

Getting Value for Money from Public Procurement

A case study on DPHE

Dissertation submitted in the partial fulfillment of the
requirements for the Degree of
Masters in Procurement and Supply Management

Submitted by

Md. Mahraj Hossain

MPSM, Batch VII

ID No. 14282032

Masters in Procurement and Supply Management

January , 2015



**BRAC Institute of Governance and Development (BIGD),
BRAC University**

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Statement of the Author

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Md. Mahraj Hossain

Abstract

Until 2003, there was no standard and legal framework for public procurement in Bangladesh and General Financial Rules (GFR) had regulated public procurement procedures and practices in Bangladesh. These rules were originally issued during the British period and slightly revised in 1951 under the Pakistani rule. After Bangladesh's independence, few changes were made to these rules in 1994 and 1999 respectively (Islam, 2011).

To ensure transparency ,accountability and better value for money 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, the Government of the People's Republic of Bangladesh has enacted Public Procurement Act 2006 (hereinafter called PPA 2006) on 06 July 2006. Under the framework of PPA 2006, the government issued Public Procurement Rules 2008 (hereinafter called PPR 2008) which has come into effective on January 31, 2008. All these were the outcomes of the reform process taken by the government to streamline the public procurement. Earlier in 2003, Public procurement Regulations 2003 which was effective till the PPR 2008 was issued (Hoque, 2010).

Among the government agencies, DPHE is subject to large amount of budget allocation against the projects in the Annual Development Programme (ADP). It is generally said that a total of 80% of ADP allocation are spent for procurement of goods, works and services which are administered by PPR 2008. Thus, it seems to be a good consideration to have a look at how DPHE is ensure value for money through using PPR 2008 in it's procurement activities.

The research has been designed under the questions get an idea about is present procurement practices in DPHE under PPR 2008 achieving value for money completely or not; and if not, then the causes behind that. The main objectives of the present study are to find out the extent of achieving

value for money by DPHE and to find out the gap and scope of improvement for implementation. The related literatures and reports, particularly from DPHE , PPR 2008 and other international practices in public sector, have been thoroughly reviewed before conducting the main research

work. The key findings of these reports have been compared and analyzed which helped to draw important conclusion of the study.

The methodology of this study to undertake are (i) questionnaire survey for primary data (ii) key informant interviews (iii) Secondary data collect from project offices and DPHE website. Questionnaire survey was carried out to collect primary data from different stakeholders related to procurement activities of DPHE. For in-depth study on getting value for money different projects were studied carefully to collect the qualitative data too. In addition to survey, key informant interviews have been conducted to get the perceptions of few senior officers of DPHE .

The study result shows a clear perceptions that DPHE is far away from better value for money procurement . However, the scenario is more or less similar in other government agencies. The main focus on compliance with the public procurement regulation and emphasizing the transparent use of competitive procedures, rather than necessarily achievement of competitive supply or added value outcomes lead DPHE as well as other government agencies not to always encourage in best practice procurement, in areas such as economic, efficiency and effectiveness.

For improvement of these situations, four specific recommendations have been drawn. These are (i) to induce a mechanism for ensuring that TER is directly submitted to the contract approving authority as per Rule 36(3) of PPR 2008, (ii) to ensure the timely payment to the contractors, tender should be floated only after availability of sufficient fund, (iii) a liquidated damage clause and (iv) payment of interest in case of delayed payment should be considered carefully to protect the interests of both the parties.

Acknowledgement

All praises are due to Almighty Allah, The Omnipotent, Omnipresent and Omniscient, Who enables the author to pursue his education in Procurement and Supply Management and to complete the research work as well as to submit the thesis for the degree of Masters in Procurement and Supply Management.

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THE AUTHOR

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Abbreviations

ADP	:	Annual Development Programme
BWDB	:	Bangladesh Water Development Board
CIPS	:	The Chartered Institute of Purchasing and Supply
CPTU	:	Central Procurement Technical Unit
GFR	:	General Financial Rules
HOPE	:	Head of Procuring Entity
IMED	:	Implementation Monitoring and Evaluation
KPI	:	Key Performance Indicators
LGED	:	Local Government Engineering Department
LTM	:	Limited Tendering Method
MoF	:	Ministry of Finance
MoP	:	Ministry of Planning
NAO	:	National Audit Office
OGC	:	Office of the Government and commerce

OTM	:	Open Tendering Method
PD	:	Project Director
PE	:	Procuring Entity
PPA 2006	:	Public Procurement Act 2006
PPR 2008	:	Public Procurement Rules 2008.
PPRP II	:	Public Procurement Reform Project (Phase II)
PWD	:	Public Works Department
RADP	:	Revised Annual Development Programme
REB	:	Rural Electrification Board
RHD	:	Roads and Highways Department
TEC	:	Tender Evaluation Committee

CHAPTER ONE

1. Introduction

In this main chapter the authors will present the background of this thesis. Continuing, the main research question is formulated following the three sub questions that give the thesis further direction to author's interest. The purpose of this study, as well as delimitations of the research area, are presented. After a brief presentation of the companies used as case studies, an illustration of the thesis' structure will complete this introduction chapter.

1.1 Background and context

Departments depend on the range of goods and services which they purchase to deliver their core services. These can range from rudimentary and low value items such as pens and paper to new works and high value and complex items such as, IT enabled services to support business change , or technical advice or equipment to support research and development. Purchasers need to purchase goods and services of the right quality, at the most cost effective price, in the most economic quantities, and ensure that they are available when needed. Failure to meet any of these requirements can seriously affect a department's ability to meet its objectives and outputs and ultimately to deliver services to citizens. Procurement is, therefore, strategically important to departments.

"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. When procurement is done with public money, then it is called public procurement.

The elevation of procurement to a strategic role has been the focus of considerable attention since the 1990s. Most of the initial literature was set against the private sector, and predominately manufacturing industry focussed (for example, Lamming,1993; Brandes, 1994; Gadde and Hakansson, 1994; Speckman et al., 1994; van Weele, 1994), with comparatively little attention given to the public sector procurement strategy and management. While the Public Contract Law

Journal dates back to 1981 and Public Procurement Law Review to 1992, both had sit within the legal and regulatory disciplines, it is only in the last decade that public procurement strategy and management has, however, been recognised as different from that of the private sector and developed into a research discipline in itself with its own biennial international conference (Thai et al., 2005; Piga and Thai, 2007), journal, and international research study on public procurement (Knight et al., 2007a, b).

Until 2003, there was no standard and legal framework for public procurement in Bangladesh and General Financial Rules (GFR) had regulated public procurement procedures and practices in Bangladesh. These rules were originally issued during the British period and slightly revised in 1951 under the Pakistani rule. After Bangladesh's independence, few changes were made to these rules in 1994 and 1999 respectively (Islam, 2011).

To ensure transparency ,accountability and better value for money 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, the Government of the People's Republic of Bangladesh has enacted Public Procurement Act 2006 (hereinafter called PPA 2006) on 06 July 2006. Under the framework of PPA 2006, the government issued Public Procurement Rules 2008 (hereinafter called PPR 2008) which has come into effective on January 31, 2008. All these were the outcomes of the reform process taken by the government to streamline the public procurement. Earlier in 2003, Public procurement Regulations 2003 which was effective till the PPR 2008 was issued (Hoque, 2010).

Upon issuance of the PPA 2006 and PPR 2008, the government agencies are bound to follow the Act and Rules in the day to day procurement activities of their own. I shall conduct my study in the Department of Public Health Engineering. DPHE is responsible for the Water Supply and Sanitation (Human excreta & sullage disposal, drainage and solid waste management) of the whole country, both in rural and urban (City Corporation, Pourashava, Upazila HQs and growth centers) areas. It also Monitor and coordinate the activities of the stakeholders including NGOs & private operators working in the Water Supply and Sanitation sector. As a public sector body the procurement of DPHE is regulated by PPA 2006 and PPR 2008.

1.2 Statement of the Problem

In contrast to the profit focus of private sector concerns, public sector organizations have a primary orientation to achieving defined service levels: providing efficient and effective services and utilities to the public often within defined budgetary constraints and environmental and sustainability strategies. This less intensely competitive environment allows greater information exchange, best-practice sharing and collaborative or consolidated buying and supply arrangement, such as shared e-procurement platforms and buying groups. However, there are some distinctive challenges in public sector procurement.

- Public sector buyers generally have the overall objective of achieving defined service levels. ‘value’ is thus defined by maintaining or improving service levels within value and cost parameters-rather than by minimizing cost as part of a strategy of profit maximization and competition.
- They are ultimately responsible to the general public, represented by the State.
- They have to satisfy a wider range of stakeholders: managers, customers, beneficiaries of services, taxpayers, communities and so on. there will usually be a stronger emphasis on purchasing values such as ethics, social sustainability, environmental protection and so on.
- They may have a wider range of activities and therefore a wider range of purchasing requirements.
- They are subject to established procurement procedure and legislative directives (Public Procurement Act 2006 And Public Procurement Rule 2008). This means, for example, that competitive tendering is compulsory for placing supply contracts, unless their value is small.
- They will often be subject to budgetary constraints, cash limits, and efficiency targets to maximize the value obtain from public funding.

It is often argued that the scrutiny and accountability regime create ‘risk avoidance’ culture among public sector officials. A lack of flexibility and innovation, in seeking to minimize risks, may itself failure to achieve value for money. Here are some examples.

