



KURDISTAN REGIONAL GOVERNMENT

Ministry of Planning

Explanatory Note on Bid Evaluation using Merits Points

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First- Introduction

The purpose of this note is to provide general information on the use of a system of evaluation of bids commonly referred to in practice as “merit points”. Evaluation of bids using the merit points approach is relevant when bids are evaluated, compared and ranked not only on the basis of the bid price, but also applying evaluation criteria other than price, and other than any non-price criteria that may be quantified in monetary terms for the purpose of bid evaluation.

An example of a bid evaluation criterion other than the bid price that can be quantified in monetary terms, and therefore not necessitating the use of merit points, is life-cycle costing analysis. When an evaluation criterion other than the bid price is quantified in monetary terms, upward or downward adjustments are made in the bid price to reflect the evaluation of the criterion that is quantified in monetary terms. Such adjustments in the bid price are purely for the purposes of evaluation and comparison of bids and will not affect the actual contract price, which is based on the bid price of the selected bid.

By contrast, criteria evaluated on the basis of merit points, because they do not pertain to financial costs but rather to quality, do not involve any quantification in monetary terms and therefore are not reflected through any such adjustments of the bid price for evaluation and comparison purposes. As the use of criteria evaluated on the basis of merit points is pertinent in particular for evaluating quality rather than financial-cost aspects of bids, a primary example of procurement where merit-point criteria are applied is the award of contracts for consultancy services.

Because the use of merit-points criteria is particularly relevant to the comparative assessment of quality levels offered by competing bids, such criteria are increasingly important as a procurement system adopts a quality-oriented, “value-for-money” paradigm for the award of procurement contracts, and applies sustainable procurement policies.

It is essential to remember that the use of merit-point evaluation criteria is subject to the rule stated in the Public Procurement Regulations No. (2) of 2016 that a procuring entity shall use only the criteria disclosed in the bidding documents and must use all of the criteria disclosed in the bidding documents.

Lastly, by way of introduction, it is noted that the use of merit point evaluation may present some additional complexity both for the procuring

entity in the preparation of the bidding documents and in the evaluation of bids, and for bidders in the preparation of their bids.

Second- Types of bid evaluation criteria

To understand fully the use of merit-points criteria in the evaluation of bids, it is necessary to distinguish the main categories of bid evaluation criteria.

Those include:

- **Mandatory (pass/fail) criteria** – These are criteria that relate to requirements in the bidding documents that must be met by a bid and that are evaluated on a pass/fail basis; examples of such mandatory criteria include minimum technical performance requirements that must be met in order for a bid to be deemed substantially responsive to the requirements in the bidding documents.
- **Cost type of criteria** – These are criteria that can be quantified in monetary terms; apart from the bid price itself, examples of cost type of criteria include life-cycle cost analysis and comparison.
- **Merit-points criteria** – Sometimes referred to as “rated” criteria, these are criteria that are rated (evaluated) on the basis of merit points, rather than being evaluated on the basis of quantification in monetary terms.

The types of criteria that are to be applied in a procurement proceeding are determined in particular taking into account the nature of the procurement. It is not unusual for a combination of different types of criteria to be used in a procurement proceeding. Typically, the bidding documents will establish mandatory criteria evaluated on a pass/fail basis, combined with one or more of the other types of criteria (e.g., cost criteria including at least the bid price and possibly also non-price financial cost criteria).

Third- Merit-points criteria

As noted above, merit-points criteria relate to quality/performance features of bids that cannot be expressed in monetary terms and that the procuring entity wishes to evaluate on a comparative basis. Some examples of such criteria include:

- Work methods (e.g., construction method)
- Innovations
- Environmental management plan
- Social management plan

- Supply chain strengths and weaknesses

Merit-points (rated) criteria may be “mandatory” or “desirable”. In the case of mandatory merit-points criteria, the procuring entity may establish minimum scores that must be achieved by a bid, failing which the bid would be rejected. The reason for assigning a minimum required score to a merit-points (rated) criterion is that it concerns a feature that is of an essential nature. Thus, with respect to the minimum requirement, such criteria are evaluated on a pass/fail basis. That means that a bid that does not achieve the minimum score with respect to any such criterion must be rejected as substantially not responsive. To the extent that a bid exceeds the minimum requirement, merit points are assigned to the bid in accordance with the formula disclosed in the bidding documents.

