

**DAC Guidelines
and Reference Series**

**Harmonising Donor
Practices for Effective
Aid Delivery**

**Volume 3:
STRENGTHENING PROCUREMENT CAPACITIES
IN DEVELOPING COUNTRIES**



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**Harmonising Donor Practices for
Effective Aid Delivery**

**Volume 3:
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in Developing Countries**



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT



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FOREWORD

Developing countries and bilateral and multilateral donors have worked together in 2003-2004 using a Round Table process to develop an integrated set of tools and good practices to improve developing country public procurement systems and their contribution to development outcomes. The results are contained in these good practice papers. In view of the importance of sound procurement systems for aid effectiveness, the papers are being published as Volume 3 of the DAC Guidelines and Reference Series on Harmonising Donor Practices for Effective Aid Delivery.

Good public procurement systems are central to the effectiveness of development expenditure from both national and donor sources. Procurement is a core function of public financial management and service delivery. The potential efficiency gains from better procurement can make a significant additional contribution to financing achievement of the Millennium Development Goals (MDGs). These good practices papers focus on three connected themes -- mainstreaming, capacity development and benchmarking/monitoring/evaluation. Their common objective is to build skills and strengthen processes that can better satisfy a country's public procurement needs, supported by robust benchmarking, monitoring and evaluation tools to guide action and assess progress.

This set of good practice papers also draws on the results of important earlier work done by the OECD/DAC, the World Bank and the WTO, including:

- The conclusion reached by the OECD DAC in 1996 in its report, *Shaping the 21st Century*, that sustainable development must be “locally owned”.
- The 2001 DAC Recommendation on Untying ODA to the Least Developed Countries, where reinforcing partner country responsibility for procurement is an integral part of the Recommendation, needed to achieve aid quality, effectiveness and ownership objectives.
- DAC work on aid effectiveness to identify donor practices that reduce transaction costs using an ownership focus.
- World Bank efforts to strengthen procurement systems, including through Country Procurement Assessment Reviews (CPARs).
- Work by the Heads of Procurement of the multilateral development banks to harmonise their respective procurement guidelines and standardise procurement documents.
- Work in the WTO to strengthen the Agreement on Government Procurement and the “Singapore” issue of transparency in procurement.

When they adopted the “Johannesburg Declaration” on 2 December 2004, Round Table participants confirmed their commitment to implement the good practices developed by the Round Table, to mobilise the political and financial support needed to put them into practice and to widen the number of developing countries and donors participating in this initiative. Moving forward on the agenda outlined in the Johannesburg Declaration requires high-level support of public authorities in development partner and donor countries to ensure that procurement reform is integrated into efforts to improve public sector

performance, that it is supported by sufficient human and financial resources, and that progress in improving procurement outcomes is actively monitored.

The work of the Round Table on procurement is an integral component of the agenda for aid effectiveness, harmonisation, alignment and results set out in the Paris Declaration. Effective use of the Round Table tools and guidance will help facilitate the success of this broader agenda.



Stephen Chard (UK)
Co-Chair of the
Round Table Initiative



Robert Hunja (World Bank)
Co-Chair of the
Round Table Initiative

*In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the **Development Assistance Committee**, whose members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.*

The members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

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This DAC's *Good Practice Papers on Strengthening Procurement Capacities in Developing Countries* is the result of work by a Round Table initiative carried out during 2003 and 2004. It is jointly published by the OECD and the World Bank in the series of DAC publications on Harmonising Donor Practices for Effective Aid Delivery. The Good Practice Papers reflect the insights of procurement experts from developing countries and bilateral and multilateral donors.

We wish to express our heartfelt thanks to all participants of the Round Table for the support they have given. Everyone's willingness to roll up their sleeves and dedicate large amounts of time to the Round Table working groups does credit to the procurement "profession". Special recognition should also be given to the representatives from the Dominican Republic, Ethiopia, Ghana, Indonesia, Madagascar, Morocco, Mozambique, Nicaragua, the Philippines, Senegal, South Africa, Sri Lanka, Tanzania, Uganda and Vietnam. Without their lively engagement and willingness to question the status quo, the essential partner country perspective would have been lost. The DAC Secretariat also wishes to thank Canada, Germany, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom and the World Bank for the valuable resources provided to facilitate an effective Round Table process.

Everyone associated with the Round Table would like to thank the Uganda Public Procurement and Disposal of Public Assets Authority (PPDPA) and the Republic of South Africa National Treasury for having generously hosted the Second and Third Round Table meetings in February 2004 and November/December 2004. Their organisation and hospitality was an important factor in the success of this initiative and also in creating an informal network of procurement professionals that has a major role to play in carrying forward the results of our work and delivering its intended results.

ACRONYMS

CPAR	Country Procurement Assessment Review
DAC	Development Assistance Committee
DFID	Department for International Development
EFQM	European Foundation for Qualitative Management
GDP	Gross Domestic Product
GPP	Good Procurement Practice
GTZ	Gesellschaft für Technische Zusammenarbeit
HOP	Heads of Procurement
ICB	International Competitive Building
IFI	International Financial Institutions
ITC	International Trade Centre
KPC	Key Performance Criteria
MDGs	Millennium Development Goals
NCB	National Competitive Building
ODA	Official Development Assistance
OECD	Organisation for Economic Co-Operation and Development
PE	Procurement Entity
PFM	Public Financial Management
PPME	Public Procurement Model of Excellence
WG	Working Group
WTO	World Trade Organisation

EXECUTIVE SUMMARY

I. Introduction

Effective and efficient public procurement systems are essential to the achievement of the Millennium Development Goals, (MDGs) and the promotion of sustainable development. Public procurement systems are at the centre of the way public money is spent since budgets get translated into services largely through the government's purchase of goods, works, and services. The impact of foreign aid is especially affected by procurement performance given the overwhelming proportion of Official Development Assistance (ODA) that is delivered through the public contracting process. Unfortunately, procurement systems in many developing countries are particularly weak and serve to squander scarce domestic and foreign resources. Strengthening procurement capacity in developing countries must be a vital component of efforts to improve social and economic well-being and a necessary feature of programmes designed to meet the international commitment to reducing poverty.

Developing countries and bilateral and multilateral donors have worked together in 2003 – 2004 through a Round Table process to develop a set of tools and good practices to improve procurement systems, and the outcomes they produce. In adopting the “Johannesburg Declaration” in December 2004, Round Table participants confirmed their commitment to implement the products of the Round Table process, to mobilise the political and financial support needed to put these tools into practice and to widen the number of developing countries and donors participating in this initiative. The results of this work are an integral part of the preparations for the High Level Forum on Aid Effectiveness to be held in Paris in late February and early March 2005.

Progress on improving procurement outcomes will be achieved by active and determined collaboration across the international community. Moving forward on the agenda outlined in the Johannesburg Declaration requires support at the ministerial level in both donor and client countries to ensure that procurement reform is integrated into efforts to improve public sector performance, that it is provided with sufficient human and financial resources, and that progress in improving procurement outcomes is actively monitored. Progress on achieving the poverty reduction goals of the international community will be strongly advanced when procurement is subject to regular reviews at the national and international level involving government and non-government stakeholders at the same time that donors and client countries work to eliminate current practices that reduce effectiveness and stall institutional development.

II. Approach and themes

The Round Table adopted a holistic approach, which views the procurement function as a complex and dynamic system. Three themes that are inextricably linked and continuously interacting were chosen for close study – mainstreaming, capacity development and benchmarking/monitoring/evaluation. These themes reflect an awareness that sustainable improvements in procurement outcomes are derived from efforts that appreciate the role of procurement in the broader context of public financial management and delivery of government services, and are designed to develop the skills and processes needed to respond to a country's specific needs. Mainstreaming uses the results of capacity strengthening (*e.g.* cost savings) to gain the political support needed to introduce reforms and to see them through. The capacity development guidance shows how best to tackle these weaknesses. Benchmarking provides a baseline to identify critical

weaknesses in the procurement system. Monitoring and evaluation ensure the reforms are managed well and provide the information needed to maintain political and popular support for the reform process and its achievements.

The Round Table approached the complicated challenge of strengthening procurement capacities by breaking it down into three essential components, each of which responds to one or more of the emerging lessons being learned from previous attempts at procurement reform:

1. The first of these lessons is that even with the best of intentions on the part of the responsible agencies in partner governments and donors, the importance of good procurement was not understood and high level support for effective reforms was weak. Procurement should be viewed as a core function of government and a strategic activity, effectively integrated with other public financial management institutions and processes. The Mainstreaming WG was set up to address this issue.
2. The second lesson is that many previous programmes to develop procurement capacity have been low-level, too short term and donor driven and have mostly failed to address fundamental barriers to change, or make sustainable improvements. Theoretical work on capacity development that is being undertaken tells us that a more strategic, holistic approach is needed. The Capacity Development WG was set up to address this issue.
3. The third lesson is that the need for agreement among developing countries and among donors over what constitutes a “good” procurement system and how this should be measured. Lack of consensus has hindered progress. As a result the procurement system assessment process was not harmonized and agreement on the results and the remedial reforms required to address areas of weakness was difficult to reach. The Benchmarking, Monitoring and Evaluation Working Group (WG) was set up to address this issue.

Mainstreaming

The WG on Mainstreaming has produced a *Strategic Framework for Mainstreaming and Strengthening Public Procurement*. This Framework originally focussed on developing a better communications strategy to attract greater attention to procurement issues and the need for procurement reforms. Later it was expanded to better illustrate the important linkages between procurement and public financial management system and how reforms to both need to be coordinated and sequenced for government public sector performance to be strengthened.

When procurement is viewed in this broader context, it becomes possible to focus on improving development outcomes, and move away from concentrating only on process. Procurement is much more than process or procedure. It is a fundamental and integrated part of the governance and public financial management system in a country. Increased recognition of its central role in public expenditure management and greater appreciation for the function will emerge when the Benchmarking, Monitoring and Evaluation mechanisms are fully operational and stakeholders are able to see the improved outcomes resulting from efforts to strengthen the procurement process.

Because few procurement systems are mainstreamed today in the sense recommended by the Round Table, the Strategic Framework also provides background and advice on the many new tools and techniques currently being developed on change management, drivers of/and barriers to change, systems theory and effective communications strategies. This should be of use to governments when they design programmes involving mainstreaming elements and to help them overcome resistance to change.

Capacity development

Developing capacity is essential for all public sector functions of government, not just procurement. In the past, donor support for capacity development was often piecemeal and focussed only on low-level functions. More often than not, it aimed exclusively at improving compliance with the set of procedures mandated for donor-funded projects. These programs also tended to view capacity development in a narrow sense, as the improvement of individual technical skills only.

The Round Table has produced a report on *Good Practices for Capacity Development*, which takes a different approach. It stresses the importance of starting with an accurate assessment of a government's true needs using the tools contained in the *Working Group Paper on Benchmarking Monitoring and Evaluation* and based on the country's procurement strategy.

It emphasizes the importance of focussing on strengthening the full range of institutions and organizations that play different roles in the procurement process, including the private sector business community. Additionally, true country buy-in and ownership and taking an entrepreneurial, flexible, medium to long term outlook are considered essential for success. These are all elements that have been proven to be necessary for successful and sustainable outcomes. Efforts to raise procurement skills and standards are central. But professionally trained individual procurement staff cannot function to full capacity when the institutions, organizations, attitudes and incentives that govern, control and influence their day-to-day performance are flawed or not in the mainstream.

This guidance on procurement capacity building should be seen as an integral component of the wider capacity building work being undertaken in the context strengthening public financial management and implementing the broader aid effectiveness agenda.

Benchmarking, monitoring and evaluation

Having good tools to measure quality against agreed standards and enable governments to reliably monitor ongoing performance are an essential foundation of any good developing or developed country procurement system. This is one of the clear lessons emerging from the broader aid effectiveness work on results-based management. The Round Table efforts on this theme have resulted in set of good practices concerning *Benchmarking, Monitoring and Evaluation*.

The good practices paper describes three specific related tools: (i) a baseline indicators mechanism that can be used to assess the strengths and weaknesses of national procurement systems, (ii) a complementary set of monitoring and reporting tools to measure and manage ongoing performance at the national level and (iii) an assessment tool to evaluate performance at the procurement entity level. These three tools permit governments to assess the impact of any reform initiatives and detect problems of reform design or implementation so that remedial action can be taken.

The baseline indicators mechanism is based on widely accepted international standards for public procurement systems. It is designed to look at all the key features in such systems, including:

- The strengths and weaknesses in their monitoring and reporting systems.
- The existing capacity gaps.
- The functional integration in the overall public sector financial management process, *i.e.* “mainstreaming procurement”.

The information generated by a baseline indicators assessment will provide a clearer, more rational basis for designing capacity development programs and pinpointing mainstreaming weaknesses that need to be addressed. It will also support developing countries in their dialog with donors on how best to deploy scarce donor resources and achieve better outcomes. Additionally, if open access to reports about current activities is provided to a broad range of stakeholders, it will enhance transparency and accountability and allow civil society and the business community to become more actively involved in the enforcement of the existing procurement regulations.

III. The way forward

Participants to the Round Table agreed, in the Johannesburg Declaration, to a number of steps to implement the guidance and tools they have developed to strengthen developing countries' procurement capacities. These include the following:

- Developing countries will take the steps necessary to integrate procurement into their overall development strategies and assign the needed priority to strengthening procurement systems. Donors will take the steps needed, at both headquarters and at field level, to raise awareness that procurement is a strategic aid management function and central to the aid effectiveness agenda.
- Both developing countries and donors will mobilise the necessary political and financial support in their countries to carry out the guidance developed by the Round Table and to achieve sustainable improvements.
- Developing countries and donors will develop a communications and outreach strategy to increase the number of developing countries and donors (including new ones not member of the DAC) involved in the implementation process and increase the involvement of civil society and the private sector.
- Developing countries and donors noted the importance of open international competition for contracts in order to maximise the development benefits of strengthened procurement systems and will continue to discuss in the DAC and other *fora* how to achieve more effective development aid.
- Developing countries and donors will maintain the network of procurement professionals created by the Round Table process to strengthen and disseminate their knowledge base in support of the procurement agenda.
- Developing countries and donors will monitor and evaluate progress in implementing the Round Table guidance, in achieving the desired results and in promoting donor harmonisation and alignment around strengthened partner country procurement systems.

**A FRAMEWORK FOR DEVELOPING EFFECTIVE PROCUREMENT SYSTEMS
IN DEVELOPING COUNTRIES:
THE JOHANNESBURG DECLARATION**

We, the representatives from developing countries, multilateral and bilateral development institutions and other participants in the OECD/DAC – World Bank Joint Round Table Initiative on Strengthening Procurement Capacities in Developing Countries¹,

Recognise that improvements in the performance of public procurement systems will (i) produce enormous benefits towards efficient use of public resources, contribute to the achievement of the MDGs, and (ii) facilitate harmonisation and aid effectiveness by enabling greater reliance on well performing country systems for delivery of development assistance,

Recalling the DAC 2001 Recommendation on Untying ODA to the Least Developed Countries and recognising the benefits of open markets for procurement,

Hereby agree to utilise common strategies, approaches and tools for strengthening procurement system capacities by implementing the broader objectives of the Round Table process²: *i.e.* to support effective procurement strengthening in developing countries and move towards greater reliance on national systems.

Consider that urgent action is needed in the following three main areas:

- Accord public procurement reform a higher strategic priority.
- Improve the effectiveness of the approaches and techniques used to develop procurement system capacity.
- For aid-funded procurement, move towards greater reliance on national systems that conform to internationally recognised standards, or are moving successfully in this direction.

Commit to achieve these shared objectives by putting into widespread use the common strategies, approaches and tools we have developed under the Round Table process. Using these recommended strategies, approaches and tools, we will:

1 . A consolidated list of participating countries and agencies from all Round Table meetings is in the Annex to this Declaration.

2. The Round Table process was launched in Paris, France from 21 to 23 January 2003 and subsequent Round Table meetings were held in Kampala, Uganda from 4 to 6 February 2004 and Johannesburg, South Africa from 30 November to 2 December 2004. Working Group meetings were also held in Paris from 21 to 23 June 2004.

- Work to strengthen country procurement system capacity at the institutional, organisational and professional levels using new approaches and techniques which strongly emphasise country ownership.
- Do this by carrying out careful systems-wide diagnostics at the country level, identifying priority areas of weakness, and designing realistic reform programmes based on the results that are closely and flexibly monitored during implementation.
- Focus on measurable improvements in the performance and impact of procurement systems.

More specifically, implement programmes to strengthen the performance of procurement systems with the goal of making them more effective, efficient, transparent and accountable by:

- Raising awareness and ensuring consistent approaches at all levels in developing country and donor institutions as to the importance of implementing this framework.
- Utilising the approaches and tools prepared under the Round Table processes and providing feedback about quality and areas for improvement.
- Mobilising the financial and other resources needed to strengthen procurement systems.
- Taking due account of the importance of procurement within the context of public financial management and service delivery.
- Progressively utilising well performing country procurement systems to optimise value for money and the effectiveness of development assistance.
- Engaging more developing countries and donors in this process and increasing the involvement of civil society and the private sector.
- Maintaining the network of procurement professionals created by the Round Table to strengthen and disseminate their knowledge base in support of the procurement agenda.

We agree to reconvene in late 2005 to assess progress in meeting the goals set above.

ANNEX

Table 0.A1 List of countries and agencies involved in the Round Table process

- | | | | |
|-----------------------|----------------|---|---|
| • Australia | • Ireland | • Spain | • Ideas Centre |
| • Austria | • Italy | • Sri Lanka | • International Development Law Institute (IDLI) |
| • Belgium | • Japan | • Sweden | • International Monetary Fund (IMF) |
| • Canada | • Madagascar | • Switzerland | • International Trade Centre (ITC) |
| • Dominican Republic | • Morocco | • Tanzania | • Nordic Development Fund |
| • Denmark | • Mozambique | • Uganda | • Sahel Club of West Africa |
| • Ethiopia | • Nicaragua | • Vietnam | • United Nations |
| • European Commission | • Netherlands | • United Kingdom | • U.N. Conference on Trade and Development (UNCTAD) |
| • France | • Norway | • United States | • United Nations Development Program (UNDP) |
| • Germany | • Philippines | • African Development Bank | • U.N. World Food Program (WFP) |
| • Ghana | • Portugal | • Crown Agents for Overseas Governments and Administrations Ltd | • West African Economic and Monetary Union (UEMOA) |
| • Iceland | • Senegal | • European Bank for Reconstruction and Development (EBRD) | • World Bank |
| • Indonesia | • South Africa | • The Global Fund | • World Trade Organization (WTO) |

CHAPTER 1

MAINSTREAMING AND STRENGTHENING PUBLIC PROCUREMENT: A STRATEGIC FRAMEWORK

ABSTRACT

This chapter focuses on how to develop a better communications strategy to attract greater attention to procurement issues and the need for procurement reforms, and illustrates the important linkages between procurement and the broader public financial management system of government. Because mainstreaming entails major change, the framework also provides background and advice on the many new techniques on change management, drivers of/and barriers to change, systems theory and effective communications strategies that should help governments overcome resistance to change. Mainstreaming is the engine that powers successful procurement reform.

