

Chr. Michelsen Institute commissioned by the UK Department for
International Development and the World Bank Institute

Linking procurement and political economy

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2 August 2010

Preface

Currently, there are no guides available that link political-economy analysis and procurement. This paper is a first step to establish such a guide. The paper was commissioned by the UK Department for International Development (DFID) and the World Bank Institute (WBI) for the purpose of systemising key lessons from the existing literature in a format that supports the preparation of procurement reform projects.

The study presents advice based on existing good practice in procurement and political economy analysis. Although the material reviewed has largely been tested empirically through analyses in developing countries, this version of the guide has not yet been applied in practice by the time of publication. The next step in the development of the guide will include testing the tool in two countries. Based on experiences from the two pilot countries, the guide will be further developed and improved.

The paper is prepared by Mona Frøystad, Kari K. Heggstad and Odd-Helge Fjeldstad from Chr. Michelsen Institute (CMI), Norway. Robert Hyland from DFID and Robert Hunja and Edouard S. Al-Dahdah from the World Bank Institute have coordinated the project and supported the research team by providing background documentation and references to relevant cases.

A first draft of the paper was presented by Odd-Helge Fjeldstad at the meeting of the OECD/DAC Task Force on Procurement in Nairobi 3-5 May 2010. Comments and feedback from the meeting are highly appreciated. Audrey Sacks, World Bank Institute, and Martin Aldcroft, Governance Advisor, Public Financial Management work stream at DFID, provided insightful suggestions on how to strengthen the paper. Anne Lise Bergheim from Bergen University College facilitated that Kari K. Heggstad's involvement in the project was continued after she changed workplace during the project period. We are also grateful to the librarians at Chr. Michelsen Institute for their always positive and effective handling of our frequent and often demanding requests for relevant literature. The responsibility for any errors or shortcomings rests entirely on the authors.

Executive summary

This paper provides advice for practitioners on how to apply political economy tools to improve public procurement processes. At present, there are no analytical tools available that link political-economy analysis and procurement. This paper is a first step to establish such a guide. Good practice tools already exist in both political-economy analysis and procurement analysis, and this paper should be regarded as a companion document to existing guidance on political-economy analysis and guidance of procurement analysis such as the OECD Methodology for Assessing Procurement Systems (MAPS).

Key issues addressed:

- ❖ What are the main lessons of procurement and public administration reform efforts?
- ❖ What are the main tools for political-economy analysis?
- ❖ How can political-economy analysis be used specifically to make procurement more effective?

The paper is a desk study based on available literature and tools produced by practitioners in the fields of political-economy analysis and procurement.

The basics

Public procurement refers to acquisitions of goods and services by public institutions in a country. **Procurement reforms** are efforts to change current procurement practices. Typically procurement reforms have focused on changing the legal and institutional, framework, as well as training and capacity building of public procurement officers.

Public administration reforms generally aim to enhance efficiency, accountability and transparency of the public sector to reduce opportunities for corruption and mismanagement of funds. **Public**

administration reforms that are relevant for procurement include: (i) administrative capacity building; (ii) strengthening policy capacity; (iii) institutional reform; and (iv) civil service downsizing.

The political economy describes the framework that public acquisition is done within. To understand the country, sectoral and institutional contexts are crucial for identifying possibilities for change of existing procurement systems. **Political-economy analysis** thus seeks to understand how political outcomes are shaped by interests, incentives, values and ideas together with formal- and informal institutions.

Reform trends

Public-sector reform in developing countries, including procurement, has historically gone through three main phases: (i) focus on **fiscal stability**; (ii) increased emphasis on the importance of **capacity building**; and (iii) focus on the actual **quality of public services** delivered. In recent years, there has been increased attention towards focused, sector-specific reforms and on the need to open up for implementation of second-best solutions where first-best optimal arrangements are not feasible or realistic to achieve.

Incentives against reform

Incentives favouring the existing system can work against reform, because powerful stakeholders, including politicians and public officials in charge of procurement, benefit from loopholes and weak control mechanisms. Corruption is often an important element of procurement processes in many countries due to the large amounts of money involved, the complexity of the projects, political interference, opportunities for discretionary decisions by procurement officers, poor monitoring and accountability mechanisms etc.

Corruption may imply that contracts are awarded the best briber, instead of choosing the best price-quality combination.

Types of corruption typically found in procurement processes are bribery, bid rigging, patronage systems and nepotism. Practitioners should be aware that corruption can take place at all stages of the procurement process, and that reform strategies specifically have to include both the pre-tendering and post-award phases, in addition to the tendering and contract phase.

Corruption alone, however, does not explain all incentives to resist reform. Another part is the political incentives fuelled by the wish to keep or gain powerful positions politically, in a sector or in a specific industry. Power ambitions may be as harmful as monetary distortions. Thus, the analysis needs to include both power structures and more specific corruption targeted variables.

Existing analytical tools

An overview of central political-economy analysis tools is presented in the table below:

PEA Tools	Main focus of tool
DFID: DoC	How reform emerge and endure
DFID: PoD	How political decisions are being made
SIDA: Power Analysis	The nature and distribution of power
Netherlands: SGACA	Governance and anti-corruption
EU: AAGSO	Analysing sector governance
ODI: PESPA	Sector approach to DoC
WB: PDGPEA	How to enhance effectiveness of development

In addition, the **Methodology for assessment of national procurement systems (MAPS)** developed by OECD, is a tool to assess the

quality and effectiveness of national procurement systems (see Annex 1).

Political-economy analysis tools can broadly be categorised into (i) **macro level**, (ii) **sector level**, and (iii) **problem-driven analysis** (see Annex 2). Sector and problem-driven analysis are normally based on a country analysis, but where certain issues are studied in more depth. The purpose of the specific study determines which of the approaches are most appropriate.

A guide to political-economy analysis of procurement

Chapter 3 outlines a step-by-step analytical framework for political-economy analysis of procurement. The purpose is to provide practitioners with a tool to strengthen their insights of the context where procurement takes place and to inform strategy planning. The guide provides a general framework for political-economy analysis of procurement that should be adjusted to fit the specific purpose of each analysis.

Before you start

- ✓ Identify the **purpose** of the analysis and consider which **position** you are in to reach your aim.
- ✓ Acknowledge that it is important to secure a continuous and systematic monitoring of policy processes, including the role of key stakeholders and changes over time.

Step 1 Identify the problem/challenge

- ✓ Focus on reality rather than a future ideal.
- ✓ Involve stakeholders.

Step 2 Basic country analysis

- ✓ Analyse the basic country setting to examine how procurement systems are influenced by for example political history.

Step 3 Select the appropriate approach

- ✓ Choose the appropriate level of analysis. Does the purpose of the study require a sector analysis or a problem analysis?

A **sector analysis** looks at the incentives and constraints that influence actors in a given sector. It can provide knowledge on how and why sectors in the same country may experience different procurement challenges. The **problem-driven analysis** aims to understand or resolve a particular problem, rather than focusing on a broad overview of a whole sector.

Step 4 Analysis of context

- ✓ Get an understanding on how structures, institutions and stakeholders influence the situation.
- ✓ Be aware of the dynamic relationships between institutions, structures and stakeholders to get a 'complete' understanding of the situation.

Stakeholders can be formally and informally linked to public procurement structures, and their interests can be either hidden or open. Examples of stakeholders in procurement reform are procurement officers, local elites, businesspeople and development partners.

Structures are long-term contextual aspects that influence the political economy. Examples are economic structures in a country that relies mainly on natural resources such as oil and diamonds, or the geo-political challenges for a landlocked country in a conflict area

Institutions refer to the formal and informal rules that shape the behaviour of stakeholders. Examples of **formal institutions** are the executive, the parliament, the ministry of finance, the auditor general, and business

associations. **Informal institutions** are the norms, unwritten rules and unofficial social and peer networks such as family, friends and colleagues. Traditional authorities such as chiefs, local councils and elders may be robust informal institutions that are not easily spotted by examining the formal rules and regulations of a country.

Step 5 Analysis to action

- ✓ Prioritise action that is feasible and realistic to implement.
- ✓ Basics first – use a step-by-step approach with gradual and practical changes.
- ✓ Consider how much room for manoeuvre you have.

What approach is feasible to implement depends partly on the position of the change agent and partly on the political economy context. The room for manoeuvre is determined mainly by the influence of the stakeholders and the level of interest for change among key actors.

- ✓ Inclusiveness and participation – involve a range of key stakeholders as early as possible in the analysing and planning process.

Creating stronger demand for better procurement processes is important for sustainable reforms. Expanding the space for broader domestic engagement on procurement issues may over time establish a conducive environment for change and improved government accountability.

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1. Introduction

“For development actors seeking to influence policy, political context matters because it determines the feasibility, appropriateness and effectiveness of their actions.” (Nash et al 2006:1)

The main objectives of this guide are (1) to provide an overview for practitioners of political economy tools that may guide procurement processes, and (2) to fill some of the gaps in the existing political economy tool box to establish a more specific focus on procurement.

Public procurement accounts for a substantial share of total government expenditure. The global average is between 12 and 20 percent. In developing countries the share may be even higher. For instance, OECD (2006b) shows examples from Uganda where public procurement represented up to 70 percent of the government’s total expenditure while Malawi and Vietnam used 40 percent. Given the significant budgets for public acquisition in developing countries, the efficiency and quality of procurement processes are central for how much citizens will benefit from state spending. Governments and development partners are well aware of the link between functioning national procurement systems and the level of welfare in a country. But although laws and regulations often are well developed and in accordance with so called ‘international best practise’ in most countries, inefficiencies, capacity constraints and corruption still continue to be major challenges. These shortcomings have led governments and international organisations to shift the focus from the technical aspects of the procurement process to the political and economic framework within which public acquisition takes place.

Political-economy analysis seeks to understand the interests and incentives of different actors and groups in society, and how policy outcomes are produced as a result of these interests and incentives. Accordingly, political-economy analysis is relevant for the design and implementation of effective procurement reforms. At present, there are no guides available that link political-economy analysis and procurement. This study is a first step to establish such a guide. Good practice tools already exist in both political-economy analysis and procurement analysis, and this paper should be regarded as a companion document to existing guidance on political-economy analysis and guidance of procurement analysis such as the OECD Methodology for Assessing Procurement Systems (MAPS).

The main questions addressed by this guide are:

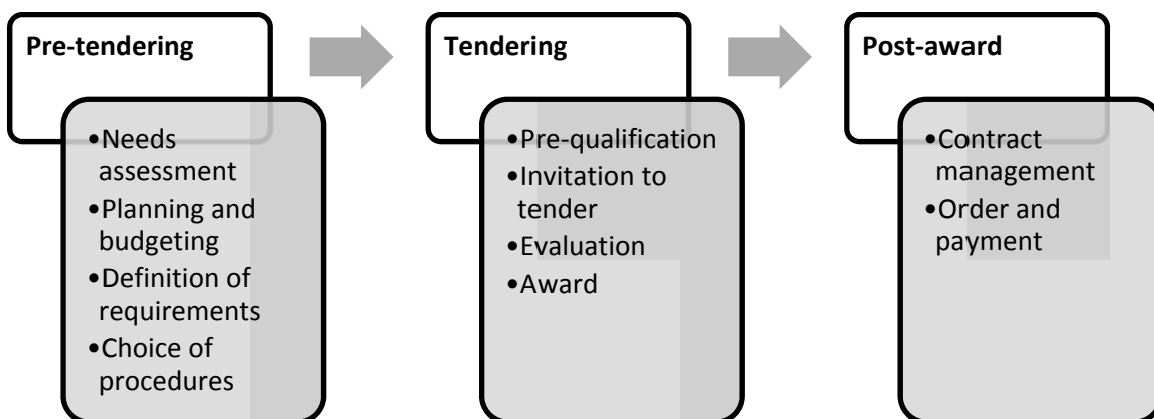
- ❖ What are the main lessons of procurement and public administration reform efforts?
- ❖ What are the main tools for political-economy analysis?
- ❖ How can available political-economy analysis tools be used specifically to make procurement more effective?

