

A Lesson from the Private Sector on Getting Value for Money through Lower Procurement Transaction Costs and Enhanced Efficiency

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Abstract: *The process of acquiring goods and services, or procurement, accounts for a sizeable amount of development and ongoing budgetary expenditures in many nations. National governments have decided to set up the necessary legal and regulatory frameworks, systems, and procedures to enable the function to be carried out in a way that would support good governance and guarantee accountability to the public because it has grown in importance. Laws, rules, and organizations governing procurement are in place in many nations. After the laws were put into effect, several issues surfaced, and attempts are being made to resolve them. For instance, in the United Republic of Tanzania, public sector procurement is regulated by the Public Procurement Act No. 7 of 2011 and its Regulations of 2013, as revised in 2016. Observations about the growing administrative or transaction costs associated with procurement, about the value of the private sector and procurement volumes, have been widely discussed after the country update. This paper first explains the need for economy and efficiency in procurement management before attempting to highlight the issues surrounding transaction costs. Additionally, it compares the state of affairs with private sector practices and sheds light on the origins and reasons behind transaction costs in the public sphere. Through evaluation, the author suggests solutions to the problems caused by high transaction costs.*

Keywords: *Value for Money, Procurement Transaction, Cost, and Improved Efficiency.*

Introduction

The goal of procurement reforms worldwide has always been to deliver essential public services at a cost that is economical, efficient, effective, and transparent, all while ensuring value for money. The majority of national procurement systems follow the same core principles that are supported by regional and international development finance institutions. These principles include, among other things, regulating public procurement to make sure that it functions as a crucial governance tool and promotes sustainable development. Porter (2000) believes that public procurement reform can significantly improve a nation's socioeconomic development and that it plays a significant role in achieving government objectives. Procurement laws, policies, procedures, and systems are vital and ought to support the nation's social and economic requirements, benefiting the nation, its people, and the private sector that participates. They might not be enough, though, to guarantee that the value of money is realized. Among the many works of literature that demonstrate public procurement's complexity are Burt et al. (2000), Arrowsmith and Trybus (2018), and Davis (2000). Public procurement faces demands from a wide range of stakeholders and backgrounds, as well as various interests that it must manage. The context and procedure, as well as the various functions of a public body, are among the demands, which can be internal or external.

Procurement transaction or administrative costs, or the cost of doing business, are among the areas posing significant challenges to public procurement systems. Procuring organizations might discover that the system that promotes efficiency, fair competition, and transparency is not providing the value for money they had expected if this issue is not adequately resolved.

In light of this, this article aims to highlight probable reasons and sources of high transaction costs in public procurement and strategies for lowering them over the long and short terms. The Public Procurement Regulatory Authority (PPRA) has conducted surveys throughout the nation annually since its founding, and the Private Sector's experience with this authority forms the basis of this article, intended to be published in 2023.

Efficiency and economy are essential in public and Private procurement

Recognizing the situation

A good public procurement system's fundamentals are referred to by various terms. From the perspective of procurement reforms and their advancement, it would be beneficial if the terms and their intended use were made clear. These terms reflect the stages in

procurement reforms that are described (Heinzer, 2019), and they should be followed by an explanation of the necessity of economy and efficiency—or cost efficiency, as some may choose to refer to it.

Purchasing

This involves obtaining the supplies or services that a company needs in the appropriate amounts, at the appropriate times of day, and at the appropriate location. The availability of this essentially organizationally-serving function is the primary concern. It is primarily logistical. Since the action is only a reaction to the need, it is reactive.

Prioritize the Process

Crucial stakeholders frequently want to believe that there is no fraud or corruption in the process. The main concern in this instance is the purpose of the public funds. Themes add to the intention even though they are reactive. Whether the money was utilized correctly for the intended purpose is the crucial question.

Need for Effective Fund Utilization

In this sense, efficiency means making the most of the money spent or avoiding going over budget for the intended use. Once more, the role is reactive, but now commercial considerations are starting to emerge.

