

In Search of Excellence in Public Procurement
Comparison of the States of Uttar Pradesh, Delhi and West Bengal
Deliberations on Key Performance Indicators with the Stakeholders

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(A World Bank Funded Observatory based at the Indian Institute of Management, Lucknow)



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Introduction

To monitor procurement and supply chain practices in the state of Uttar Pradesh, the World Bank has established a procurement observatory at the Indian Institute of Management, Lucknow in July 2013. This report documents 12 Key Performance Indicators (KPIs) of this observatory to monitor tendering process performance in the state of Uttar Pradesh. The primary focus is to summarise the deliberations with the stakeholders on these KPIs for the three states, namely U.P., Delhi and West Bengal for comparison and benchmarking purposes. Main reference documents to arrive at these KPIs on process efficiency, economy and transparency; fair and equitable treatment of bidders and promotion of competition are based on August 2013 Report of the Observatory and the following sources:

1. General Financial Regulations (GFR) 2005 of Govt of India
2. U.P. Financial Handbook (Vol. 5 and 6: Public Work Account Rules)
3. Central Vigilance Commission (CVC) Guidelines on public procurement

As per the TOR with the World Bank Group, the public procurement observatory for the state of Uttar Pradesh disseminates knowledge using website and meetings with the U.P. Government officers on a continuous basis. This report documents deliberations on select KPIs with the stakeholders during observatory's second workshop.

Data source for tendering process analysis

e-Procurement is being adopted in India on a mission mode. Its usage is mandatory in several states and central government organizations. Although e-Procurement covers entire end- to-end procurement process, presently it is confined to only the tendering process in India. In the state of Uttar Pradesh e-Procurement was introduced in 2008. The system had its own teething troubles and moved in fits and starts. Further, there is no Government Order (GO) notification so far making it mandatory for various state departments and organizations to share procurement related information either through NIC e-procurement system or on their own websites. Therefore, as of now, the data sharing is voluntary. All these led to little/ incomplete information in initial years till 2010. However, the process is gradually picking up and seems to be more or less 'in place' at least for a few state government departments since 2011. Therefore, the observatory has taken the year 2011 as the base year to develop base line statistics and use it to measure and compare procurement performance in the coming years.

NIC has implemented e-Procurement systems in the state of Uttar Pradesh, West Bengal and Delhi among others. These systems provide tender wise detailed e-tendering process information. This data is not easily amenable to analysis and comparison. We have designed a web crawler tool that converts the available data in these web pages to a format that allows easy analysis and comparison within and across states. We have also designed a tool that allows our website visitors to easily visualize various KPIs (Key Performance Indicators) using simple drop down menus. This tool is available at the observatory's web site on www.procurementobservatoryup.com.

Insights from experience sharing session

The public procurement observatory for the state of U.P. conducted its second workshop on public procurement practices at IIM Lucknow campus on 23rd August 2014. Participants were drawn from various Uttar Pradesh Govt. departments, IIM Lucknow and the World Bank (Participants list is appended at the end of the document). World Bank's procurement and FM specialists and IIM Lucknow faculty members shared their findings and observations on public procurement in India and particularly in the state of Uttar Pradesh.

The observatory team presented a detailed analysis of procurement process on selected KPIs. The analysis is based on last three year's tendering process in the state of Uttar Pradesh, West Bengal and Delhi. Table 1 shows the number of tenders observed in each of these states in last three years. To bring a logical consistency in our analysis, we have limited our analysis to only those tenders that have reached the award of contract stage.




Legend	State	Tenders Observed		
		2011	2012	2013
	Uttar Pradesh	117	6	137
	Delhi	629	1062	1197
	West Bengal	9	1466	3273

Table 1: Observed tender details along with colour legend used in the subsequent charts

Further, each indicator was explained and discussed in detail in the workshop. Key findings and participants' observations are summarised below.

KPI#1 Average Time Taken to Open Technical Bids

After bids are received, the same should be opened at the earliest. Any delay in this activity indicates lack of planning and resource unavailability. This KPI is calculated by taking difference between bid submission end date and actual bid opening date. Figure 1 shows that all states observed had a decline in average time taken to open the bids. However, Delhi seems to be most efficient among the three states. Participants also observed that this efficiency may be one among many reasons behind excellent supplier participation in Delhi state tenders.