- Rigid application of procedures and use of the same terms and conditions for all contracts regardless of the nature of the requirement, market conditions and relationships with potential suppliers.

- Reluctance to involve procurement at an early stage in working with clients, technical experts and users in cross-functional teams.
- Reluctance to use innovative approaches such as early dialogue with suppliers over market availability and specifications, visit to and presentations by potential suppliers.

It has been recognized that public procurement has an important role to play in ensuring the efficient use of public funds. Policy dictates that this is to be achieved via competition, as the best grantee of quality and value for money. But the challenge is that the inflexible use of price and value for money criteria in awarding competitive contract-potentially at the expense of important criteria such as whole life costs, sustainability, or relational compatibility.

Obtaining **value for money** means not paying too much for the package of value (quality and service) we are getting. It also, perhaps more surprisingly, means not paying too little: a very low price may reflect a supplier's desire to win business-but it may also result in corner cutting on quality somewhere along the line, because, as they say, 'if you pay peanuts, you get monkey'!

1.3 Research Questions

When studying the literature available, I defined the problem in the following question.

- Can some of the practices of achieving **value for money** from procurement be found in DPHE ?

The main research question is divided into following sub-questions for which this thesis is pursuing the answer.

- What are the barriers to achieve **value for money** from procurement in DPHE?
- How can we overcome those barriers?

1.4 Objectives of the study

The objectives of the study are:

- To identify best Procurement practices in order to achieve better value for money in public procurement.
- To suggest recommendations for further improvement in procurement practices in order to achieve better value for money in public procurement.

1.5 Scope and Limitation of the study

DPHE is one of the large procuring agency in Bangladesh. A large number of both foreign and GoB aided projects are implement by DPHE .Value for money is the prime objective of public sector procurement. This research work is able to identify the shortfall and the reasons behind these shortfall to achieve better value for money. Once we can identify the shortfall and its reasons then we can take appropriate measure to close the gaps.

The limitations of this study have come from both its scope and its methodology. Survey was Almost confined to DPHE HQ and Dhaka Office. The respondents were selected mainly from the organization's head office of Dhaka city. On the other hand, officers were selected on the basis of researcher's convenience. Key informant interview was conducted on few senior officers and with the consultant and contractors engaged in DPHE. Time constraint was also one of the major limitations of the study. Most of the respondents had gathered different types of experiences in different projects; sometimes experiences were not generalized rather project specific. This issue had come across during the interviews. Also the officers were requested to give answers based on their own perception. As the perceptions on situation varied from person to person, this may have been a major limitation of the study.

1.6 Case organization

The Department of Public Health Engineering (DPHE) is the national lead agency for the Water Supply and Sanitation (Human excreta & sullage disposal, drainage and solid waste management) of the whole country, both in rural and urban (City Corporation, Pourashava, Upazila HQs and growth centers) areas excepting Dhaka, Narayanganj and Chittagong cities where WASAs operate. It also Monitor and coordinate the activities of the stakeholders including NGOs & private operators working in the Water Supply and Sanitation sector. As a public sector body the procurement of DPHE is regulated by PPA 2006 and PPR 2008.

Mandate of DPHE

- DPHE is responsible exclusive for water supply and sanitation facilities throughout the country excluding Dhaka & Chittagong cities and Narayanganj and Kadamrasul Pourashavas where WASAs operate.
- Provide advisory service to GoB in framing policy and action plans for WSS

- Provide support to the local government institutions (LGIs) in the development and O&M of the water & sanitation facilities.

1.7 Dispositions

The study has been arranged in six broad headings: Introduction, Literature Review, Methodology, Results and Discussion, Conclusion and Recommendations and References. In the introductory chapter, the areas which have been covered are the background and context, problem statement, significance, research questions, objectives, scopes and limitations of the study. The second chapter starts with a brief view on Procurement and Purchasing and supply , Value for money (VFM), Public and private sector Procurement and PPR 2008. In the Methodology chapter which is the third chapter, sampling method, selection of study area, study period, sample size and data processing & analytical framework of the study have been described. The Results and Discussion chapter starts with the demographic overview of the respondents followed by an overview of the survey questionnaire and key informant interview. Then the findings of the questionnaire survey have been presented with an analysis and in-depth discussion. Thereafter, conclusion of the study has been drawn with some specific recommendations. Finally, references and appendices have been stated for a clear understanding of the study.

CHAPTER TWO

2. Literature review

In this chapter the authors will present the relevant theories concerning value for money from procurement. The most central definition are presented with a purpose of deepening reader's understanding of theories. furthermore the authors describe how the theories suggest that organization may get value for money. the theories are based on literature study, as well as latest research report and scientific articles. This chapter gives a fundamental presentation of the needed theories and the reader is advised to look to the referred literature for further knowledge.

2.1 Procurement and Purchasing and supply

Everyone knows the meaning of purchasing. We all do it every day: purchasing food newspapers, clothes, petrol, life assurance, transport services and thousand of other things. But there is a big difference between doing something in everyday life and doing it as a professional. And there is even difference between doing something as a professional and understanding it in the way that professional education requires. Organisational purchasing is a professional discipline based on a foundation of study and research, and proceeding according to systematic guidelines on best practice (contexts of procurement and supply, CIPS, 2012).

2.2 Purchasing and supply

Purchasing can be defined in various ways, depending on perspective. The purchasing function of an organization involves the acquisition of supplies or inputs (raw materials, components, goods and services) to the organisation's activities (conversion, consumption and resale).the basic objective of purchasing is to buy materials of the right quality, in the right quantity, delivered to the right place, at the right time, at the right price (contexts of procurement and supply, CIPS, 2012).

Supply may be defined simply as the act (or process) of providing something or making something available, often in respond to buyers' or customers' requirements. It involves transfer or flow of goods, services and information from one party (a supplier) to another party (a customer) (contexts of procurement and supply, CIPS, 2012).

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The term **Purchasing and Supply** is often used in recognition of the fact that the purchasing function has a role not just in **buying inputs** but in **securing supply**: that is ensuring the consistent, reliable, cost effective flow of goods and services into the organization from the supply market and supply chain (contexts of procurement and supply, CIPS, 2012).

2.3 Procurement

Lysons & Farrington (*Purchasing & Supply chain Management*) argue that traditional definitions of purchasing and supply – such as those outlined above –are inadequate and, when it comes to describing what organizational buyers actually do.

Procurement is the process undertaken by organizational unit, that either as a function or as part of an integrated supply chain, is responsible for procuring or assisting users to procure, in the most efficient manner, required supply at the right time, quality, quantity and price, and management of suppliers, thereby contributing to the competitive advantage of the enterprise and achievement of corporate strategy (contexts of procurement and supply, CIPS, 2012).

2.4 Strategic Procurement

In recent decades, there has been a significant shift in the role of purchasing function, from a mainly administrative or clerical role (fulfilling operational or technical requirement) to a more strategic, commercial role and business-focused role. The cost base of most business has changed dramatically in recent decades, owing to increase automation (reducing the proportion of costs represented by labor). A significant proportion of turnover and total costs is now typically spent on the procurement of goods, services or works from external organization. It is now widely recognized that procurement functions have a strategic part to play in value addition through their value adding role in quality management, waste reduction, supply chain innovation and development (strategy in procurement and supply, CIPS, 2012).

Cost reduction is not the only or even the most important function of procurement function-however much of it may sometimes that way. There is a delicate balance between right price and other four rights of purchasing, which procurement professionals must be adept in managing. Value for money is an important strategic objective, particularly in the public and non profit sector. It may be

defined, at its most basic, as ‘the optimum combination of whole life cost and the quality necessary to meet the customer’s requirement’ (office of the government commerce).

There is a vital difference between purchase price of an article and its **total cost of ownership** or **total acquisition cost** (contexts of procurement and supply, CIPS, 2012). Total acquisition cost include not just purchase price, but also-

- Procurement costs, taxes, foreign exchange rates and cost of tendering and drawing up contract.
- Finance cost(if capital has to be borrowed to pay for the asset, say)
- The cost of packaging transporting and insuring goods for delivery.
- Costs of storage and other handling assembly or finishing required.
- Costs of quality management and quality failure (inspection, rework or rejection, lost sales, compensation of customers).
- Cost of installation, maintenance and repair, staff training and so on over the total lifecycle of the asset.
- Cost of decommissioning, disassembly, recycle or disposal (including a negative cost in the potential to realize the potential value of the asset through resale).

It has been recognized that public procurement has an important role to play in ensuring the efficient use of public funds. Policy dictates that this is to be achieved via competition, as the best grantee of quality and value for money. But the challenge is that the inflexible use of price and value for money criteria in awarding competitive contract-potentially at the expense of important criteria such as whole life costs, sustainability, or relational compatibility.

2.5 Public Procurement

Increasingly the role of procurement is not merely to fulfill operational or technical requirement but to operate profitably, achieving value for shareholder in the private sector and in the public sector to achieve service delivery representing better value for money in the use of public funds. Public sector organizations have primary orientation to achieving defined service levels: providing efficient and effective services (education, transport, healthcare) and utilities (water, power) to the public often within defined budgetary constraints and environmental and sustainability strategies (Sourcing in procurement and supply, CIPS, 2012).

The range of stakeholders in public sector is more diverse, including funding and user groups. This creates a more complex network of stakeholder expectations, relationships and accountabilities to be managed (Sourcing in procurement and supply, CIPS, 2012).

