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BACHELOR THESIS

**Expenditures of Public Institutions on
Purchase of Goods and Services**

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Declaration of Authorship

The author hereby declares that he compiled this thesis independently, using only the listed resources and literature.

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Prague, May 22, 2013

Signature

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Abstract

The main goal of this thesis is to analyse the expenditures and public procurements of fifteen municipalities and all of the ministries of the Czech Republic during the years 2009-2011. The main core is in analysis of what are the procurable expenditures and what percentage of them is procured through the Information System of Public Procurements ISVZ. The main idea behind this analysis is that every other procurable expenditures not procured through ISVZ could be labeled as non-transparent. Hence, higher the ratio of expenditures procured publicly through the ISVZ, the better is the authority in achieving the good practice. The results of this analysis could be used as a comparative tool between the respective authorities.

JEL Classification H50, H51, H52, H53, H57
Keywords Public Procurement, Public Finance, Public Expenditures, Public Sector Accounting

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Abstrakt

Hlavním cílem této práce je zanalyzovat výdaje a veřejné zakázky patnácti měst a všech ministerstev České Republiky během let 2009-2011. Jádrem je analýza toho co jsou soutěžitelné výdaje a jaké procento z nich je vysoutěženo skrz Věstník veřejných zakázek ISVZ. Hlavní myšlenka za touto analýzou je, že všechny ostatní soutěžitelné výdaje nevysoutěžené přes ISVZ by mohly být označeny jako netransparentní. Tím pádem, čím vyšší poměr výdajů vysoutěžených veřejně přes ISVZ, tím lépe je na tom zadavatel v dosažení dobré praxe. Výsledky této analýzy mohou být použity jako nástroj pro srovnání jednotlivých zadavatelů.

Klasifikace JEL H50, H51, H52, H53, H57
Klíčová slova Veřejné zakázky, Veřejné finance, Veřejné výdaje, Účetnictví veřejného sektoru

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Acronyms

- ISVZ** Informační systém veřejných zakázek (Information System of Public Procurement)
- ARIS** Automatizovaný rozpočtový informační systém (Automated Budget Information System)

Bachelor Thesis Proposal

Author	Marek Krečmer
Supervisor	PhDr. Ing. Jiří Skuhrovec
Proposed topic	Expenditures of Public Institutions on Purchase of Goods and Services

Preliminary outline in English: The proposed thesis will analyse the basic theoretical approaches to purchasing goods and services by public institutions, compare it with the Czech legislation and particularly with the real data from the budgets of selected institutions in the Czech Republic. The core of the thesis lays in careful examining expenditure structure of various public institutions and subsequent discussion on dividing the expenditures between internal and external resources. Stress will be put on the question which of the goods and services should be purchased, according to economic theory or the Czech law, by means of public procurement and which are really purchased in practice. Finally, the work will propose improved methodology for measuring volume of procurable expenditures, that might be used as one of practical indicators of transparency proposed in Skuhrovec, Chvalkovská (2010). The main data sources of data will be the information system ARIS of Ministry of Finance, the information system of public procurements ISVZUS and some information from the institutions on basis of the Law on Free Access to Information.

Preliminary outline in Czech: Práce rozebere základní teoretické přístupy k nákupu zboží a služeb veřejnými institucemi, porovná je s českou právní normou a především reálnými daty z rozpočtů a veřejných vzorků zvolených institucí v ČR. Hlavní náplň bude spočívat v pečlivém zkoumání výdajové struktury různých veřejných institucí a v následné diskuzi ohledně rozdělování výdajů mezi vnitřní a vnější zdroje. Důraz bude kladen na otázku, které zboží a služby by měly být, na základě ekonomické teorie nebo českého práva, pořizovány

přes veřejné zakázky a které jsou tak pořizovány ve skutečnosti. Na konec tato práce nabídne vylepšenou metodologii k měření podílu soutěžitelných zakázek na celkovém objemu, která může být použita jako jeden z praktických indikátorů transparentnosti navrhnutých v Skuhrovec, Chvalkovská (2010). Mezi hlavní datové zdroje budou patřit data z informačního systému ARIS ministerstva financí, informačního systému o veřejných zakázkách ISVZUS a informace poskytnuté jednotlivými institucemi na základě zákona o svobodném přístupu k informacím.

Outline

1. Introduction
2. Theoretical and practical procurement frameworks
3. Accounting of state expenditures
4. Analysis of procurable and non-procurable expenditures
5. Methodology for measuring volume of procurable expenditures
6. Conclusion

Author

Supervisor

Chapter 1

Introduction

Public procurement in the Czech Republic is nowadays a very common subject of numerous different analysis of various non-governmental organizations or media. It is under much more scrutiny than it used to be a few years ago. There are many emerging organizations and web sites which are trying to improve public procurement in the Czech Republic. Although the new amendment to the Law on Public Procurement came into force on 1st April of 2012, which addresses some issues, there are still many other issues which remain causing a lack of transparency and economy.

The objective of this thesis is to address the issue of volume of public procurements which are published in the information system of public procurements ISVZ and to compare it with the expenditures that could be possibly procured. The analysis in this thesis wants to show how much of possibly procurable expenditures is spent transparently and publicly. All the other expenditures could be labeled as non-transparent and public control of these expenditures is hard or even impossible. Hence, this ratio could be helpful as comparative index, and it can show how good are the authorities in maintaining the good practice with public spending.

For better understanding of this matter it is important to mention a theoretical background, hence the chapter 2 does some literature review and introduces theoretical approach towards the public procurement and good practice. Chapter 3 is the introduction into practical framework of public procurements, state accounting and reporting. Chapter 4 is about the main analysis of expenditures and procurements. It introduces a methodology to distinguish the procurable expenditures and it compares them with procurements from ISVZ. Chapter 5 summarizes the practical implications and, finally, chapter 6 summarizes our

findings and introduces possible next topics for research.

Chapter 2

Theoretical procurement frameworks

2.1 Literature Review

2.1.1 Good Practice

First of all there are studies by the OECD¹ and The European Commission² on what is the good practice and how to achieve it. They are trying to improve the integrity in public procurement. The OECD study is more complex and thorough, it warns that risks to integrity are at each stage of the public procurement process, it discusses the need for transparency, how important is professionalism in the state administrative and ensuring accountability and control in public procurement. It also provides a great amount of practical examples from individual OECD countries, which, if adapted by other countries, could help in achieving the good practice. The Czech Republic is represented by the central register for publishing contracts ISVZ, which is crucial instrument even in this analysis. The European Commission document summarizes the good practice into these points:

- Overcoming difficulties relating to the size of contracts
- Ensuring access to relevant information
- Improving quality and understanding of the information provided

¹Integrity in Public Procurement—GOOD PRACTICE FROM A TO Z (<http://www.oecd.org/development/effectiveness/38588964.pdf>)

²European Code of Best Practices—Facilitating Access by SMEs to Public Procurement Contracts (<http://goo.gl/55Aj0>)

- Setting proportionate qualification levels and financial requirements
- Alleviating the administrative burden
- Putting emphasis on value for money rather than on price
- Giving sufficient time to draw up tenders
- Ensuring payments on time

2.1.2 Academic Studies

There are many academic papers concerning the public procurements, but most of them are focusing only on the effect of number of competitors on final price (Kuhlman & Johnsons, 1983) or the issue of bid rigging (Gupta, 2001). Ohashi (2006) have found out, through a case study, that improvement of transparency reduces the procurement cost by a maximum of three percent and that it helped to save about USD 0.5 mil in Mie district in Japan. The 2012 study by the think-tank IDEA *Veřejné zakázky v ČR: Co říkají data o chování zadavatelů?* (*Public procurement in the Czech Republic: What the data say about the behavior of contracting authorities?*) analysed the Czech Republic data on public procurements and detects basic patterns of behaviour of contracting authorities. They found out that there is significant cumulation of small scale procurements just under the small scale procurements limits but only for a specific types of procurements and only a small group of authorities. There is also a significant impact of type of procurement on the final price and number of competitors. Open tender, which has the best results, lowers the price by about 12.6% and improves the number of competitors by about 1.97. Finally there is a paper concentrating on rating of contracting authorities by Chvalková & Skuhrovec (2010) which served as an inspiration for this thesis. Paper is called *Measuring transparency in public spending: Case of Czech Public e-Procurement Information System* and they analyse the ISVZ ability to enable the general public to oversee spending of public institutions, proposes that every expenditures not spend through the public procurements and ISVZ could be labeled as non-transparent and they propose an index based on this and few other transparency indicators.

