

Public procurement in practice

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Part 1 – public procurement crash course

PP regulation - scope

- Every developed country 5 to 15 % of GDP.
- Heavily regulated (in most countries), EU – partially harmonized
- Who is subject to it?
 - State, municipalities
 - Their enterprises
 - EU funds recipients
- Generally:
 - 0-2mil. CZK = local rules (if any)
 - 2+ mil. CZK = national rules
 - 10+ mil CZK = EU rules

PP regulation – efficiency?

- Its a lawyer's world
- In theory – get highest value for public money
- **What is it in practice, how to achieve it? Buyer is free to choose**
 - Subject specification
 - Procedure type
 - Selection criteria
 - Qualification criteria
- These are supposed to ensure efficiency .. but alone they fail.
- Do they at least mitigate risks of corruption and misuse of public money?

Subject specification

- School? Bridge? IT system?
- Most critical issue
- Policy makers opinion = proxy for public interest

Procedure type

- Open
 - Restricted
 - Negotiated with publication
 - Negotiated without publication
 - Innovation contest, competitive dialogue
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- Optimal choice depends on the market shape, ability of buyer to specify upfront what he wants.

Selection criteria

- Lowest price vs. Multicriterial (MEAT)
- In 80% cases lowest price used (in Eastern Europe)
- Is it good idea?
- But what else? Quality – how?
 - *Criteria need to be explicit and auditable.*

Qualification criteria

- Goal: Assure that bidder is capable to deliver (elimination of “garage” suppliers)
- Minimum turnover, expert employees..
- BUT – too restrictive criteria = limiting market.
- Typical means of corruption

Winner selection

- If company:
 - Meets qualification criteria
 - Has the best selection criteria
- It gets the contract
- (almost) No way back!
- Further quality, qualification differences do not matter
- Does winner provide? How contract is specified – not subject of regulation

Data

- Almost no one has decent data
- no research, no evidence based policy.
- We just finished major project for collecting EU-wide data
- What can be done with it?

Part 2 – energy research

Motivation

- Public procurement typically linked to public goods provision
 - Tenders not really comparable
 - Only few homogeneous goods: NG, Electricity, Gasoline
 - Idea: use these to measure effect of institutional settings
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- How little we know?

