Olivia McDonald

Government procurement, development and World Bank conditionalities

The World Bank's narrow focus on value for money may undermine the ability of governments to use procurement as a tool for development; meanwhile, US and European corporate lobbyists continue to pressure the Bank to go slow on the use of country procurement systems.

Procurement refers to the purchasing, leasing or renting of materials, services or equipment by government agencies. The Bank plays a lead role in procurement reform, arguably the most controversial of so-called 'good governance' reforms. Countries like Afghanistan, Bangladesh, Ghana, Peru, Rwanda, Sierra Leone, Tanzania and Uganda have all introduced new procurement legislation since 2001 in response to World Bank conditions.

Government procurement accounts for approximately 4.5 per cent of developing countries' gross domestic product, and governments tend to be the largest single consumers of goods and services in most countries. Globally, government procurement is big business, with annual spending estimated at more than $2 trillion. This, along with the fact that government procurement is the most significant sector excluded from multilateral processes, explains why procurement is increasingly on the agenda of trade negotiations.

In the past, substantial trade liberalization commitments were secured through World Bank conditionality rather than (or prior to) trade agreements. Christian Aid's new report on government procurement has found that whilst procurement reform is counted as a governance reform, the model favoured by the Bank is biased to open competition that facilitates market access for foreign firms. In Ghana and Sierra Leone, there have been specific demands by the Bank to allow foreign firms access to contracts.

The Bank is not pushing full liberalization. Recipients retain some policy flexibility to favour local firms. But the Bank is far from promoting procurement as an economic development tool, largely because it retains a very narrow focus on efficiency and value for money. Many countries have used procurement rules to favour local producers as part of their economic development efforts (most notably, the US, through the 'Buy American Act'), but the consistent message received by recipients is that such policies limit competition and thus efficiency.

Ironically, while putting a great deal of legwork into reforming procurement systems to get them aligned with supposed international best practices, the World Bank is itself dragging its feet on using those systems. The targets of the Paris Declaration on Aid Effectiveness commit donors to using country procurement systems, recognizing that it is counterproductive for a recipient with poor administrative capacity to follow the different procurement regulations of their various donors.

Of course, donors are not likely to start using recipient procurement systems until they are safe in the knowledge that they are robust and the risk of money going astray is limited. But the best practice model they use is riddled with assumptions about the benefits of open competition. Whilst allowing some preferences to local firms, the indicators developed by the Organization for Economic Co-operation and Development (OECD) and the World Bank reward non-discriminatory procurement systems with higher scores, as exclusions "may arbitrarily limit competition and may result in inefficient procurement and higher prices". These criteria are used to measure the robustness of country procurement systems, a goal of the Paris Declaration.

Country systems

The other relevant Paris goal is for donors to actually use these reformed procurement systems. Recently, the World Bank had a consultation on its pilot programme on the use of country procurement systems. It proposed weighting certain OECD-World

Bank criteria more highly to evaluate whether they could risk using country systems. The weighting made it highly unlikely that a low-income country with weak administrative capacity would be selected as a pilot country. Indicators focusing on allowing participation of bidders regardless of nationality were among those weighted more highly. As a recent internal Bank document states, "the Bank must ensure that there is a fair and level playing field for foreign firms to participate under procurement processes that are expected to attract international competition."

The Bank's Use of Country Procurement Systems initiative has drawn extensive fire since it was first proposed in 2005, not least from US and European corporate lobbies fearful of losing contracts if national competitive bidding (NCB) systems replace the Bank's standardized international competitive bidding rules. International firms typically do not compete well under NCB systems: between 2001 and 2006, firms from G7 countries won only 0.1 per cent of NCB tenders, as recorded in the World Bank's procurement database.

The US administration opposes the Bank's country systems proposal. The US Congress, urged on by US corporate lobbyists, has threatened to withhold portions of the US contribution to the International Development Association (IDA 15, see *Bretton Woods Project Update* 59) if the initiative goes forward. Furthermore, as public procurement processes are often rife with corruption, international business and some civil society groups have cautioned that use of country procurement systems requires extensive monitoring and oversight.

The Bank has scaled back its initiative and is now proposing to pilot the use of country procurement systems in eight to ten countries. However, the pilots would entail a complex process of assessing equivalence of a country's systems with the "principles" of Bank procurement policies, closing any gaps between the two, and judging country capacity and compliance following their own regulations. The pilots would most likely prove to be costly and intrusive affairs.

The Bank favours a standard procurement law and system, rather than developing a reform that can be adapted to be appropriate for each country context. Following complex new procurement rules places a heavy burden on governments, including the major spending ministries. According to the Christian Aid report, local governments in Zambia and Ghana have been particularly affected, because they do not have access to the professionals (such as engineers and procurement consultants) required to make procurement decisions. Local organizations in Ghana argue that procurement reform has run counter to the drive for decentralized governance.

Procurement reform should be designed to be locally appropriate and focus predominantly on how procurement decisions can be scrutinized by and accountable to poor men and women as well as businesses involved in the contracting process. The focus on who is eligible to bid can distract attention from this fundamental goal as well as undermine the perceived legitimacy for Bank engagement in this sector. There is an important role for the Bank and other donors to help recipients share best practice on procurement policy -- however, the decision on how far to open up to foreign firms should reside with recipients themselves.

The government procurement issue needs to be addressed as part of the Accra aid effectiveness ministerial in September 2008. The current emphasis on liberalization in procurement runs the risk of undermining the legitimacy of donor support to this important process. Recipient governments need to look more closely at the technical reforms they are signing up to under the mantle of good governance and ensure they are not losing any of their policy flexibility or bargaining chips for trade negotiations.

Olivia McDonald, Christian Aid omcdonald@christian-aid.org (with additional inputs from Bruce Jenkins, Bank Information Centre).

Based on: