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## Working Party on Aid Effectiveness and Donor Practices

### MAINSTREAMING AND STRENGTHENING PUBLIC PROCUREMENT: A STRATEGIC FRAMEWORK

#### Joint Venture on Public Procurement

22 October 2004 - OECD, Room 4

*This note is submitted for COMMENTS to the 22 October 2004 meeting of the Joint Venture on Procurement. Comments will be incorporated in the next version of this paper. The revised version will be submitted for approval to the participants of the Joint OECD/DAC-World Bank 3rd Round Table on Strengthening Procurement Capacities in Developing Countries, which will take place in Johannesburg, South Africa on 30 November - 2 December 2004.*

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## **MAINSTREAMING AND STRENGTHENING PUBLIC PROCUREMENT: A STRATEGIC FRAMEWORK**

### **I. Introduction**

1. Strengthening public financial management has recently become a central part of the development agenda. Country leaders have increasingly come to appreciate the link between the performance of their entire financial management system, not just the procurement function, and the achievement of core social and economic objectives. Donors, as well, have recognized the short-comings of their past approaches, which often resulted in building separate financial management and procurement systems for donor-funded projects. PFM issues, including procurement, are now visible in many Poverty Reduction Strategies. From the donor side, developing capacity within PFM has catapulted to the top of the agenda due to a shift towards assistance modalities such as sector wide strategies or general budget support mechanisms that rely upon use of a country's own system for budget execution.

2. While this process is good in that it has attracted greater attention to the nature and performance of country procurement systems themselves, proper focus has not yet been concentrated on improving procurement outcomes in the broader public financial management context. When procurement issues are taken up, they are frequently analyzed ignoring wider public sector financial management and related issues, with the result that proposals for reform often relate exclusively to the procurement process and have an impact exclusively on the procurement professional group. This has had the ironic result that, even as procurement performance has finally become an important topic in the ongoing development debate, the traditional view that procurement is solely a technical function has been reinforced.

3. Unfortunately, the current isolated approach to procurement offers a relatively limited chance of success. Procurement practices, especially those that are inefficient and unfair, are fiercely defended by the entrenched and powerful forces they benefit. In the face of this kind of determined opposition, adoption of necessary legal changes to procurement practices can only be secured with the active support of top leaders from the public and private sectors. And translating these legal changes sustainably into consistently improved outcomes likewise necessitates an implementation strategy involving the full range of key stakeholders in these outcomes including procurement officials, clients, the business community, the bodies entrusted with oversight and monitoring, parliaments, the press and others. Given the complexity of this challenge, it is not an overstatement to say that the success of future efforts to strengthen procurement systems is tied as closely to the *approach* taken to improving procurement outcomes as it is to the substantive *content* of the changes that are introduced.

## II. Purpose

4. The purpose of this paper is to illustrate some of the good practices that have been utilized to improve procurement outcomes through “mainstreaming” procurement. We understand the challenge of mainstreaming as two-fold – integrating procurement reform better into the development agenda and pursuing performance improvement through approaching procurement as an integral part of the workings of the broader public sector.

5. This paper identifies a set of elements that should exist in a strategy for improving procurement outcomes. The elaboration of these elements will vary depending on country context. The examples that are provided of good practice are not intended to be prescriptive or exhaustive, but rather to illustrate how countries and donors can and should work together to advance the goal of strengthening public procurement systems in developing countries.

## III. Elements of a mainstreamed procurement strategy

6. There has been relatively little work done to identify the determinants of how to successfully strengthen procurement systems. While generalizations should be treated with caution, the best available evidence on procurement change and related public sector reform efforts suggests that important features include:

- a) **A country-owned and managed change process.** Country ownership and management of reform is the foundation for any successful effort to improve performance in the public sector. The Monterrey Summit of 2002 emphasized that country responsibility was necessary for economic and social development and pledged a new partnership between developing countries and the international donor community to establish sound policies, good governance, and the rule of law.

Country ownership and management of change emphasizes the need for governments to establish a coherent reform program and for donors to align their support around this program. It implies that government involvement is crucial in all aspects of reform from diagnostics through design to implementation.

- b) **Procurement improvements identified as an essential part of government program.** Procurement reform success is most likely when procurement is understood as central to the effectiveness of public spending and procurement reform is identified as an essential element of the government’s overall strategy. While the exact pattern of support that is required for success depends upon country context, officials from other parts of the public financial management system, executing agencies, and oversight bodies as well as business leaders, and beneficiaries of public services are all key stakeholders and their support for any proposed changes should be actively solicited.
- c) **Involvement of groups across the public sector in improving procurement outcomes.** Procurement strategies that succeed in improving results are built upon the recognition that procurement outcomes are determined not only by the rules that define procurement, but also by how well the systems operate for regulating market behaviour, monitoring the performance of awarded contracts, the conduct of the parties to the contract, and the behavior of parties responsible for oversight and monitoring of public

spending. A well-structured approach to achieving results on the ground builds upon the linkages between procurement, public financial management, and service delivery, and is designed to improve procurement performance as an integrated part of public administration.

#### IV. Good Practices

##### *a. Country ownership and management of reform*

7. The importance of country ownership and management to the success of the change process is now universally accepted. This principle is reflected throughout the flagship poverty reduction strategies that increasingly define the development agenda and the more micro-level public financial management reform strategies that set out country priorities in the area of budget formulation, execution, oversight, and accountability.<sup>1</sup> It has less often been taken seriously into account in the design of isolated procurement reform efforts mentioned in the Introduction.

8. The leading role of governments in setting the development agenda challenges donors to direct their assistance towards support of the government program, and accept that their priorities might not always be shared by partner governments. This acceptance is a particularly thorny issue in procurement since donor agencies have fiduciary responsibilities to their shareholders for the use of funds. In the past, donors have frequently acted to mitigate these fiduciary risks by imposing their own procurement rules on partner countries for the funds they contribute. The rationale for use of donor rules is understandable from the donor perspective, but this behavior forces countries to divert resources from building coherence in and strengthening their own procurement systems to ensuring adherence to varying often complex donor procurement regimes.

