



April / 2024

## Optimization of procurement activities: how to improve approaches



[cep.kse.ua](http://cep.kse.ua)



[cep@kse.org.ua](mailto:cep@kse.org.ua)



[facebook.com/CEP.KSE](https://facebook.com/CEP.KSE)



**USAID**  
ВІД АМЕРИКАНСЬКОГО НАРОДУ



EURASIA  
FOUNDATION

**KSE**

Kyiv  
School of  
Economics

This research is made possible by the support of the Eurasia Foundation with funding from the United States Agency for International Development (USAID) and Government of the United Kingdom. The contents are the sole responsibility of the Kyiv School of Economics and do not necessarily reflect the views of USAID, the United States Government, the UK Government, or Eurasia Foundation.

The topic of this research was proposed to the team of the Center of excellence in procurement at Kyiv School of Economics by the Ministry of Economy of Ukraine. The analysis and conclusions of the report reflect the point of view of the CEP team and do not represent the official position of the Government, the Ministry of Economy or its Department of Public Procurement and Competition Policy.

Authors: Liliia Lakhtionova, Anna Yuldashova

Center of excellence in procurement at Kyiv School of  
Economics, 2023-2024



**USAID**  
ВІД АМЕРИКАНСЬКОГО НАРОДУ



**EURASIA  
FOUNDATION**

# Content

RESUME.....	4
GLOSSARY.....	8
INTRODUCTION.....	10
Chapter 1. Analysis of procurement organization practices. Processes and roles in procurement activities .....	11
1.1. International experience of procurement organization .....	11
1.2. Organization of procurement in the commercial sector .....	14
1.3. Organization of procurement in public procurement of Ukraine .....	16
1.4. Standardization of processes and roles .....	17
Chapter 2. Clustering of customers. Approaches to the organization of procurement in Ukraine .....	21
2.1. Survey of customers .....	21
2.2. Customer clustering methodology .....	23
2.3. Results of in-depth interviews .....	26
Chapter 3. Identification of problems in the organization of procurement activities and recommendations for improvement .....	31
3.1. Identification of problems .....	32
3.2. Proposals for changing or improving approaches to the organization of procurement activities .....	34
3.3. Proposals for reducing the level of risks of hiring a public procurement specialist under a service contract .....	38
3.4. Proposals for stimulating the heads of customers in order to improve approaches to the organization of procurement activities .....	40
CONCLUSIONS .....	42
ANNEX .....	44

# RESUME

The purpose of public procurement is to ensure the efficient use of public funds, support the development of enterprises, promote innovation and ensure the development of public services and social infrastructure. Along with this, public procurement is designed to ensure the openness and transparency of the activities of government institutions and to promote the fight against corruption and the development of competition.

However, the procurement process is complex. On the one hand, there are specific issues related to procurement, such as compliance with procurement principles, correct determination of the expected cost, etc., on the other hand, there are problems related to the organization of procurement, since different specialists in different roles may be involved in public procurement.

At the same time, the procurement results are directly influenced by how the procurement process is organized and the presence of specialists with the necessary competencies who are responsible for the organization and implementation of procurement. Incorrectly organized procurement processes, the absence or non-compliance with the regulations of the interaction of specialists involved in the procurement process, the lack of necessary competences among procurement specialists often lead to the implementation of procurements that do not meet existing needs, have an inflated cost, do not take place or are carried out with significant delays and problems during the execution of contracts.

Therefore, the purpose of our research was to investigate how procurement activities are organized in the vast majority of customers, to identify problems in the processes of procurement activities, and to develop proposals, the implementation of which will contribute to increasing the efficiency of these processes.

Having familiarized ourselves with various experiences, we noted that procurement processes, both in different countries and in the private sector, and in public procurement in Ukraine, show certain similarities. Based on this, we structured the procurement process, described the stages of procurement and the roles of specialists involved in procurement.

We also conducted surveys, in-depth interviews, and analyzed data on the complexity and volume of procurement made by customers in BI Prozorro. Based on the results of this work, we clustered customers based on common features and characteristics.

The first group is “small” customers:

- the number of customers - 32,147 or 93.5% of all registered in Prozorro;

- the expected cost of purchases in 2021 - UAH 154 billion or 14.4% of the total expected cost of all purchases;
- procurement methods - no more than 20 tenders and other possible threshold procurement methods. A little more than half of the customers of this group carry out mainly up to 2 tenders during the year;
- peculiarities of the organization of procurement activities:
  - the procurement function is usually handled by the customer's employees who are busy with their main duties. Sometimes, customers introduce a separate full-time position to implement this function. Authorized persons deal with procurement independently, as a rule, without involving representatives of other structural divisions;
  - often, authorized persons do not have a complete idea of the annual volume of purchases, but are focused only on the procedural points of procurement, the need for which arises from internal customers during the year;
  - stages of procurement planning (including determination of need, cost, etc.) and analysis and evaluation of procurement activity remain in fact outside the attention of the authorized person;
  - initiatives of authorized persons regarding the development of regulations for interaction with other structural divisions and their compliance often remain at the level of initiatives;
  - the procurement function is perceived by the management as a necessity for the formal implementation of the provisions of the Law.

The second group is “medium” customers:

- the number of customers - 1,377 or 4% of all registered in Prozorro;
- the expected cost of purchases in 2021 - 483 billion UAH or 45% of the total expected cost of all purchases;
- methods of procurement - from 20 to 100 open tenders and other possible methods of subthreshold procurement;
- peculiarities of the organization of procurement activities:
  - structural subdivisions are created to organize and carry out procurement;
  - the procurement function is usually handled by procurement specialists;
  - in the vast majority of cases, a more structured and systematic approach to procurement processes is used;

- representatives of other structural divisions are involved in planning and determining the need. The order of interaction is usually approved by internal regulations, but there is a problem of its compliance;

- authorized persons, as a rule, pay attention to market analysis using available tools;

- some customers introduce practices of analysis and evaluation of procurement activities;

- in a certain part of the customers, the purchasing function is perceived by the management as a supporting function to ensure the main activity.

The third group is “big” customers:

- the number of customers - 138 or 0,4% of all registered in Prozorro ;
- the expected cost of purchases in 2021 - UAH 188 billion or 17.6% of the total expected cost of all purchases;

- procurement methods - more than 100 open tenders and other possible threshold procurement methods;

- peculiarities of the organization of procurement activities:

- procurement departments, less often structural units in the form of departments, are created to organize and carry out procurement;

- specialists of procurement services are responsible for carrying out procurement activities;

- procurement processes are structured and described in internal regulations. However, their unconditional compliance is still a problem;

- authorized persons have wider access to information and, in general, the procurement function is perceived as an opportunity to obtain better procurement results;

- the practice of using tools for automating processes and involving special structural units, such as the internal security service, in the process of checking potential executors of contracts;

- in the vast majority of cases, the analysis and evaluation of procurement activities is carried out in order to improve procurement processes.



Identifying the characteristic features of each group's procurement organization allowed our team to identify existing problems and the factors that lead to these problems.

As a result of the work carried out to solve the identified problems, our team formulated the following conclusions and recommendations, which are aimed at improving the quality and efficiency of public procurement, contributing to a clearer and more systematic approach to the procurement process:

it is necessary to amend the legislation on public procurement, specifying the term "public procurement" and establishing requirements to develop standard regulations on the organization of procurement activities. Customers will be obliged to develop and approve their own provisions. This will help to avoid misunderstandings, simplify work processes and ensure timely implementation of procurement;

it is necessary to review the approaches to hiring public procurement specialists and regularly improve their qualifications. Refusal of the additional burden of not specialized specialists in the procurement function will allow attracting specialists with specialized knowledge in this field, which will contribute to the implementation of effective practices of quality procurement;

it is worth expanding the Strategy for the development of public procurement, in terms of developing a system of key performance indicators (KPI) for each group of customers and implementing measures to improve procurement activities in case of non-achievement of the KPI. These measures may include increased use of the electronic catalog, transfer of procurement to central procurement organizations, or centralization of procurement funding at a higher level;

it is necessary to regulate the labor relations between the customer and the public procurement specialist who works under the contract for the provision of services, taking into account the potential risks of this interaction and the proposed measures to minimize them;

it is necessary to consider the possible methods of stimulating the heads of customers in order to improve the organization of procurement activities and the implementation of effective practices.

## GLOSSARY

**A specialist in public procurement<sup>1</sup>** is a specialist who has appropriate qualifications and skills in the field of public procurement. The main job functions of a public procurement specialist include participation in planning needs and expenses; procurement planning; organization and procurement; participation in contractual work; analysis of completed purchases. The activities of a public procurement specialist should ensure competitiveness, transparency and efficiency of procurement processes and facilitate the selection of the best suppliers to meet the needs of the organization or institution.

**An NDA** is a non-disclosure agreement that prohibits a certain person from disclosing information that is considered confidential.

