

Independent Review of Aid Effectiveness Submission by E. John Blunt

Thank you for this opportunity to provide input into this important Review.

I note the Australian Agency for International Development (AusAID) program will increase to 0.5 per cent of gross national income by 2015-16. Implementation will be critical in ensuring the effectiveness and efficiency of the Australian aid program.

I also note that an important and parallel review of procurement and agreements processes has commenced. As AusAID is essentially a procuring and contracting organization for implementation purposes, I would have thought there would have been strong logic in this current review also considering implementation issues such as procurement and contract management as they are critical in ensuring the effectiveness and efficiency of the Australian aid program.

Structure of the program – public procurement and its reform

AusAID is widely seen as having a comparative advantage in several sectors including in public sector management, public finance management and in public procurement but its results in this area has sometimes been inconsistent or incomplete. In Papua New Guinea and Timor-Leste for example, public procurement is generally accepted as being inconsistent or incomplete. Specifically, in Timor-Leste the Donor led reform of public procurement, including a period under the leadership of AusAID and who is more recently the significant funder of recent reform, has resulted in a lack of clarity of the structures, roles and responsibilities relating to the 'whole-of-Government' public procurement system; an overly complex public procurement legal regime; no public procurement capacity building being undertaken since late 2009; and public procurement reporting, monitoring and oversight mechanisms not being in place. The risk of miss and corrupt public procurement has been assessed as being very high. Indeed in early December 2010, a senior Government Minister stated that Timor-Leste "... does not have an effective public procurement system". The Government is now considering 'outsourcing' its public procurement operations which suggests that the donor led reform has failed.

Why has performance in this sector been inconsistent or incomplete?

The UN Millennium Project recommends that significant interventions be implemented in the context of a Millennium Development Goals (MDG) based poverty reduction strategy. The need to scale up arises from the limited impact of many projects. National scale-up is the process of bringing essential services to most or all the population quickly, equitably, and lastingly. National scale-up is a major managerial challenge for many developing countries. It is significantly more complex than planning and implementing a single project, no matter how large. Going to national scale demands an inter-sectoral approach, or often a 'whole-of-Government' approach and a carefully designed multi-year planning framework and implementation strategy to ensure investments have the expected impact.

Management systems are an essential part of a MDG based poverty reduction strategy, if often overlooked and underfunded. Also frequently overlooked is that the quality of public sector governance depends crucially on investments in public sector management systems. Even in countries with good governance, public management tends to suffer mightily from a lack of trained managers, poor information systems, rigid civil service procedures, and inadequate budgets to address these concerns. Governments also need to invest in the institutions, process and procedures of public administration including critically in public finance management, including public procurement.

While public procurement is a key element of government administrative programs, specifically the management of public finance, the magnitude and significance of public procurement is usually not fully understood by stakeholders. The Organization for Economic Co-operation and Development - Development Assistance Committee (OECD-DAC) has noted that “even with the best of intentions on the part of the responsible agencies in partner governments and donors, the importance of good procurement was not understood and high level support for effective reforms was weak” (*OECD-DAC, Methodology for Assessment of National Procurement Systems (Based on indicators from OECD-DAC/World Bank Round Table), Version 4, 17 July 2006, p13* refers). Nor is its importance in the context of delivering MDG Goals fully understood.

Good public procurement is underpinned by high-level support for the public procurement system, clear institutional structures, a robust legal regime, a capacitated cadre of procurement professionals and effective governance and oversight institutions and processes. The input of a procurement activity is a procurement plan based on an assessment of needs, appropriate financial and other resources and articulated priorities. The output of a procurement activity is either goods, services or works, or a combination of each ‘delivered to specification, on time and to the agreed price’ and ‘completion of all payments to the supplier(s)’.

The OECD has also observed that “good public procurement systems are central to the effectiveness of development expenditure from both national and donor sources” (*OECD-DAC, 2006, p1* refers). Further “effective and efficient public procurement systems are essential to the achievement of the MDGs and the promotion of sustainable development. Public procurement systems are at the centre of the way public money is spent since budgets get translated into services largely through the government’s purchase of goods, works, and services. Unfortunately, procurement systems in many developing countries are particularly weak and serve to squander scarce domestic and foreign resources. Strengthening procurement capacity in developing countries must be a vital component of efforts to improve social and economic well-being and a necessary feature of programs designed to meet the international commitment to reducing poverty” (*OECD-DAC, 2006, p8* refers). Also “it (procurement) is a fundamental and integrated part of the governance and public financial management system in a country” (*OECD-DAC, 2006, p9* refers).

