3.2 Participation of Subnational Entities in the GPA: Challenges and Opportunities

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Rob Anderson will discuss GPA flexibilities for sub-national and Annex III (“other”) entities

- Different states take different approaches!
  - Large, Heterogeneous States (such as Brazil, US) face unique challenges. (For example, Brazil is not Singapore!)
- Legislation Does Not Guarantee Implementation (Consider EU, China, etc.)
- Reminders for subnational governments:
  - E-Procurement Tools – powerful, but with limits
  - Balancing Social Policies is difficult
  - Information is power – what gets measured, gets managed
US: A Mixed Model (potentially unhelpful)

• No effort to reconcile central & sub-central systems!
  – 50 States, Plus Municipalities
  – Plus regional authorities (e.g., New York Port Authority)
• Federal (Central)
  – High Volume ($600B/year), millions of transactions
  – Longstanding, Highly Bureaucratic (Rule Oriented), Dis-aggregated & Segmented
  – Policy Evolution:
    • Dominated by Defense (50+ percent of $$)
    • Frequent Reform, Change … or “Churn”
  – Massive professional workforce – more later
• Early, Significant GPA Player (Prior Administration - Protectionist?)
  – Massive Carve Outs
  – Aggressive Negotiator

Dose of Harsh Reality

• Good rules do not guarantee success
  – Legislation does not ensure implementation
  – Implementation requires planning, investment, leadership, commitment, patience
• Government Procurement is Difficult
  – No perfect model
  – Procurement Reform: Never ends!
    • Perfection Never Achieved
    • Goals – Ever Changing (Moving Target)
Procurement Reform

- On-going evolution, ever-changing
  - The Only Constant is CHANGE
    - Priorities, Needs, Capacity, Markets
- Cycles, Waves, or Pendulum
  - Scandal – Reform, Control, Oversight
  - Customer/End User Dissatisfaction – Quality, Speed, Inflexibility
  - Reform – Flexibility, Speed, Discretion
  - Scandal – begin cycle anew
- Training, Transaction Costs of Changes
- It’s all about people!

Standardization and Automation (E-Commerce) Advantages

- Greater objectivity (auctions)
- Increased operating efficiency
- Training efficiencies
- Reduced barriers to entry
  - Risk: opposite effect
- Increased transparency
- Increased clarity
- Potential economies of scale
Standardization and Automation

Disadvantages

• NOT a substitute for good decision-making
• Lowest price is rarely best value (exception – true commodities)
• Systems can be gamed
• Profit is a performance incentive
• Cannot foster relationships (example: oral presentations; past performance)
• Communication is key!

Central Commodities Purchasing & Purchase Card, E-Commerce Experience: A Cautionary Anecdote

• Policy: Consolidation, Aggregation, and Economies of Scale
• Speed, Flexibility, Customer Satisfaction
  – Shopping Locally
  – Disaggregation, “unbundling”
• Administrative Efficiency
  – Transaction Costs, Speed
  – Point of Diminishing Returns
• Oversight, appearance of oversight, vacuum
• The Micro-purchase/Charge Card Experience
Accountability and Controlling Corruption

- Corruption diverts public funds
  - Corruption threat (and defense) distracts legislators, policymakers, and operators
- Corruption dilutes public confidence, trust
- *Never-ending process: time, money, effort*
  - Ensure government customer receives value for money
  - Stakes (large sums of money) tempt all participants

Conventional Procurement
Market Assumptions

- Government expends funds to achieve public purpose
- Contractor operates at arms-length, actions dictated by contract
- Government purchases identifiable goods (supply, deliverable)
- Cost of good is market based, quantifiable, comparable
- Desired quality is describable
- Outcome is predictable
Modern Procurement Market

- Government relies upon contractors to perform functions
  - Conventional government-private distinction increasingly blurred
  - Contractor partners with government in flexible, evolving relationships (particularly PPP’s)
- Government increasingly procure services rather than goods
  - Services are flexible (T&M example)
  - Pricing and quantity may be indefinite
- Government lacks information to make informed decisions

Restricting Wealth Distribution

- Relentless political pressure
  - Stronger than “good government” constituency
- Blunt instruments
  - Rarely as effective as direct transfers, subsidies, loans
- Unavoidably inefficient, complex
  - Burden procurement professionals; high training costs
  - Price premiums increase costs to government, taxpayers
- Increased barriers to entry
  - Reduced competition, higher prices, lower quality
- Distinguishing domestic preferences (trade barriers) and SME preferences from sustainable procurement (outcome- or performance-based) approaches
Human Capital/Personnel Challenges:
Particularly Sub-Central, Special Instrumentalities

- Identify and recruit
- Train, accumulate experience
- Motivate: Incentives (compensation) and disincentives
- Professional Development & Growth
  - Develop expertise in regions, industries, trades, commodities
  - Encourage, foster creativity
- Retain – compete with private sector, central government for talent

Consider *Change Management*

- Borrow Experience
  - Study Best Practices and Lessons Learned
- Experiment
  - Start small
  - Pilot programs
  - Learn from mistakes
- *Focus on Outcomes, Not Process*
  - Seek value for your money!
  - Assess/measure customer satisfaction!
- *Celebrate Incremental Improvement*
Data (Reminder): 
**Key to Informed Decision Making**

- **Measure what matters**, not what’s easy to measure
  - *Focus more* on procurement **OUTCOMES**
    - Value for money, life cycle cost, customer satisfaction
  - *Focus less* on the procurement process
    - What did official do? How much did you spend?
  - *What you received* (in exchange for your expenditure) is **more important than what you spent**
- Consider the Evolving **Open Data** standards
- **Make decisions based upon data** – not myths, not anecdotes, not rumors

Conclusion: 
*The constant pursuit of (value based) procurement outcomes serves government objectives!*

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