Georgian Successful Reforms in Public Procurement: Path Towards the Risk-Based and IT Based Approach
The Georgian public procurement system has been transformed, from one that was labelled “high-risk” in 2009, to one that achieved the highest rating a few years later.
Before the reforms:

• 100% Paper based tenders
• Lack of transparency
• Restricted competition
• High compliance cost
• Non-reliable data
• Geographical inequality
• High risk of corruption
Nowadays:

• 100% electronic tenders
• Everyone sees everything
• Equal access to tenders
• Smart system preventing mistakes
• Business Intelligence system
  70 real-time reports
• Internal messaging system/SMS notifications
• Fast and transparent Dispute Resolution Board
Current Procurement Framework

Public Sector (Demand)  State Procurement Agency  Private Sector (Supply)
Public Sector (Demand)

- Number of decentralized acting contracting authorities: **4386** (20 May 2015)
- Annual amount of public procurement contracts: **3 billion GEL**, approximately **10%** of GDP
- Number of open tenders per year: **30,000**
- Estimated value of approximately 80% of announced tenders: **< 50,000 GEL**
- Saving: **14%** of the estimated value, **820 Million GEL since 2010**
22,172 suppliers participate in public tenders, number of foreign companies exceeds 648.

1,110 Nonresident Suppliers (CMR)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of registered bidders in the System</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>7365</td>
</tr>
<tr>
<td>2012</td>
<td>10874</td>
</tr>
<tr>
<td>2013</td>
<td>16447</td>
</tr>
<tr>
<td>2014</td>
<td>19911</td>
</tr>
<tr>
<td>20 May 2015</td>
<td>22,172</td>
</tr>
</tbody>
</table>
### Private Sector (Supply)

<table>
<thead>
<tr>
<th>Year</th>
<th>Contract value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>2,662,663,113</td>
</tr>
<tr>
<td>2012</td>
<td>2,771,183,391</td>
</tr>
<tr>
<td>2013</td>
<td>2,791,085,439</td>
</tr>
<tr>
<td>2014</td>
<td>2,846,942,257</td>
</tr>
</tbody>
</table>

#### Contract value by years

Graph showing the increase in contract value by years from 2011 to 2014.
Private Sector (Supply)

Average number of bidders in tender: 2.06 (2011: 1.73)

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Number of bidders</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>1.73</td>
</tr>
<tr>
<td>2012</td>
<td>1.75</td>
</tr>
<tr>
<td>2013</td>
<td>2.01</td>
</tr>
<tr>
<td>2014</td>
<td>2.02</td>
</tr>
<tr>
<td>5 May 2015</td>
<td>2.05</td>
</tr>
</tbody>
</table>

In certain sectors more than 2.5:

<table>
<thead>
<tr>
<th>Description</th>
<th>Average Number of bidders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building completion work</td>
<td>3.14</td>
</tr>
<tr>
<td>Installation services of metal containers</td>
<td>3.00</td>
</tr>
<tr>
<td>Garments</td>
<td>2.87</td>
</tr>
<tr>
<td>Works for complete or part construction and civil engineering work</td>
<td>2.78</td>
</tr>
<tr>
<td>Motorcycles, bicycles and sidecars</td>
<td>2.67</td>
</tr>
<tr>
<td>Occupational clothing, special work wear and accessories</td>
<td>2.65</td>
</tr>
<tr>
<td>Cleaning and polishing products</td>
<td>2.63</td>
</tr>
<tr>
<td>Site preparation work</td>
<td>2.62</td>
</tr>
<tr>
<td>Metal ores and alloys</td>
<td>2.57</td>
</tr>
<tr>
<td>Building installation work</td>
<td>2.56</td>
</tr>
</tbody>
</table>
Institutional Framework

State Procurement Agency (SPA) - strong and independent authority striving to contribute to a competitive market economy by developing a transparent and equal environment in the Georgian public procurement system
In total 56 employees are employed at State Procurement Agency of Georgia, out of which 55% are female and 45% male employees.
Institutional Framework

SPA manages the e-Procurement system and central purchasing initiatives for the Government of Georgia
Institutional Framework

Since 2014 Training Centre was established, which provides relevant and clear procurement related information and counseling services for the public as well as private sector.
Dispute Resolution Board (DRB)

- Created on 6 December 2010
- Acts as the review and remedies body for public procurement procedures
- Consists of six members; representatives of the SPA and the NGO sector
- Any entity or person interested in participating in a public procurement procedure may appeal the actions of a procurement entity or a tender committee to the DRB
- eDRB appeal form: Everyone can “freeze” a tender with just a single click of a button. Submission of appeal takes less than two minutes
- An appealed tender will be “frozen” for a period of 10 business days. During this period the eDRB will review the appeal and the results will be published in the eProcurement system
Number of appeals filed with the eDRB (as of 5-May-15)
Legal Framework

