



RDTL - MINISTRY OF FINANCE

BEST PRACTICE GUIDE 4 **ON PROCUREMENT BID** **EVALUATION**

This Best Practice Guide is for Government Procurement Managers and senior officers. It explains how tender bids should be evaluated when procuring goods, services, construction and consultancies on behalf of the Government of Timor Leste.

Background

The Government of Timor Leste wants to encourage and support local businesses in their access to working with government and in the provision of long term supply of goods and services to the government through procurement processes. This will stimulate local economic and employment growth, develop district suppliers and therefore have a positive economic impact in Dili and the districts. This policy can be partially implemented through the revised procurement bid evaluation system explained in this guide.

Decisions on government procurement should be made on the basis of value for money. The tendered purchase price alone is seldom an accurate indicator for comparison of either the potential contractor's ability to perform the required task, or the total cost of performing the task over time. Value for money requires a comparison of costs, benefits and alternative outcomes. An assessment of the best net overall outcome for government is to take account of all relevant 'whole of life' costs and benefits, that is the full cost of each good, service, construction or consultancy over its expected useful life, not just at time of purchase.

Example 1: Whole of Life Costs \$\$

Whole of Life Criteria	Supply: Ba Futura	Supply: Sunrise Island
Purchase Price	\$100	\$130
Life of the asset (warranty period)	5 years	10 years
Maintenance Cost per year (whole of life cost)	\$10 per year OR \$50 (over 5 years)	\$10 per year OR \$100 (over 10 years)
Operating Cost per year (whole of life cost)	\$20 per year OR \$100 (over 5 years)	\$10 per year OR \$100 (over 10 years)
Total Cost of Asset--whole of life	(\$100+\$50+\$100=) \$250 (over 5 years) OR (\$250 x 2 supply) \$500 (over 10 years)	(\$130+\$100+\$100=) \$330 (over 10 years)

In this example, if both assets provide the same service—a 10 year supply—then, Asset B would provide the better value for money because it has the lower whole of life cost when we compare costs, even though it is initially more expensive to purchase.

However this quantitative whole of life cost is only one consideration when selecting a government contractor. Other qualitative factors such as, the financial strength of the contractor's business, their past performance and capacity for customer service, along with boosting local economic development are important matters which also must be considered when evaluating bids.

The supplier must be able to provide the Government with a good and reliable service to ensure the smooth running of government and lower the risk of any disruption or delay to public services. A detailed technical or professional capability assessment and a commercial and financial analysis of the bids, and the businesses tendering, must be made to determine which tender represents best value for government and the public interest. To make this analysis, it is necessary to obtain all information on the goods or services tendered, and details of all significant costs associated, not just with the initial purchase, but also during the use or application of the goods and services along with any associated future costs.

Example 2: Evaluating All Criteria: Qualitative and Quantitative \$\$

The Government Procurement Office was required to purchase five new trucks for the Water and Sanitation Department. Ten tenders were received and three were selected for consideration: Mobil Biru Motors (US\$450,500); Truk Bot (US\$465,000); Maria and Jose Imports (US\$488,550). Even though the last bid was the most expensive it contained a significant number of benefits. They could supply quickly—a central requirement of Government, the trucks included the latest model with tipping technology. The company also offered to set up a truck service centre that would employ and train 20 Timorese mechanics. This bid was recommended dependent upon checks being made on the company's compliance with local laws, financial strength and their having existing shipping orders for the latest model vehicles underway.

The 4 Issues for Evaluation

1. Evaluate: Technical capability or professional competence of contractor

A technical or professional analysis includes an assessment of the suitability of the product or service offered in comparison to the functional, performance and technical requirements as laid out in the tender documents. A particular account of the following must be made:

- Ability to meet essential and desirable requirements of the tender
- customer service, including whole of life servicing and maintenance
- Quality assurance
- capacity to perform task
- Past performance
- Strategic issues (eg location, network)

Prospective suppliers must provide details on the products and services they are offering and other information about themselves and their business. Documentation from suppliers is the foundation for subsequent bid evaluation.

This technical evaluation of the good or service tendered in the bid is important: it must be clear that the supplier can provide or perform the service required. An assessment is necessary to determine how well it will perform that function in comparison with the others tendered, and over what life span it will continue to operate efficiently. It is important that representatives of those who will be the end users of the product or service participate as part of the evaluation team.

2. Evaluation: Commercial analysis

The commercial viability of bidders and their business needs close analysis. A business must be viable and have the resources it needs to carry out a government contract efficiently and effectively. When evaluating suppliers their assets and resources must be compared and those with the most capacity to fulfil the contract should be given a higher score.

Other issues to be assessed include:

- Risk management (including insurance, and use of authorized sub-contractors)
- Compliance to conditions of contract
- Conflicts of interest
- Ownership and substance of the business
- Financial strength of the business
- Past record in dealings with the Government

3. Evaluation: Industry or local development

Industry or local development should also be a standard key assessment criterion as outlined above. As appropriate to supply requirements, the following claimed impacts are also to be considered in the bid and weighted accordingly in the evaluation:

- a) Enhancement of industry and business capability in Timor Leste
- b) Supporting small to medium size Timor Leste firms accessing the government marketplace and their provision of whole of life support for goods or services they are contracted to provide
- c) Proposed number of jobs that will be available to Timor Leste citizens
- d) Level of skills and technology transfer
- e) Local content—which is the proportion of both goods and services purchased from local suppliers
- f) Regional and district development opportunities
- g) Training activities or programs supported by the bidder.

