

# State of Israel

## Ministry of Finance

### Accountant General

Property, Procurement and Logistics Division – Government Procurement Administration

12 Tamuz 5779

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## Government Procurement Data for 2018

### **Background:**

The Accountant General's Government Procurement Division is pleased to present the government's procurement data for 2018 in this publication, following reports published for 2016 and 2017. Publications from the Government Procurement Administration make it possible to learn about government ministry procurement processed and their scope, including contracting procedures that are exempt from a tender, subject to the Mandatory Tenders Law, 5752-1992 (hereafter: "the Law") and its regulations (Mandatory Tenders Regulations, 5753-1993, hereinafter: "the Regulations").

### **Government Procurement:**

Government procurement is a central element in the activity of government ministries. In fact, almost all government activity depends on the procurement of goods or services. Various government ministries' agreements with suppliers for the execution of purchases are made subject to the Mandatory Tenders Law and according to its Regulations. The main challenge facing the government in terms of government procurement is how to ensure an egalitarian, transparent and fair process, while ensuring efficiency and maintaining the government's performance. For this purpose, the legislator has established a normative hierarchy in which a public tenders process is in place, but there are permits to execute contracts in competitive proceedings that are not public tenders, and even execution of contracts without any competitive process, all in accordance with circumstances and conditions specified in the Law and the Regulations.

### **Methodology (explanations and definitions):**

The data in this document was extracted from the Merkava (comprehensive lateral system in government offices) ERP system (hereinafter: the "System") which is the lateral financial operational system used by all government offices and their affiliates, excluding defense bodies (police, Ministry of Defense etc.) and government hospitals. Procurement and related data are fed into this system by the various government ministry staff and the analysis below has been executed based on the data in the system. The analysis was carried out in two stages:

The first stage was to build the database. Data presented are from the system's logistic module and their scope is a little above ILS 58 billion. The analysis relates to government procurement data only, as defined above, without activities that do not constitute purchases, such as budgetary transfers and compulsory payments such as municipal taxes and electricity, which also exist in the system. Accordingly, government procurement is about ILS 34 billion. In addition, this document excluded data from contracts that were classified by the ministries in the system as "other" purchases, in view of the fact that they cannot be classified accurately<sup>1</sup>.

The second stage was an internal analysis of the purchase data which shall be presented below. In order to analyze the manner of government ministry engagements, it is necessary to distinguish between an engagement executed in a public tender, an engagement executed in a competitive process that is not a public tender, and an engagement executed with an exemption from a tender or other competitive process.

The causes for an engagement which does not require a tender or a competitive process are detailed in clause 3 to the Regulations, and clauses 4 and 5 detail engagements which require a competitive process which is not a public tender. In addition, the instructions published by the Accountant General's Division as a guideline for government ministries in accordance with its authority under Regulation 24 (the provisions of TACAM) stipulate cases in which, even though the Regulations allow for an exemption from a tender, a competitive procedure that is not a public tender must be adhered to (an engagement under Regulation 3 (1)). **In the analysis of government procurement, we will only treat engagements that do not include the existence of any competitive process for supplier selection as "exempt".**

Apart from competitive procedures and non-competitive procedures ("exempt"), the government also makes engagements with public entities. The basis of the uniqueness of these engagements is that they are contracts with entities that are subject to the duty of tenders. These bodies include government companies, local authorities, corporations established by law, and national institutions. **We will present these engagements as "exempt engagements with public bodies and national institutions".**

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<sup>1</sup> See reference below.

As specified in last year's report, there have been changes to the methodologies between 2016 and 2017 and therefore, it is not possible to reliably compare the 2016 report to other reports. However, the methodology for 2017 and 2018 is the same.

## Government engagements – Merkava data

Below is a summary of the liability amounts and number of orders for 2018:

Table 1 – Details of the logistics module for 2018, financial scope and quantity of orders

	Financial scope for 2018, in ILS MM	% of total	Order quantities	% of total
<b>Total logistic module</b>	<b>58,466</b>	<b>100%</b>	<b>161,676</b>	<b>100%</b>
<b>Total procurement</b>	<b>34,252</b>	<b>59%</b>	<b>148,555</b>	<b>92%</b>
<b>Total other</b>	<b>6,266</b>	<b>11%</b>	<b>7,567</b>	<b>5%</b>
<b>Total procurement without other</b>	<b>27,985</b>	<b>48%</b>	<b>140,988</b>	<b>87%</b>

The data below was broken down as detailed above according to the method of purchase classification that was entered by the Ministries at the time the engagements were established in the system.

