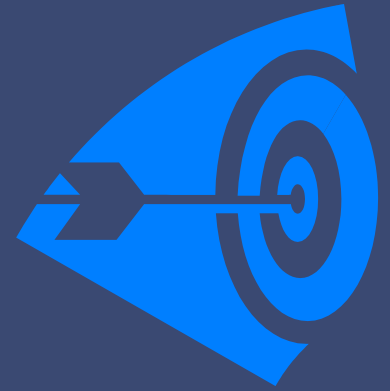


Course: Business models and Public Private Partnership (PPP) for e- Governance Project

Day 2

Session 2: Procurement and Selection of
Implementation Partner

Agenda



- Essential elements of procurement
- Key elements of RFP
- Definition of Key Performance Indicators (KPIs)
- Definition of evaluation and selection criteria
- Structuring of Financial Criteria
- Definition of Payment Terms

General perceptions of Government Procurement

- Long cycles for procurement - many a times it may take anywhere between 3-6 months for finalisation of vendor
- Unable to procure right product/right vendor
- Procured goods/services not inline with the business requirements
- Qualifications and evaluation criteria not inline with project objectives and requirements
- Lack of clarity in evaluation and selection criteria
- Open ended scope /ambiguous requirements - expected to be finalised post award of contract
- Unlimited liability of the implementation partners
- SLA's not realisting and not inline with the business requirements
- Ambiguity in SLAs - not measurable
- Penalty clauses
- payment schedules not inline with the efforts and investments expected from vendors during project phases

General perceptions of Government Procurement (contd..)

- Not guaranteeing timely payments (funding agencies provision payment of interest on fees if payment is delayed)
- detailed contractual obligations/terms and conditions not known at the time of bidding (RFP doesn't include draft contract)
- Short procurement cycles in some cases
- Lack of clarity on right solution (COTS or Bespoke???)
- Expected to deliver best value solution at least cost – commercially not feasible

Outcomes

- Ending up with wrong vendor
- Ambiguous requirements at RFP stage leading to conflict in understanding between govt and vendor - leading to delays and terminations
- Long cycles for procurement - many a times it may take anywhere between 3-6 months for finalisation of vendor
- Procured goods/services not inline with the business requirements
- Efforts of vendor and project costs overshooting budgets
- Unable to measure SLAs leading to delays in payments
- Levying penalties leading to delays/terminations
- delayed payments and loss to the vendors - leading terminations
- Litigations/court cases by vendors or government

Objectives not met, Investment loss, significant delays in projects - eventually leading to winding up projects and Creating negative trend/perceptions on IT/e-Governance

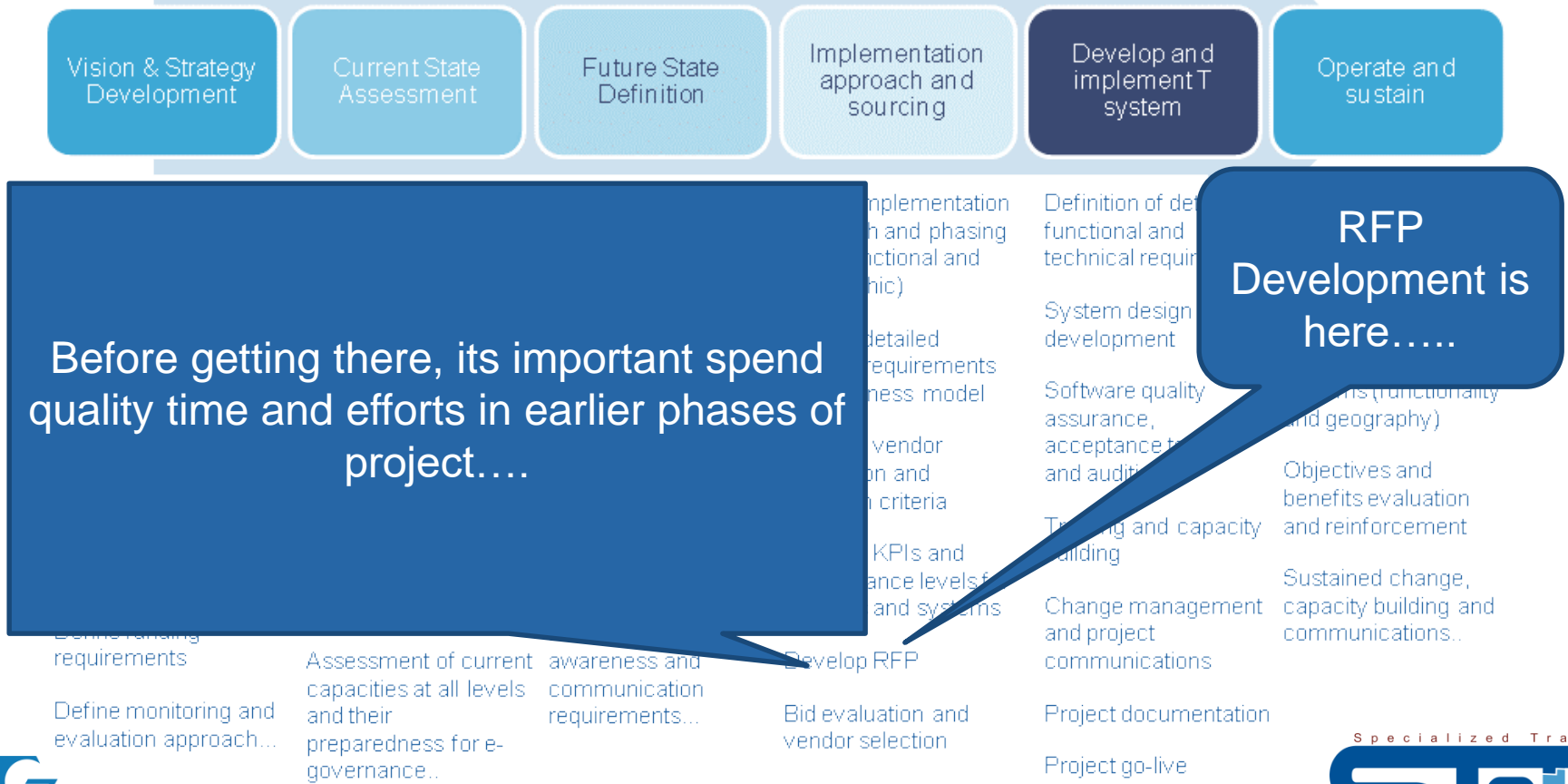
Procurement Approach determines project success

