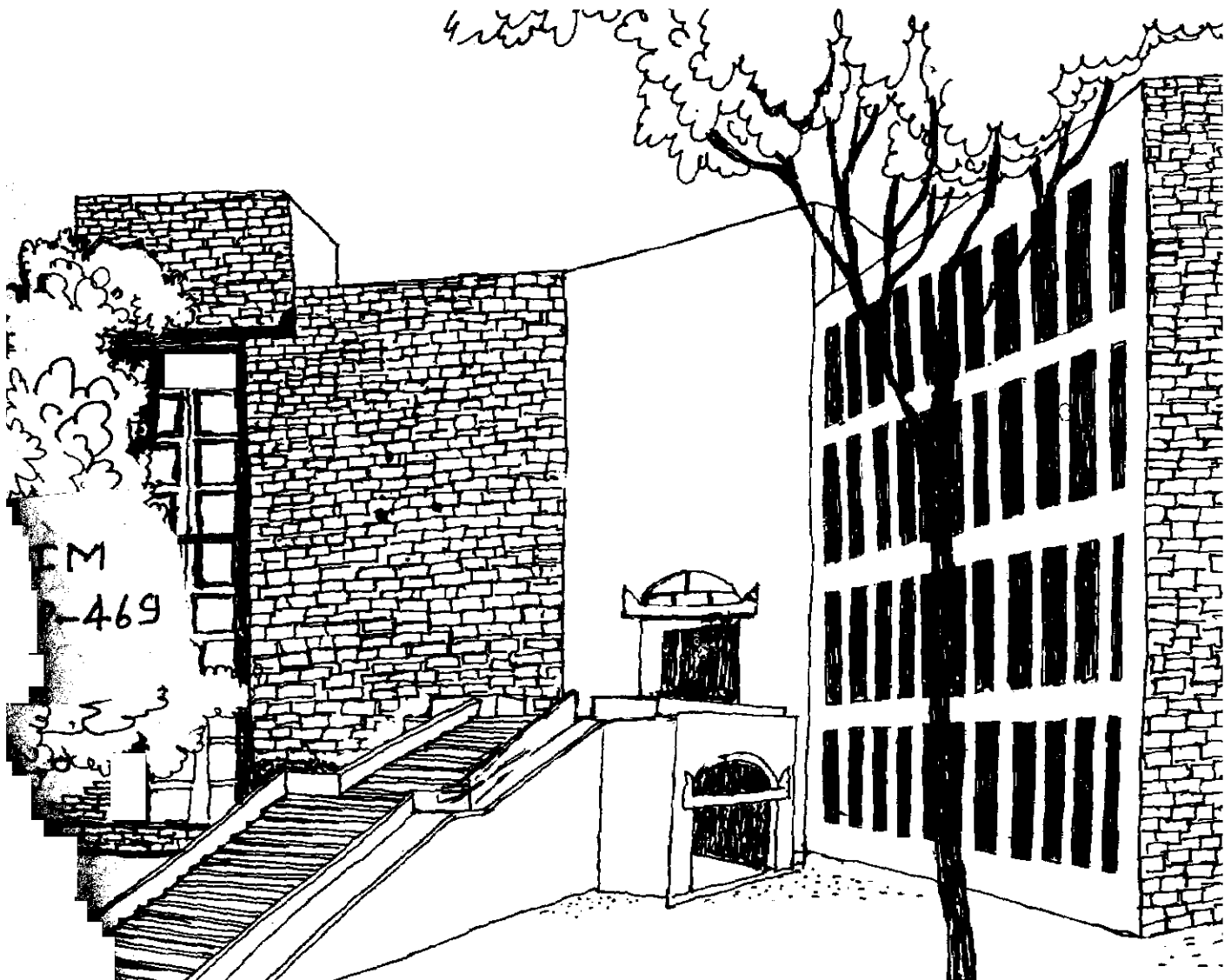




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Working Paper



INDIAN BUSINESS AND THE BULK EXPORT
OPPORTUNITIES GENERATED BY INTER-
NATIONAL FUNDING AGENCIES

By
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INDIAN BUSINESS AND THE BULK EXPORT OPPORTUNITIES
GENERATED BY INTERNATIONAL FUNDING AGENCIES*

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India's economic relations with the rest of the world have shown a marked improvement in recent years, India is exporting capital goods, turnkey projects, and consultancy services. Many Indian companies are acquiring the characteristics of multinationals. Internationalization of Indian business has been aided by appropriate government policies. Import of raw materials and technology have been liberalized and approvals for foreign collaborations are more easily secured.

