



Photo: LGED Road

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e-Government Procurement: Towards an Efficient and Transparent Procurement Management at the Local Level

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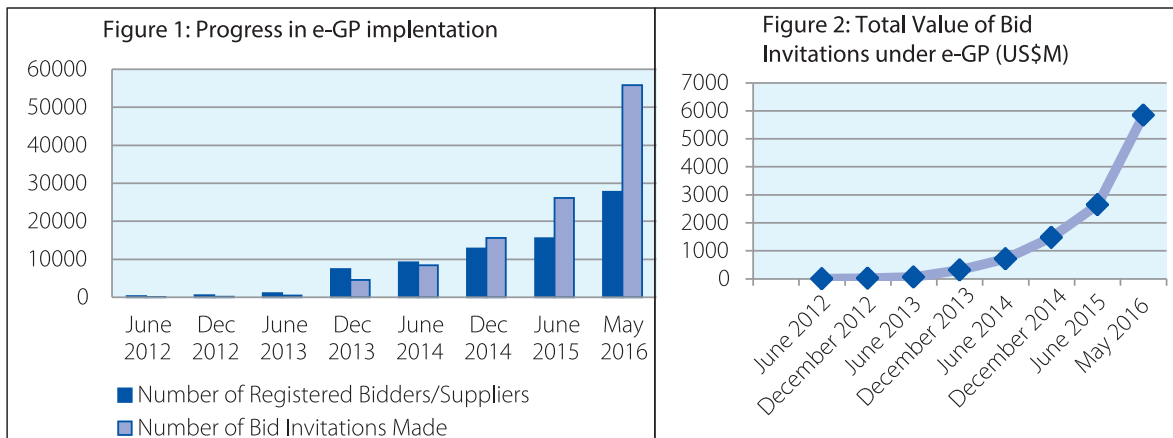
Introduction

The purpose of this policy note is two-fold: a) to provide an empirical assessment of the experiences (benefits derived, process related challenges, governance issues, capacity/proficiency factors) of both state officials and business community, in using Electronic Government Procurement or e-GP at the local level; and b) to offer a few policy recommendations, which will contribute to the relevant policy development in this area. In mid 2010, the government started piloting the 'integrated e-GP System' for selected procuring entities such as Local Government Engineering Department (LGED), Roads and Highways Department (RHD), Bangladesh Water Development Board (BWDB) and Bangladesh Rural Electrification Board (REB). The aim of the government is to roll out the tested e-GP system across all procuring entities which use public funds. The Central Procurement Technical Unit (CPTU) of IMED, Ministry of Planning, is implementing e-GP.

There are many nations in the world who have been successful in bringing technological and dynamic changes into the procurement process. South Korea and the Indian state of Andhra Pradesh have implemented e-GP very successfully. Bangladesh has also made considerable progress in implementing e-GP. According to a recent WB study, the number of bidders per tender rose to seven in 2015 from four in 2007. The processing time - from invitation of tenders to award of contracts - dropped to 29 days last year (2015) from 51 days in 2012. e-GP has simplified the public procurement process for both procuring entities and bidders. Bidders now can submit tenders online using the e-GP portal, from where and through which procuring agencies (PAs) and procuring entities (PEs) are able to perform their procurement related activities using a dedicated secured web based dashboard. This online platform is designed to ensure equal access to the bidders, to reduce transaction cost, and to increase efficiency, transparency and accountability in the public procurement process in Bangladesh.

The Rolling Out of e-GP in Bangladesh

The e-GP implementation is progressing at a faster rate despite its slow start. The number of registered bidders/suppliers rose exponentially from 294 in June 2012 to 21,731 in May 2016. The number of bid invitations using e-GP jumped from 14 to 55,865 and the total amount of bid invitations also increased from US\$2.95 million to US\$5842 million during the same period (Aide Memoire 2016). The level of awareness among bidders about public procurement act and rules and e-procurement has increased sharply. The e-GP implementation trend is presented in Figure 1 and 2.



Source: Aide Memoire, PPRP II, 16th implementation support mission, (May 29-June 6 2016)

The performance in relation to implementation of e-GP by various agencies is shown in Table 1 below. The overall activity levels in implementing e-GP are significantly in advance of target and growing at a satisfactory rate. It shows that all four agencies are ahead of the targeted rate of implementation, and LGED is ahead of all four agencies, although the difference in the implementation progress is not very pronounced among the agencies. The rate of implementation in BWDB is as high as 97 percent, followed by 93 percent at LGED and 88 percent at RHD.

