Public Procurement: The Achilles’ Heel of Good Governance

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Key Messages

1. Public Procurement represents an important strategic instrument in the governance agenda and public policy. It has helped promote open worldwide markets.

2. Fear of corruption has led to a debate between advocates for compliance versus those that argue for more discretion.

3. A results-based focus requires a different and more holistic approach to public procurement to best serve governance concerns for the quality of public expenditure while addressing governance concerns for integrity of the process.
BACKGROUND
Public Procurement is the acquisition by government and related entities of goods, services, or works from an external source.

- 15-20% of GDP
- U.S. Federal Level: 500 bn / year
- WB: $7 billion & 100,000 contracts / year
Background

“We are all procurement experts.”
Principles of Procurement

- Economy and Efficiency
- Equal opportunity to compete
- Domestic contracting
- Transparency
Procurement and Aid Financing

1. International Competitive Bidding

2. National Competitive Bidding
Procurement and Aid Financing

- Development of a worldwide competitive market
# Top 10 Suppliers for Foreign Procurement (by value of contracts)

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<td>United States</td>
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<td>Venezuela, RB</td>
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<td>Korea, Rep.</td>
<td>Norway</td>
<td>Malaysia</td>
<td>Sweden</td>
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Sources: World Bank Annual Report 1985; World Bank Borrower Procurement Reports
# of ICB Contracts by Supplier Country
1995

Source: World Bank Annual Procurement Reports – excluding Consultant Services & Non-Consultant
# of Contracts by Supplier Country
2013

Source: World Bank Annual Procurement Reports – excluding Consultant Services & Non-Consultant
Procurement and Aid Financing Impact on Local Industry

Stages of Development

• Serving small local market
• Competing for ICB within country
• Competing regionally
• Competing globally
### Procurement and Aid Financing Impact on Local Industry

#### Share of Regionally Supplied Civil Works

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<th>Region</th>
<th>Percentage</th>
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<td>East Asia and Pacific</td>
<td>97%</td>
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<tr>
<td>Europe</td>
<td>93%</td>
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<tr>
<td>Latin America</td>
<td>91%</td>
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<tr>
<td>Middle East &amp; North Africa</td>
<td>83%</td>
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<tr>
<td>South Asia</td>
<td>83%</td>
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<td>Sub-Saharan Africa</td>
<td>56%</td>
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Source: Gutman and Zhang (2015, forthcoming)
THE COMPLIANCE VERSUS DISCRETION DEBATE
The Compliance v. Discretion Debate

Stylized Formula

C = M + D – A

C: Corruption
M: Monopoly
D: Discretion
A: Accountability

Source: Klitgaard (1998)
The Compliance v. Discretion Debate

The Case for Compliance

• Clarity of process and criteria essential

• Worldwide perception of substantial corruption
  » EU Report
  » OECD Report

• Developing countries’ weak institutions

• “Zero Tolerance”
The Compliance v. Discretion Debate
The Case for Discretion

- Role of professional judgment and adaptability
- Excessive role of the contract officer
- Risk-averse culture
- Innovation and creative solutions
- Value-for-Money versus Price-only criteria
- Horizontal objectives
TOWARDS A PRACTICAL RESOLUTION
Towards a Practical Resolution

What needs to be done

1. It is crucial that we look at development effectiveness of procurement in terms of the actual project or contract outcomes/results
Frequency of Procurement Topics Raised During World Bank Consultations

Towards a Practical Resolution

What needs to be done

1. It is crucial that we look at development effectiveness of procurement in terms of the actual project or contract outcomes/results.

2. If the focus is on final outcomes, then the focus must be on the whole procurement cycle from design, to bid/award to contract management/implementation.
Stages of the Procurement Cycle

Pre-tendering:
- Needs assessment
- Planning and budgeting
- Definition of requirements
- Choice of procedures

Tendering:
- Invitation to tender
- Evaluation
- Award

Post-award:
- Contract management
- Order and payment

Source: OECD
Towards a Practical Resolution

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2. If the focus is on final outcomes, then the focus must be on the whole procurement cycle from design, to bid/award to contract management/implementation.

3. Looking at the whole procurement cycle and the Klitgaard corruption model, identify the risks of each stage.
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A key factor in ensuring credible use of discretion is for public policy professionals to better understand procurement as a public policy strategy instrument.
“One man’s ‘red tape’ may be another’s treasured safeguard”

– Herbert Kaufman