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Index of Rationality

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1. GOALS AND METHODOLOGY

The Center for Civil Communications from Skopje is the only non-governmental organization in the Republic of Macedonia that implements direct and comprehensive monitoring of public procurement procedures organized in the country.

With the aim to make an additional contribution to advancing the state of affairs in this field, the Center initiated the development of the so-called Index of Rationality in public spending.

It aims to introduce a new instrument that will be used to assess effectiveness of public spending, to identify bottlenecks in the system, and ultimately to contribute to institutions' rational spending of budgets sustained by citizens' money.

The Index of Rationality is developed by means of comparisons of prices under which different institutions have procured same products, services or works.

The fact that the Index covers the same product, service or works provides an opportunity, apart from the comparison of price, to present the different attitudes of state institutions when realizing the same type of procurements.

The Index is envisaged to serve the state institutions as an indicator against which they will improve the rationality in public procurements, i.e., public spending.

Given that index included prices are the average value of those paid by the institutions and do not imply the actual or market prices, state institutions should, when possible, pursue attainment of lowest prices and spend public funds in a more rational manner, moreover knowing that other institutions have attained more favourable prices for same types of procurements.

Differences in price paid by institutions for same types of products and services indicate the need for a thorough market research prior to tender announcement and harmonized approach on the part of contracting authorities when procuring same type of products.

The sample used to develop the Index can include all national and local level contracting authorities, i.e., from line ministries and municipalities, public enterprises and agencies, to schools and kindergartens.

Primary and secondary data sources are used in the development of the Index of Rationality.

Data collection from primary sources is pursued by means of:

- attendance at public opening of bids submitted by economic operators under specific public procurement procedures, in order to obtain data on prices bided; and
- direct contacts with contracting authorities, in order to obtain data on the selection of the most favourable bid.
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These activities lead directly to the data on prices paid to procure certain products, services or works.

Secondary data sources are the following:

- Electronic Public Procurement System (EPPS); and
- Free Access to Information (FOI) applications.

It should be noted that the Index of Rationality will disclose the contracting authorities monitored, but not the companies with whom contracts have been signed (although data thereof is available), given that the responsibility for rational spending primarily lies with the contracting authorities.

2. INDEX OF RATIONALITY

The seventh Index of Rationality is developed for the following five types of products, i.e., services:

- **hygiene maintenance;**
- **defibrillators;**
- **beefsteak;**
- **PVC windows; and**
- **work shoes – clogs.**

The development of the Index of Rationality for the said products and services included 52 institutions at national and local level which procured such products or services within the first eight months of 2012. Solely the data collection range for the procurement of PVC windows was expanded and included 2011.

When developing the indices, prices of products and services concerned were secured by means of FOI applications addressed to all contracting authorities whose procurements were registered in the Electronic Public Procurement System (EPPS).

The general idea behind the development of indices per individual product or service was to detect possible differences in prices attained, to identify shortfalls in public spending, and thereby to assist contracting authorities in learning more about price fluctuations related to these products, i.e., services, and to improve the rationality of public spending.

2.1 Index of rationality for hygiene maintenance of working premises

Prices paid for the maintenance of the hygiene in the state institutions working premises ranges from 24 to 66 MKD/m² per month. The ratio between the highest and the lowest price is up to 1:2.75, which means that the highest price for hygiene maintenance paid by the State Lottery of Macedonia is by 175% higher than the price paid by the Broadcasting Council of the Republic of Macedonia. The differences in price cannot be explained by the applied procurement procedures, the applied selection criterion for the most favourable bid, or by the size of the working premises. The IPA Audit Authority, with the smallest surface area of the analysed institutions, paid price lower than the average price attained, whereas the institution with the largest surface area, the Department for General and Common Affairs of the Government of the Republic of Macedonia for the aforementioned service paid price by 24.49% higher than the average attained price and by 60.65% higher than the lowest price.