Table 1: e-GP Implementation Performance by Major Agencies					
Agencies	July 1- December 31, 2013		July 1- to December 31, 2016		
	Target	Actual	Target	Actual	% Progress
RHD	400	776	3200	3302	103
LGED	400	2612	3200	15526	485
BWDB	120	279	960	1617	168
BREB	15	21	128	414	323

Source: Aide Memoire, PPRP II, 16th implementation support mission, (May 29-June 6 2016)

The Rolling Out of e-GP in Local Areas: Reflections from Two Districts

To study the progress and challenges of e-GP implementation, BIGD carried out field level investigations in two districts. The research was conducted using qualitative methods that include group discussions and key informant interviews. Engineers and bidders were the two groups who were interviewed for the study. The observations from the field are summarized below.



Photo: Bidders submitting bids using e-GP

Not surprisingly, an overwhelming majority of the prospective bidders tend to be *aware* of the fact that a new system called e-GP has replaced the old manual system in the procurement process at the national level and to a considerable extent at the local level. However, this *does not necessarily mean that all of them are, presently, technically equipped to work with the e-GP system*. Most of the bidders tend not to be computer literate and thereby face serious challenges in dealing with the internet based bidding process on their own and consequently

take help of others (young educated members of the family, relatives and mostly professional computer operators).¹

Taking help from professional computer operators (owners or staff of local computer service providers) creates major *problems related to security, transparency and integrity of the bidding process*. Operators often pass on confidential information of an individual bidder to other competing bidders in return of payment. Such information includes user ID, password, bidding rate/amount and so on. There are cases where bidders have paid extra amounts to the operators to prevent such leakages of information. One operator, interviewed, claimed that he has helped several dozen of bidders over the last few months. He also, quite candidly, confessed that he has also 'sold' confidential information to other bidders.²

Such leakages of information occasionally prevent some bidders from submitting bidding documents in time. This happens when any rogue bidder, after acquiring stolen ID, try to log in into the e-GP system with a wrong password. Doing this twice or thrice results in the temporary blocking of that account, which in turn causes the user, whose ID has been stolen, not being able to submit the bid on time.

Most intriguingly, many bidders also engage engineers to submit bids online, thereby seriously compromising the integrity of the online procurement process. Engineers usually get involved in such informal activities after office hours, using the office computer facilities. They in return receive a hefty amount of fees from the desperate bidders who are technically ill-equipped to handle the e-GP system.³

Accessing the internet in a timely and economically efficient way continues to be a challenge for most of the bidders. One of the major problems here is the *weak internet capacity/connectivity* at the local level. Due to this, the system frequently remains 'down', especially when the server remains busy during the working hours. To avoid such a situation, many bidders opt to enter the system during night time and pay operators two or even three times more than the market rate. *Electricity outage*, which occurs quite frequently in small towns, is another problem often cited by the bidders that adds to the general problems of accessing the internet in a timely and efficient manner.

The e-GP system also tends to be biased against bidders who are less educated and financially less solvent—a typical profile of the average contractors in a small town. Many bidders have complained about high registration fees and a complicated financial transaction system. Limited skills in English language also pose a formidable barrier for many bidders in such locales. These 'problems' perhaps explain as to why there are relatively fewer number of bidders who have registered with the e-GP system.⁴

Engineers are found to be generally optimist about the implementation of e-GP and they feel that they are adequately trained to run the system in an efficient manner. Most of them have participated in the formal training sessions on e-GP supported by the World Bank. The trained engineers in return provide training to other stakeholders like bidders/contractors and bankers. Due to the very limited knowledge of bidders regarding e-GP technicalities (as discussed above), one could assume that such transmission of knowledge/skills from engineers to bidders has not been very successful, as one would have expected. It is not clear whether engineers have formal mandate to train/educate bidders. The limited service that they are providing is perhaps based on voluntarism and this has been, clearly, not sufficient.

¹ FGD with bidders

² Interview with a computer operator

³ FGD with bidders

⁴ Interview with bidders

After the introduction of the e-GP system, the work load has increased for the technical officers (Engineers, Assistant Engineers etc) based at the Upazila office. However, officials who have been managing the manual tendering process in the same office presently have very little responsibilities as the new system continues to evolve.⁵

Engineers claimed that the bidder selection or evaluation process has been more effective under e-GP than the manual system. They also claimed e-GP is very secure, near impossible to be manipulated and there is no scope of collusive activities among bidders as well as between bidders and officials. However, primary research conducted by BIGD found evidence that such claims are not in conformity with the ground realities, as discussed below.

