



**ADDIS COLLEGE  
SCHOOL OF GRADUATE STUDIES  
DEPARTMENT OF CONSTRUCTION TECHNOLOGY  
& MANAGEMENT**

**Degree program: - M.Sc. in Construction Management  
Course title: - Advanced Construction Procurement and  
Contract Management**



# Course Contents



**Unit 1 – Introduction to construction Procurement & Contract Management**

**Unit 2 – Procurement through public private partnerships**

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Unit

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# Procurement through public private partnerships

# Procurement Process



## What Is a Procurement Process?

- It's the series of processes that are essential to get products, works or services from requisition to purchase order and invoice approval. Although we use procurement' and purchasing' interchangeably, they slightly differ from each other.
- While purchasing is the overarching process of obtaining necessary goods and services on behalf of an organization, procurement describes the activities involved in obtaining them. The procurement process in an organization is unique to its context and operations.



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- Regardless of the uniqueness, every procurement management process consists of 3 Ps', namely

Process,  
People, and  
Paperwork.

### **1. Process**

- The list of rules that need to be followed while reviewing, ordering, obtaining, and paying for goods/services. Checkpoints/steps increase with the complexity of the purchase.
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## Cont'd ...

### **2. *People***

- These are stakeholders and their specific responsibility in the procurement cycle. They take care of initiating or authorizing every stage of the process. The number of stakeholders involved is directly proportional to the risk and value of the purchase.

### **3. *Paper***

- This refers to the paperwork and documentation involved in every stage of the procurement process flow, all of which are collected and stored for reference and auditing reasons.

# What Makes a successful Project?



- ☐ Delivered on Time?
  - ☐ Delivered within budget?
  - ☐ No Defects?
  - ☐ Good Safety & Quality Record?
  - ☐ No Complaints or public disruption?
  - ☐ Minimal Variations?
  - ☐ A healthy profit?
  - ☐ No environmental impacts?
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**Cont'd ...**



➤ Customer Satisfaction

(Client / Stakeholders / End Users)

➤ An Enjoyable Project



## **Procurement arrangement options (Procurement route)**

➤ Procurement is the process of purchasing goods, works or services. There are many different routes by which the design and construction of a building can be procured. The selected route should follow a strategy which fits the long-term objectives of the client's business plan. Considerations are likely to include:

- ✓ Speed
- ✓ Cost
- ✓ Quality
- ✓ Specific project constraints
- ✓ Risk
- ✓ Asset ownership
- ✓ Financing

## Cont'd ...

### ➤ **procurement routes commonly used**

- ☐ Traditional contract
- ☐ Single-stage design and build
- ☐ Two-stage design and build
- ☐ Engineering procurement and construction contract (EPC) / turnkey contract
- ☐ Management contract
- ☐ Private Finance Initiative(PFI)
- ☐ Partnering
- ☐ Fast-track construction
- ☐ Framework agreements

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- **What are the main types of procurement in the construction industry?**
  - The selected procurement route will depend on a number of variables such as: topography, logistics, weather, available technology, finance, labour availability, and services.
  - ❖ **Traditional procurement**
    - separates between design and construction processes. The contractor is allocated with the responsibility for the coordination of subcontracting of design.
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### ❖ **Design and build (D&B)**

- the same contractor is meant to design and construct the project meaning that a closer collaboration is required in the process and all risk is allocated to the contractor.

### ❖ **Management Contracting (MC) and Construction Management (CM)**

- the basic principle in both MC and CM is that one contractor manages a series of different “works” contractors.

### ❖ **Collaborative working**

- usually involves long-term relationships in the shape of framework agreements or strategic partnering and focuses on larger collaboration than a single project.

