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Public Procurement: The Achilles Heel of Good Governance

Jeffrey Gutman
Brookings Institution

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BROOKINGS

QUALITY. INDEPENDENCE. IMPACT.

Public Procurement: The Achilles' Heel of Good Governance

Jeff Gutman

Senior Fellow

Brookings Institution

April 15, 2015

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.

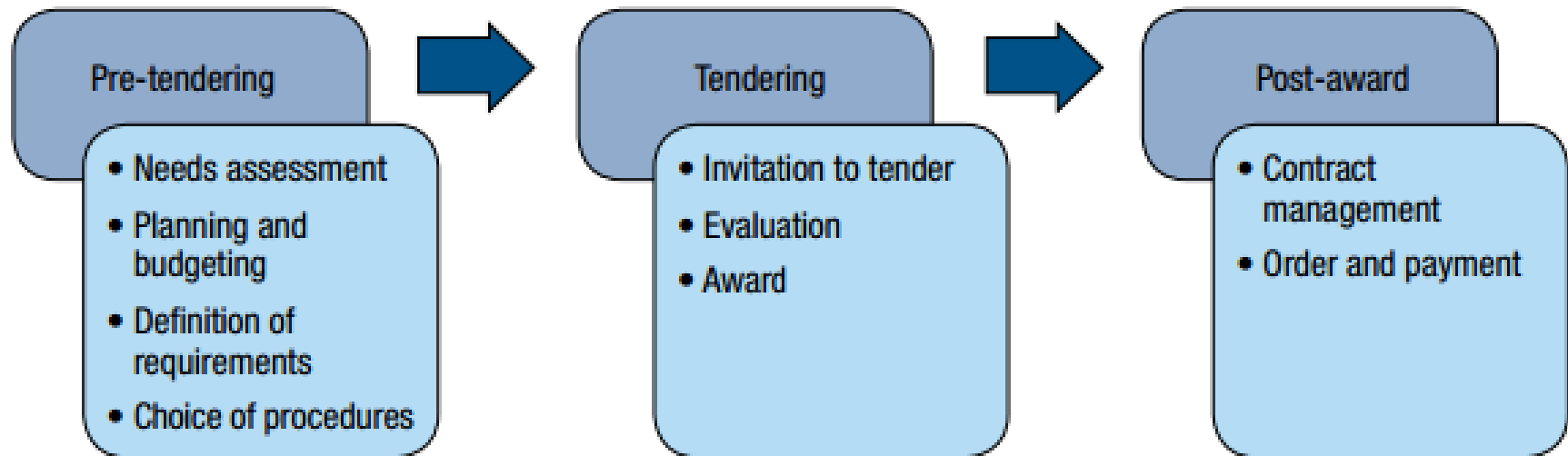
BACKGROUND

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



Source: OECD

“We are all procurement experts.”