Examples of criteria that are mandatory with respect to required minimum levels, but which bids may receive credit (additional merit points) for exceeding, include:

- A firm’s experience specifically relevant to performance of the procurement contract;
- Qualifications of key personnel that would be assigned to perform the procurement contract (e.g., with respect to management and technical capacity to be applied to performance of the procurement contract);
- Bidder’s understanding of the assignment (e.g., the terms of reference in a consultancy assignment)
- Degree to which a bid exceeds sustainability requirements (e.g., use of local consultants in carrying out an assignment)

Fourth- Application of merit-points criteria

Disclosure requirements

In line with fundamental efficiency, transparency, fairness and accountability principles of public procurement established in the Public Procurement Regulations No. (2) of 2016, if merit-point criteria are to be used in the evaluation of bids, any and all such criteria must be disclosed in the bidding documents and then must actually be applied in the evaluation of bids. In addition to disclosing the precise merit-points criteria, if any, to be used, the bidding documents must also disclose the methodology to be employed in applying the merit-points criteria, and in combining the merit point criteria with any other types of criteria that may be applicable in the procurement proceeding.

Sub-criteria

It may be the case that merit-points criteria are broken down into sub-criteria for the purposes of achieving greater objectivity, predictability and transparency in the application of the criteria. A merit-points approach is applied in evaluating the subcriteria for the purposes of arriving at a score for the criteria to which the subcriteria pertain.

Separate technical and financial evaluations

The use of merit-points criteria is typically associated with separate evaluations of the technical and financial aspects of bids (two-envelope bidding). In such scenarios, the technical and the financial aspects of bids are submitted in separate, sealed envelopes and the evaluation of the technical envelopes of all bidders is completed prior to the opening and evaluation of any financial envelopes. That is to ensure that the evaluation of technical aspects is not influenced by the prices offered by the bidders.

Weighting of merit-points criteria

In relation to the nature of the procurement and the needs of the procuring entity, the various features of bids that are evaluated using merit-points criteria are not necessarily of equal importance. Therefore, the relative importance of those features is reflected by assigning different weights to the merit-points criteria that relate to the respective features subject to evaluation on the basis of merit points. At the same time, weighting is assigned (and disclosed in the bidding documents) respectively to the technical scores and to the financial scores of the bids submitted in the proceeding.

The weighting assigned to the criteria, and to the overall technical and financial scores, must be disclosed in the bidding documents. Apart from the Public Procurement Regulations' No. basic transparency provisions that require disclosure of the weighting of criteria, the practical importance of such disclosure is that it enables bidders to tailor their bids more exactly to the needs of the procuring entity and to what the procuring entity considers to be most important.

The possible points and weighting accorded respectively to the cost and the rated technical components of the evaluation will depend upon the nature of the procurement, including the complexity of the procurement, its value, level

of risk, degree of competition in the market, and extent of availability of alternatives. For example,

- The lower the value and risk involved, the more weight would be accorded to the cost factor, even more so if what is being procured is commercially standard rather than something specifically designed to the specifications of the procuring entity.
- At the other end of the spectrum, in the case of high-value and high-risk procurement of technically complex items, in a market with a limited number of providers, the most weight is accorded to merit-point factors. This could be, in the case of supplies, works and non-consultancy services, a 50/50 ratio or a 40/60 ratio as regards the weighting assigned to the cost and the rated technical scores in combining them to identify the best value-for-money bid.

Below, are examples of merit points criteria, allocation of merit points and different approaches to applying weighting, as regards technical aspects, in the procurement of consultancy services, goods, and construction, with some examples also of subcriteria. This listing is illustrative only and not intended to be exhaustive. Neither is it intended to suggest that each of the criteria would be relevant in all cases in the procurement respectively of consultancy services, goods and construction.

Consultancy services

Specific experience

- 0 to 10 points
- Fewer points are allocated here because this criterion is of diminished importance, since experience already taken into account in establishing the short list of consultants from whom proposals are solicited in the procurement proceeding.

Methodology

- 20 to 50 points
- More rather than less weight given when the assignment is complex.
- Possible subcriteria include, e.g., innovation and level of detail.

