

BROOKINGS

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# 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.

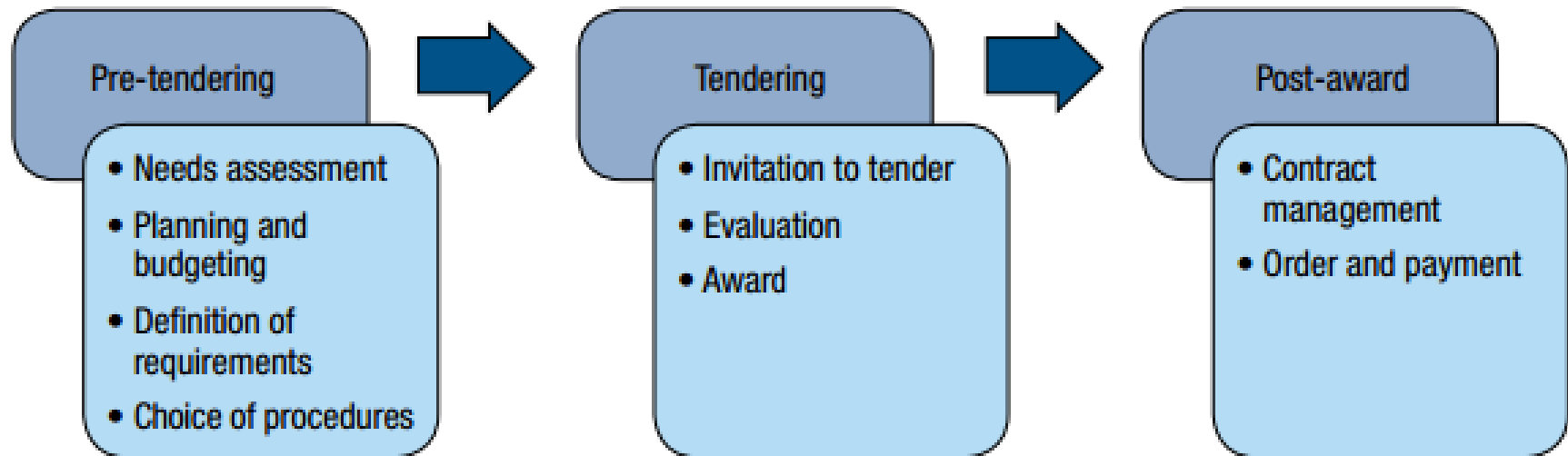
# BACKGROUND

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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