PROCUREMENT AND AID FINANCING

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

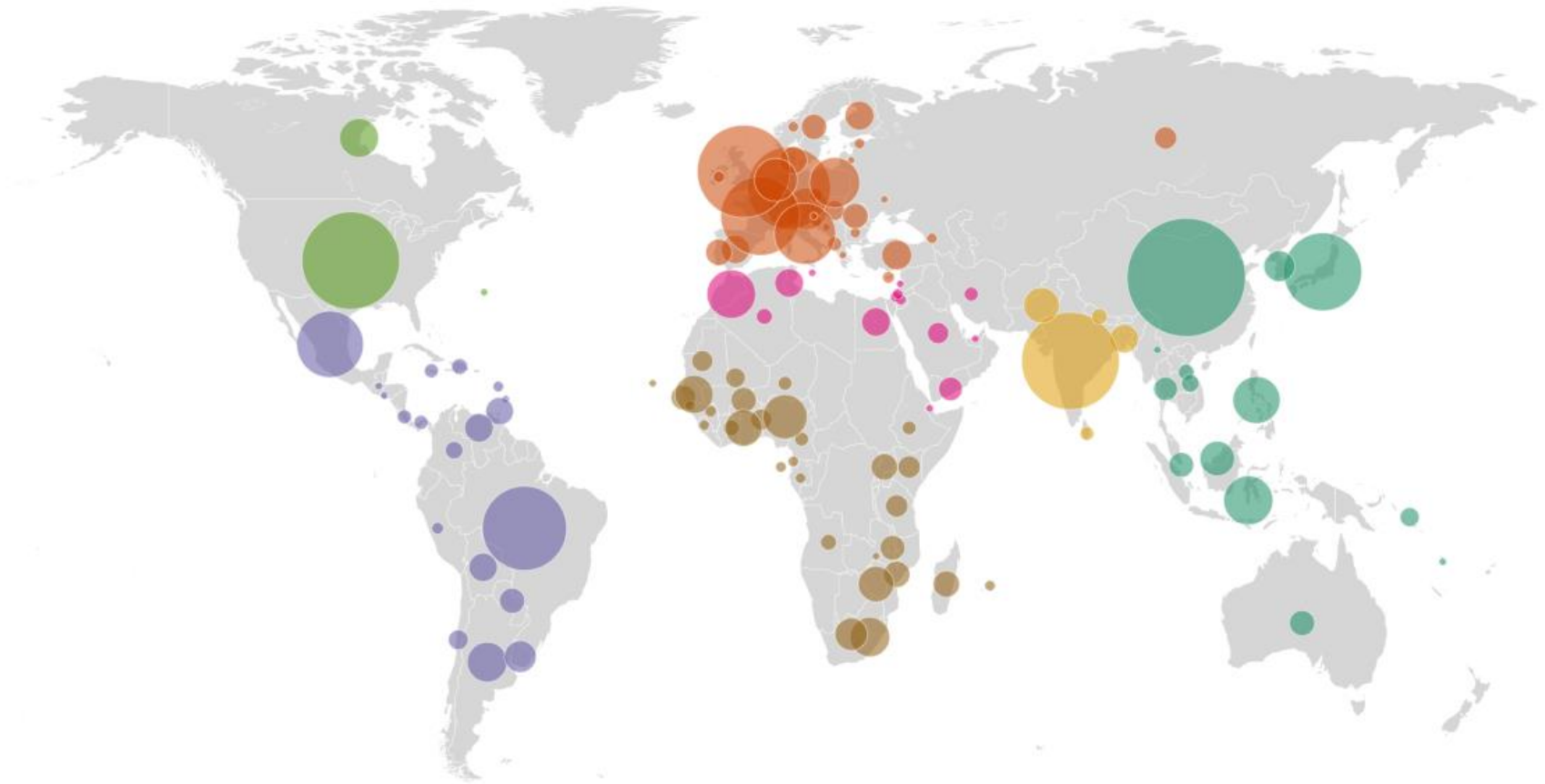
Procurement and Aid Financing

- Development of a worldwide competitive market

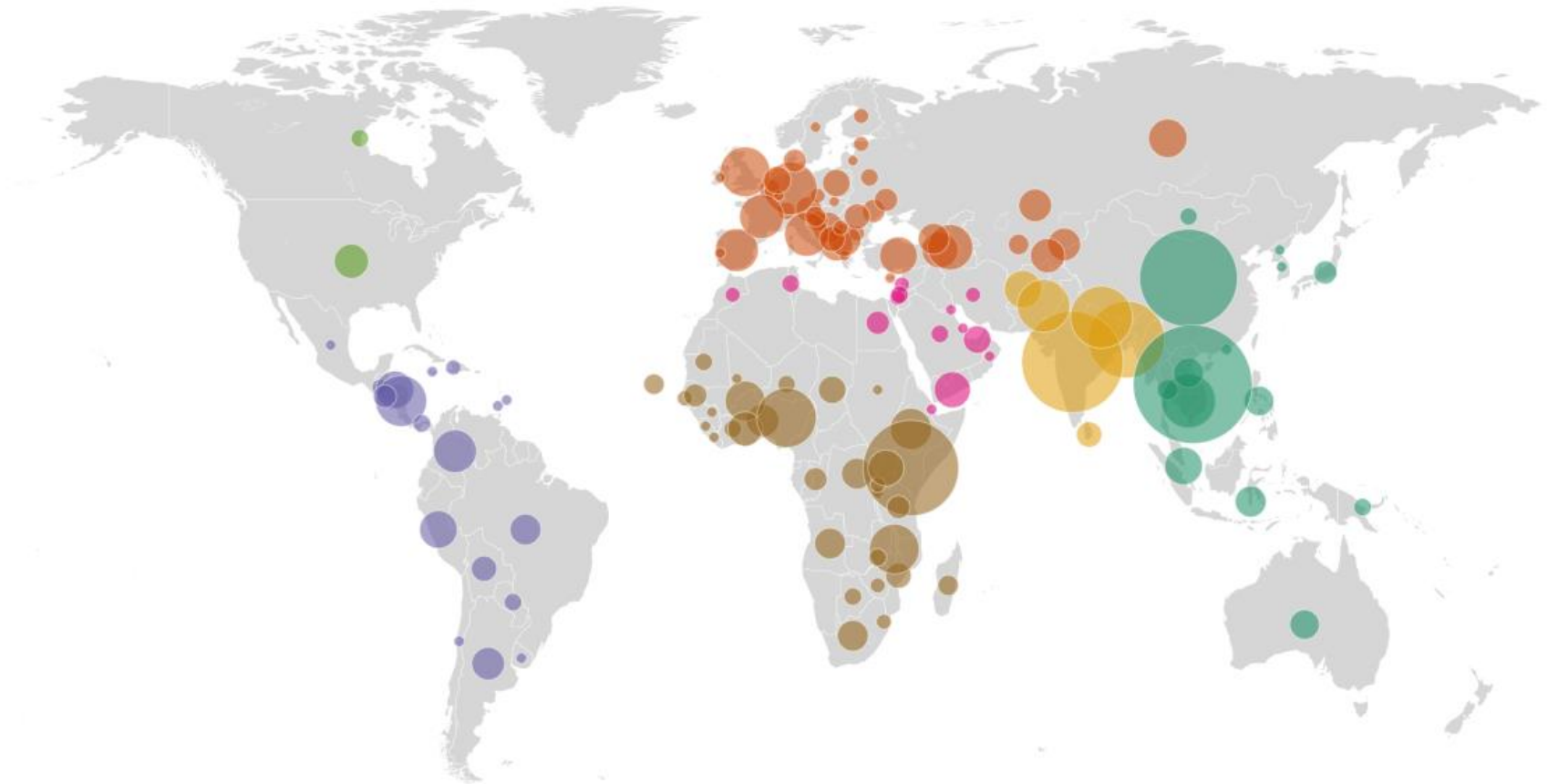
Top 10 Suppliers for Foreign Procurement (by value of contracts)

