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Framework agreements in Uruguay: towards an optimal acquisition strategy in public procurement

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Abstract

This paper analyzes demand aggregation in public procurement using framework agreements. It describes alternative designs based on the experience of different countries, extends in the case of Uruguay, and identifies gains and challenges in a context of dynamic growth of ICTs in public procurement systems. A conceptual model of game theory is introduced to explain incentives to go on in the development of framework agreements, as well as some considerations to optimize its design. First results obtained for the Uruguayan case show relevant savings in the substitution of traditional procedures, not only in terms of financial costs -with reductions in average unit prices between 14% and 40%- but also referred to optimization of resources and transaction costs – with an estimated reduction of almost 70 days in the overall duration of the acquisition procedure, as well as in the number of hours and employees involved-. Finally, externalities on supply and possible lines of action are identified from the first lessons learned.

Resumen

Este trabajo analiza la agregación de demanda pública mediante el procedimiento de Convenios Marco. Describe diseños alternativos basados en la experiencia de diferentes países, se extiende al caso de Uruguay e identifica las ventajas y desventajas en un contexto de crecimiento dinámico de las TIC en los sistemas de contratación pública. Se introduce un modelo conceptual de teoría de juegos, así como algunas consideraciones de optimización de diseño. Los primeros resultados obtenidos para el caso uruguayo muestran ahorros significativos en la sustitución de procedimientos tradicionales, no solo en términos de costos financieros —con reducciones en los precios unitarios promedio de entre el 14% y el 40%—, sino también en los costos de transacción —con una reducción estimada de casi 70 días en la duración total del procedimiento de adquisición, así como en el número de horas y empleados involucrados—. Finalmente, se identifican externalidades sobre la oferta y posibles líneas de acción a partir de las primeras lecciones aprendidas.

JEL Classification: H57, K21, L51

Keywords: Public Procurement, Framework Agreements, Demand Aggregation, Efficiency, Transactional Costs.

1. Introduction

Benefits associated with the use of framework agreements are multifactorial. These instruments come up as an alternative to traditional procurement procedures, allowing State agencies to meet their current needs of goods and services through a centralized allocation mechanism that minimizes costs of the entire contracting process. On the one hand, transaction costs decrease by reducing the acquisition of "n" purchasing entities to a single administrative procedure. At the same time, higher volumes traded as a result of the expanded market make easy to reach competitive prices and a greater variety of products, all of this just by the identification of basic requirements over relatively homogeneous products. "Centralization" means that a specialized unit is monitoring the process from the stages of need assessment to the outcome reports and lessons learned. This concentration of tasks in a single unit produces a specialization that strengthens capabilities of those who take part in the award process, generating a virtuous circle of learning that leads to better contract specifications. At the same time, centralization allows the release of human resources, those that work in the procurement units, to attend other types of acquisitions, mainly of high complexity and specificity and therefore not included in framework agreements.

Likewise, advances of Electronic Government through the progressive incorporation of ICTs into public management made possible that several countries to incorporate a virtual store module into their transactional platforms. This module reproduces the agility of private market transactions, making the procedure not only a good substitute for traditional tenders, but also for direct purchases. The latter shows an important impact not only on efficiency, but also on transparency and accountability by state entities on the use of public funds. Framework agreements transform the traditional centralized procurement into a strategic procurement where all the information related to subsequent transactions is nested in the transactional platform, ensuring complete traceability of the process and facilitating decision making.

We apply the conceptual framework of the "Strategic Positioning Matrix" commonly used by the World Bank in its reports on the review of public spending in Latin American countries, being framework agreements the typical result when it comes to a purchase of low complexity, transversal use at the level of State Agencies and relevant annual value in the total value acquired during a given period.

The document consists of 5 sections, including this Introduction. Section 2 reviews the evolution of demand aggregation policies in both praxis and literature; section 3 explains the conceptual framework that derives in the selection of Framework Agreement procedure as an optimal strategy for an important set of acquisitions; section 4 extends in the case of Uruguay and in the primary results that have been achieved; and finally, section 5 raises the conclusions and some relevant challenges for the short and medium term.

2. Demand aggregation and framework agreements: what does economic literature have to say?

In the last decade, the economic literature has analyzed the processes of aggregation of public demand, identifying the effects on resources allocation. Among the various forms of aggregation of demand are centralized procurement, framework agreements and collaborative purchases. The latter, in particular, are addressed by Patrucco, A. et al. (2018) and Harland, C. et al (2018), as a form of demand aggregation that allows to obtain benefits from a better coordination in resources allocation, but with strong requirements of interinstitutional empowerment. As a case of study, Chilecompra (2018) performs a systematization of the different collaborative purchasing design alternatives for Chile, the corresponding institutions and the market conditions that in each case would justify their use.

Framework agreements are addressed by OECD (2017), analyzing the Chilean case and finding that the participation of suppliers in the public market has increased by 130% since the implementation of the regime. However, this analysis also finds that a large part of the awardees do not receive purchase requests, which is probably due to the fact that the number of suppliers of each agreement in Chile is very high³, with a strong concentration of sales in the top 10⁴. It is then a clearly inclusive instrument, which eliminates nominal barriers to access to the public market, but in order to reach effective inclusion it requires of rules that generate incentives for competition once the award is resolved⁵.

