



Ministero
dell'Economia
e delle Finanze

“The potential drawbacks of centralized public procurement processes: gathering and using evidence to strengthen the level of integrity”

Gian Luigi Albano, *Ph.D.*

Head of Research

Consip Ltd, *The National Central Purchasing Body*, Italy

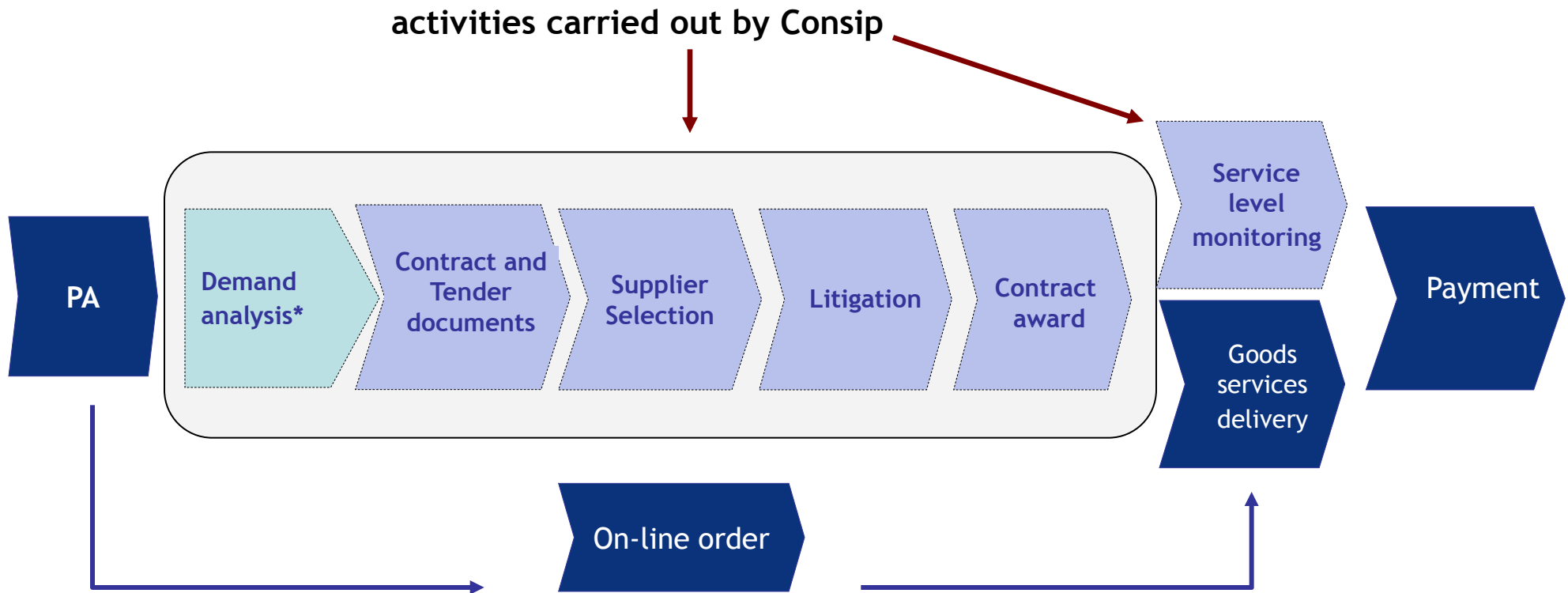
and Dept of Economics and Finance, University LUISS “G. Carli”, Rome

