

**OPENING ADDRESS BY MR ONG YE KUNG, MINISTER FOR EDUCATION, AT
THE KPMG PROCUREMENT IGNITE SUMMIT 2018,
ON 31 AUG 2018**

Procurement Innovation and Transformation

Distinguished guests

Ladies and gentlemen

1. I thank KPMG for inviting me to this Procurement Ignite Summit. I had earlier accepted the invitation to speak in my previous capacity as the Minister in charge of Public Service Innovation, which includes looking at procurement innovation and transformation in the Government. I have been working with the Ministry of Finance (MOF) on this for some time, and I thought that this is a good platform to announce some of the changes that the Government will be making.

2. Although I have stepped down from the position, I felt it is only appropriate that I honour my earlier commitment to attend and speak at this event, and provide an update on the work that has been done in the area of Public Service procurement.

3. I will first speak on the importance of the procurement and logistics industry in Singapore, and then on how the Singapore Government is transforming its own procurement practices and policies to encourage innovation and enterprise.

The Procurement and Logistics Industry

4. Procurement and supply chain management are critical functions of any organisation. You ensure that organisations have access to essential materials and inputs, and deliver finished products to your customers. This is the lifeblood of organisations.

5. Logistics and trade is a major sector in Singapore, and we will continue to strengthen our position as a procurement and logistics hub for the region and the world. We have amongst the highest participation rate in global value chains and trading networks. We have many Free Trade Agreements, so companies – through Singapore and from Singapore – can tap onto new opportunities, various supply sources, and markets.

6. Henkel, the German adhesive technologies and consumer goods company, is an example of a multinational which has set up its global supply chain hub here in Singapore. Henkel has standardised and merged its purchasing, production and logistics processes across its business units around the world through its Singapore hub, bringing about greater efficiency and productivity.

7. To strengthen our position as a globally-leading logistics hub, the Singapore Government introduced the Logistics Sector Industry Transformation Map (ITM) at the end of 2016. Under the ITM, the Government is supporting research institutions and universities to develop and test bed new ideas in digital supply chains and e-commerce logistics. We are also developing a strong core of Singaporean talent and

local enterprises in the sector. The Logistics ITM is expected to achieve a value-added of \$8.3 billion to the sector and help create more jobs.

8. However, the current trade conflict between the United States and China will have global consequences for businesses, jobs, and consumers. Disruptions to any part of the global supply network will create broader repercussions that cut across many sectors in many countries.

9. Our greatest concern now is the impact from an escalation of the trade conflict into a vicious cycle of tit-for-tat measures between major economies. At some point, they will trigger a sharp and sustained fall in global business and consumer confidence, or a tightening of global liquidity conditions. The macro-environment will then fundamentally change. As procurement and supply chain professionals, we must all be mentally prepared and be ready to operate amidst such uncertainties.

Government Procurement

10. I will now talk about promoting innovation and enterprise through Government procurement.

11. Every year, the Government procures over \$20 billion worth of goods and services. For many years, in conducting its procurement, our primary consideration has been to ensure value-for-money purchases, and transparent and objective processes. These principles are still valid and will not change.

12. However, Government procurement is also a powerful tool to promote innovation and enterprise in a fair and objective way. Indeed, the most innovative but untested ideas can be given a much needed leg up through government lead demand. The Infocomm Media Development Authority (IMDA)'s Accreditation@SGD programme serves this purpose.

13. Inspire-Tech is an example of a start-up that benefitted from the Programme. JTC Corporation (JTC) was the first buyer of its file sharing product, before company went on to win more projects from other agencies. With the track record and experience built up through supplying Government agencies, Inspire-Tech secured contracts with global enterprises, and has expanded to the US, Thailand, Malaysia, Indonesia, and Dubai.

14. Over the years, our procurement rules have evolved from being prescriptive to being more principles-based, in order to better support innovation and enterprise. And we can certainly do more. Having done a major review, we are now ready to take another quantum leap. This will be achieved through several new initiatives.

15. First, we will increasingly shift from awarding contracts purely based on price, to using price-quality evaluation techniques. Price-quality evaluation is not new to the Public Service, and it has been more widely used over the years, such as in construction and IT procurement. Today the news reported that construction contracts in future will also take into account the contractors' safety performance and not just prices. The National Environment Agency and Housing and Development Board are also tendering hawker centre and coffee shop spaces using a price-quality model.

