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Working Party on Financial Aspects of Development Assistance

**STRENGTHENING PARTNER COUNTRY PROCUREMENT CAPACITIES
AND LOCAL PRIVATE SECTOR INVOLVEMENT IN PROCUREMENT**

In light of the postponement of the meeting of the WP/FA planned for 28 February, Members of the Working Party are invited to provide the Secretariat, by 29 February 2000, with their preliminary views on the proposals set out in this note.

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STRENGTHENING PARTNER COUNTRY PROCUREMENT CAPACITIES AND LOCAL PRIVATE SECTOR INVOLVEMENT IN PROCUREMENT

I. Introduction and issues for discussion

This note presents proposals to undertake work to strengthen partner country procurement practices and to increase local private sector involvement in the procurement of aid funded contracts.

The objective of this work is to carry forward the DAC's Good Procurement Practices in ways that promote ownership and partnership and enhance aid impact.

The present note was initially drafted for the now-postponed WP/FA meeting on 28 February. Members are invited to provide the Secretariat, by 29 February 2000, with their preliminary views of the proposals set out below. Comments and suggestions will be reflected in a revised proposal to be submitted to the WP/FA at its next meeting.

1. DAC Members agree that efforts to promote partner country responsibility for procurement, with appropriate guarantees for effectiveness, accountability, probity and transparency, are intrinsic to the initiative to untie ODA to the least developed countries. Equally, strengthening the ability of enterprises in partner countries to compete for aid funded contracts will increase the development impact of such an initiative.
2. However, and independent of that initiative, efforts in these areas will contribute to promoting ownership and partnership objectives as well as increasing the impact and effectiveness of development assistance.
3. The note sets out proposals to undertake work on this theme, in three broad stages:
 - Stage 1: Needs assessment -- identify and prioritise institutional and capacity building needs, as the basis for the next stage;
 - Stage 2: Strategies, policies and instruments -- looking at the "where" and "how" of donor assistance (and including the issue of improving the access of enterprises in partner countries to aid-funded procurement);
 - Stage 3: Bringing together, in the form of guidance/best practices.
4. The present note is structured as follows:
 - Section II sets out the objectives and methodology for this work, focusing particularly on stage 1 (needs assessment). It includes "checklists" of the possible areas on which to focus an investigation of capacity building needs, but also raises the issue of the impact on partner country capacities resulting from the multiplicity and complexity of donor requirements.

Members are invited to comment on the “checklists” and the proposal to undertake this stage of work with the assistance of a consultant.

- Section III briefly sketches out stage 2 of the proposed work -- directions for donor support, which will be the main, value added part of this work, but which will essentially need to await the completion of stage 1. It also addresses the question of ways and means to strengthen the access of local enterprises to aid-funded procurement.

Members are invited to provide initial guidance on how best to focus discussion on that issue.

5. The indicative timetable for this work could be as follows:

- October 2000 -- complete stage 1 and what it tells us about where assistance is most needed.
- Spring 2001 -- discussion of policy issues and identification of donor responses (stage 2);
- December 2001 -- presentation of report on guidance/best practices to the DAC SLM (stage 3).

6. If agreed, this work would draw not only on the experiences of Members and partner countries, but also on related work elsewhere, both inside (e.g. PUMA/SIGMA; DAF) and outside (e.g. World Bank group, UNDP, ITO, etc.) the Organisation.

II. Strengthening partner country capacity and ownership of procurement systems

7. Members fully support the principal of recipient-owned procurement systems. In practice, however, they have different approaches to the issue of local ownership, and partner countries have different capacities to assume procurement responsibilities. The recently compiled profiles of Members' procurement policies and practices [see <http://ls27.oecd.org:8081/dcd/dachlm.nsf>] show that some donors essentially leave the responsibility for conducting procurement with the partner country, with only a minimum of donor involvement in audits and checks. Other Members effectively conduct the procurement process themselves (or through their agents or contractors), maintaining a high level of control over the process, as a result of weak recipient capacities, stringent accountability requirements, concerns with corruption, etc.

8. The DAC's "Good Procurement Practices for Official Development Assistance" (GPPs), which also includes a list of minimum conditions for effective international competitive bidding, set out essential standards for procurement. Similar standards have been developed by multilateral institutions such as the World Bank (where the award and administration of contracts rests with the borrower and where provisions are mandatory).

The GPPs explicitly address the issue of improving recipient capacity and efforts by donors to do. The objective of proposed work is to carry forward the GPPs in ways that promote ownership, partnership and effective aid by investigating:

- **Where partner country capacities and practices require strengthening; and**
- **Effective donor assistance with this objective in mind.**

Stage 1 of the work -- Needs assessment

a) Objectives

9. Beyond the partnership, ownership and aid effectiveness objectives set out in the introduction, specific objectives/requirements of work to strengthen partner country procurement practices concern the need to:

- Ensure that the goods and services needed to carry out the project are procured with due attention to economy and efficiency;
- Ensure that the funding is used only to procure those goods and services needed to carry out the project;
- Give all qualified bidders an equal opportunity to compete;
- Improve access of local suppliers;
- Ensure that the procurement process is transparent;
- Exploit positive spillovers for government procurement systems more generally.

b) Minimum standards or benchmarks for effective procurement systems

10. Before looking at the dimensions of the problem (and, subsequently, actions that can be taken by Members to strengthen partner countries' procurement capacities), it will be important first to set out essential minimum standards that will meet the general and specific objectives set out above. This will also help to identify and prioritise the problems and, later, provide focus for the discussion of the targets and modalities for donor assistance. Such minimum standards or requirements can be set out at two different levels:

i) Specific to the procurement system

11. A preliminary list (building on the GPPs) would cover the following areas:

- Advertising
- Bidding documentation
- Evaluation of bids
- Award of contracts
- Auditing
- Corruption
- Independent inspection

ii) Enabling environment

12. Work elsewhere (e.g. PUMA/SIGMA) has highlighted a number of key steps taken by countries which have successfully made the transition to effective public procurement systems through actions to strengthen the broader enabling environment for procurement. These include:

- Obtaining support from the highest political levels;
- Educating the general public about the advantages of locally owned procurement systems;
- Encouraging co-operation between the public and private sectors;
- Obtaining good technical procurement training;
- Passing effective procurement legislation.

