Key Performance Indicators

for monitoring tendering Process Performance in the State of Uttar Pradesh

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Introduction

India is emerging as the third largest economy in the world. Government procurement represents a significant portion of its spending (estimated to be about 25 to 30 percent of India's GDP[i]) and is a key determinant of budget execution outturns. It also makes significant impacts on the quality of public service delivery. Adequate funding for procurement by various state government departments is necessary but may not be sufficient to guarantee desired outcomes. Additional funds (from Central Government or external sources) to relieve the effects of economic downturns, or other events such as the global financial crisis or natural disasters, are therefore also at high risk of remaining unspent during the period when they are most needed.

So, there exists reasonable scope to improve procurement practices by process improvements and leveraging Information & Communications Technologies (ICT). For example, the Govt of Uttar Pradesh has planned to spend INR 1,678,922 Million on revenue expenditure and INR 533,090 Million on capital expenditures in 2013-14[ii]. A saving of 10% in total procurement can more or less wipe off the revenue deficit of INR 240,000 Million.

Though World Bank's engagement in India is amounting to US$24 Billion, only very few of these funds reach some states in India and DEA has been urging the Bank to engage more in these lagging states to provide the necessary support for efficient service delivery. Further, significant portions of Govt of India’s own funds made available under centrally sponsored schemes are underutilized or used inefficiently due to limited implementation capacity of some of the weaker states. Among Indian states, Uttar Pradesh (UP) is critical for India’s plans as it is the most populous state as well as a very dominant state in national politics. UP is also one of the World Bank’s focus states in India, and has received wide-ranging support comprising analytical work, technical assistance, investment lending and adjustment lending. In context of public procurement practices and outcomes, it is among the lagging states with limited implementation capacity.

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 Key Performance Indicators (KPIs) to monitor tendering Process Performance in the State of Uttar Pradesh. Main reference documents to arrive at these KPIs are as follows:

1. General Financial Regulations (GFR) 2005 of Govt of India
2. Central Vigilance Commission (CVC) Guidelines on public procurement

Objectives of public procurement

Article 299 of the Constitution of India lays a basic foundation for public procurement. Rule 137 of GFR 2005 states fundamental principles of public buying wherein every authority delegated with the financial powers of procuring goods in public interest shall have the responsibility and accountability to bring:

1. Efficiency, economy, transparency
2. Fair and equitable treatment of vendors and promotion of competition

Public procurement is carried out though various methods such as rate contract, limited tender or open tender, etc. to procure goods, services and works. As per GFR, procurement value above INR 2.5 Millions should be carried out via open tendering process. Any improvement in this process will lead to significant benefits for all the stakeholders.

Open tender procurement process

The open tender process starts after publishing notice inviting tenders in various newspapers, department websites or e-tendering portals. Usually these tenders are evaluated for their technical and commercial offers sequentially and a contract is awarded. While the process is quite simple and well defined, various technical & political complexities involved in the process lead to poor performance on various KPIs.

At present, this process can be carried out in either offline or online mode. Online e-Tendering portals are designed centrally by the National Informatics Centre (NIC) and rolled out for different state government and other Public Sector Undertakings (PSUs). This tool collects and makes available rich information about various stages of public procurement tenders. In Uttar Pradesh, since inception in 2008, e-tendering system has supported about 3759 tenders managing the process for INR 1,51,027 Millions[iii] which represents about 15 - 20% of total public procurement spend in UP in the given period.

While offline tendering process makes the bulk of process execution, authentic and precise data about the same may not be generally available or even captured. Hence, the observatory will use historical data available on NIC's e-tendering sites to develop base line statistics and use it to measure and compare procurement performance in coming years.

Developing KPIs for tendering Process

In line with the GFR, the observatory will use KPIs to measure efficiency, economy, transparency, fair and equitable treatment of vendors and promotion of competition.

1. Measuring efficiency, economy, transparency in public procurement

Efficiency is defined in terms of time taken to execute various activities of procurement. Key components of measure of efficiency are:

1.1 Time for bid opening : After bids are received, same should be opened at the earliest. Any delay in this activity indicates lack of planning and resource unavailability.

