



2009 Annual Statistical Report on Procurement Supplement

Procurement from developing countries and economies in transition



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- A collection of articles about procurement from developing countries and economies in transition
 - An overview of the current debate on procurement from developing countries and economies in transition, and on the latest policy developments in this growing area
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Supplement to the 2009 Annual Statistical Report on United Nations Procurement

UNOPS would like to acknowledge the contribution of the various authors to this supplement to the 2009 Annual Statistical Report on United Nations Procurement. The views expressed in this publication are not necessarily shared by each of the authors. Furthermore, the views expressed in this publication are those of the authors and do not necessarily reflect those of the United Nations.

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Foreword

The procurement of vital goods and services provides an essential building block for many United Nations activities, whether it is responding to natural disasters, peacekeeping or encouraging development. These operations rely heavily on our efficient and transparent ability to purchase the required food, labour, medicines and other items needed to fulfil United Nations (UN) goals.

But procurement can and should be more than this. It should be a crucial tool in the development process itself. It should stimulate local markets and drive innovation.

By providing business opportunities to a wider range of companies in all countries, procurement can help build strong economies and well-functioning communities. Buying goods and services directly from the countries we are trying to support can also ensure local ownership of UN projects, boosting their effectiveness.

Many organizations in the United Nations family are well aware of this and already use our considerable buying power to get the best deal for everyone involved in the process – both beneficiaries and suppliers. It is time we all learnt from their best practice.

As part of an ongoing internal effort to reform its procurement activities, the UN is seeking to be as inclusive as possible and extend procurement opportunities to previously overlooked vendors. This not only increases fairness and efficiency, but creates the opportunity for the entrepreneurial spirit and industry in the developing world to contribute to the achievement of the Millennium Development Goals.

Already I have seen part of this picture take shape with strengthened local economies and the burgeoning of opportunities. I've seen companies get the support they need to become capable of growing their business beyond their borders, for the benefit of their families and their communities. However, much work still has to be done.

This publication provides a forum for ideas on how to conduct procurement in sustainable and innovative ways; examples of how UN procurement can reach out to new vendors.

In that spirit, I commend this report to all those concerned with the welfare of the developing world.



Ban Ki-moon
Ban Ki-moon
Secretary-General of the United Nations

Contents

UN procurement from developing countries and economies in transition Trends and opportunities	2
New thinking in procurement capacity development	4
Procurement capacity building in developing countries	7
Government procurement and policy promotion in South Africa	10
Curbing corruption in public procurement Experiences in Indonesia and Pakistan	12
Community based procurement A value for money analysis in select World Bank projects	14
Buying food in new ways World Food Programme's Purchase for Progress	18

UN procurement from developing countries and economies in transition

Trends and opportunities

Jan Mattsson

Jan Mattsson has been Executive Director of UNOPS (the United Nations Office for Project Services) since June 2006. UNOPS provides project implementation and management services to UN agencies, governments, international financial organizations and others in support of peacebuilding, humanitarian and development operations. Immediately prior to working at UNOPS Mr Mattsson served as Director of the Bureau of Management of the United Nations Development Programme (UNDP), where he was a leader of change management and organizational reform. In both positions he has overseen and ensured efficiency of large procurement volumes as well as directed capacity development initiatives. He holds a Ph.D. in Engineering and is a honorary fellow of the Chartered Institute of Purchasing and Supply (CIPS).



When the *2008 Annual Statistical Report on UN Procurement* was presented to Member States in September 2009, several delegations raised the issue of procurement from developing countries and economies in transition, prompting the idea to produce this supplement on the topic.

One of the concerns expressed was that in 2008 there was a break in the trend of increased procurement from developing countries and economies in transition. With the 2009 data, the upward trend appears to be back on track. Nonetheless, the need to examine developments and future opportunities in this area has not diminished.

In 2009, the United Nations system procured over USD 13.8 billion worth of goods and services from a global supplier base. The regional distribution shows that procurement from suppliers in developing countries and economies in transition reached 54.9 percent. In absolute numbers this translates to over USD 7.6 billion.

Aligning UN procurement to developmental objectives – primarily the achievement of the Millennium Development Goals – raises awareness of the importance of increasing the participation of developing country suppliers. Besides directly benefitting local economies, this can also contribute to aid effectiveness and the strengthening of country systems and procedures.

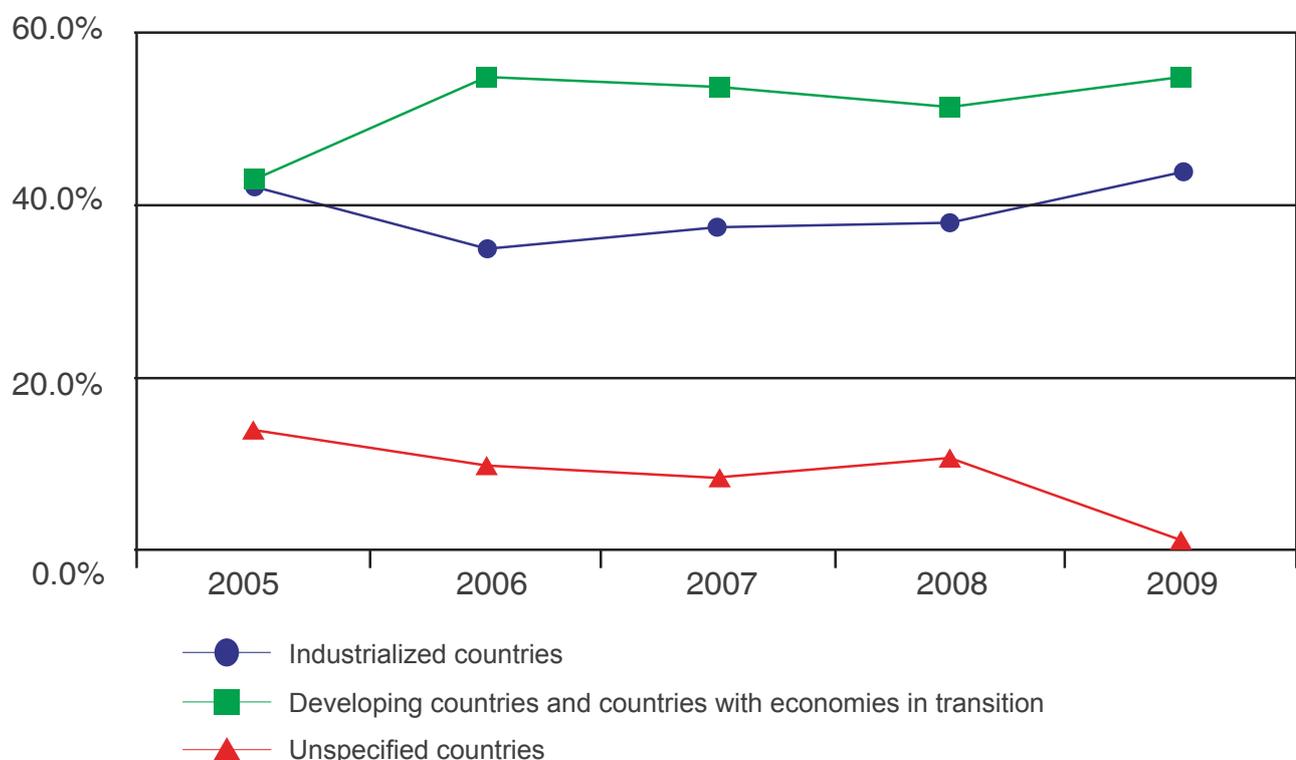
A decade ago, only 38.5 percent of UN procurement came from developing countries and economies in transition. What has affected the UN procurement map so radically? Since the early 1990s, a number of General Assembly Resolutions on procurement reform have called upon United Nations organizations to improve their procurement practices to increase procurement from developing countries and economies in transition.