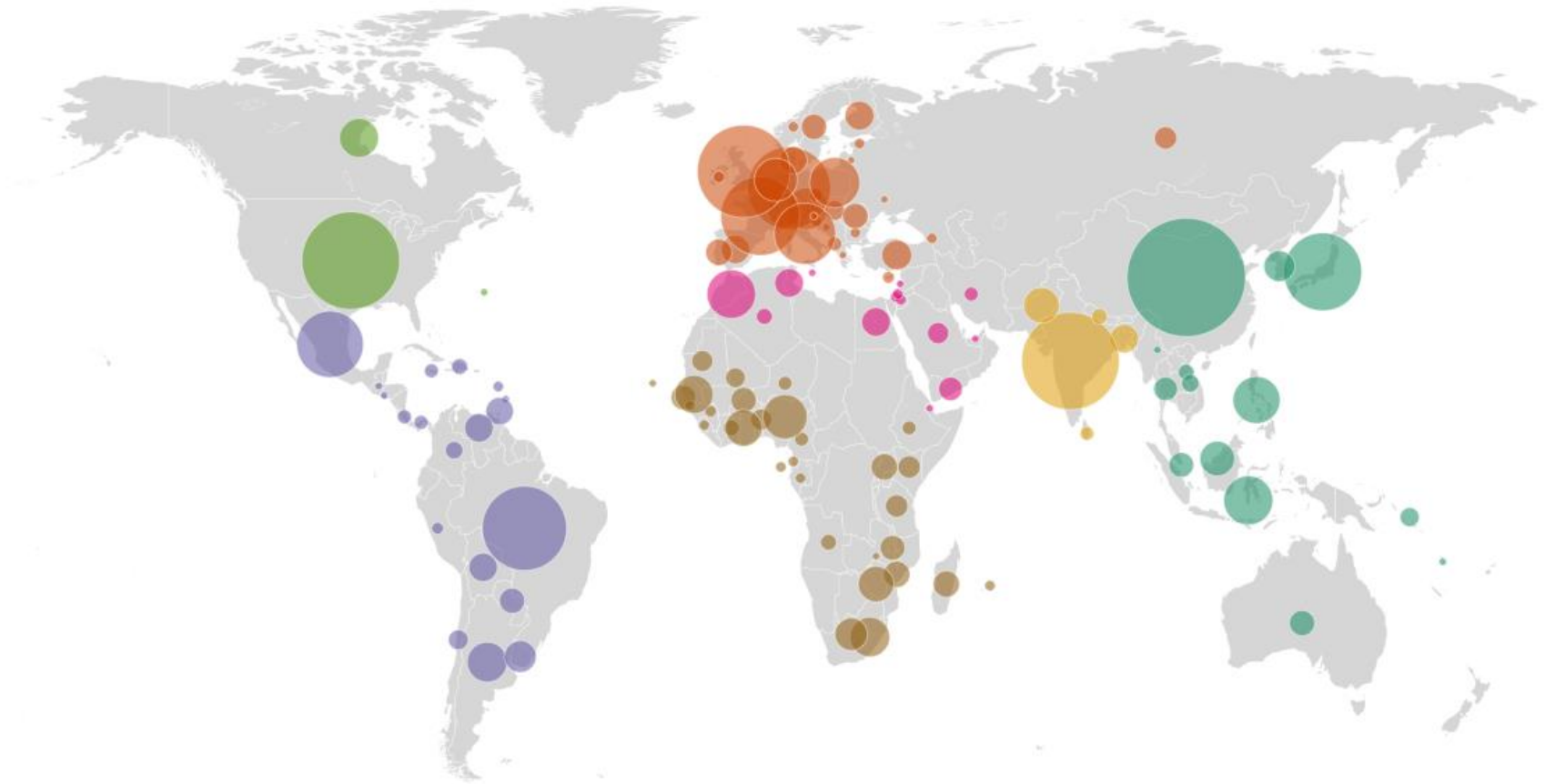
# Procurement and Aid Financing

- Development of a worldwide competitive market

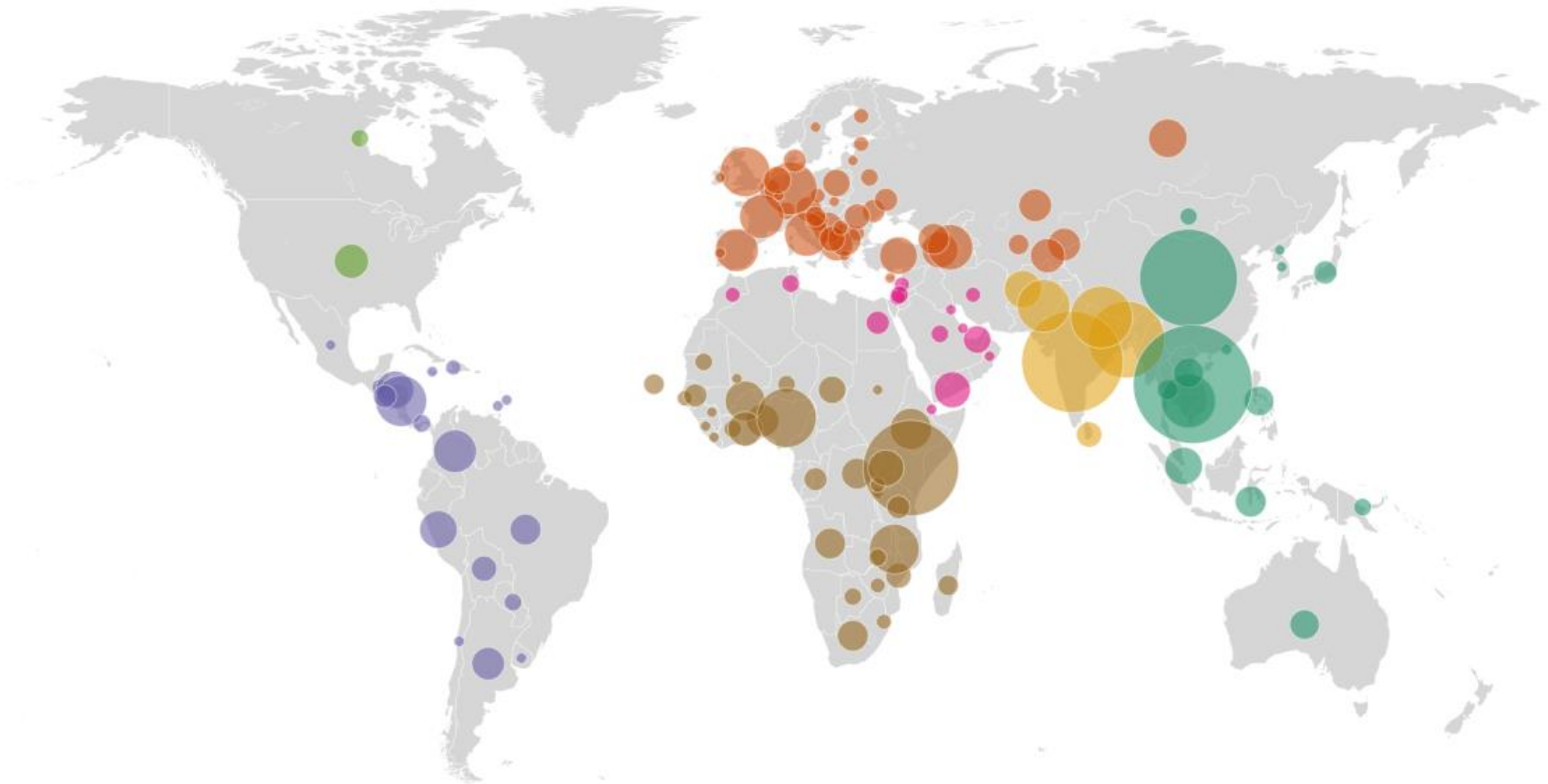