1980s	1995	2005	2013
United States	United States	China	China
Japan	Japan	France	Italy
Germany	Italy	Germany	Spain
United Kingdom	Germany	United Kingdom	India
France	France	Spain	France
Italy	China	Saudi Arabia	United States
Switzerland	United Kingdom	Austria	Denmark
Canada	Korea, Rep.	India	Turkey
Netherlands	Spain	Singapore	Venezuela, RB
Korea, Rep.	Norway	Malaysia	Sweden

of ICB Contracts by Supplier Country 1995



of Contracts by Supplier Country 2013



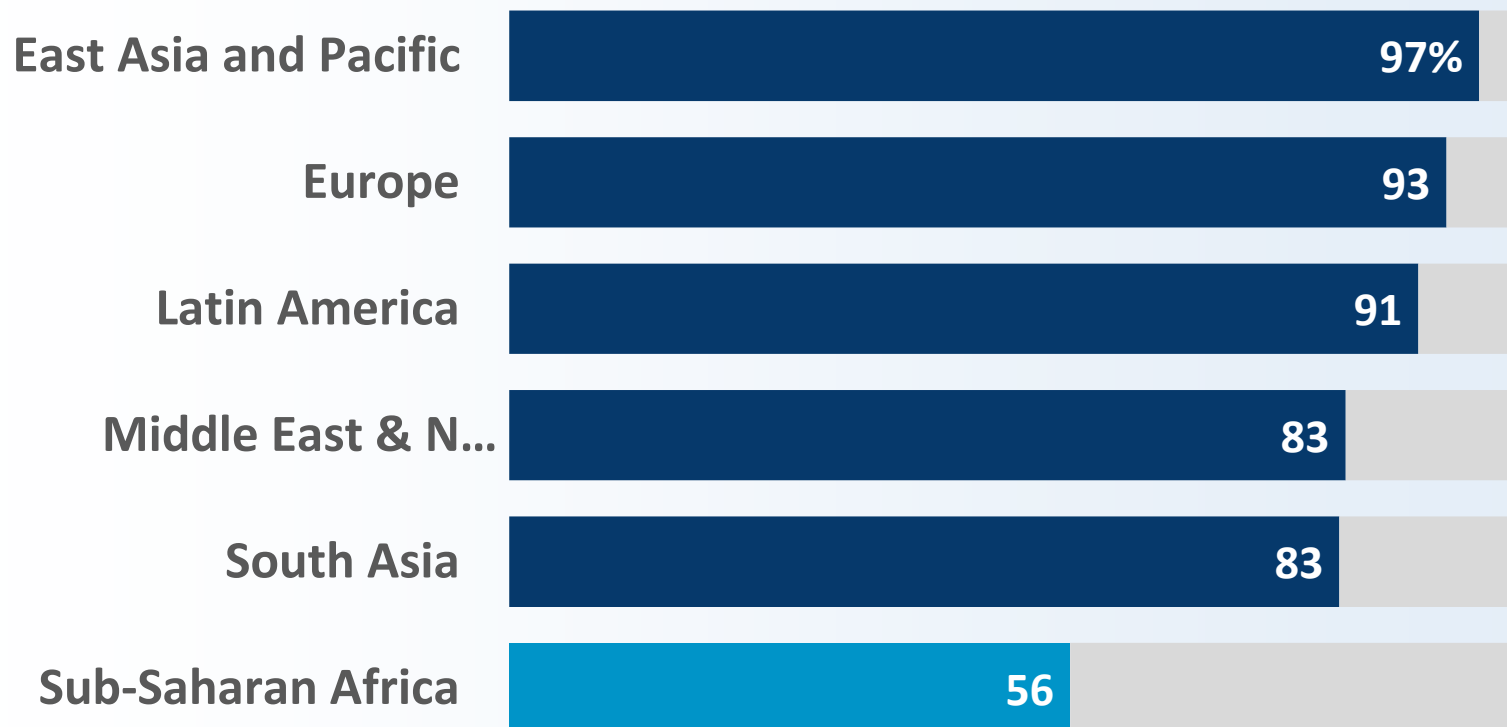
Procurement and Aid Financing Impact on Local Industry