2.1.3 NGO Studies

The NGO studies are possibly the most important ones, as the sole purpose of these NGOs is a public control and aspiration to improve the public spending. The most active organizations in this sense are Transparency International and Oživení. Useful and informative analysis of Transparency International is, for example, *Veřejné zakázky v České Republice: Korupce nebo transparentnost? (Public Procurement in the Czech Republic: Corruption or Transparency?)*, which is a complex study divided into two parts. First is written by Jan Pavel and analyses economic aspects of public procurement, the second is written by Nývlt & Picková and analyses the legislation. Interesting study by Oživení is *Transparency of the Public Procurement System in the Czech Republic*, which proposes few interesting findings concerning this thesis:

- The transparency of public procurement is only meaningful if information about all key phases of the contract's procurement and realisation are actively made public, i.e. from the defining of the request for tender through the realisation of the subject and handover for use.
- There is a significant number of contracting authorities in the Czech Republic that voluntarily declare small-scale contracts via the official information system. This behaviour proves that reducing the limits for small-scale contracts need not necessarily present a disproportionate additional administrative burden for contracting authorities.³

Finally, the theoretical approach of this thesis is based mainly on works of doc. Ing. Jan Pavel, Ph.D., especially *The Report on the State of the Public Procurement in the Czech Republic* (Pavel, 2011). Most of his works have similar ideas and *The Report on the State of the Public Procurement in the Czech Republic* is the most complex report summarizing them all into one work. The main idea behind the public procurements, that he proposes, is that the primary reason of public procurement is to increase the effectiveness of public expenditures. It should be used only in the situation when the public sector is not capable of producing it cheaper (in-house production) than the private sector.

³Kameník, M. et al. (2011). Transparency of the Public Procurement System in the Czech Republic. Prague: Oživení, o. s. Page 4

2.2 EU directives

Today's procurement framework, which is represented mainly by the Law on the Public Procurement, is based on EU directives:

- Directive 2004/17/EC of the European Parliament and of the Council of 31 March 2004 on coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors
- Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts

The main reason behind the interference from EU into the laws about the public procurement is that it could be easily exploited to achieve indirect public support of domestic firms and, therefore, distorting the single market. Thereby these directives have three main principles:

- Transparency
- Non-discrimination
- Equal treatment

The problem is that they do not explicitly mention the main reason for the public procurement: effective allocation of public resources. On the other hand, it is treated indirectly in its rationale where it mentions a concept of value for money. According to Pavel it means respecting "the principle of 3E"—Economy, Effectiveness and Efficiency.

Therefore, these directives ensure fair competition, but the effective allocation of public resources leave to respective countries. They expect that it is in the best interest of the respective countries while indirectly implying it in the rationale. Hence, that is one of the main problems of the public procurement framework. It enables the procurements to be bend legally, adjust the evaluating criteria and in other ways to manipulate the procurement to be tailored to specific firms. In addition, the controlling authorities concentrate only on compliance with the three directive principles and do not care about economy logic behind the procurements. This could be averted by the Law on Financial Control, which requires from the representatives of public administration to spend public expenditures according to 3E. Hence the public procurement is spending of public expenditures, so it should be controlled under this law.

According to Pavel there are three main problems with proper application of this law on the public procurement. First problem is that the law does not apply on a significant number of contracting authorities, which are trading companies controlled by the contracting authority, which does not operate on the competitive market. The second problem is that the control cannot be initiated from outside, for example, by the unsuccessful suppliers who have doubts about the fairness of the procurement process. The last problem is insufficient methodology guidance for the controllers. The 3E are quite vague terms, which should be more precisely described in a methodology guideline, but, according to Pavel, the only one which now exists is not sufficient.

It is possible to look for inspiration in Slovenia which included the 3E principles directly into the Law on the Public procurement⁴:

- Article 5 (Principles of public procurement) - The organisation, development and performance of the public procurement system shall be based on the principle of freedom of movement of goods, the principle of freedom of establishment, the principle of freedom to provide services deriving from the Treaty establishing the European community (Uradni list RS - Mednarodne pogodbe, No 7/04, hereinafter: Treaty) and on the principles of economy, efficiency and effectiveness, competition among tenderers, transparency of public procurement, equal treatment of tenderers and proportionality.
- Article 6 (Principles of economy, efficiency and effectiveness) - (1) The contracting authority shall award public contracts in such a way as to ensure economical and efficient use of public funds and an effective realisation of its goals defined in compliance with regulations governing the use of the budget and other public funds. (2) Where the subject matter of the public contract so permits and where this adds to the economy and efficiency of the public contract, the contracting authority shall formulate the contract documents in such a way as to permit the contract to be awarded by lots. In so doing the contracting authority shall ensure nondiscriminatory treatment of economic operators and thus make public contracts accessible to a wider circle of economic operators.

2.3 Low Levels of Competition

One of the most important prerequisites to ensure effective use of public procurement is a high number of competing suppliers. It was empirically proven

⁴Source: PUBLIC PROCUREMENT ACT of the Republic of Slovenia, [2013-05-04]. (<http://www.oecd.org/dataoecd/6/33/39647089.pdf>)

that exists so called "competitive effect" which is inversely proportional relationship between bids and final price of the procurement (Kuhlman & Johnson, 1983; Pavel & Kubík, 2011). The more of competing suppliers there is, the better chance for finding the best value for the lowest price, and the lesser chance that they will create some kind of cartel or that this cartel will prevail.

This issue was partly addressed by the new amendment to the Law on Public Procurement. It is now forbidden to award the contract if there is only one bidder. If this situation occurs, the contract has to be canceled and published again. That is quite controversial part of the new amendment as many contracting authorities are arguing that it significantly complicates theirs' public procurement. They argue that, in some cases, it is impossible to complete the procurement as there is only one supplier capable of supplying desired service, which could be highly complex.

This situation should not theoretically occur, as there is a vast number of possible suppliers throughout the European Union. Unfortunately, the real world conditions and markets are rarely ideal, therefore these arguments have to be taken into account. There is a possibility of only one bidder capable of fulfilling the requirements, but there is also a possibility that the procurement requirements are tailored to fit only one specific supplier due to corruption. There has to be found balance between the securing of greater competition, the possibility to find contractors for specific and complex procurements and the elimination of tailor made corrupted requirements. This can be achieved only with a combination of careful adjustments of the law and high quality of state administration and controllers responsible for the public procurement.

Another thing, significantly affecting the number of bidders, is a quality of publication of procurements. This issue is nicely described on *wiki.zindex.cz*, the wiki web page of the zIndex project⁵.