1.2 Delay in technical bid 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.

1.3 Time for technical bid evaluation: 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.

1.4 Delay in commercial bid 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.

1.5 Time for commercial bid evaluation: A faster commercial 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 undue time to complete.

1.6 Post notice inviting tender (NIT) modifications: Corrigendum such as extension of deadlines, change of specifications, etc. indicate poor planning and foresight in creating the tender document.

Process economy captures a few dimensions of cost of procurement. Since data about human resources involved in actual procurement process are not captured for most tenders, we are taking two process level measure

1.7 Estimated procurement savings: Saving is calculated as the difference between estimated procurement value mentioned in the NIT document and the actual award value mentioned in the award of contract. We are assuming here that the initial estimate is arrived at following due diligence process.

1.8 Process failure: If there are no response to a published tender, it shows the lack of market making activities by the procurement agency. Further, a cancelled tender may indicate lack of planning and involve rework, which increases cost of procurement and opportunity loss.

1.9 Average bid validity days: 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, it is important to fix the period of validity with utmost care.

Process transparency refers to sharing of decision-making criteria, evaluation of bids on the stated criteria and final decision. It encourages faith, trust and finally larger vendor participation.

1.10 Evaluation criteria in tender document: If these are properly and explicitly stated, they increase trust in the process and also attract the most suitable interested vendors.

1.11 Sharing of tabulated technical bid evaluation: They objectively share the evaluation results. This also ensure that the decision making process is objective and thereby increases trust in the process.

1.12 Publication of award of contract (AOC): Government departments some time do not share the outcome of tendering process fearing litigation and public outcry. Sharing AOC ensure that all stakeholders know how public money is being spent and there is no prejudice in vendor selection.

1.13 Pre-bid conferences in turnkey projects: Pre bid conference ensures that there is no information asymmetry among participating vendors.

Table 1
KPIs to measure Process Efficiency, Economy and Transparency

S No.	Indicator Name	Measured by	Relevance and Satisfaction level
1	Process Efficiency : Time for Bid Opening	Number of hours between bid submission deadline and bid opening (Discounting non working days)	Time taken should be as less as possible to ensure efficiency and avoid malpractices (*Satisfaction level: less than 24 hours)*
2	Process Efficiency: Delay in Technical Bid Opening	Difference between proposed bid opening and actual bid opening time	Any delay in bid opening shows lack of planning or resources (*Satisfaction level: should be zero in more than 95% cases*)
3	Process Efficiency : Time for Technical Bid Evaluation	Number of days between technical bid opening and technical bid evaluation	Technical evaluation should not take unduly long time. Average will be captured for three different tender categories namely goods services and works (*Satisfaction level: 7 days*)
4	Process Efficiency : Delay in Commercial Bid Opening	Difference between proposed commercial bid opening and actual bid opening time	Any delay in bid opening shows lack of planning or resources (*Satisfaction level: should be zero in more than 95% cases*)
5	Process Efficiency : Time for Commercial Bid Evaluation	Number of days between commercial bid opening and publication of Award of Contract(AOC)	Commercial evaluation should not take much time. It also reflects that there is no post tendering negotiation (GFR 160-XII) (*Satisfaction level: 2 days*)
6	Process Efficiency: Post NIT modification	% of tenders changed after NIT (through corrigendum)	Reflects poor planning in creating tender documents (*Satisfaction level: less than 5%)*
7	Process Economy: Estimated Procurement Savings	Difference between value indicated in the NIT and AOC value	Reflects estimated savings in the process (*Satisfaction level: More than 10% of estimated value in NIT*)
8	Process Economy: Process Failure	Percentage of tenders no-response AND cancelled	No-response : is an indication of market making failure Cancelled: is an indication of planning failure (*Satisfaction level : less than 5%*)