• One single and simple procurement law based on a decentralized model
• National scope reaching every procurement process above GEL 5000

Historical overview:

- Adoption of the first Georgian Law on Public Procurement, which was based on the UNCITRAL Model Law on Procurement of Goods, Construction and Services
- Significant amendments to the first Georgian Law on Public Procurement, abandoning UNCITRAL standards
- Assessment of Georgia’s procurement system by the World Bank: “a high-risk environment” that needs substantial improvements and reforms
- Return to UNCITRAL standards and Introduction of the Unified Electronic System
- Refinements of the electronic system, adjustments to the legal acts, improving of counseling services of the Agency of Public Procurement
Technological Framework

- Single and smart e-Procurement system: transparent, simple, multilingual and user-friendly minimizing administrative requirements and preventing mistakes.

- All procurement-related information is available online, to any interested person - It is possible to track every transaction, every procuring officer, every supplier, to produce indicators, look for behavioral patterns.

- Any communication with contracting authority is transparent. Any registered user can question any tender using Q&A module. Tender committee is obliged to answer.
Everyone sees everything

- Annual Procurement Plan
- Tender Notice
- Tender Documentation
- Questions related to tender notice and documentation/Answers of procuring entity
- Tender Proposals/Bids
- Decisions of tender evaluation Commissions
- All relevant correspondence
- All data on disputes, including application and decision
- Contracts and amendments
- Payments made through the eTreasury
The Georgian Procurement System underwent profound reforms. The achievements of the State Procurement Agency have been explicitly acknowledged by different international organizations.

UNITED NATIONS (UN): Second place in the Category: Preventing and Combating Corruption in the Public Service

OECD: Highly appraised amongst the Eastern Partnership Countries

EUROPEAN PARLIAMENT: The European Parliament Welcomes Georgia’s new procurement system, Georgia should also serve as an example for the EU Member States in this area

EBRD: 1-st place among EBRD regional 26 Countries in regard the implementation of eProcurement in the National Public Procurement Regulatory Framework

The World Bank: The introduction of E-procurement is a good example of how strong political will and commitment can be critical in the context of reforming public procurement.

ADB: E-procurement system implemented in Georgia may serve as a good example for Asia and other Pacific countries

TRANSPARENCY INTERNATIONAL: Improvements in Corruption Perception Index (2012), what was greatly promoted by the Georgian Public Procurement System
Consolidated Tenders
Before Consolidated Tenders’ (2011)

Declared Individual Tenders’ on a Fuel (oil production)

Bids Received Tenders
- Number - 720
- Cost – 140,998,081

No Bids Received Tenders
- Number - 2489
- Cost – 362,090,478

28% Bids received
72% No Bids received
Why Consolidated Tenders’?

- Reduces the number of No Bids Received tenders
- Consequently, reduces the number of simplified (direct) procurement (retail price)
- Cost saving
- Improves transparency
- Reduces administrative resources of procuring entities
- Optimizes irrational expenditure of budgetary funds
- Product/Service quality control
- Reduces expensive and irrelevant procuring objects’ purchase
Consolidated Tenders

• Unified, Centralized state procurement procedure of the same/similar type of procuring objects’ for different procuring entities.

• Consolidated Tenders occur:
  ✓ through electronic system of state procurement
  ✓ as an electronic online auction

• Bidders express willingness to undertake the specified procuring object at a price

• After announcement of the winner, procuring entities can make a contract on the state procurement with the winner supplier.
Procuring Objects of a Consolidated Tenders’

- fuel (oil production)
- Cellular (mobile) Communication
- Computers
- Printing Papers
The role of Tender Commission and State Procurement Agency – the Division of Consolidated Tenders' Large scale Tender Commission

- Plays an intermediary role between procuring entities and suppliers.
- Identifies the need for the same/similar type of procuring objects of each procuring entities.
- Identifies, communicates and negotiates with suppliers.
- Determines the terms of the Consolidated Tenders’ and publishes the Consolidated Tenders’ Documentation.
- Declares the winner bidder.
- Monitors the Consolidated Tenders’ procedure and evaluates the performance of procuring object.
- Ensures that within a Consolidated Tenders’ procedure all terms and conditions are maintained.
• Small scale tender → no interest to bid → No Bids Received → simplified (direct) procurement (retail price) → irrational spending of budgetary funds

• Medium scale tender → indifferent to bid → moderate discounts → less irrational spending of budgetary funds

• Large scale tender → high interest, high competition, high portion of discounts → optimized rational spending of budgetary funds
Vehicle Automatic Identification, so called “AGAI” system, is used to control the consumption of the fuel by car fleet.