Public sector buyers are subject to high level of accountability. They must ensure that appropriate process have been followed to acquire best value for taxpayer's money; that a full audit trail exists so that their actions and decisions can be vetted; and that appropriate service levels are achieved in the provision of services to the member of public (contexts of procurement and supply, CIPS, 2012).

It is often argued that the scrutiny and accountability regime creates a risk avoidance culture among public sector officials. The national Audit Office, UK has stated that a lack of flexibility and innovation, in seeking to minimize risks, may itself cause failure to achieve value for money. Here are some examples (context of procurement and supply, CIPS, 2012).

- Rigid application of procedures and use of same terms and conditions for all contracts regardless of the nature of the requirement, market conditions and relationship with potential suppliers.
- Reluctance to involve at an early stage in working with clients, technical experts and users in cross functional teams.
- Reluctance to use innovative approaches such as early dialogue with suppliers over market availability and specification, visits to or presentations by potential suppliers.

2.6 Value for money (VFM)

Traditionally, measures of VFM have been based on prices paid and cost savings. However a more holistic concept of VFM was advocated in the 1995 *White Paper Setting New Standards*, and OGC guidance, UK. ' All public procurement of goods and services, including works, must be based on value for money. value for money is not about achieving the lowest initial price: it is defined as *the optimum combination of whole life costs and quality.*' (contexts of procurement and supply, CIPS, 2012).

This reflects increased emphasis on :

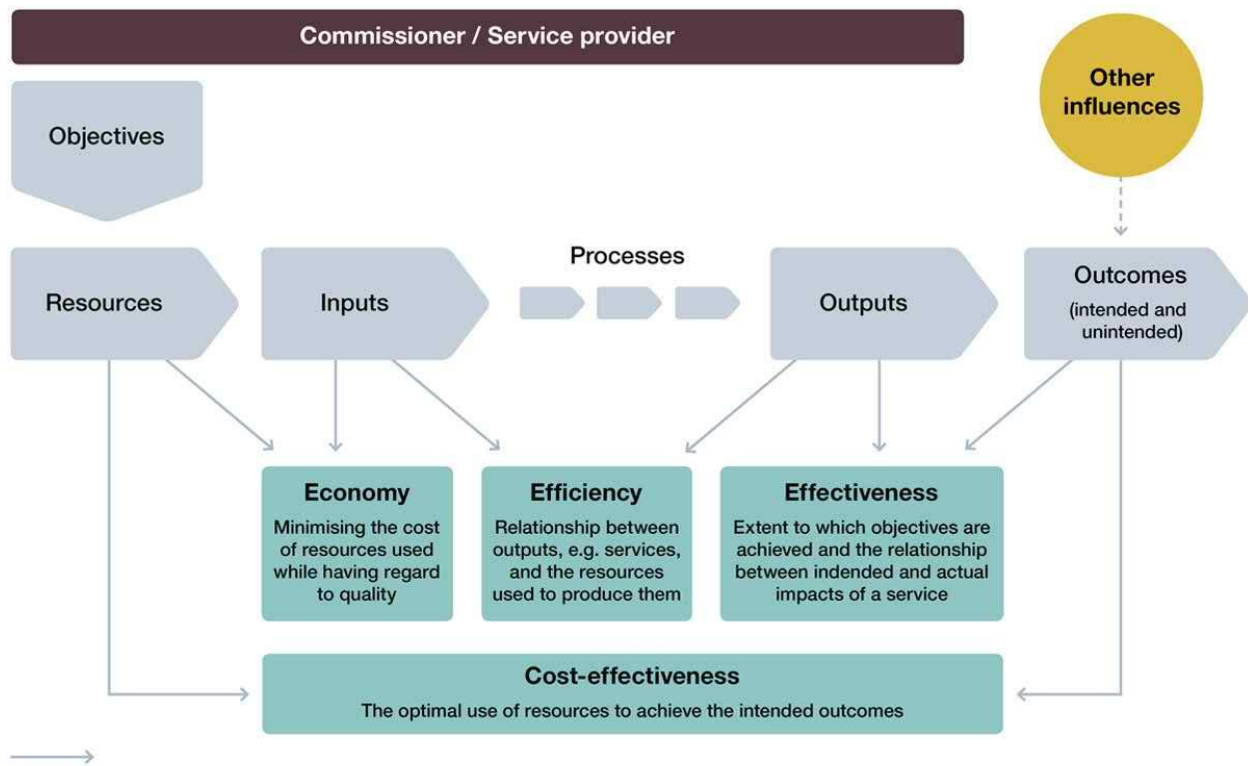
- The importance of taking into account all aspects of cost over time, rather than lowest purchase price.
- The importance of defining ‘value’ from the perspective of customer and meeting service level and quality requirements
- The importance of achieving efficiency (making best use of available resources) and effectiveness (accomplishing objectives) – in addition to economy (using the least possible resources).

2.7 Assessing value for money

The National Audit Office, UK uses three criteria to assess the value for money of government spending i.e. the optimal use of resources to achieve the intended outcomes ([www.nao.org.uk.com/assessing vfm](http://www.nao.org.uk.com/assessing_vfm)):

- **Economy**: minimising the cost of resources used or required (inputs) – **spending less**;
- **Efficiency**: the relationship between the output from goods or services and the resources to produce them – **spending well**; and
- **Effectiveness**: the relationship between the intended and actual results of public spending (outcomes) – **spending wisely**

Figure 2.1 *Economy, efficiency and effectiveness*



Contributes to the measurement of...

source: (www.nao.org.uk.com/assessing_vfm).

2.8 Achieving value for money

Guidelines from Treasury and the NAO,UK in 2004 identify a number of ways of achieving VFM in public procurement (contexts of procurement and supply, CIPS, 2012).

- More efficient processing on transactions and reduced processing overheads
- Getting better VFM for goods and services purchased.
- Direct negotiation with supplier.
- Collaborative and consortium buyers.
- Improving project, contract and asset management
- Making procurement decision on the basis of long term value
- Combining competition with innovative procurement methods (while managing risks effectively)
- Utilizing e-procurement and good practice

- Using tools to promote and measure VFM gains.

2.9 Public and private sector Procurement

Public and private sector organizations and environments are different in some key respects. The key implications for procurement have been summarized by Gray j Zenz (*purchasing and management of materials*), whose analysis forms the basis of table 3.1

Table 2.1 *Difference between Public and private sector Procurement*

Area of difference	Private sector	Public sector
Objectives	Usually to increase profit	Usually, to defined service levels
responsibility	Buyers are responsible to director, who in turn are responsible to shareholders	Buyers are responsible ultimate to general public
stakeholders	Purchasing have a defined group of stakeholders to take into account.	Purchasing has to provide value to a wider range of primary and secondary stakeholders.
activity	Organizational capabilities and resources used to produce goods/services	Add value through supply of outsourced or purchase product/services (Tend not to purchase for manufacture.)
Legal restrictions	Activities are regulated by company law, employment law, product liability law etc,	Most of this applies equally to public sector, but additional regulations are present too (eg PPR 2008).
competition	There is usually strong competition between many different firm	There is usually no competition.
Value for money	Maintain lowest cost for competitive strategy, customer value and profit maximization .	Maintain or improve service levels within value/cost parameters.
Diversity of items	Specialized stock list for defined	Wide diversity of items / resources

	product/service portfolio.	require to provide diverse services.
publicity	Confidentiality applies in dealings between suppliers and buyers	Confidentiality is limited because of public interest in disclosure.
Budgetary limits	Investment is constrained only availability of attractive opportunities;	Investment is constrained by externally imposed spending limits.
Information exchange	Private sector buyers do not exchange information with other firms, because of Confidentiality and competition.	public sector buyers are willing to exchange notes and use shared e-purchasing platforms, consolidate purchases etc.
Procurement policies	Tend to be organization-specific. Private sectors buyers can cut red tape when speed of response is necessary	Tend to follow legislative directives. public sector buyers are often constrained to follow established procedures.
Supplier relationships	Emphasis on long-term partnership development where possible, to support value chain.	Compulsory competitive tendering : priority to cost minimization and efficiency, at the expense of partnership development

Source: (contexts of procurement and supply, CIPS, 2012).

An article in procurement professional journal (CIPS Australia) recently noted that: ‘key issues for the procurement profession.....are as relevant for the public sector as they are for the private sector.....Work is currently underway in public sectors around the world to address these issues, centered on:

- Developing standards for the assessment and ongoing development of public procurement professionals .
- Greater application of strategic sourcing principles to public procurement.
- Introduction of e- procurement systems.’

It should be noted that there is increasing best practice sharing between sectors, with best practice models and recommendations published by public sector bodies such as in UK, the Organisation for

Government Commerce (OGC) and Sustainable Procurement Task Force and with commitment from the public sector to learn from private sector best practice. key priorities such as CSR, Sustainable, customer service improvement and the reduction of cost inefficiencies, operate across sectoral boundaries (contexts of procurement and supply, CIPS, 2012).