It requires in clarity in getting what is needed

- **Clarity** in what is needed from solution – requirements
- **Clarity** in what is expected from vendor – scope of work
- **Clarity** in capabilities needed to deliver solution – qualification and evaluation criteria
- **Clarity** in what matters – cost or quality (L1 vs QCBS/QBS)
- **Clarity** in how to measure solution and serviced delivered by vendor – KPIs/SLAs
- **Clarity** in investments needed in project lifecycle - payment schedule & business model
- **Clarity** in efforts needed in delivering solution – project/implementation schedule.....

Procurement Approach determines project success

- Need to spend sufficient time and energies in getting the 'clarity'
- Should avoid hurrying up to get into RFP writing
- Like DPR, RFP is only a culmination of work performed in earlier stages of project development, but not an output on its own...



Regulatory Framework for Public Procurement

- Public Procurement operates on the backbone of a broad framework of National laws dealing with relevant aspects of procurement.
 - Indian Contract Act, 1872; Sale of Goods Act, 1930; Companies Act, 1956; Arbitration & Conciliation Act, 1996; Limitation Act, 1963; Right to Information Act, 2005
- Public Procurement in India is a State subject, and thereby the Regulatory Framework governing Public Procurement varies from State to State
- 'General Financial Rules' (GFR), framed by the central financial ministry acts as the guideline for public procurement, but has only subordinate legislation status
- Various states have adopted their own Legal framework, based on the GFR and other best practices
- Procurement funded by external donors (World Bank, ADB etc) follows guidelines by the donor in this regard

Current scenario in procurement legislation

- Only a few states (e.g. Karnataka, Tamil Nadu) have adopted Procurement specific legislations, which has precedence over manuals / codes
 - The Tamil Nadu Transparency in Tenders Act, 1998
 - Karnataka Transparency in Public Procurement Act, 1999
- In other cases, Public Procurement is largely regulated by a set of manuals or codes which are derived from the basic principles of the GFR
- Core principles on which procurement legislation and regulation are based:
 - Ensuring Transparency & Accountability in Public Procurement
 - Achieving Best Value for Money for the government through efficient procurement and informed management
 - Equal Opportunity to all qualified firms in participating in procurement opportunities and non discrimination
 - Development of indigenous / Local industries (SSI Units)