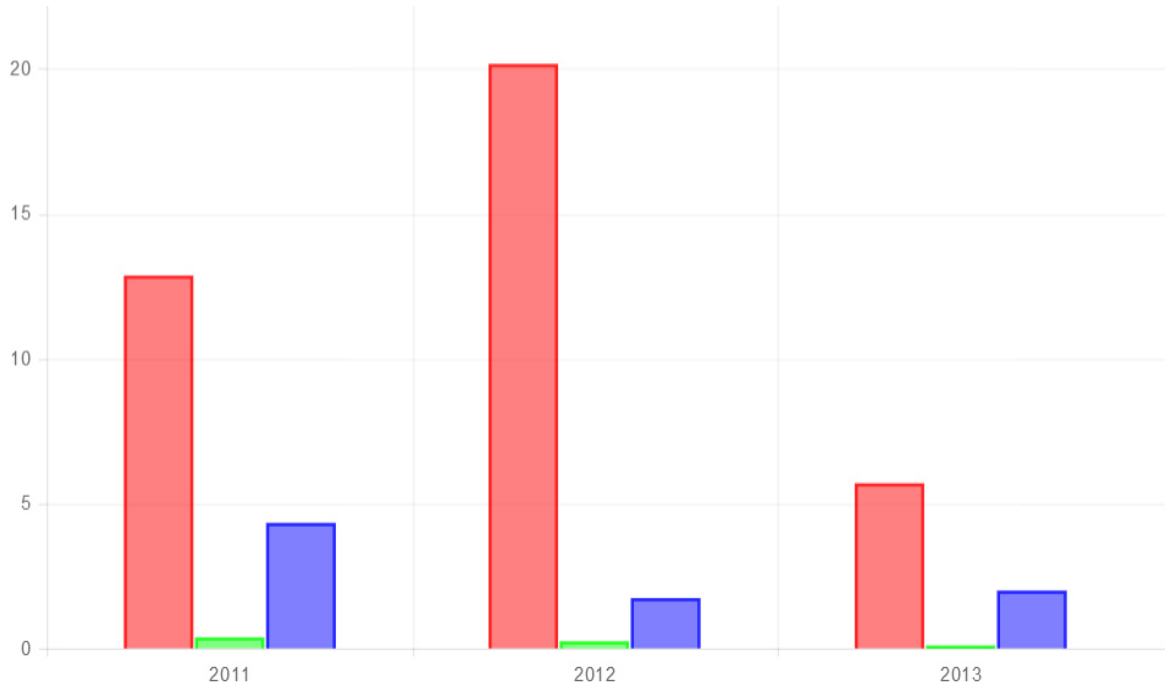


Fig 1: Average Time Taken to Open Technical Bids

KPI#2 Average Delay in Technical Bids Opening

If bids are not opened on scheduled date and time, it causes inconvenience to the vendors and has an impact on their trust on the entire process. Figure 2 shows that by using e-tendering system better, West Bengal and Delhi have shown almost negligible delay in technical bid opening, while it is still a cause of concern for Uttar Pradesh.

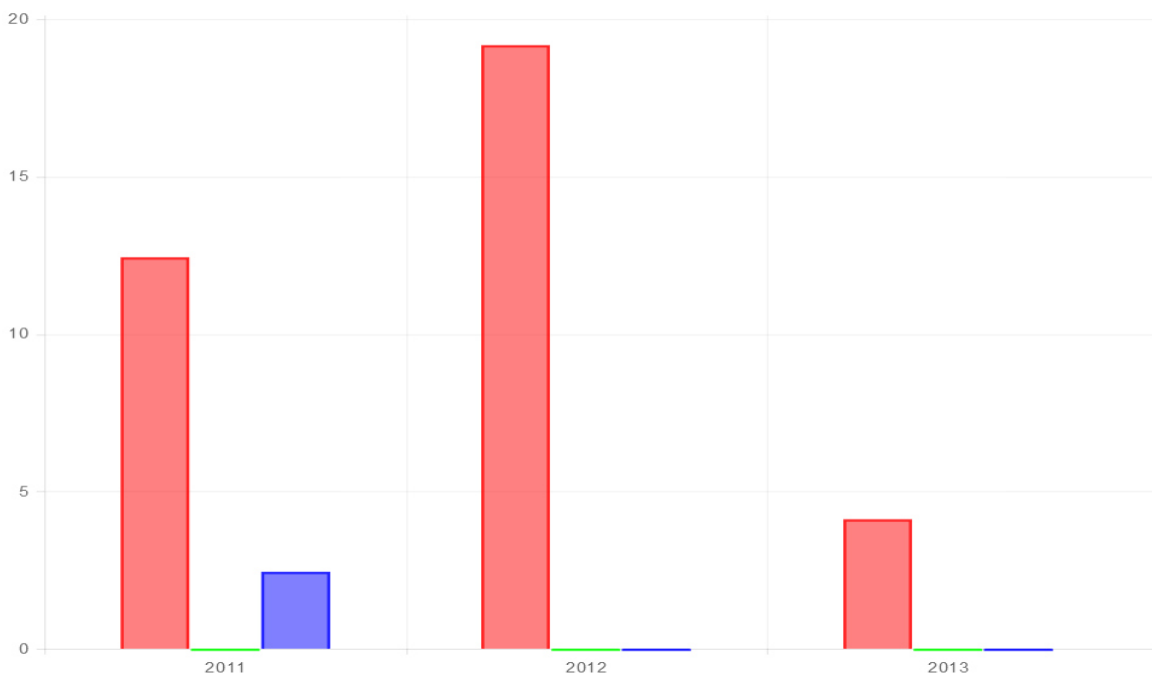


Fig 2: Average Delay in Technical Bids Opening

KPI#3 Average Time Taken to Evaluate Technical Bids

Technical bid evaluation can be made simple using predefined technical qualification criteria. So, an efficient process should not take unduly long time. Any delay in this activity indicates poorly designed technical specifications, lack of well-defined evaluation criteria and lack of capable human resources evaluating the technical bids. Figure 3 shows that while Delhi and West Bengal have improved their performance on this indicator (we have observed only 9 tenders of West Bengal in 2011), U.P. has shown an almost increasing trend with almost 16 days on an average taken to evaluate technical bids in 2013. Participants observed that this may so because of increase in scrutiny of tendering process by government and private agencies. While other states are also subject to such scrutiny, they have modified their procurement process to make it fairer, more equitable and more transparent. U.P. has till now failed to bring any major change in its procurement process.