I. Introduction

This paper examines an issue that is receiving increased attention – creating effective demand for improved procurement performance and triggering sustainable procurement reforms. It is organised around 3 major points:

- Effective procurement is essential for development and the achievement of the Millennium Development Goals.
- Strengthening procurement is a central component of efforts to improve the use of public money and enhance service delivery in order to achieve value for money; and.
- Successful efforts to improve procurement outcomes integrate procurement reform into broader country owned and managed efforts to improve public sector performance.

Strengthening public sector performance has recently become a central part of the development agenda. Many country leaders have come to appreciate the link between the performance of their public financial management system (PFM), including the procurement function, and the achievement of social and economic objectives. Donors, as well, have recognised the shortcomings of their past approaches, which often resulted in building separate financial management and procurement systems for donor-funded projects. PFM issues, including procurement, are now visible in many Poverty Reduction Strategies. From the donor side, developing capacity within PFM has catapulted to the top of the agenda due to a shift towards assistance modalities such as sector wide strategies or general budget support mechanisms that rely upon use of a country's own system for budget execution.

While the performance of country procurement systems may have received increasing attention, improving procurement outcomes has yet to migrate towards the centre of the development agenda. When procurement issues are taken up, they are frequently analyzed ignoring wider public sector financial management or service delivery issues, with the result that proposals for reform often relate solely to the procurement process and rely exclusively on procurement professional for their implementation. This has had the ironic result that, even as procurement performance has become an important topic in the development debate, the traditional view that procurement is solely a technical function has been reinforced.

The conventional approach to strengthening procurement may have a relatively limited chance of achieving improved outcomes. Procurement practices, especially those that are inefficient and unfair, are fiercely defended by the entrenched and powerful forces they benefit in all countries. In the face of determined opposition, effective adoption of necessary legal changes to procurement practices can only be secured through an international partnership involving the active support of top leaders from the public and private sectors. And translating a good legislation into improved outcomes likewise necessitates an implementation strategy involving the full range of key stakeholders including procurement officials, clients, the business community, donor agencies, the bodies entrusted with oversight and monitoring, parliaments, the press, civil society and others. It is not an overstatement to say that the success of future efforts to strengthen procurement systems is tied as closely to the *approach* taken to improving procurement outcomes as it is to the substantive *content* of the changes that are introduced.

This chapter complements Chapters 2 and 3, which were prepared by the OECD/DAC – World Bank Round Table on Procurement on assessment of procurement systems and on capacity development.

II. Purpose

The purpose of this paper is to illustrate the need for procurement reform and some of the good practices that have been utilised to improve procurement outcomes through “mainstreaming” procurement. We understand the challenge of mainstreaming as two-fold – integrating procurement reform better into the development agenda and approaching strengthening procurement as an integral part of efforts to improve public sector performance.

This paper presents the rationale for broad support and participation in strengthening procurement. It then identifies a set of elements that should exist in a strategy for improving procurement outcomes. The elaboration of these elements will vary depending on country context. The examples that are provided of good practice are not intended to be prescriptive or exhaustive, but rather to illustrate how countries and donors can and should work together to advance the goal of strengthening public procurement systems in developing countries.

III. The rationale for broad support and participation in mainstreaming

A compelling case can be made for the importance of procurement reform in almost all country settings. The importance of procurement can be demonstrated based on its scale and role in terms of service delivery, the amount of money wasted by existing practices, reduced competition, higher prices due to market perceptions of risk, as well as the demonstrated ability of countries to capture enormous savings through concerted efforts to strengthen their procurement function.

Public procurement is at the centre of the way public money is spent. Budgets get translated into services in large part through the workings of the procurement system. The construction of schools, clinics and roads and the drilling of wells, as well as the acquisition of medicine and textbooks occur in most countries through the nation’s public procurement system. The performance of a country’s procurement system will therefore determine whether funds are sufficient to purchase 1 million or 2 million textbooks, or to complete 10,000 or 30,000 wells. The ability for political leaders to meet their promises of economic and social improvements is strongly related to how well procurement functions. Table 1.1 provides an example of the impact of procurement performance improvements on the volume of social assets procured in one World Bank-financed project in the Philippines.

Table 1.1 Change in number of assets procured by the Philippines' education sector due to improved procurement practices

Type of Asset	Expected Volume based on Past procurement practices	Actual volume delivered after procurement reform	Price savings per unit
School Desks and Chairs	45,000	754,069	Between 22 and 77%
Textbooks	25 million	42 million	50%
Classrooms	900	1,535	39%

Source: World Bank implementation completion report for Philippines social expenditure management project, 30 June 2004, p. 22-23.

Viewing procurement as integral to the delivery of specific services is useful for two other reasons. First, it makes more transparent the actual levels of performance achieved by different parts of the government, making it possible for them to be held accountable for their actions and creating a positive incentive for government agencies to improve their performance. And second, it also makes it easier to estimate the volume of public money that flows through the procurement process. The aggregate importance of procurement in public spending is obscured because procurement transactions frequently take place in a decentralised fashion across the entirety of government. When the value of these transactions are combined, procurement is often one of the top three types of spending (besides salaries and debt payments), if not the most important. Procurement is particularly prominent in developing countries with active infrastructure and social programmes. In Uganda, for example, 70% of public spending goes through the public procurement system. Table 1.2 provides data on the proportion on spending that is executed through procurement systems in selected countries. Public procurement spending is estimated to account for 15% of the world's GDP.¹

Table 1.2 Size of procurement in select countries

Country	Procurement as % of total expenditures
Global	12-20%
Angola	58%
Azerbaijan	34%
Bulgaria	30%
Dominican Republic	20%
Malawi	40%
Uganda	70%
Vietnam	40%

Source: Data for all specific countries from World Bank Country Procurement Assessment Reviews; global data from OECD.

The influence of good procurement on the effectiveness of public spending is mirrored by its impact on development of the private sector. A government's most direct impact on the private sector is through its procurement behaviour. The government is often the largest investor in and purchaser of services, especially in poorer nations. The way it manages its commercial relations with the business community has

a profound influence on whether acceptable business practices will evolve or not, and on the dynamism of the private sector. Procurement systems can promote competitiveness and improve the local market's ability to survive in international markets by awarding contracts on an economic basis, just as they can promote inefficiency and corruption by awarding contracts on the basis of personal relations or private negotiations. In this manner, a country's procurement system has a significant impact on national investment rates, as well as long-term growth rates.¹ One indication of the impact of systems that award contracts on a non-economic basis is derived from corruption studies. According to a report on Transparency in Government Procurement published by the OECD/DAC Working Party of the Trade Committee in May 2003, a corrupt country is likely to achieve investment levels of 5% less and lose about ½% GDP growth per year compared to relatively corruption-free countries.

Support for reform is based on recognition of the cost to the country of existing procurement practices

Public procurement systems often waste tremendous amounts of scarce resources. The performance of national or state procurement systems varies widely as does the extent of system wastage. However, the World Bank's Country Procurement Assessments and other donor evaluation exercises have consistently found major performance weaknesses in the procurement systems that have been examined.

The inefficient use of funds can be generated from problems across the entire procurement process – from the definition of needs and creation of bidding documents, to a lack of transparency and competition in the process followed for announcement, bidding, evaluation and award of contracts, to poor contract supervision. Data from selected countries provides some indication of the magnitude of these inefficiencies. Studies in the Philippines (reflected in the data in Table 1.1) demonstrate that poor procurement practices resulted in wastage of between 22-77% of the value of procurement of schools and school supplies. A recent study of drug costs incurred in the Federal Republic of Yugoslavia found that the cost to the government of procuring a limited number of drugs was 23.7% higher than the cost incurred by an international agency purchasing the same drugs from local suppliers.²

Studies of corruption in public procurement also provide a window into the squandering of public funds. Several international research projects have gathered data that reflects what is often common knowledge – that corruption in public contracts in areas such as construction is widespread and that the cost of corruption can be greater than 20% of the total original contract price. (See Tables 1.3 and 1.4 for data.)

Table 1.3 Frequency of bribes paid to secure public construction contract in selected countries

Country	% of firms reporting that paying a bribe to receive a construction contract is typical
Albania	62.7%
Georgia	62.5%
Russia	30.8%
Ukraine	43.4%

Source: data derived from World Bank-European Bank for Reconstruction and Development Transition Economies Enterprise Survey (dataset), 2002.

Table 1.4 Proportion of contract price paid in bribes to secure a public contract in selected countries

Country	Size of payment for all public contracts	Size of payment for Construction contracts
Peru	15.8%	12.3%
Paraguay	21.8%	24.0%
Colombia	15.9%	14.1%
Ecuador	14.4%	13.4%
Ghana	8.3%	9.3%
Sierra Leone	8.5%	13.3%

Source: data from firm interviews conducted as part of World Bank Governance and Anti-Corruption Diagnostic Studies, 2000-2003.

The impact of corruption in procurement extends considerably further than increasing the cost to government of particular projects. Comparative research has demonstrated that high-levels of corruption work to push governments to devote a higher proportion of their spending to capital projects, since procurement in those projects offers the greatest opportunity for public officials and private parties to capture corruption revenues.³ In this way, procurement systems that are beset by corruption have a particularly destructive impact on the effectiveness of public spending since they act to promote excessive public investment at the same time that they reduce the benefit the country derives from those investments.

Strengthening procurement can potentially generate enormous savings, especially in developing countries. Improving the performance of a national procurement system even slightly could, in many cases generate enough savings to more than pay for the cost of the reform programme itself and leave a significant amount of money left over to increase *e.g.* social spending.

Strengthening procurement efficiency and increasing transparency might equally increase the confidence and trust of the civil society in its government, in particular in government's credibility, honesty and commitment to development. In several countries, the perceived lack of transparency and existence of corruption has undermined the legitimacy of governments and has been a decisive factor for the change of the political leadership.

Success in implementing procurement reform is linked to being able to demonstrate the benefits realised from improvements.

International experience with procurement reform is mixed, but those countries that have succeeded in improving their procurement practices have frequently achieved very significant returns on their work.

There exists no comprehensive data that allows us to chart the overall impact of procurement reform, but a range of country examples does exist that points to the positive impact of improving procurement practices. Table 1.5 below details the cost savings obtained in the Philippines due to their success so far in strengthening their procurement system. The evidence of cost savings in the Philippines complements the data contained in Table 1.1 on the extent to which procurement reform in one World Bank project in that country increased the volume of social assets made available for the school system. Additional examples of savings realised through procurement reform include:

- The Republic of Korea realised a \$2.5 billion per year savings based upon an initial investment of \$26 million to create an e-procurement system.⁴
- The United Kingdom realised a 3.6% savings (equal to 3 billion pounds) on its procurement savings over a 3-year period of time due to giving greater attention to complex procurement cases.⁵
- The health sector in Guatemala saved 43% in 1999 by dropping the use of biased technical specifications when buying medicines.⁶

The evidence that exists suggests that active involvement by national governments in the implementation of procurement strengthening measures may represent the best opportunity for them to save public financial resources and improve the effectiveness of their spending programmes. While experience suggests that procurement-related savings can be achieved in a short to medium-time horizon, obtaining a similar level of savings from other significant cost items (such as public administrative staffing costs, or enhanced selectivity in determining the mix of social programmes) appears to be a much more involved and difficult process.

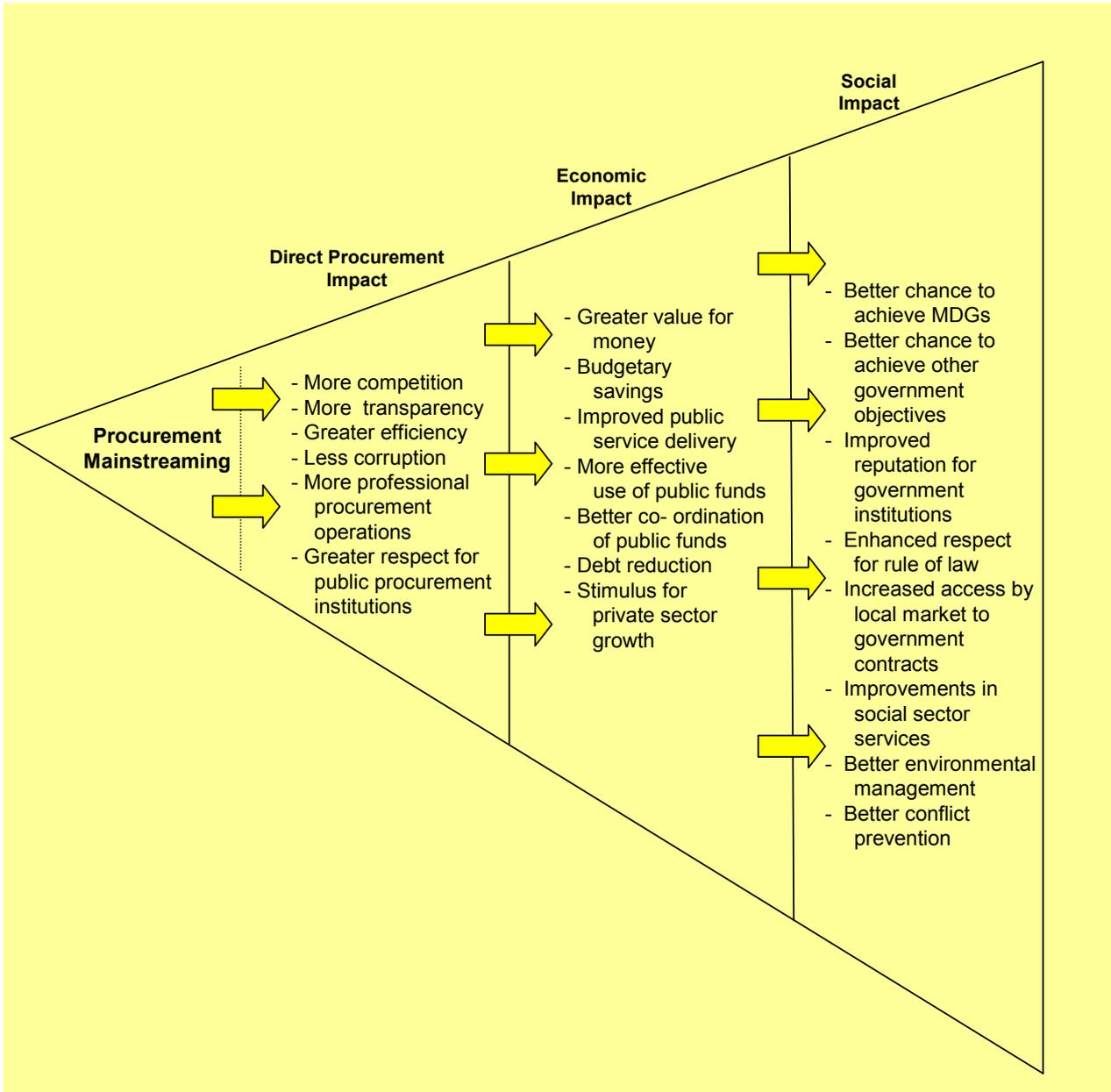
Table 1.5 Estimated savings realised by the Government of the Philippines as a result of posting procurement opportunities on its electronic procurement system

Savings	Specific Savings on...
53%	Various drugs/medicines
43%	Equipment for electrification projects
42%	Printing of letterheads
33%	IT equipment & supply/delivery of construction materials
25%	Supplies/Material and Services
19%	Construction supplies, IT equipment
17%	Electrical/mechanical supplies & equip.
15%	Various office supplies/equipment
15%	Office supplies/materials
11%	Vehicles & Supplies/materials

Source: Philippine Government Electronic Procurement Service

Figure 1.1 below is a “torchlight” that illustrates some effects of using procurement as a tool to achieving national objectives that go well beyond simply strengthening procurement processes or outcomes.

Figure 1.1 Torchlight



IV. Elements of a mainstreamed procurement strategy

There has been relatively little work done to identify the determinants of how to successfully strengthen procurement systems. While generalisations should be treated with caution, the best available evidence on procurement change and related public sector reform efforts suggests that important features include:

- **A country-owned and managed change process.** Country ownership and management of reform is the foundation for any successful effort to improve performance in the public sector. The Monterrey Summit of 2002 emphasized that country leadership was necessary for economic

and social development and pledged a new partnership between developing countries and the international donor community to establish sound policies, good governance, and the rule of law.

Country ownership and management of change emphasises the need for governments to establish a coherent reform programme and for donors to align their support around this programme. It implies that government involvement is crucial in all aspects of reform from diagnostics through design to implementation.

- **Procurement improvements identified as an essential part of government programme.** Procurement reform success is most likely when procurement is understood as central to the effectiveness of public spending and procurement reform is identified as an essential element of the government's overall strategy to improve public sector performance. While the exact pattern of commitment and support that is required for success depends upon country context, officials from all levels of the government including those from other parts of the public financial management system, executing agencies, and oversight bodies as well as business leaders, and beneficiaries of public services are all key stakeholders and their support for any proposed changes should be actively solicited. Some successful reforms only happened with the explicit commitment of the highest level of the government in those countries.
- **Efforts to enhance procurement outcomes are integrated into broader country owned and managed efforts to improve public sector performance.** This feature is the corollary of the previous element for just as reform needs to embrace procurement, the approach to improving procurement needs to be shaped to fit the broader reform environment. Procurement strategies that succeed in improving results are built upon the recognition that procurement outcomes are determined not only by the rules that define procurement, but also the conduct of the parties to the contract, the behaviour of parties responsible for oversight and monitoring of public spending, as well as broader environmental issues such features as the reliability of public expenditure flows and the depth of private supplier markets. A well-structured approach to achieving results on the ground builds upon the linkages between procurement, public financial management, service delivery, and other key functions of the public sector and is designed to improve procurement performance as an integrated part of improving public sector performance.

V. Good Practices

Country ownership and management of reform

The importance of country ownership and management to the success of the change process is now universally accepted. This principle is reflected throughout the flagship poverty reduction strategies that increasingly define the development agenda and the more micro-level public financial management reform strategies that set out country priorities in the area of budget formulation, execution, oversight, and accountability.⁷

Country ownership and management of reform is best assured when:

- **There has been a clear commitment to undertake procurement reform from political leaders.** Country ownership of procurement reform requires the explicit commitment and support of officials at the ministerial level and above. Country ownership exists only when political leaders are willing to embrace efforts to improve procurement and publicly dedicate themselves to achieving improved procurement outcomes.

- **The Government has created an internally-controlled process for managing reform.** While the management of reform may take many guises, effective approaches share certain features: clear designation of a responsible body or agency, a reform plan with an expected delivery timetable, and an inter-agency process that monitors progress.
- **The Government has established a forum for dialogue with donors on procurement.** Country management of reform also features the management of external support. There has been a great deal of experimentation in the last several years on how best to structure dialogue with donors and coordinate donor assistance and the most suitable arrangement will depend on the shape of a country's reform strategy and its relations with donors. The existence of such a forum is an important indicator of the government's commitment to manage procurement reform.

