



**STRENGTHENING PROCUREMENT
CAPACITIES IN DEVELOPING
COUNTRIES**

**OECD/DAC – WORLD BANK
ROUNDTABLE**

Paris, 22-23 January 2003

**INTERNATIONAL BENCHMARKS AND STANDARDS FOR PUBLIC
PROCUREMENT SYSTEMS**

Session 2 : Priorities, benchmarks and Standards for Good Procurement

International Benchmarks and Standards for Public Procurement Systems

I. Introduction

1. The purpose of this note is to introduce a new initiative and identify the operational challenges of moving forward to work with our client countries and with bilateral and multilateral donor partners in developing a system of benchmarks and standards for performance measurement of Public Procurement Systems. This note is closely linked with a second initiative on monitoring and evaluation, also to be discussed at an OECD/DAC and World Bank sponsored Roundtable. Over time, the two initiatives will converge, providing client countries with:

- (i) tools and information for performance measurement that will enable the mapping of a system against agreed benchmarks and standards;
- (ii) the tracking of progress in performance of the system through the use of monitoring and evaluation tools; and
- (iii) the development of comprehensive capacity building support to strengthen their procurement systems.

2. Efforts have been underway since the 1980's in many countries worldwide to develop well functioning public procurement systems in order to increase the effective use of public funds to achieve a range of governmental and developmental objectives. New instruments were created to facilitate the development of public procurement systems, including a model law on procurement produced by the UN Commission on International Trade Law (UNCITRAL). The World Bank, other multilateral development banks, international organizations, and increasingly bi-lateral donors have supported the development of public procurement systems in the countries they support through loans, grants and technical assistance. This work has proceeded with limited success. It received a major boost in the late 1990's when the international donor community decided to tackle the question of corruption head on.

3. Progress in the development of public procurement systems worldwide, that can deliver on the basic principles of a well functioning system, contribute to better governance and reduce the opportunity for corruption, has been slow. As in many areas of development, competing objectives and lack of coordination among the donor community has often impeded progress. In 1997, the World Bank and many of its partners in the donor community embarked on an initiative to increase coordination and cooperation through harmonization. The harmonization efforts have had an impact on policies and procedures in the area of procurement, building upon the already existing consistency and agreement on basic principles of good procurement. However, the donor community has continued to struggle with implementing many elements of good fiduciary management in our client countries, encountering a general lack of capacity and continuing disincentives for improving systems.

4. There has also been a tendency to underestimate the obstacles faced by developing countries and to create unrealistic goals based on developed country models of good performance. Part of the problem has been the practice of the donor community to operate in isolation from the clients it seeks to support. Increasingly, it has become apparent that the basic principles of a good public procurement system can be implemented in many different ways depending on the governance and cultural environment in a particular country. While recognizing these differences, there remains a need to develop a consistent and a realistic approach to the development of public procurement systems.

5. A logical outcome of the initiatives of the late 80's and 90's is to develop common benchmarks and standards that can form the basis for performance measurement in the development of a public procurement system. Along with this, there is a complementary need to be able to monitor and evaluate progress. The two, benchmarks and standards and monitoring and evaluation are closely linked. While there is agreement on principles and objectives of the public procurement system, little progress has been made in looking at the various ways that a public procurement system can deliver performance when measured against these principles. There has been little attempt to rate systems against objective benchmarks and to provide client countries with a roadmap and set of incentives to achieve change in their public procurement systems. There has been even less work on assisting client countries in developing effective monitoring and evaluation tools in order to measure the effectiveness of change initiatives and to achieve higher standards of performance.

6. Distributed separately (as Annex A), for information, is a paper titled "Requirements for Local Procurement", recently issued following the October 2002 Heads of Procurement (HOP) of Multilateral Development Banks meeting held in Manila. This paper sets out some specific aspects of a procurement system that the HOP participants would look for in a country where multiple donors are seeking to pool funds and rely on the national procurement system and staff to implement much of the project. This is an example of some of the type of work underway that is related to benchmarking. More work needs to be done in this area and should build upon some of the recent initiatives.

II. Challenges

7. The challenge that faces us is to look beyond the principles and define and agree upon the benchmarks and standards that a good public procurement system must meet in order to yield the maximum public benefit. This can only be done with the strong involvement of the client countries themselves. We need to consider each of the desirable elements of the well performing public procurement system and agree upon the measurement standards.

8. Although there is general agreement on the principles, a first step in addressing the challenge of setting benchmarks and standards should be to agree on the principles. We may look to a number of existing agreements to develop and agree on these

principles and a definition for each in order to avoid overlaps and confusion. Principles of public procurement systems are stated in the EC Directives, in the UNCITRAL Model Law and in many of the national legislation that govern procurement in both developed and developing countries. One example of a list of the principles (paraphrased from the preamble to UNCITRAL) follows:

- Maximizing economy and efficiency;
- Open participation;
- Competition;
- Fair and equitable treatment;
- Accountability;
- Transparency.

