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THE ROLE OF PROCUREMENT WITHIN A COUNTRY'S LOGISTICS SYSTEM

PAVEL PAZNIAKOU, ARTSIOM KACHALAU, PALINA LAPKOUSKAYA
 Belarusian National Technical University, Minsk

The main objective of the article is to give an insight into the main procedures behind public procurement and procurement in general. To date, the public procurement market of Belarus has several shortcomings. The article defines the problems existing in Belarusian public procurement system and describes different legislative procedures that would improve it.

Procurement logistics is the process of providing a company with the necessary resources. In fact, procurement is one of the most important links of any trade with production network. Without appropriate materials there will be no production, without production there will be no sales. Thorough preparation of a procurement plan is a key to the future development of an enterprise. Procurement logistics starts with the study of market demand to define optimal production plan and determine the amounts of necessary resources.

All procurement procedures can be divided into two categories: tactical procurement operations aimed at eliminating possible shortages of resources, and strategic operations aimed at the development of future relations with potential suppliers.

The functionality of procurement logistics is very broad and includes such functions as forecasting the need for supplies, the formation of a strategy for their acquisition, supplier selection, adjustment and conclusion of supply contracts, supply control, quality control of the supplied raw materials, payment for supplies and delivery services, maintenance of optimal amounts of inventory in warehouses. Therefore, procurement logistics is closely connected with other departments of an enterprise such as marketing department, production, accounting, legal department and finance department [1].

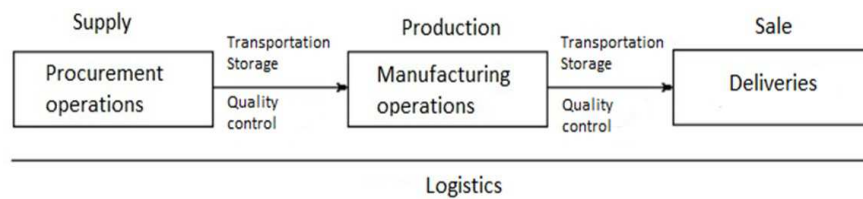


Figure 1. – Logistics chain

The functions of procurement logistics are determined by the objectives an enterprise faces. Traditionally these functions include maintenance of continuous supplies of production resources, optimization of procurement costs, purchase of quality raw materials and effective management of suppliers.

At the initial stage of procurement, it is necessary to solve the "make or buy" problem, that is, to determine whether it will be profitable for a company to produce goods or services on its own or to purchase them through an intermediary.

It is also important to choose a supplier. The ratio between price and quality of products, reliability of the supplier, compliance with delivery schedule, the distance between the consumer and supplier, creditworthiness and the overall financial health of the supplier, the availability of spare capacity – all these criteria must be considered for the correct supplier selection [2].

In addition to the selection of the best provider, there are many ways to reduce other procurement costs and streamline the whole procedure. One of such methods is the ABC-analysis. This method allows of the differentiation of the purchased resources into three categories in accordance with their contribution to the production process:

- A – 20% of the items accounts for 70% of the annual consumption value of the items,
- B – 30% of the items accounts for 25% of the annual consumption value of the items,
- C – 50% of the items accounts for 5% of the annual consumption value of the items.

Only after the differentiation of the resources is it possible to introduce such a supply system as the "Just-in-time" system. The essence of the system is that while there is no demand for the products, neither these products nor the resources required for their productions are accumulated. The use of the "Just-in-time" system

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allows of the reduction of costs in procurement logistics as it reduces the need for warehouse space, the number of warehouse operations and the need for warehouse staff. However, this system is not that profitable for suppliers that have to increase their quality control costs and the suppliers that find it unprofitable to have unstable schedule of deliveries of small batches to remote consumers.

The "Just-in-time" system implies that private companies conclude contracts based on long-term relationships with their suppliers. For a state-owned company the sourcing of resources requires their acquisition through the network of contractors and subcontractors chosen through the set of special procedures. The underlying reason for this difference is that this matter concerns the money of taxpayers.

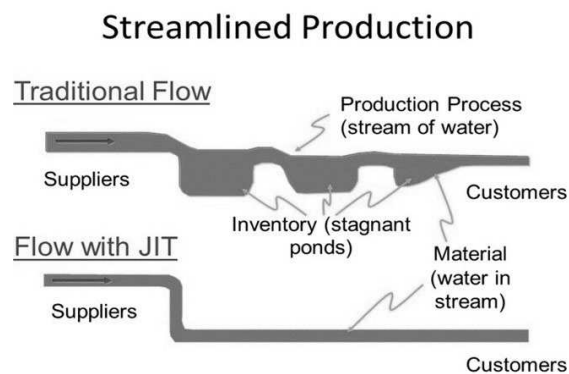


Figure 2. – "Just-in-time" system [3]

Public procurement is the acquisition of goods and services by state-owned companies through budgetary funds. Public procurement can be of any scale, ranging from the purchasing of paper to the acquisition of high-value machinery. This method of procurement provides suppliers with a highly reliable buyer in the form of government, which will ensure complete and timely payment.