**Authorized person** is used within the meaning of Article 11 of the Law of Ukraine “On Public Procurement”, i.e. the person responsible for the organization and implementation of procurement in accordance with the legislation on public procurement. Her responsibilities, among others, include the development and maintenance of documentation for procurement, the selection of suppliers and other aspects related to the conduct of procurement procedures, in order to ensure their efficiency, transparency and compliance with the requirements of the Law.

**Customers** - are used in the sense of Article 2 of the Law of Ukraine “On Public Procurement”. These are legal entities and individuals who purchase goods, works or services for their needs and use budget or own funds for this. Customers can be state bodies, local authorities, enterprises, organizations, and other entities that conduct procurement procedures.

**Customer clustering** is a process of analyzing and grouping different customers according to common features or criteria. Clustering of customers in the context of the research allows identifying general trends and developing more targeted recommendations for different groups of customers, taking into account their common features and characteristics.

**Open bidding** is one type of procurement procedure, which includes both pre-qualification and post-qualification bidding.

**Subthreshold procurement** are purchases whose value does not exceed the threshold determined by legislation. Threshold procurement is carried out according to separate rules regulated by law and includes simplified procurement, procurement

---

<sup>1</sup>The requirements for the profession of “Public procurement specialist” are listed in the professional standard under code 2419.2 of the National Classifier of Ukraine DK 003-2010 “Profession Classifier” and approved by the order of the Ministry of Social Policy dated February 18, 2019 № 234.



without the use of an electronic procurement system with reporting, procurement related to COVID-19, threshold procurement and the use of catalogs (direct procurement and supplier selection by requesting the price of supplier proposals).

**The law** is the Law of Ukraine “On Public Procurement” dated 12/25/2015 No. 922 - VIII , which defines the legal and economic principles of procurement of goods, works and services to meet the needs of the state and territorial communities.

**The procurement process** is a process of sequential transition from one procurement stage to the next.

# INTRODUCTION

Public procurement plays an important role in the economic development of the country. They ensure the efficient use of public funds, support the development of enterprises, promote innovation and ensure the development of public services and social infrastructure. In addition, they ensure the openness and transparency of the activities of government institutions and contribute to the fight against corruption and the development of competition. Public procurement, in the context of the recovery of Ukraine, is an important tool for ensuring social responsibility and developing the country's infrastructure.

All customers make various kinds of procurement to support their activities. Some buy infrequently and spend small amounts on it, while others make regular purchases, spending huge budgets.

Despite the difference in scale, the main steps in the procurement process should be the same or very similar. However, customers approach the organization of procurement processes in different ways. Currently, certain trends have already developed regarding the organization of procurement depending on the volume of purchases and their complexity. For example, for customers with small volumes and simple procurements, the main focus is on compliance with the procedural points during procurement, which are clearly described in the Law, while other stages, such as market analysis, analysis and evaluation of procurement activities, are partially or completely neglected.

The result of such an organization of procurement activity is quite often procurements that do not meet existing needs, have an inflated cost, are carried out with significant delays and problems during the execution of contracts.

Minimization of the above-mentioned risks is possible thanks to the quality organization of procurement activities, during which all processes are carried out efficiently and transparently. This helps customers spend money not only wisely, ensuring the optimal selection of goods and services at favorable prices, but also helps to prevent possible problems such as corruption, unscrupulous suppliers and other costs that can negatively affect the customer's activities. In addition, the high-quality organization of procurement activities requires that the management must understand and support the targeted orientation of procurement.

The purpose of our research was to identify vulnerabilities in the procurement organization and suggest ways of improvement. This document will consider international experience, the organization of procurement in the commercial sector, the stages of procurement and how internal structural divisions of customers can support effective procurement activities. It will also describe the results of in-depth

interviews, customer surveys and customer clustering methodology for grouping problems specific to customers of the same group.

As a result of our research, we developed a number of proposals for improving the organization of the procurement process for customers. These proposals include recommendations for optimizing procurement stages, improving the procurement management structure, and developing the competencies of the authorized person responsible for procurement.

The implementation of the proposed proposals will increase the efficiency, transparency and effectiveness of procurement both by individual customers and in the country as a whole.

## **Chapter 1. Analysis of procurement organization practices. Processes and roles in procurement activities**

Public procurement plays the role of a catalyst for economic development, ensuring the efficient use of public resources and improving the quality of life of citizens. However, the procurement process is complex. On the one hand, there are specific issues related to procurement, such as compliance with the principles of procurement, correct determination of the expected cost and technical characteristics, etc., on the other hand, there are problems related to the organization of procurement, since various specialists may be involved in public procurement different roles.

To determine the optimal approaches to the organization of procurement activities, we familiarized ourselves with international experience and approaches to procurement in the commercial sector.

### **1.1. International experience of procurement organization**

*United States of America (USA).* In small municipalities or small organizations, one person may be responsible for the implementation of the procurement function - this is the "Purchasing Manager". This person is responsible for the entire procurement process from the preparation of tender documents to the conclusion of contracts<sup>2</sup>.

---

<sup>2</sup><https://www.american-purchasing.com/certification>

In large government agencies or corporations, specialized departments or procurement departments can be created, where each department can perform certain functions, such as developing tender documents, conducting tenders, concluding contracts, etc.<sup>3</sup>

In USA, government officials who deal with procurement are a special job group called "Purchasing Officers". Sometimes the overall scope of functions related to procurement is divided: contracting employees are engaged only in concluding contracts, and employees in contract administration exercise control over the implementation of already concluded contracts. This is a significant professional group of civil servants: in the US Ministry of Defense - from 30 to 40 thousand people, in the General Services Administration (hereinafter - GSA)<sup>4</sup> - more than 20 thousand (including sellers of proper GSA stores).<sup>5</sup>

*United Kingdom.* In smaller city councils or non-profit organisations, the procurement function may be performed by one person, for example a "Procurement Manager" who is responsible for the entire procurement process.

In large public organizations such as the National Health Service<sup>6</sup>, procurement departments are established to perform specialized functions.

*Germany.* In small municipalities or small organizations, there may be one person, for example a "Procurement Officer", who is responsible for the procurement process<sup>7</sup>. In large organizations or corporations, procurement departments are established where each department may have its own function, such as procurement planning, tender execution, contract management, etc.

*Sweden.* Smaller local councils or organizations may have one person or a small procurement department. Larger government agencies or companies may have centralized procurement departments that serve the needs of all divisions of the organization<sup>8</sup>.

It is worth paying special attention to the international experience of introducing the profession of a specialist in the field of public procurement<sup>9</sup>.

---

<sup>3</sup><https://www.gsa.gov/>

<sup>4</sup>The General Services Administration (GSA) centrally purchases and stores in its warehouses ("retail stores") the materials and equipment necessary to ensure the operation of the state apparatus (paper, computers, copiers, etc.). It centrally manages the entire fleet of cars belonging to the US government, concludes contracts for the supply of federal buildings with electricity, etc.

<sup>5</sup>[http://www.visnyk-econom.uzhnu.uz.ua/archive/6\\_1\\_2016ua/46.pdf](http://www.visnyk-econom.uzhnu.uz.ua/archive/6_1_2016ua/46.pdf)

<sup>6</sup><https://www.sps.nhs.uk/wp-content/uploads/2017/12/Master-October-2020-Overview-of-medicines-procurement-in-the-UK.pdf>

<sup>7</sup><https://www.smartcapitalmind.com/what-is-a-procurement-professional.htm>

<sup>8</sup><https://eimin.lrv.lt/uploads/eimin/documents/files/Studija%20d%C4%97l%20kainos%20ir%20efektyvumo%20vie%C5%A1uosiuose%20pirkimuose.pdf>

<sup>9</sup><https://infobox.prozorro.org/articles/profesiyniy-standart-fahivec-z-publichnih-zakupivel-krokuyemo-do-profesionalizacii-zakupivel>

*Georgia.* The Customer's employee holds the position of “professional buyer” in accordance with the general requirements of labor legislation and internal labor regulations. He can combine this position with other paid work. The exception is when the Customer’s local regulations prohibit it.

*Turkey.* The profession “buyer” does not exist at all. Procurement is carried out only by members of tender committees or authorized persons. However, one tender committee can serve several Customers.

*Slovenia.* There is a separate profession “expert in concluding contracts in the field of public procurement in the Republic of Slovenia”. Certification of specialists in the field of public procurement is not mandatory. The customer can hire a special expert committee to conduct procurement procedures, as well as external consultants - both on a volunteer basis and for a fee.

*Montenegro.* An employee who has completed training in a program in the field of public procurement and received a certificate to that effect can hold the position of “professional purchaser”. Such an employee must have a higher education, but previous work experience is not taken into account.

*Croatia.* There is a profession “specialist in the field of public procurement”. Persons who complete the 50-hour training program receive a certificate for three years with the possibility of extension. The legislation does not prohibit such persons from working part-time. A specialist in the field of public procurement can either be hired as part of the organization's staff or work on an ad-hoc basis - temporarily.