Transparency and Accountability

The responsibility to explain how specific tasks have been carried out is known as accountability. Being able to articulate how a procurement has produced the desired results is a necessary component of accountability for procurement outcomes. Conversely, openness to scrutiny by interested parties regarding a procurement activity is referred to as transparency. It entails giving pertinent stakeholders the proper information and documenting the reasoning behind decisions.

Both accountability and transparency constitute a demonstration to the wider public that things are being done properly. A procurement process can be interrogated only if it is well designed and implemented. Accountability and transparency, therefore, reduce the likelihood of unethical behavior and instill confidence in stakeholders regarding the integrity of decisions.

Value for the Money

Any effective procurement system must always have this as a basic requirement. Value for money includes both the cost and quality of the purchased goods as well as the value they bring to the company. Even though the process has internal goals, the emphasis needs to be shifted to becoming proactive.

Contributing to the Organization's Objectives

The organization's goals are served when procurement takes on the role of delivering policies; this is when the function becomes external. Examples of these kinds of policies include fostering innovation, advancing social and environmental sustainability, bolstering local businesses and SMEs, and creating jobs and employment.

Costs of Procurement Transactions

An Overview

Transactions related to a specific procurement activity are referred to as administrative costs in procurement. Process, material, and communication cost components make up the procurement transaction costs, according to a brief analysis of procuring organizations and interviews with different public procurement officials. When creating procurement budgets or plans, the majority of these are ignored. A quick summary of some of the cost components is provided below.

Costs of Processes

One may link ineffectiveness and poor communication to prolonged administration times for specific procurements. The cost increases with the length of time. A poorly designed procurement workflow could result in delays and associated costs if internal needs are not assessed. Using the potential that information and communication technology expertise offers can help most process-related tasks be completed more quickly. Sadly, not many Procuring Entities (PEs) are doing enough to encourage the use of ICT in performing the function, even within individual PE boundaries of the procurement in the country.

Almost every procurement review or audit has identified significant duplication and error as a result of inadequate document management systems or control. All procuring entities need to give general documentation and record management their full attention right now. PPRA has created a system for managing procurement information, a system for verifying and monitoring procurement activities, and procedural forms that would significantly improve the maintenance of procurement records in recognition of the severity of the issue.

By implementing the capability to reuse workflows and standard organizational information across various tenders and quotations, Procurement Management Units (PMUs) could remain proactive. To find out how they could enhance their methods, the Units must de-signify their operations.

Cost of Materials and Communication

In the nation's procurement operations, a great deal of paperwork is involved, which is very expensive both in terms of stationery supplies and labor costs. One should not undervalue the expenses associated with physically producing the tender on paper, promoting in the media, paying for postage, and compiling reports. Now and then needless document revisions make matters worse.

Inadequate communication between bidders and procuring organizations can result in substantial transaction costs since it costs money and effort to obtain information or clarification. Both the bidding party and the procuring entity will probably have to pay more if a pre-bid conference is required. Based on past experiences, effective communication both within the procuring entity and with other stakeholders, particularly potential bidders, may facilitate the following outcomes:

- a). The length and expense of the procurement process will be decreased through better synchronization and coordination of the various actors and activities.
- b). Enhancing the quality of the solicitation materials in terms of readability, completeness, and clarity will lower the expenses associated with managing the procurement process. For example, it will eliminate the need for bidder meetings and the number of calls and letters bidders make seeking clarification and in-depth information, ultimately reducing the need for bid extensions and other related procedures.
- c). Improving the quality of the bids that are prepared; as a result, the bids will be more dependable, clear, and comprehensive, and the bidders' chances of success and responsiveness will also increase.
- d). Improving the accuracy of cost and delivery time estimations, which will lessen actual and planned cost and time deviations.

Similar to what was discussed in the previous section, this is a capacity issue that must be resolved by strengthening workflow planning, communication, and document management abilities.