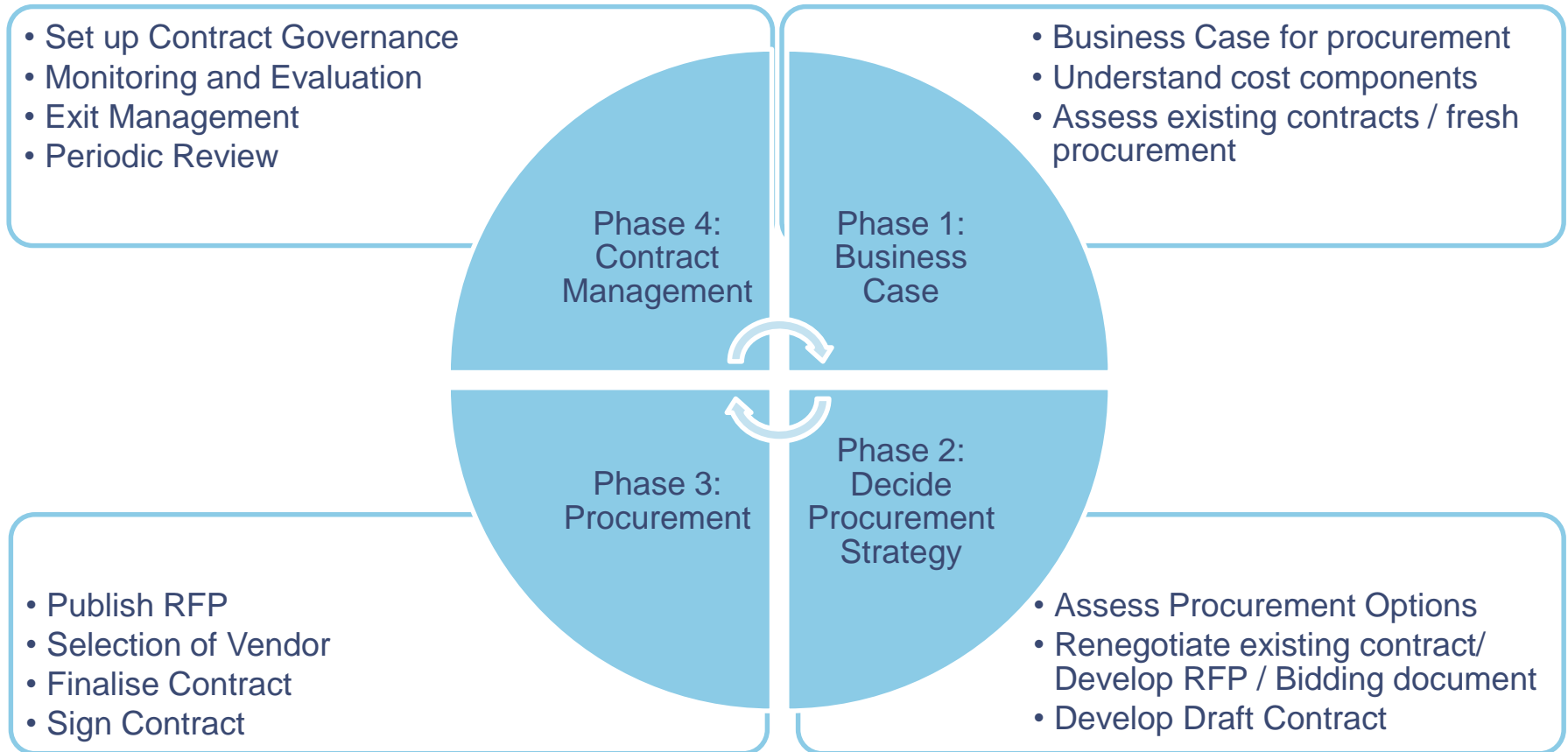
Procurement of Information Systems is challenging...

- Information Systems are highly affected by changing business objectives, organizational politics, and institutional capacity of the end-user
- they are subject to rapid technological change over the project life-cycle
- they entail mixtures of professional engineering services and supply of diverse hard and soft technologies
- their technical content is diverse and difficult to define

Procurement in e-Governance projects are even more challenging....

- Projects range from straightforward Supply and Installation of products to complex development, integration and operation of mission-critical Information Systems
- Varied Business Models including Public Private Partnership

