TAKING A RISK BASED APPROACH TO ADDRESS CORRUPTION IN PUBLIC PROCUREMENT

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1. The OECD

2. Risk and Public Procurement

3. Project: Integrating risk management in public procurement

4. Hands on assistance and tools
OECD.....

• ......is the international organisation who works to develop better policies for better lives:

• The OECD provides a unique peer learning platform......
✓ Public Procurement Recommendation 2015

• The mission of OECD is to support policies which improve financial and social well being across the world.
www.oecd.org
36 members-states, two in accession process, 5 principal partners
OECD – Key numbers

- 35 Member Countries
- 59% World GDP
- 2 thirds World Trade
- 95% World Official Development Assistance
- 18% World Population

- €370 Million Annual budget (2014)
- 2,500 Staff
- 300 Committees & Working Groups
- 115,000 Delegates
- 250 New publications per year
Part of the international community

[Images of various international organizations such as the International Monetary Fund, European Union, UN, OECD, NATO, Inter-American Development Bank, European Bank, ASEAN, and others]
How can we define risk?

**RISK:** The definition set out in ISO Guide 73 is that risk is the “effect of uncertainty on objectives”

**YOU CAN TAILOR THIS**

“effect of uncertainty on PROCUREMENT objectives”

**RISK MANAGEMENT:** As per the ISO 31000, “Managing risk is dynamic and assists organizations in making informed decisions about setting strategy and achieving objectives”
RISK MANAGEMENT IN PP
A TREND OR A NECESSITY?
What are the benefits of managing risks?

• We all manage risk consciously or unconsciously - but rarely systematically
• Managing risk means forward thinking
• Managing risk means responsible thinking
• Managing risk is all about maximising opportunity and minimising threats
• The risk management process provides a framework to facilitate more effective decision making
What is the benefit of taking a risk based approach to do procurement?

✔ Achieve procurement objectives
✔ Leverage procurement to create value for the organisation
✔ Improve performance of procurement operations
✔ Meet users needs thus improving overall performance
✔ Generate data for informed procurement decision-making
✔ Align procurement with institutional objectives
✔ Gain respect for the procurement function
Why is public procurement a high risk area?

Public procurement is a high risk area due to:

• the amounts at stake
• the complexity of the legal framework and relevant procedures
• interaction and close contact between the public and private interlocutors
• the multitude of actors and business sectors concerned (health, defence, infrastructure etc)
• the challenges related to achieving economic, effective and efficient procurement
Public Procurement Matters
€6.4 trillion spending in OECD

Government procurement as share of GDP and of total govt. expenditures

Supporting countries by building evidence

Assessment tools, MAPS

Key performance indicators

G@G: Government at a Glance

Professionalisation

eProcurement

Strategic use:
- Green
- SME
- Innovation

→ Public Procurement Toolbox - innovative, practical, collaborative solutions
Risks exist across the public procurement cycle

1. Identification of needs and Market analysis
2. Preparation and launching of the procedure
3. Reception and Evaluation of offers
4. Contract attribution
5. Contract execution
6. Payment and contract closure
The OECD Recommendation
XI. RECOMMENDS that Adherents integrate risk management strategies for mapping, detection and mitigation throughout the public procurement cycle.

To this end, Adherents should:

i) Develop risk assessment tools to identify and address threats to the proper function of the public procurement system. Where possible, tools should be developed to identify risks of all sorts – including potential mistakes in the performance of administrative tasks and deliberate transgressions – and bring them to the attention of relevant personnel, providing an intervention point where prevention or mitigation is possible.

ii) Publicise risk management strategies, for instance, systems of red flags or whistle-blower programmes, and raise awareness and knowledge of the procurement workforce and other stakeholders about the risk management strategies, their implementation plans and measures set up to deal with the identified risks.
Corruption risks evolve throughout the project
OECD supports partners in managing risks of corruption and fraud in procurement

- OECD/ANAC Cooperation Project on "EXPO Milano 2015" → High-Level Principles for Integrity, Transparency and Effective Control of Major Events and related infrastructures
- Effective Delivery of Large Infrastructure projects: The case of the new international airport of Mexico (ongoing)
- Supporting the development of the Suez Canal Economic Zone (ongoing)
- Integrity Framework for Public Investment
- Developing competencies of the public procurement workforce in EU Member States (Greece, Bulgaria, Slovak Republic, Lithuania)
- Managing Fraud Risks of ESIF programmes in the Slovak Republic (2018)
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PRACTICAL APPROACH ON INTEGRATING RISK MANAGEMENT IN PUBLIC PROCUREMENT
Cooperation with national authorities

**Goal:** Introducing risk management in public procurement across public organisations

**Timeline:** 12-18 months

**Key activities/outputs:**
- Strategic framework on risk management in procurement
- Guide with detailed processes and practical steps
- Hands on implementation tools
- Train the trainers workshops
- Pilot exercises with 5 organisations (Ministries and SOEs)
- On the ground support
- Review feedback and fine tune strategy and tools
## A comprehensive approach to risk management in public procurement