UN organizations responded by implementing a range of measures, including redesigning supplier sourcing approaches to ensure a greater representation in tender exercises, conducting business seminars with potential vendors, and using a procurement portal (the UN Global Marketplace www.ungm.com) to simplify vendor registration processes and access to procurement notifications. In addition, many UN organizations decentralized their procurement structures, thereby increasing their local procurement activities.

It is recognized that the practice of tied aid - where procurement of goods and services is restricted to companies from donor countries - has played a part in restricting other suppliers from participating in procurement opportunities, stunting the development of their supply potential and limiting the effectiveness of international aid measures. While early attempts to untie aid date back to the late sixties, significant improvements could be seen following the 2001 Organisation for Economic Co-operation and

United Nations procurement from developing countries and countries with economies in transition, 2004-2009

(percentage of total United Nations procurement)



Development - Development Assistance Committee (OECD/DAC) recommendation on untying aid.

All these measures gradually yielded results with a tipping point in 2005 when procurement from developing countries and economies in transition overtook procurement from industrialized countries for the first time.

While these recent results are encouraging, more can be achieved by continued diversification of the supplier base and the promotion of social, economic and environmental objectives. Many UN organizations have already connected their procurement function with their roles promoting development. These experiences and best practices need to be shared and supported.

But there are still barriers contributing to the reduced competitiveness of vendors from developing countries in the international markets and preventing the use of country systems. Improving competitiveness of the supplier base and the participation of small, previously marginalized economic groups, as suggested in some of the contributions to this publication, could undoubtedly have a positive effect on the participation in international procurement opportunities. The use whenever possible of country systems coupled with effective capacity development will inevitably increase

procurement from the countries involved. At the same time, it is important to curb fraud and corruption as they weaken society and disadvantage honest and competitive vendors. Tackling these problems is sometimes not easy, but there are examples where focussed capacity development and raised awareness is making a big difference.

As procurement from developing countries and economies in transition evolves, an open and unprejudiced debate on emerging issues can surely promote understanding and knowledge sharing in the procurement community. This report – which gathers examples of best practices, challenges and solutions contributed by scholars and different parts of the practitioners world, is aimed at providing a platform for debate and progress. We have to keep apace with innovative thinking in procurement in order to better understand how the UN can use the power of its purse to further stimulate competitiveness and enhance supplier capacity in developing countries. Above all, when refining the UN procurement architecture, we must never lose sight of the priorities of this organization – including the promotion of social, economic and environmental goals around the world.

Jan Mattsson
Executive Director, UNOPS

New thinking in procurement capacity development

Kirsten Ejlskov Jensen

Kirsten Ejlskov Jensen is a leading expert in the field of public procurement in general and procurement capacity development in particular. She has 20 years experience with the United Nations Development Programme (UNDP) working in a variety of positions relating to procurement and human resources management. She was responsible for establishing the UN Procurement Capacity Development Centre (www.unpcdc.org) which she has led for more than two years. Ms Jensen has comprehensive experience in working with governments to conduct procurement assessments and in designing and implementing capacity development programmes.



Procurement for development is changing from being donor driven to being nationally owned, with the focus on a systemic approach to developing local procurement capacity.

In 2005 a large number of developed and developing countries endorsed the Paris Declaration on Aid Effectiveness. Its core principles represent the consensus of governments on the need to improve aid effectiveness by achieving a range of goals. These included recipient ownership of the development process and its alignment to their national strategies, harmonization of donor actions, improved development results and mutual accountability. The Accra Agenda for Action built on the Paris Declaration and is intended to accelerate progress on a number of commitments.

In the field of procurement, the Paris Declaration targets an increased use of country systems by development partners. At the same time it promotes their adherence to accepted procurement good practices. Using country systems more extensively naturally increases the amount of procurement done from developing countries.

According to the 2008 Organisation for Economic Co-operation and Development (OECD) survey on the Paris Declaration, progress is being made on its indicators, but not fast enough. This situation calls for an intensification of efforts, with a focus both on an increased direct use of country procurement systems and a procurement capacity development effort. This second element is crucial, as the traditional approach to procurement capacity development has shown limited effectiveness and needs to be redesigned and converted into an enabling process.

A shift in paradigm

Procurement reform efforts in developing countries have often been driven by donor organizations in an attempt to mitigate risks associated with implementing the activities they fund. This is typically done through a package consisting of legal reform of the country's regulation and procedures, the creation of a public procurement regulation authority and the training of public procurement officials.

Many, if not most countries in Africa now have a fairly robust legal and regulatory framework, an established public procurement authority, and have trained hundreds, if not thousands of officials. Yet in recent years there has emerged widespread consensus that such reform programmes have not achieved the desired outcomes.

While development cooperation can facilitate local change processes, if it is not carefully managed it can end up undermining ownership and capacity. As a result we are seeing a shift in paradigm from a donor driven, inputs-based approach, to a nationally owned, outcome-based capacity development approach. The role of external partners is increasingly being re-cast as facilitators rather than interveners.

But what is capacity development? The United Nations Development Programme (UNDP) definition of capacity development is: "The process through which individuals, organizations and societies obtain, strengthen and maintain the capabilities to set and achieve their own development objectives over time."

