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Public procurement system in Russia in the process of transition: Guidelines for EU suppliers

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<p>Significant size of the market, growing economy and increased investments in healthcare system makes Russia a promising trade area for EU-suppliers from related industries. Unfortunately, public procurement market in Russia has always represented a big challenge for foreign producers due to government bureaucracy, complex regulatory requirements and lack of transparency.</p> <p>The purpose of this research is to identify key factors for success of foreign suppliers in the Russian state procurement market. To achieve this goal an extended amount of literature from both Russian and foreign sources has been reviewed and 10 interviews with representatives from procuring organizations, supplying and consulting companies have been conducted. Based on interviews' data, the main problems of procurement system have been identified. They include uneven financing of state organizations throughout the year, opportunistic behaviour of suppliers, lack of planning of state purchases and low level of transparency. Introduction of new procurement legislation (44-FZ) and its impact on effectiveness of procurement and position of foreign supplier has also been extensively discussed throughout the thesis. Currently, respondents have different attitudes towards new legislation: some interviewees believe that it will improve transparency by launching integrated procurement platform and implementing effective control and planning, while some respondents assume that new law will not bring any radical changes and only increase bureaucracy.</p> <p>Analysis of existing pitfalls of public procurement and relevant recommendations of experienced representatives from state organizations and private companies enabled development of guidelines for foreign suppliers. Defining company strategy is a starting point for any EU-supplier entering the Russian market. Thorough marketing research has to be performed in order to identify local equivalents of the products offered. Findings of the study reveal the utmost importance of building relationships with customers and partners. Careful planning of tenders cannot be neglected. Tender documentation has to highlight and explain the key benefits of the offer for the Customer. Results of the study have also demonstrated that good after-sales service will add significant value to the proposal. Profound knowledge of legislation and experienced team of procurement professionals are other key factors for success in public procurement.</p>	
Keywords	State Procurement, Russia, Healthcare industry, EU suppliers

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List of Abbreviations and Acronyms

223-FZ – Federal Law 223

44-FZ – Federal Law 44

94-FZ – Federal Law 94

DNA – deoxyribonucleic acid

EU – European Union

GDP – Gross Domestic Product

OECD - Organization for Economic Co-operation and Development

PCR – polymerase chain reaction

UNCITRAL - United Nations Commission on International Trade Law

WTO – World Trade Organization

1 Introduction

1.1 Background

Russia represents one of the biggest and fastest growing emerging markets (BRIC partner portal). In particular, health care markets in Russia are estimated to be growing at 11% annually, whereas the growth in western countries is regarded 0% or even diminishing during the following years (Taylor 2013). In near future demand for medical services and pharmaceuticals in Russia is expected to grow significantly (Sectoral asset management newsletter 2008; Snapshot report on Russia's healthcare infrastructure industry 2013). Thus, in 2012 Health care Development Concept (2013-2020) has been approved (Health care Development Concept). The important tasks of the concept include reduction of death rates from tuberculosis, cancer and diseases of cardiovascular system by installing high-technological equipment in healthcare centers across the country to ensure early diagnostics of different pathologies (Rosminzdrav; Parfitt 2009). Budget for program realization is estimated to reach 2.5 trillion euros (Ministry of Healthcare in Russian Federation). Due to increased spending on healthcare, growing economy and a sheer size of the market, Russia is attracting increasing global interest among foreign companies of the related industries (Taylor 2013; Railean 2012). Geographical location of Russia makes this country a promising trade area for Finnish pharmaceutical and biotechnological companies (Export.gov portal; Finland Fact Book – a guide to doing cost-effective business in Finland 2014). However, in order to launch and successfully operate a business in Russia foreign organizations have to overcome obstacles caused by political, legislative and administrative environment in the country (Russian Healthcare system overview 2010; Larjavaara 2004). At the moment of writing political situation in East Ukraine significantly destabilized relations between Russia and European Union that had a negative effect on trade between these countries (Kholodin et al. 2014).

Besides political factors, administrative and legislative systems of Russia have their own pitfalls that have to be taken into account (Larjavaara 2004). According to many authors, corruption, bureaucracy and lack of transparency are the main challenges for starting business in Russia (Ernst & Young 2012; Russian Healthcare system overview; Larjavaara 2004). "Transparency international" Corruption Perception Index 2013 shows that level of corruption in Russia is much higher than in any OECD country (Cor-

ruption Perception Index 2013). Health care sector in Russia is known to be exceptionally bureaucratic and relationship-driven (Larjavaara 2004). Moreover, lengthy, costly and intricate mandatory registration of medical equipment makes it impossible for foreign companies to register their products without experienced distributors or consulting agencies (Russian Healthcare system overview 2010). In addition to that, position of the foreign supplier in the Russian public procurement market has not been regulated properly (Larjavaara 2004), so that law could be interpreted in a desired way that fuels bureaucracy and corruption even more (Yakovlev 2010). Thus, foreign supplier could face obstacles at any stage of public procurement process – from preparation of technical specification till contract execution (Russian Healthcare system overview 2010). Lack of transparency, high level of hierarchy in all state organizations and power of personal relationships have made successful participation in public procurement process extremely difficult (Larjavaara 2004).

Recent accession of Russia to WTO required introduction of significant changes in procurement legislation to ensure high levels of transparency and efficiency. Thus, since January 2014, 94-FZ has been replaced with Federal Law 44 (44-FZ) that is supposed to correct the most obvious defects of 94-FZ. 44-FZ will fully come into force by January, 2017. However, experts from both state organizations and supplying companies have already extensively criticized new legislation (Smirnov 2013; Finmarket 2013). In addition, similarly to 94-FZ, “national treatment” will be applied allowing introduction of preferences to domestic products or limitations for foreign-originated goods that might seriously affect position of EU-supplier in the state procurement market.

1.2 Objective of the thesis and its main outcome

The purpose of this study is to develop a basic framework of actions for EU-suppliers to succeed in the Russian state procurement market. The study focuses its research on health care sector. According to the stated goal, following research questions have been set:

- 1) What are the main problems of the current public procurement system in Russia?
- 2) Will new legislation be able to eliminate these existing problems?
- 3) How to succeed in the current state procurement market in Russia today?

The practical outcome of the Master thesis is the guidelines for EU suppliers acting or targeting to work in the current public procurement system of health care industry. The guidelines suggested in this study will help the management of the companies to get a clear view on how to overcome possible obstacles that might occur during the state procurement process. The proposed guidelines aim to assist in developing a strategy for successful business operations in Russia.

1.3 Limitations of the thesis

The main limitation of this research is the utmost “sensitivity” of the subject. Some important information is impossible to access, and the interviewees were not willing to answer some questions due to confidentiality or personal reasons. Two persons strongly objected to participate in the study.

Moreover, any analysis of the public procurement system in Russia in the process of transformation is not a trivial task. New law (44-FZ) is not fully implemented yet, therefore, it is quite difficult to evaluate its positive and negative sides at the moment. However, most interviewees were able to make some valuable assumptions and their responses contribute valuably to the proposed guidelines.

Another limitation of the study is that information on best practice in public procurement was rather limited. Companies have their own way in preparation and submitting tender documentation, which, obviously, represents a trade secret.

However, despite the limitations mentioned above, this research provides some important insights into the current Russian system of public procurement that can be employed by foreign suppliers in order to successfully operate in the country.

2 Research process

The chapter provides description of the main steps of the research process in this study and explains how data were collected and analyzed.

2.1 Research design

The research included the following steps: problem definition, literature analysis, data collection, development of guidelines and conclusions (Fig. 1).

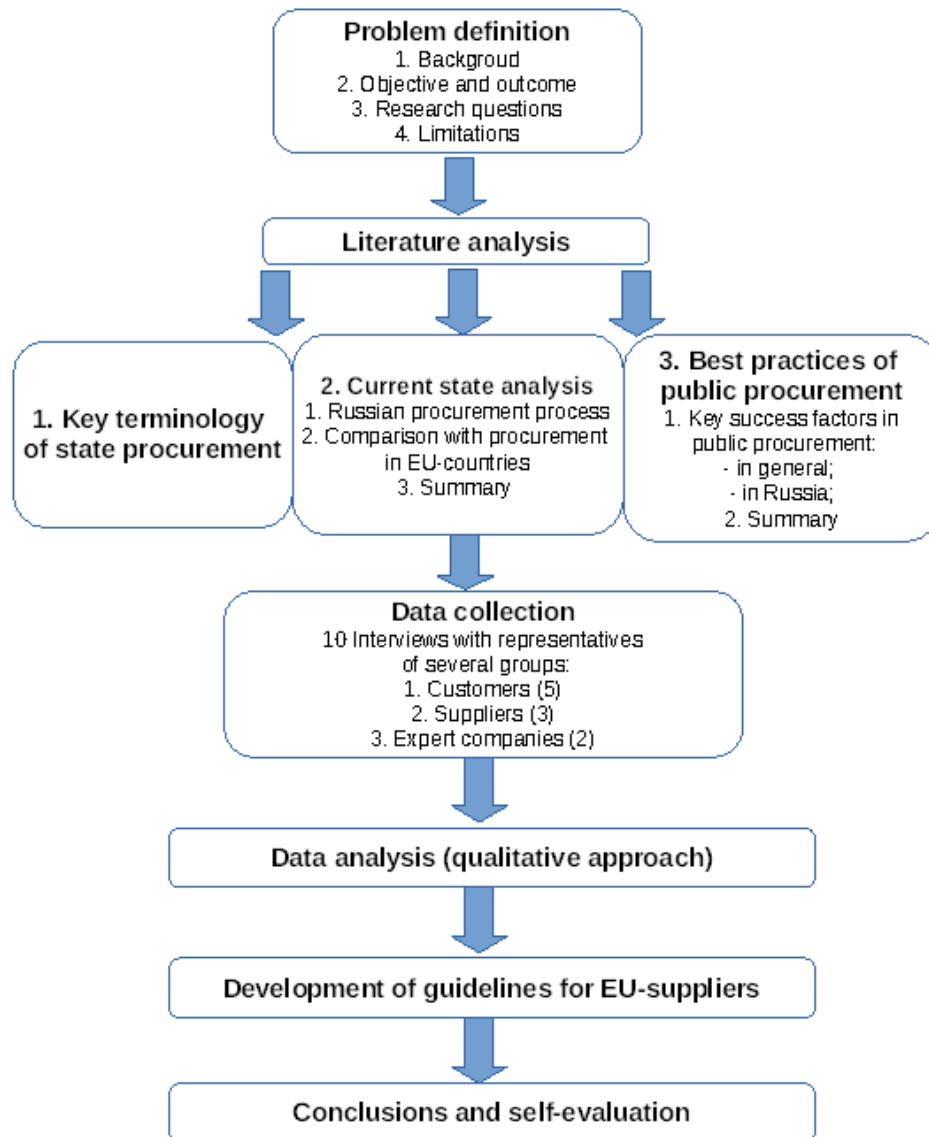


Figure 1. Research process in this study

The first step in the researcher design, the identification of the research problem and the objective of the thesis, have been identified in collaboration with representatives of

“ArcDia International Oy” (Finland). The literature analysis consisted of 3 parts: key terminology of public procurement, current state analysis and review of the best practices of public procurement. The current state analysis included evaluation of public procurement system in Russia and its comparison with the procurement system of EU-countries. Their key differences have been identified and summarized. To gain precise and unbiased understanding of how the state procurement works, both Russian and foreign literature sources have been carefully analyzed. Best practice of public procurement included recommendations from different sources on how to succeed in the state procurement market. After a thorough literature analysis, a set of open-end interview questions has been developed. 10 structured in-depth interviews with representatives of both state and private organizations have been performed and carefully analyzed using content analysis (Denzin & Lincoln 2005; Neuendorf 2002). Based on the interview results, the main problems of the current Russian public procurement system have been identified and guidelines for EU-suppliers developed.

2.2 Data collection and data analysis methods

To identify the problems occurring at different stages of the current public procurement process and develop recommendations for EU-suppliers, the study collected the interview data from the representatives from several organizations. All interviewees were divided in three groups:

1. Customers – specialists from medical institutions and research organizations (specialists of procurement department, group leaders, research assistants) who are responsible for preparation of technical specification and publication of procurement information on the web-platform.
2. Suppliers – representatives from different departments of Russian-based companies producing or distributing medical and laboratory equipment.
3. Expert companies – representatives of Finnish consulting companies that help Finnish companies to expand their business in Russia.

The Customer group included five representatives from two research institutions and two medical centres (one males and four females, age 28-55; work experience 7-39 years). The Supplier group included four representatives (two males and two females, age 30-55; work experience 8-30 years) from one international and two Russian companies with different type of business activity (manufacturers, distributors). Finally, the

Expert group consisted of two representatives from two companies. Interviewing all, the Customers, Suppliers and Experts, helped to analyze the current public procurement system of Russia from different points of view. Table 1 summarizes data about participants and data collection.

Table 1. Data collection

Data collection method	Participant	Position	Group	Date	Duration
Interview	Interviewee #1	Researcher	Customer	July 2014	1 hour
Interview	Interviewee #2	Senior researcher	Customer	July 2014	50 min
Interview	Interviewee #3	Doctor of clinical laboratory diagnostics	Customer	July 2014	1 hour
Interview	Interviewee #4	Researcher	Customer	August 2014	45 min
Interview	Interviewee #5	Researcher	Customer	October 2014	40 min
Interview	Interviewee #6	General director	Supplier	December 2013	1 hour
Interview	Interviewee #7	Head of engineering department	Supplier	December 2013	1 hour
Interview	Interviewee #8	Senior sales specialist	Supplier	October 2014	1 hour
Interview	Interviewee #9	Senior lawyer	Supplier	October 2014	1 hour
Interview	Interviewee #10	Managing director	Expert	August 2014	40 min
Interview	Interviewee #11	Project manager	Expert	August 2014	1 hour 30 min

As seen from the Table 1, respondents had different positions in the organizations (from researcher to general director) that helped to make the analysis comprehensive

The interviews included a set of open questions. Open questions were identical for all respondents, except Interviewee #11. Interviewee #11 had a deep knowledge and tremendous experience of entering the Russian market and operating in Russia. Therefore, the interview with him was focused only on challenges of doing business in Russia for foreign companies.

Due to complex structure of one organization, and as a result strictly defined area of responsibilities for each specialist, there was a need to divide interview questions between two persons (Interviewees #8 and #9).

Description of the organizations that participated in the study is given in Appendix 1. Interviews with the Customers, Suppliers and Experts are given in the Appendix 2. Interview's data have been analyzed by content analysis using Tropes software package (<http://www.semantic-knowledge.com/>) that enabled to identify the key words in all interviews. Based on the key word analysis, the data have been categorized and used for formulating the findings and guidelines.

3 Current state analysis

This chapter consists of three parts. The first part introduces key terminology of public procurement process, describes its main tasks and legislation framework. The second part is focused on public procurement process in Russia, it explains in details public procurement laws 94-FZ, 44-FZ and 223-FZ. The third part describes public procurement procedures in countries of European Union; the main differences with public procurement system in Russia are identified and analyzed.

3.1 Public procurement process: Key terminology

Public procurement or government procurement is the government's activity of purchasing the required goods, works (e.g. construction) and services (Arrowsmith 2010). Public procurement is an important element of international trade, and it represents a major part of a country's market for foreign suppliers (World Trade Organization). Government Procurement of goods and services typically accounts for 10-15% of GDP for developed countries, and up to 20% of GDP for developing countries (Global Trade Negotiations 2003), that makes a significant share in global economy.

In 1993, a Model Law on procurement of goods and construction has been adopted by United Nations Commission on International Trade Law (Uncitral) (UNCITRAL Model Law on Procurement of Goods and Construction 1993). In 1994 procurement of services has also been included (UNCITRAL Model Law on Procurement of Goods, Construction and Services 1994).