- **Public tenders – marked in blue**
- **Other competitive processes in accordance with the Regulations of the Mandatory Tenders Law – marked in light blue**
- **Exempt engagements with public bodies and national institutions – marked in green**
- **Exempt engagements – marked in red**

Table 2 – financial scope divided by purchase manner in ILS MM and percentages of total procurement, excluding "other", 2018

Purchase manner	Financial scope in ILS MM	Percentage of total
Public tenders	12,960	46.31%
Exercise the Right of Option	3,006	10.74%
Application for bids of up to ILS 50,000	548	1.96%
Closed tender	80	0.29%
Engagement with experts	274	0.98%
Exempt engagements with bodies of a special character <sup>2</sup>	1,094	3.91%

<sup>2</sup> Includes the following Regulations: 3(6) engagements with a corporation for transferring assignments, 3(18) engagements with The Jewish National Fund and JDC under certain conditions, 3(19) broad – engagements with The Jewish Agency, The Zionist Organization and their institutions, Keren HaYesod-United Jewish Appeal under certain conditions.

Exempt engagements with public bodies	5,909	21.11%
Exempt – defense	12	0.04%
Exempt – continued engagement	1,255	4.49%
Exempt – non-profit joint venture	247	0.88%
Exempt – special and urgent circumstances	206	0.74%
Exempt – other classifications <sup>3</sup>	158	0.56%
Exempt – single supplier and an engagement with a foreign resident	1,261	4.51%
Exempt – land purchase for government ministry	810	2.90%
Exempt – medication and scientific research	117	0.42%
Exempt – appointment of committee members	49	0.17%
<b>Total amount</b>	<b>27,985</b>	<b>100.00%</b>

Diagram 1 – purchase method rate by financial scope, out of total government procurement, excluding “other”, 2018

