



MODERNIZATION OF GOVERNMENT PURCHASES AND SPECIAL DIGITAL TRANSFORMATION

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ANNOTATION

This article covers some important aspects of government purchases practices, theoretical basis and the managerial practices of government purchase systems of advanced economies. In addition, a systematic study of approach of other countries and the possibilities of implementation of best practices have been studied and systemized recommendations have been suggested.

KEYWORDS: *procurement, government purchases, goods and services, contracts, budget, transparency.*

INTRODUCTION

In the era of rapid push by the government in all sectors of the economy to stimulate growth, it is vital to take some measures to improve the procurement and supply chain systems in order to keep balance of quality, speed and government expenditures. Every attempt to push economic growth increases the risk of potential mistakes in the cost analysis and quality assurance.

The actions taken by the government to optimize and adjust the legislature in order to assure the correspondence of the ongoing changes in the policy and economic boom to the government procurement system and logistic systems in general. It is important to recall some of the important latest legislative documents, such as updated law of the Republic of Uzbekistan №684 dated 22.04.2021 about government purchases, Presidential decree №PP-5171 dated 02.07.2021 about “Actions and measures to create transparency and increase the efficiency” and Presidential decree of the Republic of Uzbekistan “Regarding further liberalization of trade and improvement of competition in goods markets” №UP-5564 (dated October 30, 2018) covers several issues regarding the goods markets, improvement of wholesale trade and other procurement system aspects,

All the steps taken by the government create a legal foundation for building a transparent, bureaucracy and corruption free procurement system that focuses on arranging a continuous, effective procurement and supply chain in government purchases.

According to the law of the Republic of Uzbekistan “About government purchases” the national government procurement system is based on openness and transparency, competitiveness, equality and other key principles of fair game. These principles assume not only the fair treatment in government procurement process but also fair and just treatment of the supplier after the bidding stage, during the contract signing, fabrication and delivery of the goods and services.

Latest presidential decree №PP-5171 dated 02.07.2021 is another significant step in further ensuring transparency and creating equal rules of operation for all the players in the market. The legal act cancels all the privileges for any government organization that previously was enjoying some exceptions and special conditions in their procurement activities. The new regulations increase the government and public control over the strategic and large size government purchases by mandating special committee to oversee, control all the purchases as well as obliging the biggest government corporations to ensure transparent procurement procedures.

However, it must be emphasized that the new legal requirement will also create challenges of bureaucratic procedures that significantly will slow down the procurement processes and might create future difficulties of being an obstacle in future growth and development of large companies by slow processing of the procurement procedures.

The latest presidential decree №PP-5171 also facilitates and requires management and control of all



the government contracts of size USD 1 mln and above thus ensuring that the government interests and obligations are properly controlled and monitored

Justification of implementation and arrangement of government procurement activities assumes creation of reliable system which is based on the principles openness, competitiveness and reliability of procurement. Well organized modern reliable and high quality supply chain management will guarantee attractive infrastructure and ecosystem of government purchases among all participants.

Purchase of goods and services plays an important role in economic chain of world economy and directed to successful implementation of investment projects, funds and other

Government purchases and procurement system above all, prioritizes supply of goods and services for social-economic development of key industries which lead to development of the country and successful operation of key economy industries. Moreover, big portion of the government budget consists of government purchases thus directly affected by successful implementation of government programs [1].

In order to organize the government purchases market and improve the efficiency, it is important to consider the usage of financial instruments. In this regard, financial instrument implementation should be not one sided only but should be used from multiple sides [2].

Nowadays, it is of significant importance to create contract based, effective mechanisms in government purchases, client and customer relationship electronic platform implementation in order to ease the interaction between the parties, create transparency, clarity and trust in relations between the client and the buyer [3].

In EU countries, specific character of government purchases are that they are not centralized and usually government purchases make up high technology added value products. That is the

reason why innovative, modern purchase systems implementation and integration is of high priorities in countries of European Union[4].

It is important to follow European rules while organizing procurement activities by government agencies and institutions. According to common practice, all the commercial offers and quotations are evaluated by the government organization employees transparently, equally and fairly [5].

