

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

