

PROFESSIONAL DIPLOMA IN PUBLIC PROCUREMENT



MODULE 1

Introduction to Procurement and Public Procurement

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LEARNING OUTCOMES

AFTER STUDYING THIS UNIT, YOU WILL BE ABLE TO:

- Define procurement and describe its scope, role and strategic importance to an organisation
- Define public procurement and describe its scope, role and strategic importance to the government and society
- Describe the 5 basic aims of procurement called 5 Rs of procurement
- Explain the seven principles that differentiate public procurement from private sector procurement
- Describe the resultant limitations faced by public procurement

Introduction to Public Procurement and its Strategic Role in Organisational Objectives

1.1 Role of Procurement in Organisational Objectives

Every organisation, whether in the private sector or public sector, consumes external resources in its pursuit to achieve the objectives for which it was created and for which it exists. Such external resources can be materials, machine, engineering construction and maintenance, services and processes. They include

consultancy and non-consultancy services, outsourced business processes, transportation, logistics and so on. They also include intangibles like intellectual property, artwork, technology transfer and goodwill, among others.

Procurement is the business management function that manages the entire process of acquisition of such external resources in an efficient and economical way by means of a contractual arrangement. This starts from their identification, sourcing, supply and access, risk management and regulatory compliance until disposal or cessation of such external resources. Procurement applies the science and art of supply management of such external resource through a body of knowledge interpreted by competent practitioners and professionals.

Procurement is also known by other names, of course, with varying scope, as Purchasing, Supply Management, Purchasing and Supply Management, Logistics, Materials Management,



Defining Procurement

Procurement is a business management function. It involves the science and art of supply management, as interpreted by competent practitioners and professionals.

Supply Chain Management, Acquisition Management and so on. This diversity also reflects in the names of the professional bodies related to this function.

1.2 Strategic Importance of Procurement in the Organisation

The procurement function is of strategic importance to the organisation. Economical, efficient and quicker procurement can help the organisation, improve profitability, help in capturing large share of the market, reducing time from design to market, improving customer satisfaction, gaining better competitive value, help in enabling better products and services, faster and customer friendly channels of distribution and mass customisation, among others.

1.3 Role of Public Procurement in an Organisation

Public procurement refers to the procurement of external resources needed by the central or state governments as well as entities under their control. These may be ministries and offices under their jurisdiction, urban local bodies, public utilities, public sector companies and other units owned wholly or substantially by them. It can also be organisations established by the Constitution of that country or any act of legislature – whose



Defining Public Procurement

Public procurement refers to procurement of external resources needed by the central or state governments as well as entities under their control.

expenditure is borne by the government. Public procurement covers such acquisitions of external resources not only using public funds but also using any other source of funding, for example, grants and gifts and so on. It includes resources and inputs that support the work of the government and ranges from routine items, such as stationery, temporary office staff, furniture or printed forms to complex expenditure areas, like construction works, Private Public Partnership projects, defence equipment or support to major change initiatives. It also includes a growing expenditure of direct delivery of services to citizens through the private and NGO sectors in areas such as work-for-welfare, adult education, weaker section subsidies and empowerment schemes, rural social care and health.

