



World Bank Procurement Review Submission

September 2012

On relevance

- 1 The review is very timely, given that the OECD has identified that procurement is a major constraint for improving the development effectiveness of development grants and loans. OECD DAC chair Brian Atwood said ahead of the Busan High Level Forum on Aid Effectiveness that “procurement is the main issue to tackle on donor side” to make aid more effective.
- 2 Research commissioned by the OECD in 2010¹ for the evaluation of the implementation of the Paris Declaration found that the majority of aid-funded contracts still go to Northern businesses. Furthermore it found that these inadequate procurement outcomes are the consequences of donors’ current procurement practices. In particular, lack of transparency in tendering, tendering in large lots, and restrictive eligibility criteria make it difficult for small and medium enterprises (SMEs) from developing countries to compete against large multi-nationals. [Eurodad research](#) confirmed that the latter two aspects (tendering in large lots and restrictive eligibility criteria) feature in World Bank (WB)-funded procurement. The OECD’s evaluation called on development finance providers to remove such constraints that undermine the development effectiveness of grants and loans.
- 3 International agreements such as the Global Partnership on Effective Development Co-operation launched in Busan in late 2011 contain procurement-related commitments for development finance providers, in particular the commitment to use “country systems as the default approach²”. These have not yet been implemented in the World Bank’s operations.

- 4 Procurement policies have an important developmental role. Joseph Stiglitz, the former chief economist of the World Bank, stresses that “government procurement policies have important economic and social roles in developing countries (...). Procurement policy might be used to boost domestic industries or encourage development in specific sectors of national interest. Social objectives could also be advanced by preferences for specific groups or communities, especially those that are under-represented in economic standing.”³
- 5 Country case studies conducted by Eurodad and partners found that half of the contract value of World Bank funded projects from January 2000 until February 2011 in [Ghana](#), [Namibia](#), [Uganda](#), [Bangladesh](#), [Bolivia](#) and [Nicaragua](#) went to foreign firms, and the share increased with the size of the contract.⁴ This is a consequence of World Bank procurement guidelines that consider international competitive bidding as best practice and make it compulsory for larger contracts that exceed certain thresholds. Domestic firms in developing countries usually cannot compete for international bids as they do not have access to the same resources as large multinationals.
- 6 Firms in industrialised and emerging economies are currently the main beneficiaries of the business opportunities offered by World Bank finance. According to World Bank figures,⁵ in 2008 67% of World Bank-financed contract amounts went to firms from just ten countries: China, Brazil, Russia, India, Italy, Argentina, Spain, Vietnam, Indonesia and France.
- 7 Donors, particularly the World Bank and other Multilateral Development Banks, continue to exert a strong influence on procurement policy reform in developing countries, taking the World Bank procurement guidelines as blueprints for the design of national procurement system reform programmes. Therefore, the guidelines have impacts that go far beyond World Bank-funded projects: they influence the institutional system of client countries as well as trade and investment treaties with other countries. Government procurement is an extremely important activity in developing countries and in some of them can account for 70% of public expenditure.⁶ Procurement is primarily funded by domestic resources raised from citizens/taxpayers, which is why transparency and clear accountability are necessary in order to ensure that these contracts deliver in the public interest.
- 8 Alternative procurement models to the Bank’s current approach, such as pro-poor procurement⁷, potentially have a double dividend for poverty eradication: while poor people benefit from the outputs of development projects in their region, such as a new road or school, they also gain from the new work and income opportunities that these projects generate. The International Labour Organization (ILO) estimates that just the infrastructure investments currently funded by the European Union and the World Bank could create one million additional jobs in Sub-Saharan Africa if contractors were obliged to apply pro poor procurement.⁸
- 9 The World Bank has a wide development mandate, including for private sector development - that needs to be reflected in a modernized procurement policy. The Bank has also an anti-poverty mandate, and its current procurement policy is not in line with this. The Bank has rightly stressed how important the domestic private sector is to development and poverty eradication, particularly micro, small and medium enterprises (MSMEs). Through implementing smart procurement policies the Bank can help address public financing gaps that also support the development

of the domestic private sector of developing countries. The Bank should lead the way in enacting development oriented procurement policies that level the playing field for the domestic private sector within developing countries and also pro-actively support the secondary positive effects on development resulting from a vibrant local private sector.

The World Bank procurement guidelines need to be optimized so that procurement:

- 10 Becomes an economic policy tool which is pro-poor, promotes domestic industry development and empowerment, reduces asymmetries between local and foreign companies in order to create a truly level playing field, focusing in particular on SMEs; and works towards poverty eradication, sustainable development and mitigating climate change.
- 11 Becomes a development tool, considers social and environmental criteria, and creates incentives for all private actors to behave in a socially and environmentally responsible fashion.
- 12 Respects transparency and accountability, emphasizing that accountability to citizens in developing countries matters most. The Bank can play a catalytic role in strengthening domestic accountability through its procurement practices.
- 13 increases the effectiveness and developmental impact of aid and ensures that the larger share of aid inflows remain in the recipient countries.