A segment of bulk export opportunities is generated by international funding agencies such as the World Bank and the Asian Development Bank. The share of Indian business in these opportunities, however, has been rather low. Data provided by the Asian Development Bank reveal that India's share in total business of U.S. \$ 5060 million was only US \$ 153 million (just 3 percent). Its

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share in goods, related services and civil works was barely 3 percent, its share in consultancy services was a little higher at 5.22 percent (see Table 1).

"The World Bank has, since inception in 1945, invested a sum of 92 billion dollars in the development of the third world."¹ Although data relating to actual procurement country-wise are not readily available, India's share will not be very different from the figures given by the Asian Development Bank.

OBJECTIVES AND FRAMEWORK

With a view to increasing the preparedness of Indian business in bulk export opportunities of goods and services generated through international funding agencies, this paper will:

- a) discuss the stages and process of international competitive bidding;
- b) enumerate the problems of and reasons for bid rejection;
- c) suggest measures to improve share of Indian business at firm and government levels;
- d) procedures and problems in utilising opportunities of consultancy services;
- e) suggest means to enhance India's share in consultancy services

STAGES AND PROCESS OF INTERNATIONAL COMPETITIVE BIDDING²

International Competitive Bidding (ICB) is called for when contract size is large. Usually contracts valued in excess of US \$ 150,000 for goods and US \$ 200,000 for civic works are

¹ See Ernest Foder, "The New Colonial Office," Economic and Political Weekly, Vol. 18, No. 8, February 19, 1983, p. 262

² Also see Handbook on Policies, Practices and Procedures Relation to Procurement Under Asian Development Bank Loans, Central Projects Services Office, Asian Development Bank, Manila.

TABLE 1

ASIAN DEVELOPMENT BANK: CUMULATIVE PROCUREMENT IN MEMBER
COUNTRIES AS A RESULT OF BANK OPERATIONS AS OF
30 JUNE, 1982
COMBINED ORDINARY CAPITAL RESOURCES AND SPECIAL
FUNDS RESOURCES

(in US \$ '000)

Country of Procurement	Goods, Related Services & Civil Works	Consulting Services	Total	Percentage*
Australia	90,476	7,755	98,231	1.94
Austria	55,733	1,382	57,115	1.13
Bangladesh	1,546	109	1,655	0.03
Belgium	19,993	476	20,469	0.41
Burma	4	-	4	**
Canada	51,491	22,099	73,590	1.45
China, Rep. of	49,265	1,997	51,262	1.01
Denmark	6,691	6,495	13,186	0.26
Fiji	1,841	-	1,041	0.02
Finland	1,901	2,010	3,911	0.00
France	93,584	9,639	103,223	2.04
Germany, Fed. Rep. of	329,284	20,837	350,121	6.92
Hongkong	28,670	222	28,892	0.57
India	138,326	14,913	153,239	3.03
Indonesia	-	588	588	0.01
Italy	129,738	20,262	150,000	2.97
Japan	1,406,900	39,305	1,526,213	30.16
Kiribati	52	-	52	**
Korea, Rep. of	283,452	6,103	289,555	5.72
Luxembourg	35	-	35	**
Malaysia	16,526	676	17,202	0.34
Nepal	4,892	-	4,892	0.10
Netherlands	77,940	7,604	85,544	1.69
New Zealand	28,251	5,123	33,374	0.66
Norway	3,066	-	3,066	0.86
Pakistan	186	-	186	**
Papua New Guinea	13	-	13	**
Philippines	12,915	4,065	16,980	0.34
Singapore	45,767	270	46,037	0.91
Sri Lanka	17	286	303	0.01
Sweden	19,236	123	19,359	0.38
Switzerland	84,696	8,543	93,239	1.84
Thailand	48,172	36	48,208	0.95
United Kingdom	227,489	28,431	255,920	5.06
United States	297,094	64,860	361,954	7.15
Western Somea	4	-	4	**
Undetermined:				
Local Expenditure	70,467	94	70,561	1.40
Foreign Exchange content of contracts	1,069,434	11,234	1,090,660	21.36
TOTAL	4,774,355	285,537	5,059,892	100.00