The leading role of governments in setting the development agenda challenges donors to direct their assistance towards support of the government programme, and accept that their priorities might not always be shared by partner governments. This acceptance is a particularly thorny issue in procurement since donor agencies have fiduciary responsibilities to their stakeholders for the use of funds. In the past, donors have frequently acted to mitigate these fiduciary risks by imposing their own procurement rules on partner countries for the funds they contribute. The rationale for insisting on the use of donor rules is understandable in the short-run, but such requirements may fail to serve the medium and long-term interests of donors and countries alike since they have tended to divert resources away from building the coherent and strong procurement systems that are needed for social and economic development.

There is no simple way to achieve a balance between fiduciary concerns and developmental interests. Donors have attempted to achieve the necessary balance through the following process:

- **Ensure country leadership of assessments and diagnostics, whenever feasible.** Donors have increasingly emphasized involving government officials in the performance of assessments. In some instances in the area of public financial management, governments have taken the lead in performing such assessments, with donors applying a variety of verification methods prior to deciding whether to accept the assessment or not. While this practice has not been followed to date in procurement, the emerging consensus among donors and partner countries on the tools for benchmarking, monitoring and evaluation for procurement that have been developed by the Round Table process have created a tremendous opportunity to advance government leadership of analytical work.
- **Harmonise requirements when donors determine that the risks created by a country's procurement system require use of specific procurement rules for donor-funded projects.** Harmonisation of procurement rules among donors and between donors and countries has been actively pursued since the Rome Summit. Harmonisation leads to simplification, which in turn frees up resources that can be used to develop better local capacity that will allay donor fiduciary concerns.
- **Agree on what steps need to be taken to reduce fiduciary risk so that short-term risk mitigation efforts do not become entrenched.** Experience has demonstrated that short-term stand alone risk mitigation efforts on the part of donors often become entrenched practices. Donors can reduce the negative impact their imposition of special rules and procedures has by clearly identifying the specific improvements needed before the donor requirements will be lifted. The benchmarking, monitoring and evaluation tools that have been created provide a constructive platform for donors and countries to discuss and agree on the areas of weakness that should be targeted in future reforms.

Procurement as a central element in the Government's programme

Establishing procurement system strengthening as a core part of a government's programme involves recasting procurement as fundamental to the way public money is spent and critical for national development. Efforts that should be considered to achieve this include the following:

Develop information and messages to establish the relevance of procurement performance to national objectives.

As we have shown above, a strong case can be made for including strengthening procurement as a central part of a country's development strategy. Proponents of procurement strengthening programmes have found that assembling and presenting data on the operation of the procurement system in their countries can go a long way towards creating the necessary climate for change.

There exist a variety of sources for information on procurement operations. National statistics may already be collected on the overall scale of public procurement and procurement capacities. Data on the efficiency of the procurement system can be generated by reference to records on individual procurement transactions. In other cases, producing useful information involves the collection of data from government and/or non-governmental sources. For example, developing information on procurement effectiveness might necessitate establishing data links to officials within line ministries who monitor programme effectiveness, and groups that can monitor services (e.g. citizens groups from towns who are supposed to benefit from wells being dug, patients and clinics who are supposed to receive drugs, etc) Data on corruption in procurement may similarly need to be created, through business surveys or by collaboration with anti-corruption groups. In the future, the benchmarking, monitoring and evaluation tools produced by the Round Table will dramatically increase the amount of useful information available to governments about the functioning of procurement systems.

Identify potential supporters for procurement reform.

Data by itself has very limited power until it is communicated to groups with influence over decision-making. An effective communications strategy starts by identifying the groups that are critical for reform success, understanding what their specific interests and concerns are and then crafting a set of different messages that will appeal to each and hopefully win their support for procurement change.⁸

The pattern of support necessary for success in any reform will differ from nation to nation. Many reform efforts have worked to achieve the backing of the Ministry of Finance and while such support may be sufficient for a new procurement law to be passed and enforced in some highly centralised governments, it will often be necessary to build a coalition for change that includes more ministries and stakeholders and involves more senior leaders. Even in those cases where a law can be passed with a relatively narrow base of support, the modification of underlying informal practices that truly determine procurement outcomes requires a much wider range constituency including parliament, the presidency, line ministries, various ngos, the press and the business community. Involvement of international agencies and regional groupings (such as the European Union or the West African Monetary Union) can also play an important role in advancing the recognition that change is needed although their support alone is not sufficient for success.

Political leaders usually have a keen understanding of the dynamics of decision-making in their own countries, and it will often be possible without a significant amount of work to develop a list of groups whose support will be critical for progress in improving procurement. A list of groups who have an important stake in the performance of the procurement system and are therefore likely to either support or oppose particular reform proposals is provided in Annex 2.

As stated above, messages need to be defined to appeal to each of the potential support groups. Past procurement reform efforts have paid too little attention to crafting properly nuanced messages about the failings of the current system along with presenting a clear vision of the better system that could replace it. As well, too little was done to make use of the various new communications approaches, tools and techniques that are proving to be effective in the private sector and elsewhere, at least one of which (the impact of storytelling) is described in Annex 3.

Raise procurement issues within the design of an overall government strategy

Experience demonstrates that support for procurement improvements is best achieved when procurement issues are integrated into government reform strategies and when the procurement function is well represented in high-level planning meetings. In the past, procurement has often been added to reform strategies as a side component, in part because strengthening procurement was not raised as an issue when the government's strategy took primary shape. Real integration of procurement into public sector strategies requires procurement to have a "seat at the table" when the government reform strategy is being defined.

Partner countries determine the place of procurement in their reform agenda – a fact emphasized by the principle of country ownership and management of reform. Inclusion of procurement strengthening as a key part of government strategy to improve public sector performance is assisted when central interlocutors such as the Ministry of Finance have recognised its importance.

Donors can promote the mainstreaming of procurement issues by integrating procurement into their wider dialogue with partner countries on public financial management and service delivery. The proposed "Strengthened Approach to Public Financial Management" provides a useful example of how this can be accomplished by basing the donor-country reform dialogue on a financial management performance framework that also includes indicators exclusively focused on the procurement process, as well as other indicators that explicitly include procurement in the evaluation of related functions when there is an overlap.⁹ Donors can also assist in mainstreaming procurement by making sure to include procurement experts in integrated public financial management country team or in teams focused on improving service delivery.

Integrating efforts to improve procurement outcomes into broader work to enhance public sector performance.

Procurement is simultaneously a key element in the delivery of government services, a component of a country's system for spending public money, and a technical process. Traditional efforts to strengthen procurement systems have followed a relatively standard sequence – initial efforts seek to introduce changes in legislation. The passage of legislation sets off a second stage of reform that features the creation of a process for managing reform as well as the drafting of additional regulations and standard documents. This stage is complemented or followed by programmes to train procurement officials in new procedures. These efforts have largely been designed as a stand-alone process of improving the techniques of procurement, often with little connection to other reforms taking place in the country. This approach to reform has placed the burden of improving overall performance exclusively on the shoulders of procurement officials presiding over systems with few resources, limited capacity, within weak governance environments.

Government efforts to improve procurement outcomes are more likely to succeed when programmes for change are designed to generate improvements in procurement procedures and greater demand for improved procurement outcomes. Creating incentives for line ministries to care about improved performance and enhancing the ability of the business community to monitor procurement decisions are of particular importance since achieving sustained improvement in procurement is very difficult without the

active participation of the contracting parties. Generating demand for better procurement within line ministries is especially important and tricky. Increased attention to procurement may be generated by information revealing the connection between procurement and service delivery but enhancing demand for performance may also require the modification of budgetary rules so that line ministries are able to retain a significant portion of the procurement savings they are able to realise.

Examples of successful reforms in the past have enhanced demand for better procurement by connecting improvements in procurement with complementary efforts to improve the performance of other parts of the public financial management process, the conduct of executing agencies, and/or other reforms that effect how the public sector operates. Integrating procurement reform into the broader workings of the public sector serves to ensure that changes within procurement systems are aligned and properly sequenced with changes happening in other parts of the public sector. When improving procurement is approached in this manner, procurement reform is transformed from a technical and procedural reform to an effort that is critical to the overall success of reform. Integration correctly broadens participation in implementing change to a larger number of constituents and enables success in one area to reinforce and catalyze success in other areas.

Suggestions to integrate procurement more deeply into the working of the public sector are sometimes met with opposition based upon a belief that integration would divert attention away from improving the procurement process. Integration, in this view, is misunderstood to mean absorption of procurement into the other function or the subordination of procurement issues to other concerns. The emphasis given in this Strategic Framework on integration is in no way based on the belief that procurement is not a distinct process with its own rules and management arrangements. Instead, the focus on integration is an effort to acknowledge that public procurement exists within a particular public sector context to serve a particular function, and that successful procurement system strengthening can only take place within a broader reform environment.

It is possible for procurement reform to be approached as an integral part of a large number of reform activities including: developing the rule of law, improving the investment climate, reducing corruption, implementing e-government, enhancing service delivery, as well as improving public financial management. Multiple approaches to improving procurement outcomes can be attempted simultaneously since reform will be stimulated by the presence of multiple constituents for change. It is important to appreciate that procurement reform will likely follow a different design and sequence, and involve different actors if it is pursued, for example, as part of a sectoral reform strategy, or an anti-corruption effort, or a public financial management programme. Regardless of the exact nature of integration, linking improvement in procurement to other efforts to improve public sector performance will help to ensure that procurement reform functions to change procedures and improve outcomes.

As per the above, the most suitable way to integrate procurement reform into a broader effort will be determined in a country-by-country basis. Attempts to integrate procurement reform that have occurred to date have basically followed one or two themes:

Integrate the procurement process better into the public financial management system.

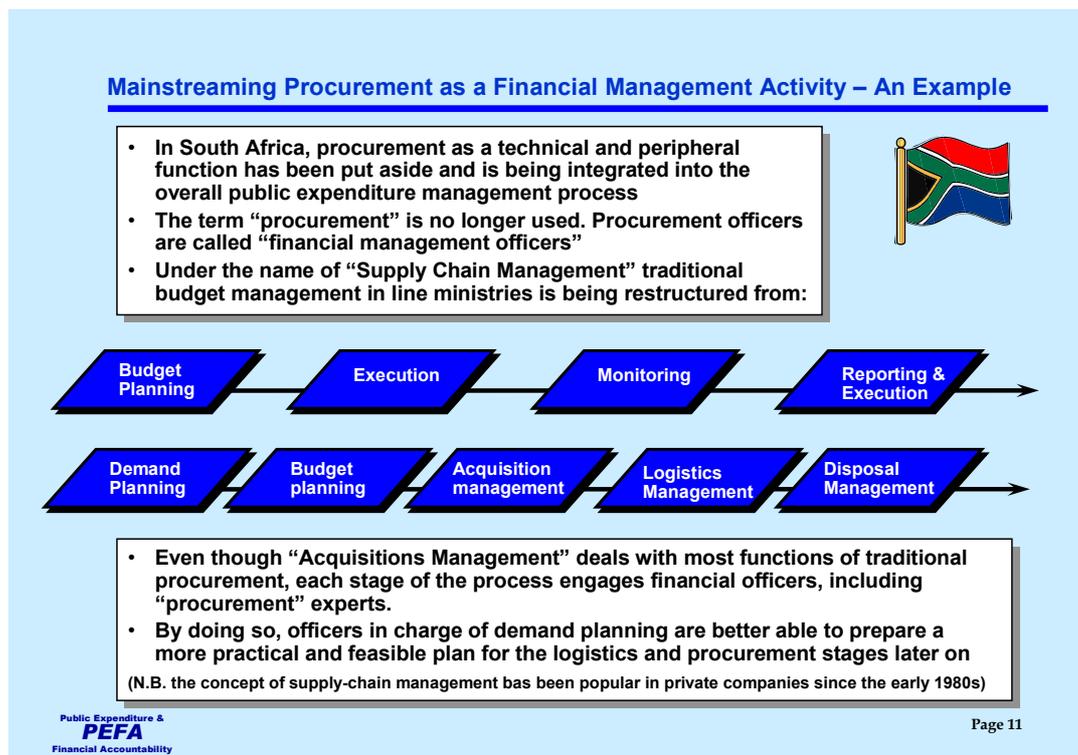
Public procurement is an element of a country's system for spending public funds. Its outcomes are strongly influenced by the operation of other components of public financial management – from the extent to which good procurement planning has been done within the budget process, to the ability of executing agencies to retain money they have saved by improving procurement, to the effectiveness of commitment controls for entering into contracts, to the timeliness and reliability of payment for goods and services received, to the impact of internal and external auditing on the adherence of staff to rules and regulations.

Several countries have designed their procurement strategies with a clear recognition of the connections between procurement and the broader public financial management system. These strategies achieve improved outcomes through closely aligning procurement with these complementary functions.

Uganda, for example, has recently moved to link their efforts to improve internal and external auditing to their work on increasing transparency and competitiveness of procurement. This shift has come about due to the limited impact separate parallel reform processes have achieved. A much higher degree of integration of procurement and financial management has been forged in South Africa. South Africa has redesigned its entire public financial management system since the change of regimes in 1994. The centrepiece of the reform there has been an effort to establish strong integration across the budget cycle in order to make the entire public financial management system accountable for achieving results.

Within this overall approach, procurement has been recast as a process of supply change management – involving decisions to acquire assets, maintain assets, and sell off unnecessary assets. See Box 1.1 below for a representation of the different elements of the South African system for managing procurement. As a consequence of this redesign, procurement is no longer treated as a purely technical process, and procurement specialists now work alongside other leading officials and participate in decision-making on how agencies manage their assets and spend their resources. The designation of “procurement specialist” may have lapsed as a result, but the changes have served to highlight the importance of having professionals with wide-ranging skills in the planning and execution of procurement.

Box 1.1 Example of an "integrated" procurement system



Source : Extract from presentation made at 1st Round table meeting in Paris, January 2003

Link procurement change to improved service delivery

Experience indicates that procurement strengthening should be pursued by joining steps to improve the procurement process with efforts by executing agencies to improve their performance in the delivery of services. This approach brings together the officials responsible for the procurement process with their clients – the officials responsible for the execution of programmes and delivery of services, making them both more accountable for their performance.

The Philippines has achieved noteworthy success with this approach. In that country, efforts to modify procurement laws and change the procedures that are used to carry out procurement transactions have been coupled with programmes designed to improve procurement processing systems within individual key ministries, such as health and education. This approach has been further strengthened by closely associating efforts to improve procurement with the anti-corruption efforts that have been led by strong and impassioned civil society organisations with enormous support among the general public. This multi-track approach has resulted in significant outcome improvements. (Data on the impact of the Philippines' procurement reforms can be found in Table 1.1). Improving results by focusing on procurement outcomes has also been advanced by the formation of a strong non-government organisation group that has taken over an active role in monitoring procurement and engaging in a constructive dialogue with a range of government leaders, members of parliament, leading representatives of the media and other civil society groups. Finally, the solid foundation of reform that has been created has served as a platform for the introduction of an e-procurement system that has significantly increased the level of transparency and competitiveness in the procurement process.

VI. Conclusion

We have presented, in this paper, a framework for increasing demand for improved procurement outcomes through enhanced information, improved communication, and strengthened integration. In the fashion, we have created a dynamic approach to “mainstreaming” procurement that has important implications for donor-partner collaboration and the content of the development agenda. Throughout this discussion, we have emphasised that mainstreaming procurement will require expanding the perspective and scope of work of proponents of efficient procurement at the same time that it requires a similar expansion from mainstream organisations. This transformation that stands behind the “mainstreaming” challenge needs to be taken on due to a recognition that in many partner countries conventional approaches are not yielding satisfactory results either in improving procurement or reducing poverty.

ANNEX 1: EMERGING THEORIES ON CHANGE MANAGEMENT

Background

How to raise the profile or priority of procurement in the minds of those in a position nationally and internationally to block or support procurement system capacity strengthening remains an issue of longstanding importance to the development community. Because most systems in the world today are not successfully mainstreamed, in this paper mainstreaming and mainstreaming reform are treated as inextricably linked to change. *Mainstreaming = a Need to Reform = Change*. Among the lessons learned from recent procurement reforms is that good results cannot be achieved and sustained without basing the design of the reform on country reality and using the latest change management theories and approaches.

Change Management Theory

Given this link between reform and change, and the dearth of cases where procurement reforms have been carried out with complete success, it is worthwhile outlining some of the promising new ideas being developed associated with change and conflict management, drivers for change, open systems, capacity development and other theories. There are a number of similar directions being taken and conclusions being reached in these fields that may aid in the search for better ways to mainstream procurement, strengthen procurement capacity and design the reform programmes to achieve both.

Open Systems Theory and Analysis

Under this theory, organisations are viewed as open systems, which maintain their existence through the interaction of their parts and the outside environment in which they exist subject to the laws of systems. Systems are not by their nature stable or unstable, but rather exhibit a fluid characteristic of continuously seeking a dynamic equilibrium.

"Rules of thumb"

Some interesting rules of thumb flow from this analysis. In addition to the above, the following which are directly relevant to the problem of effective design of procurement reform programmes:

- You can never do just one thing. There are no simple solutions.
- "Obvious solutions" do more harm than good.
- Every solution creates new problems. There are no final answers.
- Loose systems are often better than rigid ones. Don't over-design.
- If you can't make people self-sufficient, you do more harm than good.

Research into Large Scale Organisational Change

Research into change management as it relates to large private sector organisations has been going on since well before the 1950s and much of it is equally applicable to the design of public sector reform programmes. The formula shown in Box 1.A1 below, which was published in 1987 by Beckhard and Harris, has merit because it gives a generic breakdown of some of the key elements that experience tells the private sector have to exist for reforms to be successful. Notwithstanding the other differences that may exist between the public and private sectors, since change in both sectors involves similar systems, organisations and individuals, the theories applicable to change in both are basically similar. According to this formula, the only way to overcome the natural resistance to change that systems, organisations and people have (*i.e.* their negative elasticity coefficients) is to make sure that (i) everyone fully understands that the present situation is not satisfactory, (ii) there is a realistic positive “vision” of what the system can and should look like in the future and (iii) and the change process used to roll out the reform includes some achievable early wins. (The communications strategy ramifications of this formula are discussed below.)

Box 1.A1

A Formula for Overcoming Resistance to Change

Dissatisfaction with present + *Positive Vision for future* + *Achievable First Steps* = *Ability to Overcome Resistance to Change*

According to this formula, the only way to overcome the natural resistance to change that systems, organisations and people have (*i.e.* their negative elasticity coefficients) is to make sure that (i) everyone fully understands that the present situation is not satisfactory, (ii) there is a realistic positive vision of what the system can and should look like in the future and (iii) and the change process used to roll out the reform includes some achievable early wins.

ANNEX 2: LIST OF POSSIBLE SUPPORTERS OF/STAKEHOLDERS IN PROCUREMENT REFORM

National

The search for influential audiences capable of helping or hindering procurement reform at the national level has to be guided practically by the way the actual procurement system is structured in the country in question. Greater focus on potential audiences in the regions and municipalities would be warranted in decentralised systems, for example, than might be required for centralised systems. And given the greater weight being allocated to issues in the enabling environment these days, the search for audiences inside the government should not stop with bodies at the central government level, such as the Ministry of Finance or the procurement oversight body. It should also extend to other influential segments of:

- the political leadership
- line ministries responsible for the delivery of services
- the Ministry of Justice
- the Supreme Audit Agency and the Office of the Lead Accountant
- the parliamentary committee responsible for development and/or procurement

Civil society

Outside the government, other important stakeholders interested in procurement should also be included, for example:

- the public
- the business community
- the press and other media
- academia
- the national procurement professional organisation (if any)
- procurement- and corruption-related *ngo*'s
- the beneficiaries of public services

International

The potential audiences for procurement reform at the international level would include the international business community, international professional associations, as well as the multilateral and bilateral donor community.