According to zIndex the best practice would be that all the contracting authorities would publish all the public procurements (even the small scale procurements) on-line in one central web page. That is essential for ensuring an effective competition. The problem is, that although the current Law on Public Procurements obliges that the publication of notice of procurement must be published, it does not have to be on centralised web page but it is sufficient to publish it on the web page of the respective contracting authorities.

On one hand, it is a great step forward from the times when the publishing

⁵Project focusing on rating public institutions on the basis of how good they follow good practice in public procurement (zindex.cz).

was not obligatory but it is not good for an effective competition. There are thousands of contracting authorities and transaction costs for suppliers would be incredibly high if they wanted to follow all of them. Therefore, they have to limit the number of contracting authorities they follow, which disrupts effective competition.

If every public procurement would be published on one centralised web page, then the suppliers would have to follow only one web page for potential contracts, and save a lot of money and time.

It would be also much better for public control that all the necessary data would be at people disposal at one centralised page. There is a problem that the ISVZ is not particularly user friendly, therefore it complicates an unqualified public control. On the bright side, the ISVZ in the recent years undergo some changes that make it a little more well-arranged.

This line of reasoning led to the creation of web pages vsechnyzakazky.cz by the organization Oživení, o.s. and zinfo.cz by the EEIP, a.s. The main idea behind vsechnyzakazky.cz is enabling easier public control of public procurements. The data there are acquired from the ISVZ with minimal corrections and it is more user friendly alternative to the official ISVZ. On the other hand, zinfo.cz is trying to improve the publication of the procurements. It aspires to be a better alternative of ISVZ, where contractors can publish their procurements and suppliers can more easily monitor new procurements, minimizing their transaction costs for the monitoring.

2.4 Small Scale Procurements

Another great issue is the limits for small scale procurements. Small scale procurements are procurements that do not have to be procured according to the Law on Public Procurements. The main argument behind their existence is administrative costs. It is logical that it is quite unreasonable to announce procurement under strict law every time the city needs a few pencils, but their values are unreasonably high compared to the other European countries and USA.⁶ Exact values can be found in table 2.1.

From the comparison can be seen that the Czech Republic is one of the countries with highest limits for small procurements. Even after the 2012 amendment to the Law on Public Procurement when the limits lowered from CZK

⁶Detailed comparison can be found in Rističová, S. (2010)

Table 2.1: Small Scale Limits, 2010 (CZK)

Country	Goods and Services	Country	Construction
Cyprus	32 279	Ireland	0
USA	45 616	Cyprus	34 279
Malta	58 195	USA	45 616
Ireland	71 147	Malta	58 195
Belgium	89 883	Belgium	89 883
Latvia	106 788	Luxembourg	121 956
Luxembourg	121 956	France	328 028
Slovenia	220 610	Latvia	355 961
Bulgaria	277 335	Poland	367 847
France	328 028	Slovenia	441 221
Spain	342 582	Romania	447 221
Italy	343 881	Denmark	518 148
Poland	367 847	Italy	687 763
Finland	438 210	Bulgaria	832 004
Romania	447 221	Spain	951 618
Slovakia	777 028	Finland	1 460 700
Lithuania	813 613	Hungary	1 590 522
Hungary	848 278	Austria	1 727 506
Denmark	863 580	Slovakia	3 108 111
Estonia	931 118	Portugal	3 130 282
Portugal	1 565 141	Lithuania	4 068 064
Austria	1 727 506	Estonia	5 819 489
Czech Republic	2 000 000	Czech Republic	6 000 000
Netherlands	2 182 206	Netherlands	84 582 318
UK	2 269 584	UK	87 969 059

Source: Rističová, S. (2010)

2 million to CZK 1 million in case of the procurements on goods and services and CZK 6 million to CZK 3 million in case of the construction procurements, the Czech Republic is still among the first third of countries with the highest limits.

High limits can shape more corrupt environment for public procuring. It is much easier to portion procurements into smaller ones to make them small scale procurements, consequently avoiding procuring them according to the Law on Public Procurement. High limits are also causing that great amount of public expenditures is spent out of the Law on Public Procurement and out of the public control.

2.5 Volume of Public Procurement in Expenditures

The issue, which is the crucial one for this thesis, is the volume of public procurement in public expenditures, especially in procurable public expenditures. As was mentioned above, the public procurement should be used only in those cases, when the public sector is not capable of producing it cheaper by the in-house production than the private sector. As the public sector is not a very good manager, it is rarely capable of cheaper in-house production, and in many cases the in-house production is not even possible due to the specific nature of the goods or services (e.g. Public sector usually does not own bus factory). Therefore, it has to acquire most of the goods and services through private sector suppliers.

It is common that the public sector is not a very good manager concerning the procurements as well, hence it is not rare that many of them are considerably overpriced. There are many factors affecting the final price of the procurement, most of them already mentioned, but the most significant is probably how corrupt is the environment.

The volume of the procured expenditures in procurable expenditures is important because of two main issues. The first one is that small volume can indicate that procurements are deliberately portioned, so it does not have to be procured according to the Law on Public Procurement, and subsequently it would avoid public and also the official control. The second is that although the law does not oblige the contracting authorities to publish in the ISVZ the procurements under the law limits, doing so is a positive thing, and it is a

courtesy towards the public and its public control. Also, it is an effective way to make sure that knowledge of the procurement reaches as many suppliers as possible, therefore maximizing number of bidders and consecutive pressure on the minimizing of the price.

This problem of public control and corrupt environment could be addressed in a near future. This could be thanks to the law obliging the public institutions to publish all the contracts on the internet, therefore enabling public control on all of the expenditures contracted through the private sector. This measure proved very effective in the Slovak Republic where in the first year after its adoption the spending on the public procurement dropped by the third.⁷

2.6 Public Control

All the previous issues have one common thing that is significant for achieving a good practice—public control. Public control is the best in finding possible problems, errors or possible corrupt practices. Official controllers are not perfect and all-mighty. They can be bind by bureaucratic environment and can be possibly themselves corrupt. Hence, especially in countries with low quality state administration like the Czech Republic, the public control is essential.

Public control is addressed mainly by the Law on Free Access to Information, which imposes on state authorities, local governments and public institutions the obligation to provide information relating to their competence. Authorities provide information either actively by publication (usually on the Internet) or on request. The law gives people their right of access to information under Article 17 and 35 of the Charter of Fundamental Human Rights and Freedoms, and also introduced principle of publicity into the field of public administration. This law is the basis for public control, but strongly depends on the quality of the state administration. It is not uncommon that some authorities are uncooperative, requests are ignored or they only provide partial information.⁸ Hence the best way to address this issue is to issue laws that would require the authorities to publish as much relevant information as possible, ideally on the centralised web pages with user friendly design.

⁷Vejvodová A., Smlouvy na internetu: Slovensko ušetřilo miliardy ze státní kasy, Prague: Česká televize (<http://www.ceskatelevize.cz/ct24/ekonomika/222494-smlouvy-na-internetu-slovensko-usetrilo-miliardy-ze-statni-kasy/>)

⁸Office of the Government Representation in Property Affairs wanted CZK 60,000 fee for providing the information on the IT and computer software and hardware procurements (<http://www.nfpk.cz/cz/aktuality/1001443>)

Nowadays there are web pages like ISVZ for information on public procurement and ARIS/UFIS⁹ for information on public budgets. There was also launched a web page monitor.statnipokladna.cz, which is much more user friendly web page, containing information on public budgets. Also as mentioned above, there is a possibility that, in a near future, there would be a web page with all the contracts of public institutions.