9. There is no simple way to achieve a balance between fiduciary concerns and developmental interests. Donors have attempted to achieve the necessary balance through the following process:

- **Allow for country leadership of assessments and diagnostics, whenever feasible.** Donors have increasingly emphasized involving government officials in the performance of assessments. In some instances in the area of public financial management, governments have taken the lead in performing such assessments, with donors applying a variety of verification methods prior to deciding whether to accept the assessment or not. While this practice has not been followed to date in procurement, the emerging consensus among donors and partner countries on the tools for benchmarking, monitoring and evaluation for procurement that have been developed by the Round Table process have created a tremendous opportunity to advance government leadership of analytical work.
- **Harmonize requirements when donors determine that the risks created by a country's procurement system require use of specific procurement rules for donor-funded projects.** Harmonization of procurement rules among donors and between donors and countries has been actively pursued since the Rome Summit. Harmonization

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1. For more information on Public Financial Management Reform Strategies see the OECD-DAC JV on Public Financial Management background paper on the "Strengthened Approach to Public Financial Management."

leads to simplification, which in turn frees up resources that can be used to develop better local capacity that will allay donor fiduciary concerns.

- **Provide clear guidance on what steps need to be taken to reduce fiduciary risk so that short-term risk mitigation efforts do not become entrenched.** Experience has demonstrated that short-term stand alone risk mitigation efforts on the part of donors often become entrenched practices. Donors can reduce the negative impact their imposition of special rules and procedures has by clearly identifying the specific improvements needed before the donor requirements will be lifted. The benchmarking, monitoring and evaluation tools that have been created provide a constructive platform for donors and countries to discuss and agree on the areas of weakness that should be targeted in future reforms.

*b. Procurement as central in the Government's program.*

10. Establishing procurement system strengthening as a core part of a government's program involves recasting procurement as fundamental to the way public money is spent and critical for national development. Efforts that should be considered to achieve this include the following:

*Develop information and messages to establish the relevance of procurement performance to national objectives.*

11. A compelling case can be made for the importance of procurement reform in almost all country settings. The importance of procurement can be demonstrated based on its scale and role in terms of service delivery, the amount of money wasted by existing practices, reduced competition, higher prices due to market perceptions of risk, and the harm current practices may have for development. (Annex 1 provides an overview of how some of these arguments might be formulated and sources of international data that can be used to promote the importance of procurement at the national level). Proponents of procurement strengthening programs have found that assembling and presenting data on the operation of the procurement system in their countries alone can go a long way towards creating the necessary climate for change.

12. There exist a variety of sources for information on procurement operations. National statistics may already be collected on the overall scale of public procurement and procurement capacities. Data on the efficiency of the procurement system can be generated by reference to records on individual procurement transactions. In other cases, producing useful information involves the collection of data from government and/or non-governmental sources. For example, developing information on procurement effectiveness might necessitate establishing data links to officials within line ministries who monitor program effectiveness, and groups that can monitor services (e.g. citizens groups from towns who are supposed to benefit from wells being dug, patients and clinics who are supposed to receive drugs, etc) Data on corruption in procurement may similarly need to be created, through business surveys or by collaboration with anti-corruption groups. In the future, the benchmarking, monitoring and evaluation tools produced by the Round Table will dramatically increase the amount of useful information available to governments about the functioning of procurement systems.

*Identify potential supporters for procurement reform.*

13. Data by itself has very limited power until it is communicated to groups with influence over decision-making. An effective communications strategy starts by identifying the groups that are critical for reform success, understanding what their specific interests and concerns are and then crafts a set of different messages that will appeal to each and hopefully win their support for procurement change.<sup>2</sup>

14. The pattern of support necessary for success in any reform will differ from nation to nation. The backing of the Ministry of Finance may be sufficient for a new procurement law to be passed and enforced in some highly centralized governments. For the underlying informal practices carried out within this legal framework to be changed successfully, however, support will need to come from a much wider range of groups including but not limited to the line ministries, parliament, various ngos, the press and the business community. Involvement of international agencies and regional groupings (such as the European Union or the West African Monetary Union) can also play an important role in advancing the recognition that change is needed although their support alone is not sufficient for success.

15. Political leaders usually have a keen understanding of the dynamics of decision-making in their own countries, and it will often be possible without a significant amount of work to develop a list of groups whose support will be critical for progress in improving procurement. A list of groups who have an important stake in the performance of the procurement system and are therefore likely to either support or oppose particular reform proposals is provided in Annex 3.

16. As stated above, messages need to be defined to appeal to each of the potential support groups. Past procurement reform efforts have paid too little attention to crafting properly nuanced messages about the failings of the current system along with presenting a clear vision of the better system that could replace it. As well, too little was done to make use of the various new communications approaches, tools and techniques that are proving to be effective in the private sector and elsewhere, at least one of which (the impact of storytelling) is described in Annex 4.

*Raise procurement issues within the design of an overall government strategy*

17. Experience demonstrates that support for procurement improvements is best achieved when procurement issues are integrated into government reform strategies and when the procurement function is well represented in high-level planning meetings. In the past, procurement has often been added to reform strategies as a side component, in part because strengthening procurement was not raised as an issue when the government's strategy took primary shape. Real integration of procurement into public sector strategies requires procurement to have a "seat at the table" when the government reform strategy is being defined.

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2 . While local knowledge is invaluable in determining the groups necessary for procurement reform success, government and donor staff involved in the design of procurement strengthening programs would be well advised to consult the work that has been done over the last two decades on change management and "drivers of change". As well, open systems theory, risk analysis techniques, and strategic conflict and power structure analyses all have important insights of great value that can improve the chances that procurement reforms will be successful. See Annex 2 for a discussion of these theories.



18. Partner countries determine the place of procurement in their reform agenda – a fact emphasized by the principle of country ownership and management of reform. Inclusion of procurement strengthening as a key part of government strategy on public spending is assisted when central interlocutors such as the Ministry of Finance have recognized its importance.

19. Donors can promote the mainstreaming of procurement issues by integrating procurement into their wider dialogue with partner countries on public financial management and service delivery. The proposed “Strengthened Approach to Public Financial Management” provides a useful example of how this can be accomplished by basing the donor-country reform dialogue on a financial management performance framework that also includes indicators exclusively focused on the procurement process, as well as other indicators that explicitly include procurement in the evaluation of related functions when there is an overlap.<sup>3</sup> Donors can also assist in mainstreaming procurement by making sure a procurement expert is an official member of the integrated public financial management country team.

*c. Involvement of other public sector groups in the quest for improved procurement outcomes*

20. Procurement is simultaneously a technical process, a component of a country’s system for spending public money, and an element in the delivery of government services. Traditional efforts to strengthen procurement systems have sought to improve outcomes by enhancing just the technical process of procurement. This approach has placed the burden of improving overall performance exclusively on the shoulders of procurement officials presiding over organizations with few resources, limited expertise in designing comprehensive systems reform programs, and lacking the necessary checks and balances provided by having experts from other parts of the government participate.

