicosia, Lemesos and Larnaca, which all belong to the Utilities Sector, are valid only for contracts above the EU thresholds. For contracts below the EU thresholds the public procurement process and the respective roles may be regulated from these Contracting Authorities by internal rules or/and by Regulations issued by them according to the Law that governs their authorities and responsibilities.

TYPES OF CONTRACTING AUTHORITIES						
COMPETENT ORGANS	Ministries/ Independent Offices/ Independent Authorities (Reg 71/2004)	Municipalities (Reg 489/2004)	Organisations governed by the Public Law/ Communities (Reg 492/2004)	Electricity Authority of Cyprus (EAC) (Reg 490/2004)	Cyprus Ports Authority* (Reg 487/2004)	Water Boards of Nicosia, Lemesos & Larnaca (Reg 491/2004)
	decision of the evaluation committee.					
Evaluation Committee	<ul style="list-style-type: none"> ▪ Evaluation of proposals and preparation of evaluation report ▪ Submission of evaluation report with recommendation to Tender Board regarding the award of contracts valued above the following thresholds ▪ Authority to award the contract, reject proposals or cancel the competition for contracts valued < €153.774,13 (services & supplies) or < €854.300,72 (works) ▪ Authority to award the contract, reject proposals or cancel the competition for contracts valued < €51.258,04 (in case of negotiated procedure) 			<ul style="list-style-type: none"> ▪ Evaluation of proposals and preparation of evaluation report ▪ Award of contracts valued under thresholds defined by Board of Directors 	<ul style="list-style-type: none"> ▪ Evaluation of proposals and preparation of evaluation report ▪ Study of the evaluation report prepared by individual consultants (if applicable) and prepares a recommendation report which is submitted to the Board of Directors of the Ports Authority 	<ul style="list-style-type: none"> ▪ Evaluation of proposals and preparation of evaluation report ▪ Study evaluation report prepared by Consultants

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TYPES OF CONTRACTING AUTHORITIES						
COMPETENT ORGANS	Ministries/ Independent Offices/ Independent Authorities (Reg 71/2004)	Municipalities (Reg 489/2004)	Organisations governed by the Public Law/ Communities (Reg 492/2004)	Electricity Authority of Cyprus (EAC) (Reg 490/2004)	Cyprus Ports Authority* (Reg 487/2004)	Water Boards of Nicosia, Lemesos & Larnaca (Reg 491/2004)
Tender Committee		<ul style="list-style-type: none"> ▪ Authority to assign individual consultants for studying and evaluating the proposals ▪ Authority to establish ad-hoc Technical Committees ▪ Study of the evaluation report ▪ Submission of recommendation to Tender Board regarding the award of contracts valued above the following thresholds ▪ Authority to award the contract, reject proposals or cancel the competition for contracts valued < €17.086,01 (services & supplies) or < €51.258,04 (works) 		<ul style="list-style-type: none"> ▪ Study of the evaluation report and award decision for contracts valued under the thresholds defined by the Board of Directors ▪ Authority to reject proposals or cancel the competition for contracts valued under the thresholds defined by the Board of Directors ▪ Study of evaluation report, preparation of its own recommendation report and submission of both reports to the Board of Directors 		
Ad-hoc Technical Committees	<ul style="list-style-type: none"> ▪ Study of evaluation reports ▪ Preparation of reports on specialised technical issues ▪ Conduction of special investigations 	<ul style="list-style-type: none"> ▪ Study of proposals and evaluation report ▪ Preparation of reports on specialised technical issues ▪ Conduction of special investigations ▪ Consulting support to the 			<ul style="list-style-type: none"> ▪ Study of evaluation reports ▪ Preparation of reports on specialised technical issues ▪ Conduction of special investigations 	<ul style="list-style-type: none"> ▪ Study of evaluation reports ▪ Preparation of reports on specialised technical issues ▪ Conduction of special investigations

CHAPTER 1: PROJECT AND PROCUREMENT INITIATION

TYPES OF CONTRACTING AUTHORITIES						
COMPETENT ORGANS	Ministries/ Independent Offices/ Independent Authorities (Reg 71/2004)	Municipalities (Reg 489/2004)	Organisations governed by the Public Law/ Communities (Reg 492/2004)	Electricity Authority of Cyprus (EAC) (Reg 490/2004)	Cyprus Ports Authority* (Reg 487/2004)	Water Boards of Nicosia, Lemesos & Larnaca (Reg 491/2004)
	<ul style="list-style-type: none"> Consulting support to the Tender Boards to facilitate them in reaching the correct decision 	Tender Committees and Tender Boards to facilitate them in reaching the correct decision			investigations <ul style="list-style-type: none"> Consulting support to the Boards of Directors of the Ports Authority to facilitate it in reaching the correct decision 	<ul style="list-style-type: none"> Consulting support to the Water Board of Nicosia, Larnaca or Lemesos to facilitate it in reaching the correct decision
Competent Board or Community Council or any other bodies established by the decision of the competent Board or Council			<ul style="list-style-type: none"> Studies the relative documents & data and decides to award the contract, reject a proposal or cancel the competition depending on the case 			
General Director				<ul style="list-style-type: none"> Establishes the Evaluation Committee 	<ul style="list-style-type: none"> Establishes the Evaluation Committee 	
Board of Directors				<ul style="list-style-type: none"> Defines the thresholds for the award decision Studies the evaluation report and the report of the Tender Committee and awards the 	<ul style="list-style-type: none"> Establishes ad-hoc technical committees Studies the evaluation report and the report of the ad-hoc technical committees (if 	

