PUBLIC PROCUREMENT METHODS
Identification and Selection

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Public Procurement and Contract Administration: A Brief Introduction

Public Procurement: Principles, Categories and Methods

What is Public Procurement?

Essential Principles of Public Procurement

Procurement Planning Basics

Public Procurement Methods: Identification and Selection
This Lesson is intended to serve as a quick reference source for beginners and intermediate-level procurement professionals who wish to enhance their knowledge and build a successful career in Public Procurement. Material in this lesson is for educational purposes only. This lesson makes no guarantees of success or implied promises.

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The Procurement ClassRoom was founded in 2013 to provide aspiring and novice procurement practitioners with a platform where they can interact and learn about the theory and practice of public and project procurement in a manner is straightforward and easy to understand. Most importantly, with these fundamentals, they will be able to develop a solid foundation leading to a successful career.

This Procurement ClassRoom Lesson 4 was developed primarily from the author’s experience working on donor-funded projects in various countries since the year 2000. It relies heavily on donor and country-specific procurement guidelines that were developed based on the UNCITRAL Model Law on Public Procurement, but does not follow any of them to the letter; relying mostly on the author’s practical experience and understanding.

Other Lessons are in the making and will also be concise; containing sufficient information to give you a better understanding of a specific topic of the management and practice of public and project procurement, and contract administration.

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INTRODUCTION

Public procurement methods are the procedures used for selecting suppliers, contractors and service providers from which to obtain goods, works and services. Despite the differences in the names of the procurement methods identified for each group, they fall into two broad categories: (i) competitive procurement methods, and (ii) non-competitive procurement methods.
Public procurement methods are the ways in which procuring entities acquire goods, services and construction works. Competitive methods are preferred because they tend to promote transparency, economy and efficiency, and limit favoritism.

There are several public procurement methods. Most are generally classified within the following types defined in the UNCITRAL Model Law on Public Procurement. They are:

- Open Tendering,
- Request for Proposals,
- Two-stage Tendering,
- Restricted Tendering,
- Request for Quotations and
- Single-source Procurement.

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<th>PROCUREMENT METHODS</th>
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<td>Competitive</td>
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<td>• Open tendering (Invitation for Bids (both national &amp; international))</td>
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Of the above-mentioned public procurement methods, open tendering, request for proposals, and two-stage tendering are considered competitive because the bidding documents are advertised and made available to all qualified companies interested in competing for the assignment. In contrast, request for quotations and single-source procurement are considered non-competitive procurement methods because the invitation to submit bids is sent only to companies or individuals specifically identified and invited by the procuring entity.

With respect to restricted tendering, there is debate as to whether it is a competitive or non-competitive procurement method. In this Lesson, the restricted tendering procurement method is considered non-competitive because the bidding documents and invitations are sent only to a limited number of suppliers, contractors, or service providers.
In this guide, the following competitive procurement methods will be addressed: open tendering, request for proposals, and two-stage tendering.

**OPEN TENDERING**

Open tendering is the preferred competitive procurement method used for acquiring goods, services and construction works. It is executed in accordance with established procedures set out in the public procurement rules and detailed in the standard bidding documents.

Open tendering is also known as open competitive bidding (national or international), open competition or open solicitation. The procurement notices used to call for bids for these requirements are identified as: Invitation for Bids, Invitation to Tender or Request for Bids.

The essential requirements of open tendering are to:

- Have neutral and clear technical specifications,
- Be open to all qualified and interested bidders,
- Have objective qualifications criteria,
- Be advertised locally or internationally, when required,
- Have clear and objective evaluation criteria and
- Be awarded to the least-cost provider, without contract negotiations.
It may be argued that although open tendering is supposed to foster competition, it is mostly procedure-based and was primarily designed for the procurement of simple goods. Thus, it may not be suitable for complex procurements, where the focus is more on the output and outcome of the contracting process rather than on strict adherence to standards.

The focus on lowest price usually does not consider the cost over the life of the goods, services or works, which could result in an overall higher price due to maintenance, after-sales support, and even disposal of goods upon reaching the end of their useful life. However, this does not necessarily imply that a higher priced item may not also incur additional costs.

Eight disadvantages of the open tendering process:

1. Lengthy timeframe for completion of the procurement action,
2. Requires strict adherence to procedures,
3. Assumes existing internal capacity for the completion of clear and precise technical specifications,
4. Restricts suppliers’ participation in determining the technical specifications,
5. Limits the possibility of building long-term relationship with suppliers,
6. Focuses only on a least-cost solution,
7. Suppresses innovation, and
8. Excessive formalism may limit supplier participation in the bidding process.

