

**A Critical Analysis on Inefficiencies in  
Procurement Process in Roads and Highways**

**Department**

**A Dissertation  
by  
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Student ID No-13182009**

**Submitted  
to  
Institute of Governance Studies  
BRAC University  
Dhaka**

**In Partial Fulfillment of the Requirement for the Degree of  
Master in Procurement and Supply Management**



**Institute of Governance Studies  
BRAC University, Dhaka, Bangladesh  
April 2013**



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**Institute of Governance Studies  
BRAC University, Dhaka, Bangladesh  
April 2013**



**Dedicated  
To  
The People of Bangladesh  
For whom we serve**

## **Declaration**

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## **PREFACE**

Before you is presented the final version of my master thesis, written for the master program - “Procurement and Supply Management” of the faculty Institute of Governance Studies (IGS) of BRAC University. The research has been carried out during the period August 2012 to April 2013.

This thesis has been started with prior knowledge about the tendering procedures of Roads and Highways Department (RHD) as the author is an officer of the same department, serving in the capacity of an Assistant Engineer. My background knowledge about the department also saved me substantial amount of effort and time. The experience both doing the research and the analyses on this particular topic was very challenging, but still it was quite satisfactory as it turned out to be of larger relevancy than was initially expected.

This research has made use of data originating from confidential data sources such as estimates and tender documents and tender evaluation reports; the thesis blinds the references to these sources. Furthermore, this thesis contains a series of interviews with the practicing professionals and experts of this department—both from the field and from the Headquarter. Due to the nature of the results of this report which are often strongly aided by statements made in the interviews, and to protect the reputations of interviewees or their organization the identities of the interviewees had been kept confidential.

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## **ACKNOWLEDGEMENTS**

First of all, I thank the Almighty Allah for giving me the opportunity to complete this dissertation for the purpose of fulfilling the requirements of the Masters programme in Procurement and Supply Management.

I would like to extend my thanks specifically to my supervisor Dr. Rizwan Khair for his guidance, assistance and direction he provided me for the completion of this thesis.

Special thanks goes to my mentor and senior colleague Mr. Shishir Kanti Routh, Executive Engineer, Roads and Highways Department (RHD) who has provided ideas and extended guidance and help throughout the thesis.

This thesis was made possible by the kind assistance of a number of people to whom I express my heartfelt gratitude. I owe much thanks to Mr. Inthaqab Wahid Ruso, Assistant Engineer, Roads and Highways Department for his aid. My thanks goes to the resource persons, program advisors and staffs of the Institute of Governance Studies (IGS) of BRAC University and Chartered Institute of Purchasing and Supply (CIPS) of UK for the assistance and tutoring given to me throughout the coursework.

I would also like to express my gratitude to the interviewees working at various level of Roads and Highways Department (RHD) for their kind cooperation in terms of sharing confidential information with me.

Finally, I would like to thank my family, especially to my parents and wife, and to my colleagues and friends. To all, I say thank you for the prayers, support, words of encouragement and wisdom with which this research work has been made possible.

## **Abstract**

This research focuses on the inefficiencies in public sector procurement process with reference to Roads and Highways Department civil work contracts.

Roads and Highways Department (RHD) has responsibilities for the construction, repair and maintenance works of highway network of the country. This requires efficiency in procurement process which ensures a much higher Value for Money (VFM).

The goal of this thesis was to identify the inefficiencies in the procurement process, sources of these inefficiencies and to find the probable solutions. For this purpose the trend and amount of inefficiencies have been quantified from primary data collected from the working divisions of RHD. The practicing professionals of RHD have been interviewed through a questionnaire and from their opinions the major parameters of inefficiencies have been identified and their suggestions about improving efficiencies have been congregated.

Deviation as high as 29.306 percent from the engineer's estimate as well as dispersion of up to 22.081 percent indicate scattered values of bidding, inefficiency, lack of consistency and manipulation in the procurement cycle of RHD. From the qualitative interview the major parameters of inefficiencies have been identified which include Collusion, outdated rate schedule, undue political pressure, corruption, the contractors'/suppliers' tendency to bid well below the estimated value as well as the tendency of RHD procurement practitioners to award the contract only to the lowest bidders, lack of contractor database, lack of knowledge about supply market, lengthy Bureaucratic process and lack knowledge about PPR-2008 among Officials and Bidding Community. Due to time and budget constraints, the correlations of major parameters could not be quantified and was kept qualitative.

The recommendations to improve efficiency in the procurement practices include reducing political influence, widespread practice of e-Government procurement, incentives to the officials, avoid the tendency to award the contract to the lowest bidder, evaluate the market at regular basis to update the rate schedule, zero tolerance about quality, arranging in house training, preparation of handbook of procurement, establishing a separate cell to provide critical solutions, reward mechanism for contractors, decentralization of delegation of powers, database of the contractors, shortening of the long bureaucratic system, performance based contract or flexible rate contract, omission of arithmetic errors and more specific Instruction to Tenderers (ITT) or Tender Data Sheet for quick evaluation.

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## **List of Abbreviations**

AA	Approving Authority
AO	Approving Officer
ADB	Asian Development Bank
BDA	Bilateral Development Agencies
BDT	Bangladesh Taka
BLI	Base-line Indicator
BOO	Build Own Operate
BOOT	Build Own Operate Transfer
BOT	Build Operate Transfer
BWDB	Bangladesh Water Development Board
CCGP	Central Committee on Government Purchase
CPAR	Country Procurement Assessment Report
CPI	Compliance Performance Indicator
CPTU	Central Procurement Technical Unit
DoFP	Delegation of Financial Power
DPM	Direct Procurement Method
e-GP	Electronic Government Procurement
EU	European Union
FY	Fiscal Year
GoB	Government of Bangladesh
HOPE	Head of Procuring Entity

ICB	International Competitive Bidding
IDA	International Development Agency
IMED	Internal Monitoring and Evaluation Department
ITT	Instruction to Tenderers
LTM	Limited Tendering Method
LGED	Local Government Engineering Department
MDB	Multilateral Development Bank
MFI	Multilateral Financial Institution
NOA	Notification of Award
OSTETM	One Stage Two Envelope Tendering Method
OTM	Open Tendering Method
PE	Procuring Entity
PEC	Proposal Evaluation Committee
POC	Proposal Opening Committee
PP	Procurement Planning
PPA	Public Procurement Act
PPR	Public Procurement Rules
PPRP	Public Procurement Reform Project
PROMIS	Procurement Management Information System
QCBS	Quality and Cost Based Service
REB	Rural Electrification Board
RFQM	Request for Quotation Method
RHD	Roads and Highways Department
SBD	Standard Bidding Document

STD	Standard tender Document
TEC	Tender Evaluation Committee
TOC	Tender Opening Committee
TSC	Technical Sub-Committee
TSTM	Two-Stage Tendering Method
VFM	Value for Money
WB	World Bank
UN	United Nations
UNA	United Nations Agencies



# Chapter 1: Introduction

## 1.1 Introduction

Roads and Highways Department (RHD) is responsible for the construction, maintenance and repair of the National, regional and district highways of Bangladesh. As a public agency, it follows the public procurement rules for its purchasing of works, goods and services. Since it has a great responsibility for proper utilization of public funds allocated to it, the inefficiencies in the procurement practices of the organization need to be identified and eliminated through proper practices.

## 1.2 Background

“Procurement means the purchasing or hiring of goods or acquisition of Goods through purchasing and hiring, and the execution of Works and performance of Services by any contractual means”. (Fineurop-ESCB 2011a)

The procurement process in Bangladesh lacked any sound framework in earlier days. So Country Procurement Assessment Report, 2002 (**CPAR**) prepared by World Bank (WB), in agreement with the Government of Bangladesh (GoB), identified several deficiencies in the procurement system of the GoB. Government approved the implementation of the "**Public Procurement Reform Project (PPRP)**" with International Development Agency (IDA) assistance on 14 February, 2002. In 2006, The Public Procurement Act 2006 was passed and to assist and supplement PPA 2006 The Public Procurement Rule 2008 was passed. According to the Act No 24 of 2006—

“An Act to provide for procedures to be followed for ensuring transparency and accountability in the procurement of goods, works or services using public funds and ensuring equitable treatment and free and fair competition among all persons wishing to participate in such procurement including the matters incidental thereto.” (PPA 2006, p. 2)

According to the Act [Section 3 & 4]

- PPA extends to the whole of Bangladesh
- Override other laws: Notwithstanding anything contained in any other law, the provisions of the PPA shall prevail.

Since then, the procurement process in Roads and Highways Department (RHD) under Ministry of Communication, Government of Bangladesh has followed PPA 2006 and PPR 2008 in procuring goods, works or services. Major portion of the procurement in RHD

consists of works, with a few services from consultants and some procurement of goods from suppliers. The public funds used in the procurement process are divided into Development funds and GoB funds. Although following the proper guidelines, there seemed to have wastage and inefficiency and therefore, misuse of these funds and the “value for Money” could not be achieved. The inefficiency might have been in the procurement process followed by RHD, or it might have been in the internal process in the department, which is yet to be identified.

### **1.3 Broad Objective**

This research will tend to identify the inefficiencies in the procurement process in Roads and Highways Department (RHD) and the sources of these inefficiencies and will try to find the probable solutions.

### **1.4 Specific Objective**

The specific objectives of this study are:

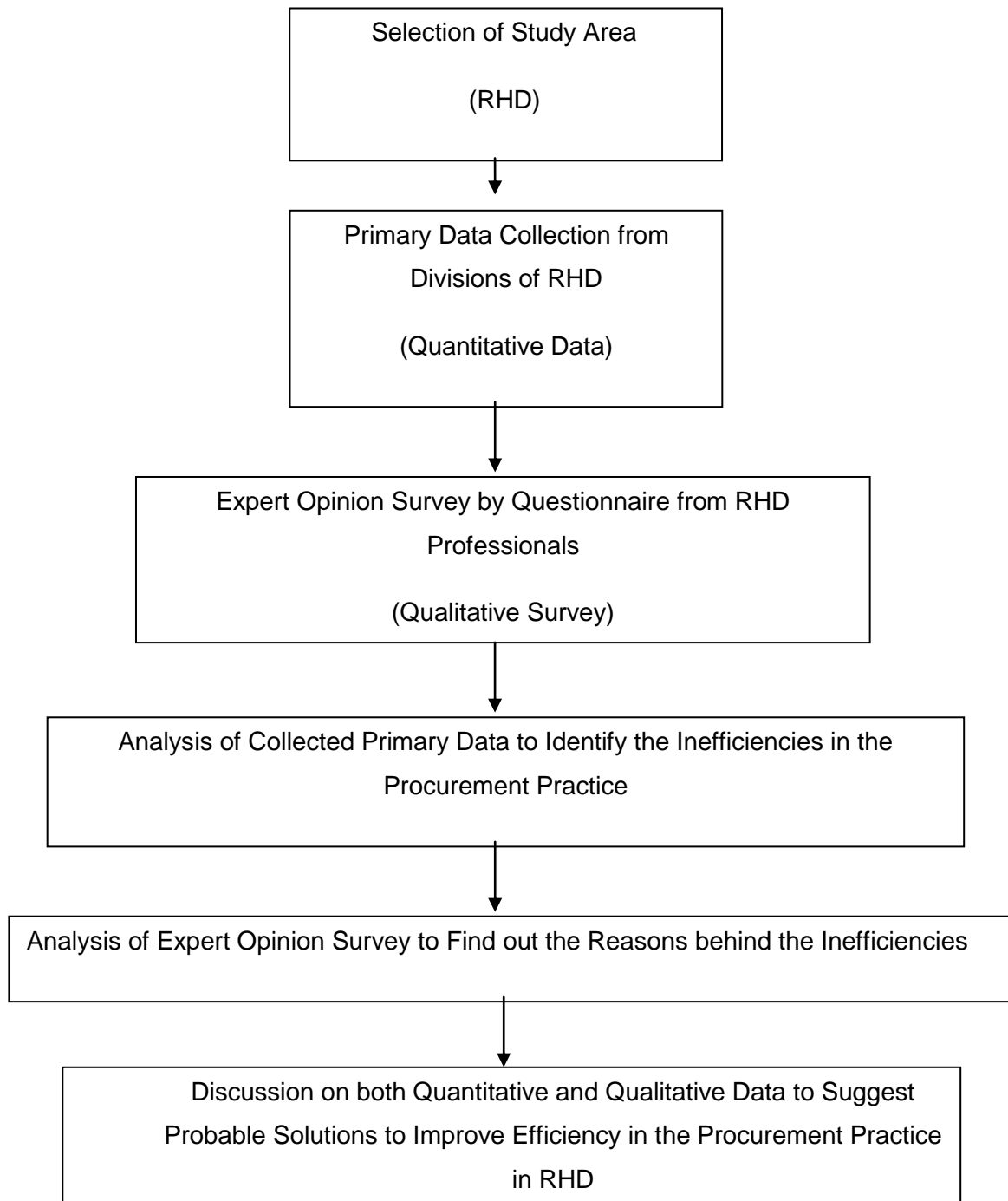
- To determine whether there is any inefficiency in the procurement process Roads and Highways Department (RHD) comparing between engineer’s estimates and contract award value.
- To determine the parameters of these inefficiencies and to find out whether these parameters are significant or not.
- To suggest probable ways to improve efficiency in the procurement process.

