



MINISTRY OF DEFENCE OF UKRAINE.

OPEN PROCUREMENT

REPORT SUMMARY

The structure of the customers (procuring entities) from the Ministry of Defence is rather wide, including organizations that deal with food, apparel and gear supply for the army, construction and maintenance of military towns, and supporting organizations that ensure medical treatment, rest and trainings for military service members.

The Department of Public Procurement and Material Resources Supply (DPP) was the major customer from of the Ministry of Defence of Ukraine with its 2016 procurement amounting to UAH 6.6 bln. Procurement of foods, fuel and clothing constituted almost 80% thereof. In general, 7 large tenders to ensure food supply for the army for 2016 took place. Each tender covered military units on the territory of one through eight oblasts with the estimated value amounting to UAH 140.1–505.5 mln and saved UAH 262.7 mln (10%). UAH 164.4 mln could have been saved additionally if three of those tenders had created competition. Further splitting of lots can be an option to attract more bidders enabling more suppliers to participate in tenders.

In 2016, two military units witnessed experiments where menus were based on the food catalogs. Such a type of nutrition provides for the variety of diets and allows saving money.

Thus, the price for the daily ration based on the food kits was 17% lower than the minimum price for basic ration. Therefore, it is appropriate to repeat the experiment with more military units.

Procurement planning is one of the main problems for the DPP, and short periods of contract implementation prove that. Thus, there were only 7 days to produce and deliver 150 t of smoke composition, 6 days to produce and deliver 10,000 pairs of boots, and 4 days to produce and deliver 40,000 pillowcases. There was a tendency toward reducing delivery periods: starting from August, the same volume of goods was supposed to be produced 1.2–2 time quicker than during the first half of the year.

2016 continued to use technical conditions of other producers or refer to technical conditions that were not available publicly. However, we can see some positive changes in this sphere as well: e.g., the Ministry of Defence has approved new requirements for field rations (meals ready to eat) without the abovementioned deficiencies. In order to avoid participant discrimination and increase tender competition, it is appropriate to refuse from referring to technical conditions of specific companies.

A lot of tenders for one and the same procurement item, announced simultaneously, forced prospective suppliers to select a procedure to participate in. This resulted in situations where a lot of participants bid for one and the same lots, and almost none bid for others. All those things together with sanctions for undue contract implementation considerably reduce the number of prospective bidders and, consequently, competition.

The offices of housing service departments, which ensure military service members with infrastructure facilities and maintain them, are another major customer. During the last 5 months of 2016, they conducted procedures with the estimated value amounting to UAH 561.2 mln, and UAH 175 mln (31%) thereof were allocated for fuel and steam for premises heating. Meanwhile, the price for thermal energy varied from UAH 597 to 2,580 per Gcal. In this light, it is appropriate to carry out energy audit of the existing facilities and consider other premises heating resources if the prices offered by thermal energy suppliers are considerably higher than the market prices.

Reports on the signed contract constituted a major part of procurement procedures carried out by other customers of the Ministry of Defence and housing service departments — UAH 276.4 mln with UAH 53 mln thereof having no details on the procurement subject and delivery terms and conditions. Taking into account high sums of money involved in noncompetitive below threshold procedures and, thus, their low transparency, customers should be encouraged to carry out procedures via ProZorro. It is worth starting from the procurement of food and construction materials as the procurement witnessed high savings and a lot of participants from among the customers from the Ministry of Defence of Ukraine.

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INTRODUCTION

The area of defense almost in all countries require significant monetary funds for its further development and support. And active armed hostilities considerably increase the army needs. It involves the supply of weapons, ammunition, equipment and special means, as well as the settlement of daily life issues: food, accommodation and uniform, medical treatment and trainings for military service members. In addition, the Ukrainian Armed Forces require significant expenses to increase their fighting efficiency and ensure modernization. In the light of the increasing needs in the area of defense, it is extremely important to rationally use the limited budget.

In this context, public procurement is one of major elements. Its correct organization will regulate how quickly and qualitatively necessary goods, works and services are delivered as well as their volumes and prices.

This report covers 2016 procurement procedures carried out through ProZorro by institutions, which are controlled by the Ministry of Defence of Ukraine. Though the [security and defense](#) sector includes far more institutions, it was the Ministry of Defence who managed to carry out procurement for the highest sums of money in this area. The Department of Public Procurement and Material Resources Supply of the Ministry of Defence was among the first who joined ProZorro — in March 2015 (test run mode), and since June 26, 2015, the electronic system [has become](#) the main tool for selecting suppliers of food, clothing, gear, medical stock, and fuel and lubricants allowing to analyze all 2016 procurement procedures.

The research also covers other customers controlled by the Ministry of Defence: commissariats, hospitals, officers' clubs, housing service departments and etc.

SECTION 1. DEPARTMENT OF PUBLIC PROCUREMENT AND MATERIAL RESOURCES SUPPLY

The Department of Public Procurement and Material Resources Supply ([DPP](#)) is an authority responsible for the centralized open procurement to ensure supplies for the Armed Forces of Ukraine.

2015 through 2016, the procurement procedures of the **DPP** underwent several phases of changes.

By **June 26, 2015**, to ensure the needs of the army as soon as possible, the majority of procurement processes was carried out through negotiation as provided by the Law of Ukraine "[On public procurement](#)". However, the number of bidders willing to participate in the negotiation was constantly increasing, and each of them were supposed to be invited and reviewed for the compliance with the qualification criteria. It increased corruption risks and postponed contract execution.

Thus, **on June 26, 2015**, the experiment was launched that allowed selecting participants for negotiated procedure via ProZorro. In fact, the price was defined during the auction, while the negotiation validated whether the winning bidder complied with the qualification criteria and had all necessary documents.

On **April 01, 2016**, the new Law "On public procurement" entered into force for the central executive authorities, including the DPP. This law bans applying negotiated procedure "due to a special period"¹, making open tenders the main procedure for the DPP. As open procedures did not allow carrying out procurement in short order, it was initiated to adopt the Law "On peculiarities of procurement of goods, works and services to reliably meet the needs of defence"². It entered into force on June 01, 2016, and introduced a new procedure — negotiated procedure for the needs of defense that also provided for selecting suppliers through auction.

In contrast to open procedures, this procedure is compact through all its phases and grants additional rights to both, its bidder and customer. In particular, it allows the bidder to eliminate discrepancies in their documents during 24 hours upon the negotiation. The customer must, in its turn, disqualify the bidder for one year in case of systematic violations. To participate in tenders related to certain items, bidders must receive confirmation that their products comply with the reference products and technical conditions. In this light, the Ministry of Defence posted on its website [the technical conditions](#) for basic goods and procurement plans for the next 2 or 3 months. It enables prospective bidders to examine documents, prepare a control sample and agree with suppliers on delivery of necessary materials in advance.

It is crucial for procurement for the defense needs to quickly define a winning bidder and receive goods and services of high quality and without any delay. That's why, almost every tender, announced after April 01, 2016, required that bidders provided their bids and guaranteed contract implementation. Thus, if a bidder refused from signing the contract and, thus, postponed the procedure, such a bidder paid an interest penalty equaling 3% of the estimated value of goods and services, and 0.5% of the estimated value of works. If a bidder failed to duly implement the contract, such a bidder paid up to 5% of the contract price. A nonconforming guarantee was, in its turn, one of the most frequent causes for tender cancellation or bidder disqualification.

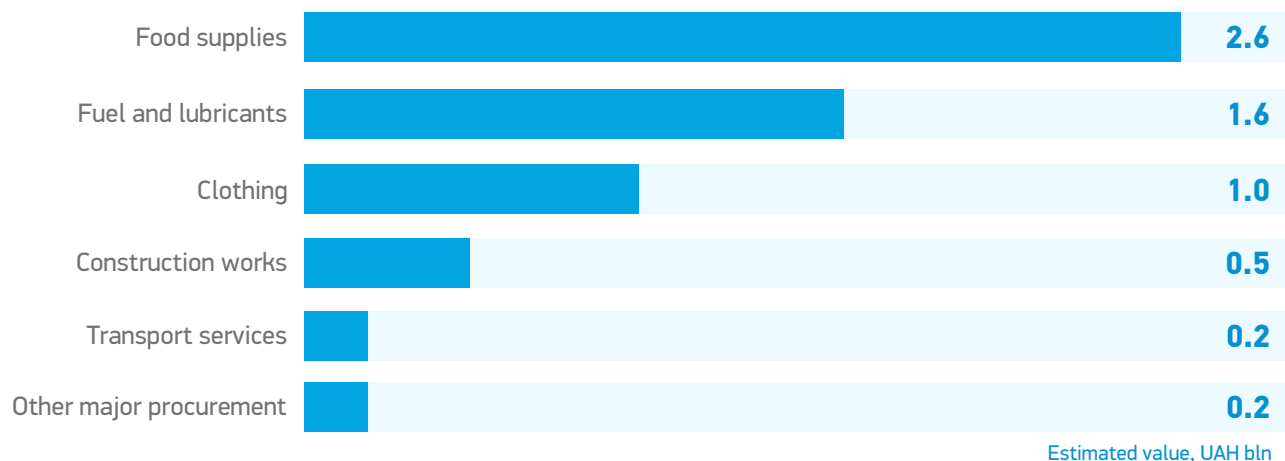
The fact that the DPP has been carrying out procurement since 2015 allows exploring the data of the entire 2016.