The Model Law provides a template for setting regulatory rules for public procurement systems in many countries (UNCITRAL Model Law on Procurement of Goods and Construction, 1993). According to Sue Arrowsmith (2010), the Model Law has two important functions: it helps to design and reform procurement regulations avoiding building them "from scratch" and "improve the quality of procurement legislation by drawing on the collective global experience". But it is important to emphasize that the Model Law is only a model, and the countries are not obliged to follow it. Moreover, it might be necessary to modify slightly the regulations in order to adopt to the procurement situation in particular country (UNCITRAL Model Law on Procurement of Goods and Construction 1993).

Public procurement process includes three main stages (UK office of Government Commerce 2008). The first one is often called pre-procurement planning – deciding which goods and services are needed, and when they are to be purchased (UK office

of Government Commerce 2008). The second stage is procurement itself that involves placing an order, execution of a tender or an auction and choosing a contracting partner, as well as terms of the contract for goods or service provision. The last stage is implementation of the contract (Arrowsmith 2010).

Systems of public procurement existing nowadays tend to reach certain objectives summarized by Arrowsmith (2010):

1. Value for money (efficiency);
2. Integrity – avoiding corruption and conflict of interests;
3. Accountability;
4. Equal opportunities and equal treatment for providers;
5. Efficient implementation of industrial, social and environmental objectives (“horizontal policies”) in procurement;
6. Opening up public markets to international trade;

All these objectives can be more or less important in public procurement systems in different countries (Arrowsmith 2010).

Regulations of public procurement are supposed to ensure execution of the two key principles: transparency and competition (UNCITRAL Model Law on Procurement of Goods and Construction 1993). Transparency refers to the idea of openness that includes publicity for contract opportunities and regulations governing each procedure, as well as possibility for verification that rules have been followed (Arrowsmith 2010). Competition is an essential part of public procurement because it will guarantee the best terms of the contract for the government (UNCITRAL Model Law on Procurement of Goods and Construction 1993).

Methods of procurement include formal tendering, informal tendering and single-source procurement (Arrowsmith 2010).

3.1.1 Formal tendering

Formal tendering is the main method of procurement in many procurement systems (Arrowsmith 2010). Several tender procedures are possible: open tendering, restricted tendering, negotiated tendering, two-stage tendering and serial tendering (Lynch 2013). According to Business dictionary, open tendering is defined as a “bidding process that

is open to all qualified bidders and where the sealed bids are opened in public for scrutiny and are chosen on the basis of price and quality” (Business Dictionary). Open tender can be international or local, and it includes the following steps (Puntosud Helpdesk):

- 1) Publication of the tender notice;
- 2) Establishing clear selection and award criteria;
- 3) Establishing of the evaluation committee;
- 4) Opening session and evaluation;
- 5) Preparation of an evaluation report;
- 6) Awarding the contract and signing the contract;
- 7) Preparation of a tender report.

Open tendering is the main method of procurement since it serves at best its main principles: transparency, competition and equality (Public Procurement in Europe: Cost and Effectiveness 2011). Open tender entitles all suppliers to submit a tender that increases the chances for the government to make the best deal and improve value for money and at the same time it reduces the risk of favouring certain suppliers (Arrowsmith 2010). However, open tender has certain disadvantages; among which are lengthy time-frame of the procurement action, excessive formalism and focus on least-cost solution rather than quality (Lynch 2013). Since any company can tender, it is tremendous amount of work to go through all the participants. In addition, lowest tender could be accepted regardless reputation of the contractor that might not be able to fulfil all contract requirements (UK office of Government Commerce 2008). Restricted tendering might be a good alternative in that respect, because only selected companies of known reputation are allowed to submit the tender (Govert & Telgen 2002).

Similarly to open procedure, restricted tendering can be both international and local. It starts like open tendering procedure (publication of a contract notice, establishing of evaluation committee), but before the opening session selection of candidates is performed, based on their eligibility, financial situation, reputation, technical and professional capacity (Directive 2014/24/EC). Only dossiers of selected candidates are evaluated further. According to Article 18(b) of the UNCITRAL Model Law restricted tendering can be used “when the time and cost required to examine and evaluate a large number of applications would be disproportionate to the value to the value of the goods or construction to be procured.” (UNCITRAL Model Law on Procurement of

Goods and Construction 1993). Therefore, restricted tendering has two advantages over the open tendering. First, it can reduce the time spent on checking all applications, and secondly, since all contractors are known, the lowest bid is not a high risk as it is in open tender (Govert & Telgen J 2002). But on the other hand, preliminary selection of companies excludes appearance of new ones that might offer some innovative solutions (Nelson 2009). Negotiated tender is similar to restricted tendering as it also uses pre-qualification stage. The only difference is that it allows negotiating the terms of the contract (UK office of Government Commerce 2008). This procedure is only used in exceptional circumstances of extreme urgency, or if there is only one supplier of the required product or service (Arrowsmith 2010).

Two-stage tendering is used in case if it is not possible to set detailed specifications of the contract (Arrowsmith 2010). Therefore, at the first stage firms submit tenders based on some relevant aspects of the contract (e.g. technical features, contract terms), but without mentioning the price (Ward 2008). Then tenders are negotiated. Based on the results of the first stage, procuring organization prepares a common specification, which is used for the second stage of the tendering (UNCITRAL Model Law on Procurement of Goods and Construction 1993). Two-stage tendering is widely-used for purchasing of goods and construction for turnkey design-and-build contracts (Arrowsmith 2010). It has a number of advantages ensuring high level of transparency and competition since it does not limit the number of participants and allows performing detailed comparison of tenders (Lynch 2013). On the other hand, creation of the common specification restricts possible innovative solutions, and some suppliers might not be capable to tender (Arrowsmith 2010).

Serial tendering combines different tendering procedures and it is used for large engineering projects (Ward 2008). The project is divided in several stages. At the first stage competitive or negotiated tendering is used. If awarded contractor succeeds in meeting the requirements of the purchasing organization, he is allowed to continue the project (Elyamany 2010). Therefore, buyer can make sure that work will be done properly with minimal cost (Elyamany 2010). In addition, serial tendering will enhance relation between the purchasing organization and the contractor (Ward 2008).

3.1.2 Informal tendering

Informal tendering is a more flexible method of procurement comparing to formal tendering and it includes request for proposals, competitive dialogue and request for quotations (Arrowsmith 2010). Request for proposals is used in cases when it is not possible to formulate specifications for the product or service, but in contrast with two-stage tendering there is no common specification (UNCITRAL Model Law on Procurement of Goods and Construction 1993). Suppliers are allowed to submit an offer based on its own proposal, and then the procuring organization analyzes each of them. In this case choice of the best offer can be rather subjective, but the Customer can compare different options (Arrowsmith 2010). Public advertisement of the contract is not obligatory, if procuring organization wants to avoid extra-cost in evaluation the proposals (UNCITRAL Model Law on Procurement of Goods and Construction 1993). At least three suppliers are chosen for submitting the proposals (UNCITRAL Model Law on Procurement of Goods and Construction 1993).

The procedure of competitive dialogue does not require a public notice of the purchase (Directive 2014/24/EC). A number of potential suppliers is selected, and all candidates are invited to participate in a competitive dialogue (Office of Government Commerce) that can be based on written or verbal submissions and interviews (Royal Borough of Kensington and Chelsea). At the end of the dialogue potential suppliers are requested to submit their final tender (Directive 2014/24/EC).

Request for quotation is used for low-value procurement of “readily available goods” or small value construction works or services, when it is not feasible to perform a formal tendering which requires a lot of time and involves high costs (UNCITRAL Model Law on Procurement of Goods and Construction 1993). Procuring organization has to send the request for quotation to several suppliers (at least, three). Received quotations are compared against technical specifications and the compliant ones are selected (Arrowsmith 2010). Contract is awarded to the bidder offered the lowest price (Procurement classroom; Lynch 2013). The advantage of this procedure is significant reduction of procurement lead-time, but since the Customer decides to whom the request for quotation is sent, competition is limited (Lynch 2013).

3.1.3 Single-source procurement

Single-source procurement or direct contracting is a unique and extreme method of public procurement since such procedure is far from principles of transparency, competition and equal treatment (Directive 2014/24/EC). According to UNCITRAL Model Law (Article 22(1)), it can be used in case of urgent need for goods and services when it is important to avoid time delay and costs of formal procurement (UNCITRAL Model Law on Procurement of Goods and Construction, 1993). In addition, such method of procurement is appropriate when the goods, construction or services are available only from one supplier or in cases, when the winner of formal tendering can easily be predicted (Directive 2014/24/EC). Since single-source procurement is not competitive and not transparent, it is crucial to carefully monitor the use of this method (Arrowsmith 2010).

3.2 Procurement process in Russia

3.2.1 History of public procurement system in Russian Federation

In Soviet Russia, the state procurement was performed by direct financing of public entities without competitive bidding, and levels of fraud and corruption were extremely high (Kudryavtseva & Novikova 2013; Bashina 2012). In 1992, Presidential Decree "On measures for the formation of the Federal contracting system" initiated the establishment of procurement process on a competitive basis (Decree 826 from August, 7, 1992). In 1997, the next President Decree «About urgent measures to eliminate corruption and budget cuts in the organization of the procurement of products for state needs» based on UNCITRAL principles was issued (Decree 305 from April, 8, 1997). To increase the efficiency and transparency of public procurement and reduce corruption the Federal Law № 94 "On placing orders to supply products, production performance, rendering services to satisfy public and municipal needs" (94-FZ) was adopted (2005) (Federal Law 94-FZ). 94-FZ describes a basic framework for cooperation between government customers and suppliers (Kudryavtseva & Novikova 2013). High level of competition has been achieved by allowing all enterprises to participate in procurement (Yakovlev 2010). To increase transparency all procurement information had to be published at official web-site: <http://www.zakupki.gov.ru/> (Federal Law 94-FZ). To

fight corruption formal and unified approach to all procurement procedures has been adopted (Yakovlev 2010).

However, after implementing 94-FZ procurement process in Russia still had many problems (Kudryavtseva & Novikova 2013). Corruption and power of personal relationships still remained a big concern (Bashina 2011; Yakovlev & Demidova 2011). Results of several surveys demonstrated that level of corruption even increased after adoption of 94-FZ (Yakovlev 2010; Bashina 2011). Control over the quality of public procurement was weak, and information support was insufficient (Yakovlev 2010). Planning of state purchases, as well as evaluation of contract performance were not mentioned at all (Kudryavtseva & Novikova 2013). Moreover, 94-FZ provided no guidelines regarding objective assessment of contract starting price (Russian Healthcare system overview, 2010). At the same time information on prices for similar products was inaccessible as well (Yakovlev et al., 2010).

The study performed by Rozhkov and Balaeva (2010) outlined the main drawbacks of 94-FZ from Customer's point of view. Unlimited number of auction/tender participants with no requirements to their qualification or reputation resulted in application of numerous defaulting suppliers that provoked corruption and fraud (Yakovlev 2010; Rozhkov & Balaeva 2010). For example, such supplier could significantly drop price of the contract, win competitive bidding, but at the end the Customer would get a cheap "analogue" of the product that did not operate properly, even though formally it met the technical specification (Rozhkov & Balaeva 2010). Another common situation described by authors is that after damping the price, defaulting supplier started to negotiate with another supplier possibility of stepping aside and refusing to sign the contract if next chosen supplier will give its "share" (Rozhkov & Balaeva 2010). Unfortunately, such suppliers disappeared and reappeared under different names, therefore, list of defaulting suppliers was not really useful (Rozhkov & Balaeva 2010). Therefore, there was a strong need for setting some pre-qualification requirements to bidders (Yakovlev et al. 2010). In addition, 94-FZ has not been adapted for procurement of innovative products. Introduced "minimum price criterion" (winner is selected among eligible participants on the price basis only) left no possibilities for innovations to enter Russian procurement market (Rozhkov & Balaeva 2010). Another downside of 94-FZ is inability to modify contract's terms according to the changing conditions (Rozhkov & Balaeva 2010; Yakovlev et al. 2010).

In addition to all drawbacks mentioned above, some rules of 94-FZ allowed multiple interpretations (Yakovlev 2010). For example, 94-FZ set only a minimal list of requirements for publishing online procurement procedures information, therefore, level of information transparency of the public procurement systems differed significantly across the regions (Balsevich et al. 2011). Moreover, since 94-FZ has been introduced it underwent numerous modifications and corrections that inevitably resulted in confusion for all parties (Bashina 2012; Yakovlev 2010).

Despite all defects, adoption of 94-FZ was a great step in evolution of Russian procurement system (Yakovlev 2010). However, legislation needed further improvements including introduction of procurement planning, audit and public control, creation of transparent and efficient information system, as well as measures of eliminating opportunistic behaviour of suppliers (Rozhkov & Balaeva 2010; Yakovlev 2010).

3.2.2 New procurement legislation: 44-FZ

Accession of Russia to WTO in 2012 brought new changes in procurement legislation: within 4 years after joining, a new member of WTO is supposed to negotiate about joining the WTO plurilateral Government Procurement Agreement in order to increase transparency and efficiency of the state procurement (World Trade Organization). Thus, since January, 2014 94-FZ has been replaced by Federal Law № 44 (44-FZ) (Federal Law 44-FZ). The main differences between 94-FZ and 44-FZ are summarized in the Table 2.

Table 2. The main differences between 94-FZ and 44-FZ (RTS tender; Garant-Service)

Characteristics	94-FZ	44-FZ
Access to procurement information	Limited access	Unlimited access
Publication of the main stages of procurement	Is to be published at www.zakupki.gov.ru	Is to be published at the unified information system
Control over procurement	No possibility of public control	Possibility of public control
Institute of Customer's contract service	Does not exist	Organization of subdivision responsible for realization of all stages of procurement
Procurement procedure	Open and closed tender; Customer can decide the most adequate method of choosing the winner (Article s 27, 39)	Open tender (can be restricted, two-stage); closed tender (can be restricted, two-stage); request for proposal, request for quotation

Procurement planning	No planning	Planning is mandatory
Anti-damping	No anti-damping measures	Contractor has to provide grounds for decreasing the price of the contract for more than 15%
Maximum contract price determination	Is regulated by Article 19.1	Is regulated by Article 22. New indicators for determination of maximum contract price (market analysis, tariff-based method, etc.) are included
Contract amendment	Is possible only by court decision or agreement between the parties	Different ways of contract amendment are possible
Procurement audit	No audit norms	Audit can be performed by Accounts Chamber of the Russian Federation and other control authorities

As seen from Table 2, 44-FZ, unlike 94-FZ, regulates all stages of the public procurement process including procurement planning, contract performance, termination and amendments, procurement monitoring, control and audit (Mamedova 2013). These stages are discussed in details further.

Procurement planning within 44-FZ

Mandatory procurement planning will come into force from January, 1, 2015, and it will imply preparation, approval and maintenance of procurement plans and schedules (Federal Law 44-FZ, chapter 2). Procurement plan is prepared for the subsequent financial year by state organization and it includes description of goods, purpose and frequency of procurement, procurement procedure, expenses involved and grounds for purchase (Novakovskiy 2013). Planning has to be transparent, and if necessary, it can be appealed against (Umyarova 2013). Umyarova (2013) provides the following example: the Customer wants to purchase goods or services by restricted tender. Small company that is able to fulfil such contract as well, but was not preselected can submit a note to Federal Antimonopoly Service (Umyarova 2013).

Certain requirements to the purchased goods and services have been established (Novakovskiy 2013). Thus, purchase of goods or services exceeding 1 billion roubles has to be approved by different organizations including Main Oversight Directorate of Federal Antimonopoly Service, Department of Economic Policy and Development (Federal Law 44-FZ, chapter 2).

Approved procurement plan has to be published on-line in the unified database within 3 days after its approval or modification (Federal Law 44-FZ, chapter 2). Procurement schedule contains list of goods, works, services necessary for the organization for the relevant financial year (Novakovskiy 2013). From January, 1, 2016 procurement is to be performed only in accordance with approved procurement schedule (Federal Law 44-FZ, chapter 2).

Customers whose procurement budget exceeds 100 million roubles (2.1 million euro approx.) per year are obliged to allocate subdivision responsible all stages of public procurement: procurement planning, publication of all documentation in unified information system, contract administration, and procurement audit (Federal Law 44-FZ, chapter 2).

