Transparency in e-procurement: the Italian Perspective

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How was Public Administration in Italy before the 1990s?

Minister Bassanini (Former minister for the Public Function) described it as:

- “An inefficient administration: islands of excellence in a sea of general inefficiency
- A costly administration: crucial need to balance the budget and reduce public debt”

And e-procurement?

Before the year 2000: no reference in the laws or royal decrees to the use of electronic means in the procurement system

Decentralised local entities (regions) were the first to introduce electronic tools in the purchasing process

(1997 Lombardy region)
So why the Italian experience?

Italy was the first European country to set up an e-procurement regulatory framework allowing purchases above the EU threshold to occur online.

The Italian model has subsequently been adopted by the EU PHARE programme for similar e-procurement projects both in Turkey and in Cyprus.
Transparency is here defined as “accessible information on laws and procedures as well as on specific procurement opportunities” (OECD, 2004)

+ by products/enabling factors: simplification, accountability, reduced corruption…
Public sector reform and e-procurement in Italy: Blazing a new path

“Rationalisation Programme on Public Spending for Goods and Services” (year 2000) with the aim of...

- optimising public spending through the use of electronic means
- guaranteeing efficiency and simplifying the purchasing process
- promoting e-procurement tools
- supporting innovation of Public Administration

...and as side effects of:

- increasing transparency and timely tracking of PA’s expenditure
- enhancing market dynamics (e.g. favour competitiveness of the country)
Transparency as an important aspect, albeit a side effect, of the reform

- The Programme aimed primarily at generating substantial savings, but considered transparency as a spill over naturally emerging from the automation of the purchasing procedure and not an explicit policy commitment.

- Thus public agencies did not adopt specific governance tools to support e-procurement.
The Italian e-procurement strategy

**Outsourcing Model:** CONSIP

**Untying System:** Central government administrations were obliged to purchase within the limits established by National Frame contracts (tied system), whereas local bodies were free to either adhere to the contracts or to run their own tenders provided the price and quality of the frame contracts were taken into account (untied system) (year 2000 - Article 26 of the Budget Law)

Substantial liberalisation: untying system
1. National Frame Contracts with suppliers, allow PAs to purchase directly online via an e-shop.
   For standardised goods and services and whenever demand aggregation is feasible

2. Online auctions on behalf of public agencies, or support them in the bidding process
   For special commodities not frequently purchased and mainly evaluated on objective terms

3. The Public Administration’s e-market place
   Presidential Decree N. 101 of 2002
   For goods bought regularly in small quantities and available only for orders below the EU threshold
Identification of public servants “responsible for the optimisation of the initiatives to rationalise the expenditure.” (increase the accountability of public officials)

Limiting risk in the case of vendor underperformance

Monitoring: CONSIP requires records from the suppliers to oversee the performance of each contract

Smoothing out of the procurement cycle: PAs need only emit orders, thus reducing paper procedures, minimising errors in documents, standardising the procurement cycle, shortening the time required for the procurement process
Compulsory market for e-procurement facilitated its start up, BUT agencies and vendors complained about:

- crowding out of small local dealers (controconsip),
- poor quality supplies;
- limited assistance by CONSIP in the follow up operations;
- insufficient specifications of technical features in bids and unclear requirements for participation in the auctions

The regions maintained that:
the mixed untying model and the state-supply driven approach were too stringent
However...

Poor quality in commodities meant for PAs and displacements of SMEs reflect market distortions:

- Local dealers value their customers, but are often unable to procure special and specific goods needed by government
- Public agencies are usually late in payments
- The personnel in the procurement sector are often under qualified for the task and not adequately considered within the internal organisation of the institution
The role of transparency at different stages of online auctions 1/2

- Tight (but expensive) publication requirements: web-publishing reinforces transparency through real time notification of new business opportunities
- Clear statement of bid specifications and selection criteria
- Online or off-line registration procedure: importance of the reduction of human intervention
- Running of the auction: question of the “optimal” price and avoidance of the collusion among bidders
- Cooperation bw CONSIP and the National Antitrust authorities
The role of transparency at different stages of online auctions 2/2

- **Adoption of governance tools**: rotation of public officials, code of ethics, management of conflicts of interest

- **Automatic classification of the offers** by the electronic platform, which also highlights the ones that are excessively low in comparison to the others (Possible disqualification of the bidder)

- **Offers are clearly shown**: the entire process can be followed online even by interest groups

- **Appointment of the System Manager** (data security, violation of the secrecy of the offers)
The e-marketplace: benefits for transparency 1/2

- Allows **immediate comparisons of different offers** and qualities of suppliers
- Favours **interactions with numerous** suppliers
- **Increases competition** by allowing local dealers to participate, levelling the playing field for big and small enterprises alike (EUR 20 000 turnover is enough to be admitted to the e-market)
- **Facilitates the evaluation process** (difference with online auctions, where offers are simply classified and not evaluated)
The e-marketplace: benefits for transparency 2/2

- Reduces human intervention. The search for suppliers and their qualifications – delicate areas for bribery – is left to a centralised procedure.
- Reduces time-consuming and, at times confusing, paper procedures.
- Offers the opportunity to follow transactions (transactional transparency) and keep record of purchases and different bargaining phases (archival transparency).
- Allows the internal monitoring of PAs’ expenditure.
Conclusions: Lessons Learned...

1. Strike a balance between the rollout of e-procurement through a compulsory market and the possible subsequent restriction to competition.

2. Use e-tools to increase the number of bidders, expanded the competition geographically (enterprises of the South won auctions in the North of Italy).

3. Use on-line publication to re-balance the information asymmetry: reduction of the sc “power of invitation” (Summer Bids), real time notification of opportunities for potential suppliers.

4. Set the criteria for participating in the call as low and as wide-ranging as possible to avoid creating unnecessary entry barriers.
5. **Electronic tools as governance tools? Governance tools are all the more necessary**

- Rotation of public officials responsible for adjudicating
- Adequate training to Public officials
- Involvement of suppliers before the tender (experience of the Univ. Of Bologna)
- Ethic codes
- Management of conflict of interests
### Prepartion
- Train procurement managers, suppliers
- Decide number of suppliers to invite to ensure competition
- Announce tenders in time using both traditional and online tools
- Agree and publicize clear bid specifications displaying:
  - Description of goods/services
  - Bid format and timing of the event
  - Evaluation criteria
  - Disqualification criteria
- Set clear rules for communications between buyer and supplier
- Establish clear policies for conflicts of interest

### Event
- Make online auctions accessible to the public: NGOs, special interest groups
- Provide reliable technological platforms for the auctions
- Show the offer but mask the offerors (through technology)
- Respect time limits for acceptance or rejection of an offer
- Monitor bidding tactics directly online

### Follow Up
- Provide feedback to all suppliers, regardless of whether they win
- Monitor performance of contracts (e.g. introduce performance ratings)
- Provide mechanisms to list and/or suspend contractors with poor performance records or unethical behaviour
- Provide prompt judicial/extra judiciary means to seek redress against bid awards
- Provide for e-payment
- Pay on time
- Keep records of the auction to enable inspections
- Rotate public officials responsible for procurement
- Incorporate knowledge management

### DOs
- Underinform participants
- Plan the event at the wrong time (e.g. holidays)
- Act unethically (reveal confidential information, etc.)
- Search only for the lowest price
- Underestimate the need to follow up
- Ignore lessons learned
Thanks for your attention