¹ "Special period" means a period that follows the announcement of the mobilization decision (save for special purpose mobilization) or communication of the decision on covert mobilization to its implementators, or upon the imposition of martial law in Ukraine or on its separate territories, and covers the mobilization period, the period of martial law and partial rehabilitation period after military activities.

² The Law is effective exclusively during the special period, the period of the anti-terroristic operations or the period of the state of emergency.

Thus, the ProZorro system witnessed procurement with the estimated value amounting to UAH 6.6 bln, UAH 496.6 mln (8%) of which were saved. In principal, the DPP repeated procurement of goods and services of the same type. Almost 80% of monetary funds were spent to procure foods for the Armed Forces of Ukraine and fuel and clothing for military service members.

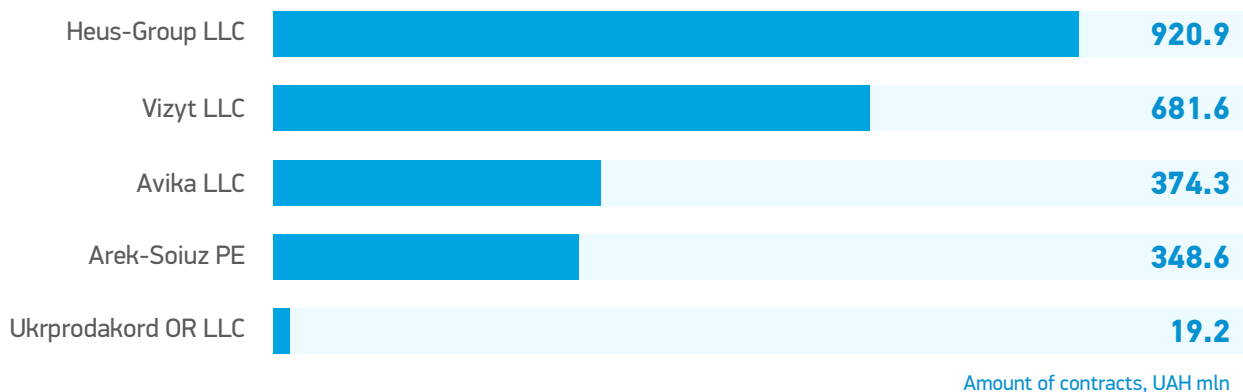
CHART 1. Top-6 procurement groups of the DPP in 2016



1.1. Food supplies

Food supplies were the major procurement item in the DPP. It amounts to UAH 2.6 bln that is 40% of all procedures successfully completed by the Department. Almost all of those monetary funds (98%) were distributed among four companies. Food supplies may be provisionally divided into three types: according to nutrition standards approved by the Cabinet of Ministers, according to food catalogs and meals ready to eat.

CHART 2. TOP-5 FOOD SUPPLIERS



98% of all monetary funds were spent for nutrition according to the standards. In February 2016, 7 large lots were announced within that type of food supplies with each lot covering military units on the territory of one through eight oblasts and with their estimated value³ varying from UAH 140.1 mln to UAH 505.5 mln. Those tenders also saw a high amount of bidders — 10 to 19.

However, after the auction, more than 50% of the bidders (in some cases 18 of 19) refused from participating in the negotiation and signing the contract. In general, they reasoned that the electricity prices increased or their calculations were incorrect, or gave no reason for their refusal. As all bidders refused from signing the contract,

³ "Estimated value" means the maximum amount, which a procuring entity expects to spend for procurement.

the [tender](#) for food supply for military units in Kirovohrad and Vinnytsia oblasts was cancelled. But later, one of the bidders (*Trans Logistic Center LLC*) signed the contract amounting to UAH 126.3 mln.

Six other tenders showed savings totaling to UAH 262.7 mln. Half of the procedures reduced the price by at least 14% and one of them — by 4%, two procedures did not result in any savings (18 of 19 bidders were disqualified as they had refused from signing the contract).

And in that case, the price for daily ration per soldier varied from UAH 51.53 to UAH 66.9⁴. If other of those 6 tenders had saved at least 14%, it would have allowed saving additional UAH 164.4 mln.

As a result of the procurement carried out, only five companies (Heus Group LLC, Vizyt LLC, Avika LLC, Arek-Soiuz PE and Trans Logistic Center LLC) supplied foods to all military units in 2016 that amounted to UAH 2.4 bln. Such monopolization is caused by the low number of available tenders as food supplies to military units from several oblasts were combined into one lot. The similar situation risks to reduce savings (due to low competition) as well as to result in extreme dependence on a supplier (if any problems with the supplier arises, it will be difficult to replace such a supplier in short order).

In 2016, the experiment to create menus in the army based on food catalogs continued. It stipulated that a military unit would choose its ration among 248 positions (an available food kit) on a weekly basis. To realize the experiment, two tenders were conducted to supply foods to Hetman Petro Sahaidachnyi National Army Academy and the Western Naval Base of the Naval Forces during 71 days. Both procedures had at least 5 bidders. The lowest price was offered by Metro Cash & Carry saving 30% that equaled UAH 4.3 mln.

The next tender for food [kits](#) was announced in September. It involved only two companies that never reduced their initial bids during the auction. Therewith, the price, in contrast to the February one, increased by 50% - from [UAH 42.36](#) to UAH 66.12 per day.

When procuring meals ready to eat, Ukrprodakord OR LLC won 4 lots amounting to UAH 19.7 mln never reducing its bid. In two procedures (of those 4), that company was the only company who tendered. The procurement might have involved more bidders if there had been no requirement to produce the meals ready to eat according to technical conditions not publicly available (TU U (TY Y) 30264313-01- 2000, TU U (TY Y) 25201662.001-98).

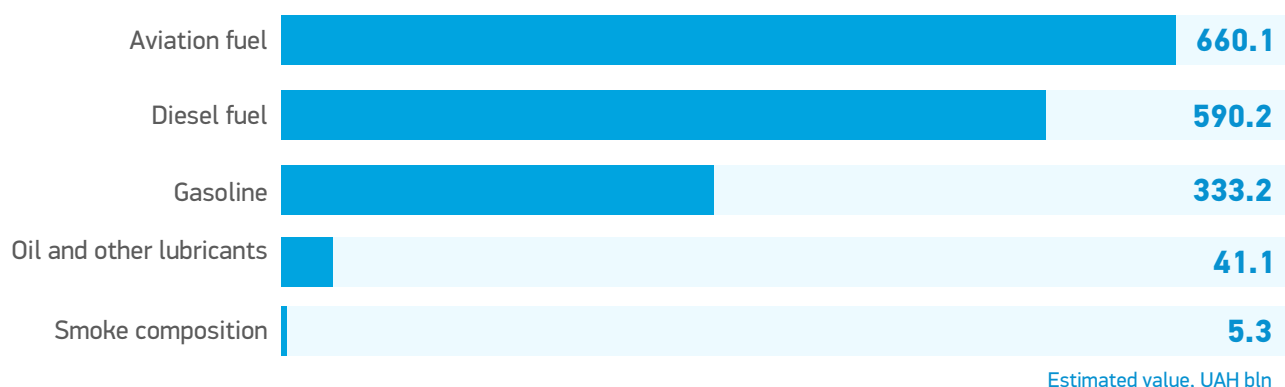
However, in 25 days after the announcement of the tender, [new technical conditions](#) were approved excluding the abovementioned deficiencies and providing for better ration.

⁴ The contract did not specify the price for basic ration per soldier (No. 1 — General service, in-house), thus, it was based on the estimated value specified in the tender announcement and savings achieved during the procedure.

1.2. FUEL AND LUBRICANTS

In 2016, the ProZorro system saw procurement of fuel products with the estimated value amounting to UAH 1.6 bln. The procurement of fuel for jet engines, diesel fuel and gasoline was the highest procurement in the volume and expected price. Though no aviation has been used in the Anti-Terrorist Operation Zone, the procured fuel was required for training flights, transportation and provision of necessary stocks.