# Top 10 Suppliers for Foreign Procurement (by value of contracts)

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

## # of ICB Contracts by Supplier Country 1995



## # of Contracts by Supplier Country 2013



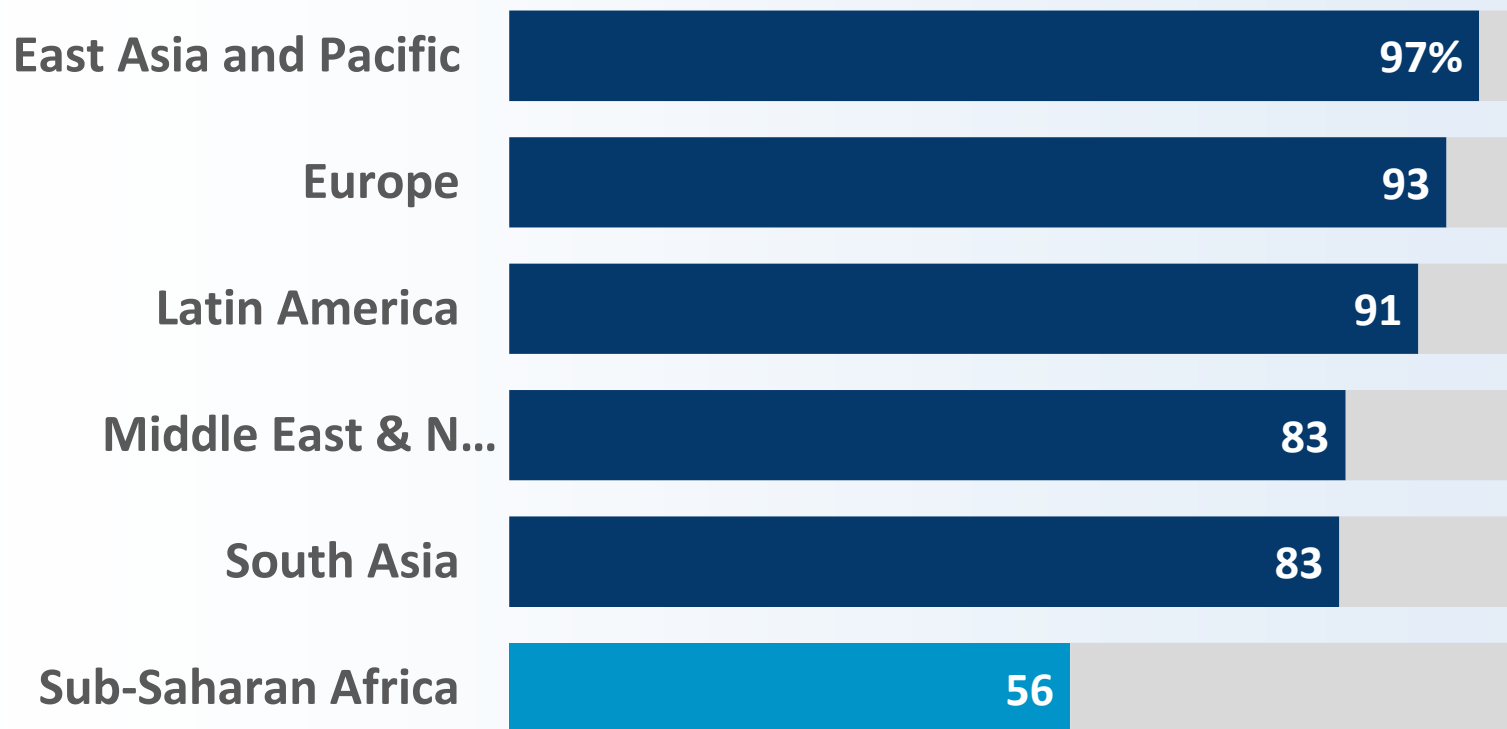
# Procurement and Aid Financing Impact on Local Industry