Determining Need and Planning for Procurement

The whole problem of identifying needs and planning the procurement needs is not accurately analyzed, thus they are either overstated or understated, which is one of the weaknesses that various reports on procurement have revealed. Sometimes, because of inadequate consultation, ambiguous requirements statements, or a misunderstanding of what a need is, the user's needs may be misrepresented.

After purchasing inappropriate goods or services, needs won't be met, which will lead to cost inefficiency. This will waste money because the procedure must be repeated, which will push up transaction costs. The public service delivery is disrupted and time is lost.

Accurately analyzing needs and improving planning could be a potential solution to this issue. PPRA has incorporated the private sector to offer special procurement planning training into its capacity-building program in the country.

Forecasting and Allocation of Cash

The procuring entities frequently find themselves in a challenging situation due to unreliable funding. The main issue is that re-tendering may be required by the time approvals are obtained, due to delays in completing the procurement and the expiration of the tender validity period. Purchasing organizations may be tempted to use unrealistic deadlines when funding is made available closer to the end of the fiscal year. This could result in low bidder response rates, less competition, or dubious deliveries.

Enhancing abilities in work processes, planning, and forecasting is necessary. To find out why there are delays in payout, the funding mechanisms should also be reviewed.

Specifications and Methods of Procurement

The procuring entities have a relatively low level of knowledge regarding the nature of the procurement market. This has an impact on how PEs define a good or service in the previously mentioned needs analysis. An incorrect definition of the good or service could result in an unsatisfactory delivery, higher expenses, and wasted time. Excessive administrative expenses could also result from specifications that don't match the needs analysis. Biased specifications could lead to inadequate bidder responses and the need for retendering, or they could draw complaints from bidders and slow down the procurement process.

The incorrect choice of procurement techniques can result in significant cost variations, non-responsiveness, or a failure to get value for the money. Certain terms and conditions in the contract or tender may not be acceptable to the bidders; this could lead to low response, disruption of the procurement process, or modification of the tender documents, all of which increase transaction costs and inefficiencies. Performance specifications should be used at all times, and procuring entities should make sure that they are reviewed before being released. Enhancing market knowledge, government coordination, and information sharing are also necessary to prevent PEs from duplicating their efforts and lower transaction costs overall.

Evaluation of Bids

The most delicate part of the entire procurement process is evaluating bids. An improper bid evaluation process could result in the selection of suppliers or bidders who are not qualified to fulfill the contract. Choosing a product that might not satisfy the needs of the user carries additional risk. There may be many situations where evaluation reports are rejected and work needs to be redone, costing the procuring entity more money and time because the procurement system requires approval of award recommendations before entering into a contract. This stage could come at a high cost.

The evaluation team's capacity must be increased through better technical, commercial, and financial evaluation practices to prevent rising transaction costs related to the evaluation process. The problem, though, is that PMUs have to be in charge of making sure the procuring entity's transaction costs are reasonable. PEs should carry out a thorough cost analysis of the procurement transaction over some time when necessary.

Inefficiencies in the Management of Public Procurement.

Long Procurement Processing Times

Regulation G.N. No 446 of 2013 governs the minimum amount of time bidders have to reply to requests or invitations to bid or submit proposals from procuring entities; nevertheless, the duration of the procuring entities' actions is still lengthy and uncertain. This situation carries a risk of decreased competition and deterring prospective bidders from participating in subsequent requests for proposals, particularly when taking into account the resources already committed to a specific bid process.

Delays occur when technical and management staff at different stages of the procurement process are unable to make decisions in a timely and appropriate manner. The lack of professionalism and insufferable commercial skills are likely the result of the procurement function's lack of professionalization. Public Procurement Regulatory Authority (PPRA) has interventions especially created for institutionalizing procurement training and procedures for registering and certifying procurement professionals as part of its Procurement Capacity Building strategy.