1.4 Strategic Importance of Public Procurement for the Government and Society

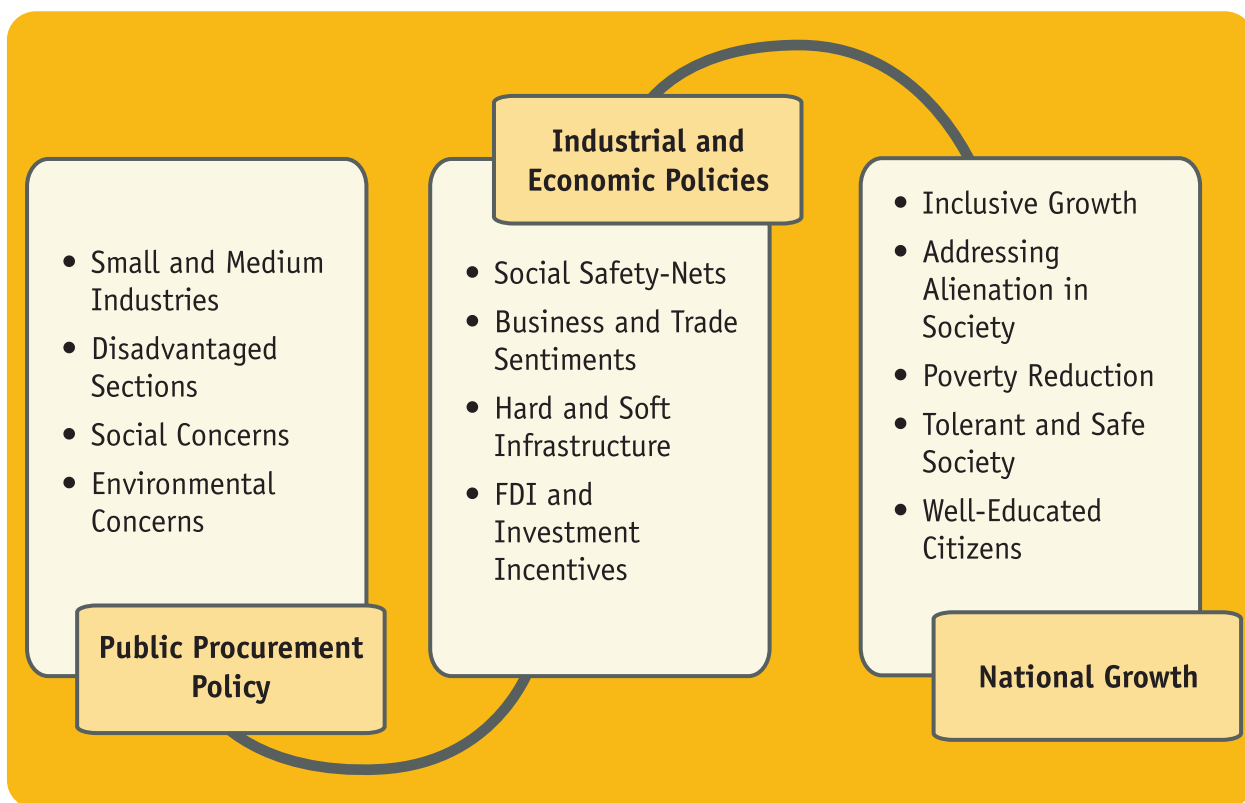
Public procurement, generally, accounts for a large share of public expenditure in a domestic economy. Take the case of India¹ where the annual public procurement is estimated to be more than US\$ 300 billion, which is 25–30% of its GDP. Similarly, Bhutan² spends about 25% of their annual budget in public procurement. Maldives' public procurement expenditure is to the tune of US\$ 2.2 billion and Bangladesh³ expends more than US\$ 3 billion annually on public procurement.

Due to the magnitude of the spending involved, a small savings in public procurement can release large financial resources by way of economy and efficiency in its operations. Again citing India as an example, a mere 10% savings would mean release of US\$ 30 billion per year. This can lead to effective development of the country – particularly the poorer sections of the society. The starting points for a government's activities are larger 'deliverables' achieved through

¹ <http://www.cuts-citee.org>

² http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2011/03/28/000333037_20110328002252/Rendered/PDF/584440ESW0Whit1oFinal0Bhutan0Report.pdf

³ <http://www.lcgbangladesh.org/aidgov/2003-WB-Country%20Procurement%20Assessment%20Report.pdf>



policy outcomes – a tolerant, safe society, well-educated citizens and so on. Government then develops policies like Public Procurement Policy to meet these outcomes and engages in activities to deliver them. Public procurement is one of such activities. Due to the magnitude of the spending involved, public procurement can have a market impact beyond the mere quantities of goods and services purchased. Through its procurement policies, the public sector can affect the structure of the market and the incentives of firms. Procurement Policy, therefore, may be used to shape a more inclusive national economic growth by long term support to SMEs (Small and Medium Enterprises) disadvantaged sections, environmental concerns and the like.

It includes revenue collection, prioritisation of programmes, budgetary process, efficient expenditure management and exercise of controls. The basic framework of the financial management system is usually provided in the constitution of that country and elaborated further through their legislations and rules. Public procurement is an integral and important part of this Public Financial Management System. As already discussed, even a minor improvement in the efficiency of public procurement will benefit and positively impact the financial management system. This can enable the Public Financial Management System to normalise the tax rates and to release more funds for developmental projects.

