



FRAMEWORK CONTRACTING; A COST REDUCTION STRATEGY (A CASE STUDY OF GEOTHERMAL DEVELOPMENT COMPANY)

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Keywords: Framework contracting, framework agreement, Geothermal Development Company,

reduce lead time and as a cost cutting strategy on its procurements. Framework contracting is a concept that is meant to enhance efficiency, reduce lead time and cost reduction on matters pertaining to procurement.

ABSTRACT

Framework contracting represent a 'smarter' way of purchasing than placing 'one-off' orders for recurrent contracts for works or supplies; by, for example, optimizing volume purchasing discounts and minimizing repetitive purchasing tasks. A key aim of a framework arrangement should be to establish a pricing structure; however this does not mean that actual prices should be fixed but rather that there should be a mechanism that will be applied to pricing particular requirements during the period of the framework. It should also be possible to establish the scope and types of goods/ services that will need to be called-off. This paper illustrates how Geothermal Development Company can use framework contracting to achieve its obligations and mandate. This paper also further demonstrates framework contracting as the most economical, efficient and effective method that the organization can adapt to

1.0 Introduction

In Africa and almost all developing countries, the procurement function is transitioning from a clerical non-strategic unit to an effective socio-economic unit that is able to influence decisions and add value to all organizations. Developing countries in one way or another have reformed their public procurement regulations. The reforms have not been limited to regulations only, including public procurement process, methods, procurement organizational structure, and the workforce. The reforms have been as a result of joint effort with various development partners like the World Bank, International Trade Centre, WTO, and UNCTAD varying from country to country. None the less, most developing countries are facing a problem of rapid changes in public procurement requirements. The changes are

impacting pressure on how the procurement function performs its internal and external processes and procedures in order to achieve its objectives. The ability to realize procurement goals is influenced by internal force and external force. Interactions between various elements, professionalism, staffing levels and budget resources, procurement organizational structure whether centralized or decentralized, procurement regulations, rules, and guidance, and internal control policies, all need attention and influence the performance of the procurement function. In addition, public procurement is faced by the challenges imposed by a variety of environment factors (external factors) such as market, legal environment, political environment, organizational and socio-economic environmental factors.

This has led to increased procurement activities that have seen both public and private organizations spending huge sums of money in the procurement of goods, works and services. The greater recognition of purchasing role in such organizations has necessitated the adoption of strategic purchasing practices with a view of reducing total procurement costs and promoting efficiency. One of the procurement strategies that have been adopted in the recent past is framework arrangements

2.0 Framework contracting in Kenya

In Kenya , according to the (PPOA, Guidelines for framework contracting 2010), procuring entities are required to make use of single award framework contracts, under which frequently bought items would be consolidated into contracts for supply at an

agreed price over a defined contract term, with orders being placed at the contract price when required. By consolidating such requirements into framework contracts, the procuring entity should be able to make savings on the administrative costs of procurement and to achieve better prices through larger volume contracts.

2.1 Types of Framework Contracts

There are three main types of framework contracts, namely:

- a) Definite-Quantity Framework Contracts.
- b) Indefinite-Quantity Framework Contracts.

Definite-Quantity Framework Contract

This category requires that the delivery of a definite quantity of specific goods or services for a fixed period, with deliveries or performance to be scheduled at designated locations upon order. This may be used when a definite quantity of goods or services will be required during the contract period or when the goods or services are regularly available or will be available after a short lead time.

Indefinite-Quantity Framework Contract

This contract provides an indefinite quantity, within stated limits, of goods or services During a fixed period, and may be either a delivery order framework contract or a service order framework. Used when the procuring entity cannot predetermine, above a specified minimum, the precise quantity of goods or services that will be required during the contract period, and it is inadvisable for the procuring entity to commit itself for more than a minimum quantity. And the procuring entity should

use an indefinite-quantity framework contract only when a recurring need is anticipated.