In the context of the review

The review should achieve:

- 14 The review needs to reform and update the WB procurement guidelines in order to achieve compliance with latest international agreements on development cooperation. The Global Partnership on Effective Development Co-Operation stresses the importance of democratic ownership of partner countries over their development processes and the financial resources for development, and it obliges development finance providers to use country systems as the default approach. It also emphasizes that principles of development cooperation need to be consistent with human rights, decent work, gender equality, environmental sustainability and disability.⁹ Such new international agreements have massive implications for WB operations but are not yet reflected in the WB procurement guidelines and practices.
- 15 The WB should explore what the principle of democratic ownership implies for its procurement work. Both for WB procurement which is currently one-size-fits-all using donor-developed guidelines, and for the WB-funded procurement system reform programmes in developing countries, which are currently not democratically controlled, although they have implications for how citizen/taxpayer money is spent.

- 16 The WB should initiate an independent review of its procurement policies, giving active participation to MSMEs, parliaments and civil society from developing countries, to identify and remove all constraints to Southern firms, in particular MSMEs, in bidding and winning WB-funded contracts. While the WB initiating discussion paper mentions that 70% of procurement tenders go through national contract bidding (NCB), this is not true of the overall portfolio measured by value, as the larger contracts are still going to northern firms.¹⁰
- 17 The Bank should stop using procurement liberalisation as a policy conditionality in its loans. The WB and other MDBs often portrayed procurement policy reform in developing countries as good governance and transparency reforms. Transparency is one of the dimensions that needs to be addressed in public procurement policies to make them unleash the full potential to contribute to equitable development. However, procurement policy reforms advocated by the World Bank and other MDBs have all too often pushed for increased liberalisation of procurement systems. As a general rule, the World Bank imposes the condition that its procurement guidelines are followed for all larger tenders, i.e. international competitive bidding is obligatory. Procurement liberalization is often also a condition for disbursement of development loans. For instance, the World Bank's Country Assistance Strategy 2006-2009 for Bangladesh reads: "Investments in peak power capacity expansion and complementary transmission facilities are planned, jointly with the Asian Development Bank, subject to the government's committing to a fully open and competitive procurement process. Support for the government's small-scale power program is also envisaged, subject to the same condition."
- 18 Technical assistance and diagnosis tools (Country Policy and Institutional Assessment - CPIA and Country Procurement Assessment Reviews - CPAR) - are other ways in which the WB exerts its influence. They have been developed by the World Bank: they are not "mutually agreed diagnostic tools" in the spirit of the Paris Declaration, the Accra Agenda for Action and the Global Partnership launched in Busan, nor do they reflect the current consensus principles of effective development cooperation. CPIA has been strongly criticized for being biased toward rewarding liberalized trade and financial sector policies¹², and the Methodology for Assessing Procurement Systems (MAPS) – the newest tool for assessing procurement systems developed by the OECD Task Force on Procurement – does not include indicators to assess the social, environmental or poverty impacts of procurement.¹³ The Bank needs to develop assessment tools that are truly mutually agreed upon and involve input from all stakeholders in developing countries, particularly civil society and parliament.
- 19 The WB should systematically explore how to use preferences and debarment to incentivise private enterprises to engage in socially productive behaviour and investments. Tax evasion and human rights violations are an example of sensible debarment criteria.

On the road forward

- 20 The World Bank should examine what other organisations such as the United Nations and the World Food Program¹⁴ and countries such as Brazil are doing regarding implementation of sustainable public procurement.
- 21 The WB should implement a procurement policy that best reflects its development mandate and enhance development effectiveness.
- 22 The WB should start promoting smart procurement that supports MSMEs in developing countries and levels the playing field so that they might stand a fair chance against international competitors.
- 23 The WB should get serious about carefully designing a policy that actively promotes local markets and allows MSMEs to successfully bid for contracts. This means creating smaller contracts, advertising all tenders locally in local languages, creating domestic preference allowances and removing restrictive eligibility criteria, among other measures.
- 24 The WB should design procurement standards that provide for socially and environmentally sustainable procurement, and ensure anti-corruption.
- 25 Process matters too - the WB consultation is skewed to the North and to big business, just like its procurement policy. To demonstrate good faith the Bank needs to open up the process to Southern MSMEs and CSOs, conduct genuinely independent reviews into barriers to explain why SMEs cannot win contracts, and involve all beneficiaries and Southern CSOs in a more meaningful way.
- 26 The WB should assist in building the capacities of recipient countries without imposing conditions or biased technical advice. All assistance should be tailored to recipient countries needs as identified in self-assessments, using self-defined assessment methodologies and criteria.
- 27 The WB should give preferential treatment to small and medium enterprises and firms based in structurally weak areas. They should consider social, environmental and gender criteria in tender evaluations.
- 28 The WB should increase the efficiency of procurement contracts through usage of tools such as e-procurement, but ensure that local firms have access to these tools.
- 29 It is important for the WB to explicitly state that it does not believe in the principle of one-size-fits-all and ensure its procurement guidelines are flexible.