How big is the public procurement marketplace? Despite the difficulties in measurement, international comparison covering a wide set of countries is possible when one considers central government procurement only. It is suggested that the size of central government purchases varies between five percent (5%) and eight percent (8%) of GDP for most industrialized countries. For developing countries government purchases ranges from between nine percent (9%) and fifteen percent (15%) of GDP (*Blunt, E.J., Building Value through Public Procurement: The Need for Reform, 2010, p2* and *OECD-DAC, Strengthening Procurement Practices in Developing Countries - Summary Report, 22-23 January 2003, p4* refer).

Recent experience in developing countries suggests that public procurement can account for up to 50% to 70% of all government expenditure. In Swaziland, 65.9% of Government of Swaziland expenditure (both recurrent and project) was spent through a procurement process, in Timor-Leste, the percentage was 70.19% (*Blunt, 2010, p2* refers) and in Botswana, Sierra Leone and Uganda, 70% (*OECD, 2008, p62, OECD, 2008, p64* and *OECD-DAC, 2006, p18* refer respectively).

That AusAID is essentially a procuring and contracting organization for implementation purposes, and the implications of this fact, may also not be well understood. As a result, AusAID may not have adequate depth of knowledge and experience in developing country public procurement and its reform specifically in designing, implementing and managing such programs. It is understood that few AusAID officers have led or participated in a team that has delivered such a reform. AusAID's focus is primarily focused on its own managing tendering and contract management activities - 'procurement operations'. A recent review of the AusAID Organisation Chart suggests that procurement is part of the 'Operations Policy & Support Branch' and is focused on supporting AusAID's procurement and contract management operations, not on advising on designing, implementing and managing developing country procurement reform programs.

In a large commercial organization that spends over 50% of its budget through a procurement process, a Chief Procurement Officer (CPO) would be responsible for the organizations procurement and would be a direct report to the CEO, or in AusAID, to its Director General. But to whom does the Director General turn to for advice on a significant 'procurement' issue? Who is AusAID's most experienced and knowledgeable procurement expert? Does this expert have the knowledge and experience to advise on designing, implementing and managing developing country procurement reform programs as well as supporting AusAID's tendering and contract management activities ('procurement operations')?

In instances, where a public procurement reform program is undertaken, has AusAID deployed a public procurement 'expert' 'in-country' to provide 'technical' oversight of the reform program? Where AusAID has a significant procurement and contract management operations supporting implementation of its programs in countries such as Papua New Guinea, Indonesia, Solomon Islands and Timor-Leste, has AusAID deployed a 'in-country' public procurement 'expert' to provide 'technical' oversight of the procurement program? To not deploy such 'experts' can place programs at risk.

For such a complex and difficult reform to be successful, it is critical that there is strong engagement and cooperation between the Government, donors and other stakeholders. This requires donors such as AusAID establishing a relationship where 'technical' information, advice and support are offered and this often requires access to 'in-country' expertise. However, AusAID like most other donors does not always deploy 'in-country' public procurement experts, even in countries where public procurement is a focus.

Public procurement reform is complex and difficult. Public procurement reforms include focus on institutional, legislative, capacity building and oversight and monitoring elements of the public procurement system. Public procurement reform may also involve in supporting the developing country in undertaking its tendering and contract management activities - 'procurement operations'. Public procurement reform may also require institutional reform.

Why is public procurement and its reform as a sector so important to developing countries and to AusAID?

