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**REVIEW OF MINISTRY OF FOOD'S TENDER NO. 5
THE FIRST AMAN TENDER OF 1992/93**

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A. Tender Summary

1. Date of Floatation : 13-10-92
2. Date of Opening : 21-11-92
3. Purchasing Authority : MOF
4. Evaluating Authority : District Purchase Committees
nominated by the MOF
5. Quantities Tendered for : Total Tendered Qty: Not mentioned
Minimum Bid: 100 MT per tender
6. Delivery Date : Not mentioned
7. Delivery Locations : Not mentioned
8. Quality Specifications :
 - (a) Type : Current Seasons
Aman Parboiled Rice
 - (b) Moisture Content : 13% maximum
 - (c) Whole grains : 95% minimum
 - (d) Big Broken : 04% maximum
 - (e) Small Broken : 01% maximum
 - (f) Damaged Grains : 0.5% maximum
 - (g) Admixtures : 02% maximum
 - (h) Foreign matters : 0.3% maximum
 - (i) Unhusked paddy : 01 no per
1000 gms (max)
 - (j) Degree of milling : well milled rice.
9. Total No of Bids : 80 (Eighty) only in total

10. Bid Details :

| District Locations | No of Bids | Parboiled Rice | | Prices | |
|-----------------------|------------|----------------------|----------------------------|------------------------|---------------------|
| | | Point of Delivery | Per Bid Qty. Offered | Tk per MT | |
| | | | | Min | Max |
| (a) Rangpur | 06 | Local Depot | 100 MT | 10,000 | 10,610 |
| (b) Gaibandha | 05 | Local Depot | 100 MT | 9,680 | 11,670 |
| (c) Nilphamari | 02 | Local Depot | 100 MT | 11,000 | 11,500 |
| (d) Dinajpur | 04 | Local Depot | 100 MT | 9,100 | 9,510 |
| (e) Naogaon | 18 | Local Depot | 200 MT | 9,130 | 10,800 |
| (f) Mymensingh | 10 | Local Depot | 100 MT | 10,310 | 12,000 |
| (g) Jamalpur | 16 | Local Depot | 100 MT | 10,950 | 11,270 |
| (h) Serpur | 19 | Local Depot | 100 MT | 11,050 | 13,000 |
| Total: | | | | | |
| Eight Locations | 80 | - | - | 10,152.50 (Average) | 11,295 (Average) |

Raw Rice/White Milled Rice
(ATAP RICE)

| <u>Location</u> | <u>No of Bids</u> | <u>Pt. of Delivery</u> | <u>Per Bid</u> | <u>Prices</u> | |
|-----------------|-------------------|------------------------|----------------|------------------|------------|
| | | | | <u>Tk per/MT</u> | |
| | | | | <u>Max</u> | <u>Min</u> |
| (a) Mymensingh | 01 | Local Depot | 100 MT | 14,500 | 14,500 |
| (b) Sherpur | 03 | Local Depot | 100 MT | 23,000 | 25,000 |

Note: At Sherpur the prices quoted were for fine quality white milled rice of "Kalazira" variety.

11. No of Bids Accepted : None
12. Quantities Delivered : Not Applicable

B. Reasons for Non-Performance

13. DG Food's Evaluation.

Evaluation by District Tender Committees did not recommend any bids for acceptance at the following locations for reasons mentioned thereon:

- (i) Unacceptable Bids at: Jamalpur, Dinajpur, Naogaon and Nilphamari for the samples submitted did not meet the tendered specifications.
- (ii) Following bids and prices were recommended to be accepted at:
- Gaibandha Tk. 9,680
 - Sherpur Tk.11,050
 - Mymensingh Tk.11,190 and 14,500
(white rice)

The above bidders fulfilled all conditions of the tender. However, the tender evaluation committee at the MOF/DGF did not accept the bids as they could not procure any rice at higher prices at a location where procurement at official procurement prices of Tk.8,646.60/MT was taking place or was likely to take place. That would be a gross contravention to financial rules of the government. In the past Boro tender, the prices quoted in the tenders for delivery at the consumption areas were lower than what it costed the government to procure rice under millgate contract and then move by its carrying contractors. Such price analyses were the basis for placing orders with the bidders.

Since no such economy could be demonstrated in the tender dated 13-10-92, the evaluation committees were in great difficulty in placing orders. They, therefore, relied on the MOF for guidance and advice with only recommendations made for placing orders. The Ministry turned down the recommendation and declined to place any firm order even for those bidders who fulfilled all terms of the tender.

