



BRIEFING NOTE

Date: 18th August 2012
From: Bob Vlietstra, IPA BV, Nederland
RE: Presentation “Strategic Procurement through use of framework contracts”.

For the purpose of this briefing note and the understanding of the presentation, I’m using the phrase “authority or authorities” for the collective understanding of Government, Ministries and Departments, i.e. the overall organisational structure of Governments services to the general public or support the Government function.

The Public Procurement function is essential for Governments and Authorities to contract works, supplies and services to the private sector in order to meet not only the service deliveries to the general public but also the internal need of the Authorities. Due to decentralisation of the procurement function, it is often not known, or the Government/ Authorities do not realise, the extent of what authorities are contracting-out to the private sector.

The Public Procurement function is representing a substantial proportion of GDP, in countries in development more than countries considered as OECD country. The drive towards accountability and transparency in authority expenditure, the number of tenders has been grown substantially. This increased number of tenders floated is a welcome development in order to incorporate the private sector on a national or regional level into the service delivery to the public but it is also substantially increasing the costs for private sector to participate into this tendering procedures.

Based on research implemented within the European Union regarding the cost of Public Procurement, both for the authorities and the private sector, it is seen that the tendering costs for society, the sum of authority and private sector costs, is high. It depends however on the type of tendering procedure, the commodity and the country in which the tendering procedure is taking place, but opportunity costs are ranging from 70 days for a framework contract to 154 man-days for an EU funded procedure. We have no reason to assume that the situation in public procurement in countries outside the EU will be substantially altered from research undertaken within the EU. We agree however that the financial cost will highly depend on authority internal cost structures and therefore are not in the position to, on a one to one basis, compare with other information collected. Cost in the form of man-days are comparable although the procurement legislation, efficiency of procedures and the overall development / capacity development of procurement staff within the authorities will influencing the outcome.



In this presentation, we have limited the cost component to man-days as this is a clear method of indicating expenditure as the comparison of overall cost will be influenced by the actual cost price of labour per country.

The bulk of the cost for public procurement is absorbed by the public sector. If we are looking at the time / cost analyses, we see that with increased efficiency of the authorities, the number of bids received will improve, increasing “value for money”.

It furthermore confirms that the investments to be made by the private sector to participate in the public procurement opportunities is ranging from almost 200% to more than 1,700% of the time the authorities are spending on such procedures. This imbalance in cost and substantial opportunity costs will make firms critical in their decision whether or not to participate in public tendering. It will furthermore affect the bidding prices as one way or another, the overall cost of tendering absorbed by the private sector will be incorporated into the prices submitted in tendering.

What we see over the years is that the cost of tendering is escalating due to the increased level of security measures authorities are incorporating in their tenders. All associated risks for the delivery of the commodity or works is being transferred to the bidder / private sector and payment intervals are being limited or reduced to a one-off payment at completion of contract. Even with such unfavourable payment condition, authorities are becoming less responsible of meeting payment deadlines. All these restrictions, often under the umbrella of accountability and transparency are influencing the risk profile of the contract and cost to the private sector up to a level where the smaller and medium size firms are not longer willing or in the position to participate. With the present lack of credit available from Banks to the private sector, we have to respect the reality on the day that firms are not longer participating in public tenders as the financing of the contract is not longer affordable or to be incorporated into the overall bidding price.

To increase the efficiency of procurement of commodities used throughout the various authorities, not specifically used for only one section, the introduction of framework contracts can relieve both the authorities and the private sector from excessive opportunity costs. It will at the same time offer the opportunity to authorities to improve the economy of scale and manage the overall cost what they are spending on general commodities as a whole instead of expenditure being hid somewhere in the budgets of individual authorities. It furthermore creates opportunities to incorporate logistical requirements related to the public service delivery to the private sector operator. The involvement of the authority is limited to manage the performance of contracted private sector operators.

The Procurement Agent, as professional purchaser and having experience with a wide range of different Public Procurement Authorities, will be well placed to support Authorities identifying opportunities for framework contracts and support the implementation of such arrangement. Not being part of this presentation, authorities can use the framework contracts to incorporate requirements related to sustainable procurement.