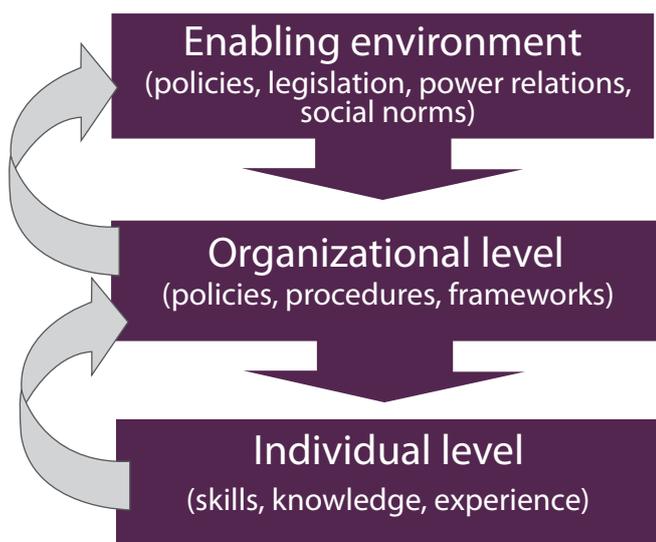


Figure One: Capacity development

This definition emphasizes the view that capacity resides not only within individuals, but also at the level of organizations and within society, or the ‘enabling environment’ (refer to Figure One above). Looking at public procurement reform through this lens highlights that the traditional approach of legal and institutional reform plus training has typically failed to address this enabling environment. It has not looked at how to change society, change the rules of the game, change power relations, or values and mindsets. As this way of thinking is fairly new, it is too early to draw conclusions, but there are examples of new and innovative approaches that show potential.

A case study: procurement capacity development in Malawi

In Malawi, the Office of the Director of Public Procurement (ODPP) ran an internal capacity assessment. Some of the key lessons that can be highlighted from the Malawi exercise are:

- While assessment exercises often have informed procurement reform programmes in the past, these have typically been donor led risk assessments. While there may be overlap between a risk assessment and a capacity assessment for the purposes of developing capacity, there are some key differences (refer to Table One below).
- To be able to formulate capacity development strategies, the ODPP focused not only on what the capacity gaps were, but also why they were there – the root causes underlying the gaps.
- Recognizing that capacity development can be a long-term process, the ODPP also built in some short-term ‘quick-wins’ designed to make some meaningful improvements and build momentum for change.

	RISK ASSESSMENT	CAPACITY ASSESSMENT
Objective	Assess risk related to donor activities	Assess existing capacity in order to develop
Scope	Donor projects and programmes	Institutions/organizations (regardless of source of funds)
Input to	Risk mitigation measures (action plan)	Capacity development responses
Desired level of capacity	Set by donor	Set by government
Conducted by	Donor or its agent (though may be in collaboration with government)	Government (with support)
Responses/priorities	Defined by donor	Defined by government

Table One: An outline of the key differences between risk assessment and capacity assessment.



The focus of procurement for development is changing from being donor driven to being nationally owned with the focus on developing local procurement capacity, benefitting local suppliers such as these farmers in El Salvador.

Core issues

Empirical evidence shows that the bulk of the change in capacity happens in four domains, and that capacity development responses are found to be more effective if they combine actions across the four issues. These four core issues are:

1. **Institutional arrangements** - these may include hard rules such as laws or the terms of a contract, or soft rules like codes of conduct, generally accepted values or incentives.
2. **Leadership** - which is the ability to influence, inspire and motivate others to achieve or go beyond their goals.
3. **Knowledge** - which underpins people's capacities.
4. **Accountability** - which is about the willingness and abilities of public institutions to put in place systems and mechanisms to engage citizen groups and use their feedback.

Integration with other reform initiatives

One of the biggest challenges is how to integrate this kind of capacity development with other reform initiatives taking place in the country, namely with other areas of public administration reform. Experience suggests the need to have wide stakeholder engagement prior to embarking on a procurement capacity assessment and throughout the process.

Conclusion

New thinking in terms of development effectiveness is increasingly influencing and changing approaches to procurement capacity development. It is still early to develop definitive conclusions about what does and does not work in practice. However, the emergence of formal and informal networks and resource centres (such as www.unpcdc.org) are providing powerful opportunities for the sharing of experiences and lessons that can be adapted and applied in different settings.

Procurement capacity building in developing countries

David Noble

The Chartered Institute of Purchasing and Supply

David Noble was appointed Chief Executive of The Chartered Institute of Purchasing & Supply (CIPS) on 1 June 2009. Previously he was Group Supply Director at IMI plc, a UK multinational company specializing in advanced engineering technology and responsible for a £1 billion spend. A key achievement was pioneering Category Management and Strategic Sourcing at Motorola in the mid 1980s. Although the majority of his career has been in manufacturing, he also has experience of the public sector, the distribution industry and large scale turnkey power station projects. He has an honours degree and was elected a fellow of the institute in 1994 also serving on the fellowship selection panel and the CIPS management board.



The Paris Declaration and the Accra Agenda each set out blueprints to augment aid efficiency through the increased participation of beneficiary countries. This includes an enhanced role for local procurement and supply.

There are many ways in which local procurement systems can be made more transparent and effective. Such changes will naturally need the support of member states, UN bodies and the buyers themselves, but the urgency and long-term impact make them essential. This paper examines three areas: the current mismatch between the requirements of the Paris Declaration and national procurement capacities, the opportunities for capacity development and broader considerations of building capacity.

The mismatch between the Paris Declaration and national procurement

The ability for beneficiary countries to take advantage of the Paris Declaration is often limited and means that attention needs to be given to building capacity in those countries. Enhancing procurement capacity implies a change in culture, and it is a common misconception to imagine that this can be achieved through a round of training sessions.

There is a need to widen the range of suppliers whilst not risking a lowering of standards - which could lead to serious failures in programme implementation and effectiveness. For

example, in humanitarian operations any break in the supply chain of vital commodities, particularly food and medical supplies, may lead to an interruption in aid delivery and loss of life. Likewise, any corners cut on the provision of security staff to UN missions may result in the compromising of UN security and the termination of UN programmes in the beneficiary country. These essential requirements for supply chain security and quality output can present a challenge for some beneficiary countries.

The UN's largest donors – who are also member states – are in favour of adhering to the highest standards in procurement. This is both in order to maintain high standards and in some cases to promote their own suppliers. The European Union and the United States, among other key donors, have track records of insisting on their own contractors implementing their bilateral aid programmes. The untying of aid is one of the priorities of the Paris Declaration and, taking into account both bilateral and multilateral aid, the proportion of fully untied aid had risen to 83 percent by 2007. However, past practices of tied aid have left a legacy: they have denied local suppliers entry into aid programmes and created instead a parallel market from developed countries. This has prevented the development of local suppliers that could match the demands of the international aid community.

Finally, the problems that some beneficiary countries have with corruption can also constitute a barrier to full implementation of the Paris Declaration.



Capacity development of local suppliers, such as these brickmakers in Sri Lanka, should focus on building skills transferable to a post-aid business world.

The opportunities for capacity development

Any increase in the beneficiary country's capacity to deliver goods and services locally should reduce costs and decrease supply chain problems. Increased awareness, mentoring schemes and experience sharing can help to boost capacity in beneficiary countries.