### **1.5 Research Questions**

- Is there any significant inefficiency found while comparing the engineer’s estimates and the contract award value in RHD?
- What are the parameters that drive the inefficiencies?
- What are the ways to improve efficiency in the procurement process?

## 1.6 Methodology

In this thesis work, a literature review will be performed to develop an understanding about the current status of the procurement practices in Roads and Highways Department (RHD). For this, the public procurement rules of Bangladesh and other donor agencies will be reviewed to compare the rules and regulations of Bangladesh with those of other donor agencies and thus build up an understanding about the procurement practices in RHD. The Methodology is described as follows:



*Figure 1.1: Overview of Methodology*

As a public sector organization, Roads and Highways Department has to conduct its procurement of goods, works and services according to the Public Procurement Act 2006 (PPA 2006) and Public Procurement Rules 2008 (PPR 2008). The objective of any procurement of Roads and Highways Department is to achieve the maximum value for money and ensure transparency and accountability. Before the reformation of public procurement policy in Bangladesh, every organization followed its own procurement rules and practices. But after PPA 2006 and PPR 2008, all of them have to change their practices and follow the common rules imposed by PPA 2006 and PPR 2008. This change in long practiced procurement processes had good implications as well as some problems. Again, PPA 2006 and PPR 2008 are not panacea as the nature of procurement varies from one organization to another. There might have provisions for some improvements. The target of this study is to identify those problems and suggest some solutions.

Firstly, the study area has been selected with the reference to the preferences and historical analysis. So, a literature review will be conducted on the background of Public Procurement Reform in Bangladesh public sector. The review covered the Public Procurement Reform Project II (PPRP II) and the procurement guidelines of other donor agencies including Asian Development Bank (ADB), World Bank (WB) and European Union (EU) procurement directives for comparing the public procurement rules with those of other agencies. This review will be based on secondary data from the journals, reports and guidelines of the respective agencies.

Secondly, primary data will be collected from RHD divisions to identify whether there are inefficiencies in the procurement practices in RHD. The Engineer's estimate and the contract award value will be used to identify if there are deviations and those data will be collected from the "Tender Evaluation Reports" of the awarded contracts. The data will be analyzed and any deviations will be determined.

Thirdly, an expert opinion survey will be conducted among the practicing professionals, in this case, the Sub-divisional Engineers and Executive Engineers from Roads and Highways Department and their opinions will be requested regarding the main parameters of inefficiencies in the procurement practices. There will be both close-ended and open-ended questions in the expert opinion questionnaire survey.

Finally, both the quantitative data from the tender evaluation reports and the qualitative data from the expert opinion survey will be analyzed for the probable solutions to improve efficiencies in the procurement practices in Roads and Highways Department (RHD).

### **1.7 Limitations and assumptions of the study**

Limitations of this research will primarily be the time and budget constraint which in turn may not permit to make a comparison of research areas of similar departments, such as Local Government Engineering Department (LGED) and City Corporations. Roads and Highways Department has 64 divisions in 64 districts. The procurement of goods and works are performed by field divisions, which are divided into two or more sub-divisions. A sub-divisional engineer having experience in procurement related activities of at least 5 years is in the charge of a sub-division. There might have variations in trend for each different sub-division, for which time series analysis is necessary to find out the trend which might not be performed due to time constraint and lack of sufficient data. The study will focus on the working divisions of civil works of RHD, which might significantly vary from the procurement of electrical and mechanical divisions.

During this research work several limitations were faced which ensures that there are scopes of further study in this field especially with particular attention to RHD. The limitations and assumptions that were made during the research are mainly as follows:

- ✓ Prior to the start of this research, it was expected that a comparison of research areas of similar departments, preferably with Local Government Engineering Department (LGED) and city corporations would be undertaken but unfortunately the time barrier did not permit such an investigation.
- ✓ For the purpose of collection of primary data with regard to estimates / tenders, the tender evaluation documents of last two (2) years have been taken. But, it could have been done separately for each different sub-division taking the data for last 5 years so that the trend in inefficiencies could be identified by time-series analysis.
- ✓ The primary data were collected from field offices of RHD. The information provided by the interviewees was also from the working divisions of civil works. The procurement of electrical and mechanical divisions of RHD has been omitted in this research work.
- ✓ There were some tenders in a few sub-divisions where there was almost no deviation of the award value from the estimated value. It was not tested whether it was due to proficient procurement practices or due to collusions.
- ✓ The parameters of inefficiencies have been identified through qualitative interviews, but the parameters were not statistically tested to find which of those are most significant or which of those are not significant at all.

## **1.8 Chapter Outline**

The whole research work is presented in four different chapters.

The first chapter is the introduction chapter; which gives an outline of the general background of the Roads and Highways Department and its nature of work. It also includes the public procurement rules in Bangladesh and the nature of procurement in Roads and Highways Department. This chapter explains the scope of research work, the identification of the problem, the research question, the objective of the work, the methodology to be followed with the probable limitations.

The second chapter is the literature review chapter; which gives a generalized concept of the public procurement reform project of Bangladesh and the public procurement laws and rules in practice. It also studied the procurement practices of the donor agencies, especially Asian Development Bank (ADB) for a better understanding of efficient procurement practices.

The third chapter is the data analysis and results chapter; which analyzes the collected data using the methodology previously explained in chapter one. The data is presented in graphical form for easy understanding. The interpretation of the data has also been presented in this chapter.

The fourth and final chapter is the conclusion and summary chapter; which summarizes the findings and analysis to explain the inefficiencies in the process and suggested the probable solutions. In addition to these this chapter also gives the limitations, assumptions and scope of further study in this field.

## Chapter 2: Literature Review

### 2.1 Introduction

Various guidelines and literature on procurement rules and laws in both Bangladesh and donor agencies would be reviewed in this chapter to have a generalized concept of the public procurement reform project of Bangladesh and the public procurement laws and rules in practice. It also would study the procurement practices of the donor agencies, especially Asian Development Bank (ADB) for a better understanding of efficient procurement practices.

### 2.2 Background

In 1999, World Bank (WB) and Asian Development Bank (ADB) conducted joint review of the country portfolio performance and prepared an action plan for Government of Bangladesh (GoB) on public procurement. Country Procurement Assessment Report (**CPAR**), **2002** prepared by WB, in agreement with the GoB, identified several deficiencies in the procurement system of the GoB:

- Absence of sound legal framework governing public sector procurement
- Complex bureaucratic procedure causing delay
- Lack of adequate professional competence of staff to manage public procurement
- Generally poor quality bidding documents and bid evaluation
- Ineffective administration of contracts
- Absence of adequate mechanism for ensuring transparency and accountability

In this key recommendations of CPAR to GoB were:

- Set up a Public Procurement Policy Unit
- Issue Public Procurement Rules
- Streamline Proc. Process & Financial Delegation
- Develop Procurement Management Capacity
- Publish Contract Awards
- Introduce Appeal Procedures

Elements of Reform:

- Establishing Procurement Policy Unit (CPTU)
- Implementing Reforms/ Rules
- Improving Procurement Management Capacity

### **2.2.1 Principal Role of Central Procurement Technical Unit (CPTU)**

Central Procurement Technical Unit (CPTU) established by the Internal Monitoring and Evaluation Department (IMED) of the Ministry of Planning, for carrying out the purposes of the Act & the Rules. – (PPA 2006 Section 67)

CPTU performs the following responsibilities:

- monitoring compliance with and implementation of this Act
- arranging for performance of the necessary functions & responsibilities incidental thereto
- performing any other responsibilities

### **2.2.2 Procurement Planning**

Procuring Entity (PE) prepares annual Procurement Plan for Revenue Budget at the beginning of each Fiscal Year (FY) and updates the Procurement Plan for Development Project at the beginning of each FY. Updated annual Procurement Plan and Annual Procurement Plan require approval of Head of Procuring Entity (HOPE) or Approving Officer (AO). Preparation of Procurement Planning (PP) shall be mandatory for all Procuring Entities (PE) and should aim at attracting maximum competition for the benefits of the PE. Considering the nature & size of the Procurement, PE decides Splitting/Assembling packages and applicability of the Procurement methods. For Goods & related Services, Works & Physical Services, the methods are—Open Tendering Method (OTM), Limited Tendering Method (LTM), Two-Stage Tendering Method (TSTM), Request for Quotation Method (RFQM), Direct Procurement Method (DPM) and One Stage Two Envelope Tendering Method (OSTETM). For Intellectual & Professional Services there are Quality and Cost Based Service (QCBS) and other methods.

PE arranges to publish the Procurement Plans on their notice boards, and where applicable in their websites & in the websites of the concerned Department or Directorate or organisations, bulletins and reports. PE shall, for its own purposes, updates the Procurement Plan on a quarterly basis to accommodate delays, re-tendering & other unforeseen changes or constraints. PE keeps CPTU posted online or off-line, if online is not possible, with the



Procurement Plans, above the threshold specified in Schedule II (G/W-10 M,S/Phy.S-Tk.5 M), which shall be published on a regular basis in CPTU's website as well. PE shall not generally split a Project component with the intention of avoiding either method or the approval of a higher authority and shall not usually split a package into more than five (5) lots for keeping cross - discounts application simple.

### 2.2.2.1 Arguments on large and small packages

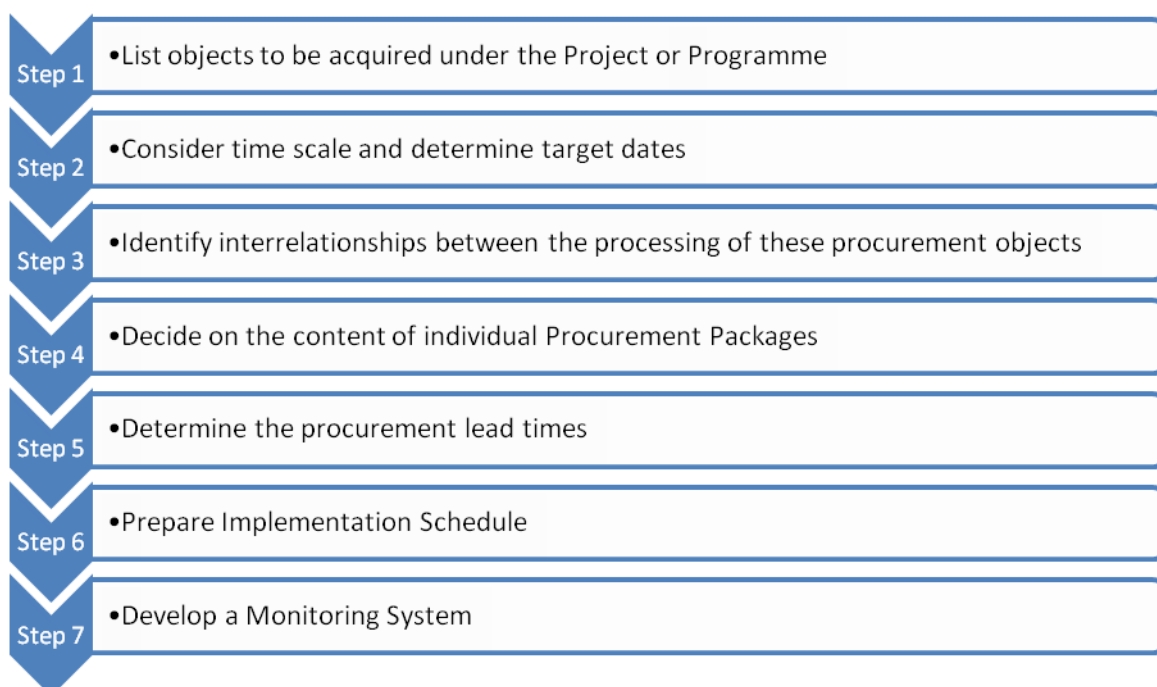
From large packages, there are—

- Benefits from economies of scale – achievement of economy & efficiency
- Management aspects (PE's capacity to manage the whole project)
- Risk aspect (where failure of a sub-supplier may unduly affect critical path)
- Benefits from participation of large international Tenderers

From small packages, there are—

- Time element (procurement items are needed at different times)
- Business structure (some goods or services are not available from a single source)
- Administrative costs of tendering

### 2.2.2.2 Seven Key Steps in preparing the Procurement Plan



*Figure 2.1: Key steps of procurement planning*

### 2.2.3 Public Procurement Committees

- Tender Opening Committee (TOC)/Proposal Opening Committee (POC)
- Tender Evaluation Committee (TEC)/Proposal Evaluation Committee (PEC)
- Technical Sub-Committee (TSC) (Fineurope-ESCB 2011b)

### 2.2.4 Approval Process

There are **three distinct streams of approval** (Fineurop-ESCB 2011c)

Approval Stream 1	MINISTRY→DIVISION→DEPARTMENT→DIRECTORATE; Approving Authorities are HOPE (CEO, Secretary), Project Director (PD), Project Manager (PM), Approving Officer (AO), Ministry, Cabinet Committee for Government Purchase (CCGP).
Approval Stream 2	CORPORATION, AUTONOMOUS BODY, SEMI-AUTONOMOUS BODY
Approval Stream 3	COMPANIES

**Table 2.1: Approval process**

The approval process for the procurement for Ministry→Division→Department→Directorate is shown in the figure below.