In case a procurement system does not meet the contemporary requirements there will be no mechanisms to control the fraud and conflict of interests, misconduct. All these reasons make the necessity to create a modern procurement system that meets all the requirements and challenges of current world economic realities.

Almost every country considers development of procurement system as critically important, especially the legal basis which continuously goes through update and modernization according to the rising new challenges and obstacles that come across as the economy develops. Therefore, arrangement of government procurement system starts from creation of organizational and operational structure. Based on international and national legislature, local norms one can identify which type of buying, procurement will be used in order to carry out buying activities. Usually client identifies the rules and requirements of buying procedures. Government purchase is partial or full involvement of government funds in purchasing and procurement process [6].

In 2018 new legal foundation for electronic government procurement platform, to be precise, on January 25, 2018 law about government purchases has been passed which regulated the procurement and purchases in the sphere of Government purchases. As per international experience, government purchases is well and efficiently organized in countries, where all government purchases are managed by on law [7].



Table 1
"Uzbekistan commodity exchange" SC data for 2020 from January to december[8]

№	Item	unit	As of january 1 2019	As of january 1 2020	%
1	Contract amounts, totala	bln.sums	43 017,4	53 646,5	124,7
2	Volume in exchange platform	bln.sums	37 507,4	46 711,2	124,5
3	Contracts in exhibitions	bln.sums	1 552,4	2 375,8	153,0
4	Online auctions	bln.sums	156,0	246,6	158,0
5	Government purchases, total	bln.sums	3 801,1	4 312,6	113,5
6	Government companies, electronic bidding	bln.sums	1 071,8	1 189,4	111,0
7	Corporate tenders	bln.sums	1 700,1	2 143,3	126,1
8	Government electronic shops	bln.sums	605,5	577,6	95,4
9	Corporate electronic shops	bln.sums	423,7	402,2	94,9

In the commodity exchange of the Republic of Uzbekistan in 2019 the have been signed deals for 53,6 trillion sums, which is 24,7% higher than the same period last year. Particularly commodity exchange grew 24,5%, electronic government purchases grew 13,4%, exhibition trade amounts grew 53%, automobile registration number turnover increased by 58%.

By the end of 2020 total turnover volume in Uzbekistan commodity exchange comprised total 53,6 trln sums, which was 1,25 times higher that the same indicator of 2019.

Total turnover volume in the commodity exchange was almost equal to 10% of the annual GDP of the country.

In addition, while organizing government purchases system it is important to keep in mind that competitive environment can be created for the local businesses to grow and develop. There will be double benefit for the country while there will be an efficient usage of government funds, on the other hand there will be positive environment for the companies to compete, grow and improve.

There are following models and types of government purchases in the modern developed countries that can be summarized as below:

- centralized
- decentralized
- combined

While using a centralized approach in government purchases, there is one government body which arranges all the purchasing processes for the government agencies and organizations with government share in them. This agency collects the

material requisitions from the organizations which become the client and organizes the bidding process. The advantage of organizing a centralized purchase system is that it is relatively easier to arrange a systematic approach, unified standards of operation and bidding process. It is easier to arrange anti-fraud and anti corruption measures.

Decentralized system of government purchases is a system, where each government institution or company with government share owns it own procurement and purchase departments and relatively independently organizes its own purchasing procedures based on common legal regulations or requirements.

Each system, of course, comes with advantages and disadvantages. For instance, in centralized procurement system government achieves optimization of procedures and costs, such as salaries of all the departments. However this model is more difficult to manage if the purchase is for complex and sophisticated pieces of equipment.

Decentralized procurement system comes with several advantages that include more flexibility, higher quality of bidding arrangement as the organizing committee is managed by specific industry managers. However is a large economic scale, it may be very costly to maintain procurement departments in all government institutions and organizations.

A combination of the above mentioned two models, the centralized and decentralized models together creates a new model where a centralized body dictates the rules of the game, carries out general monitoring and controls the process but the



bidding execution is organized by specialized departments of procurement of each individual government institution.

We believe that government purchases cannot be one sided in terms of either centralized or decentralized. We are convinced, that it would be most effective if decision on choosing the management strategy is based on the analysis of the industry specifics. For instance in the medical industry, the medicine can be and should be procured in a centralized manner whereas the construction services in the medical industry can be more efficient to allow more decentralized system.

