

OECD Public Governance Reviews

Reforming Public Procurement

**PROGRESS IN IMPLEMENTING THE 2015 OECD
RECOMMENDATION**



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Foreword

Public procurement is a crucial pillar of service delivery for governments, affecting citizens' lives in areas ranging from energy efficiency to health services. Because of the sheer volume of spending it represents, well-governed public procurement plays a major role in fostering public sector efficiency and establishing citizens' trust. Governments are also increasingly using public procurement as a strategic tool for achieving policy goals such as environmental protection, innovation, job creation and the development of small and medium enterprises.

The 2015 *OECD Recommendation of the Council on Public Procurement* is the overarching OECD guiding framework that promotes the strategic and holistic use of public procurement. It is a reference for modernising procurement systems and can be applied across all levels of government and state-owned enterprises. It addresses the entire procurement cycle while integrating public procurement with other elements of strategic governance such as budgeting, financial management and additional forms of services delivery. The Recommendation was developed by the Working Party of the Leading Practitioners on Public Procurement (LPP) under the purview of the Public Governance Committee (PGC) and adopted by the OECD Council in February 2015 [[OECD/LEGAL/0411](#)]. It has been a source of inspiration for a number of other international standards, such as the Methodology for Assessing Procurement System (MAPS), the European Recommendation 2017/1805 on the professionalisation of public procurement, the Compendium of Good Practices on the Use of Open Data for Anti-corruption Across G20 Countries, and the G20 Principles for Promoting Integrity in Public Procurement.

In 2018, the OECD carried out a survey on the Implementation of the Recommendation in 34 countries, spanning a range of topics relevant to the 12 integrated principles of the Recommendation. Based on the survey results, this report presents progress made across OECD members and non-members in implementing reforms of their procurement systems. It highlights public procurement's decisive impact on the delivery of better, smarter and more innovative public services. The report also sheds light on the contribution of public procurement reforms to crosscutting initiatives such as digital transformation or public workforce development. Annexed to the report is a recent study by the Inter-American Development Bank on procurement systems in LAC countries, illustrating how the Recommendation has been used to guide and shape the transformation of countries' public procurement systems but also to build regional convergence in this policy area. While much progress has been made in reforming procurement systems worldwide, challenges remain, in particular the professionalization of the workforce to ensure it is capable of using public procurement to promote innovation, sustainability and growth.

This report demonstrates that the Recommendation has made a significant impact in the public policy arena. The OECD will continue to provide evidence to support countries in developing better procurement policies for better lives.

This document was approved by the OECD Working Party of the Leading Practitioners on Public Procurement (LPP) on 1 April 2019.

This document [[GOV/PGC\(2019\)13/REV1](#)] was approved by the Public Governance Committee on 7 June 2019 and adopted by the Council on 16 July 2019 [[C\(2019\)94/FINAL](#)] and prepared for publication by the OECD Secretariat.

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The report integrates data and evidence collected through the "Survey on Public Procurement" conducted in 2016 on three main areas: policies to pursue secondary policy objectives, e-procurement and central purchasing bodies. In August 2018, a second questionnaire assessed progress on the implementation of the Recommendation against its twelve principles. The data collection phase took place from August to December 2018. The questionnaire received responses from 31 Adherents (Australia, Austria, Belgium, Canada, Chile, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Mexico, Netherlands, New Zealand Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Turkey), and three non-Members non-Adherents (Costa Rica, Morocco and Peru). It also benefited from a regional assessment on the implementation of the Recommendation in LAC countries, conducted in 2017/2018 by the Inter-American Development Bank in 16 countries from the region.

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Abbreviations and acronyms

AP	Acquisitions Programme, Canada
APS	American Purchasing Society
ARI	Administración de Riesgos Institucionales (Institutional Risk Management Model), Mexico
BICRO	Business Innovation Center of Croatia
BPQR	Best price-quality ratio
CA	Contracting authority
CFE	Comisión Federal de Electricidad (Federal Electricity Commission), Mexico
CIPS	Chartered Institute of Procurement and Supply
CPBs	Central purchasing bodies
CR	Contract registers
CTRIA	Central Transdanubian Regional Innovation Agency
DAE	Direction des Achats de l'État (State Purchasing Directorate), France
DAFP	Departamento Administrativo de la Función Pública (Department for Public Employment), Colombia
DEX IC	DEX, Innovation Centre, Czech Republic
Difi	Direktoratet for forvaltning og ikt (Agency for Public Management and eGovernment), Norway
DP	Departmental Plans, Canada
DPS	Dynamic Purchasing Systems
DRR	Departmental Results Reports, Canada
DS4P	Dynamic Sourcing for Panels, Australia
EC	European Commission
ERP	Enterprise resource planning
eSPap	Entidade de Serviços Partilhados da Administração Pública (Public Administration Shared Service Entity), Portugal
ESPD	European Single Procurement Document
EU	European Union
FA	Framework agreement

FAPIIS	Federal Awardee Performance and Integrity Information System, United States
FIDO	Federaal Instituut voor Duurzame Ontwikkeling (Federal Institute for Sustainable Development), Belgium
GPP	Green public procurement
IT	Information technology
KONEPS	Korea ON-line E-Procurement System
KPIs	Key performance indicators
LCC	Life cycle cost
LPP	(Working Party of the) Leading Practitioners on Public Procurement, OECD
MAF	Management Accountability Framework, Canada
MAPS	Methodology for Assessing Procurement Systems
MAS	Multiple award schedules
MEAT	Most economically advantageous tender
MECI	Modelo Estándar de Control Interno (Internal Control Standard Model), Colombia
MENA	Middle East and North Africa
MePA	Public Administration e-Marketplace, Italy
MIPG	Modelo Integrado de Planeación y Gestión (Integrated Planning and Management Model), Colombia
MNE	Multinational enterprises
MPU	Ministry purchasing units, Portugal
NAO	National Audit Office, United Kingdom
NAPP	National Agency for Public Procurement, Sweden
NDPC	National Database on Public Contracts, Italy
NAPP	National Agency for Public Procurement, Sweden
OAG	Office of the Auditor General, Canada
OCP	Open Contracting Partnership
OCDS	Open Contracting Data Standard
OJEU	Official Journal of the European Union
OSCE	Organismo Supervisor de las Contrataciones del Estado (Government Procurement Supervising Agency), Peru
PCI	Procurement Capability Index, New Zealand
PGC	Public Governance Committee, OECD
PIN	Prior Information Notice
PPI	Public procurement of innovative solutions, European Union
PPIRS	Past Performance Information Retrieval System, United States
PPS	Public Procurement Service, Korea

PRC	Peer Review Committee, Canada
PSC	Procurement Strategy Committee, Canada
PSPC	Public Services and Procurement Canada
PTAR	Programa de Trabajo de Administración de Riesgos (Working Programme of Risk Management), Mexico
RARR	Rzeszowska Agencja Rozwoju Regionalnego (Rzeszow Regional Development Agency), Poland
RFI	Requests for information
SAI	Supreme audit institutions
SECOP	Sistema Electrónico para la Contratación Pública (Electronic System for Public Contracting), Colombia
SFP	Secretaría de la Función Pública (Secretariat for Civil Service), Mexico
SMEs	Small and medium-sized enterprises
SNCP	Sistema Nacional de Compras Públicas (National Public Procurement System), Portugal
TAIEX	Technical Assistance and Information Exchange Instrument, European Commission
TBS	Treasury Board of Canada Secretariat
TED	Tenders Electronic Daily
TVEC	Tienda Virtual del Estado Colombiano (Virtual Store for the Colombian State), Colombia
UNITO	University of Torino, Italy
Vai	Virtual Assistant Interface, New Zealand
VPM	Vendor Performance Management, Canada

Executive summary

The OECD Recommendation of the Council on Public Procurement sets a new standard for public procurement internationally. The Recommendation is the result of collaboration across policy communities within and outside OECD, demonstrating the multi-disciplinary nature of procurement. It supports a comprehensive and integrated approach to the procurement cycle and reflects the growing interest in transforming public procurement into a strategic policy lever for governments. By helping governments better meet their policy objectives, well governed public procurement contributes directly to greater public trust, enhanced well-being and more prosperous and inclusive societies.

This report presents progress made in implementing the Recommendation by countries that responded to the 2018 OECD survey.

Key findings

- In line with the provisions of the Recommendation, survey respondents are increasingly transforming their public procurement systems to support national and sub-national strategic orientations. The accumulated insights and data gathered from countries since the adoption of the Recommendation forms a baseline of evidence that clearly shows the progress they have made in using public procurement to further strategic policy objectives.
- Processes and institutions are becoming increasingly supportive of strategic procurement outcomes. Since 2014, Central Purchasing Bodies (CPBs) in a growing number of countries have established collaborative procurement tools such as framework agreements that enable aggregation of buying power and reduction in administrative costs. Another example is the increasing use of criteria beyond price in evaluating bids. The 2018 Survey responses show that 63% of CPBs routinely (75% of purchases and more) use award criteria assessing the quality of bids. Such criteria take into account areas such as quality of product, organisation, qualification and experience of the supplier, and delivery time and conditions. There is also increasing consideration of the costs that will be incurred during the lifetime of the item being purchased, including the cost of externalities such as greenhouse gas emissions.
- The evaluation of national procurement systems is evolving fast, particular in terms of measuring the impact of public procurement on complementary policy objectives. With the increased collection and availability of data, system-wide impacts are more easily measured and countries are better equipped to conduct insightful evaluations of their public procurement systems.
- Yet, the systemic evaluation of procurement outcomes remains a challenge in most OECD countries. Only 56.5% of respondents regularly measure the implementation of CPB's objectives and 22% do not measure it at all. Further, only a minority of respondents have a formal performance management system established, with key performance indicators (KPIs) reflecting outcomes and specific targets for each contracting authority. In contrast, some respondents have also developed and are monitoring specific indicators related to complementary policy objectives, for example, green public procurement (GPP), social issues, SME participation, and innovation.

- Beyond processes and institutions, an effective shift of the procurement function towards a strategic governance tool requires conditions supporting these transformational changes. Aligned with the digital transformation of public services, the use of e-procurement systems is widespread among responding countries and the use of digital technologies is being harnessed to gather meaningful data for measuring effectiveness and efficiency in public spending. More respondents have integrated their e-procurement systems with central government IT systems, improving the effectiveness and efficiency of public procurement.
- The skills and capacities of civil servants are also crucial for supporting effective change in the public sector. The public procurement workforce continues to lack both capability (defined as skills-based ability for an individual, group of organisation to meet obligations and objectives) and capacity (defined as the ability to meet obligations and objectives based on existing administrative, financial, human, and infrastructure resources). Only ten countries (Canada, Chile, France, Iceland, Japan, the Netherlands, New Zealand, Peru, Portugal, and Slovakia) indicated in the 2018 Survey that they have competency models. A lack of competency models makes it difficult to identify exactly where the gaps are and to design a strategy (including training) to fill those gaps.
- Finally, the increased complexity and interconnectedness of procurement-related issues requires even more robust risk management frameworks. The legal frameworks used by respondents act as a first barrier to certain corruption or integrity risks as they reflect key principles such as equal treatment, non-discrimination, transparency, proportionality and effective competition. In addition, there is an upwards trend in the percentage of respondents that have developed a strategy for the assessment, prevention and mitigation of public procurement risk. The 2018 Survey also confirmed that more than half of respondents have follow-up mechanisms to track and monitor the implementation of audit recommendations and observations.
- The Recommendation has been internationally recognised and used to embed holistic transformations of public procurement systems. It supports a change of paradigm and a shift towards a strategic public governance tool. As the tools and conditions offered by a strategic approach to public procurement become embedded in wider public sector practices, an increasing body of evidence will emerge on the accrued benefits.

1 Strategic uses of public procurement to achieve broader policy outcomes

This chapter describes the significant role that public procurement can have in leveraging secondary policy objectives. It assesses the extent to which Adherents are balancing the pursuit of such secondary policy objectives against the primary procurement objective of achieving value for money. The analysis focuses on the trade-offs that Adherents are making throughout the procurement lifecycle to realise the desired outcomes from the application of broad strategic policy objective. The chapter includes an assessment on the existence of strategies on Green public procurement, innovation goods and services, support to small-to-medium enterprises (SMES), responsible business conduct, and women owned enterprises.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

The OECD Recommendation calls on Adherents to “*recognise that any use of the public procurement system to pursue secondary policy objectives should be balanced against the primary procurement objective*” (Principle on balance, paragraph V). The Recommendation contains guiding principles to assist Adherents in achieving the right balance between the primary procurement objective and secondary policy objectives, so that public procurement systems support the achievement of broader outcomes.

In order to realise the desired outcomes from application of broad strategic policy objectives, public procurement regulatory frameworks are themselves being implemented in more strategic ways. New public procurement methods are being tested and there is increasing use of digital technologies throughout the public procurement life cycle.

Helping public procurement organisations succeed in their pursuit of strategic procurement objectives is a key aim of the Recommendation. The challenges of implementing strategic public procurement are many: reducing risk aversion, setting up new forms of co-ordination and collaboration, improving skills and capacity, encouraging procurement officials to dialogue with suppliers, and enhancing data collection and monitoring of results.

In addition, other initiatives and policies are being implemented in regions with goals similar or complementary to those of the OECD Recommendation, and these contribute to the effective implementation of the Recommendation. For example, the European Commission (EC) is developing policies to support implementation of the European Union (EU) legal framework for public procurement as well as providing tools to make the procurement process more efficient (e.g. e-procurement tools, guidelines and templates). The EC also provides assistance and support to non-EU Member States in pre-accession phase or in the context of neighbourhood co-operation.

Box 1.1. The European Commission’s Communication on Public Procurement Strategy

In 2017 the European Commission (EC) adopted a Communication on Public Procurement Strategy that called for a wide partnership with the Member States. The intent was to make procurement work on the ground in six priority areas:

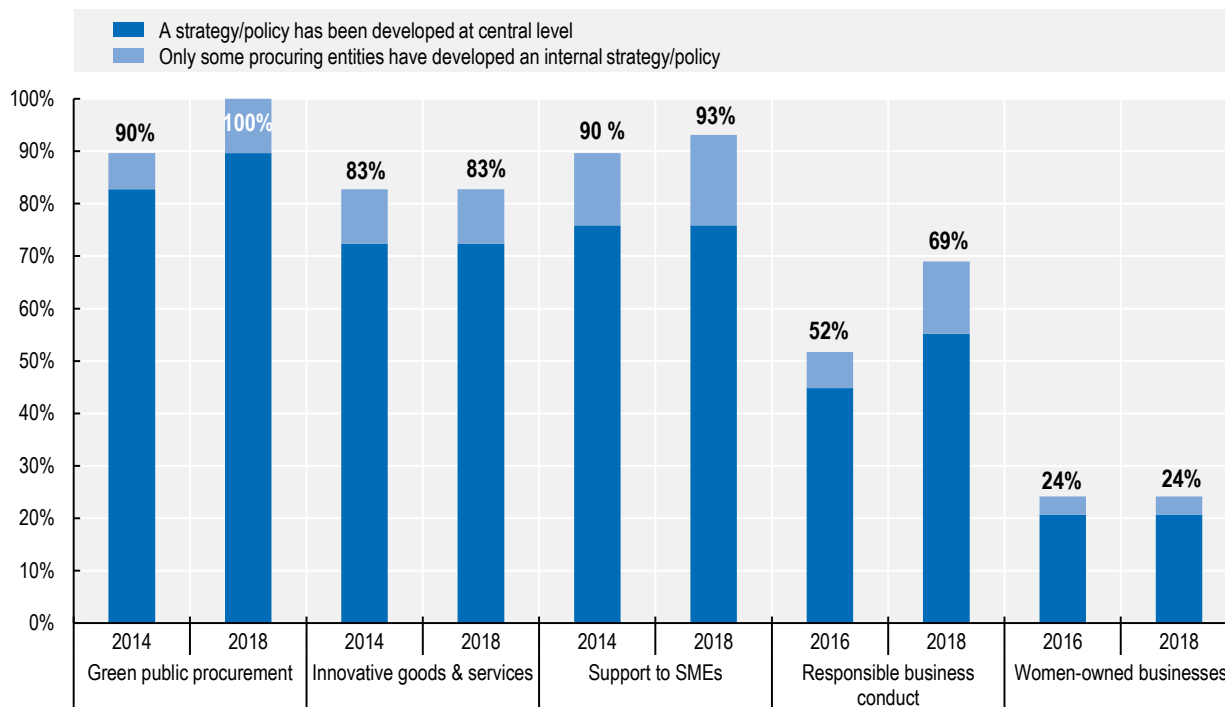
1. greater incorporation of innovative, Green and social criteria in awarding public contracts, through publishing specific guidance (such as the *Buying Green!* handbook, “Guidance on innovation procurement” (European Commission, 2018^[1]) and the upcoming guide on taking account of social considerations in public procurement aspects
2. professionalisation of public buyers with the 2017 Recommendation on to the EU Member States highlighting the steps they should take to ensure that public buyers have the business skills, technical knowledge and procedural understanding needed to comply with the rules and develop a more strategic approach to procurement
3. improving SME access to procurement markets in the EU and by EU companies in third countries, including facilitation of access to procurement by social enterprises
4. increasing transparency, integrity and quality of procurement data, notably by promoting national contract registers
5. digitisation of procurement processes with the development of e-procurement tools
6. more co-operation among public buyers across the EU, notably with high-level training for central purchasing bodies.

As part of the public procurement strategy, the Commission also set up a voluntary mechanism to assess and support large infrastructure projects.

Source: (European Commission, n.d.^[2]).

Findings in the 2018 Survey (OECD, 2018^[3]) demonstrate the Recommendation's relevance in providing a vision for the holistic and inclusive use of public procurement, and confirms the value of investing in strategic public procurement as a key means to address societal challenges (OECD, 2018^[3]).

Figure 1.1. Existence of a strategy/policy to pursue secondary policy objectives in public procurement



Note: The chart is based on data from 29 countries (28 OECD countries plus Costa Rica) that answered *both* the 2018 and one of the 2016/2014 Surveys on public procurement. Percentages give the sum of both categories. Countries indicating that some procuring entities developed an internal strategy/policy and that a strategy/policy has been developed at central level are included in the second category (i.e. a strategy/policy has been developed at central level).

Sources: (OECD, 2016^[4]); (OECD, 2018^[3]).

The 2018 Survey shows that the majority of respondent countries have developed policies at some level regarding Green and innovative public procurement and SMEs (Figure 1.1). The comparison between the 2014/16 and 2018 Surveys shows that there is an upwards trend in the development of strategies and policies addressing Green public procurement and particularly responsible business conduct. The increase in policies to pursue responsible business conduct has been mainly at the central level, which could reflect the increasing need to co-ordinate this strategy from a centralised governance position (OECD, 2016^[4]), (OECD, 2018^[3]).

Many Adherents rely on their body of law to enforce the implementation of strategic public procurement. Some Adherents, such as Sweden, have also moved to define the strategic direction further by setting out a policy framework that includes specific objectives. Sweden in fact developed a National Public Procurement Strategy in response to the challenges faced by its public sector (Box 1.2) – challenges that are common to most public sector organisations around the world. These included changes in the world such as climate, the environment, demographic trends and migration flows, and citizens' expectations of service. The strategy is designed to be a catalyst for new ideas in the public sector.

Box 1.2. Sweden – Sound public affairs for a sustainable future

The National Public Procurement Strategy in Sweden includes **six policy objectives**:

1. public procurement as a strategic tool for doing good business
2. effective public purchasing
3. a multiplicity of suppliers and well-functioning competition
4. legally certain public procurement
5. public procurement that drives innovation and promotes alternative solutions
6. public procurement that is environmentally responsible.

Source: (Ministry of Finance Sweden, n.d.^[5]); (Brannstrom, 2018^[6]).

1.1. Supporting implementation of public procurement to encourage innovation

In line with the provisions of the Recommendation (Principle on balance, paragraph V), public procurement should be used as a strategic instrument to promote innovation. Many countries are taking measures to support that principle by developing action plans, either contained within broader innovative or procurement strategies or as stand-alone initiatives (OECD, 2018^[3]). In line with the 2030 Agenda for Sustainable Development Goals (OECD, 2016^[7]), public procurement's strategic potential for achieving government policy goals such as innovation is increasingly recognised (OECD, 2017^[8]).

As noted earlier, a large percentage of respondents (81%, including 69% at a central level) have strategies and policies in place to support the objective of procuring innovative goods and services (OECD, 2018^[3]). A report containing an overview of the findings from the 2015 OECD Survey on Strategic Procurement for Innovation (OECD, 2017^[8]) noted that public procurement continues to direct efforts in the traditional area of the supply side by ensuring that the private sector operates in an environment conducive to innovation. Increasingly however, public procurement for innovation is at the forefront of developing policies for the demand side. Innovations materialise when there is a demand for innovation -- effective policies to support innovation are therefore coming from the demand side as well as the supply side.

Using public procurement to meet societal needs can be seen in targeted, demand-side innovation policies, such as anticipating future investments to address existing or future societal challenges; this allows potential vendors to enter the market with new innovative goods or services. Indeed, public procurement has the potential to be a catalyst for innovative solutions to pressing challenges. In a world of digital transformation, public sector investment decisions are becoming increasingly complex. Digital services must respond to citizens' fast-changing expectations, which requires crosscutting actions and integrated decisions. "On the supply side, improved Internet access and speed mean that governments have access to ever cheaper and more modular, usually cloud-based, services. But emerging technologies introduce also new uncertainties (dominant standards) and new issues that need to be managed by governments (e.g. data ownership and sovereignty, tendering and management of contractual relations, exit strategies, transitioning from legacy systems)" (OECD, 2018^[9])

In New Zealand, innovation to solve public sector challenges has been realised through a contract for government banking services. This contract builds on recent innovations in the banking sector. A unique public and private sector collaboration in New Zealand is delivering innovative solutions that arose out of a public procurement procedure underpinned by a set of strategic objectives including the digital transformation of the New Zealand Government (Box 1.3).

Box 1.3. Improving existing public services in New Zealand through innovation

The Innovation Fund in New Zealand, born out of the All-of-Government banking tender, set up a joint initiative involving one of the winning bidders, Westpac New Zealand, and the New Zealand Government. The Innovation Fund invests in proposals that are expected to drive value for both the public sector and Westpac. The aim of the fund is to help create services and experiences that help grow a better and more innovative country. The fund can be accessed by contracting authorities across the New Zealand government sector, and has encouraged collaborative approaches in the form of innovation labs, hackathons and accelerators.

The fund has been used to help several projects, including:

- An artificial intelligence bot to assist Ministry for Primary Industries staff with simple biometric questions. The Virtual Assistant Interface (Vai) has been initially stationed at the Auckland International Airport's biosecurity arrivals area to answer visiting passengers' questions that do not require human interaction.
- To help the New Zealand Government deliver on its Cyber Security Strategy, a Cyber Security Safety Audit service, designed using innovation methodology with public procurement woven in to address the problem of security breaches in the country's small businesses.
- The expansion of smart customer onboarding software to help small business in New Zealand by making compliance with anti-money laundering measures easier through co-funding.
- Enabling a team from the University of Auckland to investigate historical and anonymised bank transaction data, to see if they can identify spending patterns in a community following a disease outbreak.

Source: (Innovation Fund, 2018^[10]); (ZDNet, 2018^[11]).

The 2015 OECD Survey on Strategic Procurement for Innovation found that comprehensive programmes at the national level are the second most used instrument to support strategic procurement for innovation behind policy instruments (OECD, 2017^[8]). One such collaborative project is the PPI2Innovate project, which aims to build regional capacities in public procurement of innovative solutions (PPI) by directly targeting public procurers at all administrative levels in central Europe (Box 1.4).

Box 1.4. The PPI2Innovate project

The PPI2Innovate project is designed to use capacity building to boost usage of public procurement innovation in Central Europe. The project began on 1 June 2016 and continued until 31 May 2019 within the European Union-funded programme “Interreg CENTRAL EUROPE”.

It consists of a consortium of 10 partners from six central European countries (Hungary, the Czech Republic, Poland, Italy, Slovenia and Croatia), with eight associated partners. The project is aimed at building regional capacities in public procurement innovation, changing attitudes towards public procurement innovation, strengthening linkages among relevant stakeholders in regional innovation systems, and consequently boosting usage of public procurement innovation in Central Europe.

The outputs of the project are three thematic PPI2Innovate tools (Smart Health, Smart Energy and Smart ICT), which will be fully customised to the six national institutional frameworks and translated into each national language.

In addition, there will be six action plans for the operation of Competence Centres to be established by networking partners covering the regional level in Poland (RARR), Italy (University of Torino – UNITO) and Hungary (CTRIA- Central Transdanubian Regional Innovation Agency), and the national level in Slovenia (ICT Technology Network Institute), Croatia (BICRO) and the Czech Republic (DEX Innovation Centre). Other activities include:

- a Central Europe network of PPI2Innovate competence centres
- training of new members of the PPI network
- PPI pilots in the energy, health and ICT sectors in Hungary (Somogy County), Italy (Piedmont Region), Poland (Lubin) and Slovenia (Ministry of Public Administration).
- various workshops for contracting authorities organised by project partners.

Source: (OECD, 2018^[3]).

Innovation procurement can be defined in many different ways, and it is a challenge for public procurement procedures and the professionals delivering them to keep up. The whole public procurement cycle is developing and adapting to the future needs of stakeholders that are seeking out innovative approaches to solving problems. Procurement of innovation is often related to a concrete need or demand. In the 2015 OECD Survey on Strategic Procurement for Innovation, the reasons that countries chose to implement procurement for innovation fell into two categories:

- (most commonly) the need for goods or services that were not yet available to match demand, and therefore required a specialised, new good or service as opposed to an improved good or service
- improving the performance of existing products or services such as producing total cost savings and/or energy efficiency and risk reduction (OECD, 2017^[8]).

In Mexico the Ministry of Economy created a programme to drive innovation through public procurement. The programme was designed to promote innovation especially within micro, small and medium-sized firms (Box 1.5). It was also intended to improve public services through innovative products and solutions (OECD, 2017^[8]).

Box 1.5. Innovative digital solutions in Mexico

In 2015 the General Directorate of Information Technology of the President's Office in Mexico, in collaboration with other agencies of the Federal Public Administration, launched the project "Public Challenges". Through an online platform, Mexican companies were invited to compete by offering innovative digital solutions to problems related to the environment, health education, transportation, food, connectivity and prevention. In total, 15 Public Challenges were launched and 341 proposals were received. In each challenge, five finalists selected by a non-governmental committee received a grant to develop a functional prototype, and the best one was awarded a contract to fully develop the selected project.

Following the Public Challenges, a Working Group on Innovation Procurement was created in order to strengthen the implementation of innovation procurement policy. The main objective of this working group is to generate policies to mitigate the risk of adopting innovation, and to propose modifications to the current legal framework for procurement to facilitate innovation.

Source: (OECD, 2017^[8]).

1.1.1. Using procurement procedures to encourage competition in the area of innovation

One of the largest obstacles that countries must overcome when aiming to increase innovation is the tendency to use the award criterion of lowest price (OECD, 2017^[8]). The EU Directive 2014/24 stipulates that contracting authorities should apply award criteria corresponding to the most economically advantageous tender (MEAT) (European Union, 2014^[12]). Using this approach, weighted criteria within the best price-quality ratio (BPQR) can be included for tenders. The method allows contracting authorities to consider criteria that can include qualitative, environmental and/or social aspects. Examples of such aspects could include quality, technical merit, social and environmental characteristics, qualification and experience of supplier staff, after-sales service, and technical assistance and delivery conditions.

Encouraging the inclusion of secondary policy objectives as part of the award criteria as opposed to drafting descriptive technical specifications is a way to stimulate the market to offer innovative solutions. By describing a detailed technical solution, economic operators are unlikely to submit tenders that substantially exceed the minimum requirements as they will be aware that a cheaper solution – one that is less innovative but still within the minimum requirements – may be more likely to succeed. In such cases the competition is restricted to the price-quality ratio and secondary policy objectives will usually be a small component of the overall weighting.

Using the MEAT criteria along with the life cycle cost (LCC) method can support innovation outcomes. Life cycle costing tends to broaden the scope and can include the cost of externalities (the shadow price) related to upstream and downstream activities (Baron, 2016^[13]).

In the 2018 Survey, 48% of respondents include award criteria related to innovative goods and services about 25% of the time (Table 1.1). The percentage of respondents in this category has increased between 2016 and 2018. More respondents seem to be integrating such award criteria into procurement procedures but only for specific procurement processes. Most of the respondents are from the countries' CPBs, and so the data relate mainly to them rather than contracting authorities (OECD, 2018^[3]).

Table 1.1. How often do CPBs use award criteria related to Green public procurement and to innovative goods and services?