The White Paper *setting new standards* recognized the strategic importance of public procurement and placed an increased emphasis on securing the benefits of best purchasing practice. Specific proposals were presented for improving practice in line with the best performing private sector companies, including an emphasis on (contexts of procurement and supply, CIPS, 2012) :

- Integrated lifecycle procurement processes.
- Better management of risk.
- Use of cross-functional teams.
- Information sharing and collaboration
- Development of supplier relationships and a supply chain management orientation
- Cost reduction (especially through efficiency and collaboration with suppliers).
- The development of professional skills (eg initiatives by OGC,UK to augment the number of CIPS-qualified staff in public sector departments)
- Performance measurement (especially using balanced efficiency/effectiveness approaches such as the Procurement Excellence Model)

2.10 Public Procurement Reform in Bangladesh

The Government of Bangladesh, as part of the broad public sector reforms, has embarked upon to manage implementation challenges aiming at improving performance of public procurement progressively as part of strengthening overall sectoral governance. In order to achieve its aim and objective, a permanent unit, named as Central Procurement Technical Unit (CPTU) was established in 2002 as implementing unit in the field of procurement reform and reform implementation monitoring. Reform process was carried out with ultimate outcomes of formulation and issuance of a unified procurement processing system (Public Procurement Regulations 2003), Implementation Procedures for PPR 2003, Public Procurement Processing and Approval Procedures (PPPA), Revised Delegation of Financial Powers (DOFP) and several Standard Tender Documents (STD's)/Standard Request for Proposal Document for the procurement of Goods, Works and

Services. Later on in 2006, the Public Procurement Act was passed by the Parliament (PPA 2006) and in 2008, a new set of Public Procurement Rules (PPR 2008) was issued. The PPA 2006 and PPR 2008 were made effective on w.e.f. 31 January, 2008 (www.cptu.gov.bd.com)

2.11 Country Procurement Assessment Report (CPAR) and the Public Procurement Reform Project (PPRP)

The slow procurement performance under different projects led to the Country Procurement Assessment of prevailing public procurement policy, framework, institutions and staff skills in 2001. The Country Procurement Assessment Report (CPAR) which was prepared by World Bank, in agreement with the Government of Bangladesh, identified many deficiencies, including the following major deficiencies, in the procurement system of the Government of Bangladesh (www.cptu.gov.bd.com) :

- Absence of sound legal framework governing public sector procurement
- Complex bureaucratic procedure causing delay
- Absence of planning
- Multiple layers in the approval and review process
- 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 .

With the above backdrop, the need for improving governance in the public procurement management area was felt. The first "Public Procurement Reform Project" with IDA assistance approved on 14 February 2002 clearly defined its implementation objectives as to 'contribute to improved performance in public procurement through introduction of measures to make the public procurement system compliant with internationally agreed norms for efficiency, transparency and accountability with the increase of procurement capacity through training and creation of a pool of national procurement professionals (www.cptu.gov.bd.com).

Under the PPRP (2002/03 to 2006/07) government made considerable improvements by completing following major policy reform actions (www.cptu.gov.bd.com);

- Issued Public Procurement Regulations 2003 (PPR) (remained in force up to 30 January, 2008) with the implementation procedures, procurement processing and implementation procedures and in July 2006 passed a procurement Act in the Parliament. The Act and the regulations contain most

features of the international good public procurement practices. ■ A specialized unit on public procurement practices implementation, the Central Procurement Technical Unit (CPTU), was established to implement, manage and support the recommended procurement reforms; ■ CPTU established a website (www.cptu.gov.bd) publishing Invitation to Tenders, RFPs, RFQ, contract awards on procurement for public access, ■ Developed a centralized Procurement Management Information System (PROMIS), ■ Developed a critical mass of 25 national trainers and provided training to over 1800 staff of 260 organizations up to March 2007. ■ A comprehensive set of Standard Tendering Documents were developed complying the Public Procurement Regulations 2003 for use by all government funded agencies; ■ Revised the delegation of financial power ■ Public Procurement Act was ratified by the parliament in 2006; ■ A new set of public procurement rules and supporting procedural guides were prepared; Subsequently the Public Procurement Regulations 2003 was replaced by Public Procurement Rules, 2008, framed under Public Procurement Act, 2006

A number of changes to improve the process have been included in the Public Procurement Rules 2008 (www.cptu.gov.bd.com) :

- Provision of Framework Contracts
- Provision of Concession Contracts
- Use of Request for Quotation Method for the procurement of divisible commodities in bulk
- Special provision to meet urgent national needs
- Establishment of Central Procurement Technical Unit (CPTU) within the IMED
- Implementation of Public Procurement Reform
- Improvement of Procurement Management Capacity.

2.12 Public Procurement Reform Project II (PPRP-II)

To strengthen and sustain the public procurement reform, a new technical assistance project titled 'Public Procurement Reform Project II (PPRP-II)' was approved by the GOB in June, 2007 which is now under implementation by the CPTU/IMED. In implementing those initiatives and addressing the issues PPRP-II contains a comprehensive set of four (4) major components (www.cptu.gov.bd.com):

Component 1: Furthering Policy Reform and Institutionalizing Capacity Development **Component 2:** Strengthening Procurement Management at Sectoral Level & CPTU/IMED **Component 3:**

2.13 Public Procurement Rules (PPR 2008): An overview

Public Procurement Rules (PPR) 2008 was framed by the Government of People's Bangladesh under the Public Procurement Act (PPA) 2006 which came into effective on January 31, 2008. The main objective of enacting PPA 2006 & introducing PPR 2008 was, generally, of achieving value for money, ensuring transparency, accountability, fair treatment in all public procurement throughout the public sector organizations of our country.

There are 130 Rules in PPR 2008 under nine chapters. Most of the Rules have several Sub- Rules. In chapter one, there are 3 Rules (Rule 1 to Rule 3) where preliminary issues like definition of key terms, scope and application of the Rules are given. There are 9 Rules (Rule 4 to Rule 12) in chapter two. Guideline for preparation of Tender or Proposal document, constitution of different committees for disposal of Tender or Proposal are given in this chapter. In chapter three, principles of public procurement is given. This is a very big chapter divided into twelve parts. There are total 48 Rules (Rule 13 to Rule 60) under chapter three where, among others, procedure for preparation of technical specification, preparation of terms of reference, procedure for rejection of Tender, approval procedure of Tender, contract administration and management are described. Rule 61 to Rule 89 constitutes chapter four where methods of procurement for goods and related services, works, physical services and their use are given. Processing of procurement including advertisement, pre-qualifications, processing of Tenders etc. are given in chapter five where there are 13 Rules (Rule 90 to Rule 102). In chapter six, guideline for procurement of intellectual and professional services is given where there are 24 Rules (Rule 103 to Rule 126). Rule 127 and Rule 128 constitute chapter seven and chapter eight respectively. Professional misconduct is described in chapter seven and E-government procurement is described in chapter eight. In chapter nine, miscellaneous issues are described where there are 2 Rules (Rule 129 and Rule 130).

As a part of literature review, the PPA 2006 and PPR 2008 with all amendments have been studied thoroughly. The rules which seemed as the basis of value for money were reviewed keenly.

2.14 Case organization

The Department of Public Health Engineering (DPHE) is the national lead agency for the Water Supply and Sanitation (Human excreta & sullage disposal, drainage and solid waste management) of the whole country, both in rural and urban (City Corporation, Pourashava, Upazila HQs and growth centers) areas excepting Dhaka, Narayanganj and Chittagong cities where WASAs operate. It also Monitor and coordinate the activities of the stakeholders including NGOs & private operators working in the Water Supply and Sanitation sector (www.dphe.gov.bd.com). As a public sector body the procurement of DPHE is regulated by PPA 2006 and PPR 2008

2.15 A typical scenario of volume of procurement in DPHE

Annual Development Program (ADP) 2013-2014 : GoB Funded Projects

Sl. No.	Name of the Project	ADP allocation (in Lac Taka)
1.	Water Supply, Sanitation and Drainage Project in Sylhet & Barisal City	3550.00
2.	Establishment of National HRD Center of DPHE	1125.00
3.	Special Water Supply Project	14025.00
4.	Water Supply & Environmental Sanitation Project in Kotalipara & Tongipara Towns	550.00
5.	Piped Water Supply and Sanitation Project in Sujanagar, Vangura and Chatmohor Pourashava in Pabna District	177.00
6.	37 Towns Water Supply Project	4300.00
7.	Water Supply and Sanitation Project in Tongi Pourasava	2250.00
8.	Water supply and environmental sanitation project at thana sadar and growth centre pourasava	500.00
9.	Water Supply and Environmental Sanitation Project at Mongla Pourasava (2nd Phase)	213.00

10.	Ground Water Investigation and Development of Deep Ground Water Source in Urban and Rural Areas in Bangladesh	523.00
11.	Ground Water Management and TPP for Survey, Investigation and Feasibility Study in Upazila and Growth Centre Level Pourashava having no Piped Water Supply System Project	4312.00

Source: www.dphe.gov.bd.com

Annual Development Program (ADP) 2013-2014 : Foreign Aided Projects

Sl. No.	Name of the Project	RADP allocation (in Lac Taka)
1.	Secondary Towns Water Supply & Sanitation Sector (GOB-ADB) Project	8150.00
2.	Water Supply and Sanitation Project in Cyclone Prone Coastal Areas of Bangladesh Project	4700.00
3.	Bangladesh Rural Water Supply and Sanitation Project	2100.00

Source: www.dphe.gov.bd.com

CHAPTER THREE

3. Methodology

This third main chapter of this thesis is written to give the reader an overview of the methods that research of this kind could be using. Both qualitative and quantitative methods were followed in this study. Furthermore, two major sources (eg. Primary and secondary) for information collection are brought up.

