

HIGHLIGHTS

REFORMING PUBLIC PROCUREMENT: PROGRESS IN IMPLEMENTING THE 2015 OECD RECOMMENDATION



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PUBLIC PROCUREMENT: A STRATEGIC TOOL

Public procurement is a key pillar of strategic governance and service delivery for governments. Due to the volume of spending, governments have a fundamental responsibility to carry out public procurement efficiently and with high standards of conduct to ensure high quality of public service delivery and safeguard the public interest.

Public procurement is increasingly used to contribute to the well-being of all citizens. It is a key lever in promoting broader strategic policy goals, such as environmental protection, the development of small and medium enterprises, innovation and promoting responsible business conduct. Public procurement has also been included in the Sustainable Development Goals, as part of Goal 12, responsible consumption and production.

12%

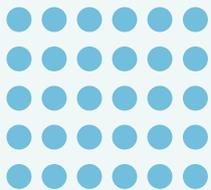
of GDP

29%

of government
expenditure

EUR 6 trillion
a year in OECD
countries

Public procurement impacts many areas of public service delivery:



30%

Health



17%

Economic affairs



12%

Education



10%

Defence



10%

Social protection



9%

General public services

OECD RECOMMENDATION ON PUBLIC PROCUREMENT

The 2015 OECD Recommendation on Public Procurement (hereafter “the Recommendation”) helps countries strategically transform their procurement systems across all levels of government and state-owned enterprises. The Recommendation contains 12 integrated principles to address the entire procurement cycle:



The Recommendation provides guiding principles that promote the strategic and holistic use of public procurement. It addresses the entire procurement cycle while integrating other elements of strategic governance such as budgeting, financial management and additional forms of services delivery. The Recommendation reflects collaboration across relevant policy communities at the OECD, demonstrating the multi-disciplinary nature of procurement. It has served as a source of inspiration for a number of other international standards, such as:

- the Methodology for Assessing Procurement Systems (MAPS), 2018
- the European Recommendation 2017/1805
- G20 Principles for Promoting Integrity in Public Procurement, 2015
- the Compendium of Good Practices on the Use of Open Data for Anti-corruption Across G20 Countries.

The Recommendation has been a catalyst for a number of collaborative initiatives, such as the MENA-OECD Network on Public Procurement, with the objective of sharing good practices and identifying needs for support.

Latin American and Caribbean countries have also used the Recommendation to guide the transformation of their public procurement systems, as demonstrated by the results of a 2018 Inter-American Development Bank survey¹.

More information at: <http://oe.cd/pp-rec>

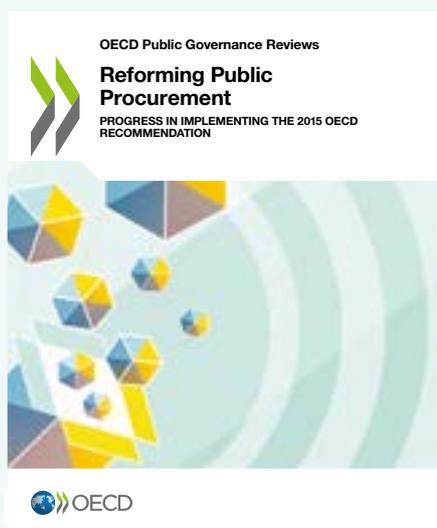


Public Procurement Toolbox

The Public Procurement Toolbox is a web-based platform that supports public procurement practitioners in reviewing, developing and updating their procurement framework for each of the 12 principles of the Recommendation. The toolbox provides policy tools, specific country examples as well as indicators to measure public procurement systems.

www.oecd.org/governance/procurement/toolbox/

THE 2019 PROGRESS REPORT



The Report presents progress made across countries in implementing the Recommendation, and spans a range of topics relevant to the 12 principles. The report provides insights into public procurement strategic outcomes such as workforce development, sustainability, innovation, productivity, risk management, increased integrity and responsible business conduct. It draws on insights from a survey conducted in 2018 among 34 countries (31 OECD countries, Costa Rica, Morocco and Peru). In addition to the 2018 survey, the Progress Report benefitted from insights from OECD peer reviews of procurement systems, good practice compendiums, data from previous OECD surveys on public procurement, *Government at a Glance*, and experiences shared by country delegates.