ANNEX 3: EFFECTIVE MESSAGES: THE IMPORTANCE OF STORIES

In 2004, Stephen Denning, an ex-World Bank programme director for knowledge management, published a book entitled, *Squirrel Inc*, which is now near the top of the World Bank Infoshop’s bestseller list. It is aimed primarily at a private sector audience but the ideas promoted are equally relevant to any public sector or other organisation that is facing a serious reform but does not know how to manage the communications aspects relating to the reform.

According to Denning, the process of successful change involves being able to communicate seven different types of messages well:

Table 1.A3.1 Seven types of messages ("Stories") useful during reforms

1. Those that persuade people to change ("Springboard" stories.)	4. Those needed to tame the grapevine
2. Those that get people to work together	5. Ones that communicate a sense of identity
3. Those designed to share relevant knowledge	6. Those that transmit a set of values
7. Those intended to lead people into the future	

Macroeconomic sound bites are likely to be more effective when they are used in the context of a lively story that will spark and engage the interest of audiences. There is solid evidence that humans culturally respond better to stories and parables and remember the lessons they impart more vividly and longer, than in response to macro-economic or other “dry” facts. Individuals involved in designing communication strategies for procurement reform would be well advised to consider ways to incorporate storytelling into their efforts.

The following box provides an example of how compelling stories can translate data into effective appeals.

Box 1.A3.1 Example of a Message Enhanced by Storytelling

“The health sector in Guatemala saved 43% in '99 by dropping use of biased technical specifications when buying medicines.”

“The health sector in Guatemala saved 43% in '99 by dropping use of biased technical specifications when buying medicines. **Imagine how happy (person X?) would be today if the Ministry of Health in her country could have achieved similar savings. She and the others afflicted by polio that same year when the supply of polio vaccine ran out in her rural health district would be out today playing in the streets of their villages. Had the Ministry been able to find only a tiny fraction of such savings a year earlier her story would have ended so much differently!**”

Story telling may be particularly effective in supporting procurement reform through increasing interest in change and generating support for new procurement practices and procedures. The features of effective storytelling in both of these cases are presented below in the accompanying boxes.

Box 1.A3.2 Features in Effective Stories to Spark Change

- Make sure the story is true
- Focus on a single protagonist typical of the audience being addressed
- Focus on a positive outcome
- Tell the story with minimal detail
- Frame the story so the audience will listen
- Provide guidance so that the listener is directed toward the hoped-for insight
- Use phrases like “Just imagine...”, “What if...”

Box 1.A3.3 Features in Effective Stories with a Future Vision

- Embed the story in the future
- Try to make it evocative
- Make sure it captures the basic idea of where you’re heading
- Focus on a positive outcome
- But try to make it resonate with the listeners by adding context from the past and the present
- Listen for positive feedback like “Let’s do it!” or “When do we start?”
- Make sure that people are ready to follow in the direction indicated
- If they aren’t, go back to the storyline in Box 1.A3.2

1 . Estimation of the global size of public procurement is very difficult since there is no consistency in data that is maintained or reported on procurement across countries. In addition, the reliability of procurement data is suspect in many places. The ability to have an accurate understanding of the functioning of procurement systems will be greatly enhanced by adoption of the monitoring tool proposed by the Round Table as a result of its work on Benchmarking, Monitoring & Evaluation.

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- 2 . See CPAR, Federal Republic of Yugoslavia, June 2002, p 42. The study compared the costs incurred by the Serbian Health Insurance Fund for 46 drugs with the costs to the European Agency for Reconstruction of purchasing the same drugs through local tenders.
 - 3 . See Tanzi and Davoodi, “Roads to Nowhere: How Corruption in Public Investment Hurts Growth”, IMF Economic Issues Paper, 12, 1998.
 - 4 . See “Korea’s Move to e-Procurement”, World Bank PREM Notes No. 90, July 2004.
 - 5 . See “Improving Procurement: Progress by the Office of Government Commerce in improving departments’ capability to procure cost-effectively.” Report of the National Audit Office of the U.K. March 2004.
 - 6 . From OECD study done in 2003 on Transparency in Government Procurement.
 - 7 . For more information on Public Financial Management Reform Strategies see the OECD-DAC JV on Public Financial Management background paper on the “Strengthened Approach to Public Financial Management.”
 - 8 . While local knowledge is invaluable in determining the groups necessary for procurement reform success, government and donor staff involved in the design of procurement strengthening programs would be well advised to consult the work that has been done over the last two decades on change management and “drivers of change”. As well, open systems theory, risk analysis techniques, and strategic conflict and power structure analyses all have important insights of great value that can improve the chances that procurement reforms will be successful. See Annex 1 for a discussion of these theories.
 - 9 . See OECD-DAC JV for Public Financial Management background paper on the Strengthened Approach to Public Financial Management. Procurement is included in a number of the PFM Performance Framework Indicators including “effectiveness of cash flow and procurement planning,” and “publication and public accessibility of key fiscal information, procurement information, and audit reports.”

CHAPTER 2

GOOD PRACTICE PAPER ON PROCUREMENT CAPACITY DEVELOPMENT

ABSTRACT

This chapter recommends that a country-wide focus be adopted for capacity development, starting with an accurate assessment of a government's true needs. It stresses the importance of coordinating and sequencing procurement and public financial management reforms and argues the focus for reforms should be on improving development outcomes, not just on improving narrow elements in the procurement process. It emphasises the importance of strengthening the full range of institutions and organisations that play important roles in the procurement process, including the private sector business community. Additionally, true country buy-in and ownership and taking an entrepreneurial, flexible, medium to long term outlook are considered essential for success.

Overview

Box 2.1

“Sustainable development ... must be locally owned. The role of external partners is to help strengthen capacities in developing country partners to meet those demanding, integrated requirements for sustainable development, guided by the conditions and commitments in each country. To give substance to our belief in local ownership and partnership we must use channels and methods of cooperation that do not undermine those values... In a partnership, development cooperation does not try to do things for developing countries and their people, but with them ... Paternalistic approaches have no place in this framework. In a true partnership, local actors should progressively take the lead while external partners back their efforts to assume greater responsibility for their own development.”

Source: *Shaping the 21st Century* (1996), OECD DAC.

Background

“Capacity development” is a relatively new term for a longstanding and difficult issue that those in the field of development co-operation have faced for years: the increasing importance to strengthen government capacities. Use of this particular term emerged in reaction to the perceived failures of earlier technical co-operation activities and it has quickly gained acceptance as the core objective of donors’ assistance programmes, as witnessed by the quote from 1996 DAC strategy on *Shaping the 21st Century* contained in Box 1 above. The creation of the Joint OECD/DAC – World Bank Round Table on Strengthening Procurement Capacities in Developing Countries also stems from this objective.

Experience shows that effective capacity development will not occur unless (i) careful benchmarking and assessments are carried out, (ii) “mainstreaming” is made an important objective, (iii) progress is closely monitored and evaluated during implementation, and (iv) the process is iterative.

Objective

This *Good Procurement Practice (GPP)* aims to attract wide attention of the development community interested in finding better ways to develop capacity in the area of procurement, the need of which has been amply demonstrated and justified in Chapter 1. The Round Table considers their recommended approach to be a viable method to develop sustainable procurement capacities.

The GPP is primarily intended for governmental organisations in developing countries that are responsible for procurement, but some suggestions are also provided for other concerned stakeholders. The need for a team-based approach is stressed throughout and for all stakeholders to play a constructive role.

Donors, in particular, can play an important role in supporting local capacity development but they are encouraged to harmonise any conditions they impose and align their procedures around national procurement systems. All who use this GPP are invited to provide feedback on what has worked and what has not, so this approach to capacity development can be improved over time.

Definition of capacity development

The theory and practice of developing capacity are work in progress. The term capacity development itself still means many different things to many different people, such as institution building, human

resource development, management improvement, administrative streamlining, institutional strengthening, etc. Nevertheless, the interpretation being given to it by the UNDP, which has played a leadership role in this area, has become the focal point around which many important ideas and lessons learned are now coalescing. The Round Table has built its approach using the latest definition developed by the OECD/DAC, which builds on the UNDP work and is contained in Box 2.2.

Box 2.2 A Definition of Capacity Development

“*Capacity* is the ability of people, organisations/institutions and society as a whole to successfully manage their affairs. *Capacity development* is the process of unleashing, conserving, creating, strengthening, adapting and maintaining capacity over time.”

Source: OECD/DAC Task Force on Capacity Development, (2004).

The approach to capacity development adopted in this GPP relies on the two related concepts that are pivotal in this definition:

- (i) the focus is country-specific and multi-tiered, ranging all the way from society through its institutions down to the individual level; and
- (ii) the process of capacity development is much broader and more complex than just “strengthening”, it also includes “unleashing”, “conserving”, “creating”, “adapting” and “maintaining”.

The Round Table builds on this generic concept. It looked at the ability of the procurement system to perform the specialised technical, commercial, administrative and other functions needed to carry out complicated procurement transactions; at its success in solving procurement problems, complaints and disputes and maintaining the credibility and confidence of the market; and finally at its success in achieving the ultimate objective of all good procurement systems, *i.e.* maximum value for money.

Structure

This chapter is structured as follows:

- Part I discusses the context of the development of procurement capacities and in particular the relationship between a country’s overall development and procurement strategies and the capacity development programme that should logically flow from these.
- Part II lists the general principles of capacity development and elaborates on those principles considered pertinent to procurement. In particular, it describes the iterative process stakeholders are advised to follow when designing a strategic plan for capacity development.
- Part III describes the range of stakeholders whose issues, constraints, etc. need to be addressed for sustainable procurement capacity to be developed.

Part I The capacity development context

The objectives, focus and timing of any capacity development programme need to be integral to a country’s overall procurement strategy. A clear policy is required on how a country wants its procurement system to evolve over time and the kinds of specific capacity demands the system will face. Without such a

policy, it is futile to design a strategic programme that will produce the right mix of capacities to handle these requirements professionally.

Thus, before embarking on the design of such a programme it is essential for the government to articulate and adopt an overall procurement strategy that specifies what objectives it wishes to achieve, assigns responsibilities, allocates budgets, identifies instruments and sets the time horizon of the reform process. This strategy also needs to explore linkages with other public sector functions, in particular those relating to public financial management. Embedding the procurement reform within country Poverty Reduction Strategies will ensure these linkages and provide sustainability.

One of the core issues to be addressed in procurement capacity development is the need for better cooperation and coordination with other relevant public reform processes. For example, if the government is decentralising, the impact on its procurement system will be immense. In a country like Indonesia, which has opted for this strategy, decentralisation (an approach considered by many to be best practice in procurement) clearly has significant consequences for the number, type and mix of institutions involved in procurement, their organisational structure and the skills required by their procurement staff.

A government wishing to pursue a Public Private Partnership approach to maximise private investment in the public sector may require a smaller number of staff fully dedicated to handling specific procurement transactions. However, the complexities and risks posed by this kind of procurement require staff to have a different skill set.

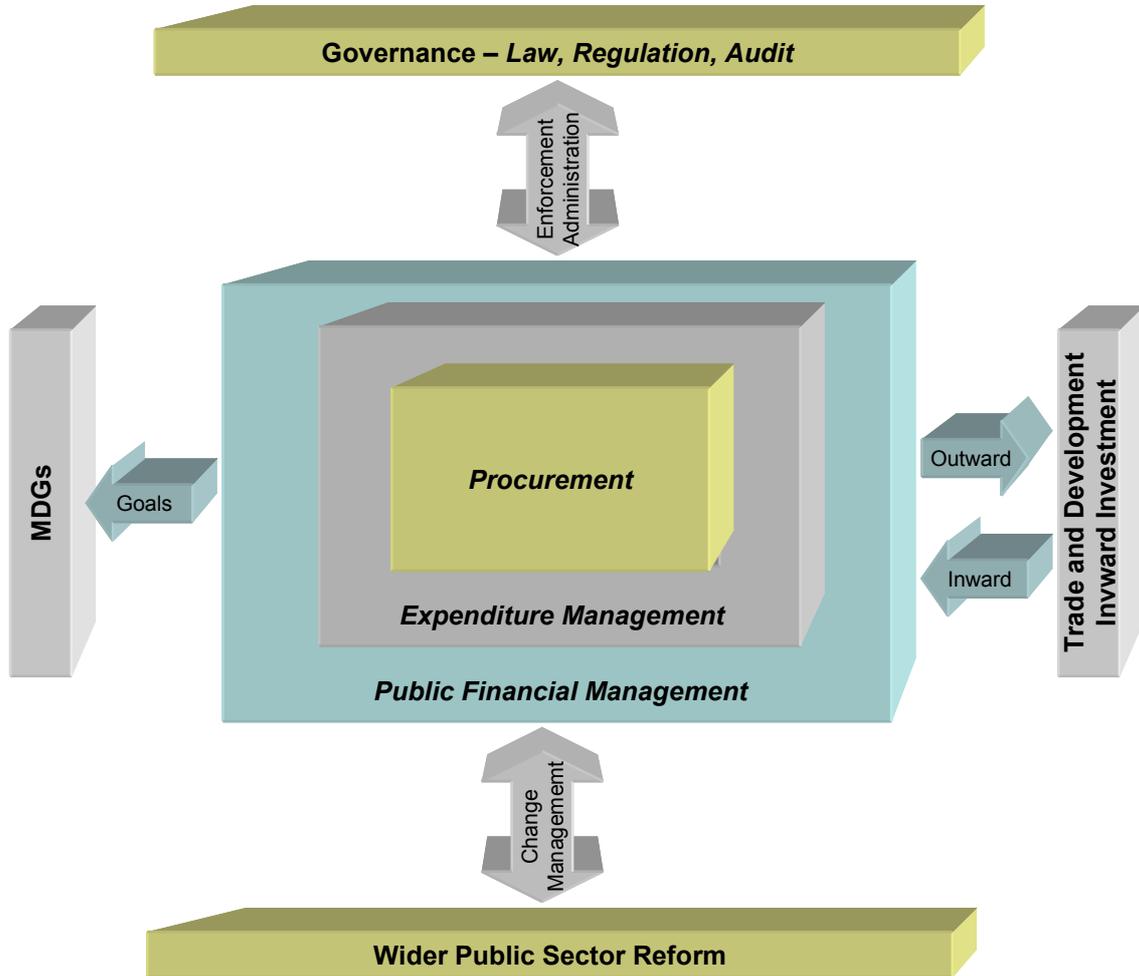
It is considered good practice for procurement entities to maximise the use of private sector firms and individual consultants, especially where internal procurement skills are scarce, to support or carry out various functions necessary for an efficient procurement process. The private sector can provide valuable assistance in areas such as knowledge management, technical and commercial analysis and assessment, project preparation, project implementation and procurement monitoring and evaluation (including audits).

Outsourcing the procurement function itself to a procurement service provider, particularly when short-term internal capacity constraints are an issue or where procurement is not a core function, may also provide a viable solution. Because of the fiduciary responsibilities involved this approach requires careful monitoring and oversight. It is important to structure the compensation arrangements for these services to ensure payment is linked not just to process but also to final outcomes, *e.g.* achievement of “value for money”. This will establish positive incentives and reduce potential conflicts of interest.

Finally, professional institutions/associations and academic bodies play a key role in the development of procurement capacity by providing a framework for education and the sharing of good practice. Together with the business community and private sector experts, they have the potential to bridge misunderstandings and gaps between public and private sector experience. In addition, they can also set professional and ethical standards against which procurement professionals can be assessed.

Whatever choice is made, the capacity development programme must be designed to support the country’s ultimate strategy for strengthening public procurement within the complex enabling environment in which it operates (see Figure 2.1).

Figure 2.1 The capacity development context



Another core issue to address is corruption and bribery. It is widely accepted that much of the “grand” and “petty” corruption arises in and around the arena of public sector procurement. There is no single recipe for fighting corruption. The causes and logics of corruption vary, and the resulting differences between country-specific situations need to be taken into account when designing effective anti-corruption strategies. Procurement should be considered as an integral issue in governance and anti-corruption strategies. Accountable, transparent and ethical procurement practices and processes help to reduce the environment within which inefficiencies, including corruption, thrive.

As highlighted by the OECD Global Forum on Governance (November 2004) and the DAC Partnership Forum on Corruption (December 2004), anti-corruption strategies in public sector procurement need to address most or all of the following to be effective: (i) political and managerial will; (ii) enactment and enforcement of procurement laws and regulations; (iii) transparent and accountable bidding processes; (iv) institutional improvements; (v) enhancement of professional skills; (vi) standard procurement approaches; and (vii) ethical codes/integrity pacts.

Part II Principles for Capacity Development

Underlying principles

Experience tells us that developing sustainable improvements in procurement capacity requires a process that is built on many of the basic principles that have been articulated by the UNDP. These principles are not procurement-specific, but are proving useful in determining how to react when issues arise during the planning and implementation phases of capacity development (see Box 2.3).

Error! Bookmark not defined. Box 2.3 UNDP's 10 Default Principles for Capacity Development	
<p>1. Don't rush. Capacity development is a long-term process. It eludes delivery pressures, quick fixes and the search for short-term results.</p>	<p>6. Establish positive incentives. Motives and incentives need to be aligned with the objective of capacity development, including through governance systems that respect fundamental rights. Public sector employment is one particular area where distortions throw up major obstacles.</p>
<p>2. Respect the local value system and try to foster self-esteem. The imposition of alien values can undermine confidence. Capacity development builds upon respect and self-esteem.</p>	<p>7. Integrate external inputs into national priorities, processes and systems. External inputs need to correspond to real demand and be flexible enough to respond to national needs and agendas. Where national systems are not strong enough, they should be reformed and strengthened, not bypassed.</p>
<p>3. Scan locally and globally; reinvent locally. There are no blueprints. Capacity development draws upon voluntary learning, with genuine commitment and interest. Knowledge cannot be transferred; it needs to be acquired.</p>	<p>8. Build on existing capacities rather than creating new ones. This implies the primary use of national expertise, resuscitation of national institutions, as well as protection of social and cultural capital.</p>
<p>4. Challenge mindsets and power differentials. Capacity development is not power neutral, and challenging mindsets and vested interests is difficult. Frank dialogue and a collective culture of transparency are essential steps.</p>	<p>9. Stay engaged under difficult circumstances. The weaker the capacity is, the greater the need. Low capacities are not an argument for withdrawal or for driving external agendas. People should not be held hostage to irresponsible governance.</p>
<p>5. Think and act in terms of sustainable capacity outcomes. Capacity is at the core of development; any course of action needs to promote this end. Responsible leaders will inspire their institutions and societies to work accordingly.</p>	<p>10. Remain accountable to ultimate beneficiaries. Any responsible government is answerable to its people, and should foster transparency as the foremost instrument of public accountability. Where governance is unsatisfactory it is even more important to anchor development firmly in stakeholder participation and to maintain pressure points for an inclusive accountability system.</p>

Source: UNDP's Ownership, Leadership and Transformation, page 13.