**REQUEST FOR PROPOSALS**

The Request for Proposal (RFP) is a two-envelope procurement method which can be used for goods, services or works. It is used when suppliers, contractors or service providers are expected to propose a specific solution (methodology and work plan) for fulfilling a specific requirement.
Bidders are required to submit technical and financial proposals in two separate envelopes. The technical proposal is evaluated first and ranked according to pre-established evaluation criteria. Only the financial proposals of those bidders achieving a minimum qualifying mark (score) on the technical evaluation, as indicated in the RFP, are opened and evaluated.

The RFP method differs from open tendering in six fundamental ways:

1. Proposals are submitted in two sealed envelopes,
2. At the opening event, financial proposals are left unopened and are safeguarded,
3. Financial proposals are publicly opened only after completion of the evaluation of technical proposals,
4. Only the financial proposals of bidders achieving a minimum qualifying mark, or greater, as indicated in the RFP, are opened,
5. Selection is based on a proposed solution and not solely on price, and
6. The sum of the combined weighted scores of the technical and financial proposals determines the winning bidder with which the contract is negotiated.

Below are additional differences in the application of the request for proposals which could cause some confusion with respect to this method.

According to the public procurement guidelines of most international development banks: the World Bank, Asian Development Bank, African Development Bank, and some donor entities, such as the Millennium Challenge Corporation, the request for proposals is used primarily for hiring consulting firms. But the two-stage procurement method, technically also a request for proposal, as explained below, is reserved for the procurement of goods, construction works and non-consulting services. The procurement manuals of many countries, such as Ghana, Kenya and Rwanda, for instance, also follow this system.
of using request for proposals primarily for the selection of consulting firms.

The following are four examples of selection procedures for consulting services that use request for proposals:

1. Quality and cost-based selection (QCBS),
2. Quality based selection (QBS),
3. Fixed budget selection (FBS), and
4. Least-cost selection (LCS).

Additionally, the **UNCITRAL Model Law on Public Procurement** identifies three different types of request for proposals: (i) request for proposals without negotiations (Article 47), (ii) request for proposals with dialogue (Article 48), and (iii) request for proposals with consecutive negotiations (Article 50).

Despite the above, there are four essential characteristics of the request for proposals:

1. Sealed proposals (technical and financial) are received in response to a call for proposals,
2. Technical proposals are opened and evaluated before the financial proposals are opened,
3. Only the financial proposals of bidders achieving a stipulated minimum score on their technical proposals, are publicly opened, and
4. The final contract is awarded based on the highest combined score rather than the lowest price, except in the case of, quality based selection, fixed budget selection, and least-cost selection procedures.

**TWO-STAGE TENDERING**

Two-stage tendering is similar to the request for proposals because the technical and financial proposals are submitted separately, but one before the other, rather than simultaneously. A key feature of this procurement method is that the submission
of proposals takes place in two stages. Another feature is that bidders can assist in defining the technical requirement and the scope of work.

Two-stage tendering is used for the procurement of goods, services and construction works, and there are several ways in which the process may be carried out.

There are many variations of the two-stage tendering method, but given the complexity of using this method only the advantages and disadvantages will be discussed in this text.

Nine advantages of using the two-stage tendering process:

1. It is a more flexible approach to awarding contracts as it allows participation of prospective bidders in the definition of the technical specifications and scope of work.
2. The preferred bidder is more likely to have a good understanding of the requirement, which potentially reduces risks during the implementation of the contract.
3. Prospective bidders are able to make suggestions for improvement of the technical specifications and scope of work of the assignment, through their technical proposal and clarification discussions.
4. The timeframe of the second stage of the tendering process is reduced.
5. The technical approach and methodology can be adjusted to suit the agreed technical specifications and scope of work.
6. Risk is minimized given the early involvement of prospective bidders in the definition of the technical specifications and scope of work.
7. A financial proposal is submitted only after reaching agreement on the technical specifications and scope of work.
8. A contract is negotiated based on the agreed technical specifications and scope of work, and
9. There is more certainty regarding the qualifications of the preferred bidder.