CHART 3. PROCUREMENT BY FUEL TYPE



The fuel tenders witnessed a lot of bidders: at least four bidders participated in 50% of successful tenders, and the total savings amounted to UAH 96 mln (6%).

Hydraulic oil [procurement](#) was distinguished by the highest reduced price (55%). However, such high savings were reached due to the excessive estimated value. In particular, the maximum initial bid was 15% lower than the estimated value.

The largest [procurement](#) in the area of fuel (UAH 339.8 mln) resulted in zero savings: 28,000 t diesel fuel were purchased. PrykarpatZahidtrans was the only participant in the tender due to, probably, the insufficient estimated value. Thus, that price for diesel fuel was UAH 3,900 lower than the lowest price for the equivalent volumes of [diesel fuel](#) for that period. Such essential savings were reached as the winning bidder [was allowed](#) to supply fuel, which was banned to be sold in Ukraine. As Ukraine and neighboring countries have no such fuel market, it is difficult to estimate the actual value of the procurement.

The [tender](#) for smoke composition amounting to UAH 5.3 mln also witnessed no competition and savings. No interest expressed by other bidders can be explained by short periods for the contract implementation: there were only 7 days to produce and deliver 150 t of smoke composition.

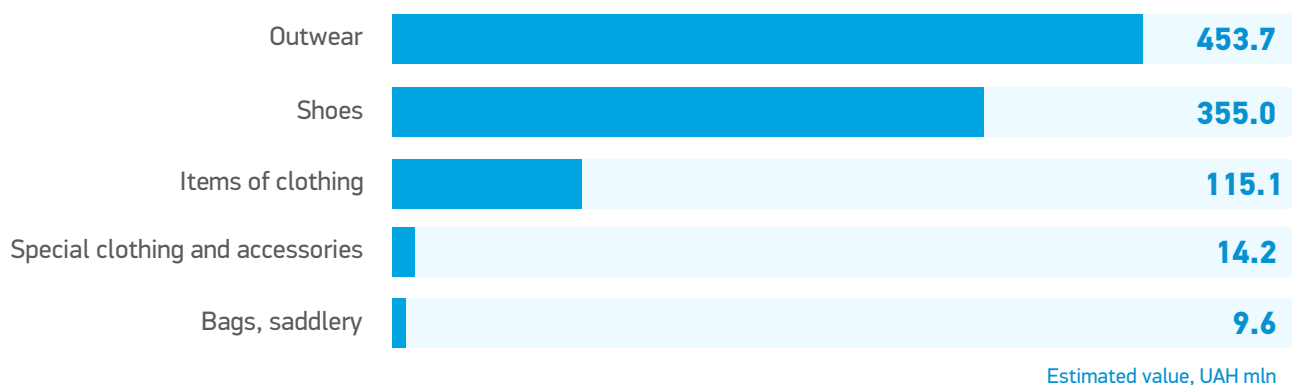
29 fuel tenders were unsuccessful (no contracts signed) within that period of time. While at the beginning of the year the main reasons for unsuccessful procedures were bidders' refusal from signing contracts or procedure cancellation by a tender committee, since September tenders have been cancelled due to reduction of expenses or disqualification of all bidders. The main reason for the disqualification of bidders was none or nonconforming bank guarantee. All efforts to involve bidders in heavy residual fuel oil (mazut) tender failed.

Though tenders with high savings witnessed significant competition, almost all monetary funds (97%) were distributed among 5 major suppliers: *August Prom LLC* and *Trade Commodity* (fuel for jet engines), *PrykarpatZahidtrans* and *WOG Aero Jet LLC* (diesel fuel), and *Ukrgazvydobuvannia PJSC* (gasoil). Meanwhile, it is highly likely that *August Prom LLC* and *Trade Commodity* are associated companies as the Unified State Register shows that they are registered at the same address: Kamianske City, 80/1 Anoshkin Street, apt. 24, 41 and 42.

1.3. CLOTHING

Within the procurement of clothing, 3 groups can be separated: outerwear (UAH 453.7 mln), shoes (UAH 355 mln) and items of clothing (UAH 115.1 mln), which together amount to 97% of expenses for all clothing.

CHART 4. Top-5 procurements by clothing groups



OUTWEAR

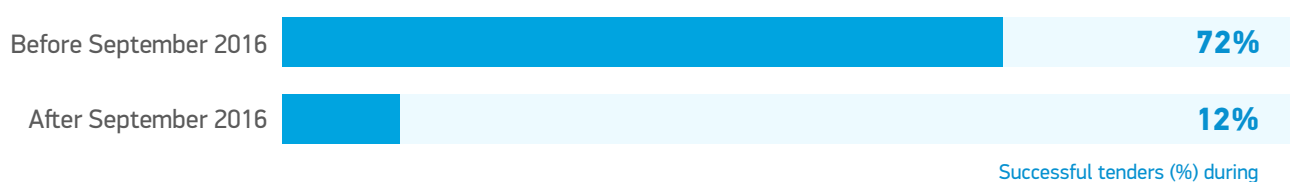
Outerwear procurement can be provisionally divided into two groups: field uniform (260,000 outfits costing UAH 289.2 mln) and wind- and water-proof clothing (290,000 elements costing UAH 164.4 mln).

Tenders carried out during the first six months of 2016 witnessed the large number of bidders. Almost each procedure involved at least 4 bids, but only field uniform procurement demonstrated significant savings (10%).

Procurement of one type of summer uniform was an exception. Though a lot of bidders were interested in the tender, only two of them were allowed to participate in the auction. Other bidders were disqualified as they had none or nonconforming bank guarantee. Thus, *MIK LLC* won 5 of 6 lots announced within one [tender](#). And it never reduced its initial bids (UAH 613 to UAH 655 per uniform). Such a significant difference in initial bids can be explained as an attempt to test various auction strategies or concerns to win a large order having no capacities to realize it. The facts that *MIK LLC* did not take an opportunity to win the sixth lot and the implementation periods of all contracts were extended could prove the latter assumption.

Since late September 2016, outerwear procurement witnessed the rapidly reduced number of bidders and the increased number of cancelled procedures. When, before that, 28% of 68⁵ lots were cancelled (the main reason was the disqualification of bidders as they had no bank guarantee), starting from September 88% of 67 lots were cancelled — 56 procedures saw no bidder. The carried out procedures involved 2 bidders at most.

CHART 5. SUCCESSFUL TENDERS (%) DURING THE YEAR



⁵ Number of lots announced and not cancelled due to internal reasons (no financing, change of need).

SHOES

In 2016, 100,000 pairs of type B military boots (winter shoes) and 145,000 pairs of type A military boots (spring-autumn shoes) totaling to UAH 355 mln were procured. Talanlehprom LLC won all tenders with no competition and savings.

Taking into account complaints submitted during the [tenders](#), reasons for no competition may be as follows:

- lack of time to produce a sample to be certified;
- lack of time to prepare all necessary documents;
- discriminatory requirement for production process (injection molded sole construction).

The suppliers who cooperate with the Ministry of Defence or have participated in its tenders know that technical conditions for the majority of goods are available on the website of the Ministry. They may learn the documents in advance, calculate prime costs, produce and certify samples in advance. Though bids must be submitted during 6 or more days, the most of documents may be provided after the auction.

In the light of short-period submission of documents, it is also appropriate to post on the website of the Ministry of Defence the list of necessary documents. With regard to sole molding techniques, it really limits competition but ensures significantly better waterproofing and longer endurance. Therefore, it may be more appropriate to define the required levels of endurance and waterproofing without setting specific technologies.

Short-period order implementation with significant sanctions for delayed supply of goods may be another reason for no competition. For instance, the conditions of one of [lots](#) stipulated that the winning bidder had to produce a pair of shoes for less than 3 minutes working 24 hours per day without any days off⁶ and having ready all necessary materials.

Meanwhile, another military boots [tender](#) provided 10 times more time for their production — 28 minutes per pair.

Taking into account the fact that Talanlehprom LLC won all procedures for 245,000 pairs of shoes having 135⁷ days to supply them, a pair of shoes was supposed to be produced every 47 seconds within 24-hour production without any days off. Those periods were likely unreal; therefore, the supply deadline was extended for 24 out of 25 signed contracts.

With regard to unsuccessful procedures, 17 lots (military boots) were cancelled as Talanlehprom LLC had failed to provide the guarantee for 6 thereof, and the customer had declined the other [11 bids](#) of the company without specifying disqualification reasons. As there were no bidders, [3 tenders](#) for rubber boots were cancelled. Too short supply period might be the reason — 10,000 pairs of boots were supposed to be produced in 6 days only⁸.

⁶ Such figures resulted from dividing the period of time (from the date of the contract execution to the date of supply) by the number of pairs of shoes participating in the procedure.