Contract performance

A few novelties have been introduced in the new legislation regarding contract performance. Bid assessment should be performed by combination of two criteria: one of them is price, and another one can be either quality or functional features of the procured goods, or contractors' qualifications and resources (Novakovskiy 2013).

According to Contracting Law, options for choosing a contractor are: tender, auction, single-source procurement, request for quotations and request for proposals (Federal Law 44-FZ, chapter 3, article 24). Under 44-FZ customer can choose the most suitable tender procedure in the procurement schedule. Tender can be performed in the following forms: open tender, restricted tender, two-stage tender, closed tender, closed restricted tender, and closed two-stage tender proposals (Federal Law 44-FZ, chapter 3, article 24). Open tender is the most common procurement procedure while restricted tender and two-stage tender can be performed for procurement of innovative goods or highly-specialized services (Novakovskiy 2013).

Information about open tenders and auctions is to be published in the unified electronic system (Serkov 2014). If two or more Customers need the same goods, works and services, such Customers have the right to conduct joint tenders or auctions (Federal Law 44-FZ, chapter 3).

Tenders are evaluated by tender committee that consists of at least five members (Federal Law 44-FZ, chapter 3). For healthcare industry tender committee usually includes "representatives of the Federal or Regional Healthcare Ministry/Committee, the

Ministry/Committee for Economic Development and Trade, the Mandatory Medical Insurance Fund and the special Public Procurement Department” (Russian Healthcare system overview 2010).

According to 44-FZ, open tender takes 20 days instead of 30. If there are not enough participants during that time, it is prolonged for 5 days more, and for 10 days with increasing of price for 10% (Federal Law 44-FZ, chapter 3). Only after that it is possible to sign the contract with the only participant (Finmarket 2013).

Single-source procurement is possible only in exceptional cases envisaged by the Law (White & Case 2013).

Informal tendering can be performed in 2 forms: request for quotation and request for proposal. Request for quotation implies price as a main criterion for contractors' assessment, while in request for proposals procedure the winner is chosen based on the best terms of contract execution (Federal Law 44-FZ, chapter 3, articles 24 and 83). Closed tenders of different types can be applied in case of procurement of goods, works and services that constitute a state secret (Novakovskiy 2013).

Under the new 44-FZ information about performance of the certain contract stages should be published in the unified data system (Serkov 2014).

Important novelty of new legislation is obligation of Supplier to provide bank guarantee to secure Customer in case if contract obligations are not fulfilled (Federal Law 44-FZ, chapter 3, article 44). Moreover, anti-damping measures are introduced (Federal Law 44-FZ, chapter 3, article 37). If Supplier decrease the price of the contract for more than 15%, it is obligatory to justify that price. If price of the contract is 25% less than starting price, Supplier has to make a deposit which will be 50% bigger than stated in tender documentation (Smirnova 2014).

Contract amendments and termination

44-FZ allows modification of contract terms according to changing conditions (Serkov 2014). According to Article 95, termination of the contract is allowed by agreement of the parties, by a court decision, or in case of a unilateral refusal in accordance with the civil legislation provided that it was stipulated in the contract (Federal Law 44-FZ, article 95). The Customer is allowed to terminate the contract unilaterally if supplier violates the contract terms (Federal Law 44-FZ, article 95).

If Supplier repudiates from fulfilling the contract, the Customer is allowed to purchase the required goods on the basis of request of proposal (Novakovskiy 2013).

Procurement monitoring, audit, state and public control

Procurement monitoring and audit are two important innovations provided by 44-FZ (Federal Law 44-FZ, chapter 4). Audit is performed by the Accounts Chamber of the Russian Federation and local authorities (Federal Law 44-FZ, chapter 4). They will evaluate whether expenses for procurement under proposed contracts are legal, reasonable, timely, and efficient (Novakovskiy 2013).

New Federal Law assigns Ministry of Economic Development of the Russian Federation as a federal executive authority in charge of procurement contracting regulation (Federal Law 44-FZ, chapter 4). Supervision over public procurement, except for control over the state order for defence, is performed by the Federal Anti-monopoly Service of the Russian Federation (FAS) (at the federal level) and by the respective authorized supervisory body (at the municipal or regional levels) (Russian Healthcare system overview, 2010). Under 44-FZ powers of control agencies have been extended to the overall control of the procurement process (Federal Law 44-FZ, chapter 4). Moreover, public control over the state procurement has been introduced (Mamedova 2013). Individuals, public and legal entity associations are able to independently monitor procurement process and assess its efficiency; to submit their contract performance evaluations to state and municipal authorities; to report about violated rights or legal interests to the court (Federal Law 44-FZ, chapter 4).

3.2.3 Federal law 223-FZ: Procurement of Goods, Works and Services by Certain Legal Entities

Federal Law 223-FZ regulates procurement of goods and services by state-owned corporations, “natural monopolies, entities involved in regulated operations (electricity, gas, heat and water supply, etc.), state and municipal unitary enterprises, state autonomous institutions, business entities in which the Russian Federation, a constituent entity of the Russian Federation or a municipality hold an aggregate of over 50%” (Federal Law 223-FZ). Moreover, institutions that receive grants or other non-budget financing are also allowed to perform procurement according to 223-FZ provided that they submitted procurement statute before January, 2014 (Federal Law 223-FZ). Otherwise, procurement process has to be regulated by 44-FZ. The procurement statute

must stipulate the requirements on purchases, including purchasing methods (Goltsblat 2011).

223-FZ is much less restricted and regulated than 44-FZ (OTC tender). First of all, procurement plan for goods, works and services is made for at least one year (5-7 years for innovative goods) and can be modified at any time (OTC tender). Secondly, the Customer has a right to use his own procurement methods and own criteria for choosing the winner (Roszakupki portal). However, tender always has to be included in procurement statute (Federal Law 223-FZ). Purchases under 100 000 roubles (2100 euros approximately) do not need to be announced on the official web-site. For organization with revenues over 5 billion roubles (nearly 106 million euros) per year threshold is 500 000 roubles (10 600 euros) (Federal Law 223-FZ). Thirdly, in technical specification Customer does not need to indicate “product equivalent” (OTC tender). Fourthly, is not obligatory to justify the maximum contract price. Fifthly, contract amendments can be made after the winner has been chosen (Roszakupki portal). Another important feature of 223-FZ is that if tender has failed, the Organization has a right to sign a contract with a single supplier (Tolstobokov 2013). Therefore, 223-FZ sets only general requirements and principles for procurement processes. Basically, procurement can be performed according to Procurement Statute developed and approved by the Customer (OTC tender).

3.2.4 Position of the foreign supplier in the state procurement market

A few years back, position of foreign suppliers was political rather than economical question and required “hierarchical decision-making” (Larjavaara 2004).

According to 94-FZ, domestic products shall be purchased at the first place (Federal Law 94-FZ). However, if a foreign product has a technical superiority and there are no Russian analogues available on the market, it can be purchased (Federal Law 94-FZ). Therefore, legally it was relatively easy to enter the Russian market with technically sophisticated goods (Russian Healthcare system overview 2010).

According to 44-FZ, Russia is obliged to abolish direct restrictions for participation of foreign suppliers in state procurement. Article 14, part 1 of 44-FZ states that “national treatment is applied to goods originating from foreign state... on equal terms with goods of the Russian origin... under conditions provided by international treaties of the Rus-

sian Federation” (Federal Law 44-FZ, article 14). National treatment will be applied to certain states, with whom Russia has signed international treaty agreement. However, there are certain admission criteria for procurement of foreign goods in order to protect domestic market and develop national economy (Federal Law 44-FZ, article 14). For example, 223-FZ states that Russian government has a right to establish priority of goods, works or services, produced or performed by domestic organizations over the goods and services provided by foreign companies (Federal Law 223-FZ).

3.3 Comparison of state procurement systems in Russia and EU-countries

3.3.1 Legislation

Public procurement in the European Union is based on the Directive 2014/24/EC “on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts” (Directive 2014/24/EC). According to the document, state procurement should meet principles of equal treatment, non-discrimination, freedom of establishment, mutual recognition, proportionality and transparency (Directive 2014/24/EC). Moreover, public contracts above the certain value should ensure high level of competition among the suppliers. The directive advises “how contracting authorities may contribute to the protection of the environment and the promotion of sustainable development, whilst ensuring the possibility of obtaining the best value for money for their contracts” (Directive 2014/24/EC). The customer should use transparent and non-discriminatory procurement procedures. To increase competition and speed up the procurement process electronic purchasing has been implemented (Public procurement guidelines – Competitive process).

Annex II of the EU directive establishes thresholds for obligatory publications of contracts in the Official Journal of the European Union (OJEU) (Directive 2014/24/EC, annex II). Thresholds are revised every two years (Directive 2014/24/EC). In Russian procurement system such thresholds are also specified in the legislation (Federal Law 44-FZ, chapter 3). However, these thresholds are significantly lower.

The provisions of the EU Directives are closely harmonized with Government Procurement Agreement (GPA) (World Trade Organization). GPA is a formal agreement concluded by a number of member States of the World Trade Organization to pursue an

open and non-discriminatory public procurement (Public procurement guidelines – Competitive process). The purpose of GPA is “to open up as much of this business as possible to international competition”, so that procurement regulations and procedures do not discriminate against foreign products or suppliers (Government Procurement Agreement). At the moment 42 countries are signatories to the GPA including United States, Japan and all 28 states of European Union (World Trade Organization).

3.3.2 Procurement methods

In the procurement systems of both Russia and EU-countries, different procurement methods can be applied depending on value of the purchase (Directive 2014/24/EC; Federal Law 44-FZ, chapter 3):

- 1) Verbal quotes from one or more competitive suppliers;
- 2) Request for quotation sent to at least three suppliers;
- 3) Formal tendering – for products and services above set threshold value.

Notices of purchasing are published at the Official Journal of the European Union (OJEU) or on the web at <http://simap.eu.int>. In Russia notices of purchasing are published on the web at <http://zakupki.gov.ru>. According to 44-FZ all procurement information will be published in unified data system (Federal Law 44-FZ).

According to Directive 2014/24/EC, there are three types of notices in EU-procurement system: Periodic Indicative Notice (PIN), Invitation to tender and Contract Award Notice (CAN) (Directive 2014/24/EC). PIN indicates the annual estimated procurement volume for every contracting authority, products and service to be purchased during the year. Publication of PIN is strongly recommended if value of products or services to be procured exceeds 750000 euro (Public procurement guidelines – Competitive process). In Russia new legislation 44-FZ obliges state organizations to publish procurement plan that are similar to PIN (Federal Law 44-FZ, chapter 2). Invitation to tender is a formal invitation to supplier to participate in the bidding process (Directive 2014/24/EC). CAN is notification about awarding a contract to a certain supplier; it also includes information about price and reasons for selection (Directive 2014/24/EC). Obligation of the contracting authority to publish all three types of notices significantly increases competition between suppliers and transparency of the procurement system (Public procurement guidelines – Competitive process).

Open, restricted or negotiated tendering can be applied (Directive 2014/24/EC). In case of restricted tendering selection of potential suppliers should be made in accordance with specified criteria such as overall suitability, technical competence, experience and financial standing (Directive 2014/24/EC). All criteria have to be “objective, transparent and proportionate” (Public procurement guidelines – Competitive process).

3.3.3 Awarding the contract

In EU-countries, contracts are awarded on the basis of the lowest priced tender or the most economically advantageous tender (MEAT) (Public procurement guidelines – Competitive process). In addition to price, MEAT includes other criteria such as running costs, servicing costs, level of after sales service, technical assistance, technical merit, environmental characteristics and delivery period (Directive 2014/24/EC, article 53). In Russia “minimal price criteria” has been adopted with introduction of 94-FZ, therefore, contract was awarded to eligible candidate who offered the lowest price (Federal Law 94-FZ). New 44-FZ takes in account two main factors: one of them is price, and another one is quality of the procured goods, or contractors' qualifications (Federal Law 44-FZ, chapter 3). However, introduced by 94-FZ concept of “maximum (starting) contract price”, which is absent in EU procurement directive, still remains in new legislation 44-FZ (Smirnov 2013). According to Smirnov (2013), it turns all procurement procedures to auction, still keeping the price as a main criterion for awarding the contract.

In EU-countries, two envelope method can be used for awarding the tender (Directive 2014/24/EC). Participants submit their proposals in two parts. The first part contains technical information about products or services, and the second part contains the sum of the contract. At the beginning of the tender only the first envelope is opened to check if technical specification provided meets the requirements. Financial proposals are checked only if technical part is satisfactory. Offers are evaluated by calculating Weighted Average Score of both financial and technical parts. Therefore, two-envelope method enables to award tender with “the best value for money” (Directive 2014/24/EC). Scoring system is often used for comparative assessment of tenders in order to achieve high objectivity and transparency. Two-envelope method also exists in Russia but scoring criteria are different (Federal Law 44-FZ)

3.3.4 Summary of key differences

The institute of public procurement in EU-countries is unified and centralized, and employs different techniques for ensuring high transparency and competition (Directive 2014/24/EC). Public procurement institute in Russia has been established with introduction of 94-FZ in 2005 (Federal Law 94-FZ). However, 94-FZ did not regulate procurement planning, neither control over the state procurement (Yakovlev et al. 2010). The main goal of the legislation was to ensure high competition; therefore, no qualification requirements have been applied to contractors that resulted in a huge number of defaulting suppliers (Rozhkov & Balaeva 2010; Yakovlev 2010). Therefore, attitude to procurement process among state organization has been negative since it was taking a lot of time, while results of the tender almost turned to a gambling (Rozhkov & Balaeva 2010).

According to Kudryavtseva and Novikova (2010), there are several reasons for ineffectiveness of public procurement system in Russia in comparison with other countries (Kudryavtseva & Novikova 2010). First of all, Russian procurement system was implemented basing on the USA procurement institution. However, huge differences between economies of two countries were not considered. Proper functioning of public procurement in Russia requires not only effective procurement legislation, but also major changes in juridical system, institutional infrastructure, entrepreneurship culture and mentality. Secondly, USA procurement system was transplanted only partially, and some important elements of the public procurement legislation were left out. Basically, 94-FZ regulated only one stage of public procurement - placing the order.

In January 2014, a new procurement law (44-FZ) has been adopted. It will be fully implemented by January 2017 to enable adaptation of federal and municipal procurement system to the innovations (Federal Law 44-FZ). 44-FZ is supposed to improve functioning of Russian procurement system in many different ways: it introduces obligatory procurement planning, procurement control and audit and allows to set pre-qualification requirement to contractors (Novakovskiy 2013; Mamedova 2013). Moreover, Customers interests will be protected by introducing unified register of bank guarantees and anti-dumping measures (Smirnova 2014). However, some specialists tend to think that new legislation will be not much better than the old one (Finmarket 2013), and it will require additional improvements (Sidorovitch 2013)

The aim of public procurement is getting “the best value for money”, therefore, a number of methods and scoring systems are widely used in EU-countries (Directive

2014/24/EC). Unfortunately, in Russia under 94-FZ price was, in fact, the only criterion for contract awarding (Yakovlev 2010). At the end Customer could receive “equivalent” products of inappropriate quality (Rozhkov & Balaeva 2010). New procurement legislation 44-FZ considers two main criteria for choosing the winner: price and technical advantage of the offer or suppliers' capabilities and resources (Federal Law 44-FZ, chapter 3). However, “maximum (starting) contract price” concept, which is absent in EU procurement directive, still puts the price above other criteria (Smirnov 2013).

Despite all pitfalls, the public procurement market in Russia is developing rapidly that makes it very attractive to companies around the globe (Taylor 2013; Railean 2012). According to Ministry of Economic Development of the Russian Federation, in 2012 the state procurement was equal to 24.4% of total GDP (Ministry of economic Development of Russian Federation). Impact of 44-FZ on the state procurement in general, and especially on position of foreign suppliers in the Russian market remains obscure. Therefore, thorough analysis of procurement system in Russia under the changing legislation environment is extremely important.

4 Best practice of public procurement from Supplier's prospective

The chapter is divided into two parts. The first part describes universal recommendations on how to succeed in public procurement process, as found from different sources (mostly articles and guides prepared by procurement agencies of different countries or consulting companies). The second part is focused on key success factors tailored to the Russian procurement process.