Procurement in e-Governance Projects – Life cycle

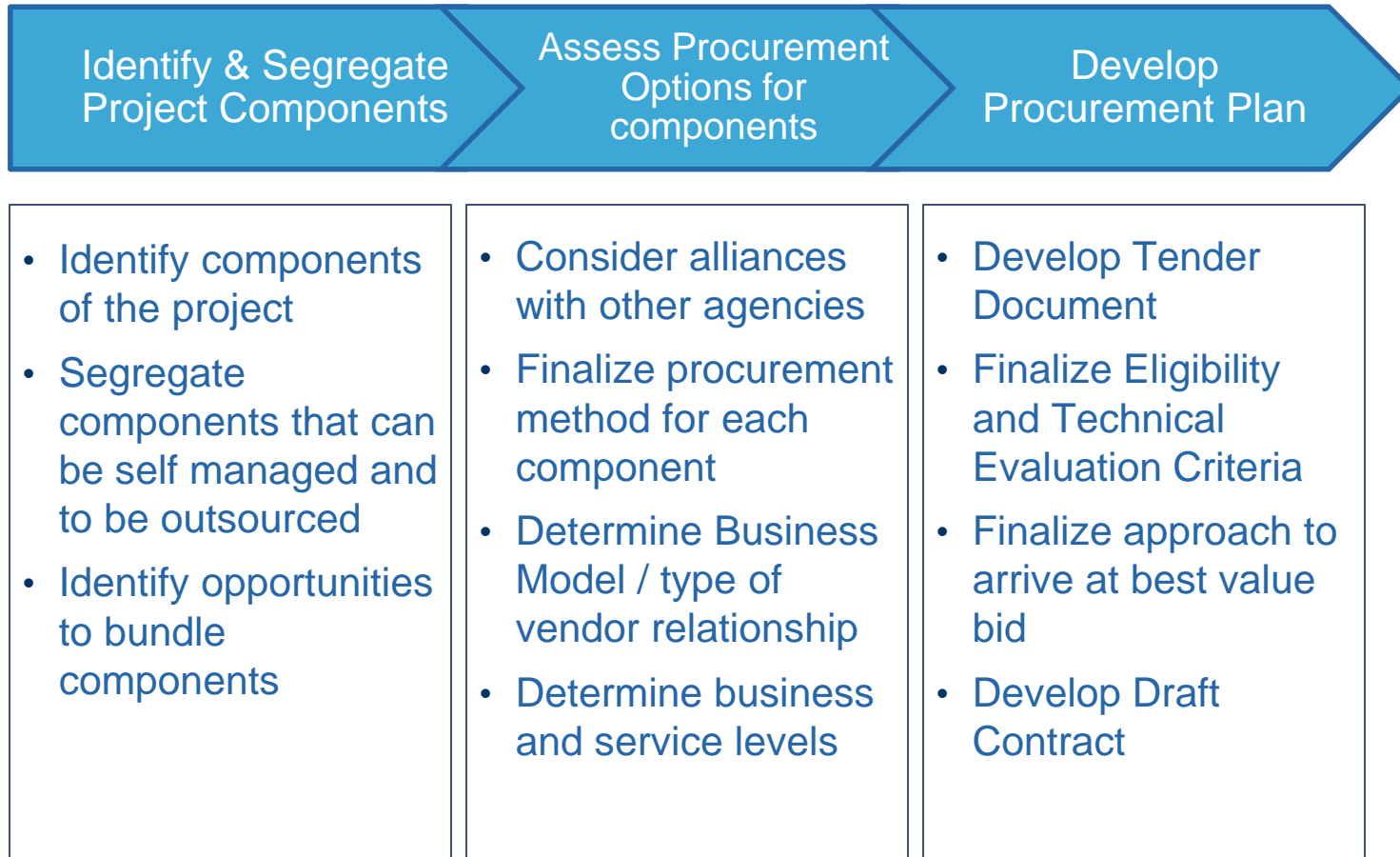


Business Case for undertaking the project

- The Business Case phase include the following activities, which usually results in a Feasibility Study Report and Detailed Project Report (DPR)
 - Defining Objectives, Vision and Mission for the initiative
 - Study of Best Practices from similar contexts
 - Stakeholder Consultations
 - Understand cost components for the project
 - Detailed analysis of business case
 - Business justification for the project (better service levels)
 - Cost Benefit Analysis
 - Analysis of risks and mitigation measures
- In case of transition from existing system / vendor, the analysis of benefits of continuing with the current arrangement vs. fresh procurement is carried out

This is a very important but often ignored phase in any e-Governance initiative

Deciding on Procurement Strategy



Identifying Project Components

- **ICT Strategy and Consultancy:** ICT strategy, defining ICT architecture, ICT security, RFP preparation for ICT vendor and procurement, contract management, and training
- **Applications development / Software implementation:** Custom applications development, deployment of COTS products, Project Management
- **Deployment IT Infrastructure:** Hosting infrastructure and storage, distributed infrastructure and LAN servers (desktop, laptops, printers, software licenses, local servers)
- **Operations and Maintenance:** Operations management (operations administration, database management etc.), service delivery, helpdesk support, facilities management.
- **Communications:** Communications infrastructure (network connectivity, PABX, videoconferencing, etc.), voice (fixed and mobile), and data/ISP