KEY FINDINGS

This brochure highlights the key findings of the Progress Report, including the following:

- The majority of countries have developed strategies or policies at some level on the adoption of strategic policy objectives, in particular for environmental protection and the promotion of SME participation.
- Award criteria now encompass more and more non-price attributes using a “best price-quality ratio” with almost two-thirds of central purchasing bodies using Most Economically Advantageous Tender (MEAT) award criteria for most purchases.
- The usage of e-procurement systems is widespread and countries are leveraging digital technologies to gather meaningful data for measuring effectiveness and to increase transparency by publishing procurement information.
- However, only a minority of countries have a formal performance-management system established.
- More than two-thirds of countries hold regular dialogues with suppliers and business associations in a variety of institutional settings.
- An overwhelming majority of countries have central purchasing bodies (CPBs), and they are increasingly focusing on collaborative procurement instruments such as framework agreements to drive efficiency and cost effectiveness.
- Capacity of the public procurement workforce remains a challenge in many countries. Most countries organise on-the-job trainings and education courses for public procurers, though only a minority make them compulsory.
- More and more countries are developing strategies for the assessment, prevention and mitigation of public procurement risks. One specific risk is conflict of interest: in more than two-thirds of 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.

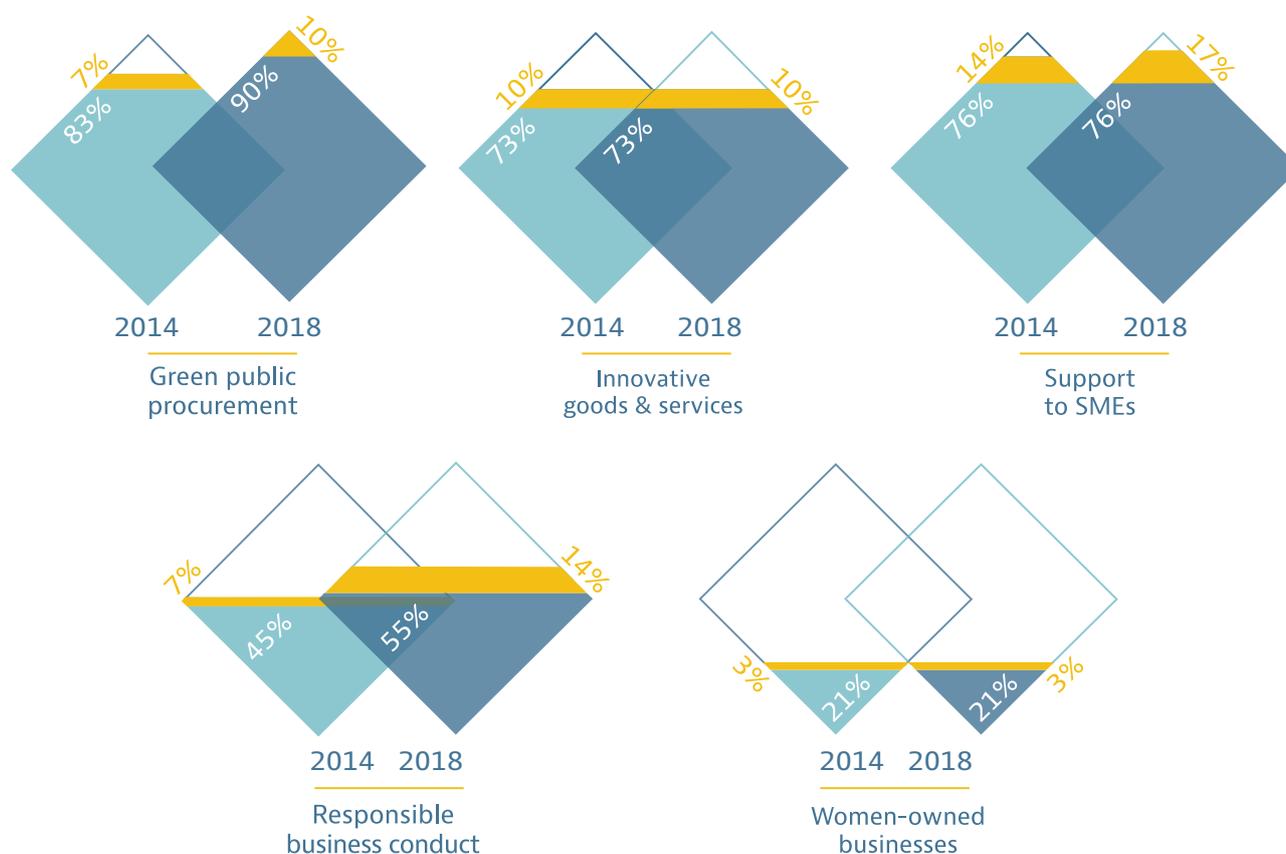
PROGRESS ACHIEVED IN IMPLEMENTING THE RECOMMENDATION

More and more countries promote strategic policy objectives

Countries are increasingly using public procurement to promote secondary policy objectives, rather than pursuing only the primary procurement objective of achieving value for money. The Recommendation assists countries in achieving the right balance between these two types of objectives. It also supports countries in overcoming the challenges of implementing strategic policy objectives. Such challenges include reducing risk aversion, improving skills and capacity, encouraging procurement officials to