³ On average, 185 suppliers are awarded per framework agreement.

⁴ Those who in the 2014-2017 period accumulated 71% of total revenues.

⁵ One of the last modifications of the Uruguayan case has to do with giving price dynamics to the offers that were awarded, once they are available to be acquired. In this way, the supplier can present temporary or permanent discounts that allow him to capture demand within the agreement

Gavurova, B., Tkacova, A. & Tucek, D. (2017) study the link between competition and public savings. They find that the number of bids has a positive effect on the savings process, particularly in an economy with low levels of competition in public market⁶. To these same conclusions arrive Schmidt, M. (2015) through a model of game theory and empirical research that shows that the greater the number of bidders, the lower the price offered. The author emphasizes that public entities can increase concurrency if they reduce transactional costs at the entrance: simplifying and standardizing processes; and if they can offer a relevant demand that allows small businesses to participate by supplying a portion of it. Soudek, J. & Skuhrovec, J. (2013), on the other hand, show how the strong rigidity in public procurement procedures leads to prices higher than market prices. Likewise, they show how results improve when open procedures, electronic auction or dynamic price improvements are used to increase competition among participants.

Saussier, S. & Tirole, J. (2015) recognize that different acquisition needs demand different procurement procedures. They emphasize the importance of a unified electronic platform and the existence of a standardized model that simplifies processes and allows the professionalization of public buyers. In this sense, framework agreements appear as an alternative to the centralization of specifications design that allow economies of scale and group the experience of different public buyers. OECD (2011) also distinguishes between the benefits of different types of procurement procedures based on the objectives pursued. It emphasizes that the "good practice" is to use an open and competitive procedure for purchases that refer to homogeneous goods and simple specifications, while a restricted procedure applies more to acquisitions of complex and non-routine specifications products.

Borges de Oliveira, A. - Fabregas, A. - Fazekas, M. (2019) and Worldbank Group (2017) find that Public Administrations usually procure very diverse group of goods and services in terms of their value, complexity and associated risks using practically the same procedures. In this way, governments make an inefficient allocation of resources, giving the same attention to a routine acquisition as to a complex and high-impact procurement. Framework agreements arise as an alternative of specialization in those acquisitions of simple specification, which implies a relevant portion of public budget, which maintains a recurring nature, and where several entities must to satisfy the same need.

⁶ They apply the Wilcoxon sign ranks test to a sample of participation data in the Slovak public market.

On the other hand, Barrett, A. & Rees, D. (2016) study how the peculiarities of small economies⁷ impact the way public procurement is managed. Public organizations in these countries have, in general, a small size, which enables them to better understand the needs they face and what the local market can offer. However, these advantages can be counteracted by difficulties in achieving economies of scale, lack of specialization of human resources and an increased risk of collusion. Framework agreements appear as a tool that addresses these problems of small economies by providing prior audit of the processes; maximum traceability and visibility that enables social control over suppliers' behavior; technical team specialized in specifications designing; and the opportunity to achieve economies of scale by adding demand and providing flexibility according to the production and marketing scale of suppliers.

Finally, Watson, G. et al (2012) identify potential problems of adverse selection and moral hazard in certain government contracts, usually those that involve a complex design and high sunk costs for participants. The authors state that this problem of "bidders' opportunism" can be addressed through the simplification and recurrence of procedures, as well as through the strengthening of contract administration mechanisms. All these characteristics are usually considered in the regulatory designs of framework agreements.