21. Government efforts to improve procurement outcomes are more likely to succeed when programs for change reflect the complex nature of procurement. Examples of successful reforms in the past have connected the work needed to improve the procurement process with complementary efforts needed to change the performance of other parts of the public financial management process, the conduct of executing agencies, and/or other reforms that effect how the public sector operates. Integrating procurement reform into the broader workings of the public sector also serves to ensure that changes within procurement systems are aligned and properly sequenced with changes happening in other parts of the public sector. At the same time, integration correctly broadens responsibility for achieving results on the ground to all key stakeholders and enables success in one area to reinforce and catalyze success in other areas.<sup>4</sup>

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3. See OECD-DAC JV for Public Financial Management background paper on the Strengthened Approach to Public Financial Management. Procurement is included in a number of the PFM Performance Framework Indicators including “effectiveness of cash flow and procurement planning,” and “publication and public accessibility of key fiscal information, procurement information, and audit reports.”

4. Suggestions to integrate procurement more deeply into the working of the public sector are sometimes met with opposition based upon a belief that integration would divert attention away from improving the procurement process. Integration, in this view, is misunderstood to mean absorption of procurement into the other function or the subordination of procurement issues to other concerns. The emphasis given in this Strategic Framework on integration is in no way based on the belief that procurement is not a distinct process with its own rules and management arrangements. Instead, the focus on integration is an effort to acknowledge that public procurement exists within a particular public sector context to serve a particular

22. While well-designed strategies contain a mixture of elements, experience suggests that integrated reform strategies to improve procurement outcomes should try to do the following:

*Integrate the procurement process better into the public financial management system.*

23. Public procurement is an element of a country's system for spending public funds. Its outcomes are strongly influenced by the operation of other components of public financial management – from the extent to which good procurement planning has been done within the budget process, to the effectiveness of commitment controls for entering into contracts, to the timeliness and reliability of payment for goods and services received, to the impact of internal and external auditing on the adherence of staff to rules and regulations.

24. Several countries have designed their procurement strategies with a clear recognition of the connections between procurement and the broader public financial management system. These strategies are proving to achieve improvements in outcomes through closely aligning procurement with these complementary functions.

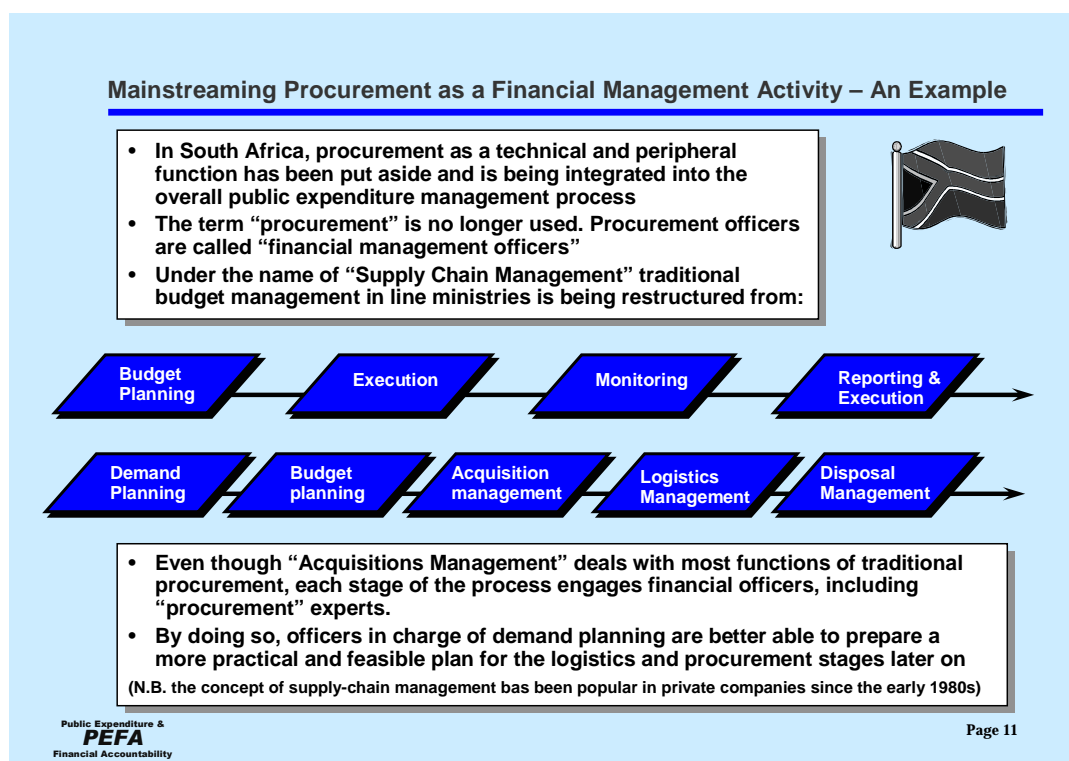
25. Uganda, for example, has recently moved to link their efforts to improve internal and external auditing to their work on increasing transparency and competitiveness of procurement. This shift has come about due to the limited impact separate parallel reform processes have achieved. A much higher degree of integration of procurement and financial management has been forged in South Africa. South Africa has redesigned its entire public financial management system since the change of regimes in 1994. The centerpiece of the reform there has been an effort to establish strong integration across the budget cycle in order to make the entire public financial management system accountable for achieving results.

26. Within this overall approach, procurement has been recast as a process of supply change management – involving decisions to acquire assets, maintain assets, and sell off unnecessary assets. See Box 1 below for a representation of the different elements of the South African system for managing procurement. As a consequence of this redesign, procurement is no longer treated as a purely technical process, and procurement specialists now work alongside other leading officials and participate in decision-making on how agencies manage their assets and spend their resources. The designation of “procurement specialist” may have lapsed as a result, but the changes have served to highlight the importance of having professionals with wide-ranging skills in the planning and execution of procurement.

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function, and that successful procurement system strengthening can only take place within a broader reform environment.

### Box 1. Example of an "integrated" procurement system



Source : Extract from presentation made at 1st Round table meeting in Paris, January 2003

#### *Link procurement change to improved service delivery*

27. Experience indicates that procurement strengthening should be pursued by joining steps to improve the procurement process with efforts by executing agencies to improve their performance in the delivery of services. This approach brings together the officials responsible for the procurement process with their clients – the officials responsible for the execution of programs and delivery of services, making them both more accountable for their performance.

