



ACCA

**NEW MODELS
OF PUBLIC
PROCUREMENT:
A TOOL FOR
SUSTAINABLE
RECOVERY**

Think Ahead

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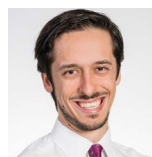
NEW MODELS OF PUBLIC PROCUREMENT: A TOOL FOR SUSTAINABLE RECOVERY

Effective policy responses to the COVID-19 pandemic must take account of both the health and economic implications of the current crisis. Reforming public procurement is one such area where new models of policy and practice can achieve both. By improving and transforming how public procurement is managed, governments can generate significant financial savings while delivering high-quality goods and services to meet urgent demand. If done well, public procurement also has the potential to meet the wider social and environmental goals that are too often left behind.

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Foreword

Public procurement, normally a sleepy compliance backwater, has been front and centre of the world's response to COVID-19 as governments have scrambled to procure protective masks, gloves and medical equipment.

But emergency procurement comes with a price. Traditional checks and balances have taken a back seat to ensure a fast response. Around the world, governments needing to respond quickly and efficiently to the emergency often struggled under archaic and ineffective, paper-based systems.

In the early days of the pandemic, we saw a 'hunger games' as different parts of government tried to secure supplies, with little coordination and different parts of the same government bidding against each other.

Direct awards used in emergency procurement mean less oversight and substantially increase the risk for overpricing, mismanagement, and favoritism. We've all read the horror stories – from raspberry farms to vodka distilleries to organised crime associates claiming they can provide ICU ventilators or other vital equipment.

As the balance of power has shifted from buyer to supplier, a lack of coordination, data, and transparency have put many levels of government at a disadvantage.

IMF Managing Director Kristalina Georgieva said earlier this year, 'spend ... but keep the receipts. We don't want accountability and transparency to take a back seat in this crisis.' All pandemic spending needs to be public and it needs to be accounted for.

Yet there is hope, as this new exciting report shows. New and better ways to do procurement are coming through and they've proved themselves during the pandemic.

At the Open Contracting Partnership, we have been working with over 50 governments – both in the OECD and non-OECD – to open up and transform public procurement as a smart, user-centred digital service with standardized open data to enable automated data gathering and the opportunity to track and analyze the process, in real time. Those countries that have done this properly, who have invested in rethinking their procurement processes to make it more user-centred, more inclusive, driven by open data, who have made an effort to engage businesses beyond the usual suspects have been much more resilient during the pandemic.

And as the report also makes clear, this really matters for all of us. One in every three dollars spent by government is on a contract with a company. Public procurement is central to delivering the goods, works and services on

which we all depend. The figures herein clearly show a major gap in the perception of the value being delivered through procurement. It is telling that the private sector thinks the government could be doing a better job with its spending – better data and moving the culture of procurement to being more innovative and performance-based would make a big difference.

So, let's use this report and its lessons to build back better.

Engaging and responding to businesses and citizens leads to better planning, contracting and contract management processes, engineering feedback loops into public contracting encourages competition, fair play and better performance.

Change is hard, especially in the risk adverse world of procurement but it is clearly possible and it's working. During a challenging three months we've seen three-to-five years' worth of innovation. Governments are enabling electronic processes, accelerating and expanding data coverage to include information on products and product codes (including tagging contracts with COVID-19), increasing data analytics and dashboards and linking up information on project planning to public contracts via standardised open data. We've also witnessed a jump to more innovation partnerships with the private sector. It is vital to count on the expertise and insight by the ACCA and its members.

It's not just about the rules, but about the outcomes: Fairer competition and a level playing field for business, especially smaller firms, higher-quality goods, works, and services for citizens, increased integrity and preventing corruption and fraud, and finally, better solutions for public problems.

So read on and then act. Open Contracting Partnership and the ACCA are here to help and this report is packed with actionable ideas to get you started.



Dr Gavin Hayman
Executive Director,
Open Contracting Partnership

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**THE GLOBAL
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TO THE CRISIS. ”**



Executive summary

This timely report, *New models of public procurement: A tool for sustainable recovery*, uses survey data and in-depth discussion points from over 1000 ACCA members and affiliates to examine the biggest challenges facing public procurement and lay out key recommendations on how best to tackle these.

The findings and recommendations fall into four main categories:

- eliminating bribery and corruption
- competition and the buyer–supplier relationship
- modernisation and sustainability
- COVID-19 and the public procurement ‘need for speed’

Our research is born out of a growing need to ensure that public spending during and beyond the COVID-19

pandemic is not only made more efficient and cost-effective, but that it is used as an opportunity to tackle some of the biggest challenges of our time, including environmental catastrophe and rising social inequalities. The role for finance professionals in helping to make, monitor and evaluate these changes is significant and, as this report demonstrates, the global finance profession is needed now more than ever to help transform how the public sector responds to the crisis.

The key recommendations from the report are set out in Table 1.1.

TABLE 1.1: Key recommendations arising from ACCA’s research

Eliminating bribery and corruption

- Governments should adopt an e-Procurement system for the efficient management of the procurement process and publish reusable data from the system for monitoring and oversight using the Open Contracting Data Standard (OCDS).
- Governments should make it a condition of the validity of the awarded contracts that they are published in a centralised register of contracts to ensure full visibility, transparency and accountability of public authorities.
- Auditors and finance professionals should engage with Red Flag analysis to use this data to identify and predict occurrences of corruption and bribery in the procurement process.
- Audits should become commonplace in all public procurement procedures and they should begin as early as possible in a bid to reduce the likelihood of corruption, while ensuring that the auditors do not become part of the process. Finance professionals and auditors must play an active but independent role in the procurement process from start to finish – having access to this data is vital in ensuring they can do this most effectively.



Improving the buyer–supplier relationship and promoting competition

- Governments should adopt an e-Procurement system and publish the subsequent data from the system by using the OCDS to improve awareness of upcoming and awarded contracts and ultimately widen the pool of potential suppliers – particularly SMEs. This data will enable auditors and finance professionals to monitor procurement better and allow their role to evolve into a more advisory one in the overall process.
- The digitalisation of public procurement will help simplify and streamline the process for public contracts – encouraging more SMEs to participate in the process and widening the available pool of bidders. Specifically, governments should ensure that digital platforms for procurement provide SMEs with better tools for engagement – such as free-of-charge training for how best to bid on contracts – and they should reduce the administrative burden required for bids to encourage SME participation. Dividing up tenders into lots can make large bids more accessible for smaller suppliers.
- Use the skills of auditors and finance professionals when working to improve the relationship between bidder and supplier. Employing performance-management techniques early in the process to monitor progress and providing feedback to unsuccessful bidders can help improve current commercial relationships and foster better working relationships in the future.
- Governments should create a Register of Suppliers’ Poor Performance (see Northern Ireland example) to document suppliers who have failed to address poor performance while fulfilling a contract with the government.

Modernising and refocusing procurement to meet the challenges of a post-COVID-19 World

- Governments must ensure that when embarking on digitisation reforms, e-Invoicing is developed as an integrated part of e-Procurement systems. Doing so can improve the quality of public goods and services, generate financial savings and help keep SMEs in business by paying invoices on time.
- Open, accessible and transparent data should be made available as a fundamental part of these reforms so auditors and finance professionals can monitor public procurement practices to assess the specific impact of late payments on SMEs and the public sector purse.
- Auditors and finance professionals should play an active role in creating sustainable public procurement (SPP) action plans that set out how public procurement processes will incorporate important sustainability and social value targets when contracts are awarded.
- These action plans should be accompanied by concrete evaluation guidelines and metrics to enable finance professionals and auditors to measure sustainable public procurement practices as part of national and local efforts to monitor progress towards the SDGs – particularly target 12.7.

Public procurement as a tool in the COVID-19 recovery

- Ensure that emergency contracting procedures allow for the flexibility needed to tackle the crisis but are only used when absolutely necessary and have transparency safeguards in place to prevent corruption.
- Use public procurement as an opportunity to keep businesses – in particular, SMEs – afloat by publishing contracts early on centralised, open databases that are accessible to all.
- Maintain momentum in achieving the SDGs by purchasing from sustainable and socially minded businesses. The process for selecting suppliers must be made faster but should still include evaluation methods that account for sustainability and social values.
- Centralise purchasing using central purchasing bodies to prevent government-to-government competition in the market, reduce prices and make auditing easier.
- Ensure that all procurement activity is transparent and available to finance professionals and auditors in real time, so they can monitor public spending to help prevent cost inefficiencies and corruption.



1. Introduction

Public procurement, the process by which the public sector purchases goods, services and works from the private sector (World Bank 2020), accounts for around 8.5 trillion US dollars of annual global expenditure (Guerry and Martins 2018).

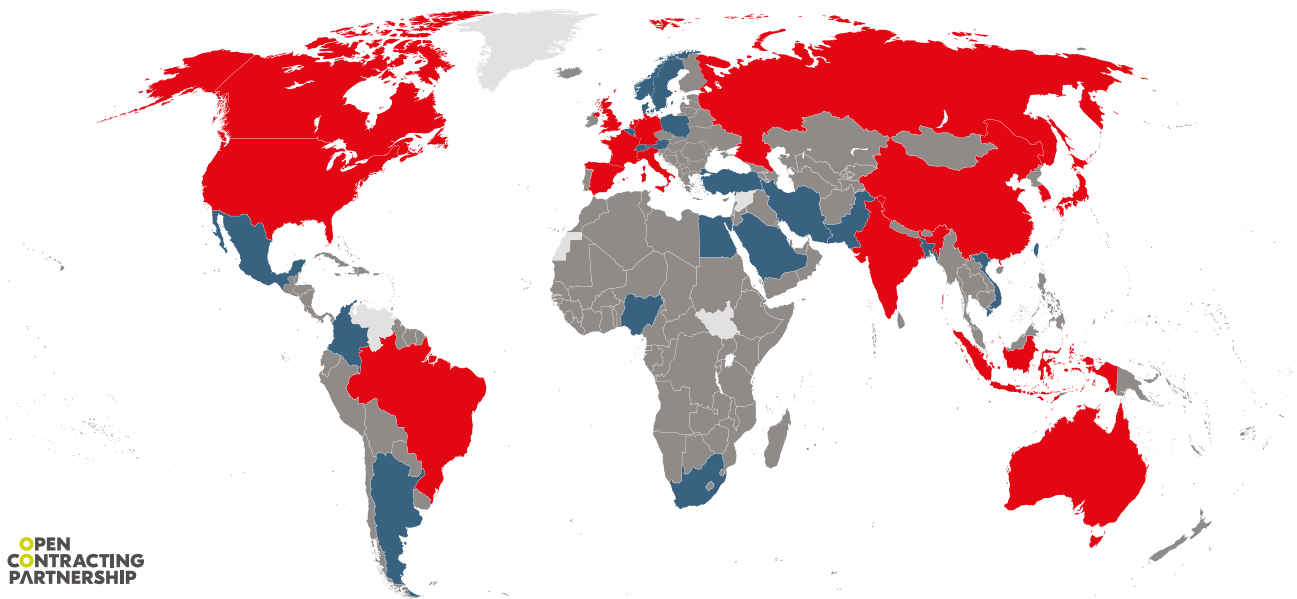
At the national level, this represents about one-third of total government spend (Guerry and Martins 2018). The proportion of GDP spent on public procurement is largely comparable across low-income, middle-income and high-income countries, meaning this is a truly global phenomenon (Bosio and Djankov 2020) (Figure 1.1).

As spending on public procurement is such a significant proportion of overall government expenditure for the majority of countries around the world, optimising it is critical. Public procurement often supports the delivery of vital goods and services to the public, including administering efficient and high-quality healthcare systems, distributing energy to households and building essential infrastructure.

FIGURE 1.1: Global public procurement spend

How the world compares in public procurement spending (in USD)

■ Under \$40bn ■ \$40bn-\$100bn ■ > \$100bn



OPEN CONTRACTING PARTNERSHIP

Source: Open Contracting Partnership¹

¹ Maps kindly provided to the report authors by the Open Contracting Partnership in October 2020.

Through conducting a survey of over 1000 ACCA members and affiliates working in both the public and private sectors, we found a number of common challenges in public procurement policy. This report sets out these challenges and offers concrete calls to action to address them.

When we asked respondents how they would describe the quality of public services in their country, 46% of those in the public sector selected good or very good, compared with just 36% of those in the private sector. Almost one-quarter of private sector respondents stated the quality was poor or very poor compared with only 14% of public sector respondents. This demonstrates a clear mismatch between how the public and private sectors view the market in which they are operating (see Figure 1.2).

There were also some notable regional disparities: 65% of respondents in North America and Europe responded that the quality of public services in their country was good

or very good compared with 49% of respondents in Asia Pacific, 22% in South Asia and less than 16% in Africa.

Now more than ever, having a high-quality, efficient public procurement system is essential. The COVID-19 pandemic has forced governments to ensure that procurement practices can cope with the increased and urgent demand for goods and services needed to tackle the health implications of the virus while simultaneously ensuring that public finances remain well managed. In the initial months of the pandemic, between January and July 2020, governments spent at least US\$100bn on COVID-19 contracts (Open Contracting Partnership 2020a). As the pandemic continues, governments will have to spend more and spend quickly on personal protective equipment (PPE), medical supplies and vaccines. With the International Monetary Fund (IMF) predicting global economic output losses of over US\$12 trillion (Gopinath 2020), every national economy will need to make some drastic changes to how government spending and service delivery are managed (Figure 1.3).

As the majority of countries will seek to make public sector savings in the months and years following the crisis, innovative and efficient public financial management techniques will be vital. Governments do not necessarily have to turn to short-term solutions such as tax increases or austerity but instead can take a more long-term and sustainable view of public sector financial management: see ACCA's report, [Sustainable Public Finances through COVID-19](#) (Metcalf and Taylor 2020).

46% OF RESPONDENTS IN THE PUBLIC SECTOR SELECTED GOOD OR VERY GOOD, COMPARED WITH JUST 36% OF THOSE IN THE PRIVATE SECTOR.