3. Conceptual framework: a "win-win" regime

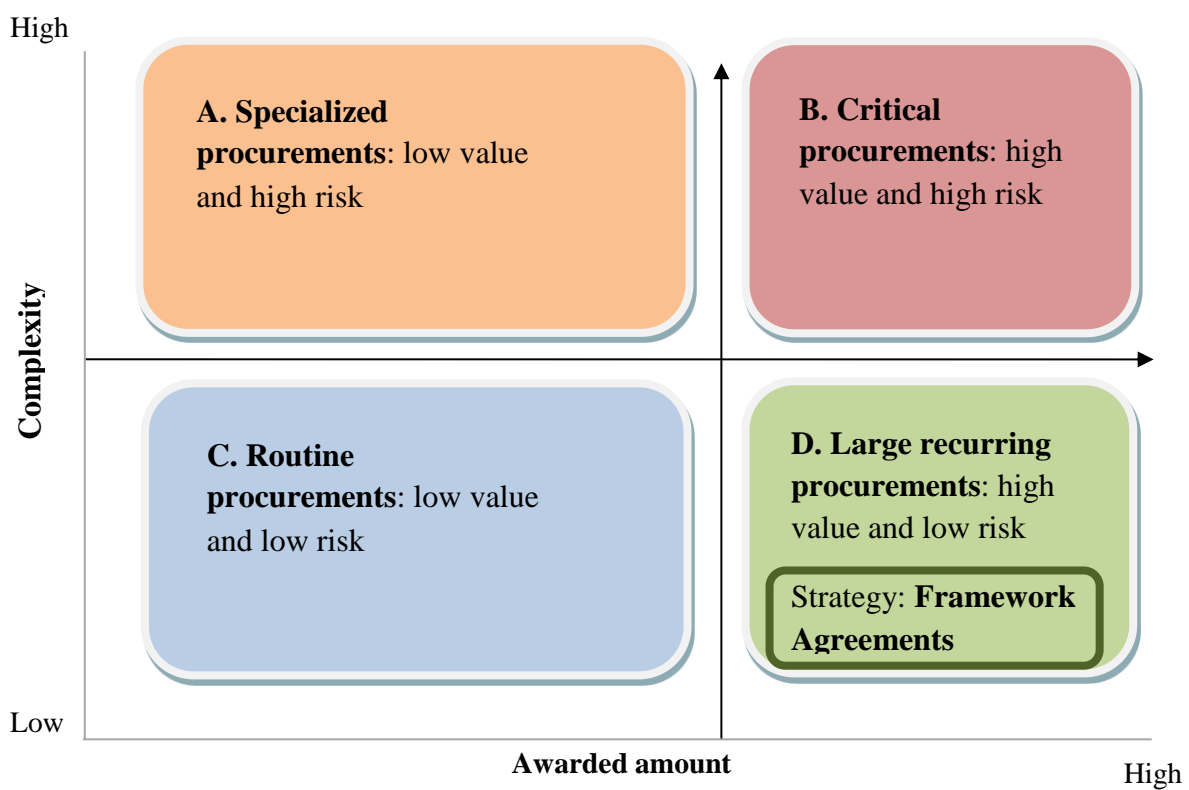
This document uses the conceptual framework of a "supply-positioning matrix" commonly addressed by the World Bank in its reports on the review of public spending in Latin American countries (Borges de Oliveira, A. – Fabregas, A. – Fazekas, M. - 2019), following a typical Boston Matrix layout. This characterizes different types of acquisitions according to the complexity, amount and degree of generalization of product demand. Framework agreements emerge in this context as the strategy that maximizes the use of public funds when it comes to a procurement of low complexity, transversal use at the level of government agencies and relevant annual value acquired during a given period.

⁷ They study the case of Wales.

Based on the procurement information of a country during a given period⁸, the supply-positioning matrix provides four groups of possible product categories, linking each of these with a specific acquisition strategy that optimizes achieved results.

Figure 3.1 shows the typical structure of a supply-positioning matrix on which the government awards of a country during a given period are projected. Each product procured is a point in the dispersion cloud and its size or color shows how widespread that procurement is (the number of agencies that acquired the product in that period). Each of the quadrants in the matrix refers to a type of acquisition according to the combination of risk and value, defining four different approach strategies. The one that corresponds to framework agreement strategy is quadrant D.

Figure 3.1 - Structure of the supply-positioning matrix



Source: Based on Borges de Oliveira, A. – Fabregas, A. – Fazekas, M. (2019)

⁸ In general, data corresponding to a period of 4 or 5 years is used to identify structural behavior and avoid outliers (e.g., the construction of a road of very high value that runs during a given year).

High volume and low risk categories benefit from centralized acquisition strategies. As the Government is a relevant buyer in these areas, it can obtain better commercial conditions (better price-quality ratio) from demand aggregation. In addition to improving the value for money of those acquisitions, public entities reduce transaction costs by dropping the number of administrative processes required to meet their needs. Where there were "n" procurement procedures, now a single procedure enables procurement entities to directly contract products already awarded.

"Centralization" also means in this case that a specialized unit is monitoring the process from the early stages of the need assessment to the "closing" stages with the corresponding performance evaluation and lessons learned. This concentration of tasks in a single unit enables a specialization that strengthens professional skills and results in better contractual specifications. At the same time, it allows the release of human resources, those who previously spent part of their time developing and implementing specific procurement procedures that are now being replaced by framework agreements. These public employees can now better serve other types of acquisitions, mainly those of high complexity and specificity not included in the framework agreement strategy (quadrants A and B of the matrix).

A game with a non-cooperative result

This conceptual framework also implies that the selection of the acquisition procedure can be approached as a prisoner's dilemma, where framework agreements is the result with the highest remuneration in case of large and recurring acquisitions, but reaching this point requires a coordination action (See Figure 3.2). That is, the result without intervention is that of a Nash equilibrium, where participants (state procurement units) play a different strategy from the one that would correspond to the optimal result for each one if they were coordinated. Therefore, in these cases we identified a market failure that can be resolved with an intervention that breeds desirable incentives for cooperation.

Figure 3.2 – Strategy game for large and transversal procurements

Agency A \ Agency B	T	FA
	T	FA
T	(1, 1)	(3, -1)
FA	(-1, 3)	(2, 2)

Source: Own elaboration

Figure 3.2 shows a typical game with a world reduced to two buying entities, where one of them makes the decision of the type of procedure and the other summarizes the expected action of the rest of the buying units. Possible actions are:

T = individual procurement using a traditional competitive procedure

FA = framework agreement

The possible results of the game show that if A (B) decides to opt for a traditional purchase, then B (A) also chooses the traditional purchase, because being a pioneer in the realization of framework agreements (being the administrator) means you fully assume the transactional costs of demand aggregation. It is clear that costs at the aggregate level are much lower than the sum of the costs of the “n” procurement units, but they would be assumed by the entity who plays the role of the administrative unit that would not be the one who would capture the largest proportion of the income (unlike the buying units that subsequently join as mere users of the agreement). Additionally, if the potential suppliers do not notice a high potential demand (which implies that several procurement entities join to acquire through the agreement), prices may not be sufficiently convenient. In that case, the benefits of aggregation would not compensate for the higher transaction costs assumed by the pioneer agency. And this is how the non-cooperative equilibrium prevails.