1.5 Public Procurement as an Integral Part of Public Financial Management System

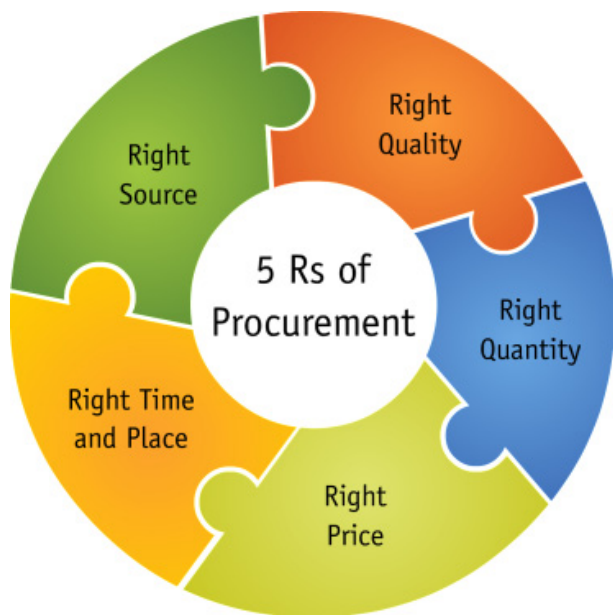
Public Finance Management (PFM) basically, deals with all aspects of resource mobilisation and expenditure management in government.

The pace of public procurement reforms in South Asia varies from country to country. While Afghanistan, Bangladesh, Nepal and Pakistan have Public Procurement Acts, public procurement in Bhutan, Maldives and Sri Lanka is governed by regulations and guidelines. The General Financial Rules (GFR) regulate public procurement at the Union Level and in most of the states in India and only two States – Karnataka and Tamil Nadu – have public procurement laws.

1.6

Basic Aims of Procurement – the 5 Rs of Procurement

In every procurement, we try to achieve a right balance on the following five parameters called the 5 Rs of procurement. The whole process of procurement is designed to achieve these aims.



i) Right Quality

Procurement aims at the required quality for the purpose, available in the market, rather than the best quality, since that may have adverse cost, technical, maintenance and operational implications. Therefore, procurement tries to get just the right quality that will suit the needs – no more and no less.

ii) Right Quantity

Similarly, buying large quantities irrespective of your current needs is as wrong as buying just the immediately required quantity. There are extra costs and systemic problems involved with buying an item too frequently in small quantities or with buying large quantities and then storing them for prolonged use. Hence, the right quantity is purchased, which balances extra costs associated with larger and smaller quantities. There are methods to calculate such right quantities.

iii) Right Price, refined further by concepts of Value for Money (VfM), Life Cycle Costing (LCC) or Total Cost of Ownership (TCO)

It is not correct to aim at the cheapest material available. The price should be just right for the quality, quantity and other factors involved. The concept of price can be refined further to include concepts of Life Cycle Costing or Total Cost of Ownership or Value for Money to take into account not only the initial price paid for an item but also take into consideration other costs like maintenance costs, operational costs and disposal costs.

iv) Right Time and Place

If we need the material in our factory in 3 months' time, it will be costly to get it too late or too early. We may incur costs in storing it. Similarly, if the vendor delivers the material in another city, extra time and money would be involved in transporting it to our factory.