9. Next, working together, the clients and the donor community need to look at each principle and consider what would demonstrate performance. For example, using the basic principle of transparency, we could start building a set of applicable benchmarks and standards. The benchmarking process would involve defining levels of performance and the standards, also called performance indicators, that must be demonstrated to achieve a specific level or benchmark. The chart below is intended to illustrate how this process could proceed.

<u>Principle</u>	<u>Benchmarks</u>
Transparency	<u>Primary Level</u> Standards: <ul style="list-style-type: none"> • Published law/regulations • Law/regulations easily available to all stakeholders
	<u>Secondary level</u> Standards: <ul style="list-style-type: none"> • Law/regulations internally consistent forming a comprehensive framework • Law/regulations consistently applied across system
	<u>Tertiary level</u> Standards: <ul style="list-style-type: none"> • To be determined

10. Once completed, such a matrix would provide a basis for assessing each country using the principles of a procurement system, measured against agreed benchmarks and performance standards on what a system must be able to demonstrate through performance. Ideally, the benchmarking system would become part of the Country

Procurement Assessment Report (CPAR)¹ process which has already been accepted by much of the donor community. The assessment provides an initial mapping of the system under review. Client countries would have the matrix available as a tool to understand how they are benchmarked. Any country would be able to apply these benchmarks and standards as a measurement tool and immediately see where they need to focus their own attention with regard to implementing change in their procurement system if they seek to achieve a higher level benchmark. Clients and donors would also have a basis for identifying the risks in the system. The donor community could use the matrix tool to identify where to focus financial and capacity building support in the client country.

11. In order for this initiative to have the intended impact, there need to be clearly identified incentives for client countries to seek improvements in the performance of their public procurement systems and for donors to support work in this area. The broad benefits of a well performing public procurement system are known and are sizeable. Procurement reform more than pays for itself through: better value for money; increased efficiency and effectiveness of service delivery to citizens; reduced potential for corruption; and a positive impact on investment in the country. What might be the specific benefits to a client country and to the donor community of agreeing on a system of benchmarks and standards?

III. Incentives to Take Action

12. The following are some of the incentives to take action and make changes:

- Reducing costs and capacity demands on recipients: It has been well documented that client countries are over burdened by demands of the donor community to implement special systems of management and control in order to receive donor funds. In one example documented by the World Bank, one project implementation unit receiving funds from three major donors was required to set up and staff separate procurement sections in the PIU for each donor. Everyone bears the cost of doing business in this manner. In addition, countries with limited capacity have difficulty even meeting such demands. Funds spent on servicing the demands of the donor community are funds that are not having the intended impact on development objectives.
- Contributes to donor coordination: Client countries can only benefit by a better coordinated donor community. Examples in pilot countries where Poverty Reduction Support Credits (PRSCs) are being used are already demonstrating the value of such coordinated approaches under a country defined strategy. A key objective of the Roundtable process is to work with developing countries to build procurement systems around which donors can harmonize their procurement procedures.
- Capacity building initiatives will work towards the same objectives: Countries generally require capacity building at many levels in the governance structure to

¹ Country Procurement Assessment Report is covered by a World Bank (OPCPR) Instruction issued April 23, 2002.

implement changes to any government system. The cost of building capacity is reduced if the objectives of capacity building programs are agreed among donors and the country's principle stakeholders. This certainly holds true in the building of better performing public procurement systems which involves stakeholders from all levels of central government, sub-national government, civil society and the private sector.

- Donors will reduce their own administrative costs: The ability to use the systems in a recipient country to manage and implement the use of donor funds will reduce the burden on donors to maintain their own administrative and oversight organization. It will enable resources to be used in other ways to directly further development objectives. Such a transfer of responsibility and accountability will take place over time and be linked to the benchmarking system. The benchmarking system will enable donors to better assess risk and make decisions in a more informed environment.

IV. Issues

13. There are many issues which must be considered in moving forward on this and other initiatives. We must agree on the initiatives to pursue. We must organize ourselves to work with each other and representatives from our client countries. We must commit to a work program that will support progress and back that commitment with staff and funds. Most importantly, we must demonstrate progress by realizing agreed work programs.

14. With regard to the jointly sponsored OECD/DAC and World Bank Roundtable, this paper is intended to help set the stage for the work to follow. The following questions are posed for consideration and discussion during the Roundtable session on this topic:

- i) Is this an initiative we feel should be addressed in a client and multi-donor environment, with an objective of reaching consensus on a system of benchmarking and performance measurement for public procurement systems?
- ii) How do we organize to fully develop a system of benchmarking?
- iii) Will donors and client countries feel constrained by such a system? (i.e. How will it work in practice?)
- iv) How can the system be linked to the way donors do business in a client country?
- v) Will such a system deliver with regard to the potential incentives and benefits?

15. At the conclusion of this first Roundtable, we encourage all participants to identify those initiatives they particularly wish to support and sign up to get involved. We will form working groups around these initiatives based on participant interest. The next steps on each initiative will become the responsibility of the working groups.