In Figure 3.2 the highest remuneration is achieved when A and B choose to use a framework agreement, however, arriving at this result requires a coordination mechanism. The combination (T, T) = (1,1) represent the non-cooperative equilibrium, where each entity supplies itself by carrying out its own acquisition procedures. If no entity assumes

the costs of demand aggregation (assuming the role of the managing unit), buyers remain making their purchases through their own individual procedures. Instead, the two agencies would be better in a situation represented by $(FA, FA) = (2,2)$, where both use a framework agreement to meet their acquisition needs.

How to move towards the cooperative outcome?

The equilibrium that yields the most is the cooperative one, where demand is added (several or all entities make use of the FA), and the purchasing entities obtain the best conditions, reducing transactional costs of the award to a single process. However, we saw no incentives to automatically reach this result.

Cooperative equilibrium can be reached when the governing body in state procurements comes into play. Part of the problem of incentives for the fulfillment of framework agreements by procurement units derive from the fact that they do not have this role as part of their tasks for which they have to render accounts. Buying entities account individually for the use they make of public funds. Assuming higher transaction costs, for the benefit of the whole system, is something that is not included into its utility function. Procurement units are not responsible for ensuring the health of the public procurement system but must ensure the funds that have been allocated to their own administration.

Unless the buyer unit was a particularly relevant consumer of the specific product, or framework agreement was seen as an instrument to channel organization's own tasks, the administration of a framework agreement is something that only adds opportunity costs to the organization. Therefore, the aggregate result is a suboptimal number of framework agreements.

This failure of coordination is addressed by generating a structure, independent from that of the public buyer, whose duties are to ensure the health of the procurement system. In this way, you can appropriate the income of the regime and have incentives to bear the entrance costs.

On the other hand, the collection of income is greater the greater the potential demand that participants warn. The greater the potential demand, the greater the competition and the greater the opportunities for the State. Therefore, all the measures that add users to the

procedure result in a better performance of the regime. Among these may be the obligation for the purchasing entities to use framework agreements under certain conditions.

A stable balance for all

Once equilibrium is reached, there are no incentives to depart from it.

Cooperative equilibrium is a stable one of the "win-win" type: no participant has incentives to depart from it. The cooperative balance achieved by a framework agreement represents an efficient result with respect to a non-cooperative one from the perspective of general well-being, but also from the performance of any agent involved in the procurement process: buying agencies, potential suppliers, governing bodies and citizens.

On the demand side, the purchasing units significantly reduce their administrative costs and can choose - from a set of alternatives already evaluated - the one that is most functional to their needs. In addition, prices they face are usually more convenient because they imply a process of aggregation of demand where the unit price already considers a market size bonus.

On the supply side, companies find a market in which to place their products with high visibility and available for all state entities. They know that it is a promoted procedure and that buyers reduce transaction costs when they use it, so they expect to have great capacity to make sales effective.

From the rectory of the system, being a procedure centrally managed by an expert unit, means that technical specifications are improved, and contracts are usually better designed. At the same time, all transactions are housed in the transactional platform, generating timely information for control and auditing.

Finally, all transaction information is accessible to citizens, improving the traceability of the use of public funds and privileging social control.

4. The case of Uruguay

Why framework agreements in Uruguay?

Following the international trend of moving towards corporate and strategic contracting procedures, Uruguay introduced the framework agreement regime in 2011⁹, although its implementation occurred some years later. The procedure consists in the selection of suppliers for the purchase of goods, works and services of generalized and frequent use in the State, which will be offered through a virtual store during a certain period.

Geopolitically, Uruguay is a unitary country where national public procurement legislation reaches all state entities governed by public law, regardless of the location or jurisdiction to which they belong. In this way, and despite the reduced economic size of the country, a coordination instrument such as framework agreements, where reduction of transactional costs for public administration is so strong, is expected to cause significant impact on public sector efficiency.

Among specific goals pursued by the regime are those already mentioned in conceptual framework: aggregation of public demand to improve price-quality ratio, optimization of administrative procedures through non-duplication of their stages and more transparency and traceability of purchases made through virtual store. These goals have been specifically contemplated from the beginning by the regulatory norms in Uruguay, in particular Decree No. 42/015 of January 27, 2015, when establishing that it is intended *to obtain economies of scale, to stimulate the participation of a greater number of bidders, allowing greater competition and greater equity of opportunities, promoting the efficiency, effectiveness and transparency of the purchase process through the simplification of processes, the standardization of goods for generic use and the reduction of costs and deadlines involved*¹⁰. Although this Decree was expressly abolished by Decree No. 367/018 of November 5, 2018 - the latter being the norm currently in force - the foundations mentioned remain unchanged.

The incorporation of this procedure into the national legal system has implied a “before and after” in the Uruguayan public procurement system producing a “break” in the

⁹ Article 22 of Law No. 18,834, of November 4, 2011.