The role of the United Nations in the area of procurement and supply chain capacity development can be critical to assisting developing and least developed countries to obtain optimal value for money within procurement. The World Bank has estimated that goods and service acquisition accounts for approximately 25 percent of a country's gross domestic product (GDP). Therefore, any problems with supply chains, cases of fraud and corruption, wasteful allocation of resources, or ineffective procurement practices can lead to gaps in actual GDP. Best practice suggests that by closing this gap several percentage points of GDP could be regained to address national priorities. In practice this means that a country that has not instituted a reform program to develop world class supply chain practices has the potential to save between several million and several billion US dollars.

Helping beneficiary countries with an overall procurement and supply chain strategy - including capacity development - is key to closing that GDP gap.

A direct measure that could be taken by the UN and its implementing partners would be to integrate local procurement staff into programming activities. Too often,

procurement staff are seen as merely an adjunct to the projects their programmatic colleagues design and deliver.

Another method to increase aid effectiveness might be to include an element of procurement capacity building into all UN tenders, regardless of sector. This would mean that instead of the UN merely striving to procure locally it would also provide technical procurement training for its local country partners. Simple measures, such as accepting bids in local languages, may also open up the tender process to a wider range of suppliers.

The explicit reference to accountability by the Paris Declaration represents the opportunity to address the problem of corruption in the procurement and supply process. Anti-corruption measures, particularly education for suppliers and government officials on transparency in the tendering and awarding of contracts, present an opportunity for further increasing capacity. Transparency at all stages in the procurement process is essential.

South-South cooperation has its merits as a means of building capacity, provided the definition is widened to include the recent beneficiary countries of the North (former Soviet states and the Balkans, for example). There are real opportunities for lessons learned to be transferred across beneficiary countries. The UN and its implementing partners need to be encouraged to promote staff mobility and exchange. This means that key national - or local - staff involved in procurement may be posted to other country programmes to share experience and transfer know-how.

Broader issues for consideration

In some cases flexibility is required as, generally, the United Nations family works in countries where there are serious social, political, economic and security problems and where local laws and conventions may allow for some less than ideal working practices.

In other words we must promote consistency amongst UN agency standards, while allowing for local flexibility. The UN has undergone some internal procurement reform to streamline its procedures, as recommended by the General Assembly. However, delegating authority to local field missions needs to become the norm across all UN agencies, in order to allow the people on the ground to make the appropriate decisions.

There is also a need for any UN attempt at capacity building to address the problems of aid dependency and the danger of skewing the beneficiary country's procurement industry.

Consideration should be given to the long-term effectiveness of orientating a poor country's supply chain infrastructure toward the international aid community when what actually might stimulate the local economy are measures to increase its capacity to supply its local small business sector. This could be mitigated if we assume that new aid activities are

more likely to broadly support overall economic and social development which is beneficial to both the international development and local business sectors.

However, we must be alert to the danger that increasingly professionalized staff will move on with the international development set once the aid focus shifts to the next disaster zone, leaving the country once again with an underdeveloped procurement and supply sector. This risk can be mitigated through the development of a skilled class of local procurement experts that should be able to progressively replace their international colleagues.

Conclusion

We have attempted to show that there is a definite need to develop the capacity of the procurement and supply industries in beneficiary countries and indeed for more established players to be integrated into overall aid programmes. However, any coherent approach to capacity building must be systemic and focus on building core skills which are transferable to the 'normal' post-aid business world to which we all aspire.



The Chartered Institute of Purchasing and Supply (CIPS) promotes and develops professional skills, ability and integrity for individuals and organizations involved in purchasing and supply chain management around the world.

Government procurement and policy promotion in South Africa

Phoebe Bolton

Phoebe Bolton is Professor of Public Procurement Law at Stellenbosch University, South Africa and the author of *The Law of Government Procurement* in South Africa (LexisNexis Butterworths, South Africa, 2007). Her book is the first comprehensive and structured analysis of the law on government contracts and procurement in South Africa and the only major African legal text on procurement regulation. This article is a summary of Phoebe Bolton's 'Government Procurement as a Policy Tool in South Africa' (2006) 6(3) *Journal of Public Procurement* 193-217. The article has been abridged and reproduced here with the permission of the author.



Government procurement is more than just business. It is not just the acquisition of goods and services on the best possible terms, it also has broader social, economic and political implications. Government procurement has often been used to promote social, industrial or environmental aims which are, arguably, secondary to the primary aim of procurement. It is in this regard that government procurement is of particular significance to South Africa. Due to the discriminatory and unfair practices of the past, a number of groups in South Africa were prevented from accessing government contracts. Prior to 1994, the government procurement system was geared towards large and established contractors. Thus new contractors found it very difficult to participate in government procurement procedures. Since 1994, the South African government has made provision for the use of procurement as a means to address past imbalances.

Procurement as a policy tool

Using procurement as a policy tool can redistribute wealth by channelling funds to discrete categories of economic actors, such as previously disadvantaged groups in South Africa. It is clear that, where properly employed with measurable targets, procurement may prove to be a useful policy instrument, having positive repercussions on development. It is appropriate for the use of procurement as a policy tool to be regulated, but it should not be automatically presumed that such use is illegitimate. Purchasing policies followed by

public authorities should be open to modification in the light of pressing social or economic problems – even if this does require procurement decisions to be guided by more than just commercial criteria.

The two constitutional principles that directly impact on the use of procurement as a policy tool in South Africa are the right to equality and the attainment of value for money.

Policy promotion and equality

In the South African context, the equality debate has surfaced because the constitution guarantees the right to equal treatment. On a formal view of equality, it may be argued that affording preferential treatment to certain sections of the South African community when awarding government contracts is unconstitutional. However, the constitution refers to a “substantive” concept of equality as opposed to a “formal” concept of equality. In this perspective, the actual social and economic disparities between groups and individuals in South Africa cannot be ignored. Due to South Africa’s history of discrimination, unfair practices and marginalization of its people, various groups in society were denied the privilege of being economically active within the government procurement system. Therefore, affording preferences to previously disadvantaged groups does not infringe on the right to equality.

Policy promotion and value for money

The relationship between policy promotion and the attainment of value for money is a bone of contention. It cannot be argued that there are no costs involved in using procurement as a policy tool. The problem, however, is that it is often difficult to accurately estimate the costs involved in policy promotion and the benefits that may be achieved. There are, however, studies that confirm that some progress has been made since the implementation of affirmative procurement in South Africa. It can be argued that even though there may be time and cost premiums attached to the use of procurement as a policy tool, this premium should be regarded as an integral part of a country's growth and transformation. Increasing the participation of small, medium and micro enterprises in the government procurement system, in particular, has many advantages. In the case of South Africa, therefore, the question is not whether it can afford to use procurement as a policy tool but rather, whether it can afford not to.