FIGURE 1.2: Comparison of how those working in the public and private sectors view the quality of their country's public services

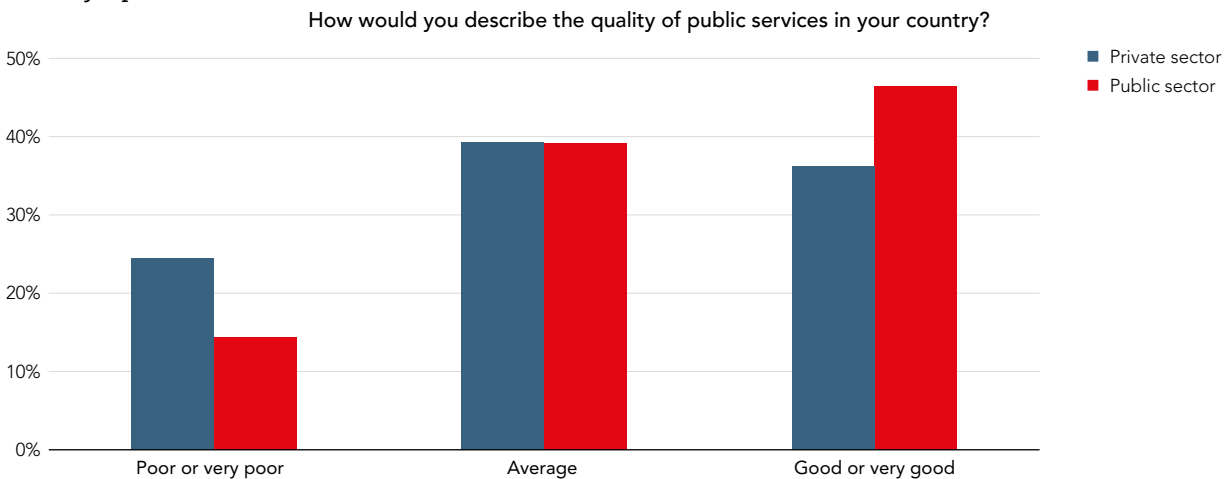
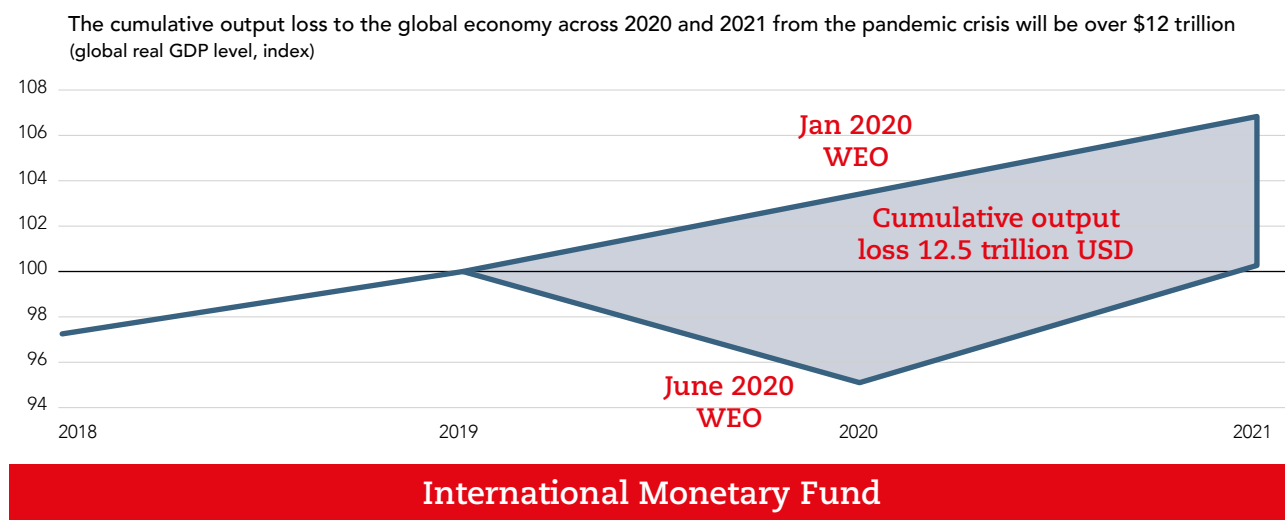


FIGURE 1.3: Losses in global output in 2020

Source: IMF Blog: *Reopening from the Great Lockdown: Uneven and Uncertain Recovery* (2020)

One such method of creating and maintaining public financial sustainability in both the long run and the near future is through generating greater efficiency in the public procurement process. While spending on public procurement of essential goods and services is a necessary and critical aspect of public sector finances, the price of poor procurement practices can be crippling. Estimates suggest that making changes to how governments approach procurement could rationalise spending by between 7% and 35%, generating global savings of around US\$1.4 trillion (Guerry and Martins 2018).

Public procurement not only gives governments opportunities to generate financial savings: it also provides an opportunity to achieve other important social, economic and environmental goals. Public spending on goods and services can provide much-needed cash injections into struggling businesses – particularly small-to-medium-sized enterprises (SMEs), and spending ethically and sustainably can provide investment and support to businesses trying to tackle some of the biggest questions of our time.

Procuring during a crisis has created some difficult challenges for governments around the world and has tested national procurement processes. Even so, as we progress through the pandemic, we are at an opportune moment for learning some important lessons and preparing the public purse for future crises. This is a critical moment in public sector finance and governance when some important changes could be made in public procurement and, as a result, improve not only the state

of public finances but also the vital relationship between private sector suppliers and public sector buyers, at the same time achieving social and environmental targets.

The report is divided into four chapters that look at identified challenges in public procurement, possible policy responses to these challenges and the vital role the finance professional will play in ensuring the reforms are effective. Specifically, in the next three chapters, the report focuses on:

- eliminating bribery and corruption (see Chapter 2)
- improving the buyer–supplier relationship and promoting competition (see Chapter 3)
- modernising and refocusing procurement to meet the challenges of a post-COVID-19 world (see Chapter 4)

The final chapter looks specifically at COVID-19 and the procurement challenges it has forced governments to grapple with around the world.

As this report demonstrates, making the changes that we recommend has the potential to generate significant savings for governments, strengthen the relationship between the public and private sectors, and improve the general provision of public goods and services, while still working towards meeting national and international sustainability targets. The role of professional accountants in both the public and private sectors will be key in realising these reforms and ensuring that public procurement practices are transparent, sustainable, data-driven, up to date and cost-effective.

Methodology

As noted above, for this report, ACCA conducted a global survey of ACCA members and affiliates working in the public and private sector. We asked our respondents a number of questions about public procurement in their country. Specifically, we hoped to answer the following overarching research questions.

1. What challenges do private sector suppliers and government officials identify in the public procurement process?
2. What should the policy objectives of public procurement be?
3. What are the implications of COVID-19 and the need for 'procurement at speed' during a crisis?

In total, we received 1,133 responses to the survey. Our respondents covered a wide range of economic areas, including the public sector, not-for-profit, financial services and the corporate sector. They represented different-sized organisations from as small as fewer than 10 employees to organisations with over 1000 employees, and included newly qualified accountants, chief financial officers and academics, among other roles.

The survey was truly global, covering 94 countries and a wide range of regions at different stages of economic development. In addition, we conducted a follow-up online community discussion with 42 survey respondents over five days in August 2020 to generate more in-depth responses to questions on some of the main areas of public procurement policy. We contextualised our survey data through desk-based research (see the References section for details) and to ensure we included some essential policy ideas and proposals, which are already developing in this area.

Procurement policy: Objectives and challenges

What is the purpose of public procurement?

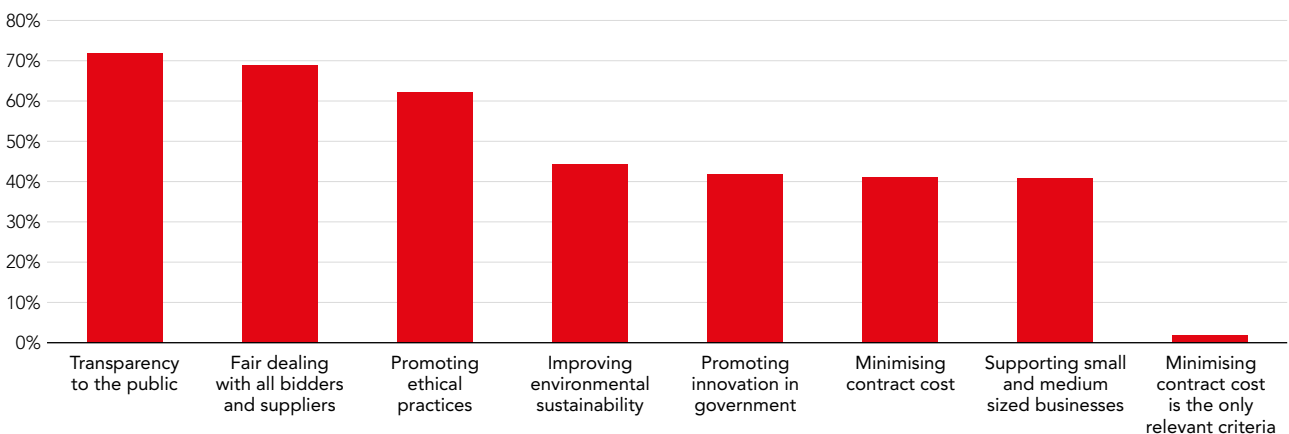
According to the Organisation for Economic Co-operation and Development (OECD), the main objective of public procurement 'is to deliver efficiency and value for money' in the use of public funds (OECD n.d.a). According to our online community discussion, a common misconception of this term 'value for money' confuses cost minimisation with other important factors that provide value for public money. 'Value', understood holistically, encompasses a wide range of other factors beyond financial savings.

In 2014, the European Parliament issued guidance to this effect, ensuring that cost was no longer the most important criterion, but instead advising that contracts are awarded on the principle of 'the most economically advantageous tender' (MEAT). This framework supports 'value for money' by including quality of the goods and services, innovation, price or lifecycle costs, and places greater emphasis on environmental and social considerations (Maciejewski, Ratcliff and Blandin 2020).

For the finance professionals in our survey, considerations beyond cost were evident and significant. Transparency, ethical and sustainable practices, fair market dealing, and innovation were demonstrably more important than cost minimisation in the evaluation of bids for public procurement contracts. In fact, fewer than 2% of respondents stated that minimising contract cost was the only relevant criterion to be considered when evaluating bids for public procurement contracts (Figure 1.4).

FIGURE 1.4: Respondents' views on policy objectives

What policy objective(s) should be considered in the evaluation of bids for public procurement contracts?



What are the main challenges of public procurement?

Among the challenges facing public procurement, bribery and corruption were consistently selected as the main challenge – significantly more often than the other challenges that were identified (Figure 1.6). Across all sectors, bribery and corruption were seen as the main challenge by the majority of respondents: slightly more so by those in the private sector than those in the public sector. This is a particular problem for the private sector – particularly SMEs – as unethical practices such as corruption can harm these businesses.

These findings were also notable in our online community discussion. Many participants made direct reference to the issue of corruption as being a significant problem, with one respondent, Omotayo Karunwi, a supervisor working in financial services in Nigeria, noting that:

‘CORRUPTION IS THE MAJOR ISSUE... FORMULATED POLICIES CANNOT ACHIEVE THEIR AIMS BECAUSE OF [IT]’.

In addition to bribery and corruption, the relationship and market management between government buyer and private supplier was also a key concern, with 45% of respondents stating there was an excessive reliance on a few key suppliers. Generally speaking, a lack of up-to-date methods and efficiency in the public procurement process was a clear challenge as underdeveloped e-Procurement systems and poor payment practices by government were identified as key concerns (Figure 1.6).

Key definition:

‘Public e-Procurement refers to the use of electronic communications and transaction processing by government institutions and other public sector organisations when buying supplies and services or tendering public works.’ (Barone et al. 2019)

For both technological advancements and the relationship between buyers and suppliers, Lazarus Milos, an internal auditor in Zimbabwe, noted that:

FIGURE 1.5: Respondents’ perceptions of the challenge from bribery and corruption, by sector

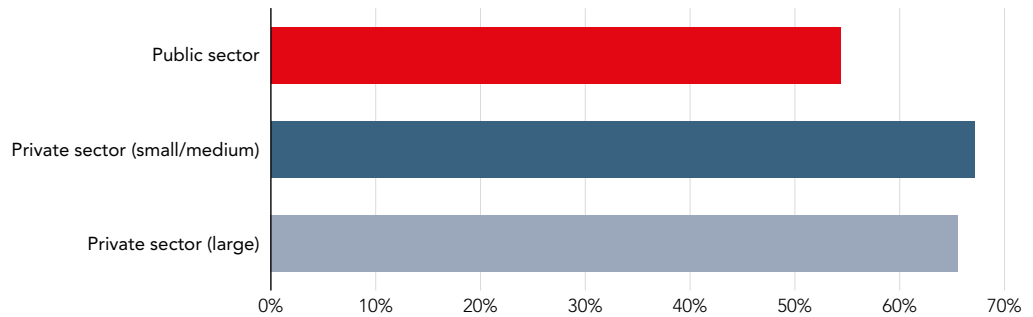
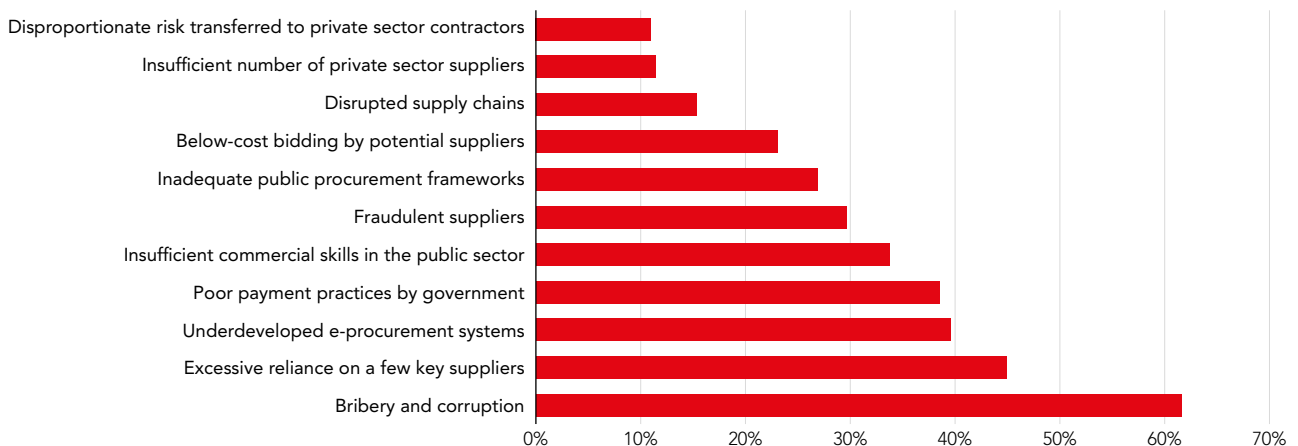


FIGURE 1.6: Respondents’ views on the main challenges faced in public procurement



'PUBLIC PROCUREMENT NEEDS TO ADAPT TO A CHANGING TECHNOLOGICAL LANDSCAPE TO SPEED UP AND RATIONALISE PUBLIC PROCUREMENT. THE ESSENCE OF PUBLIC PROCUREMENT IS TO ENHANCE SOCIAL BENEFIT AND IT IS IN THIS REGARD THAT THE ADOPTION OF A DIGITAL STRATEGY WILL ENHANCE SUPPLIER AND CUSTOMER RELATIONS. I SEE SUPPLIER RELATIONS AS CRITICAL IN ENSURING THE SEAMLESS DELIVERY OF PUBLIC AND SOCIAL VALUE THROUGH BUILDING RELATIONS THAT LAST AND ARE MUTUALLY BENEFICIAL.'