Segregation and bundling of components

- Components to be segregated into self managed and outsourced
- Components which are covered by Infrastructure / Resources already available can be self managed:
 - Deployment and Security Infrastructure may be shared with SDC
 - Network Connectivity provided by SWAN
 - Service Delivery through CSCs
 - Common applications like HRMS, File Management Systems etc
- Components, for which departments can build the required internal resources, and which requires strategic control shall be self managed
- Identify opportunities for bundling outsourced components, based on the interrelation between the components and department context: Single or Multiple outsourcing vendors

Single vs. Multiple Vendors

Single sourcing:

- Optimum option if all the components for external sourcing can be bundled into one group
- Suited for smaller agencies and agencies in which ICT is not highly strategic or customized
- Subcontracting and Consortium arrangements may be used to bring in diverse capabilities with one single entity taking overall responsibility
- More cost effective than managing multiple vendors

Multiple Vendors

- Better suited for large agencies with highly specific and strategic ICT functions
- Provides greater control over vendor performance
- Requires higher capacities in the department and higher coordination risk
- Allows for best of the breed solutions in each component
- Identify opportunities for bundling outsourced components: One or Multiple outsourcing vendors

Planning the Procurement

- Based on the Procurement context, any of the following procurement modes may be employed:
 - Two stage competitive process: Expression of Interest, followed by Request for Proposal open to bidders qualified from EoI process
 - Single stage competitive process: Request for Proposal open to all bidders fulfilling the qualifying criteria
 - Request for Quotes: Used for standardized requirements, in which price is the only deciding factor
 - Procurement from Rate Contracts: For items with standard specification, for which Rates have already been negotiated in the form of a Rate Contract by a nodal agency and economies of scale can be obtained
 - Single sourcing / Nomination: In cases where the required Solution / Product is available from only one vendor and there are no suitable alternatives (strong justification required)

Single Stage vs. Two Stage

Two Stage Process:

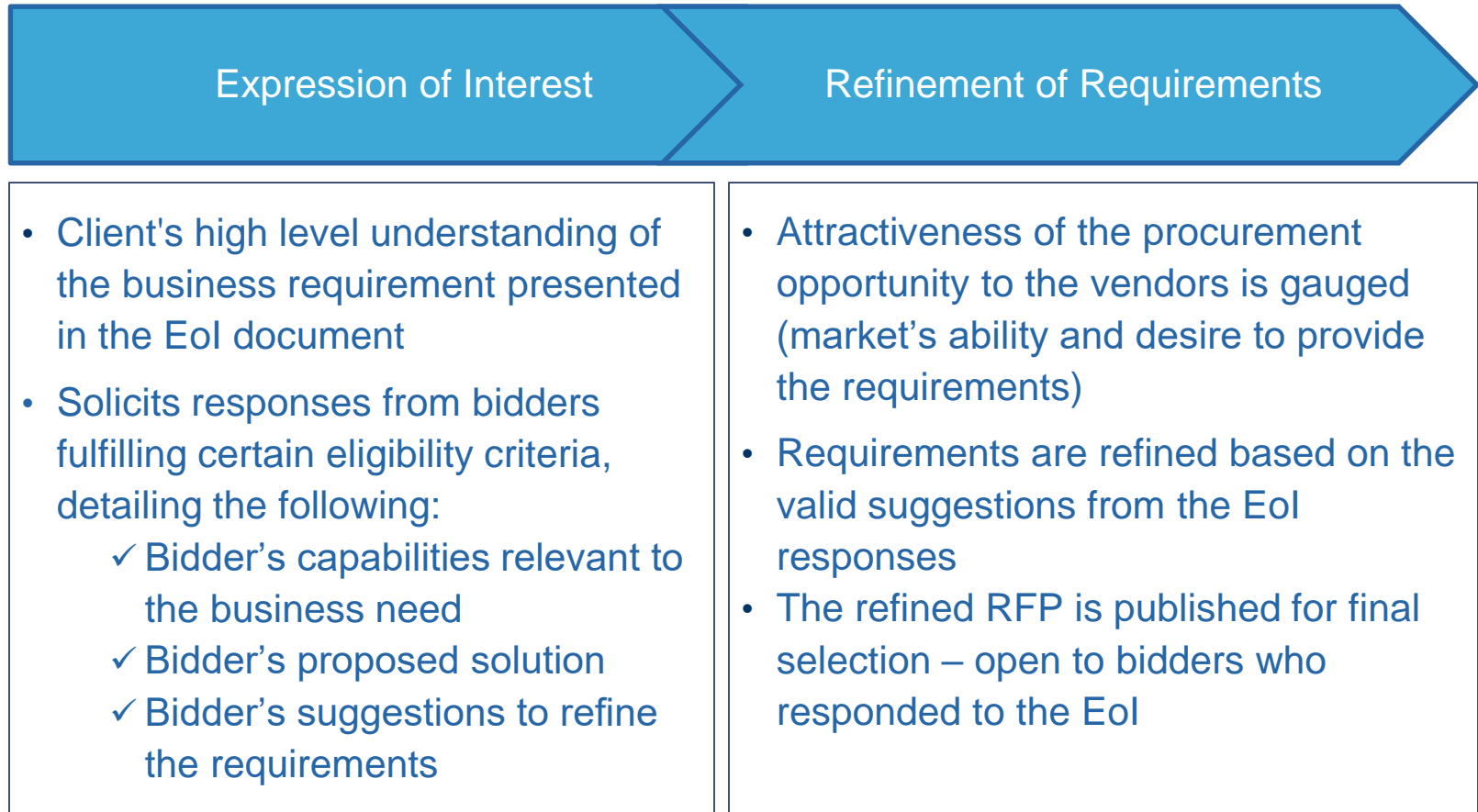
Most appropriate for systems with one or more of the below factors:

- Complex Business Applications (e.g. Creation of Land Records using GPS based techniques)
- Systems in which finalization of requirements will need industry inputs
- Extensive Software development
- Complex technologies (e.g. photographic equipment such as for advanced cadastres, large scale data processing equipment etc)

Single Stage Process

- Procurement of Standard Technical products / service specifications (e.g. packaged software like Accounting, HRMS etc)
- Requirements can be specified to great degree of accuracy and bidders have no major design discretion
- Market offerings are standardized and are comparable
- Comparison of offerings does not favour any particular technology / vendor

Two Stage Process – Eol Stage



Second Stage of the Two Stage process is the RFP process

Request for Proposal

- A Request for Proposal (RFP) an invitation for suppliers, often through a bidding process, to submit a proposal on a specific commodity or service
- The RFP process brings structure to the procurement decision and allows the risks and benefits to be identified clearly upfront
- The RFP will have to specify in great detail, the following requirements of the Buyer:
 - Technical and Functional Requirements
 - Bid Process and Commercial Specifications
 - Contractual and Legal Specifications
- The RFP is usually structured in 3 Volumes with one Volume for each one of the above requirements

Overview of selection through RFP

RFP Preparation and Publishing



Bidding Process



Bid Evaluation Process



RFP Volume I: Functional and Technical Specifications

- Contents of Volume I are:
 - Introduction & Detailed Background of the Project
 - Project Vision, Mission and Objectives
 - Services Definition
 - Detailed Scope of Work for the Vendor
 - Functional Architecture & Requirements
 - Technical Architecture & Requirements (including Security Requirements)
 - Other Requirements (e.g. Data Migration, Digitization etc)
 - Timelines for implementation of the Project
 - Project Deliverables

Illustrative

RFP Volume II: Bid Process & Commercial Specifications

- Contents of Volume II are:
 - Bidding Terms and Conditions (Guidelines for preparing proposal)
 - Pre-qualification Criteria
 - Technical Evaluation Criteria
 - Bid Opening and Evaluation Process
 - Evaluation of Commercial Bids
 - Negotiations, Contract Finalization and Award
 - Formats for providing bid response
 - Pre-qualification
 - Technical and
 - Commercial

Illustrative

RFP Volume III: Contractual and Legal Specifications

- Contents of Volume III are:
 - Roles and Responsibilities of Stakeholders
 - Service Level Agreement
 - Master Service Agreement
 - Scope of Services under the Contract
 - Breach, Rectification and Termination
 - Intellectual Property Rights
 - Disputes & Amendments
 - Change Control Schedule
 - Exit Management
 - Program Governance Structure & Schedule
 - Payment Terms and Schedule
 - Implementation Schedule

Illustrative

To be discussed in detail in the later sessions

General Statements on Scope and Requirements...

- *This is only a high level scope of work and detailed scope of work shall be finalized during execution*
- *The requirements indicated below are illustrative...the specific requirements shall be determined during execution.....*
- *The vendor shall develop system to address any additional requirements as they come up during project development...*
- *System should do “etc”*
- *Vendor shall not charge any additional costs for new requirements identified during implementation stage.....*

How to cost for services/requirements which are not known????

Is there a provision for scope change management?

Is there provision for assessment of efforts for additional requirements and paying for such additional services????