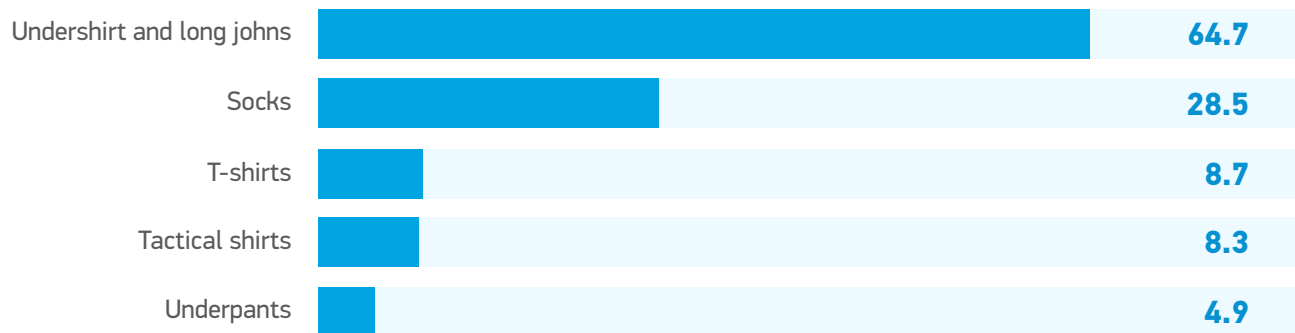
⁷ Difference between the latest supply deadline and the date of the contract execution.

⁸ Number of days for order implementation = supply deadline – estimated contract execution date. Estimated contract execution date = bid submission deadline + average time period between the bid submission deadline and the date of contract execution (for successful tenders).

ITEMS OF CLOTHING

In general, UAH 115.1 mln were spent to procure items of clothing with 81% thereof spent for socks and underwear (long johns and undershirts).

CHART 6. ESTIMATED VALUE BY ITEMS OF CLOTHING

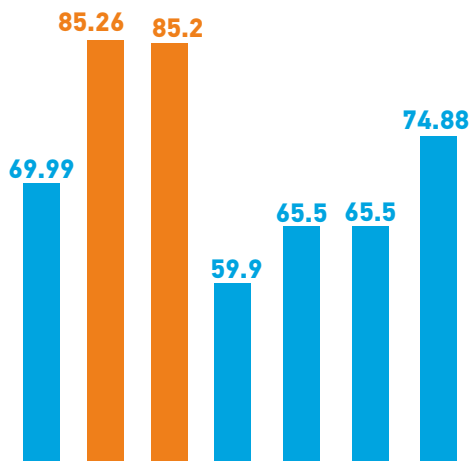


The majority of lots (except for long johns and undershirt kits) saved over 14%. The most active competition was seen when tendering socks. Though only two companies (*Duna Vesta and Oltex*) participated in the procedures, the price was reduced by 24% with total savings equaling UAH 7.1 mln. It may result from the excessive estimated value as well as appropriate production capacity of both bidders to realize such a large order in due time.

T-shirts and underpants procurement were characterized by high savings (17%) and high number of unique winning bidders. Four tenders for each of those items of clothing that were largest by volume were an exception. *Rosa Knitting Factory PJSC* and *Promin Trading House* who had never reduced their initial bids won the procedure. Therewith, the winning bid exceeds the bids of the equivalent tenders for the same period by UAH 9 (see charts 7 and 8). As the batch included 40,000 underpants and 40,000 t-shirts, the total amount exceeded by approximately UAH 0.7 mln.

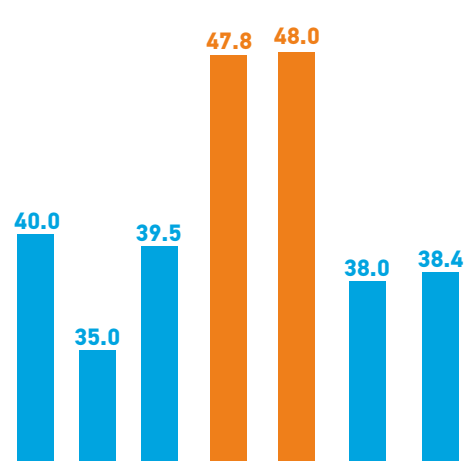
CHARTER 7. TENDER PRICES FOR T-SHIRTS

UAH per piece



CHARTER 8. TENDER PRICES FOR UNDERPANTS

UAH per piece



Another peculiarity of Knitting Factory PJSC and Promin Trading House was that they did not reduce their initial bids during the auction. However, analyzing their minimum bids, they might have reduced them.

Procurement of 50,000 [winter](#) underwear kits and 10,000 [spring-autumn](#) underwear kits was cancelled twice as there were no bidders. The reasons for such cancellation might be:

- Short-period contract implementation. Previous successful tenders provided for 46 days to produce and deliver the order. Unsuccessful procedures provided for 37 days.
- An increase in the prime cost of underwear production. Thus, these tender prices for underwear were almost equal to the prices for contracts signed 6 months ago.

1.4. CONSTRUCTION WORKS

Housing service departments are main customers who procure goods, works and services for military town construction and repair. However, the DPP carries out some procedures.

In general, the Department of Public Procurement successfully procured 11 lots with the estimated value amounting to UAH 516 mln, and UAH 391.6 mln thereof were intended for construction of [barracks](#) and [infrastructure](#) in the camp, Mykhailivka Village. All tenders witnessed competition, and 8 of them had at least three bidders. The auctions allowed saving UAH 53 mln.

One of the tenders with the lowest savings was related to [construction and estimate documents](#) to build a camp. In addition to the large volume of works to have been completed in 27 days, the contract was signed 3 days after the first stage of the construction should have been completed (as defined by the draft contract). This means that upon the contract execution the winning bidder should have paid the fine for delay in works completion.

However, the construction and estimate documents were drawn up in time as the camp construction tender was announced in 7 days after their submission deadline.

Six tenders witnessed a situation, which might be considered as concealment of information.

For five procedures, calculation documents were provided only in .ims format. For those documents to be opened, the customer offered to use AVK-5 software (version 3.1.6) on a payment basis. But despite it, each tender involved at least 3 bidders.

With regard to another [tender](#), its customer did not submit any construction and estimate documents advising to contact it directly that could result in additional expenses for the bidders and increased corruption risks.

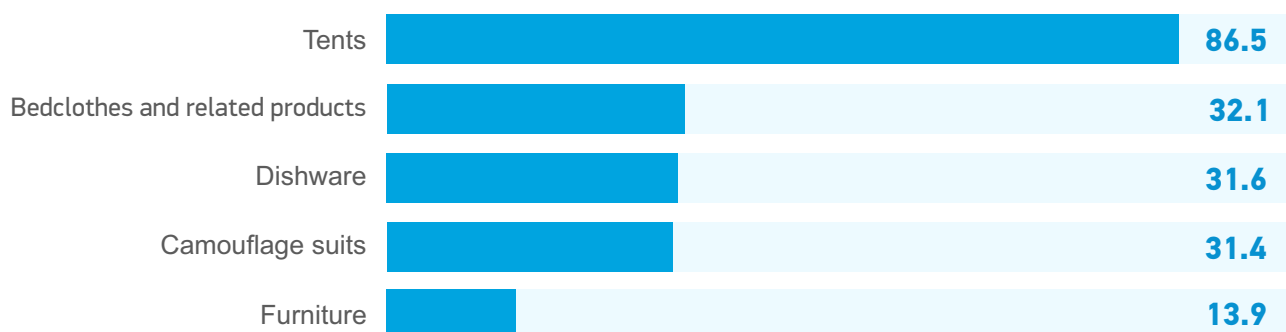
1.5. TRANSPORT SERVICES

In 2016, 12 contracts amounting to UAH 233.3 mln were signed via ProZorro. All contracts for machinery and equipment rail transportation were made with *Ukrzaliznytsia* (*Ukrainian Railways* as a monopolist). The contract stipulates that the price for the services depends on actual volumes of transportation and may be higher or lower than the paid one.

1.6. OTHER LARGE GROUPS OF PROCUREMENT⁹

It combines various groups of goods: dishware, bedclothes, furniture, awards, washing means and camouflage suits.

CHART 9. TOP-5 OTHER LARGE GROUPS OF PROCUREMENT



Estimated value, UAH mln

41% of the estimated value of procurement in these group goes to over 2,000 tents. One company — Sivertex — won all tent orders with very low savings and competition. This situation can be explained by as follows:

- The customer did not provide technical conditions for tents for 8 lots before tender announcement and advised to contact it directly to receive all necessary documents.
- With regard to one of the lots, tent requirements were posted on the website in two parts: the technical conditions and the list of amendments to those conditions. 7 days were given to make new technical conditions based on those two documents, order necessary materials and produce a sample.
- [The customer's explanatory note](#) clearly specified that the technical conditions had been developed by *Sivertex*, so the company had evident advantages in contrast to other customers: the well-functioning production lines, purchased materials, and finished products in its warehouses.