This mention of 'social value' was also a key objective that emerged among the online community respondents as well as those in the survey. According to UK government guidance on procurement, social value can help tackle

regional inequality with new jobs and skills, help disadvantaged communities, promote sustainability and support SMEs and start-ups (Cabinet Office 2020). Our online community respondents connected creating social value specifically with supporting small and medium-sized businesses, supporting women-owned businesses, and promoting sustainability efforts.

Therefore, as we navigate the economic fallout from the COVID-19 pandemic, it is essential that we not only deliver public goods and services efficiently to serve the population optimally from a health perspective, but that we also simultaneously manage public finances and drive efforts to maximise social value. To do so will require a multifaceted approach that goes beyond simply selecting the cheapest option. Reforming and rethinking how the public sector manages procurement will be a vital tool for public sector financial planners.



2. Eliminating bribery and corruption

This chapter will cover:

- the cost of corruption
- bribery and corruption survey findings
- combating corruption in public procurement: data, technology and auditing
- the role of auditors and finance professionals
- key recommendations for tackling bribery and corruption

The cost of corruption

According to the OECD’s 2014 report on foreign bribery, public procurement is one of the government activities most vulnerable to bribery and corruption (OECD 2016a). Various studies have estimated that between 10% and 25% of a public contract’s value may be lost owing to corruption, costing the global economy hundreds of billions of dollars every year (UNODC 2013). Transparency International places the cost to the public sector even higher, estimating that corruption can add as much as 50% to a project’s cost (Transparency International 2020a).

Corruption in public procurement not only imposes financial consequences on the public sector purse but can also erode trust between citizens and government and between the public sector buyer and private sector

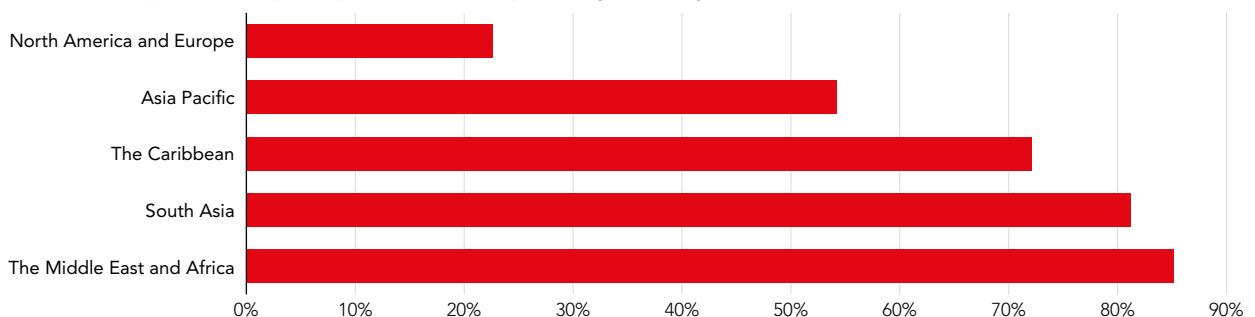
supplier. As we have seen during the COVID-19 pandemic, trust between government and the wider population is critical in determining how successful and effective policy responses are likely to be (Han et al. 2020).

For SMEs in particular, bribery and corruption can significantly impair the business environment in which they are operating (see Figure 1.5). If left unmanaged, it could act as an obstacle to SMEs that are bidding on public contracts. Research conducted by ACCA in 2019 found that when SME respondents were asked where they are most likely to experience bribery and corruption, ‘when dealing with public sector officials’ was selected more often than other options, such as ‘during negotiations over private sector contracts’ and ‘as a result of supply chain pressures’ (ACCA 2019). This signifies a particular problem with SME trust in dealings with public sector counterparts.

Survey findings

There was considerable regional variation in the number of respondents reporting bribery and corruption as a challenge to their procurement process. According to our respondents, bribery and corruption were most commonly identified in the Middle East and Africa, with 85% of respondents there identifying bribery and corruption as a key challenge, 81% in South Asia and 72% in the Caribbean.

FIGURE 2.1: Respondents’ perceptions of corruption, by country



By contrast, in North America and Europe, only 23% of respondents were concerned about bribery and corruption, demonstrating a clear regional divide (Figure 2.1).

Segmented by sector, bribery and corruption were clear concerns for private sector respondents in both SMEs and large organisations, with over 67% and 66% of them respectively identifying it as a main challenge compared with 54% in the public sector (see Figure 1.5) – demonstrating a particular mistrust of the process from the supplier perspective. This perception of corruption from the private sector side could reduce the likelihood that suppliers will bid for public contracts, thereby reducing the competitiveness of the bidding process generally.

SEGMENTED BY SECTOR, BRIBERY AND CORRUPTION WERE CLEAR CONCERNS FOR PRIVATE SECTOR RESPONDENTS IN BOTH SMEs AND LARGE ORGANISATIONS, WITH OVER 67% AND 66% OF THEM RESPECTIVELY IDENTIFYING IT AS A MAIN CHALLENGE.

”

Combating corruption in public procurement: data, technology and auditing

A foundational aspect of combating bribery and corruption is through strong and effective legislation and regulation. To achieve the objective of ‘value for money’ in public procurement, legislation and regulation are needed to ensure that the procurement market is competitive, accountable and, importantly, free of corruption and political manipulation (Bovis 2012). Our online community often referred to the fact that, despite legal protections and enforcements, bribery and corruption persist.

‘THE LAW IS NEEDED TO PREVENT, AS MUCH AS POSSIBLE, CASES OF FRAUD AND BRIBERY IN THE PUBLIC PROCUREMENT PROCESS’.

Emil Vassilyan, director of a mid-tier accounting firm, Armenia

As well as strong legislation, we also need data to identify where the problems lie. Better public procurement data will make it easier to spot corruption (Davies et al. 2018). The data should cover all aspects of the procurement process, including start and end dates, calls for tenders, contract awards and contract completion (Digiwhist 2017). An internationally accepted standard of open contracting has been developed by the Open Contracting Partnership and is currently being used in over 30 national and subnational governments around the world (Open Contracting Partnership 2020b). More information is available from the [Open Contracting Data Standard Website](#).

Legal context of public procurement

The Government Procurement Agreement of the World Trade Organization (WTO) is widely considered the most important public procurement agreement at the international level. Adopted in 2012, and in force since 2014, it is a plurilateral agreement that aims to open government procurement markets mutually among its parties (WTO 2012). Its provisions on transparency, non-discrimination and protection under procurement law are binding on its signatory states, which currently include 48 WTO members. These state signatories are generally higher-income countries. At the supranational level, the EU Public Procurement Directives (European Commission 2019a) govern procurement at the EU Level to help foster competition and promote value for money. The rules also include important societal and environmental goals, including public health, social responsibility and combating climate change.

Individual countries have national-level laws and regulations on public procurement that vary in nature, scope and enforcement mechanisms. A cross-comparative study of laws and regulations pertaining to public procurement has found that countries differ greatly in the extent to which public procurement is regulated: regulation is generally less restrictive in higher-income countries than in lower-income countries (Bosio et al. 2020). Nonetheless, it should be noted that law and regulation alone are not sufficient to determine the effectiveness of a national public procurement system. According to the OECD, other key indicators include institutional and management capacity, operations and market practices, and accountability and transparency (OECD n.d.a).

A global database of country-specific procurement systems and implementations can be found via the [World Bank’s online database](#).

As the OECD notes:

'OPEN DATA CAN HELP PREVENT AND TACKLE CORRUPTION BY SHEDDING LIGHT ON GOVERNMENT ACTIVITIES, DECISIONS, AND EXPENDITURES, AND BY INCREASING LEVELS OF ACCOUNTABILITY, ALLOWING CITIZENS AND GOVERNMENT TO BETTER MONITOR THE FLOW AND USE OF PUBLIC MONEY WITHIN AND ACROSS BORDERS'.

OECD 2017

Providing accessible and up-to-date procurement data requires governments to invest in their public procurement systems to ensure that they meet basic technological demands. This requires governments to invest in creating e-Procurement systems to manage the procurement process efficiently and then publish the subsequent data for monitoring and oversight. E-Procurement techniques were raised a number of times by our online community as a way of helping to combat corruption and bribery. Kushal Dhodari, a respondent from a mid-tier accounting firm in Nepal, commented:

'WITH TECHNOLOGICAL ADVANCEMENTS AND INCREASING PUBLIC SCRUTINY, BIG DATA IS BECOMING A BIGGER PART OF PUBLIC PROCUREMENT. TECHNOLOGY IS NOW THE LARGEST CHANGE AGENT AND DRIVING FORCE IN CURRENT PROCUREMENT – FOR EXAMPLE USING E-COMMERCE FOR ORDERING GOODS/SERVICE, SEARCHING FOR THE BEST SUPPLIER BY ANALYSING BIG DATA AND MAKING PAYMENTS USING E-WALLETS. THIS TYPE OF MODEL IS QUITE PROGRESSIVE IN TERMS OF IMPROVING TRANSPARENCY IN THE PUBLIC PROCUREMENT PROCESS.'

(More on technological advancements can be found in Chapter 4).

E-Procurement developments have had proven successes in increasing transparency throughout the procurement process. They allow for improvements in market access and competition, easier access to information and increased accountability (Transparency International 2014). In some cases, the initial investment can be quite low but still yield impressive results (see the Slovakia case study below for an example of the significant return on investment (ROI) from the digital transformation of public procurement).



CASE STUDY: Slovakia



In January 2011, Slovakia, a country long-plagued by issues of corruption, introduced new public procurement reforms aimed at improving transparency and accountability in this area. The reforms mandated that all documents related to public procurement must be published online, and ensured that the validity of public contracts was contingent on being published on the portal (Clare et al. 2016). Slovakia's 2011 legislation enforcing greater transparency in public procurement is seen as one of 'the most dramatic transparency reforms in the world'(Clare et al. 2016). An important aspect of the reform is a shift away from 'transparency by demand to transparency by default'(Clare et al. 2016). The system requires information to be open by default rather than relying on individual Freedom of Information requests to find it (Clare et al. 2016). In addition, contracts only take effect, by law, on the day after they are published on the central register (Kratky 2015). The cost of implementing this reform cost approximately 37,000 euros, yet, as a result, the Office of the Government saved 3.5 million euros in the first year alone of the register's operation (Kratky 2015). ■

Despite the clear benefits of open public procurement, opponents of reform argue that confidentiality of information is a major concern in enacting an open contracting data standard (OCDS) (Open Contracting Partnership 2018). In fact, research by the Open Contracting Partnership (OCP) has found very little evidence of harm from disclosure and despite the openness by default approach, information legitimately pertaining to national security can still be redacted if it is in the public interest to do so (Open Contracting Partnership 2018). Critics of reform also express concern over the potential cost of implementing such reforms, although the OCP study and examples such as that of Slovakia (see Slovakia case study) show that implementing the right infrastructure can be an automated, low-cost process (Open Contracting Partnership 2018). The OCP study also proposes that bidders can factor any costs of potential redaction into their bids and the overall estimated cost savings using e-Procurement systems are between 5% and 20% of the costs of traditional procurement (European Bank for Reconstruction and Development 2015). For more information on public contracting myth-busting see Open Contracting Partnership (2018).

Role of auditors and finance professionals

Improving the accessibility and openness of procurement data will enable civil society actors, the media and citizens to investigate public procurement practices; in addition, it is vital for auditors and finance professionals, enabling them to monitor procurement processes from start to finish. A 2012 study found that improving automation and audit trail capabilities can increase the transparency and accountability of public procurement processes, especially if performed regularly and systematically (Neupane et al. 2012). Studies conducted in Brazil (2016), Argentina (2003) and Indonesia (2007) found strong evidence that carrying out external audits or simply knowing that an external audit might be conducted, reduced corruption in procurement (Knack, Biletska and Kacker 2017).

This was a key recommendation from our online community: respondents wanted to see an increased role for auditors and finance professionals with more autonomy and more oversight over the entire process. Respondents noted that finance professionals are supposed to play key roles in the procurement process but involvement can often be limited. Some respondents noted that finance professionals are involved only at the end of the process, simply for releasing the funds to the selected contractor. Providing finance professionals with open, transparent and complete data will enable them to audit and manage procurement processes properly from beginning to end.

Many supreme audit institutions (SAIs) already audit the use of public resources but audit mandates vary among jurisdictions (SIGMA 2016). The evidence suggests, however, that audits have a greater impact the earlier they start but, equally, the auditor should not be seen as a 'participant in the process' (SIGMA 2016). Our survey respondents often referred to the role of auditors and finance professionals as being 'watchdogs' or even 'guardians' over the entire procurement process.

Having an open data standard will enable finance professionals and auditors to employ what are known as 'red flags' in the public procurement process, a form of analysis that can assist in spotting deviation from openness and competition in the process (David-Barrett n.d.). For auditors, red flags can, for example, indicate a close relationship between bidding organisations, limited

competition in the sector, bids appearing to be above tender amount and undeclared connections with other bidders (Police Scotland and Audit Scotland 2019).

Previous analyses of red flags during procurement have uncovered some interesting insights. For example, an anti-corruption evidence programme research project looked at aid-funded procurement contracts in over 100 developing countries using big data and red flag analysis to build proxy indicators of corruption risk. They found, for example, that a short period between tender announcement and the submission deadline may indicate an attempt to restrict competition in order to favour an 'insider' supplier with previous knowledge of the tender (Liz-ba-dfid 2018). See more on how auditors can spot procurement 'red flags' in Police Scotland and Audit Scotland (2019).

The process by which compliance audits are handled depends on the legal requirements in each jurisdiction, but the performance audits will generally focus upon the three 'E's of value for money: economy, efficiency and effectiveness (SIGMA 2016). An effective value-for-money (VFM) audit will monitor procurement processes throughout its life cycle, where doing so requires access to relevant information at every stage. Professional accountants are held to a code of ethics, meaning that they are in a trusted, independent and accountable position and so are able to carry out this vital function in the process.

'THE ROLE OF THE FINANCE FUNCTION IN PUBLIC PROCUREMENT IS ESSENTIAL IN TERMS OF PROVIDING ALLOCATED FUNDS FOR PUBLIC PROCUREMENT AND ACTING AS A WATCHDOG OVER THE PUBLIC PROCUREMENT PROCESS'.

Hassan Naeem – a Public Sector Internal Auditor in Pakistan

When segmented by role, an interesting finding from our survey data was that internal and external auditors identified bribery and corruption at a higher rate than any other role, with almost three-quarters of auditors identifying this challenge (Figure 2.4). ACCA's head of audit and assurance, Antonis Diolas, discusses why this might be the case (see box).



INSIGHTS from ACCA’s head of audit and assurance, Antonis Diolas

Although there could be a number of reasons why both internal and external auditors identified bribery and corruption more frequently than people in other roles, drawing from their personal experiences, the answer probably lies within the scope of the work performed by both internal and external auditors.