Index of rationality for hygiene maintenance of working premises (price per maintenance per m² per month)

Contracting Authority	Price in MKD, VAT included	Difference against the average price
Broadcasting Council of the Republic of Macedonia	24	-51.02%
Pension and Disability Insurance Fund of Macedonia	25	-48.98%
IPA Audit Authority	40	-18.37%
Directorate for Technological Industrial Development Zones	47	-4.08%
Average*	49	0.00%
Protection and Rescue Directorate	52	+6.12%
Department for general and common affairs of the Government of the Republic of Macedonia	61	+24.49%
Agency for Real Estate Cadastre Skopje	64	+30.61%
Public healthcare institution Psychiatric hospital Skopje	64	+30.61%
JSC for organization of games of chance State Lottery of Macedonia	66	+34.69%

*Average calculated from the prices paid by the institutions included in the Index for the aforementioned procurement

The Index of Rationality for the hygiene maintenance included all contracting authorities which published announcement for the aforementioned procurement within the first six months of 2012. Through the EPPS 14 contracting authorities which published announcements for the aforementioned procurement were registered. Nevertheless, the Index included 9 contracting authorities since the dormitory Zdravko Cvetkovski-Skopje did not reply to the submitted request, and the Employment Service Agency explained that the procedure for the aforementioned procurement was annulled, but they failed to explain how the hygiene in their premises was being maintained currently and how much it cost, whereas the Faculty of Economics-Prilep, PE Macedonian Radio and Television and the Agency for Railway Sector Regulation submitted data which did not provide comparability with the other institutions.

Therefore, the Index ranked 9 institutions on the basis of the hygiene maintenance price per m2 monthly, VAT included.

As shown in the Index, there are great differences among the state institutions related to the procurement of the aforementioned service. The lowest price is by 51.02% lower than the average attained price, and the highest price is by 34.69% higher than the average attained price. In addition, four contracting authorities paid price lower than the average one, and five contracting authorities concluded agreements with prices higher than the average price attained by the involved institutions.

Great differences in price cannot be explained by the conducted procurement procedures. Such statement is supported by several facts. Firstly, institutions paying the highest and the lowest price, the Broadcasting Council and the State Lottery applied the 'request for bids' procedure by announcing call for bids and using the 'lowest price' as selection criterion. Secondly, all institutions conducted a transparent procurement procedure, i.e., no cases of requests for bids without publishing announcement, which was allowed until July 2012, or negotiation procedures with or without announcement were registered. Thirdly, all institutions, save the Pension and Disability Insurance Fund of Macedonia (PDIFM) applied the 'lowest price' criterion. It should be stressed that the PDIFM applied the 'economically most favourable bid' selection criterion where the price was 80, and the quality 20 points, and the price attained for the service was lower than the average one. Fourthly, e-auction, or negative bidding, was applied in the selection procedure of the most favourable bid by the institutions with the lowest and the highest price. It leads to conclusion that there are no rational explanations for the identified price differences. Differences in price cannot be explained with the size of the maintained working premises, i.e. the economic logics that the price is in inverse proportion with the size of the area to be maintained.

Size of the working premises covered with the contracts

Contracting Authority	Area to be cleaned in m2	Differences in single price compared to the average
Broadcasting Council of the Republic of Macedonia	1,071	-51.02%
Pension and Disability Insurance Fund of Macedonia	9,785	-48.98%
IPA Audit Authority	425	-18.37%
Directorate for Technological Industrial Development Zones	1,054	-4.08%
Protection and Rescue Directorate	2,896	+6.12%
Department for general and common affairs of the Government of the Republic of Macedonia	82,168	+24.49%
Agency for Real Estate Cadastre-Skopje	2,600	+30.61%
Public healthcare institution Psychiatric hospital Skopje	3,888	+30.61%
JSC for organization of games of chance State Lottery of Macedonia	650	+34.69%

As it can be seen from the previous table, the Audit Authority auditing the Instrument for Pre-accession Assistance with the smallest working premises (425m2) of the

analysed institutions, attained a price above the average, whereas the institution with the largest working premises, the Department for general and common affairs of the Government of the Republic of Macedonia pays a price higher than the average attained price for 24.49%, and 60.65% higher than the lowest price attained.

2.2 Index of rationality for defibrillators

As regards the Index of Rationality for defibrillators, the ratio of the lowest and the highest price paid for the said medical device is 1:3.86, which means that the highest price paid by the State Statistical Office is by 286% higher than the lowest registered price in the procurement by the PE Macedonian Radio and Television. Identified differences in prices paid by the institutions cannot be explained with differences in the procured device, applied procedures, or the most favourable bid selection criterion. According to the analysed technical specifications there are no significant differences in the technical features of the defibrillator purchased by the institutions which paid lower price than the institutions which paid the highest price for the device. The only significant difference is that both institutions which paid the highest price for the defibrillators, the Central Registry and the State Statistical Office did not apply e-auction to decrease the price.