# Approval of Tender or Proposal

Session: M1-5  
Slide No.7/17

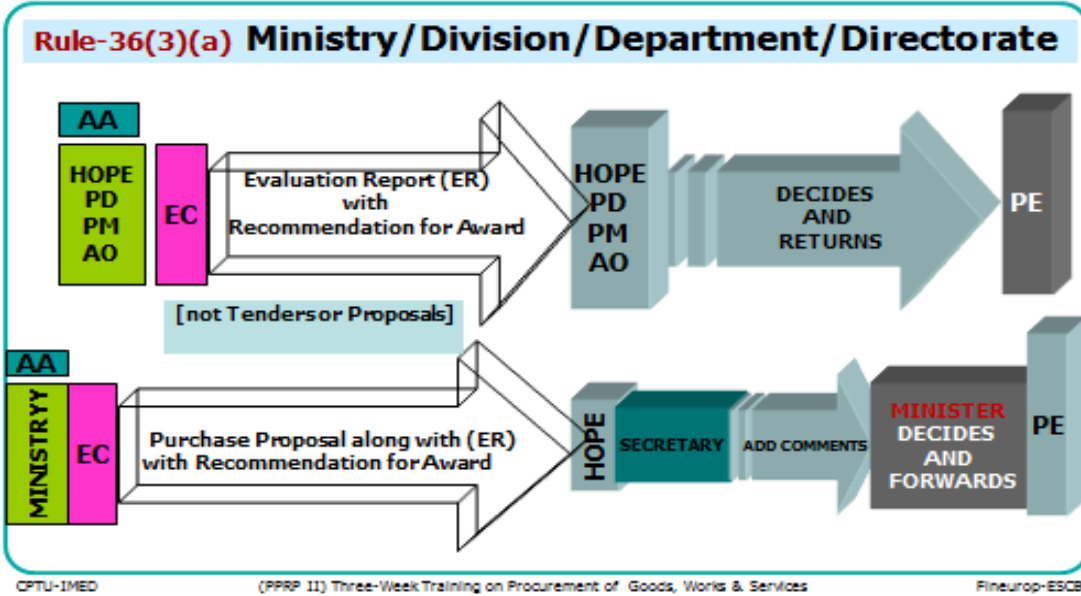


Figure 2.2: Approval of Tender or proposal where Approving Authority (AA) is HOPE or Ministry

# Approval of Tender or Proposal

Session: M1-5  
Slide No.8/17

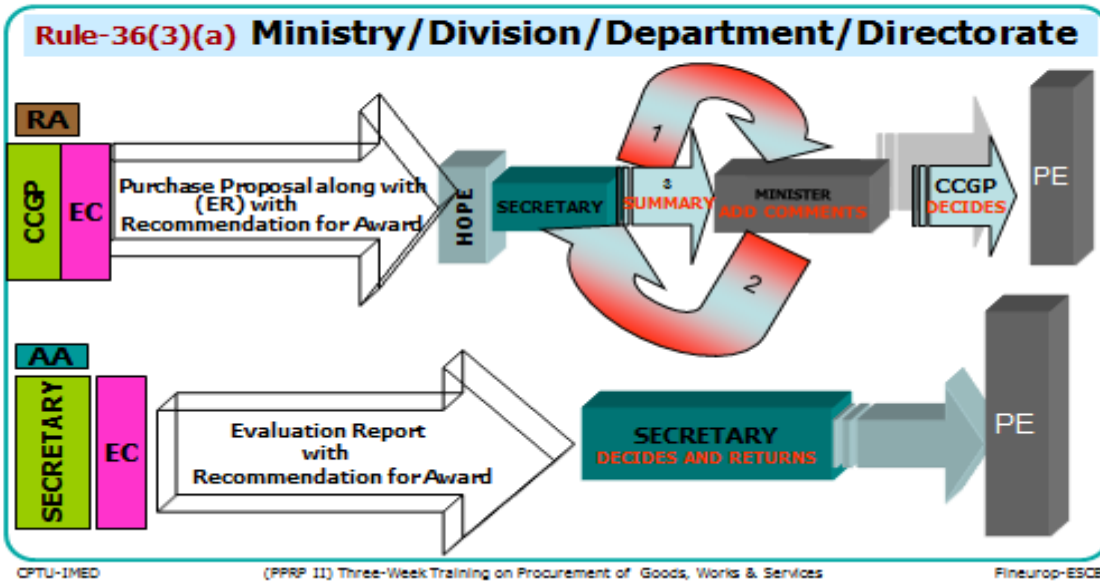


Figure 2.3: Approval of Tender or proposal where RA is Central Committee on Government Purchase (CCGP)

Upon receipt of approval, PE issues Notification of Award (NOA) within 7 working days but before the validity period provided that no complaint or appeal is pending.

Pre-qualification is crucial to submission of Tenders with necessary experience & financial and technical capabilities to undertake the works. Pre-qualification Protects PEs from Tenders submitted by unqualified Tenderers, expedites PE's task of evaluating Tenders by limiting Invitation to Tenders to capable Tenderers only, provides an indication of whether there are adequate number of Tenderers and it saves unqualified applicants from the costs of tendering. But Pre-qualification does not waive Post-qualification.

### **2.2.5 Performance Management**

Definition of Performance will depend upon what the system rewards (Fineurop-ESCB 2011d)

- ✓ Compliance – adherence to rules
- ✓ Results – achieving specified objectives

Good practice for managing for results

- Linked to the objective of the specific effort
- Few in number
- Feasible
- Understandable
- Clear and explicit targets set that can be obtained but are not a challenge
- Can be measured at reasonable cost

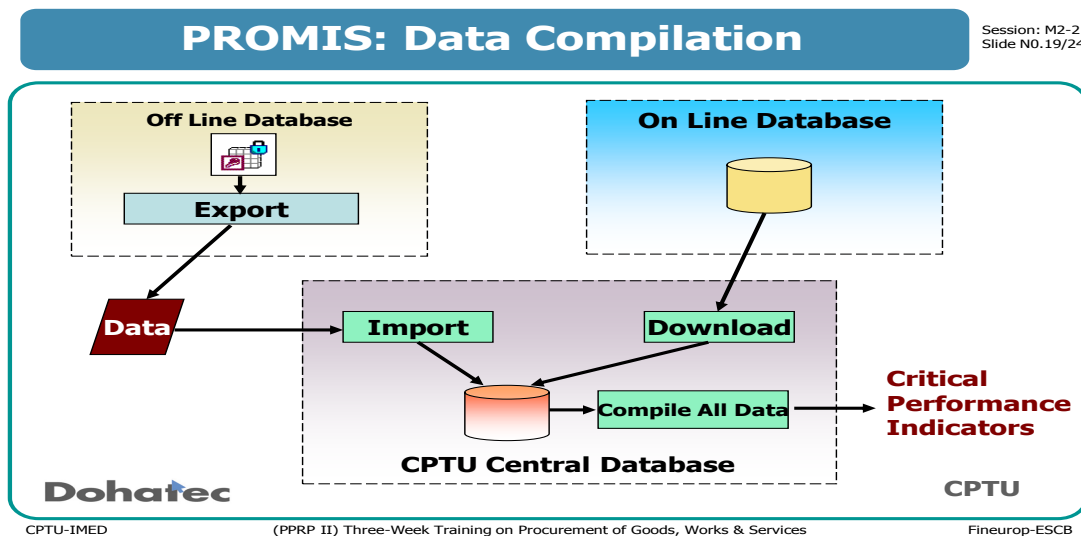
#### **2.2.5.1 Possible elements to monitor**

- Indicator Types (Fineurop-ESCB 2011d)
  - ✓ Base-line Indicators (BLIs)--Based on review of existing Regulatory Framework
  - ✓ Compliance Performance Indicators (CPIs)-- Relies on data obtained from representative samples of contract's information

Elements	KPI
Transactions	Percentage of contracts competitively tendered.
Procurement Outputs	Volume of procurement Percentage of Contract within initial Tender validity
Procurement Outcomes	Completed and accepted Contracts

**Table 2.2: Elements of monitoring (Fineurop-ESCB 2011d)**

CPTU has developed a dynamic Public Procurement Web Portal and Computerized real-time Procurement Management Information System (PROMIS) to monitor and enforce compliance of Procurement ACT, Public Procurement Rules. Bangladesh Water Development Board (BWDB), RHD, LGED and Rural Electrification Board (REB) have been selected to pilot the initial MIS system. (Fineurop-ESCB 2011)



**Figure 2.4: PROMIS**

### 2.2.6 Contract

“A contract is an agreement, enforceable by law, between a willing buyer and a willing seller”. (Fineurop-ESCB 2011e)

Valid Offers and Acceptance are precedents to formation of a Contract, which in terms are Tender and Notification of Award (NOA) and the rules are clearly laid out in PPA 2006, PPR 2008 and Standard Tender Documents (STDs).

#### International Practices

- Quantities or Unit Rate / Price
- Lump Sum
- Cost (*Reimbursable*) Plus Fee
- Supply and Erect / Install
- Design & Construct / Build
- Turnkey
- Concessionary Type Management Contracts (BOO, BOT, BOOT, etc)
- Bill of Quantities(ad-measurement) or Unit Rate / Price
- Cost (*Reimbursable*) Plus Fee
- Lump Sum
- Supply and Erect / Install
- Design & Construct / Build
- Turnkey
- Concessionary Type Management Contracts (BOO, BOT, BOOT etc)
- Framework Contract

#### Exceptional Practices

- Direct Contract (usually unwritten)
  - ✓ Direct Cash Purchase (For low value Goods and urgent and essential services)
  - ✓ Force Account (for hiring of direct labour for departmental needs)

#### **2.2.6.1 Contract Award Criteria**

The Procuring Entity shall award the Contract –

- Responsive to the Tender Document
- Lowest evaluated Tender
- Determined to be Post-Qualified

The Procuring Entity preserves the right to vary quantities without any change in the unit prices or other terms –

- Increase/decrease the quantity per item
- Not Exceed the percentage

Performance Security

In National Contracts –

- Bank Draft
- Pay Order
- Bank Guarantee

In International contract –

- Only in the form of Bank Guarantee
- Issued by an internationally reputable bank
- Correspondent bank in Bangladesh

Amount of Performance Security

- 10% for Goods
- 5% for divisible commodities
- 5% to 10% for physical Services
- Validity of PS is 28 days beyond date of completion (including Warranty)

### **2.2.6.2 Tender Evaluation**

Evaluation of Tender(s) for works is one segment in the process of selecting contractor(s) at the economic price from the participating Tenderer(s) in transparent manner with due accountability ensuring fair competition, having adequate capacity to perform the intended Contract under set terms and conditions.

## Principles of Evaluation

### General

- Expertise and skills of TEC
- Well defined functions of TEC
- Team coherence and awareness

### Clarifications

- Ambiguities or inconsistencies
- No change in price or scope acceptable
- Correction of arithmetical errors
- Not directed towards creating undue opportunities for Tenderer

### Communication

- No engagement in meetings or conversation: exceptions are COMPLAINTS

### Unsolicited queries

- Acknowledge receipt but no further correspondence

### Criteria

- Pre-disclosed criteria and methodology for its application

### Confidentiality

- Process remains confidential

### Committee

- Minimum qualified members as specified participating in evaluation

### Timescale

- By the time that contract awarded within the Tender validity

### Examination of Tenders

According to ITT-50, the main steps are –

- Preliminary examination



- Technical examination and responsiveness
- Financial evaluation and Price comparison
- Negotiations, if necessary
- Post-qualification

TEC shall recommend Lowest Evaluated Tender Price *PLUS* Provisional Sums, if any, which together comprises the CONTRACT PRICE. PE may increase the level of Performance Security not exceeding 25 per cent of the Contract price to offset additional risks on account of “unbalanced price” or “front loaded” based on recommendations of TEC. (Fineurop-ESCB 2011e)

Processing & Approval (weeks is number)							Session: M4-7 Slide NO.37/37	
AA	TSC	TEC/PEC	PD/PM/AO/HOPE	BoD	Ministry	CCGP	Total	
PD/PM/AO	2	2	1-appvl 1-NOA	NA	NA	NA	4	6
HOPE	2	3	2-appvl 1-NOA	NA	NA	NA	6	8
BoD	3	3	2-sctny & obsn by CEO 1-NOA	2-appvl Board	NA	NA	8	11
Ministry/Minister	3	3	2-sctny & obsn by HOPE 1-NOA	2-rcdn by Secy. 1-appvl by Minister	NA	NA	9	12
CCGP (a) Simple	3	3	2-scrutiny & obsn by HOPE 1-NOA	3-sctny & obsn by Secy 1-recdh. by Minister	As required Decision before Tender validity period	NA	10+	13+
(b) Complex	4	4	2-scrutiny and observation 1-NOA	3-sctny & obsn by Secy 1-recdh. by Minister	As required Decision before Tender validity period	NA	11+	15+