28. The Philippines has achieved noteworthy success with this approach. In that country, efforts to modify procurement laws and change the procedures that are used to carry out procurement transactions have been coupled with programs designed to improve procurement processing systems within individual key ministries, such as health and education. This dual track approach has resulted in significant outcome improvements. (Data on the impact of the Philippine's procurement reforms can be found in Annex 1). Improving results by focusing on procurement outcomes has also been advanced by the formation of a strong non-government organization group that has taken over an active role in monitoring procurement and engaging in a constructive dialogue with a range of government leaders, members of parliament, leading representatives of the media and other civil society groups. Finally, the solid foundation of reform that has been created has served as a platform for the introduction of an e-procurement system that has significantly increased the level of transparency and competitiveness in the procurement process.

## ANNEX 1: THE ARGUMENT FOR NATIONAL ATTENTION TO PUBLIC PROCUREMENT SYSTEM PERFORMANCE

### I. High-level attention to procurement is heightened when its size, significance and impact is known.

29. Public procurement is at the very center of the way public money is spent. Budgets get translated into services in large part through the workings of the procurement system. The construction of schools, clinics and roads and the drilling of wells, as well as the acquisition of medicine and textbooks occurs in most countries through the nation's public procurement system. The performance of a country's procurement system will therefore determine whether funds are sufficient to purchase 1 million or 2 million textbooks, or to build 10,000 or 30,000 wells. The ability for political leaders to meet their promises of economic and social improvements is strongly related to how well procurement functions. Table 1 provides an example of the impact of procurement performance improvements on the volume of social assets procured in one World Bank-financed project in the Philippines.

**Table 1. Change in the Number of Assets Procured by the Philippines Education Sector due to improved procurement practices**

Type of Asset	Expected Volume based on Past procurement practices	Actual volume delivered after procurement reform	Price savings per unit
School Desks and Chairs	45,000	754,069	Between 22 and 77%
Textbooks	25 million	42 million	50%
Classrooms	900	1,535	39%

Source: World Bank Implementation Completion Report for Philippines Social Expenditure Management Project, June 30, 2004, p 22, 23.

30. Viewing procurement as integral to the delivery of specific services is also useful for two other reasons. (i) It makes more transparent the actual levels of performance achieved by different parts of the government, making it possible for them to be held accountable for their actions and creating a positive incentive for government agencies to improve their performance. And (ii) it also makes it easier to estimate the volume of public money that flows through the procurement process in terms that are meaningful for higher level government officials and the general public. The aggregate importance of procurement in public spending is obscured because procurement transactions frequently take place in a much decentralized fashion across the entirety of government without a standardized reporting requirement being imposed or enforced. When the value of these transactions are combined, procurement is often one of the top three types of spending (besides salaries and debt payments), if not the most important. Procurement is particularly prominent in developing countries with active infrastructure and social programs. In Uganda, for example, 70% of public spending goes through the public procurement system. Table 2 provides data on the proportion on spending that is executed through procurement

systems in selected countries. Public procurement spending is estimated to account for 15% of the world's GDP.<sup>5</sup>

**Table 2. Significance of Procurement in Select Countries**

<b>Country</b>	<b>Procurement as % of total expenditures</b>
Global	12-20%
Angola	58%
Azerbaijan	34%
Bulgaria	30%
Dominican Republic	20%
Malawi	40%
Uganda	70%
Vietnam	40%

*Source:* Data for all specific countries from World Bank Country Procurement Assessment Reviews; global data from OECD.

31. The influence of good procurement on the effectiveness of public spending is mirrored by its impact on development of the private sector. A government's most direct impact on the private sector is through its procurement behavior. The government is often the largest investor in and purchaser of services, especially in poorer nations. The way it manages its commercial relations with the business community has a profound influence on whether acceptable business practices will evolve or not, and on the dynamism of the private sector. Procurement systems can promote competitiveness and improve the local market's ability to survive in international markets by awarding contracts on an economic basis, just as they can promote inefficiency and corruption by awarding contracts on the basis of personal relations or private negotiations. In this manner, a country's procurement system has a significant impact on national investment rates, as well as long-term growth rates.<sup>1</sup> One indication of the impact of systems that award contracts on a non-economic basis is derived from corruption studies. According to a report on Transparency in Government Procurement published by the OECD/DAC Working Party of the Trade Committee in May 2003, a corrupt country is likely to achieve investment levels of 5% less and lose about ½% GDP growth per year compared to relatively corruption-free countries.

32. The diagram in Table 3 below is a "torchlight" that shows how procurement mainstreaming can have a significant roll on impact on the overall benefits produced by the procurement system for a wide range of national objectives.

5. Estimation of the global size of public procurement is very difficult since there is no consistency in data that is maintained or reported on procurement across countries. In addition, the reliability of procurement data is suspect in many places. The ability to have an accurate understanding of the functioning of procurement systems will be greatly enhanced by adoption of the monitoring tool proposed by the Round Table as a result of its work on Benchmarking, Monitoring & Evaluation.

## II. Support for reform is based on recognition of the cost to the country of existing procurement practices

33. Public procurement systems often waste tremendous amounts of scarce resources. The performance of national or state procurement systems varies widely as does the extent of system wastage. The World Bank's Country Procurement Assessment reviews, however, as well as the other types of assessments it carries out, have consistently found major performance weaknesses in the procurement systems that have examined.

34. The wastage of funds can be generated from problems across the entire procurement process – from the creation of bidding documents, to a lack of transparency and competition in the process followed for announcement, bidding, evaluation and award of contracts, to poor contract supervision. Data from selected countries provides some indication of the magnitude of these inefficiencies. Studies in the Philippines (reflected in the data in Table 2) demonstrate that poor procurement practices result in wastage of between 22-77% of the value of procurement of schools and school supplies. A recent study of drug costs incurred in the Federal Republic of Yugoslavia found that the cost to the government of procuring a limited number of drugs was 23.7% higher than the cost incurred by an international agency purchasing the same drugs from local suppliers.<sup>6</sup>