Starting with external auditors, in the public sector the scope of external audits normally extends beyond an opinion on the financial statements, dealing also with regularity, propriety and value for money. External auditors need to understand the entity and its environment, including the entity’s system of internal controls, and this would include the entity’s internal controls and compliance with applicable laws and regulations. External auditors, therefore, do have experience of coming across irregularities, mainly referring to unauthorised expenditure that could well be linked with bribery and corruption.

Similarly, the internal auditors’ scope normally involves providing an independent assessment on governance, risk assessment and control processes of an organisation or a body in the public sector. Unlike external auditors, who normally focus upon the financial statements, the internal auditor’s assessments of governance, risk and control processes also focus on the operations of the entity. Internal auditors are therefore also likely to come across irregularities that could be linked with bribery and corruption.

Looking at the survey results of auditors identifying this challenge per region, the percentage of those identifying this challenge increases, as expected, in regions where bribery and corruption occur more frequently. For example, in Africa some 84% identify this challenge compared with 26% in Europe and North America (see Figure 2.1). ■

FIGURE 2.4: Perceptions of bribery and corruption by respondents in various professional roles

What are the main challenges currently facing public procurement in your country?



Key recommendations for tackling bribery and corruption

- Governments should adopt an e-Procurement system for the efficient management of the procurement process and publish reusable data from the system for monitoring and oversight, using the OCDS.
- Governments should make it a condition of the validity of the awarded contracts that they are published in a centralised register of contracts to ensure full visibility, transparency and accountability of public authorities.
- Auditors and finance professionals should engage with 'red flag' analysis to use this data to identify and predict occurrences of corruption and bribery in the procurement process.
- Audits should become commonplace in all public procurement procedures and they should begin as early as possible in a bid to reduce the likelihood of corruption, while ensuring that the auditors do not become part of the process. Finance professionals and auditors must play an active but independent role in the procurement process from start to finish – having access to this data is vital in ensuring they can do this most effectively.

3. Improving the **buyer–supplier relationship** and promoting **competition**

This chapter will cover:

- the buyer–supplier trust deficit
- competition in public procurement and SMEs
- better market management: improving the buyer–supplier relationship and promoting competition
- role of auditors and finance professionals
- key recommendations for improving buyer–supplier relations and promoting competition.

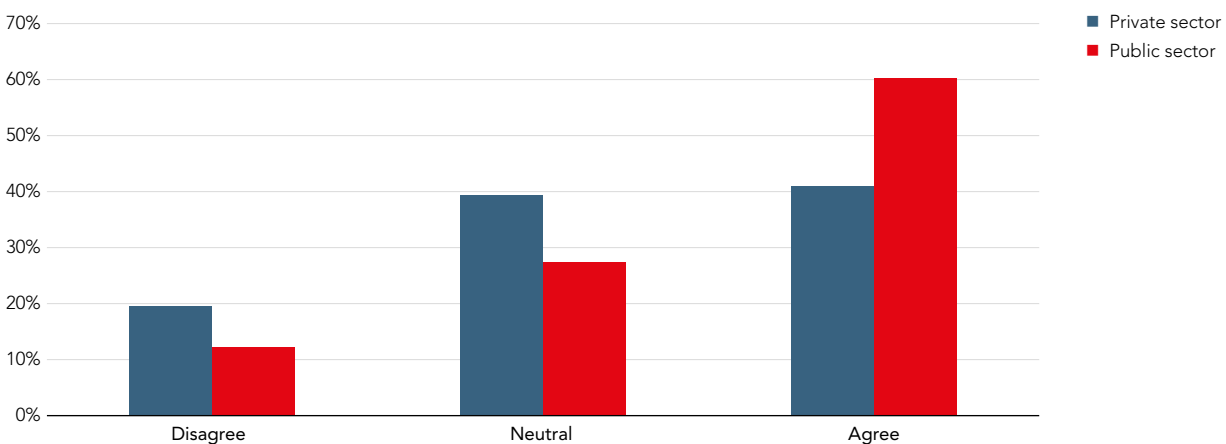
The buyer–supplier trust deficit

Having a good relationship between buyer and supplier in any transaction is a fundamental aspect of any exchange of goods and services. From everyday experiences, we know that the act of exchanging money for goods or services is enhanced when the person or organisation we are buying from or selling to is seen as being trustworthy.

In practice, our global survey shows that there is a trust deficit between those in the public sector buying the goods and services and those in the private sector supplying them. While 60% of public sector respondents believe they can trust their private sector counterparts to fulfil their contracts, only 41% of private sector respondents believe the public sector can be trusted in upholding its side of the deal.

Just as in everyday transactions, trust is key in the relationship between buyer and seller in public procurement practice. Research has found similar results for public procurement and the relationship with private suppliers. A strong relationship between supplier and buyer can help ensure value for money and improve overall contract performance (Rockson, Owusu-Anane and Sey 2017). In New Zealand, for example, investing in developing strong relationships between the government and private sector suppliers has been a focal point of the government's procurement policy (see case study on New Zealand).

FIGURE 3.1: Extent to which public sector buyers and private sector suppliers trust each other to fulfil agreements²



² Private sector respondents were asked: 'Generally speaking, would you say that public sector organisations can be trusted to uphold the terms of their contracts?' and public sector respondents were asked: 'Generally speaking, would you say that private sector suppliers can be trusted to deliver public sector contracts?'



CASE STUDY: New Zealand



Not only has New Zealand been identified by Oxford University as having the best national system of public procurement (Hart 2019), it has also set the standard in developing the relationship between public sector buyers and private sector suppliers in public procurement practice. New Zealand has implemented a number of reforms aimed at fostering this relationship as well as developing ways of improving SME involvement in procurement bids.

To develop more mutually beneficial relationships between government and supply partners, the public sector employs a Strategic Supplier Relationship Management (OECD 2016b) model to maximise the value of public–private relationships and help ensure better outcomes in procurement contracts. The government’s guide on ‘Mastering procurement’ states that ‘the success of the commercial relationship often comes down to the relationship between the agency and supplier – get it right and the benefits will flow’ (New Zealand

Government 2011). Specifically, the guidance suggests focusing on open communication, developing mutual trust and understanding and fostering a joint approach to managing delivery and any related problems.

For SMEs, New Zealand developed procurement ‘speed dating’ events to bring in such firms alongside larger purchasing organisations to provide both sides with a platform for engagement. These ‘Meet the Buyer’ events allow small businesses to meet large buyers to find out about upcoming procurement activity (OECD 2019a). In addition, New Zealand’s procurement policy aims at treating all businesses fairly and tries to encourage SMEs to bid for contracts by reducing compliance costs, making all information available online through the [Government Electronic Tenders Service](#) and giving early notice of procurement opportunities (OECD 2018). In the Oxford University index, New Zealand scored full marks on both ‘Support for SMEs’ and ‘e-Procurement’ (Blavatnik School of Government and the Institute for Government 2019). ■

Competition in public procurement and SMEs

In addition to trust, strong competition in the market is key to ensuring that the public procurement process is accessible to different firms, particularly SMEs. A competitive tendering process has been found to be one of the factors that will improve the overall efficiency of public work contracts and can help achieve more competitive prices (Hanák and Muchová 2015). Alpha Bakarr Kamara, an external auditor in Sierra Leone, told us:

‘THE MORE POTENTIAL SUPPLIERS THAT PARTICIPATE, THE MORE THE COMPETITION, THE BETTER THE QUALITY OF ITEMS AND SERVICES SUPPLIED AND PROVIDED TO THE PUBLIC, POSSIBLY AT REDUCED PRICES AND HENCE THE POSSIBILITY OF ACHIEVING VALUE FOR MONEY IN SERVICE DELIVERY.’

In reality, however, our respondents identified some important challenges in this area that may be reducing the competitiveness of the overall procurement market (Figure 3.2). Reliance on a few key suppliers was a key concern for 56% of public sector respondents compared with 38% in the private sector. Nonetheless, across all sectors, respondents generally thought that there were a sufficient number of private sector suppliers. In combination, these findings suggest that while there are

enough suppliers for government contracts, governments are perhaps not effective at engaging with the entire market in the bidding process.

ACCA’s global member survey asked private sector respondents why they did not bid for government contracts (Figure 3.3). One-third of all respondents across both smaller and larger organisations were concerned about late payments (see Chapter 4 on modernisation). For SMEs, 32% of respondents had limited awareness of upcoming contracts whereas a quarter of larger organisations stated that public sector contracts yielded a low return on investment. The most significant finding was that almost half of all respondents stated that the bidding process was too long or difficult.

The survey also found a slight disconnection between the perception by public sector respondents of why private sector bidders might hesitate to bid on government contracts and why some, in practice, choose not to bid. For example, most public sector respondents did not identify insufficient in-house capability as a particularly important obstacle when in fact it is a concern for almost one-quarter of smaller private sector firms. In addition, only 12% of public sector respondents thought risk transferred in the contract was an obstacle for private sector suppliers when, in fact, this was a concern for almost 20% of respondents in the private sector (Figure 3.4).

FIGURE 3.2: Respondents’ perceptions of challenges facing public procurement

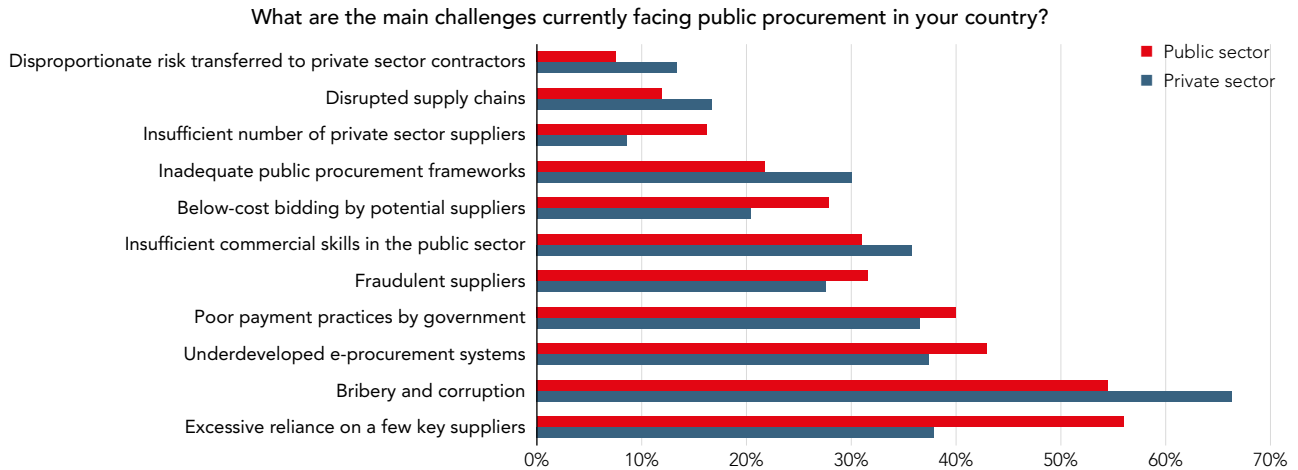


FIGURE 3.3: Factors dissuading firms from bidding for public procurement contracts

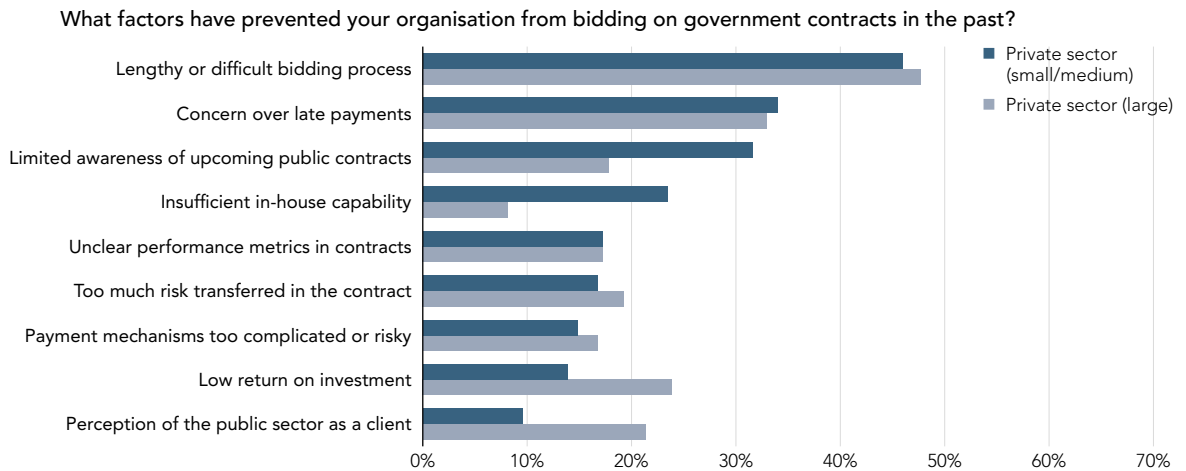
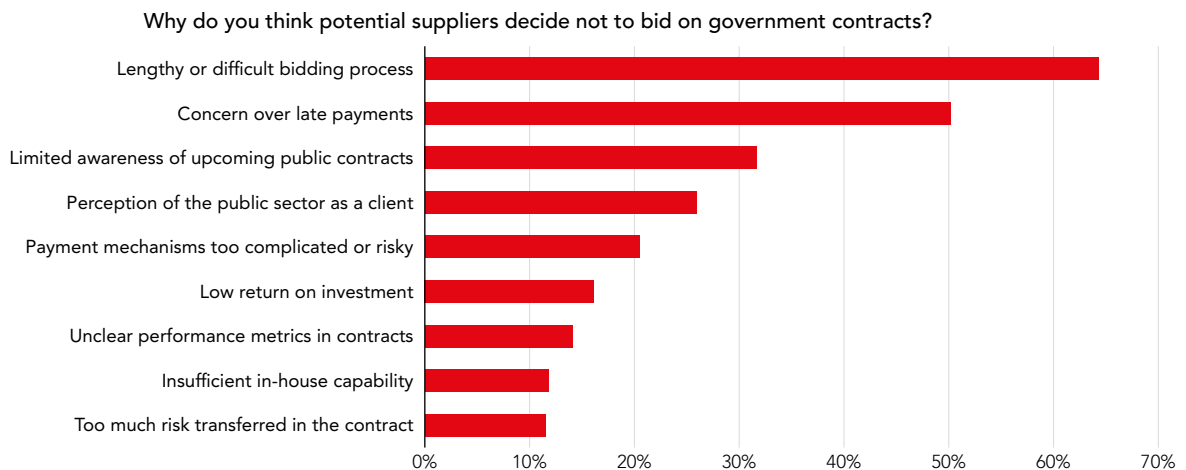


FIGURE 3.4: Public sector buyers’ perceptions of why private sector firms choose not to bid on public contracts



At the same time, the public sector respondents overwhelmingly understood that the bidding process may be too long and difficult and that private sector firms are concerned about late payments. One-quarter of them are also aware that the perception of themselves as a client is a hindrance to potential bidders. There is a clear need here to ensure that both public and private sector parties trust their procurement counterpart and believe a commercial relationship would be mutually beneficial and yield positive results.