1. 1 The basics of procurement

Public procurement refers to all acquisitions of goods and services by public institutions in a country. It concerns contracts between the government and the private sector in many different areas such as health services, education, roads, water supply, the police and defence (Heggstad et al 2010).

The process of buying goods and services for the public extends further than to the act of exchange for money. Figure 1 illustrates the cycle of planning, decision making, analysis and monitoring that a procurement process may entail. Generally, the procedure is divided into three phases. First, **pre-tendering** where the needs assessment, planning and budgeting, definitions of requirements and choices of procedures are carried out. Second, in the **tendering** phase invitation to tender is announced and the incoming bids are evaluated before the contract winner is awarded. The tendering phase may also include a pre-qualification process of suppliers. However, the job for the procurement officer does not stop with the award. Third, in the **post-award** phase contract management and following up of the order and payments are crucial activities to ensure quality, efficiency and mitigate the risk for fraud and corruption.

Figure 1: The procurement cycle when the purchase is tendered



Sources: OECD Principles for Integrity in Public Procurement (OECD, 2009c:52) and The basics of integrity in procurement (Heggstad et al 2010:5).

Procurement can be conducted with or without a tender process. To mitigate the risk of corruption and non-optimal decisions, tender is widely recommended, as the case from the Philippines presented in Box 1 illustrates. The practices of thresholds and methods vary substantially between countries. For instance, Morocco has a ceiling for purchase orders that can go without a tender of about USD 24,100 per fiscal year for each procurement authority (OECD 2009) while Cambodia has a limit of USD 12,500 when competitive bidding becomes mandatory (ADB and OECD 2006:33).

Box 1: The Philippines - the advantage of competitive bidding

Using competitive bidding, the Department of Education's bulk purchases of textbooks for all schools nationwide saved 50 percent compared to previous practice, a substantial saving to the education sector. One textbook that was being purchased for an average of Php100 came down to Php45 in competitive bidding.

Source: Philippines country procurement assessment report 2008 (Government of the Philippines et al 2008:9)

Procurement reforms are efforts to change current procurement practices, while **public administration reforms** may affect procurement either directly or indirectly by changing functions that a procurement process is relying on. Reforms often aim to enhance efficiency, accountability and transparency to reduce the opportunities for corruption and mismanagement of funds. To implement successful reform it is important to have a good understanding of previous efforts, what has worked or not, and why. It is also important to better understand the political incentives that are impacting the design, implementation and sustainability of reforms (U4 2009).

1.2 The basics of political economy

The political-economy describes the framework that public acquisition is done within. Understanding the context is essential for identifying possibilities to change existing systems. The likelihood for change to occur is affected by both the particularities of procurement and the environment within which procurement takes place, including the positions and perspectives of the actors involved in policy processes. The context also matters for the effectiveness and appropriateness of actions executed to change the current system (Nash et al 2006).

A political-economy analysis goes beyond studying formal structures and reveals the underlying interests and incentives of the stakeholders. The analytical method provides insights into the conditions affecting political processes in a society, the distribution of wealth and how relationships are sustained and transformed over time (OECD DCD-DAC 2010). Political-economy analysis, thus, seeks to understand:

- ❖ The **interests and incentives** of different groups in society, and how policy outcomes are produced as a result of these interests and incentives.
- ❖ How **formal and informal institutions** shape human interaction and political and economic outcomes.
- ❖ The impact of **values and ideas**, including political ideologies, **religion and cultural beliefs**, on political behaviour and public policy. Furthermore, social, political and cultural norms are also important in influencing people's choices and may have an effect on political outcomes (DFID 2009).

By providing development practitioners with tools to better understand the contexts they work within, they will be in a better position to develop more effective and efficient strategies for their actions. This may strengthen their influence on the design and implementation of procurement reform. Political-economy analysis can help painting a more realistic picture of what is possible to achieve in specific contexts and the risks entailed. It can also help identifying the main opportunities and barriers for policy reform (DFID 2009).

1.3 Methodology

The current paper is a desk study based on available literature and tools produced by practitioners in the fields of political-economy analysis and procurement. The background material has mainly been gathered from the OECD, the World Bank, the UN system, U4 Anti-Corruption Resource Centre and from bilateral donors. A first draft of this guide was presented meeting of the OECD/DAC Task Force on Procurement in Nairobi 3 May 2010. This version has benefitted from comments and suggestions provided by experienced procurement practitioners attending the meeting.

1.4 How to use the guide

The guide is organised in three chapters. The reader can use the first two chapters to learn to know the fundamental issues related to the topic, while chapter 3 gives practical advice for your own analysis, step-by-step. Chapter 2 examines previous lessons from procurement and public administration reform efforts, and the importance of stakeholder awareness when planning reforms. Some examples are included to illustrate how procurement practitioners can build on lessons learned in previous attempts when planning new initiatives. Chapter 3 presents the tool developed that combines procurement and political-economy analysis. This framework builds on the methods presented in annexes 1 and 2. The user of the guide will benefit from having a basic understanding of existing procurement and PE tools before implementing the advices given.

2. Trends and challenges for reform

There is a long history of attempts by governments and development partners to change dysfunctional practices in public procurement with the aim to enhance efficiency and quality. Some changes have proved to be easier to implement than others, while some changes towards optimal functioning procurement systems in many cases do not seem to be feasible to implement, often due to political incentives against reform. This chapter addresses trends of and approaches to public sector reforms in developing countries from the 1980s onwards, and why implementation of the reforms has been difficult.

2.1 Trends – reform in the 1980s and today

Public sector reform in developing countries, including procurement reforms, has historically gone through three main phases. First, in the 1980s the core changes aimed at **fiscal stability** by reducing the costs of the bureaucracy. The second phase, mainly in the 1990s, was more focused on efficiency and effectiveness with **'capacity building'** as the central concept. Restructuring of public services, decentralization and reforms of financial and human resource management are examples. In the third phase, the emphasis shifted to the **quality of services** provided by the public sector. Responsiveness to the needs of the citizens and better target setting for reform have become important (Brown and Repucci 2009:3).

The three phases listed above are of course a broad generalisation of the focus and changes over time of public sector reform. In practice there are many overlaps between the phases. Governments often struggle with multiple ongoing reforms simultaneously. Thus, a wide range of objectives need to be addressed at the same time, leading to more broad based reform programmes.

UNDP (Brown and Repucci 2009:3) questions the effectiveness of large reform programmes and find that positive results from comprehensive public sector reforms remain scarce. The limited success of wide-ranging public sector reforms has led to increasing attention towards more focused sectoral reforms - both by governments and the donor community. The importance of distinguishing between the ideal situation and what is a feasible change is increasingly acknowledged. Second-best solutions should therefore be considered if they can contribute to limit perverse incentives. Hence, Benitez *et al* (2010) conclude in their report 'Dealing with politics for money and power in infrastructure' that ***"policy choices should depend much more on an understanding of how local political circumstances introduce private agendas concerns than just on international 'best practice'"***. An evaluation of a World Bank supported reform effort in Guinea-Bissau concludes that ***"lessons learned included: in a context of fragile institutions, special attention should be paid to the political economy and 'second best' solutions should be explored"*** (World Bank 2010b:26).

2.1.1 Types of reforms

Procurement reforms in developing countries have traditionally been composed of a package of initiatives, including (Jensen 2009):

- i) Legal reform including the drafting of regulations and procedures.
- ii) Reform of institutional frameworks such as the creation of a regulatory authority for public procurement.
- iii) Training of public procurement officers in new laws and procedures.

Some examples of public sector reforms that are relevant for procurement are: (a) administrative capacity building; (b) strengthening policy capacity; (c) institutional reform; and (d) civil service downsizing (Schacter 2000:5-7).

Administrative capacity building reform is often seen as training and recruitment, but addressing management problems, creating incentives for positive performance and organizational restructuring are other examples.

Strengthening policy capacity is directed at the decision-making process. Typical examples are reforms to rationalise and standardise the process and improve the flow of policy relevant information.

Institutional reform has as a measure to make the public sector more transparent and accountable. Codes of conduct and strengthened safeguards concerning public procurement are examples.

Civil service downsizing generally results in reduced size of the workforce, compensation schemes for laid-off workers and wage policy reforms such as wage freezes.

When summarising the track record of public sector reforms since the 1980s, Jensen (2009) concludes that the focus on law and training has led most countries to have a fairly robust legal and regulatory framework and also a substantial number of trained officials. Still, she argues that the reform programmes have not achieved the desired outcomes in terms of performance. Some of the explanation may rest in the lessons Schacter (2000:10) has gathered from public sector reforms in poorer countries:

- i) the efforts have often been too technocratic, and hence the social and political contexts have been overlooked;
- ii) failure of local ownership has hindered implementation and sustainability of donor planned reforms; and
- iii) The time aspect has been underestimated as fundamental reform should be expected to be a long-lasting process.

In sum, a paradigm shift has taken place in the reform initiatives. The trend has moved from donor driven, inputs-based technical assistance towards a nationally owned, outcome-based

capacity development (Jensen 2009). Weak government ownership of reforms together with limited understanding of the political and social context are the most commonly cited explanations for limited reform success. In natural resource rich countries, like Nigeria (Box 2), public sector reforms may also face other challenges, including weak relationships between the state and society and threats of violent conflict.

Box 2: Factors driving public sector reform in Nigeria (2003-2007)

“The role of leadership has been particularly crucial in Nigeria where formal institutions are not deeply rooted, politics are personalised, major divisions exist along ethnic, regional and religious lines, and there is no strong tradition of civil society participation in the policy process. While interest groups have played a major role in enabling and blocking reforms, they have generally acted singly, rather than in coalitions, and through personalised connections with political leaders” (Utomi et al 2007:2).

Progress of the reforms in Nigeria (2003-2007) may be explained by the following factors:

- ❖ **Context** – lasting economic growth, high oil revenues and a political climate creating public acceptance for the need to change created a favourable context for reform.
- ❖ **Electoral cycle** – President Obasanjo won his second election in 2003, and thus his position towards the reform opponents was strengthened. Leading up to the 2007 election observers noted slippage in some reforms.
- ❖ **Confronting opposition** – opposition or losers of reform have been compensated or sidelined. For instance, when port concessions were changed, dock workers were compensated while protests from port managers were ignored due to the more powerful arguments put forward by pro-reform business associations.
- ❖ **Business interests of the political elite** and their supporters have been a powerful drive for reform. Although there is a general perception among citizens that privatisation has benefited the elite, a likely positive result is that organised corruption in public enterprises has been disturbed by the privatisation.
- ❖ **Generating some quick early wins** – a history of weak governance in Nigeria makes the public highly sceptic towards government. Quick and visible results were therefore critical to create support for reform. Liberalisation of mobile telephony is one example, but the impact of reforms from 2003-2007 has not been high for the majority of the population and the poorest.
- ❖ **External agents** have played an important role in supporting reforms by providing debt relief, technical assistance and by collaborating with the Nigerian authorities in addressing financial crime. Nigeria’s participation in regional organisations such as AU, NEPAD and ECOWAS is catering for external influence on the domestic policy processes.