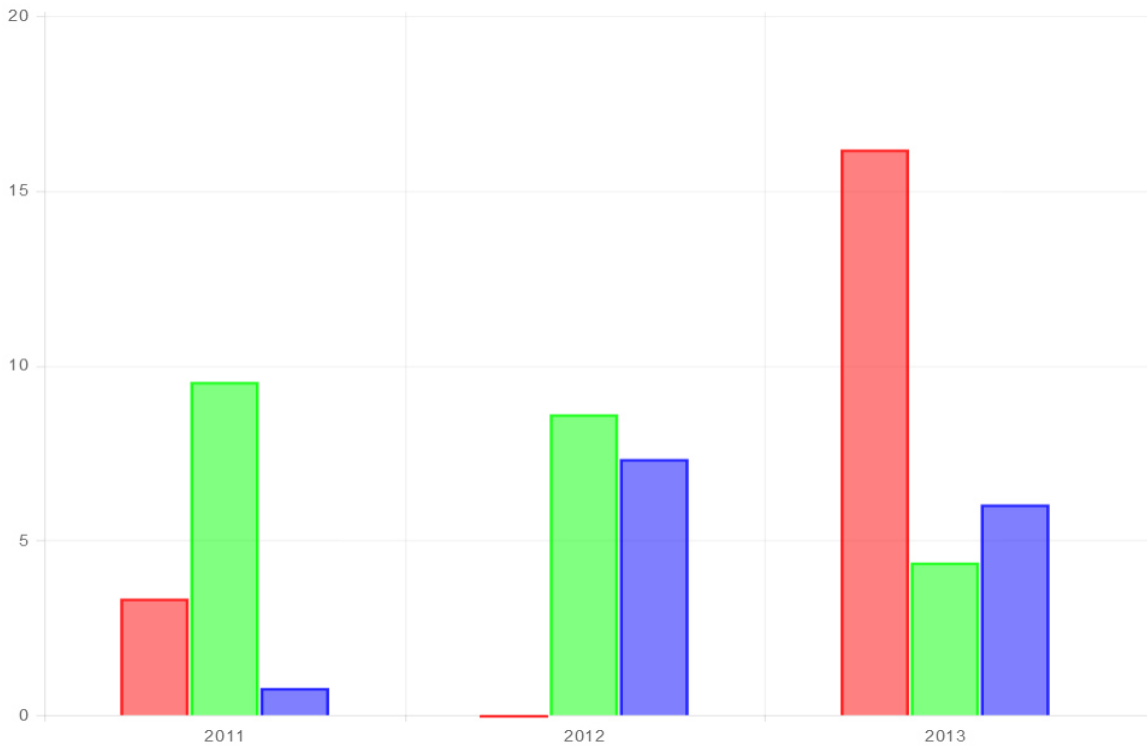


Fig 3: Average Time Taken to Evaluate Technical Bids

KPI#4 Average Delay in Financial Bids Opening

If financial bids are not opened on scheduled date and time, it causes inconvenience to the vendors and has an impact on their trust on the entire process. All the three states observed have performed well on this indicator with almost no delay in the process as shown in the Figure 4.