14. Why the Tender Failed

This tender failed to procure any foodgrains for the following, very simple reasons:

a) quality specifications were unrealistically high, especially the 13% moisture requirement and damaged grains percentage of only 0.5%.

b) open procurement at fixed prices precludes purchase by tender: DG Food was legally in great difficulty to purchase by tender in procurement zones where government had already set one price; they cannot procure the same commodity at the same location at different prices unless there are compelling reasons to the contrary.

c) timing was too early; the tender was due before post-harvest price was established.

d) tender failed to specify the following information, necessary to prospective bidders:

- quantity of grain required
- delivery location
- delivery date

C. Possible Adjustments for Resurrecting Procurement by Tender

15. Suggested changes

Tendering has worked well in the past, and it can work well in the future. Experience gathered from the fifth tender and the principles established by in depth reviews of the earlier four point to the following prescriptions:

(a) Clarify Specifications: The specifications for the 13-10-92 tender were apparently too high. After the early failure to procure both by tender and by open procurement, DG Food lowered quality specifications five times over a two-month period, in an attempt to resuscitate procurement. The latest MOF specification for rice is listed below. A comparison with tender specification in para 7 will indicate the extent of downgrading. The latest specification is more in line with the present grades of commercial paddy and milling capabilities of most mills of Bangladesh.

Latest Specification for Parboiled Rice

By TLX No 132 MOF, Dt 24-1-93

| | | | |
|--------|-----------------|---------------|---------|
| (i) | Moisture | 14% | maximum |
| (ii) | Big Broken | 06% | maximum |
| (iii) | Small Broken | 02% | maximum |
| (iv) | Damaged | 01% | maximum |
| (v) | Dead grain | 1.5% | maximum |
| (vi) | Chalky grain | 01% | maximum |
| (vii) | Admixtures | 05% | maximum |
| (viii) | Foreign matters | 03% | maximum |
| (ix) | Unhusked paddy | 01 No/1000 gm | maximum |
| (x) | Milling | Well Milled | |

Both traders and procurement officials are confused by the rapid sequence of change in procurement specifications. Government can both improve procurement and promote modernization of the rice trade by introducing a more discriminating grading system with the following elements:

- clearly understood and attainable specifications
- multiple grades, with different prices (essential for providing market signals and incentives necessary for sifting production in preparation for export.)
- clear inspection procedures.

(b) Tender only in consumption zones: If open procurement at fixed prices continues side-by-side with tendering, there is no option other than purchasing by open procurement in production zones and by tender at the places of consumption. If the government allows complete floatation of paddy/rice prices by not fixing any procurement price, only then will tender procurement be possible at the procurement zones. It was demonstrated by price analyses that prices quoted in past Boro tenders were **always** lower than what government ultimately pays to procure and move rice to these locations. On the other hand, if a fixed procurement price is in force, the tender prices **will always** be higher than official procurement prices anywhere procurement is taking place, because prospective tenderers will not underbid the procurement price when they have the option of supplying to LSDs at a higher, fixed price.

(c) Open tenders later: Tender should be opened at dates well into the harvest time although notifications should be made before harvest time. In the subject tender, the earliest date should have been December. The late opening dates are suggested for:

- (i) Prices to stabilize after initial harvest time volatility owing to differential arrival time of paddy in numerous rural markets.
- (ii) Allow sufficient time to traders and millers to make inquiries as regards quantities and prices for supply and to make forward purchases.
- (iii) Such inquiries themselves have most striking effect on prices in raising and stabilizing them, even before actual purchases are made.

(d) Mention quantity desired: Quantities to be procured at each location must be mentioned. Otherwise, the bidders will not be encouraged to bid higher quantities than minimum qualifying bids.

(e) Specify delivery date: Specific delivery dates must be mentioned. If no such date is mentioned, bidders cannot quote effective prices as they apprehend late orders when prices are most likely to go up. Delivery date should in no case be later than 4 weeks of the order date.

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(f) Validity of Bids: The offers must be valid for a specific period. In a fluctuating market, it is unrealistic to expect bidders to hold prices for an indefinite period. In the subject tender, the bidders took the safe course out to hedge themselves by bidding higher than was necessary had they been allowed a validity period which should not exceed more than 2 weeks at the most.

16. Prognosis: If the above points are taken into consideration, there is no reason why all the rice the government needs could not be procured by competitive tender. But any ineffectual tender proceedings result in needless losses in terms of time and money for the businessmen. Such discouragement will put positive obstacles to success of any future tender to procure rice by competitive tender.

