

DOMESTIC PREFERENCE SCHEME

A. Introduction

1. The ADB domestic preference scheme shall be applied only in evaluating bids under international competitive bidding (ICB). Procurement through other methods such as national competitive bidding (NCB), shopping, and limited international bidding are not eligible for the domestic preference scheme. The scheme grants a margin of preference for domestically manufactured goods to be procured and domestic contractors to be engaged under ADB-financed projects. The principal basis for domestic preference as applied to procurement is in Appendix 2 of the ADB Procurement Guidelines.

B. Implementing the Preference Scheme

2. Domestic preference for goods, turnkey, and works contracts will be applied only if:
- requested by the borrower; and
 - provision is made in the financing agreement (or through a separate exchange of letters); and
 - bidding documents specify how the preference will be applied when comparing bids; and
 - the country has remained eligible at the time of advertising the contract.
3. Provision for implementing the scheme is included in the procurement plan. If provision is not included in the procurement plan and the borrowing country subsequently wishes to adopt the scheme, arrangements can be specified in an exchange of letters or subsequent updates to the procurement plan. Even after provision for preference is included either in the procurement plan or by an exchange of letters, its application to individual contracts is still at the option of the executing agency or borrower. The procurement plan states the basis for comparing bids for goods, turnkey, or works contracts and the procedure for comparing them when the scheme is applied.
4. The user's guides to ADB standard bidding documents (SBDs) include appropriate provisions for the use of the domestic preference scheme. The following provides additional background and guidance.

C. Domestic Preference for Goods

5. All borrowers may request preference for the procurement of domestically produced goods. Related incidental services are not eligible for the preference.
6. The scheme provides that
- domestically manufactured goods are eligible for preference compared with imported goods only if the proportion of domestic value added is equal to 30% or more of the EXW (ex works, ex factory, ex warehouse, ex showroom, or off-the-shelf, as applicable) bid price;
 - the reckoning of the 30% domestic value added is applied to the total EXW bid price of goods and not just to one item in a list; and

- domestic preference cannot be applied to goods offered in a schedule if one item has more than 30% domestic value added but the total domestic value added does not result in the required minimum 30% of the total price of the schedule.

7. Where there is any doubt about eligibility for preference for any domestic goods for which bids have been invited, the borrower assesses the proportion of domestic value added locally to see if it meets the required minimum.

8. Domestic value added generally comprises domestic labor, the domestic content of materials, domestic overheads, and profits from the stage of mining the raw material until final assembly. If calculating domestic value added is difficult and time consuming, a rule based on the direct import content of the goods can be used as a proxy. If the direct import content under cost, insurance, and freight (CIF or CIP) is less than 50% of the quoted EXW price, the goods are eligible for the preference.

9. Before agreeing to include domestic preference in the financing agreement or bidding documents, ADB must be satisfied that the borrowing country has the manufacturing capacity and experience necessary for adding the minimum value required to goods intended to benefit from the preference. If at the time of signing the financing agreement, there is inadequate information about the goods to be procured (for example in a sector project), provision of the preference may be included in the financing agreement (the financing agreement would be written as if manufacturing capacity exists for some of the goods to be procured). In such cases, the capacity to produce the required goods domestically would be assessed when bidding documents are prepared for the goods to be procured.

10. As part of their bids, bidders are required to certify that the necessary manufacturing capacity exists where local value is to be added.

11. Two methods for applying the preference are described in the SBD for the procurement of goods. Method A is for bids with all domestically manufactured goods and bids with goods manufactured outside of the borrowing country, while method B is for use when all bids have a combination of domestically manufactured goods and goods manufactured outside.

D. Domestic Preference for Works Contractors

12. Preference will be extended only to domestic contractors for civil works in countries with an annual per capita GNP that is less than the limit set. ADB adopts the limits set each year in the The World Bank Operational Manual, Operational Policies [OP3.10 Annex D](#). The current eligibility threshold as well as current GNIs for ADB client countries can be found at PPFD Hub¹.

13. Domestic contractors may be eligible for preference for works contracts that may include construction, land clearing and leveling, land development, field drainage, well drilling, site clearing for urban projects, installation of water supply mains, erection of electricity lines, aerial photography, mapping, or crop spraying.

14. To be eligible, contractors must be determined to be genuine domestic contractors. The SBDs include specific agreed upon criteria for eligibility that are included in the specific bidding

¹ Formerly OpsPedia: an online knowledge sharing facility

document to be issued. ADB will not object if the borrower wishes to grant preference to state-owned construction corporations or firms provided that they are eligible to bid. PPFD advises on any problems arising when applying the scheme while the Office of the General Counsel advises on any specific legal issues arising when applying the scheme. If necessary, the procurement committee makes the final decision.

E. Domestic Preference for Turnkey Contracts and Contracts for Goods and Related Services involving Multiple Items

15. A margin of preference may be applied to domestically manufactured goods in single-responsibility turnkey (including design-build) contracts and in large and complex contracts for goods and related services with (i) discrete items of goods and supplies grouped in one contract package and (ii) when the cost of goods and supplies for permanent works is estimated prior to bidding to be equal to or to exceed 60% of such works.

References

1. [Procurement Guidelines](#).
2. R108-91: Review of Domestic Preference Scheme, 8 August
3. R27-86: Review of Domestic Procurement Policies, 17 June