Broader political economy factors tend to negatively affect the functioning of the e-GP system, thereby compromising its integrity and transparency. Such pernicious effects of the political economy factors destroy the level playing field for ensuring fair competition and as such generate disincentives for many bidders to participate in the system. In the open tendering method (OTM) conducted through e-GP, any bidder from anywhere in the country can bid for a tender being offered in a certain site. Such good intentions of the policy makers, unfortunately, have largely failed to materialize. For instance, when a contractor from a different region wins a bid, he finds it difficult or nearly impossible to work in a place not under his 'control' (in the sense of not having any prior links to local political and business elites). Local bidders, who are generally local political elites or closely connected to such elites, who have competed and lost the bidding, will not simply allow the 'outsider' to initiate any project here. In reality, as observed by the engineers, hardly any outsiders dare to bid for a local offer. In some cases whereby outsiders are allowed to work, the local political elites will either demand extortion payment or sub-contract deal. Such practices lead to substantial increases in initial investment and a subsequent reduction in profit margin for the non-local bidders. This obviously creates strong disincentives for the non-local bidders to participate in the bidding process in the first place. It should be noted that such problems are specifically faced by the smaller bidders involved in small projects. In the case of large projects, characterized by technical complexity (big bridges, for instance), local bidders may not have the required capital or skills to get involved. Non-local large firms, with the required skills and profile, thereby tend not to be constrained by the local political economy factors, as discussed above.⁶

It is interesting to note that engineers frequently observe, accompanied with a sense of relief, the fact that due to the introduction of e-GP, the usual violence associated with the bidding process (snatching of tender documents, seize of office premises by politically influential armed thugs to prevent competitors from dropping tenders etc) has completely disappeared. But, as noted above, such forms of violence have continued during the post bidding phase, thus affecting the fairness of the procurement process. Surely engineers are safe now in their workplace thanks to the introduction of e-GP.

Technical issues, such as capacity of the server (as discussed earlier) or the process of *technical upgrading*, have also been observed by the engineers as nagging problems that disrupt, to a certain extent, the smooth operation of the online bidding process. Government officials have claimed that they are aware of these problems and the system has become better in recent months. One manifestation of technical problems, as noted by the engineers, is the 'disappearance of bidding rates' of some bidders. Software compatibility of the center with the local level has been mentioned as another problem for bidders and engineers. A particular version of the software (13/14 version) is required to be installed to submit the bid. In case the engineers and bidders use a different updated version of the software at

⁵ Interview with an engineer

⁶ Interview with CPTU official

the local level, they need to go back to the old version compatible with the e-GP system every time to submit or view the bid.⁷

Time allowed, to accept and submit bids, is very limited for both bidders and procurement entities (PE). Understandably, this is happening partly due to the limited technical proficiency of the bidders, as discussed earlier. Still, too many bids offered in a particular period of the year (September to December) put bidders and PEs in a hectic schedule.⁸

With the introduction of e-GP, bidders (those who failed to win the bids) tend to suffer (economically, by erosion of competitiveness, etc) more due to the long delay in getting back their security deposits. Bidders interviewed explained the reasons for the delay in the following ways: During the former manual bidding process, bidders had to pay at least 2% to 3% of the total amount of the schedule as bid security money. Bidders who lost the bids usually got that security money back in two to three days after the winner has been awarded the bid. In contrast, in the e-GP system, *de facto*, it takes two to three or even four months to get the security money back. The procedural steps involve scrutiny and evaluation of the submitted documents by the local LGED office, sending of documents to the Head of Procurement Authority (HOPE) at the central level, evaluation and publishing of the notification online by HOPE and finally notification of award by the local LGED office. The security deposits are returned to the participating bidders after the agreement is signed with the bid winner. Formally, the entire process should not take more than four weeks. But due to the *de facto* delay of the process, bidders have to wait for about three to four months for the deposit money, which sits in the banks, incurring high interest payments as well as high opportunity costs from not being able to invest these funds in other projects. For a typical small contractor in a small town, such costs are perceived as a significant loss for the firm owner (not able to bid in other projects due to paucity of funds) as well as a major factor in eroding its competitive edge over other firms.⁹

E-GP has increased transaction costs related to banks. The interface between e-GP and the banks involves multiple payments as fees. Bidders also feel overwhelmed with the cumbersome process of paying fees e.g. fees for the submission of tender, downloading of schedule, bank drafts, pay orders etc. They have to go to the Bank several times for paying these charges. For small contractors, not previously accustomed to such banking transactions, the new system is perceived as 'too expensive' and a bit of a cultural shock as well.¹⁰

Collusive networks between banks and bidders sometimes lead to syndication. There are allegations that names and numbers of participants (local bidders) in e-GP bidding, particularly in LTM, are sometimes leaked by some officials of the designated banks. This practice helps bidders to develop collusive networks (locally known as syndicate) among themselves as they are locally known to each other. Such networks erode competitiveness and distort the market price of the award, which should be ideally based on market competition. There is also allegation of charging extra fees by the bank officials. Other complaints in relation to banking services include delay in the processing of bidding payments and the lack of branches at the local level.

