

# Transparency of the governmental procurement for civil society and the factors of their efficiency

## Transparencia de la contratación pública para la sociedad civil y los factores de su eficiencia

Kirill Anatolyevich BELOKRYLOV [1](#); Olga Spiridonovna BELOKRYLOVA [2](#)

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#### ABSTRACT:

The aim of the article is the justification of a necessity of increasing the transparency of the public procurement system and the allocation of stages of its evolution in Russia. It is demonstrated that the increased use of electronic auction helped to transform the civil society (social auditors) into a competent subject of public procurement markets. We suggested a hypothesis that the customers' qualification and the transparency of the public procurement system are the dominant factors of their efficiency. In order to justify it we have analyzed the results of a survey of civil servants, increasing their qualification at the Pilot Procurement Center of the Southern Federal University. The efficiency is assessed in terms of budgetary savings. At the preparation of grids, using the software Statistical Package for the Social Sciences, we

#### RESUMEN:

El objetivo del artículo es justificar la necesidad de aumentar la transparencia del sistema de contratación pública y la asignación de etapas de su evolución en Rusia. Se demuestra que el mayor uso de la subasta electrónica ayudó a transformar a la sociedad civil (auditores sociales) en un tema competente de los mercados de contratación pública. Sugerimos la hipótesis de que la calificación de los clientes y la transparencia del sistema de contratación pública son los factores dominantes de su eficiencia. Para justificarla hemos analizado los resultados de una encuesta a funcionarios públicos, aumentando su calificación en el Centro Piloto de Adquisiciones de la Universidad Federal del Sur. La eficiencia se evalúa en términos de ahorros presupuestarios. En la preparación de las redes, utilizando el software Paquete Estadístico

determined the degree of correlation between the efficiency of public procurement and qualification of customers. Their high dependence has been proven. This, under the conditions of high responsibility of contract managers and contract service, objectively requires – combined with the high rotation under the conditions of a new political business cycle starting in Russia – a systematic training of civil servants. The increase in the share of the most transparent methods of procurement, such as electronic auctions, and the common increase of the information transparency at the introduction of the Unified Information System of Public Procurement and the formation of the contract system, have significantly expanded the capabilities of civil society and public auditors to test the corrupt behavior of customers and to withdraw such procurements. However, this requires enhancing the competence of social auditors.

**Keywords:** public procurement, transparency, efficiency of procurement, electronic auction, education, corruption, public control.

para las Ciencias Sociales, se determinó el grado de correlación entre la eficiencia de la contratación pública y la calificación de los clientes. Su alta dependencia ha sido probada. Esto, bajo las condiciones de alta responsabilidad de los directores de contratos y de los servicios contractuales, requiere objetivamente - combinado con la alta rotación bajo las condiciones de un nuevo ciclo político que comienza en Rusia - una formación sistemática de los funcionarios. El aumento de la cuota de los métodos de contratación más transparentes, como las subastas electrónicas, y el incremento común de la transparencia de la información en la introducción del Sistema Único de Información de Compras Públicas y la formación del sistema de contratos, De la sociedad civil y auditores públicos para probar el comportamiento corrupto de los clientes y retirar tales adquisiciones. Sin embargo, esto requiere mejorar la competencia de los auditores sociales.

**Palabras clave:** contratación pública, transparencia, eficiencia de la contratación pública, subasta electrónica, educación, corrupción, control público.

## 1. Introduction

The enhancing of the transparency of the public procurement system is the main direction of its development. The capabilities of foresight public procurement in Russia have been deteriorated in connection with the increase of the degree of uncertainty of economic dynamics, due to:

- the trap of stagnation (Grozovsky, 2014) and since 2015 – depression, as the fall in GDP in 2015 amounted to 3.7%, but in 2016 we expect the decline in the pace of fall to 0.3%;
- the forced strategy of import substitution, due to realization of which the average price of the state contract for goods, procurement of which from foreign suppliers is prohibited or restricted, has increased by 40% in 2015;
- the necessity of re-industrialization for the realization of the strategy of catching-up development, since developed countries have started a new technological revolution aimed at reshoring since 2008-2009 (Bossce *et al.*, 2014), i.e. the return of previously exported industrial production into developing countries;
- the stabilization at a low level of the exchange rate of the ruble and global oil prices.