Tenders for other subgroups of goods saw low number of bidders and low savings. Thus, 9 Group “39000000 — Furniture, decorative products for furniture and cleaning products” as defined by the Ukrainian classification of goods, works and services (the Common procurement vocabulary).

RIKO Ukraine Trading House LLC competing with MDD GROUP PE only won all 27 tenders for disposable dishes. Meanwhile, none of bidders reduced their initial bids for those 27 procedures, and total savings amounted to 0.002%.

Two or less bidders participated in tenders for bedclothes and related products (pillowcases, blankets, mattresses) totaling to UAH 32 mln and tenders for camouflage suits totaling to UAH 31 mln. Such a situation was likely caused by too short periods of the contract implementation:

- 40,000 [pillow cases](#) were supposed to be produced and delivered in 4 days, 15,000 [blankets](#) — in 7 days, and 60,000 [flat sheets](#) — in 19 days. Meanwhile, the equivalent tenders held in June provided for at least 51 days for the contracts to be implemented and showed better competition and lower price per piece.
- The batches of disposable dishes — 1 mln pieces each — should have been delivered during 15–20 days. However, the supply period was extended for all 27 contracts.
- [Camouflage suits](#) were delivered on October 17, but according to the [payment](#) data, the last batch was delivered on December 20.

⁹ Group “39000000 — Furniture, decorative products for furniture and cleaning products” as defined by the Ukrainian classification of goods, works and services (the Common procurement vocabulary).

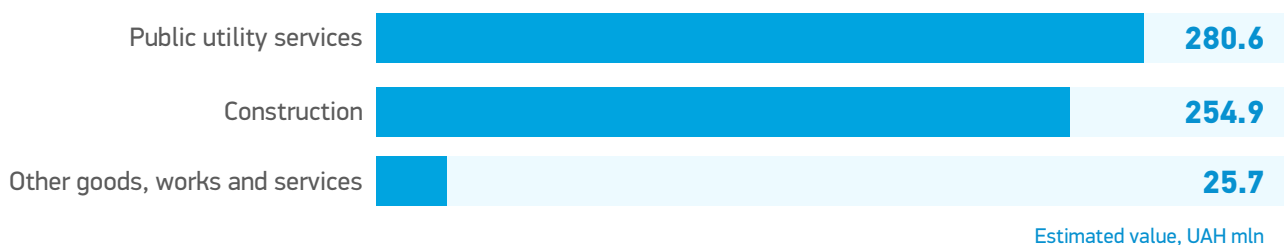
SECTION 2. HOUSING SERVICE DEPARTMENTS AND OTHER CUSTOMERS

During the last 5 months of 2016, 169 customers of the Ministry of Defence of Ukraine signed contracts based on 3,473 procedures with the estimated value amounting to UAH 873.8 mln.

64% of those monetary funds went to housing service departments and offices controlled by them.

The main task of the housing service departments and its offices is to manage residential and nonresidential premises and structures at military units. Consequently, 95% of the procurement budget of such institutions went to public utility services, construction and repair¹⁰. Procurement related to heating of premises totaled to over 50% of expenses for public utility services (UAH 175 mln).

CHART 10. ESTIMATED VALUE BY GROUPS OF EXPENSES OF HOUSING SERVICE DEPARTMENTS



Due to considerable sums of money provided for the construction and repair of military towns, all 4 housing service departments were in the list of five major customers. Top-5 customers also included the Oster housing service office due to [gas](#) procurement amounting to UAH 63 mln.

With regard to other customers of the Ministry of Defence, their structure of procurement is more diverse. The reason is that the Ministry of Defence controls organizations with different types of activities, including military units, educational, scientific, medical, cultural and sport institutions.

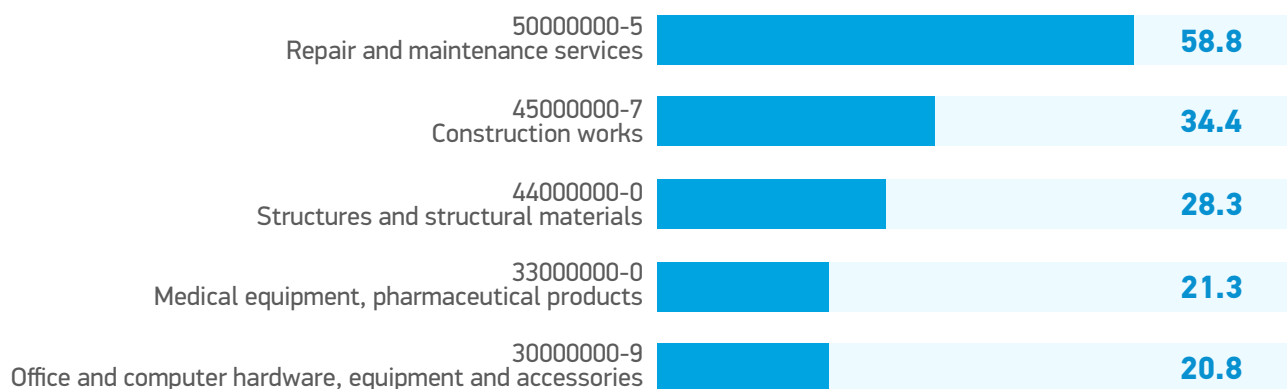
Repair and maintenance services are what such customers make major expenditures for (UAH 59 mln). UAH 51.2 mln thereof were spent for the repair of 3 aircrafts — [An-26](#) and [Il-76MD](#) planes and i [KA-27](#) helicopter. Taking into account the high price for works and [plans](#) of the Armed Forces of Ukraine to repair and modernize approximately 200 planes and helicopters, this area will remain one of the main area of expenditures.

Procurement of construction services and materials is also considerable (UAH 34.8 mln).

The procurement (UAH 190 mln) of the other groups of goods, works and services is rather equal. It will be partially covered by the following subsections.

¹⁰“Construction” includes such CVP codes: 45000000-7 Construction works, 99999999-9 Not defined, 71000000-8 Architecture, construction, engineering and inspection service. “Public utility services” include as follows: 09000000-3 Oil products, fuel, electricity and other energy sources; 65000000-3 Public utility services, 90000000-7 Services in the field of wastewater and waste management, services in the field of sanitation and environment protection.

CHART 11. TOP 5 GROUPS OF EXPENSES (EXCEPT FOR OFFICES OF HOUSING SERVICE DEPARTMENTS)



2.1. ABOVE THRESHOLD PROCUREMENT

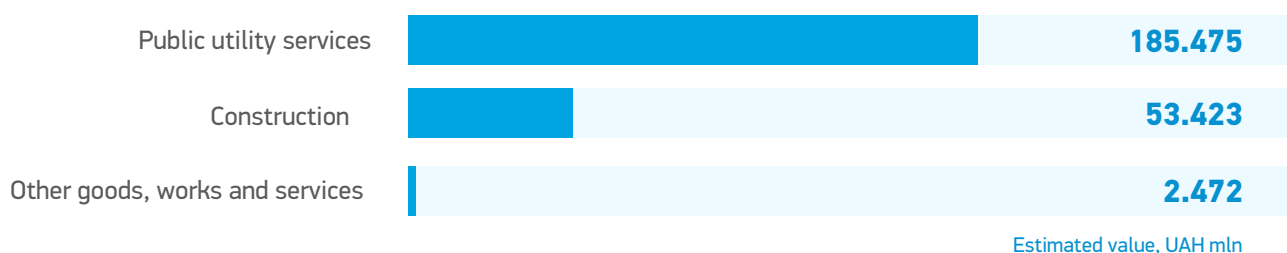
Above threshold procurement is procurement of goods, works and services, the value of which exceeds a certain “threshold”. Starting from such [amount](#) (or “threshold”, which equals UAH 200,000 for goods and services and UAH 1.5 mln for works), a customer must carry out procurement through competitive procedures where all willing bidders are able to participate.

Having proved that open tender is impossible or inexpedient, the customer may sign contracts under negotiated procedure (noncompetitive procedure).

The analyzed period witnessed above threshold procurement totaling to UAH 564.6 mln with 43% thereof applying negotiated procedure.

[The legislation](#) clearly defines situations when negotiated procedure may be applied. The customers from the Ministry of Defence usually use it to procure goods and services from the monopolized markets (e.g., public utility markets and military machinery repair markets).

CHART 12. NEGOTIATED PROCEDURE BY TYPES OF EXPENSES



The major part of monetary funds was spent for public utility services and military machinery repair procured under negotiated procedure. The other procurement (security, transport, equipment and machinery) amounted to less than 1%.

