

INTAL/IDB ON-LINE TRAINING WORKSHOP ON GOVERNMENT
PROCUREMENT AND TRADE FOR
BRAZIL SUB-NATIONAL GOVERNMENTS

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***

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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**

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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)

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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!*

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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**

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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!**

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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**

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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

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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

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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

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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*

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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**

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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***

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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

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

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