Procurement specific principles

The process or plan for capacity development should not be considered as a blue print. The circumstances affecting any country wishing to improve its capacity are too complex and the opposition to change so variable that no rigid plan will apply to all situations. Therefore, an iterative process is proposed aimed at creating a viable institutional framework. Pillars 1 and 2 of the baseline indicator system (Chapter 3) will help develop this.

The principles on which this process should be based are captured by the following concepts and are explained in more detail below:

1. Country Ownership
2. Broad Stakeholder Involvement
3. Realistic Needs Assessment
4. Strategic Procurement Capacity Development Planning
5. Closely Monitored and Flexibly Managed Implementation

Country ownership

Country ownership is key to any programme for public procurement reform and capacity development. A national procurement strategy would be a clear expression of country ownership. While assistance can be provided by outside stakeholders, such as the donor community, key strategic decisions need to remain the responsibility of the country.

Attempts to develop capacity without country ownership will do more damage than good. In such cases, political correctness often dictates the choice of targets for capacity improvements, diverting scarce resources from true areas of need, and generating cynicism within the procurement community and civil society. This in turn makes future reform efforts even more difficult.

So the *first critical step* in the capacity development process is to verify that a serious level of local ownership and commitment exists and, equally important, the ability to translate this into appropriate action. This is important enough to require some form of independent verification process. Incorporation of procurement reform in a country's Poverty Reduction Strategy or Business Plan will provide proof of commitment and country ownership. Any doubts about country ownership will have a major impact on the nature and design of subsequent capacity development interventions.

Broad stakeholder involvement

Developing a country's procurement capacity should be viewed from the perspective of the dynamics of change. A procurement system is a multilevel holistic "organism", where every organisation at every level and their actors interact with and are interlinked with other organisations and actors inside the system and in the enabling environment. To be effective, procurement capacity development needs to take account of these multiple levels and the power relationships between important actors at each level in the system¹⁰. One clear lesson from previous procurement capacity development programmes is the need to involve a broad range of stakeholders, both organisations and individuals.

**Box 2.4 Lessons learned from procurement reform in Indonesia
(Stakeholder involvement)**

- ⇒ Reforms must be coordinated with other reform areas and supported by effective cross-government working groups
- ⇒ Process must involve & mobilise different stakeholders
- ⇒ Process must be lead and managed by central high-ranked procurement policy oversight officials

Stakeholders should include:

- √ Top government officials
- √ Procurement Managers from agencies
- √ Business community
- √ Recipients of government services
- √ Civil Society Organisations

Source: 1st Round Table presentation, (<http://webdomino1.oecd.org/COMNET/DCD/ProcurementCWS.nsf>).

Therefore, the *second critical step* in effective capacity development is to involve as many key stakeholders as possible. Ideally this would mean that they are included at the assessment, planning, design and implementation phases of any intervention. However, given competing priorities it will be important to identify the key stakeholders at an early stage for inclusion in the decision making stages. (See Part III)

Realistic needs assessment

An area where previous experience has been disappointing is the lack of a connection between a capacity development programme and the government's actual needs as reflected in the government's longer-term procurement strategy. Needs assessments have generally been donor-driven and have focussed only on narrow areas where, from the donor perspective, capacity is lacking. This has led to programmes with short term, "quick fix" solutions, the beneficial impact of which quickly disappears. In addition, the design of these interventions has generally resulted in creating new capacities, rather than enhancing the ability of existing country resources. An additional weakness in previous programmes is the failure at the assessment stage to clearly identify the various drivers for (and barriers against) change that might impact the intended success.

Against this background, the *third critical step* is to base capacity development programmes on the long-term procurement strategy of the government. The country's existing capacities and realistic future requirements needed to implement the strategy need to be assessed using a wide-angle lens. Without a realistic needs assessment, there is a risk that programmes will be over or under-designed and that existing capacities will inadvertently be bypassed and/or ignored. Thus, serious attention should be given to creating the ongoing capability to realistically monitor capacity trends. Chapter 3, *Benchmarking, Evaluation and Monitoring*, provides a set of monitoring instruments that will assist in this regard.

It is also important to keep the costs of capacity assessments under control. This can be achieved by making maximum use of existing material from previous assessments. New research should only be undertaken to fill important information gaps concerning high-risk areas of performance and where capacities are critical. Ultimately, governments will need an inventory of: (i) current procurement resources, (ii) the volume and qualifications of the locally educated procurement staff, and (iii) the capacity

needs for the government's anticipated programme over the next three to five years (both in terms of numbers and skills levels). Tools to collect information about existing resources and capacities can be found in Chapter 3.

Strategic procurement capacity development planning

The *fourth critical step* in developing better procurement capacity is to concentrate everyone's efforts on developing a flexible plan focussed on realistic, achievable objectives, and with implementation based on real performance indicators. This GPP does not recommend the blanket use of any particular capacity development tools or techniques. The challenges facing each government and the approaches that will be effective in each case are too varied to be anticipated in this section. Nonetheless, a combination of the following is likely to be required, *e.g.* baseline diagnostic analyses, stakeholder analyses, training needs assessments, stakeholder fora. Whatever specific content is adopted, the following characteristics will be important in determining the success of the particular plan.

1. The approach to the plan should be *entrepreneurial and opportunistic*. Even though the situation revealed during the diagnostic might be complex and may not at first suggest the shape of any possible viable longer-term development of capacity, taking no action is not an option. It is better to proceed with one or more viable components than to do nothing. If sufficient country ownership is lacking, smaller scaled efforts targeted at barriers in the enabling environment will still be possible and worthwhile.
2. The design of the plan should have an *institutional focus*. While developing the professional skills of a broad range of individual staff is the ultimate goal of capacity development, the best means to achieve this goal in a sustainable way is to create a viable institutional framework for developing and maintaining procurement capacity. Actions should strengthen the institutions that are important to the long term viability of the overall procurement system, *e.g.* the national procurement oversight body, the country's procurement professional organisation, if any, the public sector training institute, the body charged with handling procurement disputes or appeals, etc. Attention should also be given to the effect the informal country systems will have on public procurement.
3. The focus of the plan should be *long term* and not impose unrealistic deadlines for achieving capacity development milestones. The context in which capacity development takes place is so complex that there is no guarantee that a plan will succeed, much less when. Early wins should be programmed, but failure should not result in derailment of the whole process.
4. Proposed steps to enhance procurement capacity should be *sequenced* with other ongoing public sector reforms, particularly in the public financial management sector. Even if procurement performance can be improved, optimal performance will remain elusive if the government's public financial management is inefficient.
5. Keeping the programme *cost-effective* is also important. If funding constraints exist (and they always do), starting with a limited programme targeting a few procuring organisations has merit. It permits reform and capacity development approaches to be piloted, before they are broadly rolled out. If this approach is followed "high-spend" agencies should be targeted first and, among them, those that demonstrate the greatest willingness to change. This will maximise the impact of reform.
6. A flexible strategy may include the use of *outsourcing* to cope with serious skills gaps. Even in well-developed procurement systems outsourcing is a possible cost-effective way of fulfilling

procurement needs. The possible risks that this might create can be mitigated by paying careful attention to possible conflicts of interest, structuring the final contract to include positive incentives towards the achievement of performance outcomes (*i.e.* obtaining “value for money”, not just following certain procedures) and close supervision of the firm selected to deliver the outsourced services.

Closely monitored and flexibly managed implementation

Even if the plan is “entrepreneurial” and “opportunistic”, these features are of little use if the implementation is not monitored closely enough to detect opportunities for improvements or trends that require corrective action. Therefore, a *fifth critical step* is to ensure that the implementation is closely monitored and flexibly managed.

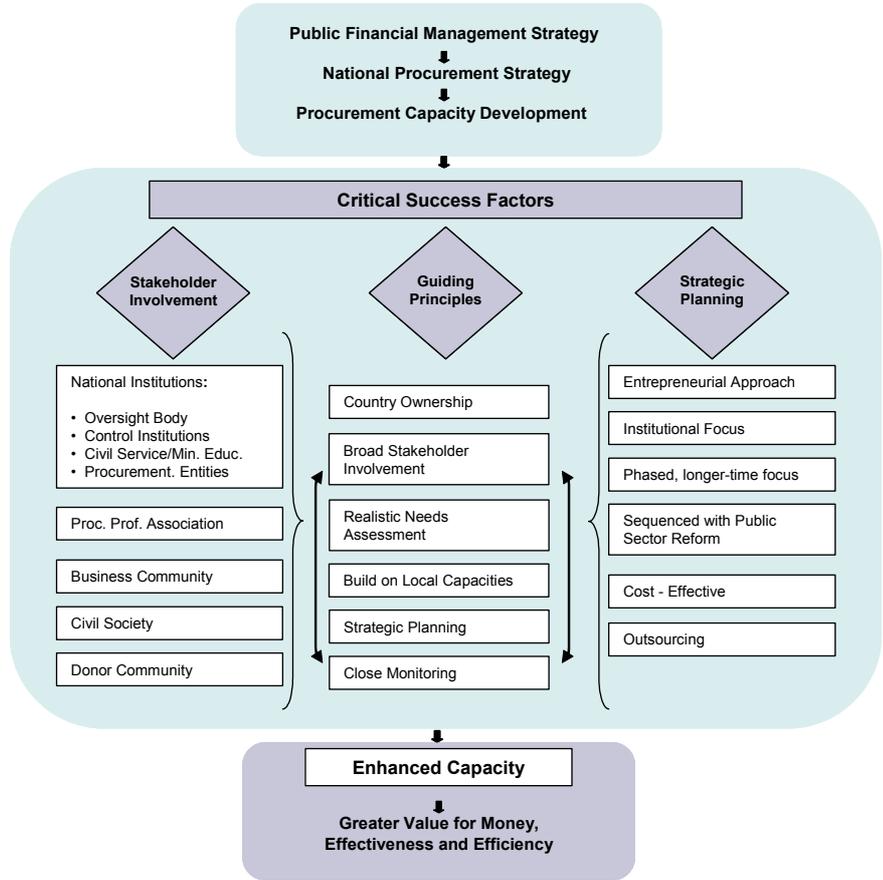
Those responsible for capacity development initiatives should welcome changes to the original plan, *e.g.* adding or dropping components to increase the chances of success. The process should be iterative *i.e.* one which monitors, adjusts, monitors, and then readjusts. The goal at each step should be to sharpen the focus of the programme and improve its chances of success.

Monitoring this process requires a solid reporting mechanism that enables the government to see what is really going on. Thus, it is important to get agreement on and introduce a set of meaningful performance indicators. These indicators should adequately capture performance of the capacity development programme and also feed into an ongoing government-wide monitoring and evaluation mechanism to enable the government to detect trends, both positive and negative, in capacity and take corrective action.

During the monitoring process, early successes should be broadcast widely and celebrated. The ripple effect of even minor victories in capacity development can have a major long-term impact on the success of future bigger reforms. Word of mouth reports of success shared by a broad group of key stakeholders are often more persuasive than the results of elaborate and costly communications strategies.

In sum, applying these principles to develop the capacities required to implement the national procurement strategy will result in the kind of iterative process depicted in figure 2.2.

Figure 2.2 Critical success factors for procurement capacity development



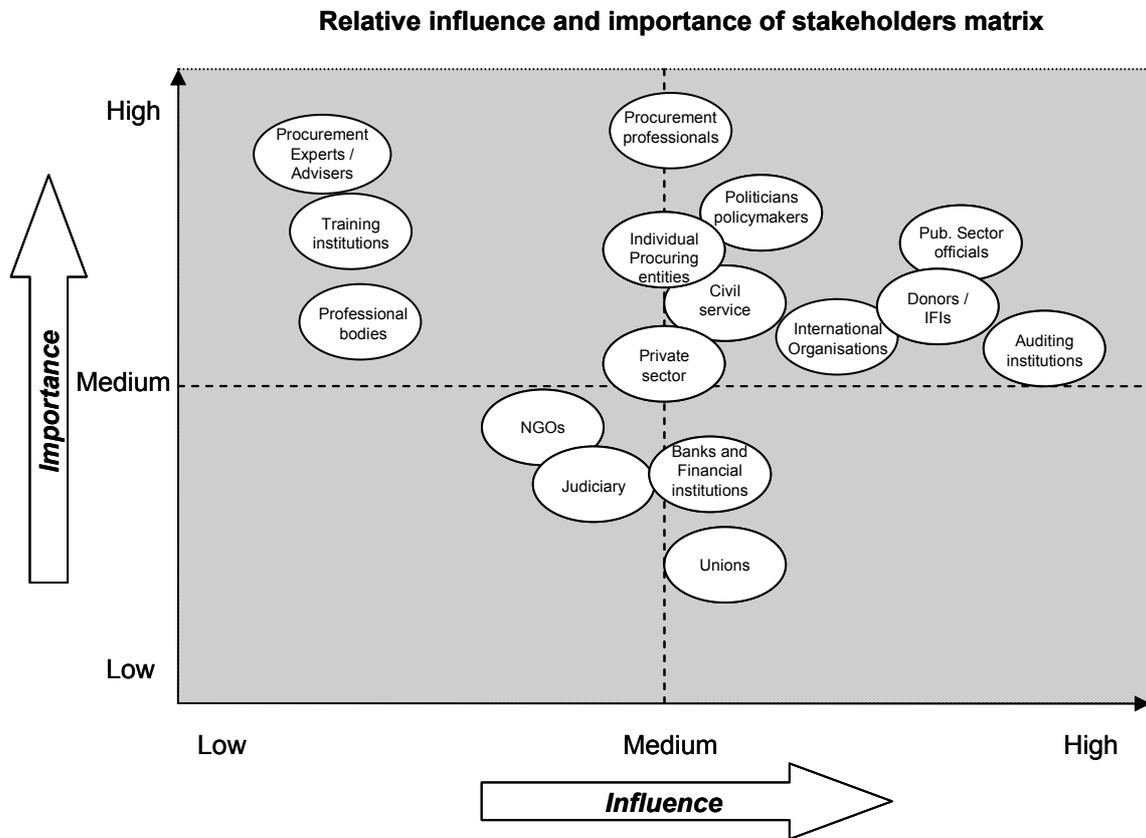
Part III Stakeholders

Introduction

The point is made above in the subheading *Broad stakeholder involvement* that as many key stakeholders as possible should either be involved in or consulted during the assessment, planning and implementation stages of any capacity development initiative. This part of Chapter 2 lists some of these stakeholders and highlights their respective roles in strengthening procurement capacities.

An overview of the stakeholders involved in procurement capacity development is provided in Figure 2.3, which shows in a hypothetical example which stakeholders should be targeted (those of high importance and with considerable influence). In each country, however, the specific stakeholders to select and their relative positions will differ. There is no “one size that fits all” solution. In choosing the approach to take in a specific country context, it is important to target the key institutions that play a major role in the procurement system.

Figure 2.3



Using an approach such as that described in Chapter 3 should produce an overall assessment of the capacity development needs of each stakeholder. But it should be kept in mind that each stakeholder and each audience responds to different techniques and messages. A uniform strategy across stakeholders will not be effective. As a result, the task of creating a viable communications strategy becomes more challenging. (This challenge is addressed in Chapter 1.)

National institutions

Given the institutional approach recommended in this GPP, the starting point for sustainable capacity development has to be institutions. If the national institutional framework of which the procurement forms part is flawed in any significant way, the effectiveness of the procurement system will also be affected. The strategy should look at ways to address these institutional flaws. It may be politically difficult to change many of the aspects, but they should, nevertheless, be noted in the “long list” of components for capacity development. Broader public sector reforms seldom result simply from attempts at procurement capacity development, but there may be some other reform processes already ongoing which might create the opportunity to introduce procurement specific considerations. (Integrating or at least closely coordinating procurement and public financial management reforms is considered best practice.)

The various bodies at this level will vary from country-to-country, but a representative list should look something like the following:

Procurement oversight organisation

Good procurement systems require good policy oversight institutions to set the government's overall procurement strategy, monitor the quality of ongoing performance and compliance with the existing regulations, etc. The mandate of this body should be in accordance with internationally accepted benchmarks. Appropriate resources and capacity to adequately carry out its functions should be assigned to it. Ideally, it should be an integral part of the government's public financial management system and independent from political interference with regard to operational decisions. The baseline indicator system (in Chapter 3) will provide adequate information to address the politician's accountability and oversight responsibilities.

Finally, its reporting, monitoring and evaluation systems need to be effective to make informed judgments about the quality of procurement performance. Improvements here are of a high priority given the central leadership role of this body in the procurement system as a whole. The assessments of the quality of procurement oversight body will result from implementing the approach such as that described in Chapter 3.

Civil service administration

The organisation responsible for administration of the government's civil service should be considered for inclusion because the treatment of public service staff often creates incentives that can affect day-to-day operations. Issues to consider are: (i) how is the procurement function structured within the civil service, (ii) what are the entry level requirements for procurement personnel; (iii) does the government recognise the various skill levels necessary to carry out procurement professionally; (iv) has a career development path been established for procurement; (v) is the current public procurement capacity known?

Public sector management training institute

If such an institute exists, it should be consulted during the process of setting up an overall capacity development strategy. They should normally be charged with the development of appropriate procurement programmes focussed at the basic, intermediate and advanced levels and of awareness-raising programmes aimed at other parts of the government, parliament, the business community and elsewhere. At the assessment stage the mandate of this institute should be checked to establish whether it has the ability to make reasoned decisions about procurement-related matters. Thought should also be given to bringing academic institutions into this process. They are particularly well suited to give advice on how to develop certain kinds of advanced capacity. The more the private sector becomes involved in helping develop capacity, the more cost-effective long-term capacity development becomes.

Ministry of education

This ministry should also be involved to the extent that it manages the curricula and programmes developed for the national educational system. It is important to ensure that the appropriate level of education is provided to allow professionals at the entry, intermediate and higher levels to take up positions in the procurement system. In addition, the ministry in co-operation with others needs to ensure that procurement is recognised as an aspirational career option, and recognises vocational, academic and on-going professional training as important instruments to develop a professional procurement cadre.

Procurement control or enforcement institutions

These institutions play a vital role in reinforcing the integrity of the entire system. During the design and planning phase attention has to be paid to (i) the government's internal audit agency, (ii) the

parliamentarian oversight committee(s) for the public sector budget, financial management and procurement issues, and (iii) the judicial bodies involved in enforcing the legal framework for procurement and disputes when they are referred to court. All these organisations should have the capacity to understand the existing rules and regulations and to determine whether the ultimate objectives of procurement (*e.g.* “value for money”, etc.) are being met. In addition these institutions need to be able to judge whether the policies and procedures are operating smoothly and if an acceptable level of compliance is being maintained.