Pre-Qualification Evaluation

- Pre-qualification stage is used to ensure bids from those bidders who have the necessary technical and financial capabilities are evaluated

Pre-qualification criteria	Why is it important	Relevant documentation
Years in operation	To ensure company is an established player	Company Registration Certificate
Company Turnover (last 3 yrs) from relevant operations (e.g. IT / ITES projects)	Turnover should be around 5 times the estimated project cost	Audited Financial Reports
Company profit (last 3 yrs)	To ensure the company is not loss making	Audited Financial Reports
Experience of relevant previous projects	Capability to handle project of the same scale	Citations / Work Orders
Minimum professional strength	To ensure the company has the requisite skills	Undertaking from Authorised Signatory of company
Relevant Certifications (e.g. CMMI Level 5)	To ensure Software Standards	Relevant Certificate copy

Technical Evaluation

- Technical bids of only those bidders who qualify the pre-qualification stage shall be opened
- The Technical Bid is evaluated against pre-defined criteria. The following criteria are used to evaluate technical bids:
 - Technical Solution proposed by the vendor
 - Proposed solution and its compliance to functional requirements
 - IT Infrastructure and Hardware Design
 - Security Architecture
 - Approach & Methodology
 - Project Management, Risk Management & Quality Management approach
 - Past Credentials
 - Specific experience of projects similar to the current project
 - Broad experience in related domains
 - Proposed Personnel
 - Quality of staff proposed for key roles
 - Quality of manpower available with the company

Sample Technical Evaluation Matrix

No	Parameter	Max Score	Min Cut Off
1	Proposed Technical Solution	40	30
1.1	Technologies & s/w platforms proposed	10	
1.2	Solution design & approach	10	
1.3	H/W and Infrastructure design	10	
1.4	Security Architecture & Features	10	
2	Approach & Methodology	20	15
2.1	Implementation Approach	10	
2.2	Project Management	5	
2.3	Quality Management	5	
3	Past Credentials	25	19
3.1	Experience in implementing similar projects <to be defined>	15	
3.2	Experience In large Government Sector Projects in India	5	
3.3	Experience as a systems integrator	5	
4	Proposed Personnel	15	11
4.1	Quality of manpower of the firm	5	
4.2	Domain Exp. and Skill Sets of key personnel	7	
4.3	Proposed team structure	3	
Total		100	75

Defining Technical Evaluation Criteria

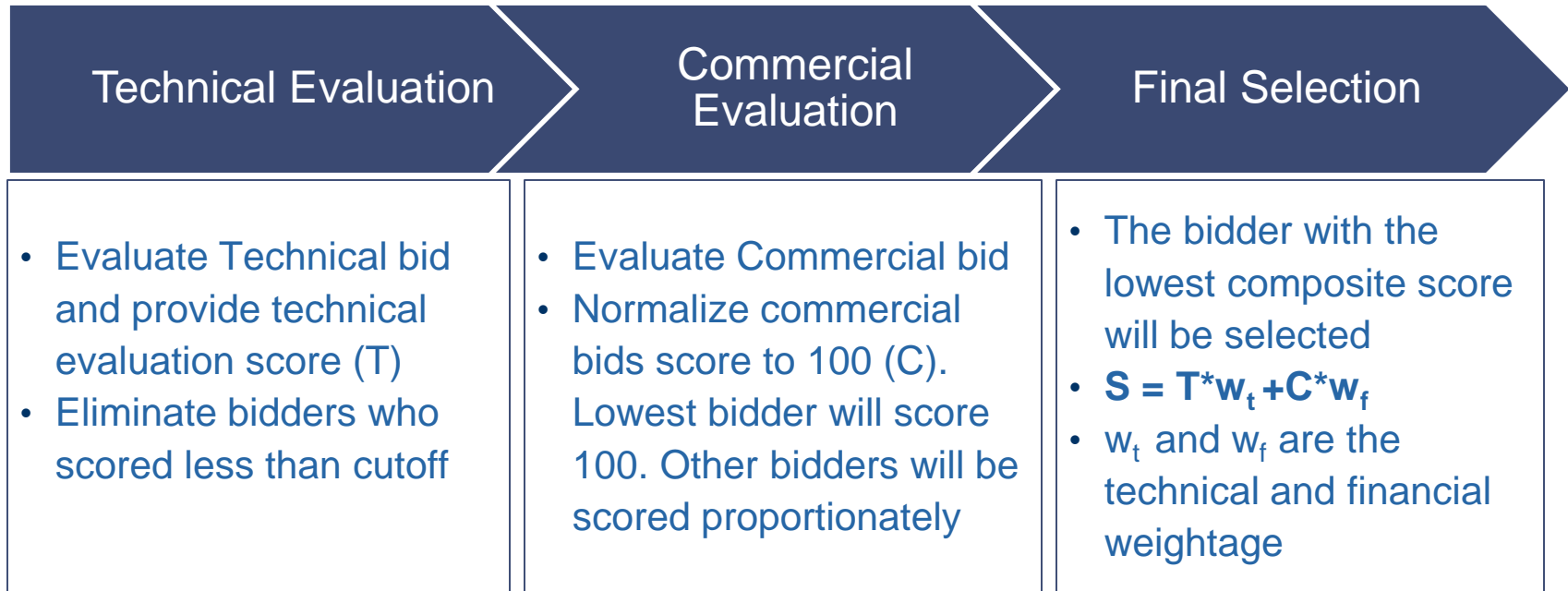
- Break down each criteria into sub criteria and define objective parameters against each criteria