v) Right Source

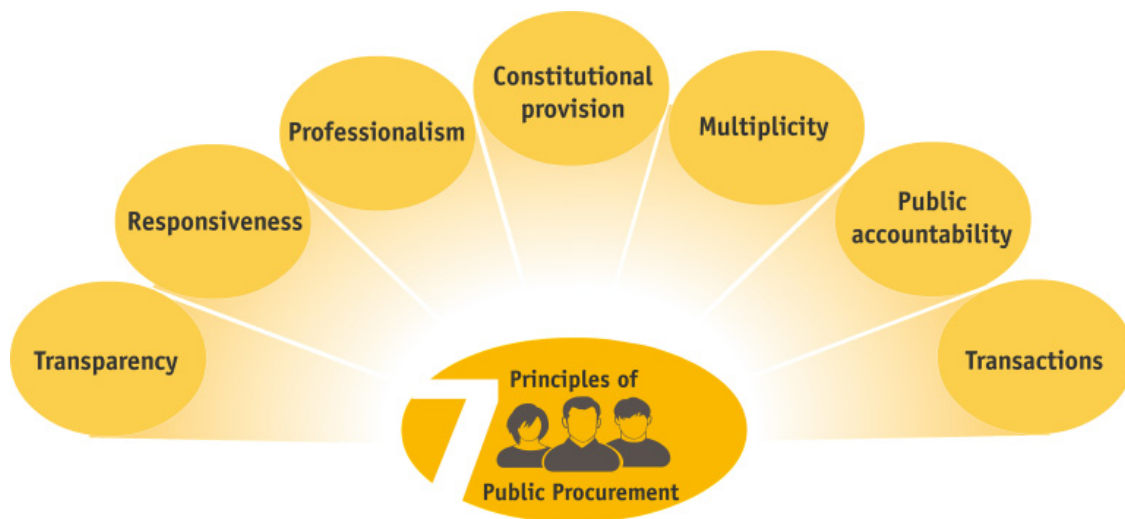
Similarly, the source (or supply) of material has to be just right for our needs. Buying a few packets of printer paper directly from a large manufacturer may not be right. On the other hand, if our requirements are very large, buying such items through dealers or middlemen may also not be right.

1.7

How is Procurement in Public Sector Different from that in Private Sector?

Despite similarities, public procurement, due to the following seven principles that are peculiar to it, becomes quite different from procurement in the private sector.

- i) **Transparency Principle:** Transparency, fairness, equality, competition and appeal rights entail the prospective participants to know and understand the actual means and processes by which contracts are awarded and managed. It implies clarity,



openness, lack of secretiveness, equal opportunities, non-discrimination and absence of arbitrariness in processes as well as simultaneous and symmetric availability of information for all likely participants.

ii) Responsiveness Principle: Public procurement is obliged to be responsive to the aspirations of its many stakeholders. For example, the stakeholders are citizens, taxpayers, electorate, elected officials, management, procurement officers and so on. They may have different objectives, which may well be conflicting.

iii) Professionalism Principle: Professionalism, economy, efficiency, effectiveness and integrity are parts of this principle. These synergic attributes enjoin upon the public procurement to do what it promised to do and to avoid improper, wasteful or corrupt, fraudulent and collusive practices. It also means that the methodology adopted for procurement should be reasonable and appropriate for the cost and complexity of the subject matter of procurement.

iv) Constitutional Principle: The Constitution of a country normally has certain provisions regarding Fundamental Rights and public procurement. Courts have over a time extended and interpreted these to circumscribe and confine public procurement within certain limits. These are not applicable to procurement by private sector.

v) Multiplicity Principle: Public organisations have to achieve many goals at the same time besides organisational goals like:

- Promoting public trust in governance
- Conflicting expectations of the general public, which the organisation is supposed to serve (for example, cheap and at the same time efficient transportation)
- Support to broader social, policy and programme objectives of the government (like job and employment creation, strengthening of local industry and economic growth)
- Affirmative procurement from backward regions, weaker sections and Small and Medium Enterprises
- Facilitating administrative goals of other departments of government (ensuring tax or environmental compliance by participants)


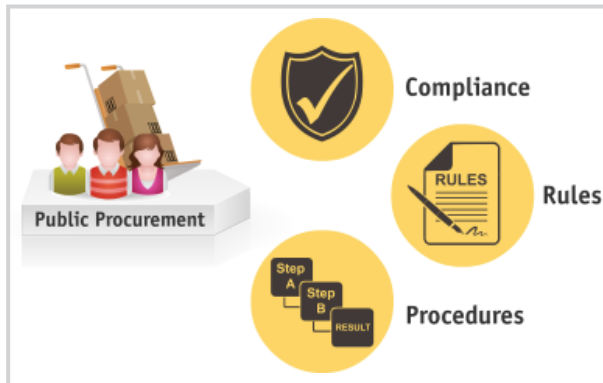
vi) Public Accountability Principle: Public procurement entities and their officers must be accountable for all the above principles to several official bodies in that country. In the case of India, these are the Parliament and Parliamentary Committees, Central Vigilance Commission (CVC), Central Bureau of Investigation (CBI), Comptroller and Auditor General of India (C&AG). There are similar accountability institutions in other South Asian countries. A public procurement officer is, therefore, obliged to operate under intense public scrutiny.

vii) Transactional Principle: Because of public accountability, each individual procurement transaction is usually evaluated independently instead of judging the entire procurement process over a period, as is done in the private sector. Thus, in public procurement, the compliance of rules and procedures assume predominant importance, unlike in the private sector. Training of procurement managers in respective sectors also reflects this difference in focus.

framework at various levels. *This framework, under which public procurement has to function, becomes the determining characteristic of public procurement.*

Remember!