Four disadvantages of using the two-stage tendering process:

1. Extended procurement lead-time because the bidding process is carried out in two stages.
2. Second stage negotiations with the highest ranked bidder could prove difficult and protracted.
3. There is risk of price escalation, and negotiations becoming adversarial in the second stage.
4. Once a firm is selected for negotiations, competition is lost, and this may impact the contract price.
The different non-competitive methods discussed below are the following: restricted tendering, request for quotation, and single-source procurement.

**RESTRICTED (SELECTIVE) TENDERING**

Restricted tendering is a procurement method that limits the request for tenders to a select number of suppliers, contractors or service providers. This method of procurement is also called: Limited Bidding and Selective Tendering.

A basic feature of this method is that competition is confined to a limited number of firms, either because they are the only ones qualified to fulfill the requirement, or certain conditions warrant the use of a limited number of firms in order to reduce the time and cost of the selection process.

A procedure should be in place for setting clear parameters for deciding on the number and types of firms that may be invited to submit bids. This would also depend on the stipulations of the public procurement rules.

**REQUEST FOR QUOTATIONS**

The request for quotations is a procurement method used for small value procurements of readily available off-the-shelf goods, small value construction works, or small value services.

It is also known as Shopping and Invitation to Quote, and
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This procurement method is non-competitive because the requirement is usually not advertised, and the procuring entity is authorized to invite quotations from a limited number of contractors, suppliers or service providers, usually at least three.

This procurement method is used under conditions defined in the procurement rules and, accordingly, quotations may be requested in writing, by email, fax or courier, but usually not telephonically.

Sometimes, there are limitations set on the period of time or frequency in which this method can be used for the procurement of similar goods, works or services. Such limitations are designed to prevent the procuring entity from splitting requirements in order for them to fall within the threshold level needed to justify the use of the request for quotations.

Quotations received in response to a request for quotations should be evaluated for compliance with the technical specifications or scope of work of the requirement, in addition to the administrative requirements of the request for quotations. A price comparison of compliant quotations is made after determining the administrative and technical compliance, and then a purchase order is signed with the firm offering the lowest price quotation and acceptable delivery or completion date.

There are advantages and disadvantages of using the request for quotations:

**ADVANTAGES:**

- The procurement lead-time is significantly shortened because there's no need to prepare bidding documents, or to advertise the request; the period for receipt of quotations is also equally reduced.
• The number of quotations received is limited to the number of bidders that quotations were requested from, so the period of the selection process is reduced.

• The procuring and requesting entities usually have a good idea where and from what firms the goods, services or works can be procured, so there is a higher probability of response to the request for quotations.

**DISADVANTAGES:**

• The request for quotations method is susceptible to misuse because the procuring entity decides which suppliers, contractors or service providers to request quotations from.

• Request for quotations are also prone to misuse by splitting requirements into smaller sizes in order to justify using this method of procurement.

• Use of this method could easily lead to repeatedly requesting quotes from a select number of firms even when the goods, services or works are available from a wide range of suppliers.

**PROCURING FROM A SINGLE SOURCE**

Acquiring goods, services and construction works from only one source is referred to as: sole-source procurement, single-source procurement, sole-source selection, and direct procurement. This is clearly a non-competitive procurement method and should be used only under exceptional circumstances; namely:

• In emergency situations,

• When only one firm or individual is qualified to fulfill the requirement,

• For the continuation of previous or additional work that cannot be acquired from another firm or individual due to patent, compatibility issues, or exclusive rights,
• When the use of this method represents a clear advantage over the use of a competitive procurement method,
• For the procurement of related goods that are available only from one source, or
• When other situations stipulated in the procurement rules justify its use.

The use of this method should be preceded by a rigorous justification and approval process. Such justification should clearly identify (i) the requesting entity, (ii) describe the requirement, (iii) address why the requirement can only be filled by the identified source, (iv) action taken to identify additional sources, (v) the total cost of the requirement, and (vi) any planned actions to preclude the need for procuring from only one source.
About the Author

This Lesson was written by Jorge A. Lynch T., an International Procurement and Supply Management Consultant with almost three decades of experience. He manages, advises, trains and mentors on Public and Project Procurement and has completed assignments in Africa, Asia, the Pacific and Latin America. He received a Master of Science degree in Logistics and Supply Chain Management from Cranfield University in the UK and is a Fellow (FCIPS) of the Chartered Institute of Procurement and Supply (CIPS).

His main interest is to teach public and project procurement management to novice practitioners in order to assist them to develop a solid foundation on which to build a successful career as knowledgeable procurement professionals.

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