Sl. No.	Criteria	Marks awarded	Max marks
3.1	Experience in implementing Health Management Information Systems (HMIS) in India		10
	Bidder to submit 2 citations (max 5 marks per citation): a. For each citation with the following criteria (3 marks) <ul style="list-style-type: none">Web based solution with n-tier architecture> 200 concurrent users b. If the citation is for government client, 1 bonus mark to be given c. If the project involved service delivery through PPP, 1 bonus mark to be given		

Selection Methods

- Once the Technical Bids are evaluated and Technical score of each bidder is finalized, the final selection can be done based on a number of selection methods
- Based on the requirement of the department, any of the following selection methods may be chosen
 - Quality and Cost Based Selection (QCBS)
 - Quality Based Selection (QBS)
 - Least-Cost Selection (L1)
 - Fixed Budget Selection (FBS)
 - Consultants' Qualifications Selection

Quality and Cost based Selection (QCBS)



- QCBS takes into account both the quality of the technical proposal and the cost of the services to be provided
- QCBS allows for a reasonable tradeoff between quality and cost
- Technical proposals are given weightage of 60-90%, with minimum cut-off at 60-75%

Quality Based Selection (QBS)

- Quality-based selection (QBS) is a method based on evaluating only the quality of the technical proposals and the subsequent negotiation of the financial proposal and the contract with the consultant who submitted the highest ranked technical proposal
- QBS is appropriate when:
 - assignments are complex or highly specialized making it difficult to define precise Terms of Reference and the requires input from the consultants
 - assignments where the downstream impact is so large that the quality of the services is of overriding importance for the outcome of the project
 - assignments that can be carried out in substantially different ways such that financial proposals maybe difficult to compare
- The Technical Proposals are evaluated in the same way as in QCBS, and negotiations are carried out with the highest ranked bidder for arriving at the cost of services

Least Cost Selection



- Least Cost Selection (LCS) is only appropriate for selecting consultants for very small assignments where well-established practices and standards exist
- Consist in setting a minimum quality mark and selection of the lowest financial proposal from the companies that are above the minimal financial score
- Technical proposals will be opened first and evaluated.
- Bidders securing less than the minimum qualifying mark will be rejected, and the financial proposals of the rest will be opened and compared
- The firm with the lowest price shall then be selected and invited to negotiate and finalize the contract.

Selection under Fixed Budget (SFB)

- Selection under Fixed Budget (SFB) is based on disclosing the budget to the bidders and selection of the vendor with the highest technical score within the estimated budget
- Having the financial constraint, the bidders will adjust methodology and quality to the available budget
- Fixed budget selection (FBS) is appropriate when
 - the TOR are precisely defined,
 - the time and personnel inputs can be accurately assessed,
 - the budget is fixed and cannot be exceeded
- Technical Bids are evaluated and bidders are ranked based on the technical score. Financial bids of bidders with qualifying technical score are opened
- Bidder with the highest technical score within the fixed budget is awarded the contract

Summary of Selection methods

SELECTION PROCEDURE	TECHNICAL EVALUATION	FINANCIAL EVALUATION	COMBINED EVALUATION	SELECTION OF THE WINNING FIRM
QCBS	Points and Scores	Scores	Weighted Scores (e.g. T-80/P-20)	Highest Combined Score
QBS	Points and Scores	Highest Technical Score	N.A.	Highest Technical Score
FIXED BUDGET	Points and Scores	Proposals Within Budget	N.A.	Highest Technical Score within budget
LEAST COST	Points and Scores	Minimum Technical Score	N.A.	Lowest Price among qualified technical bids

Some considerations for defining Commercial Bid Formats

- All bidders should be on a level playing field – with knowledge of all cost components in the project
- In case of bought out mode of operation:
 - Overall commercial quote to be obtained under logical heads (Software development cost, Deployment hardware cost, AMC cost etc)
 - Component level cost to be obtained under each major head
- In case of PPP/ transaction fee based model:
 - Bidder to be provided with all possible cost components and their quantity required over the contract period
 - Bidder to be provided historical data and trends to project the expected transactions during contract period
 - Individual cost components to be sought, in case of items under re-imburement (e.g. hardware, consumables etc)

End of Session