

**TRANSPARENCY AND INTEGRITY IN PUBLIC PROCUREMENT:  
PROGRESS MADE IN OECD COUNTRIES IN THE LAST THREE  
YEARS**

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**ABSTRACT:** OECD countries committed in 2008 to promote transparency and integrity in the whole public procurement cycle, from needs assessment throughout tendering until contract management. Three years later the OECD reviewed progress made, based on a compliance survey against the OECD Recommendation on Enhancing Integrity in Public Procurement and individual peer reviews undertaken by countries. What the report shows is that despite the reforms undertaken capability is still lagging to mitigate risks of waste and corruption, especially in the contract management. Also, it demonstrates that in many countries capability is lacking to transform procurement from an administrative function to an instrument to support broader government objectives such as economic recovery or environmental protection.

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## INTRODUCTION

In 2008 OECD countries recognized that efforts to improve value for money in public procurement shall go hand in hand with policy measures to enhance transparency and integrity with the adoption of the OECD Recommendation on Enhancing Integrity in Public Procurement. Three years later the OECD reviewed progress made, based on a compliance survey against the OECD Recommendation and individual peer reviews undertaken by Brazil, Mexico and the United States. This document outlines key trends identified across OECD countries as well as emerging challenges faced.

### **Public procurement accounts for a significant share of GDP, which has been stretched by fiscal stimulus packages in many countries in 2009**

Procurement, which accounts for 12.6% of GDP on average across OECD countries, is a **key economic instrument for governments**. While many countries use it as an instrument to control spending at times of budget austerity, it is also increasingly used to promote socio-economic and environmental goals such as the promotion of SMEs, employment, innovation or environmental protection.

As a response to the financial crisis many countries launched fiscal stimulus programmes, which **increased the financial weight of public procurement** even further. Additional funds were allocated for major investment projects in infrastructure (e.g. housing, transport) as part of the stimulus packages in the financial crisis, which generated additional public procurement activity. In the United States, in 2008 this included over EUR 68 billion (more than 3% of GDP) for infrastructure projects that support energy efficiency and long-term environmental sustainability alone. Infrastructure spending in stimulus packages equaled EUR 23.6 billion in Australia and EUR 18 billion in Germany. The targeted infrastructure investments were largely concerned with roads, railroads, public transport, airports, childcare facilities, schools and universities, hospitals, energy networks and security, and a modern information and communication technology infrastructure (Guellex and Wunsch-Vincent, 2009).

**It is also the government activity that is most vulnerable to waste, fraud and corruption**

The financial interests at stake, the volume of transactions at the international level and the close interactions between the public and private sector make public procurement particularly **vulnerable to waste, fraud and corruption**. Public procurement is more subject to bribery by international firms in OECD countries than in other government activities such as taxation, or the judicial system according to a survey of the World Economic Forum (OECD, 2007). Bribery in government procurement is estimated to be adding 10-20% to total contract costs (Transparency International).

OECD countries recognised with the 2008 Recommendation that risks exist:

- throughout the **entire procurement cycle**, from needs assessment throughout award until contract management and payment.
- In non-competitive procedures such as emergency and defense procurement. For instance countries pointed the need to develop risk mitigation measures to avoid that under the cover of national security interests, transparent tendering rules are bypassed to buy clothes, boots, food and other everyday items for the military.

The use of stimulus packages after the financial crisis led in 2009 to an **increase in the use of accelerated procedures** to operate during times that demand enhanced flexibility, responsiveness and accountability by public organisations and to disburse public funds quickly. The emphasis on speed in committing funds has in some cases overshadowed planning for maximum economic impact, focusing for instance when 63% of highway spending was spent in the United States on improving and widening pavements (GAO, 2010). Furthermore, accelerated procedures have increased the risk of waste, fraud and corruption in procurement because of the increased flexibility of procurement rules and the reduced *ex ante* controls to enable fast-track delivery of goods, services and works.

**Many countries are lagging behind in promoting transparency and integrity in the contract management**

Once the contract has been awarded, corrupt transactions can take place if there is not a sound system to monitor the progress of work and ensure that the contractor performs its tasks. Despite the risks involved in the contract management phase (e.g. change in price of the contract, use of subcontractors and intermediaries to hide corrupt transactions, etc.), **few countries have taken active steps to supervise contractors' performance and integrity**, which is left at the discretion of the contracting authority on a case-to-case basis.

Even countries with well-advanced public procurement systems such as the Netherlands, Norway and the United States, report that **none of the following measures are required**:

- monitoring contractor's performance against pre-specified targets,
- regularly organising inspection of work in progress,
- conducting random sample checks,
- monitoring progress of contract and payment through electronic systems,
- third party scrutiny of high-value or high-risk contracts,
- testing, where possible, of the product, system or results in real-world before delivery of the work.

In addition, the **level of transparency is still limited in the contract management phase**. Although two third of OECD countries make information available about selection and evaluation criteria are publicly available in two third of countries, fewer countries publish information about events that occur post-award. Information on the justification for awarding contracts is available in thirteen OECD countries, contract modifications are publicised in eleven OECD countries and only six countries provide information that allows the tracking of procurement spending (Government at a Glance, 2011).

**In the last three years countries have rationalised, restructured and consolidated public procurement to achieve efficiency gains**

More recently rationalising public expenditure in public procurement has become a key driver due to budget austerity as a result of the economic crisis.. Experience in OECD countries shows that procurement is a privileged target for budget cuts : more than half of governments have introduced **restrictions on procurement spending**. The financial amounts at stake provide a significant potential for savings and this process is politically less sensitive to reform than other areas such as social policies that have a direct impact on purchasing power and people's lives. For instance, the United Kingdom carried out an efficiency review of Government spending in October 2010, focusing on commodity procurement, property and major contracts because of the large potential for savings.

This has in many cases led to a reorganisation of the procurement function. **Restructuring and consolidation of procurement** is a major trend across OECD countries to achieve savings through economies of scale. OECD countries including Belgium, Estonia, Finland, Ireland, Italy, Netherlands, Poland, Portugal, Slovenia, Sweden and Turkey have reformed their procurement systems for the purposes of efficiency and functionality. Countries have taken some of the following steps often simultaneously:

- **Increasing the use of framework agreements, including e-procurement**, to purchase centrally common goods (e.g. pencils). By aggregating purchasing, these contracts support governments in achieving cost savings and increasing productivity gains. In the EU, between 2006 and 2009, the number of framework agreements has increased by almost four. For instance, in Denmark Sweden relies on a system for the central award of framework agreements with call-off arrangements for procuring entities within the government sector (OECD-SIGMA, 2010). In other regions of the world, this is becoming common practice, as illustrated below with the examples of Australia and New Zealand.
- **Restructuring the public procurement organisation** with a view to downsizing the number of procurement professionals and standardising procurement. For instance, in the Netherlands, with a view to forming a

Compact Government, twelve procurement executive centres are planned to replace hundreds of procurement offices functioning within the central government with the view to achieving a saving of 6,5 billion euros. Similarly in the United Kingdom, one single team, Government procurement, was created in 2011 in order to contract for widely used goods and services for the whole-of-government at one single price.

- **Using shared services as well as purchasing alliances to achieve economies of scale.** For example in the United States, the “Marketplace@Novation” purchasing alliance brings together 2500 healthcare organisations across the US with the combined purchasing power of \$25bn annually. Through e-sourcing agreements with over 500 suppliers of medical, laboratory and safety equipment, capital equipment and services, a study in 2000 of 31 hospitals suggested that each hospital saved \$12m annually by joining the alliance.
- **Creating purchasing bodies:** EU countries are increasingly relying on centralised purchasing bodies to achieve economies of scale whereas other OECD countries tend to rely on alternative arrangements mentioned above to achieve economies of scale. In Ireland, the National Procurement Service was created in 2009 to aggregate purchases across Government Departments, agencies and the non-commercial State sector to reduce prices paid for goods and services in addition to standardising the procurement process and managing the e-procurement website. In Poland, a Common Services Center was established within the Chancellery of the Prime Minister in December 2010 as a central purchasing body to launch, conduct and award central procurement as well as design and award contracting framework agreements.