¹⁰ Recitals I and II of Decree No. 42/015 of January 27, 2015.

paradigm of individual procurement procedures carrying out by state entities. This break implies a turn towards the “centralized” procurement, but towards a different format from the traditional one in Uruguay where one agency used to acquire on behalf of others¹¹. This new form of centralized procedure has also led to greater coordination between actors involved on the demand side: the procurement agencies that express their needs, the Administrative Unit that carries out the procedure from the call to the selection and incorporation to the virtual store, the State Procurement Regulatory Agency (ARCE) as the governing body, making available helping tools and authorizing the development of the agreements¹² and the Court of Accounts as the comptroller body with an ex ante verification that guarantees due process.

If we consider that in Uruguay there are more than 300 state entities that individually execute their budget and that, to some extent, all of them repeatedly require a series of products such as: office supplies, furniture or computer equipment, then more of 300 administrative procedures should be done in order to meet State needs. Framework agreements allow avoiding unnecessary duplication of some of the stages of a competitive contracting procedure and substantially reduce the associated transactional costs.

On the other hand, in Uruguay the maximum thresholds for direct contracting, although considerably less than before, are still relatively high¹³, implying that a large part of acquisitions is made under this modality. In this context, current framework agreement becomes a desirable alternative for direct purchase replacement. That is, public buyers no longer must worry about defining specifications and identifying their suppliers, while acquisitions they make from virtual store are as much or more agile than direct procurements.

Likewise, the progress made in Uruguay regarding Digital Government has been a necessary premise for the implementation of framework agreements. State acquisition of

¹¹ In Uruguay, an example of traditional centralized procurement is the case of those procedures made by the Centralized Procurement Unit of the Ministry of Economy and Finance in order to acquire food and medicine. This entity ceased to exist in 2022, replacing these acquisitions with framework agreements managed by ARCE.

¹² ARCE has also acted on various occasions as the administrative unit for framework agreements. This feature deepened in June 2022 when a new organizational unit was created in ARCE. This unit absorbed the tasks of the former Centralized Purchasing Unit.

¹³ Until 2021, threshold were about 13.500 dollars for Central Administration and 40.000 dollars for other state entities. In 2023 are about 6.200 dollars for Central Administration, 23.600 dollars for subcentral governments and 31.500 dollars for other state entities.

technological infrastructure, the implementation of interoperable and in many cases centralized information systems, the generation of a legal framework adapted to new technologies, the simplification of administrative procedures, the generation of capacities both in citizens as in public servants, allowed Uruguay to consolidate its leadership at international level and integrate the Digital Nations, a collaborative network of the world's leading digital governments.

Public procurement has not been aliened to this phenomenon of ICT application for the improvement of public management. Although all stages of public procurement procedures can be done in digital form, the implementation of framework agreements implied an important milestone, as it sets a clear example of digital transformation. In fact, under this procurement regime, technology fulfills an instrumental function for the reformulation of “traditional” procedures, which unquestionably results in the efficiency of public spending.

It is also easy to identify how advances in digital government, particularly in centralized electronic contracting platforms, have influenced the administrative organization of public procurement systems. This has led to the questioning of whether, in the case of Uruguay, it is efficient to implement large purchasing centers, or to some extent “innovate” in public procurement strategies and policies.

Precisely, framework agreements configure a tool that allows to take advantage simultaneously of many of the benefits of centralized procurement as well as from decentralized decision taking, given that “(...) *some aspects of the acquisition, in particular unit prices to be paid, are set centrally, although the decision of what quantities to acquire corresponds to each agency in particular. (...) Central procurement structure is the one that generates those unit prices through a usual bidding process. Then, the official in charge of acquisitions in each unit should simply order the number of product units that he requires.*” (Arozamena, L. & Weinschelbaum, F. (2010)).

Finally, framework agreements in the Uruguayan case represent a tool to improve competition and private sector access to public market. Uruguayan private sector is basically made up of small companies, which do not have the scale of production to supply the State in large tenders. Framework agreement allows each company to indicate its monthly sales commitment and thus controls its supply capacity. At the same time,

framework agreement allows companies to participate in their geographic region of interest, which favors local development of suppliers.

Regime main characteristics

Framework agreements are a supplier selection procedure, which does not imply a procurement by itself. It is a procedure of prequalification, where selected suppliers will have the right to have their products offered, once evaluated, in a virtual store managed by ARCE, during a certain period and under certain commercial conditions. To this end, two major stages must be fulfilled: on the one hand, the conclusion of the framework agreement itself, through the performance of a competitive procedure similar to a tender; and, on the other hand, the award of specific contracts through the virtual store based on said agreement.

In accordance with current regulations, any state entity may administer a framework agreement, if it has the authorization of ARCE, becoming the Administrative Unit of the framework agreement in question. The Administrative Unit is an entity that must comply with at least one of the following characteristics: be a relevant buyer of the product in question, have a vast experience in centralized procurement and aggregation of demand or maintain, in accordance with its tasks, an important suitability linked to the required product. The Administrative Unit participates in all stages of the agreement. It will conduct the market study; the drafting of the conditions bases; the publicity to the call to present bids; as well as receive, evaluate, and rate the offers; and award those proposals that meet requirements. At the same time, it will have intervention during its execution, for example, to extend the originally planned period, authorize discounts and approve the replacement of products in the virtual store, if certain legally established conditions are met. Since June 2022, ARCE itself is the main Administrative Unit of framework agreements.