Under such conditions, a small increase in nominal government spending of the Russian Federation in recent years is provided due to increase of the budget deficit: in 2015, government spending amounted to 15,252.3 billion rubles and a deficit was of 1%; in 2016, government spending amounted to 16,098 billion rubles, the deficit rose to 3%; in 2017, planned government spending amounted to 16,240.8 billion rubles, but the deficit will increase to 2,753.2 billion rubles. This escalates the problem of the efficient use of government spending, primarily in public procurement. Meanwhile, the high volatility of the institutional environment is tested, especially of formal institutions, economic and legal risks have been growing. As a result, although the Pilot Center of the Southern Federal University (SFU) has trained almost 7 thousand civil servants for 2013-2016, the monitoring of 10 thousand of procurements on the websites shows that 60% of them are performed with violations and losses of billions of rubles.

Therefore, improving of the efficiency of the use of budgetary funds requires ensuring the transparency of procurement. Boehm and Olaya have shown that transparency affects the efficiency through procurement prices (Boehm, & Olaya, 2006, p. 438). A high level of transparency is an important indicator of the methodology of assessing the procurement system of the European Bank of Reconstruction and Development (EBRD), the basic principle of their organization (Procurement Policies and Rules, 2010). The advanced Model Law on

Procurement (UNCITRAL), updated in 2012, highlights the essential principle of public procurement – transparency (UNCITRAL, 2012, pp. 4, 8).

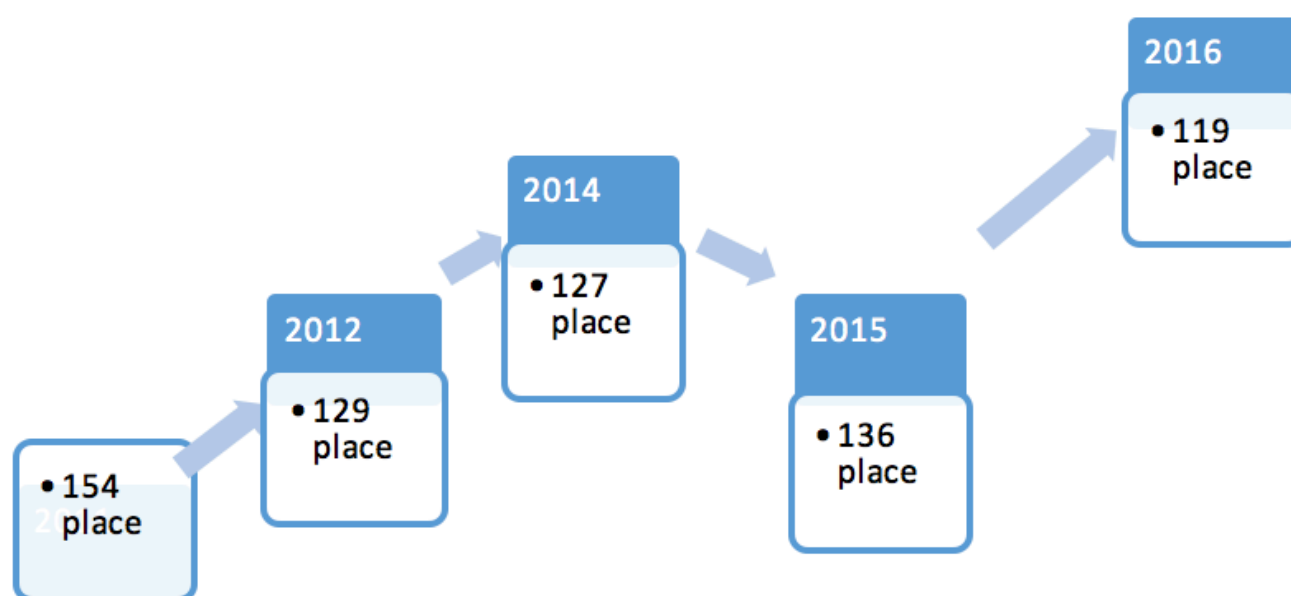
Therefore, the openness in the sphere of government procurements, transparency has a direct impact on the efficiency of use of budgetary funds.

## 2. The stages of evolution of public procurement system in Russia

In the mid-1990s, the system of public procurement was imported from developed countries (predominantly, from Germany) in the Russian economy. The borrowed rules of public procurement, mainly of UNCITRAL, were transplanted into the Russian economy (Belokrylov, & Korytsev, 2014, p. 37). The Decree of the President of the Russian Federation (The Decree of the President of the Russian Federation No. 305 “On Priority Measures for Prevention of Corruption and Reduction of Budgetary Expenses at the Organization of Procurement of Production for State Needs”, 1997, April 8) established the uniform requirements for government procurement for government customers (federal and regional).