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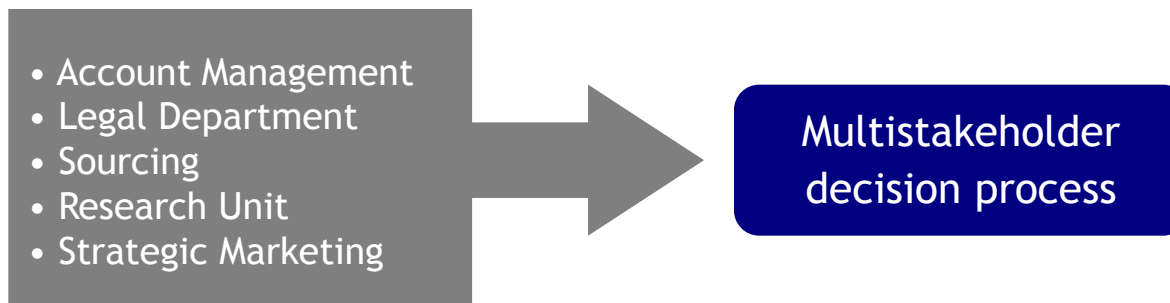
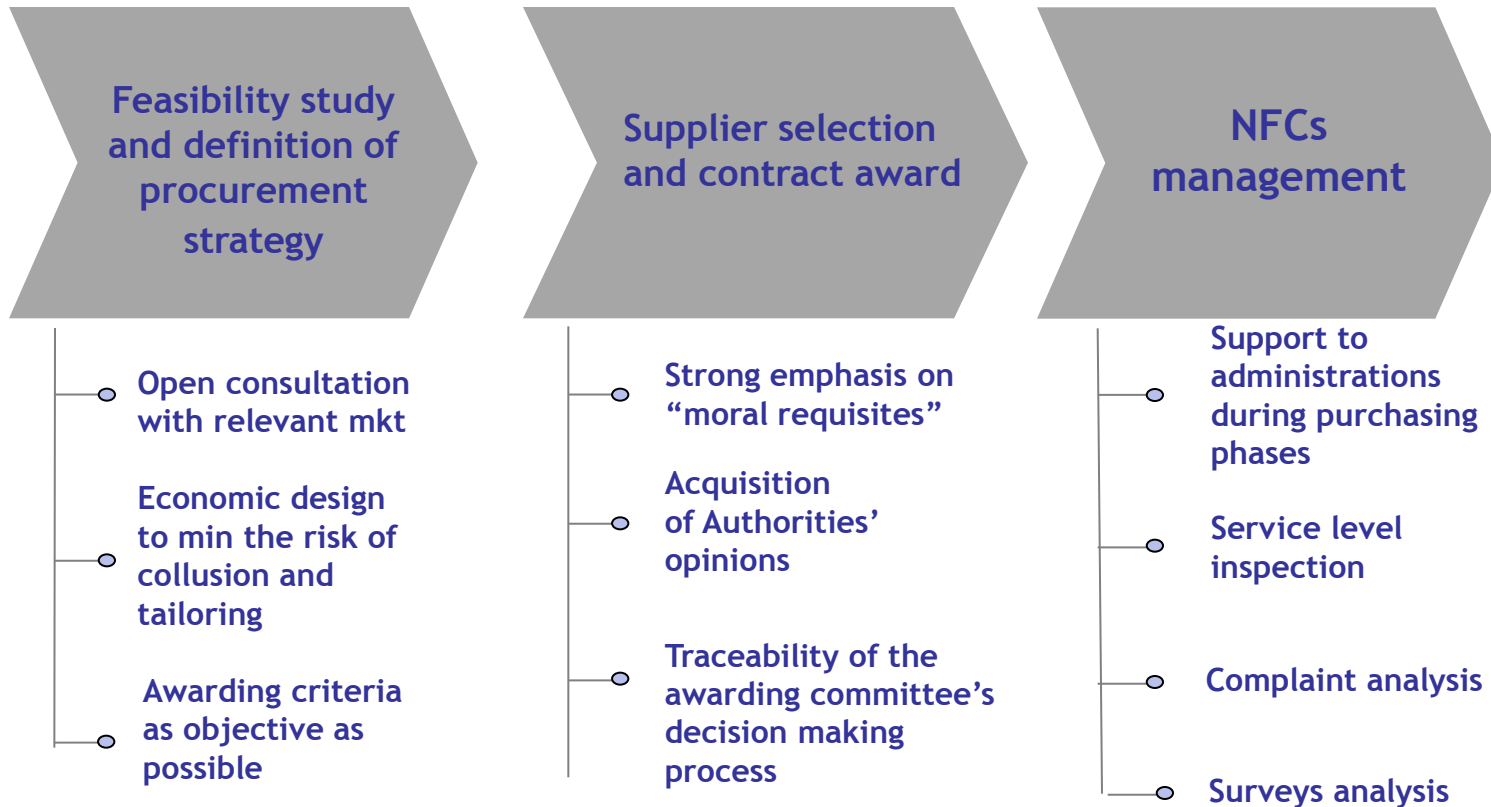


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The National Frame Contracts in a snapshot



Main actions during the life cycle of NFCs: The Good News



Performance Monitoring: The Bad News

Sample of performance dimensions for which penalty clauses were provided in the contract	
N. of cases of compliance	1062
N. of cases of compliance with remarks	21
N. of cases of low noncompliance	41
N. of cases of mild noncompliance	39
N. of cases of high conformance	401
Total number of cases	1564
Total number of cases of noncompliance (NC)	481
Number of enforced penalty clauses (PC)	12

PC/NC: 2,49%

Performance Monitoring: Conjectures

How much should we worry about these findings?