	Green public procurement		Innovative goods and services	
	2016	2018	2016	2018
Australia	".."	".."	".."	".."
Austria	○	○	●	●
Belgium	".."	◆	".."	●
Canada	◆	◆	●	●
Chile	■	○	●	●
Czech Republic	".."	".."	".."	".."
Denmark	■	■	◆	◆
Estonia	◆	◆	◆	◆
Finland	□	□	○	○
France	".."	◆	".."	◆
Germany	○	○	◆	◆
Greece	◆	◆	●	●
Hungary	◆	◆	◆	◆
Iceland	◆	◆	◆	◆
Ireland	".."	".."	".."	".."
Israel	■	■	◆	◆
Italy	■	■	■	◆
Japan	Non applicable: No CPB			
Korea	◆	◆	■	■
Latvia	◆	◆	●	●
Lithuania	".."	◆	".."	◆
Luxembourg	".."	".."	".."	".."
Mexico	●	●	●	●
Netherlands	Non applicable: No CPB			
New Zealand	○	○	○	○
Norway	■	■	●	◆
Poland	".."	".."	".."	".."
Portugal	■	■	●	●
Slovak Republic	◆	◆	●	◆
Slovenia	○	□	●	◆
Spain	■	■	○	○
Sweden	".."	".."	".."	".."
Switzerland	".."	".."	".."	".."
Turkey	◆	◆	◆	◆

United Kingdom	○	".."	○	".."
United States	".."	".."	".."	".."
OECD Total				
● Never	1	1	10	9
◆ Seldom (About 25% of the time)	9	12	7	13
○ Sometimes (About 50% of the time)	5	4	4	2
■ Often (About 75% of the time)	7	6	2	1
□ Always	1	2	0	0
".." No information available	11	9	11	9
Non applicable: No CPB	1	1	2	9
Costa Rica	○	■	◆	◆
Morocco	".."	◆	".."	◆
Peru	".."	◆	".."	●

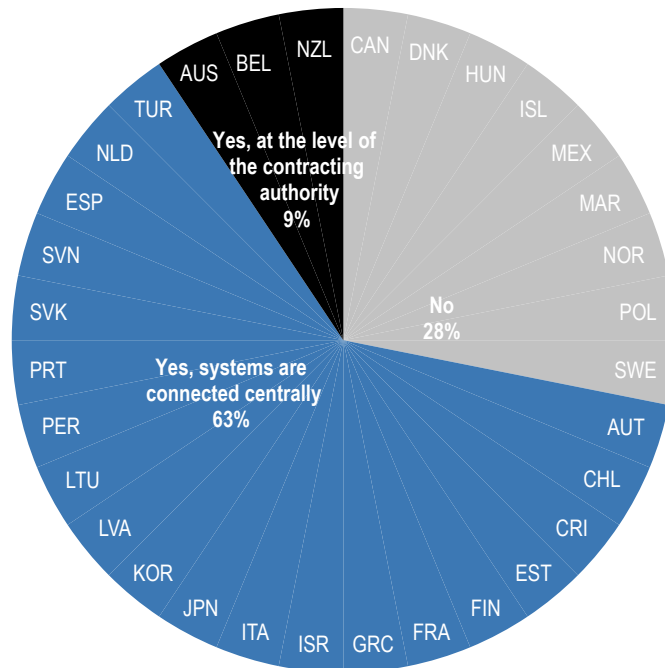
Source: (OECD, 2016^[4]), (OECD, 2018^[3]).

1.1.2. Digital transformation in public procurement – the path to greater effectiveness, efficiency and transformation

The Recommendation calls upon Adherents to use information and communication technologies to “drive cost savings and integrate public procurement and public finance information” and to “employ recent digital technology developments that allow integrated e-procurement solutions covering the public procurement cycle” (Principle on e-procurement, paragraph VIII, i). E-procurement systems collecting consistent, up-to-date and reliable data on procurement processes can feed into other government information technology (IT) systems through automated data exchanges, reducing risks of mistakes, errors and duplication. Meanwhile, integration with other digital government systems such as digital invoicing is essential to make e-procurement systems fully functional during all phases of the procurement cycle.

OECD survey data suggest that Adherents are increasingly integrating their e-procurement systems with other government IT systems, such as budgeting interfaces, business and tax registries, social security databases, public financial systems and enterprise resource planning (ERP) systems. While only 40% of respondents reported some kind of integration with other government IT systems in the 2016 Survey, this percentage increased to 69% in the 2018 Survey. The vast majority (63% of respondents) had their e-procurement system integrated with other *central* government IT systems, while three respondents (Belgium, Australia and New Zealand, corresponding to around 9% of respondents) have e-procurement systems integrated to the ERP of contracting authorities (Figure 1.2).

Figure 1.2. Is your e-procurement system integrated with other digital government systems?



Note: CA = contracting authority. Based on 32 respondents (29 OECD countries and Morocco, Peru and Costa Rica). Yeses account for 62.5% of countries, Noes for 28.1% and 9.4% at the contracting authority level.

Source: (OECD, 2018^[3]).

Overall, 63% of respondents have integrated their e-procurement systems with a variety of central government IT systems. Most common among the latter are budgeting systems, business and tax registries, social security databases, financial systems for payment, and the ERPs of contracting authorities. However, Estonia and Latvia have integrated their e-procurement system with the local tax register (Tallin's tax register in the case of Estonia). Many countries have integrated e-procurement systems with e-signature and e-invoicing systems. Turkey built automated data exchanges between its e-procurement system and its National Statistical Agency.

Overall, the Korean KONEPS (Korea ON-line E-Procurement System) provides for the highest connectivity to external databases in the OECD area, as it is interconnected to over 200 external database systems, out of which only 65 are from public entities, including the public finance system D-brain. For instance, KONEPS has interfaces with databases from 12 private sector business associations, 9 credit rating companies and the payment systems of 15 commercial banks. In addition to collecting information from external sources, information from KONEPS is also shared with many public entities and private sector information systems (OECD, 2016^[14]).

1.2. Using Green public procurement to address environmental challenges

One secondary policy objective Adherents have sought to address in implementing paragraph V of the Recommendation, is addressing environmental challenges. Green public procurement (GPP) is the public purchasing of products and services that are less environmentally damaging when taking into account their whole life cycle. Countries increasingly use GPP to achieve secondary policy objectives in the area of environmental protection (OECD, 2015^[15]; 2002^[16]). The OECD has been a forerunner in encouraging the development of Green public purchasing policies. Indeed, as early as 2002 the OECD Council adopted its Recommendation on Improving the Environmental Performance of Public Procurement

[[OECD/LEGAL/0311](#)]. It urges countries to incorporate “environmental criteria into public procurement of products and services including, when appropriate, environmental impact criteria throughout the life cycle”.

Take-up of LCC methodology, now in its earliest phase, is used most often by EU Member States in GPP. Public institutions can use LCC to calculate all the costs of a product or service through the whole lifespan. LCC can be applied in different ways and typically includes three types of assessment: conventional, societal and environmental. Conventional LCC refers to traditional financial assessment, including organisation costs. Societal LCC also considers externalities through internalisation of social and environmental costs. Environmental LCC is a life cycle assessment approach that considers costs ascribed to different stakeholders, including future generations and evaluation of “environmental externalities” (De Giacomo et al., 2018_[17]).

LCC enables cost efficiencies by allowing contracting authorities to compare alternatives based on an overall cost that includes accurate quantification of any “hidden costs” that can occur later, when the product or service is used. Public authorities can then achieve cost savings and efficiency gains, leading to a situation where a Greener product can also turn out to be cheaper if the cost across the whole life cycle is considered (De Giacomo et al., 2018_[17]).

The 2018 Survey shows that respondents are employing good practice in a number of areas to encourage GPP. These include:

- laws, regulations and policies in support of GPP
- plans for GPP with regard to the market (solutions on offer, capacity, etc.) and cost/benefit assessments
- use of environmental standards in technical specifications, such as materials; recycled content; production methods; allowing for submission of alternative solutions; and exclusion criteria for non-compliance
- use of environmental standards in award criteria and contract performance clauses (weighted environmental criteria; eco-labels as a criterion; environmental management systems as a criterion)
- systems to monitor GPP
- professionalisation activities
- awareness raising (OECD, 2016_[18]).

GPP strategies and policies have been developing for some time now, as can be seen from data collected by the OECD in 2016. The 2018 Survey shows that 64% of surveyed countries are now integrating award criteria relating to GPP into public procurement procedures, at least “seldom” (about 25% of the time) or “sometimes” (about 50% of the time).

There is potential for the environmental benefits of GPP to be improved if GPP award criteria are included in procurement procedures (De Giacomo et al., 2018_[17]). Training and guidance for public procurers on the inclusion of technical specifications that take into account secondary policy objectives can result in improved outcomes, as can raising the awareness of stakeholders regarding these performance requirements and standards (OECD, 2018_[19]).

1.3. Improving economic results through public procurement

Public procurement is increasingly recognised as a lever for driving economic growth. Employing appropriate impact assessment methodology to measure the effectiveness of procurement in achieving secondary policy objectives is a growing practice (Principle on balance, paragraph V, iii). As the complexity of public procurement activity increases, so does the difficulty of measuring its impact. The Secretariat has found that while public procurement impacts are widespread, measurement frameworks are unable to

systematically demonstrate the benefits or drawbacks of procurement policies. High-level indicators can be used for measuring progress against objectives. Data availability and complexity mean that centralised activity can support development of a broader measurement framework that takes into account the procurement system more fully (OECD, 2019^[20]).

The link between secondary policy objectives and economic growth is clearly acknowledged by respondents. Several respondents collect data on the degree to which secondary policy objectives are met, and some provide reports to various levels of government (OECD, 2018^[31]). This is particularly the case regarding GPP and support to SMEs: around 70% of the countries surveyed collect data or measure the result of procurement processes around these two dimensions.

Some respondents use the data in a way that is intended to drive better outcomes – for instance, publicising that a good or service has achieved a certain status and encouraging further consumption. For example, in Finland a complex methodology is used for measuring the results of GPP. There is a long list of criteria and any framework agreement of the CPB is evaluated against a set of criteria. If at least two of the criteria are fulfilled, the framework agreement is given a “Green label”, meaning all purchases under it are officially labelled Green (OECD, 2018^[31]).

Respondents also described procurement data being used to boost consumption of desirable products, such as Green products. Benchmarking of the volume of purchases enabled such strategies to be developed in a thoughtful manner. In Japan the Ministry of Environment collects procurement data from the central government’s agencies and ministries. Based on these data the Ministry calculates the share of GPP for each designated item every year. Based on the results it considers the policies and plans to enlarge the share of GPP for the following year. The number of government purchases from SMEs for each fiscal year is also collated (OECD, 2018^[31]).

Use of e-procurement systems is a prerequisite for effective measurement. Data availability is improved by widespread and coherent use of these systems. Using robust and open data standards can also help in collecting data in a usable format. Centralised procurement organisations and framework agreements can also assist in enabling the collection of data that can be used to demonstrate efficiency and effectiveness (OECD, 2019^[20]; 2018^[21]; 2016^[22]). In the area of transparency and data collection, the European Commission provides e-procurement tools such as the *Tenders Electronic Daily* (TED) database, which plays a key role at European level in centralising the mandatory publication of contract notices and contract award notices above the EU thresholds.

Overall, respondents confirm that the use of procurement data is common for reporting and visibility (with a few exceptions). Once a baseline can be established through the collection of public procurement data, improvements can be measured. Measuring improvements requires being able to demonstrate better economic results through the use of public procurement data (OECD, 2018^[31]).

1.4. Public procurement as a tool for inclusive growth

Inequality in many Adherents is at its highest in 30 years. The average disposable income of the richest 10% of the population is around ten times that of the poorest across the OECD – a striking increase from the mid-1980s, when it was seven times. In terms of wealth, the richest 10% owns about 50% of all household assets, while the bottom 40% owns barely 3% (OECD, 2018^[23]).

Although poor people and places bore the worst of the financial crisis, the increase in labour productivity has not always led to higher incomes for middle class people. Disadvantages can have a compounding effect, as low household income leads to low-quality education and jobs being at risk, which in turn hinders socio-economic and inter-generational mobility. These inequalities negatively influence economic performance and trust in public institutions, and threaten social cohesion. This means that more and more people are rejecting the established political and economic order and globalisation (OECD, 2018^[23]).

In order to meet this challenge, policy makers and private sector leaders need to promote inclusive growth models that prioritise well-being – for the poorest in particular – and the preservation of the planet (OECD, 2018^[23]). Policy makers increasingly recognise that public procurement has the potential to contribute to socio-economic development. The changes in how public procurement is perceived has led to reforms in public procurement systems in many countries. It is recognised that procurement enables delivery of more effective public services for better lives (OECD, n.d.^[24]).

The Recommendation calls upon Adherents to “*facilitate access to procurement opportunities for potential competitors of all sizes*” and to “*have in place coherent and stable institutional, legal and regulatory frameworks, which are essential to increase participation in doing business with the public sector and are key starting points to assure sustainable and efficient public procurement systems*” (Principle on access, paragraph IV).

In the European public procurement system, the most important regulations refer to non-discrimination and equal treatment of all enterprises. These rules, along with the fundamental freedoms of the common market, are the pillars of the EU legal system. In regard to SMEs for example, rather than stipulate a clear preference for SMEs in public procurement procedures, consideration is given to the reduction of financial burden on participants and the implementation of training measures for SMEs (Thai, 2015^[25]).

Some Adherents specifically consider social inclusiveness in the tendering process itself. For example, Australia has an Indigenous Procurement Policy that requires Australian Commonwealth entities to award 3% of Australian Commonwealth contracts to indigenous businesses. The policy also requires that certain contracts be set aside for indigenous businesses and that a number of other contracts include minimum indigenous employment or supplier use requirements. Consideration is given at various stages of public procurement procedures that are designed to support social outcomes and inclusion (OECD, 2018^[3]).

Respondents provided the following examples of methods being used to increase social inclusion through public procurement:

- certification of economic operators’ social objectives
- certification of adherence to laws relating to social objectives
- consideration of work/life balance in the criteria for procurement awards procedures
- creation of jobs included in criteria
- criteria include support for SMEs, gender equality and vulnerable groups
- requirements to procure from social enterprises
- human rights included in award criteria and technical specifications
- minimum employment of marginalised groups required of suppliers.

The public procurement system in Chile uses an e-marketplace that encourages use by SMEs and women. There are specialised training programmes for women, and in 2015 Chile revised relevant regulations and guidelines to help officials include gender considerations in their decisions by incorporating gender-specific evaluation criteria. Women represent 36% of the contracts awarded by the government, and the figure is increasing even though women account for a smaller share of aggregated procurement value. Many of the women who have participated are from rural areas, and 64% are the main breadwinner for their family. The main issue with increasing women’s participation is identifying which companies are truly women-led or women-owned, and certification and identification can be a barrier to entry as it can be expensive.

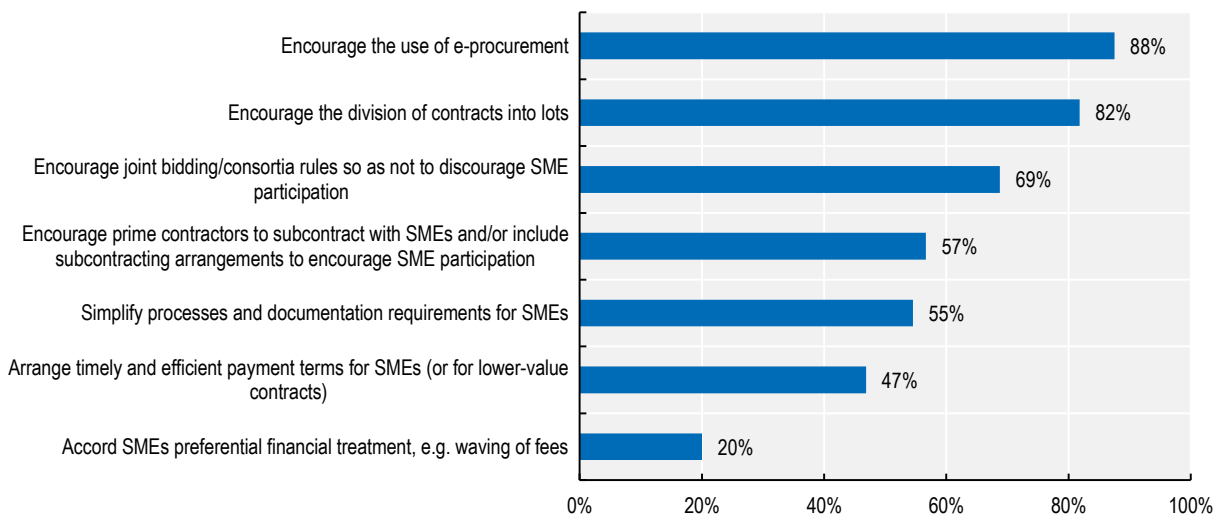
Chile has remedied this problem by introducing an electronic registry that certifies “female enterprise” and is linked with the civil registry (for sole proprietorships). As far as more complex corporations are concerned, women must own the majority of company shares and the CEO must be a woman for the company to be labelled “female enterprise” in the registry. Chile measures the average amount traded by suppliers who are women and noted that it increased from 2013 to 2017 by USD 1 500. Participation in

the total amounts traded by suppliers who are women has increased by 6 percentage points from 2013 to 2017 (from 21% to 27%) (Trinidad Inostroza, n.d.^[26]).

Engaging SMEs in public procurement helps governments to better meet the public sector's procurement needs. Increasing their participation in the public procurement market ensures a more competitive bidding process and affords access to a wider choice of available and innovative solutions (Flynn and Davis, 2017^[27]). An OECD survey on the strategic use of public procurement to support SMEs found that in 44% of the countries surveyed, public procurement strategies for GPP and public procurement for innovation commonly reflect the objective of supporting SMEs (OECD, 2017^[28]).

Complex public procurement systems and processes are a major hurdle to SME participation. SMEs are disproportionately affected due to internal constraints relating to their financial, technical and administrative capacities to access procurement opportunities, prepare tender documents, apply procedures and execute contracts. Countries are addressing this issue through a variety of measures (Figure 1.3), including encouraging the division of contracts into lots; simplifying processes, for instance by standardising procurement documents; encouraging the use of e-procurement; and promoting joint bidding of SMEs with larger companies (OECD, 2018^[29]).

Figure 1.3. Measures to support SMEs in public procurement



Note: Based on data from 30 countries (28 OECD countries plus Costa Rica and Colombia).

Source: (OECD, 2017^[28]).

The most widely adopted approach to supporting SMEs in public procurement is to ensure that they are aware of tender opportunities, and that competent SMEs have a fair chance of competing for government contracts. By contrast, only a few OECD countries have legislative provisions for bid preference (e.g. Korea and Mexico) or set-asides (e.g. Canada, Korea and the United States), often targeting specific categories of small businesses (aboriginal small businesses in Canada, small businesses from disadvantaged districts in the United States, etc.) (OECD, 2018^[29]).

Regarding the simplification of procurement processes, the European Single Procurement Document (ESPD), provided for in Article 59 of the 2014 European Directive on public procurement, is a self-declaration tool for suppliers. Based on a standard form, it offers preliminary evidence regarding exclusion criteria (e.g. criminal convictions, grave professional misconduct) and selection criteria (financial, economic and technical capacity). The full set of supporting documentation, including attestations and certificates,

needs only to be presented by the winning economic operators (OECD, 2018^[29]). Such simplification measures will ultimately enable more SMEs to participate in public procurement.

1.5. Assuring global supply chains by using public procurement to support responsible business conduct

Enterprises operating in global supply chains can generate growth, employment and skills through their operations and sourcing. However, when they fail to operate responsibly they risk being a contributor to adverse human rights, labour and environmental impacts in their operations or supply chains. The OECD Guidelines for Multinational Enterprises (the OECD MNE Guidelines) – part of the 1976 OECD Declaration on International Investment and Multinational Enterprises [[OECD/LEGAL/0144](#)] is a legal instrument that sets out a range of recommendations from governments to multinational enterprises on responsible business conduct. The Guidelines commit adhering governments to providing an open and transparent environment for international investment; in so doing, they encourage the positive contributions that multinational enterprises can make to economic and social progress (OECD, 2011^[30]).

Through the online database eCertis, the European Commission has enabled access to information on the evidence documenting associated with the exclusion grounds and eligibility criteria in public procurement. Furthermore, at European level there is a growing trend towards public procurement data disclosure in line with the recommendation of the European EXEP working group (European Commission, 2014^[31]) on the development of Contract Registers (CR). This tool aims at centralising information with a single point of access, as well as its publication according to the rules defined by each country.

The OECD Investment Committee, building on the Declaration on International Investment and Multinational Enterprises and the OECD MNE Guidelines, has developed due diligence guidance for responsible business conduct that provides enterprises with practical support for implementing the OECD Guidelines. There are plain language explanations of the due diligence recommendations and associated provisions, both in general as well as in relation to specific sectors. The guidance is intended to help enterprises avoid and address adverse impacts on workers, human rights, the environment, consumers and corporate governance that are associated with their supply chains and other business relationships (OECD, 2018^[32]).

Box 1.6. Poland using public procurement to pursue secondary policy objectives

In Poland provisions relating to responsible business conduct are contained within the Public Procurement law and are the result of transposition of very similar provisions contained in the European Union Directives. There is provision for reserved contracts, where the contracting authority may limit competition for contracts to sheltered workshops and other economic operators whose activities include social and professional integration of people belonging to socially marginalised groups. Particular attention is accorded disabled and unemployed people, people with mental disorders or belonging to disadvantaged minorities, the homeless, and refugees. Persons from socially marginalised groups must comprise a minimum of 30% of those employed in the organisations. The law also contains exclusion criteria that provide that in certain circumstances, economic operators cannot be awarded contracts. There are various stages of public procurement procedures during which consideration of secondary objectives is encouraged.

Poland has overarching policy instruments that touch upon secondary policies in public procurement. There is ongoing work to have the national purchasing policy take into account strategic use of public procurement. The National Action Plan on Sustainable Public Procurement 2017-20 is in the process of implementation, and a project titled “Effective Public Procurement – Strengthening Administrative Capacity” -- co-financed by the European Social Fund – is under way. The latter project, directed at contracting authorities at all levels of national administration, contains components that address specific secondary policies. A number of measures are additionally being taken to support contracting authorities, including training, conferences and the creation of model documents.

Source: (OECD, 2018^[33]).

In a session on Supply Chain Transparency at the 2018 OECD Global Forum on Responsible Business Conduct, it was concluded that supply chain disclosure is a key component of due diligence; it enables workers to play a critical role in providing information to companies about their human rights risks and impacts. There is growing momentum towards greater disclosure of supplier information, but each sector is at a different stage in this journey in terms of the scope and type of information they disclose publicly (OECD, 2018^[33]).

The 2018 Survey shows that some respondents are using public procurement levers to increase responsible business conduct on the part of suppliers. Around a third of respondents are measuring the results of procurement processes in relation to some dimension of responsible business conduct, and around half of respondents include responsible business conduct in award and selection criteria for at least some purchases. This is for instance the case in Norway, whose Agency for Public Management and eGovernment (Difi) issued several guidance documents on the topic (Box 1.7).

Box 1.7. The approach to responsible business conduct in Norway

The Norwegian legal framework allows human rights considerations to be taken into account in public procurement processes as award criteria, and in technical specifications. There are several guidance documents and other information on responsible business conduct available on the website of the Agency for Public Management and eGovernment (Difi).

In Norway, measures including new procurement rules have been put in place to prevent work-related crime, which has a negative effect on competition in markets. Norway has identified that one way to prevent work-related crime and social dumping is to impose more stringent requirements on public officials who order, as well as on suppliers. Difi has prepared a guide to best practice for compliance with the regulations concerning pay and working conditions in public contracts.

Also now in place are new provisions for contracting authorities requiring that there be a maximum of three subcontractor levels in the supply chain, i.e. a main contractor with a maximum of two subcontractor levels in contracts for construction works and cleaning services. Furthermore, contracting authorities must require the use of apprentices in contracts over a certain size and duration. Guidelines are available for these provisions.

Source: (Solberg Prime Minister Anniken Hauglie et al., 2017^[34]); (OECD, 2018^[3]).

Responsible business conduct by suppliers is promoted in Canada by certification as part of the bidding process by apparel suppliers. The Canadian federal CPB, Public Services and Procurement Canada (PSPC), is supporting research on ethical sourcing of apparel in other jurisdictions as well as the practices of apparel suppliers in Canada with offshore production. On 7 September 2018 the PSPC launched the Ethical Procurement of Apparel Initiative. This initiative requires suppliers and their first-tier subcontractors to certify that they comply with a list of eight fundamental human and labour rights principles each time they bid. Suppliers that are found to be in violation of their certification risk having their contract terminated for default. The certification is coupled with a requirement to provide information regarding the location of the factories that produce the products being purchased. When the contract is awarded, the certification and information about the factory is made publicly available.

The federal government In Canada also launched an initiative to develop a new government-wide vendor relationships and performance management regime. It will ensure that suppliers' past performance record is used to inform future contract awards. Ethical sourcing will be assured during the regime in supplier contracts. It will also be included in transparent evaluation criteria and rating scales for assessing vendor performance.

The private sector is using responsible business conduct to assure supply chains, sometimes due to the reputational damage and associated loss of shareholder value associated with supplier failures in this area. Public organisations also have incentives to influence the behaviour of suppliers and encourage responsible business conduct to ensure citizen outcomes are optimised as well as to comply with legal requirements. There is currently interest in using technologies such as blockchain to solve the problems of scale and trust inherent in responsible business conduct (OECD, 2018^[35]).

1.6. Understanding the trade-offs for informed decisions

An area of concern in many OECD countries is the possibility of being overwhelmed by a large number of policy objectives through public procurement – the risk being that the system of mandates and preferences becomes unmanageable or impossible to satisfy. There are many different technology solutions and project management techniques that can support the collection of and reporting on various objectives that have strategic importance for various stakeholders (Sumiani, Haslinda and Lehman, 2007^[36]) (Amran and Ooi, 2014^[37]).

Many jurisdictions are using methods to prioritise the various strategic initiatives being adopted through procurement functions (Table 1.2). There is recognition in some countries that it is not possible to do everything, especially where resources are limited. The various approaches range from leaving the decision up to the contracting authorities to prioritising the initiatives in an annual work plan.

Table 1.2. Prioritisation of strategic procurement initiatives

Prioritisation method	Countries
Contracting authority decision	Germany, New Zealand, Poland
Legislation sets out priorities in terms of secondary policy objectives	Hungary, Mexico
Policy sets out primary objectives	Iceland, Portugal (in the future)
Annual work plan prioritisation/Action Plan	Korea
Each project is considered separately by individual procurement entities on a case-by-case basis underpinned by the suitability of a particular procurement process to further a secondary policy goal	France, Israel, Netherlands, Costa Rica
All initiatives are promoted equally	Greece, Sweden
Prioritised against in accordance with societal goals	Slovak Republic

Source: (OECD, 2018^[3]).

It seems that there is no “one size fits all”, and governance over strategic procurement goals is configured according to the prevailing need in each country. Sometimes a top-down approach is taken, as in New Zealand where a recent procurement reform programme was directly linked to government policy direction (Box 1.8).

Box 1.8. Achieving wider benefits from government procurement in New Zealand

In New Zealand it is recognised that public procurement can and should be used to support wider social, economic and environmental outcomes that go beyond the immediate purchase of goods and services.

On 23 October 2018, the New Zealand Government agreed to a set of priority outcomes for contracting authorities to draw from their procurement activities, and identified specific contracts or sectors for initial focus.

Contracting authorities are expected to collectively focus on four priority outcomes of the greatest benefit to New Zealand:

1. *Access for New Zealand businesses* – Increase access to government contracts for New Zealand businesses, particularly those less able to access opportunities and those working in priority sectors (such as ICT, Maori and Pasifika businesses, and businesses in the regions).
2. *Construction sector skills and training* – Increase the size and skill level of the domestic construction sector workforce and provide employment opportunities to targeted groups.
3. *Employment standards* – Improve conditions for workers and future-proof the ability of New Zealand business to trade.
4. *Reducing emissions and waste* – Support transition to a zero net emissions economy and reduce waste from industry by supporting innovation.

To implement this work, the central purchasing body, New Zealand Government Procurement and Property, will undertake the following steps:

- Work with agencies and stakeholders to identify the best approach to operationalise each outcome.
- Update the Government Rules of Sourcing, and develop guidance and support for agencies.
- Develop a monitoring and reporting framework to track agency adoption and outcomes achieved. This will be reported to the Cabinet annually and findings will inform practice improvements.

Source: (New Zealand Government Procurement and Property, 2018^[38]).

In the 2018 Survey respondents described the reform programmes they have embarked on for public procurement. Some have defined the priorities for procurement in terms of the policy objectives identified as part of the reforms. In Sweden the reform programme has outlined policy objectives and ultimately results in partnerships for co-creation between suppliers and procurers (Box 1.9) (OECD, 2018^[31]). In Norway a White Paper on Public Procurement (presented to the Norwegian Parliament in 2019) contained measures related to GPP, innovation, pay and working conditions, and human rights considerations (OECD, 2018^[31]).

Box 1.9. The National Public Procurement Strategy in Sweden

September 2015 saw the establishment of the National Agency for Public Procurement (NAPP). The government chose to place support for public procurement with this independent authority to raise **its** profile and to provide organisational conditions that would make support from NAPP as effective as possible. NAPP has overall responsibility for developing, managing and supporting public procurement carried out by contracting authorities and entities. A National Public Procurement Strategy was developed to demonstrate the benefits that can be achieved through a strategic approach to purchasing. The objectives set for public procurement are that it is efficient, is legally certain, and takes advantage of the competition in the market. It also promotes innovative solutions and takes environmental and social concerns into account. Strategic implementation of public procurement is an effective means of achieving the objectives while at the same time bringing about positive effects for society. These include driving increased growth and employment, sustainable development and other social and ethical considerations. The government formulated seven policy objectives for its overall procurement strategy:

1. public procurement as a strategic tool for doing good business
2. effective public purchasing
3. a multiplicity of well-functioning supplier competition
4. legally certain public procurement
5. public procurement that drives innovation and promotes alternative solutions
6. public procurement that is environmentally responsible
7. public procurement that contributes to a socially sustainable society.

The stated intent in the policy document is that it will be applied to all public purchases.

Source: (Ministry of Finance Sweden, n.d.^[5]).

In Korea a survey report was developed to support understanding of the various requirements and prioritise their satisfaction within an organisation. The report identified all the various secondary policy requirements that applied to public procurement: up to 46 “recommended” procurement priorities and 8-10 mandatory requirements (OECD, 2016^[14]).

The 2018 Survey results show that some jurisdictions are balancing primary and secondary procurement objectives. Methods differ, but there is recognition by some respondents that trying to address all objectives in a balanced way is necessary. Some use policy objectives and goals, as in Denmark where areas related to primary policy objectives are identified in thorough studies that compare the buyer’s needs with what the market can offer. The goal of public procurement in Denmark is to lower costs but keep the quality and efficiency sufficiently high in services that are delivered to contracting authorities. Similarly, the National Public Procurement Strategy in Sweden states that all public procurement shall be efficient, be legally certain, and take advantage of the competition in the market. It also states that public procurement shall promote innovative solutions and take environmental and social concerns into account. In some countries such as Israel, the balance between primary and secondary policy objectives is maintained through the use of tools such as a sensitivity analysis to forecast the cost of integrating the policy objective and to decide how to weight it in the procurement procedure.

Other jurisdictions, such as that of Hungary, rely on the law to support prioritisation. In Hungary the legal provisions relating to public procurement state that the law was put in place partly to enhance the access of local small and medium-sized enterprises, promote environmental protection, and promote the social considerations of the state. The Ministerio de Hacienda (Ministry of Finance) in Costa Rica is constantly

working on identifying priority areas to balance the primary objective of public procurement – which is to procure goods and services – and other objectives that are part of the national agenda. Including these secondary objectives as part of evaluation criteria has helped to achieve that balance. Balancing primary and secondary objectives is done on a case-by-case basis taking into account the objective itself as well as national priorities. For example, guideline DGABCA-002-2018 provides that no entity shall buy single-use plastics and so contracting authorities must consider this before their procurement procedures begin.