Procurement entities

Obviously, procurement entities themselves are high priority targets for any capacity development programme. Having qualified people working on procurement does not help if they are placed in organisations that are ineffective. Thus, procurement entities need to be properly staffed, well managed, with clear delineation of who is accountable for procurement decisions, equipped with systems having proper internal and external checks and balances that comply with a strict official ethical code specific to procurement, etc. These issues are set out in more detail below.

Organisational structure

The structure of the procurement entity itself is important, as well as the position of the procurement function and its independence. (Checks and balances are necessary for good procurement to be carried out consistently in the long run.) Those involved in the procurement process need to be identified, recognised and closely involved in the wider decision making and project management process.

Staffing profile

These entities should have a staffing profile commensurate with the volume and complexity of the actual procurement activities. The focus of attention should extend beyond the staff labelled as procurement “officers” and also consider all the other functions that are necessary for and support the procurement activity. Professional procurement officers alone are not enough to guarantee good procurement. Beyond the primary function of handling contracting, complaints, resolving disputes, monitoring contract performance, it is also important to ensure that administrative functions such as organising filing, handling invoices etc. operate efficiently. Finally, procurement staff requires technical, commercial and legal backup and assistance. Weaknesses in any of these areas can seriously undermine the effectiveness of the overall procurement system. Chapter 3 includes a procurement entity assessment tool that should be useful in focusing attention on these issues.

Involvement in budgeting and planning process

Links between the procurement and public financial management functions has already been referred to in connection with the discussion about the central procurement oversight body. In the context of specific procurement entities three issues are important: (i) whether the budget cycle permits funding of multi-year contracts, which often represent the best way to achieve value for money, (ii) whether the budget allocated for procurement provides assurances that long-term funding is available for the funding of the appropriate staff level and (iii) whether predicted budget flows to procurement entities materialise.

Information technology infrastructure and skills

Information technology is increasingly providing essential tools for the operational part of any good procurement organisation. They bring greater transparency to the procurement process and can produce substantial efficiencies and cost savings. Accordingly, procurement entities should ideally be equipped with IT systems capable of collecting, storing and reporting the data relating to the procurement operations.

Furthermore, staff should be able to undertake market and other research and share best practice. Finally, IT skills and infrastructure will eventually allow the use of e-procurement. The potential benefits from e-procurement in terms of enhanced transparency and improved efficiencies outweigh the front-end costs that might be incurred. This area is often ignored when procurement capacity development programmes are being designed, but they often can yield great benefits compared to their costs. (Chapter 1 provides an example of the benefits South Korea has obtained from its efforts in this area.)

Human resources function

This aspect has already been touched upon in connection with the central body responsible for administration of the civil service. The human resources function in each procurement entity needs to provide a clear framework and set standards for (i) the entry level qualification requirements for the full range of procurement openings; (ii) the competitive selection techniques used; (iii) the appropriateness of salaries offered and actually paid; (iv) the career path offered to procurement officers; (v) the dissemination and enforcement of these standards. All of these human resource aspects are important in transforming procurement into a more professional function and in creating positive incentives for better staff performance and for staff wishing to make a career in procurement.

Individual procurement staff

The emphasis here should be on ensuring that the institutional framework for procurement is conducive to and can create and sustain a more professional class or cadre of procurement staff. The aim is to recognise the skills, knowledge and professional development needs of the individual who are both directly and indirectly involved in the procurement process. The framework should include the oversight body itself, the public sector training institute or college responsible for government-sponsored procurement training, and if possible a private university (to develop advanced level programmes if appropriate). The best procurement systems have all of these elements, plus a local procurement professional association.

Professional procurement institute

Procurement professional associations usually keep inventories of existing public sector capacity. Furthermore, they typically have accreditation systems for procurement professionals to ensure that they have the right mix of experience and skills upon entry and promotion to higher grades. They are also useful to help individual procurement experts or agencies troubleshoot specific cases and to find best practice solutions to problems. The accreditation process itself has the added value of creating a positive incentive for staff to improve. During the assessment and planning phases of a capacity development initiative, these linkages should be explored so that better and more professional staff can be developed.

Other national stakeholders

There are two large groups of other stakeholders that are important to the success of any capacity development programme: the business community and civil society. Good procurement is impossible without properly functioning markets. Civil society can be a positive force for improving procurement, especially when the expected benefits from good procurement materialise. Both groups are important and should be consulted. However, slightly different approaches are needed to engage them effectively.

The business community

Value for money will not be achieved unless the market for public sector contracts operates effectively. Accordingly, the procurement oversight body should pay attention to the ability of local suppliers to compete for public contracts. Periodic awareness campaigns should be conducted to make sure

suppliers, contractors and consultants know the policies and regulations and their rights and obligations under them, including how complaints and disputes will be handled. These campaigns should also address corruption-related issues. Various approaches to assist the business community are possible, but those aimed directly at improving the ability of firms to compete in an open market are likely to be more successful in the long run than the introduction of measure to protect local “infant” industries. In any event, the way in which governments procure should be consistent with the expectations and capabilities of local enterprises or they risk losing out on the benefits of free competition which is important for economic growth.

Civil society

Civil society can play a useful role in the field of procurement, particularly if they are aware of the existing policies and procedures, and of their rights to intervene in a government financed procurement process. Civil society is, after all, the ultimate beneficiary of the results of public procurement and it can be very useful in policing any irregularities. To improve the capacity of civil society to carry out its responsibilities in this regard, the oversight body should make sure that regular awareness campaigns are carried out specifically targeted at this audience. Furthermore, substantive changes to the policies and regulations and periodic reports about the results of ongoing public procurement should be published widely. When details about procurement opportunities, contract awards and contract results are made transparent and the public is allowed to comment on it, the national system will be accorded greater respect. The role of NGOs can also be useful in enhancing public respect for the procurement system and its ability to resist corruption.

Donors

Finally, donors play an important role in developing national procurement capacities. The collective impact of each donor’s own procedural and accountability requirements, particularly where the multiplicity and complexity of these requirements places additional pressure on the existing government capacity, has been an important barrier to early progress in developing local capacities. The majority of donors recognise the need to balance their procedures and guidelines for accountability, with the achievement of development results without overburdening the administration of partner governments. However, much remains to be done to achieve this balance. Developing countries still have to grapple with a plethora of varying sets of procedures and accountability requirements, imposed on them by different donors.

Donors have generally accepted that they need to further define their “bottom line” accountability requirements, recognising that flexibility is required to enable all criteria to be considered and risk assessments cannot always be made on a case-by-case basis. There is also a critical need to achieve agreement on priorities and goals. Devolution of responsibility for procurement management to partner governments is now being undertaken by many of the bilateral donors, who hitherto largely controlled the procurement process themselves. The Round Table has worked to develop a shared vision between partner governments and donors that fosters a culture of sharing and partnership so that capacity development can deliver wider benefits to all stakeholders.

10 . (More information about these new ideas and techniques that are driving current thinking about reform and change in the development context is available in the Round Table’s Strategic Framework for Mainstreaming and Strengthening Public Procurement.)

CHAPTER 3

GOOD PRACTICES FOR BENCHMARKING, MONITORING & EVALUATION

ABSTRACT

Good Practices for Benchmarking, Monitoring and Evaluation, contains a set of good practices and tools for measuring procurement quality against agreed standards and reliably monitoring ongoing performance at various levels. There are three tools: (i) a baseline indicators mechanism to assess the strengths and weaknesses of national procurement systems against generally recognised international standards, (ii) a set of monitoring and reporting tools to measure and manage ongoing performance at the national level and (iii) an assessment tool to evaluate performance at the procuring entity level. When these tools are fully operational, they will facilitate the process used for assessing national systems, and make it easier for agreement to be reached on the results. In addition they will make it possible for governments to monitor the ongoing performance of their systems both at the national level and the procuring entity level.

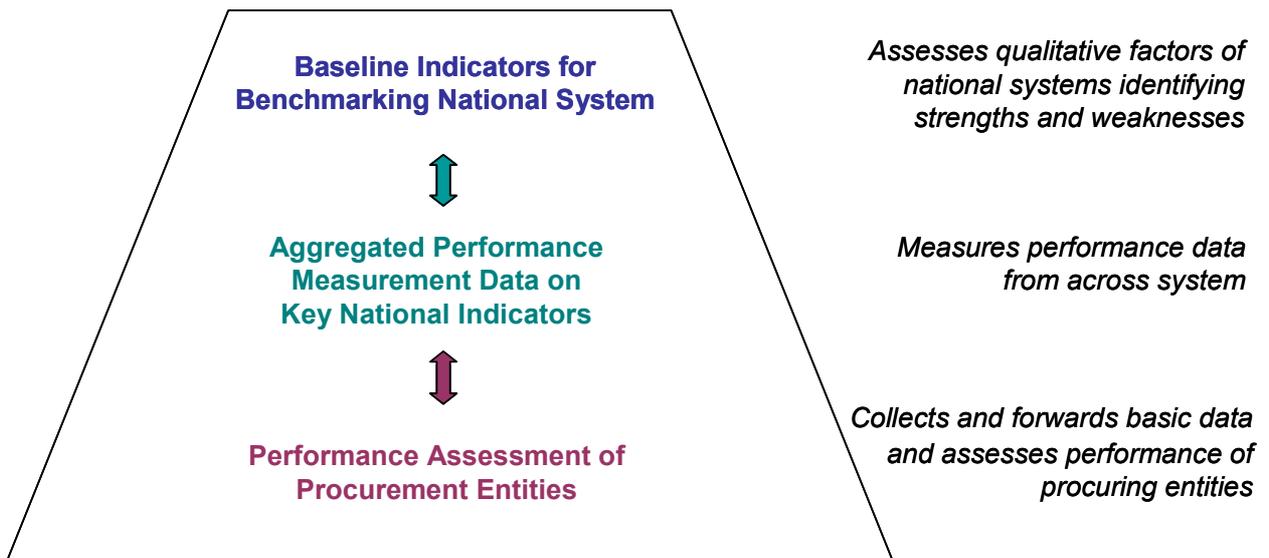
Overview

The Working Group on Benchmarking, Monitoring and Evaluation has developed three distinct products, described respectively in Parts I, II and III of this chapter:

1. **Baseline Indicators Tool:** This tool broadly describes the key elements of a well functioning public procurement system. Its development reflects wide consultation, incorporating the perspective of donors, developing country governments, and implementing agencies and organisations. The focus level of the tool is on the system. Use of the tool involves a comparative assessment of existing elements of a procurement system using the key baseline indicators (standards or benchmarks) that have been defined. This process enables identification of comparative strengths and weaknesses in the design of national systems. The tool does not in itself measure performance, although it does enable users to make a qualitative judgment on the level of conformity of the system with a set of predetermined benchmarks. Its value lies in identifying exactly where the existing system fails to achieve a baseline, and in helping inform discussions on where to focus limited capacity and resources in developing an implementation strategy to strengthen the country system.
2. **Methodology for Measuring and Monitoring of Procurement Performance:** In the context of the Working Group, the task of developing key performance measurement indicators was delegated to a group consisting of an international implementing agency, the International Trade Centre, and three partner developing countries (Madagascar, Morocco, and Uganda) selected to represent a range of development levels in both Anglophone and Francophone countries. This group proposed a set of performance measurement indicators for which the countries agreed data existed in their particular systems. Such data is generated by the process of procurement implementation, generally at the transaction level of contracts. In most countries, this data is generated by multiple implementing organisations and it is rarely collected and analyzed at a central level. The methodology presented by the Working Group is considered to contribute to the oversight and management needs within the country as well as to the information needs that donors have with regard to assessing performance and progress in a given country. Part II of this chapter defines a minimum set of performance measurement indicators, which can be modified or expanded as the procurement system develops and matures. Initially this performance data can help track changes in actual performance that are linked to the strategy being implemented to strengthen the public procurement system. Subsequently, it will help client countries determine if their efforts to improve performance by strengthening structures and capacity are having the desired impact. Such performance data will also enable donors to make informed decisions that will help focus donor resources and foster greater reliance on the public sector procurement system in the concerned country.
3. **Performance Assessment System:** While the performance measurement indicators focus on what data should be monitored by the central oversight and management organisations in the country to provide for consistent application of the system, and to measure the impact and effectiveness of reform initiatives, the third product of the Working Group is a system targeted at oversight and management within the procuring entities themselves. This system—developed by the IDEAS Centre under the Swiss/Ghana Partnership for Promoting Transparency and Accountability in Public Procurement—uses qualitative criteria as well as quantitative data. It is intended to be a management tool at the agency level, enabling an agency to identify its areas of strength and weakness and to monitor changes in performance. In addition, the results generated by the system can be collected for analysis by the central oversight organisations as a means of monitoring the performance of all implementing agencies across the system. The resulting performance assessment will provide an important management and quality enhancement tool

within the implementing agency and it will allow comparisons to be made between implementing agencies on their ability to manage procurement. It is based on a relatively low level technology using Excel software. This performance assessment system will initially be tested in Ghana, one of the countries participating in the Procurement Round Table Initiative, and the software and assessment process will be made available later without charge to other client countries upon request.

Figure 3.1 Three key outputs of the Benchmarking, Monitoring and Evaluation Working Group



In summary, the three key outputs are designed to work together and separately. The baseline indicators look at the system as a whole, but do not measure actual performance. The performance indicators focus on key activities where data will be collected and aggregated for use in analysis and management of the performance of the country's system. The data collection and performance assessment systems are both a means of collecting data at the points where it is generated and a way of using that data at the individual agency level as a performance management tool.

PART I
BASELINE INDICATORS TOOL FOR ASSESSMENT OF A
NATIONAL PUBLIC PROCUREMENT SYSTEM

I. Introduction

As a result of the harmonisation discussions during the first High-Level Forum held in Rome in February 2003, donors and their developing country partners were encouraged to work together with the final objective of defining the conditions under which the fiduciary standards of donors could be met (totally or in part) through reliance on the recipient country's systems, including the public procurement system. To make progress toward this objective, a tool for assessment and comparison using baseline standards of quality for procurement systems has been developed. This tool will provide the flexibility necessary for use in the diverse conditions and different levels of capacity of national, sub-national, and local systems in different countries.

II. Background

During the first joint OECD/DAC-World Bank sponsored Procurement Round Table held in January 2003, the participants (composed of representatives from client countries, donor organisations and interested international organisations) considered four thematic areas of importance to the overarching theme of development of public procurement systems. Two of these themes formed the work programme of the Working Group on Benchmarking, Monitoring and Evaluation. The participants of this Working Group agreed to focus on two deliverables: (i) the development of a system of baseline indicators for the assessment of the structure of country systems; and (ii) a methodology for measuring the performance of the country system against the objectives of achieving economy, efficiency, transparency and equal opportunity to bidders.

Building on the comments of the Working Group, Part I of this chapter addresses the first deliverable and defines a set of baseline indicators for the assessment of a country system. The proposed system remains a draft and is a work-in-progress that will not be finalised until it reflects the concurrence of those participating through the Procurement Round Table process. This process will include piloting, feedback and adjustment to the system.

III. Objectives and expected results

The system of indicators is a tool to assess the existing elements of a procurement system against a defined set of standards, or baseline indicators, that are derived from a "model system" as developed and agreed by the participants in the Round Table process. Such a tool helps identify when an element of the national public procurement system meets or exceeds the baseline or where it needs modification to meet the baseline. Traditionally, such systems are used to help managers identify where to make changes to achieve better performance outcomes. They can also help identify potential risk areas inherent in the existing system by identifying variances from the baseline. The system of indicators does not measure performance. It must be coupled with other management tools (such as the performance measurement tool) to help guide actions on where to make changes and what changes need to be made. Determinations as to whether better performance outcomes are achieved as a result of changes implemented need to be based on, among other things, collection and analysis of actual performance data.

Under the OECD/DAC-World Bank Procurement Round Table initiative, the participants agreed that the development and application of such a system of indicators would contribute in the following ways:

- Governments would have a tool that would help identify needed changes and contribute to the development and implementation of a prioritised capacity development and change management strategy.
- Governments would be able to coordinate, prioritise and focus donor assistance on supporting the strategy.
- Governments would be able to measure the impact of their strategy by comparing implementation progress against the indicators.
- The system of indicators will provide supporters of reform with clear arguments for change, to focus political attention and mobilise commitment.
- The system of indicators will support the harmonisation of public procurement rules and procedures around recognised standards.
- As an integral part of the public financial management system, the output of the system of indicators will provide valuable information to the overall assessment of the public finance system.
- The system will provide information to support strategic policy decisions with regard to each country. Information on the structure of the national procurement system—coupled with that provided by the other components discussed in Sections II and III of this chapter (performance indicators and treatment of international competitive bidding)—should enable a determination of the level of reliance that can be placed on the national procurement system (in part or in its totality) to handle donor financing properly, whether that financing is channelled as budget support or allocated for particular projects and programmes.

IV. Analytical approach

Coverage of the system

This tool is predominantly based on *macro indicators* designed to examine key elements of a public procurement system. The work of the participants in the Round Table has been to identify and agree on these elements and the appropriate indicators that define a well-designed system.

Parallel work has been carried out to develop a framework for monitoring performance data at the transactional level. A comparison between the two levels will demonstrate how performance at the transactional level is linked to the elements of the procurement system at the macro level.

The following four key areas (pillars) have been identified as a way of organising the basic elements of a national public procurement system. Under the pillars, a number of indicators have been defined.

Pillar I. Legislative and Regulatory Framework

1. Procurement legislative and regulatory framework complies with applicable obligations deriving from national and international requirements.
2. Availability of implementing regulations, documentation and tools to support implementation.

Pillar II. Institutional Framework and Management Capacity

3. Degree of mainstreaming and integration into Public Financial Management System
4. Existence of a Functional Management/Regulatory Body
5. Existence of Institutional Development Capacity

Pillar III. Procurement Operations and Market Practices

6. Efficiency of Procurement Operations and Practices
7. Functionality of the Public Procurement Market
8. Existence of Contract Administration and Dispute Resolution Provisions

Pillar IV. The Integrity of the Public Procurement System

9. Existence of Effective Control and Audit Systems
10. Existence and Efficiency of the Appeals Mechanism
11. Degree of Access to Information
12. Existence of Ethics and Anti-corruption Measures

Methodological basis for the system of indicators

- The indicators defined are intended to evaluate procurement systems at a macro level and are designed to supply a broad overview of the comparative strengths and weaknesses of the system.
- A simple “yes” or “no” cannot answer most of the questions. In general, they are complex and require professional judgment in giving an answer that, fairly and objectively, assesses the national procurement system against the baseline.

V. Structure of a public procurement system

For the purpose of the system of indicators, the structure of a public procurement system within the definition of the four pillars and the twelve indicators is based on factors and features that the participants in the design process agree are essential for defining the standard of a national public procurement system at the macro level.

