

REPUBLIC OF THE PHILIPPINES
GOVERNMENT PROCUREMENT POLICY BOARD
Technical Support Office

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NPM No. 154-2004

December 13, 2004

MR. PEDRO S. HERNANDO JR.
Deputy Administrator for Finance & Administration
National Food Authority
Matimyas Bldg., 101 E. Rodriguez Sr. Ave.,
Quezon City

Re : Use of Alternative Methods of Procurement with Modifications

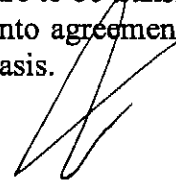
Dear Mr. Hernando:

This refers to your letter dated 02 July 2004, requesting the Government Procurement Policy Board (GPPB) to allow the National Food Authority (NFA) to procure contracts for operations-related services through alternative methods of procurement with some modifications. These operations-related services include handling, trucking, vessel hiring, milling, and integrated cargo handling.

During the 6th Regular GPPB Meeting, held on 20 August 2004, the subject request was discussed and deliberated upon by the members. The general observation of the GPPB is that most of the proposed methods of procurement do not involve competitive bidding, thus allowing a relatively broad discretion on the part of NFA in choosing to whom a contract will be awarded. The following decisions and recommendations of the GPPB on the procurement method for each of the operations-related services of the NFA are based on the Minutes of the 6th Regular GPPB Meeting which was approved on 22 November 2004:

I. Handling Services

This refers to the handling of NFA stocks, such as palay, rice, corn and their by-products, from one activity to another, done on a per bag basis. At present, this service is provided by a gang of laborers available within the area where the stocks are to be transferred. These gangs of laborers are represented by a "cabo" with whom NFA enters into agreement and who directly pays for the services of the laborers on a "per move-per bag" rate basis.



With the enactment of R.A. 9184 and the issuance of its IRR-A, NFA finds difficulty in complying with the eligibility requirements provided therein considering that only informal groups of laborers are available for the handling services. Moreover, the requirement for an Approved Budget for the Contract (ABC) as the maximum limit for the contract complicates compliance with R.A. 9184 and its IRR-A due to the unpredictable volume of stock to be handled.

For this reason, NFA proposed that the procurement of handling services be conducted "By Administration" whereby NFA enters into contract with a "cabo" who will provide NFA with the laborers to handle its stocks.

Upon deliberation by the members of the GPPB during its 6th Regular Meeting, the GPPB recommends that the use of the "cabo" method be discontinued. Instead, the NFA is advised to encourage existing multi-purpose cooperatives to join public biddings conducted for the procurement of handling services. In case there is no cooperative within the locality, it is suggested that NFA initiate the formation of cooperatives in the localities where they transact business which will then be invited to participate in the biddings for its service requirements. In relation to this, the NFA is requested to develop a plan (within the next month) for the formation of these cooperatives.

II. Trucking, Vessel Hiring, and Integrated Cargo Handling Services

The NFA avails trucking service for the inland transfer of its stocks from one warehouse, province, or region to another. At present, NFA accredits truckers per province and taps each accredited trucker for services depending on the available trucks at the time of need at the rate amenable to the prevailing NFA trucking rates. Before the hauling of stocks, the truckers shall be required to post a bond with NFA based on the total cost of stocks to be hauled.

Among the difficulties encountered by NFA concerning the implementation of R.A. 9184 and its IRR-A for the procurement of trucking services is the lack of a single trucker that can provide for its requirement. Again, the difficulty of determining the ABC prior to bidding arises due to unpredictable volume of stocks to be hauled by a single trucker.

In this regard, the NFA proposes a modified public bidding where truckers will be invited to submit bids based on the NFA's trucking rate, the lowest bid for which will be adopted as the NFA's standard rate. The GPPB, however, does not agree to this proposed method in as much as the same practically relinquishes to the truckers, to the exclusion and mere submission of the government, of the determination of the rates for the service; hence, the imminent danger of losing an advantageous price for the contract.

For this reason, it is the recommendation of the GPPB that, pursuant to law, NFA determine the ABC. This may be done by adopting a "per unit" basis computation in arriving at the ABC. The NFA may set the ABC per unit/sack, the aggregate of which shall not exceed its allotted budget for the required service. Furthermore, it is suggested that the eligibility requirements reflect the minimum number of trucks at the disposal of each company, as well as each truck's delivery capacity, to ensure satisfactory delivery of all their products. To address the problem of having only a single bidder which can provide the trucking services, the GPPB recommends that NFA conduct biddings for this type of service by cluster according to area or route.

These recommendations may also be considered in the procurement of vessels for hire and integrated cargo handling services due to the similarity of concerns with trucking services. In addition, however, the GPPB recognizes the possibility of using limited source bidding for vessel

hiring and integrated cargo handling services, where the pre-selected service providers shall be those appearing in the list maintained by the NFA and submitted to the GPPB.

III. Milling Services

Milling services are procured only when NFA experiences milling capacity deficit from its own rice mills. To date, NFA adopts the "payment-in-kind" scheme whereby the miller delivers rice to NFA based on guaranteed milling recovery on contract, usually at sixty three to sixty five percent, and all by-products goes to the miller as payment. Conducting a public bidding for the procurement of milling services entails the payment of milling fee instead of the payment in kind which is said to be more economical and advantageous to NFA.

The GPPB takes no issue on the implementation of the "payment-in-kind" scheme by NFA for its milling services contracts. These contracts, however, shall have been procured through public bidding in order to ensure competition amongst existing milling services. Considering that the payment for the services will be in kind, the determination of the ABC shall be based on the amount to be provided by NFA that is representative of the current market price for the by-products. As such, the technical specifications shall include, among other things, the minimum percentage recovery of rice required and, more importantly, a schedule of the equivalent value per percentage of by-product generated from milling. In consonance with the concept of "lowest calculated bid," the contract shall be awarded to the bidder that will offer the lowest price as a result of the lower percentage of by-products computed in accordance with the schedule of values provided by NFA.

Lastly, your agency may wish to seek the guidance of the Commission on Audit on the