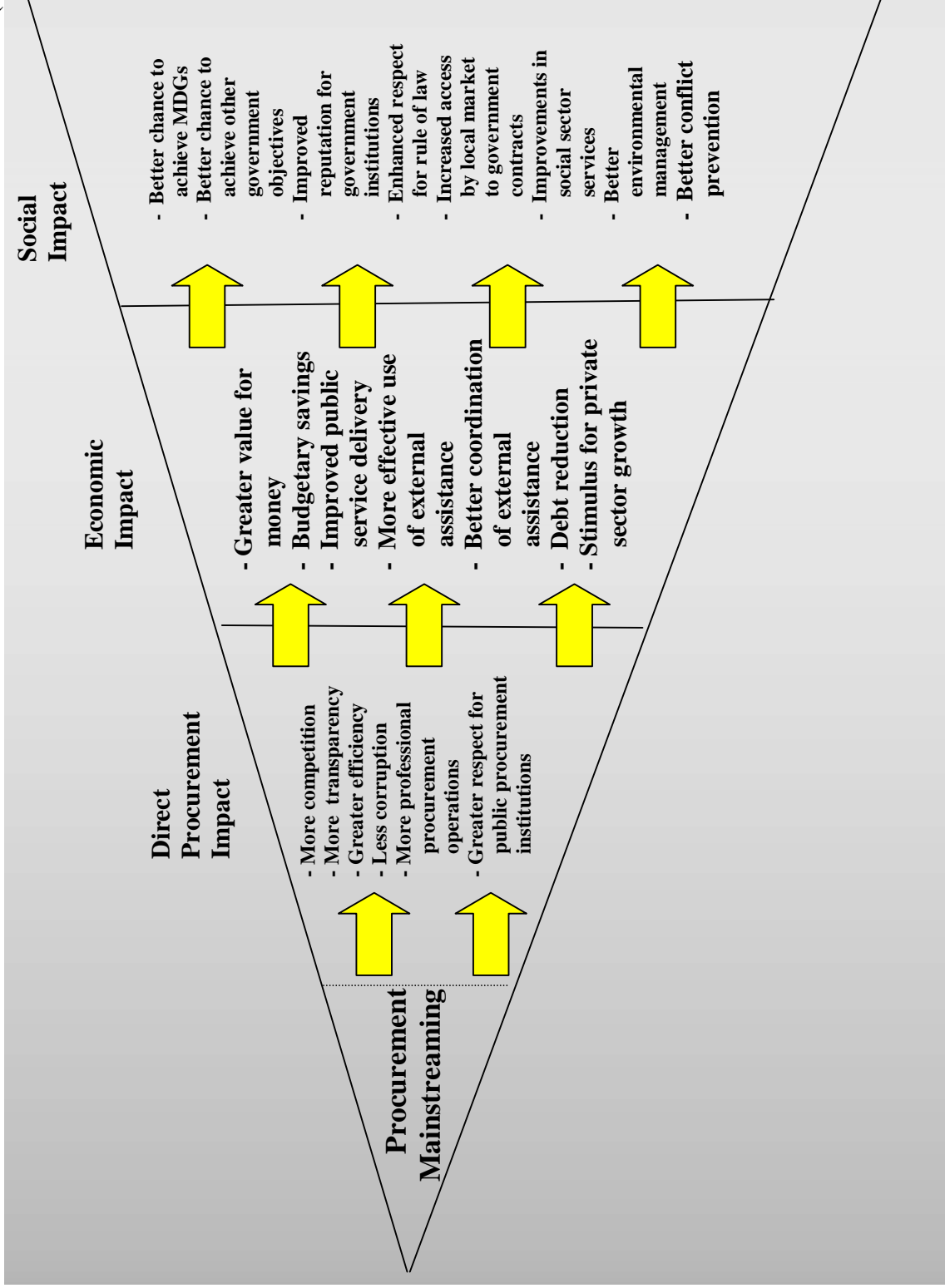
35. Studies of corruption in public procurement also provide a window into the squandering of public funds. Several international research projects have gathered data that reflects what is often common knowledge – that corruption in public contracts in areas such as construction is widespread and that the cost of corruption can be greater than 20% of the total original contract price. (See Tables 4 and 5 for data.)

**Table 3. Frequency of Bribes paid to Secure Public Construction Contract in Selected Countries**

Country	% of firms reporting that paying a bribe to receive a construction contract is typical
Albania	62.7%
Georgia	62.5%
Russia	30.8%
Ukraine	43.4%

Source: data derived from World Bank-European Bank for Reconstruction and Development Transition Economies Enterprise Survey (dataset), 2002, available at

6. See CPAR, Federal Republic of Yugoslavia, June 2002, p 42. The study compared the costs incurred by the Serbian Health Insurance Fund for 46 drugs with the costs to the European Agency for Reconstruction of purchasing the same drugs through local tenders.



**Table 4. Proportion of Contract Price Paid in Bribes to Secure a Public Contract in Selected Countries**

Country	Size of payment	Size of payment for Construction contracts
Peru	15.8%	12.3%
Paraguay	21.8%	24.0%
Colombia	15.9%	14.1%
Ecuador	14.4%	13.4%
Ghana	8.3%	9.3%
Sierra Leone	8.5%	13.3%

Source: data from firm interviews conducted as part of World Bank Governance and Anti-Corruption Diagnostic Studies, 2000-2003.

36. As you can see from the above, procurement reforms have the potential for achieving massive savings, especially in developing countries. Improving the performance of a national procurement system even slightly could, in many cases generate enough savings to more than pay for the cost of the reform program itself and leave a significant amount of money left over to increase social spending.

### **III. Success in implementing procurement reform is linked to being able to demonstrate the benefits realized from improvements.**

37. International experience demonstrates that massive benefits can be captured by implementing procurement reform. Experience with procurement reform is mixed, but those countries that have succeeded in improving their procurement practices have frequently achieved very significant returns on their work.

38. There exists no comprehensive data that allows us to chart the overall impact of procurement reform, but a range of country examples does exist that points to the positive impact of improving procurement practices. Box 6 below details the cost savings obtained in the Philippines due to their success so far in strengthening their procurement system. The evidence of cost savings in the Philippines complements the data contained in Table 1 on the extent to which procurement reform in one Bank project in that country increased the volume of social assets made available for the school system. Additional examples of savings realized through procurement reform include:

- The Republic of Korea realized a \$2.5 billion per year savings based upon an initial investment of \$26 million to create an e-procurement system.<sup>7</sup>
- The United Kingdom realized a 3.6% savings on its procurement savings over a 3-year period of time due to giving greater attention to complex procurement cases.<sup>8</sup>

7. See "Korea's Move to e-Procurement", World Bank PREM Notes No. 90, July 2004.



- The health sector in Guatemala saved 43% in 1999 by dropping the use of biased technical specifications when buying medicines.<sup>9</sup>

39. The evidence that exists suggests that active involvement by national governments in the implementation of procurement strengthening measures may represent the best opportunity for them to save public financial resources and improve the effectiveness of their spending programs. While experience suggests that procurement-related savings can be achieved in a short to medium-time horizon, obtaining a similar level of savings from other significant cost items (such as public administrative staffing costs, or enhanced selectivity in determining the mix of social programs) appears to be a much more involved and difficult process.