State entities can directly acquire those products that are included in the virtual store. Specific contracts are formalized with the notification of the purchase order generated in the virtual store, previously authorized by the competent authority of the procurement entity. In cases of large amounts preventive intervention of the Court of Auditors is required, something that applies with independence of the applied procurement procedure.

Unlike what happens with other contracting procedures, Uruguayan law provides for the possibility of introducing some modifications to the offers during the execution of a framework agreement, provided that certain conditions are met. In the case of goods, suppliers may request the Administration Unit to replace the product originally offered, by

one with the same or superior characteristics, if it does not exceed the original price. This introduces a flexibility to the regime, considering products obsolescence during the term of the agreement.

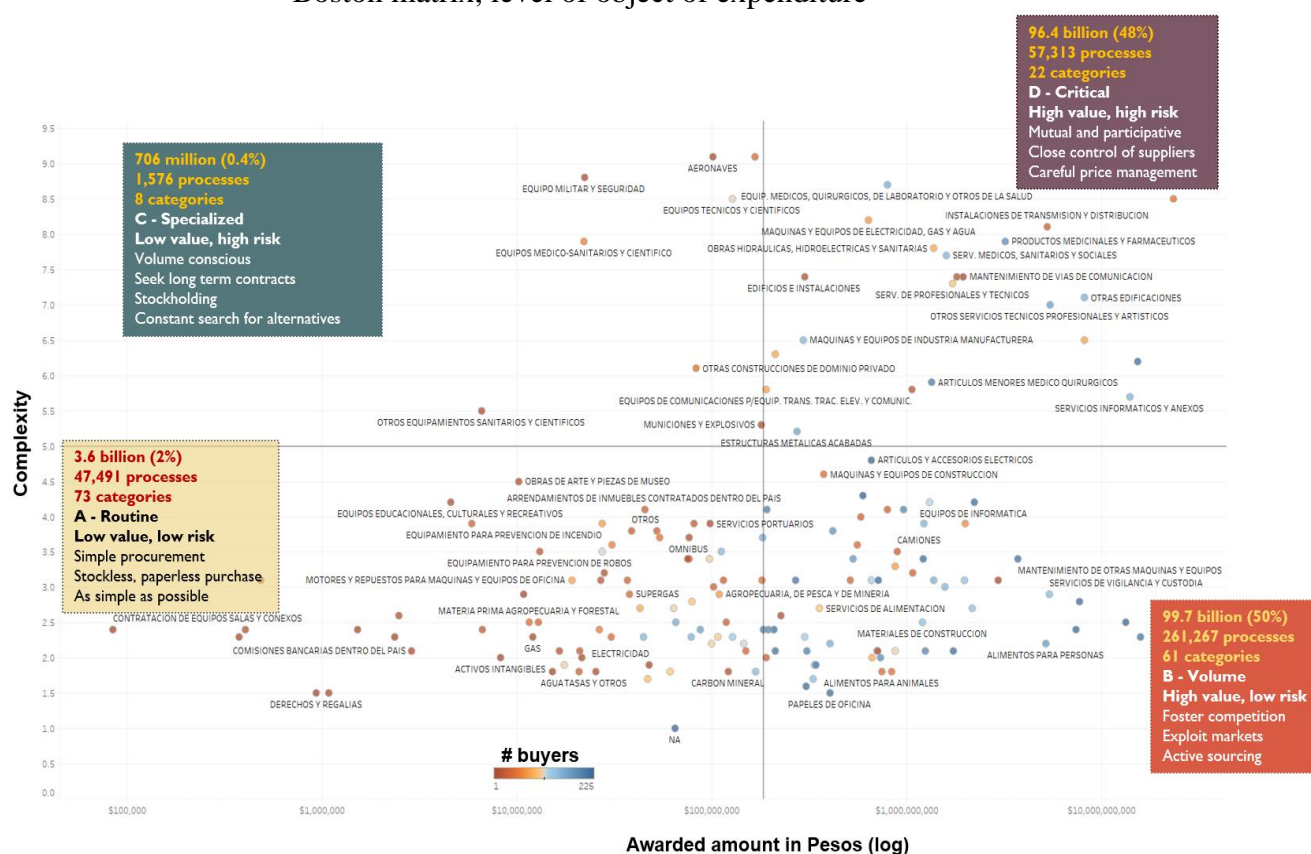
At the same time, suppliers may improve the prices of their products, during the term of the framework agreement, either temporarily or permanently. This issue is essential to allow Public Administration to appropriate benefits equivalent to those enjoyed by the private market. Price competition during virtual store period allows deflating entry prices and competing to capture public demand in the conditions that each supplier finds most convenient: discounts for short or longer periods, in products that are about to face new models competition or for which there is an excess of existences, etc. In any case, the possibility of reducing prices makes acquisitions more attractive through framework agreements, which in the medium term reinforces the virtuous circle of greater public demand, then greater participation of suppliers, then greater competition, then better commercial conditions, and again greater public demand.