dialogue with suppliers, and enhancing data collection and monitoring of results. Between 2014 and 2018, the employment of strategies and policies to pursue secondary policy objectives has increased. All respondents have now developed policies at some level regarding green public procurement and a majority also has strategies and policies to support small and medium enterprises' (SMEs) access to public procurement opportunities.

Figure 1. Existence of a strategy or policy to pursue secondary policy objectives in public procurement



- ◆ Only some procuring entities have developed an internal strategy/policy
- ◆ A strategy/policy has been developed at central level

Green public procurement

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 policy objectives in the area of environmental protection. Public institutions can use life cycle costing (LCC) to calculate all costs of a product or service through its lifespan, including "hidden costs" such as energy consumption and waste generation, and environmental externalities (CO2 emissions, water pollution). The 2018 Survey shows that countries also include environmental standards in:

- technical specifications (allowing for submission of environmental-friendly alternative solutions)
- award criteria (weighted environmental criteria; eco-labels as a criterion; environmental management systems as a criterion)
- contract performance clauses (such as requiring a minimum share of recycled materials).

SMEs

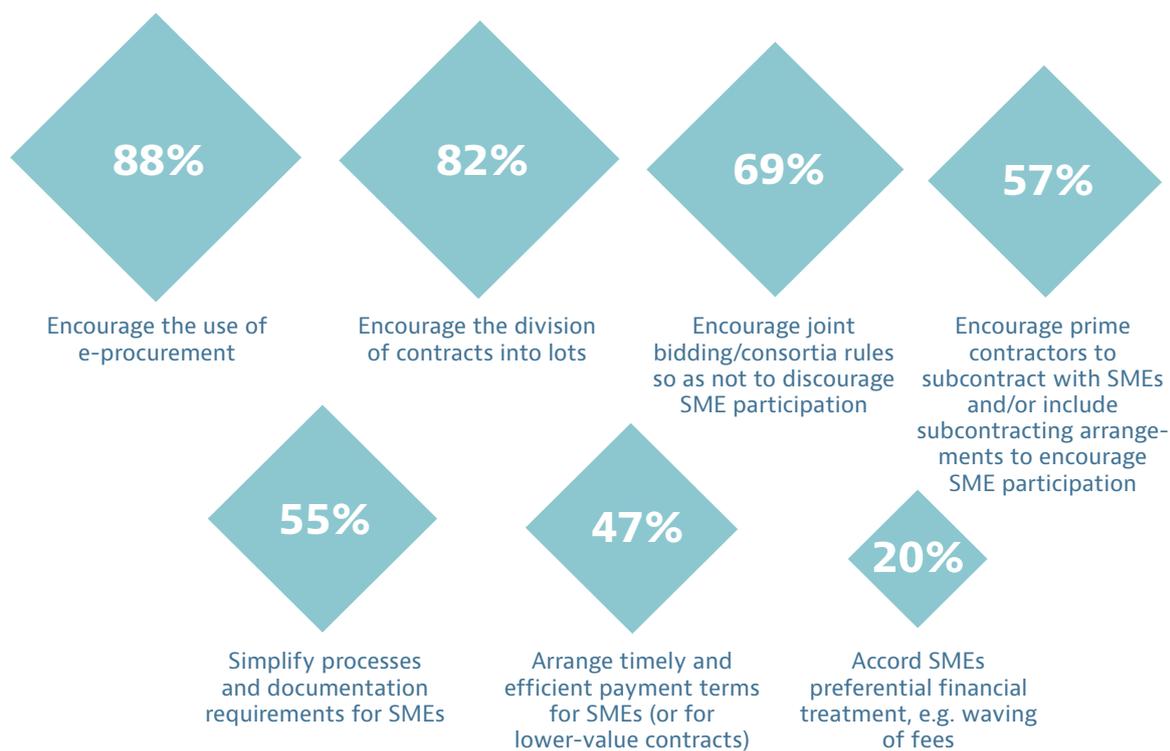
Engaging small and medium enterprises in public procurement ensures a more competitive bidding process and affords access to a wider choice of innovative solutions². However, complex public procurement systems and processes are a major hurdle to SME participation, due to their internal constraints in terms of financial, technical and administrative capacities to access procurement opportunities, prepare tender documents, apply procedures and execute contracts.