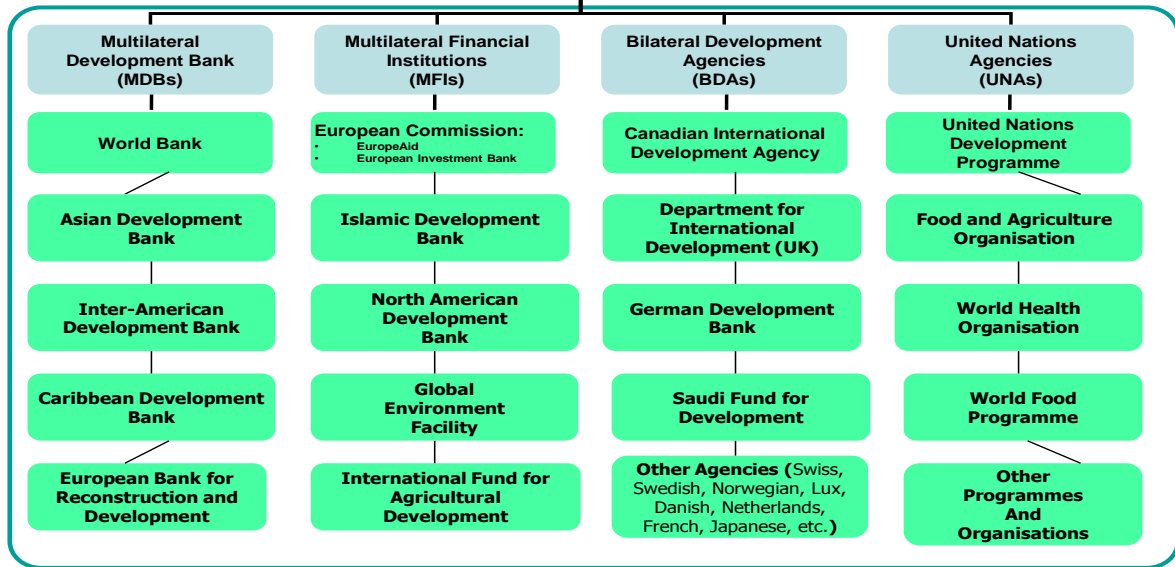
Figure 2.5: Allowable time for Processing and Approval

### 2.3 Procurement Practices by Major Development Partners

(Fineurop-ESCB 2011e)

# Key International Development Funding Agencies

Session:M1-14  
Slide NO.4/14



CPTU-IMED

(PPRP II) Three-Week Training on Procurement of Goods, Works & Services

Fineurop-ESCB

Figure 2.6: Key International Development Funding Agencies

## 2.3.1 Multilateral Development Banks (MDBs)

MDBs, also called International Financial Institutions (IFIs), provide fund to countries for projects for social and economic development.

- implemented by executing agencies (EA, usually govt. departments)
- procurement of goods and services based on the guidelines of IFIs
- Only firms from members countries eligible to bid

## 2.3.2 Multilateral Financial Institutions (MFIs)

**Multilateral Financial Institutions (MFIs)**, also called multilateral Development fund are similar to **MDBs** but usually have a narrower ownership/membership structure or focus on special sectors or activities

Funding may include –

- interest-bearing loans
- credits and guarantees
- non-reimbursable grants

- incremental financing, etc
- **MFIs** occasionally co-finance projects with MDBs.
- National eligibility for bidding depends on MFIs rules but eligibility is increasingly expanding.

### 2.3.3 Bilateral Development Agencies (BDAs)

Funding by BDAs (like CIDA, DFID, DANIDA, SFD) include –

- direct contracting for goods and services by **BDAs** through competitive bidding
- grants and contributions to -
  - governments
  - international agencies
- Soft loans, and credits to governments, agencies.

Grants & loans from BDAs are usually tied but are increasingly becoming “untied”

### 2.3.4 United Nations Agencies (UNAs)

The UN System is made up of over 50 entities (Agencies, Organizations, Commissions, Programs, Funds, etc.). Annual budget is over \$7 billion for the procurements to support development and humanitarian aid in more than 100 developing countries. Funding by UN System consists of Grants which include –

- grants to countries for TA programme and small-scale projects
- In case of larger projects, procurement usually done by the UN office for project service ( e.g. post-conflict reconstruction, emergency food aid)

Specialized agencies & programmes work in their respective areas of expertise.

Each international development agency prescribes:

- Policies & Guidelines
  - To govern procurement in MDB-financed projects and selection of consultants for MDB's operational work
  - To manage procurement tenders

- Standard Bidding Documents (SBDs) - "templates" for use to invite bids for procuring goods, works & services under MDB-financed projects. SBDs set out provisions for a particular bid. (Fineurop-ESCB 2011)

## **2.4 ADB Guidelines for International Competitive Bidding**

The objective of International Competitive Bidding (ICB), as described in these Guidelines, is to provide all eligible prospective bidders with timely and adequate notification of a borrower's requirements and an equal opportunity to bid for the required goods and works. (ADB Guidelines 2010, p.10)

The document provides clear guidelines for—

### **2.4.1 Type and Size of Contracts**

The bidding documents shall clearly state the type of contract to be entered into and contain the proposed contract provisions appropriate therefore. The most common types of contracts provide for payments on the basis of a lump sum or unit prices, or combinations thereof.

### **2.4.2 Two-Stage Bidding**

In the case of turnkey contracts or contracts for large complex facilities or works of a special nature or complex information and communication technology, it may be undesirable or impractical to prepare complete technical specifications in advance. In such a case, a two-stage bidding procedure may be used, under which un-priced technical proposals are invited first. These are prepared on the basis of a conceptual design or performance specification, and are subject to technical as well as commercial clarifications and adjustments. The first stage technical proposal clarification is to be followed by issuance of amended bidding documents and the submission of final technical proposals and priced bids in the second stage. (ADB Guidelines 2010, p.11)

### **2.4.3 Notification and Awarding**

Timely notification of bidding opportunities is essential in competitive bidding. For projects that include ICB the borrower is required to prepare and submit to ADB a draft general procurement notice. ADB will arrange for its publication. The notice shall contain information concerning the borrower (or prospective borrower), amount and purpose of the loan, scope of procurement under ICB, and the name, telephone number, email address (or fax number) and address of the borrower's agency responsible for procurement and the address of the website where specific procurement notices will be posted. (ADB Guidelines 2010, p.12)

#### **2.4.4 Prequalification of Bidders**

Prequalification may be necessary for large or complex works, or in any other circumstances in which the high costs of preparing detailed bids could discourage competition, such as custom-designed equipment, industrial plant, specialized services, some complex information and technology contracts and contracts to be let under turnkey, design and build, or management contracting. This also ensures that invitations to bid are extended only to those who have adequate capabilities and resources. Prequalification shall be based entirely upon the capability and resources of prospective bidders to perform the particular contract satisfactorily, taking into account their (a) experience and past performance on similar contracts, (b) capabilities with respect to construction or manufacturing facilities, and (c) financial position. Generally, a minimum period of six weeks shall be allowed for the submission of prequalification applications. There shall be no limits on the number of bidders to be prequalified, and all found capable of performing the work satisfactorily in accordance with the approved prequalification criteria shall be prequalified and invited to submit bids. As soon as prequalification is completed the bidding documents shall be made available to the prequalified prospective bidders. (ADB Guidelines 2010, p.13)

#### **2.4.5 Bidding Documents**

It is essential that the bidding documents provide all the information necessary for bidders to prepare responsive bids. They shall normally include the following: invitation for bids; instructions to bidders; bidding forms; conditions of contract, both general and special; technical specifications; bill of quantities and drawings; schedule of prices; and necessary appendixes, pro-forma bid securities and performance securities. Borrowers shall use the appropriate Standard Bidding Documents (SBDs) issued by ADB with minimum changes, acceptable to ADB, as necessary to address project specific conditions. Any such changes shall be introduced only through bid or contract data sheets, or through special conditions of contract, and not by introducing changes in the standard wording of ADB's SBDs. (ADB Guidelines 2010, p.14)

After having the concept of the procurement practices of different agencies, this research would concentrate on analyzing the data—both quantitative and qualitative—to find out the answers to the research questions in the next chapter which is “**Analysis and Results**”.

# Chapter 3

## Analysis and Results

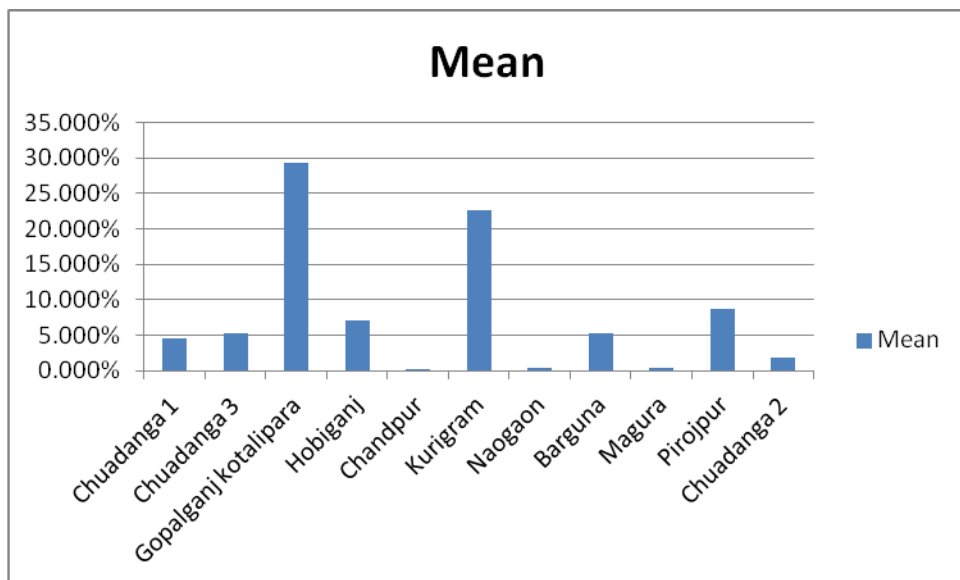
## Chapter 3: Analysis and Results

### 3.1 Introduction

This chapter analyzes the collected data using the methodology previously explained in chapter one. The data is presented in graphical form for easy understanding. The interpretation of the data has also been presented in this chapter.

### 3.2 Deviations

#### 3.2.1 Mean

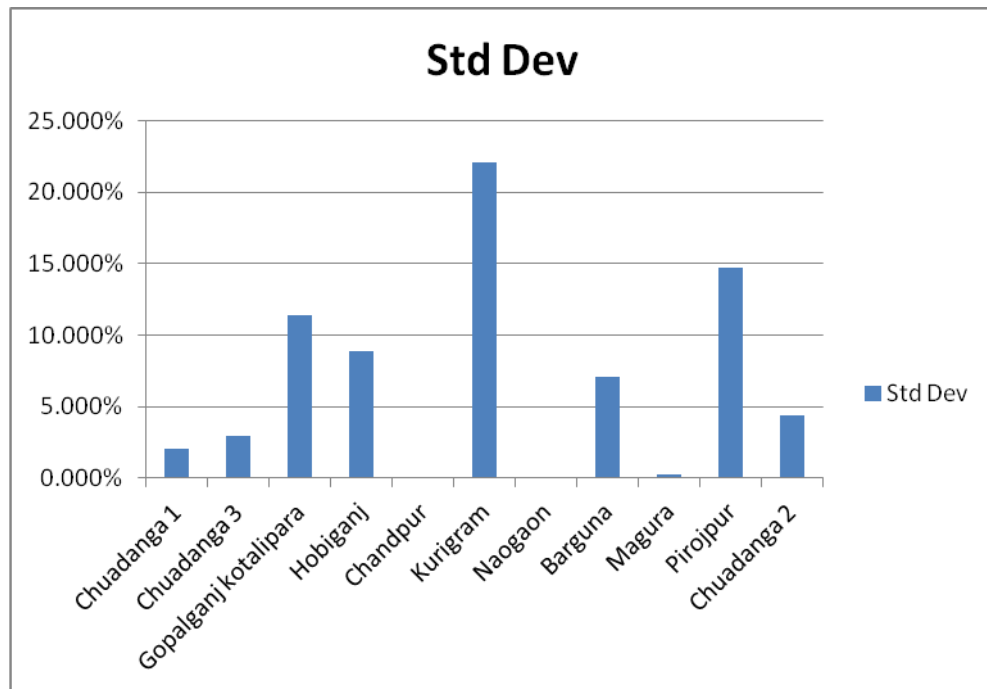


**Figure 3.1: Mean of deviations from engineer's estimates**

From the analysis on the Engineer's estimate of contract and the contract award value of contracts of 11 sub-divisions of RHD, it is found that there are deviations, from large to small, in contract award value which indicates inefficiency in the procurement process. These deviations are either below or above the estimated value of contracts. The Means of absolute value of deviations of all the contracts have been taken and it has been found that Chadpur sub-division has almost no deviation (0.043%) from the estimated value and naogaon (0.360%) and Magura (0.326%) are close to them, while Kotalipara sub-division has the largest mean deviation (29.306%) and Kurigram has mean deviation of 22.626 percent. It is evident that both "Kotalipara" and "Kurigram" sub-division have inefficiencies in either estimate or procurement

process, but it is not evident if the least deviation in Chandpur, Naogaon and Magura sub-division is due to manipulation and collusion or not.