However, the imported institute for public procurement had long to take root in Russia. Instead of reducing the corruption of the public procurement system, the field of public management has become the most corrupt. At the next phase, there was implemented distancing of bidders and officials through the electronic trading, i.e. the transition from the import of institutions to the farming (Kuzminov *et al.*, 2006) of the institute of electronic auction based on the introduction from January 1, 2006 of the Federal Law issued July 21, 2005. No. 94-FZ “About Placing of Orders for Deliveries of Goods, Performance of Works, Rendering of services for State and Municipal Needs”.

The transparency increase of the public procurement system has been supplemented by the measures to combat corruption in accordance with the Federal Law issued December 25, 2008 No. 273-FZ “On Combating Corruption”. As a result of the implementation of these measures, Russia's corruption perception index moved from the 154th place, which it occupied in 2010, to the 129th place in 2012, 127th in 2014, 136th in 2015, and 119th in 2016 (Figure 1).



Source: Corruption Perceptions Index 2015, 2016.

**Figure 1. Dynamics of the index of perception of corruption in Russia.**

Further development of public procurement in Russia has gone in exactly the opposite direction: there was made a twist to the path of the import of the Federal Contract System of the United States (Federal Acquisition Regulation, 2005) based on the introduction of the Federal law 44-FZ “On the Contract System in Procurement of Goods, Works, Services for State and Municipal Needs” of January 1, 2014. It was necessary for the unification of all stages of the procurement under a single contract system. But the process of growing of the institute of electronic auction continues on the basis of the scale expansion of electronification by means of

introducing in the coming years of electronic competition. Therefore, despite the modernization strategy of the development of the public procurement system, the priority direction of its development remains electronification, transparency for civil society, public auditors.

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### **3. Effects of electronification of the public procurement system**

As the experience of other countries shows, the expansion of electronic procurement for the state (in Malaysia the government procurements account for 12-25% of GDP) provides a significant savings of budget funds to the government (Kaliannan *et al.*, 2009), since their aims are (Rathakrishnan, 2007, p. 17):

- to provide the optimal ratio of price and quality;
- to ensure for the suppliers fast and accurate payment for government orders;
- to realize the principles of responsibility and transparency;
- to expand the cooperation of business and government.

In the Rostov Region, among the procurements claimed on November 28, 2016 (1597), an electronic auction (88.6%) is leading, and among the cost of procurement – 94.8% (Claimed procurements, 2016).

Increasing of the electronification of the state leads to the increased efficiency of the public sector (Choi *et al.*, 2016, p. 644). The electronification of the public procurement system has increased its transparency. This helped to institutionalize civil society in accordance with the Federal Law No. 212-FZ issued on July 21, 2014 “On Fundamentals of Public Control in Russia” as a competent subject of the public procurement system. The increase in the efficiency of the public control in the public procurement system is ensured by the increase of information openness of process of development, adoption and implementation of new directions of perfection of system of public procurement, the availability of information about all stages of planning, procurement, conclusion of the contract and its enforcement. In the UN Convention against Corruption, 2004, a transparency of a state was defined as the essential principle of the prevention of corruption (United Nations Convention against Corruption, 2004). This is also stated in the Federal law of the Russian Federation issued on December 25, 2008 No. 273-FZ “On Combating Corruption” (Article 3).

The EU and the United States perform the active involvement of civil society in the democratization of public management. To do this, officials and civil society representatives jointly participate in governance, and cease to resist and oppose (Fund of Open New Democracy, 2013, p. 78). However, the surveys of suppliers and customers, who were taught at the Pilot Center for State Procurement of the SFU, show that the influence of social control on the efficiency of the procurement is estimated differently:

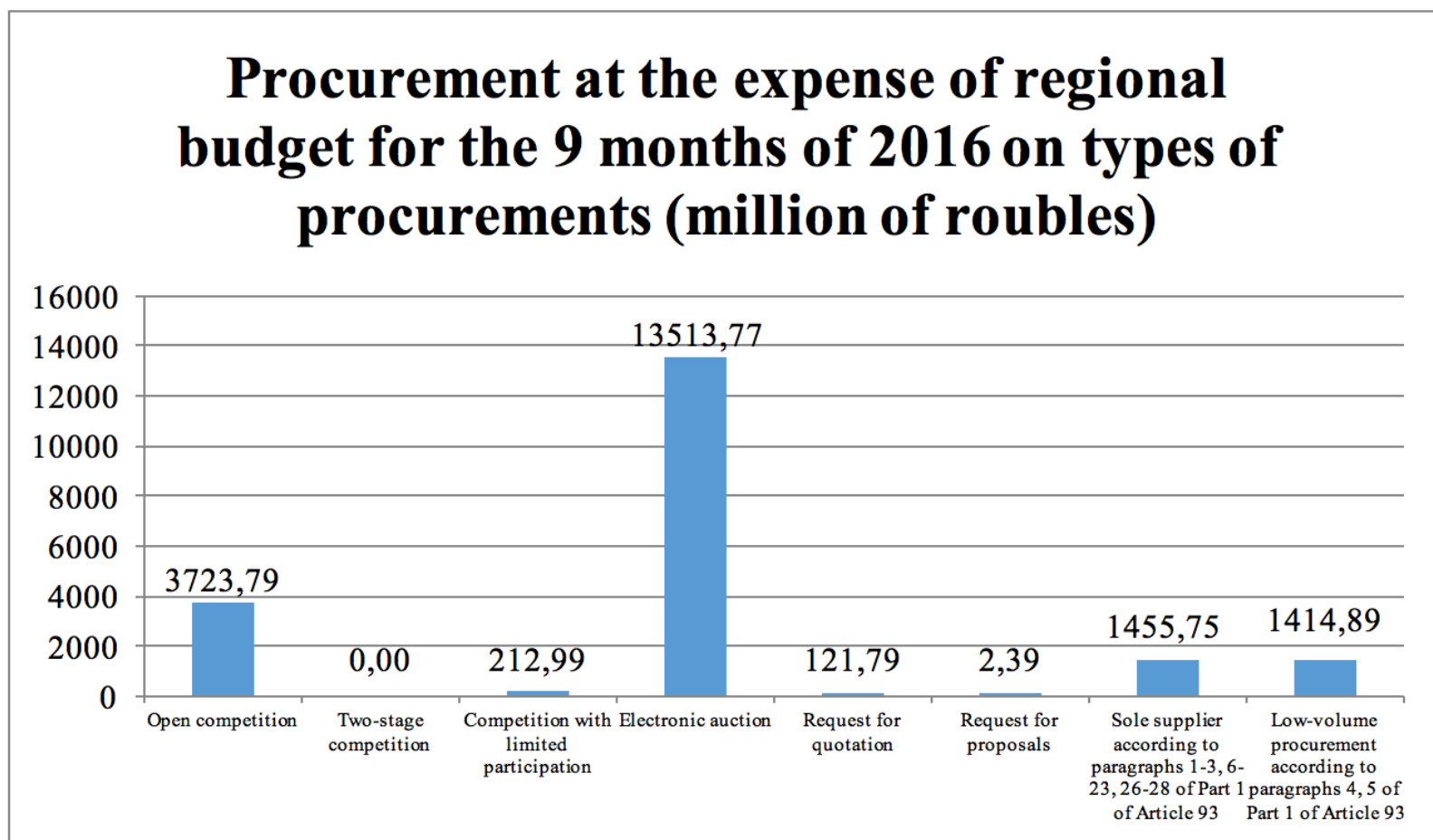
- the suppliers are positive about the impacts of social control on the reduction of corruption;
  - the customers believe that social control has an adverse effect on work, artificially extends the timing of the procurement;
  - both customers and suppliers appreciate the role of public councils under the agencies since they contribute to the modernization of procurement law.
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### **4. The efficiency of the system of public procurement: criteria and evaluation**

Traditionally, the efficiency is considered as the ratio of the result to the cost, i.e., the degree of achievement of the planned result, at the minimization of the cost of its achievement.

The author suggests to use as indicators of efficiency of public procurement:

1. The number of procurements in a certain way in relation to the total number or percentage of purchasing volume in one way or another way in their total cost, i.e., the frequency of use of a particular method of procurement. In the Rostov Region, for the first 9 months of 2016 the frequency of use of electronic auctions was 66.1% (Figure 2).



Source: Analysis of the Efficiency of Order Placement for State and Municipal Needs of the Rostov Region, 2016.  
**Figure 2. The volume of procurements in various ways in the Rostov Region for the first 9 months of 2016.**

The municipal customers use the electronic auction only in 44.5%, and non-competitive methods of procurement (sole source, and small procurements) – 36.1%. Regional customers use non-competitive ways of procurements in 16%, which indicates a higher efficiency of use of funds of the regional budget compared to municipal budgets.