Key personnel

- 30 to 60 points
- Crucial to success and quality of service.
- Examine qualifications and experience of key personnel (CV's).
- Sub-criteria include

- general qualifications -- general education and training, positions held, staff time with consultant, experience in developing countries
- adequacy for assignment – education, training, specific experience
- experience in region, knowledge of local language, culture administrative system, government organization

Transfer of knowledge (if required in the TOR) (0 to 10)

Extent of national participation among key staff in the performance of the assignment (0 to 10)

Each criterion is marked on a scale of 1 to 100, in accordance with the weighting disclosed in the request for proposals.

Goods

Examples of technical criteria and their weighting in the procurement of goods (in this example a procurement of equipment where the weighting of the technical score is 30 percent and price is 70 percent) include:

Technical features and characteristics - up to 10 points

Spare parts availability – up to 10 points

After sale service – up to 5 points

Standardization with existing equipment – up to 5 points

Additional examples of possible rated criteria in the procurement of goods include previous operating experience and test results of proposed systems and subsystems, quality assurance programs, extent of warranty, and system support (e.g., quality of users' manuals, training programs).

Construction

Examples of technical criteria for evaluation of bids in construction (in this example construction contracted on a design-and-build basis) and allocation of possible points (based on total of a 100 possible points for the technical score) include¹:

¹ This illustration of technical criteria evaluated on a merit points basis is based on the practice of the Department of Transportation of the State of Ohio in the United States; see FRA-71-17.76 FRA-670-4.19 PID 77369 Project 3000 (11) Design Build Selection Criteria 01/18/2011, pp. 16 to 25 (<https://www.dot.state.oh.us/Divisions/ConstructionMgt/design-build/Value%20Based%20Design%20Build%20Examples/FRA%2071%20670%20Selection%20Criteria.pdf>).

Proposed design – up to 20 points

- examples of subcriteria in a road transport construction include bridge design, general roadway, roadway drainage

Design management – up to 5 points

- examples of subcriteria include design management staffing, integration of management team with construction

Maintenance of traffic and construction access – up to 20 points

- examples of subcriteria include proposed phasing, and minimization of public inconvenience

Construction management – up to 5 points

- examples of subcriteria include construction management staffing and construction management plan

Construction – up to 15 points

- examples of subcriteria include construction integration, sequencing and logistics, safety, utility coordination

Quality management – up to 15 points

- examples of subcriteria include overall quality management approach and plan, design quality review, quality inspection, materials testing

Engagement of private sector – up to 5 points

- examples of subcriteria include plan to achieve SME engagement targets, plan for training

Community relations and aesthetic enhancements – up to 10 points

- examples of subcriteria include public communication and community relations approach, aesthetics and enhancement management plan

Sustainability plan – up to 5 points

- examples of subcriteria include sustainability plan, evaluated on the basis of factors such as energy efficiency, green building, recycling, reuse and reduction of material.

In some cases of complex goods and works procurement, the degree to which bidders exceed qualification requirement specified in the bidding documents may be applied as rated criteria, if so disclosed in the bidding documents (e.g., with regard to financial capacity, human resources, physical resources, and past performance of similar contracts.

Allocating points for financial proposals

Apart from assigning weighting to the technical/quality type of criteria illustrated above, the procuring entity will also have to assign weighting to the financial proposals and rate the financial proposals using a point system as disclosed in the bidding documents. That may be applied, for example, by allocating to the lowest-priced financial proposal the full 100 percent of the points allocated for the financial proposals, with the other, higher-priced proposals being allocated proportionately lower percentages of the points available for the financial score.

Sample comparative allocation of points for financial proposals

- **Bidder 1** - Lowest financial proposal at \$260,000 gets maximum points 400
- **Bidder 2** - Next Lowest financial proposal at \$284,000 gets 91.5% of points 366
(260,000 divided by 284,000 X 400)
- **Bidder 3** – Highest-priced financial proposal at \$400,000 gets 65% of points 260
(260,000 divided by 400,000 X 400)

Non-mandatory merit-points criteria

Some features that may be solicited by the bidding documents are not actually required in order to meet the needs of the procuring entity, but may nevertheless present benefits that the procuring entity may wish to have. Such features are therefore not classified as “mandatory”, but will be taken into account by way of merit points to the extent that a bid provides such desirable features.

The profile of bids with respect to such desirable, but not mandatory, features is evaluated on the basis of merit points in accordance with the formula and weighting disclosed in the bidding documents.