Sadly these web pages are not ideal for thorough and easy public control. The ISVZ is only a bulletin where the public procurements are published and there is no possibility to download aggregate data. The ARIS/UFIS are thorough databases with all the data on public budgets but the possibility to download the data is quite limited and not of much use to the ordinary citizen. This problem is partially addressed by the new web page monitor.statnipokladna.cz which is much better for the public control. Sadly there is not any possibility to download data for more thorough analysis, but hopefully this function will be made available in the near future, since the project is in its testing phase, and it should be complete and fully functional by the end of the year.

There are projects by non-profit organizations that are trying to address this issues. They are launching their own web pages, where are all the data acquired from the official sources, which are processed for more user friendly control. Among these projects are, for example, vsechnyzakazky.cz (data from ISVZ), rozpocetobce.cz (budgets of municipalities) and budovanistatu.cz (data on the state budget).

⁹ARIS and UFIS are two different web pages/databases provided by the Ministry of Finance. ARIS is the old database with public budgets until the year 2009, and the UFIS is the new one, where can be found data since the year 2010. (<http://www.info.mfcr.cz/aris/> , <http://www.info.mfcr.cz/ufis/>)

Chapter 3

Practical Frameworks

3.1 History of the Law on the Public Procurement

There is a specific hierarchy concerning the legislation of the public procurement.

- EU directives 2004/17/EC and 2004/18/EC
- Law on Public Procurement (No. 137/2006 Coll.)
- Implementing regulations
- Regulations of fund providers
- Internal regulations of the contracting authority

As a source material for this section was used the text *Aktuality v oblasti veřejných zakázek (News in the Area of Public Procurement)* by Andrea Schelleová.

The first Law on the Public Procurement was Act No. 199/1994 Coll. This law established the principle that public contracts are awarded in a public tender under the Commercial Code and the Law on Public Procurement. It was replaced by the Act No. 40/2004 Coll., which transposed a series of EC directives from the early 1990s. Due to the compatibility of this law with the EC Directives, there had to be abandoned principle of public procurement on the basis of a public competition. This Act first introduced four types of public procurements and also the procurements for below the limit and over the limit. In 2004, there was a re-codification of European Directives and therefore this Act had to be also amended. The next law, which is still valid nowadays, is the No. 137/2006 Coll. Since then, there were several amendments to the law.

The last one from the 1st April of 2012 was the most significant one, as it lowered the small scale limits from CZK 2 million to CZK 1 million in case of the procurements on goods and services and CZK 6 million to CZK 3 million in case of the construction procurements.

3.2 State Accounting and Reporting

The main sources for analysing the state expenditures are budgets, especially final accounts. These are the documents that every municipality has to prepare, discuss, publish and finally pass. Ministries acquire their budget through the state budget and the Law on the State Budget. They must be accessible to public under the Law on Free Access to Information. All these data have to be published in the systems ARIS (until 2009) or UFIS (from 2010). ARIS/UFIS are databases provided by the Ministry of Finance, and their purpose is to publish all the budgets, budgets corrections, final accounts and profit and loss statements.

There are four types of budget structure classifications:

- (a) Liability classification (chapters of the state budget)
- (b) Generic budget classification
- (c) Sectoral budget classification
- (d) Consolidation classification (recording units)

The Liability classification divides the state budget into the specific chapters which means all the ministries and other state authorities. The generic classification divides the budget items based on their type (e.g. wages, rent. . .). Sectoral classification is based on the subjects of the budget items¹. Consolidation classification labels the items that are only transactions inside the budget, not with the outside world. Therefore, every item of the state budget is classified by the first three classifications and sometimes by the fourth.

For the purpose of this analysis is the most important the generic classification, as this classification is the one needed for distinguishing the procurable from unprocurable expenditures.

¹Agriculture and Forestry; Industrial and Other Sectors of the Economy; Services for Population; Social Affairs and Employment Policy; National Security and Legal Protection and General Public Administration and Services.

Another quite basic classification of the expenditures is between common and capital expenditures. Common expenditures are the largest in volume and they are mainly composed of expenditures on the day to day operations. There also belong some expenditures which cannot be influenced by the city councilors or ministers. Some municipalities have delegated powers when they have to provide services delegated to them from the state (e.g. building authority). There are also mandatory expenditures which are required by the law and mandatory services which have to be provided by the law (e.g. waste collecting). These could be procurable expenditures as most of the day-to-day services could be provided by private companies. Capital expenditures are especially important expenditures in analysing the public procurement because they are composed of investments which are usually realized by extern suppliers, and therefore would be the best if as many as possible would be procured through the ISVZ or at least recorded there for later control.

3.2.1 Consolidation of Budget

Every municipality establishes many funds which are other accounts than their main current account and every transaction between those funds and current account are included in the budget, although, in fact, they are just internal transactions. Budget, where are those transactions included, is called unconsolidated and is not much informative for unqualified public control. The expenditures and revenues are much higher than in reality. When you subtract all these fund transfers, you get consolidated budget which shows the real revenues and expenditures the municipality had in the past year.

Budgets published in the ARIS/UFIS systems are unconsolidated. That is quite impractical for public control and people who want to obtain more informative data have to obtain them directly from the municipalities (they usually publish consolidated budgets with funds transactions separated in their respective sections) or subtract it themselves. There is also web page rozpocetobce.cz where you can obtain consolidated budgets that were put together based on the ARIS/UFIS.

Chapter 4

Analysis of procurable and non-procurable expenditures

This analysis is focused on the expenditures of the Czech Republic ministries and fifteen cities of various populations¹. The main core of the analysis is to analyse what are the procurable expenditures, how much they were spending on them during the years 2009-2011 and what percentage of that spending was in fact recorded in the ISVZ. This ratio could be considered as one of the main indices of good practice as was proposed in Chvalková & Skuhrovec (2010) because any other possibly procurable expenditures could be considered as non-transparent.

4.1 Data

4.1.1 Budgets / Final Accounts

The present writer have tried to obtain data from several official sources (web pages of the authorities, ARIS/UFIS), but encountered two main problems.

The first was that many authorities do not publish all the data that were needed. There were not all the budgets, there were only budgets without final accounts, the data were published only in *pdf* format and the city Mladá Boleslav even did not have any kind of budget published (except for some years 2005 and earlier).

The next logic step was to obtain data from ARIS/UFIS but there is the second main problem. The data there are unconsolidated, exporting data is not

¹The cities were chosen randomly, with the idea to analyse cities with various population.

user friendly, and, therefore, obtaining data and treating them to make them consolidated would be very exhausting and time consuming. It would be the best that in the future the UFIS would be modified or replaced by a system that would be more user friendly for a public control.

In recent days the web page monitor.statnipokladna.cz was launched. It is a government project which main goal is easier and more user friendly public control over government and municipality spending. It is still in an early stage of functionality, so it is now uncertain how useful it will be for more thorough public control and for more thorough data analysis. For example, there is no possibility to download the data yet, therefore it is not useful for any kind of thorough data analysis.²

Therefore, as the main source of the data were used web pages rozpocetobce.cz and budovanistatu.cz. The data from there are very well-arranged and are easily used to any kind of data analysis. Rozpocetobce.cz was used to obtain budget data of municipalities and budovanistatu.cz was used to obtain data of ministries. Both of the web pages download the source data from ARIS/UFIS and edit them into well-arranged *csv* files. Rozpocetobce.cz even treats the data to label them if an item is from unconsolidated or consolidated budget. In addition, the data there were from final accounts and therefore the most accurate and informative.