2. Competitive environment in budget procurement is estimated by the number of bidders. “A more competitive market will have more vendors” (Thai, 2009, p. 700). In Russia in 2016 3 providers participated in tenders for government contracts on average.

3. The average price of the contract makes it possible to analyze the prices of homogeneous products in different regions and to identify the causes of price variation.

4. The amount of budgetary savings in comparison with the declared price of the contract. In Russia, the budgetary savings has increased from 208 billion rubles in 2007 to 424 billion rubles in 2013. It fell in 2014 to 299.3 billion rubles in connection with the introduction of the contract system and the sequestering of the budget in the crisis circumstances, but in 2015 it rose to 321 billion rubles (7.3% in comparison with the planned prices of the contracts).

5. The absolute reduction of expenditures of budgetary funds in the process of public procurement is estimated as follows (Belokrylova, & Korytsev, 2006, p. 77):

$$C = C_i - C_f - C_c$$

where

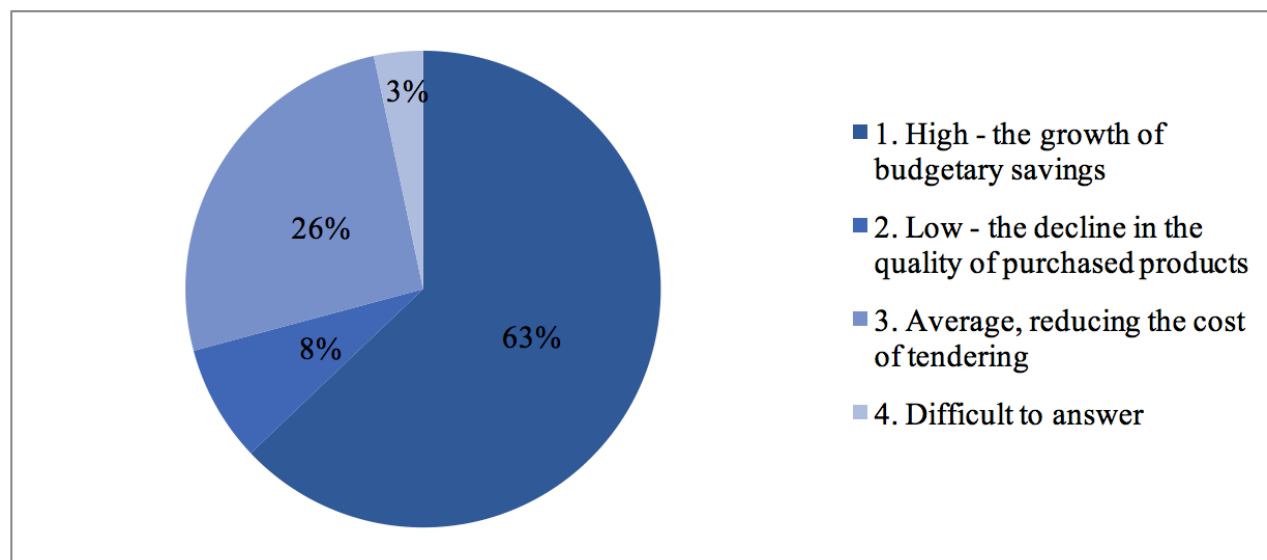
$C_i$  – the initial maximum price of the contract;

$C_f$  – the final cost of the contract;

$C_c$  – the cost of the customer for conducting the auction.

## 5. Hypothesis

The author puts forward the hypothesis that the qualification of the customers and the transparency of the procurement process are the dominant factors influencing the efficiency of procurement. The estimation of the distribution of the answers of 240 students of the Pilot Procurement Center of the SFU (Figure 3) shows that the majority of civil servants (89%) believe that the use of electronic auction as the most transparent way of public procurement provides a high or average efficiency, because of budget savings.



Source: Surveys of students of the Pilot Procurement Center of the SFU.

**Figure 3. Distribution of answers to the question "What is the efficiency of electronic auctions?"**

The author evaluated the influence of training of customers on efficiency of public procurement. As an indicator of the efficiency of the procurement chosen, the budget savings.

## 6. Methods

The results of the survey of the participants of the Pilot Procurement Center of the SFU are aggregated in the cross-table. Using the software SPSS (Statistical Package for the Social Sciences), we determined the degree of the correlation between the parameters of "efficiency of public procurement" and "qualification of customers". We surveyed 200 public servants in the 1st half of 2016. One of the five questions in the questionnaire regarding the efficiency of procurement was Question 9 "Does the electronic auction provide the efficiency of procurement processes?" The answers are presented in table 1.