Such criteria related to desirable but not required features must be disclosed in the bidding documents if they are to be applied. They must also be assigned a weight in evaluation. Because such criteria relate to features that are not essential, the weight that those criteria are assigned in the bid evaluation in the overall scoring of bids is typically subject to a limit (e.g., twenty percent of the overall score).

Combining merit-point technical criteria with financial-cost criteria

When bids are evaluated on the basis of both financial-cost and merit-point criteria, the scores achieved from the application of the two types of criteria are combined in order to determine the ranking of the bids. Among the choices as to how such a combination is done is the basic approach of adding

the points achieved by a bid for the weighted technical score with points achieved by that bid for the weighted financial score.

Another technique to combining the weighted score for technical criteria and the weighted financial score, using a pro-rata approach, is illustrated in the following formula utilized in World Bank practice for complex supply and installation procurement²:

$$B \equiv \frac{C_{low}}{C} X + \frac{T}{T_{high}} (1 - X)$$

where

C = Evaluated Bid Price

C_{low} = the lowest of all Evaluated Bid Prices among responsive bids

T = the total Technical Score awarded to the bid

T_{high} = the Technical Score achieved by the bid that was scored highest among all responsive bids

X = weight for the Price as specified in the BDS

The bid with the highest combined, weighted point total (B) among responsive bids is the best-ranked bid and, subject to fulfillment of qualification requirements, is the awardee.

A pro-rata approach of one sort or another to financial scoring is preferable to a fixed, sliding scale approach. The latter approach may anomalously result in award of the contract to a bidder whose price is very high compared to other bidders whose technical scores may be almost as good and whose prices are substantially lower than the winner determined using a fixed sliding scale. This undesirable result is illustrated in the box below³:

Financial scoring using sliding scale				
Bidder	Technical score	Bid Price	Price score using sliding scale	Total points awarded
A	650	1,000	280	930 (winner)
B	620	400	300	920

² This formula is found in the World Bank Standard Bidding Documents for Supply and Installation of Information Systems (2004), p. 33.

³ This example is drawn from the *Buyers' Guide for ICTs for Education*, a publication of the Global e-Schools and Communities Initiative, p. 29 (<http://www.gesci.org/old/files/docman/buyers-guide-ict-equip.pdf>).

Least-cost selection

In some cases, (e.g., procurement of relatively low-value, routine consultancy services), the use of merit-points may be combined with a lowest-price criterion. In such cases, merit-points are used to evaluate the technical proposals to determine which one attain the required minimum technical score. Once the bids that have attained the required minimum technical score are identified, then, from among those bids, the contract is awarded to the bidder that submitted to lowest-priced financial offer.

Evaluation process

For harmonization and comparability of the scoring approaches utilized by each member of the evaluation committee, the committee may agree on and define a rating system (with levels such as unacceptable or poor, marginal or satisfactory to good, very good or outstanding -- with an agreed number or range of possible points assigned for each level).

In allocating points or a range of points for each of such levels, there are techniques that may be utilized to facilitate separation of proposals and significance in their ranking. Such techniques include not using fractional values and omitting some points to separate the various levels (e.g., to illustrate, 0 points for poor or unacceptable, then jumping to 3 to 4 points for marginal or satisfactory, then jumping to 6 to 8 points for good, and then jumping to 10 points for very good or outstanding; thus, 1, 2, 5 or 9 points are not applied).

Typically, individual evaluators in the bid-evaluation team conduct their evaluations of the technical proposals independently. That may be followed by a group review and discussion of the individual scoring of the technical proposals, and a subsequent opportunity, based on the information and perspectives shared in those discussion, for adjustments by the evaluators to their initial scores. Once the individual evaluators have finalized their scores for each of the criteria, the average technical score for each merit-points criterion is calculated. That average score for each criterion is then multiplied by the weight that has been assigned in the bidding documents to each criterion. The result is the weighted score for each criterion. On that basis, the evaluation team arrives at the total weighted technical score for each bidder.

As an alternative to the independent evaluation by each individual member of the evaluation committee, a consensus approach is known in practice. In such a scenario, the evaluators meet and together evaluate each bid, arriving consensually at the score for each criterion.

Once the stage of factoring in the financial score has been reached, the final ranking of bids may be determined on the basis of highest number of points or the lowest price per point, in accordance with the approach specified in the bidding documents.