**How does the system work?**

- Oil stations use nozzles with information recognition feature
- When nozzle touches the car tank, it automatically reads the tag installed in the tank
- System anticipates action, only after receiving the information from the tank

**Advantages of the system:**

- Tracks fuel inventory
- Simplifies Car fleet management
- Secures fuel inventory for authorized as well as reasonable use

Since the implemented system is one of the most sophisticated, reasonable and prioritized method of controlling system, every single procuring entities’ authorized car must fill up fuel with the “AGAI” system at an oil station.
Budgetary Funds Economy
(shown in GEL)

### Fuel
- 2013: 14000000
- 2014: 18192405
- 2015: 27552080

### Computers
- 2013: 500000
- 2014: 5438040
- 2015 (Forecasted): 6362800

### Paper
- 2013: 160000
- 2014: 179600
- 2015 (Forecasted): 279400
Monitoring Process and Methodology
Who Monitors?

Direct
- SPA Monitoring Department
- Tender Division
- Division of Simplified Contracts, Contests and State Procurement Plans

Indirect
- Government
- Civil Sector
- Business

Statistic

<table>
<thead>
<tr>
<th>SIMPLIFIED PROCUREMENT</th>
<th>May-Dec 2014</th>
<th>Jan-May 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>26880</td>
<td>18345</td>
<td></td>
</tr>
</tbody>
</table>
Contest

Simplified Procurement

Monitor

Tender
Tendering Procedures and associated risk factors

Groups by risk factors

- Actual payment incomplete or delay in provision of the final contract status
- Abuse of the right to disqualification after cancellation of tender
- After cancellation of tender, new tender was announced
- First time tender the supplier participated in, after the registration in the System
- Tender documentation adapted to a specific supplier
- Compliance with the basis for disqualification
- Cases of noncompliant disqualifications
- Changes to the contract in order to benefit a specific supplier
- Final contract status incomplete
- Estimated cost of the tender is over 200,000 GEL

Tendering Processes:

1. ePLAN
2. Tender Announcement (2)
3. Tender Requirements (3)
4. Questions & Answers (4)
5. Proposal (5)
6. Evaluation (6)
7. Contract (7)
8. Contract Execution Monitoring (8)
Simplified Procurement Procedure

- ePLAN
- CMR
- Contract

Simplified Procurement
Methodology for detecting monetary limit violations, artificial division, artificial reduction of quantity/volume of the object required as a part of the State Procurement process.

- By Contest
- By Consolidated Tender
- By Electronic Tender
- Simplified Procurement, within monetary limit
- Simplified Procurement, required urgently
- By Simplified Electronic Tender

Value of Agreement
By Simplified Procurement, within monetary limit

Total value of the agreements
- Common funding source
- Common CPV Code
Methodology for detecting monetary limit violations, artificial division, artificial reduction of quantity/volume of the object required as a part of the State Procurement process.

- By Contest
- By Consolidated Tender
- By Electronic Tender
- Simplified Procurement, within monetary limit
- Simplified Procurement, required urgently
- By Simplified Electronic Tender

Value of Agreement
By Simplified Electronic Tender (except for possible cases - by the Decree of the Government)

Total value of the agreements

- Common funding source
- Common CPV Code
Methodology for detecting monetary limit violations, artificial division, artificial reduction of quantity/volume of the object required as a part of the State Procurement process

- Common funding source
- Common CPV Code

According Procurement of the specific CPV division codes, under the same funding source, with Simplified Procurement, within monetary limit, the procuring organization has procured in the last 2 years with Electronic Tender.

<table>
<thead>
<tr>
<th>Year</th>
<th>CPV Codes (main)</th>
<th>Estimated value</th>
<th>Purchasing Mean</th>
<th>Quarterly</th>
<th>Procurement Base</th>
<th>Financing source</th>
<th>Price-List</th>
<th>Two-phase</th>
<th>Alternative</th>
<th>Common</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>22500000</td>
<td>65'000</td>
<td>simplified electronic tender</td>
<td>I, II, III, IV</td>
<td>in compliance with threshold</td>
<td>state budget</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>22500000</td>
<td>55'325</td>
<td>simplified electronic tender</td>
<td>I, II, III, IV</td>
<td>in compliance with threshold</td>
<td>state budget</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>22500000</td>
<td>3'000</td>
<td>simplified purchase</td>
<td>I, II, III, IV</td>
<td>in compliance with threshold</td>
<td>state budget</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>