Quality is a broad concept – it is not just about the quality of the food but also about the affordability of food prices, customer experience and productivity initiatives.

16. Hence, the proportion of procurement contracts not awarded to the lowest bid has increased from 30% in 2012 to 50% today. We will make price-quality evaluation the default, such that value-for-money goes beyond price but also economic, social, environmental considerations, and contributions to productivity and innovation.

17. Second, we will adopt more outcome-based procurement, where tenderers propose the solutions to achieve the desired outcomes, rather than just meeting our specifications. To do so, we need to be more opened to fresh ideas, and not always go for only the tried and tested.

18. An example is JTC's smart facilities management solution for its industrial properties. JTC did not start with a pre-conceived solution, but merely require a system that is capable of monitoring real-time operating data to detect and respond to faults quickly. This allowed JTC to access many different proposals, beyond tried and tested ones. Promising proposals would be selected to carry out proof-of-concepts to test the solution. If it works well, it can then be scaled up. This innovation has eventually led to JTC developing a consolidated facilities management operations centre that is the first of its kind in the Public Service.

19. Third, as an extension of outcome-based procurement, we will promote the use of crowdsourcing methods to tap on the broader public for ideas and solutions. Through crowdsourcing, hackathons and innovation calls, we are able to reach a wider range of suppliers. Recently, IMDA and Sentosa facilitated a crowdsourcing exercise to solicit solutions to deliver a seamless and delightful guest experience. They shortlisted six technology partners, including Small to Medium Enterprises and start-ups like LDR Pte Ltd which proposed using interactive trails to engage visitors. The Interactive Trail, along with other ideas generated from the exercise, was integrated into the MySentosa mobile app.

20. Fourth, we will push the boundaries by lifting traditional procurement rules in selected areas for more capable agencies to experiment with different procurement approaches. In other words, it will be a sandbox environment. Within the sandbox, agencies are given full licence to experiment and try different procurement approaches – as long as it does not break the law or the key principles of procurement. The lessons we learn from these trials will be shared across the Public Service, and where appropriate, lead to a change in existing rules. I expect the experiments to catalyse many future changes and improvements in how the Government does its procurement.

21. Beyond such experiments, we will also provide a listing of good practices in procurement, and encourage agencies with the capability to use them. Although today's rules are principles-based, many agencies have a certain restraint to try out new practices since they are not written in the rules. We recognise this, and therefore MOF will write out the positive and good practices so that agencies will have the confidence to try them. For example, it is sometimes good to reveal an agency's budget for a project, such as when procuring creative design works or event management services. Agencies seldom consider this today, but it will help bidders focus on what they can offer and emphasise the quality of their proposals. With over

S\$200 million worth of such buys each year, there is much scope to apply this approach.

22. To encourage innovation, agencies can also offer longer contracts, so that vendors find it worthwhile to invest in technology and productivity improvements. Vendors that perform to agencies' satisfaction can continue to do more of what they are good at, and improve further. Agencies benefit with vendors who are committed to continually deliver and improve on their work. Both parties save effort on repetitive tender calling and submission. It is a win-win arrangement.

23. There can also be more early supplier engagement, in a fair and transparent manner, so that vendors better understand the needs of the buyer; and buyers can also know the latest market offerings. More open sharing of information upstream reduces uncertainty and promotes greater understanding across stakeholders, reducing downstream issues during tendering and execution.

24. Finally, to do all these well, we must raise the capabilities of our procurement officers. MOF has been working hard to share good and innovative procurement practices across the Public Service and stepping up procurement training for public officers. There are centres of excellence for procurement within the Public Service. I mentioned JTC earlier and another agency that is capable is the Defence Science and Technology Agency (DSTA). DSTA has partnered the Singapore University of Social Sciences to run regular procurement courses since the beginning of this year, and have trained 200 public officers so far. It is an intensive, technical and competency-based course. This will be mandatory training for all new Public Service procurement officers going forward, and we would like to extend this training to procurement professionals in the private sector as well.

Conclusion

25. Innovation and enterprise will be a major driver of Singapore's growth and dynamism for the future. The Committee on the Future Economy has outlined a comprehensive plan to bring this about, of which leveraging Government procurement is an important thrust.

26. I am pleased that KPMG has organised this Procurement Ignite Summit. Besides celebrating the spirit and strength of procurement professionals, it is a good platform for sharing knowledge of best practices, and for us to gather and discuss the challenges facing the industry. I wish all of you a fruitful summit ahead. Thank you.