# Partnering & Partnering in construction

- Partnering
- *"Partnering is a management approach used by two or more organizations to achieve specific business objectives by maximizing the effectiveness of each participant's resources".*
- *"It requires that the parties work together in an open and trusting relationship based on mutual objectives, an agreed method of problem resolution and an active search for continuous measurable improvements".*
- *Importantly, "it is founded on an attitude of mind overall success. together with a set of procedures and it cannot succeed without both."*

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- *The partnering process differs from the traditional construction process in terms of project integration. The processes relating to tendering have been replaced with an alternative procurement process — including interviews that takes place immediately in response to a client initiative.*
- *Partnering encourages contractor selection based largely on qualitative criteria and partnering experience, rather than on lowest bid.*
- *partnering is a method applicable to situations requiring competitive tendering procurement methods.*
- *By eliminating the competitive tendering process (where permitted by procurement law) a selection process aimed at selecting the most appropriate contractor can do the following:*

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- ✓ *Eliminate unqualified contractors;*
- ✓ *Reduce the pressure on the contractor to submit the lowest bid;*
- ✓ *Enable the contractor to retain a fair profit margin;*
- ✓ *Lower the financial risk that contractors must face;*
- ✓ *Potentially improve quality and client satisfaction;*
- ✓ *Reduce requests for additional payments*
- *As a result, the procurement process used in the partnering approach reduces potential disputes in the construction industry. Additionally, the partnering approach offers unique solutions for dispute resolution.*
- *Partnering also encourages the sharing of risks and rewards. Since all parties are included in project decisions from the outset, each party assumes responsibility when unforeseen risks emerge.*

# The Benefits and Risks of Partnering

- *Benefits of partnering include:*

- ☐ *Increased customer satisfaction*
- ☐ *Better value for the client*
- ☐ *Recognition and protection of profit margin for contractors and suppliers*
- ☐ *Staff development and satisfaction*
- ☐ *Creation of an environment that encourages innovation and technical development*
- ☐ *Better understanding between partners and driving down of real costs*

## Cont'd ...



- ☐ *Design integration with specialists in the supply chain*
  - ☐ *Improved 'buildability' through early involvement of the contractors*
  - ☐ *Better predictability of time and cost*
  - ☐ *Shorter overall delivery period*
  - ☐ *Stability which provides more confidence for better planning and investment in staff and resources*
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- *potential risks in partnering*
  - ❑ *Loss of autonomy: the challenge of shared decision-making processes; the need for building consensus with partners before action can be taken and the implications of wider accountability (to other partners and to wider beneficiaries)*
  - ❑ *Conflicts of interest: where a decision or action that is right for the interests of the partnership but may be at odds with the individual organization's interests*
  - ❑ *Drain on resources: commitment (often significantly greater than anticipated) of time and energy of key staff in partnership building and project development in addition to any additional financial or other resource contributions*

## Cont'd ...

- ❑ *Implementation challenges:* the day-to-day demands of delivering a partnership program as a collaborative venture, with all the additional management, tracking, reporting and evaluation requirements that entails.
- ❑ *Negative reputation impact:* when partnerships go wrong causing damage to the reputation or track record of individual partners by association.
- ❑ *there is a risk of disagreements and friction among partners and management*
- ❑ *each partner is an agent of the partnership and is liable for actions by other partners*

## How to set up a partnering arrangement

1. **Commitment** : There must be commitment from the highest level that is continually communicated and reinforced throughout the organization.
2. **Self- assessment** : Before embarking on the search for partners, organizations need to understand their own readiness for the journey including: -
  - Have we determined what we want to partner and why ?
  - Is our management structure appropriate ?
  - Have we recognized our cultural attitude ?
  - Are we communicating our intentions and listening to the concerns of our people ?
  - Is the organization sufficiently flexible and prepared to respond to change ?
  - Do we have the right skills ?

## Cont'd ...

*3. Selection : having determined what attributes are required of the partner, a structured selection process must be employed. Typical considerations, in addition to financial and technical qualifications, may include:*

- ✓ *Understanding of partnering*
- ✓ *Previous partnering experience*
- ✓ *Compatible values and culture*
- ✓ *Health and safety procedures*
- ✓ *Customer care*
- ✓ *Environmental policy*
- ✓ *Management style*
- ✓ *Staff and resources*

## Cont'd ...

**4. Mutual objectives :** Successful partnering involves establishing clearly defined objectives that meet the aims of each of the parties. Unless realistic and achievable goals are mutually agreed, there is no basis for partnering. Perhaps the most important and critical goal, underpinning a range of hard and soft objectives, is the alignment of commercial objectives.