As a result of a study, it can be concluded that an important aspect of government purchases is the contractual relations. In this relationship the government serves as the Client, who is responsible for the public money, and the contractors are private companies who take the obligation to carry out the procurement obligations. A big challenge in the relations of the client and the contractor is to maintain the price and quality ratio making sure that both factors remain at the efficient level without sacrificing too much budget or the quality of the delivered services and/or goods.

Contracts include sets of requirement that regulate the agreements between the parties that sides promise during the bidding process and focus of achieving the required quality standards and meeting all the required additional obligations that are indicated in the contract.[9]. Such agreements and contract create a platform and environment for the parties in order to efficiently communicate and operate as well as fix the obligations of the parties that guarantee cooperation and effective infrastructure for operation[10].

In our understanding, current obstacles for further development of current government procurement systems are the following:

- The budget preparation process needs modernization. Budget requires careful planning of the one year ahead period, which is not enough to arrange proper planning as proper planning needs more than 3 years of planning. Also, there is a need to control the year to year transition of unused funds;
- poor planning of the procurement activities and calendar planning of the expenditures in the budget cause a mismatch in the estimated purchase price and actual buying price;
- low level of development of methodology of forming the government budget, in fact poor formation of the expenses and income sections of the budget result in poor achievement and misachievement of both income and expenses planned in the annual budget;

Based on the research, it can be concluded that it is important to develop a more methodological strategy to and software development in order to create a system that can accurately estimate the future cost of goods and services that have been included in the budgets of the upcoming years.

Uzbekistan practices a combined method of purchases and which is regulated by law. Some government agencies have centralized procurement centers, such as kindergartens, schools, hospitals, while others have their own procurement departments to carry out independent procurement activities. Both, government agencies and government companies can use the combined type of procurement. But it is important to keep in mind that government purchases are carried out on a single platform where both parties have transparent access.

CONCLUSION/RECOMMENDATIONS

Based on the research, the following conclusions can be listed as below:

It is important to state some of the difficulties that come along while organizing government purchases. For instance, there are a number of risks that may occur during the procurement process and they must be addressed. Some of the risks are meeting the contractual obligations by the parties. It is critical to ensure that all the parties, involved in the procurement process should understand the importance of meeting the contractual obligations and measure their financial and production capabilities before signing the contract and taking legal obligations.

Another important aspect is that government purchases sometimes are not carried out at a timely manner due to improper financing timeline which leads to miscarriage in budget planned activities. As a result, misbalance in the budget leads to additional difficulties which may require additional funds for the budget or surplus of budget money. Therefore, it is vital to create a strong legal and procedural base for formation of budget cost and its activities that will ensure in tact and proper planning and execution of budget planned activities.

Meanwhile, the following items are important to keep in mind the following aspects of budget formation, monitoring.

- there should be organized a systematic training for creation of government budget for procurement purposes with including in it the possible price fluctuations;
- to ensure that the funds, which may not be enough to fund the procurement activities of the year, the deficit should be covered from the out of budget funds of the organization without affecting the annual procurement budget. These risks create a necessity for proper planning of the budget activities.



Another important aspect that must be improved and paid great attention is the ability of proper calendar planning. Usually, procurement activities take a longer time to arrange all the procedural activities due to lack of proper planning or incomplete tender documents. Usually, procurement activities may take from 30 to 120 days to execute all the stages of procurement in a proper manner.

One of the top and key aspects of procurement management in government organizations and agencies is control and fight corruption. In order to manage the situation with corruption issues, we should focus on the following key items:

- analyse the portfolio and key items in the experience of the bidding companies from the other contracts they may have executed before;
- make sure that while the bidding announcement is placed with an RFQ, the requirements and qualification criteria meets the requirements of commonly acceptable standards and poses nothing special;
- making sure that the scope of work in the bidding process fully covers the requirements and total volume of expected works in order to avoid a small bidding in order not to attract big players and after winning the bidding not to increase the contract value with additional scopes.

All the above mentioned aspects of government budget formation, procurement planning and anti-corruption measures can successfully work only if considered and controlled as on big project as separate consideration will lead to some mishaps in the system that will cause a chain reaction to fail the whole government purchase and procurement system.

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