First findings

Figure 4.1 shows a projection of the strategic positioning matrix of Uruguay in public procurement for the 2014-2018 period (Borges de Oliveira, A., Fabregas, A. & Fazekas, M. (2019)). The lower right quadrant of the matrix is the one that refers to low risk and high-volume acquisitions, typical to be carried out by framework agreements. Within this quadrant are products in which Uruguay has so far made its first framework agreements. In all cases, public demand is widespread since the product is consumed by several state entities in the same period. Figure 4.2 shows in detail these framework agreements.

The first framework agreement developed in Uruguay was of computer equipment, in November 2015. In that area, the fifth framework agreement is in process of designing and a strong institutionalization of the regime is observed: the term period of each agreement has been growing and so has the number of user entities that join the scheme.

Figure 4.1- Supply positioning matrix of Uruguay, 2014-2018
Boston matrix, level of object of expenditure



Source: Borges de Oliveira, A.; Fabregas, A. & Fazekas, M. (2019)

Figure 4.2 – Framework agreements of Uruguay

Framework agreements	Term Period	Amounts acquired (in USD)	Purchasing units using the agreement
IT equipment	November 2015 – June 2016	535.029	15
	November 2016 – August 2017	1.210.398	24
	October 2017 – November 2018	2.150.467	34
IT equipment and televisions	September 2019 – October 2022	12.295.412	58
IT supplies	August 2019 – August 2023	2.104.587	117
Cybersecurity services	January 2019- March 2021	1.036.923	9
	September 2022 - September 2024	723.793	7
Audit and risk management services	October 2019 - November 2023	219.753	4
Software development	March 2019 – February 2021	5.193.545	22
	December 2021 - June 2025	29.864.451	36
Testing services	July 2020 - July 2024	4.389.319	11
Office supplies	September 2018 – October 2019	216.389	65
	November 2019 – December 2023	3.361.313	123
Air conditioners and	November 2019 – December 2021	519.064	45

Framework agreements	Term Period	Amounts acquired (in USD)	Purchasing units using the agreement
related services			
Tires	March 2018 – October 2018	141.300	11
Construction materials	February 2018 – March 2020	570.639	12
Toilet paper	March 2023 – September 2024	147.955	45
Cleaning products	January 2020 – February 2024	1.247.202	73
Chemical products	December 2023 – January 2025	10.380	7
Beef Meat and Giblets	May 2023 – May 2024	6.908.061	35

Note: January 2024 data.

Source: Own based on data from Uruguayan Public Procurement Observatory.

The greater generalization in the use of the regime is in framework agreements of computer equipment and supplies, office supplies and cleaning products. This is consistent with the fact that these are crosscutting needs of the public administration, regardless of the roles of different entities. It is important to highlight that among the organizations that use framework agreements, there are not only central administration agencies, but also autonomous entities, decentralized services (some of them trading companies) and local governments.

Uruguay has also ventured into the implementation of some framework agreements with products that have more complex specifications, such as cybersecurity services and software development services. These cases represent an innovative approach since no relevant historical demand was revealed by procurement data, but there was a set of public policies related to electronic government that it was thought could be made viable through acquisitions by framework agreements. In these agreements, the Administrative Unit is the Agency for Electronic Government and Information and Knowledge Society (AGESIC).

On the other hand, there is a significant direct saving thanks to unit prices lower than those in same period referred to acquisitions through other procedures¹⁴. Therefore, we identified a margin to continue deepening the use of framework agreements given the strong savings that would have been obtained (potential savings) from having used framework agreement as the procedure for the acquisition of these products. Figure 4.4 shows, by example, the results obtained in the case of three framework agreements referring to different objects.

Figure 4.4 – Savings in Framework agreements of Uruguay

¹⁴ Framework agreement procedure in Uruguay, unlike in other countries, is not mandatory.

	FA of PCs (October 2017 – November 2018)	FA of Tires (March 2018 – October 2018)	FA of Office supplies (September 2018 – October 2019)
Average unit price reduction	14.2%	40.3%	39.7%
Savings obtained	USD 352.496	USD 97.386	USD 723.859
Potential savings	USD 680.204	USD 46.595	USD 2.687.761

Source: Own based on Pizzinat, C. (2019) and data from Uruguayan Public Procurement Observatory.

Among goals defined for the implementation of framework agreements in Uruguay, in addition to aggregating demand to obtain a better price-quality ratio is the search for optimization of administrative procedures. Said optimization is achieved through simplification, the non-duplication of stages and the incorporation of ICT in those procedures.

In this sense, according to the research carried out by Pizzinat, C. (2019), it should be noted that first findings show a substantial decrease in times involved in procurement process, going from an estimated of 75 days in traditional procedures to only 6 days, on average, when using framework agreement through the virtual store. Likewise, the number of hours of work and of officials necessary to carry out these procedures are significantly reduced. It is estimated that an abbreviated tender involves 40 hours of work and an average of 6 officials, while procurement under framework agreement take an average of only 6 hours and 4 officials.