4.1 Key factors for success of supplier in public procurement

Tender market in developed countries represents significant opportunities to secure new business and grow operations (Kempter 2010). However, “the tendering process is notoriously complex, time-consuming and bureaucratic, despite government efforts to make it more straightforward and more accessible” (Smarta business portal).

Most literature found on best practice of public procurement are related to its success from the Customers' or Governments perspective, such as ensuring high transparency and equal opportunities for suppliers (OECD report 2007; Improvement of public procurement procedures – international business leaders forum). Success of supplier in public procurement is mainly neglected since it contradicts its main principle: winner should be the bidder providing the best value for money. Some basic recommendations for suppliers are only provided in bidder's guides, prepared by national procurement agencies (e.g Government and business portal of Victoria, Australia). Moreover, some articles are available on business portals (Is4profit portal; Smarta portal). Recommendations for suppliers are summarized below.

1) *Plan tenders in advance*

The Supplier should carefully analyze the Customers' annual procurement plans in order to prepare a schedule in which tenders the company will be able to participate (Dun & Bradstreet Australia, 2014). It is necessary to target only relevant tender opportunities; thus, critical evaluation of company's time and resources is crucial (O'Halloran C., 2012). Overestimation of its own capabilities can be a fatal mistake, since failure to deliver services or product in time will result in penalties and affect company's reputation in procurement market (Seda.org portal).

2) *Get to know your customer needs*

A strong consideration for Customers' needs is a key factor for success in the state procurement market (Eden-Ellis 2012). Thus, supplier should acquire full information about the Customer: its main goals, activities and organizational structure (Is4profit portal). Potential contractor has to show a clear understanding of customer's objectives and provide detailed solution to achieve them. According to Eden-Ellis (2012) "demonstrating a clear empathy with their (*Customers - Author*) aspirations will set you apart from your competitors".

In every tender, there is a contact person to whom all questions can be addressed, so it would be wise to get in touch with that person (Is4profit portal). Therefore, the supplier might not only get answer to his questions, but also access other useful information, for example, who the current supplier is (if it is contract renewal), and if procurement organization is satisfied with this contractor (Is4profit portal).

3) *Build the relationships*

Networking and building relationships with Customer are extremely important (McDonald 2013). Customer has to know Supplier to trust him; therefore, participation in information sessions, networking event or forum will be quite useful. At these meetings Supplier can provide procurement organization with company profile, track record and contact information (Dun & Bradstreet Australia 2014).

4) *Make a convincing executive summary*

Executive summary gives overview of the main points of the bid and it is a "facade" of the tender application; thus, it has to be logical, self-explanatory and compact (Eden-Ellis 2012). Executive summary has to state customer objectives and highlight the principal benefits of proposed service or product supported by references to testimonials, clinical trials and case studies (Is4profit portal).

5) *Meet tender criteria*

A successful tender has to meet all tender specifications and conditions (McDonald 2013). It is of utmost importance to study instructions thoroughly and follow them as even minor discrepancy with requirements (e.g. font size) can make the bid eliminated at the early stage (Kempter 2010). All relevant forms should be submitted in required

amount of copies: all questions of the application should be carefully addressed, even if it is necessary to repeat the same information several times (Government and business portal of Victoria, Australia). If something is unclear, supplier has to contact procurement organization in writing (by e-mail or post) (Is4profit portal). Attending the pre-bid meeting is also useful to make necessary clarifications times (Government and business portal of Victoria, Australia).

6) Make a good value proposition

The goal of every procurement procedure is to get a good value for money that means choosing the bid that provides the desired outcome at the best possible price (UNCITRAL Model Law on Procurement of Goods and Construction 1993). However, price as such is rarely the most important criteria (McDonald 2013). Low initial price of the contract is not attractive if running and maintenance costs are high or company is unknown (Kempter 2010). Therefore, if company's product can provide additional benefits to the Customer, they should be clearly identified and explicitly explained in tender documentation (Kempter 2010). Testimonials, case studies, awards, accreditation, and third party's audits should be provided additionally to the application (as appendices) to support the bid (Eden-Ellis 2012). Moreover, it is wise to offer multiple combinations of value propositions with a breakdown of costs (Government and business portal of Victoria, Australia).

Selection of winner is usually based on following criteria (Kempter 2010; McDonald 2013):

- 1) Technical capabilities and qualifications;
- 2) Financial and corporate stability;
- 3) Quality assurance processes;
- 4) Experience in the field;
- 5) Ongoing support;
- 6) Cost savings;
- 7) Performance history;
- 8) Innovations, research and development;
- 9) Associated risks

A thorough analysis of scoring criteria and relative weighting/ranking will show how to strengthen the application by providing extensive information in key areas with higher weighting (Smarta business portal).

According to Government and business portal of Victoria, Australia, a high level of customer service is usually very important factor for success; therefore, customer service proposals should be detailed, explicit and relevant (Government and business portal of Victoria, Australia).

In case of government contracts, tenders must also take in account government policy objectives, such as environmental concerns, energy usage, sustainable use of resources (McDonald 2013). Therefore, it is worth mentioning company's "green" initiatives or participation in ecological or blood donation programs (Zemaitis 2014). However, it has to be clearly demonstrated how these features will benefit the Customer (cost saving, waste reduction, good image) (Eden-Ellis 2012; Is4profit portal).

Another challenge in providing the best value proposition is to show the Customer that his risks are minimal (McDonald 2013). However, it is rather difficult if company has just entered the state procurement market. Therefore, providing supporting documentation such as customer references, examples of previous projects and support letter from associated organization, will be useful (Kempter 2010).

7) Build a trusted network of subcontractors

To broaden the company's opportunities in procurement market and enhance the bid development, collaboration with reliable partners is a necessary step (O'Halloran 2012). Moreover, for inexperienced companies strategic partnership with well-established businesses can be especially beneficial (McDonald 2013). Successful participation in a few contracts as a subcontractor will gain a good reputation in the state procurement market (Eden-Ellis 2012).

8) Double-check and proofread all documentation

Negligence in tender documentation might lead to the bid's rejection (Is4profit portal). It is necessary to make sure that all questions are answered, copies of the documents are provided, signatures are put in places, spelling errors are absent and all references are correct (Eden-Ellis 2012).

9) Learn and reflect

Analysis of lost tenders will help the company to improve the application in future (Seda.org portal). Providing feedback upon request is a legal obligation of the Custom-

er; therefore, it is always possible to ask comments about selection process to understand why the company's bid did not win (Is4profit portal). Moreover, it is good to collect information about the winner since it will provide additional tips to prepare a stronger bid next time. In addition, it might open up subcontractor opportunities (Is4profit portal).

4.2 Key factors for success of supplier in public procurement in Russia

Russian procurement market represents a range of opportunities for companies around the world. However, bureaucracy, corruption, power of personal relationships and legislation nuances have always been the main obstacles for success in the Russian public procurement market (Larjavaara 2004). There are only a few studies providing relevant guidelines for companies launching business in Russia (Larjavaara 2004; Russian Healthcare system overview 2010). Moreover, recommendations for bidders are available on web-sites of state procurement platforms (OTC tender, RTS tenders), governmental portals (Open Torg) and consulting companies. Some of these recommendations are universal to tender process in every country, and they were discussed in details in previous chapter. In this chapter I will only describe factors that are especially important for success in Russian procurement market.

1) Find a reliable local partner

According to Larjavaara (2004), finding a trustworthy distributor is a key factor for success; otherwise, it will be extremely difficult to go through all registration formalities and certification process. Moreover, language can be a serious obstacle on the way of starting business in Russia (Russian Healthcare system overview 2010). All project description and guidelines are available in Russian, and the applications have to be submitted in Russian only (Swiss Business Hub Russia 2011). Beyond all doubts, Russian partner will have a better understanding of the market, state procurement legislation and local culture. If the company does not want to assign a distributor it needs to have “experienced staff working in this business for many years” (Russian Healthcare system overview 2010). Companies with no experience in public procurement can also collaborate with specialized agencies that will help to prepare tender documentation (Larjavaara 2004).

2) *Build contact network*

Good relationships with customers are important in every country. However, in Russia it is impossible to succeed without personal contacts (Larjavaara 2004). Russian society is very hierarchical; therefore, “it is important to deal with decision-makers” (Russian Healthcare system overview 2010). Moreover, Russia is known as a country driven by culture of personal relationships. As Larjavaara (2004) notices:()

Winning the contract without personal contacts was not possible because most contracts are actually awarded before competitive bidding on the basis of mutual agreement with parties.

Building a wide network of contacts in different organizations including local authorities will also be useful for getting a practical advice in many different situations (Russian Healthcare system overview 2010). However, building personal contacts with customers and decision-makers might take longer than in European countries (Russian Healthcare system overview 2010).

Larjavaara (2004) proposed the following scheme to penetrate the public procurement market (Larjavaara 2004). First of all, foreign supplier must identify the end-user for the product and get in touch with him and make him interested. The next stage is marketing to the management of the organization. If organization is motivated to purchase the products in question, the customer can simply prepare a technical specification in a way that it will match a product of the company. The final stage of the process is to submit a reasonable tender (Larjavaara 2004).

3) *Overcome unfair competition*

Strong hierarchy in society and power of personal connections stimulate emerging of corruption in the country. Nowadays, corruption is one of the biggest problems of Russian procurement market (Yakovlev & Demidova 2010; Guriev et al. 2010). Basically, in some tenders the “winner” could be known long before bidding (Larjavaara 2004). However, there are some nuances that might help to overcome this problem (Open Torg portal 2013):

1) If the Customer asks to show price-list before inviting to tender, there is a possibility that Procuring organization already chose its supplier. In that case, it is wise to bring document with higher prices. Therefore, the company will be invited to tender because fraudulent Customer would assume that it pose no risk to the “favorite” supplier due to high prices

2) Envelope with contract price should be sealed carefully, stamped and signed to avoid its replacement and falsification of documents.

3) Tender documentation should not be sent too early, ideally it has to arrive just before the evaluation. In that case it will not leave any chance for the “favorite” to change its proposal and reduce the prices.

If during tendering process there are obvious “preferences” towards a certain company, Supplier has to make a complaint to controlling organization (Open Torg portal, 2013).

4.3 Summary of key concepts for succeeding in public procurements

Analysis of relevant literature regarding best practice in public procurement showed that successful participation in tenders requires careful planning and preparation. Planning includes thorough monitoring of upcoming procurement activities, setting the targets and development of schedule for preparation of tender documentation (O’Halloran 2012; Dun & Bradstreet, Australia 2014). It is important to choose the most relevant tenders that company will be able to execute. During preparation step Supplier should gather information about the Customer, evaluate its needs and problems and offer a possible solution. According to Skjeveland (2012) “customers do not buy what it is, they buy what it does for them. They buy benefits, not features” (Skjeveland 2012). Building good relationships with the Customer is a key factor for tender success (Eden-Ellis 2012).

Scrutiny of instructions is necessary for preparation of tender documentation as even a small discrepancy with requirements might get the bid eliminated at the first round of evaluation. As Skjeveland (2012) says, “at the early phase of evaluation they (*Tender committee - Author*) are not looking for winner. They are looking for losers”. Key element of a successful bid is a good value proposition, explicitly identifying all benefits of the offering for the Customer. Tender documentation should include key competences of the company and its experience supported by references about the company from previous clients. Before sending the bid, the Supplier should proofread all documentation to make sure that everything is done properly.

There are a few tips to avoid unfair competition in Russian procurement market: price proposal should be carefully sealed and stamped to prevent falsification and bid should be sent just before the evaluation. If Supplier notices any violation of tender procedure

it should immediately notify organizations responsible for the control over the state procurement. Finally, many authors emphasize that tender success comes with experience. The more tenders company participates in, the more chances it has to succeed.

5 Results

Building guidelines for EU-suppliers requires in-depth analysis of main pitfalls of the current Russian procurement system as it helps to understand the concerns and associated risks for both the Customers and Suppliers. Moreover, it is necessary to evaluate possible impact of new procurement legislation (44-FZ) for elimination of current problems of the current Russian procurement system. Therefore, the chapter was divided in three parts. It starts with description of the most relevant problems of the current Russian procurement system (based on the interview results). The second part is dedicated to respondents' opinions about 44-FZ and their role in improving public procurement efficiency. The third part of the chapter explains the key factors for success of foreign supplier in public procurement as based on analysis of the interviews.

5.1 Key pitfalls of Russian procurement system

Respondents participating in the interviews mentioned the following key problems of the current public procurement system in Russia:

- 1) Lengthy time frame of procurement cycle;
- 2) Uneven financing of state organizations throughout the year;
- 3) Bureaucracy;
- 4) Opportunistic behavior of suppliers;
- 5) Low threshold allowing procurement by informal tendering;
- 6) Price is a key criterion for contract awarding;
- 7) Corruption;
- 8) Lack of transparency;
- 9) Lack of planning in the state procurement;
- 10) Lack of control over procurement;
- 11) Constant modifications of existing legislation.

Table 3 below shows which problems were the most relevant for each group of respondents.

Table 3. Problems of public procurement system in Russia among respondents of different groups*.

Problem	Number of respondents		
	Customer's group (5 interviews)	Supplier's group (3 interviews)	Expert's group (1 interview)
Lengthy time frame of procurement cycle	4	0	0
Uneven financing of state organizations throughout the year	2	0	0
Bureaucracy	4	0	0
Opportunistic behaviour of suppliers	4	1	1
Low threshold allowing procurement by informal tendering	2	0	0
Price is a key criteria for contract awarding	3	1	1
Corruption	0	2	0
Lack of transparency	2	1	1
Lack of planning	1	0	1
Lack of control over procurement	1	0	0
Constant modifications of legislation	2	0	0

* Each respondent could mention several problems.

As seen from Table 3, the problems such as lack of transparency, price as a key criterion for contract awarding and opportunistic behavior of suppliers were mentioned by respondents from all groups.

Some problems were mentioned either by Customers or Suppliers. Indeed, corruption and unclear position of foreign-originated goods are relevant only for Suppliers and Experts while Customers are bothered by lengthy time frame of procurement cycle, uneven financing of state organizations throughout the year, bureaucracy and low thresholds for procurement by informal tendering.

Analysis of the interviews showed that all problems of Russian procurement system are related to each other. For example, lengthy time frame of procurement cycle would not be such a big problem if financing of state organizations throughout the year was organized differently. Currently, funding for state organizations for the upcoming year is available only in March (Appendix 2). In addition to budget financing, research institutes might also have non-budgetary funding or grants that will come in April-May or later (Appendix 2). Interviewee #1 emphasized that such situation with financing

“leaves little time for us to go through all stages of procurement and receive the product before the end of the year” (Appendix 2).

Interviewee #2 says (Appendix 2):

At the beginning of the year we cannot purchase even laboratory gloves, but at the end of the year we have to find ways to spend the rest of the money. If we do not spend all the money we got, next year we will receive less.

Therefore, the situation with financing is extremely unfavorable for Customers. At the same time for Suppliers it becomes more difficult to rationally plan tenders and evenly distribute time and resources, since end of the year is usually extremely busy. Both Customers and Suppliers have to work in a rush and, as a result, mistakes in tender documentation from each party are unavoidable.

The problem of uneven financing of state organizations for the state procurement has also been mentioned in literature data. Thus, according to report of Federal South University, in 2012 for some projects non-budget financing came to the Organization's account only in October-December (News of Federal South University, 2013). Dr. Alexey Khokhlov, deputy rector of Moscow State University commented the situation (News of Federal South University, 2013):

Existing procurement legislation requiring obligatory contracts with Supplier makes impossible procurement of items not available in stock... Indeed, approving, signing and registration of the contract takes time. As a result, if Customer ... receives money only in December, Supplier has no time to deliver anything...

According to Khokhlov (2013), the cause of the problem is uncoordinated work of Ministry of Education and Science, research funds and Ministry of Finance (News of Federal South University 2013).