		TYPES OF CONTRACTING AUTHORITIES				
COMPETENT ORGANS	Ministries/ Independent Offices/ Independent Authorities (Reg 71/2004)	Municipalities (Reg 489/2004)	Organisations governed by the Public Law/ Communities (Reg 492/2004)	Electricity Authority of Cyprus (EAC) (Reg 490/2004)	Cyprus Ports Authority* (Reg 487/2004)	Water Boards of Nicosia, Lemesos & Larnaca (Reg 491/2004)
				contract <ul style="list-style-type: none"> ▪ Authority to reject proposals or cancel the competition for contracts valued above the thresholds defined by them 	applicable) and awards the contract <ul style="list-style-type: none"> ▪ Authority to reject proposals or cancel the competition 	
Water Board of Nicosia, Lemesos or Larnaca						<ul style="list-style-type: none"> ▪ Establishes the Evaluation Committee ▪ Establishes ad-hoc technical committees ▪ Studies the evaluation report and the report of the ad-hoc technical committees (if applicable) and awards the contract ▪ Authority to reject proposals or cancel the competition

Basic rules to conduct for people involved in the public procurement process

The complexity of rules and procedures, as well as the vulnerability of public entities, has made it a good practice to reserve functions in procurement and finance transactions for duly authorised officials or employees. These employees are responsible to protect the Contracting Authority against claims and losses that may otherwise occur.

Public procurement requires guarantees for impartiality and accountability. It also requires strict confidentiality about the contents of tenders and other procurement actions as well as any other additional information required from the tenderer. The disclosure of confidential information would impede on the tenderers' interest to protect their intellectual property rights and their commercial secrets. The procurement officer must be consistent in his administrative behaviour and respect the high standards and expectations that members of the public have towards his performance. If this is not guaranteed, severe problems may occur.

To limit the probability for conflict of interest and potential corruption in the context of public procurement, authorities, responsibilities and subordination lines have to be established in a specific way. Wherever possible procurement experts should be independent from the "technical" project management teams and should report usually to the Finance Department. Procurement staff, on its part, has no authority to revise budgets or approve delivery which is at the Project Management Team's discretion. Changing financial records such as allocations, commitments and expenditures is again separated – it should be the privilege of accountants in the finance department (of course based on requests from the Project Management team or those in charge of procurement).



Note: *Extended analysis on ethical and behavioural issues for people involved in public procurement process can be found in the "Code of Ethics Manual".*

1.8.2 Procuring with own resources or outsourcing?

Outsourcing procurement means to subcontract the planning-purchasing-monitoring-administering function or parts thereof. This can be necessary in case there is too much work on an existing procurement team or if the complexity of procurement is beyond the capacities and capabilities of the in-house procurement team. However, even in case of outsourcing, the responsibility of the decision making remains to the Contracting Authority.

One of the advantages of outsourcing procurement activities is that the Contracting Authority may acquire, from case to case, exactly the technical, managerial and legal expertise that is necessary for the case at hand.



If for example the Contracting Authority has to build a hospital it may be well staffed to do the procurement for the construction work of the hospital. But it may not have the expertise to do the procurement for the medical equipment for the hospital. Outsourcing the procurement for the medical equipment (instead of hiring doctors and engineers specialised in medical equipment) may be the best, perhaps the only solution.

1.8.3 Procurement costs

It goes without saying: Like project design, procurement for a project is not free of charge either. Procurement is part of the project implementation. When establishing the project budget, provisions have to be made to cover procurement cost. These costs shall also be included in the cost-benefit analysis and in the value-for-money considerations.



Procurement cost factors are:

- personnel (professional and support staff – salaries and social cost of procurement staff),
- services (professional expertise, legal advice, support services),
- premises (including utilities, office equipment, and communication),
- material (stationary, other consumables, postal services),
- publication expenses (if any),
- transport (vehicles, travel expenses in case of site visits, etc.),
- logistics cost (packing, freight, insurance, taxes, duties, handling fees, dues, tolls, tariffs),
- professional insurance, if any,
- contingencies,
- agency cost (overhead).



There are several options to plan and budget procurement costs:

- as a separate budget component (as for project design),
- as a percentage of the estimated project (execution, production) cost,
- as a fixed amount to be negotiated.



Usually, implementing agencies charge a percentage of the execution cost (second option). Depending on the complexity and the volume of work the rate can vary between 5% and 15%. Higher rates apply for low-volume and complex projects.



Fixed amount arrangements can entail losses for complex projects, as procurement costs are not always precisely predictable.