The reduction of time and resources necessary for the substantiation of the procurement procedure in relation to other “traditional” alternatives derives from the fact that a single procedure carried out by a single agency is later applicable to any other state entity. In fact, some of the stages of competitive procedures such as bid admissibility analysis or technical evaluation to determine compliance with the minimum requirements do not need to be carried out when selecting products in the store. Entities that purchase products through the virtual store only must analyze available alternatives on the store and select the most suitable one for their specific need. That is, the virtual store includes pre-qualified products with their respective suppliers and the purchasing entity only must enter a contract with the supplier corresponding to the selected product from the store.

In summary, Uruguay's framework agreement regime is an optional, not compulsory, regime that has allowed Public Administration to obtain significant savings by replacing traditional procedures. These savings take the form of lower financial costs derived from obtaining lower prices, as well as lower transaction costs in time and human resources dedicated to the design, evaluation and monitoring of contracts. Likewise, it is expected to improve savings results from regulatory modifications introduced at the end of 2018, particularly the possibility of reducing prices once the products are available on the virtual store.

Finally, framework agreements are a relatively new regime in Uruguay, so results have probably not yet reached the stability that will allow achieving all the advantages of the regime.

5. Final considerations and main challenges

Conceptually, optimization of procurement procedures achieved through the implementation of framework agreements in Uruguay is nothing more than a specific application of the principle of efficiency: how to satisfy supply needs and, at the same time, maximize resource allocation subject to expenditure constraints. In turn, "efficiency" as a general principle of law is expressly enshrined in the Constitution of the Republic, so it translates into an obligation for the Administration, through which it must perform the best possible management of its resources in order to achieve best results. This is particularly important because the inefficiency of Administration also inevitably carries over to the costs of the contracts that are signed.

In turn, the search for efficiency, as the primary objective of the public procurement system, is not only fundamental due to the economic impact on public management itself, but also due to the externalities that affect the economy in general. Efficiency is closely linked to competition, which is why competition is a target in itself, being framework agreement an ideal instrument to make it possible.

Framework agreements allow for greater competition by removing barriers to entry to the public market that have traditionally been difficult to remove. On the one hand, they replace large acquisitions where only those with a large scale of production or trading can participate. On the other hand, small-scale direct procurements can now be replaced, with the same flexibility, by orders in the virtual store. In both cases, competition is enhanced:

framework agreements allow both the large-scale provider and the one with the least capacity to participate in the process. Participants choose their optimal monthly supply value, so the size of the provider is no longer a restriction.

This inclusive nature of framework agreements is also seen in the fact that the centralized management of the procedure goes hand in hand with a decentralized scope, such that the award and subsequent consumption is carried out in each geographic region of the country. This has been particularly relevant to encourage participation of suppliers throughout national territory and is expected to contribute to local provider's development.

Economic literature shows that framework agreements are the ideal strategy for those acquisitions that involve low complexity, high annual value contracted and cross-sectional use at the level of State entities. In Uruguay, progress has been made based on these recommendations and first results have been auspicious.

On the other hand, although temporal window of application is still small, some possibilities for strengthening the regime are already viewed and addressed. In particular, the fact that there was no specialized unit with specific tasks of designing and management framework agreements meant that luck in the development of agreements rested on the will of entities that could obtain a benefit from it. As the transactional cost of being the administrator is very high (cost of the pioneer), only in few cases have been incentives to be an "Administrative Unit". Those cases appear when the entity is a very large buyer of the product in question (case of the Ministry of Defense or Interior with construction materials), or when framework agreement facilitates the achievement of strategic goals of the entity (in the case of AGESIC with framework agreements for ICTs). It is a typical incentive problem in public policy that is addressed in the conceptual framework: collaborative systems depend on individual and/or conjuncture wills that are not sustained over time. The way to approach this suboptimal balance is to provide a specific unit with the responsibilities of development and administration of framework agreements, something in which Uruguay has recently ventured¹⁵.

Another specific characteristic of the Uruguayan regime has been the optionality when it comes to being used by public entities. That is, nothing forces an entity to acquire its products from the virtual store, being able to do a traditional procedure in parallel. Clearly,

¹⁵ Law No. 19,889, article 331, paragraph 10.

this double process raises transaction costs unnecessarily, which is why many countries have made framework agreement a mandatory instrument. In the case of Uruguay, it was preferred not to make it mandatory, foreseeing a gradual implementation that would avoid greater rigidity in the early stages. First results show that, even though it is optional, framework agreement, once in force, is a very attractive instrument for meeting needs. That is, entities are voluntarily moving to replace their traditional procedures with purchases through the agreement. Possibly in the future, the opportunity of sealing the mechanism should be considered by establishing the mandatory framework agreement respect to other procedures, either in general or for acquisitions that have certain characteristics. However, for the moment, the voluntary nature has been functional in the early stages of implementation, where learning process has a strong impact on the redesign of the regime.

Finally, framework agreements are an instrument for technical rationalization of public procurement, which allows contracting in a collaborative and strategic way, improving price-quality ratio, reducing the need for stocks optimizing human resources and time involved in procurement processes. Moreover, they are a “win-win” mechanism, because in addition to the direct benefits on public management (benefits on the demand side) are those derived from greater access to public market (benefits on the supply side), and from the enrichment of information traceable to all participants. The latter includes the facilitation of monitoring to supervisory bodies as well as social control carried out by civil society.

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