

An aerial photograph of a lush green wetland landscape. A winding river flows through the center, surrounded by dense vegetation and several smaller water bodies. The sky is overcast with grey clouds.

PERFORMANCE-BASED
PUBLIC PROCUREMENT: A
STRATEGIC TOOL TO
UNLOCK SUSTAINABLE
AND INNOVATIVE
SOLUTIONS

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Performance-based Procurement: shifting focus and mind-set



- From back-office function focussing on delivery of government services to a strategic pillar for tackling climate change and development
- Unlocking the best available and innovative products and services
- Supporting the development of new products/services/industries

International Consensus



SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

SUSTAINABLE DEVELOPMENT GOAL 12

Ensure sustainable consumption and production patterns





Powerful, yet underutilized demand-side instrument

Areas of frequent government spending

Goods	Services	Works
Office equipment	Management consulting	Roads
Vehicles	IT consulting	Water treatment
Indoor & outdoor lighting	Servers and data centres	Airports
ICT (phones, hardware)	Electricity	Ports
Office supplies	Couriers and postal	Buildings
Fuel	Mobility	Sewage plants
Apparel	Food and beverage catering	Power plants
Paper	Cleaning services	

Public procurement spend as part of GDP

Brazil	32%
Colombia	15%
Ecuador	14%
Jamaica	10%
Mexico	7%
Chile	7%
United States	11%
Canada	12%
India	30%
South Africa	29%
China	58%
Japan	13%
European Union	16%

Sources: IISD publications; Organization for Economic Co-operation and Development (2011).



Relevant South African legislation and policies

Legislation	Stipulations	
Constitution of the Republic of South Africa, 1996	Section 217(1) states that procurement systems must be: fair; equitable; transparent; competitive; and cost effective.	Section 217(2) states that procurement may provide for: categories of preference; and protection or advancement of persons or categories of persons disadvantaged by unfair discrimination.
Public Finance Management Act (1999)	Efficiency of economic allocations of paramount importance. Guards against corruption.	
Local Government: Municipal Finance Management Act (2003)	Each municipality to have and implement its own Supply Chain Management policy.	Bids may be assessed on 'value for money' – open to interpretation.
Preferential Procurement Policy Framework Act (2000) & BBBEE Code (2003, 2014)		Procurement decisions are influenced by BBBEE certificate (no discretion to emphasise a particular aspect of transformation).
Local Procurement Accord (2011)		Up to 75% localisation of public/private procurement



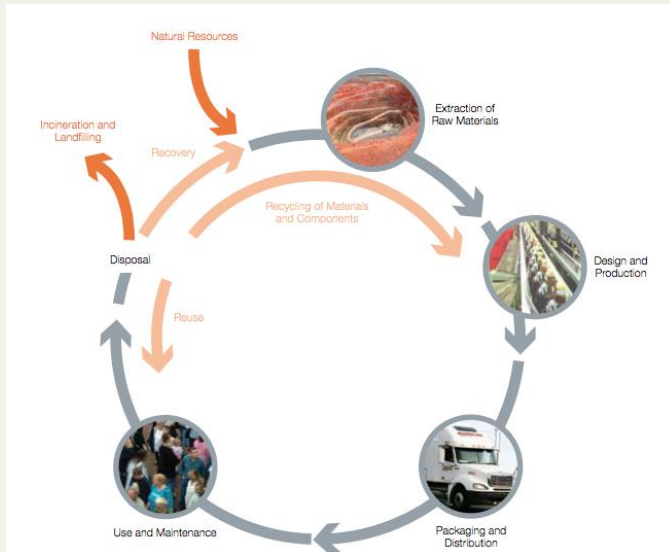
Critical shift in function from administrative to strategic

Requires

- consensus on the need to reform existing processes (and policies)
- a fundamental shift in mind set on the part of government
- an understanding of the extent to which this can happen within the current legal frameworks
- capacity building within government and the provision of resources to undertake this shift

