



Public Procurement for Sustainable and Inclusive Growth

Enabling reform through evidence and peer reviews





The OECD supports governments in reforming their public procurement systems to ensure long-term sustainable and inclusive growth. An efficient and effective public procurement system is the backbone of a well-functioning government. Public procurement contributes to promoting a level playing field for the private sector and delivering effective services to the public.

We work with governments in reforming procurement policy and practice by:

- Providing international standards on public procurement, in particular to ensure value for money with the OECD Recommendations on Enhancing Integrity in Public Procurement and on Principles for Public Governance of Public-Private Partnerships.
- Undertaking hands-on peer reviews that provide an assessment of the procurement system and proposals to address implementation gaps. The peer review benefits from the practical experience of selected experts from leading OECD countries to learn from international good practice. The review also builds consensus among stakeholders through policy dialogue in the development of an action plan.
- Bringing together a community of practice on procurement to shape directions for future reforms. The Task Force on Public Procurement provides a leading forum for senior public procurement officials to work together on how to transform procurement into a strategic government function.
- Organising policy dialogue on the co-operation between government and the private sector in the framework of the G8 and G20, for example, on how procurement impacts SMEs development in the Middle East and North Africa.
- Collecting evidence across OECD countries on the performance of procurement operations as well as the impact of procurement on broader public policy objectives.

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As a major part of the economy and public spending, public procurement can demonstrate government efficiency.

In an era of fiscal austerity, ensuring efficiency and integrity in public procurement is essential to ensure sound public service delivery and maintain citizens' trust in government. Governments are recognising the potential of procurement to improve public sector productivity through savings and economies of scale.

In addition, governments are tapping into the potential of procurement as a strategic policy lever to advance socio-economic and environmental objectives.

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Angel Gurría
Secretary-General of the OECD

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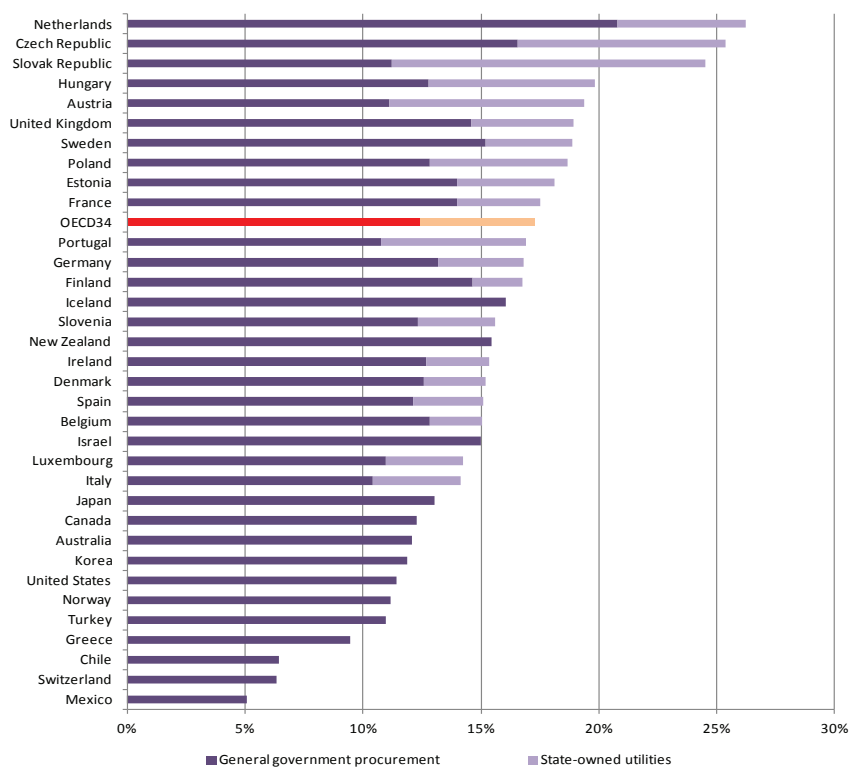
Public procurement is big business

Because of the significant flows involved, public procurement is key for the economy. The OECD has invested significant efforts in the last decade to support governments in reforming procurement systems.