3.1 Sampling method and sampling size

A combination of questionnaire survey and interview method was adopted for this study. Survey method was used as this is considered as the best method available to the social scientists interested in collecting original data. Also, the interview method was used as this is helpful to gather clear idea on the issue providing insight into the conversation. Both qualitative and quantitative methods were followed in this study.

The questionnaires were used for this study which is given in the **Appendix** . The questionnaire survey was adopted for collecting primary data from different stakeholders related to procurement activities of DPHE and having an acquaintance with PPA 2006 and PPR 2008. Before asking for filling the questionnaire, the general idea of the research objectives were exchanged with them. After the exchange of general idea of there search objectives, the questionnaire was given to them. They were requested to fill the questionnaire based on the practical experience they had regarding VFM. Both open end and close end questions were set in the questionnaire to reveal the real perception of the respondents. For key informant interviews, few senior officers of DPHE were interviewed. They were asked to give their perception in regarding VFM.

The respondents were categorized in three different types namely i) DPHE's employee, ii) TEC Members, iii) Persons who are dealing with DPHE's projects a total of 18 different officers, one consultant of DPHE and 3 contractors were interviewed with Questionnaire . Sample size were selected on the basis of convenience .

3.2 Selection of Study Area

Due to time constraint and convenience of the present study, DPHE Head Quarters and Dhaka office were selected for collection of data in the questionnaire. Also, data for questionnaire were collected from the Office of the Executive Engineer, DPHE, Dhaka, Jamalpur, Sherpur, Rajbari . The study was mainly focused on the on-going development projects of DPHE under ADP 2013-2014; especially those which are in the last stage of their implementation were considered for the study, but some procurement information were collected from projects which ended in June 2012. Newly started project where procurement activities is slowly or has not yet started were excluded from the study to get more reliable data.

3.3 Study Period

Survey was conducted at different offices like DPHE and TEC members of DPHE from Roads and Highways Department (RHD) and Public Works Department (PWD) Dhaka, Bangladesh from 05 November 2014 to 20 November 2014.

CHAPTER FOUR

4. Results and Discussion

The purpose of this study is to find out the extent to which DPHE is achieving VFM from its procurement activities. The availability and quality of information available will be of central importance in measuring VFM. In this section, we examine a range of potential issues related to Value for money in procurement in both financial and non-financial terms.

4.1 Demographic overview of the respondents

To do this, questionnaire survey has been conducted on the officers mainly from DPHE but also from LGED, PWD and RHD who are relevant and well known about the DPHE's procurement. The respondents included in different ranks from different organizations. A summary of the information regarding the respondents' different attributes are given in table below :

Table 4.1: Summary of demographic information of the respondents

Respondent's Attribute/variants	Frequency	Percent
<i>Organization</i>		
DPHE	15	
LGED	1	
RHD	1	
PWD	1	
Total	18	
<i>Designation</i>		
Assistant Engineer	3	
Senior Assistant Engineer	1	
Subdivisional Engineer	2	
Executive Engineer	9	

Project Director	3	
Consultant	1	
Total	19	
<i>Relevancy with DPHE</i>		
Employee	15	
TEC Member	3	
Dealing with DPHE projects	1	
contractors	3	
Total	22	
Respondent's Attribute/variants	Frequency	Percent
<i>Education Level</i>		
Masters'	4	
Bachelor	15	
Total	19	
<i>Training on PPA/PPR 2008</i>		
Yes	10	
No	12	
Total	22	

4.2 Overview of the survey questionnaire

The factors which affect the performance of DPHE's procurement activities regarding VFM are trying to asses by analyzing survey questionnaire. Questionnaire included three aspect (economic, efficiency and effectiveness) of VFM. To get their clear perception on the issue, both open-ended and closed questions were asked to the respondents .The responses of the questionnaire survey were then analyzed in the following way :

4.3 Economic aspect

- In question no.1 of the survey the key informants were asked about achieving economic value from tendering method. In response to this question, some (53%) of the respondent have given their opinion that LTM method is more economic and others view is OTM is more economic.

	OTM	LTM
Frequency	7	8
percentage	47	53

Question no. 1: To me, which method is more economic, it depends .

The open Tendering shall be the preferred method of Procurement for Goods and related Services, Works and Physical Services, unless the threshold or special circumstances relating to a specific requirement make it more appropriate for one of the other Procurement methods to be used

.(Rule 61(1))

A Procuring Entity may use a Procurement method other than Open Tendering Method for Procurement of Goods and related Services and Works and physical Services in accordance with the requirements set out in these Rules, namely, Limited Tendering Method, Direct Procurement Method, Two-stage Tendering Method and Request for Quotations Method, provided that the selection of any Procurement method other than open Tendering, should be recorded stating the reasons or justifications for the method selected in compliance with the conditions specified in Rules. (Rule 62(1))

Among the various tendering method OTM and LTM are mostly practiced in DPHE. As OTM is more competitive than the others method so there is more possibility that using this method we can get economic value . but it may not be always true as it depends in some factor . In LTM tender price cannot be above 5% of official estimate but in OTM lowest offer price may be above 5% and administrative cost is higher in OTM than LTM . Collusion among supplier or bid rigging is a common reason of excess price than actual in OTM .

- In question no.2 of the survey the key informants were asked about taking appropriate measure to ensure exact requirements (business needs). To ensure exact requirement need

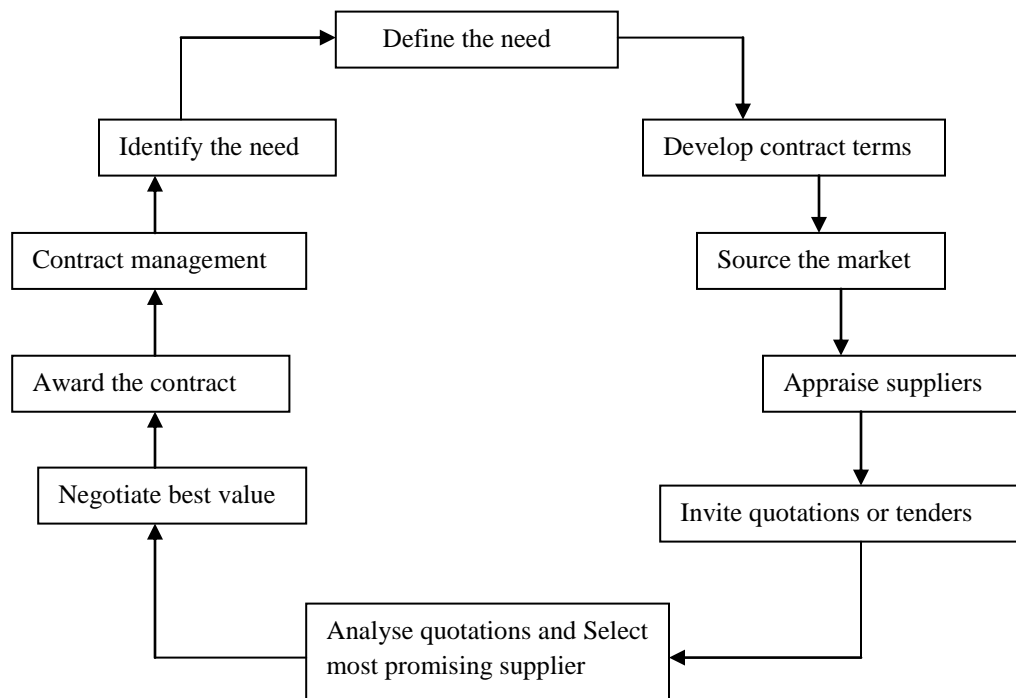
accurate data from field level .In response to this question, the majority (87%) of the respondent have given their opinion that most of the time requirement is imposed from the top which do not reflect appropriate requirement. Key informant interviews also reflected in the similar manner

	Never	Sometime	Always
Frequency	2	13	0
percentage	13	87	0

Question no. 2: To me, DPHE is not always serious about exact requirement .

Before any procurement exercise or transaction can begin, someone must notice that something is needed which is not available. The main stages of a procurement process-depicted as a cycle –are shown in figure 4.1 the process start with the identification of the need. in viewing the procurement process as a cycle, it is highlight the fact that the business need will periodically reviewed, to ensure that procurements are not simply renewed without modification, but have continuing justification on the basis of business benefits.

Figure 4.1 A generic procurement cycle (Source: Business needs in procurement and supply)



Business needs should be considered at all stages of the procurement cycle. For example:

- Supplier will be pre-qualified on the basis of their ability to deliver the volume, quality and price required to meet the business need for value for money.
- Supplier proposals, bids and quotations will generally be evaluated on basis of lowest price or ‘most economically advantageous tender’: fulfilling the primary business need for competitive value for money.
- Contract and supplier management is intended to meet the business need for cost effective performance of the contract.

The earliest and main opportunity for a business case to be presented and developed is at the stages of identification. if business needs are not considered at this early stage:

- Unnecessary procurements may be made-wasting resources on the procurement process, the price and related problems of stock proliferation, under utilization and obsolescence.
- Procurement may be over-specified-wasting resources on non-value-adding features and functionality.
- Sourcing effort may be wasted by subsequent rejection and revision of the specification eg during tender evaluation.

➤ In question no.3 of the survey the key informants were asked about taking appropriate measure to avoid over specified material. In response to this question, 67% of the respondent have given their opinion that most of cases they try not to use over specified material while 33% reported as they never use over specified material.

	Never	Often	Always
Frequency	0	10	5
percentage	0	67	33

Question no. 3: To me, DPHE do not use over specified material .