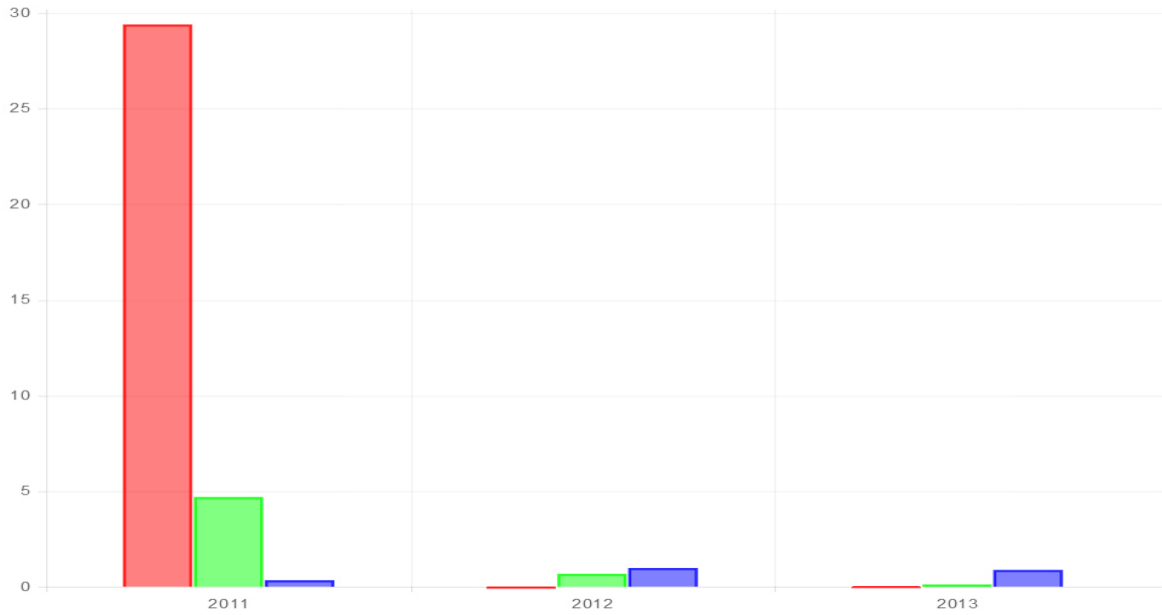


Fig 4: Average Delay in Financial Bids Opening

KPI#5 Average Time Taken to Evaluate Financial Bids

A faster financial bid evaluation and award of contract indicates that there is no post tender negotiation with the L1 bidder. It also indicates that the administrative approval processes are not taking unduly long time to complete. While Delhi and Wes Bengal show a decreasing trend on this parameter in Figure 5, U.P. is showing an increasing trend. Further, in 2013, U.P. took almost on an average 100 days to complete this activity per tender, while Delhi took almost 10 days. Participants observed that multiple layers of approval may be the reason for such performance in U.P. There is a need to cut down layers of approval and make the process more efficient.

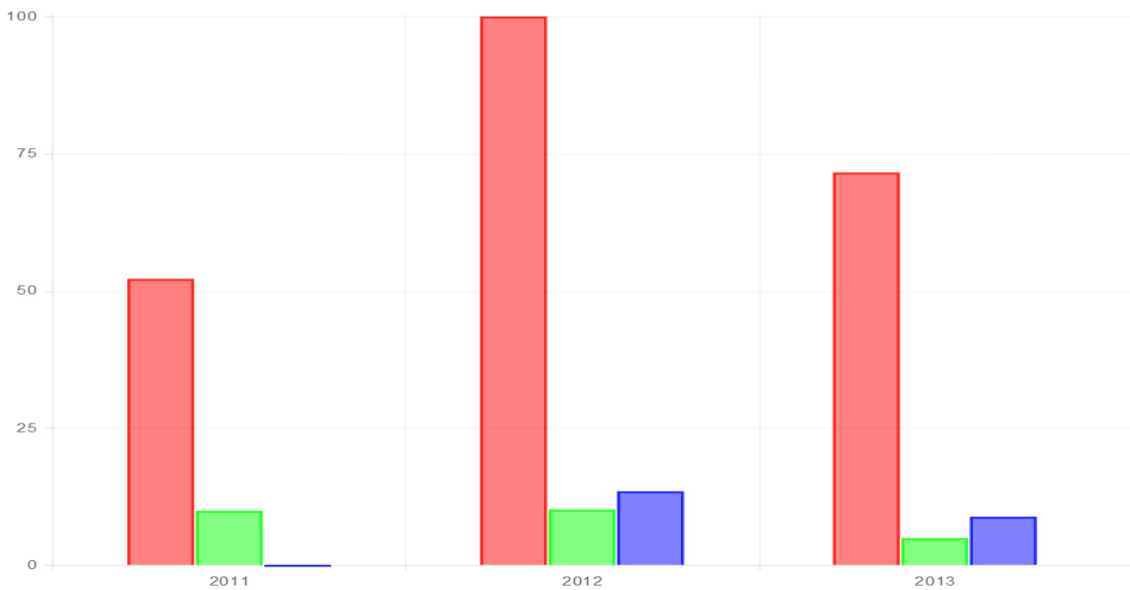


Fig 5: Average Time Taken to Evaluate Financial Bids

KPI#6 Average Bid Validity Period

It refers to the precise period of time the bidders certify for which their bids can be considered valid. After this period, the bidders are at a liberty to change their bid price if the contract is not signed by the last date of the bid validity period. CVC vide Circular No.31/11/08 observed that while a short validity period calls for prompt finalization by observing specific time-line for processing, a longer validity period has the disadvantage of vendors loading their offers in anticipation of likely increase in costs during the period. Hence, average bid validity period is a measure of process economy and it is important to fix the period of validity with utmost care. Fig 6 shows the average bid validity days for the three states for three years.