The South African framework of preferential procurement

Prior to 1994, price was the overriding criterion for the procurement of goods and services by the government. Even though price is still very important, it is no longer decisive. The 1996 Constitution makes express provision for the use of procurement as a policy tool. In February 2000, effect was given to the relevant section of the Constitution with the promulgation of the Procurement Act. This Act and its Regulations are currently under review with the aim to bring them in line with the notion of broad-based black economic empowerment in South Africa. The following is an overview of the implementation of preferential procurement policies under the current regime:

- The Procurement Act makes it obligatory for organs of the state that fall within its scope of application to implement a preferential procurement policy.
- The notion that competing bidders should be treated 'equitably' as required by the Constitution is important but not absolute; the requirement must be balanced with the other requirements in the Constitution for procurement (fairness, transparency, competitiveness and cost-effectiveness) and the weight afforded to it will be determined by the facts and circumstances of the particular case. In practice, this means that 'equity' only accounts for a maximum of 10 or 20 points (out of 100) in the actual award of contracts.
- An obligation also exists to remain within the framework of the Procurement Act: an organ of state bound by the Act and Regulations cannot use a system that is more

generous towards previously disadvantaged enterprises than that mandated in the Procurement Act. Using procurement as a policy tool should not go further than what the government intended.

- People, or groups of people, historically disadvantaged by unfair discrimination on the basis of race, gender or disability are the main beneficiaries of the current system.
- Finally, penalties are set out upon detecting that a preference under the Procurement Act or Regulations was obtained on a fraudulent basis, particularly in the context of the practice of black people being signed up as fake shareholders in essentially white companies.



Increasing the participation in the government procurement system of small, medium and micro enterprises, such as this market seller in Cape Town, has many advantages.

Conclusion

On the whole, and particularly in the South African context, procurement as a policy tool can be said to be justified. The costs incurred are, to a large extent, outweighed by the benefits for the owners of affirmative businesses and their workforce, and by effect of job creation and economic development. The right to reparation for past inequality compensates the lack of a formal concept of equality.

Curbing corruption in public procurement

Experiences from Indonesia and Pakistan

Transparency International

Transparency International (TI) is the global civil society organization leading the fight against corruption. Through more than 90 chapters worldwide and an international secretariat in Berlin, Germany, TI raises awareness of the damaging effects of corruption and works with partners in government, business and civil society to develop and implement effective measures to tackle it. www.transparency.org



Corruption is often named as a factor that deters investors from developing countries, diverts aid funds from legitimate beneficiaries and thwarts development. For this reason the fight against corruption in all its forms has been included among the principles of the Global Compact. Tackling corruption is fundamental to building solid and effective procurement systems and to ensuring that the supplier base expands. This strengthening of the national procurement system creates an environment that allows suppliers to develop and better compete for business in international markets.

The problem of corruption in public procurement

Few activities create greater temptations or offer more opportunities for corruption than public sector procurement. Procurement of goods, works and other services by public bodies alone amounts to 15 to 30 percent of gross domestic product (GDP) on average. Damage from corruption is estimated at 10 to 25 percent of the contract value in most cases, and in some cases as high as 40 to 50 percent. Public procurement procedures are often complex. Transparency is limited, and manipulation is hard to detect. Few people who become aware of corruption complain publicly, since it is not their own, but government money, which is being wasted.

The ultimate goal of public procurement is to satisfy the public interest. In this sense, good procurement should satisfy the needs of the people, should be fair to businesses and should save public funds. On the contrary, corrupt public procurement increases poverty and inequality by diverting

funds away from social needs; it engenders bad choices, encouraging competition in bribery rather than in quality or price.

Transparency International (TI) has been working closely with government, industry and civil society to develop a number of tools, based on a collaborative approach, to prevent or reduce corruption. These include the use of public hearings, the 'Integrity Pact', external monitoring of the contracting process and risk maps. The following case studies illustrate TI's experience of curbing corruption in Indonesia and Pakistan, in collaboration with local authorities.

Indonesia's experience in promoting the Integrity Pact

In Indonesia, public expenditures are 30 to 40 percent of total national spending. Perhaps because of its importance, public procurement remains very vulnerable to corruption. The Indonesian Minister for State-Owned Enterprises estimates that 80 percent of corruption and fraud in state-owned companies has occurred in the area of public procurement. According to TI, the business sectors where the largest bribes are perceived to be paid are: Public works and construction (46 percent); arms and defence (38 percent); oil and gas (21 percent); finance (15 percent); and real estate (11 percent). Factors that may play a role in triggering public procurement corruption include the low income of public officials; the lack of an established system to eradicate corruption, collusion and nepotism; a cultural aspect, where civil servants are not afraid to be openly corrupt; and a lack of concern for and trust in law enforcement.

A national effort to reform the public procurement system, through the stipulation of a presidential decree, has contributed to more efficient state spending. It has also helped reduce the amount of unaccountable funds in the state budget and has significantly lowered costs. Furthermore, an interesting phenomenon is that many vendors have left business associations. Before the government applied the decree, these associations were often used as a means to lobby public officials to win a project.

Since its beginning, TI Indonesia has been advocating for the government to use the Integrity Pact concept to regulate public procurement. The concept of the Integrity Pact involves rights and obligations to the effect that neither side will pay, offer, demand or accept bribes of any sort, or collude with competitors to obtain the contract, or while carrying it out. It allows companies to refrain from bribing in the knowledge that their competitors are bound by the same rules and the assurance that the government agency will not request them either.

Since 2003, facilitated by Transparency International Indonesia, all relevant institutions and local public staff of the Solok Regency signed an Integrity Pact. Furthermore, the bidders in individual tenders sign the pact as part of the tender process. Assessments indicated the Integrity Pact appeared to have an impact on business competition in Solok. Within the bidding process itself, it seems the Integrity Pact implementation, and the administrative changes accompanying it, increase efficiency, particularly with regard to the number of required bureaucratic steps. Integrity Pacts also seem to be an effective way to reduce illegal payments. According to some, most bidders in Solok are now reluctant and even refuse to pay if they are asked for illegal payments.

There is increasing public awareness in Indonesia about the importance of better public procurement systems. Due to intense efforts from civil society and wide media coverage, corruption cases have been successfully uncovered. The Integrity Pact implementation in Solok has been successful in curbing corruption in public procurement. Therefore it should be maintained and further pursued to maximize impact. TI Indonesia finds that the knowledge of public officials on the content of the Integrity Pact needs to be 'refreshed' regularly through sensitization of all those involved, including police and prosecutors, to good public procurement processes aimed at reducing corruption needs to be sustainable.

The Pakistani approach to curbing corruption

Corruption can have many manifestations. In response to this, countries typically develop a complex set of institutions, laws and regulations to combat corruption. TI calls this a country's 'National Integrity System'. Since the year 2000 TI Pakistan has been working towards professionalizing the organizations and individuals responsible for procurement, through targeted capacity building activities. These activities contribute to strengthening systems, increasing transparency and tackling corruption.