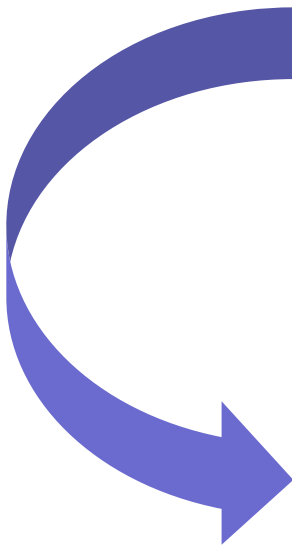
Contract mismanagement, if correctly anticipated by competing firms, is likely to affect the selection stage → upon drafting their tenders suppliers can rationally use some of the extra profits - that they are (sometimes very) likely to harvest at the execution stage - to submit lower bids

Possible explanations:

- **Lack of skills/know-how and/or “passive behavior”**
- **Lack of incentives**
- **Renegotiations: “You failed on task A, so compensate me by executing task B even if not in the contract”**
- **Lack of integrity**

On Public Procurement Data

Data can tell us a lot about seemingly hidden features of transaction(s)

- 
- Which dimensions should be recorded? And who decides which ones?
 - To publish or not to publish? What's the concrete meaning of open public procurement data?
 - What's the logic of a double treatment for pre-award and post-award information?

Appendix

Performance Monitoring: the Sample (1/3)

Snapshot on the 2008 sample of framework contracts

- **11 framework contracts:**
 - 7 “mandatory” and 4 “nonmandatory”
 - 6 low-service components and 5 high-service component
- **743 inspections:**
 - Public bodies: 226 central administrations, 330 local administrations, 91 education bodies and 96 health bodies
 - Geographical location: 360 in the North, 169 in the Centre and 214 in the South
- **Performance “compliance score” evaluated on a 1 (min) - 5 (max) scale:**
 - average quality of execution of purchasing orders (*avg_EPO*)
 - average delivered (intrinsic) quality (*avg_DQ*)
 - average quality of post-purchase services (*avg_PPS*)
 - average total performance index (*avg_TPI*)

Performance Monitoring: the Sample (2/3)

Framework Contracts:

- | | |
|--------------------------------|--------------|
| • Cars (purchase) ed. 2 | nonmandatory |
| • Cars (purchase) ed. 3 | nonmandatory |
| • Real Estate Services | nonmandatory |
| • Microsoft Licences ed. 7 | mandatory* |
| • Photocopiers (rental) ed. 9 | mandatory* |
| • Photocopiers (rental) ed. 11 | mandatory* |
| • Laptop Computers ed. 6 | mandatory* |
| • Desktop Computers ed. 8 | mandatory* |
| • Local Networks ed. 2 | mandatory* |
| • Videocomm. Solutions ed. 2 | nonmandatory |
| • Printers ed. 6 | mandatory* |

Performance Monitoring: the Analysis (1 / 3)

T-test on the average levels of delivered (intrinsic) quality (*avg_DQ*):

Nature of FCs

Nonmandatory FCs are associated with lower level of contract enforcement (*avg_DQ*): 3.09 if non-mandatory and 4.97 if mandatory (*t-stat.* -12.99)

This finding might be explained by low-skilled public buyers self-selecting in purchasing from nonmandatory framework contracts

Type of Public Agency effects

Central administrations perform worse on contract enforcement

The average level performance is lower (*avg_DQ*: 3.84) relative to that of other public buyers (local, education and health) which do better (*avg_DQ*: 4.70, *t-stat.* -4.89)

Performance Monitoring: the Analysis (2/3)

Geographical location

Public buyers located in the North do better in terms of contract enforcement (*avg_DQ: 4.61*) relative to those located in the rest of Italy (*avg_DQ: 4.16, t-test. 2.55*)

Contract complexity

Low-service components are associated with improvements in delivered (intrinsic) quality (*avg_DQ: 4.97*), rather than high-service components (*avg_DQ: 3.09, t-stat. 12.99*)

Performance Monitoring: the Analysis (3/3)

Regression analysis (standard OLS) on the Total Performance Index (avg_TPI):*

The following relation was estimated,

$$\begin{aligned} avg_TPI = & \beta_0 + \beta_1 \cdot non_mandatory + \beta_2 \cdot local_adm + \\ & + \beta_3 \cdot low_service + \varepsilon \end{aligned}$$

Estimations yield:

- a negative effect of the “nonmandatory” feature of NFCs
- a positive effect of “local administrations”
- a (rather puzzling) negative effect of “low-service contracts”
- no effect has been detected on geographical pattern (“location”)

*significant at 1%