4.1.2 Public Procurements

The data on the public procurements were obtained from supervisor of this thesis PhDr. Ing. Jiří Skuhrovec which he obtained as one of the members of the zIndex project. Concerning the origins and quality of the data, the zIndex web page states following:

Data on public procurement were collected from the ISVZ with the use of web crawlers. These data were expanded with several other databases. In total, zIndex is based on data containing about 40,000 public procurements, which were all published in ISVZ since 2006. Since the publication of contracts in the system is mandatory for all contracts exceeding a small scale limits, the data cover quite well a great portion of the Czech Republic's public procurements.

Data from ISVZ were intensively cleaned (tracing errors, typically caused

²It should be mentioned, that even though this project could be viewed as a positive development, according to Michal Škop from budovanistatu.cz the whole project is significantly overpriced ([http://data.blog.ihned.cz/c1-59867910-rozklikavaci-rozpocet-ministerstva-financi-je-petkrat-pedrazeny](http://data.blog.ihned.cz/c1-59867910-rozklikavaci-rozpocet-ministerstva-financi-je-petkrat-predrazeny)).

by the poor quality of input by the contracting entity) and combined with data from other publicly available registers. A more substantial extension was provided by Czech Credit Bureau that, in addition to expert consultation, provided some data about companies and government institutions, in which collection is in the Czech Republic among the best.

4.2 Analysis

4.2.1 Procurable Expenditures

The first step of the analysis is to introduce a methodology for the classification of expenditures according to whether they are procurable or not. Since there is no official classification, there could be some dispute on this issue. Hence, there will be explained the rationale behind the classification of individual items. In the future, it would be for the best if there would be some official methodology which would classify items according to whether they could be spent through the public procurement. The Law on Public Procurement somewhat states what expenditures has to be spent according to this law and it states exceptions from the law. Nevertheless, even though it has an exception from the law that does not mean that in achieving the good practice it should not be publicly procured. Hence, the idea was to obtain the upper estimate of procurable expenditures, even though it is not very common to procure some of the items.

Basis for this classification is the generic classification, since it classifies the items according to the type of expenditures. For the purpose of this analysis, there were created three categories and every budget item could be classified as one of the three:

- Unprocurable
- Procurable
- Funds, Deposits and Reserves

In the next few paragraphs we will discuss the items, their classification and the rationale behind it.

The unprocurable expenditures are comprised of two different categories—the in-house expenditures, that could not be spend externally and expenditures

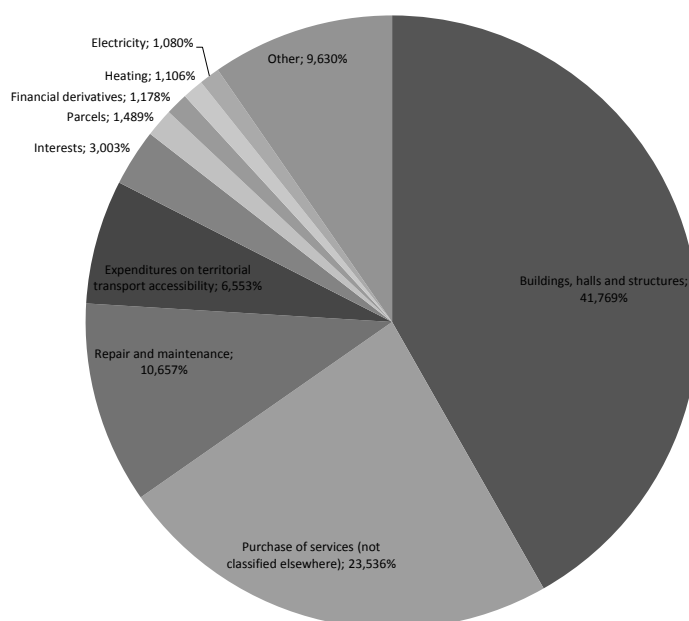
that cannot be spend through the public procurements, like grants or transfers. We classified as unprocurable all the wages and related expenditures—severance, health and social insurances, wage compensation, travel expenses, participation fees for conferences, taxes, etc. All these expenditures are in-house or it is impossible to procure them. The travel expenses are external expenditures but it is very unusual and possibly quite complicated to procure them as type of transport or destination could be quite different every time. In addition, they make only about 0.3% of ministries budgets and even much less of municipalities budgets. Another quite obvious unprocurable expenditures are transfers, contributions, subsidies, loans, taxes, scholarships, social benefits and realized foreign exchange losses. There are also expenditures which purpose is not so obvious but there could not be conceived any situation when it would be possible to procure these expenditures—interests generated by the takeover of foreign liabilities, expenditures for the implementation of guarantees and paid sanctions associated with purchases. The items that are composed of expenditures on gifts were also labeled unprocurable, as these gifts are usually many really small expenditures and, in fact, could be just in form of money, therefore the procurement is not possible. There are also expenditures that goes to the other public authorities like payments of the sanctions to other budgets, contributions to the state budget for the financial settlement of prior years and other expenditures from the financial settlement of prior years. The last unprocurable expenditures are shares and property shares, those are exceptions from the Law on Public Procurement and it would be also hard to imagine a public procurement on purchase of shares.

The next classification, the funds, deposits and reserves, is comprised from the items which did not fit any other category. The expenditures belonging to this category are not expenditures in the true sense of the word. Usually, these items are only movements between different accounts and not an external spending. Among these items are also the items that make the difference between the consolidated and unconsolidated budget, hence excluding them from the analysis solves the consolidation problem occurring in most of the data.

The last classification, the procurable expenditures, is the most important one for this analysis. The expenditures included here are those that could be spent through public procurement. As this is one of the core aspects of this analysis and there is not any official methodology which would classify the expenditures in this way, it is important to analyse all of the items, one by

one. The items were divided into groups according to their nature. In addition we will discuss what percentage of procurable expenditures is comprised by individual items or groups. The list of all procurable items can be found in the Appendix.

Figure 4.1: Procurable Expenditures of Municipalities



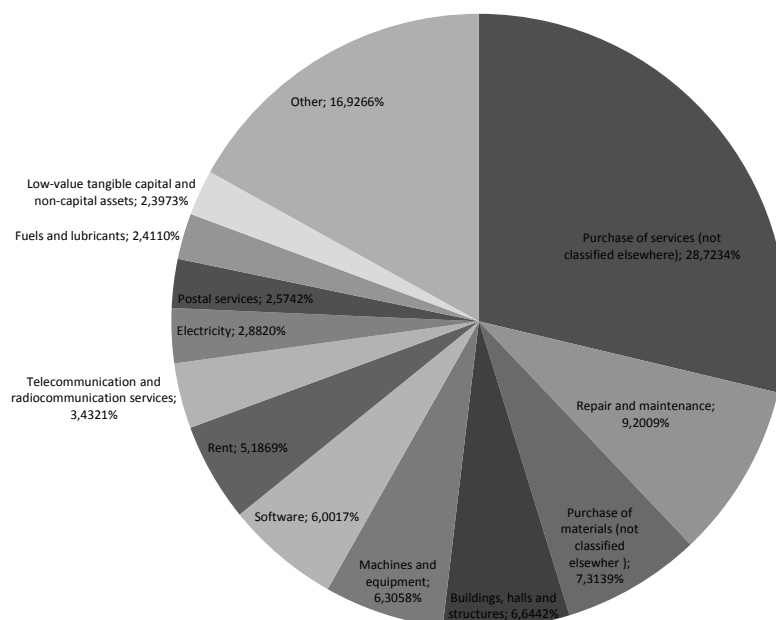
Source: author's computations.