Public procurement is big business

Taxpayers' money spent by government on goods, services and infrastructures such as roads, hospitals or school books accounts for 13% of gross domestic product (GDP) on average in OECD countries. The percentage of GDP is even higher when taking into account state-owned companies such as utilities providing, for example, water and electricity services.

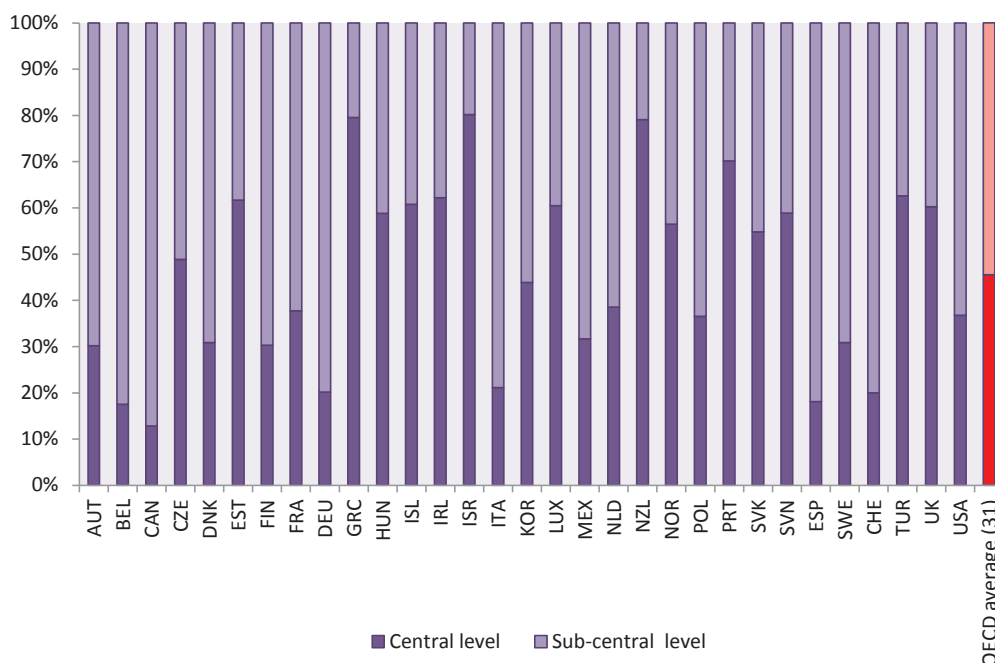
General government and state-owned utilities procurement as percentage of GDP (2008)



Source: OECD (2011), *Government at a Glance 2011*, OECD Publishing, Paris

However, not all of this money is being spent by central government. A large share of procurement is carried out at the sub-central level, with local governments responsible for more than half of public procurement expenditure.

Procurement expenditure by level of government (excluding social security funds)



Source: OECD National Accounts Statistics (2009)

The background of the slide features a roll of US dollar bills, with a \$100 bill visible at the top. A yellow measuring tape is draped across the middle of the image, showing measurements in inches. The tape is partially unrolled, with the numbers 62, 63, 64, 65, 66, 81, 82, and 83 visible. The overall image has a greyish-blue tint, and the text is overlaid on the left side.

Reforming procurement to achieve savings in times of austerity

Eliminating red tape and enhancing productivity are key priorities in times of hard budget constraints.

Reforming procurement to achieve savings in times of austerity

Governments have invested efforts in restructuring and consolidating their public procurement practices to achieve savings through economies of scale.

Achieving economies of scale in Mexico

The energy and health sectors

Mexico's key actors in the health and energy sectors, namely the Mexican Institute of Social Security (IMSS), the Mexican Petroleum Company (PEMEX) and the Commission for Electricity (CFE), requested the OECD to help them deliver better services with decreasing resources in 2011. The health and energy sectors in Mexico represent 40% of all public sector procurement, approximately USD 15 billion.