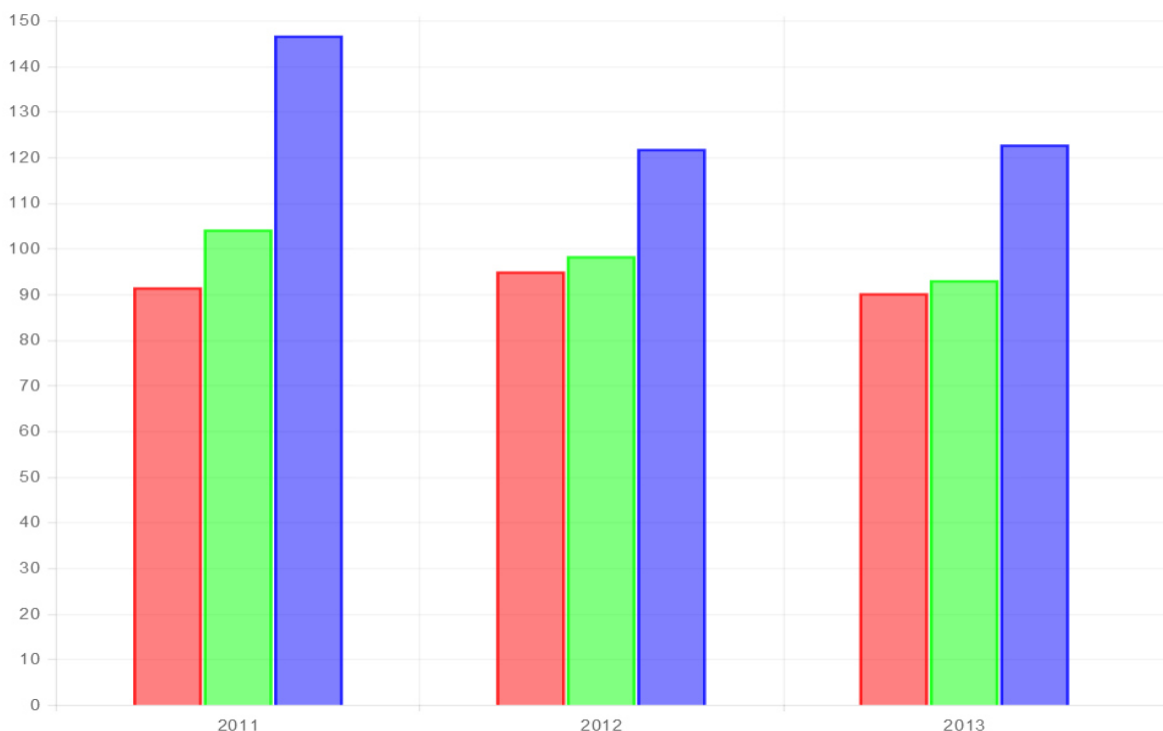


Fig 6: Average Bid Validity Period

KPI#7 Percentage Processes with Cycle Time higher than Bid Validity Period

Process cycle time as measured by time between bid submission end date and date of award of contract has generally been unduly long and has often exceeded the bid validity period. Figure 7 shows the percentage of awarded tenders where process cycle time is higher than bid validity days as generated by the observatory's visualization tool. Participants observed that such delays could be mainly because of multiple layers (between tender evaluation committee and accepting authority) of scrutiny, particularly in high value procurements. Further, procurements are based on budgetary provisions and procurement planning & monitoring do not cover timelines. This needs immediate attention and possible process redesign.

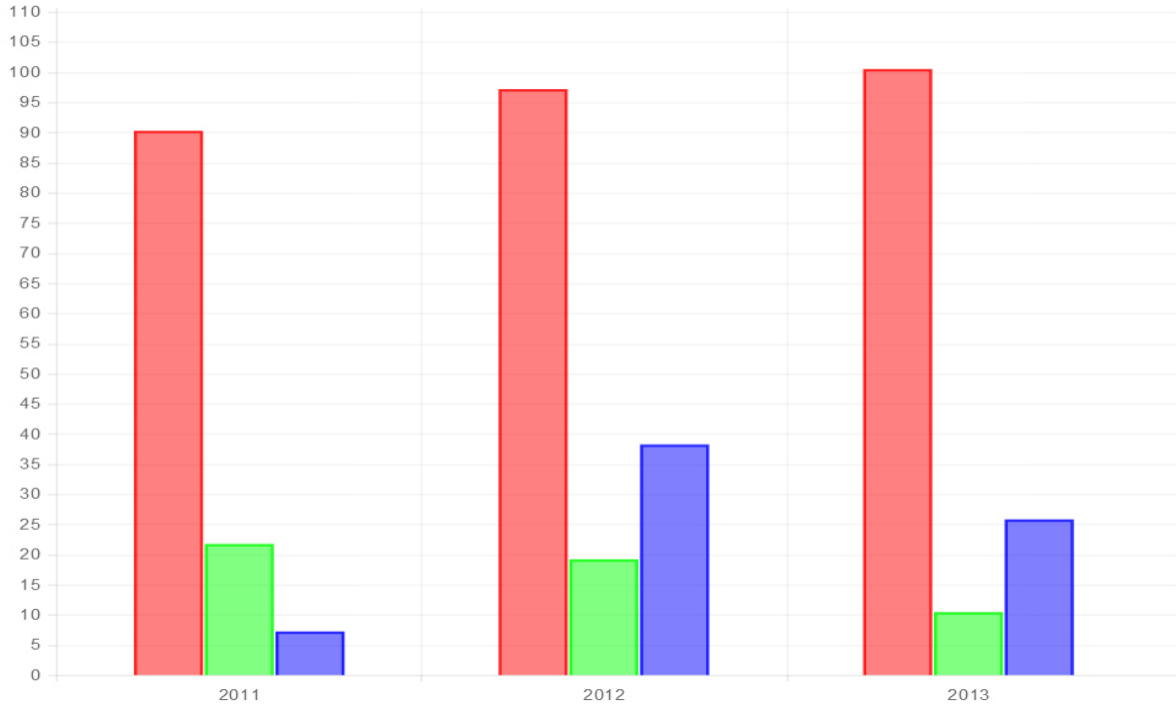


Fig 7: Percentage Processes with Cycle Time higher than Bid Validity Period

KPI#8 Estimated Annual Savings in Procurement

Savings are a simple measure of process economy. They have been calculated as the difference between estimated procurement value mentioned in the notice inviting tender (NIT) document and the actual award value mentioned in the award of contract. We are assuming here that the initial estimate is arrived at after following due diligence process. Figure 8 shows estimated savings for the three states.