### 3.2.2 Standard Deviation



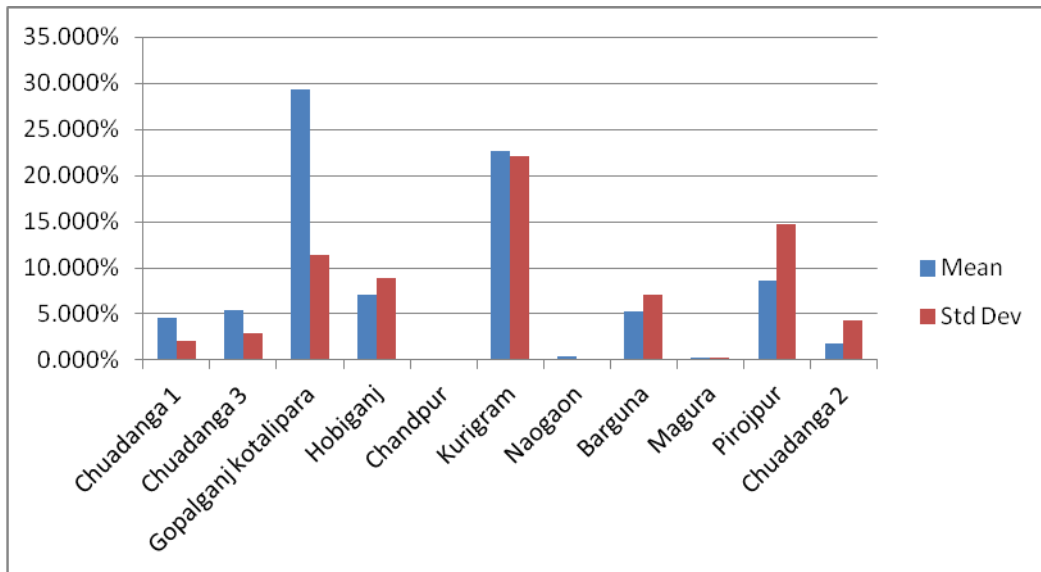
**Figure 3.2: Standard deviation from the mean of deviations**

The standard deviations are taken for all the 11 sub-divisions and it is found that Kurigram has the largest value of standard deviation (22.081%) and Kotalipara (11.381%) and Pirojpur (14.686%) has two next largest dispersions. Naogaon has the least standard deviation (0.009%) while Chandpur (0.038%) and Magura (0.206%) have also very small dispersions from the central value of deviations.

### 3.2.3 Comparison of Mean and Standard Deviation

It is found in the comparison that Kotalipara sub-division has high deviation (below or above estimated value) of 29.306 percent as well as high dispersion (11.381%). This indicates that there is error in the estimation as well as in the bidding. The problems in the estimates may be of several types—error in measurement, rate schedule lower than current market price, exclusion of certain items, failure to foresee all the items and working with wrong specification. There might be “front loading” (high rate for one item and very low rate for some other items) in the bidding too.





**Figure 3.3: Comparison of Mean and Standard Deviation**

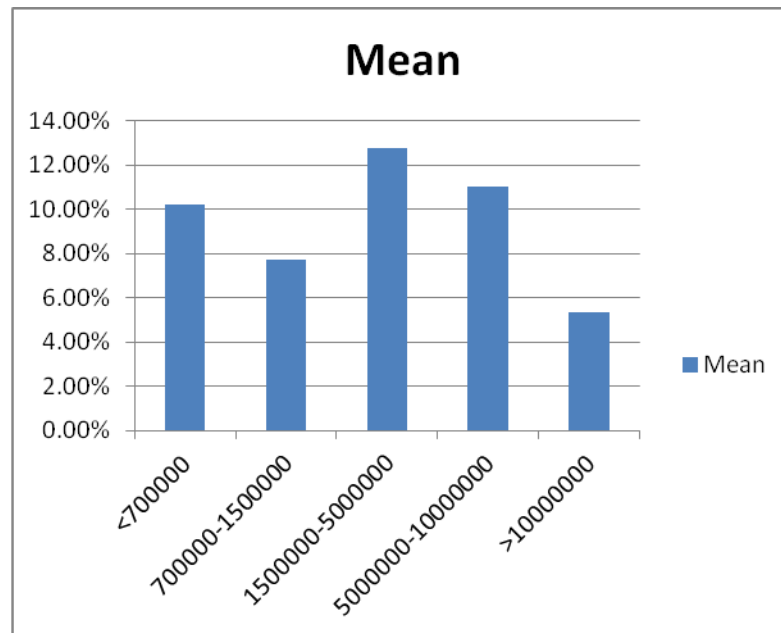
For Kurigram, again the Mean of deviations are very high (22.626%) as well as the value of standard deviation (22.081%). For hobiganj, Barguna, Pirojpur and Chuadanga-2 subdivisions, the values of standard deviations are higher than the means. It again indicates the same inefficiency as that of Kotalipara sub-division. As there are Open Tendering processes, it could be assumed that the values of the bids and consequently the contract award values are scattered and inconsistent. There is very little scope for the same tenderer to get all the contracts in a sub-division due to open tendering process, which might be a reason for these scattered values.

In Chandpur, Naogaon and Magura sub-division, the values of Means of deviations from the estimated values are very low as well the values of standard deviations. While it could indicate very high level of efficiency in estimating the contract value, there is a possibility of manipulation for such perfect tenders as these estimates were prepared using the same “rate schedule” as used in other sub-divisions.

### 3.2.4 Co-efficient of Variance

The Co-efficient of variance was measured for all the sub-division to find if there are only systematic errors in the process. But it was found that the values varied from 0.03 (Chandpur) to 2.34 (Chuadanga-2) and they are scattered. So it can be concluded that there are both systematic and non-systematic errors in the process, but further analyses are required to determine the proportion of both in the process.

### 3.2.5 Relation with Tender Value



**Figure 3.4: Relation of deviations with Tender value**

Analysis was conducted to find if there is any relation between the deviation and contract value. It was found that the mean of deviation from estimated value was 10.19 percent for contract value less than BDT 700,000, 12.77 percent for BDT 1,500,000-5,000,000 and 5.35 percent for contract value greater than BDT 10,000,000. So it can be concluded that there is no direct relation between deviations and contract values.

### 3.2.6 Comparison between above and below

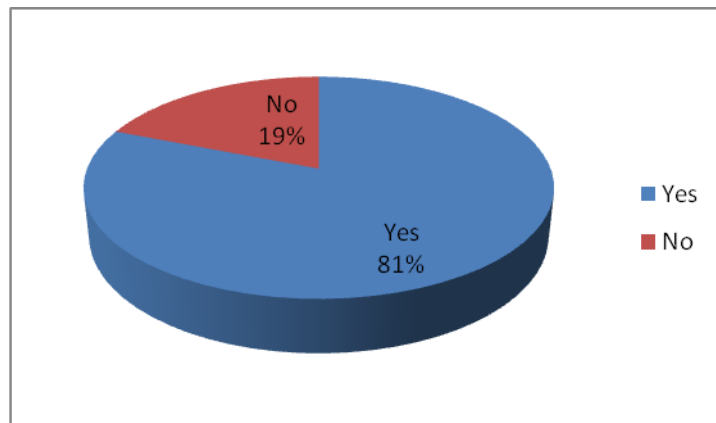
It was found in the data that considerably more contracts were awarded in the contract values below than estimated values than those of the contract values above the estimated contract values. Again, the mean of deviations for contract values below than estimated values was - 11.552 percent and the mean of the deviations for the contract values above the estimated values were 5.79 percent. So there is a general propensity for the tenderers to bid lower than estimated values in open tendering process than bidding higher than estimated values.

### 3.3 Expert Opinion

To identify the possible reasons behind the inefficiencies in the procurement practices in RHD and the possible solutions to improve efficiency an “Expert Opinion Survey” was conducted among the procurement professionals of RHD. The survey was conducted by a questionnaire

among 21 experts (Executive Engineers and Sub-divisional Engineers, some of whom are working as project directors, project managers and deputy project managers in several projects) and the results are summarized below.

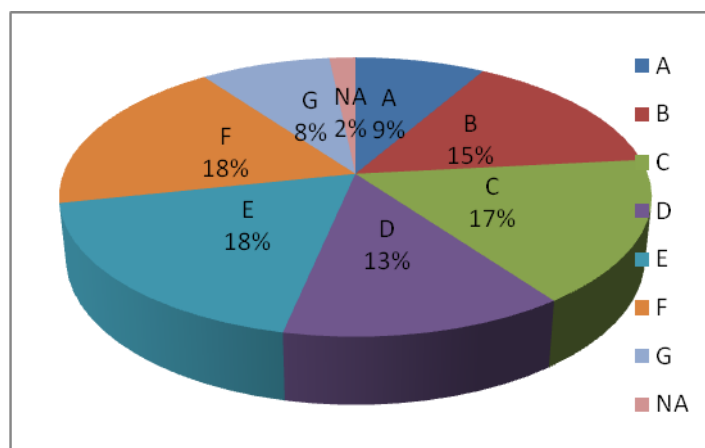
### 3.3.1 Inefficiency in Procurement Practice



**Figure 3.5: Opinion about inefficiency in procurement practice**

Firstly, the opinion of the professionals was taken whether they think there is any inefficiency in the procurement practice of RHD. 81 percent of the experts interviewed opined that there are inefficiencies and discrepancies in the procurement practices of RHD, and only 19 percent think that the process is efficient. This opinion supports the quantitative analysis where it has been statistically indicated that there are inefficiencies in the procurement practices of this organization.

### 3.3.2 Reasons of Inefficiencies



**Figure 3.6: Opinion about reasons of inefficiencies**

Several reasons have come out from the experts' opinions. The reasons are summarized below.

- ✓ Collusion among the suppliers/contractors during bidding process and contract period to fix the bid price at a certain level and eliminate competition and thus reduce the quality of works and goods. (9%)
- ✓ The outdated rate schedule which does not match the current market price. (15%)
- ✓ A significant number of experts (17%) identified political pressure as an obstacle to improve efficiency in the procurement practices of RHD.
- ✓ Corruption among the organization's own officials has been identified as another obstacle to efficient procurement practices. (13%)
- ✓ The highest number of experts (18%) identified the contractors'/suppliers' tendency to bid well below the estimated value to become the lowest bidder in order to grab the contract, due to which the quality of work is seriously hindered.
- ✓ The same number of experts (18%) identified the tendency of RHD procurement practitioners' tendency to award the contract only to the lowest bidders, i.e. considering only price as the awarding criteria while there are other criteria for awarding the contract. This tendency encourages the contractors to bid willingly below the estimated contract value.
- ✓ 8 percent of the experts added their valuable opinions about the reasons which they think work behind the inefficient procurement practice. These are as follows:
  - Unnecessary hazard from the audit agency
  - Lack of contractor database
  - Lack of knowledge among the officers about supply market
  - Lengthy Bureaucratic process
  - No punishment/reward for delayed/timely procurement
  - Lack of cautiousness about following prescribed time limits at different procurement stages
  - Increasing cost of materials without any notice from the Government
  - Lack of commitment from the officials
  - Lack of support to Junior officials from the seniors
  - Lack knowledge about PPR-2008 among Officials, Bidding Community
  - Shortage of adequate number of practicing officials.

### 3.3.3 Opinion about the effectiveness of PPA-2006 and PPR-2008

76 percent experts expressed their opinion that PPA-2006 and PPR-2008 are not sufficient and effective enough to cover for the discrepancies and inefficiencies in the procurement practices of RHD. So PPR-2008 has to be reviewed considering the view of the practicing professionals and should be modified and reinforced by some new rules which will make up for these inefficient practices.

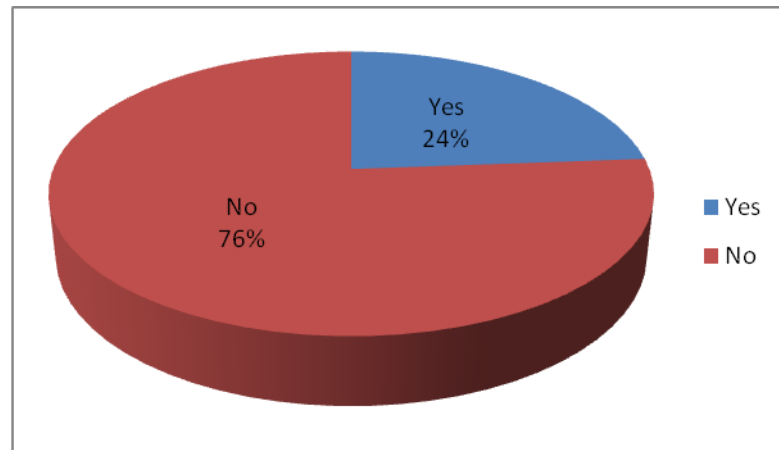


Figure 3.7: Opinion about the effectiveness of PPA-2006 and PPR-2008

### 3.3.4 Additional procedures to be included in PPR

The largest number of experts (41%) strongly argued that there should be “Scope for negotiation” in the procurement and tendering process, which will help the officials to achieve the best price combined with best quality and also to build the contract document to the best interest for the organization in order to achieve the value for money.