**Public procurement has also increasingly been used as a policy lever to support socio-economic and environmental objectives**

In many countries public procurement is developing **from a functional orientation to a policy lever**. There is a shift to consider that the main objective pursued by public procurement is not only to achieve value for money – that is the cost but also the value of

the items and services procured for the organisation – but to promote broader government objectives. Because of its economic significance, public procurement has the potential to influence the market in terms of production and consumption trends in favour of environmental-friendly, socially responsible and innovative products and services.

Almost all OECD and observer countries, with the exception of the Slovak Republic and Egypt, use public procurement as an instrument to **support innovation**. Procuring is one instrument that many governments use to unleash innovation in complement to getting prices right, opening markets for competition and devising innovation-inducing standards and smart regulations (OECD Innovation Strategy, 2010). Also, governments have been under pressure to find innovative solutions to emerge from the crisis and therefore invested in new sources of growth such as education, infrastructure and research.

Governments in OECD countries are increasingly using procurement to support complementary socio-economic objectives such as promoting SMEs or supporting employment for disadvantaged groups and communities. Selective or preferential procurement can appear as a cheaper way of delivering public policies towards SMEs, youth unemployment, or gender equity. However the survey shows that **very few countries analyse whether procurement is a more cost-effective way to achieve these socio-economic objectives** than direct social policies.

OECD countries are increasingly taking into account of **environmental sustainability** in public procurement, which can have a significant impact on sectors such as the construction of highways and buildings, the supply of power, water and sanitation services and the use of vehicles. In several OECD countries, the protection of the environment has given rise to an important environmental market of goods and services which is contributing significantly to economic growth and environmental-related jobs creation. By 2020, it is estimated that the sales of eco-industries will reach € 2.2 trillion. Governments can « kickstart » markets for more environmentally-friendly goods and services and thus encourage businesses to follow the governments' lead. For instance China invested USD 34,600 million in clean energies compared to USD 18,600 million in the United States (OECD Review of Public Procurement in the United States, 2011).

To promote environmental standards, the majority of OECD countries use green criteria in the technical specifications of the procurement contract (24 countries) and many also include them in the award phase (18 countries). To increase the know-how of procurement officials, more than three quarters of the OECD countries have introduced practical guides on green procurement. Despite these steps undertaken, many countries report that **procurement officials are still not sufficiently prepared to integrate environmental considerations in public procurement**. For example, there is widespread belief among officials that procuring green is expensive whereas available data indicates that it might actually result in savings for the government on a whole-life cost basis.

**Assessment against the OECD Recommendation shows that the most important deficiency in public procurement is still the lack of capability**

Despite these reforms the most prominent weakness of procurement systems reported by OECD countries is the lack of adequate capability in procurement. Public procurement still handled as an administrative function in many countries with procurement not being recognised as a profession that requires specific skills, know how and training.

At the same time, the public procurement arena has in the last decade undergone substantial changes in terms of priorities and needs. As a result procurement officials are expected to comply with increasingly complex rules, achieve best economic value while taking into account secondary socio-economic objectives. Countries report that procurement officials are facing the following **challenges**:

- Understanding the increasing complexity of public procurement rules that provide an incentive for procurement officials to have a compliance-based approach ;
- Reconciling this with the overall objective of public procurement that is to pursue value for money ;
- Taking into account other criteria in the use of public procurement to support socio-economic and environmental objectives ;

- Keeping up with the development of e-procurement systems and ensuring their effective implementation.

Therefore capability is lacking to transform procurement from an administrative function to an instrument that effectively supports broader government objectives.