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 countries have legislative provisions for bid preference (e.g. Korea and Mexico) or set-asides for SMEs (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.).

Balancing objectives

Being overwhelmed by a large number of policy objectives through public procurement is a concern in many countries. The risk is that the system of new mandates and strategies becomes unmanageable or impossible to satisfy. This is why the Recommendation contains the principle "balance" to assist countries in achieving the right balance between the primary procurement objective and broader strategic policy objectives. To prioritise, countries use various approaches, ranging from leaving the decision up to the contracting authorities to prioritising objectives in an annual work plan.

Figure 2. Measures to support SMEs in public procurement



Enhancing efficiency through new criteria, Central Purchasing Bodies, framework agreements and e-procurement

The Recommendation calls upon countries to “implement sound technical processes to satisfy customer needs efficiently”.

New criteria

With countries increasingly pursuing secondary policy objectives, award criteria are now encompassing more and more non-price attributes using a “best price-quality ratio” (such as quality of product, organisation, qualification and experience of the supplier, delivery time and conditions, etc.). Tender and solicitation documents available to bidders typically define award criteria, including how these criteria are combined and weighted.

Contracting authorities are increasingly using the Most Economically Advantageous Tender (MEAT) award criteria.

Aggregation through Central Purchasing Bodies & framework agreements

The centralisation of activities is widespread among countries, enabling governments to reduce administrative red tape and transaction costs while obtaining better terms and conditions through the aggregation of needs and purchases. Central purchasing bodies (CPBs) are increasingly used to achieve better prices through economies of scale, lower transition costs, and improved capacity and expertise.

CPBs have been increasingly focusing on collaborative procurement instruments such as framework agreements to drive efficiency and cost effectiveness. CPBs are managers of the national system awarding framework agreements or other instruments in 93 percent of countries. The purpose of a framework agreement is to establish standardised terms and requirements under which contracting authorities award contracts.

E-procurement systems

E-procurement is the integration of digital technologies in the replacement or redesign of paper-based procedures throughout the procurement process. It not only increases efficiency by facilitating access to public tenders for suppliers, but also improves transparency by holding public authorities more accountable. For contracting authorities, e-procurement is also an internal tool to automate and standardise procedures along the entire procurement cycle, reducing the time needed to perform tasks and the risk of human error, and supporting the development of performance assessments by providing reliable and timely procurement data.

Enhanced data collection

According to the 2018 Survey, around two-thirds of countries have developed a centralised collection of procurement data, at least regarding central government bodies and agencies. Most countries have comprehensive procurement databases based on their e-procurement system. A majority of countries now have e-procurement systems that encompass business intelligence modules, e-auction modules and e-catalogues, with 62 percent of respondents having supplier registries available in some or all of their e-procurement systems.

E-reverse auctions are online functions that allow bidders to submit new, downward-revised prices in real time – and in direct, anonymous competition with other potential suppliers.

Transparency

E-procurement systems are used as a tool to provide free access to relevant procurement information to all stakeholders, making contracting authorities more accountable and transparent to citizens. Transparency in public procurement contributes to levelling the playing field for businesses, especially for smaller firms. The 2018 survey data shows that announcing tenders and disclosing notifications of awards are the most widely adopted functionalities of e-procurement systems.

E-catalogues list available products and/or services that can be viewed and purchased in an electronic format. They are a widespread efficiency tool when it comes to low-value purchases that usually qualify for simplified procurement processes or direct award.

