

International Seminar on State Public Procurement

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# Public Procurement: Challenges and Strategic Investment



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# Why Public Procurement Matters

- Significant proportion of Gross Domestic Product
  - 10–20 % or more in many countries
- Key to obtaining socially important goods & services:
  - Transportation & other infrastructure
  - Public health
  - Education infrastructure
  - National defense & security
- Presents a major risk of corruption in virtually every country
- Can support goals for development of particular industries, groups, and regions

# Goals *vs.* **Constraints**

- *Transparency*
- *Integrity (Compliance, Corruption Control)*
- *Competition*
- *Uniformity*
- **Risk Avoidance**
- **Wealth Distribution**
- **Value for Money**
- **Administrative Efficiency**
- **Customer Satisfaction**

*Conventional?*

**Transitional?**

**Current?**



# *Stakeholders*

- **Citizens/public**
  - Taxpayers
  - Recipients of government services
- **Government officials:**
  - End users of goods & services
  - Legislature (appropriators)
  - Government ministers/bureaucracy
  - Accountability organizations (courts/auditors)
- **Civil Society**
  - Press/Media
  - Interest groups (for example, small businesses)
- **Private Sector (Companies/Contractors)**
  - Domestic v. Foreign
  - Firms/Companies dependent on sales to Government (as opposed to purely commercial firms)

# METRICS?

## ■ Conventional Procurement Metrics

- Volume of Transactions
- **Contract price**
- Delivery Date
- **Compliance with original specification**
- SME participation (share redistribution)

## ■ Market-Based Metrics

- **Value (received) for money (expended)**
- **Customer Satisfaction**

# Distinguishing Low Price From Value

- Low price may lead to a “false economy”
- Life Cycle Cost is a more meaningful measure
  - Purchase Price
  - Transaction Costs
  - Operating Costs
  - Maintenance (Sustainment) Costs
  - Disposition Costs (+/-)

# It's All About People

*Acquisition Planning, Contract Administration – and, ultimately, almost everything that matters in public procurement – depends upon people (or human capital)*

# Human Capital

- **Government Personnel, Resources**
  - Policy makers
    - Legal, regulatory, guidance
  - Requirements (needs)
    - Market research
  - Contracts drafting
    - Attorneys (counsel)
    - Negotiators
  - Contract managers
    - Contract support (CO, COR, COTR, QAR, etc.)
  - Oversight
    - Auditors
    - Inspectors General
    - Challenge regimes (judges?)
  - Training
- **External resources**
  - Industry
  - Media
  - Private Attorneys General (whistle-blowers)



# Human Capital Foundations

- Education and experience
- **Independence**
- Incentives (compensation) and disincentives
- **Professional Development**
- Professional standards
  - Performance
  - Ethics

# Personnel Challenges:

- Identify and recruit sufficient quantities
- **Train, accumulate experience**
- **Motivate:**
  - Incentives (compensation)
  - Disincentives
  - Failure to balance is problematic
- **Professional Development & Growth**
  - **Expertise in regions, industries, trades, commodities**
- **Retain – compete with private sector, central government for talent**

# Market Research is Critical

- Markets Evolve Rapidly
- **Explosion of information sources**
- Evolution includes
  - Contractors/firms
  - Technologies and Methodologies
  - Personnel
  - Prices, pricing structures
- **Global best practices**
  - **Draft solicitations/tenders**
  - **Draft specification/requirements descriptions**

# Challenges in Government cost estimating

- Government officials are often ill-suited/prepared to estimate private sector/market prices
- Estimates based upon prior government purchases rarely reflect current private sector market conditions

## Impacts:

- Unrealistically low estimate: Government may misevaluate bids with realistic prices
- Unrealistically high estimate: Gov't may agree to too high (above market) prices

# Evolving Attention on Post-Award Contract Management

- **Problem:** Global discussion of “public procurement” ends with contract award
- **Reality:** enforcing and policing the agreement (or the bargain) is challenging (and critical to obtaining value for money)
- **Better results derive from**
  - Certainty (typically as a matter of regulation, transparency)
  - Reasonable expectations regarding contract interpretation
  - Appropriate, qualified personnel staffing the contract management (or administration) function
  - Accessible, consistent fora for dispute resolution

# Public Procurement and Globalization

- **Multinational markets**
- **Multinational firms**
- **Global supply chain**
- **Free flow of**
  - **Capital**
  - **Information**
  - **Technology**
  - **Personnel**



# Harmonization of international procurement norms

- WTO GPA
- EU
- OECD
- UN-UNCITRAL Model Law
- World Bank, etc.
  - Country Procurement Systems
  - Blacklisting [Debarment, Suspension]
- Bilateral, regional agreements



# Electronic Procurement

- Increases efficiency
- Reduces transaction costs
- Increases speed, reduces acquisition cycle time
- May facilitate aggregation (and economies of scale)
- Not a substitute for experience and judgment
- Tends to neutralize/discount quality
- Beware false economy
- A poor platform for ensuring end-user customer satisfaction



# Challenges

- Good rules do not guarantee success
  - Legislation does not ensure implementation
- **Government Procurement is Difficult**
  - No perfect model
  - Developed Country Experience is not always transferable
- *Reforming/Improving at Multiple Levels, Through Multiple Disciplines or Instrumentalities, is Exponentially Complex and Challenging*
- Continuous Self-Examination and Improvement is Critical
  - **Aspire to and celebrate Incremental Improvement**

# Conclusion