* Total country procurement as percentage of total procurement
** Procurement of less than one hundredth of one per cent.

subject to ICB. Contractors from all member countries of the international funding agency are eligible to bid. Contracts are awarded on the basis of unit prices (for work performed or goods supplied) or on a lumpsum price or a combination of both for different portions of the contract depending on the nature of the goods and work. The international funding agencies expect borrowers to follow a specific set of procedures at every stage.³

Invitation of Bid

The usually followed process of inviting bids is as under:

- Project releases by the international funding agencies on new loans are included in project information sheets. The release summarizes and presents essential data on new loans. The information sheet is sent to embassies of all member countries, their trade associations, etc. A mailing list is maintained by the international funding agency.
- Information on ICBs is also published in the business edition of the Development Forum. This is a periodical published twice a month by the Centre for Economic and Social Information (CESI) of the United Nations. Besides regular articles, it also publishes public procurement notices of the World Bank, the Asian Development Bank, the United Nations Development Programme, the Inter-American Development Bank, and a number of funds established by OPEC countries.
- The borrower is obliged to publish invitation to bid in at least one English language newspaper of general circulation in its country. It can also publish in local language newspapers and international newspapers.
- For large or specialised contracts invitation to bid and/or procurement notices are published in well-known technical magazines or trade publications or in newspapers having wide international circulation.

3

See also T.V. Thadani, Seminar on "Procurement and Disbursement Practices and Procedures", Dacca, Bangladesh, February 22-28, 1978.

- The funding agencies also maintain a mailing list for each borrowing country. The list includes embassies, trade missions, and other government entities. The list includes only those countries which have indicated to the agency that they wish to receive invitations.

Pre-qualifications

Prequalification of bidders is normally required for civil work contracts, turnkey contracts, and contracts for fabrication of expensive and technically complex items. This is done to ensure that only technically and financially capable firms submit bids. The process of prequalification is explained in figure-1. Whenever prequalification is called for, final bidding is expected only from approved firms. A typical evaluation criteria for prequalification is described below.⁴

- a) The basis of evaluation of bidders for prequalification is bidder's bid capacity as lower of i) financial bid capacity, and ii) technical bid capacity.
- b) Financial bid capacity is taken as lower of i) 10 X Working capital, or ii) 5 X Net worth.
- c) Technical capacity
 - i) Unadjusted technical bid capacity is taken as higher of the following alternatives:
 - value of the largest similar contract completed singly;
 - largest annual rate of similar project construction during last five years;
 - value of the largest similar project completed in joint venture multiplied by percentage of joint venture