General Goods

Purchase of goods is definitively procurable expenditure. Nevertheless, it is possible that a lot of expenditures in this category is low in value and the public procurement would be inefficient due to the high administrative costs, but this analysis is trying to obtain the upper estimate and even the smaller expenditures could be sometimes procured efficiently, hence are these items labeled procurable.

This category is comprised of simple goods like foodstuffs; protective equipment; drugs and medical supplies; linen, clothing and footwear; textbooks and provided free school supplies; books, teaching aids and printing; purchase

Figure 4.2: Procurable Expenditures of Ministries



Source: author's computations.

of goods (for resale); software; machines and equipment; vehicles; permanent ground cover³; computer equipment and parcels.

There are also more vague categories like other purchases (not classified elsewhere); expenses related to non-capital purchases (not classified elsewhere); purchase of tangible capital assets (not classified elsewhere); low-value tangible capital and non-capital assets; purchase of materials (not classified elsewhere) and expenses related to non-capital purchases (not classified elsewhere). Many of those items are comprised of low-value expenditures and, for example, the present writer thinks that the firefighting equipment, which costs CZK 40,000 could be possibly procured in order to achieve the best value for the lowest price. These items comprise about 2% of the municipalities' and 11.56% of the ministries' procurable expenditures.

The last items in this category are works of art. This is, again, quite vaguely defined item, as a public procurement, for example, for museum exhibition is quite unimaginable, on the other hand, a public procurement for a square statue is something common. The volume in the procurable expenditures does not even reach 0.01%.

³There is spent only CZK 34,100 on this item in the data

The general goods comprise about 6.52% of municipalities' and 31.41% of ministries' procurable expenditures.

General Services

Another group that is obviously procurable is the general services. The items included in this category are postal services; telecommunication and radio-communication services; consultancy, advisory and legal services; training and educations services; data processing services; hospitality and expenditures on territorial transport serviceability.

Here we can also find another vaguely defined item—Purchase of services (not classified elsewhere). This item is the second biggest (23.54%) of all the procurable items for municipalities and the biggest (28,72%) for ministries. Hence, if we would analyse only the budgets obtained from ARIS/UFIS, we would not be able to find out the specific types of services obtained for these expenditures. It is quite astounding that such a great portion of procurable expenditures is recorded as such a non-transparent item. This could imply that it is a high time for a revision of accounting system.

The whole group comprises about 32.26% of municipalities' and 38.21% of ministries' procurable expenditures. It is the largest ministries group.

Utilities and Fuels

A few years ago it was quite impossible to procure expenditures from this group. In some types of utilities and in some areas of the Czech Republic, there could be only one possible supplier. The number of suppliers have grown in recent years and the possibilities of finding a cheap supplier of utilities are growing with it.

The group is comprised of hot and cold water, heating, gas, electricity, fuels and other fuels and energies. It comprises 3.22% of municipalities' and 8.62% of ministries' procurable expenditures.

Intangible Assets

This is a very specific group, but also a really small one. It comprises only 0.46% of municipalities' and 0.44% of ministries' procurable expenditures. The items from this group are royalties for the use of intellectual property; valuable rights; intangible results of research and development and purchase of intangible capital assets (not classified elsewhere).

Financial Services

It is common that municipalities acquire loans through the public procurement and the interests and debt service charges are, therefore, procurable expenditures. Municipalities also use financial derivatives to hedge risks. It comprises 4.71% of municipalities' and only 0.3% of ministries' procurable expenditures.

Rent

Rent is among the exceptions from the Law on Public Procurement. Nevertheless, the present writer thinks that if the authority needs to rent a building for its activities, it would be the best to find the building through the public procurement. It comprises 0.4% of municipalities' and 5.19% of ministries' procurable expenditures.

Buildings and Repairs

The last group is comprised only of buildings, repairs and maintenance. Nevertheless, it is the largest group of municipalities' (52.43%) procurable expenditures and the third largest of ministries' (15.85%).

After obtaining the procurable expenditures, we found out that they comprise about 17.1% of municipalities budgets and 5.96% of ministries budgets.

It is quite astounding that about 36% of the ministries expenditures is made of general unspecific categories Purchase of services (not classified elsewhere) and Purchase of materials (not classified elsewhere). This implies that even after analysing the ARIS/UFIS final accounts of the ministries, the real purpose of the expenditures would be unknown. Slightly better, although quite similar situation occurs in municipalities, as about 23% is spent on Purchase of services (not classified elsewhere).

It is possible that many authorities would not agree with this classification and would argue that many of these items are unprocurable.⁴ Nevertheless, as was mentioned above this study is focusing on the upper estimate of the procurable expenditures and it classifies as the procurable expenditures those that could be possibly procured, even though they do not have to be according to the law.

⁴As did the Ministry of Justice after the publishing of zIndex comparative index—http://zindex.cz/data/Detaily_rozpoctu_MSp.pdf

4.2.2 Public Procurements

With the procurable expenditures extracted from the budgets, the next step is to compare them with the data on public procurements. This proved to be the most challenging part of the analysis as the data on public procurements are not perfect, mainly thanks to the poor quality of the input by the contracting authorities. The main problem, concerning this analysis, is the lack of data on duration of the procurements. Most of the procurements are concluded for many years, therefore it is important to divide their value into those years. The lack of the data on this duration is the most troubling issue concerning this analysis.

To address the issue, there had to be made investigations into those procurements missing the data. The present writer had to search the Internet to trace these procurements and find out what was the real duration of the procurement. As the number of procurements containing this error in the data goes well over 1,000, the investigation was made only into procurements over CZK 10 million concerning most of the municipalities and over CZK 40 million concerning most of the ministries and two largest cities (Ostrava and Brno). The remaining non-corrected procurements should not alter the results significantly, as the smaller procurements usually do not last more years and if they do, their value is so small that it has almost no effect on results.

As the main sources were used the web pages of respective authorities. Some published the contracts concerning the procurements where were mentioned the expected time of the duration, some published articles about the projects procured and their duration. The SIMAP⁵ proved to be sometimes useful as there were published the needed data. In addition there are many other web pages specialised on the procurement publication which sometimes have the missing data published. This approach is quite shady concerning the academic approach and using only the absolutely trustworthy sources, hence the present writer tried to, at least, to confirm the data from different sources. The problem was that sometimes it was, in fact, impossible to acquire all the needed data, and therefore the procurement value was used as if it was spent all in the contracted year. This error is partly treated with the use of average in the final results.

Even after the corrections mentioned above, there had to be another adjustment made. There could have been another thousand procurements without

⁵Information system for European public procurement

the data on duration which started before the year 2009 and which could still be active in the analysed years. Therefore, in the final results there was used a weighted average, where the greatest weight was used on the year 2011 and the smallest on the year 2009.

Another issue with the data on public procurements is that their values are without VAT, therefore they had to be adjusted to include the VAT as expenditures in the budgets are including VAT. The values were multiplied by 1.19 for the year 2009 and 1.2 for the years 2010 and 2011.