Policy objectives

The conceptual approach and basic assumptions on what should constitute a sound public procurement system are:

- The overriding objectives of a national public procurement system are to deliver *economy and efficiency* in the use of public funds while adhering to the fundamental principles of *non-discrimination and equal treatment, due process, access to information and transparency*. Performance and efficiency in procurement operations are ultimately measured at the transactional level of market interaction between public purchasers and suppliers and the delivery of the required goods, works and services to meet the obligations of the government to the citizens.
- The legal and institutional framework sets the basic conditions for the manner in which procurement may be undertaken procedurally; the results that can be expected; and the potential efficiency gains that can be achieved. Within this environment, the commitment of public sector staff in managing and adhering to the requirements of the procurement process and taking advantage of the competition in the market is decisive to the outcome in terms of the overriding objectives of a national public procurement system.
- That the legal and institutional development of a public procurement system is formed and guided by a widespread and genuine understanding of the conditions and prerequisites needed for the creation of an efficient, transparent and credible public procurement system, capable of generating efficiency and cost-effective procurement in the best interests of the contracting entities and of the country as a whole.

Determining baselines

The key activity is to define baseline levels against which the existing elements of the procurement system will be compared with respect to each of the agreed indicators. The baseline represents a desirable “good practice standard” under each indicator.

If the baseline is considered the desirable standard, there is also a need to identify where, how and why the system under review fails to achieve this standard. In doing so, the system of indicators profiles or maps the existing system, identifying strengths (fully achieved) and weaknesses (fails to achieve) along with a descriptive analysis (the where, how and why).

Proposed levels of achievement

A proposed guide for using the tool is provided below. This guide seeks to facilitate consistency in the application of the tool. However as stated previously, judgement must be used and explanatory notes are anticipated.

Table 3.1 Proposed assessment guide

Level of Achievement	Assessment Key
FA (procurement system fully achieves the baseline)	All baseline elements are substantially met
SA (procurement system substantially achieves the baseline)	More than 70% of baseline elements are substantially met.
NA (procurement system does not achieves the baseline)	Less than 70% of baseline elements are substantially met

It is clearly possible for users of the system to assign numeric or alpha scoring systems, for their own internal purposes and for tracking changes over time.

Weighting of indicators

Users may also wish to assign weights to the various indicators to reflect their own priorities regarding relative importance of the individual indicators and the defined baseline elements. Weighting will work best when applied against numeric scoring.

VI. Baseline indicators system

The assessment of a public procurement system will be conducted using the following 12 indicators. These have been identified as the core components of a public procurement system and are grouped into four pillars.

Pillar I. The Legislative and Regulatory Framework

The legal and regulatory framework is often seen as the starting point for the development of a governance system. With regard to procurement, it sets the rules of the process and provides the legal basis for ensuring the rights of participants and establishing their responsibilities. It is a fundamental element that links the procurement process to the overall governance structures within the country and defines obligations of the government to comply with internal and external requirements.

Indicator 1. Public procurement legislative and regulatory framework achieves the agreed standards and complies with applicable obligations.

Baseline:

1. Scope of application and coverage of the legislative and regulatory framework
 - Contracting entities at all levels, including government authorities, municipalities, regional authorities and utilities/state-owned enterprise, are covered.
 - All areas of procurement: works, goods and consulting services, are included.
 - Procurement using public funds, irrespective of contract value, is included.

- The applicable legislative and regulatory framework is structured, consistent, and accessible to users and all interested stakeholders.
2. Procurement methods
 - Stated preference for the use of open, competitive procurement unless otherwise justified in accordance with the legislative and regulatory framework.
 - International competitive tendering methods defined for specified contracts (*e.g.* where monetary thresholds exist) that are consistent with international standards.
 - Defined basis for the procurement method, if other than open competition.
 - Negotiated procedures and direct purchasing only under well-defined and justified circumstance, subject to controls.
 3. Advertising rules and time limits
 - Mandatory and accessible publication of opportunities for competitive procurement.
 - Mandatory publication of result information on contract awards based on defined thresholds.
 - Minimum time limits for submission of tenders and applications, which should be consistent with method of procurement, national conditions and, when applicable, international requirements.
 4. Rules on participation and qualitative selection
 - Fair, predictable and defined rules for participation that rely on qualifications and ability to perform the requirement.
 - Limited and controlled use of price preferential clauses.
 - Debarment process if covered, on defined basis, allowing for due process and appeal.
 - Rules for participation of government-owned enterprise that provide for equal treatment in competitive procurement.
 5. Tender documentation and technical specifications
 - The minimum content of the tender documentation is specified.
 - Neutral technical specification with reference to international standards where possible.
 - Content of tender documentation is relevant to meeting requirement and implementing the process.
 6. Tender evaluation and award criteria
 - Objective, fair and pre-disclosed criteria for evaluation and award of contracts.

- Clear methodology for evaluation of tenders based on price and other fully disclosed factors leading to award of contracts.
 - Requirement to maintain confidentiality during the evaluation process.
7. Submission, receipt and opening of tenders
- Public opening of tenders in a defined manner that ensures the regularity of the proceedings.
 - Clear requirement to maintain records of proceedings and process that are available for review/audit.
 - Requirement to maintain security and confidentiality of tenders prior to bid opening.
 - Submission and receipt modalities of tender documents are well defined.
8. Complaint review procedures
- Inclusion of complaint and remedy procedures that provide for fair, independent and timely implementation.

Indicator 2. Existence of Implementing Regulations and Documentation

The availability and dissemination of procurement implementation regulations— and tools such as operational procedures, handbooks, model tender documentation and standard conditions of contract—is important for a correct and consistent application of the legislative and regulatory framework as well as for an effective undertaking of the procurement operations.

Baseline: The existence and availability of the following regulations or documents:

1. Implementation regulations that define processes and procedures not included in higher-level legislation.
2. Model tender documents for goods, works and services.
3. Procedures for pre-qualification.
4. Procedures suitable for contracting for services or other requirements where technical capacity is a key criterion.
5. User's Guide or manual for contracting entities.
6. General Conditions of Contracts for public sector contracts covering goods, works and services consistent with national requirements and, and when applicable, international requirements.

Pillar II. Institutional Framework and Capacity

Modernising and maintaining a country's public procurement system is an ongoing and complicated process that benefits strongly from the existence of focal points within the government administration with sufficient capacity and qualifications to manage the procurement system and monitor public procurement implementation. The institutional capacity pillar is designed to examine the central government institutional framework and its capacity to oversee, manage and support efficient implementation as well as

to provide leadership in modernising and maintaining the public procurement system. This pillar can be adapted to look at other levels of government, especially in highly decentralised systems.

Indicator 3. Mainstreaming Procedures into Public Financial Management

Public procurement should be an integral part of the overall public financial management and public sector governance systems in a country. A well-functioning procurement system will provide information to support the process of budget development and execution and will benefit from the public financial management system with regard to timely appropriations and availability of funds to support the award and payments of contracts. Lack of integration between the budgeting and procurement processes may lead to cancellations and/or insufficient funds to make timely payments, resulting in increased costs and inefficiencies in the use of public funds.

Baseline:

1. Procurement planning and data on costing is part of the budget formulation process and contributes to multi-year planning.
2. Budget law and financial procedures support timely procurement, contract execution and payment.
3. No initiation of procurement actions without existing budget appropriations.
4. Contract execution is subject to budgetary controls to ensure sufficient funding for contract.
5. Budgeting system provides for timely release of funds to make payments against contractual obligations.
6. Systematic completion reports are prepared for certification of budget execution and for reconciliation of delivery with budget programming.

Indicator 4. Functional Management/Normative Body (the Body)

Most countries benefit from the existence of a management body within the central government to provide a range of functions that support the consistent development, maintenance and application of the legislative and regulatory requirements of a procurement system. The existence and capacity of such bodies becomes increasingly important in governments with greater decentralisation. Such organisations provide guidance on interpretation of rules and support training and capacity development. Increasingly such bodies need to develop and oversee the implementation of the use of technology to support procurement, including development and support to e-procurement solutions.

Baseline: The assessment is based on the following factors.

1. The status and basis for the functional normative bodies is covered in the legislative and regulatory framework.
2. The responsibilities address a defined set of functions that include, but are not limited to: providing advice to contracting entities; drafting amendments to the legislative and regulatory framework and implementing regulations; providing monitoring of public procurement; providing procurement information; managing statistical databases; reporting on procurement to other parts of government; developing and supporting implementation of initiatives to improve

the public procurement system; and providing implementing tools and documents to support training and capacity development of implementing staff.

3. Organisation, funding and staffing and the level of independence and authority (formal power) of the bodies is sufficient and consistent with their responsibilities.
4. Responsibilities provide for separation and clarity so as to avoid conflict of interest and direct involvement in the execution of procurement transactions.

Indicator 5. Existence of Institutional Development Capacity

The public procurement system is defined by a legislative and regulatory framework that can be complex and often requires the exercise of judgment in the application of the appropriate procedures. The performance of the system relies heavily on the capacity of the participants, both public and private sector, to understand and implement the procedures. Performance is also reliant on the capacity of the various stakeholders who interact with the system.

Baseline: The assessment of institutional capacity is based on the following factors:

1. A system exists for collection and dissemination of procurement information, including tender invitations, requests for proposals and contract award information.
2. A sustainable strategy and training capacity exists to provide training, advice and assistance to develop the capacity of government and private sector participants to understand the rules and regulations and the how they should be implemented.
3. Systems and procedures exist for collection and monitoring of national procurement statistics.
4. Quality control standards are disseminated and used to evaluate performance of staff and address capacity development issues.

Pillar III. Procurement Operations and Public Procurement Market Practice

Public procurement requires performance from both the public sector and private sector participants. A functioning and competitive private sector market is therefore a key partner to the public procurement system in a well-functioning system. To be an effective partner, the market must have confidence in the competence of the contracting authorities at all levels within the system to implement and administer the public procurement system in accordance with the legislative and regulatory framework.

Indicator 6. Efficient Procurement Operations Capacity and Practice

Procurement operations capacity and practices are at the core of a well-functioning procurement system. They depend on the staffing, knowledge, skills and capabilities of the human resources and on the incentives and controls in the systems that influence human behaviour and institutional performance.

Baseline: The assessment at the contracting entity level is based on the following:

1. The level of procurement competence among government officials within the entity is consistent with their procurement responsibilities.
2. The procurement training and information programmes implemented for government officials and private sector participants is consistent with demand.

3. The existence of administrative systems for public procurement operations, and information databases, to support monitoring of performance and reporting to and responding to the information needs of other related government systems.
4. The existence and implementation of internal control mechanisms for the undertaking of procurement operations at the contracting level, including a code of conduct, separation of responsibilities as a check/balance mechanism and oversight/control of signature/approval authority.
5. The existence of norms for the safekeeping of records and documents related to transactions and contract management.
6. Provisions exist for delegation of authority to others consistent with capacity to exercise responsibilities.

Indicator 7. Functionality of the Public Procurement Market

A developed private sector able to respond to procurement opportunities is key to a well-functioning public procurement market.

Baseline: The assessment of the public procurement market is based on the following:

1. There are effective mechanisms for partnerships between the public and private sector.
2. Private sector institutions are well organised and able to facilitate access to the market.
3. There are no major systemic constraints (*e.g.* inadequate access to credit, contracting practices, etc.) inhibiting the private sector's capacity to access the procurement market.
4. There are no major constraints that inhibit competition (*e.g.* technical, labour and other standards).
5. There are clear and transparent rules for determining whether to engage international or national markets, based on a sound development and business logic.

Indicator 8. Existence of Contract Administration and Dispute Resolution Provisions

Contract administration is a key element of managing the outputs of a public sector procurement system. It provides oversight on quality and timely performance and it provides for early access to information needed for good management. In the context of major public investment projects, contract administration is critical to successful implementation. During the process of implementation and administration of contracts, disputes commonly arise. Appropriate procedures to resolve such disputes fairly and in a timely manner are an important aspect of contract administration.

Baseline:

1. Procedures are defined for undertaking contract administration responsibilities that include inspection and acceptance procedures, quality control procedures and methods to review and issue contract amendments in a timely manner.
2. Dispute resolution procedures are included in the contract document providing for an efficient and fair process to resolve disputes arising during the performance of the contract.

3. Procedures exist to enforce the outcome of the dispute resolution process.

Pillar IV. Integrity and Transparency of the Public Procurement System

A cornerstone of a well-functioning public procurement system operating with integrity (fair, transparent, and credible) is the availability of mechanisms and capacity for independent control and audit of procurement operations to provide for accountability and compliance. Similarly, there must be a system for participants to lodge complaints and challenge decisions with administrative and judicial review bodies having both appropriate levels of independence and the legal power to impose corrective measures and remedies against contracting entities in breach of the legal and regulatory framework. Fraud and corruption, including the issue of conflict of interest, should be addressed in legislation as well as through special measures in order to create a sound and fair environment for public procurement operations.

Indicator 9. Effective Control and Audit System

Internal and external controls at the implementing agency level and an effective external audit system are key elements of a governance and public financial management system and are particularly important to the effective and efficient operations of the public procurement system.

Baseline: The assessment of the control and audit standard in public procurement is based on the following factors:

1. A legal framework, organisation, policy and procedures for internal and external control and audit of public procurement operations exists and operates to provide a functioning control framework.
2. Enforcement and follow-up on findings and recommendations of the control framework provide an environment that fosters compliance.
3. The internal control system provides timely information on compliance to enable management action.
4. The internal control systems are sufficiently defined to enable performance audits to be conducted.
5. Auditors are sufficiently informed about procurement requirements and controls systems to conduct quality audits that contribute to compliance.

Indicator 10. Efficiency of Appeals Mechanism

The appeal mechanisms, which include a complaint review and remedy system, provide an important contribution to the compliance environment and integrity of the public procurement system. Such a system must be seen to operate efficiently and fairly and to provide balanced unbiased decisions.

Baseline: The assessment of the complaint review and remedy system is based on the following factors:

1. The existence and operation of a complaint review system that gives participants in the public procurement process a right to file a complaint within the framework of an administrative and judicial review procedure.
2. Decisions are deliberated on the basis of available information and the final decision can be reviewed and ruled upon by a body (or authority) with enforcement capacity under the law.

3. The complaint review system has the capacity to handle lodged complaints efficiently and a means to enforce the remedy imposed.
4. The system operates in a fair manner, with outcomes of decisions balanced and justified on the basis of available information.
5. Decisions are published and made available to the public.
6. Administrative review body or authority is separate from the regulatory body, executing agency and the audit/control agency.

Indicator 11. Degree of Access to Information

Access to information is a key element of an open and transparent governance system. The value and need for access to information is critical in all aspects of the procurement system and to the many stakeholders that participate or benefit from the operation of the system. Although access to information is covered under various baselines, the importance of this element justifies a dedicated indicator. As governments move towards implementation of e-procurement solutions, access to information is increasingly critical to a successful strategy and solution.

Baseline:

1. Access to information by stakeholders in the process is supported by publication and distribution of information through available media with support from information technology when feasible.
2. Systems exist to collect key data related to performance of the procurement system and to report regularly.
3. Records are maintained to validate data.
4. There is clear legal basis providing access to information to the public.

Indicator 12. Ethics and Anti-corruption Measures

The procurement system should be perceived to operate with integrity, providing for clear definitions of unacceptable practices and stating the consequences to participants in the procurement system who engage in fraudulent, corrupt or unethical behaviour.

Baseline:

1. The legal and regulatory framework for procurement, including tender and contract documents, includes provisions addressing the issue of corruption, fraud, conflict of interest and unethical behaviour and states actions which can be taken with regard to such behaviour (either directly or by reference to other laws).
2. The legal system defines responsibilities, accountabilities and penalties for individuals and firms involved in fraud or corruption cases.
3. Evidence of enforcement of rulings and penalties exists.
4. Special measures exist for the government to prevent and detect potential fraud and corruption in public procurement (e.g. procurement audits).

5. Stakeholders (private sector and civil society) support the creation of a procurement market known for its integrity and ethical behaviours.
6. Existence of a secure mechanism to report fraudulent, corrupt or unethical behaviour.
7. Existence of Codes of Conduct/Codes of Ethics for participants that are involved in aspects of the public financial management systems that also provide for disclosure for those in decision making positions.

VII. Methodology for use of the baseline indicators system

- ***Starting the process.*** The first step in employing the baseline indicators system is to examine and compare the elements of a country's public sector procurement system against the defined elements of the tool. As each country is unique, differences or variances should be noted. The degree of difference between the country system and the defined baseline can range from a total disparity to minor variations. A narrative report identifying and assessing specific aspects of variance should accompany the assessment. The Assessment Guide provided as part of the tool can be used, but the result will lack depth if not accompanied by a narrative report. Users of the baseline indicators system should review the tool and determine if weighting of the various indicators will be useful to the process.
- ***Who will conduct the assessment?*** The baseline indicators system is a tool that can be used by any country. However, in the context of supporting donor community decision-making regarding the extent to which the procurement system in a recipient country can be relied upon, one of the following three methods for conducting the assessment is recommended: (The first is the preferred approach because it promotes country ownership.)
 - Self-assessment by the concerned country, shared with donors
 - Joint assessment by the concerned country and donor(s) active in the country
 - External assessment conducted by donor(s) active in the country and shared with the country.
- ***Relationship to the CPAR.*** The indicators will become a key element of, and will improve, the existing Country Procurement Assessment Review (CPAR) process. The CPAR process has already been accepted by an important segment of the broader donor community under the leadership of the Heads of Procurement (HOP) of the multilateral development banks. Most of the participants in the HOP group are also participants in the Joint World Bank and OECD/DAC Procurement Round Table process, thereby facilitating a wide acceptance and use of the baseline indicators. As most developing partner countries have already undergone a procurement assessment, the existing CPARs may serve as a basis of information to conduct an initial desk review using the baseline indicators. This will inform subsequent reviews and enable them to focus on key areas in the procurement system, to better support any ongoing reform efforts.
- ***How often will the baselines be assessed?*** The initial assessment provides an essentially contemporaneous snapshot of the system. This snapshot can be modified continually as the country's system changes. However, current practice is that a full assessment only needs to be done every three-to-five years or whenever a significant change has taken place in a country. Donor organisations may wish to initiate an assessment or update to an existing assessment to support the decision-making process when updating a country strategy or changing its lending portfolio in the country.

- ***Who will have access to the results of the assessment?*** It is recommended that all donors active in the country be provided access to the assessment results, regardless of which of the three methods is used to conduct the assessment. This will avoid multiple reviews by different groups. In each of the options above, the assessment becomes an output that identifies areas where the country system does not meet the commonly agreed baseline. In countries not seeking donor funds, this output can be used simply to benchmark against the “good practice standards” and support government decision-making. In other countries, it can be used to focus and coordinate donor support for an agreed reform programme.

VIII. Linking the baseline indicators assessment into the country dialogue on public financial management

- In a developing partner country, the donor organisations and the country counterparts would use the assessment and accompanying narrative to open a dialogue on the results. This dialogue would contribute to the development of a prioritised and sequenced set of proposed actions that the country should take to address the issues identified.
- Although the discussions regarding the outcome of the baseline process will likely take place initially in the context of those specifically concerned with procurement, it is recognised that developing a sequenced set of actions for the country to pursue will need to be viewed in the much broader context of the public financial management system as a whole to ensure that the final action plan is consistent with the country strategy and that individual actions are mutually supportive and do not drain limited resources and capacity. The procurement baseline indicators are designed to contribute to a broader set of indicators that look at the entire public financial management system.
- As a follow-on process involving discussions with the recipient country counterparts, donors will seek agreement on the level of reliance that can be placed on the country public procurement system given current conditions in the country. Ideally, all donors would agree to the same acceptance/reliance level (recognising that some donors may be willing to go beyond the agreed level). Again, such actions will need to be fully integrated and supportive of the broader process taking place in the country surrounding acceptance and reliance on the country’s overall public financial management systems.
- Donors should agree on a process for increasing levels of reliance on country public financial management systems linked to implementation of the prioritised and sequenced action plan.