Procurement of steam and hot water according under negotiated procedure was considerable (UAH 46 mln). It is characterized by significant difference in prices: the highest price (UAH 2,580 per Gcal, the Management Office No. 2 of Odesa District Housing Service Office) is more than 4 times higher than the lowest one (UAH 597 per Gcal, [Dobro Municipal Enterprise](#)).

If the highest and the lowest prices are excluded (unusual exceptions), the other prices differ twice (UAH 981.13 per Gcal and UAH 1.761 per Gcal).

These bids have similar intended dates of contract execution and similar amount of Gcal to be procured (Chart 14 and 15). In this case, very high prices may result from lower performance of the supplier as the tariffs [are calculated](#) following the cost of generation of 1 Gcal.

CHART 14. PRICE FOR 1 GCAL BY DATE OF CONTRACT EXECUTION

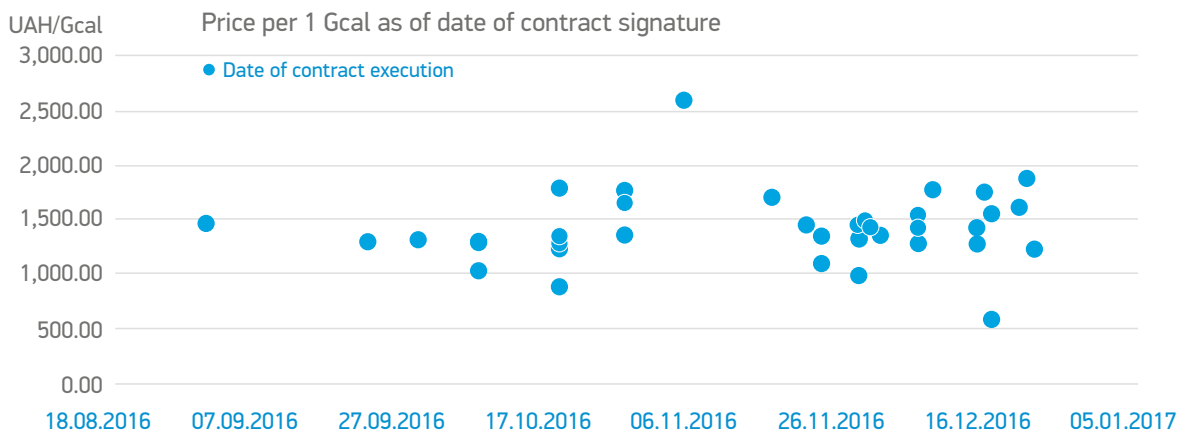
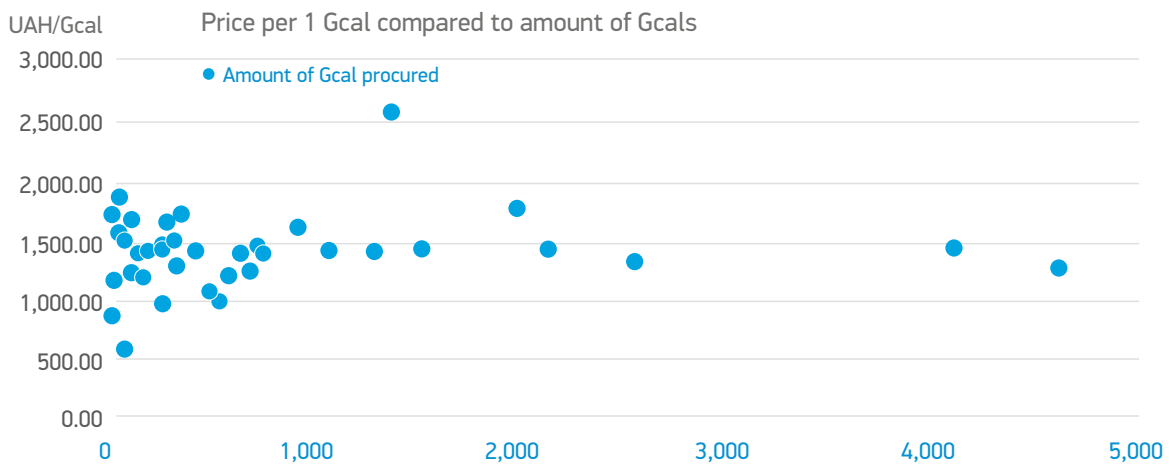


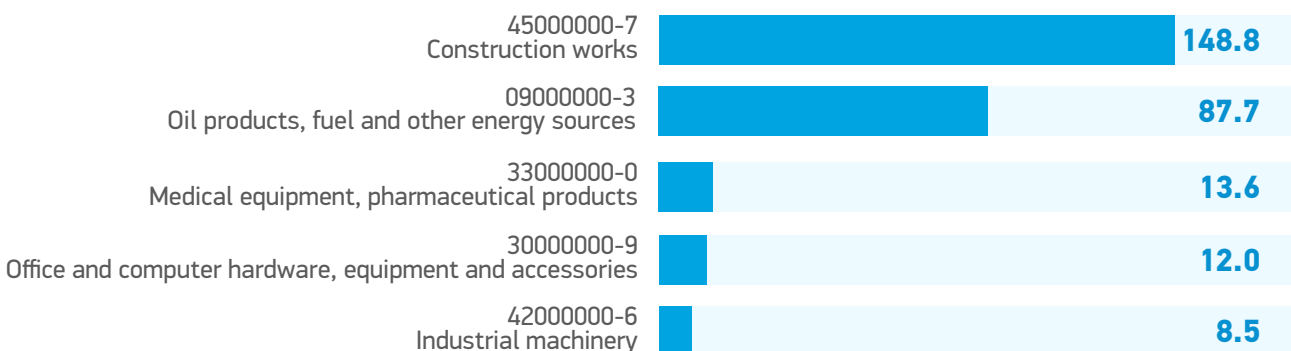
CHART 15. PRICE FOR 1 GCAL BY AMOUNT OF GCAL



Competitive procedures were conducted to procure a wide range of goods, works and services. However, 46% monetary funds were spent for construction works. Procurement of fuel through open tenders is also high (27%) as well as through negotiated procedure.

However, mainly gas (as fuel) was procured through negotiated procedure, while fuel and solid fuel were procured through tenders.

CHART 16. COMPETITIVE ABOVE THRESHOLD PROCEDURES. TOP-5 BY GROUPS OF EXPENSES



The peculiarity of procurement carried out by the customers from the Ministry of Defence is that they use negotiated procedure for the needs of defense as a special type of the competitive procedure. It has been introduced to [“guarantee that the needs of defense are ensured during the special period”](#) and offers a range of mitigations in contrast to the basic competitive procedure — open tender. The main distinctions include the shorter period of the procedure, one bidder as an option and the right to provide tender documents after the auction.

In general, tenders covering 41% of the estimated value of all above threshold competitive procedures were carried out through such a procedure. Almost all monetary funds were spent for construction by only two customers — the Western and Southern territorial housing service departments.

One of the peculiarities of this procedure is that the Law does not define what “ensuring of the needs of defense” means. The detailed review of certain cases allowed determining cases, when the same customer procured similar goods and services through different procedures:

- The Western territorial housing service department constructed barracks through negotiated procedure as well as [open](#) tenders.
- The operative Ground Forces Command used both procedures to procure computer equipment ([Procedure 1](#), [Procedure 2](#)).

Such a procedure was also used to procure runway (airfield) slabs, cables and [coats](#).

The most expensive usual competitive procedures — open tenders and open tenders with publication in English (tenders with prior qualification) — were carried to procure fuel and other energy sources, construction works, medical products, machinery and food. It is worth noting that procurement of gas (UAH 63 mln) and of [coal](#) (UAH 5 mln) constitutes a significant part in procurement of energy sources, while there is only one tender for construction (UAH 25.8 mln).

