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Open, Fair and Transparent
Government Procurement
Through Electronic Tendering

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ABSTRACT

Based on the success of the Electronic Tendering System (ETS) adopted by the Government Supplies Department of the Hong Kong Special Administrative Region (HKSAR), the trend of electronic tendering arouse special attention of various governments in different countries. In China, many cities and provinces have started their plan to formulate an open and transparent tendering or purchasing environment in order to fulfill the requirements laid down in the World Trade Organization (WTO) Agreement. Electronic tendering system is considered to be one of the best solutions to achieve this objective. In merely six month's time, a comprehensive and efficient electronic tendering system was built and applied in mainland China. The system was developed by the service provider of the ETS, named Global e-Business Services Ltd., and introduced by the China National Tendering Centre of Machinery and Electric Equipment (CNTC), an organization under the leadership of the State Economic and Trade Commission. There are steady grow in the system usage, in terms of both user number and activity level.

INTRODUCTION

Asian countries have gained an advanced development in e-government deployment in 2001. According to a research study conducted by Accenture Inc. in April 2002, Hong Kong has ranked the third fastest improver among the 23 surveyed countries, with an improvement of 20 per cent in score. Following Singapore, Hong Kong has placed over 91 per cent of its government services on-line.

This encouraging result has attracted its neighbours' attentions. A lot of study visits with government officials from the Mainland China and Macau have been organized, in exchange for ideas and thoughts. Macau has even planned an electronic government project to implement electronic information delivery to the public this year.

In general, four categories of government projects are classified. The objective of the projects is to benefit both the government and its citizens. The four categories are: Government-to-Citizen (G2C), Government-to-Business (G2B), Government-to-Employee (G2E) and Government-to-Government (G2G). e-Procurement has always been one of the highlights and form as an important part under the Government-to-Business (G2B) Strategy. Special

attention are given to e-Tendering as it is the normal practice for government or public entities in high value purchasing.

This paper will describe the success case of the government electronic tendering in Hong Kong under the e-Government direction. It will highlight the critical success factors in building and adopting such a system in mainland China and the security issues that most people concern. There will also be discussion through case studies in illustrating how CNTC applied the system to achieve its objective in creating a fair and competitive bidding market.

THE SUCCESS OF ETS IN HKSAR

First of all, we will look at a success case of an electronic tendering system adopted in Hong Kong Special Administrative Region, named ETS. The system was designed, developed and maintained by a local I.T. company called Global e-Business Services Limited (GO-Business) after awarded a government contract in March 1999. The system highlighted the HKSAR Government's initiatives to lead by example in applying e-business through service delivery to the public under the Hong Kong Digital 21 Strategy.

Government Procurement in World Trade Organizations Agreement

There are two major objectives for government procurement policy in Hong Kong: achieving the best value for money and maintaining an open and fair competition. The government procurement will adopt the following principles:

- Public Accountability
- Value for Money
- Transparency
- Open and Fair Competition

Hong Kong has been acceded to the World Trade Organization Agreement on Government Procurement (WTO GPA). The Agreement prescribes a set of requirements which include

the non-discriminatory treatment of service suppliers, tender procedures and specification in achieving an open and fair competitive environment.

The Government Supplies Department (GSD) is acting as the Government central purchasing, storage and supplies agent serving over 80 government departments and certain non-governmental public bodies. Its procurement process is governed by the Stores and Procurement Regulations issued by the Financial Secretary under the Public Finance Ordinance, which is fully consistent with the provisions in the WTO GPA.

Role of ETS in Government Purchasing

According to the Store and Procurement Regulations, tendering is required for the Government's procurement of goods and general services exceeds HK\$1.3 million or in purchasing of construction and engineering services over HK\$3 million. Open tender is the common type of tender. Tender invitations are published in the Government Gazette, local press and selected overseas journals. All interested parties can participate in submitting their offer. Supplier with the most competitive offer will be selected.

However, traditional tendering has many deficiencies and it also restrains overseas suppliers to submit their bids. In view of the Digital 21 Strategy to promote the use of I.T. in public delivery, ETS has been introduced in April 2000 to support GSD in daily tendering operations.



Fig 1 Electronic Tendering System

ETS is the world's first G2B electronic tendering service that allows both-way tender document exchange. It is basically a secured means for documents to be transferred electronically. Unlike many similar systems supporting only one-way traffic, ETS enables two-way not only on submission but also on clarification, query, addendum, postponement, etc.

The principle objective of ETS is to make the government procurement process, specifically in tendering, more open, fair and transparent. The aim is to promote the use of information technology by setting a model to the business community as well as to support environment protection by advocating the use of less paper. ETS is working as a channel for GSD to communicate with its suppliers throughout the procurement process. As a web-based application, no boundary or time limit exists and it facilitates a more competitive bidding environment as more first-time suppliers or overseas companies are able to submit their tender proposals easily and conveniently.

A System with Success

Since the launch of ETS, there are more than 2,202 suppliers subscribed to the service. During the period, GSD sent out 2,394 tender invitations through ETS to its subscribers and recorded 3,569 times of tender document downloads. The system has experienced a gradual increase in both subscription and usage on a monthly basis.

ETS was firstly introduced to handle non-works tenders with contract below HK\$10 million. In October, its coverage has been extended to support GSD originated Central Board Tenders with value over HK\$10 million. Works Tenders, which are handled separately by the Works Department under the auspices of the Works Bureau, are also adopting e-tendering in a phase-by-phase progress under its Electronic Services Delivery for Works Projects (ESD) Strategy in January 2002. The Government of HKSAR has also set a target to carry out 80 per cent of public procurement tenders through electronic means by end-2003.