4.2.3 Methodology

The methodology of this analysis is fairly simple. The core of this work consisted in the analysis of the data on expenditures and on the procurements. The procurable expenditures were acquired from the budgets, subsequently the data on procurements were assigned to the years in which they took place. If the duration of the procurement was missing and the procurement exceeded the value of CZK 40 million, there was investigation made into the real duration. With the knowledge of the real duration, the procurement was divided by the number of years or months for how long it lasted and then assigned the values to those years. After the data were possibly prepared and in tact, then was calculated the ratio of the public procurements in the procurable expenditures for each authority and each year. For the best comparing of the authorities, there were subsequently computed weighted averages of all the years to see and compare how they fared in average. The reason behind the weighted average was explained in the previous section and the form of the weighted average was set as follows:

$$WA = 0,25 \times ratio_{09} + 0,35 \times ratio_{10} + 0,4 \times ratio_{11}$$

Due to the nature of the data, the data from more recent years should be more informative as there is less chance of old procurements still included in the expenditures.

4.2.4 Problems

During the analysis there were encountered a few errors that complicated or even precluded obtaining meaningful results.

First of all, there was problem obtaining the analysable budget of the Min-

istry of Defence for the year 2009, therefore the analysis was made only on years 2010 and 2011.

There were many difficulties with IT procurements, especially concerning the Ministry of Agriculture, where it was impossible to find out for how many years the procurements were contracted. On the other hand, the Ministry of Interior had almost all the contracts published on the Internet and analysis of its IT procurements was without many difficulties.

Another similarly challenging issue were many procurements of the Ministry of Finance. The ministry contracted many procurements for environmental remediation. Many of them were of great value, even over CZK 100 million, but for most of them was impossible to find out the duration. Hence, the Ministry of Finance was excluded from the final results as the values of its procurements/expenditures ratio was about 90%, but this ratio was mainly due to the environmental procurements which could, in fact, last much longer than the year 2011.

The last issue was with the city Hradec Králové and its procurement on the revitalization of the factory Vertex into Lifelong Learning Center. In the data, there are four different procurements with the same name and with very similar values, which is slightly above CZK 130 million. When checked with the official web page of the city, the project should be worth only about CZK 160 million. Therefore, this discrepancy highly distorts final results and to achieve at least some results, only the data from years 2009 and 2010 were used.

4.2.5 Results

Municipalities

The first part of the analysis concentrated on the municipalities. Their expenditures should have quite similar structure and their subsequent comparison should be more valuable.

The results show that the variance of the results is quite low as was expected. The vast majority show resulting ratio over 30% with only three exceptions - Bruntál, Mladá Boleslav and Karlovy Vary.

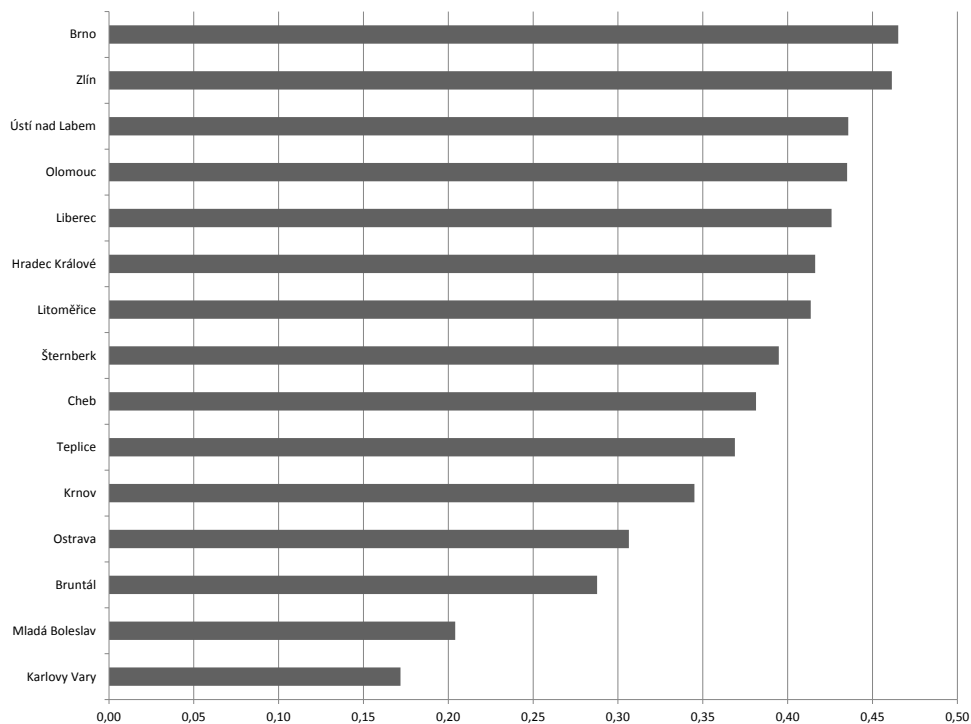
There could be objections that it is important to take into account the population of the municipalities as the expenditures of large cities like Brno or Ostrava (population around 300,000) could have different structure than small cities like Bruntál or Šternberk (population around 15,000). As this could be true, there are significant differences even between those similar cities. Brno

Table 4.1: Municipality ratios

Municipality	Weighted Average
Brno	0,4652
Zlín	0,4614
Ústí nad Labem	0,4357
Olomouc	0,4350
Liberec	0,4259
Hradec Králové	0,4163
Litoměřice	0,4136
Šternberk	0,3947
Cheb	0,3813
Teplice	0,3689
Krnov	0,3450
Ostrava	0,3064
Bruntál	0,2877
Mladá Boleslav	0,2041
Karlovy Vary	0,1719

Source: author's computations.

Figure 4.3: Municipalities



Source: author's computations.

shows the best results from all analysed municipalities with a ratio 46.5% while, on the other hand, Ostrava is the third from the end with result 30.6%. Same goes for the smallest towns, as Šternberk has 39.8% while Bruntál is the third worst with 28.7%.

Of course, every city has its unique characteristics and there would be needed more thorough analysis for perfect comparison. Nevertheless, the obvious differences between similarly populated cities help us to make a conclusion about their capabilities to procure according to the good practice. Especially the cities Mladá Boleslav and Karlovy Vary are not very successful in achieving the good practice as they officially procure and publish only about fifth of they procurable expenditures.