**Table 1.** Analysis of answers to question 9

Answers	1st half of 2016
Yes	53
No	13
Slightly	34

Source: Surveys of civil servants in the Pilot procurement center of the SFU

Five answers of the questioner of the civil servants characterized the level of qualification of the state customer. One of them is Question 11 "Please rate the qualification level of the customers." The answers are presented in Table 2.

**Table 2.** Analysis of answers to question 11

Answers	1st half of 2016
High	64
Average	20
Low	16

Source: Surveys of civil servants in the Pilot procurement center of the SFU

In accordance with the hypothesis, a task was set to determine the existence of dependence of the responses to Question 9 from the responses to Question 11. Since these are formal variables, the cross-tables, comparing the observed frequency (Count) to expected (Expected count) are applied, and unstandardized difference (Unstandardized Residual) is estimated. Of special importance for this study is the value of "Balance" (Unstandardized Residual). This is the difference between the expected count and observed count. The higher the remainder value, the stronger the dependence between variables. The sign in front of the remainder does not matter (only "modular value" is important), and the degree of correlation (dependence) determines the researcher (the expert) directly. The balance value 5 as the parameter value, at which there observed a connection of the selected indicators, was chosen by the author based on the optimization results.

## 7. The results of the study

The analysis of the obtained results shows that the efficiency of the public procurement system is highly dependent on the qualification of the customers. This conclusion is substantiated by the close correlation between the answers to the questions: "Does the electronic auction provide the efficiency of procurement processes?" and the qualification level of the customers (Table 3).

**Table 3.** Conjugation of answers to the questions:  
 - Does the electronic auction provide the efficiency of procurement processes? and  
 - Assess the qualification level of the customers.

		"Assess the qualification level of the customers"				
			high	average	low	Total
"Does the electronic auction provide the efficiency of procurement processes?"	Yes	Count	61	26	17	104
		Expected count	66.6	20.8	16.6	104.0
		Unstandardized Residual	-5.6	5.2	.4	
		Standardized Residual	-.7	1.1	.1	
	No	Count	16	3	7	26

		Expected count	16.6	5.2	4.2	26.0
		Unstandarted Residence	-0.6	-2.2	2.8	
		Standarted Residual	-0.2	-1.0	1.4	
	Slightly	Count	51	11	8	70
		Expected count	44.8	14.0	11.2	70.0
		Unstandarted Residence	6.2	-3.0	-3.2	
		Standarted Residual	0.9	-0.8	-1.0	
Total		Count	128	40	32	200
		Expected count	128.0	40.0	32.0	200.0

## 8. The discussion of study results

High distress of relationships of the selected variables shows their high dependence. The closeness of the connection is due to the correctness of the decision by the customer at the review of the applications, conduct of the procurement, and documentation corresponding to the law. This leads to increasing the efficiency of all stages of the procurement and the achievement of the objectives of the legislation on procurement, such as: the increase of budgetary savings, the increase of levels of competition during tenders, ensuring the transparency of procurement, reduction of corruption risk.

Case Study: here we discuss the importance of qualification of customers in order to illustrate some of the lessons of the study. The expert of the Pilot Procurement Center of the SFU Gutseluk had participated in the hearing on charges of SFU Vice-rector for science and innovation Aidarkin of negligence in the procurement of equipment. Gutseluk proved that the University acted solely on the basis of legislation in the procurement of equipment. On the basis of determination of the efficiency of the contest, it was calculated that during the competition for the procurement of equipment for the SFU, the price was not only inflated, but on the contrary, the savings amounted to about 8 million rubles. Thus, the qualification of specialist in public procurement helped to maintain the reputation of SFU.

## 9. Conclusion

Thus, the training of customers and members of procurement commission leads to an increase in budgetary savings. The proven close connection between qualifications and efficiency is due to the correctness of decision-making of more qualified customers when considering applications, the placement of procurement documentation. This leads to the increase of efficiency of state management at all stages of the procurement. The importance of social control in order to improve the efficiency of procurement is high. A wide range of people can identify the shortcomings of the public procurement system, propose solutions, participate in implementing them. The limiting factors are only informational and legislative incompetence of citizens, which requires from public authorities and non-profit organizations to train the public



## 10. Gratitude

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1. Southern Federal University, 344006, Rostov-on-Don, Bolshaya Sadovaya Street
  2. Southern Federal University, 344006, Rostov-on-Don, Bolshaya Sadovaya Street
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