Index of rationality for defibrillators
(price per 1 defibrillator)

Contracting Authority	Price in MKD, VAT included	Difference against the average price
PE Macedonian radio and television	36,698	-54.96%
Agency for Electronic Communications	50,740	-37.72%
JSC for Construction and Management of Residential and Business Premises of the Republic of Macedonia	53,879	-33.87%
Ministry of Economy	56,876	-30.19%
Boris Trajkovski DOOEL Skopje	58,563	-28.12%
Ministry of health	64,900	-20.34%
PE Macedonian Forests	75,520	-7.31%
Average*	81,474	0.00%
JSC Power plants of Macedonia	114,482	+28.83%
Ministry of Culture	116,820	+43.38%
Central Registry of the Republic of Macedonia	126,142	+54.82%
State Statistical Office	141,600	+73.80%

*Average calculated from the prices paid by the institutions included in the Index for the aforementioned procurement

Having in mind the recently introduced legal obligation for each commercial entity with more than 100 employees to procure the aforementioned medical device, this procurement was very prevalent within the past few months. The Index covered all institutions (12) at national level whose procurement of the said device was registered in the records of the EPPS by August 2012 through the announced call for bids or concluded agreements for small procurements. Nevertheless, the Index of Rationality included 11 contracting authorities, since the General Secretariat of the Government of the Republic of Macedonia submitted a notification that the announced defibrillator procurement procedure no. 12/2012 was annulled.

Differences in price in the present Index of Rationality are extremely high and they range from 36,698 to 141,600 MKD per device. Therefrom, it leads to a conclusion that Macedonian Radio and Television could buy 4 devices with the money the State Statistical Office spent on the procurement of a single device. Great variations in the price are also evident from the data that the lowest price is by 54.96% lower than

the average price attained by the institutions, whereas the highest price is by 73.80% higher than the average.

As regards the applied procurement procedures, there are almost no differences among the index-included contracting authorities. Apart from JSC Macedonian Power plants that applied open procedure and the Central Registry of Macedonia that applied the procedure – bid collection without announcement of call, all other institutions applied the procedure – request for bids by announced call for bids. JSC Power plants is an exception also in relation to the applied selection criterion – the most favourable bid – and the bids were appraised on the following basis: 95 points for the price and 5 points for the delivery deadline. All other contracting parties used the 'lowest price' as the selection criterion. As regards the e-auction, the two institutions which purchased the device at the highest price did not apply it. The Central Registry of RM, using the legal possibility to apply a procurement procedure bid collection without announced call until 2012, was not under the obligation to conduct e-auction. Negative bidding was not applied in the case of the State Statistical Office, where the highest defibrillator procurement price is registered. According to the information obtained from the State Statistical Office, the number of received bids was 5, but only one was assessed as acceptable and therefore the requirements for planned e-auction were not met.

Differences in price for the procurement of defibrillator cannot be justified with the bought quantities.

Quantity of procured defibrillators

Contracting Authority	Number of procured defibrillators	Differences against the average price
PE Macedonian radio and television	1	-54.96%
Agency for Electronic Communications	1	-37.72%
JSC for Construction and Management of Residential and Business Premises of the Republic of Macedonia	1	-33.87%
Ministry of Economy	1	-30.19%
Boris Trajkovski DOOEL Skopje	1	-28.12%
Ministry of health	1	-20.34%
PE Macedonian Forests	7	-7.31%
JSC Power plants of Macedonia	16	+28.83%
Ministry of Culture	1	+43.38%
Central Registry of the Republic of Macedonia	1	+54.82%
State Statistical Office	1	+73.80%

As it can be seen from the previous table, differences in price do not correlate with the procured quantities. Notably, JSC Macedonian Power plants which procured the highest number of defibrillators, attained price higher even than the average price attained by the institutions.

2.3 Index of rationality for beefsteak

Significant differences in price are registered in the procurement of beefsteak by the institutions procuring the said product. Ratio between the lowest and the highest price is 1:1.45, which means that the highest price is by 45% higher the lowest price.