2.1 Requirements Framework Contract

This arrangement provides for fulfilling all actual purchase requirements of one or more public bodies for goods or services during a specified contract period, with deliveries or performance to be scheduled by placing orders with the contractor. Appropriate for acquiring any goods or services when a procuring entity anticipates recurring requirements but cannot predetermine the precise quantities of goods or services that the procuring entity's activities will need during a definite period.

2.2 Procedure for Using Framework Contracts in geothermal projects

1. Determine form of Contract
 - Single Award
 - Multiple Award
2. Prepare Tender Documents including the Form of
3. Agreement, selection criteria, etc.
4. Determine the maximum and minimum quantities under each task or delivery order.
5. Determine and state value of Performance Security

2.3 Key elements of framework contracting

Framework arrangements, agreements or contracts must specify the following:

i. Period

This is the period of the contract, including the number of options, if any, and the period for which the procuring entity may extend the contract under each option;

ii. Quantity

Specify the total minimum and maximum quantity (ceiling amount) of goods ,services or works the procuring entity will acquire under the contract (to ensure that the contract is legally binding, the minimum quantity must be more than a nominal quantity, but it should not exceed the quantity that the procuring entity is fairly certain to order)

iii. Scope and specifications

Include a statement of work, specifications, or other description, that will reasonably describes the specific requirements, nature, complexity, and purpose of the goods , services or works the procuring entity will acquire under the contract in a manner that will enable a prospective firm or individual to decide whether to submit a tender

iv. Process

State the procedures that the procuring entity will use to issue orders, including the ordering means, e.g. electronically, (PPOA).

v. Terms of payment

Details and guidelines on mode of payment must be clear and acceptable to all parties involved. This will be a key component especially in meeting the set objectives of the contract.

3.0 Benefits of framework contracts in geothermal projects

Some of the benefits of framework contracts include:

- i. Reduction of Administrative Cost
- ii. Enhances long term business planning.
- iii. Improved inventory management and control.
- iv. Improved project planning and management.

- v. Creates and Builds Supplier buyer relationship.
- vi. Allows flexibility particularly where different or user tailored services are required to meet certain deadlines and obligations especially the drilling operations.
- vii. Allows consolidation of procurements and eliminates duplications of roles.

4.0 Challenges of framework contracting in geothermal projects

- i. Re-opening competition can be encounter legal challenges and can be considered unlawful if the framework agreement has been poorly structured
- ii. As a supplier of a framework agreement you are reliant upon how the purchasing entity has established and manages the framework agreement.
- iii. There may therefore be issues around supplier management depending on the degree to which you share responsibility for running the resulting contract with the owner of the framework agreement. That said, there should also be efficiency benefits to be realized in sharing the burden of management of the framework agreement and resulting contract.
- iv. Where anticipated volume levels are uncertain this may lead to suppliers building in a risk premium for this uncertainty thus potentially reducing

5.0 Strategies to Counter the Framework contracts challenges in Geothermal Drilling

Africa is a virgin field for geothermal drilling procurements. Timely and cost effective measures must be put in place to ensure Procuring entities get value for money. Execution of these Procurements

must be above board to attract more players. Though procurement methods differ from one country to another, frame work contracts or agreements may be enhanced through;

- i. Conducting extensive due diligence
- ii. Suppliers appraisal
- iii. Drafting a comprehensive contract
- iv. Periodic monitoring and evaluations.
- v. Regular reviews
- vi. Benchmarking with leading industry players

6.0 Conclusion

A framework contract or agreement is a smart and reliable method of conducting business in an organization by putting arrangements in place and then empowering end-users to order from the ranked or pre-qualified suppliers according to the laid down procedure

Through framework contracting Geothermal Development Company can be able to achieve its set objective of producing 5000Mwe worth of steam by the year 2030 as mandated by the government of Kenya. GDC can tailor its framework contracts to suit the dynamic field of drilling and can be a model in the energy sector through adoption of market driven solutions.

Effective Framework contracting will not only reduce cost, but also enhance and develop unequalled planning culture in organizations thus and consequently leading to the improvement in service delivery. Key operations for the company will be more efficient and timely completions of projects due to the reliability of procurements and cost reduction in all operational areas

References

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