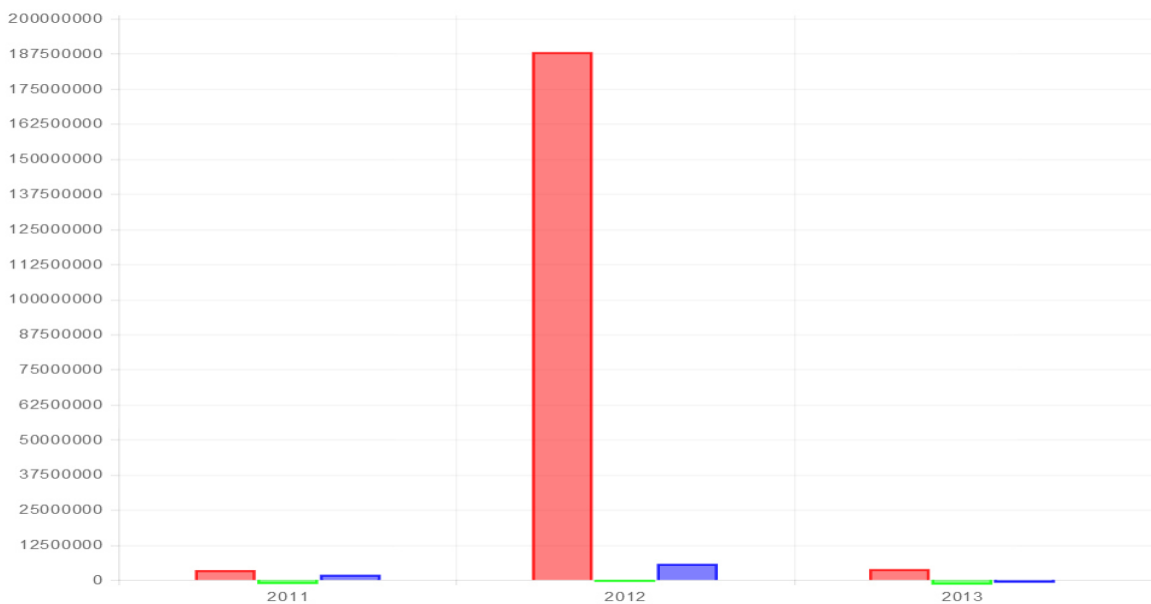


Fig 8: Estimated Annual Savings in Procurement

KPI#9&10 Number of EMD Payment Instruments

Vendors are expected to deposit 2-5% of estimated tender value as earnest money deposit (EMD) to participate in the tendering process. Rule 157 of GFR states that this money can be deposited in form of fixed deposit receipt, banker's cheque, banker's guarantee, demand draft and small saving certificates. Providing more options to the vendors ensures larger participation and promotes competition. Figures 9 and 10 show number of tender processes allowing at least three and two payment instruments respectively. U.P. fares much worse than West Bengal and Delhi tops the charts.