Through the 2005 *Paris Declaration on Aid Effectiveness*, the Accra Agenda for Action, and the 2008 *Commitment on Aid Effectiveness*, the Australian Government and other development partners have agreed to work together to strengthen and use government systems, including systems for public procurement. This requires that developing countries public procurement systems are developed and/or reformed so that AusAID has confidence to use them. In the face of shrinking budgets and the need to fight corruption, many governments have realized that significant savings can be gained by a well-organized public procurement system. Many developing countries have also realized that a well-organized public procurement system contributes to good governance by increasing confidence that public funds are well spent. Some developing countries have therefore instituted reforms aimed at making their public procurement systems more transparent and efficient and increasing the accountability of public officials. Public procurement is the single largest area of public scrutiny into acts of alleged corruption as it represents a major cost to the system – not only in terms of lost money. Tanzania estimates about 20% of the government budget is lost and it is estimated that a 5% saving from better public procurement would generate benefits of approximately USD 450 million.

Developing and reforming developing countries public procurement systems are also important as budget support has become an important modality for development cooperation in the last decade and has a different basis for accountability than project support. Budget support requires strong financial accountability and public expenditure management, including an 'open and transparent' public procurement system. Many factors can affect a donor's decisions to use a country's public finance management system besides expected benefits: the assessed quality of the system; the donor's legal framework, historic practices, or tolerance for risks; the partner country's own preferences; and related intangibles such as the perception of corruption or poor governance. The rules and conditions, for example of the European Commission, regarding

budget support state: Direct budgetary assistance in support of macroeconomic or sectoral reforms shall be granted where:

- Public expenditure management is sufficiently transparent, accountable and effective;
- Well defined macroeconomic or sectoral policies established by the country itself and agreed by its main donors are in place; and
- Public procurement is open and transparent.

This suggests that where a developing countries public procurement system is not adequate, either public procurement reform is required, or budget support as a delivery mechanism will not be considered.

As an example of budget support and the related assessment of procurement risk, two recent Articles “*That’s No Way to Aid Indonesia*” and “*\$500m at risk in Jakarta aid plan*” in *The Australian* of Monday 10th January 2011 made a number of comments regarding a proposed AusAID activity in Indonesia.

In 2007 the World Bank (WB) completed a Public Expenditure and Financial Accountability (PEFA) Report. The Report estimated that just over 60% of aid disbursements from major donors relied upon Indonesia’s fiduciary systems (budget support) including a substantial % of WB expenditure, but in 2007 none by AusAID. Some specific comments from the Report were:

- “Key weaknesses were identified across various dimensions of the budget execution such as financial reporting and internal controls.
- Internal controls in the execution of the budget by spending agencies have not scored well overall.
- Controls in budget execution processes were generally rated low.
- In practice budget implementation may be significantly delayed because of the lengthy procurement process.
- The budget execution processes within line ministries appears to be a significant barrier to efficient service delivery.
- Procurement processes lead to significant delays in the acquisition of goods and services and the implementation of capital projects.
- Capital expenditure appropriations are frequently under-spent.
- Much service delivery, for example in education and health is primarily the responsibility of SNG rather than central government.”
- With regards procurement (PI-19) the ‘use of open competition for award of contracts’ (which is a critical EC budget support criteria) was scored D and “there is insufficient data available to assess on an aggregate basis the extent to which competitive methods were used to award public contracts”.

While there was in 2007 a focus on public finance management reforms, including ‘a plan for establishing a national Public Procurement Organization as a policy formulation and oversight agency’ and developing an ‘omnibus procurement law is envisaged for consolidating, clarifying and simplifying the numerous procurement rules and regulations’, the Report suggested that ‘institutional arrangements for public finance management reform need to be strengthened by a clearer reform strategy or roadmap, there appears to be limited engagement with line ministries

at this stage, and overall a lack of 'socialization' of the reforms throughout the government'. The Report also noted that a 'Financial Management Reform Committee established in November 2001 to oversee and coordinate PFM reforms was no longer operational'.

A 'Snapshot Assessment of Indonesia's Public Procurement System – OECD/DAC Baseline Indicator Benchmarking Methodology' was also undertaken in 2007 and made similar observations.

What has changed since 2007 for AusAID to now want to allocate \$500m to Gol through a budget support spending mechanism? Is the AusAID funding being placed at risk as is suggested by the Articles?

The above example is indicative of the importance of ensuring that developing countries and donors including AusAID have access to experienced and knowledgeable procurement expertise.

An excellent suite of tools and mechanisms exist, including those developed by the OECD-DAC, the World Bank and the United Nations Development Programme to assess developing country public procurement systems. They have been successfully used to assess a number of countries public procurement systems. But why have few donors, including AusAID then taken steps to develop and/or reform developing countries public procurement systems where improvement is required?