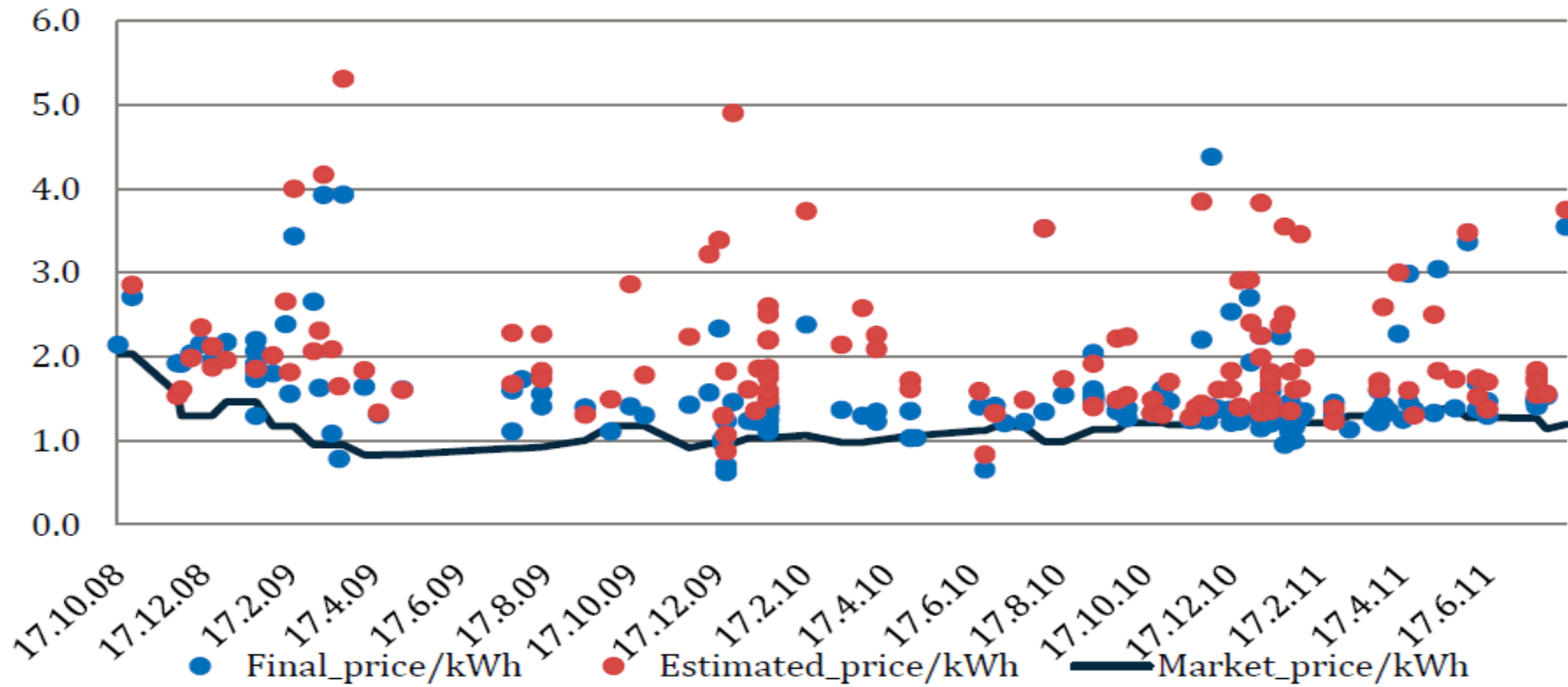
Data

- Own procurement dataset (web-harvesting, data cleaning..)
- Authorities, Suppliers, Competition details
- Unit prices (106, manual)
- Spot energy market details
- Gradual liberalization – 2008+ data used (206 electricity, 53 NG)

Data - energy

Figure 1: Electricity tenders in time

- Own
- Autl
- Unit
- Spo
- Gra



Source: own computation

Results

Electricity & gas procurement results; dependent variable: log(final price/kWh)

Explanatory variable	Electricity		Gas	
	OLS β	Robust SE	OLS β	Robust SE
<i>log (estimated price/kWh)</i>	0.64	(0.07) ***	0.41	(0.07) ***
<i>log (market price/kWh)</i>	0.56	(0.11) ***	0.07	(0.12)
<i>Open procedure</i>	-0.07	(0.02) ***	0.11	(0.13)
<i>electronic auction</i>	-0.06	(0.03) **	-0.17	(0.09) *
<i>number of bidders</i>	-0.012	(0.006) *	-0.04	(0.01) **
<i>Big 4 suppliers</i>	0.04	(0.04)	0.05	(0.08)
<i>small successful suppliers</i>	0.11	(0.03) ***	0.16	(0.07) *
<i>zIndex</i>	0.05	(0.14)	0.3	(0.48)
<i>Time</i>	-0.00011	(0.00005) **	0.0006	(0.00035)
<i>Constant</i>	0.03	(0.1) **	0.2	(0.15) *
<i>R-squared</i>	0.63		0.71	
<i>F- test</i>	26.82		14.7	

Source: own computation based on CAE, note: robust standard errors applied, dropped dummies are negotiated procedure and occasional suppliers