The problems of bureaucracy and low thresholds for using simplified procedures (request for proposal and request for quotation) are also interrelated. Products for medical research are usually expensive that makes open tender procedure unavoidable. Since in many cases preparation of the documents for tender is a responsibility of every subdivision or laboratory, scientist or medical doctor has to interrupt the research that eventually brings frustration and reduces productivity. In some cases Supplier even divides an expensive product (e.g. reagent kit) in several parts so that each part can be purchased separately and tender procedure can be avoided (Appendix 2).

Respondents from all groups noticed that price is often more important criteria than the quality or characteristics of the product. One interviewee described the following situation: the Organization planned to buy a real-time PCR machine. Real-time PCR is actively used nowadays for disease diagnostics: it allows multiplying a short specific region of pathogen's DNA (if it is present in the sample) and evaluating its concentration. There are some local and foreign companies that manufacture PCR equipment and tests for different infections. In most cases tests protocols are usually developed by the producer only to their own equipment. The respondent's laboratory used tests of one company since they were of good quality and relatively cheap. Moreover, some tests had unique combination of detected infections. Therefore, the staff wanted to buy a PCR-instrument of the same company. But another supplier offered similar instrument for a significantly cheaper price, and this bid won the contact. However, diagnostic tests that could be used for the purchased instrument were much more expensive, and on a long run buying this instrument was less profitable. At the moment this equipment stays idle most of the time (Appendix 2).

Applying the price as a main criterion for choosing the winner triggers opportunistic behavior of suppliers that offer the lowest price but do not fulfill the obligations.

Opportunistic behavior of suppliers in the current Russian procurement system was mentioned by the respondents from all groups. This problem is complex, and it was caused by few defects in previous legislation (94-FZ) such as (Yakovlev 2010):

- 1) Unlimited number of companies that could tender;
- 2) No restrictions regarding qualification or reputation of the participating Supplier;
- 3) No anti-dumping measures;
- 4) Legal possibility to deliver "equivalent" of the product mentioned in technical specification.

The interviewees also mentioned the following cases of fraud among suppliers (Appendix 2):

First, Supplier wins the tender by dropping the price of the contract enormously, but at the end Customer receives "equivalent" of the product that might be improper quality or lacking functionalities necessary for the Customer.

Second, Supplier wins the tender and then does not fulfill terms of the contract. This fake company disappears and appears later by a different name.

Similar situations have also been described in the study by Rozhkov and Balaeva (2010).

Interestingly, all respondents from the Customer group mentioned the problem of defaulting suppliers; however, none of them had personal experience. Therefore, it is likely that such a situation is not as common as Customers perceive it. It indicates, however, that the fear towards unknown companies is rather strong.

As mentioned previously, 94-FZ did not set any legislative base for proper procurement planning (Federal Law 94-FZ). And indeed, two respondents referred to the lack of planning as one of the problem of Russian procurement system. Interviewee #10 says that “even though some planning exists, planning and actual procurement do not match” (Appendix 2).

Lack of planning of state purchases seriously affects transparency of the public procurement process. 4 out of 9 respondents mentioned lack of transparency as one of the problems of public procurement system in Russia. Factors such as lack of control over contract performance and absence of guidelines for determination of maximum starting price of the contract contribute to low level of transparency (Appendix 2). Literature data also indicate that lack of standardized rules for presentation of procurement-related documents and lack of documents uniformity negatively affects level of informational transparency in different regions (Balsevich et al. 2011).

As it was previously shown, the lack of information transparency also significantly correlates with corruption (Balsevich et al. 2011). Literature data demonstrate level of bribes and kickbacks increased after introduction of 94-FZ (Yakovlev 2010; Bashina 2011). As mentioned by two respondents from Supplier’s group, corruption still represents a serious problem in the Russian public procurement system (Appendix 2).

Therefore, at the moment the public procurement system in Russia has multiple problems that affect both Suppliers and Customers. These pitfalls have to be taken in account by EU-supplier starting its business in Russia. Possible impact of 44-FZ on the public procurement system has to be evaluated.

5.2 Role of 44-FZ in elimination of existing problems of the public procurement system in Russia

Results of the interviews show that constant modifications of procurement legislation are confusing for Customers (Table 2). During 2005-2009 19 packages of amendments for 94-FZ have been introduced (Bashina 2012). From January 2014 procurement legislation changed again: 94-FZ was replaced with 44-FZ.

Figure 2 shows distribution of opinions about 44-FZ among different groups of respondents.

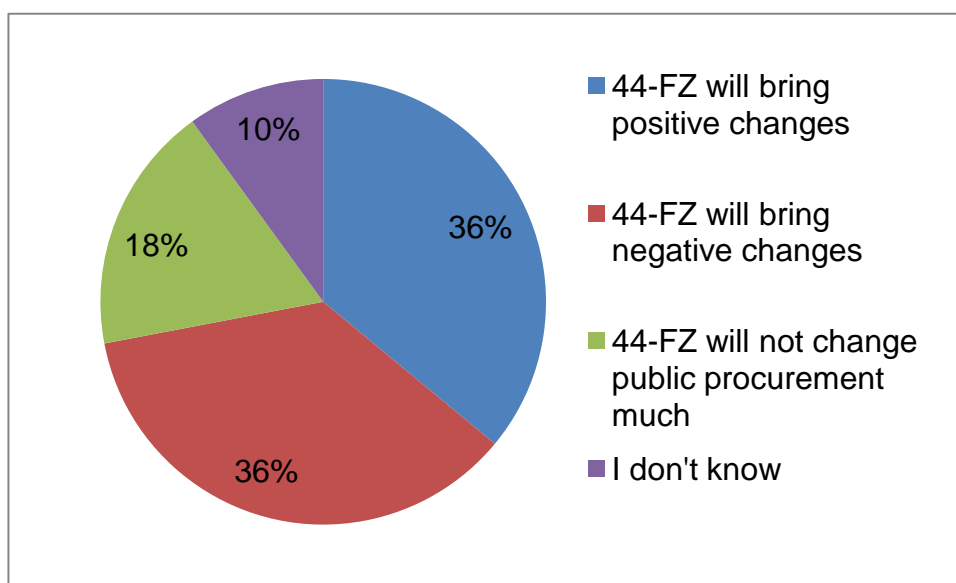


Figure 2. Attitudes towards 44-FZ among respondents

As shown in Figure 2, the respondents had different attitudes towards 44-FZ: 3 respondents believe that new legislation will improve public procurement system, while 3 others think that it will only add more problems in the current procurement process; 2 respondents mentioned both positive and negative aspects of new legislation.

Table 4 below summarizes respondents' answers regarding positive or negative influence of 44-FZ on public procurement process in Russia.

Table 4. Attitudes towards new procurement legislation among respondents of different groups*

Statement	Number of respondents		
	Customer's group (5 interviews)	Supplier's group (3 interviews)	Expert's group (1 interview)
44-FZ will bring positive changes by...			
Centralization of procurement process	1	1	0
Introduction of control over public procurement	1	1	0
Introduction of anti-dumping measures	1	0	0
Regulation of the whole procurement cycle	0	2	0
44-FZ will bring negative changes by...			
Increasing of bureaucracy	2	1	0
44-FZ will not change public procurement much	1	1	1
I don't know	1	0	0

* Each respondent could make several statements

As shown in Table 4, positive aspects of 44-FZ mentioned by interviewees are centralization of procurement process by creation of unified information system, regulation of the whole procurement cycle from planning till execution and introduction of anti-dumping measures and procurement audit. Negative aspect is increase of bureaucracy, for example, a need to publish even small purchases (Appendix 2). Three respondents (one from each group) did not believe that new legislation is able to change procurement system radically:

Introduction of only one new law can't solve all problems. Problems of public procurement lie much deeper, and many things have to be changed in many areas – in both political and juridical system of the country, and in business.
(Interviewee #10)

Interestingly that opinions about 44-FZ did not seem to correlate with group: both Customers and Suppliers had different attitudes towards 44-FZ. Literature data are controversial as well: some authors described numerous advantages of new legislation in comparison with 94-FZ (Mamedova 2013), while other experts extensively criticized 44-FZ (Finmarket 2013).

Another important aspect, especially relevant for EU-suppliers, is possible impact of 44-FZ on position of foreign-originated goods. As discussed previously (chapter 3.2.4), position of foreign supplier in the state procurement market under 94-FZ has been un-

clear (Larjavaara 2004). 44-FZ does not provide enough information regarding foreign originating goods either (Federal Law 44-FZ). Most likely, some regulatory acts will be introduced later. Interviewee #6 has rather pessimistic views about future of foreign-originated goods (Appendix 2):

According to previous legislation (94-FZ), Russian products had 15% preference in price comparing to foreign suppliers... But by 2017 the law regarding foreign-originated goods will become stricter, and they might not be considered at all if there is a Russian equivalent.

At the same time, two respondents assume that price preferences would not be such a big problem for suppliers in healthcare industry since “level of Russian technology in biochemistry and medicine is far behind EU-countries or United States” and currently most medical equipment and pharmaceuticals do not have Russian equivalent (Appendix 2).

New procurement law (44-FZ) is going to be fully implemented by January, 2017. Even though there are different opinions about 44-FZ, its real impact on efficiency of public procurement system is difficult to predict and evaluate at the moment. Therefore, additional wide-scale studies have to be made in a few years.

5.3 Building guidelines for EU-suppliers

5.3.1 Key factors for success of supplier in public procurement

All respondents were asked to identify factors that might contribute to success of foreign producer in public procurement process. The results are presented in Table 5.

Table 5. Factors for success of foreign producer in public procurement process*.

Factor	Number of respondents		
	Customer's group (5 interviews)	Supplier's group (3 interviews)	Expert's group (1 interview)
Contact network (good relations with Customers and Authorities)	5	2	1
Service	4	3	0
On-time delivery	2	0	0
Training and education	2	2	0
Knowledge of political, economic and legislative environment	1	1	1
Fluency in Russian	1	1	1
Manuals and software translated in Russian	2	0	0
Knowledge of Russian mentality and business culture	2	1	1
Positive experience of collaboration in the past	2	0	0
Reputation of the company	1	0	0
Reliable partner in Russia	0	2	2

* Each respondent could mention several factors.

As seen from Table 5, the most critical factor for success of foreign supplier in public procurement process is contact network - 8 respondents out of 10 mentioned this aspect. Contact network implies building good relationships with both Customers and Authorities. As one respondent noticed, supplier should have a "constant dialogue with Customer in order to foresee his needs and requirements". Importance of contact network in Russia was also demonstrated in previous studies (Larjavaara 2004; Russian healthcare system overview 2010).

To maintain good relationships with Customers, Supplier has to provide fast after-sales service that was considered very important by 8 respondents (Table 4). Figure 3 below shows output graph from Tropes software that shows relations between different keywords.

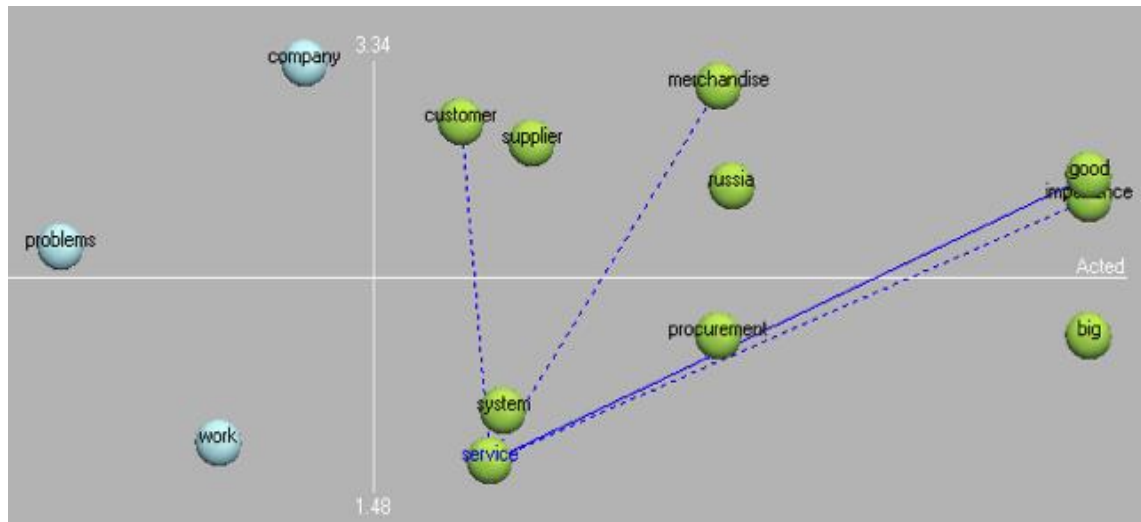


Figure 3. Output graph (Tropes software)

This graph enables a visual comparison of the weight of Relations between the main References: X axis (horizontal) shows the actant/acted ratio (from left to right); Y axis (vertical) shows the concentration of relations for each reference displayed (strong at the top of the graph, weak at the bottom). The lines show the relations between the reference selected and the other references displayed. A dotted line shows an infrequent relation. A solid line indicates a frequent relation (Tropes Software).

As it is seen from Figure 3, word “service” is strongly related to words “good”, “importance”, “customer” and “merchandise”. Organization of training and education for Customers is also crucial.

Respondents from all groups emphasized that foreign producer should have profound knowledge of political, economic and legislative environment, business culture and Russian mentality. Knowing the language is also important. Moreover, two respondents from Customer’s group mentioned that all supporting documentation for the product (manuals, software interface) has to be fully translated in Russian, since in many medical organizations staff does not understand English.

Two respondents from Customer’s group said that positive collaboration with Supplier in the past is a key factor for choosing this Supplier for next purchases. And indeed, the study by Yakovlev and Demidova (2010) showed that among the firms that did not win government orders in 2004, less than 30% won public orders in 2008, while among the companies submitting their offers in 2004, this indicator was 76% (Yakovlev & Demido-

va 2010). One respondent also admitted that if company is known to provide a good service and arrange on-time product delivery, price is not that important anymore (Appendix 2). Therefore, procuring organizations prefer to work with well-known suppliers even despite higher prices of their products. Probably, one of the reasons for that is a fear of defaulting companies (Chapter 5.1). Therefore, in Russia building strong relationships with Customer, based on trust, might be more important than in other EU-countries. It is a big challenge for the company, just entering the state procurement market, since it has no history of successful contracts.

Four respondents emphasized that finding a reliable partner is a necessary step for any EU-company starting to operate in Russia (Table 4). According to them, a potential distributor should have many years of experience in the Russian market and a good network of contacts that will be useful for development of business. According to Interviewee #10, “there is no way for foreign company to participate in procurement process without local partner” (Appendix 2). Interviewees #6 and #11 and also mentioned importance of trustworthy distributor for business success. Otherwise, “it is difficult to find out how things have to be done in Russia and in which order... It is still possible to solve these issues, but it takes much more time” (Appendix 2). Previous studies also demonstrated that good local partner is a key factor for success of EU-supplier in Russia (Larjavaara 2004; Russian Healthcare system overview 2010).

5.3.2 Guidelines for EU-suppliers

Guidelines for EU-suppliers have been developed with consideration for existing problems of the current public procurement. These recommendations are represented as key steps that are necessary for launching the business in Russia and succeeding in public procurement market. Guidelines are initially focused on healthcare industry but, in fact, they can be applied for any other sector.

1) *Define your strategy*

Defining the company’s strategy in the Russian market is the first and the most important step. Appropriate strategy has to take in account size of the company, available resources, complexity of products and services offered. There are different strategies to start business in Russia:

1. Finding a local partner

Finding a local partner is a good solution for small- and medium-size EU-suppliers since they might not have enough staff and resources to launch the business themselves. Moreover, as it was mentioned previously, a good network of contacts and deep knowledge of Russian culture is a key factor for success in public procurement. To find a reliable local partner it is important to analyze key players in the industry, gather information about each company and evaluate its experience and reputation. The next step is building the trust with your distributor, and it might take a long time, but results are rewarding. Finding a local partner has many advantages, since EU-supplier could avoid difficulties associated with launching the business and participation in tenders, since it fully becomes a responsibility of his distributor.