**Table 5. Estimated Savings Realized by the Government of the Philippines as a result of posting procurement opportunities on its electronic procurement system**

Agency	Savings	Specific Savings on...
DOH	53%	Various drugs/medicines
PNOC	43%	Equipment for electrification projects
TCCP	42%	Printing of letterheads
NIA	33%	IT equipment & supply/delivery of construction materials
DENR	25%	Supplies/Material and Services
LRTA	19%	Construction supplies, IT equipment
NPC	17%	Electrical/mechanical supplies & equip.
PICC	15%	Various office supplies/equipment
PCSO	15%	Office supplies/materials
DPWH	11%	Vehicles & Supplies/materials

Source: Philippine Government Electronic Procurement Service

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8. See "Improving Procurement: Progress by the Office of Government Commerce in improving departments' capability to procure cost-effectively." Report of the National Audit Office of the U.K. March 2004.
9. From OECD study done in 2003 on Transparency in Government Procurement.

## ANNEX 2: EMERGING THEORIES ON CHANGE MANAGEMENT

### 40. Background

How to raise the profile or priority of procurement in the minds of those in a position nationally and internationally to block or support procurement system capacity strengthening remains an issue of longstanding importance to the development community. Because most systems in the world today are not successfully mainstreamed, in this paper mainstreaming and mainstreaming reform are treated as inextricably linked to change. *Mainstreaming = a Need to Reform = Change*. Among the lessons learned from recent procurement reforms is that good results cannot be achieved and sustained without basing the design of the reform on country reality and using the latest change management theories and approaches.

### 41. Change Management Theory

Given this link between reform and change, and the dearth of cases where procurement reforms have been carried out with complete success, it is worthwhile outlining some of the promising new ideas being developed associated with change and conflict management, drivers for change, open systems, capacity development and other theories and the like. There are a number of similar directions being taken and conclusions being reached in these fields that may aid in the search for better ways to mainstream procurement, strengthen procurement capacity and design the reform programs to achieve both.

### 42. Drivers of Change

Recent work being done by the UK Department for International Development (DFID) and others underscores the importance of the drivers of change concept in the field of development, not just for donors, but also for developing countries interested in strengthening their procurement systems. Describing how DFID has attempted to institutionalize this concept in its own work with developing country partners may help advance the discussion below about drivers for and barriers restraining mainstreaming in the field of procurement. DFID has developed six areas that it believes are important to understand before embarking on poverty reduction and/or other development work in any country program:

- 1) The social, political, economic and institutional factors affecting the dynamics and possibilities for change
- 2) The medium-term dynamics of change, including the incentives and capacities the policy-level agents have who are operating in particular institutions and are likely to be involved in the reform
- 3) The role of external forces, including the donor community and others
- 4) The actual impact the proposed reform will have on important country objectives, e.g. poverty alleviation, obtaining better value for money, reducing corruption, etc.

- 5) How the reform will fit into or otherwise impact ongoing programs, e.g. how to translate the drivers of change approach into Country Assistance Plans
- 6) What DFID itself needs to do to build in organizational incentives for its personnel to acquire and retain a deeper knowledge of country context

43. Better understanding in these areas, DFID hopes will lead to more strategic country planning based on realistic hypotheses about how successful change can come about in the medium term, more realistic timeframes for implementation with better indicators for judging progress, an improved ability to prioritize potential components of a reform program, better risk analysis and a strategic ability to handle situations where the lack of political will is an issue.

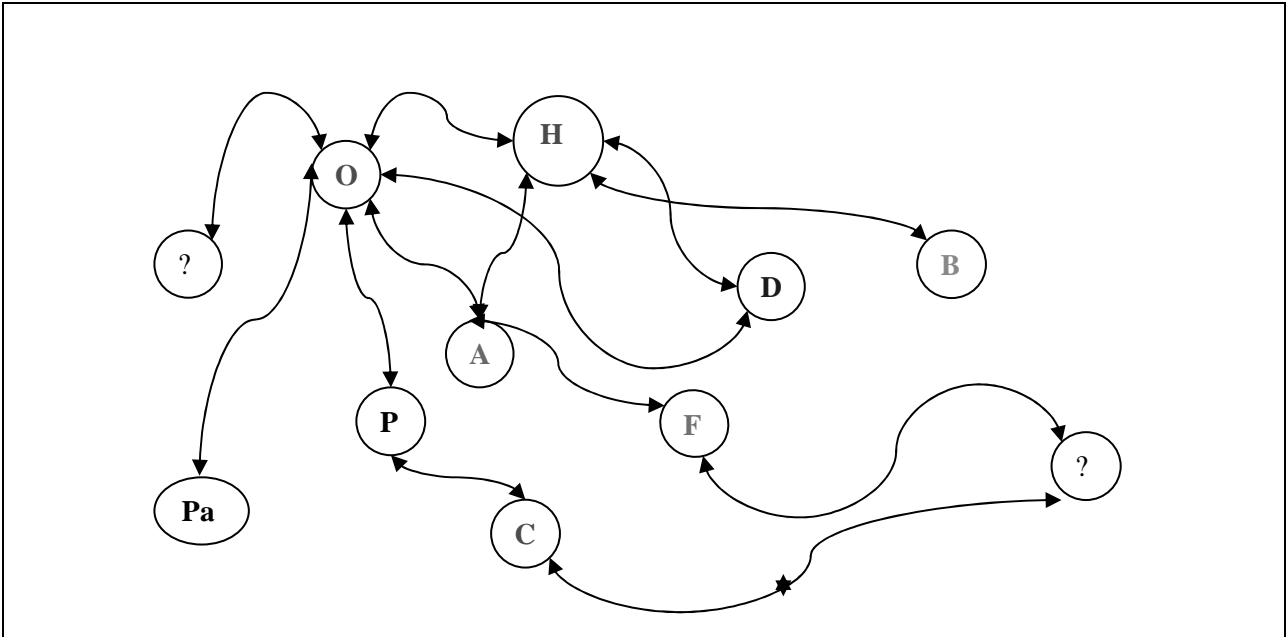
#### 44. Open Systems Theory and Analysis

Under this theory, organizations are viewed as open systems, which maintain their existence through the interaction of their parts and the outside environment in which they exist subject to the laws of systems. Systems are not by their nature stable or unstable, but rather exhibit a fluid characteristic of continuously seeking a dynamic equilibrium.