These examples show that different countries and organizations have different approaches to organizing the procurement function. Depending on the size of the organization, the volume and complexity of procurement and the legislation of the country, procurement can be handled by one person who performs all procurement functions or a structural unit or department that performs various tasks in the procurement process. Example,

*in some small organizations* or small local government structures where the volume of procurement is not large, one person may be responsible for all procurement activities. This person may have the right to perform the function of selecting suppliers, organizing the procurement process and ensuring compliance with legal requirements;

*in medium and large companies,* government organizations or corporations, where the volume of procurement is larger and there is a need for greater efficiency and specialization, the purchasing function can be organized through a structural unit. In this case, the procurement department usually consists of a team of professionals, including procurement managers, procurement experts, lawyers and other specialists.

This team is responsible for all aspects of procurement activities, from planning and strategy to supplier selection, negotiation and contracting;

*in some large government agencies or corporations*, where the volume and complexity of procurement is significant, a separate procurement department may be created, which has its own internal structure with divisions responsible for various aspects of procurement activities, such as planning, analysis, legal issues, quality control, etc. In this case, the procurement department can be a large team engaged in purchasing activities at different levels<sup>10</sup>.

The variety of organizational structures for public procurement proves that the procurement function for any organization is broad and includes not only the procurement department, but also other employees and departments. Depending on the level of maturity and organizational orientation, different approaches are used in the organization of the procurement function<sup>11</sup>.

## 1.2. Organization of procurement in the commercial sector

In the commercial sector, the responsibility for making procurement usually rests with the procurement department or procurement professionals. The organizational structure and name of this department may vary depending on the company and its size. Most often, this department is called “Procurement Department”, “Purchasing Department” or “Supply Department”.

As a rule, the functions of this department include:

*identification of needs.* The procurement department works with various departments of the company to find out the needs for goods or services. They analyze current inventory, make demand forecasts and determine what needs to be purchased;

*selection of suppliers.* The procurement department studies the market and interacts with potential suppliers. They analyze offers, make a comparative analysis of prices, quality and terms of delivery in order to choose the best suppliers;

*conclusion of agreements* The procurement department is responsible for concluding agreements with selected suppliers. Agreements include defining the details of cooperation, prices, volumes of deliveries, payment terms and other conditions;

---

<sup>10</sup><https://op.europa.eu/en/publication-detail/-/publication/5fe2a634-bd85-11e9-9d01-01aa75ed71a1>

<sup>11</sup>[https://link.springer.com/chapter/10.1007/978-3-031-18490-1\\_4](https://link.springer.com/chapter/10.1007/978-3-031-18490-1_4)



*execution of orders.* The procurement department creates official orders based on concluded agreements and transfers them to suppliers;

*quality control.* The procurement department monitors the quality of the goods or services supplied and makes sure that they meet the company's standards;

*accounting and analytics.* The procurement department keeps records of all purchases, analyzes the costs and effectiveness of the procurement process, and provides reporting to the company's management.

In small companies, the procurement process is usually less formalized. At the same time, the main stages of the procurement process may include:

*identification of needs.* This can be done by the head of the company or other responsible persons, and the scope of the need, budget and time are taken into account;

*conclusion of agreements* Having completed the assessment of suppliers, the small company enters into agreements that specify the terms of delivery, prices, payment terms and other details of cooperation;

*placing an order.* After concluding the agreement, the company makes an official order, which is transferred to the supplier;

*quality control.* In small companies, quality control can be simpler and be carried out on the basis of checking the quality of goods upon delivery;

*accounting and analysis.* Small companies usually keep less accounting of purchases, but keep control of costs and analyze the results to optimize the process.

The above-mentioned functions can be performed both by procurement department specialists and by representatives of other structural units. Below is a description of the roles that most often take part in the procurement process and ensure efficiency, transparency and compliance with legal norms and standards:

- *the internal customer/procurement initiator* is a person or department that initiates the procurement of goods or services and submits a request/order/application to the procurement department;
- *procurement manager* - responsible for carrying out all procedures of the procurement process from finding a supplier to concluding an agreement;
- *category manager* - responsible for strategic management and procurement planning for a certain category of goods or services;

- *contract management manager* - manages and manages agreements with suppliers after they are concluded. Its functions are aimed at ensuring compliance with the terms of agreements, monitoring contract execution, risk management and supporting cooperation with suppliers;
- *financial manager* - responsible for budgeting and financial control of procurement activities;
- *auditor* - carries out internal control, verification and monitoring of compliance with internal procedures and standards in the procurement process. And also analyzes the effectiveness of the procurement process, including cost, time frame, supplier selection and other parameters. It provides recommendations for possible improvements and optimization;
- *quality control manager* - responsible for checking the quality of goods or services provided by suppliers;
- *project manager* - if the procurement is related to the implementation of a specific project. A project manager can be involved to coordinate efforts;
- *risk manager* - helps to identify and manage risks related to procurement activities<sup>12</sup>.

This is not an exclusive list of roles that may exist in the procurement process. Organizations can implement different structures and roles, taking into account their unique needs and characteristics.

In summary, it can be noted that in the commercial sector, the organization of the procurement function can be quite diverse depending on the size, specificity and specific needs of the company, the type of goods or services it purchases, and the level of automation of processes. In large enterprises, the procurement process is usually built quite structured and includes several stages aimed at implementing efficient and economical procurement operations. In small companies, the procurement process is less formalized and simpler.

### 1.3. Organization of procurement in public procurement of Ukraine

In public procurement in Ukraine, in accordance with the Law, an authorized person is responsible for the organization and conduct of procurement. An authorized person can be determined or appointed by assigning the functions of an authorized person to an employee from the regular workforce, as additional work or by introducing

---

<sup>12</sup><https://procurementtactics.com/procurement-department/>

a separate position or concluding an employment contract, which will be entrusted with the duties of performing the functions of an authorized person. If necessary, several approaches can be used simultaneously.

A public procurement specialist may be added to the staff list. The professional competences of such a specialist are stipulated in the professional standard.

The main functions of an authorized person are:

- procurement planning and formation of the annual procurement plan;
- selection of the procurement method and its implementation;
- publication of documents and information in the electronic procurement system;
- ensuring equal conditions for all participants, objective and fair selection of the winner of the procurement procedure;
- ensuring the drafting, approval and storage of relevant documents on public procurement issues;
- other functions provided by the Law.

So, if you compare the main functions of an authorized person, a procurement manager, a category manager and a contract management manager, it is obvious that the difference lies in the duties and area of responsibility. The procurement officer focuses on the implementation of the procurement process itself within the framework of the defined legislation, the procurement manager provides strategic guidance and optimization of procurement activities, and the contract management manager ensures the effective execution of agreements and monitoring of contracts. In large organizations, where a large number of purchases are made for different categories of goods or services, the role of category manager is indispensable to optimize and control procurement activities, as well as to ensure effective and strategic management practices. Depending on the features and specifics of the customer's procurement, these persons may work simultaneously in the same organization and be involved in the procurement process.

## 1.4. Standardization of processes and roles

Having analyzed the international experience and practice of procurement organization in the commercial sector, we structured the procurement process. Below we describe each stage and consider possible ways of cooperation between specialists during this process.

However, before proceeding to the description of procurement processes, we would like to draw attention to the fact that procurement is carried out at the expense of approved expenditures for the financial year. These expenses are reflected in planned financial documents, which are approved in accordance with the requirements of current legislation. The calculation of the necessary expenses for the next financial year is carried out by the customer in the period determined by the legislation. It is important that procurement professionals are involved in this process, as this will allow them to effectively organize their work to ensure timely and effective procurement.

The standardization of processes proposed below will provide an opportunity to develop different models of the organization of procurement activities, taking into account the different features and scope of procurement that may arise from customers.

In general, the procurement process proposed by us is divided into four key stages: 1) identification of the need, market analysis and procurement planning, 2) procurement, 3) conclusion of the contract and its administration, 4) analysis and evaluation of procurement activities.

So, let's consider the processes that take place at each stage.

*Stage 1. Need determination, market analysis and procurement planning.* At this stage, stock volumes are specified, procurement volumes are forecast, and technical requirements for procurement items are worked out. As a result, the need for purchases is determined, namely, what needs to be bought, how much and when. As part of the same stage, it is envisaged to carry out a market analysis, in particular, to determine the available range of potential suppliers, the market price, terms of supply, etc. The availability of information on the needs and opportunities of the market is the basis for determining the items of procurement, their expected value and methods of procurement. Based on this information, an annual procurement plan is drawn up and published in the electronic procurement system.

Depending on the volume and complexity of purchases, everything provided for in the planning stage can be performed:

by an authorized person who is a specialist in public procurement;

by an employee who has been assigned the function of an authorized person, while involving specialists from other structural divisions (internal customers, analysts, etc.);

by a specialist of a separately created structural unit (department/department);

*Stage 2. Making procurement.* This stage involves preparation for procurement, announcement and implementation of procurement. In the period of preparation for

procurement, documentation is prepared, which contains a description of the technical requirements for the subject of procurement, establishment of qualification requirements for participants, a draft contract, etc. After the relevant documentation is prepared, if the procurement involves conducting open tenders or other procedures defined by law, a procurement announcement is published and its implementation begins from that moment. During the procurement procedure, it may be necessary to prepare clarifications regarding the provisions of the tender documentation and participate in the appeal process. Also, during the procedure, submitted proposals are checked, those that do not meet the requirements are rejected, and the most economically advantageous proposal is determined. If procurement does not require procurement procedures, the search and selection of suppliers is carried out in the manner established by the customer's internal regulations. As a rule, this is a less complex and formalized and more flexible process that does not require large expenditures of resources.