It is one of the key function of procurement to specify and document the business requirement or supply . this activity is designed to support to objective of the organization. the overall procurement

objective is to obtain the right goods and services for the best value for money .the formulation of effective specifications is a prerequisite to achieving this objectives.

Effective specifications can support value for money procurement by avoiding over- specifications, building in unnecessary features or specifying excessively quality, which are unnecessarily costly to fulfill, without adding corresponding value. Goods and services which re over specified related to some ideal standard rather than a robust business case eg without reference to the actual business needs lead to the cost of higher standards.

- In question no.4 of the survey the key informants were asked about having inventory management system in order to reduce cost and waste. In response to this question, 60% of the respondent have given their opinion that they do not have any inventory management system while 40% reported as they use conventional inventory management system.

	Yes	No
Frequency	4	9
percentage	40	60

Question no. 4: To me, DPHE do not have appropriate inventory management system .

Inventory management is very important as it maintain huge amount of goods in central and divisional store. DPHE has three central stores and each division has its own store facility. But due to absence of proper Inventory management system huge amount of public money is wasting . The aim of inventory management is to minimize level of unnecessary stocks as stock holding incurs costs.

There are costs in holding stock: the capital tied up in the stock; the opportunity costs of having capital tied up in stock when it could be used in other purposes; the costs of losses through damage, deterioration, pilferage and obsolescence while goods are being held.

- In question **no.5** of the survey the key informants were asked about taking appropriate measure to minimize administrative cost. In response to this question, the majority (80%) of

the respondent have given their opinion that they do not conscious about to minimize administrative cost .

	Never	Often	Always
Frequency	3	10	2
percentage	20	67	13

Question no. 4: To me, DPHE do not conscious about to minimize administrative cost .

Administrative costs (AC) are defined as the costs incurred by enterprises, the voluntary sector, public authorities and citizens in meeting legal obligations to provide information on their action or production, either to public authorities or to private parties. The SCM defines administrative costs as the costs of administrative activities that businesses are required to conduct in order to comply with the information obligations that are imposed through regulation

Recent appreciations of the European officials reveal estimations that a reduction by 25% of the administrative costs could lead to an increase of GDP by 2-3%.

Reasons behind extra administrative costs are incurred by DPHE in procurement process:

- Lack of use e-tools such as e-tendering, intranet, extranet etc.
- Re-advertisement due to compliance error
- Re- tender due to processes error
- Dispute due to unclear contract terms
- Unnecessary query
- Poor specification

4.4 Efficiency aspect

- In question **no.6** of the survey the key informants were asked about use of e-tendering. In response to this question, the majority (87%) of the respondent have given their opinion that they do not use e-tendering at all while 0% reported as they are starting to use e-tendering but at a small percentage.

	0%	Below 20%	20-50 %
Frequency	13	2	0
percentage	87	13	0

Question no. 6: To me, application of e-tendering is very slow .

Recently e-GP is introduced in public sector . Target agency such as LGED and RHD now successfully practicing this but DPHE cannot introduce it successfully, even it cannot reach its target that 20% of tender in a year should be under e-GP.

Intense competition in the public sector-and pressure for cost efficiency and value for money in the public sector – are forcing organizations to look at developing innovative business process solutions . this often means performance activity faster, better and more cheaply than before- and procurement and supply chain processes are major area of consideration.

Many business benefits are claim for e-tendering .

- Process efficiencies: reducing tender cycle times; reducing labour-intensive tasks and paperwork; and enabling procurement specialists to focus on more strategic value adding activities.
- Giving non-discriminatory access to the tender process for small suppliers and world wide suppliers.
- Facilitating fast and accurate screening of bids against pre-qualification data, enabling the automatic rejection of suppliers that fail to meet the tender specification.
- Enabling faster response to questions and points of clarification during the tender period.

➤ In question no.7 of the survey the key informants were asked about knowledge of TEC members. In response to this question, majority (93%) of the respondent have given their

	Poor	Average	Good
Frequency	4	10	1
percentage	26	67	7

opinion that knowledge of all the TEC member is not good enough especially at field.

Question no. 7: To me, competency of all the TEC member is not sound enough .

Competency of the Evaluation Committee should be as the requirement of the category procurement. If evaluation is not done in right way then it may lead to subsequent inefficiency, cost , dispute and re-tender. In order to reduce it PPR 2008 give some guidelines as follows :

(5) The Evaluation Committee members may be selected from –

(a) Officers of the concerned unit of the Procuring Entity, namely Finance, Commercial and Technical Units;

(b) Officers of the controlling office of administrative ministry or division or agency Thereunder from the line Ministry or Division or other Agencies under them;

(c) Officers from the end-user or beneficiary Entity; and

(d) Officers experienced in technical, commercial, financial or legal matters from other Ministries or Divisions, Agencies, or experts from Universities or reputable professional bodies or specialists from the relevant fields in the case of the external members.

(6) At the time of the constitution of the Evaluation Committee, the Approving Authority shall ensure that the members of the Evaluation Committee are qualified officers or professionals of high integrity in order to accelerate the subsequent review and approval process of the Evaluation Report in accordance with Rule 36.

- In question no.8 of the survey the key informants were asked about frequency of pre-tender meeting. In response to this question, all (100%) of the respondent have given their opinion that they do not practice pre-tender meeting.

	Never	Sometime	Always
Frequency	15	0	0
percentage	100	0	0

Question no. 8: To me, DPHE do not arrange pre-tender meeting where it is not mandatory.

The purpose of pre-tender meeting is to clarify any concern, bidders may have with the solicitation documents, scope of work and other details of the requirement. These meetings are formal and the results are made available in writing to all prospective bidders. Prospective bidders are permitted to request clarifications by a date and time stipulated in the solicitation documents.

Often, this step brings to light any needed clarifications or corrections in the description of the solicitation's intent, goals, technical specifications, or requirements for bidding, such as submission requirements, pricing models, etc. which reduce subsequent dispute.

PPR 2008 have following guidelines about Pre-Tender Meeting.

(10) A Procuring Entity may, in order to explain the purpose and other requirements of a particular Procurement and respond to questions from potential Tenderers, hold a Pre-Tender meeting. *(Rule 94(10))*

(11) All Tenderers who have purchased or wish to purchase the Tender Document shall be permitted to attend the pre-Tender meeting but the minutes shall be circulated only to those Tenderers who have purchased the Tender Documents within the period specified in Schedule II. *(Rule 94(11))*

- In question **no.9** of the survey the key informants were asked about efficiency of tendering method. In response to this question, all (100%) of the respondent have given their opinion as LTM is more efficient than OTM.

	OTM	LTM
Frequency	0	15
percentage	0	100

Question no. 9: To me, LTM is more efficient than OTM

where the procureing entity has a choice LTM should often be used, because it :

- Is less time consuming and costly both PE and contractors

- Is less likely to present later problems with technical capability or capacity, since special consideration is given to pre-qualification criteria
 - Less frustrating for non pre-qualified suppliers who may incur the trouble and expense of tendering without having a realistic chance of succeeding.
- In question **no.10** of the survey the key informants were asked about frequency of dispute due to unclear contract terms. In response to this question, all (100%) of the respondent have given their opinion as they often face dispute due to unclear contract terms.

	never	often	always
Frequency	0	15	0
percentage	0	100	0

Question no.10: To me, DPHE has to face dispute due to unclear contract terms

It is worth recognizing that a dispute is a disagreement it does not necessarily imply legal action –or any type of adversarial approach. A disagreement may arise within an amicable and constructive relationship, over various matters.

- The interpretation of contract term(eg has a force majeure event frustrated the contract or not ?).
- Misunderstanding about requirements (eg what exactly has been specified in the contract ?)
- Late delivery of payment or quality problems.
- The desire of one party to change or vary contract terms (perhaps because of changing requirements and circumstances), resisted by other party .

However if a minor problem is not is not resolved to either parties satisfaction, it may escalate into a bigger problem.

- Failure to fulfill all the terms of a contract cannot be let slide: the other party may grow complacent and its performance get worse over time.
- It may set a bad example to others, giving the impression that the organization is soft on contract management and performance.

- Persistent failure to meet contract terms may indicate larger problem of a supplier who is unwilling or unable to perform as contracted, which may eventually result in a serious breach of contract.
- In question **no.11** of the survey the key informants were asked about application of governance in contract management . majority of the respondent have given their opinion as the governance for the contract management is not good enough.

	Poor	Average	Good
Frequency	5	7	3
percentage	33	47	20

Question no.11: To me, DPHE is not sound enough in the application of governance in contract management

Once contracts are signed, therefore, it is not as simple as saying: ‘the contractor will now do that’. There is a large number of ways in which either party may struggle and fail to perform its obligation under the contract, due to misunderstandings or disputes, performance problems, intervening risk factors or force majeure events.

Contract management is a process designed to ensure that both parties to a contract meet their obligations and intended outcomes of a contract are delivered.

If contracts and contract performance – are not proactively managed by the PE following adverse outcome may occur.

- The contractor may be obliged to take control of contract performance and problem – solving, resulting in unbalanced decisions that do not serve the PE’s interests.
- Decision may not be taken at the right time to protect and optimize performance.
- Both PE and contractor may fail to understand their contractual obligations and responsibilities creating poor conditions for performance.
- Progress may be slow or there may be an inability to move forward.