Source: The political economy of reform: the case of Nigeria 2003-2007 (Utomi et al 2007)

2.3 Challenges –incentives against reform

Changes aimed at improving efficiency and quality of public procurement may seem like the only rational choice at first glance. For the winners in the current system the case is not necessarily so simple. Perverse incentives aimed at maximising benefits for an individual or group thrive when the conditions allow. Benitez and colleagues (2010:7) identify four incentives to misuse political influence in a procurement process:

1. Short-term power hunt with a wish to gain popularity. Overly strong re-election focus is an example.
2. Long-term power hunt with a wish to control a sector. Club-leadership and maintaining and bolster power for the elite are typical.
3. Creating allies in the industry to secure industry friendliness for future benefits.
4. Maximising money-making opportunities through corruption.

In other words, the political incentives for influencing a procurement process can come from interests who wish to gain or remain in powerful positions within politics and within the sector or in a specific industry. Maximisation of personal financial gain through corrupt activities is another driver. Benitez and colleagues (2010) underline that power ambitions may be as harmful as monetary distortions.

Box 3: Challenges for public sector reform in Nigeria

- ❖ Dependent on natural resource revenues
- ❖ Weak relationship between state and society
- ❖ Competition for political power relies on patronage
- ❖ The policy process is personalised and not vested in formal institutions
- ❖ Threat of violent conflict limits organisational freedom
- ❖ Easy exit options for elites and financial capital
- ❖ Opportunistic and short-term thinking as a value system

Source: The political economy of reform: the case of Nigeria 2003-2007 (Utomi et al 2007)

Box 3 lists some challenges for reform in Nigeria 2003 to 2007, and another example is experiences from the water supply and sanitation sectors in Latin American countries. They illustrate how politicians used their position to bargain for political favours. In the 1990s, politicians exerted control of the water sector because they appointed and dismissed water company directors, and also provided public subsidies to finance investments in the sector. In return for favourable treatment, water companies were often obliged to provide political favours. Distribution of contracts based on political rather than technical and economic criteria was only one of many favours. As a consequence, water services were delivered at high costs and low quality. Large segments of the population did not receive public water supply and had to rely on a range of expensive or inconvenient water supply substitutes

(Foster 2005:1-2). Box 4 gives an example of how corruption is affecting public procurement in Tanzania.

Box 4: Corruption in Public Procurement in Tanzania

Close relations between business and political interests are widespread in Tanzania. Tender boards must declare conflicts of interest in tenders, but this is not always the case. The Public Procurement Act makes provision for blacklisting companies involved in corruption, but these regulations are not always enforced.

The 2004 World Bank-IFC Investment Climate Assessment reports that illicit payments to government officials in order to influence policy making are common practice. According to the World Bank and IFC 2006 Enterprise Survey, 42% of the surveyed companies in Tanzania expect to give gifts to secure a government contract. The average payment is estimated at 3% of the contract's value. According to the Business Anti-Corruption Portal, procurement at the local level is reported to be more prone to corruption than at the central level. Accounting for donor funded projects is also reported to be weak.

Source: Business Anti-Corruption Portal (2010); and Overview of Corruption in Tanzania. U4 Expert Answer (U4 Anti-Corruption Resource Centre March 2009).

2.4 A closer look at corruption in procurement

Corruption is the “**misuse of entrusted power for private gain**” (Transparency International 2006:14). The World Bank Enterprise Survey gives a reminder of the relevance of corruption in government procurement. As many as 38 percent of the firms covered by the survey in sub-Saharan Africa responded that they were expected to give a gift to secure a government contract (World Bank 2010).

2.4.1 Why do we care about stopping corruption?

‘Corruption in public procurement makes the officials or the politicians in charge to purchase goods or services from the best briber, instead of choosing the best price-quality combination’ (Søreide 2002:1).

Corruption in public procurement is an important obstacle to development. For example, the firm responsible for building a new school may not offer the best price-quality combination, but is rather the best briber of government officials. The outcome may be a more expensive, but inferior school compared to what otherwise would have been the case (Tanzi & Davoodi 1997). The misallocation of resources reduces the funds available for other public services. Corruption has in this way direct negative impact on service delivery to citizens. Corruption can also reduce the profitability of doing legal business and, thus, provide incentives for corrupt activities (Andvig & Moene 1990). Further, corruption can lead to a disregard of laws and procedures, and a lower level of trust and confidence in the government.

2.4.2 Why corruption occurs in procurement

Corrupt activities in procurement will depend on the individuals that are involved and the structural framework they operate within. **Structural causes** refer to the political system, history, culture and other systemic factors that can influence the level of corruption (see Box 5 for examples). In countries where institutions are not well-developed, corruption is more likely to take place. A major challenge in poorer countries is state capture. Hellman et al (2000) sees this as privatisation of public policy where “(...) companies manipulate policy formation and even shape laws and regulations to their own substantial advantage by ‘buying’ politicians and state officials”.

The **individual causes** are related to the procurement officer’s choice to engage in corruption and will depend on:

- ❖ **Authority:** The procurement officer must have authority to deal with rules and regulations in a discretionary manner.
- ❖ **Capability:** The power that authority provides must give the procurement officer the capability to extract value.
- ❖ **Incentives:** S/he must have incentives to exploit the power that comes with the position. The incentive for a procurement officer to take part in corruption depends on the value of possible benefits, professional integrity and the actual need of the procurement officer. Poor salaries, low probability of being detected, weak or no sanctions if detected, small opportunities for promotion based on merit, unattractive or absent pension schemes, and weak management are also factors that are likely to impact on the likelihood for corruption (Heggstad et al 2010).
- ❖ **Corruption networks:** Corruption in public institutions is often conducted by reasonably well-organised networks, where trust and reciprocity is found between network members. Such relationships are likely to reduce transaction costs of corrupt acts, as well as any moral costs that may arise from allowing oneself to be involved in corruption (Fjeldstad 2006). Furthermore, the peer networks often function as ‘repositories of knowledge’ for members, for example on the attitudes of the top management of the procurement department to corruption, how the internal monitoring unit works, who is potentially bribable among staff members and management, and so on. Hence, the individual procurement officer’s behaviour is likely to be influenced by the behaviour of colleagues and management.

Box 6 explains factors specific to procurement that will influence the opportunities for corruption.

Box 5: Electoral competition, politics of procurement and procurement in Kenya

The politics of patronage drives the demand for ever more resources with which to conquer and maintain political power. Analysts trace a direct link between the advent of competitive multi-party politics in 1991 and the growth of mega-scams in Kenya during the presidency of Daniel Arap Moi (1987-2002). The need to amass money for electoral competition is a major factor behind the re-emergence of looting in recent years.

In 2004, **Anglo Leasing** (nick-named 'Anglo Fleecing') became the case synonymous with grand corruption in the National Rainbow Coalition (NARC), the party that ousted President Moi's party KANU from office two years earlier. The affair involved at least two contracts with a shadowy company known as Anglo Leasing and Finance Ltd, one for procurement of passport issuing equipment by the Department of Immigration (DOI), and one for a forensic laboratory for the Criminal Investigation Department (CID) under the Ministry of Internal Security, which together reportedly cost the government over KSh7 billion.

Ironically, the projects began life under the previous regime. The immigration procurement, originally projected to cost about KSh622 million, lapsed, only to be resurrected and expanded under the NARC government. On 1 August 2003 Anglo Leasing and Finance Ltd submitted a purportedly unsolicited, but detailed, technical proposal for supply and installation of an Immigration Security and Document Control System (ISDCS). A financial agreement suggesting a facility of KSh2.67 billion for the system repayable at 5 per cent was included. Although the proposal was apparently proffered without an official request, it seems to have conformed to an updated technical specification report, raising suspicions of collusion.

Authority was sought for direct procurement, or single sourcing, which was granted by the Treasury. The Public Accounts Committee, questioning the use of single sourcing, labelled this a clear denial to government of the advantages of public bidding. After signature of an agreement between the government and Anglo Leasing on 4 December 2003, the sum of about KSh91 million, or 3 per cent of the credit sum, was paid to the financing firm in February 2004. When questioned, the government disclaimed all knowledge of the identity of the principals or actual location of the company to which it had paid out such a sum of money.

While the Public Accounts Committee was investigating the DOI procurement exercise, another contract with Anglo Leasing emerged, in relation to a forensic laboratory project for the CID, for which a total of almost US\$5 million was paid for services that were never rendered. It was clear that a high-level conspiracy was at the root of this affair.

Source: NARC's Anti-Corruption Drive in Kenya. Somewhere over the Rainbow? (Otieno 2005)

Box 6: Factors that influence the opportunities for corruption

- ❖ **Size of the contract:** the larger the contract the bigger the bribe
- ❖ **The sector involved:** some sectors are more prone to corruption than others, such as construction, oil and gas, property development and manufacturing
- ❖ **Restricted access to information:** poor transparency over executive decisions may boost corruption
- ❖ **Funding schemes:** direct budget support and sector wide approaches can increase opportunities for corruption due to limited possibilities for financial control
- ❖ **Immediacy:** urgency increases the possibility to inflate prices

Source: The basics of integrity in procurement. A guidebook (Heggstad et al 2010)

2.4.3 How corruption occurs in procurement

Bribery can be defined as an offer of money, goods or services in order to gain an advantage. Bribes can influence the government's choice of suppliers of goods and services, which again can distort the allocation of resources and talents. The choice of offering bribes is closely linked to risk, since being detected in bribery can result in severe punishment. Further, since bribing is an illegal agreement, the benefits to be gained are uncertain. The offer of one bribe may lead to demand for more bribes, and thus creating uncertainty whether the briber will ever receive the originally wanted good (Søreide 2009). However, honesty may also entail risk and uncertainty. In business environments where corruption is commonplace, an 'honest firm' may fear to lose contracts because its competitors are perceived to bribe their way to winning contracts (Søreide 2006).

Favouritism is the penchant of state officials and politicians who have access to state resources and the power to decide upon the distribution of these, to give preferential treatment to certain people. Clientelist favouritism is the rather everyday proclivity of most people to favour her/his own kin (family, clan, tribe, ethnic, religious or regional group). Favouritism or cronyism is for instance to grant a public contract to a friend or a relative, regardless of merit. **Nepotism** is a special form of favouritism in which a procurement officer favours relatives when granting contracts (Andvig and Fjeldstad 2001).

Patronage systems take place when local public office holders grant favours, jobs and contracts in return for political support. Such systems tend to disregard formal rules, and instead give importance to personal channels (Andvig and Fjeldstad 2001). One example is the 'tenderpreneurs' in South-Africa, i.e. politically well connected 'business people' who win public sector contract not because of the combination price and quality, but because of political connections and implicit and explicit threats against potential competitors.