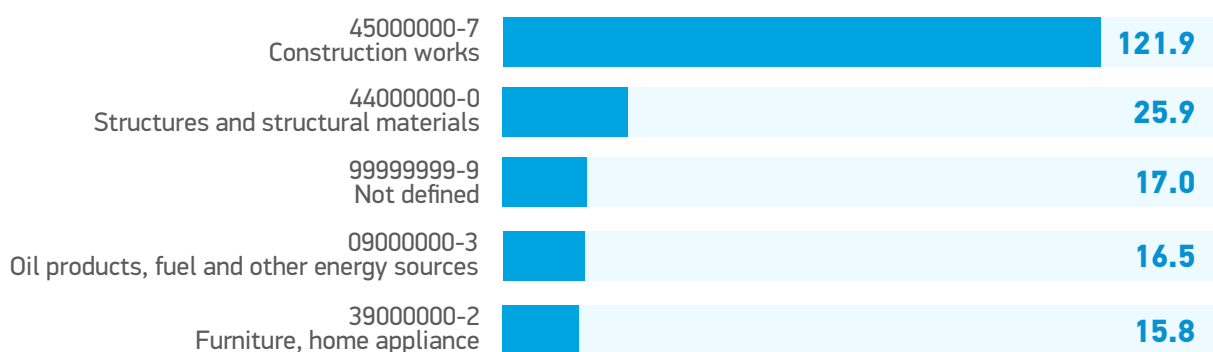
2.2. BELOW THRESHOLD PROCUREMENT

Below threshold procurement means procurement of goods, works and services, the value of which is lower than a “threshold”. If below threshold procurement should be carried out, customers have two options: to conduct the competitive below threshold procedure through ProZorro (the procedure is the shortest one among all competitive procedures) or choose another type of procurement. If the customers do not apply the competitive below threshold procedure, they must report on the signed contract through ProZorro if its estimated value exceeds UAH 50,000.

Reporting on the signed contract constitutes a significant part of procedures: the customers report on UAH 276.4 mln spent under such a procedure that is 89% of below threshold procurement and 32% of all procurement.

The highest sums of money based on the report on the signed contract were spent for construction works (44%), structural materials (9%) and goods/services under Not Defined code (this is often procurement for the purposes of minor repairs).

CHART 17. TOP-5 GROUPS OF EXPENSES (REPORT OF THE SIGNED CONTRACT)

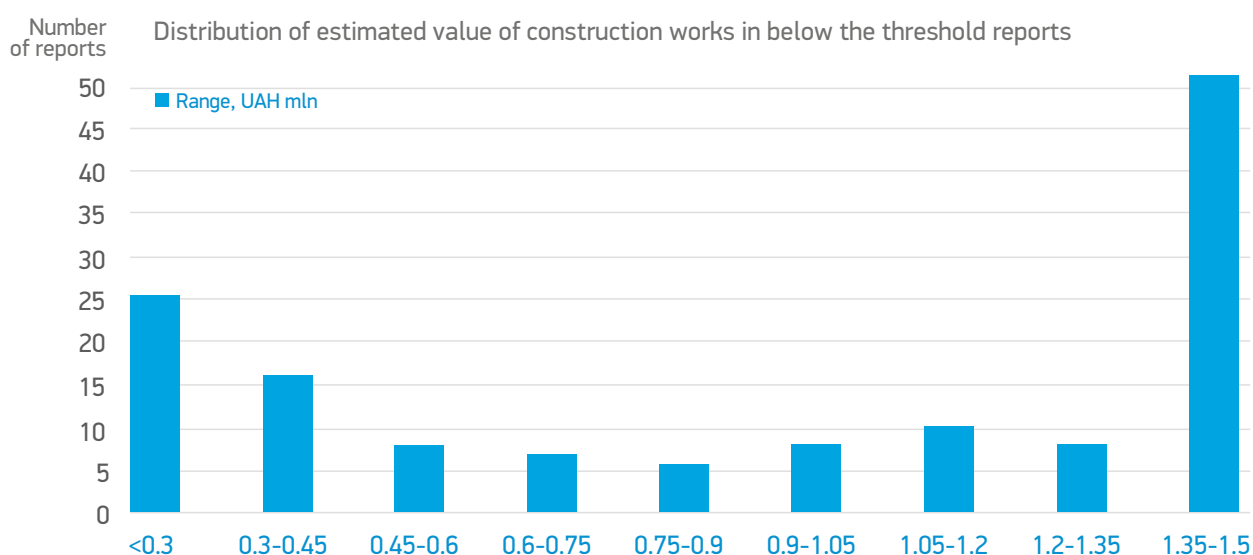


Such difference between amounts of money for construction works and amounts of money for other groups of articles of procurement can be explained by:

- significantly higher financing of construction and repair in contrast to other articles of procurement;
- higher threshold that is obligatory for construction tenders. Thus, customers may report on the signed contract if the estimated value of construction is UAH 1.499 mln, but they must conduct open tenders for goods and services costing UAH 0.2 mln or more.

The detailed analysis of procurement of construction works showed that UAH 59 mln had been spent for near-threshold procurement procedures (UAH 1.35–1.5 mln). The number of reports on the signed contract within the said range (construction works) is high and almost equals the number of reports with the estimated value from UAH 0.45 mln to UAH 1.35 mln.

CHART 18. ESTIMATED VALUE OF CONSTRUCTION WORKS IN REPORTS ON SIGNED CONTRACT



Such a fact may, as alternative, be explained as follows:

- the carried out procurement dealt with works related to typical constructions, so the prices for repair was in one range;
- the reporting procedure was chosen to avoid competitive tenders.

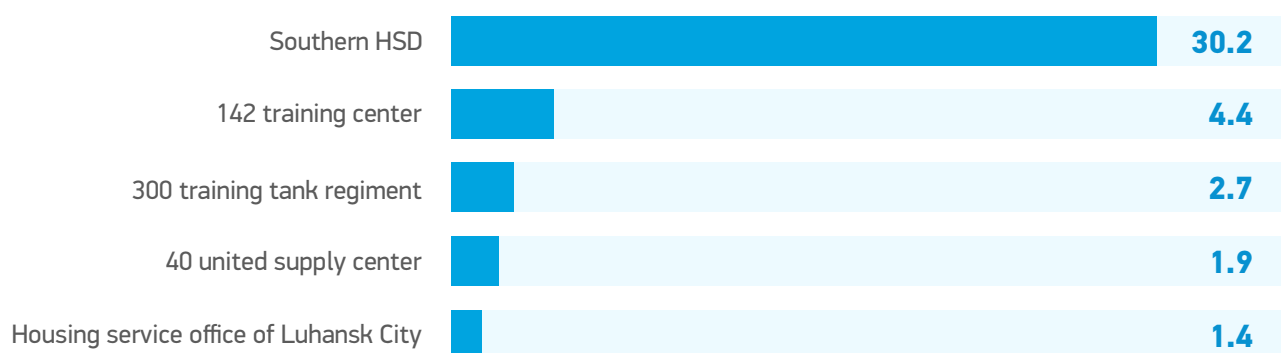
However, according to ProZorro, such a range of prices covered repair and construction of buildings for different purposes. Therefore, the second assumption seems to be more accurate. Perhaps, customers should sign contracts with the verified suppliers to start works immediately.

The Northern and Southern territorial housing service departments are worth attention among customers who have used the procedure of reporting on the signed contract. They reported on UAH 75.9 mln. Therewith, the Northern housing service department conducted no competitive procedure, and the Southern housing service department conducted only one competitive procedure to [procure](#) barrack construction works totaling to UAH 15.5 mln.

If the contract is not uploaded under the procedure of reporting on the signed contract, it is not considered as violation but complicates monitoring. If there is no contract, it is impossible to define the subject and conditions of the procurement. For instance, with regard to [Major repair of other sites](#) procurement or [Rental of trucks with drivers](#) procurement, we know only the names of the procurement procedures.

In general, the customers from the Ministry of Defence published 215 reports totaling to UAH 53 mln and including no detailed information of procurement subjects and conditions. The Southern housing service department with reports amounting to UAH 30.2 mln distinguished itself never publishing its contracts.

CHART 19.
TOP-5 PROCURING ENTITIES (REPORTS ON THE SIGNED CONTRACT WITHOUT CONTRACTS UPLOADED)



Some procuring entities demonstrate significant openness by publishing their contracts for less than UAH 50,000 (the limit for obligatory reporting on the signed contract). All such published contracts amount to UAH 26.8 mln that equals the volume of all competitive below threshold procedures carried out in the system within the selected period of time.

The housing service office of Luhansk City was an indisputable leader in publishing reports on below UAH 50,000 procurement. It could be an example to other customers but there is a nuance. If the same types of procurement are combined, some goods should have been procured through open procedures. Thus, it procured fuel briquettes for UAH 1.3 mln, radiators for UAH 0.9 mln, tubes for UAH 0.6 mln, coverage for UAH 0.4 mln, cables and wires for UAH 0.3 mln. The housing service office of Luhansk City divided the contracts for those goods between 3 individual entrepreneurs (Shevchenko Anton Serhiiiovych, Chudynets Oleksandr Yuriiiovych and Timchenko Inna Volodymyrivna).

Instead of conducting an open procedure for UAH 0.3 mln, the housing service office of Luhansk City created in the system 4 reports on the signed contracts on procurement of 4 boilers each costing UAH 76,000. As these reports do not include the contracts, it is difficult to say whether their prices correspond to market prices. Depending on a [boiler](#) model, its price varies from [UAH 49,000](#) to [UAH 84,000](#).