For full details as to procedures and documentation needs for tender, please refer to "Pro-Forma Tender Documents" as formulated by the Tender Committee constituted by MOF.

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UPDATE ON TENDERING
March 18, 1993

Gains from Tendering:

- large cost savings to government (160 crore taka in 1991/92)
- avoid problems of a fixed procurement price
 - avoid highly political pricing debates
 - avoid the large corruption that inevitably exists when government picks an artificial procurement price different from the market price
 - avoid disruption to foodgrain markets that can occur when price is set too low or too high
- increase competition in foodgrain markets through open access to government contracts
- integrate foodgrain markets: government tender price serves as a forward reference price, like a mini-futures market

Performance Summary:

| <u>Tender No.</u> | <u>Date floated</u> | <u>Bids received</u> | <u>Quantity Procured</u> ('000 tons) |
|-------------------|---------------------|----------------------|------------------------------------------|
| No. 1 | Dec. 8, 1991 | 0 | 0 |
| No. 2 | Dec. 28, 1991 | 16 | 1.5 |
| No. 3 | Apr. 8, 1992 | 74 | 9.3 |
| No. 4 | Aug. 11, 1992 | 198 | 6.3 |
| No. 5 | Nov. 13, 1992 | 84 | 0 |

Why the 5th Tender Regressed:

- quality specifications were set too high: open procurement at a fixed 210 price also failed until quality specifications were lowered; they were lowered five times between November 1992 and February 1993
- tender is impossible in zones where MOF also purchases at fixed procurement price: financial regulations prevent it; bidders will always prefer the higher fixed procurement price
- timing was too early: tender bids were due before post-harvest price was established
- tender documents failed to specify the following information, necessary for prospective bidders
 - quantity of grain required
 - delivery location
 - delivery date

Prospects for tendering:

Tendering enjoys enormous potential advantages over open procurement at fixed price. With minor adjustments, tendering could become the dominant - or even exclusive - mode of government foodgrain procurement. The benefits would be enormous.

Adjustments Required:

Short run:

- set achievable quality specifications and clear inspection procedures
- tender in consumption zones
- adjust timing: float tenders early but open them later
- mention key requirements in tender notices
 - quantity desired
 - location required
 - delivery date
 - validity of bids

Medium run:

- ensure access to bank credit for foodgrain traders
- remove legal restrictions on foodgrain stocking and transport

References:

Concise summaries

- IFPRI Policy Brief No. 1 "Open Tendering for Rice" (Tenders No.1 & 2)
- IFPRI Policy Brief No. 2 "Progress in Tendering for Rice" (No.3 & 4)
- Mahfoozur Rahman, "Review of MOF's Tender No. 5". IFPRI, March 1993

Detailed reviews

- Mahfoozur Rahman "A Viable Procedure of Open Tender for Public Procurement of Rice in Bangladesh," IFPRI, May 1992
- Mahfoozur Rahman, "An Operational Review of Public Procurement of Rice by Open Tender: Boro Season of 1992" IFPRI, October 1992

ISSUES FOR THE BORO '93 PROCUREMENT

The Short Run: Boro Season 1993

1. How much to procure?

Discussion: DG Food does not require any additional paddy or rice stocks. They currently have 260 to 336 thousand MT of rice from the Boro '92 season in addition to stocks acquired during the Aman 92/93 season. These more than suffice for PFDS offtake requirements. Given high humidity during the monsoon and the inherently poor keeping quality of HYVs, Boro rice and paddy store less well than Aman. This short shelf life further reduces enthusiasm for Boro procurement, given the necessity of releasing these stocks quickly via an already glutted PFDS.

Conclusions: a) Since Cabinet has already declared a Boro procurement target of 200,000 tons of paddy-equivalent (200,000 tons of paddy or 134,000 tons of rice), DG Food must make a good-faith attempt to procure 200,000 tons.
b) Because of the poor keeping quality of Boro rice and paddy, DGF must strictly enforce quality standards in the Boro season.

2. What commodity, paddy or rice?

Discussion: Farmers supply paddy. Millers supply rice. To procure from farmers, DGF will have to stand ready to buy paddy. But given the wet monsoon weather, it is highly unlikely that farmers will be able to supply paddy at 14% moisture. With drying equipment, millers can meet the quality standards required for rice. Hence, the vast bulk of what is offered for sale to government will be in the form of rice. Politically, however, DGF must stand ready to purchase paddy, and not just rice.