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2 Investing in the future: building skills and capabilities in public procurement

This chapter describes the extent to which Adherents are developing a procurement workforce with the capacity to continually deliver value for money both efficiently and effectively. The analysis focuses on the current weaknesses in the procurement workforce's lack of capability and capacity that are prohibiting effective public procurement systems. The chapter includes an assessment on the importance of procurement certification and professionalisation, and analyses the uptake of such certification amongst Adherents.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

The Recommendation calls on Adherents to “*develop a procurement workforce with the capacity to continually deliver value for money efficiently and effectively*” (Principle on capacity, paragraph IX). The Recommendation contains guiding principles to assist Adherents in meeting high professional standards of knowledge, practical implementation and integrity by providing a dedicated and regularly updated set of tools. Additionally, there is guidance on providing attractive, competitive and merit-based career options for procurement officials, and promoting collaborative approaches with knowledge centres to improve the skills and competencies of the procurement workforce.

The most prominent weakness in public procurement systems is the workforce’s lack of capability (defined as skills-based ability for an individual, group or organisation to meet obligations and objectives) and lack of capacity (defined as the ability to meet obligations and objectives based on existing administrative, financial, human, or infrastructure resources). Challenges for public procurement practitioners include the transition from an ordering function to a more strategic one; increasingly complex rules; the multidisciplinary nature of the profession; and the lack of professionalisation (OECD, 2017^[1]).

A public procurement workforce with adequate capacity and capability is crucial for achieving the strategic objectives of government organisations. Professionals who possess a wide range of skills and competencies, including negotiation, project management and risk management skills, are necessary for successful delivery of strategic procurement initiatives (OECD, 2017^[2]).

Moreover, the skills set required of procurement professionals needs to be flexible, as the contexts and priorities involved in their everyday work are constantly changing. Many procurement professionals work in roles that demand high-level strategic, tactical and operational skills. In OECD countries (Belgium, Canada, Korea and the United States), competencies are integrated into various activities to ensure alignment with the organisation’s needs. The activities can include recruitment and selection of staff, training and development, and succession and career planning (OECD, 2013^[3]).

The Secretariat has developed a checklist to support implementation of the Recommendation. The checklist outlines steps that can be taken to build capacity, starting with strategy development, a competency framework, job profiles and certification. Having a unit or team that covers capacity development along with regular training is also helpful (OECD, 2016^[4]).

2.1. Assessing capability to support future planning to improve public procurement systems

Undertaking an assessment of the procurement system using a methodology such as the Methodology for Assessing Procurement Systems (MAPS) can help to set the baseline and identify where there are gaps or misalignments between the strategic requirements of the system and skills (OECD, 2018^[5]). The methodology’s main indicator framework focuses on the entire public procurement system, and thus provides a comprehensive picture of the system’s status and where to focus improvements. Indicator 8 specifically focuses on capacity and the system’s ability to develop and improve. In addition, a supplementary module is available to focus on aspects of professionalisation.

In recent years, Adherents have undertaken MAPS assessments in support of their reform activities: Norway, whose MAPS assessment in 2017 is currently informing the country’s ten-year reform agenda, and Chile. Chile had undertaken MAPS assessments in previous years, prior to the most recent assessment in 2017. Repeated MAPS assessments can be useful in determining ongoing progress: in both Norway and Chile, MAPS assessments resulted in recommendations to strengthen aspects of public procurement capacity.

The New Zealand Procurement Capability Index enables the collection of data from individuals carrying out the public procurement function, so that a body of knowledge can be built up over time. That knowledge can be used to shape overall procurement competency models and strategies in an effort to keep ahead of the changing needs of the public procurement profession in New Zealand (Box 2.1).

Box 2.1. Procurement Capability Index

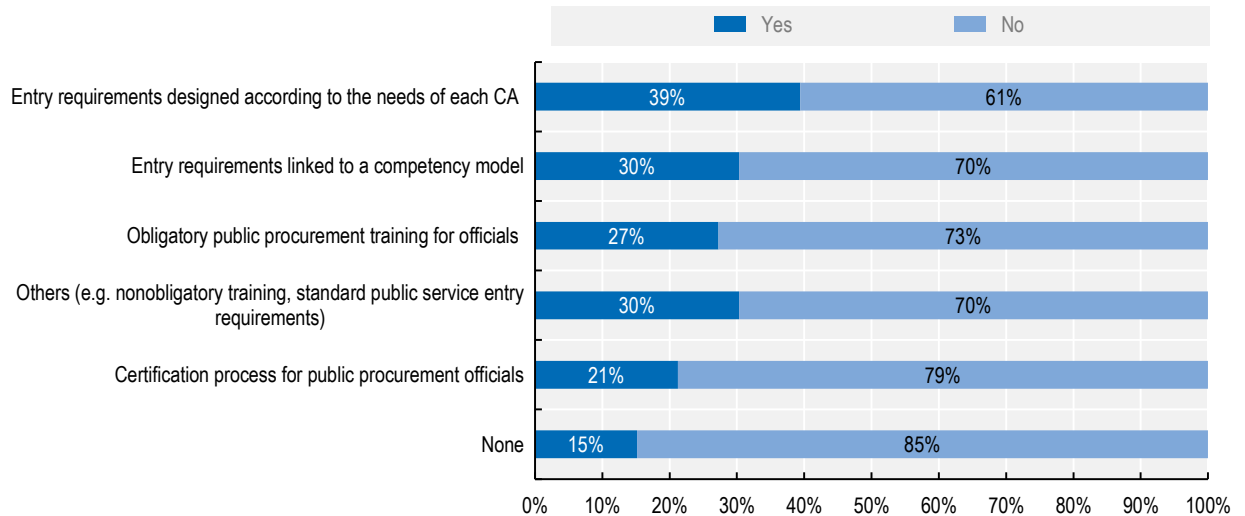
The New Zealand Procurement Capability Index (PCI) is a self-assessment tool used by government agencies. That measures government agencies' procurement capability. Covering the complete procurement cycle, it measures procurement capability across eleven categories:

- strategic planning for commercial outcomes
- procurement strategy alignment with agency key result areas
- commercial leadership to drive outcomes
- procurement function engagement with agency stakeholders
- governance and organisation of the procurement function
- alignment with policy and processes
- sourcing and collaboration
- supplier relationship management
- management of people and skills development
- knowledge and performance management
- use of technology processes and tools.

The self-assessment is supported by a review and moderation process that includes peer review, external checks and supplier feedback to ensure that the results are relevant and accurate. The annual review provides a full picture of capability across all participating government agencies.

Source: (Ministry of Business Innovation and Employment, n.d.^[6]).

Responses to the 2018 Survey show that the most common types of workforce entry requirements adopted by Adherents were those that are designed according to each contracting authority's needs. Entry requirements linked to a competency model and compulsory public procurement training were equally the next most chosen responses, and a smaller number chose through a certification process for public procurement officials. As shown by Figure 2.1, some respondents (30%) have other measures in place to ensure adequate capacity of the procurement workforce, such as non-obligatory training and standard public service entry requirements. However, among the 2018 Survey respondents the percentage that have entry requirements linked to a competency model or certification of the workforce just 30% and 21%, respectively. The baseline assessment of capability and identification of gaps are difficult to assess without tools such as competency models, and only 30% of the 2018 Survey respondents have them as entry criteria.

Figure 2.1. Measures in place to ensure adequate capacity of procurement workforce

Note: "None" means no specific measure to ensure capacity of the procurement workforce. Data for 33 respondent countries (30 OECD countries plus Morocco, Costa Rica and Peru).

Source: (OECD, 2018^[7]).

2.2. The impact of capacity and capability on public procurement governance and funding models

Public procurement governance can play a key role in enabling the appropriate skill level to be supported where it is most needed. Centralised models will often have a CPB that drives aggregated purchasing, sometimes through the use of framework agreements. CPBs have a number of advantages and are used widely among respondents. There can be tension, however, between the needs of decentralised public procurement entities and centralised entities. One area where this is especially evident is in the funding arrangements applied to CPBs. The arrangements for funding generally fall into one of three different types:

- Contracting authorities pay a fee when call-offs are made.
- Fees are paid by economic operators when they invoice through framework agreements.
- Funding is provided directly by governments.

When setting up CPBs, it is important to be clear about their role and the scope of their operations. In general, the more complex public procurement projects will likely benefit from the involvement of experienced public procurement professionals who possess a range of skills suited to the task at hand. It naturally follows that the funding model needs to support the ability of the system to attract these individuals to where they are needed most. As with any organisational development challenge, having a centralised function that can direct the funding where it is needed the most will assist in achieving this objective.

In Finland for example, the centralised purchasing body Hansel is funded through service fees paid by suppliers based on the value of purchases made through framework agreements. The service fee is limited to 1.5% of the contract value. Although Hansel is a not-for-profit organisation, its revenue, along with revenue generated through the provision of other services, goes towards covering the cost of Hansel operations. Any additional revenue can be returned to government shareholders as a dividend or reinvested into Hansel as cash equity (OECD, 2019^[8]).

2.3. Using the right strategies, tools and guidelines to support public procurement capability and capacity development

To support a professional public procurement workforce, specific measures need to be taken depending on factors such as the threshold level of capability and capacity of the existing workforce. An efficient system usually includes:

1. procurement rules and procedures that are simple and clear, along with ensured access to procurement opportunities
2. effective institutions to conduct procurement plans and procedures and produce, manage and monitor public contracts
3. appropriate electronic tools
4. suitable human resources in terms of numbers and skills to plan and carry out procurement processes
5. competent contract management (OECD, 2016^[9]).

The development of strategies to address any gaps in capability will lay the foundations for a successful, efficient system. The OECD Secretariat has created a checklist to support implementation of the Recommendation that can be used for developing strategies (OECD, 2016^[4]).

For example, the OECD worked with Bulgaria on a project to define training gaps, conceptualise a training plan, and present a proposal that includes training materials and a curriculum for a training plan to enhance capacity in certain areas of the public procurement process (OECD, 2016^[9]).

In the 2018 Survey, Canada outlined the governance strategy and initiatives it has in place to develop capacity among procurement professionals. The Comptroller General of Canada is responsible for ensuring that the government's procurement community has the skills and knowledge to support individual government programmes. Periodic departmental assessments are carried out and departments are required to demonstrate how they are supporting procurement capacity within their department (OECD, 2018^[7]).

The OECD worked jointly with the Slovak Republic to assist in the development of a training action plan to support a strategy of improving procurement performance. It built upon the OECD framework for designing a training strategy and defining the corresponding action plan. A questionnaire was developed allowing for a structured assessment of the existing training offering, its content and structure, and presented both the trainers' and trainees' perspective. A detailed action plan was developed to define delivery modes that included induction pack, distance learning or e-learning, mentoring/coaching and support programmes for degree-level study (OECD, 2017^[10]).

2.4. Using competency models to assess baselines capability levels and address needs

The competencies required by public procurement professionals and organisations are defined according to the context of the jurisdiction where the function resides. Additionally, the context can be dynamic and the competencies may change in a fluid fashion. In many jurisdictions, the focus is on building wider commercial skills and competencies as opposed to solely operational procurement skills. This reflects the growing influence of procurement and the growing strategic role it plays in broader outcomes for governments in areas such as innovation, environment and social initiatives.

In the area of capacity building, the EC supports many initiatives in Member States through various channels such as the Structural Reforms Support Programme, and through promoting the transfer of good

practices, notably through the TAIEX (Technical Assistance and Information Exchange Instrument) Peer to Peer exchange programme. The EC is also developing a European competency framework for public procurement, which aims to support professionalisation policies at national level so that buyers have the necessary skills, knowledge and integrity, and to address the training needs and career management of public procurement practitioners.

The United Kingdom supports an approach of developing and growing commercial skills across the whole public sector. The country's Commercial Skills and Competency Framework for Developing and Practitioner Levels can be used by departments to ensure that minimum levels of commercial competency are maintained. The framework sets out the current skills, behaviours and competencies (e.g. judgement and confidence) that Civil Service personnel, and in particular those undertaking procurement activities, should demonstrate in performing professional procurement and commercial roles.

The framework covers three key components of the commercial cycle that are generally applicable to all government departments – Pre-market, Sourcing and Contract and Supplier Management. It also incorporates two levels of integrated commercial skills – developing and practitioner. The framework is designed to be used flexibly by departments to assist in the design of job descriptions as part of recruitment processes, and to assess the performance of staff within the appraisal process (Mackie and Langley, 2015^[11]).

In 2018 Scotland (United Kingdom) completed the development of a new procurement competency framework based on a self-assessment of skills to identify relevant training and development needs for procurement personnel (Box 2.2).

Box 2.2. The National Procurement Development Framework in Scotland (United Kingdom)

The National Procurement Development Framework in Scotland is aligned with the Chartered Institute of Procurement and Supply (CIPS) global standards and allows procurement personnel to self-assess their skills, identify relevant training and development needs, and plan their career and personal development. The self-assessment can be carried out in two ways, either simple or tailored. The tailored self-assessment allows the user to create a custom fitted profile to score against which also identifies areas for development. In the simple version the self-assessment uses scoring against a standardised role profile to identify areas for development.

Source: (Scottish Government, 2018^[12]).

2.5. Training to support the increasingly strategic nature of public procurement

Procurement professionals need to meet high professional standards for knowledge, practical implementation and integrity, and have access to a dedicated and regularly updated set of tools (Principle on capacity, paragraph IX, i). As procurement grows in complexity, it is increasingly obvious that it is not a purely administrative function but is a strategic function in the public service. It is a multi-disciplinary profession that requires knowledge of law, economics, public administration, accounting, management and marketing (among other things). The shift to strategic procurement has seen a growing requirement for these diverse skill sets and experience (OECD, 2017^[13]).

In the 2018 Survey, respondents outlined that they carry out training on the job, education courses, conferences and thematic training. Highlighting the multidisciplinary nature of the procurement workforce, there are not only core procurement subjects like sourcing and contract management, but also a variety of

different topics covered in Adherents' procurement training. Training now also covers areas such as the procurement of innovation, Green procurement, and the participation of SMEs (OECD, 2018^[7]).

Training that identifies and utilises methods that work in the local context has a greater chance of success. In Bulgaria, the OECD developed training of trainers programmes, not only to provide future trainers with an in-depth understanding of procurement techniques, but also to develop a platform for dialogue that supports the design of training materials (OECD, 2016^[9]). The programme consists of workshops to train local experts in the field of public procurement in training skills and use of appropriate training techniques (visual presentations, interactive training methods, case studies, etc.). In Mexico, the OECD has also conducted capacity building for trainers and developed training manuals on fighting bid rigging in public procurement (covering training methods, role-playing and hypothetical exercises, exam questions, etc.) (OECD, 2018^[14]; 2018^[15]).

In Canada, the federal public service recognises procurement as a knowledge-based profession with an emphasis on a strategic advisory role. All employees identified as procurement professionals are required to follow a training curriculum as outlined in a government directive (Box 2.3). The curriculum in Canada is determined by the Comptroller General, who is accountable for the federal government's procurement capacity (OECD, 2018^[7]).

Box 2.3. The public procurement curriculum in Canada

The curriculum in Canada consists of five courses:

- Who We Work For (C218) – This course builds a foundational understanding of how Canada's non-partisan federal public serves the democratically elected government of the day
- Legal and Policy Environment for Procurement Material Management and Real Property (M714) – This course provides an overview of the acts, regulations and policies, directives, national and international trade agreements and other instruments related to the procurement, material management and real property communities
- Introduction to Procurement (M718) – This introductory course addresses basic responsibilities through all phases of the procurement process
- Overview of Material Management (C233) – This course provides an overview of material management within the federal government context
- Overview of Real Property Management (C234) – This course provides an overview of real property management within the federal government context

The curriculum is periodically updated to reflect new or changing requirements. For example, a current update reflects newly defined technical government procurement competencies.

Source: (OECD, 2018^[7]).

Adherents are utilising the many different kinds of capacity and capability building mechanisms available to them in order to attract and retain motivated and skilled individuals (OECD, 2018^[7]).

2.6. Recognising the professionalisation of public procurement with certification

As public procurement procedures become more complex and strategic, the greater will be the need for public procurement to be recognised as a separate function or profession. Acknowledgement of professional status can take many forms, such as specific diplomas, certifications or outcome-based incentives (OECD, 2017^[10]).

Some certification programmes, such as the one in place in Canada (Box 2.4), provide procurement officials with formal recognition of their profession and are linked to the development of a competency model.

Box 2.4. The Canadian Certification Programme for the Federal Government Procurement and Materiel Management Communities

Launched in Canada in 2006, this programme received national and international recognition as the federal government's first-ever certification programme for procurement and materiel management specialists.

What binds together the procurement and material management communities is their responsibility for the life cycle management of assets, from assessment and planning of requirements throughout acquisition until disposal. As a consequence of this shared responsibility, the communities have many common competencies, learning goals and knowledge requirements. Certification provides increased professional recognition for the communities and offers a professional designation to formally acknowledge a practitioner's level of achievement.

The Certification Programme is designed to evaluate a candidate's experience and knowledge in the federal government context, thereby distinguishing it from designations from external certifying bodies. In addition to developing technically proficient communities, the programme also focuses on ensuring capacity in leadership competencies.

Source: (OECD, 2016^[16]).

Adherents such as the United States and Mexico have certification programmes to recognise procurement as a professional discipline within the public sector.

The American Purchasing Society (APS) is a professional association of buyers and purchasing managers. It was the first organisation to establish a nationally recognised certification for buyers and purchasing professionals. APS offers three different certification programmes:

- the Certified Purchasing Professionals Programme, directed at professionals who have demonstrated the skills to successfully implement improved purchasing and supply chain practices as part of a business solution in an organisation
- the Certified Professional Purchasing Manager Programme, aimed at those in managerial positions and who have managerial experience
- the Certified Professional Purchasing Consultant Programme, aimed at certified purchasing professionals who either consult or teach purchasing to people outside of own employer (OECD, 2018^[7]).

In Mexico the Federal Electricity Commission (Comisión Federal de Electricidad – CFE in Spanish) certifies its “buyer agents” (*agente comprador*). Agent buyers receive training in areas such as buying and free trade agreements that Mexico has signed. Two exams must be approved with at least 80% of credits to obtain a clave (or key) to qualify as a certified buyer agent (OECD, 2018^[7]).

2.7. Professionalisation of the procurement workforce to address both capability and capacity constraints

The quality of the outcomes from public procurement depends to a great extent on the competencies of the individuals responsible for delivering the elements of procurement processes. The people who carry out all of the many tasks required and make the crucial day-to-day decisions make the difference between effective and efficient procurements and wasteful ones. Public procurement is being increasingly recognised as a profession in and of itself. There are several international sources of guidance to define and promote what constitutes a professional public procurer (OECD, 2018^[5]).

Professionalisation of the procurement workforce will help to attract new people and also retain existing personnel, thus addressing capacity gaps. Building a specific cadre and career path requires more than initial training or even continuous education. It can also require legal measures to be adopted to reinforce the continuity of the career path with specific rights, such as progressive development, specific protection against hierarchical pressure, special financial incentives and comfortable salaries, as well as specific obligations in respect of ethics, prevention of conflicts of interest, years of service, and a mandatory cooling off period in the case of departure to the private sector or retirement. Enactment of such legal provisions could help ensure the continuity of procurement jobs (OECD, 2016^[17]).

As mentioned earlier, OECD MAPS (MAPS Stakeholder group, 2018^[18]) includes an indicator regarding a public procurement system's ability to "develop and improve" (Indicator 8). This indicator includes references to a system's ability to provide training, advice and assistance with regard to public procurement. It also includes a sub-indicator that calls for procurement to be considered a profession. The sub-indicator includes assessment criteria that require a country to have:

- recognition of procurement as a specialised function as described by a diversified competency framework
- competitive appointments and promotions
- evaluation of staff performance and adequate promotion.

One of the six supplementary MAPS modules (currently under development) provides indicators on professionalisation of public procurement. These indicators provide a benchmark of what a comprehensive approach to professionalising public procurement should entail. Concrete measures must be put in place to support these overarching concepts (OECD, 2018^[5]).

The body responsible for the public sector in New Zealand, the State Services Commission, has recognised the central purchasing body as a public service profession. Additionally, a series of key initiatives are being progressed to professionalise and empower the public procurement workforce in New Zealand (Box 2.5).

Box 2.5. Key initiatives for the professionalisation and empowerment of the public procurement workforce in New Zealand

1. Develop a model to assess the capability of procurement in agencies.
2. Assess agency procurement capability on-site and provide action plans for development.
3. Have agencies not targeted for on-site assessment complete a self-assessment against the procurement capability model.
4. Develop standard procurement role competency requirements and implement these in agencies.
5. Benchmark key agency procurement and price performance against the private sector.
6. Increase the migration of skilled and qualified procurement professionals to fill skill gaps.
7. Ensure that government procurement salaries reflect market norms.
8. Agencies are to allocate resources to reform procurement practice.
9. Identify opportunities for procurement shared service centres.
10. Include procurement professionals in works project teams.
11. Establish a small team of strategic procurement experts (commercial pool) to support high-risk/high-value projects across government.
12. Establish resources to support public-private partnership projects.
13. Determine procurement training needs and source providers.
14. Agencies are to use tools provided to assess procurement capability and capacity.
15. Agencies are to ensure that procurement staff members are trained to fill identified skill gaps.
16. Provide e-learning to help procurers gain a professional procurement qualification.
17. Target key procurement personnel within agencies to fast-track their professional procurement education.
18. Develop and launch career development plans for procurement personnel.
19. Develop New Zealand procurement academy.
20. Encourage and subsidise public sector procurement professionals in gaining recognised procurement qualifications.
21. Launch procurement graduate programme to increase New Zealand capacity.
22. Facilitate secondments and career progression planning among agencies for procurement professionals.
23. Establish and facilitate a Procurement Leaders Group (persons aged under 35) of future procurement leaders.
24. Develop “Demystifying Procurement” as a two-day introductory course to procurement in a public sector context or alternatively for learning on line.

Source: (OECD, 2016^[16]).

In France, ministries are utilising a strategy of supporting and growing a specific professional procurement capability by ensuring competency levels through targeted training. A professionalisation framework has been developed by the Direction des Achats de l'État (DAE) in France. It includes:

- An Interdepartmental Reference Framework (ID) for Procurement Training.
- ID mapping of purchasing skills (DAE prefiguration).
- Definition of new reference jobs for the establishment of a new recognised profession of purchasing.
- Development of a training strategy that meets ID objectives and needs of purchasing stakeholders.

A training strategy set out for state buyers includes the following seven steps:

1. As a priority, target those working in procurement over 50% of the time.
2. Secondary objective – improve on less mastered skills.
3. Specialisation or A-Z training.
4. Only training designated by DAE.
5. Provide e-learning options.
6. Provide a certification training programme.
7. Develop dedicated manuals to complement and support training.

Each Ministry's training plan must be consistent with the framework defined by the DAE. All procurement training is interdepartmental and can be attended by all buyers from all departments (OECD, 2018^[7]).

As the examples show, professionalisation can be advanced by defining procurement positions at different professional and hierarchical levels with job descriptions and specifying the required qualifications and competencies. Career paths can be defined for public procurement professionals, taking into account possibilities for vertical and horizontal mobility.

2.7.1. Learning together - collaborative approaches to addressing gaps in capability

Collaborative approaches to learning that bring together private and public sector procurement professionals can improve the skills and competencies of the procurement workforce through having knowledge and expertise shared across both sectors.

In both Peru and Australia there are collaborative initiatives in place with the private sector that are designed to ensure that knowledge is shared so as to promote professionalisation of the procurement workforce. In Peru, strategic alliances have been developed between the OSCE (the Government Procurement Supervising Agency – Organismo Supervisor de las Contracciones del Estado), universities, and other institutions. The prerequisites to becoming a strategic ally are having administrative, teaching and technical staff and adequate infrastructure. The number and quality of the training offers from each of the strategic allies is monitored. "Virtual medals" are distributed to strategic allies that have implemented the planned activities, and there is a prize for strategic allies that have implemented innovative training methods (OECD, 2017^[13]).

In Australia the Department of Finance collaborates by:

- Hosting the Senior Procurement Officials Reference Group, which represents Australian Commonwealth procuring entities approximately twice a year.
- Leading a steering committee of industry and procuring entity stakeholders that is focused on developing and enhancing standardised contract documents that streamline and simplify processes for suppliers and entities.

- Improving the Centre of Procurement Excellence to increase the capability, professionalisation and mobility of the procurement workforce.
- Leading the Secretary's Consultative Roundtable, which meets approximately twice a year to engage collaboratively with key industry and government stakeholders on significant procurement issues (OECD, 2018^[7]).

Box 2.6. Belgium and development of technical specifications with businesses

The Belgian Government places great importance on sustainable development issues. In 2014 a knowledge centre, the Federal Institute for Sustainable Development (FIDO), was established. It was recognised that in order to roll out a sustainable public procurement policy, a web-based user's guide was needed to outline the technical sustainability criteria to be included in specifications for the purchase of supplies and services. The FIDO continuously updates this Sustainable Procurement Guide and advises on the correct interpretation of technical specifications and other clauses contained within it. The FIDO also conducts studies on methodologies such as life cycle costing. The FIDO had 11 staff in 2014.

To ensure good results, the Sustainable Procurement Guide must:

1. be kept constantly up to date
2. match the characteristics of the sector concerned, without losing sight of competition and price considerations.

A methodology was developed to reach out to businesses when compiling or updating technical specifications for products and services belonging to an industrial sector. A standing working party established by the FIDO, consisting of members of the community, regions, provinces and municipal councils, contacts the professional organisation that represents the sector (not individual industrial sector companies). The professional organisation mobilises the companies that it believes are best placed to help establish technical specifications that match the capabilities of suppliers in the industrial sector in question. This working method has helped establish realistic specifications that support improved levels of competition.

Source: (OECD, 2015^[19]).

The benefits of collaboration among the various stakeholders involved in public procurement are well recognised. In the area of capability development particularly, there are opportunities to learn from each other. Both the public sector and private sector are looking for ways to meet the future needs of citizens, which means that the procurement workforces in both sectors also need to learn new ways of working.

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3

Fostering trust through a risk-based approach to public procurement

This chapter describes the extent to which Adherents are working to integrate risk management strategies for mapping, detection and mitigation through the public procurement cycle. The analysis focuses on the uptake of the development of risk assessment tools to both identify and assess threats to the proper functioning of public procurement systems. This chapter also includes a description of the different risks that can occur throughout the procurement lifecycles, and how Adherents have addressed such risks.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

The Recommendation calls on Adherents to “*integrate risk management strategies for mapping, detection and mitigation throughout the public procurement cycle*” (Principle on risk, paragraph XI). The Recommendation contains guiding principles to assist Adherents in developing risk assessment tools to identify and address threats to the proper functioning of the public procurement system and publicise risk management strategies such as red flags and whistleblower programmes.

In addition to integrity breaches, public procurement is subject to other risks that could significantly affect the outcome and impact of public procurement processes, including:

- risks of waste or inefficiency in all aspects of the procurement process, due to a lack of awareness on the part of the stakeholders involved or due to difficulty in achieving an objective in the case of complex projects
- financial risks, particularly during periods of severe economic and financial uncertainty
- risks of fraud, misuse of public funds or corruption, in case of misappropriation.
- Reputational risks/potential damage to the image of the contracting authority as well (OECD, n.d.^[1]).

These risks can be actively managed, particularly in cases of large events and infrastructure projects. In these cases the associated risks are often more complex and their subsequent consequences have higher costs. An example of the risks that can be present in procurement procedures is set out in Table 3.1, which contains examples of corruption risks.

Table 3.1. Corruption risks associated with different stages of the procurement cycle

Procurement stage		Risks to sound governance
Pre-tendering phase	Needs assessment and market analysis	<ul style="list-style-type: none"> • Lack of adequate needs assessment • Influence of external actors on officials' decisions • Informal agreement on contract
	Planning and budgeting	<ul style="list-style-type: none"> • Poor procurement planning • Procurement not aligned with overall investment decision-making process • Failure to budget realistically or deficiency in the budget
	Development of specifications/ requirements	<ul style="list-style-type: none"> • Technical specifications are tailored to a specific company • Selection criteria are not objectively defined and not established in advance • Requesting unnecessary samples of goods and services • Buying information on the project specifications
	Choice of procurement procedure	<ul style="list-style-type: none"> • Lack of proper justification for the use of non-competitive procedures • Abuse of non-competitive procedures on the basis of legal exceptions: contract splitting, abuse of extreme urgency, non-supported modifications
Tendering phase	Request for proposal/bid	<ul style="list-style-type: none"> • Absence of public notice of the invitation to bid • Evaluation and award criteria are not announced • Procurement information is not disclosed or made public
	Bid submission	<ul style="list-style-type: none"> • Lack of competition or cases of collusive bidding: <ul style="list-style-type: none"> – cover bidding – bid suppression – bid rotation – market allocation
	Bid evaluation	<ul style="list-style-type: none"> • Conflict of interest and corruption in the evaluation process, through: <ul style="list-style-type: none"> – Familiarity with bidders over time – Personal interests such as gifts or future/additional employment – No effective implementation of the “four eyes principle”

	Contract award	<ul style="list-style-type: none"> • Vendors fail to disclose accurate cost or pricing data in their price proposals, resulting in an increased contract price (i.e. invoice mark-ups, channel stuffing) • Conflict of interest and corruption in the approval process (i.e. no effective separation of financial, contractual and project authorities) • Lack of access to records of the procedure
	Contract management/ performance	<ul style="list-style-type: none"> • Abuses of the supplier in performing the contract, in particular in relation to its quality, price and timing: <ul style="list-style-type: none"> – Substantial change in contract conditions to allow more time and/or higher prices for the bidder – Product substitution, substandard work or service not meeting contract specifications – Theft of new assets before delivery to end-user or before being recorded – Deficient supervision from public officials and/or collusion between contractors and supervising officials – Subcontractors and partners chosen in a non-transparent way or not kept accountable
Post-award phase	Order and payment	<ul style="list-style-type: none"> • Deficient separation of financial duties and/or lack of supervision of public officials leading to: <ul style="list-style-type: none"> – False accounting and cost misallocation or cost migration between contracts – Late payments of invoices • False or duplicate invoicing for goods and services not supplied and for entitlement to interim payment in advance

Source: (OECD, 2016^[2]).