9	Process Economy : Average Bid Validity Days	Number of bid validity days per tender	If bid validity days are higher than vendors will also factor in associated price escalation risks in their commercial bid Average will be captured for three different tender categories namely goods services and works (*Satisfaction level : 60/90 days*)
10	Process Transparency: Evaluation Criteria in Tender Document	Number of tenders (%) in which evaluation criteria are explicitly displayed	Explicitly stated criteria facilitate vendor participation, selection and evaluation (*Satisfaction level: 80% or more*)
11	Process Transparency: Sharing of Tabulated Technical Bid Evaluation	Percentage of tenders in which tabulated vendor comparisons is available	Sharing Technical Evaluation objectively (*Satisfaction level: 80% or more*)
12	Process Transparency: Publication of AOC	Number of tenders (%) for which contract awarded results are publicly displayed	GFR 160 XV suggests publishing AOC in public domain. (*Satisfaction level: 95% or more*)
13	Process Transparency: Pre-bid Conferences in Turnkey Projects	Percentage of turn key projects where pre-bid conference are held	As turnkey projects are complex in nature, GFR 160 -VIII suggests pre-bid conferences for them (*Satisfaction level: 80% or more*)

2 Measuring Fair and equitable treatment of vendors and promotion of competition

Fair and equitable treatment is defined as creating a process that provides equal opportunities and level playing field to all vendors. Key components to measure fair and equitable treatment are:

2.1 Time for bid preparation and submission: After publishing notice inviting tender, government agency should give sufficient time for bid document preparation and submission. This ensures that the notice reaches to all and interested vendors can participate in the process.

2.2 Payment instruments flexibility: Vendors are expected to deposit 2-5% of estimated tender value as earnest money to participate in the process. Earnest 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.

2.3 Process fairness ratio: 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.

Promotion of competition indicates larger number of vendor participating in the process and process design should also enables and encourages competition among vendors.

2.4 Number of initial bidders: It indicates the efficiency of market making activities and wider participation by existing vendors.

2.5 Vendor adequacy ratio: 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.

2.6 Method of procurement used: Though open tender ensures higher competition among vendors, the associated execution cost of open tender is higher. Hence, are different method of procurement such as limited or rate contract may be used. However, to expedite procurement process some time government agencies use methods less competitive for given value, which should be discouraged.

2.7 Award to single commercial bidders: After technical evaluation, if only one bidder is selected for commercial evaluation, it almost converge to the case of single bid tendering. This should be highly discouraged as in long run it may block competition.

Table 2.
KPIs to measure Fair and equitable treatment of vendors and promotion of competition

S No.	Indicator Name	Measured by	Relevance and Satisfaction level
1	Fair and Equitable Treatment : Time for bid preparation and submission	Number of days between invitation to bid and bid submission	Vendors should be given sufficient time to prepare bid documents (*Satisfactory: 45 days or more*)
2	Fair and Equitable Treatment: Payment Instruments Flexibility	Percentage of Bids where at least three payment instruments are used	Rule 157 of GFR states that bid security may be accepted in the form of account payee demand draft, fixed deposit receipt, banker's cheque or bank guarantee from any commercial bank (*Satisfaction level: 90% or more*)
3	Fair and Equitable Treatment: Process fairness ratio	Ratio of number of technically qualified bidders to number of bidders awarded contract	To ensure fair competition, most of the technically qualified bidders should not be awarded the contract (Satisfaction level : *Should be more than 2*)
4	Promotion of Competition: Number of initial bidders	Average number of bidders submitting bids in each tendering process	Number of bidders may differ for works , services and goods. However the number should be high as per GFR 169 (*Satisfaction level: 5 bids or more*)
5	Promotion of Competition: Vendor Adequacy Ratio	Ratio of Number of initial bidders/ Number of bidders awarded contract	To ensure adequate competition in the process (*Satisfaction level : more than 3*)

6	Promotion of Competition: Method of Procurement Used	Percentage of bidding processes using a method less competitive than the process recommended by GFR for the estimated contract amount	GFR lays down the specific method selection criteria (Satisfaction level: less than 1%)
7	Promotion of Competition: Award to single commercial bidders	% of time after technical evaluation, single commercial bid are not cancelled	CVC guidelines discourage single commercial tenders

References:

[i] Government Procurement in India: Domestic Regulations and Trade Prospects Published by Cuts International 2012

[ii] Govt of Uttar Pradesh Budget 2013-14

[iii] NIC internal document