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



THE COMPLIANCE VERSUS DISCRETION DEBATE

The Compliance v. Discretion Debate

Stylized Formula

$$\mathbf{C = M + D - A}$$

C: Corruption

M: Monopoly

D: Discretion

A: Accountability

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

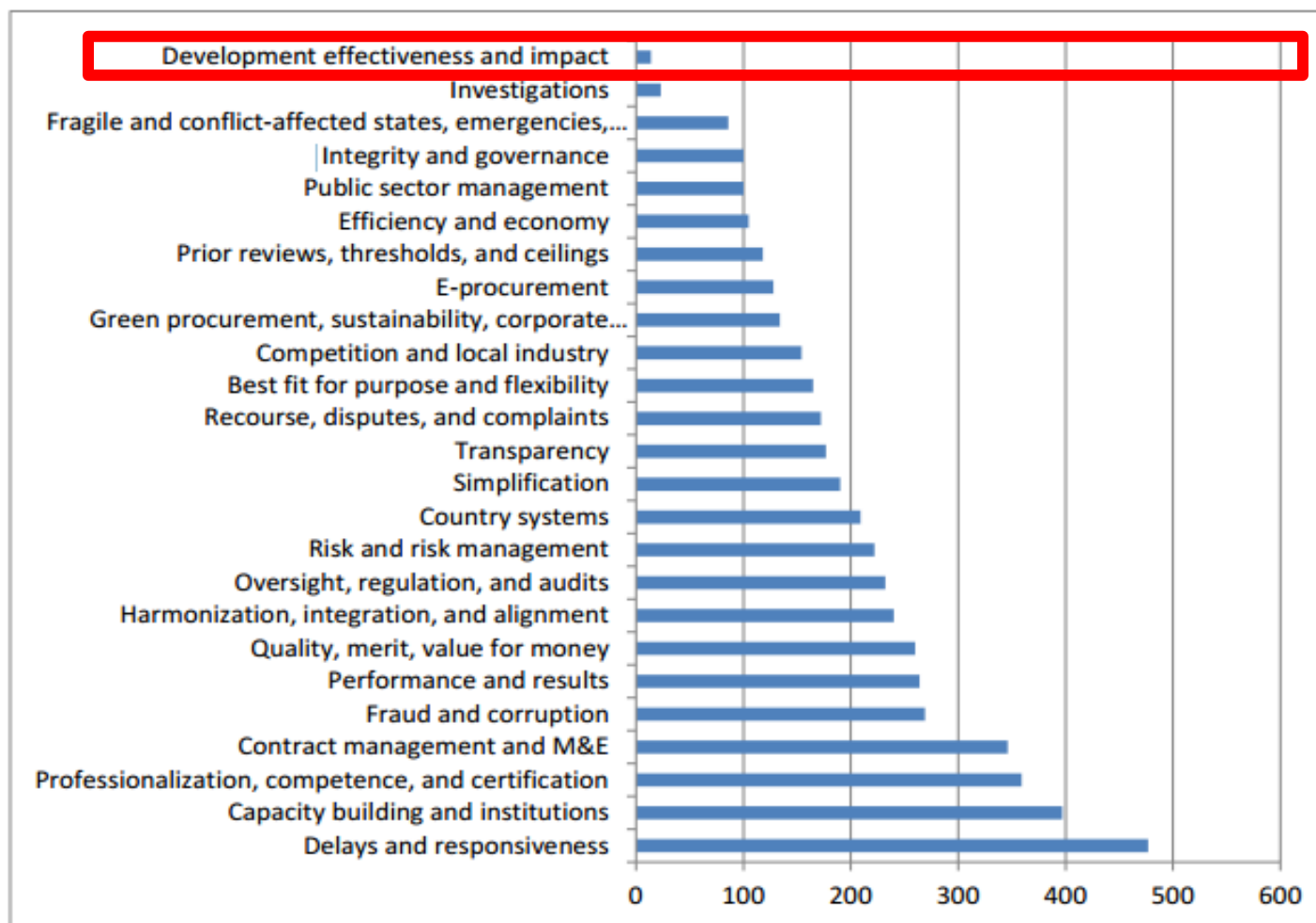
TOWARDS A PRACTICAL RESOLUTION

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

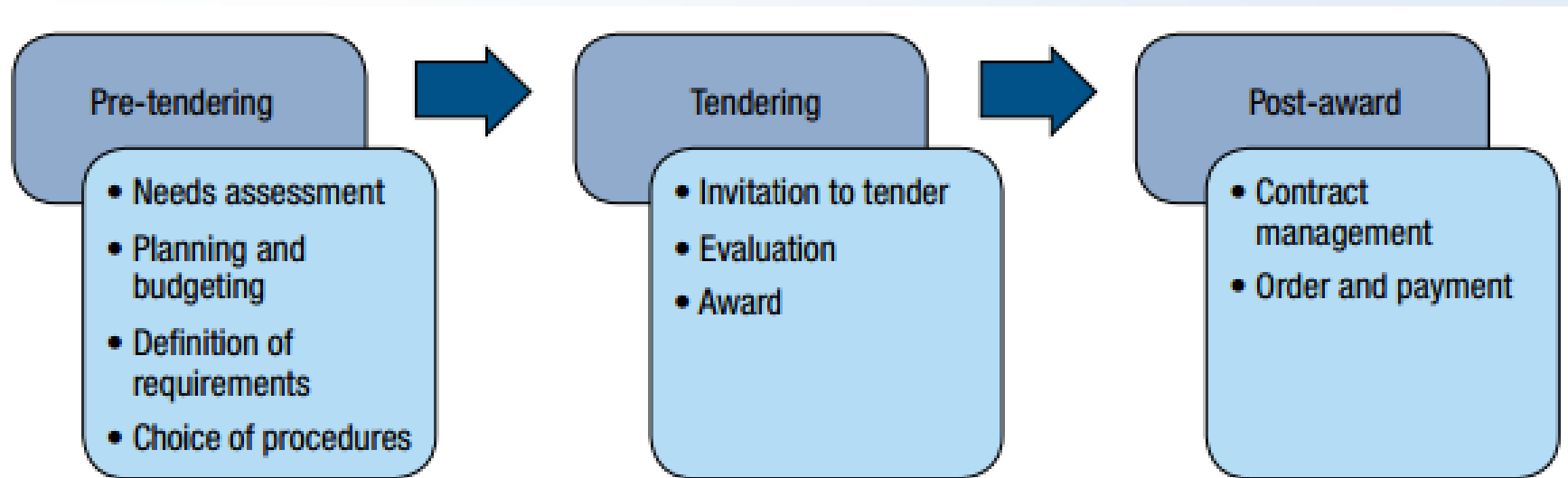


Towards a Practical Resolution

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



Source: OECD

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
- 3. Looking at the whole procurement cycle and the Klitgaard corruption model, identify the risks of each stage**

$$C = M + D - A$$

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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
3. Looking at the whole procurement cycle and the Klitgaard corruption model, identify the risks of each stage
- 4. 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