These cases show that even procurement below UAH 50,000 should be available on one of the websites (e-data or ProZorro) to be analyzed. This will allow getting an outside perspective of procurement carried out by each customer as well as avoiding one of procurement fragmentation schemes.

Considering competitive below threshold procedures, we may note as follows:

- This procedure is not intended for specific areas and may be applied to procure various groups of goods.
- The Western territorial housing service department is the only housing service department who has procured repair works under below threshold procedure.
- The Odesa Military Unit and the Military Institute of Telecommunications and Informatization were the only customers out of top-5 entities procuring through competitive below threshold procedures who carried out their procurement by applying competitive procedures.

2.3. CANCELLED PROCUREMENT AND FRUSTRATED PROCUREMENT

Though competitive procedures have a range of advantages, they have some disadvantages. The major minuses are as follows: tender cancellation due to the insufficient number of bidders, refusal of winning bidders to sign contracts, and noncompliance of bids with tender documents. Each failed¹¹ procedure postpones the receipt of necessary goods, works and services as procurement should be repeated.

The detailed analysis demonstrated that, within the selected period of time, 63 lots costed less than UAH 3,000. Taking into account the fact that tender preparation, participation and contract support require a lot of time and efforts, no competition is expected. Some procurement procedures were repeated 92 times as the insufficient number of bidders had submitted their bids. If those procedures are not taken into account, the share of procedures failed due to absence of bidders constitutes 33%, i.e. every third procedure lacked bidders.

The detailed analysis of lots did not define any common factors that could help determine weak groups of goods or suspicious customers.

Some other lots were, in principle, cancelled due to disqualification of bidders (55) and absence of financing (21).

It is worth noting the good practice of the Third Separate Special Purpose Regiment who had to cancel two procurement procedures due to absence of financing. However, when it received money, the regiment signed the contract on supply of [information handling units and positioning units](#) and [strike ball guns](#) with bidders who had wined the cancelled procedures under terms and conditions stipulated by the auction.

2.4. PROCEDURE EFFECTIVENESS

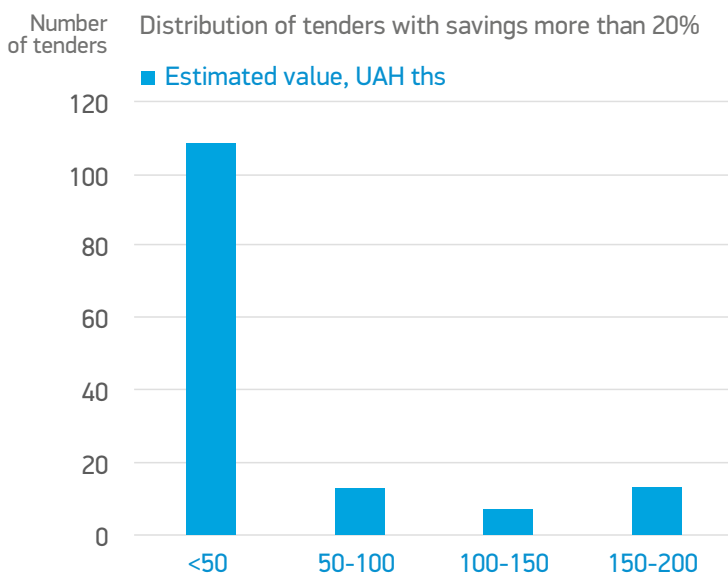
If every third procedure was not successful and could delay procurement of important goods, works or service, should we continue carrying out tenders?

The basic advantage of tenders is an opportunity of receiving necessary goods for the lowest price. In general, the difference between the estimated value and the winning bids (savings¹²) amounted to UAH 48.8 mln or 14% of the estimated value. Meanwhile, over 50% of goods saved at least 6.67% (8.6% all in all in Ukraine).

¹¹The failed procedure should be understood as the cancelled or frustrated procedure.

¹²For convenience, the difference between the estimated value and the winning bid is called the savings.

CHART 20. PROCEDURES, WHICH SAVED OVER 20%



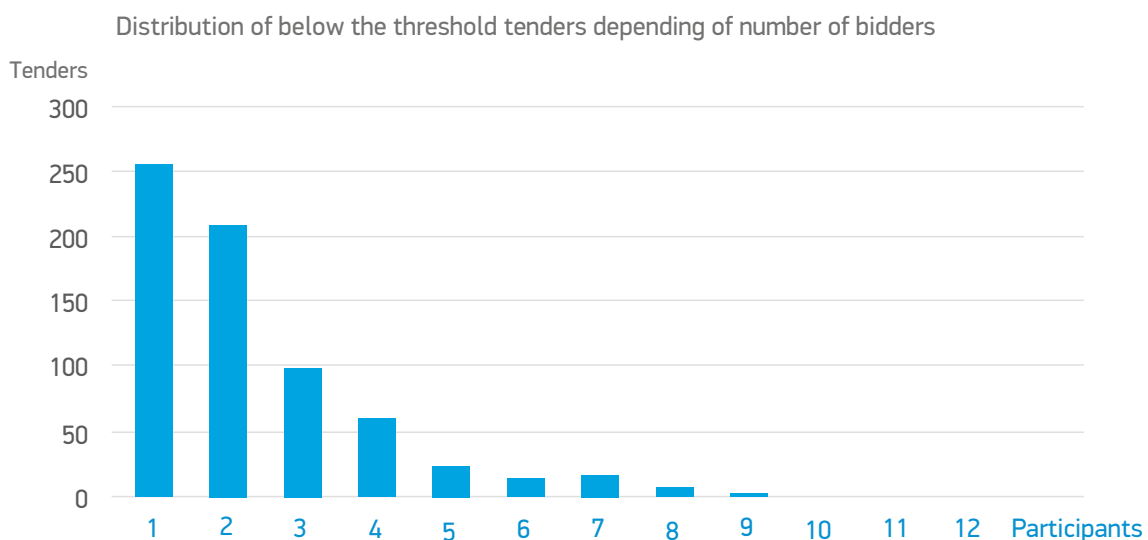
In contrast to above threshold tenders, below threshold tenders are characterized by high savings (over 20%). Such savings can be explained by, inter alia, the fact that the customers are less serious in exploring the market and determine a random value. For instance, during procurement of [spare parts for cars](#), the highest bid was 10% lower than the estimated value, and the value was reduced by 70% during the procedure.

High savings might also be caused by the fact that more prospective bidders could participate in procedures for small sums of money. At least half of procedures (with the estimated value up to UAH 50,000) saving over 20% involved 3 or more bidders.

However, there were cases when procedures with one participating bidder resulted in significant savings. This can be explained by the fact that bidders do not know whether they have competitors before the tender starts, and bidders who have submitted the lowest bid have the advantage at the auction — they are the last who make moves and know other bids. Thus, when procuring the [cable](#) tester, the only bid was 60% lower than the estimated value. But this case is rather an exception than a rule. In principle, below threshold tenders helped save 1% at most.

Generally, 37% below threshold procedures involved only one bidder that is 7% lower than all in all in Ukraine. This demonstrates that public procurement cannot attract enough prospective suppliers to ensure high-level competition.

CHART 21. BELOW THRESHOLD PROCEDURES BY NUMBER OF BIDDERS



Within above threshold procurement, procurement of electrical equipment showed the highest savings — 36%. The lowest savings in the group equaled 24%. Procurement of foods also demonstrated high savings — at least 13%. In principle, that procurement was carried out by Hetman Petro Sahaidachnyi National Army Academy. The Academy also signed the contract outside ProZorro to procure foods for UAH 4.4 mln.

Procurement of construction works also led to high savings totaling to at least 16.3% in 50% of cases. Therefore, the total difference between the estimated value and the winning bids was UAH 27.5 mln. Almost all those procurement procedures were carried out by the Western housing service department. In this light, the question arises: why don't other housing service departments use competitive procedures if they result in such high savings?

Procurement of [single-engine helicopter](#) control training for UAH 2.3 mln is one of examples of low but important savings. UAH 400,000, which had been saved, allowed Ivan Kozhedub Kharkiv University of Air Force to [procure](#) additional 22 hours of trainings for its students.

Though tenders are intended to ensure savings, they do not guarantee that the value will not increase after the contract is signed. Thus, *Hasinvest-Trading LLC* offered the [gas](#) price that was UAH 5.6 mln lower than the estimated value. But in February 2017, the contract was amended, and the price increased so that the total value (if the volume of gas had not been reduced) could have exceeded the estimated value by UAH 5.8 mln.

So, we see that tenders help determine market prices for goods that are planned to be procured and allows saving money that can be later used for other necessary goods and services. However, we should take into account that procedures do not guarantee that the sufficient number of bidders will participate in it or the tender-resulting price will be final.