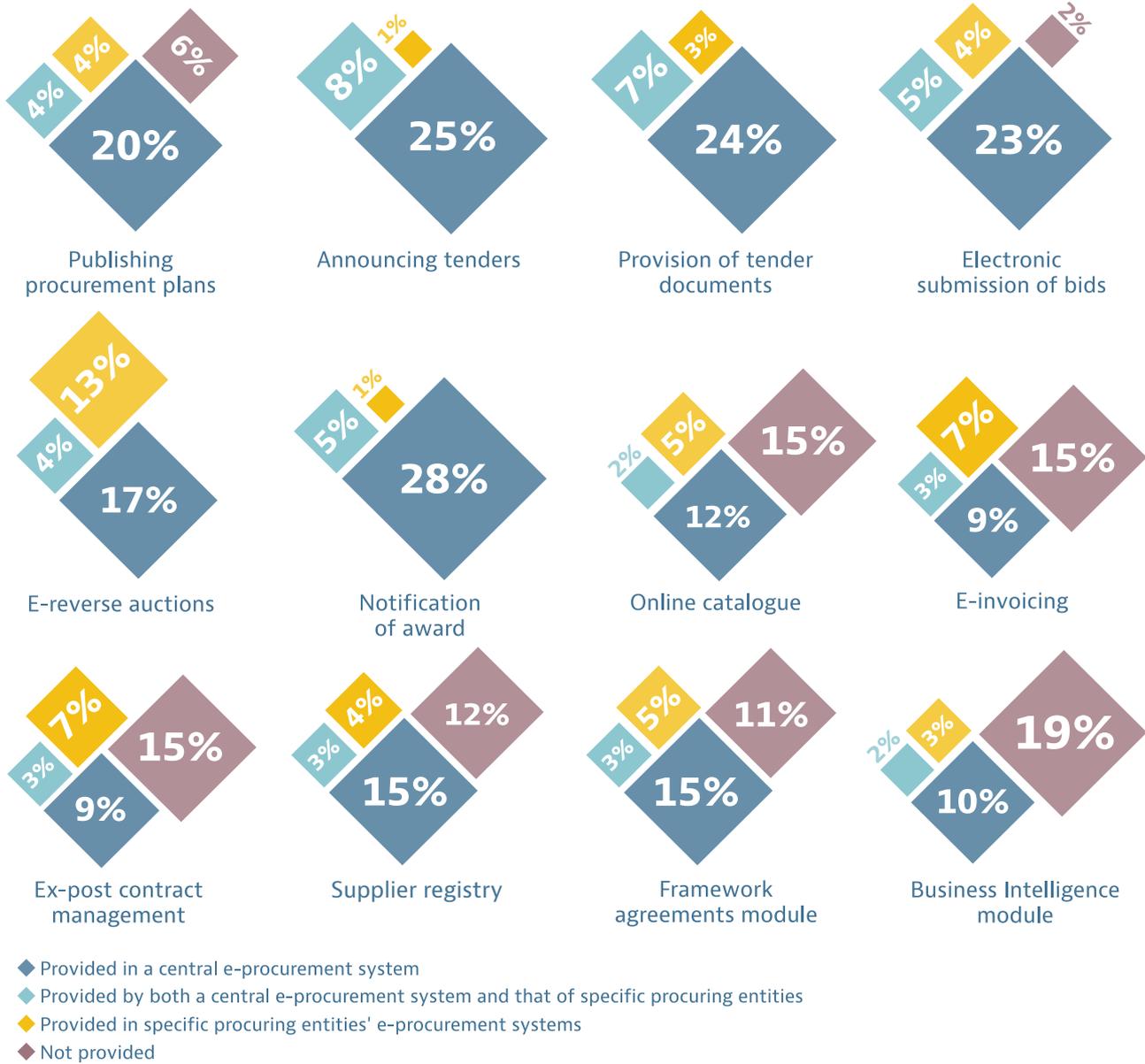
Engagement

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 public sector needs. Early engagement mechanisms with potential suppliers can help contracting authorities improve the quality of technical specifications, which is key to efficient public procurement processes. These mechanisms include:

- publishing Requests for Information (RFI) and Prior Information Notices (PINs)
- one-to-one consultations with suppliers
- holding industry and supplier days.

According to the 2018 Survey, more than two-thirds of countries hold regular dialogues with suppliers and business associations in a variety of institutional settings.