In 2001, the government of Pakistan, on the advice of TI, initiated preparation of the National Anti-corruption Strategy, based on the idea that a country's National Integrity System rests on different 'pillars', for example key institutions, laws and practices that contribute to integrity, transparency and accountability. This collaboration resulted in a proposal focused on eliminating discretionary powers from the process of evaluating and awarding bids. At the time of the development of the proposal, Pakistan was found to have more than 27 different procurement procedures, leading to using discretion to conduct procurement. Use of discretion provides opportunities for corruption. This principle was finally incorporated in the 2004 national Public Procurement Rules, which included most of the steps of TI's Integrity Pact.

TI Pakistan has experience and expertise in promoting practical ways of enhancing transparency in public contracting, mainly through TI's Integrity Pact and a Memoranda of Understanding with government agencies. An example of these activities is the promotion of the Integrity Pact for the K-III Greater Karachi Water Supply Scheme. TI Pakistan closely monitored the application during the first phase, the tender process for the selection of consultants for design and supervision of the project. The tender process for contractors was completed in September 2003 and all major construction contracts were awarded with a net saving compared to what had been previously estimated. The project was also completed ahead of schedule.

The case of the K-III project shows the potential monetary benefits of transparency in government procurement and, more specifically, the success that can be achieved by the application of an Integrity Pact. The K-III project has become an international model of transparent procurement procedures, explicitly highlighted by the Working Party of the Trade Committee of the OECD on transparency in government procurement as an example of cost-savings under transparent procurement systems.

Community based procurement

A value for money analysis in select World Bank projects

World Bank



The South Asia Regional Procurement Services Section of the World Bank undertook value for money analysis of community based procurement in 2009 for selected projects assisted by the World Bank in India. This research program was supported by the Norwegian Governance Trust Fund on 'Procurement and Service Delivery: Monitoring Procurement Outcomes'. The research was carried out in Community Driven Development projects focusing on livelihoods development in the states of Andhra Pradesh (Andhra Pradesh Indira Kranthi Pratham), Madhya Pradesh (MP District Poverty Initiatives Project) and Tamil Nadu (Tamil Nadu Vazhndhu Kaattuvom Project) and the Local Self Government program of the Government of Kerala in India.

The research program was implemented by the Procurement Unit of the New Delhi office and was led by A. K. Kalesh Kumar, Senior Procurement Specialist. The team consisted of freelance consultants Shweta Rajwade, Julian Boyle, Siddharth Dasgupta and Payal Malik Madan, Program Assistant. The findings, interpretations, and conclusions expressed in this report are entirely those of the authors.



Community based procurement is built into 22 of the World Bank's current projects in India.

Community based procurement in selected projects in India

In the current World Bank portfolio of projects in India, there are 22 projects that have community based procurement built into their design. These are all community-driven development (CDD) projects – meaning control of decisions and resources is given to community groups. While standard procurement structures view informal networks as unreliable, it is also possible that a one size fits all approach does not work and informal processes can succeed where formal standards of procurement are not fully met.

This study aims to substantiate whether or not community based procurement results in value for money in a fair and transparent manner, focusing on the following key questions:

- Value for money - Is community based procurement more economical for project implementation?
- Sustainability - Is there evidence of better operation and maintenance of items and services created through community based procurement?
- Participation - What is the extent of community participation in community based procurement?
- Enabling factors - What are the facilitating processes and environmental factors that positively influence the outcomes in community based procurement?

Researching community based procurement outcomes

The study reviewed community based procurement practices in 84 completed community-driven development sub-projects and local government contracts in India. The methodology developed for this study was driven largely by the objective of improving the understanding of community based procurement by assessing the major components of procurement listed above. The study group employed a combination of semi-structured interviews, performance rating tools, focus group discussions, in-depth interviews and secondary reviews. To measure performance, the chosen sub-projects were compared with the conventional procurement system. The steps of conventional procurement cycle: need identification, planning and scheduling procurement, developing specifications, market search, tendering, tender

opening, evaluation, award process and contract management were rated in all sub-projects reviewed. From the data collected and analysed on a 1 to 5 rating scale, it is possible to draw the following conclusions:

1. Communities excel in identifying needs and in the planning stages.
2. Performance in terms of technical procedures of conventional procurement cycle (market search for bidders, tendering, tender opening and evaluation) was poor.
3. Despite poor performance in the technical stages, outcomes were good and high scores were seen for completion and project implementation (refer to Figure Two below).