An authorized person is fully responsible for the procurement process, who must simultaneously perform the role of a category manager; procurement manager and lawyer. However, if she is not a specialist in public procurement and lacks the necessary competencies, then at this stage she will need to involve representatives of other structural units. For example, the internal customer who actually initiated the procurement can help prepare a description of the technical characteristics, as well as a description of the qualification requirements for participants or potential suppliers. Also, if necessary, the internal customer can be involved to provide clarifications. During the preparation of the draft contract, as well as in the event of an appeal, the authorized person may involve a lawyer.

*Stage 3. Conclusion of the contract and its administration.* After conducting the procurement procedure and determining the executor, the draft contract is prepared for signing. After the conclusion of the contract, a responsible person must be identified who will monitor the implementation of the contract, monitor the fulfillment of obligations, including the formation of applications for the supply of goods or the provision of services, and ensure that changes made to the contract meet the requirements of procurement legislation. Also, at this stage, the publication of information regarding the conclusion, amendment and execution of the contract in the electronic procurement system should be ensured.

At this stage, the authorized person must organize the signing of the contract and publish relevant information about the conclusion of the contract or changes to it. The internal customer or the contract management manager may be responsible for checking the quality of delivered goods, services provided, and monitoring the performance of the contract, depending on the volume of procurement, their complexity and the number of concluded contracts.

Also, a public procurement specialist in the role of contract management manager or quality control manager may be responsible for the conclusion of the contract and its administration.

*Stage 4. Carrying out procurement analysis and evaluation of procurement activity.* This is the final stage of the procurement process, and although it is not directly related to procurement, the implementation of this work helps to assess how well and competently the processes within each stage were organized and whether the existing organizational structure ensures the timeliness of procurement and their effectiveness. As a result of the procurement analysis and assessment of procurement activities, processes may be improved, approaches to the organization of procurement activities, etc. may be changed.

To carry out this work, it is advisable to involve colleagues from other structural units who are active participants in the procurement process. Also, this activity can be carried out by an auditor or a risk manager.

Summing up, it can be stated that procurement processes, both in other countries and the commercial sector, and in the field of public procurement in Ukraine, show certain similarities. Based on the learned experience, our team proposed some standardization of processes, description of roles and ways of cooperation between specialists during the procurement process. These developments can be used by various customers to implement transformational initiatives in their purchasing activities.



## Chapter 2. Clustering of customers. Approaches to the organization of procurement in Ukraine

According to the analytics module of Prozorro<sup>13</sup> as of 2021, 34,519 customers were registered in the Prozorro electronic procurement system. They differ both in terms of volume and the level of complexity of the purchases made. We assume that all this diversity should directly affect the choice and implementation of approaches to the organization of procurement processes. In order to verify this, we conducted a survey of customers, developed a methodology for clustering customers according to certain characteristics, and conducted an in-depth interview, which allowed us to understand what approaches to procurement activities are used by different customers.

### 2.1. Survey of customers

The purpose of the survey was to find out what approaches customers use to determine or appoint an authorized person and whether representatives of the customer's structural divisions are involved in the procurement process. Therefore, the main questions in the survey were: what methods of appointing/determining the authorized person are used; how many authorized persons are engaged in procurement; what is the level of involvement of employees of other divisions in various stages of the procurement process.

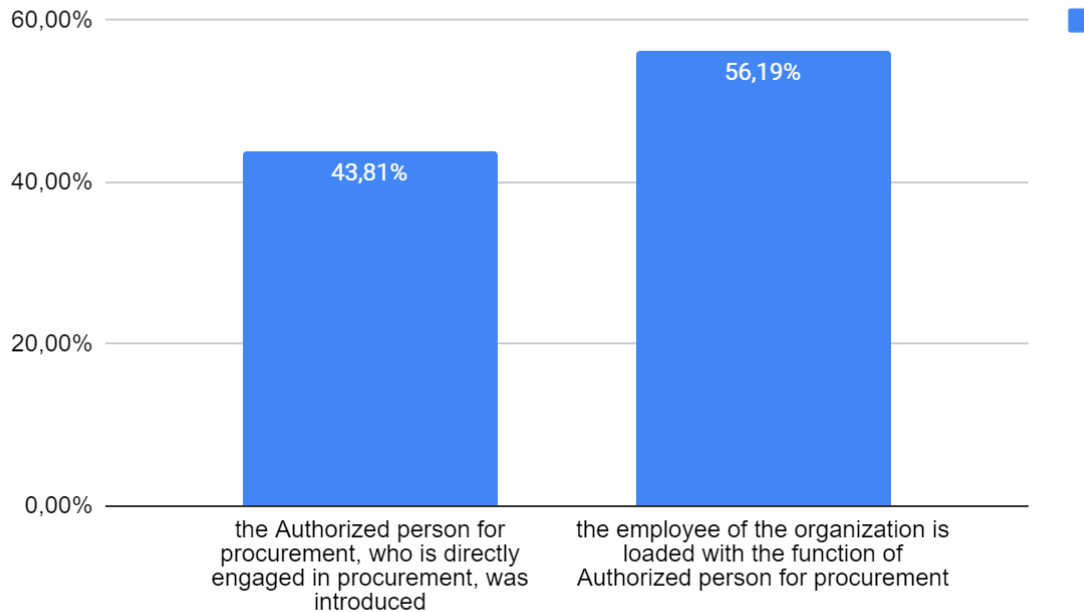
735 respondents took part in the survey. Of them, 322 or 44% answered that they were appointed by authorized persons and directly deal with procurement, and 413 or 56% reported that they perform the function of authorized person in addition to their main job duties (Chart 1). At the same time, 38 respondents noted that, in addition to introducing an authorized person, they also specially created a separate structural unit that deals with procurement.

In addition, the majority of respondents (69%) noted that only one authorized person was appointed to carry out purchases. At the same time, 51% of respondents noted that they do not involve employees of other structural divisions in the procurement process (for example, preparation of tender documentation requirements, evaluation of proposals, etc).

---

<sup>13</sup><https://bi.prozorro.org/>

## Method of appointing an authorized person



*Chart 1. Relative number of customers depending on the method of appointing an authorized person*

Therefore, according to the received data, in most organizations, an authorized person is appointed by assigning additional functions to an employee who has other direct job duties. At the same time, the majority of such authorized persons perform procurement functions independently, without involving representatives of other structural units in this process.

We additionally analyzed the volumes and methods of procurement most often used by customers, in which the respondents perform the function of an authorized person in addition to their main job duties. This allowed us to understand the general burden on this category of persons.

Therefore, out of 413 customers,<sup>14</sup> 247 or 60% used open tenders for procurement, the rest - only the negotiated procurement procedure and other methods of subthreshold procurement. Of them, 212 or 85% of customers conduct from 1 to 20 tenders, while about half of these customers conduct 1-2 tenders per year.

<sup>14</sup>the total number of customers in which officials perform the function of an authorized person in addition to their direct duties

## 2.2. Customer clustering methodology

The purpose of customer clustering was to group customers based on certain common characteristics, assuming that, in general, each customer group is approximately equally suited to the procurement organization.

One of our initial assumptions was that customers could be divided into “large”, “medium” and “small”. To do this, we decided to highlight common and distinctive features that allow us to carry out this group classification. According to our assumption, such a distribution will reflect how customers are loaded with procurement during the year. This, in turn, will make it possible to find out what peculiarities in the organization of procurement activities are characteristic of the customers of each group, since both the volume of purchases and their complexity directly affect the approaches to the organization of procurement activities.

First, we tested the approach of “dividing customers by expected value”. That is, customers who make procurements with a high expected value should fall into the “large” group, with a lower value - in the “medium” group, and with a low value, accordingly, in the “small” group. However, it turned out that this criterion is not exclusive, since high cost is not always related to the complexity of procurement. For example, a certain customer may have a large procurement budget, but perform only a few procedures, for example, the procurement of water supply and heating. This approach did not reflect a full understanding of the real volume and complexity of the procurement activity of customers.

Next, we applied the approach of “dividing customers by procurement by unique CPV codes”<sup>15</sup>, which are used to classify procurement items. We assumed that with the help of this analysis, it would be possible to make a clearer division of customers into groups depending on their needs and specifics. However, this approach also did not lead to the desired results, as customers’ use of different codes detailed after the 4th character are essentially unique and cannot be automatically grouped by the 4th character. Given these circumstances, it is impossible to determine the specifics of customers from such a large number of unique codes.