Endnotes

- 1 Clay, E., M Geddes and L. Natali (2009). "Untying Aid. Is it working? An Evaluation of the Implementation of the Paris Declaration and of the 2001 DAC Recommendation of Untying ODA to the LDCs." Danish Institute for International Studies. Copenhagen. www.oecd.org/dataoecd/51/35/44375975.pdf
- 2 Busan Partnership for Effective Development Co-Operation. Fourth High Level Forum on Aid Effectiveness, Busan, Republic of Korea, 29 November-1 December 2011: "Use country systems as the default approach for development co-operation in support of activities managed by the public sector, working with and respecting the governance structures of both the provider of development co-operation and the developing country." www.aideffectiveness.org/busanhlf4/about/global-partnership.html
- 3 Stiglitz, J. and A. Charlton (2005). *Fair Trade for All: How Trade can Promote Development*. Oxford University Press.
- 4 Bodo Ellmers (2011). "How to spend it. Smart procurement for more effective aid." Eurodad. <http://eurodad.org/4639/>
- 5 World Bank (2009). Procurement under World Bank-financed projects, Fiscal Year 2008. Annual Report, p. 15. <http://documents.worldbank.org/curated/en/2009/03/10495888/procurement-under-world-bank-financed-projects-fy08-annual-report>
- 6 World Bank (2008). Strengthening World Bank Group Engagement on Governance and Anticorruption, p. 19. <http://siteresources.worldbank.org/EXTPUBLICSECTORANDGOVERNANCE/Resources/286304-1225400140356/GAC1-YearProgresReport.pdf?resourceurlname=GAC1-YearProgresReport.pdf>
- 7 ILO (2005). Promotion of pro-poor municipal procurement systems and strategies. www.ilo.org/emppolicy/pubs/WCMS_ASIST_8035/lang-en/index.htm
- 8 ILO (2005). Livelihood and Employment Creation. Labour-based infrastructure projects.
- 9 Busan Partnership for Effective Development Co-Operation. Fourth High Level Forum on Aid Effectiveness, Busan, Republic of Korea, 29 November-1 December 2011. www.aideffectiveness.org/busanhlf4/about/global-partnership.html
- 10 See Eurodad (2011) report and World Bank (2010). Procurement under World Bank-financed projects, Fiscal Year 2010. Annual Report, p. 12. http://siteresources.worldbank.org/INTPROCUREMENT/Resources/Procurement_Annual_Report_FY10.pdf
- 11 World Bank (2006). Bangladesh Country Assistance Strategy 2006-2009, p. 33. http://siteresources.worldbank.org/BANGLADESHEXTN/Resources/CAS_MAIN_BOOK_FINAL.pdf
- 12 Alexander, Nancy (2010). "The Country Policy and Institutional Assessment (CPIA) and Allocation of IDA Resources: Suggestions for Improvements to Benefit African Countries." Heinrich Boell Foundation. Washington DC.
- 13 OECD (2009). Methodology for the Assessment of Procurement Systems.
- 14 See the United Nations Sustainable Development process and the World Food Program's Purchase for Progress (P4P).

Signatories:

African Forum and Network on
Debt and Development – Afrodad,
African region

Alliance Sud, the Swiss Coalition
of Development Organisations,
Switzerland

Asociación Ambiente y Sociedad,
Colombia

Both ENDS, Netherlands

CAFOD, UK

Christian Aid, UK

Centre national de coopération au
développement – CNCD-11.11.11,
Belgium

Debt and Development Coalition
Ireland – DDCI, Ireland

European Network on Debt and
Development – Eurodad, European
region

Fair Trade Advocacy Office –
FTAO, Belgium

Fundar, Center for Analysis and
Research, A. C., Mexico

IBIS, Denmark

Instituto Latinoamericano para
una Sociedad y un Derecho
Alternativos, Colombia

Latin American Network on
Debt, Development and Rights –
Latindadd, Latin American region

ONE International

Oxfam International

Reality of Aid, Africa Network

Save the Children, UK

Uganda National NGO Forum,
Uganda