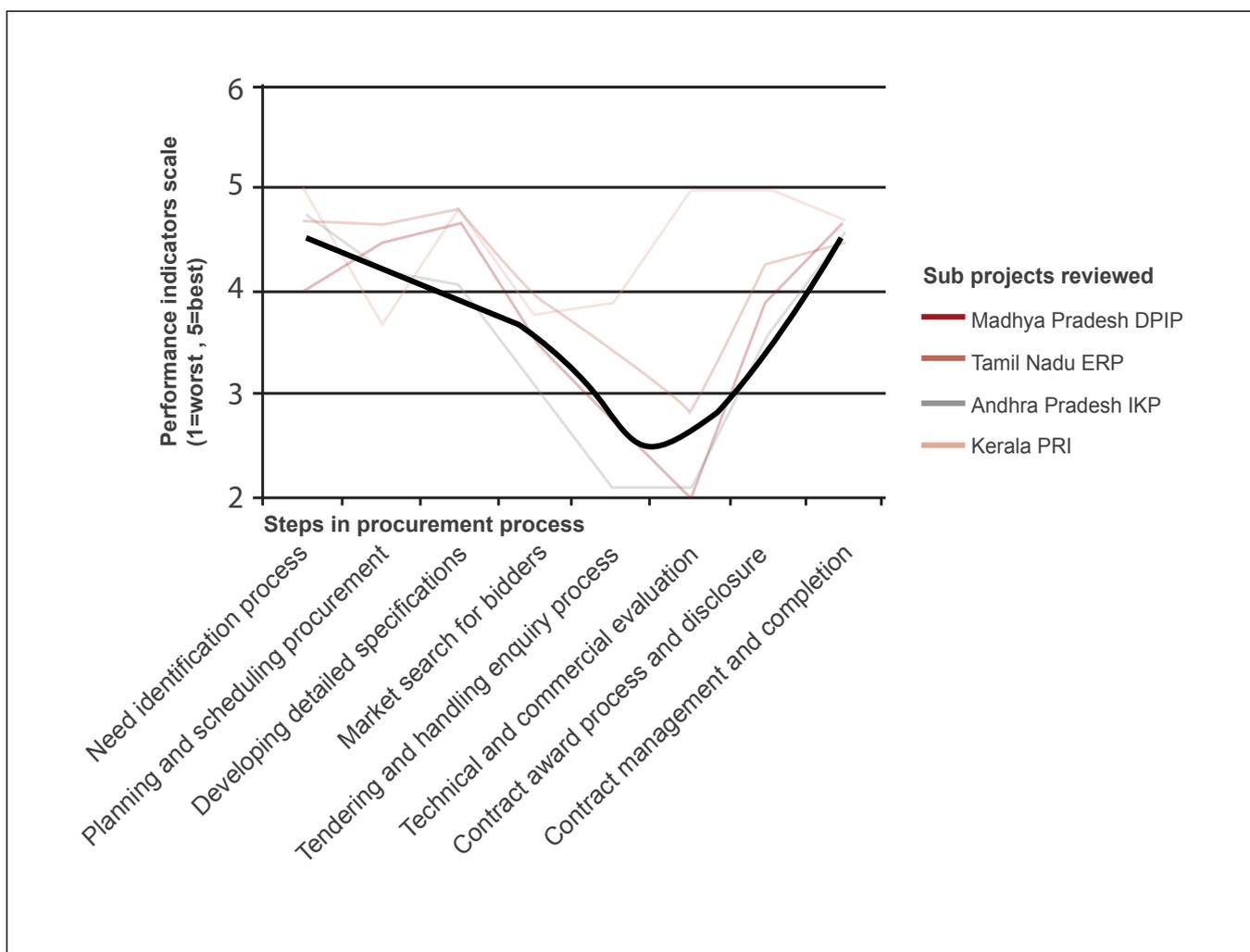


Figure Two: Performance levels in sub-projects reviewed during the procurement process. The black U shaped curve emerging from the analysis indicates that despite the failures in technical aspects, community based procurement outcomes received good reviews.

Relationship based procurement

It can be concluded that despite the technical failures, community based procurement can deliver desired outcomes. This apparent dichotomy can be explained with the practice of relationship based procurement, where communities establish a mutually beneficial and accountable commercial relationship between the purchaser and the supplier, even as they compromise on a few technical aspects of the procurement cycle. Given the faith based social fabric in rural areas, it is not difficult to conclude that community based procurement hinges on their informal relations to the suppliers to arrive at cost effective solutions. This relationship based procurement improves outcomes through a significant reduction in costs, and contributes to the sustainability of public assets.

Value for money (economy) and efficiency

The prescribed steps of the traditional procurement chain are expected to lead to economy and efficiency. The study found that, despite compromising formal controls, innovative systems of procurement and financial management by communities are leading to value for money and efficiency. An analysis of 47 construction works shows that absolute savings in money are achieved when beneficiaries carry out the procurement and implementation of works. The savings range from 12 percent to 56 percent, as observed in the Table Two below.

In addition to cost savings, significant time savings were found across the projects. This can be attributed to the elimination of excess supervision and verification of sub-projects, and the establishment of smooth fund flow arrangements.

Quality and sustainability

The results of the analysis show that the structures built in the sub-projects are functional with no reported flaws or repairs since their construction three to five years ago. When vital needs were met by a sub-project, the community felt responsible for its upkeep and maintenance. The community took pride in the completed sub-projects, taking on the operation and maintenance of the asset in an organized manner. The consensus approach, involvement and community monitoring ensured that the created resources were utilized well; with reductions in abuse.

Enabling factors for producing good community procurement

The study highlights that good outcomes from community based procurement are underpinned by high levels of participation and inclusion. Positive targeting of beneficiaries ensured a more or less cohesive group that worked collectively in planning and decision making. When the study examined the level of governance and accountability,

TYPES OF SUB-PROJECT ACTIVITIES	SAVINGS RANGE IN PERCENT TO ORIGINAL ESTIMATE	AVERAGE TIME IN MONTHS
Village electrification works	16 to 17	4
Activities such as lift irrigation, well excavation, and hand pumps	48 to 56	3 to 6
Road construction	13 to 25	6
Construction of buildings and walls for projects such as schools and community halls.	18 to 48	6
Stop dams and causeways	14 to 33	3 to 6
Drinking water infrastructure	12 to 29	6 to 8
Drainage systems	31 to 33	6

Table Two: Value for money in selected sub-projects, from an analysis of 47 construction works where beneficiaries carried out the procurement and implementation of works. Absolute savings in money between 12 and 56 percent were achieved.

the results suggested well-managed, transparent and fair processes in sub-project implementation. The results of the evaluation gave emphasis to participation, use of local language, electing sub-project management committees, public announcements, information display and audits of community organizations. The study found that community groups are widely accepted as reliable in the delivery of goods, works and services. Furthermore, participatory identification of common needs, community monitoring and supervision and ownership brings a sense of responsibility to ensure transparency and fairness.

Conclusions and way forward

The study confirms that when people are allowed to plan, implement and monitor needs that are close to their livelihoods, there are significant savings in cost, improvements in quality, and built-in operation and maintenance. These outcomes are achieved despite deviations from the standards of a technically sound procurement cycle.

The study also highlighted a number of critical factors for ensuring good community procurement and success in sub-projects. These include choosing a good facilitation team, intensive capacity building of the beneficiaries through skill training on bookkeeping, and consensual decision making. Also important are the use of participatory tools in target group identification and need prioritization.

The factors that have led to achieving value for money despite the technical failure narrated above, point to the need for innovative approaches like relationship based procurement rather than a procedures-led approach. The focus should be on the process itself, especially need identification, building

participation, open and transparent management, rather than exclusively on inflexible procedures. Conventionally, relationship based procurement systems grounded in family and kinship arrangements could align with elite capture and nepotism, however the sub-projects reviewed reflect that, in a rural context, if the institutional structures are in place and the group that seeks accountability is defined by a common need, this can lead to better outcomes.

Further thinking for developing a relationship based framework for community procurement in community-driven development projects could be based on the following:

- Facilitation, training and implementation to build social capital at the group and village level.
- Some processes or standards are imperative to protect communities from fraud; however processes should not be imposed as long as the objectives are met; instead these should be adapted to suit communities.
- Institution building, to create strong community organizations, is a prerequisite.
- Operational guidelines should be developed by the groups, to ensure that they are owned by the group and local social and cultural values are integrated.
- Social accountability committees and procurement committees, as part of the village level organizations, can help create peer pressure and ensure accountability.
- Relationship based procurement and similar approaches have a high likelihood of success in rural projects.

Buying food in new ways

The World Food Programme's Purchase for Progress

World Food Programme

The World Food Programme (WFP) is the world's largest humanitarian agency fighting hunger worldwide. Each year, on average, WFP feeds more than 90 million people in more than 70 countries. Since it was founded in 1963, WFP has fed more than 1.6 billion of the world's poorest people, and invested almost US\$42 billion in development and emergency relief. WFP is also the UN logistics lifeline, saving lives through fast, efficient and effective emergency response. At any given time, WFP has 30 ships at sea, 70 aircraft in the sky and 5,000 trucks on the ground, moving food and other assistance to where it is needed most.

Funded entirely by voluntary contributions, WFP's has five objectives:

1. Save lives and protect livelihoods in emergencies
2. Prepare for emergencies
3. Restore and rebuild lives after emergencies
4. Reduce chronic hunger and undernutrition everywhere
5. Strengthen the capacity of countries to reduce hunger.