Bid rigging takes places when companies conspire to fix the price for goods and services, purchased through a bidding process, to an artificially high level. The additional funds

obtained through the inflated contracted price tend to be distributed amongst the conspirators. One can distinguish between bid rigging where a public procurement officer take part in the bid rigging and situations where only companies take part in corruption (collusive bidding). Bid rigging comprising procurement officers includes cases where qualified bidders are excluded, bids are manipulated, criteria in the requests for proposals have been modified in order to fit a particular company, and relevant information is only shared with selected bidders (Heggstad *et al* 2010). Examples of bid rigging by contractors are (a) complementary bidding, which occurs when the bidders agree in advance who will submit the winning bid; (b) bid rotation, where competitors take turn in being the successful bidder; and (c) market division, where the market is divided into different segments, and competitors agree not to compete in each other's segment.

2.4.4 Case examples of corruption

Corruption can occur at all stages of the procurement process. Therefore, not only the tender phase, but also the pre-tender phase as well as the post-contract phase should be included in analysis and planning for change. The four cases presented below illustrate how public procurement has been used for private gain (U4 2010):

Bribes in a South Asia health project: Senior officials of two state-owned procurement agencies demanded kickbacks for awarding the contract. In return the procurement agencies manipulated the bidding process to exclude other qualified bidders. The lowest qualified bidders were disqualified for false and trivial reasons. Favourable inspection reports and processing of the contractors invoices were included in the deal.

Hidden interests in Central Asia: Several projects were found to benefit from the establishment of a company structure that made it difficult to identify the owners and beneficiaries. For instance, vehicles, computers and office equipment were bought through a front company controlled by project staff, before they resold the equipment to the project at a price several times above the original one. In one case local project staff purchased printers for the retail price of US\$ 400 and resold them to the project for US\$ 8000.

Failure to meet contract specification in West Africa: An urban road project failed when the contractor deliberately failed to provide the adequate quality of the drainage and foundation materials. Moreover, the compaction was not adequate. The road which was specified to be an urban tarmac road that should handle heavy traffic in the capital for at least ten years was inferior as already thirteen months after completion. Local project officials and inspectors received substantial bribes from the contractor.

False or inflated invoices in Indonesia: In a water and sanitation project a consulting firm funded bribery by manipulating their invoicing. For example, the firm billed the project for buying new laptops at US\$ 1500 each, while in reality the laptops were second hand and purchased for US\$ 500 each. The same firm did not only inflate invoices but also claimed reimbursement for equipment that was never delivered.

3. Political-economy analysis of procurement

This chapter addresses how a political-economy analysis tool can be used to strengthen procurement processes by gaining better understanding of the context where the procurement takes place, and thus increasing the understanding of what is likely to work in a given context. The purpose of the tool is to contribute to establish effective, efficient and transparent procurement systems, and the main steps of the analytical process are presented below.

Before you start

...the guide provides a general framework that can be adjusted to fit the specific purpose

The guide outlined in this section presents options for how a political-economy analysis related to procurement can be conducted. Since practitioners may have different rationales for conducting the analysis and the specific context will vary, the guide provides a general framework for political-economy analysis of procurement that can be adjusted to fit the specific purpose. For example, if the aim is to examine

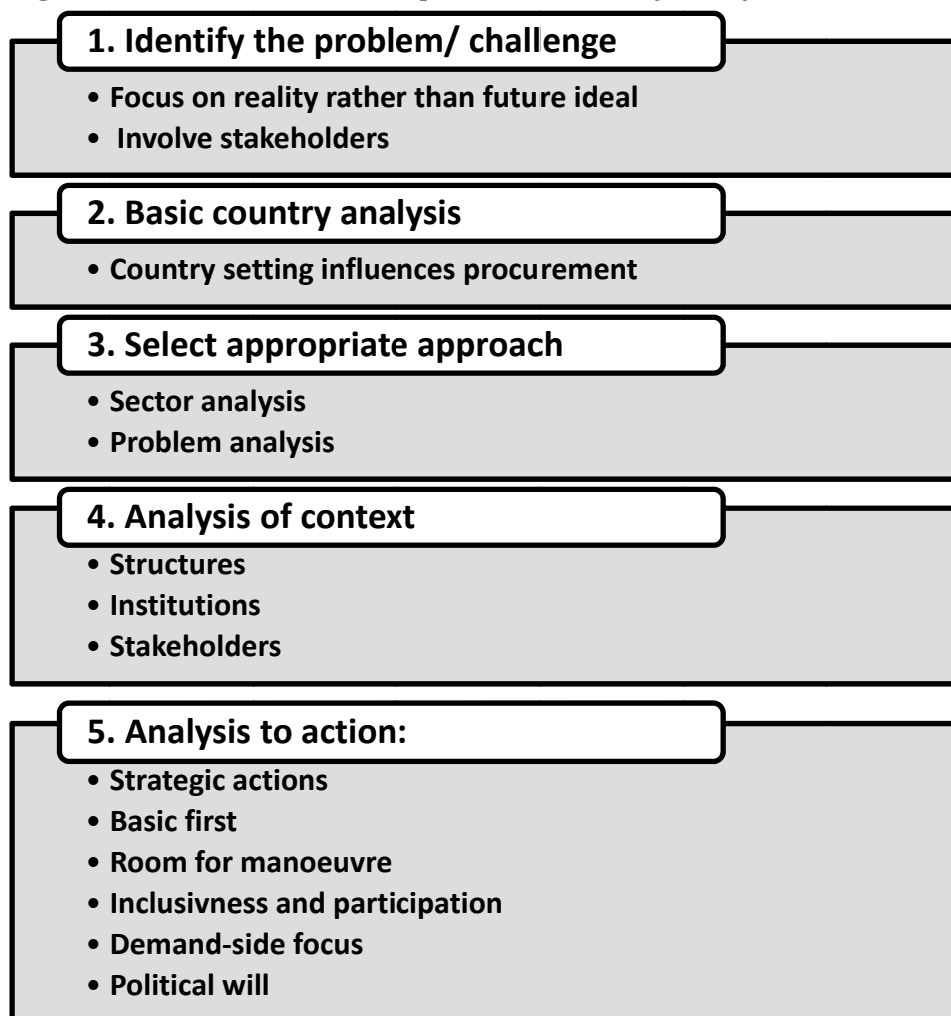
the effectiveness of procurement in the health sector, you should ask different questions than in a case where the purpose of the study is to analyse a specific problem in infrastructure procurement. However, certain parts of the analysis will follow the same track independent of the purpose of the analysis and the specific context. The tool therefore provides a framework and a set of principles to guide the analysis that can generally be applied.

The political context is not static and analyses of the political context should be a continuous process in order to follow developments in a certain area. Hence, it is important to secure a continuous and systematic monitoring of policy processes, including the role of key stakeholders and changes over time.

...it is important to secure a continuous and systematic monitoring of policy processes

Mapping the political context involves identifying and describing political aspects that shape policy processes. Mapping the political context is challenging because it is generally **complex** and **multi-dimensional**, often including social, cultural, economic and political aspects. What dimension is relevant in a specific situation will depend on the **purpose** of analysis, and on the **position** of those trying to achieve changes (Nash *et al* 2006). This position is also important when defining the room for changes within a given context. The main steps of the tool are listed in Figure 2, and explained in more depth below.

Figure 2: How to structure a political economy analysis related to procurement



Source: The figure is developed by authors

Step 1 Identify the problem/challenge

Define first what you want to focus on in the analysis. The starting point should be on a practical challenge, i.e. *reality*. Find out *what* the state of affairs is and *why* it is so rather than focusing on what it ideally *should* be. For example, a problem could be defined as a failure to adapt to a procurement reform in the health sector. Rather than comparing the current situation in the health sector with some future ideal, the challenge may be to gain an understanding of what could be done differently in future health reforms in order to improve on the current status of the health sector.

Limited success of many procurement reforms commonly refers to ‘weak ownership’ or ‘limited political will’. To establish ‘local ownership’ to the analysis and to the actions decided upon based on this analysis, it is essential to involve relevant stakeholders early in the process. It is important to identify what they experience are the main challenges, why it is so, and what changes they perceive to be required. ‘Political will’ is a complex concept because it involves many aspects: it entails **intent** and **motivation** at both individual and

collective levels. Further, while political will may be expressed orally or in written words, it is through action it is manifested (Brinkerhoff 2010). Box 7 describes some questions which can help assessing the level of political will.

Box 7: How to assess political will

‘Political will is never static, and will shift over time, calling for a graduated and flexible approach’ (Brinkerhoff 2010:3)

Political will can be defined as ***‘the commitment of actors to undertake actions to achieve a set of objectives (...) and to sustain the costs of those actions over time’*** (Brinkerhoff 2010:1). It is challenging to define a measurement of political will. An indicator often used to point to a lack of political will is inaction. However, inaction may come about due to other reasons also, such as low levels of capacity. Political will and political capacity are closely linked and may therefore easily be mistaken for one another.

In order to clarify the level of political will seven important issues should be considered:

1. What is the level of initiative from government concerning a certain policy/ programme?
2. Is the policy/actions based on sound considerations of options, outcomes and costs?
3. What is the degree of mobilisation of relevant stakeholders?
4. What is the public commitment and allocation of resources?
5. Are credible sanctions in case of malfunctions applied?
6. Is there a continuity of effort and resources?
7. Is active learning from own/others experiences taking place? Are these lessons adapted into policies and practices?

Source: “Unpacking the concept of political will to confront corruption” (Brinkerhoff 2010)

It may be challenging to have an overview over all relevant stakeholders in the beginning of the analysis, and who is perceived important may change as more information becomes available. But one must start somewhere. A workshop with the stakeholders that are perceived as the most relevant could be a good starting point. Such a meeting could reveal important information both about the challenges at stake, and also about other central stakeholders that should be included in the process.

Lack of information is often a reason why certain problems such as poor health services, may not be perceived as a problem in a municipality which clearly lacks good quality services. A reason may be that while health service users often have the information about the health situation of their own family, they typically lack information about the aggregate health outcomes, such as how many children in their municipality died before reaching the age of

five (Khemani 2007). To build public support for change it is important to get “buy in” from key stakeholders (Campos & Syquia 2006). A workshop could be a good forum to do so, by for example, disseminating information/research results about a problem relevant to a municipality. This may provide a good basis to establish a common understanding amongst local people of what the problem is. Such an understanding is important later when action, based on the political-economy analysis, is to be decided. This is particularly vital if collective action is to be considered for implementation. This will be further discussed under Step 5.

Step 2 Basic country analysis

It is vital to understand the wider country context within which procurement takes place. A basic analysis of the political-economy of the country is required to provide such background information (see Annex 2). This analysis gives an understanding of the main formal and informal institutions that are shaping the rules of the game and other long-term aspects that form the political-economy such as resource endowment. It provides an overview of the main stakeholders in a country such as political parties, business association and NGO’s, and it looks into the distribution of power of these stakeholders as well as their agendas.

Stakeholders, institutional variables and structural factors may interact and influence one another in several ways. For example, a shift of the political leadership in a country may influence which laws that get accepted by the Parliament. These new laws may again influence the behaviour of other stakeholders.

The country setting can influence procurement processes in several ways. For example, the leadership of Uganda’s President, Museveni, relies strongly on patronage systems. The choice of policies are coloured by their ability to generate resources or in other ways create opportunity for patronage (Booth & Golooba-Mutebi 2009). In such settings public spending decisions tend to prioritise sectors where opportunities for bribes are high, such as the construction sector, while other sectors such as the education sector is more likely to be neglected (Tanzi & Davoodi 1997). Another example can be how Uganda’s landlocked position influences the procurement sector because prices of input factors, such as cement and other building materials, tend to be more expensive due to higher transportation costs.