4.5 Effectiveness aspects

- In question no.12 of the survey the key informants were asked about use of best value or ‘most economically advantageous tender’(MEAT) as contract award criteria . In response to this question, all (100%) of the respondent have given their opinion as ‘Yes’ while 0% reported as No. It indicates that DPHE is not practicing the MEAT as contract award criteria.

	Yes	No
Frequency	0	15
percentage	0	100

Question no.12: To me, DPHE do not use MEAT as contract award criteria

Value for money is not about achieving the lowest purchase price: it has been defined (by the office of government commerce) as ‘the optimum combination of whole life cost and quality’

There is a vital difference between the purchase price of an article and its total cost of acquisition or ownership. The total cost of ownership can be categorized under six headings as follows:

- Pre-acquisition costs such as research, sourcing ,preparation of tenders etc.
- Acquisition costs including the purchase price, the costs of finance ,delivery installation and commissioning .
- Operating costs such as labour, materials, consumables, energy usage etc.
- Maintenance costs such as spares and replacement parts ,servicing, repair, periodic overhauls etc.
- Downtime costs such as lost production, extra labour etc.
- End of life costs such as disposal, ongoing liabilities, decommissioning etc.

Some or all of these costs may be included in the price quoted by a supplier and PE will need to in bear this in mind when comparing two quotations: does a lower price reflect competitive pricing-or a lesser total package of benefits or hidden lifecycle costs not included in the lower quotation.

More generally there is a *trade off* between the purchase price and total package of benefits. It is an obvious fact, yet an ignored one, that a low price may lead to a high total acquisition cost (baily et al). A lower price may reflect poorer quality this will not necessarily be better value for money:

the purchase price may be lower but TCO or TCA may be higher, because of the need for more rigorous quality inspection, the number of rejects or reworks due to poor quality and so on.

If best value or ‘economic advantage’ criteria are used, the initial advertisement or invitation to quote should make this clear and should explain the criteria that will be used to assess ‘value’ or ‘economic advantage’

- In question no.13 of the survey the key informants were asked about degree of adding value through competitive tendering practices. In response to this question, majority (80%) of the respondent have given their opinion that value adding through competitive tendering is not optimum. It indicates that there is some short fall in DPHE’s present procurement practices to get optimum value from competitive tendering.

	Low	Average	High
Frequency	0	12	3
percentage	0	80	20

Question no.13: To me, competitive tendering practices in DPHE do not add optimum value

A key issue in the public sector is to ensure that suppliers are selected not on the grounds of political expediency, socio-economic goals, favouritism or fraud but by the transparent procedures which are open to audit and give all eligible suppliers an equal opportunity .

It has been recognized that public procurement has an important role to play in ensuring the efficient use of public funds. Policy dictates that this is to be achieved wherever possible via competition, as the best guarantee of quality and value for money.

It is important to note that the aim of procurement is not just competition for its own sake but its judicious use to achieve competitive supply: the extent to which a supply arrangement provides supply which matches or exceeds requirements at a cost which represent best value in relation to a given supply market.

One key issue is whether level of competitiveness in a supply market result in bids which represent competitive supply or whether there is a need to generate greater competition eg through: encouraging new entrants or substitute product and processes; expanding the market; making contract more accessible/ attractive to potential suppliers.

However, it has been recognized that restrictive and inflexible use of competitive procedures may: may discourage more innovative approaches; reinforce risk avoidance culture; provide an excuse for lack of expertise and professionalism; limit opportunities to achieve wider socio-economic goals through procurement and place obstacle in the way of developing close relationship with suppliers.

The main focus has been on compliance with the public procurement regulation, emphasizing the transparent use of competitive procedures, rather than necessarily achievement of competitive supply or added value outcomes. Public procurement rule (PPR) do not therefore always encourage best practice procurement, in areas such as sustainability, SME and minority business participation, longer term supply partnership relation-or competitive supply.

One key challenge for public procurement is that in flexible use of competitive tendering may inhabit the development of the kinds of long term collaborative relationships. Partnerships will still be established by competitive tender and re-opened periodically to competition (treasury ,UK 1995) a policy sometimes call ‘Partnership within competition’.

Another key challenge is the inflexible use of price and value for money criteria in awarding competitive contracts-potentially at the expense of important criteria such as whole life costs sustainability or relational compatibility. Particular efforts may have to be made to include such criteria in specifications-which is the latest stage at which non-price criteria can be introduced.

- In question no.14 of the survey the key informants were asked about impact of public accountability issue in getting value for money through present procurement practices. In response to this question, all (100%) of the respondent have given their opinion that public accountability issue have some impact on getting value for money through present procurement practices.

	Low	Average	High
Frequency	2	9	4
percentage	13	60	27

Question no.14: To me, public accountability issue have greater impact on getting value for money through present procurement practices.

The existence of multiple stakeholder objectives (co-existed goals) makes it impossible to satisfy every legitimate aspiration of the public sectors 'customers'. Managers therefore need to prioritise and they must do so in line with policy decided upon by government. The government monitor the activities of public sector bodies to ensure that this is done.

This level of accountability impacts strongly on public procurement. One key effect is an insistence on detailed procedure and record keeping: it may be difficult later to justify a course of action which breaches defined procedures or which is poorly documented.

Reports of public accounts committee illustrate the kinds of behavior which are required by public accountability, in areas such as: need to records the reasons for all decisions; the need for procurement officers to declare any personal interests in procurement decisions; the need to avoid conflicts of interests; the need to secure proper authorizations and need generally to monitor and manage fraud risk.

However it is often argued that the scrutiny and accountability regime also create risk avoidance culture among public sector officials. The National Audit Office, UK has stated that a lack of flexibility and innovation, in seeking to minimize risks, may itself failure to achieve value for money. Here are some examples.

- Rigid application of procedures and use of the same terms and conditions for all contracts regardless of the nature of the requirement, market conditions and relationships with potential suppliers.
 - Reluctance to involve procurement at an early stage in working with clients, technical experts and users in cross-functional teams.
 - Reluctance to use innovative approaches such as early dialogue with suppliers over market availability and specifications, visit to and presentations by potential suppliers.
- In question **no.15** of the survey the key informants were asked about use of any performance measurement tools for to improve procurement practices. In response to this question, all (100%) of the respondent have given their opinion that they usually do not use any formal performance measurement tool.

	never	Sometime	always
Frequency	12	3	0
percentage	80	20	0

Question no.15: To me DPHE do not use any formal performance measurement tool.

performance measurement is the assessment and comparison of current performance against:

- Defined performance criteria (such as quality standards and specific key performance indicators set out in a contract, service level agreement or continuous improvement agreement) to establish whether the aimed for or agreed level of performance has been achieved.
- Previous performance to identify deterioration or improvement trends.
- The performance of other comparable organizations or standard benchmarks, to identify areas where performance falls short of best practice and where there is therefore room for improvement.

Performance measurement is important for DPHE because it supports the planning and control of operations: it is often said that ‘what gets measured, gets managed’. It is intended to lead to performance improvement by identifying areas in which current performance falls short of desired, competitive and best practice levels. So it can be an important tool for DPHE to communicate with stakeholders about their part in supply chain performance and how they are doing : performance measures such as KPIs, can be used to manage, motivate and reward individuals, teams and contractors of DPHE.

4.6 Key Informant Interview with DPHE Officials

Key informant interview has been conducted with one Project Director, two Deputy Project Directors, two Executive Engineers and one consultant of DPHE. All of them told introducing of PPR’2008 was an evolutionary step in procurement sector. Before introducing that, there was no legal frame work in this sector. They told that PPR’2008 is excellent, but it may not be performed effectively and efficiently because the people involved in procurement process have been failed to maintain ethical standards. There are various types of procurement methods which help for segmenting procurement activities as requirement. PPR’2008 ensures different time periods for

different activities. So PPR'2008 has significant impact on total procurement time. It has also provided adequate screening facilities for selecting qualified contractors on the basis of required qualification which will ensure quality of work. It has significant impact on cost. In PPR'2008, there is no opportunity to accept excessive high or low costs for contract (Rule 98 off PPR). The key informants told that aims of inclusion external in TEC cannot be achieved because, most of the external members do not get involved in the evaluation process. Generally they signed on evaluation reports as all members are equally responsible for the report. Less fund availability is one of the most crucial causes for delays of completion of contracts. They also opined that threshold of LTM tender for works 20.0 million is excess and it is a constraint to select experienced contractors because there is a provision in LTM method to select contractor by lottery. All key informants were of the view that PPR'2008 ensures discipline in procurement.

4.7 Key Informant Interview with Contractors

Key informant interview have been conducted with few contractors who are working now in different construction works of DPHE. They have been asked about the performance of procurement. They told that by introducing PPR'2008 it has been possible to reduce lead time of tendering procedure. But the volume of tender document is huge and thus tender preparation cost is high. There is no incentive mechanism for better performance. There is also no recognition for delivery within stipulated time. Quality material is not available in local market. Fund crisis is one of the most important issue for delays in contracts. They also said that they do not get the benefit from the provisions for payment of extra charge for late payment. Price fluctuation of materials is also a problem for them and they faced financial loss for late payment and price fluctuation.

CHAPTER FIVE

5. Conclusions & Recommendations

This final chapter includes the conclusions based on the analyses in previous chapters .Firstly present procurement practices in the case organization are presented. Secondly author give some recommendations to get value for money from procurement. Additionally recommendations for future, further work are given.