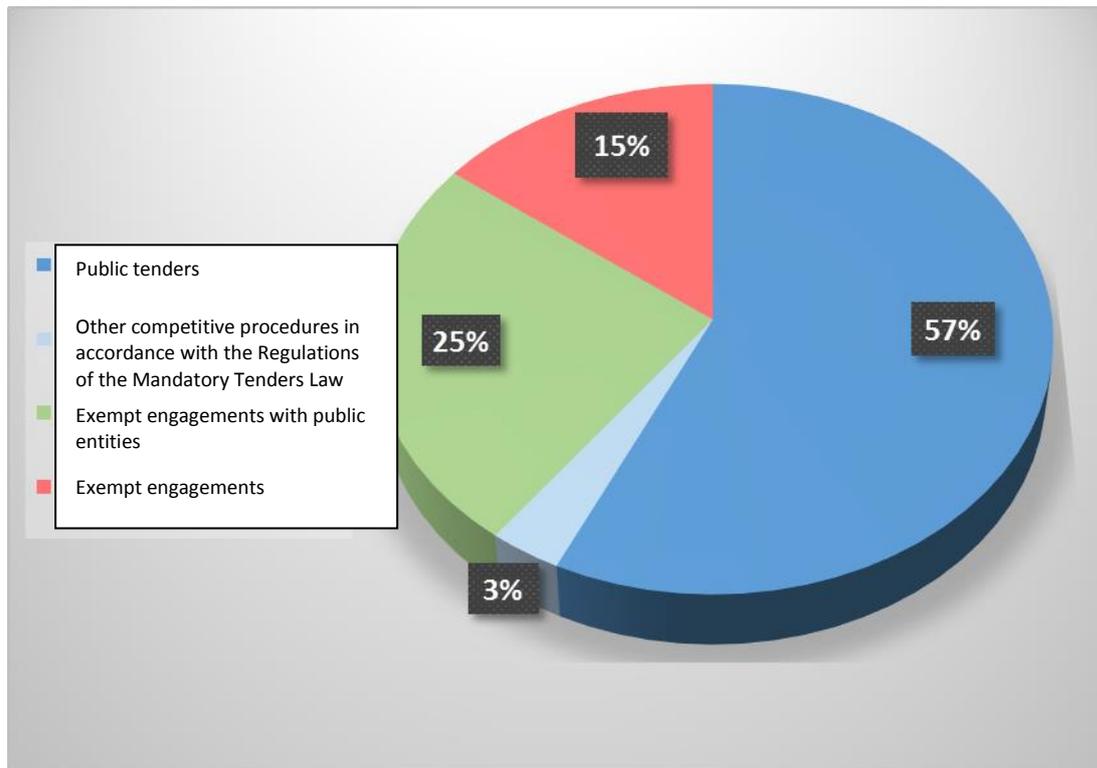


Table 2 details the different types of engagement which are considered procurement according to the Regulations of the Mandatory Tenders Law. Diagram 1 presents an overview of the types of engagement under government procurement and visually presents their percentage out of the total procurement. It shows that **public tenders, including option realizations, constitute 57% of**

<sup>3</sup> Includes the following Regulations: 3(11) matters of culture and art, 3(12) engagements with Lapam (Government Advertising Office), 3(14) giving or receiving credit, 3(22) engagements for appointing medical specialists, 23(b) no bids were received for the tender.

**the total engagements in terms of the financial scope for 2018.** Moreover, the table shows that approximately 21% of the total governmental procurement is with public entities who are obligated by tenders, such as government companies, statutory corporations, municipalities, etc. Whereas, according to the structure of the Law and Regulations, the exemption procedures (any procedure other than a public tender, including proceedings involving a competitive component) constitute 43% of the total engagements (in terms of financial volume), in light of the analysis presented above, **the exempt engagements (non-competitive procedure) out of all contracts (excluding "other") for 2018 is only 15%.**

**Table 3 – number of orders divided by the manner of purchase and in percentages of total procurement, excluding "other", 2018**

Purchase manner	No. of orders	% of total
Public tenders	40,245	28.54%
Exercise the Right of Option	2,410	1.71%
Application for bids of up to ILS 50,000	65,818	46.68%
Closed tender	1,279	0.91%
Engagement with experts	3,162	2.24%
Exempt engagements with bodies of a special character <sup>4</sup>	86	0.06%
Exempt engagements with public bodies	6,052	4.29%
Exempt – defense	27	0.02%
Exempt – continued engagement	1,948	1.38%
Exempt – non-profit joint venture	123	0.09%
Exempt – special and urgent circumstances	136	0.10%
Exempt – other classifications <sup>5</sup>	1,143	0.81%
Exempt – single supplier and an engagement with a foreign resident	5,027	3.57%
Exempt – land purchase for government ministry	184	0.13%
Exempt – medication and scientific research	5,372	3.81%
Exempt – appointment of committee members	7,976	5.66%
<b>Total amount</b>	<b>140,988</b>	<b>100.00%</b>

<sup>4</sup> See footnote 2.

<sup>5</sup> See footnote 3.

Diagram 2 – purchase manner rate by number of orders, out of total government procurement excluding “other”, 2018