<i>Box 8: Resources: use available information from various sources:</i>	
❖ Economist Intelligence Unit	www.eiu.com
❖ World Bank	www.worldbank.org
❖ Amnesty International	www.amnesty.org
❖ Transparency International	www.transparency.org
❖ African Economic Outlook	www.africaneconomicoutlook.org
❖ Local reports	
❖ Research institutions	

Box 8 gives information about where to find resources for a country analysis, and Box 9 provides insights into the main issues that may be analysed in such an analysis.

Box 9: How to assess the country setting

The following issues could be considered in a country analysis:

Structures

- ❖ Economic and social structures
 - What are the main economic and social structures influencing politics and governance?
 - How is the labour market organized? Are there active labour unions?
 - How is the income distribution among citizens?
 - Is ethnic segregation commonplace? Are there other social divisions?
- ❖ Geo-strategic positions
 - Is the country vulnerable to external intervention?
 - Is the country land-locked?
 - Is the region stable?
 - Is the country dependent on aid or other external sources of income?
 - Is local policies strongly influenced by regional arrangements?
- ❖ The history of the state formation
 - How has access to political and economic power been shaped by the history of the state?
 - Is the state rooted in the local context? Are historic events contributing to weaken state legitimacy?
- ❖ Sources of revenue
 - Is the state dependent on tax revenue from citizens?
 - Does the state have incentives to help businesses flourish?
 - Is the country embedded with natural resources? If so, does the state receive significant revenues from these resources?

Institutions

- Are ordinary people allowed to vote? Is there political competition? Is there political violence?
- How is formal and informal power-sharing arranged?
- Do people use public resources to stay in power?
- Is the public bureaucracy's behaviour practiced and predictable?
- How is the level of corruption generally perceived?
- Is the media active and independent? Who owns the media?

Stakeholders and interaction

- What types of roles do different stakeholders play in the society? How do stakeholders interact? Who knows who?

Source: Framework for Strategic Governance And Corruption Analysis (Unsworth and Conflict Research Unit 2007)

Step 3 Select appropriate approach

The specific problem or challenge decides which approach that will fit best. The choice tends to be between sector analysis and problem-driven analysis. **Sector analysis** sheds light on the incentives and constraints that influence actors in a given sector. It can provide knowledge on how and why sectors in the same country may experience different procurement challenges. Some sectors, such as construction, oil and gas, and manufacturing, are generally perceived as sectors with a high risk of corruption. The **problem-driven analysis** aims to understand or resolve a particular problem, rather than focusing on a broad overview. Thus, the problem-focus may make it easier to generate insights and findings that can be translated into operational measures. Box 10 gives an example of what to look for in a sector analysis where the aim is to gain knowledge about whether corruption is a problem.

Box 10: Is corruption a challenge in the sector? Examples of red flags of corruption risk in the water and sanitation sector

Corrupt behaviour is by nature hidden. External consultants doing a sector analysis cannot expect direct insight into concrete corrupt connections and practices. Still, there are ways to map risk factors of corruption in a specific sector. One method is to identify early warning indicators specific for the sector and create a research design that will test the presence or absence of the indicators within the country setting.

Water resources licensing

- ❖ Are there many steps in the licensing process?
- ❖ Is there a failure to publish registers of water users?
- ❖ Is it difficult to get access to information on water users and water use?

Urban utilities (formal)

- ❖ Are there high levels of unaccounted consumption of water?
- ❖ Is there a lack of published regular annual reports with accounts, including revenues (and analysis of complaints)?

Peri-urban informal operator

- ❖ Are there high levels of illegal connections and unaccounted water consumption linked to the urban supply systems?
- ❖ Is there conflict-of-interest between staff engaged in the formal sector and informal sector operators?

Community– managed systems in rural areas and small settlements

- ❖ Is there a lack of rotation or complaints expressed about the selection of water committees?
- ❖ Are there clusters of water points close to already served areas?

Source: Not so petty: Corruption risks in payment and licensing systems for water (John Butterworth and Jean de la Harpe 2009)

The focus of the study decides which approach that fits best. For example, if the aim is to study what are the main challenges in the health sector in order to secure higher quality service delivery, a sector analysis would be a good choice. If the aim is to assess the effects of a particular health reform, a problem-driven analysis would suit well.

Step 4 Analysis of context

The analysis should include a mapping of **stakeholders, structures, and institutions** relevant to the challenge the analysis is focusing on. Further, the dynamic interactions between these factors should be thoroughly analysed.

Stakeholders can be formally and informally linked to public procurement structures, and their interests can be either hidden or open. Examples of stakeholders in procurement reform are the procurement officers, local elites, businesspeople and development partners. It can also be users of the goods and services being procured, such as patients at hospitals or children attending school. Figure 3 illustrates that several more actors than the obvious parties of the service provider and the procurement officer may potentially influence procurement within individual sectors.

To have a comprehensive overview of the stakeholders involved in public procurement is important for designing and implementing initiatives which local people feel ownership towards. Since the involved parties may seek to influence the process, the outcome of the efforts relies on collaboration with the 'right' actors. As a general rule, strong support from senior political leaders is a necessary condition for change to take place. When mapping stakeholders, one should also be aware of how donors are positioned in the country. Donor agencies may try to influence procurement processes and decisions based on the business interests of the donor country. Box 11 describes how the role of donors may be perceived.

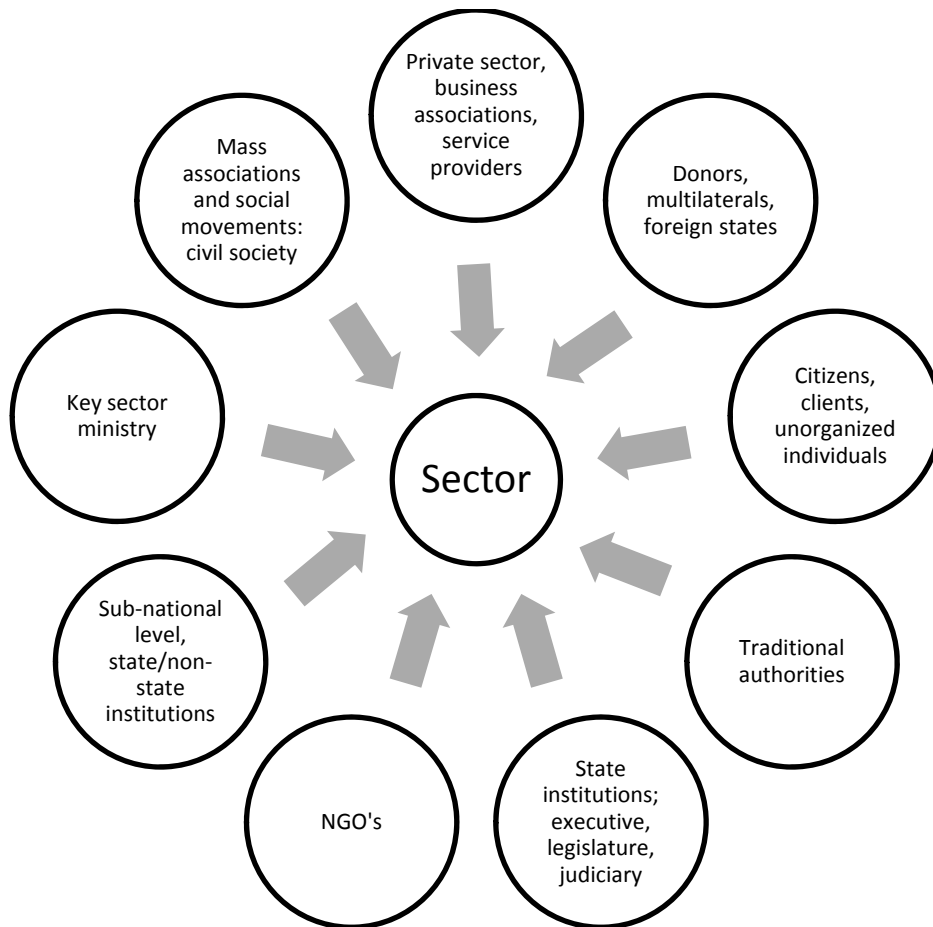
Box 11: The position of donors

Governance and reform are first and foremost domestic affairs. Therefore, ***"(...) donors can facilitate and support the enhancement of governance, but they cannot drive it, impose it, lead it or manage it. (...) Rather than trying to 'fix things when they go wrong' (...) donors need to focus on the incentives that drive the political elites to support and drive reform and how to change these."*** (EC 2008:16). However, it is important to be aware of the influence donors actually have in some settings, such as in highly aid-dependent countries.

Donors may seek to assist countries effectively in pursuing, designing and implementing development strategies and policies with the aim to enhance the efficiency, effectiveness, transparency and the accountability of the public sector.

Source: Analysing and addressing governance in sector operations (EC 2008)

Figure 3: Examples of stakeholders that may impact procurement decisions in a sector



Source: An analytical framework for understanding the political economy of sectors and policy areas (Moncrieffe and Luttrell 2005:14)

Structures are long-term contextual aspects that influence the political economy. Related to procurement structures the geo-political position and the economic and social structures are of particular importance. For example, how companies are organised may influence a procurement strategy. A political economy analysis may ask the following questions:

- ❖ How are relevant companies organised?
- ❖ Is there for example a monopoly or cartel in the relevant market?
- ❖ What are the market positions and ownership structures of relevant firms?
- ❖ Are business interests intertwined with political interests?
- ❖ On what basis are contracts being awarded to firms?

Institutions refer to the formal and informal rules that shape the behaviour of stakeholders. Acquisition of goods and services by public officials is strongly connected with the institutional framework of a country, because formal and informal institutions are shaping the rules of the political game. The divide between informal and formal is not absolute, and interaction and blurred distinctions are common. How the informal and formal institutions

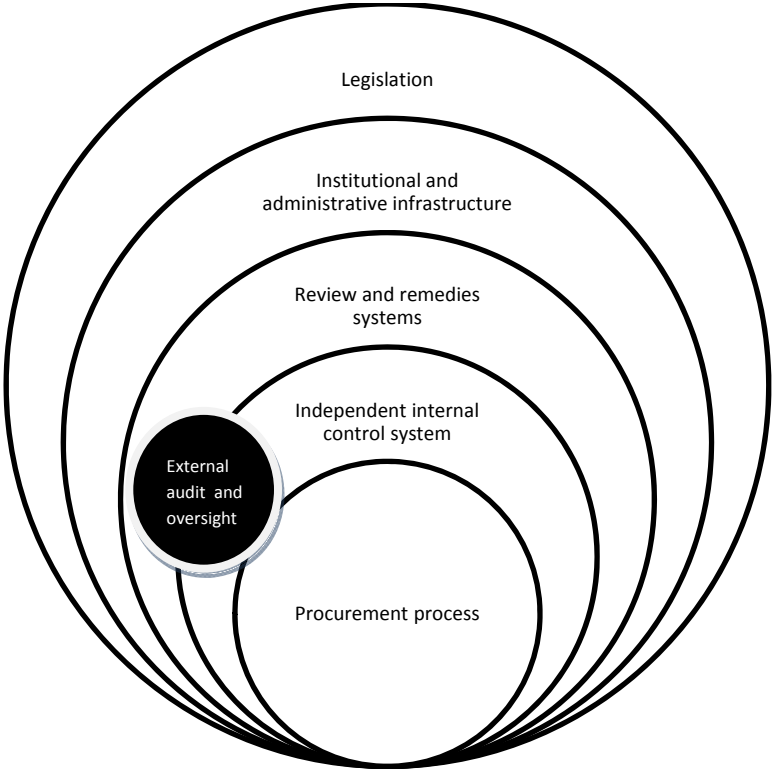
are integrated varies substantially between countries. Thus, an analysis including a study of the relations between the two types of institutions will give important information for the formation of a strategy for change.