Knowledge of the Procurement Industry

The majority of sophisticated procurement systems promote early discussions with suppliers regarding government requirements and potential methods of procurement (OGC, 2000). The primary motivations for being knowledgeable about the procurement market are as follows:

- To estimate the required budget
- To produce a strong business case;
- To effectively define the requirement and/or produce specifications;
- To assist in the development of an appropriate procurement strategy;
- To identify potential suppliers; and
- To develop market knowledge generally.

To gain more insight into the government's procurement market, coordinated efforts are needed. It is strongly recommended that resources be allocated to this specific area of research to facilitate an improved understanding of the procurement market by important stakeholders.

Knowledge from Other Systems and the Private Industry

Currently, efforts are being made by nations all over the world to lower the costs associated with bidding for suppliers and procurement for buyers. Additionally, improving the abilities and giving procurement and contract managers the necessary resources can result in significant project and management costs. Process optimization can also give procurement management employees more time to focus on more strategically significant problems. Significant progress in addressing the issues outlined in the preceding sections is demonstrated in the sections that follow. It is anticipated that other people's experiences may be beneficial to our nation's procurement system.

Joint Procurement of Common Use Items

Many procuring entities within the country would need similar types of supplies or services that could be aggregated as provided for in Section 50 (1) of the PPA 2011. While some effort is underway concerning the procurement of vehicles, there is hardly any progress in the case of other types of goods or services. When requirements of several PEs are pooled together, one may end up with fewer but larger contracts. That would promote efficiency and reduce transaction costs.

Generally, not all systems are applicable everywhere estimate for the procurement of common user items. If such procurement is a joint undertaking by several MDAs or LGAS, then one needs to know both the advantages and disadvantages as the international practice has revealed. The summary is presented in *Table: 1A Shows in Appendix 1 the building or aggregation of requirements*

Several countries have been implementing cooperative procurement arrangements for a very long time, such that important lessons can be learned from them. The following are examples from two developed countries.

Common Services in the United States of America

The General Services Administration (GSA) handles over a quarter of the entire US Government procurement volume (www.gsa.gov). Procurement of items that are for government-wide use is handled centrally through designated agencies. More information can be found in the GSA-GWACs portal of the GSA website. States within the US have their laws for dealing with cooperative procurement. Oregon presents a good example of such systems (www.communities.org/legal/statute.htm) Other examples are Arizona (<http://www.pima.gov/procure/coopagreementslist.pdf>) and Colorado (www.nfsmi.org/Education/Satellite/ss16/cooptext.html), where school districts purchase their food supplies cooperatively, thereby saving hundreds of thousands of dollars other examples of significant procurement cost savings in the US are (www.baltometro.org/brcos/Report2001.pdf)

- The Western States Contracting Alliance (WSCA) headed by the state of New Mexico and including Twelve other states competitively bid and awarded multiple contracts for major brand computers. The pooled requirements within the alliance enabled discounts surpassing any that an individual state could have received. The alliance calculates total savings from its contracts to be \$1.3 billion for the period October 1, 2020 through December 31, 2021
- Baltimore County was in the process of furnishing the Drum Castle Center. Four hundred fifty county employees were to be moved into the center on short notice. By working with the responsible agency and the vendors under the existing contracts, they were able to save \$ 366,871 in office furnishings.

Procurement of Common Services in the UK

The National Audit Office (NAO) of the UK revealed that more than half of public sector organizations did not engage in any joint buying even though 44 percent of those organizations use at least two of the same major suppliers. The NAO estimated that £40 million could be saved by getting lower prices for the same or better city food ingredients. In addition, a further £80 min could be saved by more joint purchasing to exploit the buying power of the public sector (www.nao.gsi.org.uk).

An interesting example that can be emulated by LGA is the procurement of vehicles for street cleansing and garbage collection by Spelt Horne Borough Council in cooperation with Runnymede Borough Council in 2005 (www.spelthome.gov.uk/dec04reports2.doc) Another example is the procurement of revenues and benefits system by three Councils, namely Rother District Council, Lewes District Council and Hastings Borough Council in 2004 as reported in (www.rother.gov.uk/media/word8/4/ch2404-09-02-procurementFinancialSystem.doc).

