BPSCM YR ONE, PPSCM CWUNIT

TOPIC FOUR (4)
Procurement in different Environment

(a) The Primary Sector

The primary sector of industry generally involves changing natural resources into primary products. Most products from this sector are considered raw materials for other industries. Major businesses in this sector include agriculture, agribusiness, fishing, forestry, mining and quarrying industries.

The manufacturing industries that aggregate, pack, package, purify or process the raw materials close to the primary producers are normally considered part of this sector, especially if the raw material is unsuitable for sale or consumption.

Primary industry is found in larger amounts in poorer country's typically LDC's for instance there are high levels of animal husbandry in Africa but lower levels of animal husbandry in Japan.

Characteristics of the primary sector

- Capital intensive
- Located in remote areas
- Have high environmental impact
- There items require long lead times so there is need for huge volumes of inventory
- Selling prices are fixed and determined by global market forces.
- Impact of primary sector on purchasing and supply management
- There is high level of control of which encourages the realization of professional expertise.
- There will be no problems with links between stages
- The suppliers base changes from time to time because of the professional products.

(b) Secondary Sector

The secondary sector of industry includes those economic sectors that create a finished, un sealable product; manufacturing and construction. This sector of industry generally takes the output of the primary sector and manufacturers finished goods or products to a point where they are suitable for use by other businesses, for export or sale to domestic consumers. This sector is often divided into light industry and heavy industry. Many of these industries consume large quantities of energy and require factories and machinery to convert the raw materials into goods and products. They also produce waste materials and waste heat that may pose environmental problems or cause pollution.

Types of manufacturing processes

Project processes

- It deals with distinct and tailored products with a long lead times
- They use low volumes and high variety
- Materials are stocked to order following the confirmation of the contract
- Items are delivered to remote locations and arrival of the items to arrive in order of sequence.

Job processes
They involve high variety of low volume items and products are tailored to customer's needs. Specialized items are stocked to order and commonly used items stocked in stock. The operations will process a series of products but although these require the same kind of attention they will differ in exact needs furniture markers, tailors etc.

Batch processes
These are processes that produce goods in large quantities and inventories are expected at each stage because of there start and stop nature e.g. newspapers, party cards etc. materials will be received just in time if inventories are predicable.

Mass processes
These produce goods in narrow variety but in large volume e.g. fast moving consumer goods like candles, pencils types etc and material requirements are highly repetitive and predictable.

Continuous processes
These involve operating in high volumes and low variety. An example of these are utilities like water, electricity which are standardized and used continuously because disruption can cause serious consequences.

(c) Tertiary Sector
The tertiary sector of industry (also known as the service sector or the service industry) is one of the three main industrial categories of a developed economy, the others being the secondary industry (manufacturing) and primary industry (extraction such as mining, agriculture and fishing). Services are defined in conventional economic literature as 'intangible goods".

The tertiary sector of industry involves the provision of services to other businesses as well as final consumers. Services may involve the transport, distribution and sale of goods from producer to a customer as may happen in wholesaling and retailing, or may involve the provision of a service, such as in pest control or entertainment. The goods may be transformed in the process of providing the service, as happens in the restaurant industry.

However, the focus is on people interacting with people and serving the customer than transforming physical goods. For the last 20 years there has been a substantial shift from the other two industry sectors to tertiary sectors to the tertiary sector in industrialized countries. The service sector consists of the "soft" parts of the economy such as insurance, tourism, banking, retail and education. In soft employment, people use time to deploy knowledge assets, collaboration assets, and process engagement to create productivity (effectiveness), performance improvement potential and sustainability. Typically, the output of this time is content (information), service, attention, advice, experiences, and/or discussion (aka "intangible goods") other examples of service sector employment include:

Characterises of services include

- Intangibility,
- Perish-ability,

- Heterogeneity and the fact that
- The provider and customer cannot be separated at the time of providing the service.

Intangibility makes it difficult for potential customers to understand what they will receive and what value it will hold for them. Indeed, some, such as consulting and investment services, offer not guarantee of the value for price paid.

Since the quality of most services depends largely on the quality of the individuals providing the services, it is true that "people costs" are high component of service costs. Where a manufacturer may use technology, simplification, and other techniques to lower the cost of goods sold, the service provider often faces an unrelenting pattern of increase costs.

The above mentioned characteristics also pose a number of challenges when purchasing services.

SCOPE OF THE PUBLIC SECTOR

The public sector is that part of economic and administrative life that deals with the delivery of goods and services by government and for the government, whether national, regional or local/municipal[1].

The public sector has also been defined as comprising the sub-sectors of general government (mainly central, state and local government units together with social security funds imposed and controlled by those units) as well as public corporations, i.e. corporations that are subject to control by government units (usually defined by the wining the majority of shares)[2].

Examples of public sector activity range from delivering social security, administering urban planning and organizing national defenses.

The organization of the public sector (public ownership) can take several forms, including: -

- Direct administration funded through taxation; the delivering organization generally has no specific requirement to meet commercial success criteria, and production decisions are determined by government.
- Publicly-owned corporations (in some contexts, especially manufacturing, "State-owned enterprises"); which differ from direct administration in that they have greater commercial freedoms and are expected to operate according to commercial criteria, and production decisions are not generally taken by government (although goals may be set for them by government).

Meaning of a Public Organization

In general terms, the public sector consists of governments and all publicly controlled or publicly funded agencies, enterprises, and other entities that deliver public programs, goods, or services. A Public Organization is a state-run organization. It is Government controlled and is paid for by public taxation. Usually a general tax will pay for state provisions, but in some cases an alternative tax will.

Public sector organizations may exist at any of four levels:

- International (multistate entities or partnerships).
- National (an independent state).
- Regional (a province/state within a national state).
- Local (a municipal-level body such as a city or county).