Conclusion: Procure both paddy and rice. Do not specify the mix in advance. Suppliers willingness will determine the mix.

3. From what regions?

Discussion: Greater Rajshahi Division produces the greatest rice surplus. Yet consumption needs are greatest in other divisions.

Conclusion: Procure most paddy and rice in production zones, using allocation formulas developed in prior years. In addition, procure some rice in consumption zones.

4. At what price?

Discussion: Cabinet has set a fixed price of 225 taka per maund. This price appears too high, based on early price information this season. In May and June, moisture adjusted price of paddy will probably not exceed 170 taka in the surplus zones of Rajshahi Division.

Procurement at a 225 fixed price (or a 365 price for rice) will produce two undesirable results. First, it will unnecessarily increase budgetary cost, since government will be paying about a 40% premium above market price. Second, any fixed-price procurement at this highly inflated price will induce enormous incentives for corruption, as suppliers vie to obtain this large premium over market price.

Tendering solves both problems. By purchasing at market price, through sealed bids, tendering offers budgetary savings of about 40% given the current high fixed procurement price. Tendering also avoids the corruption that will necessarily erupt as millers attempt to obtain the lucrative price premium embodied in the 365 taka rice price.

Tendering began on a small scale in the 1991/92 season. Performance improved gradually from tenders 1 through 4, as DG Food honed procedures. The 5th tender, in November 1992, failed for the same reason that open fixed-price procurement also completely failed in November, December and January: quality standards were set too high and were unachievable. Only after quality specifications were lowered, to 5 times over the Aman season, did open procurement pick up in the months of February and March. Tendering can work well if quality standards are achievable. Government has continued to expand its tendering efforts in each of the three past procurement seasons.

Conclusion: a) Fixed-price open procurement must take place at 225 taka per maund, as mandated by Cabinet. Strictly enforced but achievable quality standards may reduce the price premium and reduce, but not eliminate, the incentives for corruption. b) Tendering at market price may continue, on a small scale, outside of areas where fixed-price procurement is taking place.

5. What mode?

Conclusion: a) Paddy in surplus zones: godowngate fixed-price procurement from whoever brings it in. a2) Rice in surplus zones: godowngate fixed-price procurement. If quotas are allocated at field level, it will be difficult to avoid bribery. Some systematic allocation criteria - or even lottery - preferably at headquarters, may minimize the damage. b) Rice in consumption zones: purchase at market price, via sealed tenders.

6. From whom?

Discussion: Paddy will come mainly from traders and millers. Few farmers will want to bring their small volume of paddy to the LSD's. They prefer to pay a small commission to bepari who assemble paddy for delivery to the LSD. Rice can only come from millers or traders who purchase from them.

Conclusion: a1) Paddy should be procured from whoever brings it to the LSD. Normally this will be a trader. a2) Rice in surplus zones will come from millers. b) Rice in consumption zones will be supplied either by traders or millers, whoever wishes to submit tender bids.

Transition to the Long Run

7. Procurement of rice by tender.

Discussion: To reduce cost and to eliminate incentives for corruption in procurement, government should ultimately aim to procure rice at market price by tender in consumption zones. Yet the machinery is not yet set up to handle the full volume of procurement in this way.

Conclusion: DG Food should continue its gradual phasing in of tendering. Start with small but growing quantities of rice in consumption zones. Focus initially on CSDs. Gradually, over the next 5 to 10 years, increase the proportion of procurement purchased in this way. Simultaneously phase out fixed-price procurement in the surplus zones.

To satisfy political pressure for farm price support, Government may consider supplementing the tender system with a "minimum support price for paddy", deliberately set very low as a kind of crop insurance program for farmers.

8. Multiple grades.

Discussion: Introduction of multiple rice grades is crucial to the modernization of Bangladesh's rice economy. The institution of established multiple grades will increase the value added in rice production by providing incentives for private traders and millers to sort and sift rice by variety and grade. Multiple grades will position government and private traders for export, providing a crucial outlet for surplus government stocks and an outlet for growing domestic rice production. Thus, introduction and enforcement of multiple grades will bring about: a) production of higher quality paddy; b) upgrading of rice equipment; and c) access to commercial quotations for international standard grade rice grades. Government is the only trader in the market large enough to institute a workable system of multiple grades.

Conclusion: Government, in close consultation with rice millers associations, should develop a system of multiple rice grades. They should then introduce these grades and standard inspection procedures into their procurement program.

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