North Eastern Universities Purchasing Group ("NEUPG") in the UK is an example of purchasing consortia of institutions in the Higher Education sector (wshu.ac.uk/services/finance/suppliers.html). Through the NEUPG the constituent Universities engage in several collaborative initiatives including joint purchasing agreements promulgated by the NEUPG or one of the other Higher Education consortia. The Universities can procure by utilizing the Higher Education sector or Office for Government Commerce framework agreements, including:

- Catering products
- Furniture
- IT consumables
- IT equipment including PCs and printers
- Mobile telecommunications Stationery and office supplies
- Vehicle leasing and short-term hire

Cooperative Purchasing in Canada

The Waterloo region in Canada procures a range of items such as photocopier supply and maintenance, heating fuel, gasoline, diesel fuel, propane, domestic water meters, garbage bags, fine paper, highway coarse salt, and pool chemicals through the cooperation of 18 agencies (www.city.waterloo.on.ca/DesktopDefault.aspx). The group realized significant savings.

Lesson for Country Procurement System

The few examples stated above provide sufficient evidence that the issue of joint or cooperative procurement is relevant in our environment. When carefully undertaken, cooperative procurement might significantly contribute to efficiency and cost-effectiveness in the delivery of essential goods and services. In summary, the following concepts need to be well understood to enable proper implementation of the system.

Understanding the Meaning

When two or more PEs purchase under one contract, it is referred to as joint cooperative procurement. In addition, it refers to procurement carried out by or on behalf of two or more PEs, which pools their purchasing power to purchase particular goods like stationery, fuel, computers, cars, and other equipment. In addition, delivering joint training programs, sharing procurement officers and specification writers, offering counsel and support on technical evaluation committees, and conducting independent administrative reviews for procurement complaints are all examples of cooperative procurement.

Creation of Procurement Consortium

Just like the creation of joint ventures by the supplier's contractors and consultants, they can form a consortium when procuring jointly. The logical steps can be summarized as follows:

- i. PEs should identify common requirements that can be handled jointly, taking into account issues.
- ii. A written agreement should be signed between the cooperating PEs (consortium);
- iii. A lead PE or a procurement agent should be appointed by the consortium and (
- iv. A supplier is procured using normal rules, but the contract with the supplier should contain an "addendum" that caters to statutory requirements and interest of each participating PE, as well as to ensure efficient administration of the contract by the lead PE or procurement agent.

Sections 39, 50, and 59 of the PPA 2011, Regulation of 2013 G.N. No 446, provide the necessary legal basis for carrying out procurement PPRA in the process of preparing a guide on this very subject.

Electronic Procurement Framework

Information and communication technology is becoming more and more commonplace worldwide, and there is a wealth of literature on ICT-enhanced or e-procurement solutions. According to an Australian survey by Deloitte, businesses that invest in e-procurement may save up to 15% of their total spending. Using e-procurement can cut transaction costs by 70%, according to a different Arbedeen study. These are all related to the savings in the business sector.

Key inefficient areas of the conventional paper-based procurement process were identified by (Gueritz, 2000) and can be significantly improved by e-procurement. The main advantages of e-procurement can be summed up as follows based on this and other literature:

- **Reduction of transaction costs:** reducing paper-based processes and the time spent on reconciling various documentations;
- **Reduced procurement costs:** increasing the buying power of the organization with its chosen suppliers and discounts likely to be given by suppliers due to reduction of their administrative costs when transacting with a PE electronically.
- **Reduced procurement cycle time:** Speeding up the entire procurement process and the capability to carry out a complete analysis of the procurement cycle so that procurement staff can identify common bottlenecks.
- **Better management control:** All procurement data is processed through one central database and automatically interworked into the council IFMS, thus allowing relevant analysis and management reports to be easily produced.
- **Maximizing compliance:** Getting the best worth from the deals the PE has struck, and slowing FEY to leverage far better deals with suppliers' compliance and leverage that deliver the larger proportion of cost reductions.
- **Minimizing errors in the process:** Minimizing chances of errors normally caused by human intervention or incorrect interpretations.