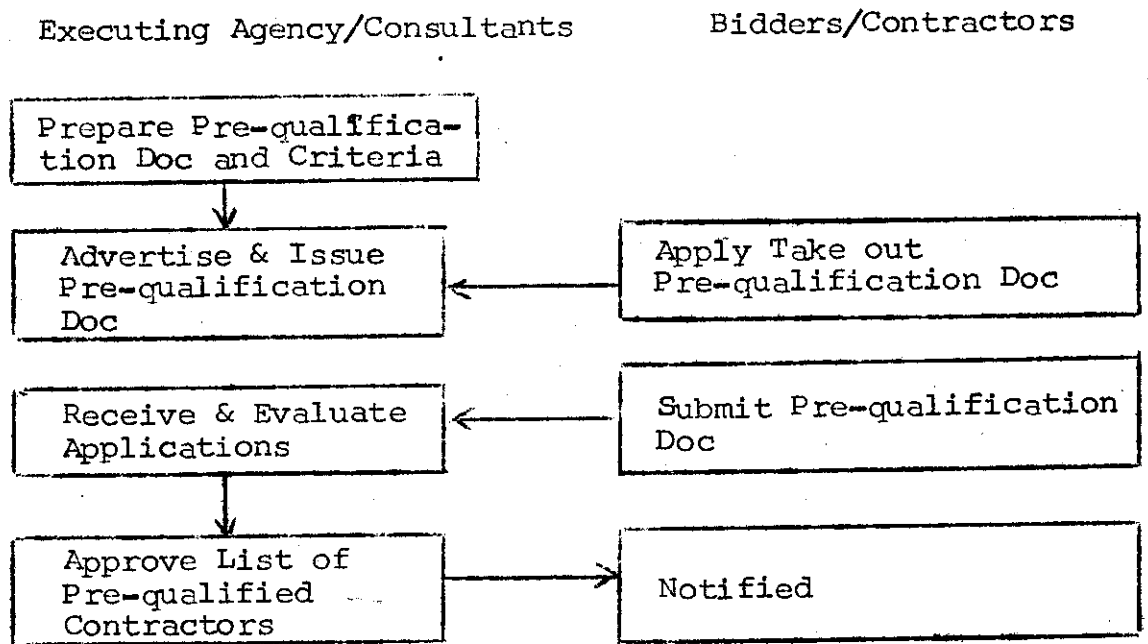
4

For more details see World Bank : 'Supplemental Procurement Guide for Bank Staff', December, 1975

- ii) Adjustment factors are incorporated in the above to take care of experience and availability of personnel, equipment and plant, and current work on hand. A positive adjustment is carried out on all unadjusted capacities while negative adjustment is incorporated for large works on hand

Figure - 1

FLOW CHART OF PRE-QUALIFICATION PROCESS



Procurement

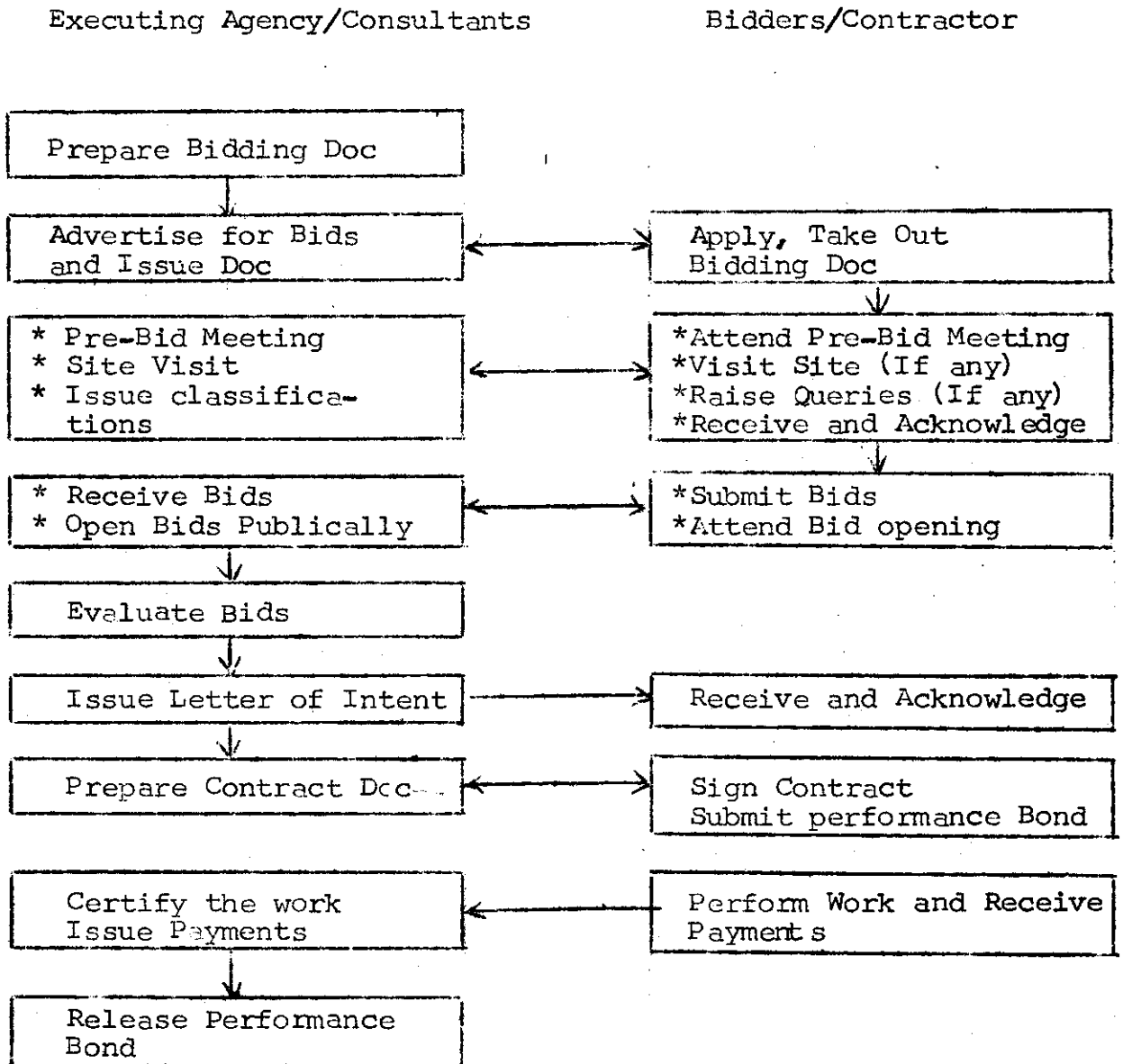
The procurement process is explained in Figure-2. The pre-bid procurement process involves keeping track of advertisements, procurement of tender documents, attending pre-bid meetings, site visits, scrutiny of bid documents, and seeking clarifications. The document usually contains general conditions, specific conditions, technical specifications and payment conditions.