Connecting farmers to the market

The United Nations World Food Programme (WFP) has been buying food in developing countries for many years. Now it is taking that one step further. WFP is using its purchasing power to support the sustainable development of food security. It does so to offer smallholder farmers opportunities to access agricultural markets, to become competitive players in those markets and thus to improve their lives.

In 2008 WFP launched a five-year pilot programme in 21 countries in Africa, Asia and Latin America to connect small-scale farmers to markets in line with this new strategy. This effort is known as 'Purchase for Progress' or P4P. Through P4P, WFP is expanding its food procurement activities in support of local markets, to support sustainable crop production and help address the root causes of hunger. WFP will purchase more food from small-scale/low-income farmers, helping reduce the risks farmers face from uncertain markets, as well as boosting incomes and encouraging investment to increase and improve production.

The vision behind P4P is to develop agricultural markets so that by 2013 at least 500,000 smallholder farmers - the

majority of whom are women - will produce surpluses of food and sell them at a fair price to earn better incomes. With increased incomes, education, sanitation and health services would become more accessible to these farmers and their families.

In 2009, some 80 percent of food purchased by WFP - for about USD 771 million - was procured in 75 developing countries.

Buying food in new ways

WFP usually buys food commodities through large competitive tenders. With P4P, it is trying other procurement methods more suited to the reality of small scale farmers:

- **Adjusting tendering processes by:**
 - reducing the quantities involved
 - removing the need for guarantee bonds
 - providing WFP bags (as bagging facilities are scarce in remote areas)

- **Direct contracting with farmers' organizations** – almost 50 percent of the food contracted so far in P4P has been done this way.
- **Forward contracting** – which commits WFP to buy a food commodity in the future at an agreed price
- **Commodity exchanges** – In Zambia, WFP is trying a specific form of competitive purchase through the emerging commodity exchange ZAMACE, which serves as a platform for farmers to trade their produce. Overall, 88 percent of the food purchased through P4P in Zambia, was bought via ZAMACE.
- In Uganda, WFP purchases food through the **Warehouse Receipt System** which allows farmers to deposit their harvest, receive a cash voucher worth 60 percent of the value and collect the remainder once the product is sold.

Since P4P's launch in September 2008, WFP has contracted over 55,000 metric tons of food through P4P in 17 countries – including in Sierra Leone and Liberia, two post-conflict countries where WFP had never been able to buy food before. WFP has identified 600 farmers' organizations (representing almost 760,000 farmers) to be involved in P4P — 100 of which have already sold food commodities to WFP. The programme has also trained 25,000 people in skills including organization management, farming techniques, quality control and post harvest handling. Seven hundred WFP and partner staff members were also trained. Working relationships specific to P4P have been established with approximately 100 different partners including government ministries and other agencies, UN agencies and local and international non-governmental organizations.

Pro-smallholder competitive practices in Mali

In Mali, P4P partner Afrique Verte works with farmers' and women's organizations to teach fundamental market skills, including quality and packaging standards and the relevance of on time deliveries. Afrique Verte educates farmers about how the market works to ensure their sustainable integration into the economy. As a result, in 2009, one of the farmers' organizations, Faso Jigi, was able to win a competitive tender to supply 600 metric tons of cereals to WFP.

New market outlets in Liberia

In Liberia, the Purchase for Progress programme provided four semi-industrial rice milling machines in three different counties (Lofa, Nimba and Bong) to improve the efficiency of farmers' groups in rice processing. These machines will also help them meet higher quality standards that are required by

buyers such as WFP. As part of the initiative, farmers are also receiving training on rice parboiling - a process that simplifies hand processing and infuses the grain with nutrients. The main incentive for farmers to improve their standards of quality was access to a brand new market: the WFP demand for rice to distribute through its assistance programmes in the country. In 2010, WFP plans to significantly increase the purchase of rice produced in Liberia. The average USD 30 paid for 50 kilograms of milled rice is an important income for families that would otherwise not be able to sell their produce.



Members of farmers' organization El Pesote grow maize that is sold to WFP as part of the Purchase for Progress programme in El Salvador.

Net profit for P4P farmers in El Salvador

Adilio Jesus is a member of a farmers' organization called El Pesote. Through P4P, he sold almost 4 metric tons (80 quintals) of maize to WFP. If he had sold his crops to the regular traders that go to his village at the harvest he would have made just enough to cover his production costs. Instead, by selling to WFP he made a USD 500 net profit. According to Adilio Jesus, "This project makes it worth doing what I like to do, farming. We work hard but we are rewarded for our work". Encouraged by this success, Adilio is planning to rent additional land for next agricultural season and his association is negotiating a loan to expand their warehouse and infrastructure to be able to serve their members.

Raising quality standards in Kenya

In 2009, WFP wanted to buy maize from the Koptegei Widows Group, an association of 87 women widowed by ethnic violence or AIDS in the Transmara region of Kenya. As most of them were illiterate, they were unable to participate in a regular tender to sell crops to WFP. Instead the agency negotiated directly with them on a contract for 250 metric tons of maize.

Through the Purchase for Progress programme, the group was trained in quality control, food storage and handling, and basic warehouse management. They also borrowed equipment – temporary warehouses, tarpaulins, weigh scales, stitching machines and a generator. Equity Bank provided the farmers with small loans at preferential rates to buy seeds and fertilizers. The group managed to deliver 150 metric tons on that first contract. WFP paid them through a ‘fast-track’ payment process to allow them to purchase seeds and fertilizers for the next season without obtaining loans.

This year, the Koptegei Widows Group was able to participate in a WFP tender for 1019 metric tonnes of maize. Contracts were awarded to them and to another eight organizations that had been inspired by their experience. All commitments were met and delivered on time. The farmers used the profits from their sales of maize to WFP to pay school fees for their children and lease more land to cultivate maize.

The way forward: learning and sharing

With the Purchase for Progress programme, WFP is identifying solutions that are country specific and help develop secure markets for small-scale farmers.

WFP has established many ways to capture and share valuable information from P4P. First is a comprehensive monitoring and evaluation system that analyzes data on farmers’ organizations, smallholder farmers and traders. Annual surveys and periodic case studies provide a detailed understanding of how P4P is affecting these groups.

A technical review panel composed of independent experts was established to provide guidance on critical issues for the implementation of P4P. Furthermore, WFP will conduct regular reviews to examine the progress of the project, and identify best practices. These will be mainstreamed into WFP’s long-term policies and programme practices.

The lessons drawn will be shared with national governments and other public and private sector players in the agricultural sector to serve as a model.



The Koptegei Widows Group, an association of 87 women widowed by ethnic violence or AIDS in Kenya. The group was trained in food production management and were lent equipment such as temporary warehouses, weigh scales and tarpaulins as part of the P4P programme.

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