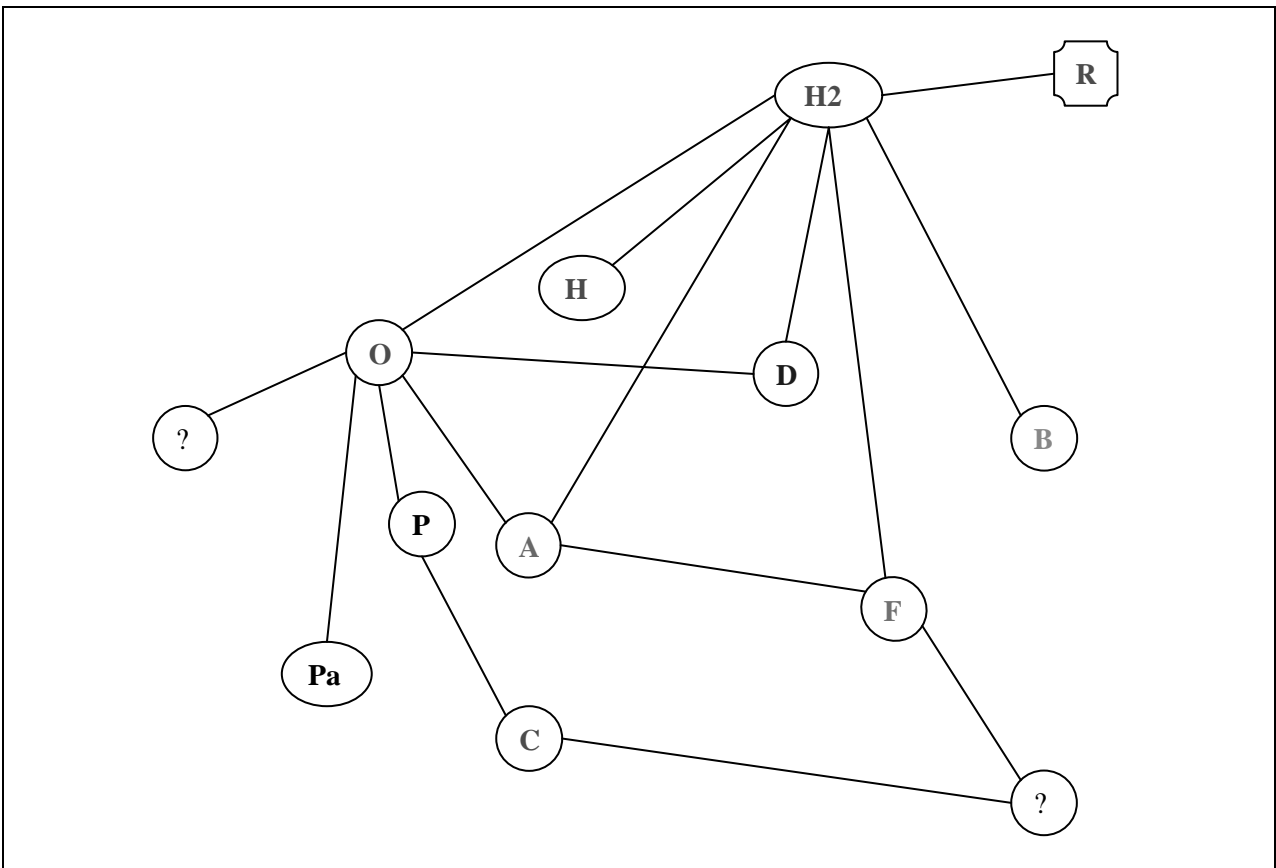
45. Box A2.1 below shows how an existing procurement organization “H1” might interact with other participants and stakeholders in the procurement process around it. Imagine that “O” is the Procurement Oversight Institution in the Government, “A” is the Government’s independent Audit Organization, “B” is the Business Community, “C” is Civil Society, “D” is the Donor Community, “F” is the organization responsible for public financial management, “P” is the press, “Pa” Parliament, etc., etc. The actual parties in each country will vary of course. The lines and arrows show the complex relationships and expectations between H1 and the others, and they are flexible. Each line has a different elasticity coefficient that reflects the nature and closeness of the relationship. The inherent nature of systems dictates that changes introduced into **any** of these circles will have an impact on all of the others.

46. Box A2.2 below shows what happens when a government attempts to reform its procurement system. New box R represents the body designated to manage the reform by the government. The objective of the reform is to move H1 up and to the right so that it looks like H2, for example to raise its skills levels so that it can achieve better value for money, to improve the transparency of its operations, to make sure that it will be held accountable for its actions, to establish a better link with the government’s public financial management system, etc. In the diagram you can see it has succeeded in moving in this direction, but look at what has happened to all of H’s old relationships. They are now stretched and under increased dynamic tension. And some new relationships have been created. See the links between H2 and F depicting the better integration between procurement and public financial management and P representing, say, a new reporting requirement to Parliament. All these changes, however, will have unintended impacts on other existing relationships and upset the previous equilibrium that had been established before the reform took place.

**Box A2.1 A Procurement System before Reform**  
**The Colombo Theory (1)**



**Box A2.2 A Procurement System after Reform**  
**The Colombo Theory (2)**



47. What does the comparison between Diagram 1 and 2 show us? One thing is that, according to systems theory, once R's job is done and the pressure is relaxed it exerted on H1 to convert it into H2, H2 will automatically be pulled back. It will snap back to the position it originally occupied prior to the reform (H1). This has some clear messages for those who hope to promote, design and implement reforms. Successful change cannot be achieved by just concentrating on H and trying to design a new H that will embody all of the optimal features a procurement system should have in the ideal world. (This was "the obvious solution" taken traditionally in reform situations in the past.) Unless the barriers to change that exist elsewhere in the system are also identified and removed, sustaining any reforms in H2 will not be possible.