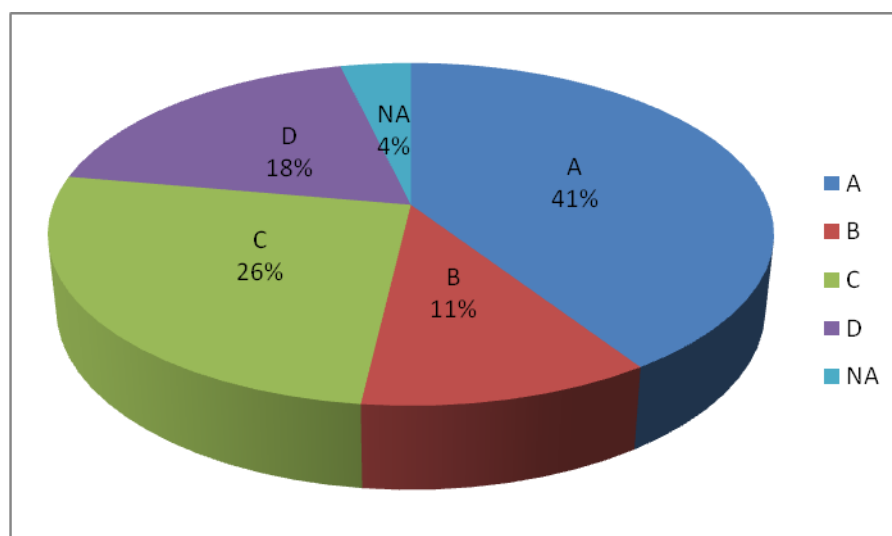


Figure 3.8: Opinion about additional procedures to be included in PPR

26 percent of the experts argued for “Competitive dialogue”, i.e. to contact or holding dialogues with the potential contractors/suppliers about the technical aspects/design and the project and then develop the tender eventually with the contractor/supplier which will serve the interest of both the procuring entity and the supplier.

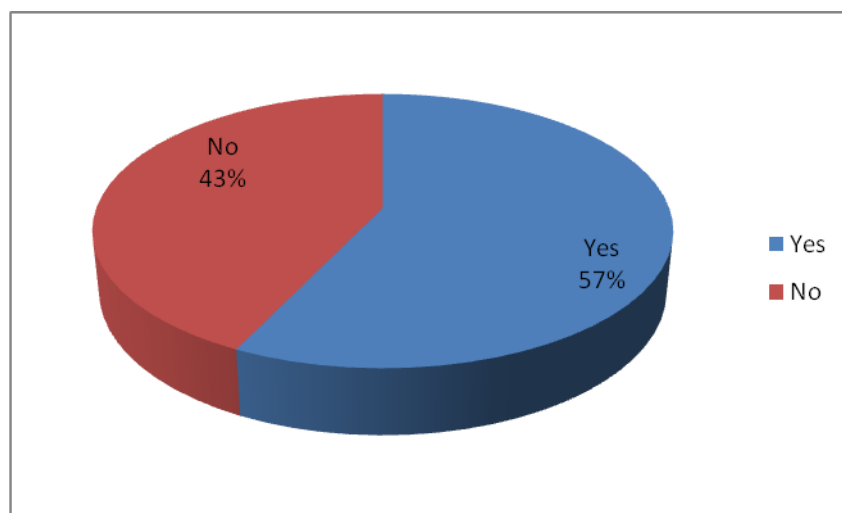
11 percent of the experts advocated for more use of “Two-stage tendering” which is already in practice for a few complex projects.

18 percent of the experts again suggested some other procedures which, according to them, would be effective in the procurement process. These are as follows:

- E-tendering and e-GP, i.e. Electronic Government Procurement, which is already in use but not in all the organizations, so it should be introduced in all the Government organizations as early as possible
- Delegation of Financial Power could be decentralized more specially at Division & Sub-division level
- There should be a separate cell at CPTU to deliver on-demand solution to practical problems regarding procurement
- Simplification of the procedures for the bidders

### 3.3.5 Thresholds for procurement in PPR-2008

57 percent of the experts think that the thresholds for Delegation of Financial Power (DoFP) and contracting authority specified in the PPR-2008 are sufficient, while 43 percent think that the thresholds are not alright but could be rearranged. They think that frequent e.g. yearly modification is necessary to adjust with the changes in market price of different items of procurement.



**Figure 3.9: Opinion about thresholds for procurement in PPR-2008**

### 3.3.6 Thresholds to be changed in PPR

The experts have given their opinion about what should be the thresholds in the PPR which are as follows.

- ✓ Thresholds should be flexible, not rigid. There should have options for change according to the procurement types and methods
- ✓ Current thresholds should be increased in consultation with the field officials. It should be changed at least annually keeping in line with purchasing power parity of the nation
- ✓ Threshold should be increased as much as possible, according to one expert
- ✓ Threshold should be decided by concerned department, i.e. decided by HOPE and central committee formed for this purpose, and it should be specified separately for each department, which again supports the view of flexibility
- ✓ Thresholds should be increased in Direct Contracting Method (DCM) and Direct Purchasing and Quotation method

### 3.3.7 Thresholds for the variation order in PPR-2008

71 percent experts think expressed their opinion that the thresholds specified for the variation order in the PPR-2008 are sufficient. But 29 percent of the experts viewed the thresholds as insufficient and found that there are scopes for modifications.

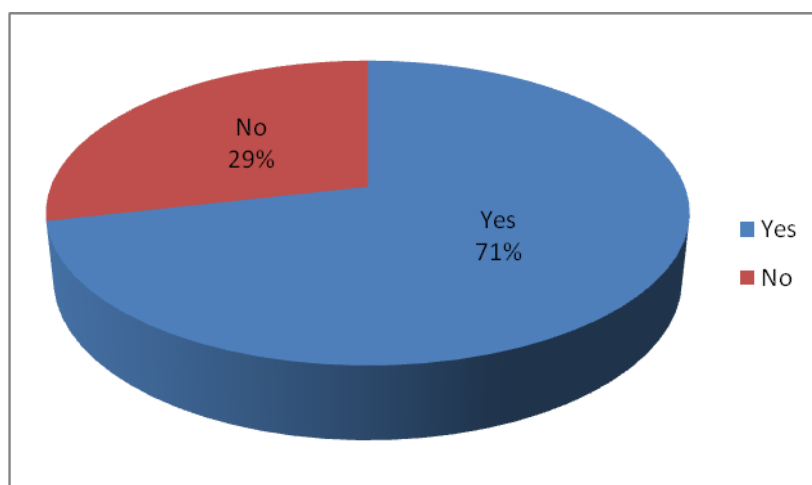


Figure 3.10: Opinion about thresholds for the variation order in PPR-2008

The expert suggestions are as follows:

- ✓ According to one expert, threshold Should be 25 percent instead of 15 percent
- ✓ According to another expert, the threshold is alright but the approving authority should always be the HOPE for works contracts
- ✓ Threshold should be flexible and should be decided by the concerned department
- ✓ An expert opined that threshold should depend on how old the Schedule of Rate is. It can be as high as 30 percent, for example, in old projects with poor cash disbursement history
- ✓ If price of materials increases due to Government policy, there should be scope to increase the tender price proportionately without any specific limit for adjustment and vice versa

### 3.3.8 Check and Balance in procurement practice in RHD

43 percent of the experts think that the check and balance in the procurement practice in RHD is sufficient, while 43 percent think that the check and balance procedure is not sufficient. Again, there are 14 percent who think that the check and balance procedure is excessive and redundant and the procedure should be more simplified to reduce delay and efficiency loss in the system.

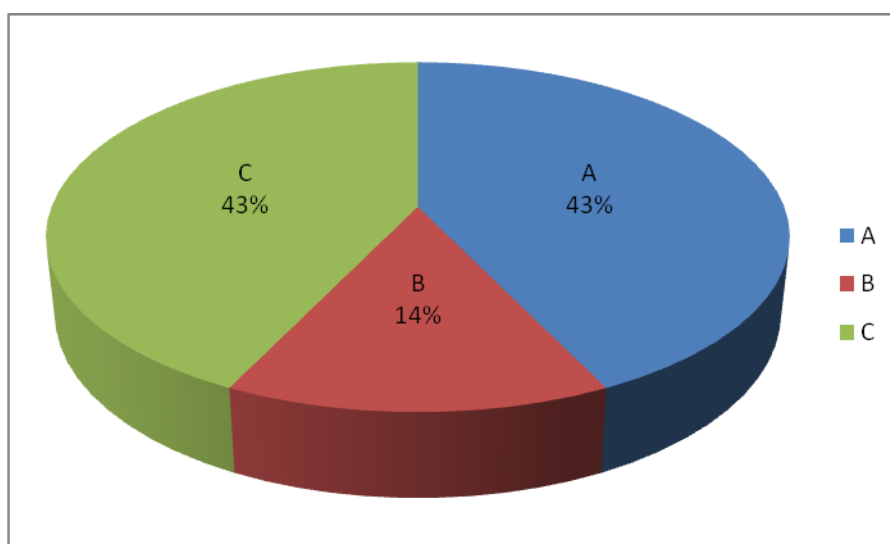


Figure 3.11: Opinion about check and Balance in procurement practice in RHD



### 3.3.9 Contractor/Supplier performance measurement system

90 percent of the experts strongly expressed that there should be some kind of supplier/contractor performance measurement system in RHD. This will inspire the contractors/suppliers to deliver better quality works and goods for getting contracts in future which will eventually improve the efficiency in contract management and procurement efficiency. But a minority, only 10 percent think that the current system is alright for public sector procurement and there is no need to give extra incentives to suppliers/contractors.

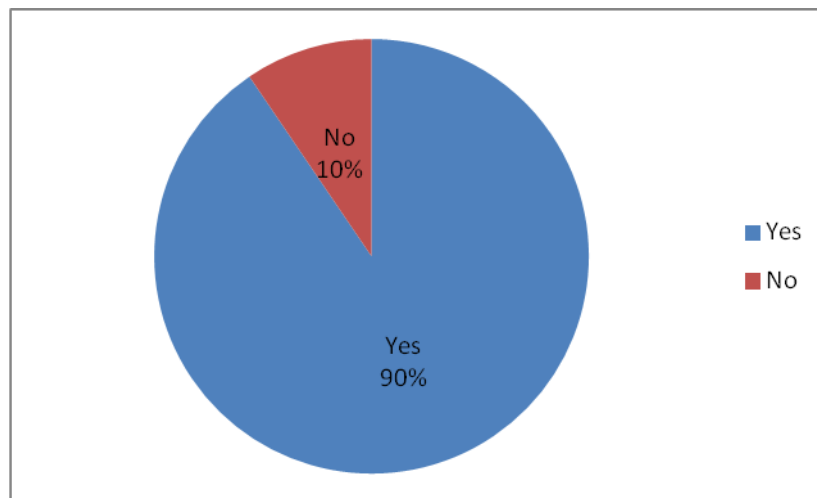


Figure 3.12: Opinion about Contractor/Supplier performance measurement system

### 3.3.10 Contractor/Supplier Performance Reward Procedure

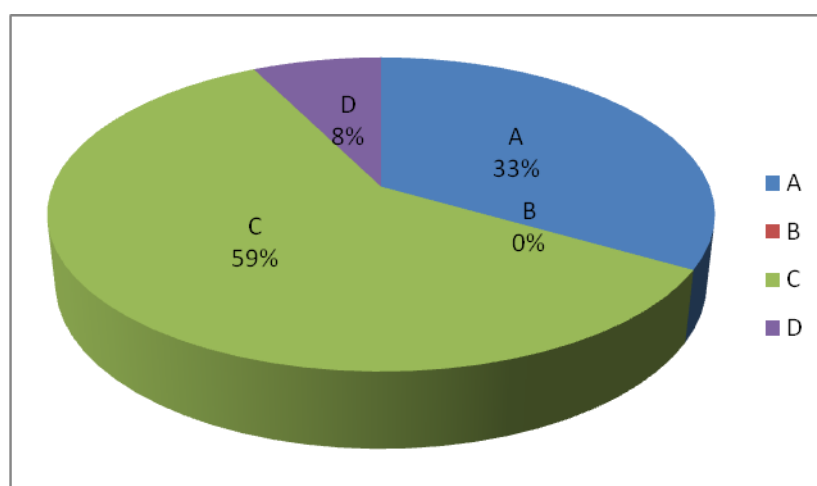


Figure 3.13: Opinion about Contractor/Supplier Performance Reward Procedure

- ✓ 33 percent of the experts viewed that preparing preferred supplier/contractor list would be a lucrative reward for the contractors/suppliers as it will increase competition to deliver better services and goods to the procuring entity to be enlisted in the preferred list for getting contracts in future.
- ✓ But the largest number of experts (59%) viewed that a point or rating based on objective or target performance system would be the best reward where the rating would be given on the basis of different Key Performance Indicators (KPI) such as completing within or before time, number of rejected goods etc.
- ✓ 8 percent of the experts some other reward systems which include:
  - Bonus appraisal points
  - Recognitions
  - Certificate of excellence which will increase the goodwill of the contractor/supplier in the market
  - A certain percentage (for example, 1%) bonus for the next contract

### **3.3.11 Preventing Front-Loading**

While a few experts think that the current PPR guideline would be enough to prevent front-loading, other experts' suggestions about preventing front-loading in the bidding are summarized as follows:

- ✓ Tender bid should be checked for front loading and if found, tender should be rejected instead of increasing tender security.
- ✓ Increasing performance security.
- ✓ Performance security should be taken as Bank Draft, not as a Bank guarantee.
- ✓ Security deposit should be 25 percent with provision of penalty on the amount of the non-performing portion in addition to black listing.
- ✓ To ask for detail of bid rate along with the Bill of Quantity (BOQ).
- ✓ Retention money can be deducted on those items. Extended performance guarantee should be within such conditions that they can be recovered easily when the time comes.
- ✓ The PE can retain security money access amount of estimated cost for that particular item.
- ✓ Rate of items to be done at the beginning of the work may be kept low so that the contract remains eager to finish these items fast and go to the next stage of work where items are more profitable for him.
- ✓ Especially for bridges, tender may be divided into 2 parts—for sub-structure & super-structure.