- The "general conditions" are usually based on conditions laid out by internationally recognized entities such as the International Federation of Consulting Engineers and the Institution of Civic Engineers.
- "Special conditions of contract," also known as "conditions of Particular Application," are specific conditions required to be fulfilled for a particular contract.
- "Technical specifications" usually include objective of a specifications or contract and as far as possible details of such item or equipment covered.
- "Payment conditions" include terms of payment, method of payment, currencies of payment, applicability of price adjustment clauses, and retention money.

After submission of the bid it is opened publically on the specified date and place. The bidder can send his representative to attend bid opening. Some of the bids also involve two-stage to two envelope bidding,⁵ tender documents contain details of date and place of bid opening.

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- ⁵
- a) In two stage bidding bidders are first invited to submit their technical proposals in accordance with the specifications, but without prices. After approval of technical specifications, approved bidders are invited to quote prices, terms of payment, etc. in the second stage.
 - b) In two envelope bidding, bidders are required to submit technical proposal and commercial terms separately in two envelopes. After the bidders qualify in technical scrutiny the second envelope of commercial aspects is opened. Price proposals of technically rejected bids are returned unopened.

Figure 2

FLOW CHART OF PROCUREMENT PROCESS

Bids are evaluated technically and commercially. The overall lowest bid is usually awarded the contract; however, in certain cases it is rejected on grounds of either not meeting techno-economic specifications or poor credibility of the bidder. Credibility includes experience of previous buyers or agencies, lack of proper after-sales service facilities, or spare parts availability. Arithmetical errors, are usually overlooked. In special circumstances re-tendering is also done.

REJECTION OF MAJORITY OF INDIAN BIDDERS

Participation of Indian business in International bidding has been relatively low. Some of the main reasons for this have been lack of timely and appropriate information, availability of sheltered domestic market, and the lack of experience in bidding.

It has also been found that rejection of bids of Indian bidders is very high. Some of the bids were rejected at the first stage in pre-qualification while the majority of them were rejected at subsequent stages of bid evaluation. The reasons are summarized below:

Prequalification Stage

- a) Bidder had no experience of similar work or did not submit details (including its value) of works completed in last three to five years.
- b) Bidder was not upto the mark financially or did not submit such details.
- c) Bidder did not submit details of work on hand

- or had already too many commitments.
- d) Bidder did not have adequate equipment and plant to execute or did not submit such details. In case the bidder wanted to hire in such equipments, details of firm arrangements were not submitted.
 - e) Bidder lacked technical capability or did not submit details.

Rejection of Final Bid

- a) Bidder did not qualify or participate at pre-qualification stage (if needed).
- b) Bid bond or guarantee not furnished.
- c) Bid not submitted in stipulated time.
- d) Validity of bid in less than the stipulated period.
- e) Bid does not conform to the standard terms of payment specified in document.
- f) Time of delivery or time of completion of construction is not commensurate with bid requirement.
- g) Bidder does not respond to the borrower's enquiry.
- h) Price adjustment clause (if permitted) is either too vague or is not commensurate with the currencies of the cost items of bid or is applicable from the date of bid and not after the validity period.
- i) Currencies of payment in bid have no relationship with currencies of expenditure i.e. in the case of civil works, bidding documents may require the bidder to state the entire amount in the borrower's currency.