We also used the approach of “dividing customers by the number of completed lots”. This option also did not turn out to be effective, because large procurement budgets are not always spent by holding a significant number of lots. There are many cases when customers announce a large number of lots, while the cost of such purchases is insignificant. As a rule, these are cases when customers make

---

<sup>15</sup>Common Procurement Vocabulary or Unified procurement dictionary DK 021:2015  
<https://zakon.rada.gov.ua/rada/show/v1749731-15#n14>

subthreshold procurement for small amounts, which are simpler and faster comparison with other methods of procurement.

After applying all the tested approaches, we realized that it is the use of procurement methods and their number that can be the common features that can be used to divide customers into groups. These signs most likely affect the way procurement activities are organized. The more the customer purchases with the use of open tenders, the more there is a need to hire professional specialists in public procurement, to establish the interaction of structural units and processes with successive stages. Although it is no less important for simpler methods of procurement.

We decided to turn to different methods of procurement, evaluating them according to the complexity of implementation. It is worth noting that the legislation and the electronic procurement system provide for the possibility of using different procurement methods, so customers can use only one or a different procurement method or several methods at the same time during the year. For example, the customer can only use open tenders during a certain period or a negotiated procurement procedure, along with this, make purchases using a catalog or carry out other subthreshold procurement.

For convenience, we will divide all procurement methods into two categories. The first category is “complex procurement”. We included open tenders and framework agreements in this category. The second category is “simple procurement”, to which we included the negotiated procurement procedure and all methods of conducting subthreshold procurement.

We classified open tenders in the category of “complex procurement” because they are the most resource-intensive to conduct and require special competencies from the specialist responsible for this type of procurement. This is due to the need to thoroughly prepare for the procedure and ensure professional performance of all stages of the procedure.

Based on the above, we used the approach of “dividing customers by the number of open tenders used during the year” for customer clustering.

On the basis of the analysis of the use of open tenders by customers, it became possible to group customers also according to other similar characteristics. Since our assumptions were that conducting a large number of procurements, especially open tenders together with other procurement methods, requires the customers to involve specialists in the field of public procurement and to create a more extensive system of organizing the procurement process, we divided the customers into groups reflecting different degrees the complexity of procurement organization, depending on the combination of different procurement methods.

Thus, the first group includes customers who carry out up to 20 open tenders and subthreshold procurement. The second group includes customers who conduct 20 to 100 open trades and threshold procurement, and the third group includes customers who conduct more than 100 open trades and threshold procurement. There was also a group of customers who carry out only open tenders or only a negotiated procedure, a group of customers who use a negotiated procedure and subthreshold procurement for procurement, and a group of customers in whom it is difficult to determine the predominant method of procurement.

Grouping of customers by procurement methods, their absolute and relative value is shown in Table 1.

Proposals for division	Number of customers	% of the total amount	Expected value	% of the total expected cost
Total customers	34388	100.00%	1 072 015 540 548	100.00%
Customers who carry out up to 20 open tenders + who carry out all methods of subthreshold procurement	27332	79.48%	148 573 542 721	13.86%
Customers who carry out from 20 to 100 open tenders + who carry out all methods of subthreshold procurement	1377	4.00%	483 174 096 413	45.07%
Customers who carry out more than 100 open tenders + who carry out all methods of subthreshold procurement	138	0.40%	188 664 014 055	17.60%
Customers who conduct only open tenders or only negotiation	315	0.92%	596 299 310	0.06%
Customers who carry out negotiation and all methods of subthreshold procurement	4500	13.09%	5,255,945,102	0.49%
	33662	97.89%	826 263 897 601	77.08%
*it is difficult to determine the predominant method of procurement	726		245 751 642 947	

Table 1. Absolute and relative number of customers depending on procurement methods, which are grouped by certain characteristics

We grouped all of the above groups of customers (except for those in which it is difficult to determine the preferred method of procurement) into three groups, “small”, “medium” and “large”, according to their activity in conducting open tenders and using different methods of subthreshold procurement.

The “small” group includes 27,332 customers (79.5%) of the total number who carry out up to 20 open tenders, while also using all available methods of subthreshold procurement, or only all available methods of subthreshold procurement, 4,500 customers (13.09%) who use negotiation procedure together with other available subthreshold procurement and 315 customers (0.9%) who carry out only open tenders (up to 20 open tenders) or only negotiation procedures without using other methods of subthreshold procurement.

It is worth noting that out of 27,332 customers, the main part (88%) are those who make up to 10 purchases inclusively. At the same time, about 40% of customers conduct 1-2 open tenders, of those who use only open tenders during the year.

The “medium” group included 1,377 customers (4%). These customers carry out from 20 to 100 open tenders and use other possible methods of subthreshold procurement.

The third “large” group consists of only 138 customers (0.4%). Customers from this group conduct more than 100 open tenders per year, while using other available methods of subthreshold procurement.

## 2.3. Results of in-depth interviews

As part of this research, we conducted in-depth interviews with various customers who were randomly selected. We applied the clustering methodology to the selected customers: “small” customers are marked in yellow, “medium” - in green, and “large” - in orange (Table 1 of the Annex).

Thanks to the application of the methodology and the results of the interviews, we confirmed the assumption that customers who belong to the same group and meet the characteristics of this group organize their purchasing processes in a similar way. This confirms the accuracy and adequacy of the approaches that were used for customer clustering.

The results of the survey, data analysis and in-depth interviews made it possible to identify features in the organization of procurement activities that are typical for “small”, “medium” and “large” customers and to describe the generally applied approaches to the organization of procurement activities of customers of each group.



### ***"Small" customers***

The relative number of customers belonging to this group is 93.5% of the total number of all registered customers in Prozorro as of 2021, which is UAH 154 billion and 14.4% of the total expected value of purchases by customers in Prozorro as of 2021. Most of the customers of this group carry out up to 10 open tenders during the year (mostly up to 2 tenders) and, along with this, use other possible methods of subthreshold procurement. In addition, part of the customers of this group during the year use negotiation procedures and other possible methods of subthreshold procurement to make purchases.

In the vast majority of such customers, the organization and execution of purchases is handled by an authorized person, who is determined by assigning the functions of an authorized person as additional work to an employee from the full-time workforce. Along with this, a small number of customers have introduced a separate position, which is entrusted with the duties of performing the functions of an authorized person. Some customers use both the first and the second method of determining/appointing an authorized person. The maximum number of authorized persons determined in this way does not exceed three.

The results of the in-depth interview showed that with this model of organization of procurement activities, the authorized person quite often does not have a complete picture of the customer's procurement needs for the year, that is, he does not actually take part in forming the procurement needs of his organization. The authorized person receives an application with a need for purchases from an internal customer, sometimes with a description of technical characteristics. When there is no description of technical characteristics, the authorized person forms it independently, while almost never consulting the market. The authorized person clarifies the expected cost of the purchase with the finance department, as, as a rule, it is based on planned expenses. From this, it can be concluded that authorized persons with such a model do not analyze the market on a permanent basis. However, it is worth noting that, if necessary, authorized persons review the cost of certain items purchased on the Internet or request prices from some suppliers. At the same time, there are no regulations or methodologies that describe approaches to asking for prices or forming the expected value.

At the customers of this group, the authorized person, as a rule, is fully responsible both for the formation of tender documentation requirements and for conducting procurement procedures. At the same time, only in exceptional cases, authorized persons involve a working group of representatives of other structural units in the procurement process. Using the possibility of creating a working group as an advisory body only in exceptional cases, the authorized persons explain that it is quite difficult to organize the work of such a group. Representatives of other structural

divisions consider work in work groups to be additional, do not have the necessary motivation to engage in this work, and prefer to avoid it.

For the authorized person of this category of customers, purchases are completed at the stage of conclusion of the contract and its transfer to the internal customer or to the accounting department. Issues of analysis and evaluation of procurement activity by customers of this group remain neglected.

The peculiarities of the organization of procurement activities of this group are that:

- the procurement function is usually handled by the customer's employees, who are mostly busy with their main duties. Sometimes, to implement this function, customers introduce a separate full-time position;
- authorized persons deal with purchases independently, as a rule, without involving representatives of other structural units;
- often, authorized persons do not have a complete idea of the annual volume of purchases, but are focused only on the procedural points of procurement, the need for which arises from internal customers during the year;
- stages of procurement planning (including determination of need, cost, etc.) and analysis and evaluation of procurement activity remain in fact outside the attention of the authorized person;
- initiatives of authorized persons regarding the development of regulations for interaction with other structural divisions and their compliance often remain at the level of initiatives;
- the procurement function is perceived by the management as a necessity for the formal implementation of the provisions of the Law.

### ***“Medium” customers***

The relative number of customers belonging to this group is 4% of the total number of all registered customers in Prozorro as of 2021, which is 483 billion UAH and 45% of the total expected value of purchases by customers in Prozorro as of 2021. Customers of this group conduct from 20 to 100 open tenders per year and are characterized by the creation of a department with authorized persons in the number of at least 3 persons.

The management of customers of this group approach the organization of procurement in a more balanced way. To ensure effective and professional management of procurement processes, departments are created, including procurement specialists. Such specialists are determined by authorized persons.

