Centralised vs. Decentralised Procurement Processes

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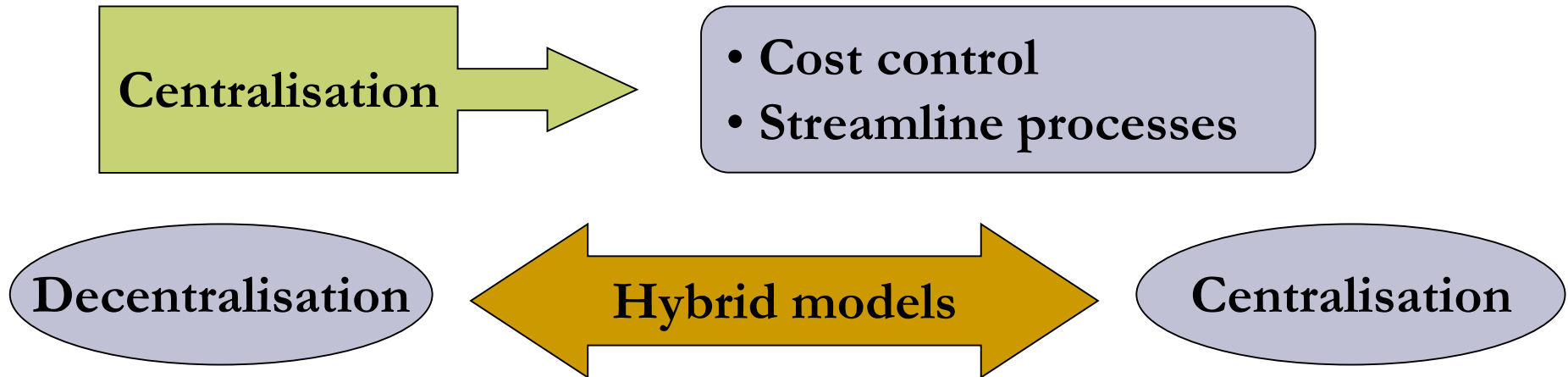
Centralisation in Public Procurement

Forces Shaping Government Spending

- **Cost control**
- **Streamline processes**

Better value-for-money
which may include also concern
for market structure and more

*Governments and private organisations have to tackle
a very similar problem.*

Models of Public Procurement

Centralisation ➔

- **Cost control**
- **Streamline processes**

Decentralisation ⬅ **Hybrid models** ➔ **Centralisation**

Clear Trend Towards More Centralised Procurement Processes

- Examples (with some degree of differentiation include, among others:

  - ❑ Crown Commercial Service (United Kingdom)
  - ❑ Consip (Italy)
  - ❑ SKI (Denmark)
  - ❑ Hansel (Finland)
  - ❑ Satskontoret (Sweden)
  - ❑ BBG (Austria)
  - ❑ GSA (USA)

Major Forces Affecting the Degree of Centralisation

Efficiency/Savings	Network effects and standards
Product standardisation	Emergencies
Favouritism	E-procurement

Strategic procurement

Efficiency/Savings (1/2)

Three main channels:

- Higher volumes (demand side)

  - Lower unit costs (supply side) $\longrightarrow$ + savings through competitive processes

  - Lower procurement organisational/transaction costs $\longrightarrow$ + savings

  - Larger risks of being "out of the market" for firms depending on public demand $\longrightarrow$ + savings through competitive processes

Efficiency/Savings (2/2)

- Specialisation: Centralised procurement calls for more specialised expertise

- Knowledge and information sharing: collect, update and elaborate information from seemingly unrelated markets (e.g. printers and PCs; insurance and banking)

Product Standardisation

Two main forces:

- Better information gathering and processing
  - Standardised products go hand in hand with low degree of demand heterogeneity

- Increases suppliers' economies of scale
  - Limits to centralisation may arise owing to physical constraints (e.g. electricity purchased by local authorities that are scattered over a vast geographical area)

Favouritism

Two main forces:

- Repeated interaction (most purchasers do not take place only once in a lifetime) may favour the emergency of a "personal acquaintance" between buyers and sellers, and thus some forms of favouritism (through lobbying, not necessarily corruption)

- Centralised procurement competitive processes may *suffer less* from favouritism, BUT generate higher pressure in terms of information gathering and processing

Strategic Procurement

Core Procurement Sectors

- **Defence** (see "China's National Defence" White Paper in 2004): In the United States, the Department of Defence recognises some advantages of decentralised procurement processes (flexibility and innovation)

- **Health**: examples include, among others, the case of anti-malaria drugs (benefits of centralisation illustrated in a recent volume by the Board on Global Health); the UNICEF for vaccines; and WHO for tuberculosis

- **Green procurement**: centralisation enhances the positive externalities of imposing "greener" standards

Networks and Standards

Two main forces:

- **Network industries** account for a sizable share of modern economies: e-markets (B2B, B2C and B2G platforms)

- **Network effect** – The value to any member of the network increases with the size of the network. Coordination among users is paramount

Emergencies

- Urgent need for a good or service – Time too tight to organise a competitive tendering:
  - First-aid goods after a natural disaster

- Degree of centralisation depends upon:
  - Whether the emergency occurs at local rather than national level
  - The nature of commodity/service to be procured

- Several reasons to favour centralisation:
  - Need for co-ordinated intervention
  - Reducing risk of varying quality
  - Reducing the risk of corruption

E-Procurement

Development of e-Procurement

- Reduces the costs of information collection
- Standardises the nature of information

Higher centralisation

Centralisation magnifies the benefits of e-procurement. The value of a web-based procurement system is the highest for organisations which, by introducing e-procurement systems, they can undertake centralised procurement activities that they did not have before.