- j) A single bid does not conform to the specifications though meets the performance prescribed on the objectives of specifications.
- k) Bid is submitted for part of the job.
- l) Efficiency of plant and equipment is low
- m) In the case of equipment supply or turnkey projects the bidder does not include details of after-sales-service and spare parts availability, or past record of spare parts availability is poor.
- n) Bid price is too high.

PROCUREMENT OF CONSULTANCY SERVICES⁶

International funding agencies use the services of consultants, both individuals and firms, in various fields. The consultants are hired, by agency or borrowers, to carry out agency-funded projects in the borrowers' country. Subject to the requirement, funding agencies try to ensure that consultants are hired from member countries. The agency may also use consultants to supplement its own staff in carrying out its operations. The consultants are often hired for the following:

- a) Fact finding process involves consultants on overall opportunity area identification. The missions include consultants from a mix of background relating to policy, economics, marketing

⁶ Also see Guidelines on the use of Consultants by Asian Development Bank and Its Borrowers (Manila: Asian Development Bank, April, 1979)

- etc., The purpose of the mission is to identify potential areas of investment.
- b) Project formulation process needs consultants conversant with the technical side of the projects and economists and marketing specialists. The mission also reviews the existing resources and suggests appropriate strategies for investment and related issues. It also works the benefits and justification of the project.
 - c) Project appraisal is done to examine the organizational, financial and economic viability of the project for the recipient country. It finally approves the project. The mission incorporates a team of techno-economic consultants.
 - d) At project implementation stage services of consultants include supervision of project execution, assistance in project operation for an initial period, execution of training programmes, and institution building or financial studies for the successful implementation of project. Depending on the technicalities of project, the consultants are hired. Usually for engineering oriented projects the job involves (i) pre-investment surveys and studies; (ii) detailed engineering and design, and (iii) Project Implementation.
 - e) For post disbursement review and follow-up purposes, consultants visit the recipient country after completion of the project. The mission reviews benefits accrued as a result of investment. It also simultaneously identifies areas for new investment in related fields.

Consulting Firms

Consulting firms are preferred and are entrusted the work in part or full depending on **their ability, and other considerations**. Besides managerial consultancy firms, engineering firms related to contract or manufacture **fall** into any of the following categories:

- i) Firms of independent consulting engineers
- ii) Firms which combine the functions of consulting engineers with those of contractors, or which are associated with, affiliates of, or owned by contractors.
- iii) Firms of consulting engineers which are affiliates of manufactures, or manufacturing firms with departments, or design offices offering services of consulting engineers.

Engineering firms belonging to second and third categories are normally accepted only if they agree to limit their role to that of consulting engineers and to disqualify themselves, their associates on the same project including bidding on any part of the project. It is also a normal practice to award the work of consultancy at project implementation stage to the firm which has undertaken consultancy of detailed engineering and design.

Selection of Consultancy Firms

The selection of a consultancy firm usually begins with preparation of a list of firms claiming expertise in the field. The Agencies usually maintain files of information concerning capabilities and experiences of a large number of consulting firms. They, however, have no list of approved firms.

The recipient country has to prepare a shortlist of 5 to 7 firms for project in consultation with funding agencies. The information about firms is obtained by the recipient country through embassies of member countries, its own embassies, and through advertisements. The funding agency at its own provides to the recipient country, the details of consulting firms in their files, however it does not recommend any particular consultant. The short listed firms are invited to submit their proposals. The firms are provided with details of the project (which may include estimated man-months), conditions under which work is to be performed, and terms of reference. Financial terms are usually not given at this stage and are negotiated with the selected firms separately under the two-stage bid system.

The Consulting firms are expected to furnish as part of their proposals, estimates of time and man months required, both in the field and in the home office, as well as the names, qualifications and experience of personnel to be assigned to the work. About sixty days are allowed for preparation and submission of proposals.

Out of the proposals received, one firm (or a joint venture of firms), which is considered to be best qualified is invited for negotiation. During negotiation suggestions of the selected firm are also considered and often result in revision to the scope of work. Financial negotiations are started only after agreement has been reached on the scope of work. The firm is required to justify the elements of costs involved. In case, agency or borrower feels that the consulting firm is over charging and is not ready to

bring down its price, negotiations are terminated. The process is then repeated with the next best firm and so on, if necessary, until an agreement is concluded.