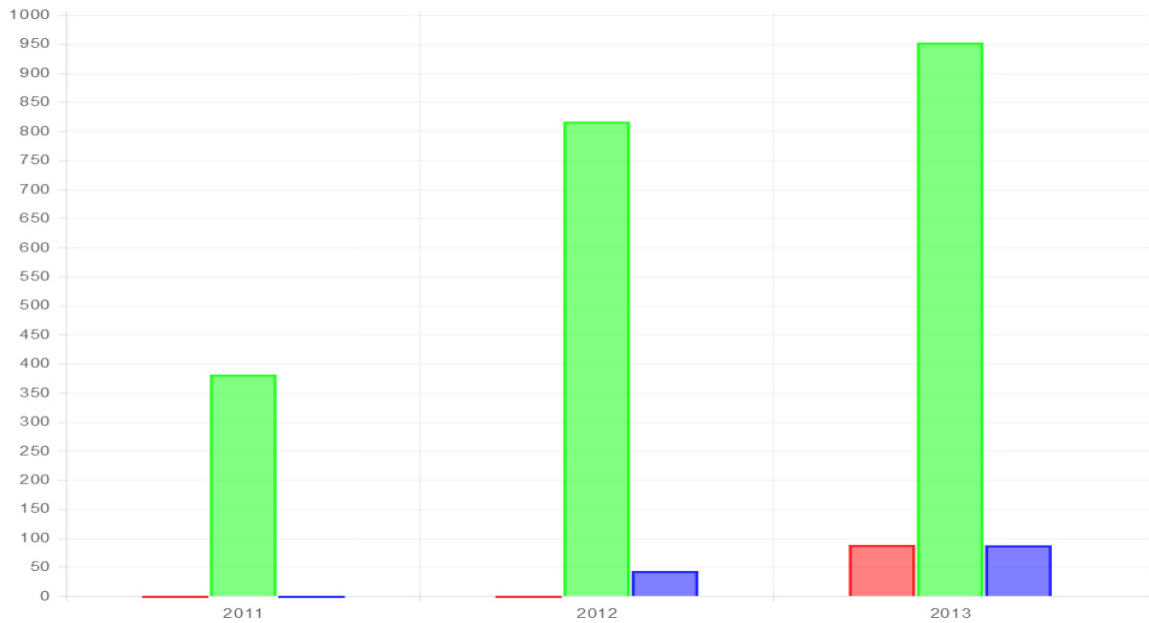


Fig 9: Number of Tender Processes Allowing At Least Three Payment Instruments

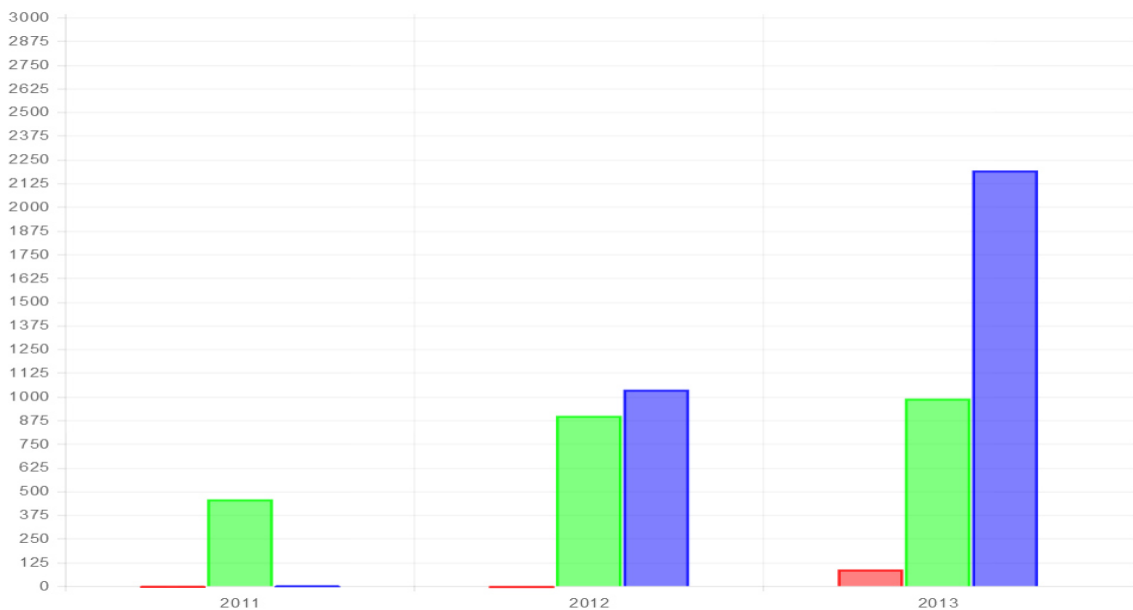


Fig 10: Number of Tender Processes Allowing At Least Two Payment Instruments

KPI#11 Tender Process Fairness Ratio

Promotion of competition requires larger number of vendor participating in the process. The process design should enable and encourage competition among vendors. This ratio is defined as the number of technically qualified bidders to number of bidders finally awarded the contract. To ensure fair competition, most of the technically qualified bidders should not be awarded the contract.

In some cases almost all technically qualified vendors are awarded the contract since no single vendor may have the capacity or capability. However, it is observed in other cases that the work is divided into small pieces and all vendors are given a piece of the contract even if capacity is not a constraint. This defeats the very purpose of conducting the procurement process.