Conclusion

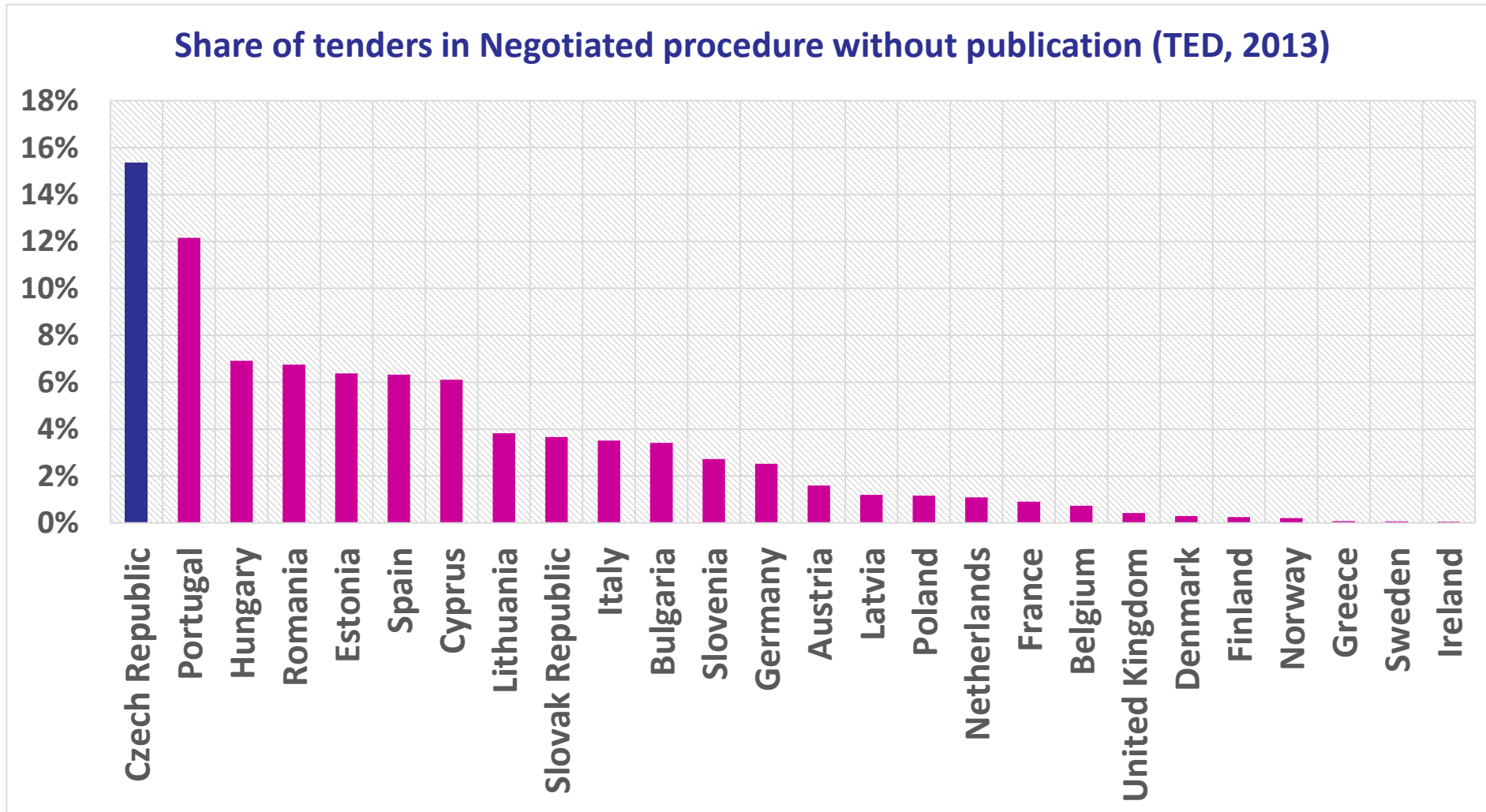
- Openness and competition drives price down
- Electronic auctions more efficient (inefficiency of standard bidding procedures?)
- Estimated price matters more than market price (signaling vs. specific terms..)

Part 3 – zIndex

Corruption and waste in public procurement

- Public procurement eats 50 % of your taxes
- Waste & corruption: Universal problem. Is there a way out?
 - Audit, prosecution, media pressure ..
 - They work poorly + create hostile environment
 - Bad guys find their ways, good ones are paralyzed
- zIndex: project **showcasing good buyers**, naming and shaming bad ones

Motivation – tenders without competition



Motivation – tenders without competition II

- Some authorities overuse non-competitive procedure
 - Criticism? So what? Law allows it ...
 - Savings? No need, the budget has been set.
- Are they doing something wrong?
- **Do they know?**

Karlovy Vary vs. Prague

	City of Karlovy Vary	City of Prague
Contracts 2013-2015	22 mil. EUR	327 mil. EUR
Awards in Negotiated without publication procedure	0.2%	38.1%
Cancelled tenders	29%	36%
Average bidders count	6.2	3.6
Publication errors (% of contracts)	24%	99%
Procurement share on total purchases	35 %	11 %
zIndex ranking	2nd of 60	60th of 60

Conclusion

- Its lawyer's world ... covering over 10 % of the worlds GDP
- Its messy, complicated
- Very important field, but little research, experts
- Data is (now) available, lets do research!