Better market management: Improving the buyer–seller relationship and promoting competition

As with bribery and corruption, one of the key tools we have for promoting competition and improving efficiency in public procurement is through having open, complete and accessible data. This helps ensure that potential suppliers are aware of upcoming contracts in good time and have the necessary information to bid for them. Research has found that contracts with just one bidder are 7.1% more expensive than contracts with two or more bidders and publishing just one additional piece of information decreases single bidding by 0.4–0.7%. Owing to the size of many public procurement contracts, this translates into the potential for significant financial savings (Bauhr et al. 2017).

Having open data in the procurement process is therefore not only a tool for improving accountability and reducing corruption (see Chapter 2 on corruption) but, by expanding the competition, governments are more likely to achieve value for money in public procurement (Davies et al. 2018). A 2019 study found that increasing the public accessibility of procurement data increases the number of bids per contract, reduces procurement prices and facilitates new vendors entering the market (Duguay et al. 2019). For SMEs, in particular, insufficient access to information about upcoming contracts has been found to be a significant barrier to participation in the procurement process (European Bank for Reconstruction and Development 2017). Investing in open and accessible databases for all private sector suppliers will benefit SMEs, but some countries have gone a step further and specifically targeted SMEs to ensure that they have better access to procurement markets (see the case study on Chile). In 2016, the EU amended public procurement rules to simplify the process in an attempt to increase competition and encourage SMEs' participation. For example, new methods of digitalisation were created to increase the efficiency of procurement, with the system requiring that only the winning company had to submit all the necessary documentation to prove it qualifies for a contract. Limiting turnover requirements and adding the option of dividing



CASE STUDY: Chile



In 2003, Chile launched an online platform called ChileCompra as part of a reform effort to modernise the country. Its aim was to improve transparency and accountability in public procurement but also to enable companies of all sizes to bid on government contracts (European Bank for Reconstruction and Development 2017). The platform aims to connect suppliers with public buyers and is based on the guiding principles of universality, accessibility and non-discrimination. The platform also specifically focuses on promoting SMEs and helping them gain access to more public contracts. For example, the platform hosts free-of-charge public procurement training for SMEs on bidding for public contracts and it has simplified the necessary administrative documents needed to enter a public contract (European Bank for Reconstruction and Development 2017). As a result, ChileCompra not only generated savings of about US \$693 million for the public sector in 2014 alone, but it also significantly increased competition in public markets. In the first three years of the launch, SME participation in the bidding process increased from 20% to 47% and by 2013 90% of ChileCompra purchases, worth over \$3.9bn, were from companies with fewer than 60 employees (Lipson 2016). ■

tenders into lots (dividing the contract up among a number of different suppliers) were introduced to help SMEs gain access to the market (European Commission n.d.). Such reforms can significantly increase the number of SMEs bidding in procurement processes and improve overall competition. E-Procurement initiatives generally reduce the procurement process time and countries with a well-implemented system have seen higher participation of SMEs in the tendering process as a result of lower marketing costs and improved market access (United Nations 2011).

For more information on the EU's amendments see European Commission (2016).

As demonstrated in New Zealand (see case study above), in public procurement, improving the relationship between potential suppliers and the buyer is an important aspect of overcoming some of the challenges demonstrated by our findings. To tackle the trust deficit, providing feedback and advice to unsuccessful bidders has been identified as key to improving this important relationship (OECD n.d.b.). This feedback process also allows bidders to improve their bids in the future and, as a result, generally enhances the

quality of bidders in the market for each contract. This process has demonstrated benefits for SMEs, in particular, by helping them understand why they were unsuccessful so they can improve their bidding chances in the future (Evans and Cahill 2019).

The OECD has created guidance on how to conduct supplier debriefings (OECD 2009).

Performance management of contracts is also an important way of holding suppliers accountable for poor performance in contract fulfilment while providing incentives for those who deliver outstanding results (CIPS and NIGP 2012). Setting target performance levels and detailing supplier performance expectations early on can help ensure that the buyer is getting value for money and the supplier is aware of expectations and metrics of success (CIPS and NIGP 2012). Having these indicators available will enable the buyer to hold the supplier to account, helping to facilitate discussion about performance and ensuring that value for money is being achieved. According to the Chartered Institute of Procurement and Supply,³ regular review meetings can help both parties learn from each other, improve performance on both sides and generally help improve contract performance (CIPS 2013).

In Northern Ireland, for example, a [Register of Supplier's Poor Performance](#) was created in 2017 to document any government supplier who has failed to address poor performance while fulfilling a contract with the government. The government also set out a guidance note for contract managers, setting out steps that they should take when dealing with poor contract performers (Department of Finance n.d.). By doing this, they can avoid underperforming suppliers for future contracts, and contract managers are encouraged to take steps when dealing with these suppliers to avoid any further cost-inefficiencies.

Role of auditors and finance professionals

As with bribery and corruption (see Chapter 2), finance professionals will be essential in monitoring and auditing open data to ensure that tendering processes are competitive and accessible to all-sized businesses. To do so, auditors require data on the number of offers or requests to participate in the process and on the number of offers that were assessed when awarding the contract (European Court of Auditors 2016). The European Court of Auditors in 2016 noted, for example, that most EU

institutions do not systematically and comprehensively measure the level of participation in procurement procedures – they instead comply with the minimum requirement to indicate the number of offers received in the contract award notices. This information is key for finance professionals to ensure that there is sufficient competition throughout the bidding process.

As mentioned above, to monitor contract performance properly and as a result improve supplier–buyer communication and trust, the public sector needs a certain number of indicators throughout the contracting process, such as individual price analyses and implementation deadlines (SIGMA 2011). Finance professionals will be key in helping to ensure that this information is complete and properly audited. As one of the key objectives of public procurement is value for money, cost and efficiency metrics will be vital as well as other important indicators such as sustainability and quality of goods and services (Patrucco, Luzzini and Ronchi 2016). Tracking these metrics *before* the end of the contract will enable the buyer to communicate problems early on to the supplier, make improvements during the process and ultimately ensure that value for money is being achieved.

The OECD's guide to auditing public procurement advises auditors that performance contract management should allow for modifications during the process if issues arise. For example, if there are unexpected technical changes or new legal requirements in place, finance professionals may need to advise that parts of the contract are modified without going through a new procurement process; doing so early on could generate significant savings (SIGMA 2016). Additionally, modifying the contract early can help prevent future ill feelings between supplier and buyer if contract performance is ultimately not as expected.

A study on internal audits and public procurement in 2018 recommended that auditing must transition from focusing largely on compliance and policy violations to being seen more as a trusted adviser over the entire process (Baltos, Doni and Balodis 2018). For this to occur, there must be an 'integrated and continuous auditing approach over purchasing and contracting', allowing the auditor to move from a role focusing largely on correction to one focusing more on prevention (Baltos, Doni and Balodis 2018). Having this information available will significantly enhance the ability of the finance professionals to act promptly to improve public procurement outcomes.

³ The Chartered Institute of Procurement and Supply (CIPS) is a global not-for-profit organisation, serving the procurement and supply management profession.

Key recommendations for improving buyer–supplier relations and promoting competition

- Governments should adopt an e-Procurement system and publish the data from the system by using the OCDS, to improve awareness of upcoming and awarded contracts and ultimately widen the pool of potential suppliers – particularly SMEs. This data will enable auditors and finance professionals to monitor procurement better and allow their role to evolve into a more advisory one in the overall process.
- The digitalisation of public procurement will help simplify and streamline the process for awarding public contracts – encouraging more SMEs to participate in the process and widening the available pool of bidders. Specifically, governments should ensure that digital platforms for procurement provide SMEs with better tools for engagement – such as free-of-charge training on how best to bid for contracts – and they should reduce the administrative burden required for bids to encourage SME participation. Dividing up tenders into lots can make large bids more accessible for smaller suppliers.
- Use the skills of auditors and finance professionals when working to improve the relationship between bidder and supplier. Employing performance management techniques early in the process, to monitor progress, and providing feedback to unsuccessful bidders can help improve current commercial relationships and foster better working relationships in the future.
- Governments should create a Register of Supplier’s Poor Performance (see Northern Ireland example) to document suppliers who have failed to address poor performance while fulfilling a contract with the government.



4. Modernising and refocusing procurement to meet the challenges of a post-COVID-19 world

This chapter will cover:

- the evolving challenges and objectives in public procurement
- modernising and digitising public procurement
 - Objective 1: Public sector savings and keeping SMEs in business
 - Objective 2: Achieving sustainability and increasing social value
- the role of auditors and finance professionals
- key recommendations for modernising and refocusing public procurement.

The evolving challenges and objectives in public procurement

Public procurement has a central role to play during the COVID-19 pandemic by providing governments with the essential goods and services needed to address the health implications of this virus. It will also have an important role after the pandemic is over and governments need to generate significant savings for the public purse. Before COVID-19, other policy objectives were growing in prominence, such as supporting SMEs, advancing sustainability targets and promoting social values such as gender equality through support for women-owned businesses. To meet these goals, procurement systems need to be modernised and refocused so that they generate post-COVID-19 financial savings, deliver good

TABLE 4.1: Respondents' answers to the questions: What are the main challenges currently facing public procurement in your country? What policy objective should be considered in the evaluation of bids for public procurement contracts?

Respondents' top three challenges and top three policy objectives, by region

REGION	TOP THREE CHALLENGES	TOP THREE POLICY OBJECTIVES
The Caribbean	1. Bribery and corruption (72%) 2. Excessive reliance on a few key suppliers (72%) 3. Underdeveloped e-Procurement systems (46%)	1. Promoting ethical practices (80%) 2. Fair dealing with all bidders and suppliers (80%) 3. Transparency to the public (78%)
South Asia	1. Bribery and corruption (81%) 2. Underdeveloped e-Procurement systems (45%) 3. Poor payment practices by government (41%)	1. Fair dealing with all bidders and suppliers (63%) 2. Transparency to the public (62%) 3. Promoting ethical practices (57%)
Asia Pacific	1. Bribery and corruption (54%) 2. Excessive reliance on a few key suppliers (43%) 3. Insufficient commercial skills in the public sector (34%)	1. Transparency to the public (73%) 2. Fair dealing with all bidders and suppliers (68%) 3. Promoting ethical practices (55%)
The Middle East and Africa	1. Bribery and corruption (85%) 2. Poor payment practices by government (62%) 3. Underdeveloped e-Procurement systems (52%)	1. Transparency to the public (75%) 2. Promoting ethical practices (71%) 3. Fair dealing with all bidders and suppliers (70%)
North America and Europe	1. Excessive reliance on a few key suppliers (58%) 2. Insufficient commercial skills in the public sector (47%) 3. Below-cost bidding by potential suppliers (31%)	1. Transparency to the public (73%) 2. Fair dealing with all bidders and suppliers (70%) 3. Promoting ethical practices (58%)

quality public goods and services and meet the ever-important sustainability and social value goals that are too often left behind.

Having an underdeveloped e-Procurement system was a common concern for our respondents. It was identified as a main challenge by almost half of the Caribbean and South Asia respondents and over half of Middle East and Africa respondents.

In addition, poor payment practices were identified as a main challenge by over 60% of respondents in the Middle East and Africa, 39% of those in the Caribbean and 41% of those in South Asia. This is a particular concern for suppliers as the World Bank found that if governments paid all receipts due to their contractors within 45 days, between \$1 to \$4.65 trillion in fresh liquidity would enter the private sector and could prevent them from accessing credit – this is particularly important during the COVID-induced economic downturn, especially for SMEs (Bosio, Galliano and Reyes 2020).

Many of our respondents recognised the need to support SMEs through public procurement practices while also identifying sustainability and ethical goals as other key policy objectives. All regions identified transparency, fair dealing between bidder and supplier, and promoting ethical practices as the top three objectives in public procurement. 'Promoting ethical practices' was a clear priority in the Caribbean with almost 80% of respondents selecting this objective, 71% of respondents in Middle East and Africa and more than half of respondents in Asia Pacific, South Asia, North America and Europe. For respondents in North America and Europe, improving environmental sustainability was a key objective for 57% of respondents, but this was less important for those in other regions.

Many of our online community respondents noted that sustainability and other social value goals were increasingly becoming the norm in public procurement practice. A senior manager in Cyprus' public sector, Philippos Katranis, told us specifically that the main trends he had noticed in public procurement were: 'an increasing use of technology, an increasing concern for sustainability, an increasing focus on innovation and an increasing care for social aspects'.

Abdoulie Tamedou, a director of financial services in the Gambia, noted that in his organisation:

'...OUR PURPOSE OF PUBLIC PROCUREMENT IS TO ENSURE GOODS AND SERVICES ARE MADE AVAILABLE AT THE MINIMUM COST PER EQUIVALENT GOOD OR SERVICE UTILISED... IN CERTAIN CASES, MANAGEMENT WILL TAKE THE DECISION OF SUPPORTING WOMEN-OWNED [FIRMS] AND SMEs, ESPECIALLY IN THIS COVID-19 ERA.'

Modernising public procurement

Modernising public procurement to meet the challenges of a post COVID-19 world involves two separate but complementary objectives. One objective is the generation of financial savings during a time of increasing public borrowing and debt, while helping struggling businesses stay afloat. The other is ensuring progress against environmental and social goals. In particular, we need to have one eye on the longer-term impact of our policy choices, ensuring they are sustainable, while also making progress on other critical goals such as reducing inequalities. As Pamela Monroe Ellis, Auditor General of Jamaica, commented for this report:

'IT IS CRITICAL THAT IN AN ENVIRONMENT OF SCARCE RESOURCES AND COMPETING PRIORITIES, PUBLIC PROCUREMENT ADDS VALUE, IS UNDERTAKEN IN AN ECONOMICAL MANNER, AND THAT THE INTENDED OUTCOME OF THE SPEND IS ACHIEVED. THEREFORE, AS SUPREME AUDIT INSTITUTIONS AIM TO POSITIVELY IMPACT THE LIVES OF CITIZENS, AUDITING PUBLIC PROCUREMENT IS ESSENTIAL IN MONITORING THE GOVERNMENT'S PROJECT IMPLEMENTATION, MANAGEMENT OF PUBLIC HEALTH CRISIS AND JOURNEY TOWARDS THE ACHIEVEMENT OF THE SUSTAINABLE DEVELOPMENT GOALS.'

Objective 1: Public sector savings and keeping SMEs in business

As discussed in the two previous chapters, developing more modern, e-Procurement systems can help tackle a number of important issues in public procurement. These systems can enhance transparency and combat corruption, and promote competition and SME inclusion in the bidding process as well as create a host of other benefits. These benefits can improve not only the process of finding and assessing suppliers, but also the outcome of contracts. A study in 2016 found that in India, the transition to an e-Procurement system led to a 12% increase in the quality of roads. Additionally, the study found that in Indonesia, contractors who won contracts through e-Procurement systems were less likely to be late fulfilling those contracts, as they tended to be higher-quality contractors (Lewis-Faupel et al. 2016). The urgency and importance of governments’ pandemic responses mean that procurement practices must ensure that goods and services are delivered at speed and are of good quality. (See more in Chapter 5: Public procurement as a tool in the COVID-19 recovery).