For tenders with a value estimated in excess of \$100,000 a standard 'Local Development Statement' is to be completed by bidders. This should outline their commitments to local job creation; skills and technology transfer to local workers and local content (the proportion of both goods and services sourced locally). This will become a formal attachment to the contract with the successful bidder.

4. Evaluation: Financial analysis

Financial analysis must be made for the entire life cycle, that is the full cost of each good, service or construction over its expected useful life, not just the initial purchase price. This is to avoid cheaper or inferior products or services which may actually cost more in the long term as maintenance costs may well be greater. This criteria would include: Capital costs – purchase price, installation, commissioning and training costs and operating costs – labour, maintenance and energy costs and licence fees.

These 'whole of life' costs should be reduced to a set of common factors to allow rational comparison between tenders. The financial assessment of cost is not weighted.

TWO ENVELOPE TENDERING SYSTEM

Government procurement officers are to develop specific tender evaluation criteria, based on the principles outlined in the Decree Law, which are appropriate to the supplies being tendered for. Numerical scores or points are to be attributed to each evaluation criteria. The financial analysis, outlining the cost, is not weighted. The standard and supply-specific tender evaluation criteria are to be included in all 'Request for Tender' documentation. The numerical scores are also to be disclosed as part of the 'Request for Tender' documentation.

Tenderers are to submit bids in two envelopes. Envelope One responds to the criteria on technical/professional analysis; commercial analysis and industry/local development. Envelope Two details the firm's costs.

Bidders will be shortlisted based on their ability to meet or exceed preset threshold scores for Envelope One. This demonstrates the Government's overriding priority to obtain value (rather than focus on price) delivered through a firm's technical/professional capability; their commercial soundness and ability to enhance local/regional development in Timor Leste. Only then will the evaluation team consider the whole-of-life cost of the bid in Envelope Two.

For the top two shortlisted bidders only, Envelope Two will be opened.

The successful tenderer will be selected based on an evaluation of the bidder's scores for Envelope One, and the cost tendered in Envelope Two.

Step 1: Tender Planning--Score Importance of Evaluation Criteria

GUIDE TO IMPORTANCE SCORING	
1	= Minimum requirement
2	= Of benefit, will add some value to contract
3	= High levels of performance
4	= Superior level of performance required
5	= Absolutely required, critical to contract performance

EXAMPLE: Evaluation Criteria Table

EVALUATION CRITERIA	HOW IMPORTANT SCORE
1. TECHNICAL/PROFESSIONAL COMPETENCE	
1.1 Compliance to Tender Specifications - meets requirements - meets standards	5
1.2 Customer Service - policy and practice - surveys customers - systems to measure customer satisfaction - backup and advice	5
1.3 Quality system for deliverables - certification - documented system	2
1.4 Capability - staffing structure - availability of experienced staff - previous work - state of technology	4
1.5 Past Performance - experience in the industry - previous public sector experience - referee's view	4
1.6 Strategic - location - networking	4
2. COMMERCIAL	
2.1 Financial viability-- Satisfies key financial ratios for industry	3
2.2 Risk and Insurance - adequate insurance - allocate and acceptance of risk	3
2.3 Compliance to Conditions of Contract - complies to the terms and conditions - ease of legal recourse	3
2.4 Conflict of Interest - existing or potential - process for protection against	3
3. LOCAL DEVELOPMENT	
3.1 Enhancement of industry and business capability in Timor Leste	5
3.2 Regional and district development opportunities	5
4. FINANCIAL	
4.1 Tendered price 4.2 Disbursements 4.3 Price variations (through contact period) 4.4 Contingencies.	Total Cost \$ _____

Step 2: Evaluate Tenders—Assess Compliance with Evaluation Criteria

CRITERIA ASSESSMENT SCORING	
0	Not acceptable, has not met any reasonable criteria
1 to 4	Has only met some minimum requirements, and may not be acceptable
5	Acceptable
6 to 9	Acceptable, has met all requirements and exceed some
10	Acceptable, has well exceeded all requirements

Example: Evaluation Table

EVALUATION CRITERIA	Importance Score	SUPPLIER A TENDER: BA FUTURA	
		Compliance Score	Compliance Score X Importance Score
Compliance to specification	5	6	5 x 6= 30
Capability	5	5	5 x 5 25
Quality Assurance	2	6	2 x 6 12
Past Performance	4	5	4 x 5= 20
Financial Strength	5	6	5 x 6= 30
Local Development	4	7	4 x 7= 28
TOTAL for BA FUTURA	--	--	145

STEP 3: Comparison of Tenders by TOTAL SCORE and PRICE**Example: Final Tender Comparison and Decision**

COMPARISON OF TENDER SUPPLIERS	SUPPLIER A: BA FUTURA	SUPPLIER B SUNRISE ISLAND**
TOTAL SCORE	145	173
PRICE \$\$	\$100, 000	\$120, 000

Sunrise Island wins the tender as it represents the best value for money bid (scoring high in terms of technical, commercial, and local development) with a cost marginally higher than the lower cost bid. Therefore the benefits related to better outcomes, and lower risk, justify paying the higher cost in this case. This bid is recommended if the price is within the budget, and the company passes all checks.