- Establishing a central public procurement unit to define national procurement policy, draft legislation, and prepare training programmes.

c) Donor practices

Delegation of responsibility

13. The degree of delegation of procurement responsibility to partner countries (and the levels of checks and balances required) varies between Members. What are the key determinants for Members in transferring procurement responsibility to partners, what measures have they taken to strengthen systems and build capacities (as a precondition to transfer or as part of the process), and with what results? For Members which have transferred responsibility, how have they dealt with weaknesses in procurement systems and capacities?

Donor requirements on partner countries

14. The impact on partner country capacities arising from the multiplicity and complexity of combined donor procurement requirements is an issue consistently raised by partner countries. Efforts to strengthen partner country procurement should therefore simultaneously pursue two routes -- strengthening partner country systems and capacities and limiting donor demands on those capacities.

15. These donors' requirements stem, of course, from the need to ensure that their taxpayers' money is well spent. Are there pragmatic and effective actions that the Working Party could take at this stage to better balance their needs with partner countries' capacities? Considerable attention has been giving to the issue of standardisation or harmonisation of donor requirements, but have these produced results to date?

d) Needs assessment

16. The above "checklists" could provide a basis for organising and synthesising available information on the main problems faced by partner countries in designing and implementing effective procurement regimes. It is expected that a considerable amount of information is available from bilateral and multilateral donors, partner countries and other sources, both at general and specific (e.g. case studies) levels. The task would be to bring this together as a basis for a subsequent discussion of donor strategies, policies and instruments. Doing so will, in no small part, rely on the assistance of Members in providing the secretariat with their views and perspectives as well as relevant background information (e.g. own investigations, case studies, etc) in their possession.

17. It is suggested that a consultant be engaged to undertake this stage of the work. If Members agree, a term of reference would be prepared and submitted to Members with a request for suggestions for possible consultants and to solicit voluntary contributions.

III. Strategies, policies and instruments to strengthen partner country procurement (including improved access to procurement by local enterprises)

18. The assessment of partner countries needs will provide the basis (or targets) for the next stage of work, which should identify how donors can best work with partner countries to strengthen procurement systems. Without going further into this topic at this stage, it will be important to find out what donors have so far done in this respect and their assessment of its impact. This stage will be the central, value added component of the proposed work and its suggested output -- guidance/best practices.

Improved access to procurement by local enterprises

19. It has been suggested that an important benefit from putting partner countries in the driving seat for procurement will be to improve the access of enterprises from developing countries to aid funded procurement contracts. This is an objective broadly shared by Members because it should increase the impact of development assistance on partner countries.

20. It is probably best to address this issue in stage 2 of the work (rather than earlier) as it is a policy issue, but also because effective approaches will also depend on the procurement systems and capacities of partner countries. Putting partner countries in the driving seat for procurement may, in itself, go a long way to meeting this objective. The question is whether, over and above that, additional measures might be needed/helpful.

21. Based on an earlier exchange of views on this in the DAC [see DCD/DAC(99)25, discussed at the informal meeting on 13 September 1999], possible approaches in this direction could fall into two broad groups:

a) "Targeted" approaches (seeking to direct contracts towards local enterprises), e.g.

- Preference schemes (e.g. cost margins in favour of developing country enterprises);
- Two stage or differentiated regimes -- e.g. a first round of calls for tender for certain goods and services directed to developing country enterprises, or promoting local procurement for smaller projects (where developing country enterprises may be more competitive);
- Other -- e.g. promoting a certain degree of local cost/content, subcontracting etc. in procurement.

22. In these areas, however, it will be important to assess expected benefits against possible trade-offs in areas such as technical quality and sustainability or in terms of the administrative complexity of arrangements, to ensure that approaches are not, in the end, self-defeating. The experiences of the World Bank, the EU and others should be brought into this discussion.

b) "Framework" approaches (addressing the competitiveness of local enterprises), e.g.

- Bid evaluation procedures placing greater emphasis on the broader development impacts of bids (e.g. in respect of local job creation, contribution to poverty, gender, social objectives, etc.), i.e. more attention or weighting given to development impacts in addition to price and technical quality.
- Active and targeted information efforts to local enterprises to identify and assess opportunities;
- Designing procurement systems and procedures that take more into account the commercially less sophisticated nature of many local enterprises and removing bureaucratic obstacles to their involvement;
- Assistance to private sector providers (business services sector) for the provision of procurement related services, e.g. investment analysis, bid preparation, access to finance, etc.

23. While more detailed analysis and assessment of these approaches should be undertaken in stage 2 of the project, initial views on the following questions would be helpful in thinking about how this theme is carried forward:

- Could Members provide broad indications of the proportion and nature of aid procurement contracts that are awarded to developing country enterprises?
- Could Members indicate the types of activities they presently undertake to promote procurement by developing country enterprises?
- Of the possible approaches outlined above (both groups), which are likely to represent the most promising directions for further discussion?