Procurement is a function critical to all aid organizations including AusAID – they are all procuring and contracting organizations for implementation purposes. As a result each has developed their own suite of procurement policies, procedures, practices and documents they use to support their own tendering and contract management activities - 'procurement operations'. Whilst most procedures are similar in content there are often differences in how they are applied by each donor. This can and does lead to confusion between donors and between donors and developing countries especially where each donor mandates the use of their own procedures for their own projects. As a result, there is sometimes conflict as to 'which donor's procedures' should be applied when the developing countries public procurement system is being reformed.

While developing country public procurement reform is complex and difficult, successful public procurement reform is possible. One southern African country has achieved a measure of success. Following the second phase of its 'whole-of-government' public procurement reform and as it transitioned to the third and final phase, the Government had assessed that it had:

- Established and developed key procurement institutions, including a Technical Secretariat and a new Tender Board, as well as planning for the establishment of a new procurement regulatory body with oversight responsibilities;
- Reformed the legal and regulatory framework including preparation of a procurement bill, new procurement and revised stores regulations, developed a procurement manual and standard documentation;

- Developed and delivered a comprehensive capacity building program, including workshops on the procurement regulations for 120 government officers and 320 suppliers and provided operational support and on-the-job training to all parts of government; and
- Saved in the order of ZAR200 million - most identified savings have been realized through the use of Open Tendering. Prices paid by government started to fall with a number of tender awards being 10% to 20% below budget, with several tenders being 30% below budget.

Summary

The following points are made in summary:

- Australian Agency for International Development (AusAID) is widely seen as having a comparative advantage in several sectors including in public sector management and public procurement but its results in this area has sometimes been inconsistent or incomplete.
- While public procurement is a key element of government administrative programs, specifically the management of public finance, the magnitude and significance of public procurement is usually not fully understood by stakeholders.
- Good public procurement is underpinned by high-level support for the public procurement system, clear institutional structures, a robust legal regime, a capacitated cadre of procurement professionals and effective governance and oversight institutions and processes.
- Effective and efficient public procurement systems are essential to the achievement of the Millennium Development Goals and the promotion of sustainable development.
- Public procurement systems are at the centre of the way public money is spent since budgets get translated into services largely through the government's purchase of goods, works, and services.
- Unfortunately, procurement systems in many developing countries are particularly weak and serve to squander scarce domestic and foreign resources.
- Strengthening procurement capacity in developing countries must be a vital component of efforts to improve social and economic well-being and a necessary feature of programs designed to meet the international commitment to reducing poverty.
- Recent experience in developing countries suggests that public procurement can account for up to 50% to 70% of all government expenditure.
- That AusAID is essentially a procuring and contracting organization for implementation purposes, and the implications of this fact, may not be well understood and therefore it may be inadequately resourced.
- Public procurement reform is complex and difficult.
- Through the 2005 *Paris Declaration on Aid Effectiveness*, the Accra Agenda for Action, and the 2008 *Commitment on Aid Effectiveness*, the Australian Government and other development partners have agreed to work together to strengthen and use government systems, including systems for public procurement.

- Budget support has become an important modality for development cooperation in the last decade and has a different basis for accountability than project support.
- While developing country public procurement reform is complex and difficult, successful public procurement reform is possible.
- As AusAID is essentially a procuring and contracting organization for implementation purposes its procurement system and those of developing countries that it supports are critical in ensuring the effectiveness and efficiency of the implementation of the Australian aid program. To not place emphasis on this sector may abrogate the Australian Government commitment to strengthen and use government systems.

This submission should be treated as a public document.

Should you require clarification regarding any of the above comments, please do not hesitate to contact me.

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Mr. E. John Blunt, a Public Sector Management and Procurement Expert with extensive experience in leading public procurement reforms in a variety of international development environments including in Indonesia, Nauru, Pakistan, Papua New Guinea and the Solomon Islands with the Asian Development Bank, the Australian Agency for International Development, the European Commission, the United Nations Development Program and with the governments of Australia, Swaziland and Timor-Leste. He also has commercial experience in Australia, China, Hong Kong, Papua New Guinea, the Philippines and Thailand.