2. Establishing the branch office for service activities, but trading via distributors only

Bigger companies can choose establishing of a branch office in Russia for service activities, like one organization participating in the interview did. The company launches the equipment, provides engineering services and organizes education for its Customers. However, sales of their products are fully mediated by distributors (Appendix 2). It allows company to focus on engineering side of the business.

3. Establishing the branch office for both service and trade

For big companies, it might also be reasonable to establish a branch office in Russia for all business activities. Of course, it will require substantial investments. Proposed guidelines are mostly intended companies establishing its own subsidiary in Russia; however, they will also provide important information for local partners of EU-suppliers.

2) Perform thorough marketing research

Careful marketing research is important for launching export business in any country. However, due to changes in procurement legislation careful market research in Russia is a must. As mentioned previously, 44-FZ is likely to introduce certain preferences towards domestic products. Therefore, EU-supplier has to critically analyze the product to be offered in Russia and answer the following questions:

- 1) Does this product already have a local equivalent?
- 2) Is it possible for Russian producers to develop such equivalent within next years?

3) *Adapt your product to the Russian market*

Besides marketing research, adaptation of the product to the Russian market is crucial for success. One respondent said:

We perform tests to see possible mutations of embryo. Some mutations are quite common in Russia, some – have never been detected. That is why there is no reason for us to buy tests detecting mutations inexistent in Russia, so this product will never be popular.
(Interviewee #3)

In addition, all instructions for use and software interface should be translated in Russian.

4) *Plan tenders with consideration for uneven financing of state organizations during the year*

New legislation 44-FZ requires mandatory planning of procurement by submitting procurement plans and procurement schedule (from January 1, 2015). Upon introduction of mandatory procurement planning, the main task of Supplier is to monitor procurement plans of different organizations. Procurement schedule can provide a lot of important information such as description of goods, procurement procedure and grounds for purchase. As mentioned in Chapter 3.2.2, Supplier can appeal against chosen procurement procedure (for example, if Customer chooses restricted tender instead of open tender) (Umyarova 2013).

Importance of careful planning of tenders was mentioned by many authors (O'Halloran 2012; Is4profit portal). In Russia uneven financing of state organization throughout the year makes planning more complicated, since most tenders take place during the second half of the year, and some of them might overlap. Therefore, EU-supplier has to consider features of financing of state organizations. It will be wise to dedicate the first half of the year to gathering information about potential customers and building relationships with them (e.g. organizing presentation of the products for the staff). Moreover, it will be useful to prepare drafts of some basic documents in advance (e.g. information about the company). Most likely, they will have to be edited to meet the re-

quirements of a particular tender, but it will still gain some time during second half of the year. Uneven financing of state organizations also forces Supplier to critically evaluate his resources and capabilities before applying to overlapping tenders. If all tenders take place in September-October and the company wins most of them, it might be impossible to deliver products for all these tenders in time. Therefore, Supplier should carefully plan his activities throughout the year to avoid risking its reputation.

5) Build relationships based on trust

Importance of building contact network in Russia should not be underestimated. Russia is a country of personal relationships, and the way of doing business there is much different comparing to EU-countries. As one respondent noticed (Appendix 2):

In Finland we used to make business together, become partners, and after that you become friends. In Russia it is the opposite: basically, Russians tend to make business with their friends. Therefore, first you need to get to know people, build some trust, and only after that you can do business together. And that takes a lot of time. On the other hand, it is very understandable, and trust is to be found.
(Interviewee #11)

Therefore, relationships based on trust have to be built with partners and customers.

Building the trustful relationships with potential customer will require time. State organizations in Russia are afraid of defaulting suppliers; therefore, they will prefer to work with well-known companies. As demonstrated is study of Yakovlev and Demidova, large enterprises and companies with experience in executing public contracts have more chances to succeed in the state procurement (Yakovlev & Demidova 2010). 44-FZ introduces some changes to prevent opportunistic behavior of suppliers such as introduction of anti-dumping measures and restrictions for supplier qualification (Federal Law 44-FZ, articles 37 and 31, respectively). However, it will take some time before Customer can overcome its fear towards defaulting suppliers.

Therefore, a good starting point for a company just entering the Russian market is to “introduce” itself to potential Customer. Therefore, it is necessary to participate in specialized conferences and exhibitions and organize presentations about the products in the Organization (Appendix 2).

6) *Focus on your Customer*

Supplier or its local distributor has to focus on potential Customer and gather information about main activities of the Organization and its key needs.

It is also important to get in contact with the right person. Senior managers and heads of departments in the research institutes and medical organizations are always busy and might not have necessary knowledge about products that they have to buy. Therefore, the main target has to be doctors or researchers who would use the product. If they become interested, they can notify high management about their preferences.

According to evidence from literature, a phone call is a good way to contact the Customer and to get some valuable information about needs of the client and even possible competitors (Finlib portal). After the first call, Supplier could send an e-mail to thank the Customer for his time on the phone and make a short review of issues discussed (Finlib portal). However, Supplier should keep the right balance between being helpful and obtrusive. As one respondent noticed, staff of healthcare organizations could get extremely annoyed by “sales attitude” of suppliers and would unlikely discuss any collaboration (Appendix 2).

Quite often representatives of procuring organizations do not know all technical characteristics of equipment they have to buy. It is a duty of a sales manager of the company to provide all necessary information to the Customer. However, one respondent mentioned that in many cases she faced neglect and even arrogance from sales representatives. Therefore, it is extremely important to provide detailed answers to questions of the Customer and help him to find the best solution for his needs.

7) *Critically evaluate contract terms in tender documentation*

It is crucial to carefully read all tender documentation, especially terms of the contract. If Customer sets any illegitimate requirements, Supplier should immediately contact the Procuring organization and request to make necessary changes (Open torq portal). It is also possible that requirements of the Customer are legitimate, but, in fact, unrealistic for example, extremely short delivery terms. Interviewee #6 explains (Appendix 2):

It (short delivery terms) might be critical for suppliers, especially if procured goods are supposed to be transported far from Moscow. Russia is a huge country, 10000 km long from west to east, therefore, technically it is not possible to arrange delivery, let's say from Moscow to Vladivostok, during 1-2 days, as Customer claims it.

In this case, the Supplier should also contact the Customer and explain the situation.

8) Make a good value proposition – maximize benefits, minimize risks

The ultimate goal of public procurement is to get “the best value for money” (UNCI-TRAL Model Law on Procurement of Goods and Construction, 1993). Therefore, it is important to convince the tender committee that the offer will provide maximum benefits with minimum risks. Tender offer is a selling document; thus, it is very important to make a good value proposition and explain in details all benefits of the offer to the Customer. Medical equipment is by definition very expensive, and if prices of two suppliers differ by 1% only, it already makes a substantial amount of money. Thus, the offer should provide extra value and “advertize” other benefits apart from price. Results of interviews showed that Customers value prompt service and trainings provided by Supplier. Moreover, it is important to have manuals or software interface fully translated in Russian, since most of the staff of medical organizations does not know English well. Therefore, good value proposition should explain how procuring entity can save resources (both monetary resources and number of employees involved) and time. For example, it can include free service within one year after delivery, cheaper maintenance of the equipment or cheaper disposables comparing to competitors.

Findings from the literature and best practice suggest that it is also good to add evaluation reports to support the bid (Eden-Ellis 2012). One respondent from Supplier group mentioned that use of visual information (diagrams, graphs and tables) will make proposal easier to comprehend (Appendix 2).

As mentioned previously, procurement history of the company is important for tender awarding (Yakovlev & Demidova 2010), since it decreases potential risk for the Customer. And indeed, results of interview showed that Customers prefer to work with companies that successfully executed their contracts previously. Therefore, for a company just entering the state procurement market it is relevant to include in tender documentation a few references about the company and list its biggest clients to show the capability and resources to fulfill the tender (Eden-Ellis 2012). Interesting fact is that restructuring and modernization of enterprises such as large-scale investment projects, ISO certification did not affect their success in getting government orders in Russia (Yakovlev, & Demidova 2010).

9) *Meet all tender requirements*

Two respondents from the Supplier group mentioned that Supplier should fully meet all tender requirements in order to avoid bid elimination at the early stage. Therefore, these actions are strongly recommended:

1. Strictly follow the instructions
2. Proofread several times before sending (preferably by several persons)

The same advice has also been found in literature (McDonald 2013; Kempter 2010).

11) *Be aware of corruption and stand up for your rights*

According to data of interviews and literature (Yakovlev & Demidova 2010), corruption in Russia still remains a big problem in public procurement market. Introduction of 44-FZ will increase control over Procuring organizations (Federal Law 44-FZ), but it is not yet known if it will be able to decrease corruption.

If Customer has an “agreement” with another Supplier, he will do everything to eliminate other offers. Therefore, it is important to prepare tender documents according to all requirements that will make a bid difficult to reject at the early stage. If contractor has a good reputation in the market, references, good quality products at the affordable price and provides guarantees of successful performance, even the corrupted Procuring organization will have difficulties to justify choice of less remarkable Supplier. According to literature (Open Torg Portal 2013), it is also useful to send tender documentation just before the evaluation to avoid falsification and prevent competitor to “adjust” its offer.

One respondent from Supplier group emphasized that if tender results question transparency and equality, Supplier has to notify controlling organizations immediately (Appendix 2).

Deep knowledge of procurement legislation is extremely important especially when the main principles of public procurement have been infringed. Therefore, it is necessary to have experienced team of procurement professionals that can present a well-made complaint to controlling organizations and defend Company's interests (Appendix 2).

12) Monitor legislative and political environment

New procurement law 44-FZ will be fully launched by 2017. 44-FZ clearly emphasized “national treatment” policy, e.g. choosing domestic goods over foreign-originated ones (Federal Law 44-FZ). Detailed information about possible preferences to local products is expected to be introduced in the nearest future with subordinate legislation. These preferences are difficult to predict, however, there is always a lead-time for modifications to be introduced. Thus, EU-supplier has to carefully monitor political and legislative environment in order to be prepared to the changes. However, such monitoring would be extremely difficult without local partner or physical presence of the company in the country. Assigning the reliable distributor who would have necessary knowledge and contact network and will be able to predict and response to relevant modifications might be the most optimal choice for small-size enterprises.

Difficult political situation and tense relationships between Russia and EU-countries at the moment bring a lot of problems for business on every side (Kholodin et al., 2014). Nowadays both Finnish and Russian companies have to cope with high degree of uncertainty since nobody knows the consequences of the conflict in East Ukraine (Kholodin et al., 2014). However, respondents from expert companies do not think that there will be any embargo for healthcare industry products, since many pharmaceuticals and high-technological equipment imported to Russia from Europe do not have any equivalent in the country (Appendix 2). However, Supplier should carefully evaluate political and legislative factors in order to be able to act accordingly.

13) Analyze unsuccessful tenders

Experience is the key element is tender success, and every lost tender provides a lot of useful information. Therefore, as suggested by one respondent, Supplier has to critically analyze all mistakes in order to avoid them in future. Importance of analysis of unsuccessful tenders was also mentioned in literature (Seda.org portal).

14) Keep in touch with the Customer

Tendering is an active process; therefore, after sending the proposal Supplier should plan the next actions including e-mails and phone calls that are necessary for control and providing additional information to the Customer if necessary (Finlib portal). One respondents from Supplier’s group emphasized that even if tender was lost, Supplier

should still be in touch with the Customer (Appendix 2). Regular meetings with Customer will strengthen the relations and will be extremely useful for future tenders.

Figure 4 provides a graphical representation of steps that have to be taken to succeed in public procurement in Russia.

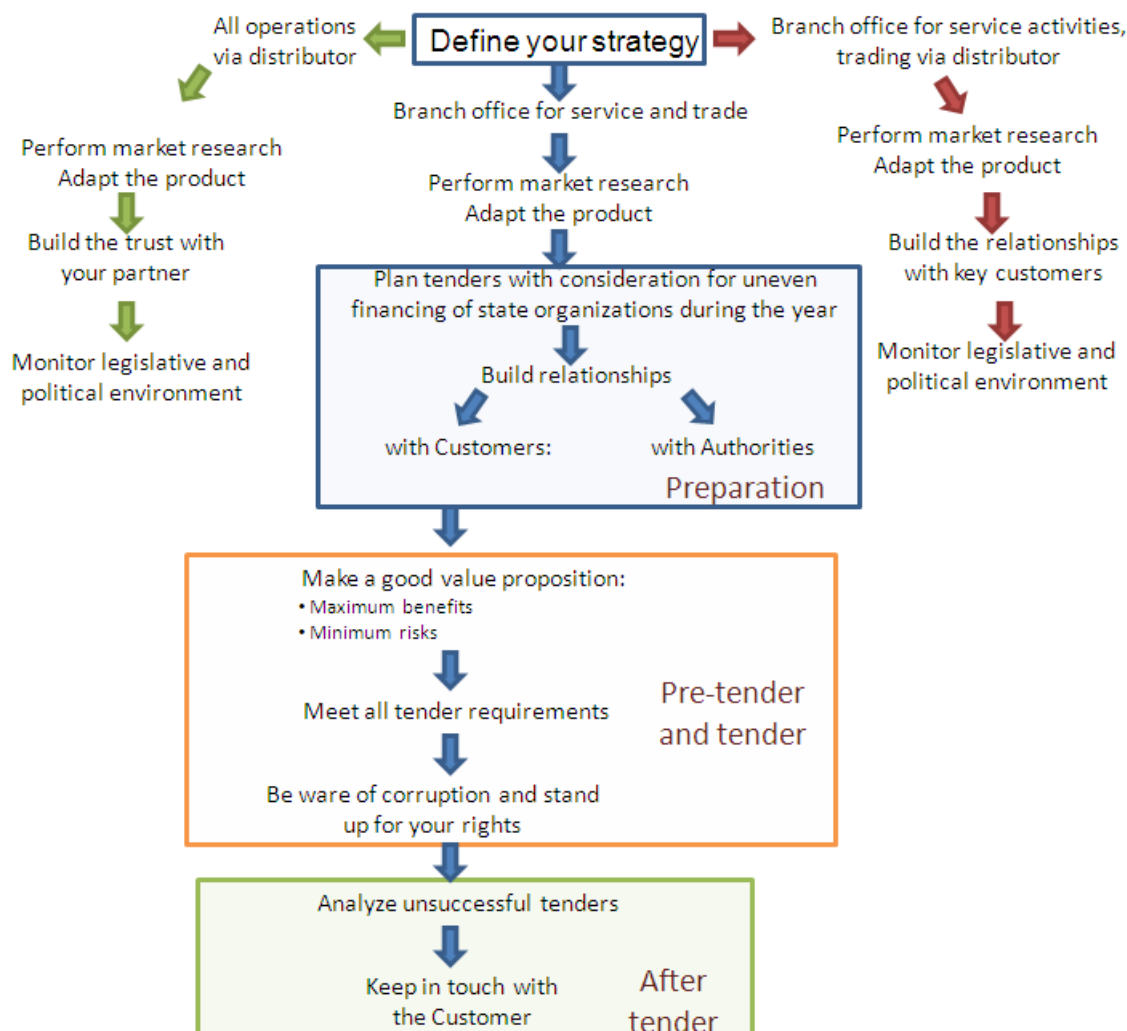


Figure 4. Key steps for success in public procurement.

As shown in Figure 4, the starting point is defining company's strategy for starting business in Russia: finding a local partner or establishing a subsidiary. Moreover, it is crucial to perform marketing research and adapt the product to the Russian market. For any strategy key factor for success is building relationships with partners and customers. In addition, monitoring of political and legislative environment is important.

Successful participation in public procurement process implies going through three main stages: preparation; pre-tender and tender; after-tender. Preparation stage is the most critical, since it might take a lot of time to build good relationships with Customers. Moreover, improper planning can result in non-fulfillment of tenders that will affect company's reputation in the state procurement market. Pre-tender and tender stages include careful preparation of tender documentation with consideration for Customers' needs. After-tender stage focuses on analysis of unsuccessful tenders and strengthening relationships with Customer.

6 Conclusions

The chapter reviews the main findings of the study and evaluates the thesis in terms of validity and reliability. Assessment of adequacy of achieved results to the stated goal has also been performed.