**5. Problem resolution :** It is vital that a joint problem resolution mechanism is established to enable decisions to be taken quickly and effectively. This should be focused on seeking the best solution and not apportioning blame.

**6. Continuous improvement :** This is one of the main drivers for partnering, leading to greater efficiency and competitive advantage. In order to demonstrate improvement, relevant indicators must be determined and performance measured. These can be compared with internal or external benchmarks.

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**7. Contractual Information :** *Legal advice should be sought to confirm that the procurement procedures conform to the requirements. Contracts have commonly been formed consisting of a partnering agreement in conjunction with an appropriately amended standard form of contract. The partnering agreement generally defines the provisions of the arrangement such as attitude, partnering performance, allocation of risk and incentives for reward or penalty.*

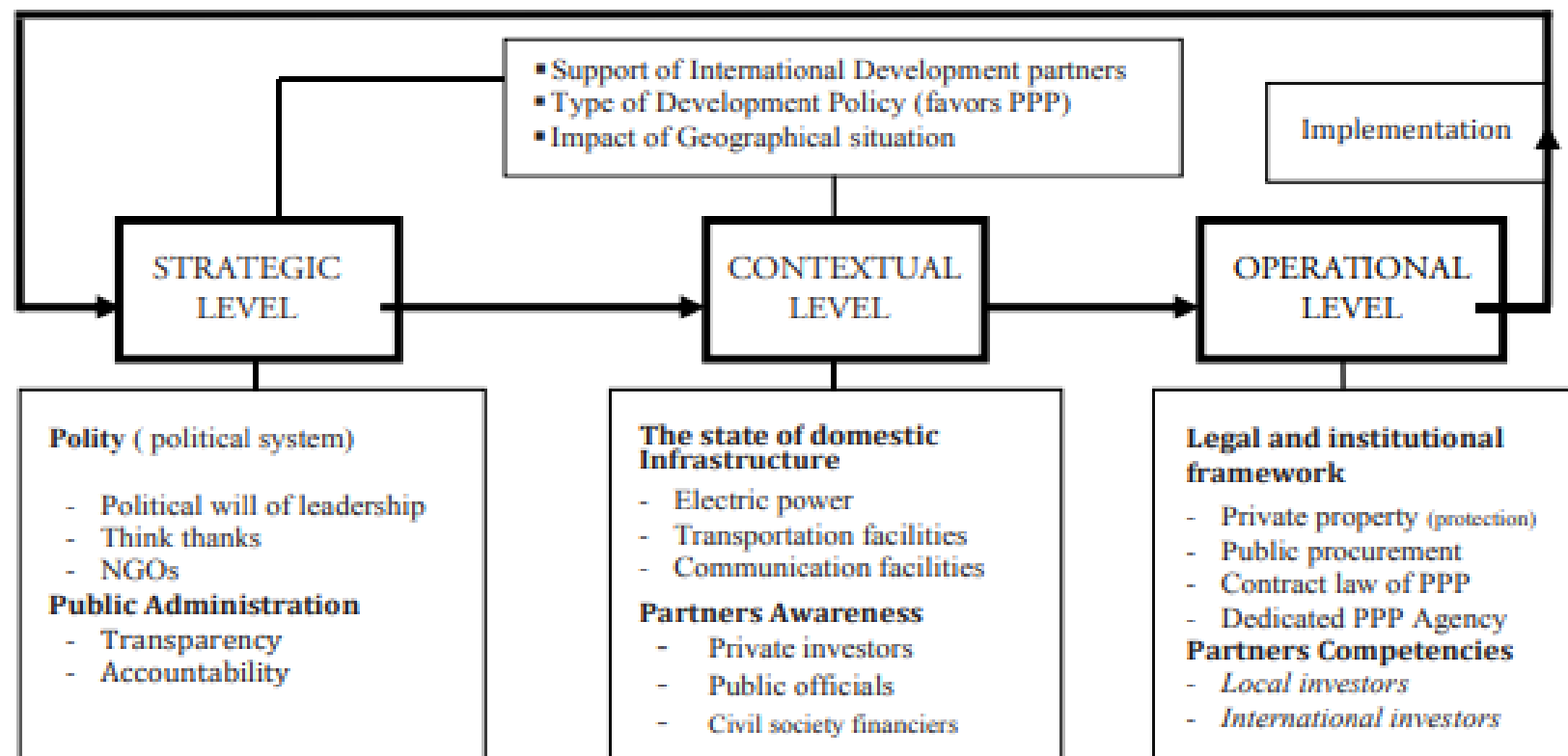
**8. Risk and Reward Issues :** *An exhaustive list of the risks that might be encountered should be jointly identified and assessed. Responsibility for managing each risk should be allocated to the party best placed to do so. Some risks may be excluded from the arrangement if none of the parties is able to influence them.*