IX. Performance measurement

- Donors must also agree with partner country counterparts on a system to collect performance data that will enable the country to monitor performance and the impact of changes to the existing system. A framework of key minimum data collection requirements and a methodology for data collection to support monitoring of performance have been developed. This provides donors with a means of determining the implementation and impact of the prioritised and sequenced action plan. It is on the basis of monitoring actual performance data that donor organisations would increase their level of reliance on the public procurement system. Monitoring of actual performance data may be focused on central government, local governments, specific sectors or even on individual agencies. The performance measurement methodology is specifically designed to be modified to the demand and can be implemented at several levels to serve various management and monitoring needs. The performance measurement methodology is described in Part II of this chapter.

X. Capacity development and donor commitment

- A major objective of development of tools for assessment and performance measurement is to further the overall development of capacity within a country. The tools only help to identify strengths and weaknesses in a system. They feed into a decision-making process within the country to develop a strategy to address weaknesses and develop and strengthen the system.
- Commitment on the part of donors in facilitating achievement of desired outcomes is as critical as commitment and ownership on the part of the client countries to achieving desired outcomes. Such commitment on the part of donors is demonstrated through resources and technical assistance to the country to achieve a well-defined, sequenced and integrated development strategy.

PART II MEASURING AND MONITORING OF PROCUREMENT PERFORMANCE IN THE PUBLIC SECTOR

I. Introduction

The proposed performance measurement methodology provides the framework for implementing a system that will contribute to monitoring institutional reforms, improving information availability on performance, enabling an increased focus on capacity building and promoting increased quality in public sector procurement in developing countries.

In addition, this methodology should (a) help decision-makers assess the ability of “actors on the ground” to implement a country’s legal and organisational framework for public sector procurement; (b) allow development partners to monitor country procurement reform projects; and (c) facilitate efforts to build the international donor community’s confidence in partner countries’ public financial management systems, thereby contributing to a greater reliance on partner country systems.

The proposed methodology complements the system of baseline indicators that have been developed to benchmark the elements of a public sector procurement system. The baseline indicators are not able to measure and monitor actual performance or changes in performance over time. It is through the monitoring of performance data and the analysis of such data that managers increase their ability to determine the impact and effectiveness of changes that are made to the public procurement system or other elements of the public financial management system.

II. Methodology and approach

To be effective, the methodology and approach for performance monitoring must (a) be simple and practical; (b) take into account the realities of partner countries and reflect the operational concerns of the parties directly involved; (c) be structured around key features and good practices of public sector procurement; and (d) use concepts, techniques and tools that are widely available and part of current practice in public sector management and quality management.

III. Guiding principles

The monitoring methodology proposed in Part II provides a logical and open framework enabling progressive implementation and adaptation to a partner country’s institutional and legal environment. It focuses primarily on process data that measures how the procurement system is performing with regard to implementation of its procedures leading to the award of contracts.

It is important to point out that the scope of application of the methodology covers the entirety of public sector procurement transactions. It should not matter if these transactions are above or below a monetary threshold. The type of contracting authority is irrelevant: it may be a central public administration department, a local authority or a parastatal entity.

IV. Initial steps

Performance monitoring relies on the collection and analysis of performance data. In the case of any country or organisation, such monitoring should begin with an inventory of data that is being generated currently and is related to the topic being monitored. In the case of public procurement, generally accepted principles of records management indicate that most procurement performance data is available in the records of transactions or contracts implemented by the public sector implementing organisations. Normally the procurement process in a country follows a set of defined steps set forth in its laws and regulations. The process is generally documented in a file and supports the award of a contractual agreement. As contractual agreements are legal documents, each contract should also have a specific file or record. The maintaining of such documentation facilitates both internal and external control and audit of the procurement process and provides the data that can be aggregated and analyzed for purposes of monitoring performance.

As a result of the consistency that exists from country to country with regard to the procurement process, it is possible to identify specific data that should be generated and can be monitored to determine aspects of performance. The final set of indicators to be adopted in a given country situation should be relatively limited in order to facilitate implementation. Through the Procurement Round Table process, a minimum level of performance data required for monitoring process aspects of the public procurement system has been identified. These 14 indicators, set forth below, should be considered when establishing a data collection system for monitoring of procurement performance.

Table 3.2 Key performance process monitoring indicators

PROCESS INDICATOR	PERFORMANCE DATA	MEASURES	RELATED TO BASELINE INDICATOR
Advertisement of bid opportunities	Percentage of open bidding procedures publicly advertised	Fairness, openness and level of competition	Legal and Regulatory (1) Access to Information (11)
Publication of awards	Percentage of contract awards (should be based on monetary threshold) publicly disclosed	Transparency of system	Legal and Regulatory (1) Access to Information (11)
Time for preparation of bids	Average number of days between invitation to bid and bid opening	Fairness, competition	Legal and Regulatory (1)
Bidder participation	Average number of bidders submitting a bid in each bid process	Effectiveness of competition and fairness	Functionality of Public Procurement Market (7)
Bid acceptance	Average number of bids/proposals received that are responsive to requirements in the bidding documents	Efficiency and effectiveness	Implementing Regulations and Tools (2)

Method of procurement	Percentage of usage for each authorised method of procurement	Effective use of competition	Legal and Regulatory (1)
Bid processing lead-time	Average number of days from bid opening to the issuance of a contract award	Efficiency and effectiveness	Institutional Capacity (5) Efficiency of Procurement Operations and Practices (6)
Cancelled bidding procedures	Percentage of bid processes declared null before contract signature	Fairness and efficiency	Institutional Capacity (5) Efficiency of Procurement Operations and Practices (6)
Resolution of protests	Percentage of protests resulting in modification to outcome of bidding process	Fairness and transparency	Legal and Regulatory (1) Efficiency of Procurement Operations and Practices (6)
Contract amendment	Average increase per contract awarded	Efficiency and effectiveness	Contract Administration and Dispute Resolution (8)
Contract dispute resolution	Percentage of contracts with unresolved disputes	Fairness, efficiency and effectiveness	Contract Administration and Dispute Resolution (8)
Completion rate	Percentage of contracts resulting in full and acceptable performance	Efficiency and effectiveness	Functionality of Public Procurement Market (7)
Late payment	Percentage of payments made late (e.g. exceeding contractually specified payment schedule)	Efficiency and effectiveness	Mainstreamed into PFM (3)

V. Main features of the indicators

1. Data for these indicators should be available and can be collected and analyzed.
 - The indicators have been selected and designed to reflect performance aspects of the procurement process.
 - Given the prevailing conditions in most recipient countries, the selected performance indicators primarily focus on the efficiency and effectiveness of the procurement process, but they also measure other key principles of a well-performing system.
2. They are generic in order to be customised at the country level.

- The indicators are integrated into the public expenditure chain and derive from a framework that refers to a set of common procurement practices and legal concepts. They are generic, and will need to be customised in each case so as to be anchored in the country’s current national public finance and procurement rules and regulations.
3. They provide an overview.
 - The proposed indicators aim to provide information giving a clear, understandable and balanced overview of all procurement transactions to key stakeholders involved in the procurement decision-making process (top public sector managers, officials, policy-makers, etc.).
 4. They are quantitative, and thus comparable.
 - The indicators are based on key features of the procurement process that can be measured and compared over time.
 5. They are practical and implementable.
 - The source data for the indicators can be expected to be “automatically” extracted on an ongoing basis from existing standard records and other supporting documents (and/or from IT systems, where available).

VI. Conditions and requirements

1. Upgrading of management information systems at the national level.
 - Work may have to be undertaken to upgrade the relevant information systems in order to facilitate ongoing data capture and processing so as to generate the information on a continuing basis. Among the relevant issues are the following:
 1. Aligning the management information system with ways in which the processes operate in the public sector.
 2. Availability of source data. This may need to be coded on the basis of such elements as:
 - Budget appropriations (and related expenditures) and sources of funding;
 - Procuring entities;
 - Categories of purchased items;
 - Contractors (and related economic sectors) and origins; and
 - Procurement contracts (and related transactions).
 3. Collecting source data on a continuous and reliable basis.
 - Wherever the supporting forms and documents are not immediately available as needed, collecting the data the first time to establish a baseline against which to

measure later progress (on the basis of set targets) may require an initial one-time data collection exercise to be carried out using ex post methods.

2. Setting up a reporting mechanism at national level.

- A limited set of indicators will need to be collected at the level of each procuring entity (primarily for internal management purposes) and then disseminated to and aggregated at the central level (*e.g.* by an oversight body) for policy monitoring purposes (see Part III - Data Collection and Assessment System).
- The fact that the proposed methodology will support better internal management at procuring entities will enhance its acceptability and sustainability.

PART III

A DATA COLLECTION AND PERFORMANCE ASSESSMENT SYSTEM FOR IMPLEMENTING ENTITIES

I. Introduction

This section of Chapter 3 describes the data collection and assessment software tool developed within the framework of the OECD/DAC-World Bank Procurement Round Table process in general and more specifically in the context of an ongoing pilot financed by the Swiss Government in Ghana being implemented with the support of the Ideas Centre. The software developed for this pilot facilitates the collection of data to measure the quality of procurement at the level of the Procurement Entity (PE)—that is, the public institution carrying out public procurement.

The software measures issues related to the PE's organisation—how it handles the programme design stage, the public procurement process and contract management. The software uses a set of key organisational and managerial criteria upon which a PE must rely to ensure that its public procurement is conducted efficiently. This set of criteria is based on international procurement standards, best procurement practice, various management performance standards, Ghana procurement laws and ISO and European Foundation for Qualitative Management (EFQM) standards. These have been reduced to 80 Key Performance Criteria (KPCs) during an extensive international consultative process, involving the World Bank, DFID, ITC and the OECD, among others.

These key criteria are defined and organised in the Public Procurement Model of Excellence (PPME), which forms the structure of the software.

The methodology used is inspired by the EFQM and is aimed basically to be a self-assessment approach for public institutions that are responsible for public procurement. The current PPME model, while designed to capture qualitative data, has been customised to capture data on quantitative areas related to the country-level performance indicators defined in Part II of this chapter.

II. Objectives and expected results

The PPME has been designed to achieve the following four main objectives:

1. To help in the implementation of a change process to improve procurement at the entity, regional and national level.
2. To provide objective information for assessing the conformity of the procurement processes to the requirements of the public procurement system.
3. To evaluate performance of procurement at various levels and provide recommendations to improve the procurement process.
4. To lead to the certification of the procurement entities within the country.

To achieve these objectives the PPME provides the following results:

1. A “stand-alone” assessment report on the performance of a particular PE on the basis of pre-established criteria. This report provides the management of the PE with recommendations to improve its performance.
2. Comparative assessment results: This report provides managers at various levels (ministerial, regional or national) with an analytical tool looking at the performance of a particular PE, comparing its individual results with the results of a group of PEs at various levels (ministerial, regional or national), identifying problems and providing recommendations to improve the procurement process.

These results are achieved through collection of data on KPCs covering four main areas related to quality performance in public procurement:

- Management system of the PE.
- Design of the programme/project to be procured.
- Procurement process itself.
- Contract management.

III. Analytical approach: Presentation of Results

The PPME has been designed as a tool that generates information on the performance of procurement entities that can be viewed at two different levels, either by individual institutions (PEs) or across institutions (group of PEs). It allows sorting of data according to eight different criteria: by ministry, by region, or by district, as well as by type of institution (*e.g.* state-owned enterprise), by type of procurement (*e.g.* works only), by procurement method (*e.g.* ICB), by source of funding (*e.g.* IFI), or by implementing agencies. For example, the PPME could be used to assess the PEs within the Ministry of Education using NCB procedures to procure goods.

After selecting the institutions with the help of the eight criteria, the PPME allows for viewing the comparative results from two different angles:

- By KPC

For example, for all procurement entities in the Roads and Transport sector dealing with works only in a given region, one might want to know how well they perform in the area of Management, in the subcategory Finance and more specifically how regular procurement and financial audits are being conducted. If this sector is performing badly, it might be useful to look for information such as the funding source and the actual implementation.

- On the basis of value for money

Or a government or a financial institution might want to know about the trend—either for an individual PE or for all PEs in the country—with respect to compliance with Value for Money Principles.

Comparative results are useful only if acted upon. Knowledge of general trends on how public advertisement is being conducted can help in understanding variations in PE performance. This information can provide feedback on major areas of PE weakness and what ought to be put in place to assist them in improving on these performance criteria. Comparative results can assist governments and/or financial institutions in their decision-making.

IV. Analytical approach: How procurement entities are assessed

Evaluation Grid: PEs are assessed with the help of an Evaluation Grid, in which KPCs are listed. For every Key Performance Criterion, the assessor needs to obtain evidence and give a rating as well as a recommendation for improvement, if needed, and its priority.

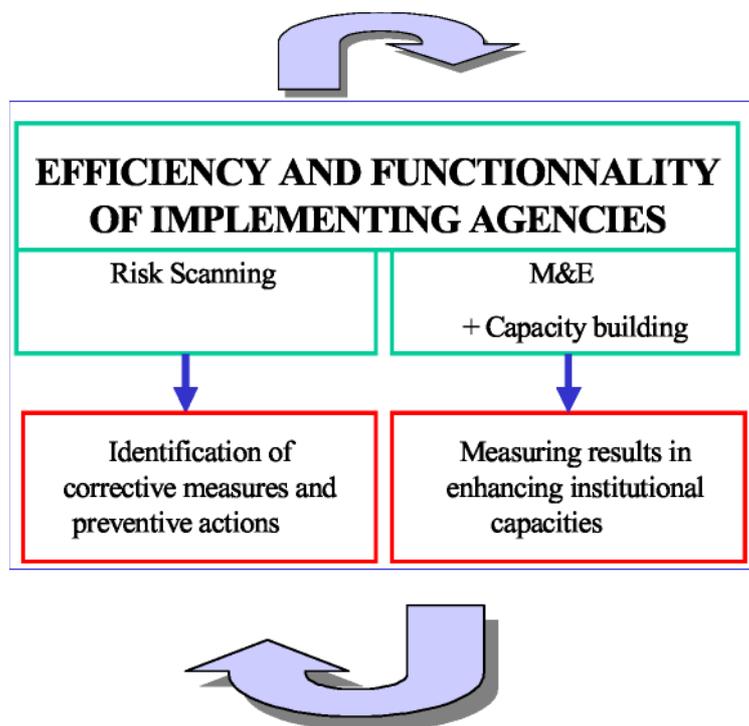
Ensuring objectivity: KPCs are formulated as statements (rather than questions) to provide as much objectivity as possible. Instead of asking a question such as “are bidders informed of bid results and contract award” (whereby the answer can be a “yes” or “no”), the assessor must look for evidence to ensure that this activity is being conducted all of the time.

Existence of evidence: The assessor will seek to find for each KPC the existence of evidence that confirms that this activity is being undertaken (or not) and also whether it is undertaken all of the time and whether it is part of the usual management of the organisation.

Rating and Recommendations: Once the assessor has determined the existence (or not) of evidence and its systematic application, for each KPC, he or she will be in a position to provide a rating, between 0-10. Depending on the rating given for a KPC, the assessor will make appropriate recommendations. Recommendations are compulsory for any rating between 0-4. The recommendations are then prioritised from “*High*”, “*Medium*” to “*Low*”. For each recommendation, the PE will be given a deadline to take the required action. The overall rating and recommendations are communicated as feedback to the PE management at the end of the assessment.

The assessment will become a tool for the PEs themselves, which they will use on their own to run self-assessments as a part of the internal process management. Self-assessment is a major step in thinking within an organisation as it requires the involvement of managers at different levels and calls for their commitment and leadership. Through the self-assessment process, managers become more accountable and better understand their role in contributing to improving the organisation. Self-assessment is a powerful tool in itself as it enables a culture for learning and sharing not only within a PE but also among procurement entities. In other words, those who are performing poorly can learn from those who are performing better. At the same time, this approach is also a useful tool to assist governments and/or financial institutions in the monitoring and evaluation of performance of procurement entities. The following provides a graphic representation of the process.

Figure 3.2 Internal Self-Evaluation



V. Implementation of the PPME

The PPME is an Excel-based light application that can be stored on a floppy disk. The use of Excel makes the application user-friendly for the assessor and easy to be implemented by the government. The tool is split in two parts to enable it to be used properly by both the assessors and the government responsible for its management. The first part of the tool is for use by the procurement entity in supporting management oversight of performance within the entity. The second part of the application is targeted for government use to collect specific data from all assessments centrally for performance measurement of the system as a whole.

As the PPME is designed to be a system to be used by government to monitor the performance of the procurement entities at a country level, some conditions must be met to ensure that it is implemented correctly.

The following are critical to ensuring its success in the long term:

- *Government Commitment:* The role of government is crucial when implementing the system, since it conveys a clear message on the importance the Government attaches to the programme.
- *Adequate Human Resources:* When conducting assessments on a country basis, a government requires adequate human resources. It is recommended that three assessors be assigned for each assessment in order to guarantee greater objectivity. In each team of assessors, there is one Lead Assessor who has the task of organising and planning the assessments to be conducted.

- *Comprehensive Training and Ownership:* The PPME requires that assessors have appropriate skills and use particular techniques. To become an assessor, the individual has to have some expertise in the field of procurement and be able to attend a week of training. This training programme, which is based on the PPME Model and Tool, consists of acquiring relevant assessment techniques and skills.
- *Appropriate Planning and Organisation:* To conduct the monitoring and evaluation of PEs on a yearly basis and at a regular pace, a government must plan a large number of assessments. Managing such a large number of assessments requires good planning and organisation as well as a clear process to guide Lead Assessors in their duties. An overall step-by-step approach for governmental bodies who will be managing the whole process has been developed.

VI. Conclusion

The proposed monitoring tool has been constructed on the basis of Ghanaian reality and the needs identified in Ghana to accompany the implementation of the new public procurement law and procedures.

The tool will soon undergo field-tests, and will be revised to take into account the various lessons learned. Shortly thereafter, the tool will be available for use by others.

DAC Guidelines and Reference Series

Harmonising Donor Practices for Effective Aid Delivery

Volume 3:

STRENGTHENING PROCUREMENT CAPACITIES IN DEVELOPING COUNTRIES

Public procurement systems are at the centre of how public money is spent. Through these mechanisms, 12 to 20% of developing country GDP is spent annually (and as much as 70% of GDP in post-conflict countries such as Uganda or Sierra Leone). Even marginal improvements in these systems can therefore yield enormous benefits. Public procurement is big business and procurement reforms more than pay for themselves.

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Implementing the strategies and tools set out in these Good Practices will result in more effective and sustainable capacity development, that will in turn help create procurement systems that achieve greater value for money. These papers will be of great interest both to procurement professionals and to the political leadership in developing and donor countries that are serious about improving the effectiveness of their development and aid programmes.

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