The procurement conducted by state-owned companies is different from the procedures mentioned above, meaning that each stage requires separate consideration with the maximum level of transparency and efficient management of taxpayers money. Generally speaking, public procurement consists of four major stages: planning, application disposal, offers receiving and contract conclusion.

According to the World Trade Organization, the public procurement market, on average, accounts for roughly 15% of a country's GDP and therefore the success of its operation directly affects the pace of modernization and economic growth. In Belarus, public procurement accounts for 10% of its GDP. The cost of all contracts within public procurement in 2018 amounted to 6.58 billion Belarusian rubles, which is 0.5% more than in 2017 (6.55 billion) [4]. The Ministry of Antimonopoly regulation and trade deals with public procurement issues. There are 6 types of procedures that are carried out within public procurement:

- open competition is a transparent and competitive way to choose a supplier, in which any interested supplier can submit its proposal.
- closed competition is a nontransparent and competitive method of procurement in which all suppliers are invited individually by the buyer and are obligated not to disclose the information concerning goods and services being purchased since these goods and services constitute state secrets.
- electronic auction is a transparent and competitive way to choose a supplier on electronic trading platforms. Electronic auctions are held on electronic trading platforms by operators determined by the Council of Ministers of the Republic of Belarus.
- the request of price offers is a competitive method of supplier selection whereby the winner is the participant that proposes the lowest price offer.
- single source procurement is a method of supplier selection, in which the customer selects a single supplier.
- exchange trading-purchases of goods are executed on commodity exchanges.

To date, in the system of public procurement in Belarus there is a big problem concerning procurement from one source, i.e. procurement in which there is no competition. In the structure of public procurement, purchases from one source account for 5.3 billion rubles (an increase of 3.5%), which is 80.5%. With an increase in the share of purchases from one source, the share of competitive procurement procedures has declined: purchases using open electronic auction – by 9.6%, open tender – by 21.6%.

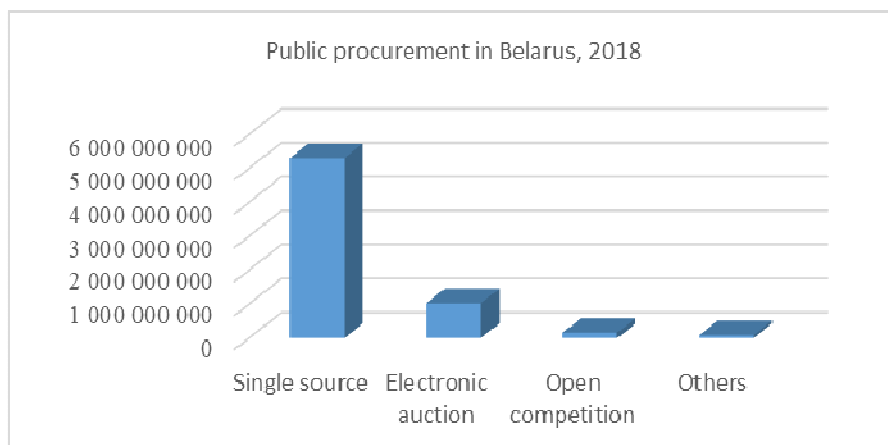


Figure 3. – Public procurement in Belarus

Every year the competition decreases, which reduces the quality of goods and services, as well as creates a favorable environment for unscrupulous suppliers and customers. According to the international organization Transparency International, Belarus loses from 600 to 800 million dollars in public procurement annually, which is about a quarter of all costs.

The re-evaluation of the existing public procurement procedures and the legislation regulating it should become a priority task, in which it will be possible to achieve high economic indicators and significantly improve the quality of goods and services supplied. These innovations will take place within the framework of the creation of the e-government and the creation of an IT-country.

The new version of the law on public procurement of goods (works, services), which will enter into force on July 1, 2019, will allow to improve the mechanisms of public procurement at a legislative level and thereby ensure transparency of their conduct and reduce the number of unscrupulous intermediaries. The entire procurement system will be reviewed with a view to making changes that will improve it without changing the main principles.

All stages of the procurement process will gradually move to an electronic format in accordance with global trends, which will increase the transparency of all transactions and reduce organizational costs. Since the introduction of the changes, the new state information and analytical system (GIAS) will begin its work. The main task of the group will be the analysis of all public procurement procedures to ensure their transparency. The time for preparation and submission of proposals will be halved and the times for consideration of complaints will be reduced by a factor of three.

One of the most important parts of the new edition will be the regulation of one source procurement. If the organization conducts procurement, in which certain conditions of delivery, payment, subject and requirements to the participant are defined, then these conditions will no longer be able to be changed. Open access to the GIAS will ensure both state and public control of all purchases.

The period during which unscrupulous suppliers are placed in a special list, which does not allow companies that violate the provisions of the law to participate in public procurement, will be doubled. This period will now be 2 years.

Some 10-20 thousand specialists in the field of public procurement will have to undergo additional training to meet the new realities regulated by the new law edition. To reduce the number of violations, each customer will be required to create a special unit or appoint an employee with the appropriate qualifications in the field of public procurement [5].

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