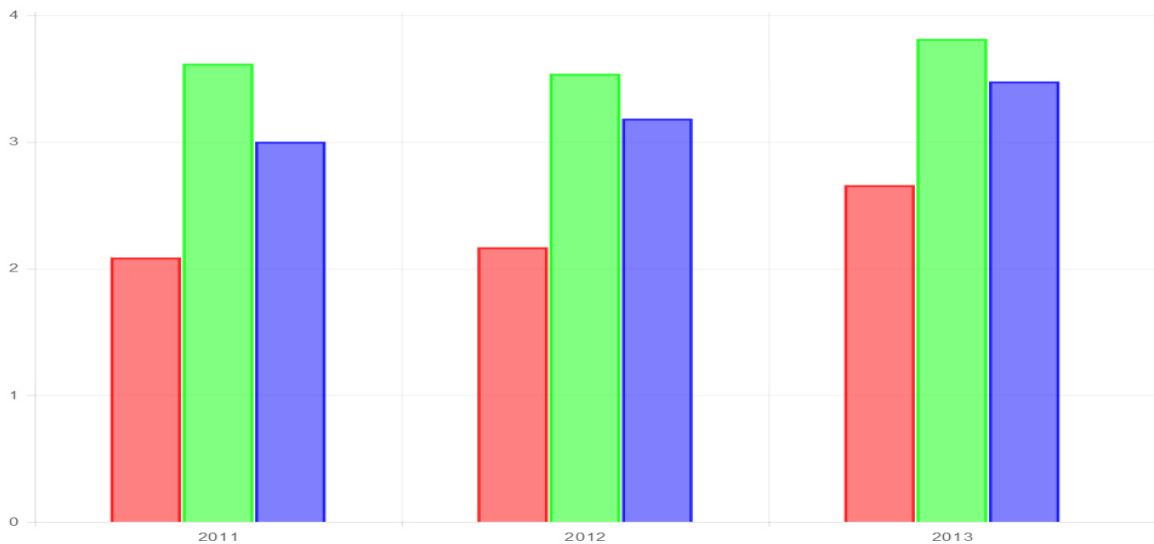


Fig 11: Tender Process Fairness Ratio

KPI#12 Supplier Adequacy Ratio

It is defined as the number of initial bidders to the number of bidders awarded the contract and is a measure of adequate competition in the process. Higher score in this ratio indicates greater competition among suppliers. Though GFR states some minimum number of initial bidders to initiate any tendering process, however desired number of vendors should be much higher than the minimum numbers. On an average initial number of bidders should be at least three times the number of bidders awarded contract to ensure competition among vendors.

As illustrated in the Fig 12, while Delhi shows very high supplier participation, states such as West Bengal and Uttar Pradesh are not performing as well. However, for the state of Uttar Pradesh there has been an improvement over the years. Participants opined that ease of doing business may be a reason for higher vendor participation in Delhi. In the state of Uttar Pradesh, contractors need to get registered in multiple departments and there is no single procurement coordination agency. A single point registration of

contractors may be introduced which may apply to all purchasers in the state and allow interested contractors to apply for registration any time.

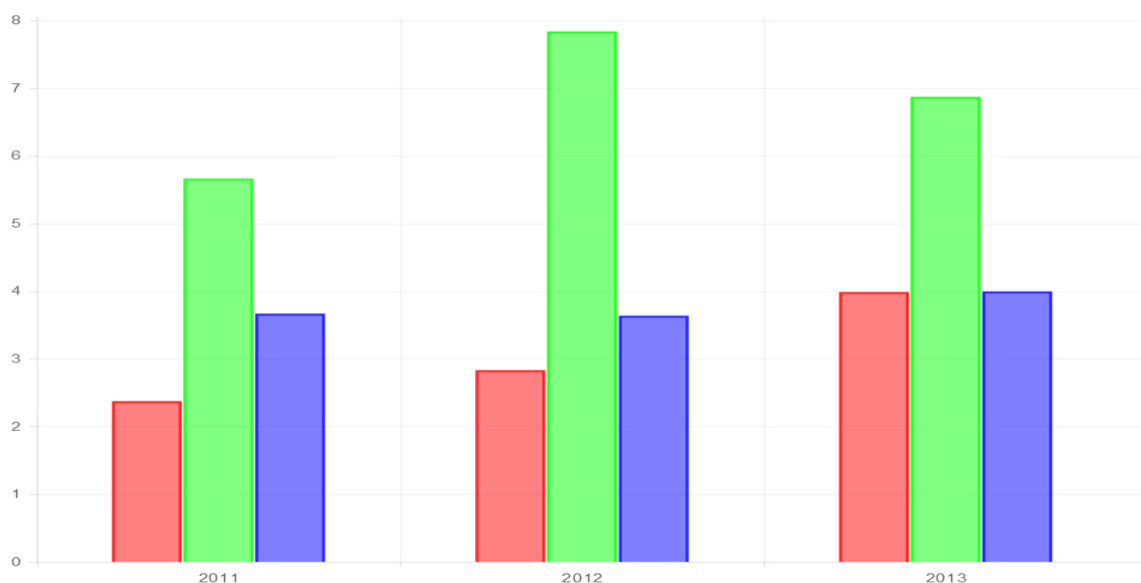


Fig 12: Supplier Adequacy Ratio

It was observed that in some states such as West Bengal, e-Procurement usage being made mandatory, the number of tenders on e-tendering portal has gone up rapidly. However, in states such as Tamil Nadu and Uttar Pradesh, where e-Tendering use isn't mandatory, the number of tenders on e-tendering portal is still limited. e-Tendering not only brings efficiency in public procurement, it also makes the process more transparent and leaves an auditable trail. Such trail will make state wide procurement management information available for useful analysis or policy formulation. Thus, it is highly recommended that the e-Tendering should be made mandatory for the state of Uttar Pradesh as well.

Overall, the participants observed that while technology can bring efficiency and transparency in the public procurement process, there is a need for education and capacity building on public procurement in the state of Uttar Pradesh. There is a need for a common portal or public procurement team/ cadre to ensure coordinated action in this area. To bring greater transparency in public procurement, contract implementation data may be shared in the public domain so that U.P.'s contract implementation process performance can be measured as well.

The workshop deliberations highlighted the potential for improvements in procurement processes in U.P., which may have significant impact on effective delivery of services to the citizens. The observatory team shared that their objective is not finding faults and they are committed to work with U.P. government to have a positive impact on public procurement in the state. Public procurement observatory's detailed analysis and other relevant public procurement related information is available at www.procurementobservatoryup.com