Examples of **formal institutions** are the executive, supreme audit institutions (e.g. the parliament and the auditor general), courts, tendering boards, the civil service, private companies, business associations, civil society organisations and the media. Related to procurement, the following aspects of formal rules are relevant for a political economy analysis (OECD 2009b):

- ❖ Does legislation cover the whole procurement cycle and involve all stakeholders?
- ❖ Do institutional and administrative infrastructures create the structure for procurement such as definitions of authority and roles?
- ❖ Are there review and remedies systems providing the framework to detect and correct irregularities?
- ❖ Are there independent internal control systems used as tools to mitigate risks for corruption and fraud?
- ❖ Are there external audit and oversight to ensure independent checks by a supreme audit institution?

The framework is illustrated in Figure 4 and shows the overlaps between the components:

Figure 4: The framework for procurement



Source: The figure is developed by the authors

Informal institutions can be norms, unwritten rules and unofficial social networks such as family and friends. Further, traditional authorities such as chiefs, local councils and elders may be robust informal institutions that are not easily spotted by examining the formal rules and regulations of a country (IDS 2010).

Related to procurement these aspects of formal rules should be looked into:

- ❖ Are social and political structures vital for who are awarded the contracts? How?
- ❖ Are family and political co-workers favoured when granting jobs and accepting work proposals?
- ❖ How is formal and informal power-sharing arranged?
- ❖ How is the level of corruption perceived?

Box 12: 'Blacklisting exists': challenges to change in Uganda

A political-economy analysis of roads reform in Uganda shows that many locally based construction companies would like to see a change to the existing patronage-based system. However, the introduction of a proper tender-based system is perceived by the construction companies as difficult to achieve for several reasons. First, the tender criteria, such as demonstrating financial capacity in advance of being awarded a contract, might disadvantage them compared to larger internationally-connected companies with high financial power. Second, local companies would not push for reform unless it is guaranteed that bidding rules will be used fairly. Third, there is fear that to push for change may lead to blacklisting and, hence, be very costly to the complaining companies.

This example shows both how the structural set-up of the economy (the competition situation) and informal institutions (the patronage system), can influence the likeliness of a change to take place.

Source: "Aiding Economic Growth in Africa. The Political Economy of Roads Reform in Uganda" (Booth & Golooba-Mutebi 2009:18)

Is corruption a problem?

The word 'corruption' should be used with care, because the concept is not understood in the same ways in all cultures and contexts. Some could also get offended or scared to answer questions because of the negative connotations the word 'corruption' may give. Instead of 'reducing corruption' one may say 'strengthening integrity'. **Scenario examples** may be one tool to acquire better understanding of what actions procurement officers perceive as corrupt (Vian 2009). For example, one could ask whether it is corruption if a firm gives a gift to secure a contract. Another question could be whether it is corruption when a nurse is demanding extra payment to provide health services.

Table 1: Signs of corruption in procurement¹

Red flags of corruption	Related corruption schemes
Pre-tendering red flags	Pre-tendering corruption schemes
Purchase of unnecessary or inappropriate items	Corruption
Manipulation of procurement thresholds to avoid prior review	Unjustified no-bid awards
Inadequate evaluation criteria or procedures	Manipulation of bids, excluding qualified bidders, corruption
Unreasonable prequalification requirements	Excluding qualified bidders
Ambiguous, incomplete or misleading contract specifications	Unbalanced bidding, corruption
Contract specifications are too narrow or too broad	Rigged specifications, excluding qualified bidders
Tendering red flags	Tendering corruption schemes
Failure to make bidding documents available	Excluding qualified bidders, corruption
Short or inadequate notice to bidders	Excluding qualified bidders, corruption
Unusual bidding patterns	Collusive bidding
Apparent connections between bidders	Collusive bidding
Bidder not listed in business or telephone	Collusive bidding
Multiple contract awards to the same company	Corruption
Qualified companies fail to bid	Excluding qualified bidders, collusive bidding
Rotation of winning bidders	Collusive bidding
Unreasonably high bids	Collusive bidding
Unreasonably low bids	Unbalanced bidding, corruption
Non-transparent bid-opening procedures	Manipulation of bids, excluding qualified bidders
Award to other than the lowest qualified bidder	Manipulation of bids, corruption
Disqualifications that are poorly supported	Excluding qualified bidders, corruption
Pressure to select a certain contractor subcontractor or agent	Corruption
Winning bid is very close to budget or estimate	Unbalanced bidding, corruption
Long unexplained delays in contract award or	Manipulation of bids, corruption
Post-award red flags	Post-award schemes
Use of questionable agents or subcontractors	Corruption
Complaints regarding poor quality goods, works or services	Failure to meet contract specification
Continued acceptance of poor quality goods, works or services	Corruption
Delivery of poor quality goods, works or services	Failure to meet contract specification
Questionable contract amendments	Changes in contract to increase price, corruption
Questionable invoices	False inflated or duplicated invoices, corruption
Payment of unjustified high prices	False inflated or duplicated invoices, corruption
Absent or questionable documentation	False inflated or duplicated invoices

Source: The figure is developed by the authors based on the U4 Red Flag Tool (U4 2010)

¹ To learn more about mitigation strategies for corruption in procurement, this guide could be consulted: “The basics of integrity in procurement. A guidebook. (Heggstad et al 2010) <http://www.cmi.no/file/?971>

As explained in chapter 2, government procurement tends to be particularly exposed to corruption due to the substantial amounts of money often involved in these transactions. It is therefore particularly important to be alert to signs of corruption in order to better target interventions based on the political-economy analysis. Table 1 gives an overview of the most common signs, or red flags of corruption throughout the whole procurement cycle. The table is based on the U4 Anti-Corruption Resource Centre's red flag tool². An illuminating example of how red flags can be used is the World Bank's review of five health projects in India where these projects' exposure to red flags of fraud and corruption was assessed (World Bank Group 2007).

Step 5 From analysis to action

Below follows six principles to guide how analysis can be translated into action (i) act strategically; (ii) basics first; (iii) room for manoeuvre; and (iv) inclusiveness and participation; (v) demand-side focus; and (vi) political will.

(i) Act strategically

Based on the political-economy analysis, a strategy for actions should be defined. The focus should be on priorities that are feasible and realistic to implement. There is a balancing act between a long term perspective aiming at creating effective and efficient procurement systems, and the acute short term needs for service delivery to the poor (EC 2008).

(ii) Basics first

Creating good procurement procedures tends to be a slow and complex process. Therefore, a step-by-step approach with gradual and practical changes is recommended (EC 2008). For example, where the selection of winning bids is based on patronage and nepotism, 'best price and quality-combination' could be added as one of the selection criteria as a first step. With time selection should be based solely on the best price and quality combination.

Another example is to carefully consider how to improving the performance of public procurement entities by focussing on internal incentive systems and organisational culture. Why do some public organizations work well and others not in developing countries? In a study of 29 organizations in six countries Merilee S. Grindle (1997) found that organizations with higher salaries paid to their staff did not perform better than public organizations which conformed to the low general public sector remuneration scales. Instead, good-performers had well-defined missions, where the employees internalized the organizations goals and saw themselves as vital contributors to its accomplishment (Grindle 1997:486). Moreover, effective managerial practice and high expectations about employee performance were factors that led organizations to perform well, while some autonomy in personnel matters allowed a mission to be identified and enabled skilled managers to have some room to manoeuvre in setting standards for their organizations. This underscores the importance of leadership styles and internal performance management practices that focus on results.

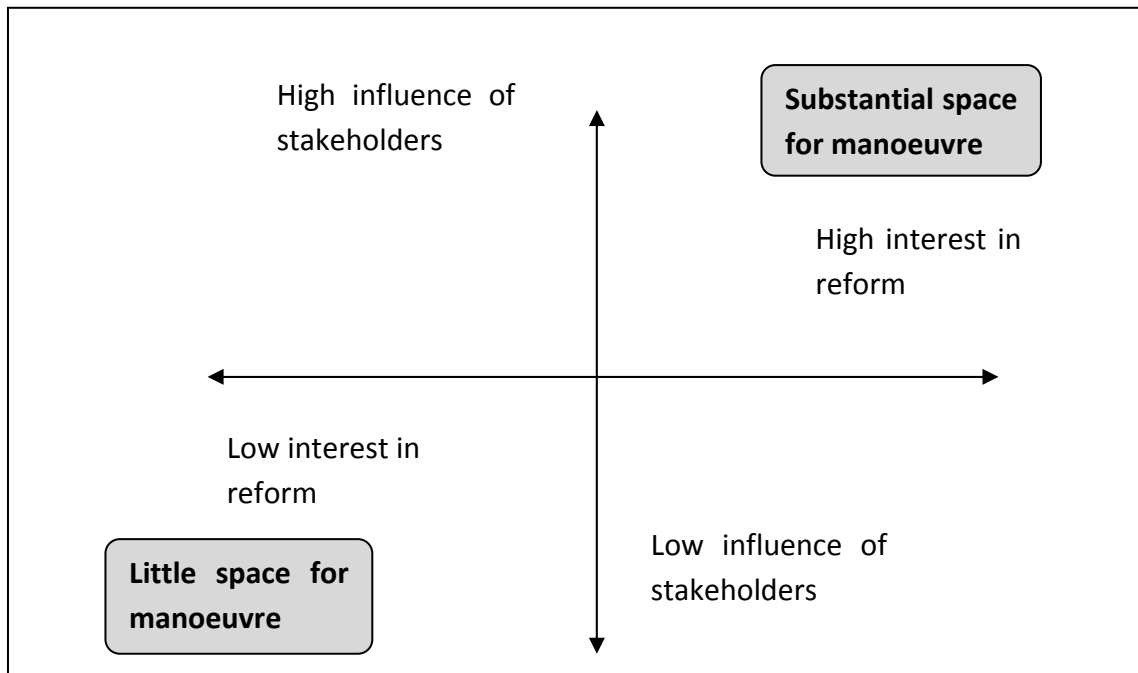
² <http://www.u4.no/themes/corruption-aid/red-flag-tool/AAA%20Start.cfm>

Encouraging the development of a positive organizational culture may thus be an important way of improving the performance of procurement units in a situation where the broader environment, including the public sector in general, discourages good performance. If the enabling environment is weak, managers tend to drive performance. Hence, internal leadership and culture are likely to be keys to establishing meritocratic and performance-oriented organizational behaviour in situations where the formal political and administrative institutions are weak. Accordingly, a reasonable hypothesis would be that if the procurement departments were given more real autonomy in personnel matters, this would contribute to greater capacity to set performance standards for its employees and hold them accountable to the organization for meeting those standards. Autonomy in personnel matters can here be understood as a facilitating condition that provides the procurement unit and its managers with the ability to build cultures that allow the organization to rise above the norm for the public sector in general. Required measures would include a rigorously planned and executed re-staffing process, also at the senior management levels, and introduction of human resources policies relating to transparent recruitment, adequate remuneration, pension/retirement schemes, etc (Fjeldstad 2006). Such measures ought to take place before proceeding with traditional forms of technical assistance such as the design and implementation of integrated computer systems, organization of formal training courses and on-the-job training, and process re-engineering in a wide range of areas, including better forms and filing, auditing and management of contracts, and so on (Fjeldstad 2006; Grindle 1997).