Figure 3. Functionalities of e-procurement systems, 2018



Evaluations of systems

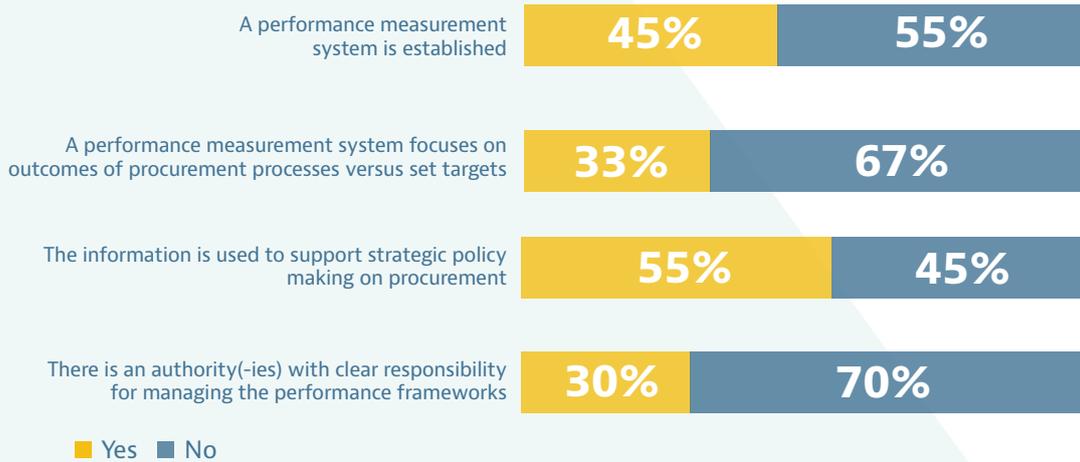
With a trend towards greater availability and collection of data, the ability to measure system-wide impact has improved and countries are better equipped to conduct evaluations of their public systems. More than half of countries reported that they analyse procurement information and data to inform further reforms of public procurement systems. However, only a minority of them have a formal performance management systems established, with Key Performance Indicators (KPIs) reflecting outcomes and specific targets for each contracting authority (See figure 4). CPBs are often leaders in developing and monitoring KPIs to track procurement performance. In 2016, more than half of countries' CPBs

regularly measured the implementation of their objectives.

Evaluation of national procurement systems is also increasing through national institutions like supreme audit institutions (SAI) or OECD peer-reviews or international assessments such as the MAPS (Methodology for assessing procurement systems).

The OECD has worked with a number of OECD countries and non-members on peer reviews. It also co-ordinated the revision of the MAPS and has conducted MAPS assessments in both OECD and non-member countries.

Figure 4. A performance management system is lacking in most countries

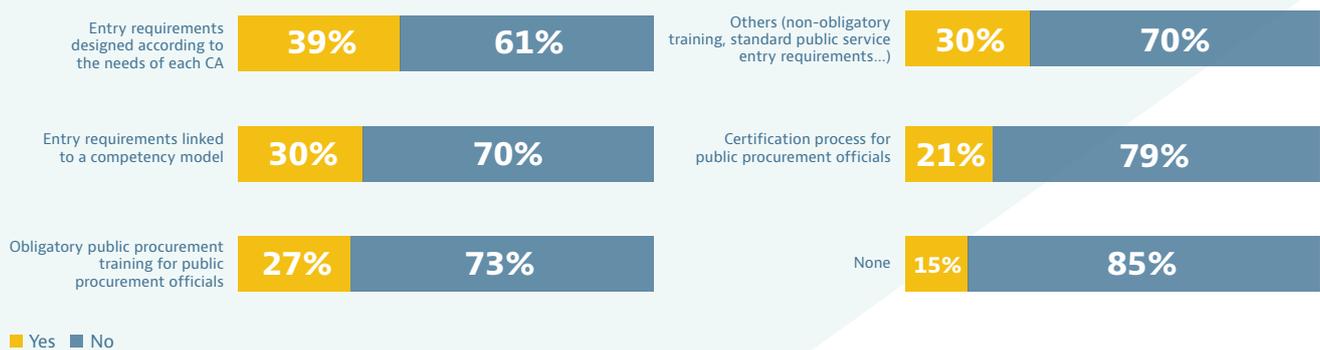


Building-up skills in the procurement workforce

There continues to be a lack of procurement capability³, often linked to an absence of competency models, which identify the skillset for each procurement position. Only ten countries (Canada, Chile, France, Iceland, Japan, the Netherlands, New Zealand, Peru, Portugal, and the Slovak Republic)

responded in the 2018 Survey that they have such competency models. Responses also show that the most common types of workforce entry requirements adopted by countries were designed according to the needs of each contracting authority.

Figure 5. Measures in place to ensure adequate capacity of procurement workforce



Most countries organise on-the-job training and education courses for public procurers, though only a minority of countries make them compulsory. In many jurisdictions, the focus is on building wider commercial skills and competencies as opposed to solely operational procurement skills. The European Commission is developing a

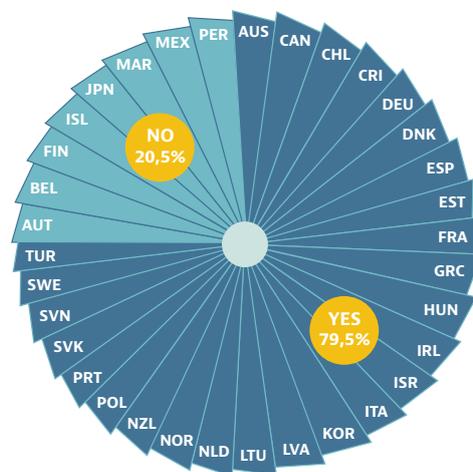
European competency framework for public procurement to support professionalisation efforts of EU member states. This framework will equip buyers with the necessary skills and knowledge through training, and facilitate the career management of public procurement practitioners.