<table>
<thead>
<tr>
<th>Strategic framework</th>
<th>Risk Management process</th>
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<tbody>
<tr>
<td>Excel tool to support risk assessment</td>
<td>QIRI and Brainstorming</td>
</tr>
<tr>
<td>Implementation Guidelines to roll out the strategy</td>
<td>5 Whys and Ishikawa diagram</td>
</tr>
</tbody>
</table>
The practical steps towards managing procurement risks

**Key steps to implement a risk management strategy at the level of each public organisation:**

- Nominate a Head of risk management and a risk management team
- Define the scope, the context and the risk criteria
- Undertake the risk assessment exercise
- Develop consultation and communication mechanisms
- Establish a rigorous monitoring and review mechanism
- Ensure effective recording and reporting
Overview of the Risk Management process

1. **Scope, Context, Criteria**
   - Communication & Consultation
   - Monitoring & Review

2. **Risk Assessment**
   - Risk Identification
   - Risk Analysis
   - Risk Evaluation
   - Is the Risk Level Tolerable?
     - Yes
     - No

3. **Risk Treatment**
   - Recording and Reporting
1. Defining the scope, context and criteria

- **SCOPE, CONTEXT, CRITERIA**
- **RISK ASSESSMENT**
  - **RISK IDENTIFICATION**
  - **RISK ANALYSIS**
  - **RISK EVALUATION**
    - **IS THE RISK LEVEL TOLERABLE?**
      - YES
      - NO
    - **RISK TREATMENT**
- **RECORDING AND REPORTING**
Where do we start from?

The **purpose** of establishing the scope, the context and criteria is to:

- customize the risk management process to the procurement function
- enable effective risk assessment and appropriate risk treatment
- Define the exact scope of the risk management process in relation to procurement activities,
- understand the external and internal context affecting procurement operations
- define customised criteria to evaluate the significance of procurement risks
Process level

- Dossier d’AO
- Offres techniques et financières.
- Rapport d’évaluation des offres
- Marché signé
- Projets d’avenants
- Dossiers de clôture
- Avis et décisions des commissions et conseils d’administration
- Requêtes des fournisseurs

Phase de préparation et de programmation

Phase de passation

Phase d’exécution

Phase de clôture et de règlement définitif.

Département communication et des relations externes
Département des services centraux
Système d’information TUNEPS

Direction Générale
Les Commissions de marché
Conseil d’administration

Processus de réalisation

Processus management

Processus supports

- Décision Commission de Contrôle des Cahier de Charges
- PV d’ouverture des plis
- Décisions de commissions de marché
2. The Risk Assessment exercise

COMMUNICATION & CONSULTATION

SCOPE, CONTEXT, CRITERIA

RISK ASSESSMENT

RISK IDENTIFICATION

RISK ANALYSIS

RISK EVALUATION

IS THE RISK LEVEL TOLERABLE?

YES

NO

RISK TREATMENT

MONITORING & REVIEW

RECORDING AND REPORTING
What does the risk assessment entail?

A. Risk assessment encompasses three sub-processes:
   1. Risk identification
   2. Risk analysis and
   3. Risk evaluation

B. The result of the risk assessment exercise should inform the entity's decision on how to treat (residual) procurement risks taking into consideration the effectiveness of any existing control measures.
Identifying the root cause generating the risk: 5 Why’s technique

5-Why Analysis Template


Supporting risk assessment: Diagramme Ichikawa

- Organisation/Management/Human factors
- Economic/Financial
- Technical/Operational/Infrastructure
- Commercial/Market
- Legal/Regulatory

Procurement Risk (s)
3. Risk treatment

COMMUNICATION & CONSULTATION

SCOPE, CONTEXT, CRITERIA

RISK ASSESSMENT

RISK IDENTIFICATION

RISK ANALYSIS

RISK EVALUATION

IS THE RISK LEVEL TOLERABLE?

YES

NO

RISK TREATMENT

MONITORING & REVIEW

RECORDING AND REPORTING
What are the risk treatment options?

A. This is all about informed decision making on most appropriate treatment for each procurement risk

B. There are four broad categories of treatment options: impliquer un ou plusieurs des éléments suivants:

1. **Avoid** the risk, for example by deciding not to undertake or continue the activity related to the risk;

2. **Mitigate** the risk by:
   - changing the likelihood;
   - changing the impact;

3. **Share or transfer** the risk (e.g. insurance contracts);

4. **Accept** the risk based on an informed decision.
4. Communication & Consultation

COMMUNICATION & CONSULTATION

SCOPE, CONTEXT, CRITERIA

RISK ASSESSMENT

RISK IDENTIFICATION

RISK ANALYSIS

RISK EVALUATION

IS THE RISK LEVEL TOLERABLE?