(iii) Room for manoeuvre

The donor's position in a given setting, as well as the political economy surroundings, determine the room for action. Donors should analyse what type of strategy for actions that would be most appropriate. They may try to expand the space for change actively, or they may choose activities within the existing room of manoeuvre (Fritz et al 2009). The room for manoeuvre is determined mainly by the influence of the stakeholders and the level of interest for change as portrayed in Figure 5.

Figure 5: Influence of stakeholders and interest in change



Source: Operationalising Political Economy. Urban Bus Operations in Dhaka (World Bank)

The strategy for promoting policy reform should therefore include the following components (ODI 2006):

- ❖ Clearly state what policy reform is being pursued.
- ❖ Produce a 'political interest map' including the following:
 - a. Actors in the relevant procurement area
 - b. Priority of policy area for actor
 - c. Actors' reasons for exerting influence in policy area
 - d. Actors' resources for influencing policy outcomes in policy area
 - e. Degree of influence in policy area
 - f. Actual and potential alliances among actors
- ❖ Conduct a systematic analysis of the institutional contexts for policy reform, considering which rules are of particular relevance for the proposed policy reform
- ❖ Define what needs to be done in each stage of the policy process in order to ensure that the proposed policy reform gets through

(iv) Inclusiveness and participation

A broad-based range of stakeholders should be included from the beginning of the analysis. Three examples of how different types of stakeholders can be involved in procurement reform are presented below. The first case (Box 13) refers to the involvement of the private sector and the fear of informal sanctions by companies if appealing against tendering decisions. The second case (Box 14) illustrates the establishment of a third-party monitoring mechanism to watch over public procurement in Bangladesh. This mechanism has improved the communication between stakeholders and the government. The last example from

Morocco (Box 15) shows how a domestic NGO has created substantial pressure on the actors directly involved in procurement through awareness raising campaigns. Together, these cases illustrate that there are many different ways to involve stakeholders and the outcomes may differ.

Box 13: Involving the private sector in Morocco

In 2007 Morocco introduced a new decree on procurement. When preparing the new procurement regulations the private sector was closely involved. Through the organizations General Confederation of Moroccan Businesses (CGEM) and the Construction and Public Works Federation private sector representatives were able to influence the process. Especially the ethical dimension of the 2007 Decree was emphasised by the private sector.

“In discretionary, non-transparent procurement systems losing firms have little incentive to protest against irregularities because of the power of procuring entities to black list them.” (Evenett and Hoekman 2005:29).

Although there has been collaboration between the private sector and the public in Morocco, the dialogue in actual tendering situations has not functioned optimally. Firms are entitled to information and details from the contracting authority during the tendering procedure. Still, demands are rarely made. Appeals of procurement decisions are also rare. According to OECD (2009:45), the private sector seemed reluctant to appeal because of fear for ‘informal’ sanctions from the public administration. Further, the automatic response from the government explaining why a firm did not get a tender was characterised in interviews as unsatisfactory.

Source: Enhancing Integrity in Public Procurement. OECD Joint Learning Study on Morocco (OECD 2009a)

Box 14: From exclusive to inclusive procurement reform in Bangladesh

The government of Bangladesh has in its Public Procurement Reform Project-II established a third-party monitoring mechanism to watch over public procurement. Traditionally only the government's procuring entities and the members of the private bidding community were kept updated on public procurement. Therefore, the establishment of the Public-Private Stakeholders Committee (PPSC) is hailed as a step towards efficiency, transparency and accountability in government spending.

The tasks of PPSC are mainly targeting improvements of communication between stakeholders and the government.

List of planned PPSC activities:

(a) Evaluate annually the broad impact of the Public Procurement Act and Rules on country's actual procurement practices.

(b) Hold meetings with various types of stakeholders, including the media, civil society groups and convenient persons to obtain feedback on de-facto practices in Government of Bangladesh (GoB) procurement.

(c) Provide recommendations to the GoB regarding appropriate changes to the Procurement Act and Rules.

(d) Develop and recommend possible mechanisms for involvement of private/external stakeholders in monitoring and tracking of procurement processes and outcomes.

(e) Disseminate the findings and suggestions of this Committee to the public.

(f) Discuss cases of irregularities (up to award of the contract) on test check basis in procurement and make recommendations in this regard.

(g) Publish a quarterly newsletter to provide regular feedback to GoB and the general population about activities, recommendations etc.

Source: Citizen engagement in procurement, 23 March (Financial Express 2010)

Box 15: NGOs and public awareness on procurement in Morocco

The national chapter of Transparency International (Transparency Maroc) is creating public awareness to combat corruption. Practices and laws are analysed to identify and eliminate corruption. Further, Transparency Maroc has established the National Corruption Observatory. One of the functions of the Observatory is to provide legal support to citizens who may have been the victims of corrupt actions (OECD 2009:57-58). The Moroccan example illustrates that NGOs can create substantial pressure on the actors directly involved in the procurement process, and that legislative authorities and citizens in general all have an interest in how the public funds used for procurement are managed.

Source: Enhancing Integrity in Public Procurement. OECD Joint Learning Study on Morocco (OECD 2009a)

(v) Demand-side focus

Creating stronger demand for better procurement processes is important for sustainable reforms. Demand could come from stakeholders such as the private sector, NGO's or from ordinary citizens concerned about the quality and availability of public services and infrastructure. Expanding the space for broader domestic engagement on procurement issues may over time establish an environment for change and improved government accountability. Community-based monitoring of how public funds are used or public services provided could be relevant in this respect. Reinikka & Svensson (2004) show that capture of public funds in Uganda (meant to go educational purposes) went down when parents were provided information which enabled them to monitor how public officials spent the money. Similar information-dissemination and encouragement of collective actions of local stakeholders should be considered for donor-support.

Other relevant measures for development agencies include support to independent media and civil society organisations that focus on public finance management, budgetary processes and governance. Donors should also make coordinated efforts to secure that information on tendering and contract awards are made public. Business or citizen surveys may also be useful to monitor the situation in a given area and to trace possible changes over time with respect to public investments and service delivery (EC 2008). The establishment of complaint mechanisms and support to watchdog agencies are other measures that may contribute to strengthen the demand-side for good procurement procedures.

(vi) Political will

'Lack of political will' is often mentioned as an obstacle to change. Table 2 presents some options for strengthening political will. Options are presented for each of the political will components, both on the supply and demand side of political will. Box 7 presented questions that can be used to gather data on the level of willingness for reform.

Table 2: Options for strengthening political will

Political will component	Options for strengthening political will	
	Top-down, supply side	Bottom-up, demand side
1. Level of government initiative concerning a policy related to procurement	<ul style="list-style-type: none"> Identify and support public officials committed to procurement reform/policy 	<ul style="list-style-type: none"> Identify and support civil society watchdogs
2. Choice of policy should be based on sound consideration of options, outcomes and costs	<ul style="list-style-type: none"> Provide assistance in analysis of procurement systems, corruption risks and role of accountability 	<ul style="list-style-type: none"> Provide assistance in measurement of citizen satisfaction, including for public service delivery
3. Degree of mobilisation of relevant stakeholders	<ul style="list-style-type: none"> Support public education campaigns Support initiatives that bring citizens and public officials together 	<ul style="list-style-type: none"> Encourage civil society and private sector to enter into partnership
4. Degree of public commitment and resource allocation	<ul style="list-style-type: none"> Support budget formulation processes Support public events promoting enhancement of procurement systems 	<ul style="list-style-type: none"> Encourage CSO's engagement in public expenditure tracking
5. Credible sanctions applied in case of misconduct	<ul style="list-style-type: none"> Support legal reforms related to procurement 	<ul style="list-style-type: none"> Provide training for watchdogs and media
6. Continuity of efforts and resources	<ul style="list-style-type: none"> Make available long-term funding for policies aimed at enhancing procurement systems 	<ul style="list-style-type: none"> Provide funding for CSO's Encourage media to publish on misconduct related to procurement
7. Active learning from experiences, and adaption lessons learned into policies	<ul style="list-style-type: none"> Support monitoring of policies/programmes and evaluations 	<ul style="list-style-type: none"> Support international cooperation between CSO's

Source: "Unpacking the concept of political will to confront corruption" (Brinkerhoff 2010)

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Annexes

Annex 1: MAPS indicators

Indicator 1 and 2: Legislative framework and regulations

- Public procurement law
- Proposed amendments to the law, if any
- Procurement regulations
- Procurement manual
- Model tender/contract documents for goods, services, works
- Model prequalification documents
- Procedures for contracting for services (including award criteria)
- Guidelines for margin of preference, if any
- Website of normative/regulatory body (example: Public Procurement Board)

Indicator 3: Mainstreaming

- Public financial management/public sector reform program/integration of public procurement
- Linkages between procurement and public financial management (in laws and regulations):
- Provision of procurement plans (at the entity level)
- Procurement planning and budget preparation
- Allocation of funds and payment to suppliers/contractors
- Business standards for processing invoices

Indicator 4: Normative and regulatory functions

- Information on status and funding of normative/regulatory body
- Functions of normative/regulatory body
- Annual report of normative/regulatory body
- Strategic plan of normative/regulatory body

Indicator 5: Institutional development capacity

- Procurement reform strategy, annual reports
- Procurement reform programs
- National aggregate procurement statistics (number and volume of contracts), if available
- Skills and training needs assessment
- Training strategy
- Statistics on training
- Quality standards for procurement staff

Indicator 6: Efficiency of procurement operations and practices

- Websites of procurement-related training institutions
- Training programs offered (formal education and short-term training)
- Career path for procurement professionals
- Document retention policy

Indicator 7: Functionality of the public procurement market

- Study on private sector/capacity development programs in particular for MSME sector

- List of private sector associations
- List of fora with private sector

Indicator 8: Contract administration and dispute resolution

- Manual for contract administration
- Guidelines for quality control firms and supervision engineers
- Arbitration law

Indicator 9: Control and audit system

- Audit act
- Regulations on internal audits
- Regulations on external audits
- Standards for procurement audits (internal/external; compliance and performance; follow-up)
- Specialized procurement audits
- Reports to parliament

Indicator 10: Appeals mechanism

- Procedures for complaints/appeals body
- List of decisions of the appeals body
- Publications, if any

Indicator 11: Access to information

- Website of normative/regulatory body
- Public Procurement journals/bulletins
- e-procurement system

Indicator 12: Ethics and anticorruption measures

- Legal background (definition of fraud and corruption, consequences)
- Anti-corruption programs (in general and specifically in procurement)
- Anti-corruption provisions in contracts
- Code of conduct for government employees
- Code of ethics for potential suppliers/contractors
- List of court decisions on corruption in procurement
- List of stakeholders and their procurement related programs
- Media clips

(OECD 2008:28-29)

Annex 2: Tools for procurement and political economy analysis

This annex provides an overview of existing tools that are relevant for analysis of political economy and procurement. Table 3 shows which tools we have included in the following summary.