The system has received several recognitions during the years. It has won the Best Public Sector Web Site organized by the UUNet / HKET Business Web Sites of the Year Awards in 2000. The system has also awarded for Design and Innovation in the category of e-Public

Services of Year 2000 jointly organized by HKPC and the Information Technology and Broadcasting Bureau of the HKSAR Government. ETS has also attracted many countries' attention during the 2001 Stockholm Challenge Award Finalist Event organized by the City of Stockholm. As an international IT-awards program, the system has been selected as finalists for the second time in 2002 from over 600 participating projects submitted by 78 countries.

In the academic area, ETS has the honour to be chosen by the Centre for Asian Business Cases of the University of Hong Kong (HKU) as one collection within its 130 businesses case studies with Asian context. The cases are distributed globally by Harvard Business School Publishing to other educational institutions used for courses in MBA teaching.

ELECTRONIC TENDERING IN CHINA

Government Procurement in China

China's economy experienced continuous growth during these years. Its Real Gross National Product has increased 7.8 per cent in the first half of 2002, due to domestic demand and rising export figures. The volume of government procurement has also increased. The figure has been doubled to nearly 100 billion Yuan as compared with last year. The central government has spent 15.5 billion Yuan on goods and services in 2001, which is over five-time as compared with 2000.

The Chinese government has indicated the importance of government procurement in its fiscal reform. New regulations on the accounting of government procurements have been published last year. An Internet Website on government procurement was also put into operation under the recent regulation process.

Government procurement was much a problem in mainland China due to corruption cases in the past decades. To improve the situation, the Chinese government has introduced public bidding for some large projects in 1990s and enacted a national public bidding law. Today public bidding process is required legally for many government-owned projects aiming at higher efficiency and justice.

In addition, China has officially become a WTO member on 11 December 2001. Despite the reduction of its tariff and non-tariff items imposed on overseas countries, China will also need to follow the WTO Agreement on Government Procurement which promote the objective of fairness and a level playing field. The Chinese government's proactive effort in motivating the use of e-tendering and e-procurement indicates the desire to achieve a competitive and fair trading environment.

China-e-tendering.com in Beijing



Fig 2 china-e-tendering.com

China-e-tendering.com remarks the extension of e-tendering solution offered by GO-Business to the mainland market. The project is a partnership between the company and China National Machinery and Electric Equipment Tendering Centre (“CNTC”), which is a company under the State Economic and Trade Commission of the People’s Republic of China. It is responsible for the bidding work of machinery and electric equipment throughout the county. CNTC has 29 local companies in various areas. It organizes bidding activities at home and abroad.

In the early planning stage, CNTC has defined the goal to make use of e-commerce in expanding its existing business scope, increasing customer satisfaction as well as serving other procuring organizations and its supplier community.

In assisting CNTC to achieve its goal, GO-Business has contributed its technology architecture and operational expertise in operating the electronic tendering platform jointly

with CNTC. The platform is based on the core e-tendering engine used in Hong Kong with the necessary adaptation to cater for the tender bidding environment in China.

Services offered through china-e-tendering.com includes tender posting, document downloading and submission, bid submission, tender box opening, award searching, on-line query, etc. Suppliers can also read the latest Government Tendering Policy and Regulations through the system. The future enhancements will cover more value-added features such as tender evaluation, contract management, on-line payment, and logistics network integration resulting in a more complete and comprehensive tendering portal in China.

Electronic Tendering in South China

Other platform operates in China includes dg-epcn.com launched in 2002. The system is based on GO-Business' operational expertise to host a secured technology platform. It was implemented to various provinces in different stages, mainly covering provinces in the southern parts of China.

Critical Success Factors for e-tendering / e-procurement system in China

The electronic tendering system is considered to be an effective means for the Chinese government to promote an open, fair and transparent trading environment, especially after its accession to the WTO. Due to this reason, china-e-tendering.com and dg-epcn.com are highly recognized and regarded in mainland and have been benchmarked by other similar systems introduced in China.

The critical success factors for implementing an e-tendering / e-procurement system are mainly relating to the technical expertise and security issues. Although the Chinese government may develop its own system and perform daily maintenance work in-house, it is more recommended to outsource the whole development and operation process to an experienced contractor. As in the case of CNTC, after careful consideration and selection, they chose a technical partner from Hong Kong who has demonstrated good expertise in technology with proven track records. Its technical partner, GO-Business, is the solution provider of ETS who is responsible for the design, development and maintenance of the

system in Hong Kong. GO-Business also offers CNTC an Application Service Provider (ASP) model which significantly shortened the system's time to market and maximized the flexibility in system enhancement by phases. It is interesting to indicate that the lead time for the full system operation and development was only 6 months.

System security is another essential aspect for an electronic tendering system. The china-e-tendering.com provides a highly secured framework through the Public Key Infrastructure. The deployment of a strong encryption technology through PKI ensures extreme security during transaction. It fulfills the principles of privacy/confidentiality, integrity and authenticity.

CNTC outsourced not only the system maintenance activity, but also the auxiliary services offered by its technical partner. GO-Business provides a total solution to include a complete supplier recruitment campaign. The company assists CNTC to recruit its suppliers to register for the system, through various promotion and marketing events. GO-Business also helps the suppliers or end users to gain hand-on experience for the system by organizing regular trainings and workshops. Subscribers can make use of the Customer Services Support Centre for enquiries and assistance.

Through the continuous effort of both parties, china-e-tendering.com has recorded steady growth in system usage in terms of its subscriber number and activity level.

CONCLUSION

China's accession to WTO has urged its cities and provinces to start their plan in formulating an open, fair and transparent government procurement environment in China. E-Tendering enables the Chinese government to centralize and regulate its procurement activities effectively as laid down in the WTO Agreement. It helps to pave the way for mainland China to further introduce its e-procurement and e-government programs in the near future.