Assessing risks and ensuring integrity

The legal frameworks used by countries reflect key principles such as equal treatment, non-discrimination, transparency, proportionality and effective competition that act as barriers to the risks of corruption or integrity breaches. The challenge remains to ensure that these principles are honoured by applying tangible measures. Promoting common values by developing standards of conduct are at the core of developing a culture of integrity in the public sector. In public procurement, it is particularly important to provide guidance for identifying and managing conflict-of-interest situations.

Countries have different approaches to managing conflicts of interest that often reflect their legal and civil service frameworks. However, a large majority of countries have a specific definition of conflict of interest for public procurement officials in their regulatory framework. In most of them, 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. Likewise, some countries use asset declarations for public officials to monitor potential conflicts of interest.

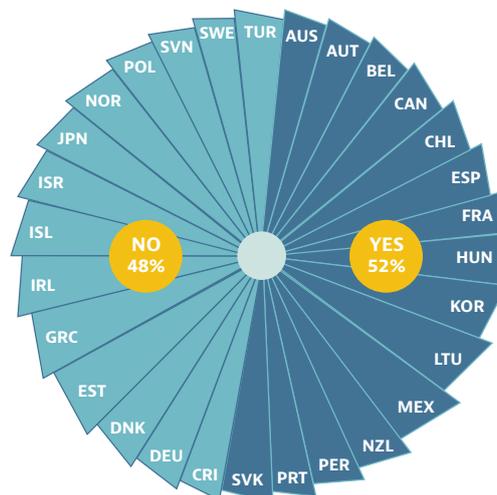
Figure 6. Do public procurement officials have to declare "no conflict of interest" or notify the competent authority in case of potential conflict of interest?



In addition to integrity breaches, public procurement is subject to other risks that can affect the outcome and impact of public procurement processes, such as risks of waste or inefficiency in all aspects of the procurement process or risks. While only around half of countries have developed

a specific strategy for the assessment, prevention and mitigation of public procurement risks, other government-wide risk and control policies frequently intervene, such as audit and inspection bodies (including supreme audit institutions) that play an essential oversight role.

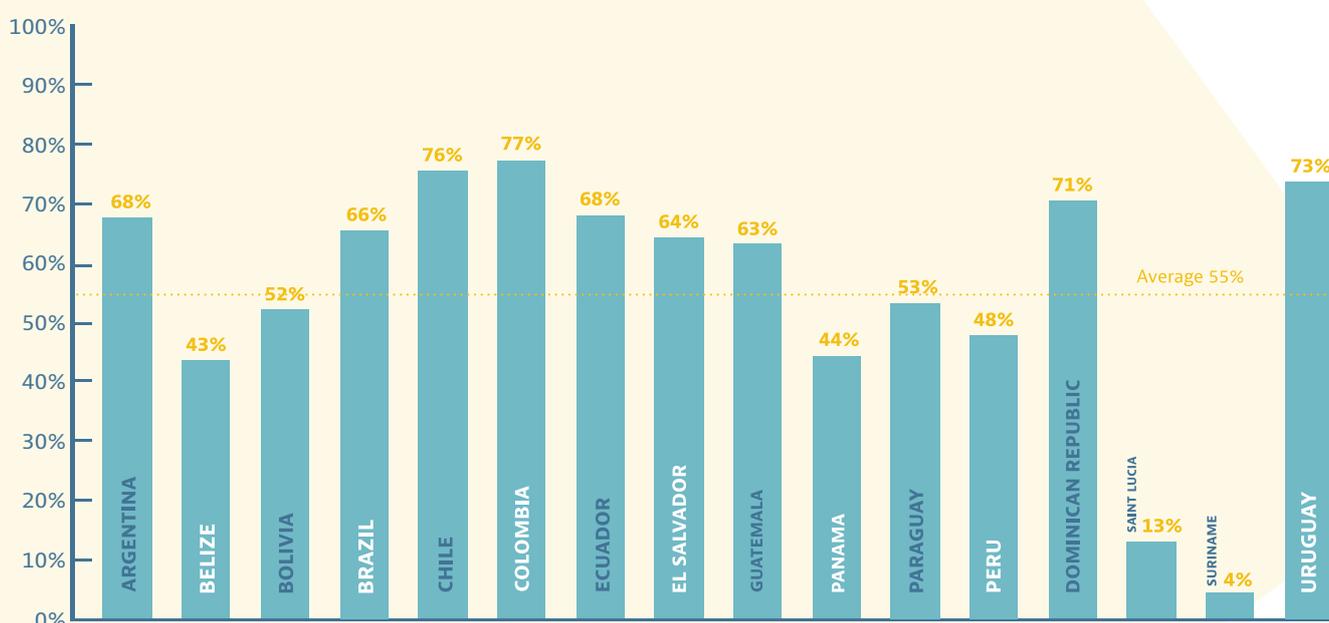
Figure 7. Is there a strategy to assess, prevent and mitigate public procurement risks?