The *OECD Foreign Bribery Report* found that a high number of cases in which bribes were paid were in the context of public procurement. Additionally it was noted that the fact that only 2 out of 427 cases resulted in debarment demonstrates that countries need to do more to ensure that those who are sanctioned for having bribed foreign public officials are suspended from participation in national public procurement contracting (OECD, 2014^[3]).

Principle 10 of the OECD Recommendation of the Council on Public Integrity [[OECD/LEGAL/0435](#)] outlines the central tenets of an internal control system for safeguarding public integrity, which includes the risk management function. Following this approach, countries should take a risk-based approach to ensuring integrity, including a strategic approach to risk management that involves assessments, addressing control weaknesses and quality assurance mechanisms. In Colombia, the Department for Public Employment (*Departamento Administrativo de la Función Pública*) has developed such a risk-based approach to tackle corruption (Box 3.1).

Box 3.1. Corruption risk management: The example of Colombia

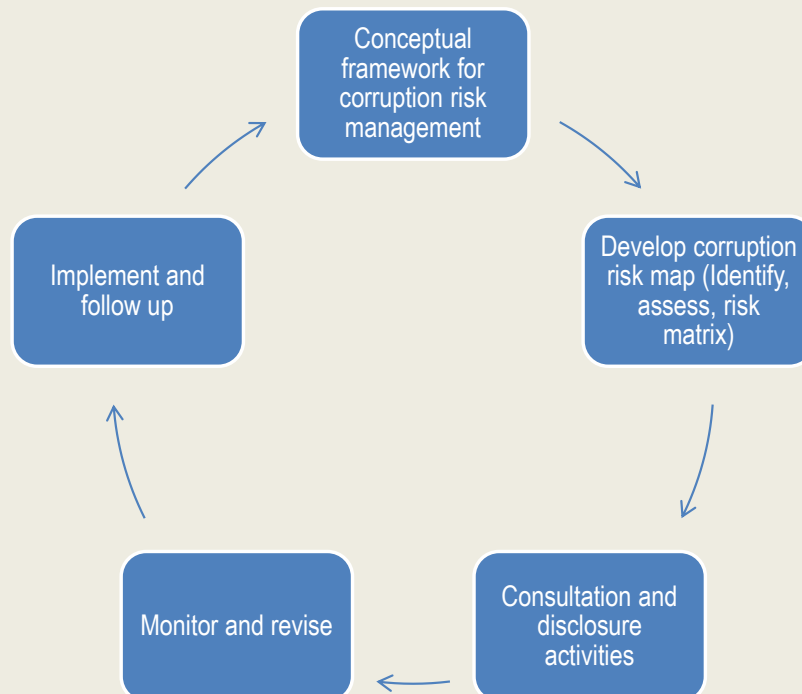
The Secretariat of Transparency, together with the Department for Public Employment (*Departamento Administrativo de la Función Pública*, DAFP), has developed a corruption risk map, described in a comprehensive manual that was updated in October 2018.

The methodological approach is rooted in the Colombian Internal Control Standard Model (*Modelo Estandar de Control Interno*, MECI), that is itself part of the Colombian Integrated Planning and Management Model (*Modelo Integrado de Planeación y Gestión*, MIPG). This model provides a general methodological guide for risk identification. Indeed, corruption risk maps are one of the three risk management instruments within the MIPG, along with digital security risk maps and institutional performance risk maps. Corruption risk maps can identify problems that may lead to corruption as well as concrete actions that can prevent it.

Since 2018 the DAFP has issued a new guideline under the framework of MIPG that suggests integrating the following risks in a single map: management, security and privacy of information, and corruption. Corruption risks are monitored quarterly.

There are positives and negatives to having separate risk management exercises based on the same methodological model. On the one hand, it may be seen as burdensome because it duplicates efforts. On the other hand, it can be argued that it raises awareness among senior management and staff of the importance of having a sound anti-corruption policy with mainstream managerial risk activities distinct from financial control risk activities.

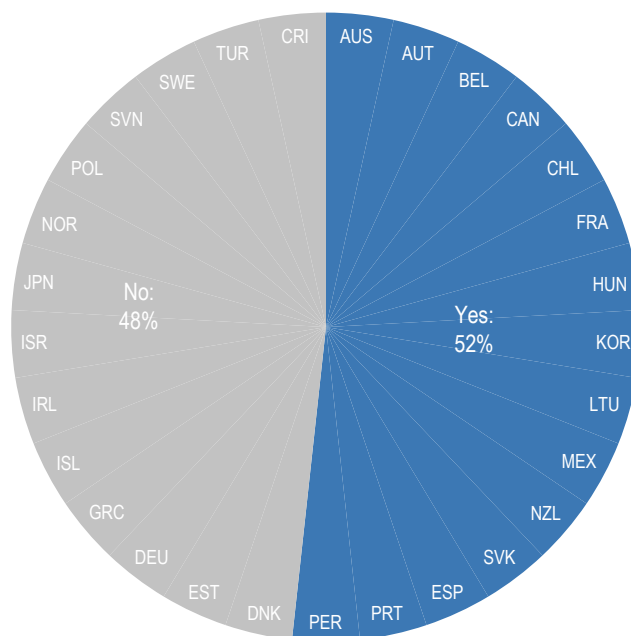
Figure 3.1. The Colombian methodology for corruption risk management



Source: (Manuel et al., 2015^[4]); (Departamento Administrativo de la Función Pública, 2019^[5]).

Risk management encompasses several steps in assessing risks (including assessment of the nature, causes and potential consequences of risks) and mitigating them. While only 52% of the respondents to the 2018 Survey indicated that they have developed a strategy for the assessment, prevention and mitigation of public procurement risks, there may also be government-wide risk and control policies that apply (Figure 3.2 and Box 3.2).

Figure 3.2. Development of a strategy to assess, prevent and mitigate public procurement risks



Note: Based on data from 31 respondents (29 OECD countries plus Peru and Costa Rica).

Source: (OECD, 2018^[6]).

In large infrastructure projects, designating a dedicated entity to lead, oversee and co-ordinate risk management activities with multiple stakeholders is a critical early step. An OECD study of procurement processes for the construction of infrastructure in ten sporting events found that risks are multi-faceted and evolve along with construction developments. Proactively managing those risks requires a co-ordinated governance structure, and sometimes necessitates implementing innovative management strategies. The UK National Audit Office (NAO) identified procurement risk as one of the six risk areas for the London Olympics. The Olympic Delivery Authority addressed this risk by tapping into the procurement expertise of other government agencies (OECD, 2019^[7]).

In Canada the identification of risks is enabling analysis and formal documentation to be prepared earlier (Box 3.2) Mitigation can be put in place as there is now more time available to do so.

Box 3.2. The complexity and risk process in Canada

In 2014 Canada updated its complexity and risk assessment process, a project that involved extensive stakeholder engagement. The project scope covered three areas:

- revising the structure for classifying procurement complexity
- aligning delegations of authority for complex procurement
- implementing the requirement for procurements within the Acquisitions Programme (AP) to undergo risk assessment regardless of the complexity level.

Following completion of the project, authorities' procurement approvals are based on the risks associated with a requirement, not just the value. Furthermore, risks are identified earlier in the procurement life cycle, analysed, and formally documented for all complexity levels, including those requiring Treasury Board approval.

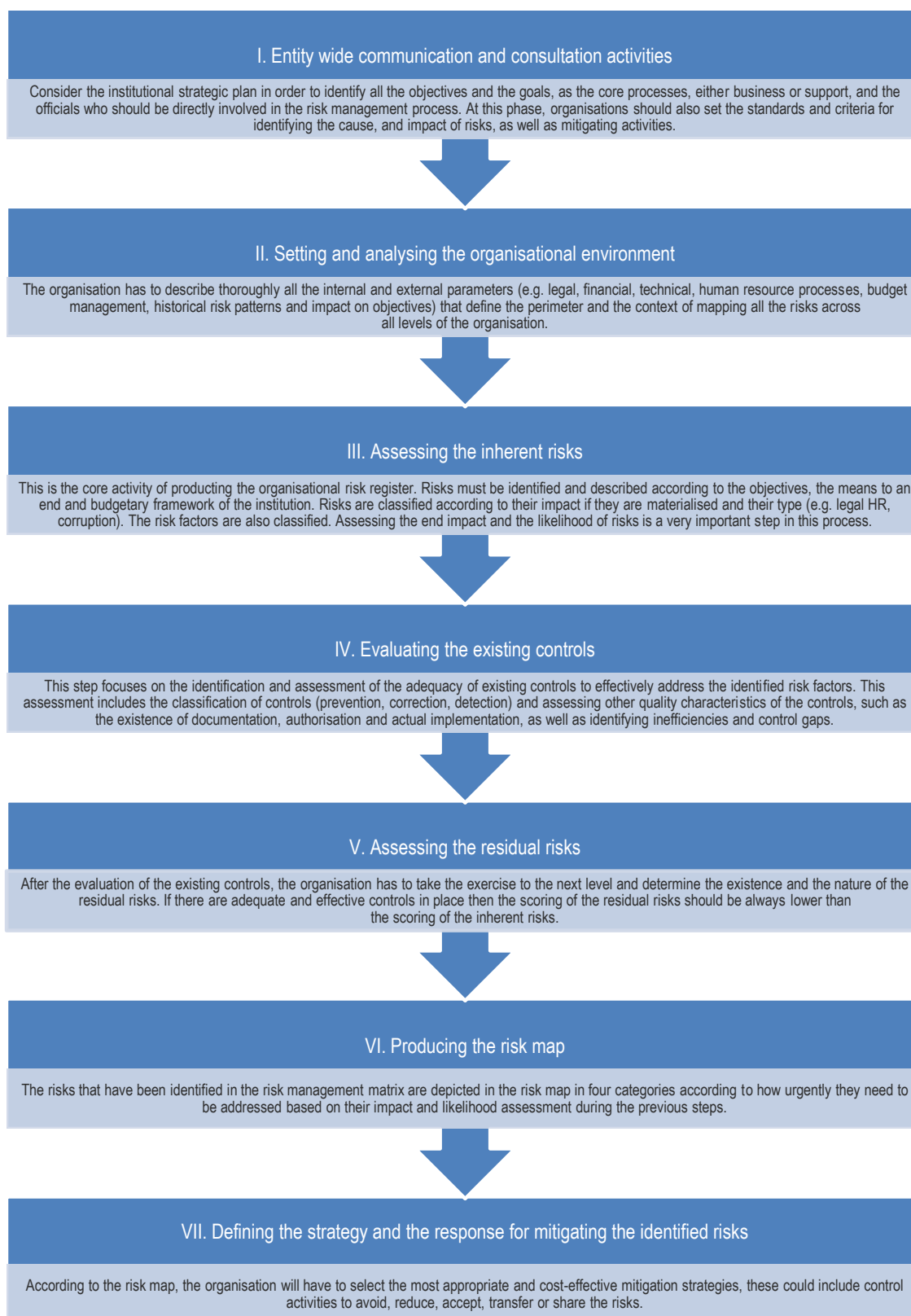
The revised process has resulted in greater guidance support earlier in the process. Procurement Officers are better equipped to work with the client to mitigate medium to high risks before they become an issue. Increased delegated authority for contract entry and associated amendments provides the opportunity to improve throughput times and service level standards.

Source: (OECD, 2018^[6]).

A number of respondents have instituted systematic and detailed processes in order to assess and quantify risk levels. In Mexico the risk management methodology and related activities were published in 2016. Federal public entities have to apply concrete methodological steps in order to produce:

1. the annual risk management matrix (*Matriz de Administración de Riesgos*), which gives a detailed picture of each of the risks (see Figure 3.3 for details)
2. the risk map, which is the graphic illustration of the risk matrix
3. the Working Programme of Risk Management (*Programa de Trabajo de Administración de Riesgos*, or PTAR), which is the implementation action plan.

Figure 3.3. Phasing in the risk management model (ARI) of the Secretariat for Civil Service (SFP)



Source: (OECD, 2017^[8]); (OECD, 2018^[6]).

3.1. Supporting accountability through oversight and control mechanisms

The Recommendation calls upon “*Adherents to apply oversight and control mechanisms to support accountability throughout the public procurement cycle*” (Principle on accountability, paragraph XII). Adherents should also “*establish clear oversight of the public procurement cycle to ensure the chains of responsibility are clear, that oversight mechanisms are in place*” (Principle on accountability, paragraph XII).

Oversight and control of the procurement cycle are essential in supporting accountability and promoting integrity in the public procurement process, and they constitute one key principle highlighted in the Recommendation. In particular, the Recommendation stresses the need to establish clear lines for oversight of the public procurement cycle.

Oversight of the public procurement cycle is organised internally as well as externally, before and after the procurement process, in order not only to verify conformity with the regulatory frameworks but also to ensure that the public resources are spent in an efficient and effective way.

As outlined in the 2018 Survey, Canada has an extensive public procurement control framework that clearly sets out which bodies are responsible for review and audit of procurement procedures (Box 3.3).

Box 3.3. Canada’s public procurement control framework

In Canada all procurements in excess of CAD 2 million must be reviewed for potential regional and industrial benefits. Departmental short-range acquisition plans cover all goods and service contracts over CAD 2 million. The review process involves a Procurement Strategy Committee (PSC) and related review committees. The Peer Review Committee (PRC) will review departmental plans, identify individual or aggregated procurements requiring review, and provide general guidelines to the review committees. The review committees will review and recommend procurement strategies for individual procurements or groups of procurements, normally only for those exceeding CAD 20 million, in accordance with the general direction from the PSC.

In the Acquisitions Programme the Post Contract Award Review Programme takes a sample of closed (completed) procurements and examines the files for professional and legal compliance. The review is frequent and operational as opposed to the large-scale Programme Evaluation performed by the PSPC Office of Audit and Evaluation.

The Office of the Auditor General (OAG) in Canada performs performance audits and reviews of the government (i.e. legislative auditing). The performance audits are in addition to assurance engagements (conventional financial audit) such as those related to public accounts that include the audited consolidated financial statements for the Government of Canada. The work of the OAG entails the independence to review and investigate actions of the government (including procurement activities) and report back to the legislature and the public. Beyond investigation and reporting, the OAG has no other powers and cannot compel any actions on the part of government or anyone else. The OAG is acknowledged to be very influential in producing government action to address problems.

Source: (OECD, 2018^[6]).

While audit and inspection bodies play an essential oversight role, they are not part of the first or second line of defence as set out in the Auditor's Three Lines of Defence Model (The Institute of Internal Auditors, 2018^[9]). The model distinguishes between three groups (or lines) involved in effective risk management.

- functions that own and manage risks
- functions that oversee risks
- functions that provide independent assurance.

Operational management (the first line) is responsible for maintaining effective internal controls and for executing risk and control procedures on a day-to-day basis. Operational management identifies, assesses, controls and mitigates risks, guiding the development and implementation of internal policies and procedures and ensuring activities are consistent with goals and objectives.

Operational management is supported and overseen by risk managers and compliance specialists, among others, that provide the second line of defence. The third line of defence – internal auditors – provides independent assurance to management regarding the effectiveness of the first two lines and how effectively risks are managed. Table 3.2 shows the roles and responsibilities of internal auditors in risk management.

Table 3.2. The role of internal audit in risk management

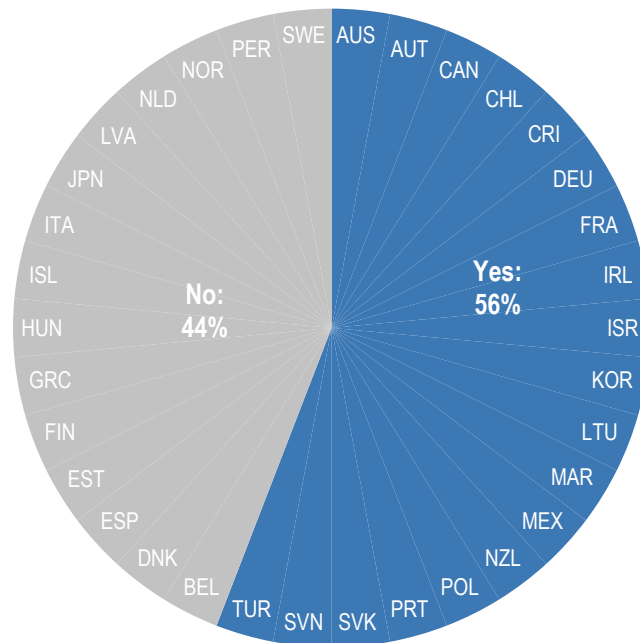
Core internal audit roles with regard to risk management	Giving assurance on the risk management process
	Giving assurance that risks are correctly evaluated
	Evaluating risk management processes
	Evaluating the reporting of key risks
	Reviewing the management of key risks
Legitimate internal audit roles with safeguards	Facilitating identification and evaluation of risks
	Coaching management in responding to risks
	Co-ordinating ERM activities
	Consolidating reporting on risks
	Maintaining and developing the ERM framework
Roles internal audit should not undertake	Championing the establishment of ERM
	Setting the risk appetite
	Imposing risk management processes
	Management assurance on risks
	Taking decisions on risk responses
	Implementing risk responses on management's behalf
Accountability for risk management	

Source: Adapted from (The Institute of Internal Auditors, 2009^[10]) (OECD, 2019^[7]).

The 2018 Survey confirms that 56% of respondents have follow-up mechanisms to track and monitor the implementation of audit recommendations and observations (Figure 3.4). Organisations can be exposed to risk if internal audit findings are not implemented. A truly risk-focused follow-up plan is targeted at the higher priority risks irrespective of the organisational context or internal audit review within which the recommendation was based (The Chartered Institute of Internal Auditors, 2018^[11]), (OECD, 2019^[7]).

Figure 3.4. Follow-up mechanisms to track and monitor the implementation of audit recommendations

Are there follow-up mechanisms to track and monitor the implementation of the audit recommendations?



Note: Based on data from 34 respondents (31 OECD countries plus Morocco, Peru and Costa Rica).
Source: (OECD, 2018^[6]).

3.2. Transparency, a mechanism to ensure sound governance in a public procurement system

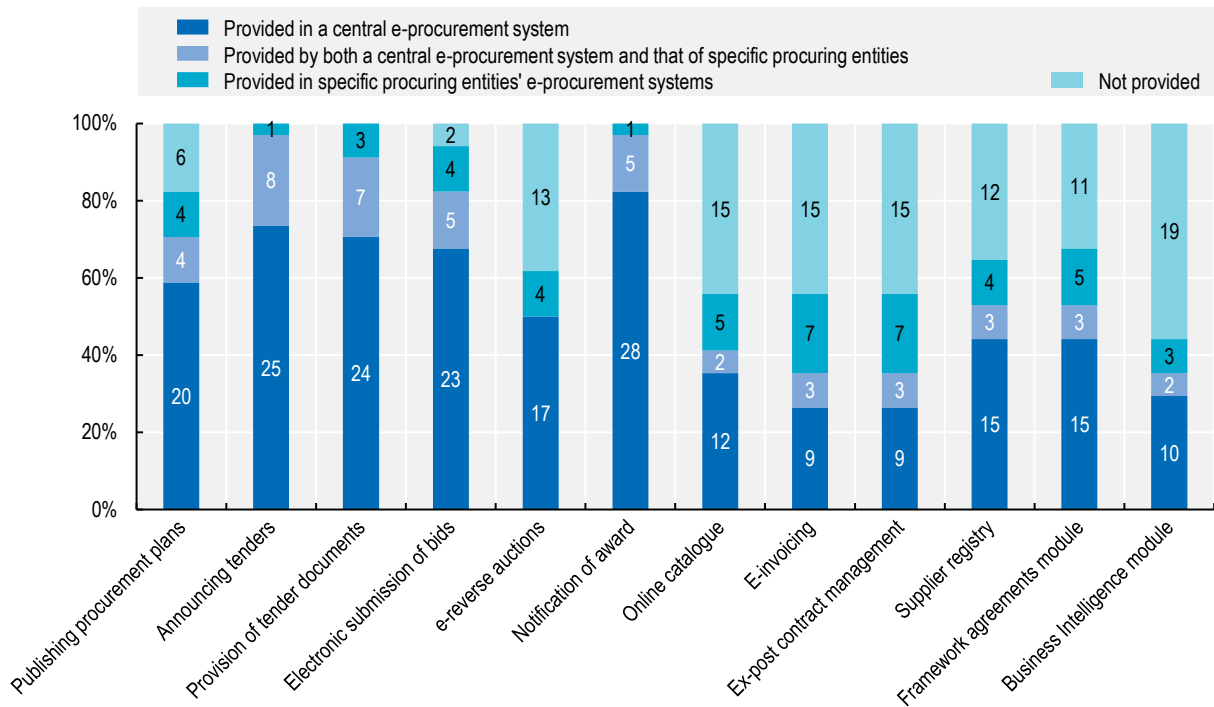
The Recommendation calls on “*Adherents to ensure an adequate degree of transparency of the public procurement system in all stages of the procurement cycle*” (Principle on transparency, paragraph II). The Recommendation contains guiding principles for countries to promote fair and equitable treatment for potential suppliers by providing an adequate and timely degree of transparency in each phase of the public procurement cycle. The principles take into account the legitimate needs for protection of trade secrets and proprietary information and other privacy concerns, as well as the need to avoid information that can be used by interested suppliers to distort competition in the procurement process.

Transparency is central to promoting good governance in the public sector. It fosters accountability, ensures access to information and enables participation of diverse stakeholders (Johnston, 2002^[12]). Transparency in public procurement serves a particularly important role in levelling the playing field for businesses, especially for smaller firms. Online publication of laws, policies and guidelines is common practice; these are often found on the website of the ministry or body in charge of designing them and coordinating their implementation.

The Open Contracting Partnership (OCP) developed the Open Contracting Data Standard (OCDS), which has been successfully applied in several countries including the United Kingdom and Mexico. The standard is designed to open up public contracting through disclosure, data and engagement so that the huge sums of money involved are spent honestly, fairly and effectively. Once the transition to the OCDS is made, tender submissions and contract details become much more traceable and auditable within systems. In Chile, the electronic procurement system facilitated implementation of the OCDS.

The Recommendation calls on Adherents to “allow free access through an online portal for all stakeholders including potential domestic and foreign suppliers, civil society and the general public, to public procurement information notably related to the public procurement system” (Principle on transparency, paragraph II). Respondents have long been publishing public procurement information, especially tender notices. The 2018 Survey data show that announcing tenders is the most widely adopted functionality of e-procurement systems, with nearly 100% of respondents using them to announce tenders and contract awards (Figure 3.5).

Figure 3.5. Functionalities of e-procurement systems, 2018



Note: Based on data from 34 respondents (31 OECD countries plus Morocco, Peru and Costa Rica).
 Source: (OECD, 2018^[6]).

Respondents have obligations prescribed by laws to publish procurement information. The laws usually define the timelines as a minimum number of days or deadlines for certain stages of public procurement, depending on the type of procedures chosen.

At the same time, some respondents have embedded additional mechanisms to ensure timely and accurate information. For example, in Italy each contracting authority has to comply with the provisions of its three-year anti-corruption and transparency plan that prescribes mechanisms, timing and actors involved in the publication of procurement information. In Korea, the linkage of external database systems with KONEPS ensures the accuracy of public procurement information (Box 3.4).

Box 3.4. Greater efficiency through data connection in KONEPS

KONEPS (Korea ON-line E-procurement System) is interconnected with over 160 diverse electronic systems, both within and outside the government's reach. The result has been increased efficiency, reduced duplication and cost savings.

Connection with 19 surety companies allows automated verification of 4 types of sureties, including bid bonds and performance bonds. Interfaces with 12 private sector associations and 9 credit rating companies allows for the automatic collection of credit and past performance data, which is used to verify qualifications and evaluate bids. Fifteen commercial banks are connected for e-payment through electronic funds transfer and also for processing loans that are payment certificates transmitted through appropriate data exchange interfaces. In addition to collecting information from external sources, information from KONEPS is shared with 28 public entities and 34 private sector information systems.

Because of this integration, 477 document forms used in public procurement – including bid forms, contract forms, inspection requests and payment requests – have all been digitised. In addition to the increased efficiency of processing all these transactions and procurement steps electronically, bidders are no longer required to visit public authorities to collect or submit the documentation necessary for participation in public procurement to each public buying entity separately. This results in both increased transparency – as the information is available on line through KONEPS – and greater access for new entrants and small and medium enterprises, as the burden to participate in public procurement is much smaller.

Source: (OECD, 2016^[13]).

Some of the areas mentioned by respondents, such as online catalogues, are actively being pursued in different countries as ways of opening up opportunities for both the public sector and suppliers to build in efficiencies stemming from greater transparency and competition. There is an increasing shift towards new commissioning approaches "...where the public sector is required to embrace more agile techniques, involving providers and stakeholders earlier in the commissioning process and iteratively throughout delivery, in order to better understand user needs and context, and potential benefits and barriers, and to adjust constantly to in order to develop more agile solutions to realise benefits" (OECD, 2018^[14]).

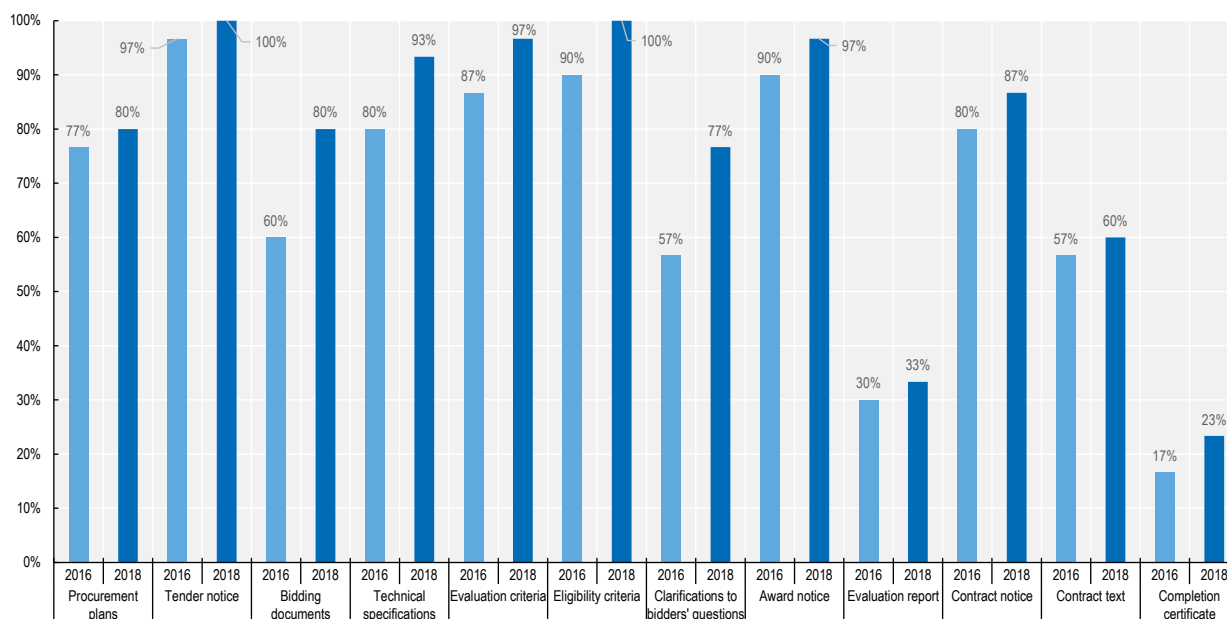
Publishing information benefits both the public and the private sector. For the public sector, it enables diverse stakeholders to scrutinise public procurement spending. It also helps to hold government officials accountable for their decisions. While taking into consideration concerns for sensitive information related to trade secrets and privacy, respondents have embraced this trend, making more public procurement information available to the public. In Australia for example, the Dynamic Sourcing for Panels (DS4P) system was launched in late 2016. It is a new functionality in AusTender (the country's e-procurement system) that provides government buyers with a standard and streamlined approach to sourcing their goods and services from panels. DS4P allows buyers to identify panels that match their requirements; search for and shortlist relevant suppliers; access panel documents and templates; and run requests for quote.

E-procurement tools have the potential to dramatically increase efficiency by eliminating wasteful and duplicative paper-based processes. There are some processes that e-procurement systems enable that are simply impossible to replicate without advanced digital technologies.

As demonstrated by Figure 3.6, post-contract information is published less often, with the exception of the contract notice. Governments need to strike a balance between ensuring accountability and competition on the one hand, and on the other protecting trade secrets and respecting the confidentiality of information

that can be used by interested suppliers to distort competition, in current or future procurement processes. Information on bidders and bids during the procurement procedure is more sensitive than information published some time after the contract has been concluded. Namely, information on bids released at early stages of the tender procedure may facilitate bid rigging by enabling transparency among competitors, the monitoring of collusive agreements, and ultimately the adoption of retaliation measures to punish bidders that deviate from the terms of the bid-rigging agreement (OECD, 2012^[15]; 2018^[16]).

Figure 3.6. Availability of public procurement documents to the general public



Note: Based on data from 30 respondents (29 OECD countries and Costa Rica) that answered *both* the 2018 and the 2016 Surveys on Public procurement.

Source: (OECD, 2018^[6]; 2016^[17]).

For respondents there may be no legal obligation to provide evaluation reports, either as part of a debriefing or in the interests of transparency. In a study of corruption cases released by the OECD in 2016 it was suggested that debriefs on how award decisions were made had been held. The study covered 131 concluded and ongoing corruption cases across a number of OECD countries. The report mapped out the corruption schemes themselves as well as the vehicles of corruption utilised in the execution of the schemes (OECD, 2014^[3]).

The ability to provide information to the general public opens up possibilities for wider participation in public procurement processes, and can also support greater competition. Publication of public procurement information supports a level playing field by ensuring that all potential suppliers have access to the same information about government procurement opportunities at the same time. Respondents have increasingly focused on this latter function of information publication – for instance, more respondents have embedded obligations to publish procurement plans in their systems since adoption of the Recommendation. The data show that there has been a trend towards greater availability of public procurement documents between 2016 and 2018.