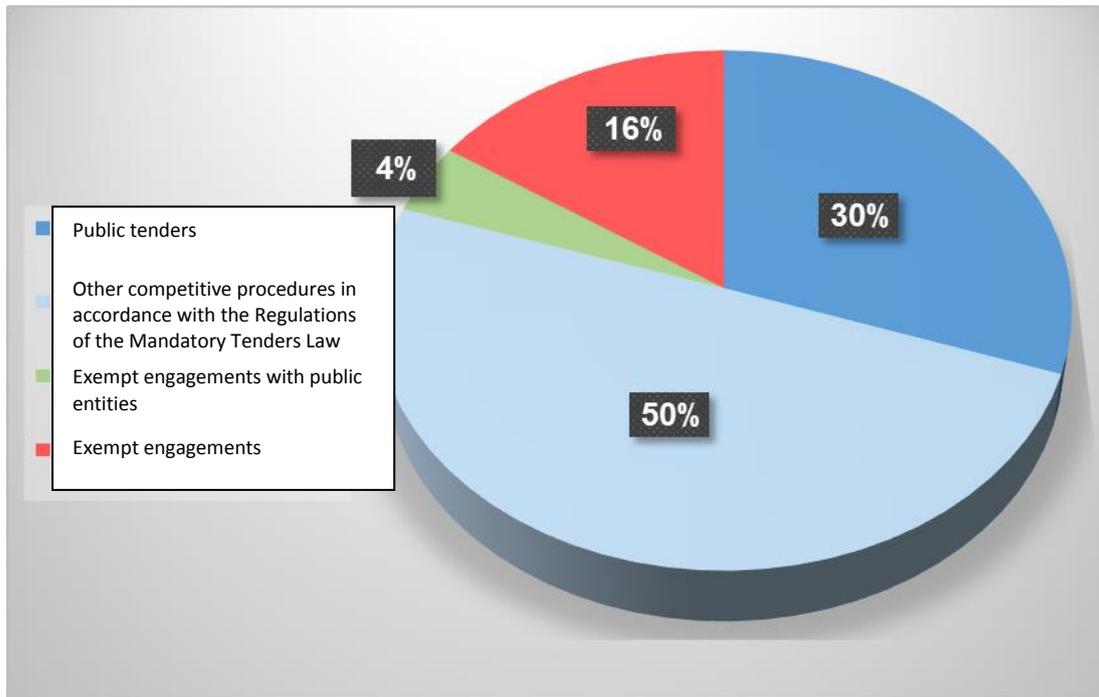


Table 3 shows that **public tenders and the exercise of the right of option together account for more than 30% of the number of orders for 2018**. In addition, it can be seen that more than 46% of total orders in the system are executed with a short competitive procurement process of a request for proposals up to NIS 50,000, however, as can be seen in table 2, in terms of the volume of funds, this mode of engagement constitutes less than 2%. **The number of exempt engagements that do not include a competitive process for the selection of a supplier constitutes 16% of all contracts for 2018.**

### “Other” purchase methods

As mentioned above, engagements classified as “other” are excluded from the data analysis as it is unclear whether these engagements can be considered procurement or not, and if they do, whether the procurement was carried out employing a competitive process or not. In 2018, these engagements constitute approximately 10.7% of the total financial scope in the system, at a total of about ILS 6.2 billion, while the number of orders classified as “other” is about 7,500 which is 4.7% of the total orders in the system. In 2017, the financial scope of engagements classified as “other” was approximately ILS 4.3 billion, which is around 8.7% of the total financial scope in the system, while the number of orders was 13,700 which were 7.8% of the overall number of orders.

As can be seen, although there was a decrease of about 3 percentage points (or a 40% decline) in the use of the “other” classification, in terms of financial volume there was actually a 2 percentage point increase. The explanation for this disparity lies in a small number of irregular engagements in terms of their amount in 2018. While in 2017 there were 13 contracts classified as “other” of an amount of more than ILS 50 million, the cumulative amount of which is about ILS 1.5 billion, in 2018 there were 20 such engagements, with a cumulative amount of about ILS 3.5 billion. In other words, the lion's share of the gap between the cumulative amount of engagements classified as “other” stems from the small number of irregular engagements in 2018.

The Government Procurement Administration, in cooperation with accountants and purchasing personnel in the ministries, is working to reduce the use of “other” acquisitions, and expect that this figure will continue to decrease in future publications. In addition, in order to gather, analyze and publish accurate data, government ministries are working hard to improve the overall data that is regularly fed into the system, in order to reflect as accurately and reliably as possible the manner in which the actual engagements were carried out.

### **Summary:**

The Accountant General sees utmost importance in the existence of an egalitarian and transparent procurement process. From these values, the Government Procurement Administration carried out an analysis of all the ministries' liabilities in the government's comprehensive lateral financial system, most of which are published publicly as raw data on the Freedom of Information website. An analysis of the data is intended primarily to enable the Accountant General to obtain a clear picture of the government's exemptions, with the aim of government ministries acting to reduce them.

Respectfully,

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Government Procurement Administration Manager

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