Some of them are responsible for the organization and conduct of procurement procedures, and the other - for the organization and conduct of other subthreshold procurements. At the same time, employees of other structural divisions are involved in the procurement process. As a rule, the employees of the structural units are responsible for providing the need (what needs to be purchased, how much and when, and a description of the technical characteristics). Authorized persons of this customer group pay more attention to market analysis using Prozorro data, company websites and available public tools. The customers of this group, in the vast majority, have developed regulations for the interaction of structural divisions to ensure the organization of purchases, but the problem of their compliance still remains. Internal customers usually manage contracts. Individual customers of this group are working on implementing the practice of analysis and evaluation of their procurement activities.

Therefore, the peculiarities of the organization of procurement activities of this group are that:

- structural subdivisions are created to organize and carry out purchases;
- the procurement function is usually handled by procurement specialists;
- in the vast majority of cases, a more structured and systematic approach to procurement processes is used;
- representatives of other structural divisions are involved in planning and determining the need. The order of interaction is usually approved by internal regulations, but there is a problem of its compliance;
- authorized persons, as a rule, pay attention to market analysis using available tools;
- some customers introduce practices of analysis and evaluation of procurement activities;
- in a certain part of the customers, the procurement function is perceived by the management as a supporting function to ensure the main activity.

### ***“Big” customers***

The relative number of customers of this group is 0.4% of the total number of all registered customers in Prozorro as of 2021, which is UAH 188 billion and 17.6% of the total expected value of purchases by customers in Prozorro as of 2021. The customers of this group carry out more than 100 open tenders and are characterized by an extensive structure of procurement divisions and the presence of separately appointed authorized persons who are responsible for the organization of procurements and their implementation. In most of the “big” customers, the

procurement activity is usually built in a structured way and covers all the necessary stages.

In the vast majority of such customers, departments are created, which may include several procurement units specializing in various aspects of the procurement process. For example, there may be separate units responsible for the preparation of tender documents and procurement, units of category managers who specialize in certain categories of goods or services, or contract management managers. Also in this category, there are customers who create a structural division with specialists who are responsible for the organization and conduct of purchases and working groups that are engaged in analyzing the needs of the customer and determining the technical characteristics of the items to be purchased. Most of the “big” customers work quite actively with the market, conducting consultations, which allows them to prepare well for tenders.

Authorized persons carrying out the procurement process have a higher level of access to information and support. Heads of procurement departments fully represent the procurement function at general meetings of middle managers and, if necessary, top managers. Some “large” customers use specialized procurement systems and tools to automate processes, which helps ensure higher efficiency in procurement management. Along with this, “large” customers, as well as “medium ones”, are faced with the problem of compliance with the rules, procedures and deadlines determined by internal regulations. A certain part of the customers of this group have an internal security service that checks potential executors of contracts for integrity. Also, individual customers of this group carry out analysis and evaluation of their procurement activities on an ongoing basis.

So, the peculiarities of the organization of procurement activities of this group are that:

- procurement departments, less often structural subdivisions in the form of departments, are created to organize and carry out purchases;
- services are responsible for carrying out procurement activities ;
- procurement processes are structured and described in internal regulations. However, their unconditional compliance is still a problem;
- authorized persons have wider access to information and, in general, the procurement function is perceived as an opportunity to obtain better procurement results;
- the established practice of using tools to automate processes and involve special structural divisions, such as the internal security service, in the process of checking potential executors of contracts;

- in the vast majority of cases, the analysis and evaluation of procurement activities is carried out in order to improve procurement processes.

Taking into account the fact that the approaches to the organization of procurement activity have an impact on the results of procurement, we decided to analyze one of the indicators of the procurement activity of the customers with whose representatives we conducted in-depth interviews, namely the level of success of the tenders held in 2021 (see Table 2 of the Annex). According to the results of the data analysis of BI Prozorro, we found that the average success rate of customers in the "medium" and "large" groups is 11 and 8 percentage points higher respectively, than in the group of "small" customers. Since purchases from "medium" and "large" customers are mainly handled by specialists of procurement services, and the organization of procurement activities is more structured, the success rate of the tenders conducted by them is higher than that of "small" customers. However, taking into account the fact that the success rate of "medium" and "large" customers is slightly higher than 50% on average, it can be stated that procurement activity needs improvement. However, it is worth finding out which processes need changes by conducting an analysis and evaluation of the individual customer.

## **Chapter 3. Identification of problems in the organization of procurement activities and recommendations for improvement**

Analysis of approaches to the organization of procurement activities of different groups of customers showed that customers organize their procurement activities in very different ways. However, common features are observed in the applied approaches, which makes it possible to group customers according to similar characteristics. Meanwhile, the organization of procurement activities of each group of customers has its own characteristics. For example, "small" customers pay the main attention only to the procedures that are clearly described in the Law, the remaining important stages of procurement are partially or completely ignored. Alternatively, purchases from "small" customers are handled by full-time employees who have their own functional duties and additionally perform the procurement function. Obviously, the use of such approaches quite often leads to procurements that do not meet existing needs, have an inflated cost, do not take place or are carried out with significant delays and problems during the execution of contracts.

With this in mind, we tried to identify problems in the organization of procurement activities of various groups of customers, which negatively affect the results of purchases made by customers and the factors that cause them.

### 3.1. Identification of problems

The results of any activity are largely determined by the presence of competent personnel and qualitatively constructed processes. We paid special attention to the analysis of problems that may arise in different groups of customers, and which, in turn, may be related to either personnel or processes. This approach allows us to understand the main challenges that may arise in the activities of different groups of customers and to prepare proposals that help solve these problems (Table 2).

No	Problems	Small	Medium	Big
1	the procurement function, as a rule, is not handled by public procurement specialists, but by the customer's employees, who are mainly busy with their main duties	✓		
2	the lack of necessary competences of the authorized person is not compensated by the competences of representatives of other structural units, because either such competences are not available among the full-time employees of the customer, or there are no internal regulations of interaction and motivation of representatives of structural units	✓		
3	when organizing procurement processes, it is not taken into account that procurement is a sequential process of transition from the planning stage to the stage of analysis and evaluation of procurement activities, and is actually organized around the procedural moments of procurement and the implementation of procurement legislation	✓	✓	
4	internal regulations of interaction/organization of procurement activities are absent or not followed	✓	✓	✓
5	the procurement function is perceived by the management as a necessity for the formal implementation of the provisions of the Law	✓	✓	

Table 2. Distribution of problems specific to different groups of customers



Based on the data presented in the table, it can be concluded that “medium” and “large” customers have some problems during the organization of procurement activities, but their solution mostly lies in the level of adjustment and optimization of internal processes. At the same time, all the identified problems are specific to “small” customers, and their solution is mostly possible under the condition of implementing complex changes, in particular to the procurement legislation and defining strategic priorities for the development of public procurement. Since the relative number of customers of this group is 93.5% of the total number of all registered customers, we focused on the formation of proposals that will be aimed specifically at solving the problems of this group of customers. However, we will also offer solutions for “medium” and “large” customers.

Let's consider the factors that can cause the above problems.

1. One of the main problems of “small” customers is that full-time employees, along with their main work, are engaged in procurement activities, as they are designated by authorized persons. This method of determining/appointing an authorized person meets the requirements of the organization of the customer's procurement activities in accordance with Article 11 of the Law. However, the Law does not contain instructions on when it is appropriate to use this method of determining/appointing an authorized person, assuming that the customer can independently determine this, taking into account the volumes, specifics of procurement, the possibility of changing the organizational structure and the general workload of full-time employees. However, the analysis of the organization of procurement activities of “small” customers shows that this method of identification/appointment is used by the majority of customers of this group, regardless of the number of purchases or their complexity. At the same time, there are a number of cases when the additional burden associated with procurement is not paid.

This approach of customers may be related to the fact that:

- the management of the customers of this group formally approaches the implementation of the provisions of the Law and does not believe that a well-organized procurement activity can improve procurement results;
- existing typical staff lists or allocated expenses for the maintenance of the organizational structure do not allow the introduction of positions of public procurement specialists.

2. Since the Law does not establish requirements for the specialty of a procurement specialist and the periodicity of upgrading the qualifications of such a specialist, procurement is handled by various specialists who do not have the necessary competencies for procurement, for example: accountants, lawyers and

other full-time employees, and in military units - executive officers support services of military units and other officials.

3. In the vast majority of customers:

- the organization of procurement activity is reduced only to compliance with the procedures stipulated by the Law, and therefore the authorized person, focusing on them, does not pay attention to other important stages of procurement, which directly affect its results;

- there are no clear internal regulations that contain a description of the processes and the procedure for the interaction of structural units during the period of organization and procurement. Along with this, the functional duties of the authorized person are stipulated by the Regulations on the authorized person. Such Provisions are developed and approved by the customers on the basis of the exemplary provision on the authorized person approved by the Ministry of Economy<sup>16</sup>.

- for the most part, managers do not understand the complexity of the procurement process and do not consider it necessary to appoint a public procurement specialist as an authorized person and to change or improve the methods of organizing procurement activities.

The above is related to the fact that the Law does not contain provisions on the list and description of procurement stages and the role of an authorized person at each of the stages, but only provides for the functional duties of such a person, which mainly relate to procurement planning, their implementation, drafting and storage of documents and publication of information provided by the Law.