Procurement offers the potential for savings and improved performance and is key to the viability and credibility of these institutions. To achieve economies of scale within individual organisations as well as across sectors, the following recommendations were made as a result of the OECD procurement reviews of PEMEX, CFE and IMSS in 2011:

- Initiate a dialogue among Mexican entities to consider joint procurement for common goods and services.
- Streamline processes and increase co-ordination in highly decentralised structures in the health and energy sectors and further centralise standardised requirements.
- Reduce the use of direct awards and increase the use of open and competitive tendering.
- Increase integration among the electronic systems of individual entities and the Federal Government's e-procurement system (Compranet) as well as provide systematic training on the use of these systems to both civil servants and potential suppliers.

Source: OECD (2012), *Public Procurement Review of the Electric Utility of Mexico: Towards Procurement Excellence in the Federal Electricity Commission (CFE)*, OECD Publishing, Paris.

OECD (2012), *Public Procurement Review of the Mexican Institute of Social Security: Enhancing Efficiency and Integrity for Better Health Care (IMSS)*, OECD Publishing, Paris.

20 million euros

According to the Mexican Institute for Competitiveness, the Mexican Institute for Social Security saved 20 million euros in procurement spending on medicines in 2011 as the result of the OECD review of its procurement procedures.

Source: Instituto Mexicano para la Competitividad, A.C. (August 2012), "Evaluación del Acuerdo de Trabajo IMSS-OCDE-CFC, www.imco.org.mx.

Delivering more effective public services for better lives

The quality of health services is very much dependent on procurement practices and how well informed procurement officials are about existing treatments.



Delivering more effective public services for better lives

Health care is one of the largest government spending items – more than 6% of GDP on average in OECD countries. Spending per capita has risen by over 70% in real terms in OECD countries since the early 1990s.

There is a clear need to make health care spending more effective. One way is to introduce competitive tender procedures that bring down the prices of generic medicines, making them more affordable for the public.

Competition means more affordable medicine for the public

The use of competitive procurement significantly decreases the price of generic drugs, according to a study on generic drugs in Europe carried out by the French Social Security.

The study showed that the price of generic medicines on average in Europe varies up to 300 % - from 5 cents in the Netherlands up to 15 cents in France per standard unit. These differences result in particular from the method used to determine the price of these drugs:

- Countries where prices for generic drugs are higher have a discount system. This is the case for example in France, Belgium and Austria where the generic drugs are 55% cheaper than reference drugs.
- On the other hand, when the price of generic medicines is determined through a competitive procurement process, substantive savings can be achieved. In the United Kingdom and the Netherlands, price is determined through a competitive process open to all suppliers and conducted by pharmacies. Savings are then shared between pharmacies and social security. This method allows social security to achieve substantive cost savings by increasing the collective buying power of pharmacies and bolstering competition among suppliers.

Source: OECD (2012), "Progress made in implementing the OECD Recommendation on Enhancing Integrity in Public Procurement: Report to Council", www.oecd.org/corruption/fightingcorruptioninthepublicsector/.

Also, evidence-based information on the effectiveness of medicines is key. In particular, it helps procurement officials to prioritise their purchases and ensure that patients receive the most effective treatment, contributing to enhance their quality of life.

50%

Half of health care services are still provided without any evidence about their effectiveness, according to the American Institute of Medicine.

Source: OECD (2010), *Health Policy Studies: Value for Money in Health*, OECD Publishing, Paris.



Procurement and Sustainable Development

“Sustainable procurement is a process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis (...) whilst minimising damage to the environment.”

DEFRA (June 2006), “Procuring the Future, Sustainable Procurement National Action Plan: Recommendation from the Sustainable Public Procurement Task Force”, Department for Environment, Food and Rural Affairs, United Kingdom.

Procurement and Sustainable Development

Procurement has the potential to create synergies between innovation, market growth and environmental protection:

- In particular strategic government spending can trigger market demand for sustainably produced goods and services – for example by shifting more rapidly to cleaner technologies.
- Contrary to common perception, sustainable procurement can also help achieve financial savings on a whole-of-life cost basis. For example, purchasing LED bulbs, although they are more expensive in the short-term, eventually contributes to cost savings.

More than three-quarters of OECD countries have developed practical guides for procurement officials on how to use procurement to promote sustainable development. (OECD, *Government at a Glance 2011*, OECD Publishing, Paris).