A framework of rules and regulations, under which public procurement has to function, becomes the determining characteristic of public procurement.

1.8 The Need for a Framework for Public Procurement

There are differences between public procurement and private sector procurement. Hence, there arises the need to lay down a framework consisting of special legislations (besides the relevant commercial laws of the country), guidelines, rules and manuals for public procurement to cover the above-mentioned seven principles. The rules and regulations within the framework are cumulative – international, national and local. Public procurement is bound to be executed within strict limits imposed by such a

1.9 Limitations in Public Procurement

The public procurement framework and its unique governance characteristics lead to certain limitations in public procurement, which have to be kept in view in the context of the framework of regulations:

- Due to a complex interplay of various elements of the framework for public procurement, some of these could be mutually contradictory or elusive.
- The framework becomes quite extensive and may become a hunting ground for lawyers, arbitrators, facilitators and intermediaries.
- Compliance may become the focus of public procurement, instead of outcomes thereof.
- Since there is not much elbowroom for the public procurement official to go even marginally beyond the terms of contract, every dispute could end up in dispute resolution forums.



- Because of the transactional nature of the framework, establishing and engaging in long-term, strategic relationships with suppliers in public procurement is difficult, although the public sector does deal with some very important long-term investments (e.g. in infrastructure or industrial development). This is also contrary to the modern trend in private sector towards integrated Supply Chain Management (SCM) and Supplier Relationship Management (SRM), which enable better value for money. Recent developments in establishing strategic procurement adopted by developed nations like USA and European countries are in its early stages. However, these point towards innovations possible in long term Government–Supplier relationships.



REVIEW OF KEYWORDS AND CONCEPTS

- ☞ *Procurement is the function that manages the acquisition of external resources needed by an organisation in the pursuit of its objectives*
 - ☞ *Economical, efficient and quicker procurement can strategically help an organisation in the pursuit of its objectives*
 - ☞ *Public procurement refers to the procurement of external resources needed by the central or state governments as well as the entities under their control*
 - ☞ *Due to the magnitude of the spending involved, public procurement has the potential to release large financial resources by way of economy and efficiency in its operations, leading to the effective development of the country*
 - ☞ *Public procurement policy can be used to shape a more inclusive national economic growth*
 - ☞ *Public procurement is an integral and important part of the Public Financial Management System*
 - ☞ *In every procurement, we try to achieve a right balance on five parameters (called the 5 Rs of procurement)*
- ☞ *Despite similarities, public procurement, due to the seven principles that are peculiar to it, becomes quite different from procurement in the private sector*
 - ☞ *Because of differences between public procurement and private sector procurement, there arises the need to lay down a framework under which public procurement is conducted*
 - ☞ *The public procurement framework and its characteristics also lead to certain limitations*



SELF-ASSESSMENT QUESTIONS AND EXPERIENTIAL EXERCISES

1. What are the two main areas of strategic importance of public procurement for a nation?
2. Why do we need a framework under which public procurement is conducted?
3. Find out and list the categories of “external resources” needed by your organisation in pursuit of its objectives. Classify these into Goods, Works, Consultancy and Services.
4. Find out if there has been any disruption in the activity of your organisation due to non-availability of such external resources. What were the consequences?
5. What is the budget of your organisation for acquisition of such external resources? What percentage of it is the total expenditure of your organisation?
6. In your family’s purchases, do you consciously or unconsciously use the 5 Rs of procurement?
7. What will be your considerations for buying a new desktop computer (PC) for your home? Will the same considerations be taken into account when you buy a PC for your organisation?
8. Discuss with procurement officials in your organisation whether they encounter any limitations in achieving the objectives of the organisation while making procurements.
9. If you have friends in the private sector, discuss with them, in the context of what you have learnt, the way procurement is carried out in their organisation.