- ✓ There should be scope for negotiation.
- ✓ Amount from the interim bill should be deducted to cover the total expenses of the items left to complete the work as per present market rate verified by PE.
- ✓ If analysis of submitted rates of Similar or same items in the different portions of work are seen abnormally different, analysis of rates of the items should be seek from the bidders, if the bidder(s) cannot give reasonable answers, then the bid may be treated as non responsive.

### **3.3.12 Contractor/supplier performance measurement**

The experts' opinion about contractor/supplier performance measurement procedures are summarized below.

- ✓ Some objective based Key Performance Indicators (KPI) have to be determined first, and performance would be monitored weekly, monthly or yearly based on these KPIs.
- ✓ Work experience, technical capacity and financial capacity of the contractors have to be given more weight in selection criteria.
- ✓ Quality, Cost and Time based performance measurement should be used.
- ✓ Based on these indicators, Point based appraisal system could be used.
- ✓ Bonus point could be given on successful completion of work within or before time.
- ✓ Maintaining the appraisal score for each contractor/supplier in the central database. Contractor would be promoted to higher class or demoted in lower class or blacklisted according to rating points.
- ✓ To rate the contractors/suppliers, there quality of works have to be measured. So there should be a full-fledged test laboratory in each Division or Circle, and all the procurement works and materials must be tested for quality and consistency of work in these laboratories before the contactor gets paid for his work. Works/materials that pass these tests will get good grades. This way, RHD can build a list of competent contractors within a few years. There should be a central monitoring team that will do random checks on these results. A pilot project may be introduced to test the criteria.
- ✓ Post-contract evaluation and the sustainability of the construction work after completion of the project could be other criteria of rating the contractors.
- ✓ Other criteria might include following procurement regulations, labor law, environmental laws and all the legal papers and procedures maintained in a proper way.

### 3.3.13 Suggestions to improve efficiency in the procurement process of RHD

The suggestions of the experts regarding the improvement of efficiencies are summarized as follows.

- ✓ There should be no political influence regarding the procurement practices of RHD.
- ✓ Widespread practice of e-Government procurement.
- ✓ RHD officials need to be properly motivated through proper incentives. Only rules and regulations cannot prevent someone from corruptions. People can always find the backdoor.
- ✓ Avoid the tendency to award the contract lowest bidder.
- ✓ To make some technical criteria fixed to get rid of the bulk bidders.
- ✓ Evaluate the market at regular basis to update the rate schedule.
- ✓ Zero tolerance about quality during project implementation.
- ✓ Arranging in house training in RHD regarding procurement.
- ✓ Ensuring graduate /well trained (in Procurement) engineers at field level.
- ✓ Handbook of procurement for easy understanding could be prepared.
- ✓ Efficiency of contractors/suppliers in current procurement practices can be included in evaluation of Tenders.
- ✓ A separate cell can be established in RHD Headquarter to provide critical solution or help direct contact with the above mentioned cell of CPTU.
- ✓ Reward mechanism for contractors for successful completion of work and punishment unsuccessful contractors.
- ✓ Delegation of powers should be decentralized and time of approval should be minimized.
- ✓ There should be zone-wise scrutiny of Class A, B, C, D type contactor license and online database of the contractor and their RHD work experience. Contractor may be pre qualified according to database.
- ✓ Restrictions should be imposed on publishing notices in local dailies, because these are accomplice in many of the corrupt practices. They publish a single copy of the daily where the tender notice is published, and in this process corrupt officials eliminate the chance of competition, and their target bidder can bid at a considerably higher price than the engineer's estimate.
- ✓ The long bureaucratic system needs to be shortened for quick and efficient procurement practice.
- ✓ Performance based contract or flexible rate contract (instead of fixed rate contract)
- ✓ If the bids are competitive, less/above should not be considered.

- ✓ Arithmetic errors should not be considered at all and this should be clearly mentioned in Tender Documents.
- ✓ More specific ITT or Tender Data Sheet should be documented for quick evaluation such as, authenticated papers for construction experience; the tenderer should prove its experiences with set of documents, not only completion certificates.
- ✓ RHD officials are involved so many work other than initial procurement, as such they did not provide sufficient time in procurement process. Every year one or two work shop or open discussion needed to eliminate confusion about procurement.

After analyzing both the quantitative and qualitative data, the next chapter “**Conclusion**” would summarize the findings and also would state the limitations and further scopes of study.

|

# Chapter 4

## Conclusion

## **Chapter 4: Conclusion**

### **4.1 Introduction**

This concluding chapter summarizes the findings and analysis of the study to explain the inefficiencies in the process and suggested the probable solutions. In addition to these this chapter also gives the limitations, assumptions and scope of further study in this field.

### **4.2 Findings to the research questions**

The answers to the research questions are found and summarized in this chapter which was extracted with the help of the quantitative analysis from the data of tender evaluation reports and from the qualitative analysis from the interviews.

Regarding the first research question “Is there any significant inefficiency found while comparing the engineer’s estimates and the contract award value?”—statistical analysis on the Engineer’s estimates of contracts and the contract award value of contracts of 11 sub-divisions of RHD were performed, and it is obvious that there are deviations, from large to small, in contract award value- which indicates inefficiency in the procurement process. These deviations are either below or above the estimated value of contracts. The Means of Absolute Value of deviations of all the contracts have been taken and it has been found that the contract award values deviate from the engineer’s estimates from 0.043 percent to 29.306 percent, which indicates the lack of consistency in both the procurement process and the bidding process. For further analysis, standard deviations of the deviations from the engineer’s estimates were taken and it was found that the standard deviations, i.e. the dispersions varied up to 22.081 percent which indicates scattered values of bidding and indicates inefficiency and lack of consistency in the procurement cycle. It should be noted that for a few contracts the deviations from the engineer’s estimates was very low. While it could indicate very high level of efficiency in estimating the contract value, but the very small number of this type of contracts indicates a possibility of manipulation for such perfect tenders as these estimates were prepared using the same “rate schedule” as used in other sub-divisions. The Co-efficient of variance was measured for all the sub-divisions to find if there are only systematic errors in the process. But it was found that the values varied widely and they are quite scattered. So it can be concluded that there are both systematic and non-systematic errors in the process. Furthermore, analysis was conducted to find if there is any relation between the deviation and contract value, but It was found there is no direct correlation between deviations and contract values. Furthermore, there is a general

propensity for the tenderers to bid lower than estimated values in open tendering process than bidding higher than estimated values, perhaps to grab the contract.

- As regards to findings to the second research question “What are the parameters that drive the inefficiencies?” have been summarized from the findings of the interviews conducted on the practicing professionals of RHD. 81 percent experts expressed their opinion that there are inefficiencies in the procurement practices of RHD which supports the quantitative analysis. In their opinion, the reasons for these inefficiencies are—
  - ✓ Collusion
  - ✓ Outdated rate schedule
  - ✓ Undue political pressure
  - ✓ Corruption among the officials
  - ✓ The contractors’/suppliers’ tendency to bid well below the estimated value to become the lowest bidder in order to grab the contract
  - ✓ The tendency of RHD procurement practitioners to award the contract only to the lowest bidders
  - ✓ Unnecessary hazard from the audit agency
  - ✓ Lack of contractor database
  - ✓ Lack of knowledge among the officers about supply market
  - ✓ Lengthy Bureaucratic process
  - ✓ No punishment/reward for delayed/timely procurement
  - ✓ Increasing cost of materials without any notice from the Government
  - ✓ Lack of support to Junior officials from the seniors
  - ✓ Lack knowledge about PPR-2008 among Officials, Bidding Community
  - ✓ Shortage of adequate number of practicing officials

It was also found that 76 percent of the experts expressed their opinions that the PPR-2008 is not sufficient to improve the efficiency of the procurement practices of RHD. In view of the suggestions they made for improving efficiencies, the answer to the third research questions has been determined. The ways to improve efficiency are—

- ✓ No political influence
- ✓ Widespread practice of e-Government procurement
- ✓ Motivation of RHD officials through proper incentives



- ✓ Avoid the tendency to award the contract to the lowest bidder and to make some technical criteria fixed to get rid of the bulk bidders
- ✓ Evaluate the market at regular basis to update the rate schedule
- ✓ Zero tolerance about quality during project implementation.
  - ✓ Arranging in house training in RHD regarding procurement and ensuring graduate /well trained (in Procurement) engineers at field level.
  - ✓ Preparation of handbook of procurement
  - ✓ A separate cell can be established in RHD Headquarter to provide critical solution or help direct contact with the above mentioned cell of CPTU.
  - ✓ Reward mechanism for contractors for successful completion of work and punishment unsuccessful contractors.
  - ✓ Delegation of powers should be decentralized and time of approval should be minimized.
  - ✓ There should be zone-wise scrutiny of Class A, B, C, D type contractor license and online database of the contractor and their RHD work experience. Contractor may be pre qualified according to database.
  - ✓ Restrictions should be imposed on publishing notices in local dailies
  - ✓ The long bureaucratic system needs to be shortened.
  - ✓ Performance based contract or flexible rate contract (instead of fixed rate contract)
  - ✓ If the bids are competitive, less/above should not be considered.
  - ✓ Arithmetic errors should not be considered at all and this should be clearly mentioned in Tender Documents.
  - ✓ More specific ITT or Tender Data Sheet should be documented for quick evaluation.

### **4.3 Scope of further studies**

There is much scope of further future studies to fine tune the findings of this research as well as open new areas of study.

- ✓ A comparison between different Government departments who does similar nature of works could be performed
- ✓ .Year wise study could be performed for time-series analysis to find the trends.
- ✓ Only traditional tendering method of procurement of works has been studied. Direct procurement or procurement through quotation could have been investigated.
- ✓ The parameters of inefficiencies identified in the interviews of the experts could be tested statistically to find the correlations and find which parameters are more significant than others.

- ✓ The suggestions from the experts could be applied in practice and monitor the results and improvement in efficiency and find their effectiveness.
- ✓ A supply chain map could be prepared to identify the value adding activities in the supply chain.

#### **4.4 Conclusion**

This research work tried to put a light on the particular areas of inefficiencies that occurs during the tendering process of RHD. The probable solutions to improve the efficiency in the procurement practices has also been identified, which the author believes will go a long way in ensuring justifiable value for money for public sector tendering process.

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## Appendix A

### Questionnaire

#### Expert Opinion Survey on Procurement Process of Roads and Highways Department (RHD)

Dear respondent, a very good day to you. I have been doing a research titled 'A Critical Analysis on Inefficiencies in Procurement Process in Roads and Highways Department.' This research is a part of requirement of "Master in Procurement" program under Institute of Governance Studies (IGS), BRAC University. The aim of this research is to find the inefficiencies in the procurement process in Roads and Highways Department (RHD) and suggest the probable solutions for which your expert opinion would be valuable.

The information you provide will be used absolutely for academic purpose. Participation in this study is voluntary, and, you are free to withdraw at any stage. Furthermore, all information you provide is confidential, and, in no way will personally identifiable information be made available without your knowledge and consent.

If you have any questions regarding this research, please contact by the under-mentioned phone number.

Thank you for your participation.

