E-Procurement: Opportunities & Challenges

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Summary:

- E-Procurement can provide significant benefits, but requires important conditions for success

- Situate e-procurement reforms within a broader framework of governance: focus on supply and demand for reform

- Important to understand and manage political economy of reform
E-procurement can deliver substantial benefits but requires important conditions for success
Impact of e-Procurement

✓ Increased efficiency due to competition, transparency and lower transaction costs

✓ Reduced opportunity for fraud & corruption due to automated procedures

✓ Public procurement monitoring
Savings (Examples)

Total volume of US$ 44 bn in 2006 with transaction cost savings of US$ 4.5 bn (http://www.pps.go.kr/english/)

From 2000 to 2006, 51% savings in transaction costs and 25.5% in price reductions (http://www.relogiodaeconomia.sp.gov.br/br/home_results.asp)

US$ 3.6 bn of transactions in 2005 with savings of US$ 238.2 mn due to tender discounts in the same year (http://ccaharyana.gov.in/e-procurement.htm)
Conditions for Successful Implementation

✓ Strong government leadership (e.g. Korea, Mexico at presidential level)

✓ Appropriate implementation framework (e.g. procurement policy, legislation, capacity building, standards)

✓ Infrastructure development (connectivity)

✓ Complaints mechanism & resolution

✓ Oversight over collusion & bid rigging

✓ Managing political economy of reform
What have countries achieved?

Source: Government of Karnataka Case Study, 2012
What have countries achieved?

$8trillion spend, 850 public bodies, 2 million orders, $280m savings, 101k suppliers (90% micro and small enterprises)
## What have countries achieved?

<table>
<thead>
<tr>
<th>Area of potential savings in e-procurement supply chain</th>
<th>Potential savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings from supply duplication; management of demand for supplies; improved stocking</td>
<td>2.0 to 4.0%</td>
</tr>
<tr>
<td>Savings from consolidated purchasing, group purchasing, paperless order management</td>
<td>2.5 to 4.0%</td>
</tr>
<tr>
<td>Savings from consolidation of supplier base, and improved paperless order with specification</td>
<td>0.5 to 2.0%</td>
</tr>
<tr>
<td>Saving from improved use of delivery capacity and other service enhancements</td>
<td>0.5 to 2.0%</td>
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<tr>
<td>Savings from automated point-of-service distribution; just-in-time and continuous replenishment strategies</td>
<td>0.5 to 1.5%</td>
</tr>
</tbody>
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Source: Various case studies, MDB eGP Conference 2009 & 2011
The Economic Clock is a technological tool implemented by the Department of Public Management to explain - concisely - the savings made by the State Government of São Paulo, after the implementation of innovations in order to provide public services.

The instrument was developed in order to analyze the services in which there was some kind of innovation, i.e., procedural, administrative or technological, comparing the costs of proceedings on two occasions: on their performance 'traditional' and after the implementation of innovations.

World Bank Economic inserts the clock in its use of best practices

Incorporation of OpenOffice.org in Company of São Paulo Metropolitan (Metro)

The objective of this study was to analyze the comparative costs generated by incorporating a set of office applications for computers of the Company's São Paulo Metropolitan (Metro), considering the cost of Microsoft Office and OpenOffice.org.
What have countries achieved?

Audit compliance

Traditional/Manual: 70%
eProcurement: 95% (35% increase)

Connecting the Public and Private Sector
GeBiz Singapore
Situate reforms in a broader framework of governance and anticorruption: focus on supply and demand for reform
What makes e-Procurement challenging?

- It’s variedly understood
- It’s more about procurement than technology
- It’s not a panacea
- It’s a moving train
The motivation is varied

- **Organizational Readiness**
  - Financial Resources
  - IT Sophistication

- **Relative Advantage**
  - Perceived Benefits
  - Perceived Risks

- **Facilitating Environment**
  - Provider Acceptance
  - Peer Influences

Locations:
- Singapore, Malaysia, Korea
- Thailand, Vietnam, Indonesia
- European Union
Lessons learned: e-Government vs better government

Ways to fail

- Consider and promote e-government as a government-centered effort
- Replace every paper-based process by an electronic process
- Offer ‘ministry-specific’ e-solutions
- Focus primarily on first rate technological systems

Ways to go

- Focus the e-government process on users (citizens & businesses)
- Use e-government as a tool to foster changes in attitudes and thinking, and as an instrument for reforms
- Rally government-wide efforts, and an ‘all-of-government’ approach (front office)
- Understand and tackle underlying political obstacles to reform
### Strengthening Governance Systems: Balancing Supply & Demand

#### Supply-side
Strengthen the state’s bureaucratic capability – leadership, skills, human resource, financial management, information systems – to deliver public goods and services.

#### Demand-side
Strengthen accountability arrangements – elections, political parties, effective parliaments, independent judiciary, free press, vibrant civil society, accountable local governments – that enable citizens and firms to hold state institutions to account.
Stakeholder networks