48. Some interesting rules of thumb flow out of this analysis. In addition to the above, the following which are directly relevant to the problem of effective design of procurement reform programs:

- You can never do just one thing. There are no simple solutions.
- "Obvious solutions" do more harm than good.
- Every solution creates new problems. There are no final answers.
- Loose systems are often better than rigid ones. Don't over-design.
- If you can't make people self-sufficient, you do more harm than good.

#### 49. Research into Large Scale Organizational Change

Research into change management as it relates to large private sector organizations has been going on since well before the 1950s and much of it is equally applicable to the design of public sector reform programs. The formula shown in Box A2.3 below, which was published in 1987 by Beckhard and Harris, has merit because it gives a generic breakdown of some of the key elements that experience tells the private sector have to exist for reforms to be successful. Notwithstanding the other differences that may exist between the public and private sectors, since change in both sectors involves similar systems, organizations and individuals, the theories applicable to change in both are basically similar. According to this formula, the only way to overcome the natural resistance to change that systems, organizations and people have (i.e. their negative elasticity coefficients) is to make sure that (i) everyone fully understands that the present situation is not satisfactory, (ii) there is a realistic positive "vision" of what the system can and should look like in the future and (iii) and the change process used to roll out the reform includes some achievable early wins. (The communications strategy ramifications of this formula are discussed below.)

#### Box A2.3

### A Formula for Overcoming Resistance to Change

$$\begin{array}{l}
 ( \textit{Dissatisfaction} + ( \textit{Positive Vision} + ( \textit{Achievable} = ( \textit{Ability to Overcome} \\
 \textit{with present}) \quad \textit{for future}) \quad \textit{First Steps}) > \textit{Resistance to Change}
 \end{array}$$

50. According to this formula, the only way to overcome the natural resistance to change that systems, organizations and people have (i.e. their negative elasticity coefficients) is to make sure that (i) everyone fully understands that the present situation is not satisfactory, (ii) there is a realistic positive vision of what the system can and should look like in the future and (iii) and the change process used to roll out the reform includes some achievable early wins.

### **ANNEX 3: LIST OF POSSIBLE SUPPORTERS OF/STAKEHOLDERS IN PROCUREMENT REFORM**

#### **51. National**

The search for influential audiences capable of helping or hindering procurement reform at the national level has to be guided practically by the way the actual procurement system is structured in the country in question. Greater focus on potential audiences in the regions and municipalities would be warranted in decentralized systems, for example, than might be required for centralized systems. And given the greater weight being allocated to issues in the enabling environment these days, the search for audiences inside the government should not stop with bodies at the central government level, such as the Ministry of Finance or the procurement oversight body. It should also extend to other influential segments of:

- 1) the political leadership
- 2) the parliamentary committee responsible for development and/or procurement
- 3) representatives of the key tribal or other groups holding political power in the country
- 4) the body charged with carrying out procurement audits
- 5) other organizations that play a part of the government's system of procurement checks and balances
- 6) the ministry or department responsible for the government's public financial management system
- 7) the public sector procurement class

52. And outside the government, other important stakeholders interested in procurement should also be included, for example:

- 1) the business community
- 2) the press and other media
- 3) academia
- 4) the national procurement professional organization (if any)
- 5) procurement- and corruption-related *ngos*
- 6) the beneficiaries of public services

#### **53. International**

The potential audiences for procurement reform at the international level would differ primarily in that they must include broad representation from the multilateral and bilateral donor community. To reinforce the country-focus of the Round Table framework, however, these audiences should be brought into the reform process via their in-country representatives, if possible. But even if this is possible, it would be prudent to make sure the headquarters of the multilateral and bilateral organizations that agree to participate are kept generally informed. This should increase the chances of reaching harmonized agreement on the resulting reform program.

## ANNEX 4: EFFECTIVE MESSAGES: THE IMPORTANCE OF STORIES

54. In 2004, Stephen Denning, an ex-World Bank program director for knowledge management, published a book entitled, *Squirrel Inc*, which is now near the top of the World Bank Infoshop's bestseller list. It is aimed primarily at a private sector audience but the ideas promoted are equally relevant to any public sector or other organization that is facing a serious reform but does not know how to manage the communications aspects relating to the reform.

55. According to Denning, the process of successful change involves being able to communicate seven different types of messages well:

### Box A4.1 Seven Types of Messages ("Stories") Useful during Reforms

1. Those that persuade people to change ("Springboard" stories.)	4. Those needed to tame the grapevine
2. Those that get people to work together	5. Ones that communicate a sense of identity
3. Those designed to share relevant knowledge	6. Those that transmit a set of values
7. Those intended to lead people into the future	

56. Macroeconomic sound bites are likely to be more effective when they are used in the context of a lively story that will spark and engage the interest of audiences. There is solid evidence that humans culturally respond better to stories and parables and remember the lessons they impart more vividly and longer, than in response to macro-economic or other "dry" facts. Individuals involved in designing communication strategies for procurement reform would be well advised to consider ways in incorporate storytelling into their efforts.

57. The following box provides an example of how compelling stories can translate data into effective appeals.

### Box A4.2 Example of a Message Enhanced by Storytelling

"The health sector in Guatemala saved 43% in '99 by dropping use of biased technical specifications when buying medicines."

"The health sector in Guatemala saved 43% in '99 by dropping use of biased technical specifications when buying medicines. Imagine how happy (?) from country x would be today if the Ministry of Health in her country could have achieved similar savings. She and the others afflicted by polio that same year when the supply of polio vaccine ran out in her rural health district would be out today playing in the streets of their villages.. Had the Ministry been able to find only a tiny fraction of such savings a year earlier her story would have ended so much differently!"

58. Story telling may be particularly effective in supporting procurement reform through increasing interest in change and generating support for new procurement practices and procedures. The features of effective storytelling in both of these cases are presented below in the accompanying boxes.

**Box A4.3 Features in Effective Stories to Spark Change**

- Make sure the story is true
- Focus on a single protagonist typical of the audience being addressed
- Focus on a positive outcome
- Tell the story with minimal detail
- Frame the story so the audience will listen
- Provide guidance so that the listener is directed toward the hoped-for insight
- Use phrases like “Just imagine...”, “What if...”

**Box A4.4 Features in Effective Stories with a Future Vision**

- Embed the story in the future
- Try to make it evocative
- Make sure it captures the basic idea of where you’re heading
- Focus on a positive outcome
- But try to make it resonate with the listeners by adding context from the past and the present
- Listen for positive feedback like “Let’s do it!” or “When do we start?”
- Make sure that people are ready to follow in the direction indicated
- If they aren’t, go back to the storyline in Box A4.3