Ministries

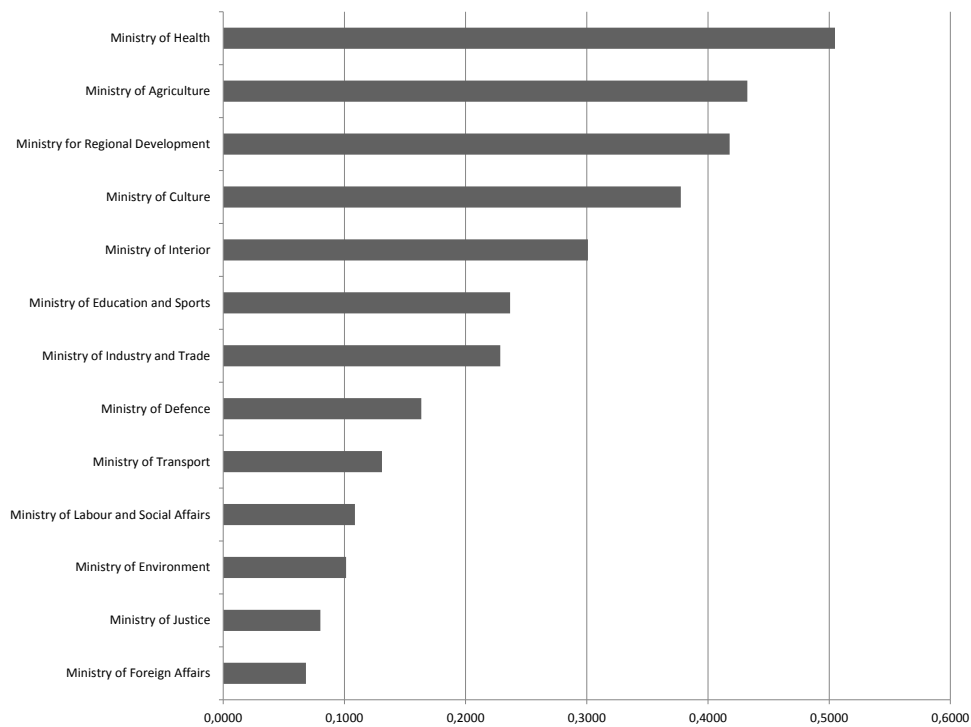
Table 4.2: Ministry ratios

Ministry	Weighted Average
Ministry of Health	0,5048
Ministry of Agriculture	0,4325
Ministry for Regional Development	0,4178
Ministry of Culture	0,3776
Ministry of Interior	0,3009
Ministry of Education and Sports	0,2367
Ministry of Industry and Trade	0,2286
Ministry of Defence	0,1634
Ministry of Transport	0,1311
Ministry of Labour and Social Affairs	0,1087
Ministry of Environment	0,1013
Ministry of Justice	0,0802
Ministry of Foreign Affairs	0,0683

Source: author's computations.

It is apparent that the variance is much higher for the ministries as it ranges from 6.8% for the Ministry of Foreign Affairs to 50.4% for the Ministry of Health. Hence, the results imply that there are great differences concerning the ministries and their approach towards the public procurements. It can be seen that public procurements and ministries is quite a complex issue and there could be written different thesis on each ministry as well as IT procurements or procurements for environmental remediation.

Figure 4.4: Ministries



Source: author's computations.

The results here are not as informative as in the previous analysis, because individual ministries have quite specific expenditure structures. On the other hand, the fact that almost half of the ministries show the ratio under 20% is not very positive. The expectations would be that this possibly non-transparent ratio would be present only with the Ministry of Defence, as their procurements could be made secret due to the national and security interests. Contrary to this expectation, the Ministry of Defence have the highest ratio from among those under 20%.

Chapter 5

Practical Implications

This thesis proposed methodology for classifying the expenditures according to their procurability. Then there were obtained the results which could be used as an tool to compare the state authorities and their approach towards the good practice. If the ratio of published public procurements in the procurable expenditures is too low, it should lead to more thorough analysis of the respective authority to find out why so little of procurable expenditures is spent publicly. This could imply that the authority is deliberately portioning the procurements or that there is little effort on lowering the expenditures through the open competition. This analysis would most likely require cooperation from the authority itself by providing the contracts and other non-public information. Authorities are required by the law to provide the information, but sometimes they want a massive fee in exchange for the information.¹ Hence, thorough analysis is sometimes impossible for ordinary students or citizens. The only possibilities are power of NGOs or the law that would require the authorities to publish all the contracts on the Internet.

The analysis would suggest that the ratio from which the more thorough analysis should be applied is 20%. Most of the authorities should be capable achieving at least this ratio. Concerning the ministries, there could be, for start, applied only 11% ratio. There are three ministries which have quite similar ratio just under 11% and then there is the Ministry of Foreign Affairs with the worst result 6.8%.

The similar analysis could be done by almost everyone, as the data on budgets are easily obtainable from rozpocetobce.cz and budovanistatu.cz. The

¹Office of the Government Representation in Property Affairs wanted 60,000 CZK fee for providing the information on the IT and computer software and hardware procurements (<http://www.nfpk.cz/cz/aktuality/1001443>).

methodology behind what items are possibly procurable or not could differ, but the questionable items are not of a great value, hence the results should not differ significantly. Only difficulty could be obtaining usable data on public procurements. The data from ISVZ are all published and easily obtainable from the web page vsechnyzakazky.cz, but they also contain the errors from a bad input by contracting authorities. Nevertheless, the data can be cleaned or the company that provided data for vsechnyzakazky.cz, Datlab s.r.o., could possibly provide the cleaned data the analysis worked with.

Chapter 6

Conclusion

6.1 Results

The purpose of this thesis was to analyse the expenditures and public procurements of fifteen municipalities and all of the ministries of the Czech Republic during the years 2009-2011. It was important to propose a methodology to obtain the expenditures which could be classified as a procurable and compare them with the public procurements published in the ISVZ system. The idea behind this analysis is that every other possibly procurable expenditures not procured in ISVZ could be labeled as non-transparent. Hence, higher the ratio of expenditures procured publicly through the ISVZ, the better is the authority in achieving the good practice.

The results show that in average the authorities procure through the ISVZ about 30.5%. This ratio is not very high but it could be caused especially by the small scale procurement limits, hence it would be interesting to compare the results with a similar analysis made after the limits were lowered with the 2012 amendment to the Law on the Public Procurement.

The ratio could be used as an useful index to compare the individual authorities, especially the municipalities. The budget structure of municipalities is quite similar and it was shown that the value of ratio does not depend on the population of municipalities. On the other hand, the informative value concerning the ministries results is probably lower. The differences between the ministries budgets and procurements are much greater. Every ministry has different responsibilities and budget structure, hence the ratio variance is greater than the municipalities' ratio.

6.2 Future Research

The subject of public procurements and state expenditures proved to be quite a complex and vast issue for *ex post* analysis, nevertheless it is a subject of high importance. This thesis encountered many obstacles and difficulties that could be analysed in other studies.

As was mentioned before, it would be interesting to make a similar study in the future and compare it with this analysis. It would be interesting to see how much the ratio have grown after the lowering of the small scale procurements limits. Another obvious expansion on this study should be to analyse the regions of the Czech Republic as well or to thoroughly analyse as many years as possible. Finally, there is possibility to thoroughly analyse and compare just a few of ministries while taking into account their significant differences.

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Appendix A

Table A.1: Procurable Expenditures

5041	Royalties for the use of intellectual property	5166	Consultancy, advisory and legal services
5131	Foodstuffs	5167	Training and education services
5132	Protective equipment	5168	Data Processing Services
5133	Drugs and medical supplies	5169	Purchase of services (not classified elsewhere)
5134	Linen, clothing and footwear	5171	Repair and maintenance
5135	Provided free textbooks and school supplies	5172	Software
5136	Books, teaching aids and printing	5175	Hospitality
5137	Low-value tangible capital and non-capital assets	5177	Purchase of works of art
5138	Purchase of goods (for resale)	5178	Rent for lease with option to purchase
5139	Purchase of materials (not classified elsewhere)	5179	Other purchases (not classified elsewhere)
5141	Interests	5193	Expenditures on territorial transport accessibility
5144	Debt service charges	5199	Expenses related to non-capital purchases (not classified elsewhere)
5145	Financial derivatives	6111	Software
5149	Interest and other financial expenses (not classified elsewhere)	6112	Valuable rights
5151	Water	6113	Intangible results of research and development
5152	Heating	6119	Purchase of intangible capital assets (not classified elsewhere)
5153	Gas	6121	Buildings, halls and structures
5154	Electricity	6122	Machines and equipment
5155	Solid fuels	6123	Vehicles
5156	Fuels and lubricants	6124	Permanent ground cover
5157	Hot water	6125	Computer equipment
5159	Purchase of Fuel and Energy (not classified elsewhere)	6127	Works of art
5161	Postal services	6129	Purchase of tangible capital assets (not classified elsewhere)
5162	Telecommunication and radiocommunication services	6130	Parcels
5163	Financial institution services	6141	Provided investment allowances
5164	Rent	6143	Investment interest
5165	Rent for land	6149	Expenses related to investment purchases (not classified elsewhere)