Key definition

‘E-invoicing means issuing an electronic invoice that is transmitted and received in a structured electronic format, which allows for its automatic and electronic processing.’ (Barone et al. 2019)



Another area where e-Procurement can generate benefits is in the processing of payments to suppliers.

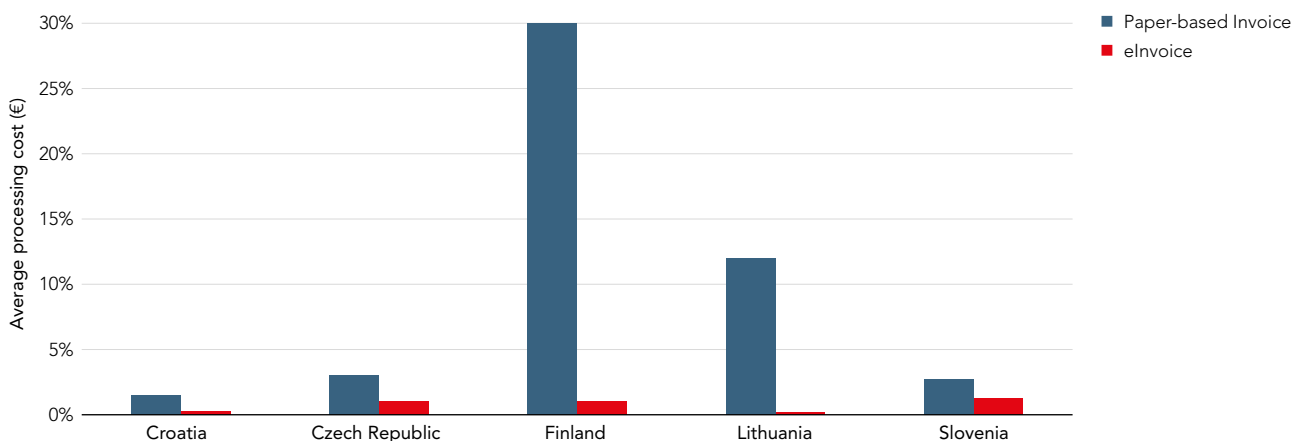
E-Procurement is considered an umbrella term that covers the ‘end-to-end’ process of the procurement system, including supplier selection, receipt and evaluation of goods (Becker 2018). Within e-Procurement, there are a number of other e-processes including e-Invoicing and e-Control Payment. An integrated e-Procurement system can feed into other government IT systems and work alongside other digital systems such as digital invoicing systems – a key part of the payment process (OECD 2019b). Yet despite the benefits, 90% of all invoices worldwide are still processed manually (Cory 2020).

To find out where e-Invoicing is already in place and whether it is mandatory for business-to-government transactions, see [Edicom n.d.a](#).

In 2019, the European Commission (EC) implemented a new policy on e-Invoicing to help modernise public procurement practice in the EU. According to the EC, ‘the new standard will help to ensure the timely and automatic processing of companies’ e-Invoices and payments’ and as a result, ‘make it easier for companies to manage their contracts in any EU country and raise the attractiveness of public procurement businesses’ (European Commission 2019b). The policy had a specific focus on SMEs to ensure that they receive timely payment for goods and services rendered.

A 2020 study by the EC found that, across 15 EU member states, introducing e-Invoices at the national level contributed to operational savings of more than 50% in each case. In Finland, savings of 97% were found and in Lithuania, the government estimated that implementing e-Invoicing would lead to a unit processing cost reduction of up to 99% (European Commission 2019c) (Figure 4.1).

FIGURE 4.1: Average processing cost of individual e-Invoices and paper-based invoices in five EU member states



The study also found that implementing e-Invoicing reforms significantly shortened the e-Procurement life cycle: in Poland, for example, it reduced the post-award phase from several weeks to just hours (European Commission 2019c). For SMEs, this reduced period between contract delivery and payment can be crucial – over one-third of our SME respondents said that concern over late payment had previously prevented them from bidding for public contracts. In many instances, SMEs write off up to 7.5% of late payments as bad debt and, in the worst cases, many small businesses go bankrupt owing to cash flow problems caused by late payments (Parliament.UK 2018). The UK National Audit Office reports that e-Invoices have typically been paid quicker than paper invoices (Comptroller and Auditor General 2015). Implementing an electronic invoicing system is therefore an effective way of not only generating significant public sector financial savings, but also speeding up the payment process, increasing SME participation in public procurement and supporting supplier cashflow to help suppliers survive this financial downturn.

Objective 2: Achieving sustainability and increasing social value

As mentioned in the Introduction, the MEAT framework provides guidance on selecting suppliers that meet certain criteria (European Commission 2018) (Figure 4.2). Besides price, environmental and social criteria should be evaluated as part of the overall assessment. Achieving green public procurement practices is a specific target of Goal 12 of

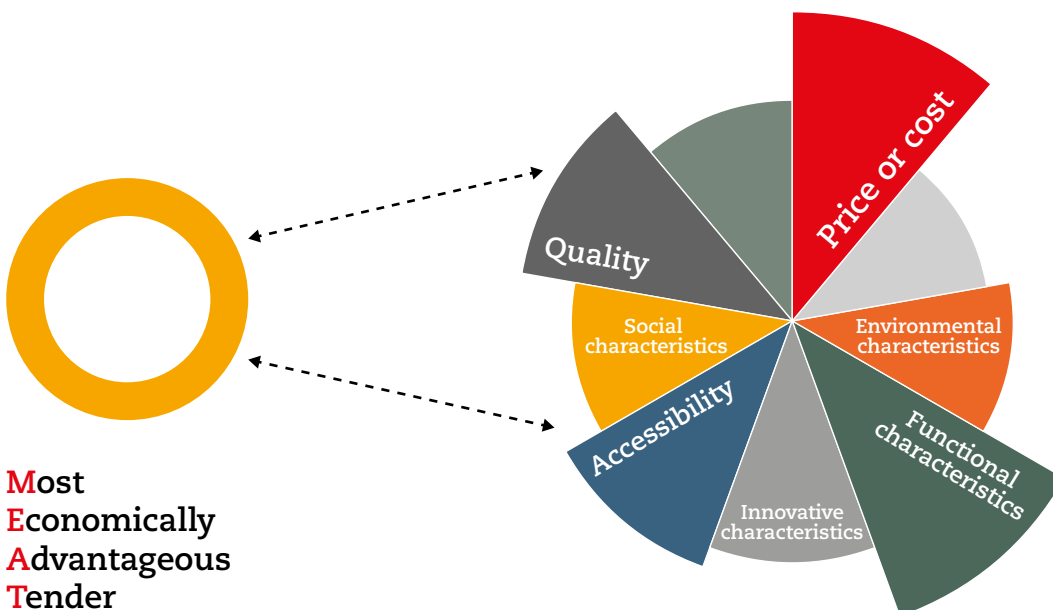
the Sustainable Development Goals (SDGs): Target 12.7 ‘Promote public procurement practices that are sustainable, in accordance with national policies and priorities’.

To achieve this goal, many countries have designed, and are implementing, sustainable public procurement policies setting out how public authorities will implement the goal of achieving sustainable public procurement (One Planet and UN Environment 2020). This action plan could include one aspect of sustainability, such as environmental protection, or wider social aspects such as gender equality and the promotion of marginalised communities.



Source: Open Development Cambodia (2019)

FIGURE 4.2: The MEAT criteria



Source: Stoller, C., Minodora Voiculescu, E. and Krähenbühl, S. (2017) and European Parliament (2014)

This action plan should help inform contract managers on how best to assess sustainability aspects at all stages of the procurement life cycle as well as how best to monitor sustainability efforts to improve practices further. This is an important starting point as it provides each jurisdiction with the information needed to implement sustainability goals within the public procurement process.

Key definition

Sustainable public procurement (SPP) is a process 'whereby organizations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organization, but also to society and the economy, whilst minimizing damage to the environment. Sustainable Procurement seeks to achieve the appropriate balance between the three pillars of sustainable development (i.e. economic, social and environmental)' (O'Rourke et al. 2016)



Designing, implementing and evaluating this action plan can take many forms and it is up to each government to decide how best to do this. Cultural, political and environmental contexts will naturally require differences in how national or local plans are developed. There are a number of existing examples of what is currently being achieved in this area. Below are some examples of specific laws and policies that seek to achieve greater environmental sustainability and social value in public procurement.

The European Union: The EU's 2014 directives governing the awarding of public contracts include a principle in Article 18, which states that member states must take 'appropriate measures to ensure that in the performance of public contracts economic operators comply with applicable obligations in the fields of environmental, social and labour law'. They might do this, for example, by adhering to International Labour Organisation (ILO) standards on forced and child labour, discrimination in employment, collective bargaining and equal pay (European Parliament 2014).

France: French law excludes from the procurement process any economic operator who has been sentenced for crimes such as fraud, corruption, trafficking and exploitation of human beings (Council of Europe 2020).

United Kingdom: New measures announced in 2020 state that social value should be evaluated across all central government procurement contracts with a minimum weighting of 10% of the total score (Crown Commercial Services 2020). The model includes factors such as supporting the COVID-19 recovery, fighting climate change and reducing the disability employment gap (Cabinet Office and Lopez 2020).

Kenya: Kenya was hailed as a model of gender-responsive public procurement when it became one of the first African countries to adopt a 30% reservation scheme for women, people with disabilities and other disadvantaged groups in the 2015 Law on Public Procurement and Asset Disposal Act (amended in 2016) (Nyeck 2020). A 2019 study on women who have benefited from the policy found that the reservation scheme enhanced economic empowerment, increased individual self-confidence and helped to reduce gender stereotyping (Mohammed 2019).

South Korea: In 2005, the Ministry of Environment introduced the Act on Encouragement of Purchase of Green Products, meaning that central and local governments as well as public organisations must submit an implementation plan for green purchases and demonstrate performance records of the previous year to the Ministry of Environment. The government also created an eco-labelling system to minimise the administrative costs required for setting green procurement standards by each institute (OECD 2015a). In 2015, this had led to an estimated reduction of 3.1m tonnes of CO₂ equivalent emissions, KRW 54.5bn of economic savings and 12,143 new jobs.

Latin American and Caribbean countries: To combat hunger and poverty in Latin America and the Caribbean, a strategy entitled Public Procurement from Family Farming (PP-FF) was initiated to link the public sector's demand for food products with the supply of local family farming producers (Cervantes-Zapana et al. 2020). The definition of family farming varies between countries but generally it means producers that rely on household labour with relatively limited land holdings and access to resources (Cervantes-Zapana et al. 2020). There have been a number of successes as a result of this, including a three-fold increase in income for participants of the programme in Brazil and increased market inclusion for smallholders in Bolivia (Cervantes-Zapana et al. 2020).

TABLE 4.2: Policy examples of enactment of new models of public procurement

JURISDICTION	AREA OF FOCUS	POLICY DESCRIPTION
European Union	Labour rights	Excluding potential suppliers from the process if they do not comply with ILO rules on child labour, workplace discrimination freedom of association, the right to organise, and the right to collective bargaining.
France	Ethical purchasing	Legally excluding suppliers who have been sentenced for specific crimes such as fraud and trafficking.
United Kingdom	Social value	Giving social value a minimum weighting of 10% of the total score in the evaluation process.
Kenya	Gender equality	Reserving 30% of public procurements contracts for women-owned businesses.
Korea	Sustainability	Enforcing requirements on public authorities to implement plans on green purchasing and demonstrate performance records on sustainable purchasing.
Latin America and the Caribbean	Poverty and hunger	Linking the public sector demand for food with the supply of local family farming producers.

For a more universal approach, the United Nations Centre for Trade Facilitation and Electronic Business has outlined minimal common sustainability criteria for selecting SME suppliers to promote sustainable procurement processes (UN 2019).

While global public procurement is a trillion-dollar market, women-owned businesses are estimated to capture only 1% of those economic opportunities.⁴ Large infrastructure projects procured by governments such as building roads, buildings and railways make up a significant portion of public procurement contracts. Yet the construction sector alone accounts for 35% of CO2 emissions in Europe. Research in the UK found that 35% of SMEs have had to close as a result of the COVID-19 crisis (Saville 2020). Yet, SMEs often have to compete with larger, more established companies with more in-house capacity and resources to bid on public contracts. Building public procurement laws and policies with these issues in mind will be essential in building back after COVID-19 and can collectively help the long-term goal of meeting the SDG targets by 2030.

Other best practices for sustainable procurement have been recommended by the OECD (2015).

Role of auditors and finance professionals

In ACCA's research on the digitalisation of accountancy, 63% of surveyed accountancy and finance professionals claimed that they had enough digital skills to perform their role. The profession is well equipped to work in an increasingly digital environment, with 68% of respondents indicating that they use their digital skills all the time at work (Webb 2020). The profession should therefore be used to help make these important changes to public procurement. A digitised process that makes use of open data will enable finance professionals involved in public procurement to make more ethical and sustainable supplier choices, facilitate faster payment to suppliers, manage contracts better and have access to better auditing data.

A study in Paraguay using the Paraguayan Treasury's open data portal, found that between 2011 and 2017, 80% of public contract invoices were paid late, costing the state \$143.2m. Paying these invoices in under 45 or 30 days could reduce that cost by up to 42% or 52% respectively (Salazar 2019). This is a particular concern for SMEs, which often rely on speedy payments to avoid reliance on credit or collapsing completely. The UK National Audit Office found that 4000 SMEs closed in 2008 specifically owing to late payment (Comptroller and Auditor General 2015).

⁴ See Rimmer (2017). Note there is no single definition of a women-owned enterprise – it varies depending on the country and jurisdiction. The US, for example, defines it as private companies that are over 51% women-owned, and public companies that have at least 51% of their stock owned by women.

Access to this open data allowed financial analysis of the situation in Paraguay and raised awareness about the problem of late payments and the potential financial savings available to the public sector.

For finance professionals and auditors, this information is critical for ensuring that late contract payment is not placing additional strain on already struggling SMEs and that the public sector is not missing out on potential savings by avoiding interest on late payments. Guidance prepared for European SAs specify that auditors should be auditing late payments and late payment interest (EU Contact Committee 2018). Doing so can help the public sector locate unnecessary late payment costs. An integrated e-Invoicing process facilitates this process for auditors and finance professionals as it provides a more reliable audit trail (KPMG 2018). E-invoicing has also been found to shorten overall processing cycles, including payments of accounts receivables and tax recovery, in part because they reduce the risk of human error (Cory 2020). For those in the public sector, e-Invoicing can help reduce tax evasion by public procurement suppliers, as invoices provide the most complete information for tax authorities (Koch 2019). When implemented well, this fully digital system can help forensic accountants and auditors locate significant amounts of unpaid tax and VAT, helping governments close their tax gap during a time of significant strain on public finances (see case study on Mexico).