What is performance based procurement

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- Focus on the outcome or desired performance rather than on the technical characteristics of a good or service
- Clearly defined objectives without specifying how to achieve them
- At product, service or project level
- Enables innovative solutions
- Example of tender for a concrete bicycle lane in the Netherlands:
 - Reuse of secondary products in the concrete mix
 - CO2 footprint of concrete production
- Rethinking who takes which risk – aligning incentives and closing loops



Required interventions for success

- Start with large and strategically important procurements (REI4P)
- Early market interactions and communication to the market
 - Scoping of what is possible
 - Inform bidders of strategic shift in procurement in advance to enable them to respond to later call
- Performance based specification design
- Monitoring of outcomes
- Inclusion of innovation requirements in public tenders – the China example

Market engagement

Needs Identification & Innovation Viability



- ▶ Identify needs/ issues to be addressed



- ▶ Involve technical experts & users/ stakeholders when appropriate



- ▶ Market research about available solutions

Insights for Procurer:

- Subject of tender: desired outcome
- Innovation needed?
- Market availability

Information and Outreach Activities



- ▶ **Prior Information Notice:** Early announcement about innovation procurement intention to prepare the market



- ▶ Engage in public relations activities to raise market attention

Achievements:

Market awareness and supplier interest triggered

Open Market Consultation = Early Supplier Involvement



- ▶ **Market education about:**
 - Objectives
 - Project scope
 - Functional requirements,
 - Legal/formal requirements



- ▶ **Gain market feedback about:**
 - Available solutions & market readiness
 - Familiarity with public procurement procedures



- ▶ **Follow-Up:**
 - Exchange with interested suppliers to discuss ideas (= equal treatment and transparency)
 - Facilitate supplier consortia building if desired

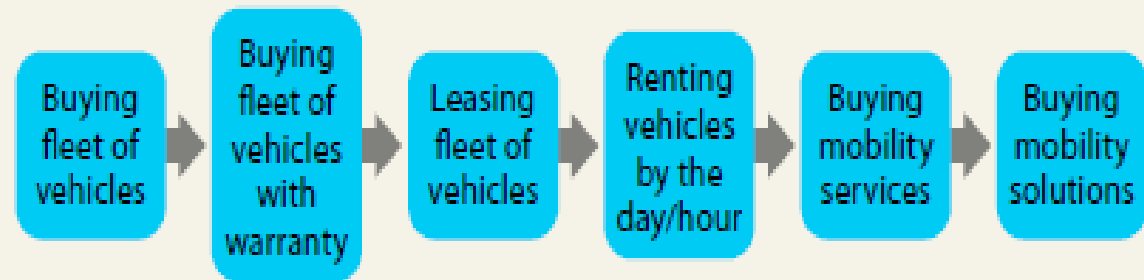
Insights for Procurer:

- Market structure
- Informed choice of contract type (supply, service, or works), contract length, lots
- Informed choice of procurement procedure
- Appropriate degree of detail for tender documents: technical specs, functional requirements, KPIs etc.

Procuring performance

Focus on the outcome or desired performance rather than on the technical characteristics of a good or service

- Lighting
- ICT
- Cleaning services
- Mobility



- CO2 performance levels
- Energy, water and resource efficiency performance levels



Monitoring – Example from Cape Town

- Large energy efficiency retrofit embarked on by the City of CT
- In terms of contract service had to provide guarantees for the projected energy savings over consecutive 12 month periods
- Should the savings not realised at the dates pre-determined in the contract, the guarantees will be used to off-set the unrealised savings.
- Should the savings materialise earlier than the performance date, the guarantee lapses, and the next accounting period and guarantee is activated
- Should the service provider ‘over-perform’ the overall 5 year contractual period and which included a training and maintenance component – will be shortened
- Alignment of risk of procurer and supplier and incentivising superior performance by the supplier (technology selection, installation, maintenance and training to ensure optimal usage



Lessons for Policy Makers

- Provide clarification to supply-chain managers and public procurers on the legal framework
- Build capacity in for supply-chain management on performance-based specifications, lifecycle costing and monitoring of the performance of suppliers
- Educate and build capacity of suppliers to respond to performance-based tenders
- Develop supplier database information and e-procurement
- Sharing of best practice and regular engagement between public procurers, as well as industry-specific
- Include performance based procurement in training and university degree courses



Thank you

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