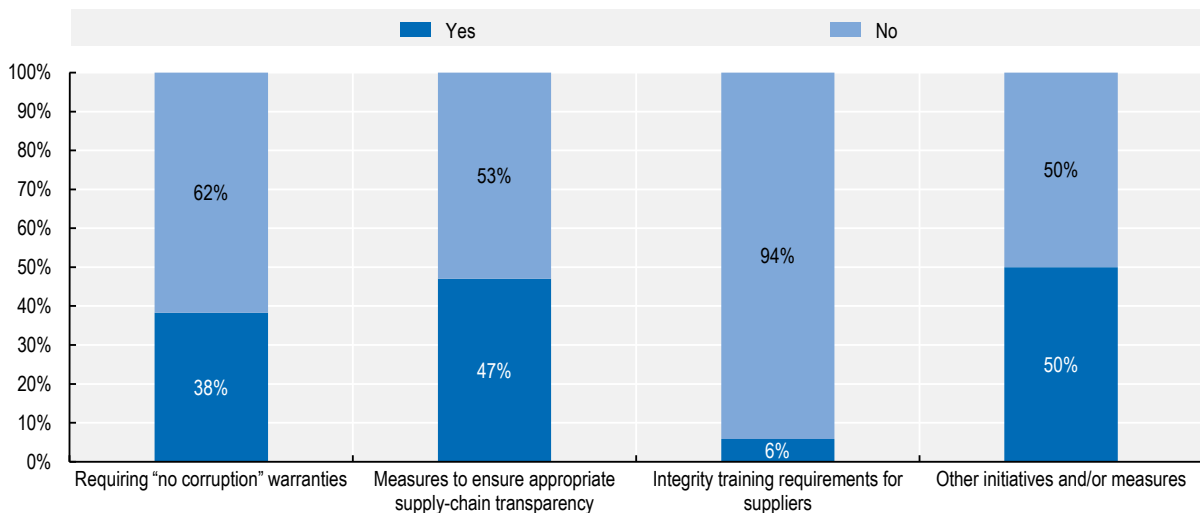
3.3. Integrity, a cornerstone of good governance in public procurement

The Recommendation calls upon “*Adherents to preserve the integrity of the public procurement system through general standards and procurement – specific safeguards*” (Principle on integrity, paragraph III). It contains guiding principles for countries to require high standards of integrity for all stakeholders in the procurement cycle and to implement general public sector integrity tools.

Integrity plays a critical role in strengthening governance and building resilience in public procurement systems. Governments are emphasising public integrity as a strategic and sustainable response to corruption (OECD, 2017^[18]).

The key principles that govern public procurement systems – such as equal treatment, non-discrimination, transparency, proportionality, and effective competition – act as barriers to the risks of corruption or integrity breaches. These are reflected in the legal frameworks used by respondents to foster integrity in public procurement. For instance, it was noted in the 2018 Survey that the Public Procurement Act of Norway, which came into force in November 2017, states that the purpose of public procurement rules includes ensuring the integrity of public entities as well as public confidence and trust. Another example from the 2018 Survey is found in the Peruvian Public Procurement Law (Law No. 30225), which came into force on 9 January 2016. Its article 2 states that “the conduct of the participants at any stage of the procurement process is guided by honesty and truthfulness, avoiding any improper practice. Improprieties shall be communicated to the competent authorities in a direct and timely manner” (OECD, 2018^[6]).

Figure 3.7. Measures to promote integrity among suppliers



Note: Based on data from 31 OECD countries plus Morocco, Peru and Costa Rica. “Other initiatives and/or measures” include issuing a public procurement ethical code for suppliers and possible debarment and suspension measures for suppliers responsible for integrity breaches. Source: (OECD, 2018^[6]).

The 2018 Survey responses show that, consistent with the overarching guidance provided in the key principles, there are initiatives being pursued to promote integrity among suppliers (Figure 3.7). In Australia, the Commonwealth Procurement Rules allow entities to exclude tenderers on the grounds of bankruptcy, insolvency, false declaration or significant deficiencies in the performance of any substantive requirement or obligation under prior contract (Australian Government, 2018^[19]). In Latvia the contracting authority can exclude a candidate or tenderer (or their subcontractor where a value threshold of 10% of the total value of the contract is met) from participation in a procurement procedure in certain circumstances including tax debts, as outlined in the legislation (OECD, 2018^[6]).

3.3.1. Promoting common values for a culture of integrity

Promoting common values by drawing up concrete standards of conduct to be applied by public employees in their work, as providing guidance for identifying and managing conflict-of-interest situations and resolving ethical dilemmas are at the core of developing a culture of integrity in the public sector resilient to corruption risks. Administrative functions where the risks of corruption are higher than in other functions might need specific guidance, taking into consideration the specific risks for these positions. The OECD has suggested a number of methods for fostering high standards of integrity and professionalism from public procurement officials (OECD, 2016^[20]). Respondents have developed codes of conduct and codes of ethics that clearly articulate the core values underlying public service, and have established guidelines for their use in daily work. For instance, the CPB in Chile developed its own code of ethics in 2017 (Box 3.5). Codes of conduct and ethics make clear the kind of behaviour that is expected of public officials and where the boundaries of behaving with integrity are.

Box 3.5. ChileCompra's Code of Ethics in Public Processes

ChileCompra, the central purchasing body of Chile, approved the Code of Ethics in Public Procurement Processes in May 2017. The purpose of this document is to ensure integrity in public procurement and the proper use of public resources by public officials. It includes recommendations to be followed by officials during the various stages of procurement processes. The code establishes the reporting obligation of officials participating in public procurement, stating that "any public official who participates in a procurement process, in any of its stages, has the duty to report to its superior or to the Office of the Comptroller General of the Republic or before the Public Prosecutor's Office, as appropriate, with due promptness, the irregular facts that may contravene the integrity principle and those that may be constitutive of crimes".

Source: (OECD, 2018^[6]).

In Canada there is a Code of Conduct for Procurement, which consolidates the federal government's existing legal, regulatory and policy requirements (including measures on conflict of interest, post-employment and anti-corruption) into a concise and transparent statement of the expectations the government has of its employees and suppliers. The Code is incorporated by reference in solicitation and contractual documents under a dedicated clause, where both the contractor and the government of Canada agree to comply with the Code and are bound by its terms for the period of the contract.

Managing conflicts of interest is also a core part of the wider ethics framework, and in all OECD member countries conflict-of-interest policies and rules are stated in their legal framework (OECD, 2017^[21]). Underlying the conflict-of-interest policies is the understanding and recognition that everyone has private interests that may be in conflict with official responsibilities and obligations. However, these interests cannot be prohibited; rather, they must be properly managed and potential conflicts of interest resolved.

Safeguarding the public interest is the fundamental mission of governments and public institutions. It is their obligation to ensure that public officials do not allow their private interests and affiliations to compromise their official duties. Different countries have different approaches to managing conflicts of interest that often reflect their legal and public service traditions. Table 3.3 focuses on conflicts of interest in the public sector in general – that is to say, it is not specific to public procurement.

Table 3.3. Evaluating conflicts of interest in the public sector

	Existence and compliance with conflict of interest policies	Existence and quality of codes of conduct	Existence and compliance with asset declaration policies	Extent of awareness of integrity policies by public officials
Australia	●	●	○	●
Austria	-	-	-	-
Belgium	◆	●	▲	▲
Canada	▲	-	▲	◆
Chile	●	◆	●	●
Czech Republic	●	●	N/A	●
Estonia	No central evaluation of public integrity system			
Finland	-	-	-	-
France	●	●	●	◆
Germany	○	○	N/A	○
Greece	▲	◆	●	●
Hungary	○	○	○	○
Iceland	○	○	○	●
Ireland	○	○	○	○
Italy	●	●	●	●
Japan	▲	●	●	●
Korea	●	●	○	●
Latvia	No central evaluation of public integrity system			
Lithuania	No central evaluation of public integrity system			
Mexico	●	●	●	▲
Netherlands	●	●	●	●
New Zealand	▲	▲	▲	▲
Norway	-	-	-	-
Poland	-	●*	-	●*
Portugal	No central evaluation of public integrity system			
Slovak Republic	-	-	-	-
Slovenia	●	●	●	●
Spain	●	●	●	◆
Sweden	-	-	-	-
Switzerland	No central evaluation of public integrity system			
United Kingdom	●	▲	●	▲
United States	-	-	-	-
Total among 32 OECD Member Respondents				
● Always	11	12	10	10
◆ Often	1	2	0	3
▲ Sometimes	4	2	3	4
○ Never	4	4	5	3
- Unknown/ varies widely	7	7	7	7
No central evaluation of public integrity system	5	5	5	5
Costa Rica	No central evaluation of public integrity system			
Peru	○	▲	◆	○

Note: This table is based on data from the 2016 OECD Survey on Public Integrity and focuses on public sector integrity systems in general. Source: (OECD, 2017^[22]).

In Sweden for example, because of the decentralised nature of procurement, there are differing approaches to declaring when there is no conflict of interest and these are recorded in a number of different guidelines at contracting authority level. In Peru and Costa Rica, certain public officials and political appointees are by law prohibited from participating in public procurement procedures, bidding, or contracting with government regardless of the public procurement regime applicable to them. In Costa Rica the prohibition extends to spouses, partners or relatives within the third degree of consanguinity (OECD, 2018^[6]).

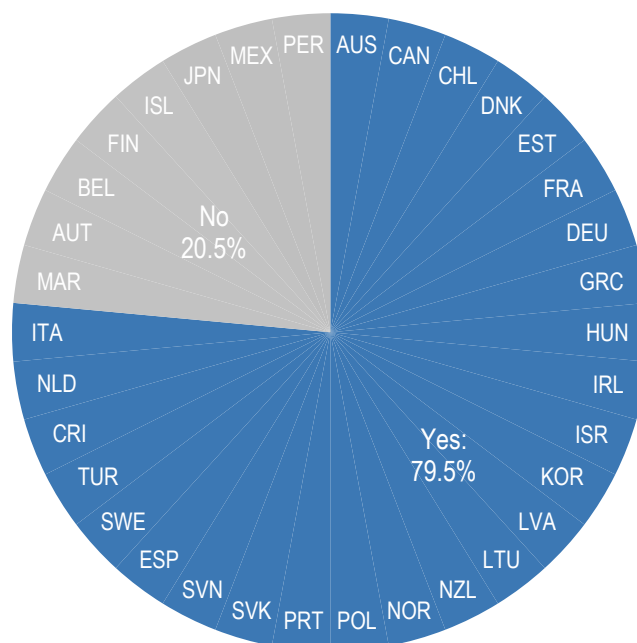
The OECD Recommendation on Guidelines for Managing Conflict of Interest in the Public Service [OECD/LEGAL/0316] provides policy makers with a set of concrete policy options for managing conflict of interest based on promoting individual responsibility, supporting scrutiny and creating an appropriate organisational culture (OECD, 2003^[23]).

An OECD survey on managing conflict of interest in the executive branch and whistleblower protection shows that among member countries a number of different activities are applied to raise awareness among stakeholders. Training is provided in 23 out of 32 countries, and 22 out of 33 publish the conflict-of-interest policy on line or on the intranet of the government organisation. A lower number (19 out of 32) provide proactive updates regarding changes in the conflict-of-interest policies and 17 out of 32 provide an advice line or help desk where officials receive guidance on filing requirements and identifying and managing conflicts of interest (OECD, 2014^[24]).

Legal frameworks that support declarations of conflict of interest and private interests are common among OECD countries. OECD data shows that 85% of respondents have a specific definition of conflicts of interest for public procurement officials in their regulatory framework (OECD, 2018^[6]). However, the 2018 Survey results show that in 79.5% of the respondent countries, public procurement officials have to declare either “no conflict of interest” or notify the competent authority in case of potential conflict of interest during a public procurement procedure (Figure 3.8).

Figure 3.8. Policies and mechanisms to manage conflicts of interest in public procurement

Do public procurement officials have to declare “no conflict of interest” or notify the competent authority in case of potential conflict of interest?

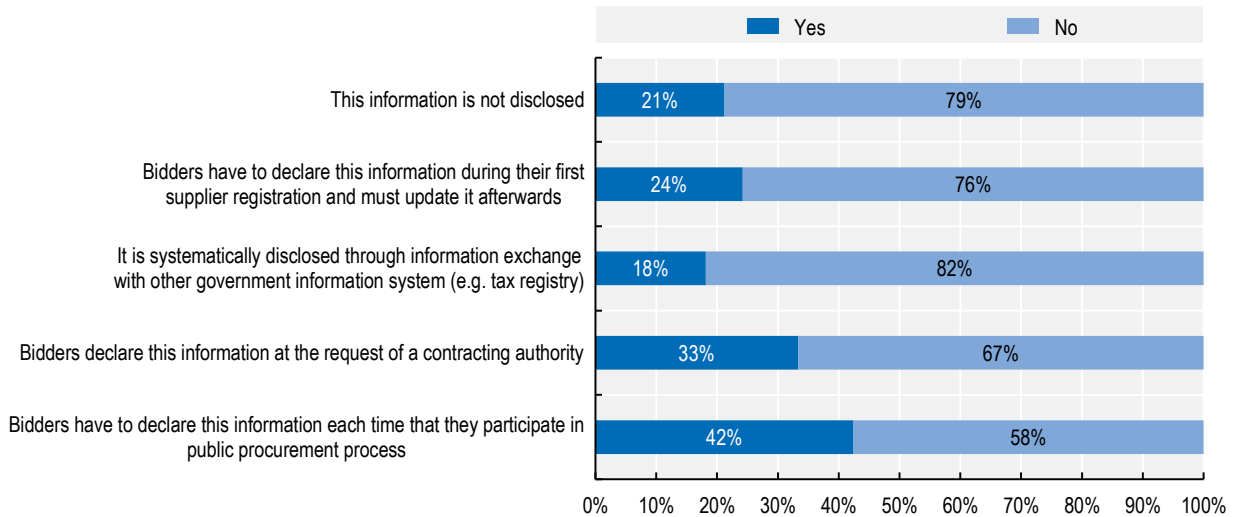


Note: Based on data from 34 countries (31 OECD countries plus Morocco, Peru and Costa Rica).

Source: (OECD, 2018^[6]).

Asset declarations for public officials are commonly used in OECD countries to monitor potential conflicts of interest. Variations continue to exist across countries in the scope and breadth of asset declaration requirements and reviewing mechanisms. Within countries, there are also important differences across government branches, with public officials operating in “at-risk areas” such as public procurement (along with tax and customs officials) having more stringent asset declaration requirements (OECD, 2015^[25]; OECD, 2017^[22]). In order to prevent conflicts of interest, some respondent countries also require suppliers to disclose their beneficial ownership to contracting authorities, either every time they participate in a public procurement process, or when they participate for the first time, or when there is automated exchange of information (Figure 3.9).

Figure 3.9. Disclosure of information on beneficial ownership of companies



Note: Data gathered among 33 respondents (30 OECD countries plus Morocco, Costa Rica and Peru).

Source: (OECD, 2018^[6]).

Some countries have a list of suppliers that is centrally managed in co-ordination with other authorities. For example, in the Slovak Republic, since 1 February 2017 new legislation for the registry of partners of the public sector came into force. The registry covers all contracts financed from public sources. It is no longer managed by the Public Procurement Office, but rather by the Ministry of Justice. Under the new legislation, identification and verification of the beneficial owner is carried out by an authorised person, such as a lawyer, a notary, a bank, an auditor or a tax advisor, and no longer through self-declaration (OECD, 2018^[6]).

Integrity is fostered when the rules are clearly outlined, underpinned by awareness of values and public sector ethics to enable public officials to apply integrity in their day-to-day tasks. Providing clear laws, guidelines and processes will provide officials with the tools to manage integrity risks appropriately.

To conclude, as noted above, having clear lines of oversight will mean the ability to verify conformity to regulatory frameworks and to ensure that public resources are spent in an efficient and effective way. These can include defining the level of authority for approvals, levels of responsibility for certain activities, and delegating decision-making authority to the lowest competent level consistent with the risks associated and monetary sums involved. Incorporating a functioning control system as part of the oversight of the public procurement cycle will help to avoid many of the risks inherent in procurement procedures. Also having legal frameworks, internal control/audit mechanisms and independent external audits as part of the oversight can provide assurance across the various levels of activity undertaken.

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4

Built for purpose: Towards a more efficient and effective public procurement system

This chapter is centred on the Principle on efficiency, which calls upon Adherents to implement sound technical processes to satisfy customer needs efficiently. The analysis focuses on how Adherents are emphasising value for money through centralisation processes such as collaborative procurement tools like framework agreements. The uptake of other efficiency tools such as e-catalogues and e-auctions is also analysed. This chapter included an assessment of the overall digital transformation undertaken by Adherents, in order to improve procurement procedures through monitoring, forecasting and simplifying procurement procedures.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

The Recommendation calls upon Adherents to “*implement sound technical processes to satisfy customer needs efficiently*” (Principle on efficiency, paragraph VII). The definition of value for money itself has continued to evolve with an increasing emphasis on LCC considerations.

An emphasis on increasing value for money is often found with the centralisation of purchasing activities, enabling governments to reduce administrative red tape and costs while obtaining better terms and conditions through aggregation of purchases. Central Purchasing Bodies increasingly focus on collaborative procurement tools such as framework agreements, with the goal of boosting efficiency through the strategic aggregation of needs. Similarly, CPBs frequently resort to efficiency tools (e-catalogues, e-auctions) and make them available to a large number of contracting authorities.

In parallel, usage of e-procurement solutions is expanding in OECD countries, facilitating data collection by governments. The digital transformation of procurement goes much beyond having good e-procurement systems/platforms in place. At a strategic level some OECD countries have a “digital by design” perspective, where digital technologies are embedded from the start into the design, development, delivery and monitoring of procurement frameworks and processes.

The digital transformation of procurement can also be understood as the government’s ability to treat data as a core asset that can be used to improve procurement procedures through monitoring, forecasting and simplifying procurement procedures. Better availability of procurement data and information underpins a growing emphasis on measuring and managing the performance of public procurement. Finally, proper integration of the public procurement function into overall public finance management can help with achieving value for money (for instance, by providing contracting authorities with budget flexibility through multi-year budgeting) and providing data to assess the performance of purchasing activities. Moreover, e-procurement systems are increasingly connected to public financial management IT Systems (OECD, 2016^[1]; 2018^[2]).

4.1. Achieving greater efficiency through public procurement

4.1.1. Market efficiency and procurement processes

Market engagement to develop realistic and effective tender specifications

As per the Recommendation, “*Adherents should engage in transparent and regular dialogues with suppliers and business associations to present public procurement objectives and to assure a correct understanding of markets*” (Principle on participation, paragraph VI). A good understanding of markets is essential if contracting authorities are to develop more realistic and effective tender specifications and provide vendors with a better understanding of the country’s needs. Engaging suppliers at different stages of the procurement process also helps reduce the information asymmetry between the market and the procuring entity. Indeed, suppliers often have more information than the procuring entity regarding their own costs, prices, market trends, products or services, and their substitutes. Early exchanges with suppliers may also maximise participation in the tender procedure, allowing potential bidders the time to prepare their offers.

Early engagement mechanisms – such as publishing Requests for Information (RFI) and Prior Information Notices (PINs); one-to-one consultations with suppliers; or holding industry/supplier days – can help contracting authorities improve the quality of technical specifications (OECD, 2016^[3]). According to the 2018 Survey, 73.5% of respondents hold regular dialogues with suppliers and business associations in a variety of institutional settings. In some countries, for example Belgium, Norway and Hungary, business associations or chambers of commerce participate in institutional committees to discuss the procurement system as a whole. In Ireland, the Office for Government Procurement engages with suppliers through around six *Meet the Buyer* workshops per year.

Some CPBs conduct formal and informal consultations directly with a panel of suppliers. This is the case in Canada, France, Italy and Korea, for instance. Canada and France hold “industry days” (*conventions entreprises-acheteurs* in France) to allow buyers to exchange directly with suppliers. Canada issues RFIs prior to tenders while in Greece the CPB establishes dialogue with relevant suppliers selected from the Central E-Registry of Public Procurement depending on the goods and services to be procured. In Latvia, contracting authorities advertise pre-tender market consultation meetings on their website. In New Zealand, there are “Meet the Buyer” events earmarked for certain categories of suppliers, such as SMEs (Box 4.1). Many countries publish minutes or summaries of early engagement or roundtable meetings with suppliers.

Box 4.1. Procurement “speed dating” in New Zealand

“Meet the Buyer” is an event that brings small and medium-sized enterprises (SMEs) together with large purchasing organisations, allowing both parties an informal platform for engagement. The highlight of the event is a series of 15-minute prearranged meetings where small businesses (sellers) get to meet with the large purchasing organisations (buyers) and find out about their upcoming procurement activity and/or present their product/service offerings.

A typical Meet the Buyer setup will also have areas for a mini-expo and presentations where businesses can network with others, speak with exhibitors, and access topical information and tools.

- Meet the Buyer is advertised through various channels: potential suppliers will get to know the details of participating buyers and their interests, overviews or key projects or essential service needs.
- Sellers send in their expressions of interest to meet with particular buyers via a simple web form.
- With a limited number of meetings available, buyers shortlist businesses they want to meet based on their expressions of interest. The shortlisting is done after the period for expressions of interest closes so that the meetings arranged are beneficial to both parties.

The approach has also been used in New Zealand after a Request for Proposals was released to the market in a major All of Government Banking tender where all the suppliers were invited to sit down with government agencies and ask three questions in 15 minutes. A stopwatch was used to ensure exact timings and equal opportunity for each supplier. The event was conducted strictly to ensure a high level of probity was maintained. The suppliers found the face-to-face time with agencies invaluable and it improved the responses from suppliers.

Source: (OECD, 2018^[4]); (Clinton, 2017^[5]).

Redefining efficiency: MEAT criteria and value for money

The Recommendation states, “*Adherents should implement sound technical processes to satisfy customer needs efficiently*”, including through “*identifying appropriate award criteria*” (Principle on efficiency, paragraph VII). Award criteria must be objective, relevant to the subject matter of the contract, and precisely defined in the tender/solicitation documents.

Following the establishment of the 2014 EU Directive on public procurement, the 2018 Survey results show that a majority of respondents are employing MEAT (Most Economically Advantageous Tender) award criteria rather than price only. The MEAT criteria are based on costs and encompass other aspects using a ‘best price-quality ratio’ (e.g. quality of product, organisation, qualification and experience of the supplier, delivery time and conditions, etc.). Tender/solicitation documents available to bidders typically define

award criteria, including how they are combined and the relative weight allocated. Percentage or points systems for evaluation criteria can include environmental and social factors, i.e. secondary policy objectives (OECD, 2016^[3]).

The 2018 Survey suggests that CPBs respondents often use MEAT award criteria for certain types of purchases. Around a third of them apply MEAT criteria to all purchases. Approximately 63% of CPBs use MEAT award criteria for most purchases (75% of purchases and more). Accordingly, the share of purchases made using price-only criteria for evaluation varies across countries (OECD, 2018^[2]).

Adapting the procurement method depending on value

In the Recommendation it is stated that “*Adherents should streamline the public procurement system and its institutional frameworks ... Where possible, a more service-oriented public procurement system should then be built around efficient and effective procurement processes and workflows...*” (Principle on efficiency, paragraph VII).

EU respondents apply the EU public procurement rules from EU Directives 2014/23; 2014/24; and 2014/25. EU public procurement rules prescribing openly advertised tendering and contract award procedures are mandatory above certain financial thresholds, revised once every two years (Table 4.1). Below these financial thresholds, different national rules apply to public contracts from EU respondents.

Table 4.1. Thresholds triggering EU-wide procurement rules

Type of public contract	Type of contracting authorities	Value
Supply and services contracts and design contests	Central government bodies	EUR 144 000
Supply and services contracts and design contests	Local or regional government bodies, or authorities operating in the defence sector	EUR 221 000
Supply and services contracts and design contests	Utilities sector (e.g. operators of gas/electricity distribution networks and operators of public transportation services)	EUR 443 000
Works contracts	Any contracting authority	EUR 5 548 000

Note: Thresholds are valid until 1 January 2020 and exclusive of VAT. The European Commission establishes the corresponding values in national currencies other than euros [in a separate communication](#).

Source: Synthesis by Morrison & Foerster LLP, “New Procurement Threshold Values Apply across Europe from January 1, 2018”, Available at: www.lexology.com/library/detail.aspx?q=be3496bd-af6d-48d6-a0fd-fd3b7fe0779d.

Respondents display a wide variety of institutional arrangements and processes regarding low-value contracts. In order to achieve efficient public procurement processes, all respondents apply some kind of simplified procurement rules and regulations under a certain threshold, though with some elements of competitive tendering. For instance, Greece applies a simplified procedure (brief informal tendering) for contracts with a value between EUR 60 000 and EUR 20 000, while direct award to a single economic operator is possible for low-value contracts up to EUR 20 000. Turkey has a similar approach for contracts below its national threshold. In Israel, under a threshold value of around EUR 12 100 (ILS 50 000), public tender formalities are not mandatory. Instead, an administrative code prescribes a competitive process that is faster and simpler than a public tender.

There are strong variations in value thresholds under which contracting authorities can conduct simplified procurement processes. The threshold varies from EUR 12 100 (ILS 50 000) in Israel to EUR 143 650 (ISK 1 072 094) in Iceland.

Korea has a simplified price-based evaluation method through its e-procurement system KONEPS for “smaller-value contracts” for goods and services between EUR 15 665 (KRW 20 million) and EUR 38 935

(KRW 50 million). In the same fashion, Italy operates the MePA (the Public Administration e-Marketplace) for goods, services and maintenance works under the EU thresholds. The e-marketplace provides operational flexibility, allowing for direct awarding from standardised e-catalogues and for requests for quotation.

Most countries allow direct awards of procurement contracts (without advertisement) up to a certain threshold, which is typically much lower than the EU threshold. For instance, in the Netherlands direct award is authorised for contracts below EUR 33 000 and in France for contracts below EUR 25 000, provided that certain conditions are respected. In Korea contracts below EUR 15 665 (KRW 20 million) can be awarded directly without competition. In Canada, the unified set of rules for federal public procurement allows a common exception to competition for contracts with a value of less than EUR 16 623 (CAD 25 000).

To a degree, some countries such as Canada and Estonia allow contracting authorities to set their own practices for procurement where the value is below a certain threshold. For instance, in Canada most federal departments can enter into non-competitive goods and service contracts with a value up to EUR 16 623 (CAD 25 000). Federal departments have latitude to create practices and processes within that framework, even though they are often required to use centralised procurement tools such as standing offers and supply arrangements. In Estonia, contracting authorities can set up simplified regulations for purchases of goods and services between EUR 30 000 and EUR 60 000, and works from EUR 60 000 to EUR 120 000.

Simplified procurement processes for low-value contracts are very often associated with collaborative procurement tools aimed at boosting efficiency and streamline processes for low-value purchases.

4.1.2. Using collaboration for improved outcomes

The Recommendation states: “*Adherents should develop and use tools to improve procurement procedures, reduce duplication and achieve greater value for money, including centralised purchasing, framework agreements, e-catalogues, dynamic purchasing, e-auctions, joint procurements and contracts with options*” (Principle on efficiency, paragraph VII). Centralisation of purchasing activities has been a major driver of the efficient performance of public procurement systems.

Centralisation of procurement activities and aggregation of needs are observed across an overwhelming majority of OECD countries. CPBs are increasingly established to reap the benefits of aggregated demands and outputs of procurement activities. The benefits of centralised purchasing activities – such as better prices through economies of scale, lower transition costs, and improved capacity and expertise – are widely acknowledged.

Recently there have been developments in the roles of CPBs in OECD countries that reaffirm their strategic role as an efficiency enabler. Central or co-ordinated purchasing is carried out in several ways, from facilitating purchasing through framework agreements to a more direct service involving the aggregated purchasing and warehousing of products. Box 4.2 provides a good example of the potential benefits of procurement centralisation through aggregated purchasing in the case of energy purchases for central ministries and agencies in Portugal.

Box 4.2. Procurement centralisation for energy purchases in Portugal

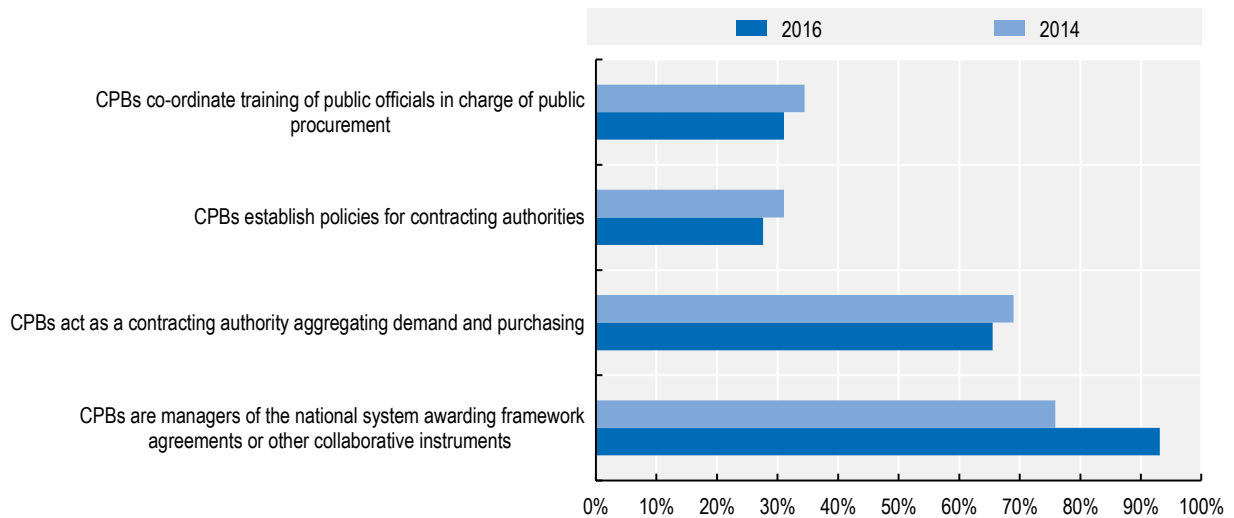
In 2007 Portugal began deploying an e-procurement system that supported the introduction of framework agreements as part of its *Sistema Nacional de Compras Públicas* (SNCP, national public procurement system). In 2017, Portugal went further and centralised the purchasing of energy (electricity, natural gas and fuel) in the hands of its central purchasing body, eSPap. The aim was to obtain more purchasing leverage and optimise purchasing strategies across central government agencies and ministries.