However countries need to weigh costs and benefits. When using procurement to support environmental or socio-economic objectives, the competition process may be distorted, for example in the form of hidden trade barriers.

The United States has led efforts among OECD countries in investing in clean energies with **USD 18 600 million in 2011.**

However China has become the global leader with the investment of **USD 34 600 million in clean energies in the same year.**

Source: OECD Public Procurement Review of the United States Federal Government

Transforming procurement into a strategic function

Ultimately it is essential for governments to verify that the objectives of procurement are achieved, whether these are value for money objectives in the traditional sense of price and quality, or broader policy objectives such as sustainable development.



Transforming procurement into a strategic function

In 2008 OECD countries committed to reforming public procurement in order to promote good governance in the whole procurement cycle with the adoption of the OECD Recommendation on Enhancing Integrity in Public Procurement.

OECD Countries recognise the need to enhance value for money and to mitigate the risk of waste and corruption throughout the procurement cycle: from procurement planning, tendering and contract award until contract management.

Where are OECD countries lagging behind?

Public procurement is still organised as an administrative rather than a strategic function of government in many countries. The review of progress made in the last four years shows that OECD countries are behind schedule in five areas:

1. The lack of professionalisation remains the greatest weakness in many countries. Procurement is not recognised as a specific profession in a third of OECD countries.
2. Procurement is not approached as a cycle of measures to ensure efficiency and integrity, from the design of the project throughout the tender until contract management. Only half of OECD countries indicated that their procurement reforms have addressed the whole public procurement cycle in the last three years.
3. Performance-based monitoring of procurement systems is the exception to the rule. When reporting on progress made very few countries indicated that they monitor the performance of procurement systems and processes based on data and benchmarks.
4. Risks and opportunity costs are rarely assessed when using procurement as a policy lever to support socio-economic and environmental objectives. In half of OECD countries there is no prior assessment to verify that public procurement is an effective tool to achieve these objectives.
5. Access to international procurement markets is still a major challenge. Even in an integrated market such as the European Union, less than 4% of the value of contracts in the EU is awarded to firms from another member state.

Source: OECD (2012), "Progress made in implementing the OECD Recommendation on Enhancing Integrity in Public Procurement: Report to Council", www.oecd.org/corruption/fightingcorruptioninthepublicsector/.

Seven lessons learned from the OECD Public Procurement Reviews

The OECD has conducted a series of peer reviews to help countries assess their procurement systems against the *OECD Recommendation on Enhancing Integrity in Public Procurement*.

These reviews also support the G20 commitment to promote integrity, transparency and accountability in major spending areas.

The reviews have helped governments in moving away from a strictly compliance-based approach with procurement rules to a managerial approach that pursues value for money in the whole project cycle. To transform procurement into a strategic function of government, a number of lessons can be drawn from these reviews.

Seven lessons learned from the OECD Public Procurement Reviews

1. Moving away from strict compliance to a more managerial approach pursuing value for money in the whole project cycle.

Poor project planning and lack of monitoring of performance in contract management are common challenges among countries. Reviews identified ways to mitigate risks of waste and integrity throughout the procurement cycle, from the needs assessment through the tendering process and until the final payment.

2. Ensuring a strategic position for the government function to ensure sound stewardship of public funds.

In Mexico the procurement function is still handled as an administrative service in support of technical areas in many organisations. As part of the review process, the Commission for Electricity (CFE) has taken the initiative to draw up an action plan, together with the OECD, to provide a road map for reform, transforming procurement into a strategic function which will contribute to CFE's objectives and priorities.

3. Developing evidence to monitor the performance of the procurement system.

The e-procurement system for federal public procurement in the United States brings together nine distinct systems to provide an integrated interface for users. The OECD peer review helped the United States federal government generate better quality data on procurement and promote performance analysis.

4. Tapping into the potential of consolidation with a view to achieving efficiency gains.

The Mexican Institute of Social Security (IMSS) procures a wide range of products and services through a highly decentralised procurement function. The OECD Review has helped the Institute centralise the purchase of therapeutic goods, establish a maximum reference pricing and enhance the use of reverse auctions in order to achieve efficiency gains.