Index of rationality for beefsteak
(price per 1kg of meat)

Contracting Authority	Price in MKD, VAT included	Differences against the average price
PHI Clinic for Maxillofacial Surgery - Skopje	341	-14.75%
State student dormitory 'Nikola Karev' Ohrid	347	-13.25%
Youth detention centre Tetovo	395	-1.25%
Institute for rehabilitation of Children and Youth - Skopje	400	0.00%
Average*	400	0.00%
Public institution for care of children with educational and social problems-Skopje	419	+4.75%
PI for caring, upbringing and educating children and adolescents 'Ranka Milanovik'	496	+24.00%

*Average calculated from the prices paid by the institutions included in the Index for the aforementioned procurement

Originally, the Index of Rationality for the beefsteak included 9 contracting authorities which announced call for such type of procurement within the first seven months in 2012. However, at the end, the Index was developed for six contracting authorities because 'PE for Management and Protection of the multi-purpose Jasen area' and Penitentiary Facility 'Idrizovo' submitted notification that they did not use beefsteak, although it was included in the technical specification. Penitentiary facility Shtip provided unclear data on the price of 1kg of meat and for further clarification the institution requested submission of new FOI application which did not fit in the timeframe envisaged for the preparation of the present report.

As shown in the table for the Index of Rationality for beefsteak, prices range from 341 to 496 MKD/kg. The lowest price is by 14.75% lower than the average price attained by the institutions, and the highest price is by 24% higher than the average. The identified differences cannot be explained with the applied procedures because all contracting authorities conducted transparent procurement procedures – request for bids with announced call or open procedures. Differences in price can neither be explained with the selection criterion of the most favourable bid, because the institution which attained the lowest price for the procurement of the meat, the PHI Clinic for Maxillofacial Surgery – Skopje used the 'most favourable bid' criterion where the price was awarded 60, and quality 40 points. On the other hand, the institution that paid the highest price for the meat, the PI for caring, upbringing and educating children and adolescents Ranka Milanovik used the 'lowest price' as selection criteria. Differences in price cannot be either explained by the purchased quantities of meat shown in the following table.

Quantity of procured beefsteak

Contracting Authority	Procured quantities in kilograms	Differences in price against the average
PHI Clinic for Maxillofacial Surgery - Skopje	50 ¹	-14.75%
State student dormitory 'Nikola Karev' Ohrid	600 ²	-13.25%
Youth detention centre Tetovo	10.5	-1.25%
Institute for rehabilitation of Children and Youth - Skopje	/	0.00%
Public institution for care of children with educational and social problems-Skopje	272	+4.75%
PI for caring, upbringing and educating children and adolescents 'Ranka Milanovik'	88	+24.00%

Deviation from the economic logic according to which larger quantities should be procured at lower price is most easily evident from the comparison of the procured quantities by institutions at the lowest and the highest price. Hence, the PHI Clinic for Maxillofacial Surgery – Skopje which paid the lowest price, purchased 50 kg of meat, which is less than the quantities procured by the PI for caring, upbringing and educating children and adolescents 'Ranka Milanovik', which amounts to 88kg.

2.4 Index of rationality for PVC windows

Ratio between the lowest and the highest price paid for PVC windows is 1:2.11, which means that the highest price is by 111% higher than the lowest price. Having in mind that the windows can have various dimensions, in order to provide the comparability of data, the Index is developed based on the price for 1m2 of PVC window. The differences in price can be only partly explained by the applied procurement procedures and the number of procured windows.

Index of rationality for PVC windows (price per 1 m2 PVC window)

Contracting Authority	Price in MKD, VAT included	Differences against the average price
PHI General hospital Veles	2,643	-35.93%
Municipality of Saraj	2,943	-28.65%
Ministry of education	3,650	-11.51%
Average*	4,125	0.00%
Municipality of Gostivar	4,484	+8.70%
Primary school 'Sami Fresheri village of Glumovo-Saraj	5,450	+32.12%
Municipality of Demir Kapija	5,581	+35.30%

*Average calculated from the prices paid by the institutions included in the Index for the aforementioned procurement

Initially, the Index of Rationality for PVC windows included 11 contracting authorities which carried out such type of procurement in 2011 and the first half of 2012. Nevertheless, in the end, the Index was developed with 6 institutions because the

¹ Spent quantities in the first term of 2012

² Envisaged quantities

windows procured by the Ministry of Health and Municipality of Karposh could not be compared to the others, that is, they were not five-chamber PVC windows. Furthermore, the Faculty of Economics-Skopje indicated they did not ask for PVC windows in the aforementioned procurement, kindergarten Dimche Mirchev-Veles explained that the contract for the said procurement was terminated and the secondary school Kosta Susinov-Radovish sent a notification explaining that the procurement in question was annulled.

