Executive summary

Efforts to improve procurement procedures, reduce duplication and achieve greater value for money have led to the development across OECD countries of policies promoting the use of collaborative procurement tools and strategies such as centralised purchasing, framework agreements, dynamic purchasing or joint procurement. They are also reflected in the 2015 OECD Council Recommendation on Public Procurement.

A framework agreement is an agreement between one or more contracting authorities and one or more economic operators, the purpose of which is to establish the general terms governing purchase orders to be awarded during a given period. The implementation and development of this instrument proved highly successful and became very popular in Chile. In the last five years the number of purchase orders increased by 150% and the number of transacting suppliers by more than 130%. However, this success also raised questions about the sustainability of the current framework agreement model, as requests for modifications of suppliers’ catalogues of products increased by 758% during the same period.

The concept and functioning of framework agreements (Convenios Marco) in Chile, is somewhat different from the most commonly admitted principles surrounding the implementation and use of this strategic procurement instrument, as illustrated by the comparison with other OECD country practices.

First and foremost, ChileCompra is one of the few central purchasing bodies (CPBs) that have very few framework agreements that are made with a single supplier. Apart from the framework agreement relating to mandatory health insurance, all other instruments are concluded with multiple suppliers. On average, ChileCompra awards a framework agreement to 185 suppliers out of 248 bids received. This means that almost 70% of the bidders are admitted under framework agreements. Yet, more than 60% of suppliers on average did not receive any purchase orders in 2014, and the top 10 suppliers under each framework agreement accounted for, on average, 71% of the total revenue.

Indeed, the number of suppliers participating in framework agreements signals a different approach towards the use of this instrument, since most OECD countries use this tool to improve efficiency and extract value for money and cost savings from the system by aggregating and consolidating demand, thus reducing the pool of suppliers. Framework agreements in Chile thus more closely resemble other collaborative procurement tools such as dynamic purchasing systems or e-catalogues.

Yet, other aspects of the framework agreements implemented by ChileCompra differ from these alternative solutions. For example, dynamic purchasing systems (DPS) in the European Union qualify suppliers solely based on the attainment of fixed technical requirements. In addition, contrary to framework agreements in Chile, suppliers are allowed to join the existing DPS at any point in time following an open call for tender, and second stage competition is mandatory for all subsequent purchase orders. This type
of instrument is significantly different from the functioning of framework agreements in Chile where less than 1% of the purchase orders are subject to second stage competition.

These specificities, high number of awarded suppliers and limited second stage competition, are central to the entire approach of ChileCompra to framework agreements. They are certainly inclusive, offering the private sector broad access to the public procurement market, yet with limitations relating to the effective inclusiveness of the system since the majority of awarded suppliers are not receiving any revenue in a given year. At the same time, the sustainability of the model, both for the public and the private sides, is far from certain.

One of the options ChileCompra could consider is to turn framework agreements into consolidated tools generating economies of scale. This would imply the rationalisation of both demand and supply, but could reduce their inclusiveness. Otherwise, Chile could choose to maintain the existing structure and focus on increasing the sustainability of the system notably by streamlining the operational management of framework agreements, but probably at the expense of efficiency in achieving value for money and savings.

In order to balance the benefits and the aforementioned risks associated with both options, Chile could follow another path: that is, a progressive and targeted implementation of strategic consolidation efforts, such as standardisation of products and aggregation of needs. Benefiting from the experience of other countries, ChileCompra could build upon the hybrid nature of its existing framework agreements system to develop an architecture whereby current inclusive collaborative procurement tools would sit alongside targeted consolidated procurement instruments.

ChileCompra could increase savings by identifying product categories more prone to the development of economies of scale, reducing the pool of suppliers, standardising product categories and strategically allocating the market to suppliers after a competitive process. For product categories with highly heterogeneous demand such as food and perishables, ChileCompra could reinforce the inclusiveness of the corresponding instruments by allowing suppliers to join existing instruments at set entry points. Alongside structured product updates, these efforts would help improve the operational efficiencies of framework agreements.