5. Investing in professionalisation

The government of Morocco has set up a specific procurement unit in the Treasury in order to equip the government with a team of procurement specialists, following the OECD review.

6. Keeping strict control in the use of exceptions to competitive tendering (e.g. for reasons of extreme urgency).

In Brazil, the extensive use of exemptions and below threshold procurements suggests that the government is not leveraging its bulk purchasing power. The OECD review recommended controlling more strictly the use of these exceptions and reforming the complaint system to avoid undue pressure from the private sector.

7. Providing sufficient flexibility in the procurement policy to adapt to different situations while ensuring transparency.

The review of the energy sector in Mexico shows that although economic operators require a level of flexibility in the use of competitive procedures, publicising information on public contracts is key to maintaining public trust regardless of the level of competition.

Public procurement resources



International Standards

OECD Recommendation on Enhancing Integrity in Public Procurement

OECD Recommendation on Principles for Public Governance of Public-Private Partnerships

OECD Recommendation Fighting Bid-rigging in Public Procurement

OECD Recommendation on Improving the Environmental Performance of Public Procurement

OECD Recommendation on Anti-Corruption Proposals for Aid-Funded Procurement

www.oecd.org/gov/oecdlegalinstrumentsoncorruptionprevention.htm

Public Procurement Task Force

The Public Procurement Task Force provides a leading forum for senior public procurement officials to work together on how to transform procurement into a strategic government function. The Task Force primarily consists of senior procurement officials from governments at national or federal level from OECD Member and non-Member economies. Relevant international organisations with long-standing experience in this field, such as the World Trade Organisation, the United Nations, the World Bank and Multilateral Development Banks are also invited to participate in the Task Force.

Good practices

CleanGovBiz - Integrity in practice

The OECD's CleanGovBiz Initiative supports governments, business and civil society in their efforts to build integrity and fight corruption across the board. www.oecd.org/cleangovbiz

Checklist for Enhancing Integrity in Public Procurement

This Checklist is designed to provide guidance to policy makers at the central government level for the implementation of the OECD Principles for Enhancing Integrity in Public Procurement.

www.oecd.org/gov/fightingcorruptioninthepublicsector

Public Procurement Toolbox

The OECD Public Procurement Toolbox is an on-line resource that captures emerging good practice to enhance corruption prevention and good management in public procurement in OECD and non-OECD countries. The tools contained in the website have been compiled from practices which have been successfully tested in a number of countries.

www.oecd.org/governance/procurement/toolbox

Reviews

OECD, *Public Procurement Review of the State's Employees' Social Security and Social Services Institute (ISSSTE)*, OECD Publishing.

OECD, *Public Procurement Review of the Electric Utility of Mexico: Towards Procurement Excellence in the Federal Electricity Commission (CFE)*, OECD Publishing.

OECD, *Public Procurement Review of the Mexican Institute of Social Security: Enhancing Efficiency and Integrity for Better Health Care (IMSS)*, OECD Publishing.

OECD, *Public Procurement Review of the Mexican Petroleum Company : Optimising the supply process to maximise value creation (PEMEX)*, OECD Publishing.

OECD, *OECD Integrity Review of Brazil: Managing Risks for a Cleaner Public Service*, OECD Publishing.

OECD, *OECD Public Procurement Review of the United States Federal Government*

www.oecd.org/gov/ethics/procurement

Further reading

OECD, *Principles for Integrity in Public Procurement*, OECD Publishing.

OECD, "Centralised Purchasing Systems in the European Union", Sigma Papers, No. 47, OECD Publishing.

OECD, "The Regulation of Contract Below the European Union Thresholds and in Areas not Covered by the Detailed Rules of the EU Directives", Sigma Papers, No. 45, OECD Publishing.

OECD, "Public Procurement Review and Remedies Systems in the European Union", Sigma Papers, No. 41, OECD Publishing.

OECD, *Integrity in Public Procurement: Good Practice from A to Z*, OECD Publishing.

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www.oecd.org/gov/ethics/procurement