A. Z. M. Farhan Daud           (+880-1911669331, farhan7123@gmail.com)

1. Do you think there are inefficiencies in the procurement practices of RHD?
  - A. Yes
  - B. No
  
2. What do you think are the reasons behind the inefficiencies in the procurement practices in RHD?
  - A. Collusion among the suppliers/contractors
  - B. Old rate schedule

- C. Political pressure
- D. Corruption among the officials
- E. Tendency to become the lowest bidder to grab the contract
- F. Tendency to award the contract to the lowest bidder even when there are scopes for other processes
- G. Others (Please specify below)

3. Do you think the PPA 2006 and PPR 2008 are sufficient to cover the discrepancies in the procurement process of RHD?

- A. Yes
- B. No

4. What additional procedures do you think are needed to be included in the procurement procedure?

- A. Scope for negotiation
- B. Two-stage tendering
- C. Competitive dialogue (at first talk to the potential suppliers about the technical aspects/design and then develop the tender eventually with the supplier)
- D. Others (Please specify)

5. What could be your suggestions to reduce the inefficiencies in the procurement practices in RHD?

Ans.

6. Do you think the thresholds specified in the PPR 2008 are alright?

- A. Yes
- B. No

7. If the thresholds specified in the PPR 2008 are not alright, then what should be the thresholds?

Ans.

8. Do you think the thresholds for the Variation order in the PPR 2008 is sufficient?

- A. Yes
- B. No

9. If the thresholds for the variation order are not sufficient, what should be the thresholds?

Ans.

10. What are your suggestions to prevent front loading in the tender bid?

Ans.

11. Do you think the check and balance in the procurement practice in RHD is sufficient?

- A. Sufficient
- B. Excessive and redundant
- C. Not sufficient

12. What kind of supplier/contractor performance measurement procedure should be applied in RHD?

Ans.

13. Do you think there should be supplier/contractor reward system in RHD?

- A. Yes
- B. No

14. If there is supplier /contractor reward system in RHD, what could be the rewards?

- A. Preferred supplier/contractor list
- B. Contract renewal
- C. Point based on objective/target performance (completed in time, supplier rating etc)
- D. Others (Please specify)



# Appendix B

## Tender Evaluation Report

### Tender Evaluation Report

Tender No. 01-EE/KRD/2011-2012.

*Name of Work :- Repair, Carpeting & Seal-coat work of damaged pavement at Ch. 6+200 to 8+000 km of Kurigram-Rajarhat Road under road division Kurigram during the year 2011-12.*

#### 1. **Introduction:**

1.1 **Background:-** Executive Engineer, RHD, Kurigram Road Division intends to employ a contractor for the execution of Repair, Carpeting & Seal-coat work of damaged pavement at Ch. 6+200 to 8+000 km of Kurigram-Rajarhat Road under road division Kurigram during the year 2011-12.

1.2 **Fund Provision:-** A Total of Tk. 175.00 lac has been allocated for the periodic maintenance work under the Head-4936.

#### 1.3 **Scope of Work :-**

The contract will include the following major items of works

Construction of Soil Earthen Shoulders	=	72.00	Cum
Bituminous Tack Coat (Labour intensive)	=	6660.00	Sqm
Premix Bituminous Carpeting (40mm av. Thick)	=	33.59	cum
7mm Compacted Premix Bituminous Seal coat.	=	740.00	Sqm
12mm Compacted Premix Bituminous Seal Coat.	=	5920.00	Sqm
Brick on End Edging	=	22.00	L.M

Previously Engineer's Estimate has been approved by the Superintending Engineer, RHD, Road Circle, Rangpur vide his kind memo no- 2543 dated-14-09-2011.

1.4 **Invitation for Tenders:-** Tender Notices were sent to the competent authority of **The New Age, The Daily Kaler khandho, The daily Kurigram Khabar.** vide this office Memo no



1365(3) date 26-09-2011 for publication for 1(One) day of the notice. Accordingly the notice was published on 02-10-2011 in “**The New Age**”, on 02-10-2011 in “**The Daily Kaler Khantho**” & on 02-10-2011 in “**The daily Kurigram Khabar**” and published in the RHD’s Web site. This fulfils the requirement of publication of tender notice in accordance with the Public Procurement Rules-2008.

2. **Tender Evaluation Committee:-**

The following is the Tender Evaluation Committee formed by the Additional Chief Engineer, RHD, Rangpur zone, Rangpur vide his kind memo no- 97(3) RZ dated-16-01-2007 **(Annexure-II)**.

- |      |                                                              |                   |
|------|--------------------------------------------------------------|-------------------|
| i    | Executive Engineer, RHD, Road Division, Kurigram,            | Chairman.         |
| ii   | Sub-Divisional Engineer, RHD, Road Sub-Division-1, Kurigram, | Member-Secretary. |
| iii  | Sub-Divisional Engineer PWD, Sub-Division-1, Kurigram,       | Member.           |
| iv   | Assistant Engineer, LGED, Kurigram,                          | Member.           |
| v    | Assistant Engineer, RHD, Road Division, Kurigram,            | Member.           |
| vi.  | Divisional Accountant, RHD, Road Division, Kurigram,         | Member.           |
| vii. | Estimator, RHD, Road Division, Kurigram,                     | Member.           |

### 3. Tenders Receiving:

In accordance with the condition specified in TDS (ITT Clause 21.1) of the Tender Document, there were provisions for receiving tenders in **03(Three)** different Offices. Total **17(Seventeen)** tenders were received as shown below:

The Additional Chief Engineer, RHD, Rangpur Zone, Rangpur Office	= Nil
The Superintending Engineer, RHD, Rangpur Road Circle, Rangpur Office	= 03
The Executive Engineer, RHD, Road Division, Kurigram Office	= 14
Total	= 17

Thus a total **17(Seventeen)** number of tenders were received. The tender opening statements may kindly be seen in **Annexure-III**.

### 4. Tender Opening:

The tenders were opened as per schedule by the following members at 3.00 PM. on 25-10-11

- i) Md. Shafiqul Islam. Executive Engineer, RHD,(CC) Road Division, Kurigram Chairman of the TOC.
- ii) Md. Mohasin Howlader, SDE, RHD, Road Sub-Division-1, Kurigram Member-secretary. TOC.
- iii) Md. Mozammel Haque, AE, RHD, Road Division, Kurigram, Member, TOC.
- iv) Md. Abul Kashem, Divisional Accountant, Road Division, Kurigram Member, TOC.
- v) Md.Kabir Ahsan, Estimator, RHD, Road Division, Kurigram, Member, TOC.

Tender opening sheet (TOS) may kindly be seen in **Annexure-IV**. The duplicate and triplicate copies sent to the Additional Chief Engineer, RHD, Rangpur Zone, Rangpur Office unopened vide Executive Engineer, Kurigram's office memo no-1595 dated-25-10-2011.

5. **Examination and Evaluation of the Tenders:**

The evaluation of the tenders has been carried out following the instructions given in sub-section "Tender Opening and Evaluation" (ITT clause 26 to 35) of Section-1 of Tender Documents and also verified the qualification criteria and other requirements fulfilling the eligibility of Tenderers as specified elsewhere in the Tender Documents & PPR-2008.

For the purpose of tender evaluation, the Committee met on 24.11.2011. Meeting attendance sheet may kindly be seen in annexure-II.

Out of **17(Seventeen)** number of Tenders, all Tenders were provided with tender security. The Tenders received with tender security were examined for their responsiveness. TEC thoroughly examined and Evaluated all the tenders. Out of **17(Seventeen)** Tenders received, 03(Three) Tender is found non-responsive (TOS. No. 02, 05 & 13) and rest **14(Fourteen)** Tenders are found substantially responsive. Summary of Tenders received, quoted amount of the Tenderer & responsiveness is shown in **Table-1**.

The TEC also checked the documents submitted along with the Tenders regarding necessary examination (preliminary, Technical, Financial) and all the documents regarding Experience certificate, Turnover, Bank statement etc. were duly verified from the issuing offices (**Annexure-V**).

Table no. -1

TOS. No.	Names of Contractors (received tenders)	Quoted Tender Price. Tk.	Responsiveness	Reasons for Non-responsiveness	Remarks
1	M/S. Fahim Traders	9,65,233.00	Substantially Responsive		Please see details Preliminary Evaluation sheet in annexure
2	Sree Susan Chandra Sarker	9,46,052.10		Non-responsiveness	
3	M/S. Sugondha Builders	8,60,100.00	Substantially Responsive		
4	Md. Mahbubar Rahman	8,67,430.00	Substantially Responsive		
5	M/S. Juel Traders	7,04,540.50		Non-responsiveness	
6	Md. Dulal	9,48,495.95	Substantially Responsive		
7	M/S. Hamid Traders	8,95,310.00	Substantially Responsive		
8	Md. Mostafizar Rahman	8,10,105.00	Substantially Responsive		
9	M/S. KM Abubakar	10,40,050.00	Substantially Responsive		
10	Ujjal Kumar Dey	9,30,894.00	Substantially Responsive		
11	M/S. Belal Construction	7,28,020.00	Substantially Responsive		
12	ATM Reazul Karim	11,58,285.44	Substantially Responsive		
13	Moha. Rafiqul Islam (Shahi)	10,27,723.70		Non-responsiveness	

14	Md, Redwanul Haque	1102114.00	Substantially Responsive		
15	Md. Samsul Hoque	9,06,078.00	Substantially Responsive		
16	M/S. Ultra Traders	13,24,714.49	Substantially Responsive		
17	M/S. Shahil Enterprise	8,98,567.00	Substantially Responsive		

TEC checked the substantially responsive Tenders and corrected their arithmetic errors where necessary. The evidences of arithmetical checking are attached in **Annexure-VI**.

Responsive Tenders were rigorously checked and evaluated. **Table-2** shows the evaluated tender prices of the responsive tenders and their relative positions. :

Table no. -2

TOS. No.	Name of Contractor	Value of Engineer's Estimate (Tk)	Quoted Tender Price (Tk)	Evaluated Tender Price (Tk)	Relative Position	Comments (Less or Above than the Engineer's Estimate)
11	M/S. Belal Construction	14,16,077.69	7,28,020.00	7,28,020.00	1 <sup>st</sup>	51.41 % Less
8	Md. Mostafizar Rahman		8,10,105.00	8,10,105.00	2 <sup>nd</sup>	42.79 % Less
03	M/S. Sugondha Builders		8,60,100.00	8,60,100.00	3 <sup>rd</sup>	39.26% Less
4	Md. Mahbubar Rahman		8,67,430.00	8,67,430.00	4 <sup>th</sup>	38.74% Less
7	M/S. Hamid Traders		8,95,310.00	8,95,070.00	5 <sup>th</sup>	36.79% Less
17	M/S. Shahil Enterprise		8,98,567.00	8,98,567.00	6 <sup>th</sup>	36.54% Less
15	Md. Samsul Hoque		9,06,078.00	9,06,078.00	7 <sup>th</sup>	36.01% Less
10	Ujjal Kumar Dey		9,30,894.00	9,30,894.00	8 <sup>th</sup>	34.26% Less
6	Md. Dulal		9,48,495.95	9,48,495.95	9 <sup>th</sup>	33.02% Less
1	M/S. Fahim Traders		9,65,233.00	9,65,233.00	10 <sup>th</sup>	31.83% Less
9	M/S. KM Abu bakar		10,40,050.00	10,40,050.00	11 <sup>th</sup>	26.55% Less
14	Md, Redwanul Haque		11,02,114.00	11,02,169.00	12 <sup>th</sup>	22.16% Less
12	ATM Reazul Karim		11,58,285.44	11,58,285.44	13 <sup>th</sup>	18.20% Less
16	M/S. Ultra Traders		13,24,714.49	13,24,714.49	14 <sup>th</sup>	6.45% Less

## **6. Recommendations and Conclusion:-**

The 2<sup>nd</sup> meeting of TEC was accordingly held on 04.12.2011 to finalize the evaluation. Corresponding meeting attendance sheet may kindly be seen in annexure- II.

After detail discussion the Tender Evaluation Committee unanimously decide to recommend the lowest Evaluated Tender Price of Tk. 7,28,020.00 (Taka Seven lac twenty eight thousand twenty) only in at **51.41 % less** than the Engineer's Estimate infavour of M/S. Belal Construction for approval and award of the contract, Conditionally that the **performance security shall be 20% (twenty percent) of the quoted price.**

(Md. Kabir Ahsan)	(Md. Abul Kashem)	(Md. Mozammel Haque)
Estimator (Addl. c) RHD.	Divisional Accountant	Assistant Engineer (Addl. c) RHD
Road Division, Kurigram	Road Division, Kurigram	Road Division, Kurigram
&	&	&
Member	Member	Member
Tender evaluation committee	Tender evaluation committee	Tender evaluation committee

(Md. Masduzzaman)	(Md. Abdul Jalil Pk.)	(Bimal Kumar Sannyashi)	(Md. Shafiqul Islam)
Senior Assistant Engineer	Sub-Divisional Engineer	Sub-Divisional Engineer (cc), RHD.	Executive Engineer (cc), RHD,
LGED, Kurigram	PWD. Sub-Division-I. Kurigram	Road Sub-Division-1, Kurigram	Road Division, Kurigram
&	&	&	&
Member	Member	Member-Secretary	Chairman
Tender evaluation committee	Tender evaluation committee	Tender evaluation committee	Tender evaluation committee