As it can be seen from the Index of Rationality for PVC windows, differences in price are really significant. The average price attained by the institutions was 4,125 MKD/m² of window. Three institutions for the windows paid price lower than the average price attained by 11.51% to 35.93%, and other three institutions paid higher price by 8.70% to 35.30%.

Identified differences in price can only be partly justified by the applied procedures and the most favourable bid selection criterion. Namely, all institutions applied the procedure 'request for bids by announcing a call', except the municipality of Demir Kapija which applied the procedure 'collecting bids without announcement of call' for the procurement of windows for the kindergarten 'Boris Trajkovski' in the first half of 2012. Furthermore, only the municipality of Saraj applied the selection criterion 'economically most favourable bid' (80 points for price, 10 points for quality and 10 points for the delivery deadline), whereas the other four contracting authorities applied the selection criterion 'lowest price'. Therefore, it is highly contradictory that the contracting authority assessing the quality and the delivery deadline attained second lowest price compared to the others where only the price was primary.

Number of installed windows

Contracting Authority	Number of installed windows	Differences against the average price
PHI General hospital Veles	16	-35.93%
Municipality of Saraj	/	-28.65%
Ministry of education	47	-11.51%
Municipality of Gostivar	7	+8.70%
Primary school 'Sami Fresheri village of Glumovo-Saraj	39	+32.12%
Municipality of Demir Kapija	6	+35.30%

In view of the procured quantities, the total value of the contract partly affected the attained price. Municipality of Demir Kapija, which paid the highest price for the windows, bought the lowest number of windows, but municipality of Gostivar procured similar quantities at a price lower by 24% than the price paid by the municipality of Demir Kapija.

2.5 Index of rationality for work shoes - clogs

All kindergartens included in the developed Index of Rationality purchased anatomic leather clogs. Hence, the identified differences in price are significantly great. The ratio between the lowest and the highest price is 1:2.58, which means that the kindergarten 'Detska radost' - municipality of Gazi Baba paid price by 158% higher than the kindergarten 'Angel Shajche'-Kumanovo. Differences in price cannot be explained with differences in the applied procedures because all kindergartens purchased the clogs by request for bids without announcement of call. In compliance with the most recent amendments to the Law on Procurements, the said procedure could be used until July 2012, and this was met by the index-analysed contracting authorities.

Index of rationality for work shoes - clogs
(price per 1 pair of women leather clogs)

Contracting Authority	Price in MKD, VAT included	Differences against the average price
Kindergarten 'Angel Shajche'-Kumanovo	750	-47.52%
Kindergarten 'Jasna Risteska'-Ohrid	1,195	-16.37%
Kindergarten '13 November'-Centar	1,399	-2.10%
Kindergarten 'Kocho Racin'-Centar	1,399	-2.10%
Average*	1,429	0.0%
Kindergarten '25 May'-Gazi Baba	1,500	+4.97%
Kindergarten 'Goncha Tufa'-Krushevo	1,599	+11.90%
Kindergarten 'Orce Nikolov'-Karposh	1,652	+15.61%
Kindergarten 'Detska radost'-Gazi Baba	1,938	+35.62%

*Average calculated from the prices paid by the institutions included in the Index for the aforementioned procurement

The Index of Rationality for work shoes - clogs included 8 kindergartens which carried out such type of procurement in the first half of 2012. All contracting authorities which were requested to submit data on the price they paid for the procurement of the aforementioned clogs responded, save kindergarten 'Buba Mara'-Skopje. However, even though they submitted the requested data, kindergarten 'Detska radost'-Gevgelija was not included in the Index due to the lack of ability to provide comparability of the shoes, because their shoes were not made of leather.

As shown in the table for the Index of Rationality for work shoes-clogs, four kindergartens procured the clogs at a price under the average attained price of 1,429 MKD, and four of them procured the clogs at a price higher than the average. The lowest price is by 47.52% lower than the average price attained by the institutions, and the highest price is by 35.62% higher than the average attained price.