At any of these levels, the public sector generally consists of at least three types of organizations.

Core government consists of a governing body with a defined territorial authority. Core governments include all departments, ministries, or branches of the government that are integral parts of the structure, and are accountable to and report directly to the central authority — the legislature, council, cabinet, or executive head.

Agencies consist of public organizations that are clearly a part of the government and deliver public programs, goods, or services, but that exist as separate organizations in their own right — possibly as legal entities — and operate with a partial degree of operational independence. They often, but not necessarily, are headed by a board of directors, commission, or other appointed body.

Public enterprises are agencies that deliver public programs, goods, or services, but operate independently of government and often have their own sources of revenue in addition to direct public funding. They also may compete in private markets and may make profits. However, in most cases the government is the major shareholder, and these enterprises partly follow the acts and regulations that govern the core government.

Meaning of Non for Profit Organization

A corporation or an association that conducts business for the benefit of the general public without shareholders and without a profit motive. Nonprofit corporations differ from profit-driven corporations in several respects. The most basic difference is that nonprofit corporations cannot operate for profit. That is, they cannot distribute corporate income to shareholders. The funds acquired by nonprofit corporations must stay within the corporate accounts to pay for reasonable salaries, expenses, and the activities of the corporation. If the income of a corporation inures to the personal benefit of any individual, the corporation is considered to be profit driven. Salaries are not considered personal benefits because they are necessary for the operation of the corporation.

DIFFERENCES BETWEEN PUBLIC & PRIVATE SECTOR PROCUREMENT

In both public and private sector procurement goods and services have to be acquired, and in both there are good reasons to strive for the best deal in obtaining the required goods and services. However, despite these similarities, it is well accepted that public procurement is quite different from procurement in the private sector (Erridge, 1996; Thai, 2001; Thai et al., 2004).

There are essential differences between the procurement process in the government and that in a private firm. *A private firm places less emphasis on formal competitive bidding, documented procedures, and constraining conflicts of interest than governments do*. Private Managers have built-in incentives to purchase goods that provide high value for their price, and to hire contractors who will accomplish high-quality jobs at competitive prices. The dimensions of accountability are related to results, not process, because in the private sector the results are more easily quantifiable, by reference to their impact on overall company profit.

In contrast, the public manager must follow prescribed competitive procedures, and the rules give a major weight to fairness and equity. Also, public procurement is subject to oversight by the legislature and audit (in addition to internal accountability mechanisms). Mistakes or malfeasance in public procurement can have vast political repercussions, owing to the focus that the media and the public place on the subject.

Also, private firms and nonprofit agencies prefer stable relationships with suppliers and long-term contracts, for certainty and easier business planning, but several factors (including the fear of collusion with contractors and financial rules) prevent public agencies from developing such long-term relationships. Finally, public procurement is often used as a tool for public policy goals (e.g., fostering the growth of local industry, or benefiting groups of poor women or disadvantaged groups).

Public procurement is different from private procurement, because in public procurement the economic results must be measured against more complex and long-term criteria. *Furthermore, public procurement must be transacted with other considerations in mind, besides the economy. These considerations include accountability, non-discrimination among potential suppliers and respect for international obligations.* For these reasons, public procurement is subjected in all countries to enacted regulations, in order to protect the public interests. It is worth noting that unlike private procurement, public procurement is a business process within a political system and has therefore significant consideration of integrity, accountability, national interest and effectiveness (Wittig, 1998).

Key differences in these sectors lay in;

i. Objectives
ii. Responsibility
iii. Legal Restrictions
iv. Competition
v. Publicity
vi. Budgetary Limits
vii. Defined Procedure
viii. Source of Funding
ix. Ownership
x. Time to do procurement
xi. Information Exchange

Public procurement

- Has other considerations other than economy/profit e.g accountability, non-discrimination
- Uses public funds and therefore public interests must be protected
- Has regulations (The PPDA Act, 2003)
- Budgeting is more detailed
- Follow up on audit reports by IGG, DPP, CID is very important in public procurement
- Stipulated methods of procurement that have to be used

OTHER RELEVANT INFORMATION TO REMIND YOU ON PUBLIC PROCUREMENT PRINCIPLES THAT WE HAD COVERED IN TOPIC 1

Basic principles of public procurement

Effective competition

Effective competition shall be evidenced by use of the open bidding, restricted bidding or quotations and proposals procurement methods described in these Regulations. A procuring and disposing entity shall use open bidding as the preferred method of procurement.

Economy and efficiency

This means that the purchases are not wasteful, they are based on market prices and can generate savings. It also means that bad practices such as carelessness leading to wastage, wear and tear of stocks, over invoicing, unplanned expenditure, shortage of goods when needed, poor quality products and similar factors are to be avoided. The expectation is that suppliers will be developed, will grow and consequently, the citizens will see the benefits of public procurement through increased provision of quality goods and services.

Value for money

All procurement shall be conducted to deliver best value for money, irrespective of the method of procurement used, the procuring and disposing entity or the nature of the works, services or supplies to be procured. Value for money shall be the optimum combination of whole life costs and the appropriate total quality appropriate to meet the requirements of the procuring and disposing entity.

Impartiality, independence and integrity (conflict of interest).

The guiding principles of ethical behavior shall be impartiality, independence and integrity. The conduct of staff and any official engaged in procurement and disposal shall not foster the suspicion or create the impression that there is any conflict between their official duties and their private interests. A procuring and disposing entity shall at all times be fair, honest and even-handed.

Code of ethics

A public officer who is involved in procurement or disposal, a bidder or a provider
shall observe the relevant codes of ethics

Transparency

Confidentiality

Accountability

Fairness and equity

ETC.