As discussed in ACCA's 2020 report, *Auditing the SDGs: Progress to 2030*, progress in achieving the UN Sustainable Development Goals (SDGs) by 2030 has been widely reported as being far off-track (ACCA 2020). Nonetheless, there is significant scope for SAs to take a more impactful role in keeping governments and citizens informed about progress being made on the SDGs and advising on potential improvements (ACCA 2020). To do so, auditors and finance professionals need the right data, performance metrics and evaluation techniques to understand where their governments are meeting or missing their stated sustainability and social equality targets. Most of the national governments that monitor and evaluate SPP plans have set quantitative targets for the total value of spending on sustainable goods and services but there is still a need to measure environmental and social indicators such as emission reduction and inequality (UNEP 2017). The overall lack of data availability has consistently been cited as a challenge for achieving the SDGs – filling just a small part of that data gap with e-Procurement data would enable finance professionals to monitor progress, specifically on achieving SDG target 12.7 (sustainable public procurement), SDG goal 5 (gender equality) and SDG goal 8 (decent work and economic growth). Guidance on how to plan, measure and communicate the benefits of developing SPP practices is given in O'Rourke et al. (2016).



CASE STUDY: Mexico



In Mexico in 2004, the Tax Administration Service created the legal framework needed to implement the CFD (Digital Tax Receipt) – the country's first e-Invoicing system (Edicom n.d.b.). The system has since become compulsory and its success has led governments throughout Latin America to develop similar systems. The number of digital invoices in Mexico increased from 1.7bn to 6.5bn between 2011 and 2017. The adoption of e-Invoicing and e-Accounting generally has led to a significant reduction in tax evasion (Koch 2019). According to the Monterrey Institute of Technology, this transformation has increased income tax revenue by 6.6% from legal entities and 21.3% from individuals. It also reduced VAT avoidance, which fell from 31.9% in 2011 to 19.4% in 2015 (Edicom n.d.c.). Not only are invoices and tax records required to be digital, but so are accounting records and other tax disclosures. The system has lowered auditing costs for business and provides a real-time understanding of VAT remittances and taxes owed to the government (Busch 2013). ■

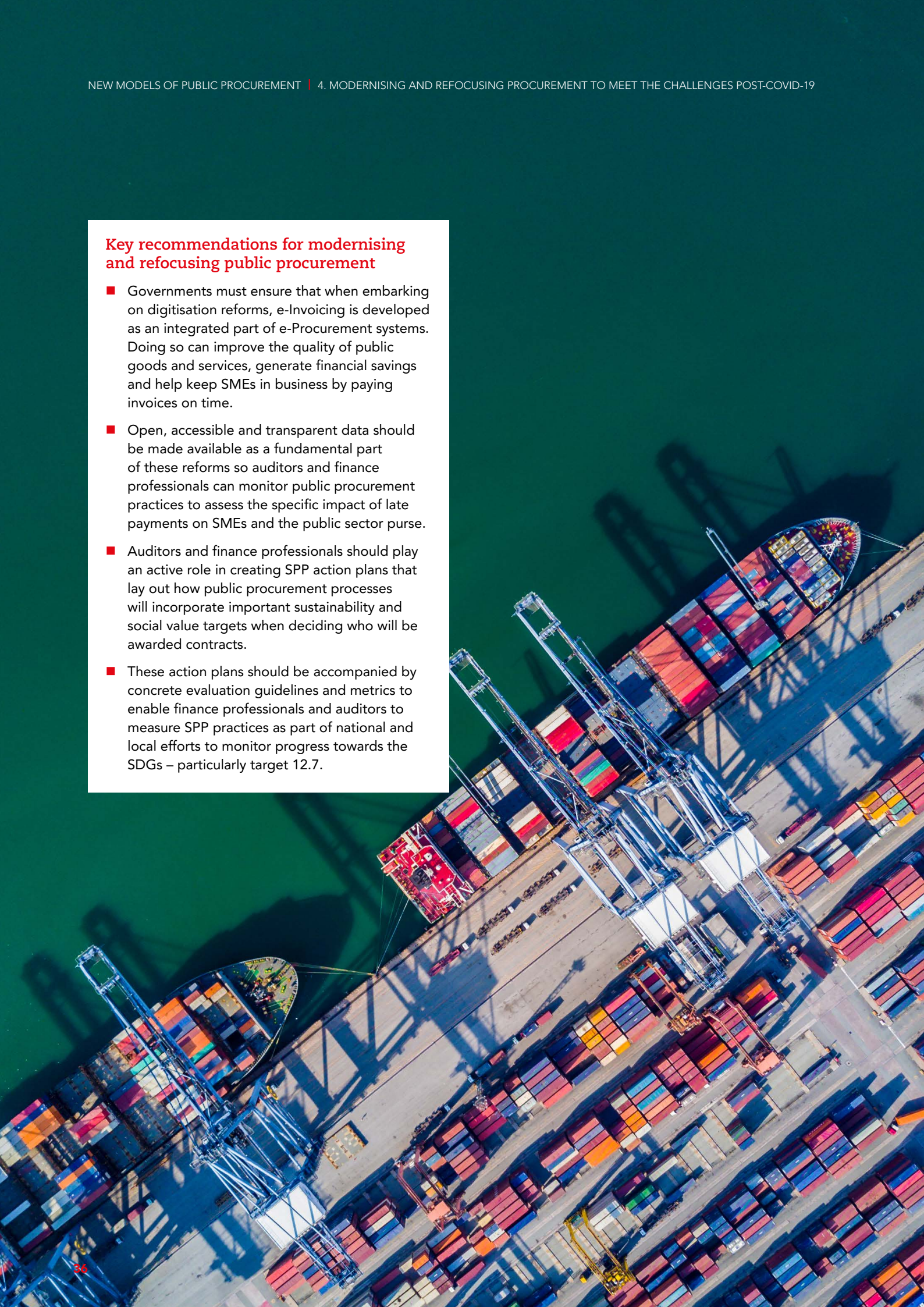


INSIGHTS from ACCA's head of sustainability, Jimmy Greer

All governments have committed to achieving the SDGs by 2030. While Target 12.7 is an explicit target for public procurement, the interconnected nature of the SDGs means that many government objectives can be achieved in a complementary and synergistic way. SPP can act as an engine for these multidimensional social, economic, environmental and institutional outcomes. Both negative externalities and pro-environmental and societal outcomes can be part of procurement decision-making in a way unique to government purchasing, given longer-term time horizons and the type of returns expected, with geographic impact targeting directly the hitherto neglected areas and parts of the population. Given that the evaluation of practices can be difficult, owing to multiple factors that may also influence impact, particularly for extended time horizons, a targeted approach that makes upfront commitments to addressing interconnected SDG-related issues through public procurement, must be among the guiding criteria. ■

Key recommendations for modernising and refocusing public procurement

- Governments must ensure that when embarking on digitisation reforms, e-Invoicing is developed as an integrated part of e-Procurement systems. Doing so can improve the quality of public goods and services, generate financial savings and help keep SMEs in business by paying invoices on time.
- Open, accessible and transparent data should be made available as a fundamental part of these reforms so auditors and finance professionals can monitor public procurement practices to assess the specific impact of late payments on SMEs and the public sector purse.
- Auditors and finance professionals should play an active role in creating SPP action plans that lay out how public procurement processes will incorporate important sustainability and social value targets when deciding who will be awarded contracts.
- These action plans should be accompanied by concrete evaluation guidelines and metrics to enable finance professionals and auditors to measure SPP practices as part of national and local efforts to monitor progress towards the SDGs – particularly target 12.7.



5. Public procurement as a tool in the COVID-19 recovery

This chapter will look at:

- the risk of corruption and financial mismanagement during a pandemic
- opportunities for life-saving procurement, economic recovery, sustainability and an end to corruption
- five recommendations for public procurement during a crisis.

The risk of corruption and financial mismanagement during a pandemic

The COVID-19 pandemic has tested the capacity of governments around the world to react quickly and efficiently to deliver life-saving goods and services to the public. Governments have not only had to purchase goods and services with extreme urgency but they have often had to compete against other governments for the same products and services. In some cases, central governments were competing directly with their own local and regional governments. In a suppliers' market such as this one, public buyers experienced extreme price volatility of essential goods and services and, in some cases, serious cases of alleged fraud and misconduct by suppliers (OECD 2020a). In some extreme cases, governments purchased goods such as masks at 25 times the original price (Transparency International 2020b).

Before the pandemic, Transparency International estimated that corruption costs the healthcare sector \$500bn per year – more than it would cost to bring about worldwide universal health coverage (Bruckner 2019). This risk can be even higher during times of crisis. Sierra Leone's auditor general found that one-third of the country's own contributions were unaccounted for owing to fraud and corruption during the Ebola crisis, and Saudi Arabia's government has reported that \$266m of funding intended for use combating Middle East respiratory coronavirus (MERS or MERS-CoV) was used in a corrupt manner (Mackey et al. 2016). By 16 March 2020, only a couple of months into the pandemic, the

European Anti-Fraud Office had already opened 23 new investigations and was looking at 48 selection cases based on information of investigative interest (OLAF 2020). During the COVID-19 pandemic generally, there has been an increase in contracts awarded to unusual companies, without advertising, transparency or competition.

This was also seen by many in our pop-up community discussion, with a public sector accountant in Botswana stating that:

'THE COVID-19 PANDEMIC HAS SEVERELY IMPACTED THE PROCUREMENT PROCESS IN THE SENSE THAT HURRIED RESPONSES HAD TO BE THE ORDER OF THE DAY IN ORDER TO PROMPTLY RESPOND TO DEMANDS ON THE GROUND IN TERMS OF HEALTH SERVICES. PROPER PROCUREMENT PROCESSES HAVE BEEN BYPASSED AND IN SOME COUNTRIES CASES OF CORRUPTION HAVE BEEN IDENTIFIED.'

The 'need for speed' approach during COVID-19 creates ample opportunities for misuse and mismanagement of public sector money. As discussed in Chapter 2, corruption costs the public sector significant sums of money every year and can create feelings of mistrust towards the government. But it is not just the cost of corruption that should act as a deterrent – governments should instead focus on the overall benefits of having strong, effective public procurement because it can help tackle a number of other important issues while fighting the consequences of the pandemic. In particular:

- delivering high-quality and effective life-saving goods and services to help reduce rates of transmission and overall death rates
- keeping businesses – particularly SMEs – afloat to help reduce overall rates of unemployment and private sector bankruptcy

- generating significant financial savings to the public sector despite the economic turmoil and increased government spending
- maintaining momentum in achieving the SDGs and using COVID-19 as an opportunity to spend more in the right places.

Governments everywhere have little choice but to spend more and spend quickly on essential goods and services to tackle the health implications of the virus. Even so, in doing this, there is an opportunity to achieve other public sector goals that can often be overlooked in times of crisis. This requires an evolution of public sector responses to the pandemic and new models of public procurement.

Opportunities for life-saving procurement, economic recovery, sustainability and increased transparency

It was clear from our survey that, overall, respondents wanted to see increased transparency in the public procurement bid-selection process (Figure 5.2). Over half the respondents also wanted to see increased engagement with SMEs and more innovative and digital approaches to procurement generally. Around one-third of participants wanted to see some form of either cross-government coordination or centralisation of procurement as well as an increased flexibility in how public procurement contracts are enforced.

FIGURE 5.1: OECD Infographic showing a constantly evolving COVID-19 crisis with different stages demanding different policy responses

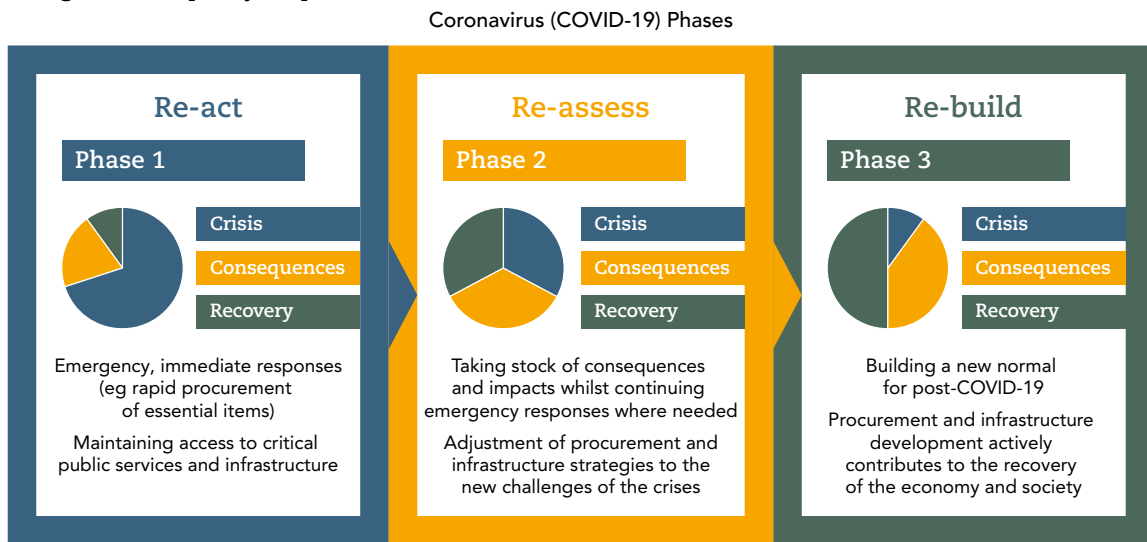


FIGURE 5.2: Respondents’ views on desirable post-COVID-19 government procurement strategies