6.1 Summary of the thesis

Healthcare markets in Russia are characterized by steady growth that is estimated to increase significantly in the upcoming years (Taylor 2013, Sectoral asset management newsletter 2008; Snapshot report on Russia's healthcare infrastructure industry 2013). Undoubtedly, success of EU-supplier in healthcare industry requires deep understanding the Russian public procurement system. Unfortunately, the public procurement process in Russia has always been associated with corruption and lack of transparency (Kudryavtseva & Novikova 2013; Bashina 2011). Federal Law 94-FZ adopted in 2005 described only basic framework of relations between state customers and suppliers (Federal Law 94-FZ). Since January, 2014 Federal Law 94-FZ has been replaced with Federal Contract System or 44-FZ. 44-FZ regulates all procurement process from procurement planning to control and audit (Federal Law 44-FZ). Moreover, it introduces anti-dumping measures, obliges Suppliers to provide bank guarantee and gives unlimited access to procurement information (Federal Law 44-FZ). Introduction of 44-FZ will take three years. Therefore, the focus of this study was to analyze the current public procurement system in Russia in the process of transformation and develop practical recommendations for EU-suppliers.

The study aimed to identify and discuss the main problems of public procurement system in Russia. As the finding of the study point, they include uneven financing of state organizations throughout the year, opportunistic behavior of suppliers, lack of planning, lack of transparency, corruption and constant modifications of procurement legislation. Moreover, many respondents who participated in this study admitted that in tender evaluation, the price is often a more important criterion, than the reputation of the company of technical characteristics of the product.

As the findings show, respondents had different attitudes towards new legislation – from positive to rather negative, and the similar tendency was found in literature. However, at the moment it is difficult to evaluate the impact of 44-FZ on the efficiency of the

current the state procurement system. We need to wait a few more years until it is fully implemented and the results and consequences become visible.

At the moment, position of foreign supplier remains obscure and will mostly depend on subordinate legislation that might introduce preferences to local manufacturers. However, it does not represent a big risk for foreign goods that do not have a Russian equivalent. Therefore, supplier from healthcare industry has a beneficial position in the Russian state procurement market since most high-technological equipment for needs of healthcare is not produced locally.

Considering the above-mentioned pitfalls of public procurement system, relevant guidelines for EU-suppliers have been suggested. The proposed guidelines are based on interview results provided by respondents working in healthcare industry.

The recommendation for the companies entering the Russian market is that the first task is defining the strategy for conducting a business. For smaller companies, finding a local partner is the best option. For bigger companies, it might be wise to establish a branch office in the country. As another critical element, a thorough market research and adaptation of the product to the Russian market cannot be neglected.

This study shows that the key factor for success in public procurement is building trustful relationships with customers. First of all, Customer's needs have to be evaluated and proper solution should be offered. Due to the strong fear of defaulting suppliers, Customers prefer to work only with well-known companies. Therefore, it is important to present the Company and its products at different events (such as conferences and exhibitions) and try to develop personal relationships with potential Customers and Partners. Careful tender planning should not be underestimated, and uneven financing of state organizations throughout the year has to be considered as another factors specific to the current Russian market.

The study shows that a tender proposal has to explain the main benefits of the offer for the Customer. Many respondents admitted that free service and organization of education make important criteria for the choice of a supplier. It is also crucial to present the Company as a reliable partner by including information about financial status of the company, recommendations from previous customers, and third-party audits.

Success in public procurement also requires profound knowledge of relevant legislation. Thus, an important task of EU-supplier is to carefully monitor legislative environ-

ment, and an experienced team of procurement professionals may be a good asset for the company. In case of questionable tender results, the Contractor should always defend the company's interests by contacting controlling organizations. Unsuccessful tenders should be critically analyzed. To ensure building long-term relationships with the Customer, it is necessary to keep in close touch with the Customer after the tender procedure.

Thus, success in public procurement in Russia has always depended on many factors, and, unfortunately, some of them (such as political and legislative environment) are out of supplier's control. Launching healthcare business in Russia will require time and significant investments due to slow registration process and the necessity to build a good contact network and gain trust of the Customer. On the other hand, the economy of the country is growing at a fast pace, and the government measures to improve healthcare in the country represent multiple opportunities for EU-supplies. I believe that this study will help EU-supplier to understand the main pitfalls of the current Russian procurement system and build their strategy accordingly in order to develop their business and successfully collaborate with the state organizations in the country.

6.2 Self-evaluation of the study

Objective vs outcome

This study illustrates a basic framework of actions for a EU-supplier in the Russian state procurement market. The study has analyzed the main problems of the public procurement system and the role of new legislation 44-FL in eliminating the existing problems. However, since 44-FL will be fully introduced only by 2017, it is too early to speculate about its positive or negative effects, and their evaluation will require additional studies in the coming years. Analysis of the main pitfalls of public procurement enabled the researcher to develop a set of relevant commendations for EU-suppliers. In this sense, the purpose of the study, as evaluated against the initial objectives, has been achieved.

Validity

Qualitative study is considered to be valid if “means of measurement are accurate and whether they are actually measuring what they are intended to measure” (Golafshani 2003). In this study, validity of the current research project has been achieved

by using well-established methods of data collection (interviews), data analysis (content analysis) and sampling adequacy. Site triangulation approach (Shenton 2004) has been employed by interviewing respondents from different organizations (procuring entities, suppliers and consulting companies) located in Russia and Finland. Thus, the effect of local factors or problems of the particular institutions on the outcome of the study has been minimized. All participants had sufficient experience (7-38 years), so that they were able to provide accurate and reliable information on the research subject.

To ensure receiving honest answers from respondents, the following tactics have been adopted (Shenton 2004):

1. Consent to participate in the study and possibility not to answer some questions, if necessary.
2. Emphasis on independence of the researcher so that respondents had no fear of giving honest answers that could damage their career
3. Protection of personal information

To assess generalizability of the study, the results of the research have been compared to previous studies on a similar subject, based on the extensive literature and best practice search.

Reliability

Reliability of qualitative research means accurate representation of the study population and consistence of results over time (Golafshani 2003). Therefore, strong validity of the research ensures its reliability (Patton 2002). This study employs different approaches to guarantee high level of validity. Moreover, according to Shenton (2004), the methodology of the study should be carefully described so that other researcher would be able to repeat it (Shenton 2004). Therefore, this project includes detailed description of its research design. In addition, reliability of the study was ensured by congruence of the results with existing evidence from literature.

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Appendix 1. Description of respondents' organizations

Organization #1

Organization #1 is one of the leading regional institutions of reproduction health in Russia. Specialists of Organization #1 perform medico-genetic consulting, prenatal screening and diagnosis, family planning consulting and infertility treatment.

Organization #2

The main activities of Organization #2 include study of etiology, pathogenesis and epidemiology of dermatological and sexually transmitted diseases; development of new methods of laboratory diagnostics; diagnostics and treatment of dermatological diseases and sexually transmitted infections.

Organization #3

Activities of Organization #3 include research in ecological, extreme, sport, space, aviation and high-altitude physiology and medicine; radiobiology; magnetobiology; exobiology and telemedicine. Two representatives from Organization 2 have been interviewed.

Organization #4

Organization #4 performs medical and biological studies on the basis of postgenomics technologies.

Organization #5

Organization #5 is one of the biggest distributor of equipment, reagents and disposables for molecular diagnostic laboratories in Russia. The company also provides engineering service and organizes customers' training.

Organization #6

The main activity of Organization 6 is distribution of equipment, reagents and disposables for medical laboratories. Key products of the company are microscopy equipment, histology equipment, reagents for immunohistochemistry and molecular diagnostics.

Organization #7

Organization #7 is a branch office of leading global developer and manufacturer of innovative scientific instruments for molecular and materials research, as well as for industrial and applied analysis. Key products of the company are NMR (nuclear magnetic resonance) spectrometers, mass-spectrometers, chromatographic equipment, etc.

Organization #8

Organization #8 is a strategic partner of universities and enterprises. It promotes utilization of university-based expertise and helps generating new business in the fields of biotechnology, as well as information and communication technology

Organization 9

Organization #9 is a consulting company that helps Finnish companies to expand their business to the growing markets of Russia, CIS and Eastern Europe. The company provides different business and market intelligence services and executive training on business culture, successful marketing, and business operations in Russia

Appendix 2. Interviews

Customers' interviews

Interviewee #1

Position: Researcher, PhD

Total work experience: 7 years

Date: 2014/07/23

Interview has been translated from Russian

Q: What is your opinion about public procurement system in Russia in general in terms of transparency, efficiency and competition?

A: In my opinion, public procurement system in Russia is not perfect. It lacks planning and control over purchased goods and services. Nowadays state finances are spent unreasonably – a simple example is procurement of very expensive cars for state organizations. There should be reasonable spending limits for each category of goods.

Q: Which problems do you see in functioning of the state procurement?

A: As a Customer, first of all I have to say that public procurement process is time-consuming. The big problem of all state research organizations, including my Institute, is that we receive non-budgetary financing (for examples, grants of Russian Fundamental Research Fund) in May. And we have to spend the money till December. Basically, it leaves little time for us to go through all stages of procurement and receive the product before the end of the year.

Another problem is that there are a lot of documents that have to be prepared, that prevents me from doing my actual work. There are many restrictions concerning procurement application, and there is a lot of bureaucracy on the way, because procurement application has to be approved by many people, at least in my Organization. Sometimes, many corrections have to be made, and it might take a few weeks before documentation is ready. However, I admit that it is very important to have a detailed technical specification and project of the contract in order to receive instrument or reagents that are needed. And nobody, except researchers themselves, is able to determine technical characteristics of the product.

Another disturbing thing that we have to go through all stages of procurement process even though there is only one possible supplier. As I said, preparing documentation takes a lot of time and efforts, and at the end there is only one company. So I keep asking the question: What was it for? I think procurement process for unique purchases should be different.

Q: Did it ever happen that according to auction's results you received the equivalent product and not exactly the one that you expected?

A: Fortunately, it have never happened to our laboratory. But I know some cases that happened in our Institute. We are as well afraid of "fake" suppliers that take 30% of the money and then disappear. The best for us is to work with reliable supplier, with the company we had a positive experience in the past.

Q: What is your attitude towards new procurement legislation? Do you believe that it be able to eliminate weaknesses of 94-FZ?

A: I do not know this legislation well enough yet. But I think that centralization of procurement process and audit are definitely positive elements of it. I think it has good chances to increase transparency, as soon as all information about procurement process will be in the unified data system. Additional criteria for evaluating contract starting price will also be useful.

Q: Can you give any recommendations how foreign producer can succeed in public procurement process?

A: First of all, he has to find a customer that will be interested in the product, and get in touch with him. If it is new equipment, it is extremely important for staff of the company to help us to launch it and explain the main features of the product. Good after-sale service is crucial for us, too. If I have a good experience with the Company, I will be glad to buy some other products from them. Scientists usually do not want to waste too much time on organizing purchases, we just want a product of appropriate quality delivered in time.

Q: Which factors, in your opinion, are the most important for choosing a supplier?

A: For me the most important is good service and positive previous experience. Sales representative should always be ready to help, but should not be too obtrusive. It is, probably, only my personal opinion, but I really hate sales attitude that most sales specialists have. They force you to buy their products, no matter what. When I meet such people, I do not even want to hear about advantages of their products.

Interviewee #2

Position: Senior researcher, PhD

Total work experience: 39 years

Date: 2014/07/29

Interview has been translated from Russian

Q: What is your opinion about public procurement system in Russia in general in terms transparency, efficiency and competition?

A: I would rate efficiency and transparency in public procurement process as satisfactory. However, it is very bureaucratic and time-consuming.

Q: Which problems do you see in functioning of the state procurement?

A: There are many problems in public procurement. The most evident is that in many cases price of the product is more important than technical characteristics of the product and its quality, as a result – a cheaper substitute of the product is purchased. Moreover, threshold for purchase of goods by request for quotation is extremely low – 100 000 roubles. Products for healthcare industry are extremely expensive, and often even a purchase of reagents' kit requires organization of tender. And open tender procedure takes a very long time.

Q: Did it ever happen that according to auction's results you received the equivalent product and not exactly the one that you expected?

A: Fortunately, not. But it happened many times in other departments of our Organization.

Q: What is your attitude towards new procurement legislation? Do you believe that it be able to eliminate weaknesses of 94-FZ?

A: It is hard to say now since law is not fully implemented yet. Our organization has two sources of funding – state funding and grants. If we purchase products using grants' money, 223-FL applies which is not as complicated as new legislation.

Q: Can you give any recommendations how foreign producer can succeed in public procurement process?

A: Profound knowledge of political and economical environment in Russia, and, of course, all nuances of procurement legislation. Knowledge of corporate culture and Russian mentality is crucial for success. Fluency in Russian, of course.

Q: Which factors, in your opinion, are the most important for choosing a supplier?

A: I would prefer to work with the supplier with whom we has a positive collaboration in past. We need to make sure that product is of a good quality and company is ready to provide a good service. I think it is much more important than the price – if you get equipment that can help you achieve your research tasks – it is just a waste of money. I work at the laboratory of proteomics and we have very sophisticated equipment: HPLC (*high performance liquid chromatography – Author's Comment*) system, mass-spectrometers, automated robot system for sample preparation, etc. Confident operation of each of these systems requires a lot of theoretical knowledge and hands-on experience. Therefore, for us on-site training and practical help from company's specialists is priceless. Our laboratory exists for 7 years only, and there are a lot of things that we have to learn. However, I noticed that some sales representatives or engineers were very arrogant when they realized that I am not an expert in their equipment. But is not it their duty to explain what their products are? It is absolutely unacceptable.

Interviewee #3

Position: Doctor of clinical laboratory diagnostics

Total work experience: 7 years

Date: 2014/07/26

Interview has been translated from Russian

Q: What is your opinion about public procurement system in Russia in general in terms of transparency, efficiency and competition?

A: My opinion is that public procurement in Russia is time-consuming and inefficient. There is a lot of paperwork that takes a long time. There are no prices for expensive equipment, and then determination of the maximum contract price is a bet, therefore, transparency is not good either.

Q: What other problems do you see in functioning of the state procurement?

A: The big problem is that we receive funding in March or April, and then we have to spend money till December. Basically, it means that at the beginning of the year we cannot purchase even laboratory gloves, and at the end of the year we have to find ways to spend the rest of the money. If we do not spend all the money we got, next year we will receive less. Such unevenness of financing requires very careful planning, so that we will not run out of reagents or disposables at the beginning of the year. However, it is still a problem, because we might have more patients than we expected.

Another problem is that sometimes there is only one company, that can supply required reagent or instrument to us. However, we are still obliged to organize tender and wait for our products for a long time.

Q: Did it ever happen that according to auction's results you received the equivalent product and not exactly the one that you expected?

A: Yes, it happened 2 years ago, at this time I was on maternity leave. Our laboratory needed an instrument for real-time PCR. We always use tests developed by "DNA-technology", because they are convenient in use, quite cheap and satisfy our needs. But these tests are fully adapted for their own instruments only. Therefore, my colleagues prepared a detailed technical specification hoping to get this model. However, another company-competitor dropped price of their instrument (CFX96, "BioRad") by 50%, and this company won the tender. The problem is that tests adapted for CFX96 are much more expensive, so on the long run we did not save any money. Moreover, "BioRad" tests do not detect all infections that we check, and tests format is not convenient. Therefore, we did not get the equipment that we needed and this BioRad instrument is rarely in use. Honestly, I think that members of tender committee care only about the price, and nothing else matters.

Q: What is your attitude towards new procurement legislation? Do you believe that it be able to eliminate weaknesses of 94-FZ?

A: To tell the truth, I am a bit skeptic about it. To me it looks like it will bring more bureaucracy and take more time, but I doubt that it will increase efficiency of public procurement. Before purchases below 100 000 roubles could be done easily by requiring a quotation from several companies. But now even a purchase of plastic disposables has to be done electronically that will take a long time. How can it be considered more efficient?

Q: Can you give any recommendations how foreign producer can succeed in public procurement process?