Summarizing, it is worth noting that the identified problems arise as a result of a narrow legislative framework that does not provide for detailed procurement processes. The legislation contains norms that concern procedural points and does not regulate the processes that are necessary in the procurement activity.

### **3.2. Proposals for changing or improving approaches to the organization of procurement activities**

To ensure full and effective procurement activities of customers, as well as to build a procurement system that will allow to achieve the maximum level of efficiency and transparency, we offer:

---

<sup>16</sup>order of the Ministry of Economy dated 08.06.2021 № 40 <https://zakon.rada.gov.ua/rada/show/v0040930-21#Text>

1. *provide in the Law of Ukraine “On Public Procurement”:*

1.1. that procurement is a process of sequential transition from one stage to the next:

- stage of need determination, market analysis and procurement planning;
- stage of preparation and procurement;
- stage of contract signing and contract management;
- the stage of analysis and evaluation of procurement activity.

This can be reflected in the Law by specifying the definition of “public procurement”.

1.2. the need for the Ministry of Economy to develop an exemplary regulation on the organization of procurement activities, which, among other things, should contain a detailed description of procurement stages.

The following sections may be included in the exemplary regulation on the organization of procurement activities:

*description of the procurement process.* A detailed description of the procurement stages, taking into account the methods provided by the Law;

*structure and responsibilities of units.* Establishing clear functional responsibilities for each structural unit involved in the procurement process, in order to determine their responsibilities in the procurement process;

*order of interaction and coordination.* Development of mechanisms of cooperation, communication and reporting between divisions for the purpose of effective interaction at all stages of the procurement process;

*approval of decisions.* Establishing procedures for approval and approval of procurement decisions in order to ensure internal consensus and take into account various aspects of the activity;

*monitoring and evaluation of results.* Determination of control mechanisms for the implementation of regulations and interaction processes, as well as systems for evaluating the effectiveness of these processes;

*training and development.* Implementation of a system of training and development of employees aimed at improving knowledge and skills in public procurement and interaction between units.

*analysis and improvement.* Regular analysis of interaction processes, procurement results and their effectiveness with the aim of continuous improvement and improvement of procurement results.

1.3. the duty of customers to develop and approve their own provisions that fully describe the processes of procurement activities, based on the exemplary provision on the organization of procurement activities.

The introduction of such changes will allow all customers to clearly understand the stages of the procurement process, avoid difficulties in harmonizing work processes, inconsistencies in the actions and decisions of various departments, reduce the risk of conflicts and misunderstandings, and ensure that procurement is carried out on time without violating them. The presence of internal regulations and rules not only make it possible to increase the effectiveness of procurement, to clearly divide areas of responsibility between specialists involved in the procurement process, but can also affect the customer's ability to achieve its strategic procurement goals.

1.4. change of methods, determination/appointment of a public procurement specialist who will be responsible for the organization and conduct of procurement:

by introducing the position(s) of public procurement specialist to the staff list, which will be entrusted with the duties of performing the functions of the authorized person(s);

by concluding an employment contract (contract) with a public procurement specialist in accordance with the legislation, who will be entrusted with the duties of performing the functions of an authorized person;

by concluding a contract for the provision of services, including a contract of a civil law nature with a specialist in public procurement in accordance with the law, who will be entrusted with the duties of performing the functions of an authorized person.

Refusal of the additional burden of non-professional specialists with the functionality of procurement will allow to attract professionals with special knowledge and experience in the field of procurement. The presence of such specialists will ensure a qualified approach to procurement procedures and implementation of effective procurement practices. The requirements for the competencies of a public procurement specialist are established by the professional standard.

1.5. the need for a public procurement specialist to upgrade his qualifications at least once every three years.

This will allow the public procurement specialist to keep his level of knowledge and skills up-to-date, as well as to deepen his expertise, which will contribute to the effectiveness of the procurement carried out by such a specialist.

At the same time, enshrining in the Law a structured procurement process consisting of separate stages, as well as providing a detailed description of each stage in the provision will help determine the role of a public procurement specialist depending on the organization of procurement activities at the customer.

## *2. Provide in the Public Procurement Development Strategy:*

- development of a system of key performance indicators (KPI) for each group of customers;
- introduction of a mandatory analysis and assessment of the results of the procurement activities of customers based on the KPI;
- if the results of procurement activity do not meet the established KPI, recommend to customers to review the approaches of the organization of procurement activity.

To improve its activity, the customer can use the following methods:

- transfer purchases to the level of the chief manager of funds. This approach involves the centralization of expenditures at the level of the main manager of funds and the implementation of purchases by the structural division of the main manager of funds for lower level managers. This may be appropriate for cities that have an extensive network of budget institutions, such as secondary schools, preschools, hospitals, cultural and sports institutions, etc. Funding can be centralized at the level of structural subdivisions of city executive committees. For example, the centralization of funding at the level of departments/administrations of education for all pre-school and general education institutions. This approach allows solving the problem of the lack of qualified personnel among “small” customers, since creating a structural division of public procurement specialists at the level of the chief manager of funds is much more effective than organizing procurement activities at the level of a separate educational institution;
- transfer purchases to centralized purchasing organizations (CPOs or Central Purchasing Bodies (CPBs)) at the central level or to established CPOs at the level of regions and cities. In order to ensure the possibility of creation of the CPB at the level of cities, it is necessary to remove the restrictions on the number of the population, which are established by the Resolution<sup>17</sup>, especially taking into account the fact that during the large-scale war there were significant movements of the population between the regions of Ukraine and to other countries;

---

<sup>17</sup>Resolution of the CMU of December 27, 2018 № 1216 “On the peculiarities of the creation and operation of centralized purchasing organizations”

- make your purchases as much as possible by using the electronic catalog. This method will be effective for “small” customers only if the Ministry of Economy implements the electronic catalog development policy in terms of expanding product categories and services.
- development of a customer rating system: for “large” customers based on aggregated KPI by region - at the country level; for “small” ones - at the regional level.

A change in approaches may involve both the implementation of one of the above methods and their combination. However, the choice of decisions regarding changing approaches should take into account the specifics of each customer, their needs, capabilities, procurement volumes and costs of organizing the procurement process. This will ensure optimal results and successful implementation of the proposed approaches.

However, some of the proposed solutions, in addition to having a positive impact on solving the identified problems, contain certain risks and limitations for implementation. We have analyzed the risks and proposed approaches that will allow to significantly reducing them.

### **3.3. Proposals for reducing the level of risks of hiring a public procurement specialist under a service contract**

Hiring a public procurement specialist under a service contract may carry certain risks for the customer, namely:

*legal risks.* Hiring a public procurement specialist under a contract for the provision of services can create legal complications, especially if the relationship with him is not properly formalized or does not meet the legal requirements for such contracts. This may lead to possible litigation and instability in cooperation with the public procurement specialist;

*lack of control.* A procurement professional employed under a service contract may be subject to a lower level of scrutiny than individuals employed by the customer. This can lead to the public procurement specialist evading full or partial responsibility.

*loss of expertise.* Hiring a public procurement specialist under a contract for the provision of services may lead to the loss of internal expertise and knowledge of procurement processes within a particular customer. A specialist in public procurement may not be familiar with the specifics of a particular customer's procurement, which may affect the quality and efficiency of the process.

*instability of cooperation.* A specialist in public procurement, working under a contract for the provision of services, may have less interest in long-term cooperation



with the customer. He can be responsible for the performance of a specific task and not be obligated to further cooperation after its completion.

*conflict of interest.* If a public procurement professional works with several organizations at the same time, a conflict of interest may arise if the customer has business relationships with other customers or suppliers.

*not constructive cooperation.* During the interaction of a public procurement specialist with representatives of various departments, there may be a risk of non-acceptance of an external (non-staff) specialist and sabotage of the receipt of documents and information necessary for procurement. This can lead to untimely and ineffective purchases.

You can reduce the level of risks associated with hiring a public procurement specialist under a service contract by:

*development of a standard contract form.* The contract must clearly establish the conditions and requirements regarding the quality of the performance of tasks, responsibility, deadlines and the prevention of conflicts of interest (prohibition of simultaneously carrying out activities in the interests of customers and procurement participants), periodic training and mechanisms for resolving possible disputed issues or legal protection in the event of necessity. Integral components of the contract should be rules of ethical conduct during procurement and a non-disclosure agreement (NDA). This will help avoid ambiguities and possible disputes;

*introduction of competence assessment.* Conducting an assessment of the public procurement specialist's competence before concluding the contract will ensure that he has the appropriate expertise and experience to carry out procurement;

*development of a system of control measures and reporting.* Ensuring regular control over the activities of the public procurement specialist and submission of reports on the work performed. This will allow you to monitor the procurement process and identify possible problems in time;

*interaction and communication.* Creation of mechanisms and procedures for communication and interaction between the public procurement specialist and management, as well as with other structural units;

*stability of cooperation.* Creation of conditions and incentives for long-term cooperation with a specialist in public procurement.