Differences in price cannot be explained with differences in the applied procedures because all kindergartens procured the clogs by request for bids without announcement of call.

Differences in price for the procurement of clogs in the kindergartens throughout the Republic of Macedonia can only be partially justified with the bought quantities.

Index of rationality for work shoes - clogs

Contracting Authority	Procured	Differences
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	quantities	against the average price
Kindergarten 'Angel Shajche'-Kumanovo	155	-47.83%
Kindergarten 'Jasna Risteska'-Ohrid	101	-16.32%
Kindergarten '13 November'-Centar	123	-2.03%
Kindergarten 'Kocho Racin'-Centar	92	-2.03%
Kindergarten '25 May'-Gazi Baba	86	+5.04%
Kindergarten 'Goncha Tufa'-Krushevo	15	+11.97%
Kindergarten 'Orce Nikolov'-Karposh	70	+15.69%
Kindergarten 'Detska radost'-Gazi Baba	77	+35.71%

The fact is that the kindergarten 'Angel Shajche' from Kumanovo which attained the lowest price procured the largest quantity of shoes. On the other hand, however, the kindergarten which procured the smallest quantities 'Goncha Tufa' from Krushevo did not pay the highest price for the procurement of shoes. At the same time, differences in the procured quantities are slight and cannot justify high variations in price. It should be noted that higher number of contracting authorities attained market price for the procurement of clogs, which is illogical if having in mind that the procurement procedure implies competition among companies which leads to decrease of market price.

3. GENERAL CONCLUSION

Rationality of public spending is not a priority for a considerable number of institutions at national and local level. Such statement is supported by the findings of the Index of Rationality developed for the hygiene maintenance service and the following products – defibrillators, beefsteak, PVC windows, and women' clogs. Differences in price the institutions pay for the same type of service or product are extremely high. In particular, the Index points out the following differences:

- as regards the hygiene maintenance, institutions pay from 24 to 66 MKD per m2 per month, and the highest price paid for the said service is by 175% higher than the lowest price registered;
- defibrillator was purchased for 36,698 to 141,600 MKD, and the highest price is by 286% higher than the lowest price paid;
- institutions purchased beefsteak at price ranging from 341 to 496 MKD, and the highest price is by 45% higher than the lowest price paid by the analysed institutions;
- PVC windows were purchased at price ranging from 2,643 to 5,581 MKD/m2, and the highest price paid for the said product is by 111% higher than the lowest price; and
- work shoes – clogs in kindergartens were purchased for 750 to 1,938 MKD/pair, and the highest price is by 158% higher than the lowest price paid by the analysed institutions.

In the present Index as well, differences in price for most of the analysed procurements cannot be justified by economic logic or laws. They do not result either from the type of procurement procedure, or the differences in procured quantities. The rule that the lowest price is attained during open procedures or negative bidding, i.e. e-auction, does not apply. Some of the low prices were attained when only three bids were collected without announcing call for bids (the law does not allow this

procedure any longer), and some in the procedures when e-auction was not applied. On the contrary, some of the highest prices were attained in open procurement procedures and e-auctions. Furthermore, the rule that when procuring larger quantities of products or scope of services lower price should be attained does not apply for most of the analysed procurements. There are cases when the lowest price was attained for small quantities procured, and vice versa, when the highest price was attained for procurements of large quantities.

The aforementioned leads to a conclusion that when economic laws and logic are not applied, identified differences in price for procurement of the same products are a result of certain irrational or, even subjective reasons. Some of them can be pointed out, such as, tender preparation, in particular, development of the specifications, because the analyses of the procedures indicate that often one or two requirements contained in the specifications prevents many companies to participate in the procurement, which decreases the competition and the result is not the best value for money.

Hence, the recommendation is the contracting authorities to be more careful when preparing the tender documentations and technical specifications, in particular when determining the requirements for participation in tenders and the elements that will serve as a basis upon which the bids are assessed and the best bid is selected. The selection should be the best bid, instead of the best bidder, and the requirements should allow open and fair competition for all procuring companies, with a final end – selection of bid offering the best possible value for money spent on certain procurement. Only in this manner the public money is spent responsibly, economically and rationally.