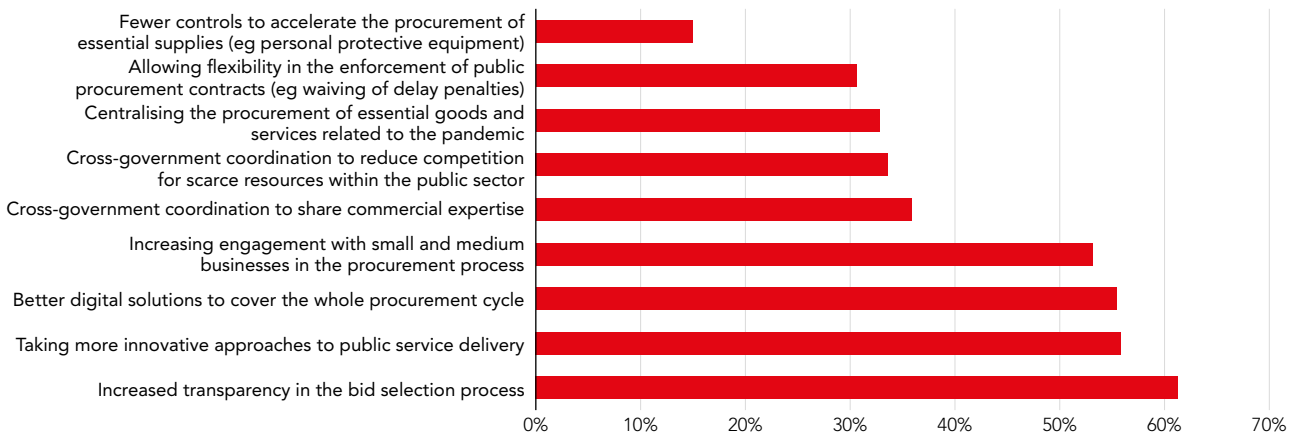
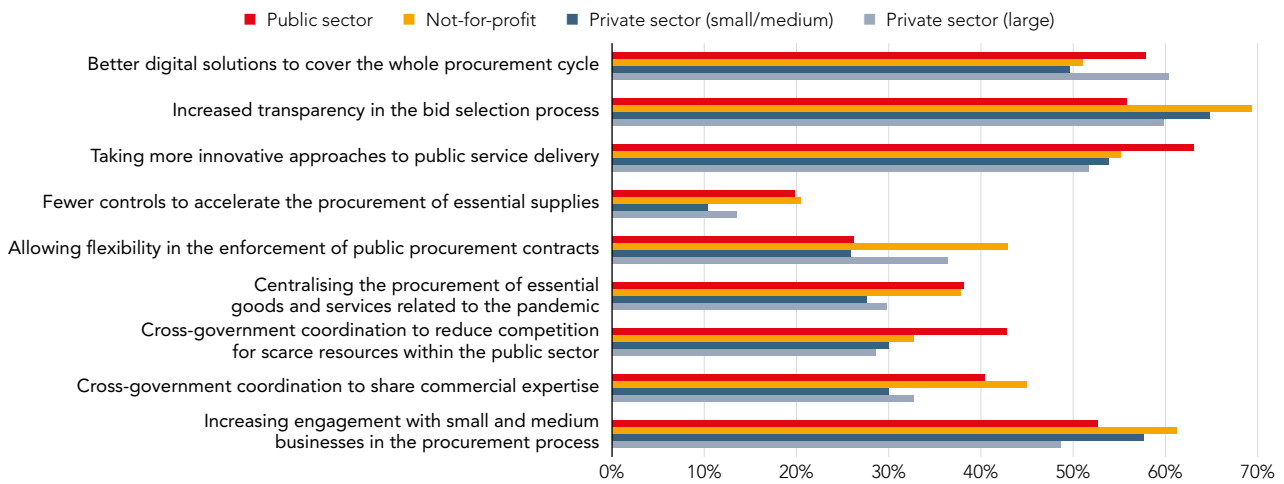


FIGURE 5.3: Respondents’ views, by sector, on post-COVID-19 government procurement strategies



When segmented by sector, smaller, private organisations (65%) and not-for-profits (69%) were more concerned about increased transparency in the bid selection process than larger companies (60%) and the public sector (56%) (Figure 5.3). The public sector and not-for-profit sector were more in favour of having fewer controls in place to accelerate the procurement of essential supplies, while the not-for-profit (43%) and larger private sector (36%) organisations were more in favour of allowing increased flexibility in the enforcement of public contracts. It is clear that while there are some slight differences in reform prioritisation, all sectors generally agree that the main areas of reform needed are transparency, digitalisation and innovation, SME engagement and better coordination or centralisation of procurement.

Reforming public procurement before the end of the crisis will be essential, as one of our online discussion participants, Philippos Katranis, a public sector senior manager in Cyprus, stated:

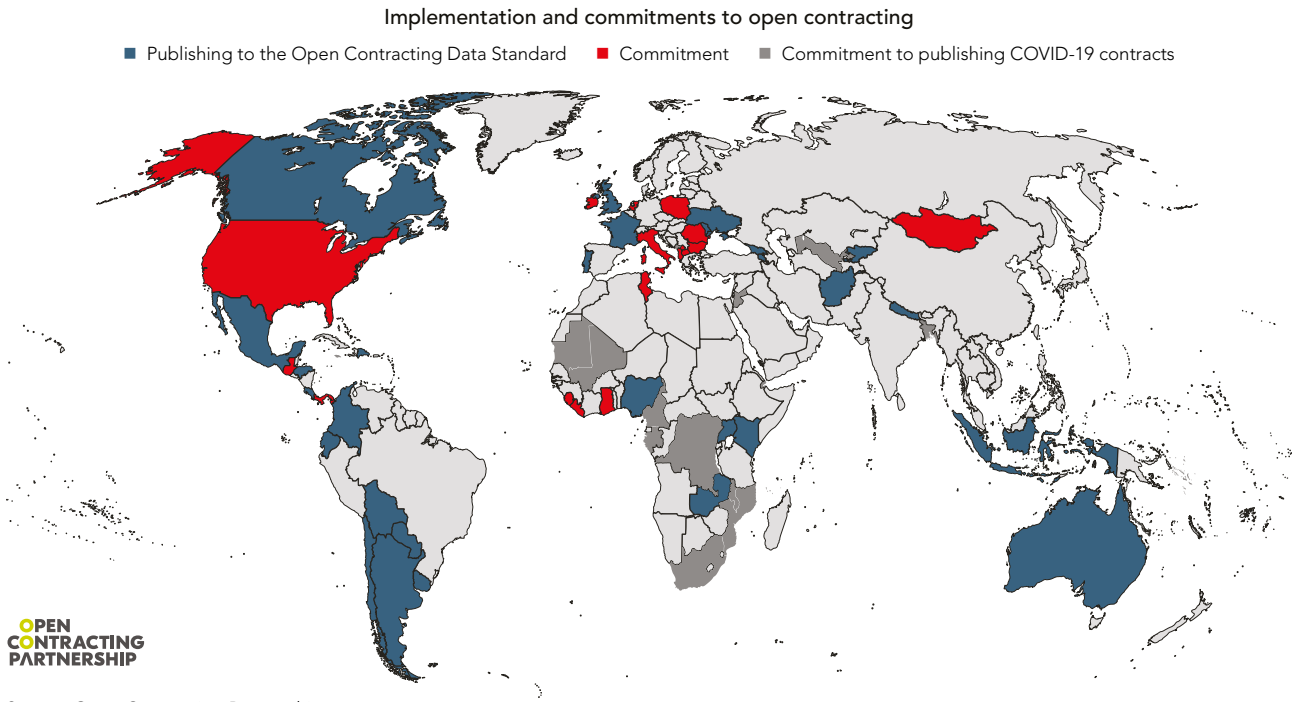
‘PROCUREMENT IN THE PANDEMIC ERA IS A CHALLENGE BECAUSE, FOR THE FIRST TIME, URGENCY AND SPEED IN DELIVERY OF OUTPUTS WAS PLACED ABOVE TRANSPARENCY AND OTHER PRINCIPLES THAT GOVERN THE PROCUREMENT FUNCTION. HOWEVER, ONCE THE DUST SETTLES, EVERYBODY WILL BE LOOKING BACK TO SEE WHY AND WHAT HAPPENED, AND IN SITUATIONS LIKE THIS IT IS DIFFICULT TO PROVIDE ANSWERS AND SUPPORTING EVIDENCE UNLESS THE PROCEDURES FOLLOWED WERE WELL THOUGHT OUT. AS ALWAYS, WE WILL ALL BE JUDGED BY THE END RESULT.’

🔍 CASE STUDY: The UK’s cost tracker

In a bid to increase transparency and accountability for government spending during the COVID-19 pandemic, the UK’s National Audit’s Office (NAO) developed the COVID-19 cost tracker to bring together data from across the UK government. It estimates the cost of measures announced in response to the coronavirus pandemic and discloses how much the government has spent on these measures so far. The tracker is part of the UK NAO’s programme of work for public reporting on the government’s response to the coronavirus pandemic (NAO 2020a). The UK’s comptroller and auditor general, Gareth Davies, notes that this type of work on public spending auditing will provide ‘expert insight to help ensure that appropriate lessons are learned for the future’ (NAO 2020b). A full data set is available to download from the NAO’s website (NAO 2020a). ■

To achieve these goals and ensure urgency does not trump all other aspects of procurement, governments, alongside finance professionals, should focus on these five key areas of policy reform. Doing so can not only improve the public sector response to the COVID-19 crisis but also help prepare better for future crises that present similar challenges.

FIGURE 5.4: Countries that have committed to publishing COVID-19 contracts



Source: Open Contracting Partnership

1. Ensure that emergency contracting procedures allow for the flexibility needed to tackle the crisis but are only used when absolutely necessary and have transparency safeguards in place to prevent corruption

To meet urgent public procurement needs, many countries are employing emergency contracting rules such as eliminating time limits on bidding and running fewer checks on suppliers. These types of emergency contracting should only be used, according to the OECD, ‘when existing public contract arrangements cannot be renewed, extended or otherwise used’. Resorting to emergency contracting should be done on a case-by-case basis and must be documented for use in future audits – ensuring lessons can be learned for future crises (OECD 2020a). It should also only be used to ‘fill the gap’ until a more stable solution can be found. This is to reduce the corruption and financial mismanagement that a process with fewer controls will inevitably risk. Public procurement contract managers must be properly trained to employ these emergency measures at the appropriate time and they must continue to document information on urgent purchasing to enable swift auditing to detect and prevent corruption and mismanagement.

2. Use public procurement as an opportunity to keep businesses – in particular SMEs – afloat by publishing contracts early on centralised, open databases that are accessible to all

By making better use of e-Procurement, contract managers can better engage with SMEs in the tendering process to help support their businesses during a time when they are struggling the most. This is an opportune moment to purchase from SMEs, as procurement processes are being streamlined and made more straightforward to allow faster responses to the urgent demands for goods and services. A more streamlined process helps SMEs, because long and expensive processes can act as a deterrent for SMEs to bid for contracts. As noted in Chapter 3 on competition, having access to digital procurement systems increases SMEs’ engagement in the bidding process.

3. Maintain momentum in achieving the SDGs by purchasing from sustainable and socially minded businesses. The process for selecting suppliers must be made faster but should still include evaluation methods that account for sustainability and social values

Despite the need for governments to spend quickly during a crisis and therefore relax some of the procedures that might usually take place, it is still critical that governments spend in the right places, with long-term goals in mind. Achieving sustainability goals while combating the pandemic should not be seen as competing objectives but as complementary ones. There is an opportunity for the public sector to buy sustainably during the pandemic to limit the negative social impacts of public procurement and invest more in sustainable businesses. This can be done, for example, by purchasing eco-labelled products, using vendors' scorecards developed by credible organisations for selecting responsible suppliers or purchasing from women or minority-owned businesses (Yaker and Hee Ahn 2020). By doing so, governments can account for negative externalities such as high-carbon emissions, caused by purchasing from non-sustainable sources, prevent further gender and social inequalities and make better use of public money, as research has shown that the relative prices of green products tend to diminish over time (Yaker and Hee Ahn 2020).

4. Centralise purchasing using central purchasing bodies to prevent government-to-government competition in the market, reduce prices and make auditing easier

Having one central purchasing body coordinate and purchase essential supplies can prevent unnecessary domestic competition for goods and services required throughout the country. For example, the South Korean government authorised its central purchasing body to centralise the mask supply to prevent several public entities competing for contracts with different mask manufacturers, who in turn would have to compete for supplies of raw materials (OECD 2020b). Large procurement volumes can generally reduce prices by achieving economies of scale and reducing transaction costs, thereby generating financial savings for the country as a whole (OECD 2015b). Centralised procurement creates a clearer audit trail and can therefore improve transparency and public scrutiny of spending during a pandemic (OECD 2000).

5. Ensure that all procurement activity is transparent and available to finance professionals and auditors in real time, so they can monitor public spending to help prevent cost inefficiencies and corruption

Buying quickly during a pandemic inevitably changes how the procurement process will function. Nonetheless, it does not mean that the process should be any less open or transparent. In fact, having open and transparent data can be used as a tool for tracking and comparing prices for essential goods, as seen with Ukraine's Dozorro tool, to avoid unnecessary overspending (Digital Social Innovation n.d.). The public sector should continue to disclose procurement activity using open data standards to help detect attempts at over-charging for goods and services and to reduce corruption. To speed up the process, some data fields, such as the budget amount, can be left empty but it will be important to monitor other fields, such as price tracking during different stages of the process, particularly if production costs are increasing (Salazar 2020). Collecting good data on the quality of fulfilment of the contract and clearly tagging all procurement purchases as 'COVID-19' will also enable scrutiny over how well funds were spent during the crisis (OECD 2020a). This will enable auditors to monitor government spending better and maintain trust in public spending.⁵ In particular, such tags will be useful for comparing prices paid nationally for procurement and reducing 'price gouging' (opportunistic inflation) by local firms (el-Chami and Goldsworthy 2020). By having this data swiftly, SAls can help ensure that public money is not being spent inefficiently now and so prevent public debt becoming bigger than necessary.

⁵ See examples of best practices in Fundacja ePanstwo (2020).



Conclusion

‘The IMF predicts that the COVID-19 pandemic could deliver the biggest blow to the global economy since the Great Depression in the 1930s’ (George and Roddis 2020).

The IMF expects the global public sector's debt-to-GDP ratio to reach 100% as a result of necessary spending on rescue packages (Hayashi 2020). COVID-19 is creating not only an economic crisis, but also a social and environmental one. The pandemic is already heightening inequalities – women globally have been estimated to be 1.8 times more vulnerable to losing their jobs during the pandemic than men (Madgavkar et al. 2020). Racial and ethnic minorities are at greater risk of being infected and dying from COVID-19 (Yaya et al. 2020). The pandemic is also threatening to undo much of the work done on sustainability, with increased environmental waste and the sharpest decline in nearly 30 years in global investment in clean energy.

Even so, there is room for optimism despite the challenges of COVID-19. The pandemic has been found to have slightly increased overall trust in government in some countries (Bol et al. 2020). This level of trust and confidence should be capitalised on and used as an

opportunity for real reform in areas often lacking in public attention. Public procurement is one such area – a part of public sector spending that, until now, has received relatively little attention. As it will inevitably continue to play a significant role in the crisis, now is an opportune time to re-examine how it is managed and make some important changes.

Governments must continue to spend to fight the pandemic but this spending can be used as a tool for helping to save struggling businesses, fight inequalities and environmental destruction and as a result, maintain public trust and build confidence. Finance professionals must be at the heart of this overhaul – they are best placed to help make these important financial decisions while continuing to hold government to account over how they spend during times when public money is scarce. Now is the time to make those changes, as history has long taught us that, out of crises, new opportunities can emerge.

GOVERNMENTS MUST CONTINUE TO SPEND TO FIGHT THE PANDEMIC BUT THIS SPENDING CAN BE USED AS A TOOL FOR HELPING TO SAVE STRUGGLING BUSINESSES, FIGHT INEQUALITIES AND ENVIRONMENTAL DESTRUCTION AND AS A RESULT, MAINTAIN PUBLIC TRUST AND BUILD CONFIDENCE.

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