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No.94-FZ Federal Law "On State and Municipal Procurement of Goods, Works and Services" was adopted on 21st July 2005.

Since then, the system of state procurement has experienced substantial transformation, which has had a considerable effect upon the national economy in general. "Adopting the law meant the birth a new economic ideology in Russia, based not on administrative procedures but on financial motivation of its participants and maximum exclusion of a subjective factor from competitive bidding. I think that a new economic movement was born in Russia", says Mikhail Yevrayev, the Head of the FAS Russia's Department for Control over State Procurement.

Experts estimate that prior to adopting the law on state procurement, only in 1% of the auctions there was no administrative pressure and government customers did not engage a subjective factor.

Adopting the law on state procurement started reforms in the system of government procurement in Russia, which resulted in radical changes in organization of competitive bidding processes.

Before the law on state procurement came into force (1st January 2006):

- Information about competitive bidding was published only in print media (frequently the consequence was an artificially reduced number of bidders and contracts were awarded to the companies connected with government officials);
- Government customers could set any requirements to the bidders (which opened an avenue for eliminating "unwanted" companies and creating advantages for particular companies);
- Arbitrary criteria for selecting the winner were in place; auctions did not exist in principle (strong influence of the "subjective factor" in bids evaluation);
- There was an open list of cases when procurement could be based on a single supplier;
- Entrepreneurs were not given a possibility for an administrative appeal of customer's actions (lengthy judicial proceedings were the only remedy).

After the law on state procurement came into force (1st January 2006):

- All information about state procurement is published on a single Internet portal (www.zakupki.gov.ru) and any entrepreneur from any place in Russia can take part in the bidding ;
- Arbitrary requests of government officials are replaced with financial security of contract quality performance (administrative pre-qualification is replaced with economic pre-qualification), which allows suppliers to freely participate in the bidding and provides guarantees of strong financial motivation for the government customers;
- Introduction of auctions, including electronic auctions, on certain sites in Russia enables the government customers to obtain the goods of required quality at the minimum price;
- Statutory restrictions for the list of cases when competitive bidding is not necessary; introduction of the Register of Unfair Suppliers.

Reference:

FAS Russia formed the Register of Unfair Suppliers in 2007. All persons that are recognized as evading the contract, or with whom the contract was terminated in a judicial proceeding due to its improper performance, are included in the single Register of Unfair Suppliers. Currently the Register includes around 4000 unfair suppliers.

The new law allows entrepreneurs to protect their rights administratively by filing a complaint to FAS Russia or its regional bodies.

FAS Russia or its regional bodies are required to examine complaints against actions of the government customers within five (!) working days. In 2009 FAS Russia considered 27,500 complaints, of which around 50% were found justified. It means that the results of the bidding were cancelled, the rights of entrepreneurs were restored and the responsible officials were made administratively liable. 95% of the decisions made by the Central Office of FAS Russia in the field of state procurement are supported by the Courts.

Further reforms in state procurement:

Currently there are two main areas of state procurement reforms in Russia. First- transition to electronic auctions; second - improving the quality of state procurement, which is inseparably connected with increasing the quality of financial security.

From 1st July 2010 all electronic auction should take place only on five selected sites. This is an enormous step forward towards single economic space and high liquidity of the auctions. Government and municipal customers and entrepreneurs from all over the country will meet only on five electronic sites rather than at numerous biddings organized throughout Russia in the constituent territories of the Russian Federation and municipalities. By 2012 expected saving from full-capacity electronic auctions will reach up to 1 trillion Rubles per year.

From 1st January 2011, the whole system of state procurement will move to the single Register of Contracts linked to the national portal. Creating a single resource of information will enable a completely different level of information transparency and competition, and will increase auction liquidity and saving of budgetary funds.

The state procurement reform in Russia has not been modeled on the law and enforcement practice of any other single jurisdiction. European and American experts show considerable interest towards Russian model of organizing competitive bidding processes. "We are prepared to share our reform experience with our colleagues from other countries and help them create healthy competitive environment in state procurement", said Mikhail Yevraeyv.

"The law on state procurement considerably undermines corruption potential of the government agencies and has helped overcome administrative barriers in the field of state procurement. Within four year the savings of budgetary funds in Russia exceeded budget 770 billion Rubles", emphasized the Head of FAS Russia Igor Artemyev.