This additional responsibility allowed eSPap to aggregate the demand for more than 800 contracting authorities. eSPap defined a three-year business plan to gradually strengthen its public procurement team and achieve full collaborative centralisation of energy purchases in 2020. According to data for 2017 and 2018, eSPap achieved savings of 14.3%, mainly through lower energy prices (“transactional savings”).

Source: Entidade de Serviços Partilhados da Administração Pública (eSPap), Portugal.

Since 2014, CPBs in an increasing number of OECD countries have established framework agreements. OECD Survey results suggest that framework agreements are increasingly widespread among respondents: at least five have introduced them into their public procurement system from 2014 to 2016. The share of CPBs managing framework agreements thus reached 93% during that year. (Figure 4.1). CPBs in OECD countries increasingly focus on strategic aggregation of demand through development and use of procurement tools, including framework agreements and dynamic purchasing systems, to achieve greater value for money.

Figure 4.1. The roles of central purchasing bodies



Note: Based on data from 29 respondents (27 OECD countries plus Peru and Costa Rica) that answered *both* the 2016 and the 2014 surveys on public procurement.

Sources: (OECD, 2016^[1]; 2014^[6]).

CPBs also have other common roles, such as co-ordinating training for public officials in charge of public procurement (9 countries out of 29, i.e. 31%) and establishing policies for contracting authorities (8 countries out of 29, i.e. 28%) (OECD, 2017^[7]).

In 28% of respondents, CPBs act as the policy-making body, and so are responsible for implementing the policies that govern the system. However, data collected by the OECD in 2016 show that only 56.5% of respondents regularly measure implementation of the CPB objectives and 22% do not measure it at all (OECD, 2017^[7]). It is indicated in the responses that measurement focuses on the delivery of savings and occasionally involves user satisfaction surveys to measure the success of framework agreements and other services. In Finland for example, the employees of the CPB, Hansel, have their performance bonuses attached to scores from customer satisfaction surveys (OECD, 2019^[8]).

Data from the 2016 Public Procurement Survey show that an overwhelming majority of respondents have at least one CPB to conduct central purchasing. Almost all CPBs manage collaborative procurement instruments such as framework agreements and Dynamic Purchasing Systems (DPS) to drive efficiency and cost effectiveness throughout the public procurement system (see definitions in Box 4.3). Notable exceptions are Japan, the Netherlands (where there are no CPBs) and Turkey, where the CPB purchases on behalf of contracting authorities but does not manage framework agreements or collaborative procurement instruments.

Framework agreements are a key element of the more general shift towards strategic procurement experienced by many respondents. However, framework agreements or DPS are not suited to the procurement of all goods and services. Relatively homogeneous goods or services that are the object of recurrent purchases across contracting authorities are ideal candidates for these collaborative procurement instruments.

Box 4.3. Defining framework agreements and DPS

Framework agreements generally involve the advertisement of an opportunity by a contracting authority, most frequently the CPB. This authority then enters into a contract or other arrangements with one or more economic operators for the provision of works, supplies or services to different contracting authorities over a fixed period. The purpose of the framework agreement is to establish standardised terms and requirements under which contracts are awarded by contracting authorities. The rationale behind the framework method of purchasing is to achieve saving through reduction of transaction costs and by obtaining better terms and conditions from suppliers. Framework agreements sometimes include mini-competitions among suppliers inside the framework agreement.

A **Dynamic Purchasing System (DPS)** is an electronic system that can be used for repeat standardised purchases and operates like a live, online Internet-based framework agreement, which economic operators can join at any time. The EU public procurement directive 2014/24 refers to dynamic purchasing, while other Adherent countries (United States for federal procurement, Korea) operate broadly similar schemes called multiple award schedules.

The contracting authority advertises the system using an open procedure. Interested economic operators then submit indicative tenders that set out the terms on which they will supply the requirements. All qualified economic operators who submit compliant indicative tenders are admitted to the system. New economic operators can apply to participate and submit indicative tenders throughout the life of the dynamic purchasing system. Contracting authorities wishing to purchase from the system must invite tenders from all economic operators registered in the system. The purchasing contracting authority then places an order with the successful economic operator.

Source: (OECD, 2011^[9]); (OECD, Forthcoming^[10]).

The CPB typically implements centralised framework agreements on behalf of contracting authorities. The tripartite relationship (CPB – contracting authorities – suppliers) and the benefits provided by framework agreements, depend on the nature of the links between these different entities.

Multiple award schedules (MAS) contracts in Korea offer examples of good practices regarding framework agreements focusing on homogeneous goods or services (Box 4.4). The CPB in Korea manages a uniform process that gives contracting authorities appropriate flexibility and illustrates the potential of using e-catalogues to implement framework agreements to enhance efficiency and competition throughout the public procurement system.

Box 4.4. Multiple award schedules contracts in Korea

Korea began implementing MAS contracts in January 2005 for end-user public buyers. The Public Procurement Service (PPS) manages these contracts and issues unit-price contracts annually with qualified suppliers. These products and prices are then listed in the Online Shopping Mall, and each end-user can make purchases directly without the need for the direct involvement of PPS contracting staff or the issuance of a new contract. As of December 2014, 326 409 items were contracted with MAS, which accounts for 88.5% of total goods registered in the Korean Online E-Procurement System (KONEPS), totalling USD 53.9 million.

Goods or services targeted for MAS must meet four general criteria. They must have a commercialised specification; allow for contracting via unit price; be supported by a competitive market; and have sufficient demand among end-users. For goods or services that satisfy these criteria, the PPS prepares an announcement for purchasing, and the tender notice is posted to KONEPS.

Compared with traditional procurement, MAS contracts increased the number of suppliers and competition. In order to participate, most suppliers have to satisfy only minimum requirements for satisfactory past performance in at least three instances and have a credit rating above a certain threshold (contract fulfilment capability test). Once MAS contracts are established, the products are available within the KONEPS Online Shopping Mall. It is then the responsibility of each end-user to compare, search and purchase within their needs.

For simple transactions, this process is a straightforward ordering through automated processes within KONEPS. However, in certain cases there is a requirement to conduct a second-stage competition for price and quality within the MAS contracting framework. For orders subject to second-stage competition, the buying entity is required to determine evaluation criteria and request proposals from five or more suppliers.

MAS contracts contain provisions to ensure that the most favourable price is offered to buyers. Suppliers are only allowed to increase their prices in the case of inflation of more than 3%. They are allowed to lower the price of their products at any time.

Source: (OECD, 2016^[11]).

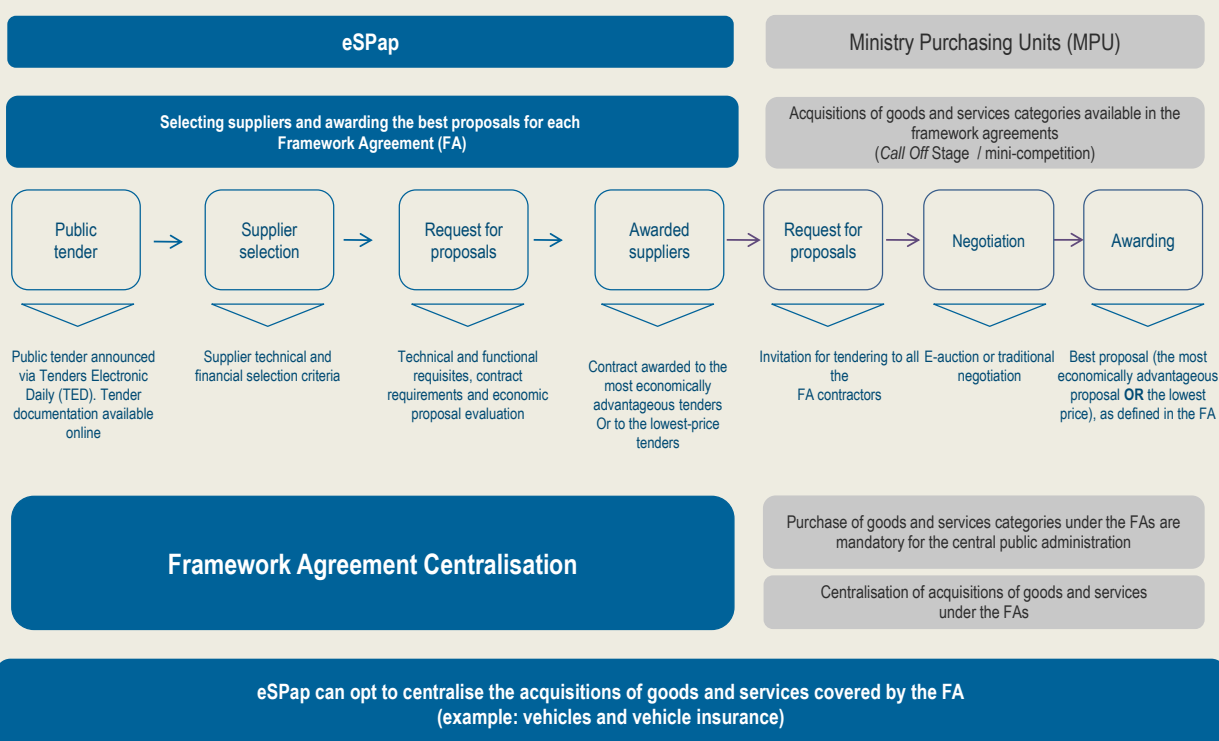
The example of Portugal, where the use of framework agreements is mandatory for contracting authorities at the central level, illustrates the way many CPBs in the EU turn to this instrument to rationalise public procurement, impose some minimal standardisation and enhance overall efficiency (Box 4.5).

Box 4.5. Framework agreements in Portugal

Introduced in 2007, framework agreements through e-procurement were paramount to connect all users of the Portuguese national public procurement system. Framework agreements in Portugal cover a list of goods and services commonly purchased by contracting authorities, and call-offs are mandatory for suppliers.

Contracting authorities in the central administration must use the existing framework agreements to buy items using aggregation processes conducted at central purchasing units at ministerial level (**UMC**). Contracting authorities have to use the e-platform contracted by the Entidade de Serviços Partilhados da Administração Pública (eSPap, the country's CPB and shared service centre under the Ministry of Finance) to run call-offs free of charge, therefore allowing the eSPap to better control and monitor the performance of the system. eSPap or the Minister of Finance must approve any exception to the use of framework agreements through a specific web process, upon request from the contracting authority.

Figure 4.2. Framework dynamic agreements in Portugal

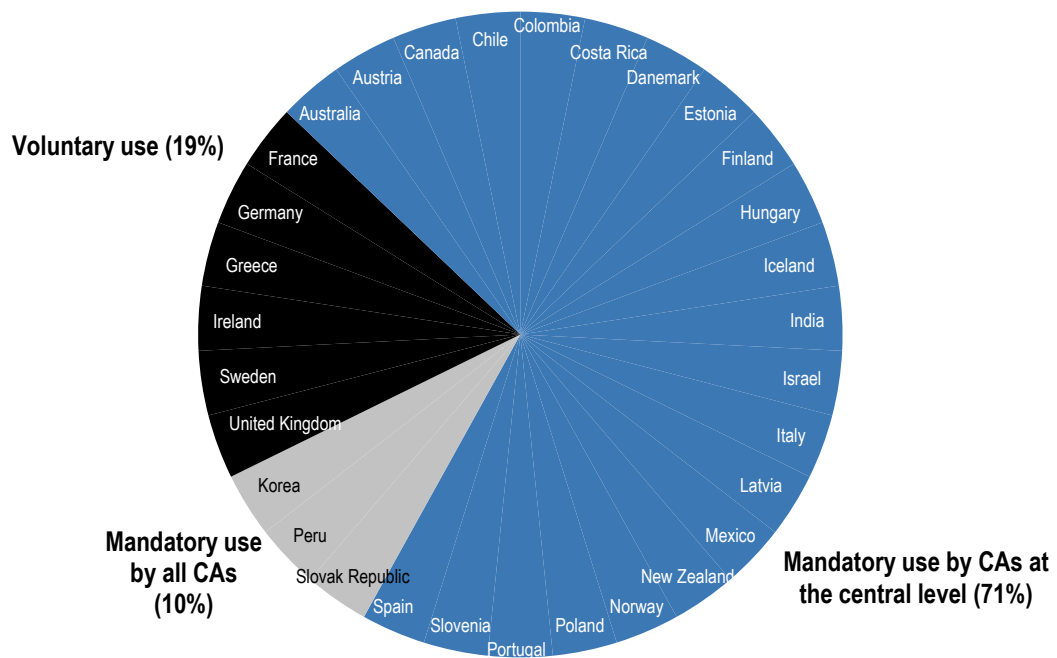


Whenever possible, the design of the framework agreements takes into account environmental criteria, either for use in public tender awards, or during the call-off stage. Some framework agreements are included in the National Green Procurement Strategy, which eSPap prepared jointly with the Portuguese Agency for the Environment.

Source: (Magina, 2013_[12]).

The majority of respondents make it mandatory for contracting authorities at the central level to use framework agreements. Only Korea, the Slovak Republic and Peru make it mandatory for all contracting authorities on all levels of government to use framework agreements. Therefore, the vast majority of respondents that use framework agreements distinguish between contracting authorities at central and sub-central level: sub-national governments and other public entities are free to join on a voluntary basis (Figure 4.3). In Colombia the procurement agency Colombia Compra Eficiente, which is part of the planning sector of the government, manages three procurement platforms that are used by national, regional and local governments. These systems are SECOP I, SECOP II and the Tienda Virtual del Estado Colombiano (TVEC, or online marketplace of the Colombian State). TVEC is a platform that holds 35 framework agreements. These framework agreements cover the most common goods and services bought by the public sector, including but not limited to cloud services, call centres, fuel, cars and school meals. Frameworks tend to run for 2-3 years with up to 10-15 suppliers.

Figure 4.3. Mandatory vs. voluntary use of framework agreements established by CPBs



Source: (OECD, 2016^[11]).

In 2015, an OECD survey provided useful insights on how CPBs use these kinds of agreements:

- The countries surveyed in 2015 devote significant time and effort to demand analysis before implementing or renewing a framework agreement. Indeed, the benefits of developing a framework agreement depend on the nature of demand and supply, on the existence of product alternatives, and on the level of competitiveness of a specific supply market.
- Demand analysis is carried out through systematic consultations with contracting authorities, and frequently with suppliers through interviews and meetings. CPBs also analyse data on historical spending by contracting authorities and by product category – collected through e-procurement systems – and often develop forecasts of estimated demand by product for the coming years. More than half of respondents to the 2015 Survey undertake cost-benefit analysis or feasibility studies to identify whether or not a framework agreement is the most efficient procurement route.

- When setting up framework agreements, it is crucial to provide stakeholders (i.e. contracting authorities and suppliers) with guidance and a clear understanding of the instruments' main characteristics. All CPBs responding to the 2015 Survey organise informative events for contracting authorities and suppliers to provide targeted information. Indeed, the commitment of contracting authorities is key to increasing coverage and to the success of framework agreements. The Chilean CPB ChileCompra has a dedicated unit for users. It provides help-desk and training services to both contracting authorities and suppliers (OECD, 2017^[13]).
- As regards implementation of framework agreements, 50% of respondents to the 2015 Survey have framework agreement systems that do not impose obligations on suppliers to respond to call-offs. Seventy-five per cent of the 2015 Survey respondents indicated that discounts obtained during mini-competitions are based on the initial prices proposed by suppliers through their first submission. CPBs managing framework agreements accept other modifications to initial submissions, whether it is a price increase or a change in the offering. However, most respondents provide a structured framework regulating these modifications, sometimes where suppliers are allocated a maximum number of changes or requests for changes during the framework agreement (OECD, 2017^[13]).

Leveraging e-procurement tools for efficiency

Procurement has evolved thanks to progress made possible by technological advances. What was once a paper-based function has been shifting to e-procurement systems for more than 20 years. At the beginning of this transition, the focus in the majority of respondents was on developing e-procurement systems that cover the middle of the procurement cycle, namely from the call for tender until the award of a contract, allowing contracting authorities to manage the rest of the process. However, investment in e-procurement systems has gradually evolved from this original purpose towards developing systems that help increase efficiency and streamline procedures (OECD, 2018^[14]).

This gradual drive towards a more transactional e-procurement system means that increasingly, electronic modules are made available to procurement officers to improve workflows, automate processes and eliminate inefficient silos. For instance, a growing share of e-procurement systems encompass business intelligence modules and supplier registries: 62% of respondents now have supplier registries available in some or all of their e-procurement systems, be it central government e-procurement platforms or those of specific contracting authorities. The 2018 Survey data also suggest that e-auction modules are increasingly popular; such tools are available in some or all e-procurement systems of 65% of respondents (OECD, 2018^[14]).

E-catalogues are another widespread efficiency tool when it comes to low-value purchases that usually qualify for simplified procurement processes or direct award (Box 4.6). They allow procurement officers to order on line, usually with pre-established prices and conditions determined through a framework agreement. Over half of respondents report that their e-procurement systems provide for e-catalogues, through either a specific module or an in-built functionality.

Box 4.6. E-auctions and e-catalogues

E-catalogues list available products and/or services that can be viewed and purchased in an electronic format; they can include information such as illustrations, prices and product/service description. E-catalogues can reduce transaction and administration costs, simplify ordering processes and reduce unauthorised purchasing outside permitted systems. E-catalogues need to be interoperable with other platforms.

Reverse auction/e-auctions are online functions that allow economic operators to submit new, downward-revised prices (and/or sometimes revisions to elements of their tenders, e.g. delivery dates) in real time – and in direct, anonymous competition with other economic operators. Unlike a traditional auction, suppliers compete to sell a good or service by bidding to lower the price they originally proposed in their bid submissions. Reverse auctions are therefore different from public tenders that entail only one price submission. E-auctions can be used only when specifications can be established with sufficient precision and should be excluded for certain service and work contracts.

Sources: (OECD, 2016^[3]; 2013^[15]).

Around a third of respondents make e-catalogues available to procurement officers through their central government e-procurement system. The MePA in Italy provides an example of an advanced e-catalogue managed by the Italian CPB, Consip (Box 4.7). It processed 600 000 transactions in 2017.

Box 4.7. The e-marketplace for small-value procurement in Italy: The MePA

The MePA (Public Administration e-Marketplace), launched in 2004, is currently operating with an e-catalogue of over 10 million items. It is one of the leading e-marketplaces currently operating in Europe. Managed by Consip, the MePA provides a paperless environment that awards low-value public contracts for goods, services and maintenance works. It is a digital marketplace in which contracting authorities can purchase goods and services offered by qualified enterprises for a value below the EU threshold.

The MePA in fact encourages economic operators to engage with contracting authorities throughout Italy. The e-marketplace provides operational flexibility, allowing for direct awarding from standardised e-catalogues and for requests for quotation.

Contracting authorities can choose among a wide range of goods and services offered by an increasing number of economic operators. The MePA is open to any kind of enterprise that meets the qualification criteria.

How does it work?

Contracting authorities can access the MePA e-catalogue, a user-friendly shop window showcasing the goods and services available; easily compare the prices, features and delivery conditions offered by different economic operators; and then proceed with the purchase according to the chosen procedure – direct order or request for quotations.

The process is in three steps:

- Step 1 – Consip publishes the MePA tenders.
- Step 2 – Economic operators qualify and publish their e-catalogues and offers that are compliant with the tender indications.
- Step 3 – Contracting authorities issue direct orders or negotiate the prices and supply conditions during the request for quotations.

Major benefits MePA offers contracting authorities

- time saving
- transparency and traceability of the entire procurement process
- greater range of products to buy with the possibility of comparing prices and characteristics offered by economic operators from all over the country
- opportunity to satisfy customised needs by means of requests for quotations that identify specific requirements.

Major benefits MePA offers economic operators

- decreasing commercial costs and optimised sales times
- wider access to the public procurement market and opportunity to propose offers throughout the entire national territory
- potential enhancement of the company, despite the small size of the enterprise
- competitiveness and direct comparison with the reference market
- incentive for the renewal of sales processes.

The MePA: A growing instrument in an expanding market

At the end of 2017, for the first time, the transactions carried out on the MePA – about 600 000 – reached a value of EUR 3.1 billion. That figure can increase significantly given the potential market for public spending and the exponential growth of the MePA. Only five years ago, at the end of 2012, the value of annual purchases was only EUR 360 million a year.

The average growth recorded during the past few years was over 50% per year.

Today the MePA is progressively becoming larger, indeed “universal”. In August 2017 Consip began reorganisation of the offer on the MePA, simplifying its structure and at the same time extending the product categories available to users. This reorganisation makes it much easier to foresee new categories of purchase and to enlarge the number of products and services available, encompassing the entire potential universe of purchases below the threshold.

A great deal can be purchased through the MePA

If the amounts for individual purchases on the MePA are less relevant than the big tenders, that should not lead to the conclusion that this is a market of little importance. In fact, throughout the public administration, low-value supply purchases represent, in terms of number, the majority of the total amount of purchases – over 99% of the approximately 4.5 million contracts performed annually – and in terms of value they represent around 20% of the total value of tenders published every year (amounting to over EUR 100 billion).

Moreover, in the maintenance work market, which is worth about EUR 5 billion each year, half of the expenditure is for procedures under the value of EUR 1 million (thus potentially via MePA).

Source: (OECD, 2018^[16]).

4.2. Understanding the value of procurement

4.2.1. Realising the value of public procurement data

The Recommendation calls upon Adherents to “Assess *periodically and consistently the results of the procurement process*”. In order to do so, “*Public procurement systems should collect consistent, up-to-date and reliable information...*” (Principle on evaluation, paragraph X). The methods used to collect procurement data reported by respondents vary significantly, depending on the degree to which the procurement system is centralised. In all countries though, data collection and procurement databases are intrinsically linked to e-procurement systems – and the rapid development of those systems means that both the availability and the quality of procurement data are gradually improving.

The EC promotes data availability, in particular that of structured data, which is critical for the application of emerging technologies such as Artificial Intelligence and Machine learning, Chatbots and big data tools – all of which require large data sets.

Open and inclusive governing builds trust between citizens and governments, and promotes a transparent and accountable government. Open government also supports a level playing field for businesses, and this contributes to economic development. Transparency is widely regarded as an effective tool for fighting corruption. Implementation of internal controls and regulatory oversight, supported by transparency and civil society’s active participation in the public decision-making process (OECD, 2016^[17]), enables effective accountability. To be effective, transparency and accountability systems must be linked, and disclosing information should take account of the quality of what is disclosed as well as the quantity (OECD, 2018^[14]). The Italian National Database on Public Contracts (NDPC) provides a good example of how the collection of high-quality structured data can improve the supervision and regulation functions in the field of public procurement, and is indispensable to pilot the evolution of a national public procurement system (Box 4.8).

Box 4.8. Transparency and traceability in public procurement in Italy

In Italy the Authority for the Supervision of Public Contracts has implemented a National Database on Public Contracts (NDPC). It aims at collecting and processing data on public procurement in order to provide indications to the supervising departments and to inform regulators on measures that need to be taken to promote transparency, simplification and competition. It collects data on IT and conducts market analyses. In particular, it collects and assesses data on:

- The structural characteristics of the public procurement market and its evolution. Statistics on the number and value of procurement awards are grouped by localisation, procurement entities and awarding procedures; the different typologies of procurement are periodically published.
- The criteria of efficiency and value for money during the procurement process. Modifications to contractual conditions are recorded in the authority’s database, which in turn detects dysfunctions and anomalies of the market.
- Dysfunctions and anomalies of the market through fixed measures. These dysfunctions and anomalies are detected through:
 - the assessment indexes of excessive tendering rebates, with respect to the average rebates
 - the number of bids to be presented in each awarding process
 - the localisation of awarded companies with respect to the localisation of the contracting authority.

The Construction Company Database (Casellario Informatico) and the data on declarations filed by the economic operators on the reliance on the capacities of the other entities are parts of the NDPC.

Through the quality of the data made available by the NDPC the authority improved its activities, notably supervision and regulation activity, in order to provide guidelines on measures that need to be taken into account to promote transparency, simplification and competition in the entire procurement process – particularly, in the pre-bidding and post-bidding phases.

Source: (OECD, 2016^[18]).

According to an OECD estimate based on the 2018 Survey responses, more than two-thirds of respondents have developed centralised collection of procurement data, at least from central government bodies and agencies. Most countries have comprehensive procurement databases through their central e-procurement system (OECD, 2018^[14]).

In several countries reforms are ongoing to improve monitoring and data collection. For instance, Germany is setting up a legal basis for more reliable federal electronic public procurement statistics, while Sweden is working to improve access to its procurement data as well as data quality. Better procurement data is a first step towards improving performance management of public procurement systems. In Finland, the CPB hired a team of data analysts and provided them with business intelligence tools that can be used to analyse large quantities of data (OECD, 2019^[8]).

In reviews on fighting bid rigging in public procurement, the following principles are recommended for procurement databases: 1) they should include tender (bidding) as well as contract data; 2) they should be of good quality; 3) they should be in a usable, flexible and searchable format; 4) they should be accessible by those who would benefit from using them, both within and outside the procuring entity (OECD, 2018^[19]).

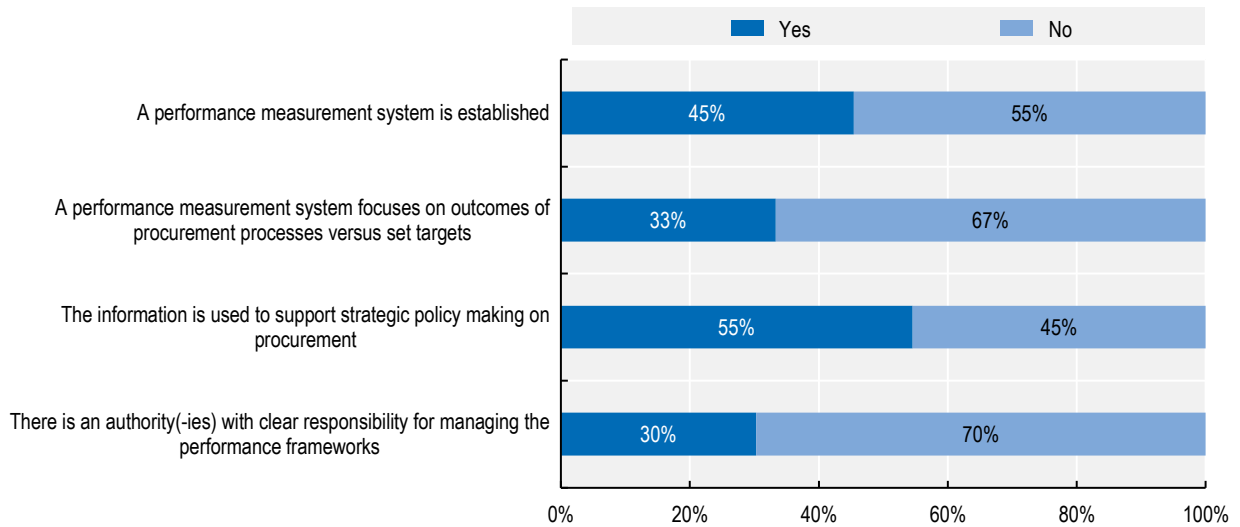
4.2.2. Measuring efficiency to understand value

The development of e-procurement systems is a driving force to boost the efficiency of procurement processes. Some respondents assess the efficiency or savings related to e-procurement. For instance, Estonia measures the time spent by procurement officers on processes before and after changes to e-procurement procedures, and conducts cost-benefit analyses to inform decisions on further developments in the field of information technology (IT). In Italy the CPB commissioned an analysis from external advisors on the benefits from digitalisation of its procurement processes. Instead of measuring efficiencies from e-procurement as a whole, Poland, Latvia and Morocco focus on measuring savings obtained through their e-bidding and e-reverse auction platforms.

Measuring the performance of public procurement

The Recommendation calls upon Adherents to “*develop indicators to measure performance, effectiveness and savings of the public procurement system for benchmarking and to support strategic policy making on public procurement*” (Principle on evaluation, paragraph X). More than half of the Adherents surveyed report that they analyse procurement information and data to provide insights informing further reforms of public procurement systems.

Only a minority of respondents have a formal performance management system established, with Key Performance Indicators (KPIs) reflecting outcomes and specific targets for each contracting authority. Only 33% of respondents that answered the 2018 Survey have a performance measurement system focused on predetermined targets, and 30% of respondents have an authority with a mandate to manage the performance measurement framework. This suggests that many countries analyse the data and indicators available about the public procurement system in a non-structured, non-systematic fashion. In 45% of countries, information and available data are not analysed to inform strategic policy making on public procurement (Figure 4.4).

Figure 4.4. Performance management system lacking in most countries

Note: Data gathered from 33 respondents (30 OECD countries plus Morocco, Costa Rica and Peru).
Source: (OECD, 2018^[2]).

CPBs are often leaders in developing and monitoring indicators to track procurement performance. Based on data collected from Adherents in 2016, only 56.5% of OECD countries regularly measure the implementation of CPB objectives. Responses indicate that measurement focuses on the delivery of savings and occasionally involves user satisfaction surveys to measure the success of framework agreements and centralised purchasing (OECD, 2016^[1]). Such data can be used to plot the performance of CPBs. For instance, to incentivise good service delivery, employees of Hansel, the CPB in Finland, have their performance bonuses attached to scores from customer satisfaction surveys (OECD, 2019^[8])

Sometimes CPBs measure their performance against set targets as part of a general results-oriented budgeting framework. This is the case in Canada, where Public Services and Procurement Canada (PSPC) has 18 performance indicators measuring procurement outcomes as part of its Departmental Results framework. Similarly, the National Agency for Public Procurement (NAPP) in Sweden has recurring result indicators from monitoring as part of its budget process, while the government will be in charge of evaluating implementation of the National Public Procurement Strategy.

Other common roles of CPBs include co-ordinating training and providing advice for public officials in charge of public procurement (in 35% of OECD countries) (OECD, 2016^[1]). For instance, Hansel in Finland provides advisory services and training to purchasing authorities from the central government. It developed specific performance indicators in this area, including:

- satisfaction from advisory services and training (survey responses from relevant contracting authorities)
- information on procurement processes that have received support from the CPB (spend level, type of procurement)
- resources used in providing advisory services/training (staffing levels, additional costs for providing such services).