5.1 Conclusions

A main issue in this thesis has been to recognize the extent to which public organization is getting value for money through its traditional procurement practices. The conclusions include author's view of getting value for money. As the results in this thesis have indicated, DPHE has to go far in achieving better value for money from its procurement . Based on the questionnaire survey and analysis of secondary data the following conclusion can be made regarding getting value for money and the factors which affect the value for money procurement.

- Value for money is an important strategic objective, particularly in the public sector. Obtaining **value for money** means not paying too much for the package of value (quality and service) we are getting. It also, perhaps more surprisingly, means not paying too little: a very low price may reflect a supplier's desire to win business-but it may also result in corner cutting on quality somewhere along the line, because, as they say, 'if you pay peanuts, you get monkey'!
- Intense competition in the public sector-and pressure for cost efficiency and value for money in the public sector – are forcing organizations to look at developing innovative business process solutions . this often means performance activity faster, better and more cheaply than before- and procurement and supply chain processes are major area of consideration. Many business benefits are claim for e-tendering . Recently e-GP is introduced in public sector . Target agency such as LGED and RHD now successfully practicing this but DPHE cannot introduce it successfully, even it cannot reach its target that 20% of tender in a year should be under e-GP.

- Among the various tendering method OTM and LTM are mostly practiced in DPHE. As OTM is more competitive than the others method so there is more possibility that using this method we can get economic value . but it may not be always true as it depends in some factor . In LTM tender price cannot be above 5% of official estimate but in OTM lowest offer price may be above 5% and administrative cost is higher in OTM than LTM . Collusion among supplier or bid rigging is a common reason of excess price than actual in OTM .
- Inventory management is very important as it maintain huge amount of goods in central and divisional store. DPHE has three central stores and each division has its own store facility. But due to absence of proper Inventory management system huge amount of public money is wasting . The aim of inventory management is to minimize level of unnecessary stocks as stock holding incurs costs.

Reasons behind extra administrative costs are incurred by DPHE in procurement process:

- Lack of use e-tools such as e-tendering, intranet, extranet etc.
- Re-advertisement due to compliance error
- Re- tender due to processes error
- Dispute due to unclear contract terms
- Unnecessary query
- Poor specification

Procurement process is influenced by vested interest groups. Inherent resistance of unskilled staff to change the *status-quo*: reluctance to change behavior, to learn adapt to new techniques and there is inadequate knowledge , lack of conceptual clarity of policy issues and lack of technical competency at the implementation level hamper in decision making in procurement.

5.2 Recommendations

Better value for money from procurement can be achieved in many ways, for example:

- Introducing e-GP (electronic government procurement) at all levels in DPHE.
- Getting an increased level or quality of service at the same cost.
- Avoiding unnecessary purchases.
- Ensuring that user needs are met but not exceeded.
- specifying the purchasing requirement in output terms so that suppliers can recommend cost-effective and innovative solutions to meet that need.
- Sharpening the approach to negotiations to ensure departments get a good deal from suppliers. Departments should act as intelligent customers by discussing with suppliers all the elements of the contract price including level of service, timescale of the assignment, skill mix of the supplier's team and how costs are to be remunerated.
- Optimising the cost of delivering a service or goods over the full life of the contract rather than minimising the initial price.
- introducing incentives into the contract to ensure continuous cost and quality improvements throughout its duration.
- Aggregating transactions to obtain volume discounts.
- Collaborating with other departments to obtain the best prices and secure better discounts from bulk buying.
- Developing a more effective working relationship with key suppliers to allow both departments and suppliers to get maximum value from the assignment by identifying opportunities to reduce costs and adopt innovative approaches.
- Reducing the cost of buying goods or services by streamlining procurement and finance processes.
- Reducing the level of stocks held. Improvements in value for money fall into: (i) those aimed at reducing the cost of purchasing and the time it takes for example, the administrative effort in processing an order, seeking and evaluating tenders, and taking delivery of the goods ordered. This is the procurement overhead and can typically add between 10 to 50 per cent to the cost of buying goods and services; (ii) those aimed at getting more value from money by negotiating improved deals with suppliers (reduced cost and/or better quality), or aggregating

demand to get greater leverage on suppliers; and (iii) those aimed at improving project, contract and asset management

5.3 Suggestions for further study

The author thinks that it would be interesting to see results from a quantitative result style, where a wider sample of public organizations such as RHD, LGED, PWD,REB, BWDB etc. would be involved. This could be executed for example by a posted questionnaire that could include the practices required to get value for money from procurement recognized in this thesis.

Another suggestions for further studies is to focus on one of the practices (eg. achieving value for money by implementing e-GP or benchmarking against best practice organization as a way of performance improvement) include a wider sample of public organizations such as RHD, LGED, PWD,REB, BWDB etc. in the study. This could provide the possibility of deeper analyses.

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BRAC Institute of Governance and Development (BIGD)

BRAC University

Survey Questionnaire

Research Topic : Getting value for money from public procurement

A case study on DPHE

*This is a survey questionnaire for conducting a case study to find out the extent to which DPHE achieved value for money and if there any hindrance in achieving value for money following PPR 2008. It is a part of academic necessity for the **Masters in Procurement and Supply Management** in the BRAC Institute of Governance and Development (BIGD), BRAC University. Your honest response is valuable for the researcher. The researcher assures you that the information given by you will be kept confidential & will be used only for the academic purpose.*

Part A: General Information

1. Designation :.....
2. Name of the organization :.....
3. Age.....
4. Year of experience in procurement activities:.....
5. Gender.....
6. Education (Last degree obtained):

Training Area	Yes	No
a. Public procurement		
b. Sustainnnable development		
c. Sustainnnable procurement		

d. Environmental management		
e. Ethical procurement		

7. Where did you get training in the above mentioned areas (please tick mark in appropriate one)?

- a. In University education
- b. In Professional Life

8. Mention annual volume of procurement you are responsible for.....Taka

9. Please mention type of procurement you are involved

Goods (%)	Works (%)	Services(%)

10. Please mention method of tender you are involved

	For Goods(%)	For Works(%)
a. OTM		
b. LTM		

11. Please mention your responsibility in relation to procurement (Please indicate extent of your responsibility : 0 = no responsibility, 1= partial, 2= full)

a. you receive instructions and implement them.	
b. you participate in the development of specification.	
c. You act as a member or chairperson of tender evaluation committee	
d. You monitor and supervise the procurement practices	
e. You approve the tendering process	
f. Others (please specify)	

PART B : Opinion about getting value for money from public procurement. Please provide your candid opinion regarding the following question.

ECONOMIC ASPECT OF VALUE FOR MONEY

1. which tendering method is most economic you think

- a. OTM
- b. LTM

2. Do you take appropriate measure to ensure exact requirement

- a. Never
- b. Sometime
- c. Always

3. Do you take appropriate measure to avoid over specified material during making specification

- a. Never
- b. Sometime
- c. Always

4. Do you utilize any inventory management system (such as MRP) to reduce inventory, waste, scrape

- a. Yes
- b. No

5. Do you take appropriate measure to minimize administrative costs

- a. Never
- b. Sometime
- c. Always

EFFICIENCY ASPECT OF VALUE FOR MONEY

6. Please mention percentage of e- procurement you implement in a year

- a.0%
- b. below 20%
- c. 20-50%

7. What do you think about competency of all the member of evaluating committee

- a. Poor
- b. Average
- c. Good

8. Please mention Frequency of pre tender meeting in procurement for which pre tender meeting is not mandatory

- a. always
- b. never
- c. some time

9. Which tendering method is most efficient you think

- a. OTM
- b. LTM

10. Please mention frequency of dispute raise due to unclear contract terms

- a. always
- b. never
- c. Often

11. Do you have any appropriate governance structure in the execution of contract

- a. Poor
- b. Average
- c. Good

EFFECTIVENESS ASPECT OF VALUE FOR MONEY

12. Do you use of MEAT or best value principals in awarding contract

- a. Yes
- b. No

13. What do you think about adding value through present competitive tendering practices.

- a. Low
- b. Average
- c. High

14. What do you think about impact of public accountability issue in getting value for money through present procurement practices

- a. Low
- b. Average
- c. High

15. Do you implement any performance measure such as benchmarking, KPI or balance score card to measure performance of present procurement practices in DPHE

- a. always
- b. never
- c. Often

PART C : BARIERS AND RECOMMENDATIONS IN GETTING VALUE FOR MONEY FROM PUBLIC PROCUREMENT

1. In your opinion, what are the barrier to get value for money from your organisation’s procurement processes (place 1 that you consider less significant and then proceed to most significant)

Barriers	Scale
a. Absence of policy guidance	
b. Lacking awareness	
c. Lack of knowledge	
d. Cultural resistance	
e. Corruption among procurement practitioners	
f. Time pressure	
g. The overall PPR is in adequate to incorporate VFM criteria	
h. Rigid applications of procedure	
i.	
j.	
k.	
l.	

m.	
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2. What supports are required to get value for money from your organisation's procurement processes (place 1 that you consider less significant and then proceed to most significant)

Way forwards	Scale
a. Policy guidance on value from money	
b. Awareness building	
c. Training of officials and procurement practitioners	
d. Political commitment	
e. Introduction of lifecycle approach of costing	
f. E-procurement activities	
g. Performance measurement	
h. Consortium buying	
i. Creative application of procedures	
j.	
k.	
l.	
m.	
n.	

Thank you very much for your heartiest co-operation