Therefore, for effective cooperation with a public procurement specialist under a contract for the provision of services, the contract should be carefully prepared, an assessment of his competences should be carried out, as well as control and

responsibility for his activities should be ensured in order to ensure optimal results and compliance with the requirements of legislation in the field of procurement.

### **3.4. Proposals for stimulating the heads of customers in order to improve approaches to the organization of procurement activities**

The implementation of the above proposals is aimed at improving procurement processes, approaches to hiring specialists in public procurement, as well as increasing their professional level. However, the implementation of these measures may not give the expected results, since managers do not have the necessary incentives to introduce changes in procurement activities in their institution.

The introduction of the above proposals is an important step in improving procurement processes, approaches to hiring public procurement specialists, as well as raising their professional level. These initiatives aim to change the perception of the procurement process and influence the development of the public procurement profession.

However, despite the obvious impact of these measures on increasing the level of procurement performance, implementation may face difficulties due to the lack of necessary incentives and motivation from the management of customers. Stereotypes, habits and routines may prevail among managers, which prevent them from adopting innovations and abandoning the usual approaches. In this context, it is important to note that even the largest changes in processes and practices may not lead to the expected results if they are not accompanied by internal motivation and management support. Thus, the successful implementation of these proposals requires not only their introduction, but also the readiness of management to open up new opportunities and give priority to improving the organization of procurement activities.

We have studied the practice of applying different methods of stimulation and highlighted those that can be applied to customer managers.

There are the following methods of stimulation: financial rewards, incentives (including education, trainings, workshops on the dissemination of successful practices, exchange of experience, field trips, conferences, participation in an expert environment), in the form of gratitude rewards (letter of thanks, certificate), and the use of punishment as a method of stimulation.

Stimulation techniques include a variety of approaches to maintaining and reinforcing desired behavioral patterns and achieving desired outcomes. Among them, two main directions can be distinguished: positive incentives and the use of punishments.

Positive incentives usually include financial rewards and encouraging tokens of appreciation. Financial rewards can be in the form of bonuses, bonuses or other financial benefits that are paid to employees in case of achieving certain goals or high productivity. It can inspire employees to work more effectively and efficiently.

Incentives of appreciation include letters of thanks, certificates, and other forms of formal or informal recognition. These signs can be given publicly and create a sense of importance and support for employees, helping to boost their morale and motivation.

The punishment method may also be used. This may include fines, reduced wages or other restrictions. The use of punishment can be an effective method for ensuring discipline and compliance, but it is important to consider that excessive use of punishment can negatively affect the morale and motivation of employees.

Based on the above, we suggest considering the possibility of introducing incentive payments, depending on the effectiveness of procurement activities, to stimulate customer managers. The system of such payments, which may be based on criteria and KPI, may be provided for in the terms of the contracts concluded with managers.

If the procurement activity does not undergo improvements and its results lead to negative consequences, the contracts should provide for the possibility of terminating the employment relationship with the manager, who for several years has not made sufficient efforts to improve the organization of procurement activities.

Such a step requires serious discussion and justification, as it has important legal, financial and organizational aspects. However, it also reflects the importance of effective leadership and its accountability to the organization and its stakeholders.

Given the fact that poorly organized procurement activities can lead to loss of funds, unnecessary expenses and even violations of legislation, the responsibility of the manager in this aspect is very important. Therefore, if he systematically ignores opportunities for improvement and does not correct the situation, the solution may be to terminate the employment contract to ensure effective and responsible management practices in the organization.

# CONCLUSIONS

This research is aimed at identifying problems in the processes of procurement activities of customers and developing specific recommendations for improving the efficiency of these processes. Implementation of the solutions proposed in the research will allow customers to optimize their procurement activities and improve their effectiveness.

Based on the learned experience, our team concluded that procurement processes, both in different countries and in the private sector, and in public procurement in Ukraine, show certain similarities. This fact prompted our team to standardize the processes of procurement stages, their description and description of procurement roles. Various customers to implement transformational initiatives in their procurement activities can use the proposed standardization.

Conducting a survey and in-depth interviews allowed us to cluster customers by common features and characteristics, as well as to identify the peculiarities of their procurement processes. This helped us to identify the problems that arise in each group of customers and identify the factors that lead to these problems.

As a result of the work carried out, we formulated the following conclusions and recommendations aimed at improving the quality and efficiency of public procurement, promoting a clearer and more systematic approach to the procurement process:

it is necessary to amend the legislation on public procurement, specifying the term "public procurement" and establishing a requirement for the development of a standard regulation on the organization of procurement activities. Customers should be obliged to develop and approve their own regulations. This will help avoid misunderstandings, simplify work processes and ensure timely implementation of purchases;

it is necessary to review the approaches to hiring public procurement specialists and regularly improve their qualifications. Refusal of the additional burden of non-professional specialists in the procurement function will allow to attract specialists with specialized knowledge and experience in this field, which will contribute to the implementation of effective practices and ensure high quality of procurement;

it is worth expanding the Strategy for the development of public procurement, in terms of developing a system of key performance indicators (KPI) for each group of customers and implementing measures to improve procurement activities in case of non-achievement of the KPI. These measures may include increased use of the electronic catalog, transfer of procurement to central procurement organizations, or centralization of procurement funding at a higher level;

it is necessary to regulate the labor relations between the customer and the public procurement specialist who works under the contract for the provision of services, taking into account the potential risks of this interaction and the proposed measures to minimize them;

it is necessary to consider the possible methods of stimulating the heads of customers in order to improve the organization of procurement activities and the implementation of effective practices.

## ANNEX

Table № 1. Quantitative display of purchases of customers with whom an in-depth interview was conducted.

Customer	Number of lots	Number of purchases	Open and Euro	subthreshold	negotiation	expected value (UAH)
LLC "Operator of the gas transportation system of Ukraine"	1 112	1 042	747	297	68	8,779,311,545
JSC "Ukrgezvydobuvannya"	463	400	338	55	70	18,133,186,224
SE "Medical Procurement of Ukraine"	557	556	282	90	185	9,408,283,889
National Bank of Ukraine	873	782	235	474	164	982,926,836
CNCE "Vinnytsia Regional Clinical Hospital named after E. Pirogov of the Vinnytsia Regional Council"	592	575	147	427	18	134,888,299
Executive Committee of the Mariupol City Council	670	653	92	527	51	71,104,187
State Agency for Reconstruction and Development of Infrastructure of Ukraine	147	84	85	59	3	242,035,423
The Supreme Anti-Corruption Court	486	486	41	428	17	28,903,851
National Center "Small Academy of Sciences of Ukraine"	1 021	1 017	35	958	28	341,812,131
CE "Kremenchukvodokanal" of the Kremenchuk City Council	378	378	15	357	6	222,729,943
Chernihiv Regional Employment Center	617	617	4	601	12	12,781,006.
National Museum of the History of Ukraine	449	441	2	427	20	10,061,977
The Department of Construction, Architecture and Land Use of the Desnyan District in the city of Kyiv of the State Administration	39	39	2	29	8	267,972,915
Ministry of Culture and Information Policy of Ukraine	81	81	1	73	7	17,187,172.
Vinnytsia Regional State Administration (apparatus)	95	95	0	95	0	1,498,212



Table № 2. Expression of the success of conducting open tenders in terms of quantity and percentage of customers with whom in-depth interviews were conducted.

Customer	Successful purchase lot	Unsuccessful purchase lot	Purchase lot canceled	Active purchase lot	In total	% successful	% unsuccessful
LLC "Operator of the gas transportation system of Ukraine"	747	628	58	19	1452	51.45%	47.25%
JSC "Ukrgezvydobuvannya"	338	239	76	3	656	51.52%	48.02%
SE "Medical Procurement of Ukraine"	282	636	14	1	933	30.23%	69.67%
National Bank of Ukraine	235	138	6	0	379	62.01%	37.99%
CNCE "Vinnytsia Regional Clinical Hospital named after E. Pirogov of the Vinnytsia Regional Council"	147	66	5	0	218	67.43%	32.57%
Executive Committee of the Mariupol City Council	92	87	20	0	199	46.23%	53.77%
State Agency for Reconstruction and Development of Infrastructure of Ukraine	85	14	2	0	101	84.16%	15.84%
The Supreme Anti-Corruption Court	41	46	1	0	88	46.59%	53.41%
National Center "Small Academy of Sciences of Ukraine"	35	26	15	0	76	46.05%	53.95%
CE "Kremenchukvodokanal" of the Kremenchuk City Council	15	19	4	0	38	39.47%	60.53%
Chernihiv Regional Employment Center	4	18	1	0	23	17.39%	82.61%
National Museum of the History of Ukraine	2	1	0	0	3	66.67%	33.33%
The Department of Construction, Architecture and Land Use of the Desnyan District in the city of Kyiv of the State Administration	2	0	2	0	4	50.00%	50.00%
Ministry of Culture and Information Policy of Ukraine	1	4	0	0	5	20.00%	80.00%
Vinnytsia Regional State Administration (apparatus)	0	0	0	0	0	0	0