Perhaps thanks to the increasing availability of data, several countries are introducing or expanding their set of performance indicators regarding public procurement, or establishing a performance measurement framework. Such is the case with the Slovak Republic. Mexico already monitors procurement indicators

for its federal procurement system, and is currently developing a set of indicators for evaluating the performance of federal contracting authorities.

Understanding private sector inputs that improve public services

The government of Canada is leading the development of a government-wide Vendor Performance Management (VPM) framework that will apply to federal procurements. The aim of the framework is to optimise value for money by providing strong incentives for suppliers to perform better and to hold vendors accountable for poor performance. The VPM would include performance metrics and monitoring mechanisms. Similarly, the federal procurement system of the United States (which accounts for the largest procurement spends in the world) is systematically monitoring and tracking supplier performance, through centralised databases on past performance and practices of suppliers; the information is shared across all federal departments and agencies (Box 4.9).

Approaches to the past performance of suppliers in public procurement differ among countries. Indeed some OECD countries such as the United States and Korea use suppliers' past performance as award criteria. In Korea, the e-procurement system collects past performance data from private sector business organisations through automated data exchange (OECD, 2016^[11]). On the other hand, in the European Union, contracting authorities can exclude candidates or tenderers from participation if, among other grounds, their performance in earlier public contracts has shown major deficiencies. Such exclusion is normally temporary, e.g. up to a maximal duration defined in national public procurement regulations (European Union, 2014^[20]).

Box 4.9. Supplier performance information in the United States

In working to build the right supplier relationships, the United States focuses on doing business with contractors who place a premium on integrity, performance and quality. To this end, government agencies have been directed to improve the quantity, quality, and utilisation of supplier performance information using two systems.

Supplier past performance information, including identification and description of the relevant contract, ratings across six dimensions (quality, schedule, cost, utilisation of small business, etc.) and a narrative for each rating, is contained within the Past Performance Information Retrieval System (PPIRS, www.ppirs.gov). Government agencies are required to report past performance information on this system, which will then be available to other contracting officers within PPIRS on all contracts and orders above USD 150 000.

That web-based, government-wide application provides timely and pertinent information on a contractor's past performance to the federal acquisition community for making source selection decisions. Federal regulations require that customers complete report cards detailing a contractor's past performance annually during the life of the contract, and the PPIRS provides a query capability for authorised users to retrieve those report cards. The PPIRS consists of several subsystems and databases (e.g. Contractor Performance System, Past Performance Data Base, and Construction Contractor Appraisal Support System).

The Federal Awardee Performance and Integrity Information System (FAPIIS) captures additional information regarding supplier performance and business integrity issues, including contracts terminated for default and information about criminal, civil, or administrative procedures related to a federal contract.

Source: (Office of Federal Procurement Policy, 2013^[21]).

Key performance indicators (KPIs)

It has been suggested that the global fiscal gap of USD 3.3 trillion could be addressed by 2021 if public spending was better managed and followed the practices of best performing countries. In the area of health care, it was suggested that by spending existing funds more efficiently, health life expectancy could be increased by 1.4 years (McKinsey & Company, 2017^[22]). Public procurement's impacts are widespread, yet measurement frameworks are unable to demonstrate the benefits or drawbacks of procurement policies. Where multiple government policies target the same or similar objectives, cross-government measurement frameworks can help to maintain a view of impact at the central level (OECD, 2019^[8]).

Adherents often develop KPIs to measure performance, effectiveness and savings. KPIs are also a powerful tool to benchmark contracting authorities and to monitor their performance over time. The Checklist for Supporting the Implementation of the Recommendation (OECD, 2016^[3]) suggests contracting authorities:

- benchmark, for instance by comparing their own operation with a similar contracting authority
- compare monitoring indicators against predefined performance targets that are relevant, attributable, well defined, timely, reliable, comparable and verifiable.

There is a considerable diversity across countries in the definition and use of KPIs in public procurement. CPBs often use specific KPIs to measure how efficiently they manage framework agreements and whether they deliver for their customers (purchasing organisations).

The 2018 Survey results indicate that the most widespread indicators among Adherents are economic measuring savings and inputs such as costs and time spent on procurement processes (Table 4.2). Savings is a commonly used indicator of performance among respondents. Savings can be tailored to measure benefits from framework agreements, from an e-procurement system, or from a procurement process simplification, for instance.

Table 4.2. Savings and inputs indicators

Savings and inputs indicators	
Price savings	Difference between prices obtained through procurement and a reference price (average price of bids, maximal allocated budget, prices established through market research/budget intelligence tools)
Cost and time of procurement processes	Time taken (and any associated overt costs, not including employee salaries) by government personnel, including non-procurement roles, to undertake procurement activity
E-procurement inputs	Direct costs for purchasing, upgrading or maintaining e-procurement system; personnel costs associated with system management and maintenance
E-procurement time savings	Assessment of time taken for contracting authorities and businesses to conduct tender procedures with and without use of different digital procurement functions
Cost and time reduction resulting from process simplification	Measurement of time taken by government and business personnel to complete tender procedures both before and after efforts to improve or simplify processes (e.g. use of model contracts)

Sources: (OECD, 2019^[8]); (OECD, 2016^[11]); (OECD, 2018^[2]).

Adherents also frequently measure economic indicators regarding supplier participation and competition in tenders, including transparency (share of open tenders, share of tenders advertised on line) and the coverage of competitive processes (Table 4.3).

Table 4.3. Supplier participation and transparency indicators

Transparency in government contracting	Proportion of government tender documents that are shared openly in a format allowing review and analysis
Business perceptions on cost and time of participating in government tenders	Survey responses, including quantitative results, on time taken (and resources engaged) in responding to government tenders
Share of open tenders/competitive procurement processes	Proportion of government tenders that use open procedures as opposed to restricted or closed tenders
Average (median) number of bids (responsive bids) per open tender	Measures the degree of competition in open tenders or in competitive procurement processes
Supplier concentration	Measures the extent to which a small group of suppliers account for a large share of the overall purchase value from a contracting authority
Coverage of e-procurement or e-tendering systems	Percentage of procurement processes (or of overall procurement value) conducted through e-procurement processes

Sources: (OECD, 2019^[8]); (OECD, 2016^[11]); (OECD, 2018^[2]).

A third category of economic indicators focuses on the post-award phase of the procurement cycle: contracting authorities typically measure payment delays or the time from invoicing to payment, and various dimensions of supplier performance (compliance with contractual delivery time, reliability, quality of maintenance or associated services). In the United States, the federal government developed a dedicated information system to track supplier performance information.

Finally, respondents develop and monitor specific indicators related to secondary policy objectives, i.e. Green Public Procurement (GPP), social issues, SME participation, and innovation (Table 4.4). Respondents develop these indicators based on policy priorities. For instance, many respondents record the outcomes of GPP practices and gather data on the achievement of GPP targets (OECD, 2015^[23]). In this regard, the use of award criteria based on life cycle costing is a hybrid, as life cycle costing can bring both economic (lower energy bill/maintenance costs) and environmental benefits (lower energy consumption).

Table 4.4. Sustainability and social indicators, including SME access to public procurement

Environmental impacts	Use of whole of life costing	Ratio, value and number of contracts awarded following a procedure containing life cycle costing award criteria
	Reduction in energy consumption	Comparison between energy consumption of historical goods and services bought by government and that of new goods and services selected using MEAT or other criteria
	Reduction of CO ₂ emissions	Comparison of CO ₂ emissions from historical goods and services bought by government and those of new goods and services selected using emissions as criteria
	Improvement in air/water quality	Comparison between impacts on air/water quality of historical goods and services bought by government and those of new goods and services selected using environmental considerations as criteria
Social impacts	Stakeholder perception and involvement	Survey responses from different segments of society (e.g. businesses, civil society, NGOs) related to public procurement
	Use of social criteria in government contracts	Ratio of public contracts pursuing social objectives (and where possible, aggregation of social outcomes secured through public contracts)
	Skills/jobs creation	Number of jobs/training courses/qualifications generated through public procurement (note: specifically generated through contract clauses)
Innovation and SMEs	SME success	Ratio of SMEs that are successful in government tenders, and number and value of contracts awarded to SMEs
	Innovative procurement	Ratio of goods and services purchased that meet innovation criteria (e.g. purchased through PCP, first introduction into domestic market, etc.)

Source: (OECD, 2019^[8]), (OECD, 2016^[11]), (OECD, 2018^[21]).

The use of environmental performance indicators such as energy consumption, CO₂ emissions and air/water quality in public procurement appear to be a developing area. In Finland, application of a framework for measuring “procurement productivity” has highlighted the positive impacts of public procurement, such as procuring innovation. Further refinement of the measurement indicators will bring tangible benefits to the economy in terms of value that can be quantified in countries such as Finland, where 5% of the tenders are innovative (OECD, 2019^[8]).

Assessing the efficiencies of collaborative instruments and centralisation

Framework agreements yield a number of benefits, such as generating savings through the strategic aggregation of needs, reducing red tape and streamlining processes. Therefore, most respondents assess the coverage of framework agreements in specific product categories. The higher the coverage, the greater will be the potential for generating savings from a consolidation of demand.

Respondents also measure savings from framework agreements, and more broadly from centralising procurement through a CPB. The method of calculating savings differs across countries. Evaluating the financial performance of framework agreements can be achieved from at least two different perspectives: exogenous or endogenous.

Exogenous performance is measured against either prices paid outside the framework agreement or historical prices. For instance, in Chile the CPB ChileCompra compares prices obtained within its framework agreements to the average price provided by three suppliers via decentralised procurement (Box 4.10). In France, savings from framework agreements are often calculated against historical prices (OECD, 2017^[13]). The federal government in Mexico generally estimates savings in framework agreements by comparing reference prices (established through market research) to the prices obtained through the framework contract.

Box 4.10. Savings from framework agreements in Chile

The case of Chile illustrates how framework agreements can generate savings from the consolidation of demand. Chile introduced them in 2003 and the CPB, ChileCompra, carried out the implementation, award and management of these agreements. The procurement law mandates the use of framework agreements, which has been further supported by investment in the national e-procurement system (ChileCompra Express) as the vehicle for their use. From 2014 onwards, there has been a consistent upward trend in usage for some product categories, such as data centres and associated services. As a result, Chile achieved substantial savings from both centralisation and the introduction of framework agreements.

Table 4.5. ChileCompra total and average savings amounts

	2015	2016	2017
Savings average	11.7%	19.5%	21.2%
Total amounts transacted (USD million)	2 197	2 661	2 999
Total amounts saved (USD million)	257	518	635

Note: "Savings average" is the sum of savings divided by the sum of transaction amounts.

Source: Based on information provided by ChileCompra.

ChileCompra calculates price savings based on the difference between the prices proposed by bidders awarded under framework agreements, and the average price proposed by at least three suppliers outside the procurement instrument. In addition, increasing framework agreement coverage (in terms of categories of goods and services) also generated process savings. Process savings are estimated from the difference between costs borne by contracting authorities related to the issuance of a purchase order from one of ChileCompra's framework agreements, and the costs generated by the issuance of a public tender or direct award procedure. According to ChileCompra, process savings amounted to USD 18.6 million in 2017, or 0.62% of the overall transaction amount.

Source: (OECD, 2019^[81]).

Endogenous performance involves evaluating the financial benefits achieved within framework agreements. Where a mini competition exists, many countries calculate savings using the difference between the initial budgeted price and those offered by suppliers after the mini competition. For example, Greece and Luxembourg use this methodology to estimate savings from centralised purchasing.

A third method to compute savings, particularly for construction works, is to measure the costs following tendering compared to costs estimated at the design phase (reference). The French Direction des achats de l'Etat (DAE) and the Korean Public Procurement Service (PPS) use this methodology to measure savings concerning construction works. The methodology can include a correcting mechanism where there is an erroneous estimate: if actual prices are more than 20% lower than the reference, the DAE computes savings based on the average price of all bids submitted.

Beyond savings, CPBs that manage framework agreements often measure and monitor customer satisfaction by contracting authorities. It is essential to receive feedback from users of framework agreements. Indeed, for a majority of respondents it is mandatory for contracting authorities at the central level to use framework agreements to survey users. For instance, in both Finland and Chile, CPBs survey individual users of framework agreements from contracting authorities (OECD, 2019^[81]).

Insufficient evaluation of procurement policies and systems

In order to assess and benchmark the performance of their public procurement system, respondents are encouraged to “undertake specific evaluation at the national level, [...] through national institutions such as supreme audit institutions (SAI) or international assessment tools like the MAPS (Methodology for assessing procurement systems)” (OECD, 2016^[3]). The MAPS is a universal tool that aims to catalyse and accelerate the implementation of modern, efficient, sustainable and more inclusive public procurement systems in all countries. In addition, the OECD made available a detailed checklist as a self-assessment tool to guide and support public procurement practitioners in reviewing and revising their public procurement framework, according to each of the 12 principles of the Recommendation (OECD, 2016^[3]).

According to data from the 2018 Public Procurement Survey, 45% of the countries surveyed carried out an evaluation (as opposed to monitoring) of public procurement reforms or specific public procurement policies in recent years. Some respondents, such as Germany and Morocco, reported not yet having carried out evaluations because of recent changes to the public procurement laws and regulations. Turkey carried out a specific evaluation to measure the impact of its complaints system on public procurement processes. The 2018 Survey suggests that more countries intend to conduct an evaluation of their public procurement system in the future.

Evaluation of procurement systems appears to be carried out in different ways and to differing degrees by respondents, particularly at the national level. One reason is that such evaluations rely on procurement metrics and indicators being in place to provide insights into trends over time. The lack of data on public procurement systems has been an obstacle for Adherents in this regard. However, the increasing availability of procurement data in recent years means that respondents are better equipped to conduct insightful evaluations of their procurement systems than previously. The OECD has been contributing consistent and evidence-based data on procurement systems in Public Procurement Reviews, developing MAPS, and conducting MAPS assessments. MAPS contains a checklist of quantitative indicators, which - along with its legal and policy dimensions - can help in evaluating and benchmarking procurement systems and identifying areas for improvement (Box 4.11).

Box 4.11. MAPS quantitative indicators to assess public procurement systems

Suppliers

- Number of registered suppliers as a share of the total number of suppliers in the country (as a percentage).
- Share of registered suppliers that are awarded public contracts (as a percentage of the total number of registered suppliers).
- Total number and value of contracts awarded to domestic/foreign firms (and as a percentage of total).

Audit and risk management

- Number of courses conducted to train internal and external auditors in public procurement audits.
- Share of auditors trained in public procurement (as a percentage of the total number of auditors).
- Share of internal and external audit recommendations implemented within the time frames established in the law (as a percentage).

Competition and submission of bids

- Value of contracts awarded through competitive methods (most recent fiscal year).
- Average time to procure goods, works and services: number of days between advertisement/solicitation and contract signature (for each procurement method).

Contract management and payment

- Time overruns (as a percentage; and average delay in days).
- Contract amendments (as a percentage of the total number of contracts; average increase of contract value as a percentage).
- Quality control measures and final acceptance are carried out as stipulated in the contract (as a percentage).
- Invoices paid on time (as a percentage).

Source: (MAPS, 2018^[24]).

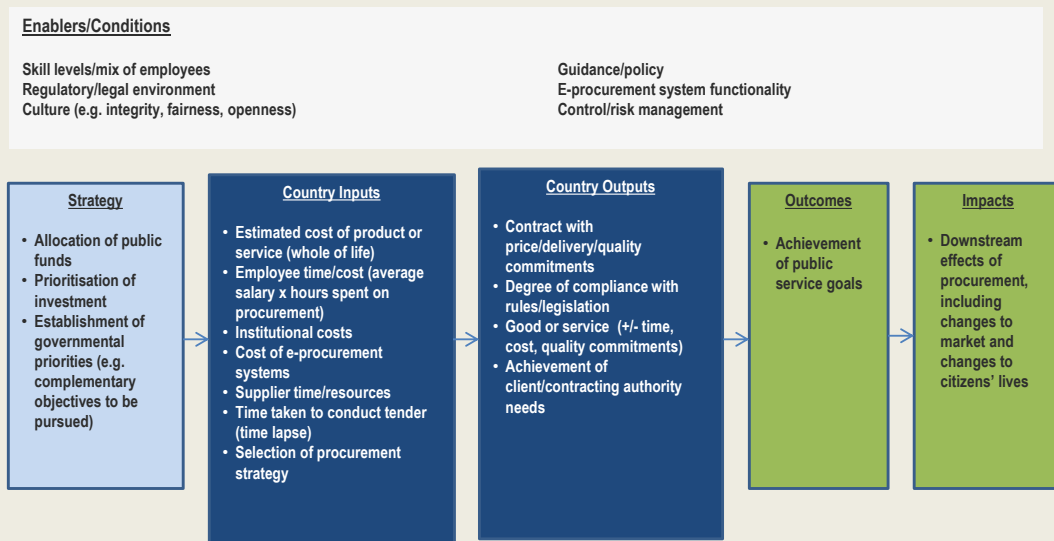
Measuring the productivity of an entire procurement system requires analysis of a number of factors beyond performance metrics and indicators: a number of qualitative factors must also be taken into account. These are labelled “enablers/conditions”, as they represent the many considerations that affect the performance of the procurement system. Surveyed CPBs often target these considerations in order to improve the performance procurement systems (Box 4.12).

Box 4.12. Assessing national procurement systems

Scholars have developed increasingly sophisticated models to measure the outputs of procurement exercises, such as efficiency/cost, total cost of ownership, on-time deliveries, accuracy, quality, innovation, sustainability, internal customer satisfaction, and professionalism.

However, measuring the performance of an entire procurement system is undoubtedly more complex than measuring the benefit from a single tender or from acquisitions from a single purchasing authority. A number of additional factors must be taken into account, on top of standard performance indicators.

Figure 4.5. Structured performance assessment of a national procurement system



Source: (OECD, 2019^[8]), (Phillips, 2018^[25]).

Evaluations of national procurement systems increasingly encompass secondary policy objectives, such as GPP, support for SMEs and innovation. In 2016, while most countries did have some measure of the impact of their Green procurement strategy, just under half of them conducted evaluations of measures aimed at supporting SME access to public procurement. Only a quarter of respondents had ever assessed whether their policies supported the acquisition of innovative goods and services (OECD, 2016^[11]).

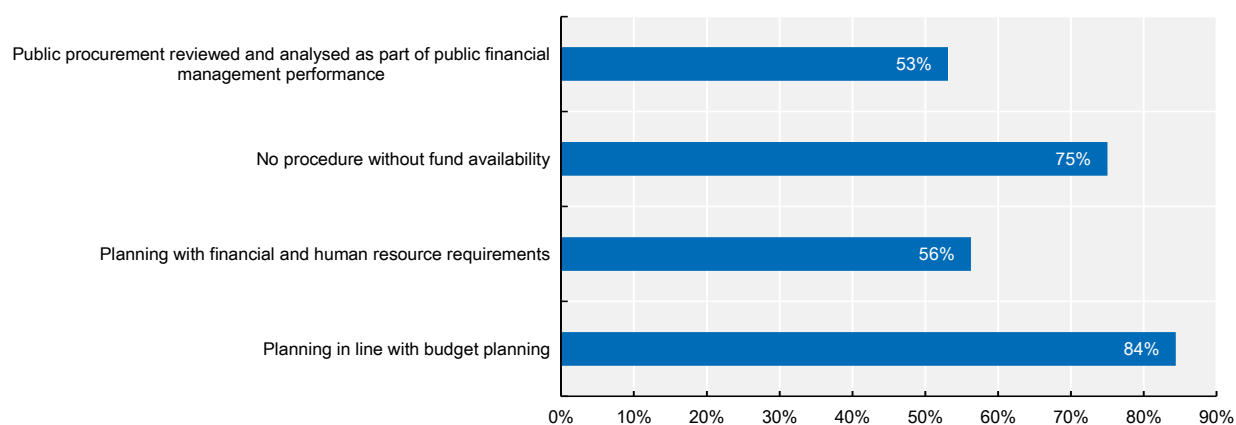
4.2.3. Managing procurement dividends

The Recommendation calls upon Adherents to “*rationalise public procurement spending by combining procurement processes with public finance management...Budget commitments should be issued in a manner that discourages fragmentation and is conducive to the use of efficient procurement techniques*” (Principle on integration, paragraph XIII). This also means that Adherent countries should use the information from public finance management systems to improve procurement management, reduce duplication, and deliver goods and services more efficiently. Integration with public finance management can help ensure proper monitoring of public procurement spending by internal auditors as well as by independent oversight auditors (OECD, 2016^[3]).

As supported by the Recommendation (Principle on integration), most respondents conduct public procurement planning in line with budget planning (Figure 4.6). The Recommendation encourages multi-year budgeting to optimise the design and planning of the public procurement cycle – as long as it is justified – to enhance efficiency. In Turkey for instance, a specific budget programme must be approved for any purchase for a period exceeding one year, with strict rules regulating the allocation of expenditures (e.g. the appropriation contemplated for the first year shall not be less than 10% of the project cost). In Lithuania, long-term cycle procurement must be planned in line with strategic multi-year planning documents.

Figure 4.6. Integration of public procurement with public finance management

Percentage of “Yes”



Note: Data gathered from 32 respondents (29 OECD countries plus Morocco, Peru and Costa Rica).

Source: (OECD, 2018^[2]).

More than half of the respondents (53%) reported also reviewing and analysing public procurement as part of public financial management performance (Figure 4.6). In many countries, public procurement is part of broader government financial audits and control procedures typically conducted by internal audit services or/and supreme audit institutions. In Slovenia for example, the Budget Supervision Office conducts budgetary inspection and performs pre-accreditation reviews for any expenditure funded by EU funds, whereas the Court of Audit of the Republic of Slovenia acts as the independent supreme audit institution. Both are competent regarding public procurement spending. In Canada, the Treasury Board of Canada Secretariat is responsible for the Management Accountability Framework (MAF), an annual assessment of management practices and performance in most federal departments.

In addition, in some countries the parliament reviews and analyses the public procurement function as part of results-oriented budgeting. This is the case in Canada, where Parliament examines performance of the CPBs through Departmental Results Reports that feature specific performance indicators (Box 4.13).

Box 4.13. Public procurement as part of public financial management performance: The example of Canada

Public procurement performance is reviewed and analysed in various ways. The two main ways are:

Departmental expenditure plans

Departmental expenditure plans consist of two documents: Departmental Plans (DP) and Departmental Results Reports (DRR). DPs are expenditure plans for each appropriated department and agency (excluding crown corporations). They describe departmental priorities, strategic outcomes, programmes, expected results and associated resource requirements. DRRs are individual department and agency accounts of actual performance against the plans, priorities and expected results set out in their respective past DPs. DPs and DRRs are tabled in Parliament and inform parliamentarians of the results achieved by government organisations. Performance indicators reported to Public Services and Procurement Canada (PSPC) in this regard include:

- overall level of federal departments' and agencies' (i.e. contracting authorities) satisfaction
- percentage of PSPC contracted value awarded through competitive processes
- cost of procurement services per CAD 100 of contracts awarded by PSPC annually.

Management Accountability Framework (MAF)

The MAF is a framework for management excellence, accompanied by an annual assessment of management practices and performance in most departments and agencies of the government of Canada. The MAF is a key tool of oversight that is used by the Treasury Board of Canada Secretariat (TBS) to help ensure that federal departments and agencies are well managed and accountable, and that resources are allocated to achieve results. The MAF establishes expectations for sound public sector management practices and performance. One area of assessment is the “Management of Acquired Services and Assets”, which includes procurement.

Source: (OECD, 2018^[2]).

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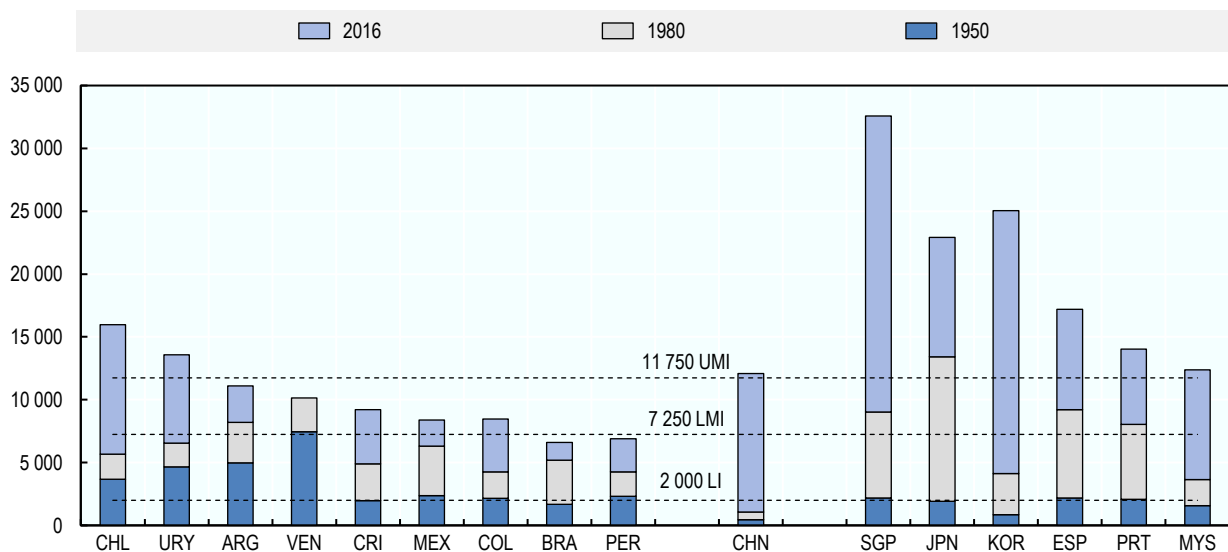
Annex A. Regional outreach of the Recommendation: Performance in LAC countries

In January 2016, OECD members decided to strengthen co-operation with the LAC region through the creation of an OECD LAC Regional Programme. This Programme aims to support the region in advancing its reform agenda along three key regional priorities: increasing productivity; enhancing social inclusion; and strengthening institutions and governance.

The OECD has never been closer to the LAC region: Chile and Mexico are OECD member countries. Colombia and Costa Rica are in the process of accession. The OECD also has a co-operation programme with a Key Partner Brazil and is completing a two-year country co-operation programme with Peru. It is also stepping up its engagement with Argentina via a tailored Action Plan. All of these countries as well as the Dominican Republic, Panama, Paraguay and Uruguay are members of the OECD Development Centre. Overall OECD indicators show that LAC countries are behind the OECD average in a number of areas. The GDP per capita (a measure of a country's standard of living) is low in LAC countries when compared to others (Figure A A.1).

Figure A A.1. GDP per capita in LAC countries compared to other countries

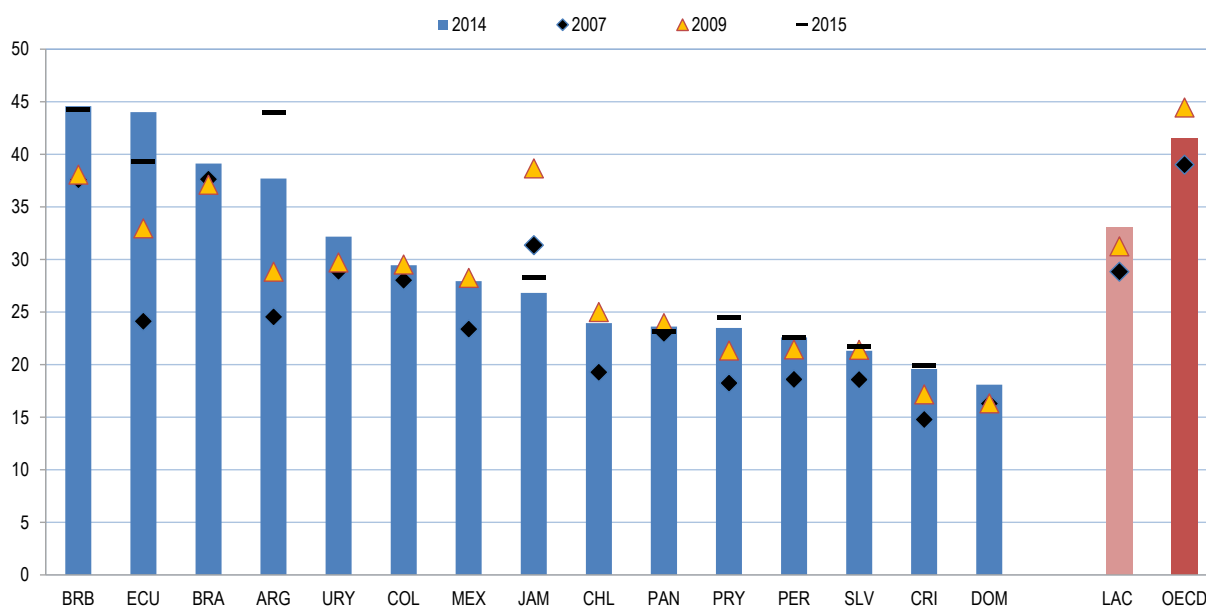
(GDP per capita in selected Latin America economies, Asia and OECD countries, 1990 USD PPP)



Source: <http://www.oecd.org/latin-america/data/macroeconomic-indicators.htm>, OECD/CAF/UN ECLAC calculations based on the methodology proposed by Felipe, Abdon and Kumar (2012). Data extracted from International Monetary Fund, World Economic Outlook database (2016) www.imf.org/external/pubs/ft/weo/2016/01/weodata/index.aspx and Bolt, J. and J. L. van Zanden (2014). "The Maddison Project: collaborative research on historical national accounts".

The general government expenditure as a percentage of GDP is significantly less than the average for OECD countries (Figure A A.2). This measure provides an indication of the size of governments across countries. The indicator highlights the variety of countries' approaches to delivering public goods and services and providing social protection, not necessarily differences in resources spend.