## public-private partnership

- *A public-private partnership (PPP, 3P, or P3) is a cooperative arrangement between two or more public and private sectors, typically of a long-term nature. It involves an arrangement between a unit of government and a business that brings better services or improves the city's capacity to operate effectively. Public-private partnerships are primarily used for infrastructure provision, such as the building and equipping of schools, hospitals, transport systems, and water and sewerage systems.*
- *Public-private partnerships involve collaboration between a government agency and a private-sector company that can be used to finance, build, and operate projects, such as public transportation networks, parks, and convention centers. Financing a project through a public-private partnership can allow a project to be completed sooner or make it a possibility in the first place.*

## Three Levels of Conditions for PPP adoption & implementation as Part of the Development Strategy.



### III Models of PPP

- *The public-private partnership can take on very different models. There are various options of PPP models including service contracts, management contracts, lease agreement, franchise, joint venture, concession, BOT (Build, operate, own & transfers) and BOO (Build operate and own ).*
- **Service Contracts** are a model where the government contracts the private sector to conduct specific tasks such as revenue collection for 1-2 years. The model is used when services are already well managed and commercially viable.
- **Management Contracts** give the responsibility for operation and maintenance of publicly owned business to the private sector. The objective of management contracts is to rapidly enhance public provider core technical capacity and efficiency.

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**Lease agreement** is a process where the private sector leases assets from Government, provides services, and maintains assets for 8-15 years. Lease agreements are used when there is scope for gains in operating efficiency but limited need for investment.

**The Franchise** is a model where the private sector invests in operation and maintenance equipment, and maintains built assets. This includes the collection of user charges, and the payment of a surcharge (% of user charge) to government. The model is used when financial resources, operation, maintenance expertise, and effective revenue mobilization is needed.

**Joint Venture** is when both the government and private sector jointly own a utility either through sales of some of the shares in an existing utility, or through the creation of a new utility. Joint ventures are utilized in strategic sectors where the government wants to closely monitor the activities of the private sector and provide management inputs to service providers.

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**Concession** is a model where the private sector operates and maintains public assets and investments, but ownership remains with the government. The role of the government is then confined to regulating price and quantity. Concessions are used where large investment is needed to expand coverage.

**The BOT model** is one where the private sector builds and operates a public service company such as a waste treatment plant for 20-30 years, after which ownership reverts to the government. In this model government usually commits to buying part of output so that the government is both a customer and a regulator of the service. BOT is used where the existing public service provided cannot meet the projected demand and where projects require significant finance. Factors that determine the choice of PPP model a government may adopt include the degree of control desired by the government, the government's capacity to provide the desired services, the legal framework for monitoring and regulation, and the availability of financial resources from public or private sources.

## Cont'd ...

**The Build-own-operate-and-transfer scheme (BOOT)** is a model where the private sector company finances, constructs, owns and operates the infrastructure for a fixed term. The ownership company is allowed to make any decisions it sees fit during the ownership tenure, with minimal or no government interference. The company is also allowed to recover its total investment with reasonable return. This would be done through the collection of tolls (in the case of highways) or fees, rentals, and charges. At the expiry of the fixed term, the infrastructure is handed over to government, which would then take over all responsibilities.

**The Rehabilitate-operate and transfer (ROT)** is a model that involves rehabilitation of existing infrastructure where the infrastructure is handed over to the private sector player for refurbishing, maintenance and reconditioning. The private player is allowed to operate the infrastructure for a period, and recoup investment costs at reasonable return before handing over to the government.



# End of Unit 2