Majority of the Indian firms are not aware of the advantages of being on the files of international funding agencies and hence are not listed. Those who are listed usually do not provide either full information about its personnel or the information provided is very old. Owing to lack of communication and liaison the majority of the firms remain unaware of the time of preparation of 'short listing'. Follow-up work is also very poor. The funding agencies and its borrowers are not allowed to advertise in India, and the Government of India does not issue any circulars or newsletter in this regard. The above factors combinedly result in lack of awareness of Indian consulting firms and also the names of suitable firms do not appear on the first list.

In few cases where the firms are invited to submit proposals, the proposals submitted usually remain incomplete due to one reason or other. Subsequently, if a firm is invited to negotiate, the representative is not vested with full powers and thus the process gets delayed. At times, in view of urgency, the next firm is invited to negotiate and this results in loss of business.

Individual Consultants

Individual consultants are generally engaged to carry out such parts of project which do not need organization type (such as Engineering Surveys and Designs) but team jobs. Consultants are usually members of missions comprising various types of consultants. Some times, the individuals are also hired to supervise and coordinate project implementation.

Individual consultants are engaged directly or through an organization, such as an academic institution, a governmental or international agency or a consulting firm. They are also hired through advertisements.

For selection of individual consultants, a list of candidates is drawn. The selected candidates are inquired about their interest in and availability for the assignment. The contract is negotiated with the first ranked consultant and the second-ranked consultant is consulted if an agreement cannot be reached. The recipient entity has also to give its concurrence for the selected candidates.

Timely availability of consultants is of crucial importance as a delay usually effects the timely implementation of the project. Usually very short notice is given for engaging individual consultants.

In India, the international funding agencies are not allowed to advertise for their requirement and all needs have to be channeled through the government. The government of India recommends consultants to the funding agencies. Most often, the process leads to long delays and consultants recommended do not match the requirements of the funding agency.

Often the funding agencies hire consultants from other member countries, especially in a situation where the need is very urgent. The recommended consultants by the Government of India are mostly from public services and sometimes the government recommendations are not accepted

by the funding agencies, especially when the recommended persons do not match with its specific requirements. Only in exceptional cases the funding agencies themselves contact well known consultants and seek approval of the government. The existing system, however, leads to loss of a sizable share of consultant supply opportunity to India.

The funding agencies usually have preference for firms which can undertake assignments on a turnkey consultancy basis. A list of registered firms offering such expertise is maintained by the international funding agencies. It was observed that most of the Indian consultancy firms were not even registered with the agencies.

STRATEGIES FOR PREPAREDNESS

Given the procedures and reasons for rejection of Indian bids, it would be essential to prepare Indian bidders to participate effectively in ICBs. The Government of India has to evolve policies for getting a larger share of consultancy business. The following strategies are suggested:

- a) Lack of awareness of invitation for ICBs is the major reason of low participation and share. A suitable ongoing information system needs to be developed for this purpose. Indian embassies and trade associations should keep a track of publication of project sanctions, invitation for prequalification, and bids. This information must be mailed to all concerned public and private companies.

- (b) Another reason for rejection is incomplete information by Indian bidders. Non-compliance with rules and procedures also results in rejection. Lapses mainly occur owing to lack of appropriate tendering skills. It is therefore recommended that (a) suitable training programmes may be developed and skills may be created with an autonomous institution or with existing institutions to provide guidance on exchange rates and procedures, methods of bidding, and even to scrutinise bids (if bidder desires).
- (c) Whenever technical specifications are modified by Indian bidders, they should submit two separate bids. One bid should be according to the document specification and the other as per modifications. Advantages of modification (both technical and economic) must be clearly spelt out in the second document.
- (d) Short-term contract-oriented financial assistance to Indian bidders may be provided by Exim Bank on a more liberal scale. A letter of intent of such finance arrangement may be given to Indian bidders prior to bid submission date so that a copy of it can be enclosed with the bid document.
- (e) Indian bidders must promptly provide clarifications sought by borrowers/consultants. A delayed reply leads to rejection of bid.
- (f) Scope for increasing India's share in consultancy business rests partly with the firms and partly with the government. Consultancy firms should be encouraged to register with the international funding agencies and their efforts should be liberally facilitated by the Government. To facilitate participation of individual experts, in such assignment, government policies need to be liberalised. A review of existing procedures and pragmatic modifications will go a long way in ensuring a larger share.