Figure A A.2. General government expenditures as a percentage of GDP, 2007, 2009, 2014 and 2015



Source: Data for the LAC countries: IMF, World Economic Outlook database (IMF WEO) (April 2016). Data for the OECD average: OECD National Accounts Statistics (database). (OECD, 2016^[1])

The macroeconomic outlook in LAC countries has deteriorated in recent years. This has had an impact on living standards, as well as on prospects for socio-economic progress. It is emerging as one of the main drivers for citizens' discontent. Low levels of productivity and the stagnation of incomes at middle-income levels – what is often called “the middle income trap” – remain critical challenges for greater well-being in LAC countries. Despite progress, 25% of Latin Americans still live in poverty. While around 40% have escaped poverty during the last 15 years, but only to join a vast and vulnerable social group of mostly informal workers that could easily fall back into poverty. This means that close to 65% of Latin Americans still live in poverty or vulnerability. (OECD/CAF/UN ECLAC, 2018^[2])

A modest recovery is now underway with GDP having grown at a rate of 1.3% in 2017. Increased global trade, a moderate recovery in commodity prices and the gradual monetary normalisation in advanced economies – still supportive of financial flows – underpin the cyclical recovery in the region. Short-term risks look more balanced, but increased uncertainty about the progress of globalisation may dampen trade and foreign direct investment flows. Global megatrends may also affect the LAC country economies. They include weaker productivity, technological change, an ageing population, urbanisation and climate change. (OECD/CAF/UN ECLAC, 2018^[2])

Implementation for results in LAC countries

In 2018 the Inter-American Development Bank (IDB), which regularly contributes to the OECD Working Party of the Leading Practitioners in Public Procurement analysed the public procurement systems of 26

LAC countries (*“the LAC study”*). The purpose of the study was to review the status of the countries in light of the OECD 2015 Recommendation of the Council on Public Procurement (*“the Recommendation”*).

The analysis of the aggregated data shows areas that require more work and support to close the gaps with respect to international standards. The study concluded that more than 50% of the actions of *the Recommendation* have been implemented in the LAC region, which means that the modernisation of national public procurement systems are progressing.

The analysis aggregated data from 16 LAC countries in three dimensions:

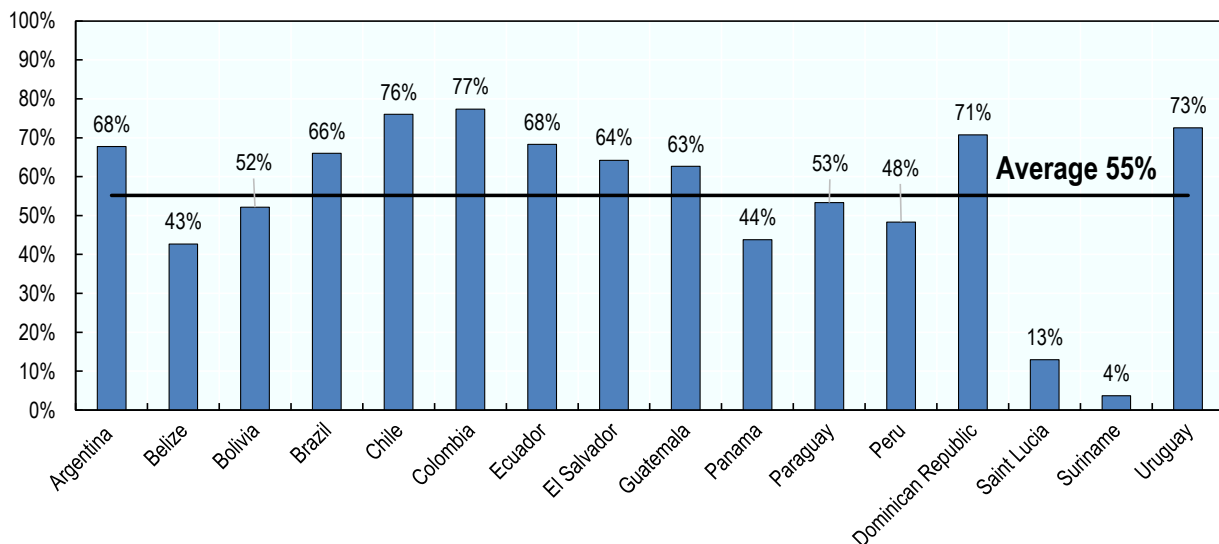
1. Self-perception of National Procurement Systems regarding the current situation of the application of the principles contained in *the Recommendation*.
2. The current situation of national procurement systems based on specific actions taken so far.
3. The degree of implementation of concrete and detailed steps needed to apply the principles of *the Recommendation*.

The objective of using these three dimensions was to:

- Generate a comprehensive study connecting the self-perception of national public procurement systems in relation to the current state of the implementation of *the Recommendation* (specific actions already implemented).
- Identify specific steps on the road towards construction of a well-developed national procurement system using *the Recommendation* as the model.
- Evidence the most sensitive areas that required interstate or international agency cooperation.

The study concluded that the average progress on implementation of *the Recommendation* by LAC countries surveyed was 55% (based on specific actions and steps taken by countries so far). However, there are large differences in progress between different LAC countries, as demonstrated by Figure A A.3. Chile, Colombia and Uruguay had the highest progress rate.

Figure A A.3. Progress on implementation of the Recommendation by LAC countries



Source: (IntraAmerican Development Bank, 2018^[3]).

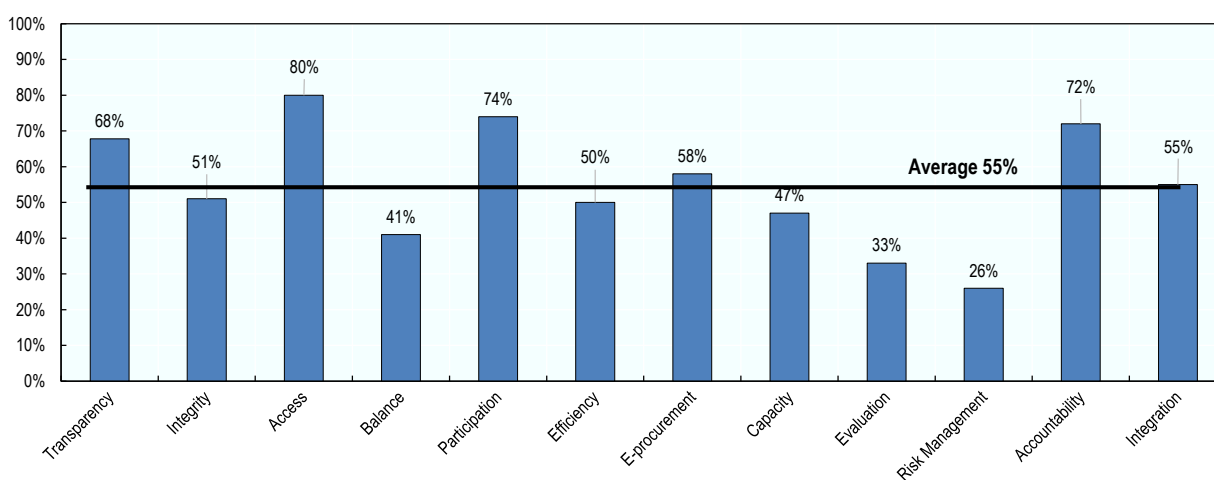
The progress towards implementation of *the Recommendation* is higher than 50% for nine of the 16 LAC countries surveyed (Argentina, Brazil, Chile, Colombia, Ecuador, El Salvador, Guatemala, Dominican Republic and Uruguay).

The LAC countries surveyed that have the lowest levels of progress are mainly in the Caribbean region. However, governments in this region have recognised the need for improvement in the public procurement system. Together with international development partners, governments in the Caribbean have embarked on reforms in recent years, most notably reforms for the legal and regulatory frameworks. Since 2018, the OECD has been working with the Caribbean Development Bank in conducting assessments using the Methodology for Assessing Procurement Systems (MAPS) of five Eastern Caribbean states (Antigua and Barbuda, Anguilla, British Virgin Islands, Montserrat and St. Kitts and Nevis.) These MAPS assessments form the beginning of a larger reform programme to improve public procurement in the region. The recommendations following from the assessment will be addressed in a subsequent programme.

The lowest progress rates (less than 41%) were obtained in the following three principles (Figure A A.4):

- **Risk Management:** integrating risk management strategies for mapping, detection and mitigation throughout the public procurement cycle.
- **Evaluation:** stimulate improvements in performance by assessing the effectiveness of the procurement system, both in specific processes and in the system as a whole, at all levels of public administration, whenever feasible and appropriate.
- **Balance:** recognise that any use of the public procurement system to pursue secondary policy objectives should be balanced against the primary procurement objective.

Figure A A.4. Progress of LAC Countries on implementation of the Recommendation by Principle



Source: (IntraAmerican Development Bank, 2018^[31]).

The study concluded that the least developed steps that require special attention are contained within four areas of principles: Risk Management, Evaluation, Balance and Capacity. Some OECD countries have highlighted the same areas in regard to their procurement systems and examples are noted in the OECD Public Procurement Publications and Toolbox (OECD, n.d.^[4]). The specific areas that the participants in the study identified as requiring special attention are as follows:

- Risk Management:
 - To publicise risk management strategies (progress rate 25%)
 - To prepare risk management tools to identify and address threats to the optimal functioning of the public procurement system (progress rate 27%)
- Evaluation:
 - To develop indicators to quantify performance, efficiency and cost savings in the public procurement system (progress rate 23%)
- Balance:
 - Employ an adequate impact evaluation methodology to quantify the effectiveness of the public procurement system in achieving secondary policy objectives, (progress rate 31%).
- Capacity
 - To offer professionals of public procurement an attractive, competitive and merit based career system, (progress rate 13%)

An analysis follows of the LAC countries and their progress towards implementation of the four actions that are identified as requiring special attention in *the LAC study*.

Integrating risk management in LAC countries.

Managing risks effectively aids in preserving the integrity of public procurement processes and to drive efficiency through the system. Public procurement is at risk of waste, mismanagement and corruption and it is the most common purpose for bribes in foreign bribery cases. Because public procurement can involve large sums of money and complex and close interactions between actors from both public and private sectors, it is often in the spotlight for corruption risks. In Latin America, corruption in public procurement and infrastructure projects often has its root causes in the political sphere. However, public procurement systems in the Latin American region have made significant progress towards enabling better accountability and mitigation of corruption risks (OECD, 2017^[5]).

Infrastructure projects involve a close assessment and careful balancing between risk allocation and value for money. Major differences between infrastructure delivery models (e.g. design-build, design-bid-build, alliance contracting, private-public partnership, concession and private provision) exist with regard to the allocation of risks and public control over the construction of the infrastructure (OECD, 2017^[6]).

Effective risk management and the establishment of controls

The development of effective risk management in infrastructure can benefit from the government putting in place robust control mechanisms.

Internal control can be seen as the “invisible hand” that allows public sector entities to focus on setting objectives and deliver value, while complying with legal regulatory and societal expectations (Table A A.1). Establishing controls and managing risk as part of objective setting and performance management, instead of making it the focus, can enable an entity to better respond and adapt to surprises and disruptions in the pursuit of goals. Developing robust internal control mechanisms are seen as an iterative process that involves performance and governance rather than as an additional system with additional procedures and

resource requirements. Effective internal control mechanisms may be indistinguishable from day to day activities. In this sense, risk management and internal control, even when integrated, are the means to the end of achieving public policy objectives (OECD, 2016^[7]).

Over time, OECD countries have developed stronger internal control arrangements as they moved from ex-ante to ex-post control. The approach marked a cultural shift and provided the management of public entities greater flexibility in financial and non-financial resource allocation decisions (they are checked after the fact as opposed to before execution). The change has not meant fewer compliance-oriented controls, but has layered together a more comprehensive system of control (OECD, 2016^[7]).

Table A A.1. Key elements of setting internal control policy and managing risk

Stage of the policy cycle	Key functions of a strategic and open state
Policy formulation	Strategic whole-of-government steering
	Budgetary planning
	Establishing regulatory policy
	Creating risk management and internal control policies <ol style="list-style-type: none"> 1. Guidance for risk management and internal control exist across governments and can be tailored to individual entities. 2. Internal control requirements and guidelines are consistent with the legislation, public financial management, and public administration in general, and integrate international standards. 3. The autonomy, roles, responsibilities and powers of audit and control actors (e.g. their scope of control) are clearly established. They are defined between the centre of government and public sector entities and within entities. 4. A government-wide anti-corruption framework is established. 5. Those responsible for setting and achieving an entity's objectives are also responsible for setting controls to effectively own, manage and oversee risks related to those objectives as well as risk tolerances. 6. Entity level decisions are based on high-quality information about the performance of the entity.

Source: (OECD, 2016^[7]).

The six LAC countries that responded to the OECD Survey indicated that they have not carried out whole system analysis of risks and neither have many of the non-LAC countries. Sector specific and regular cyclical assessments are carried out which is consistent with the results in *the LAC study* which show that risk management is one of the least developed principles among the participating countries (OECD, 2018^[8]). The Federal Public Administration in Mexico is an example of a country that has developed a risk management system that allows the identification, evaluation, prioritisation, control and monitoring of risks that may hinder or prevent compliance with institutional goals (Box A A.1).

Box A A.1. Mexico and risk management

The Federal Public Administration in Mexico has a risk management system, which is a systematic process that allows the identification, evaluation, prioritisation, control and monitoring of risks that may hinder or prevent compliance with institutional goals. In relation to the operations of material and financial resources in public contracting a risk management methodology includes several minimum stages. They are recorded annually in a risk management matrix:

- Trait assessment which is integrated with the identification, selection and description of risks, the classification of risk, the identification of risk factors, the identification of possible effects of risks, the initial assessment of the degree of impact, the initial assessment of the probability of occurrence.
- Evaluation of controls: the stage that risks are checked, discovered, determine the preventive, corrective and/or detection controls.
- Final assessment of the risks with respect to controls: the impact and probability of the risk is given a final value with a comparison of the results of the risk assessment and control stages.
- Institutional risk map: a map is made that identifies within four quadrants of risks whether or not they are for immediate attention, periodic attention, are controlled and whether they are to be followed up.
- Defining the strategies and control actions: avoid, reduce, assume or transfer/share the risk.

Source: (OECD, 2017^[9]).

The area where there remains a gap for LAC countries is in the identification and use of risk management tools. Such tools can identify risks including:

- Risks of errors and anomalies in all aspects of the procurement process due to a lack of awareness on the part of the stakeholders involved or due to an objective difficulty in the case of complex projects.
- Financial risks, particularly during periods of severe economic and financial uncertainty.
- Risks of fraud, misuse of public funds or corruption, in the case of misappropriation.
- Reputational risks/potential damage to the image of a contracting authority (OECD, 2016^[10]).

There is a close relationship between integrity risks, which require a holistic and integrated approach to properly address them during the public procurement cycle. If these risks are not adequately managed during public procurement processes then they pose a great threat to sound economic performance and effective governance of public functions. In studies of public procurement in LAC countries the OECD has observed there is a high risk in some countries of wrongdoing and integrity breach (OECD, 2016^[11]).

The OECD has published guidance and case studies for countries to use in the implementation of risk management on its website (OECD, 2016^[10]). There are various tools that could be used by both LAC and non-LAC countries to identify and illustrate risks (OECD, 2016^[10]). For instance, Argentina's Anti-corruption Office developed dedicated integrity tools in the area of public procurement (Box A A.2).

It is also important to bring the greatest procurement risks (those that exceed risk tolerance) to the attention of relevant personnel. Red flag systems can be instituted to exclude or confirm potential fraud or corruption. Areas that may be relevant for red flag systems are:

- Complaints from bidders.
- Multiple contracts below procurement thresholds.
- Unusual bid patterns.
- Seemingly inflated fees.
- Suspicious bidder.
- Lowest priced bidder not selected.
- Repeated awards to the same contractor.
- Changes in contract terms and value.
- Multiple contract change orders.
- Poor quality works and/or services (OECD, 2016^[10]).

Box A A.2. Argentina's Anti-corruption Office

Some LAC countries have developed tools and strategies to deal with particular areas of risk for example Argentina's Anti-corruption Office (OA). The OA carried out a study in 2007 to generate a scheme for strengthening transparency in public procurement systems. A risk map was developed to identify problematic areas that favour the development of vulnerable areas for irregular or inefficient practices.

The OA proposed a series of recommendations to develop transparency policy actions to narrow the problems encountered, improving the management practices in public procurement and strengthening those features that function adequately. Many of the recommendations made by the OA were considered for the 2012 update of the national regulatory procurement regime.

Source: (OECD, 2016^[12]).

Driving performance improvements through evaluation in LAC countries

Measuring performance, efficiency and cost savings in the public procurement system was identified in *the LAC study* as one of the least developed steps towards implementation of *the Recommendation*.

In general, it is challenging to measure the effectiveness and efficiency of public spending partly because the characteristics of an effective or efficient public sector are not easy to define. Public spending is used to deliver the services that meet citizens' and society's needs. The objectives are not easy to identify and it is difficult to demonstrate when they have been achieved. The results are usually only visible in the long run.

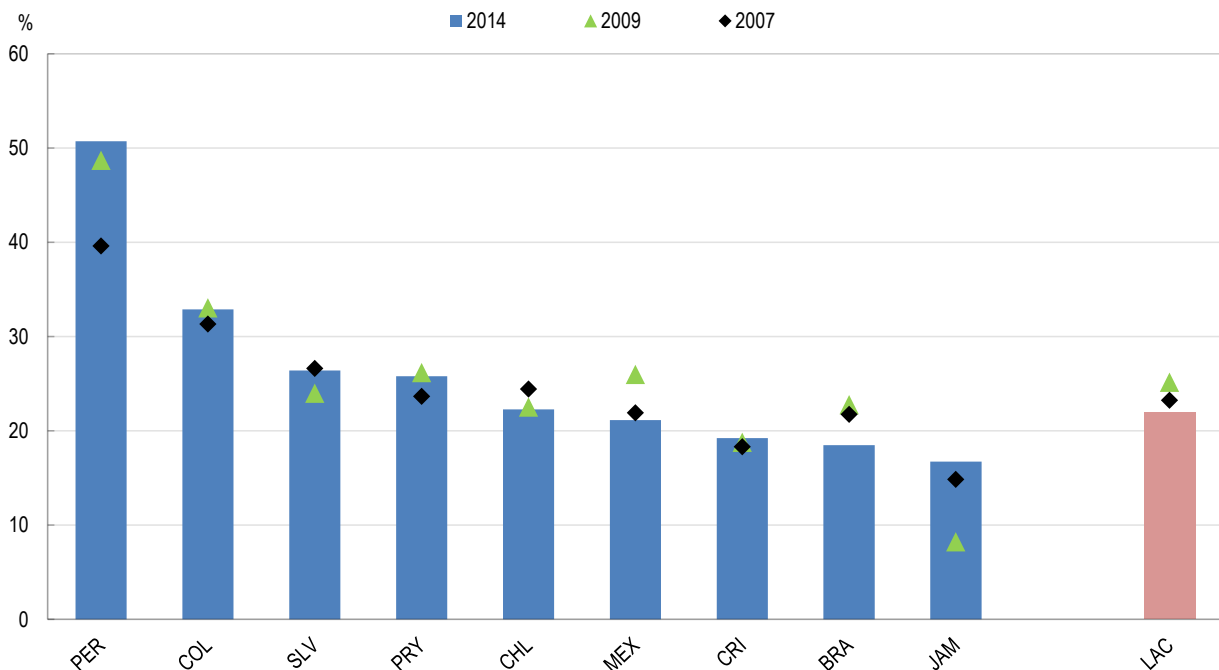
The OECD has worked with both Chile and Colombia (which include CPBs as part of their public procurement systems) on public procurement reform and the challenges of measuring and improving performance. The use of data and measurement methodologies can help to shape transformational reforms in public procurement that have regional impact (OECD, 2017^[13]).

Of particular relevance to LAC countries with CPBs is the recent work by the OECD with Finland to identify an overall set of measures of "procurement productivity". This work takes into account the inputs and

outputs of the system, as well as the “enablers” (such as legislation, e-procurement systems, and capabilities) and allows the impact of strategic public procurement to be demonstrated. In Finland, application of the framework has highlighted the potential positive impacts of public procurement that have quantified economic benefits such as the presence of procurement of innovation and transparent use of Framework Agreements. The potential to further quantify those benefits is explored. Research indicates that based on an analysis of the savings made in different categories of Finnish public procurement an average of 25% savings could be achieved through centralised purchasing (OECD, 2019^[14]).

Improvements in the efficiency of public procurement can have a real and positive impact on the overall expenditure of governments. Procurement is a significant proportion of total government expenditures (average of 22%) and it is rising in some LAC countries while lowering in others. Compared to the OECD average (29%), however, most LAC countries have a lower proportion of procurement spend to total government spend, with the exception of Peru (Figure A A.5). The Netherlands for example channels almost 45% of its total government expenditure through public procurement which corresponds to more than 20% of national income (Ortiz-Ospina and Roser, 2016^[15]).

Figure A A.5. Government procurement as a share of total government expenditures 2007, 2009 and 2014



Source: IMF Government Finance Statistics (IMF GFS) database. Data for Mexico are based on the OECD National Accounts Statistics database. (OECD, 2016^[11])

Availability of high quality data to use for assessing efficiency is an issue for governments in the area of public procurement. Often, there is no standardised approach for collecting and using data in a way that would allow for comparisons both at the national and international levels. Much of the strategic analysis and decision making is therefore based on qualitative data, as quantitative data is either difficult to find or lacking in veracity. While insights based on qualitative evidence can provide a reasonable basis for decision making, quantitative evidence – when collated rigorously – would provide a more comprehensive analysis (OECD, 2019^[16]). For instance, Colombia developed key performance indicators to measure and analyse various dimensions of its public procurement system. (Box A A.3).

Box A A.3. Colombia's development of key performance indicators

Colombia is an example of a LAC country that has developed indicators to measure the national procurement system. A set of key performance indicators has been identified to measure the effectiveness of the activities undertaken by Colombia Compra Eficiente to improve the performance of the national procurement system. The measures fall into the following four areas:

- value for money
- integrity and transparency in competition
- accountability
- risk management.

In 2015, Colombia Compra Eficiente released the first estimation of the results baseline using the procurement information of State Entities from 2014.

- opportunity of the contracting processes: 7.4%.
- changes in value according to specifications: 0.1%.
- average time of the selection process according to the award mechanism: open tender: 37 days; merit contest: 38 days; abbreviated selection: 37 days; reverse auction: 38 days; abbreviated selection in instruments to aggregate demand: 9 days; direct contracting: 26 days; special regime: 38 days; selection with small budget: 12 days; and lower value: 38 days.

Source: (OECD, 2017^[17]).

To demonstrate overall improvements in LAC countries through public procurement initiatives the choice of measurements can prove challenging. Aligning the measurement of public procurement's impact in terms of progressing public policies is notoriously difficult. The OECD review of *Public Procurement in Germany* is of particular relevance to countries with federal states such as Mexico, Venezuela and Brazil. In Germany, there is an increasing focus on analysing the benefits of new laws or regulations rather than the financial cost. Using a framework such as the OECD Well-being Framework to monitor progress and prosperity in the well-being of citizens has been suggested as a way to address this issue.

The Well-Being Framework covers the factors, beyond economic growth, on which public procurement can have the most impact. In order to perform the measurement of public procurement's impact it is suggested that the size and use of public procurement be measured first at a disaggregate level and then aggregated as part of a comprehensive framework. Several countries around the world are looking at different measures for assessing the progress of government policies other than GDP (OECD, 2019^[16]).

Balancing the objectives of public procurement systems in LAC countries

The LAC study identified the following areas requiring special attention: employing an adequate impact evaluation methodology to quantify the effectiveness of the public procurement system in achieving secondary or complementary policy objectives.

Achieving broader outcomes for governments by using public procurement as a springboard is increasingly being explored by many countries. There is encouragement to use strategic procurement in this way as a lever to support government policies by a number of international institutions. The drive to achieve strategic outcomes through public procurement has introduced more complexity into the procurement process and meant that the skillsets required of public procurement personnel has changed as a result. OECD studies support the view that this strategic approach to procurement brings about additional benefits to

governments, however, the implementation and measurement of the benefits needs to be done well otherwise benefits may not be fully achieved (OECD, 2019^[16]; OECD, 2017^[18]; OECD, 2015^[19]).

The process of measuring the effectiveness of the public procurement system in achieving secondary policy objectives requires a balancing of different government objectives. Additionally hard evidence is required by policy makers on the impacts of different policy measures used to pursue the secondary objectives (OECD, 2019^[16]).

The OECD has worked with the State of Nuevo Leon in Mexico to identify a framework for boosting secondary policy objectives with targeted measures. The approach taken was to divide the procurement process into stages and apply considerations of secondary policy objectives at each stage. The impact of the framework was assessed in the context of local considerations (OECD, 2018^[20]).

A study of Finland undertaken by the OECD found that in order to measure the impact of secondary policy objectives, it is first necessary to define the broad strategic government goals or objectives that will be achieved by the public procurement outcomes (Box A A.4).

Box A A.4. Measuring public procurement impact in Finland

In Finland, the following public procurement objectives were identified:

- Unlocking innovation.
- Increasing access and competition from SMEs.
- Increase exports and employment.
- Pioneer of clean technology.

The OECD has worked with Finland to identify a path forward to measure the impact of public procurement on achievement of these broad policy outcomes. A comprehensive OECD report has identified gaps and further work required in collecting data to demonstrate that the outcomes had been achieved. A productivity framework was defined and as part of it, a set of performance indicators was suggested including some for measuring the impact of public procurement on achieving the goals related to secondary policy objectives. Some examples of the performance indicators are set out below:

- SME participation: Number of bids submitted for government tenders by businesses categorised as SMEs.
- Reduction in energy consumption: Comparison of energy consumption of historical goods and services bought by the government and new goods and services selected using MEAT or other criteria.
- Reduction of CO₂ emissions: Comparison between CO₂ emissions from historical goods and services bought by government and new goods and services selected using emissions as criteria.
- Improvement in air/water quality: Comparison between impacts on air/water quality of historical goods and services bought by government and new goods and services selected using environmental considerations as criteria.
- Use of social criteria in government contracts: Ratio of public contracts pursuing social objectives (and where possible, aggregation of social outcomes secured through public contracts).
- Skills/jobs creation: Number of jobs/training courses/qualifications generated through public procurement.

Source: (OECD, 2019^[14]).

An OECD study of Germany not only were the objectives defined but an exercise was carried out to measure how they were prioritised across German contracting authorities. A number of steps were defined for Germany to focus in on implementing strategic public procurement including to conduct regular and thorough evaluation of progress towards sustainability goals (OECD, 2019^[16]).

Developing the skills and capabilities of procurement professionals in LAC countries

The best outcomes from good public procurement are enabled by a knowledgeable and skilled workforce. Unsurprisingly the LAC survey results show some positive correlation between the progress rate in the implementation of the “Capacity principle” of *the Recommendation* and progress rates scores across other principles. The progress rate of the “Capacity principle” shows strong positive correlation with progress rates of the Accountability (Pearson coefficient: 61%) and the “Integrity principle” (62%). This suggests that countries doing better on Integrity and Accountability also may also have a more knowledgeable and skilled procurement workforce (and vice-versa). There are also strong positive correlation of the progress rate of the “Capacity principle” with progress rates of the “Efficiency, Evaluation and Integration Principles” (Pearson coefficients: 60%, 57% and 62% respectively).

Recognising public procurement as a specific profession, certification and regular procurement trainings are essential to the performance of public procurement systems (OECD, 2016^[10]). The OECD confirmed this insight in the Mexican State of Nuevo Leon, where it conducted an assessment of the capacity of the public procurement workforce (Box A A.5).

Box A A.5. Public procurement capacity in the State of Nuevo Leon, Mexico

The OECD worked with the government of Nuevo Leon on assessment of the capacity of public officials conducting public procurement processes. The ensuing report identified that there were two necessary conditions for public procurement capacity to operate in that jurisdiction in an optimal fashion. Firstly, public procurement officials have to possess the necessary skills. In addition, a sufficient number of procurement officials needed to be available to handle the number of public procurement processes in Nuevo Leon. The OECD review identified two major areas for action:

1. Establish a strategic framework for the professional procurement workforce in Nuevo Leon.
2. Establish a system for merit-based career progression for public procurers that are fit to handle evolving challenges.

Source: (OECD, 2018^[20]).

In order to formulate a strategy to increase capacity or professionalise the workforce it is important to understand the baseline that currently exists so that gaps are identified and improvements can be tracked. The OECD Methodology for Assessing Procurement Systems (MAPS) (Collective authors, 2018^[21]) includes an indicator regarding a public procurement system's ability to "develop and improve" (Indicator 8). The indicator includes references to a system's ability to provide training, advice and assistance with regard to public procurement. There is also a sub-indicator that calls for procurement to be considered a profession. The sub-indicator includes assessment criteria that require a country to have:

- A recognition of procurement as a specialised function as described by a diversified competency framework.
- Competitive appointments and promotions.
- Evaluation of staff performance and adequate promotion.

A supplementary MAPS module (currently under development) spells out elements of approaches to a comprehensive professionalisation approach for public procurement.

The OECD worked with the Government of Peru (OECD, 2017^[5]) to define a capacity building strategy that was informed by the following considerations:

- Building a sustainable procurement workforce is a long-term effort. The strategy needs to tackle both immediate and long-term issues.
- The strategy should aim to improve individual capabilities as well as the institutions capacities in the area of public procurement.
- The strategy is a planning exercise. It involves the development of a step-by-step roadmap with prioritised objectives and expected outputs.
- Building a sustainable procurement workforce mobilises time and resources. The strategy needs to include a budget.
- The development of a procurement capacity strategy should be inclusive. All relevant stakeholders should be gathered, in the framework of a task force or a steering committee.

In order to attract motivated and skilled individuals, there needs to be recognition that public procurement is not a purely administrative function, but rather a strategic function in the public service. The size of public spending necessitates that the individuals associated with this function are capable of the many diverse skills required.

Public procurement is a multidisciplinary profession that requires knowledge of law, economics, public administration, accounting, management and marketing. The interdisciplinary skill requirements are increasing given the increasing complexity of public procurement processes and the shift to strategic public procurement to achieve broader outcomes more efficiently and with less risk. Competency frameworks, job profiles, certification systems and training all need to align on attracting public procurement professionals through competitive, merit-based career options (OECD, 2017^[5]).

In 2017, the European Union (EU) adopted a recommendation on the professionalisation of public procurers as part of the "public procurement package". In recognition of the strategic importance of public procurement and its ability to influence policy outcomes the recommendation aims at increasing the professionalism with which officials across the EU purchase goods, works and services. The recommendation suggests EU countries tackle the issue from three perspectives:

- Policy Architecture: creating a strategy to increase the professionalism of public procurement.
- Human resources: providing training and a career path for public procurers.
- System: structured tools, methodologies and processes in support of professionalising public procurement.

Using the concrete steps outlined under these headings can form the basis of a capacity building strategy.

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