## 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

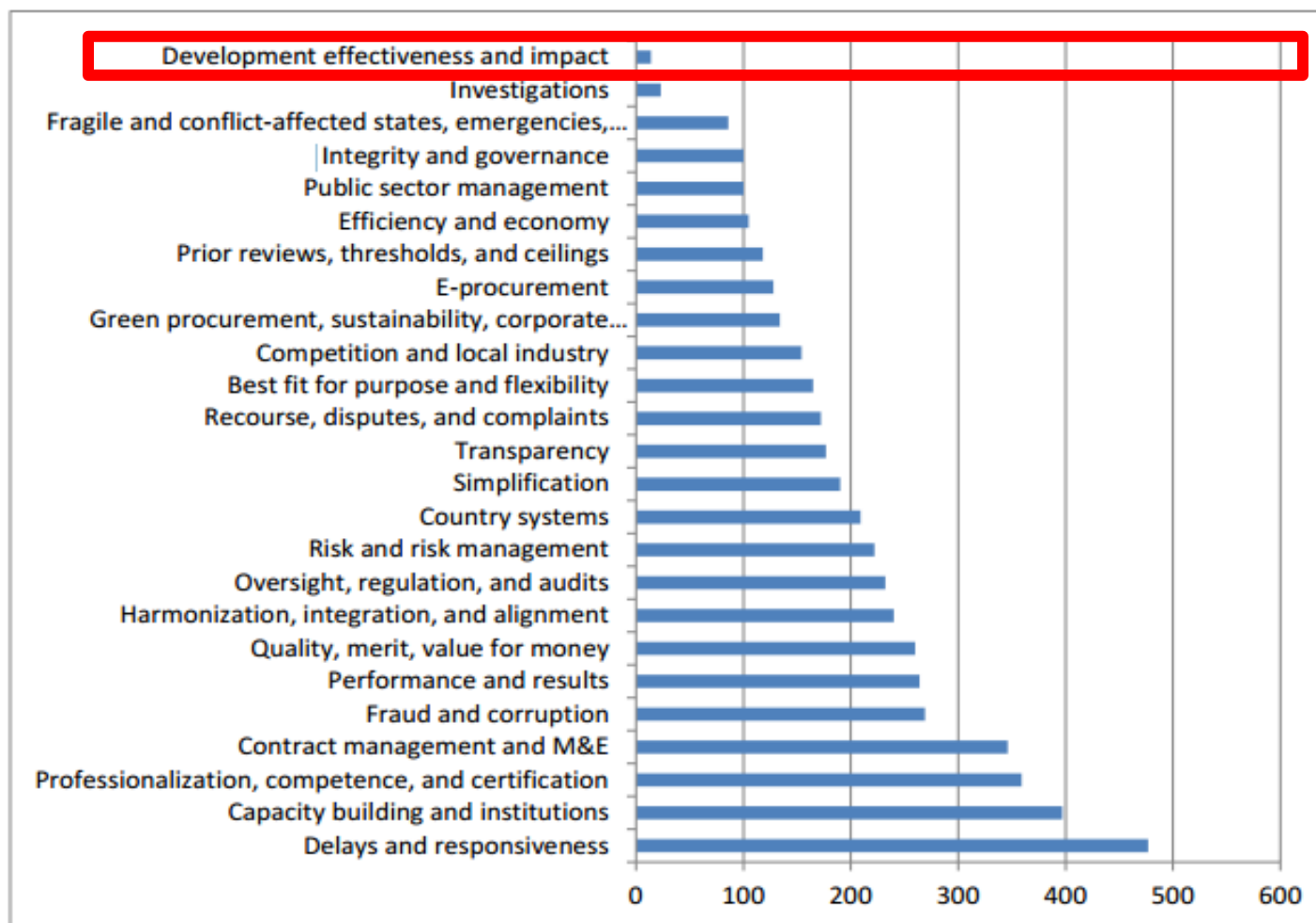
# **TOWARDS A PRACTICAL RESOLUTION**

# 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

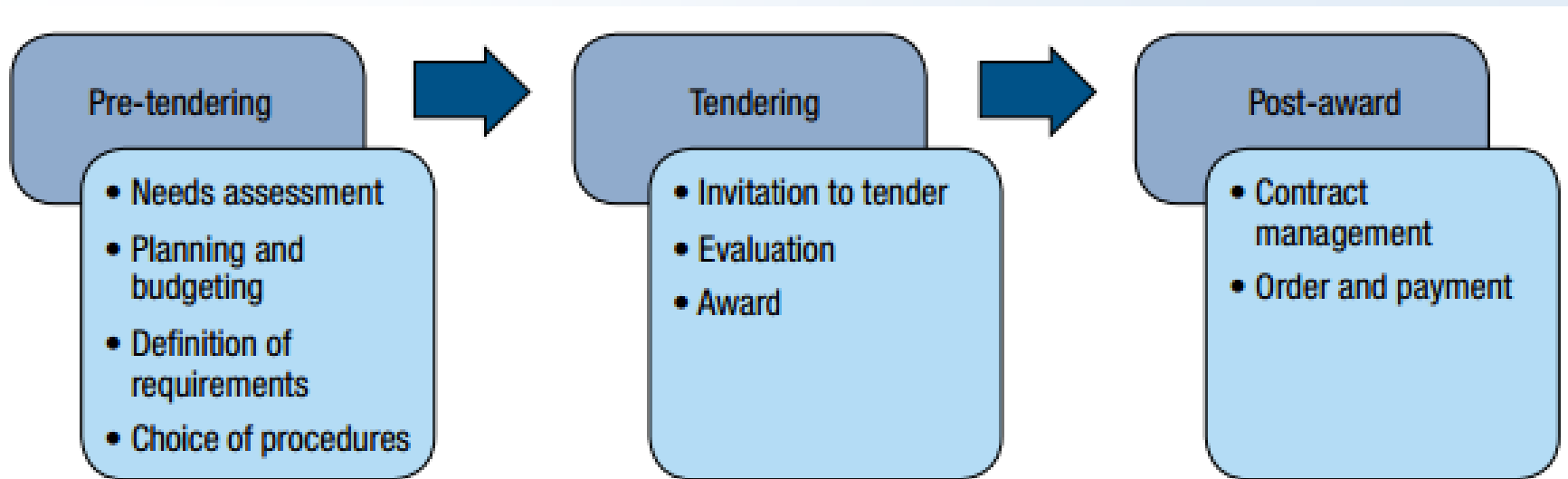


# Towards a Practical Resolution

## 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

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



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# Towards a Practical Resolution

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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