To summarize, the policy note observes that the overall progress in e-GP implementation over the country has been quite successful in terms of increase in bidder registration and in the number and volume of the procurement done through e-GP. The rates of adoption in agencies are pretty high.

⁷ ibid

⁸ Interview with an engineer

⁹ FGD with bidders

¹⁰ ibid

However, such level of successes seen at the national level are not yet discernable at the local level due to some major challenges. As noted above, this is due to the lack of adequate technical and banking infrastructure, technical competencies of the bidders and deficits in governance, which are impeding the realization of the full potential of the e-GP system.

e-Government Procurement: Some Policy Recommendations

- One of the significant problems observed in the policy note is the lack of technical proficiency of the bidders. As discussed in the note, this has compelled many bidders to desperately seek help from rogue actors who have contributed to the loss of integrity and transparency of the e-GP system. Training of local bidders (assuming that enlisted/registered bidders are reasonably small in numbers), by the relevant government authority, to develop required technical skills will go a long way in addressing the governance problems noted above
- Trained bidders will also feel confident about the new technology and can be expected to feel motivated to embrace this as a normal phenomenon of the modern age. Normative changes of the relevant market actors are taking place, but seem to be too slow. Increased technical proficiency of these actors will surely expedite the change process in norms.
- There is great need for continuously upgrading the technical infrastructure (both software and hardware) at the local level (related national problems are outside the focus of this policy note). It appears that CPTU or other relevant agencies are aware of this and they seem to be focusing on this, but as this policy note observed, local engineers feel that they are not in sync with the central authority in this upgrading process. For bidders, who are much more technically challenged, such technical upgrading tends to generate technophobia among them and thus creates disincentives to further learn and participate in the system. Outsiders, rogue operators or engineers, for instance take advantage of this situation and generate a perverse form of governance within the e-GP system (as discussed in the note). CPTU needs to consider how to take on board all local stakeholders while technically upgrading the system.
- Weak internet connectivity at the local level continues to plague the efficiency as well as popularity (among local bidders) of the e-GP system. The relevant government authority needs to take a hard look into the problem to find a possible solution. Local PEs should be instructed to liaise with the local internet service providers (ISP) with regard to building capacity of the local ISPs.
- There is a need for policy reform with regard to fees and procedures in relation to transactions with the bank by the bidders. Policy rationalization in this area will greatly benefit bidders and consequently generate positive incentives to embrace the new technological regime.
- The delay in getting back security deposits is a major problem for the mid-sized and smaller contractors. This needs urgent attention of the authority. Note that, it seems the delay occurs due to informal reasons, since the authority has fixed the duration for each procedural step. In that case governance reform rather than policy reform is perhaps required.

- Bidders perceive that time allowed to accept and submit a bid is very short. As observed in the policy note, this perception may be due to the lack of technical proficiency of the bidders. The authorities should look into it to find out if there is any scope for reforming the process to make it more bidder friendly.
- The policy note has observed the serious level of deficiency in integrity of some relevant officials. This has led to various forms of perversity in the governance process, contributing to inefficiency in the system (increasing transaction costs for the bidders, erosion of market competitiveness of awards etc). Lack of accountability and lax monitoring by higher echelons of the local officials tend to be the standard prognosis of such perverse behavior. Relevant authorities may want to reform the existing monitoring mechanisms to cope with new forms of governance challenges emanating from the introduction of a new regime of technology.

Disclaimer:

The views expressed in this policy note are those of the BRAC Institute of Governance and Development, BRAC University and do not necessarily reflect the views of Government of Bangladesh.

Photo sources:

Photo 1: Local Government Engineering Department

<http://www.lged.gov.bd/LGEDGalleryDetail.aspx?GalleryID=1>

Photo 2: World Bank

<http://www.worldbank.org/en/results/2014/02/24/bangladesh-transforming-procurement-outcomes-through-capacity-development-and-performance-monitoring>



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