Implementing the Recommendation for procurement reforms in LAC

The OECD supports public procurement reform in countries of Latin America and the Caribbean (LAC), and has completed peer reviews with all LAC OECD members (Chile, Mexico) and accession countries (Colombia, Costa Rica). In co-operation with the OECD, the Inter-American Development Bank (IDB) analysed the public procurement systems of 26 LAC countries, and benchmarked findings against the Recommendation⁴. It concluded that on average, progress on implementation of the Recommendation by LAC countries surveyed was 55%. However, there are large differences in progress across LAC countries.

Figure 8. Progress on implementation of the Recommendation by LAC countries



The LAC countries demonstrating the lowest levels of progress are mainly in the Caribbean region. Governments in this region have recognised the need for improvement. Since 2018, the OECD has been working with the Caribbean Development Bank in conducting assessments using the MAPS of five Eastern Caribbean countries (Antigua and Barbuda, Anguilla, British Virgin Islands, Montserrat and St. Kitts and Nevis).

Among LAC countries, the study concluded that three principles of the Recommendation have the weakest implementation status and require special attention:

- risk management (particularly the existence of tools and the publication of strategies)
- evaluation (lack of procurement-specific KPIs and indicators)
- capacity (career path offered to public procurement officials).

NOTES

1) Inter-American Development Bank (2018), *Survey to the Procurement Authorities of the Latin American and Caribbean Member-Countries on the OECD Recommendation on Public Procurement* (Unpublished).

2) Flynn, A. and P. Davis (2017), "Explaining SME participation and success in public procurement using a capability-based model of tendering", *Journal of Public Procurement*, <http://dx.doi.org/10.1108/JOPP-17-03-2017-B003>.

3) Defined as skills-based ability for an individual, group of organisation to meet obligations and objectives.

4) Interamerican Development Bank (2018), *Survey to the Procurement Authorities of the Latin American and Caribbean Member-Countries on the OECD Recommendation on Public Procurement* (Unpublished).

FIGURE SOURCES AND NOTES TO BE TAKEN INTO CONSIDERATION WHEN INTERPRETING THE DATA

FIGURE 1.

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: Data from the 2018 OECD Survey on the Implementation of the 2015 OECD Recommendation on Public Procurement and from the 2016 OECD Survey on public procurement (partially published), https://qdd.oecd.org/subject.aspx?Subject=GOV_PUBPRO_2016

FIGURE 2.

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

Source: OECD (2018), *SMEs in Public Procurement: Practices and Strategies for Shared Benefits*, OECD Public Governance Reviews, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264307476-en>.

FIGURE 3.

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

Source: Data from the 2018 OECD Survey on the Implementation of the 2015 OECD Recommendation on Public Procurement

FIGURE 4.

Note: Data gathered from 33 respondents (30 OECD Countries, Morocco, Costa Rica and Peru).

Source: Data from the 2018 OECD Survey on the Implementation of the 2015 OECD Recommendations on Public Procurement.

FIGURE 5.

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: Data from the 2018 OECD Survey on the Implementation of the 2015 OECD Recommendation on Public Procurement.

FIGURE 6.

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

Source: Data from the 2018 OECD Survey on the Implementation of the 2015 OECD Recommendation on Public Procurement.

FIGURE 7.

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

Source: Data from the 2018 OECD Survey on the Implementation of the 2015 OECD Recommendation on Public Procurement.

FIGURE 8.

Note: Mexico, an OECD country, was not included in the Survey.

Source: Interamerican Development Bank (2018), *Survey to the Procurement Authorities of the Latin American and Caribbean Member-Countries on the OECD Recommendation on Public Procurement* (Unpublished).

FOR MORE INFORMATION, VISIT
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