There are however fundamental requirements to be fulfilled before a country can embark on procurement. The generic considerations are among others

- Development of e-commerce strategy and ensuring resources for the same are available;
- Determining readiness both in the public and private sector;
- Ensuring e-infrastructure is available, maintainable, and functional;
- Building e-procurement organizational capacity;
- Addressing e-security issues and
- Developing the capacity of the system users.

All these entail careful planning and consultations with key stakeholders. It may also imply significant changes in practices systems and tools.

The Fish Government, for example, modernized the procurement system for the local government through a three-phase strategy as follows.

- Phase I: Capacity building and demonstration to assess the cost-effectiveness and enhance the capacity of PE to implement the ICT-based programs:
- Phase II: Mobilization if Phase 1 produces good results, namely, prospects for cost savings and that Worth for Money will be realized;
- Phase III: Rollout of the system across the public sector if the outcome of Phase II justifies it.

Therefore, in order for this nation to reap the above-mentioned benefits from e-procurement, a comprehensive strategy must be developed. Two agencies are currently testing a Procurement Management Formation System (PMS) that PPRA developed. In parallel, it is conducting a readiness survey, the findings of which will subsequently guide Tanzania's e-procurement strategy.

Conclusion and Recommendations

This paper has highlighted the issue of worth for money through efficiency and economy in public procurement operations. Various types of procurement transaction costs, including the source and their causes, have been explained. Lack of proper planning, poor communication, inadequate specifications, and wrong selection and conduct of procurement methods are all factors that may affect the overall cost of doing business.

Experience from other countries shows how some innovative arrangements can improve the cost-effectiveness of procurement. Joint procurement and the use of ICT are emerging as potential strategies for the reduction of typical transaction or administrative costs.

Procuring entities and businesses need to know that cost savings is a common interest. Ultimately, what counts is the worth of goods or services delivered to the public compared with the costs incurred in the course of the entire process. Both the public and the private sectors need to move towards reduced paperwork, by working together on ensuring appropriate ICT infrastructure is in place, and that both sides are ready.

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Appendix I

Table 1A: Shows the summary of Buildings or aggregation of requirements

Advantages	Dis advantages
The aggregation of demand can deliver benefits through better quality management information.	Demand a very high level of skills for analysis of demand, aggregation, and management of huge and complex contracts.
Aggregation may facilitate improved management of suppliers at a strategic level.	Centrally managed, large, and complex contracts may cause some difficulties in extracting the necessary information on quality of service, let alone entailing lengthy and costly procurement processes. The total costs of a consolidated procurement may exceed those that would have been incurred if parts of the total requirement had been procured separately.
Opportunities to achieve economies of scale can be exploited, including enabling smaller organizations to benefit from the same advantageous deals achieved by larger ones if the contract is set up to allow multi-access.	Aggregation across government could distort markets, create monopolists who can raise prices above competitive levels, and harmfully exploit their market power. In most markets there is a point at which it is no longer possible to exploit further economies of scale Aggregating supply beyond this point would not be advantageous.
Better management of the market through identification and management of capacity constraints across government, better certainty around cost and delivery, and simplified stock management and logistics.	Very large contracts may pose a threat to the growth of SMEs. A combination of the evolving strength of incumbents, size of contracts, and high bid costs can lead to less competitive marketplaces.
Better management of the supply chain through shifting the responsibility to the main contractor, and exploiting the economies of scope by reducing costs common to most goods and services in the supply chain.	Potential loss of visibility of the constituents of the supply chain may result in difficulty with identifying the associated risks and costs (mark-ups) and ensuring the worth of money. Insufficient attention may be paid to attracting the best sub-contractors, with negative consequences for quality or worth of money. Moreover, the potential benefits (e.g. innovation and high-quality service) through SME

Source: Researchers Findings, (2023)