A: I think that it might be extremely important to have experienced employees who are aware all pitfalls of Russian procurement system. "Knowledge is no burden". Of course, it is necessary to know the market and the customers and build good relations with them. Products of the company have to be adapted to the Russian market. In health-care industry it is very important. For example, we perform tests to see possible mutations of embryo. Some mutations are quite common in Russia, some – have never been detected. That is why there is no reason for us to buy tests detecting mutations inexistent in Russia, so this product will never be popular.

Q: Which factors, in your opinion, are the most important for choosing a supplier?

A: Product, service and price. Every day we get samples from many patients, therefore, tests should be easy-to-use and fast but with no loss in quality. Prompt service is important too because patients cannot wait till instrument is fixed. Another important moment - manuals and software interface should be in Russian because not all specialists in our organization, especially older ones, know any English.

Interviewee #4

Position: Research associate, PhD

Total work experience: 13 years

Date: 2014/08/21

Interview has been translated from Russian

Q: What is your opinion about public procurement system in Russia in general in terms of transparency, efficiency and competition?

A: If I could rate efficiency, transparency and competition of Russian procurement system using the scale from 1 to 10, I would set 5 for each parameter. So there is some level transparency, equal opportunities for suppliers, but it is far from perfect.

Q: Which problems do you see in functioning of the state procurement?

A: I think that legislation rules are very unclear, and it allows both Customers and Suppliers “play” an unfair game. Moreover, certain articles of legislation have been modified several times which is very confusing.

Open tender procedure is time-consuming and requires preparation of many documents. I also think that threshold for purchasing goods by request for proposals is unreasonably low. Since equipment and reagents for medical research are expensive we had to go through tender procedure even buying some reagents. Therefore, it is not a rare case when Customer and Supplier makes an agreement and Supplier divides the whole set of reagents or equipment in different batches, so it puts price for a single batch below the limit that allows items to be purchased avoiding long open tender procedure. Moreover, open tender procedure has certain risks for Customers: often tender committee awards the tender to a company that offered the lowest bid, and at the end Customer receives products of improper quality.

Q: Did it ever happen that according to auction's results you received the equivalent product and not exactly the one that you expected?

A: Fortunately, not. However, such incidents are not rare.

Q: What is your attitude towards new procurement legislation? Do you believe that it be able to eliminate weaknesses of 94-FZ?

A: I am not aware of this legislation in details. But it seems to me, that it will not change procurement at research institutes that much, because we mostly have non-budget financing, therefore, procurement is done according to another law (223-FZ – *Author's comment*).

Q: Can you give any recommendations how foreign producer can succeed in public procurement process?

A: The main recommendation for producer is to have a constant dialogue with Customer in order to foresee his needs and requirements.

Q: Which factors, in your opinion, are the most important for choosing a supplier?

A: Of course, the most important is quality of products and fast response of technical specialists in case of problems. If supplier can arrange training for working with equipment – it is another advantage. I would also appreciate, even though it is not an obligatory requirement for me, if equipment manual and software interface are translated in Russian.

In-time delivery of products is also important, however, it is hard to predict – goods can be kept at customs for several days or even weeks – therefore, delivery delays happen all the time for almost all companies I was working with. Good reputation of the company is also significant factor.

Interviewee #5

Position: Research associate, PhD

Total work experience: 7 years

Date: 2014/10/20

Interview has been translated from Russian

Q: What is your opinion about public procurement system in Russia in general in terms of transparency, efficiency and competition?

A: Of course Russian procurement system is far behind developed countries. But I think transparency, efficiency and competition are rather satisfactory.

Q: What problems do you see in functioning of the state procurement?

A: For me the main problem is that rules change all the time. For example, before it was possible to make contracts below 100 000 roubles (2000 euros approximately – Author) without announcing and competitive bidding. Now every contract should be

reported. Unfortunately, the lowest price usually wins the contract, and it is not good, because technical characteristics and company reputation should be considered first.

Another problem is defaulting suppliers and lack of control over such companies.

Q: Did it ever happen that according to auction's results you received the equivalent product and not exactly the one that you expected?

A: No.

Q: What is your attitude towards new procurement legislation? Do you believe that it be able to eliminate weaknesses of 94-FZ?

A: I see both positive and negative sides of new legislation. Positive sides are certain anti-dumping measures, and obligatory bank guarantee that will protect customers. On the other hand, publication of every contract in the system is time-consuming and for small orders unnecessary.

Q: Can you give any recommendations how foreign producer can succeed in public procurement process?

A: Good network of contacts and good relations with customers and authorities.

Q: Which factors, in your opinion, are the most important for choosing a supplier?

A: For us fast service is the most important factor. Quality of products and on-time delivery is important too, because we have our own customers and they should not wait.

Suppliers interviews

Interviewee #6

Position: General Director

Total work experience: 23 years

Date: 2013/12/25

Interview has been translated from Russian

Q: Which problems do you see in functioning of the state procurement?

A: Public procurement in Russia is rather inefficient and corrupted. From supplier's point of view, I can mention two main problems. The first one is often unequal penalties and responsibilities for supplier and customer in the contract. The second one is a possibility to set extremely short delivery terms. This might be critical for suppliers, especially if procured goods are supposed to be transported far from Moscow. Russia is a huge country, 10000 km long from west to east, therefore, technically it is not possible to arrange delivery, let's say from Moscow to Vladivostok, during 1-2 days, as Customer claims it.

Q: What is your attitude towards new procurement legislation? Do you believe that it be able to eliminate weaknesses of 94-FZ?

A: No, there will be no radical changes. Transparency and efficiency will increase just slightly, corruption is ineradicable. Modification of one procurement law is like a drop in the ocean. All problems of procurement system will remain.

Q: How do you think procurement of foreign-originating goods will be affected with introduction of 44-FL?

A: According to previous legislation, Russian products had 15% preference in price comparing to foreign suppliers. It means that if there is an instrument manufactured in Russia and it can satisfy requests of technical specification, offering of foreign suppliers will be considered only if it is 15% cheaper than Russian analogue. Of course, it is done for support of domestic manufacturing. The instrument can be developed anywhere else, but it should be manufactured in Russia. But by 2017 the law regarding foreign-originated goods will become stricter, and they might not be considered at all if there is a Russian equivalent. Of course, if the product is unique, and there are no analogues produced in Russia – it will win the tender. But the problem is that any instrument can be unique for 3-4 first years, and then an equivalent can be found, therefore, it represents a big risk for international producers and their distributors.

Q: Can you give any recommendations how foreign producer can succeed in public procurement?

A: The main recommendation is to find your potential customer and build cooperation. Fast reaction to customer's requests is important. Tender documentation should be strictly prepared according to instructions. For foreign supplier is also important to find

a reliable partner in Russia. To explain benefits of the product, it is reasonable to use graphs, tables and figures. It is also good to provide some proofs such as evaluation reports.

Interviewee #7

Position: Head of engineering department

Total work experience: 10 years

Date: 2013/12/25

Interview has been translated from Russian

Q: Which problems do you see in functioning of the state procurement?

A: Russian system of public procurement has been obscure for many reasons. One of the main problems of Russian procurement system is absence of guidelines to determine starting contract price. Therefore, tenders and auctions looked like a gambling – but the customer never wins, because he will always overpay.

Now procurement legislation is changing, and this aspect will be considered, too.

Another big problem of Russian procurement system is a tremendous number of defaulting suppliers. Every year there are many cases (and I know only those happening in healthcare industry) when company that wins the tender just does not execute terms of the contract and does not supply the equipment. Medical organization lost several millions of roubles, and the organization-supplier just changed its name (legal person). As far as I know no one was found liable for that case I guess due to its lobbying in the government. That company (under the new name) still exists. Therefore, there is a strong need for improvement of the state procurement system in many aspects.

Q: What is your attitude towards new procurement legislation? Do you believe that it be able to eliminate weaknesses of 94-FZ?

A: It will be certainly better than 94-FZ, as 94-FZ was basically a "draft" of procurement legislation, many elements were missing. Now many aspects will be included in 44-FZ which is a good beginning. However, for now it is hard to say if it will work the way it is

supposed to. At the same time I think it will add more bureaucracy and paperwork for Customer.

Q: How do you think procurement of foreign-originating goods will be affected with introduction of 44-FL?

A: It is hard to say now. Theoretically, it should be easier for foreign supplier to participate in the tender because Russia joined WTO. But of course, there will be a protection of domestic products. Our company has a beneficial position in the Russian market, since some functionalities of our equipment are unique. Therefore, it is nowhere near that Russian producers will have a cheaper “equivalent” product. So basically, we compete only with other foreign producers.

Q: Can you give any recommendations how foreign producer can succeed in public procurement process?

A: My organization is a big international company, therefore there is a branch office in Russia. However, our company usually does not participate in tenders directly. Way of doing business in Western Europe is totally different comparing to Russia. Some aspects of Russian business (including kickbacks, etc.) is absolutely unacceptable for our company. Therefore, we have many dealers and they present our equipment in tenders and auctions. I do not know how our dealers work, but I will presume that corruption does exist in all industries, not only in healthcare.

For a smaller company I would recommend to study the market and find a reliable distributor. Russia is relationship-driven country. And distributing company with a big experience in the Russian market will have contacts with customers and authorities. They just simply know how the system works. Mentality is very important. Definitely, negotiations with customers will have more chance to succeed if company has a representative is Russian, who currently live in Russia and can understand customer's needs and concerns. Therefore, if foreign company wants to work directly, they should employ Russian people. Just knowing Russian language is not enough. You should know the culture as well.

Good relations with potential Customers are extremely important. For example, our Company provides free training in Germany for Customers. Moreover, we are always ready to help if there are any technical questions about instrument's operation. Cus-

customer buying such expensive equipment should understand that he buys not only the product, but also a good and prompt service. Therefore, if Customer is satisfied with service, he might be interested to work with the same company in future. As a result, he can provide detailed technical specification that matches technical characteristics of our equipment.

Interviewee #8

Position: Senior sales specialist

Total work experience: 8 years

Interviewee #9

Position: Senior lawyer

Total work experience: 9 years

Date: 2014/10/01

Interview has been translated from Russian

Q: Which problems do you see in functioning of the state procurement?

Interviewee #8: I think the main problem of Russian procurement system is lack of transparency. And as a consequence, procurement turns to unfair game, sometimes with a certain “deal” between Supplier and Customer.

Q: What is your attitude towards new procurement legislation (44-FL)? Do you believe that it be able to eliminate weaknesses of 94-FL?

Interviewee #9: Yes, I believe it can increase transparency. First of all, the whole cycle of procurement will be regulated. Moreover, control over efficiency of the state procurement will be introduced. It is also good that unified system of procurement will be created.

Q: How do you think procurement of foreign-originating goods will be affected with introduction of 44-FL?

Interviewee #9: National treatment will be applied – it means that goods manufactured in Russia or CIS countries will have preferences. Which preferences there will be – not yet known, subordinate legislation should be introduced later. However, not all Russian-produced goods have satisfactory quality – for example, pharmaceuticals. Therefore, I think, such national treatment will not affect foreign suppliers in healthcare industry, since level of Russian technology in biochemistry and medicine is far behind EU-countries or United States.

Q: Can you give any recommendations how foreign producer can succeed in public procurement process in Russia?

Interviewee #8: True consideration for Customer's needs. Mostly our customers are state or private diagnostics centers and they want robust equipment and reliable tests, so that patient gets correct results by due time. Therefore, our aim is not only to sell, but become good partners with our Customer. For example, our company always organizes demonstration training at Customer's site to make sure that he knows exactly how equipment works. Moreover, we also provide training for medical staff of state organizations. To acquire new customer marketing activities (exhibitions, conferences) are important.

Interviewee #9: Another important aspect for success in public procurement – is deep knowledge of legislation, understanding of how tender offer should be presented and how to prepare documentation for appealing against questionable tender results, if necessary. Therefore, experienced team of procurement professionals is a great asset for the company. Our team always takes time to analyze mistakes in unsuccessful tender to avoid them in future. And Customer can also provide important information, so it is good to be in touch with him after the tender.

Expert companies' interviews

Interviewee #10

Position: Managing director, Partner

Total work experience: 20 years

Date: 2014/08/25

Q: Which problems do you see in functioning of the state procurement?

A: The main problem that I see in Russian procurement system is lack of transparency. For example, there are no guidelines for establishing maximum contract price. Planning and actual procurement do not match. Another problem is that price is often the main criteria for awarding the contract.

Q: What is your attitude towards new procurement legislation (44-FL)? Do you believe that it be able to eliminate weaknesses of 94-FL?

A: Personally, I do not believe that it can improve procurement system that much. Introduction of only one new law can't solve all problems. Problems of public procurement lie much deeper, and many things have to be changed in many areas – in both political and juridical system of the country, and in business.

Q: How do you think procurement of foreign-originating goods will be affected with introduction of 44-FL?

A: It is not a secret that Russia wants to protect its own production, despite accession to WTO. Therefore, government will always find ways to do that by introducing price preferences to local goods. But it is difficult to say how it will be achieved within 44-FL.

Q: Can you give any recommendations how foreign producer can succeed in public procurement process in Russia?

A: Participation in public procurement for Finnish companies has always been difficult. If you do not have a good local partner who has wide contact network and know the rules, it is impossible to participate.

Interviewee #11

Position: Project manager

Total work experience: 28 years

Date: 2014/08/14

Q: Could you tell me, please, what are the main problems for operating in Russia?

A: For Finns one of the biggest problems is language. It is getting better nowadays because many young people can speak English, and some Finns as well learn Russian, but before it was very difficult to communicate. Another problem is that Russian companies tend to have willingness to be international, but they want to be international in Russia and in Russian. There are not too many Russian companies that actually present outside Russia. For example, if you go to international exhibition, you will not see so many Russian companies. For example, last year I was in ArabHealth exhibition, it is a biggest medical exhibition for Middle East, I saw only 3 Russian companies, while from China there were 300. Ok, countries are different, but still... so it shows the general attitude, more or less. Companies who are present outside Russia, are very professional, they have good language skills and good management. Internet has made things easier, however, many Russian companies who want to have international, have their web-site only in Russian.

There are as well problems on regulatory side, and requirements for production in Russia are different than for production in EU. From one point of view – it is normal, and it exists in many countries – US, Canada, Australia, etc. But since Russia have joined WTO, there will be a certain harmonization of requirements. A few years ago I was talking to CEO of one big company in Saint Petersburg about accession of Russia to WTO and how it will change their work in Russia. He does not expect so much to change in Russia, but he said: “WTO will change”. So Russian government has its own reasoning and, of course, they will try to achieve their own goals.

So technically and regulatory requirements are different. But on the other hand, companies are used to deal with those, as soon as they get all the information accordingly. And it is another problem – it is difficult to find out how things have to be done in Russia and in which order. I have worked for many years with Finnish companies that were establishing their business in Russia, and it was extremely difficult to find the right path – whom to contact and how things are to be done. It is still possible to solve these issues, but it takes much more time.

Moreover, every time when political situation inside Russia changes, it usually brings big changes for business, and it is another problem. But I admit that it happens as well in other countries where legislation system is centralized, and everything depends on a single person.

I cannot deny cultural differences between Russia and EU-countries. In Finland we used to make business together, become partners, and after that you become friends. In Russia it is the opposite: basically, Russians tend to make business with their friends. Therefore, first you need to get to know people, build some trust, and only after that you can do business together. And that takes a lot of time. On the other hand, it is very understandable, and trust is to be found.

Q: Relations between Russia and EU countries are very tense nowadays. How in your opinion it will affect trade in healthcare industry between the countries?

A: The situation is very complicated indeed. Nowadays Russian companies are very careful about starting new business with EU-countries since nobody knows what can happen. However, I do not think that there will be any embargo in healthcare industry – Russia depends a lot on pharmaceuticals made outside Russia, with no equivalent in the country. However, Russian government wants to build its own manufacturing system of pharmaceuticals. Many international pharmaceutical companies operating in Russia do not produce pharmaceuticals in Russia, but only have packaging units. So these companies will have to pay additional tax for their products that will make them more expensive.