YES

NO

RISK TREATMENT

RECORDING AND REPORTING
This is a team exercise.....

Ongoing communication and consultation activities aim to assist personnel across the entity to understand that everybody should be involved in and concerned by the risk management exercise.

Key goals:

- bring different areas of expertise together for each step of the risk management process;
- ensure that different views are appropriately considered when defining risk criteria and when evaluating risks;
- provide sufficient information to facilitate risk oversight and decision-making;
- build a sense of inclusiveness and ownership among those affected by risk.
5. Monitoring and Review

COMMUNICATION & CONSULTATION

SCOPE, CONTEXT, CRITERIA

RISK ASSESSMENT

RISK IDENTIFICATION

RISK ANALYSIS

RISK EVALUATION

IS THE RISK LEVEL TOLERABLE?

YES

NO

RISK TREATMENT

RECORDING AND REPORTING

MONITORING & REVIEW
The purpose of monitoring and review is to **assure** and **improve** the quality and effectiveness of procurement risk management process design, implementation and outcomes.

- Ongoing monitoring and periodic review should be an **integral part** of the risk management process.
- Monitoring and review should take place in **all stages** of the process.
- The results of monitoring and review should be linked with the **organization’s overall performance management**, measurement and reporting activities.
6. Recording and reporting
The risk management process and its outcomes should be documented and reported through appropriate mechanisms. Recording and reporting aims to:

- communicate risk management activities and outcomes across the organization;
- provide information for decision-making;
- improve risk management activities;
- assist interaction with stakeholders, including those with responsibility and accountability for risk management activities.
TAILORED AND HANDS ON SUPPORT WITH IMPLEMENTATION
Using the right **Risk matrix** …..

<table>
<thead>
<tr>
<th>MATRIX 4x4</th>
<th>IMPACT</th>
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<tbody>
<tr>
<td><strong>LIKELIHOOD</strong></td>
<td>Low 1</td>
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<td>Probable 4</td>
<td>Moderate 4</td>
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<td>Possible 3</td>
<td>Minor 3</td>
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<tr>
<td>Unlikely 2</td>
<td>Minor 3</td>
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<tr>
<td>Rare 1</td>
<td>Minor 3</td>
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## Echelle de Vraisemblance

<table>
<thead>
<tr>
<th>Criticité</th>
<th>Sur la base d'une fréquence annuelle</th>
<th>Sur la base d'une probabilité de survenance annuelle</th>
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<tbody>
<tr>
<td>Rare</td>
<td>Plus de vingt fois par an</td>
<td>&gt;75% chance de survenir</td>
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<tr>
<td>Faible</td>
<td>Six à vingt fois par an</td>
<td>50% à 75% chance de survenir</td>
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<tr>
<td>Moyenne</td>
<td>Deux à cinq fois par an</td>
<td>25% à 50% chance de survenir</td>
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<tr>
<td>Probable</td>
<td>Une fois par an</td>
<td>&gt;25% chance de survenir</td>
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## Echelle de Gravité

1. Augmentation du cout/budget > 50 %
2. Dépassement du délai initial > 6 mois
3. Couverture médiatique négative nationale et international impactant la réputation de l'entité (télévision et journaux)
4. Pourcentage de produits/services non conformes ou defectueux > 30 %
5. Pourcentage de produits/services ne correspondant pas au besoin > 50%

1. Augmentation du cout/budget > 30 et ≤ 50 %
2. Dépassement du délai initial > 3 mois et ≤ 6 mois
3. Couverture médiatique négative locale (long terme) impactant la réputation de l'entité
4. Pourcentage de produits/services non conformes ou defectueux > 30 % et ≤ 50 %
5. Pourcentage de produits/services ne correspondant pas au besoin > 30 % et ≤ 50%

1. Augmentation du cout/budget entre > 10 % et ≤ 30 %
2. Dépassement du délai initial > 31 Jours et ≤ 3 mois
3. Couverture médiatique négative locale (court terme) impactant la réputation de l'entité
4. Pourcentage de produits/services non conformes ou defectueux > 10 % et ≤ 30%
5. Pourcentage de produits/services ne correspondant pas au besoin > 10 % et ≤ 30%

1. Augmentation du cout/budget ≤ 10 %
2. Dépassement du délai initial ≤ 31 jours
3. Couverture médiatique négative faible
4. Pourcentage de produits/services non conformes ou defectueux ≤ 10 %
5. Pourcentage de produits/services ne correspondant pas au besoin ≤ 10 %

(Cr) = Vraisemblance*Gravité \( \{Cr=V*G\} \)
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LINKS TO OECD WORK ON PP
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Instruments

Tools

Reviews
Thank you for your attention!

Questions or comments?

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