Table 3: Political economy analysis tools

OECD³	<i>Methodology for Assessment of National Procurement systems (MAPS)</i>
DFID⁴	<i>Drivers of Change (DoC)</i>
DFID	<i>Politics of Development Framework (PoD)</i>
SIDA⁵	<i>Power Analysis Approach</i>
Netherlands' Ministry of Foreign Affairs	<i>Strategic Governance and Corruption Analysis Approach (SGACA)</i>
World Bank	<i>Problem Driven Governance and Political Economy Analysis: Good Practice Framework (PDGPEA)</i>
European Commission	<i>Analysing and Addressing Governance in Sector Operations (AAGSO)</i>
ODI⁶	<i>An Analytical Framework for Understanding the Political Economy of Sectors and Policy Analysis (PESPA)</i>

A2.1 Procurement analysis

The **Methodology for assessment of national procurement systems (MAPS)** (OECD 2008) is a tool to assess the quality and effectiveness of national procurement systems. The methodology is developed for donor staff and civil servants in developing countries who are working with procurement. The main indicator categories are:⁷

- ❖ The existing legal framework that regulates procurement in the country.
- ❖ The institutional architecture of the system.
- ❖ The operation of the system and competitiveness of the national market.
- ❖ The integrity of the procurement system.

Box 16 summarises how MAPS is intended to work.

³ Organization for Economic Co-Operation and Development

⁴ UK Department for International Development

⁵ Swedish International Development Agency

⁶ Overseas Development Institute

⁷ A detailed overview of the indicators applied is presented in the appendix to this guide.

Box 16: How MAPS is intended to work

- ❖ The assessment will provide an analysis of the strengths and weaknesses of the system and a basis upon which a country can formulate a **capacity development plan** to improve its procurement systems.
- ❖ Donors can use the common assessment to develop strategies **for assisting the capacity development plan and to mitigate risks** in the individual operations that they decide to fund.
- ❖ In the long term, countries will improve their national procurement systems to meet internationally recognised standards enabling **greater effectiveness** in the use of funds to meet country obligations.

Source: Compendium of country examples and lessons learned from applying the Methodology for assessment of national procurement systems (OECD 2008:11)

There are three core focuses of MAPS. The first focus is to assess the outcomes and results of the existing procurement system; the second is to check the trust and confidence of the system in the society; and the third focus is to use MAPS to see how efficiently social and economic objectives for public expenditure are met.

MAPS is a two-step approach where Part 1 covers the formal and functional features of the existing system (Baseline indicators). Part 2 tests the level of compliance with the formal system by looking at performance data (the compliance/performance indicators). Thus, it allows the user to compare the formal regulations with the actual compliance and level of implementation of laws and regulations.

MAPS has been applied in at least 22 developing countries. OECD (2008) has closely followed the process and published a compendium on 'lessons learned'. Core strengths of the method is that the assessments are meant to give consistent and comparable findings that can be placed side by side by findings from other countries and other time periods. Flexibility in the design creates space to be sensitive to the context and purpose of assessment. Further, the expertise and country collaboration in the development of MAPS and the extensive testing and continuous attention to challenges and possible solutions give credibility to the quality and applicability of the tool.

In the piloting of MAPS some challenges appeared to be cross-cutting in several country settings. The four most important were:

1. Time and resources required for the task were underestimated by many country teams.
2. Record keeping in the relevant offices was not consistent and detailed enough.
3. The willingness to collaborate was not always present in procurement entities that were being assessed.
4. Validation of the collected data proved difficult because of the time constraints, poor record keeping and sometimes lack of willingness and/or capacity to assist from local offices.

A range of possible solutions have been published by the OECD (2008), and future assessments might experience fewer problems. However, the challenges experienced give some reasons for concern. Specifically, (a) the data that the assessors are looking for are not easily available, and (b) challenges of validity and reliability are core concerns in any assessment of procurement systems in developing countries. Box 17 summarises challenges in OECD's procurement capacity assessment in Malawi.

Box 17: Analysing the national procurement system in Malawi

“The experience from Malawi demonstrates that weaknesses to the procurement system are often found in areas where public procurement meets other public core functions” (OECD 2007:8)

Main challenges in OECD's procurement capacity assessment in Malawi:

- ❖ Access to reliable information from stakeholders.
- ❖ Information gathering was made difficult by using staff members of the Office of the Director of Public Procurement (ODPP) as assessors because of the lack of trust created in the interview settings, and because of ODPP's double role as both stakeholder and assessor.
- ❖ Inputs from several stakeholders are required – including external and internal auditors, public financial manager, human resource officers and anti-corruption bodies.
- ❖ Agreeing on who will bear the cost of the reform.
- ❖ The government need to ensure a well-coordinated, well-monitored and well-managed capacity development implementation process.

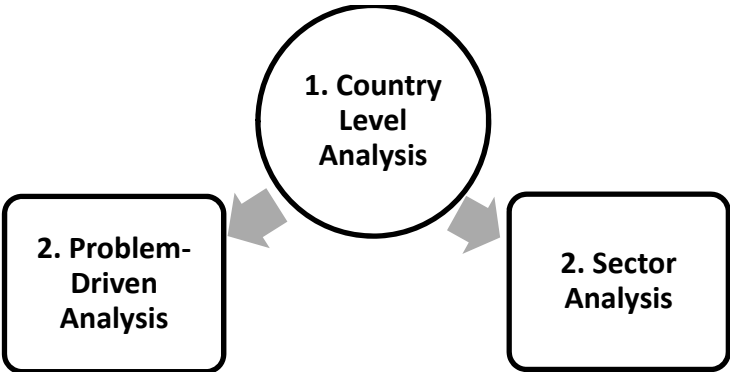
Source: Office of the Director of Public Procurement Malawi (OECD 2007)

A2.2 Political-economy tools

In the field of governance and politics a number of tools for analysing the specific context have been developed. Political-economy analysis tools can broadly be categorised into three main levels: **country/macro level, sector level and problem-driven analysis.**

- ❖ **Country/ Macro level** analysis seeks to understand the country context and to capture the overall governance situation. The analysis looks into the broad political-economy environment in a country or a region, and it highlights potentially important factors such as the geopolitical context, important social divisions and the role of history.
- ❖ **Sector level analysis** aims to identify certain barriers of opportunities that are common in a particular sector.
- ❖ **Problem driven analysis** seeks to understand or resolve a particular problem.

Figure 6: The sequencing of different level of analysis



Source: The figure is developed by the authors

Figure 6 illustrates that sector and problem-driven analyses are normally based on a country analysis, and not alternatives to a country analysis. Sector and problem-driven analysis are ways of studying certain issues in greater depth, and the issue at stake determines which of the two approaches that will be most appropriate (DFID 2009). Some political-economy tools can be adapted and used at more than one level. An overview of the level of analysis of the tools and their relevance to procurement are summarised in Table 4.

Table 4: Overview of political economy analysis tools

PEA Tools	Main level of Analysis of Tools			Main focus of tool
	Macro Analysis	Sector Analysis	Problem Analysis	
DFID: DoC	✓			How reform emerge and endure
DFID: PoD	✓	✓	✓	How political decisions are made
SIDA: Power Analysis	✓			Focus on the nature and distribution of power
Netherlands: SGACA	✓			Focus on governance and anti-corruption
EU: AAGSO		✓		Analysing sector governance
ODI: PESPA		✓		Sector approach to DoC
WB: PDGPEA	✓	✓	✓	How to enhance effectiveness of development

Source: The table is developed by the authors

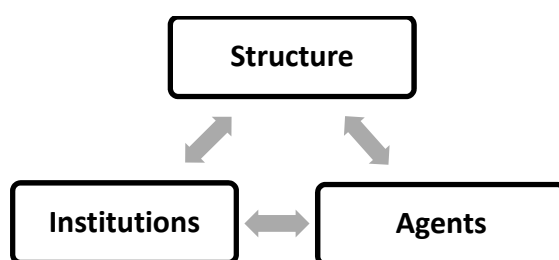
A2.2.1 Country Level Analysis

Macro level or country analysis describes the overall environment in which the procurement activities take place. For example the analysis can give an overview of the positions and perspectives of the main stakeholders in a country. It can also indicate the likelihood for achieving a change in the procurement system. In the following section four approaches are presented (a) The drivers of change; (b) The Politics of Development Framework (PoD) approach; (c) The Power Analysis Approach; and (d) The Strategic Governance and Corruption Analysis (SGACA) approach.

(a) The drivers of change approach

The DoC examines how change occurs within given contexts. It aims at understanding the forces that are driving change, and the key policy and institutional drivers for poverty reduction. The main question is '(...) *how policy and institutional reforms that benefit poor people emerge and endure, or why in many cases they are blocked*' (DFID 2009:9). The approach builds on the understanding that while donors are often good at identifying the needs of the poor, they may not be sufficiently clear about how to address these needs in the most effective and efficient manner. The approach emphasises that the political context shapes the way development takes place (or not). A good understanding of the historical and political context is crucial in order to create effective donor strategies (Warrener 2004; Fritz et al 2009; Nash et al 2006; DFID 2009).

Figure 7: Drivers of Change Framework



Source: The Drivers of Change Approach (Warrener 2004)

Important elements of the DoC approach

As Figure 7 reflects, the approach focuses on the dynamic interaction between these factors:

- ❖ **Structural factors** can be understood as deeper, long-term contextual aspects that influence the political economy. These aspects change slowly over time and are not easily influenced. Examples can be natural resource endowment, geo-strategic positions, the history of the state and economic and social structures.
- ❖ **Institutional variables** are related to the formal and informal rules that shape the behaviour of the agents. Examples of formal rules can be constitutional rules, while informal rules refer to political, social and cultural norms.
- ❖ **Agents or stakeholders** comprise individuals and organisations such as political groups, the military, NGOs and business associations. External stakeholders such as donors and foreign investors may also play important roles.

The DoC approach, however, is not standardised: it sets out broad guidelines which must be interpreted bearing in mind the specific context in which the approach will be used. Hence, it is difficult to use the tool for cross-country comparisons (Fritz et al 2009; DFID 2009).

The approach is structured around six sets of questions addressing:

1. Basic country analysis
 - ❖ Map the factors that shape the state and the political system, including structural factors, formal and informal institutions and actors.
2. Medium-term dynamics of change
 - ❖ Incentives and capacities of actors operating within a specific institutional domain.
3. Role of external forces
 - ❖ This includes donor actions, aid modalities and influential strategies.
4. Link between change and poverty reduction
 - ❖ Looks into how expected changes will affect poverty.
5. Operational implications
 - ❖ Identifies how the understanding of underlying interests, incentives, drivers and power relationships can be translated into action and strategies.
6. DFID incentives
 - ❖ Singles out the organizational incentives within DFID to acquire, retain and use the insights the DoC approach gives.

Points 1 to 3 aim to shed light on the current and future dynamics of a country. Most political-economy tools will include points 1, 2, 3 and 5 in the analysis.

Some limitations of the approach have appeared. There have been inconsistencies in the application of the methodology, and the quality of the analysis has varied across DoC studies. Furthermore, poor translation of the analytical findings into operational recommendations has been observed in some DoC studies (DFID 2009). The main problem of many DoC studies, however, is that they ***‘described political economy problems in a general sense, but did not examine political processes in detail, which limited their ability to explain how particular agents operate within the political system (...)*** (DFID 2009:10).

One of the first political-economy tools for the country level analysis was the Drivers of Change (DoC) approach developed by DFID and launched in 2003 (DFID 2009). While many of the political-economy tools are based on this approach, the later versions tend to have a particular focus, for example on human rights, power relations or corruption.

(b) The Politics of Development Framework (PoD) approach

In order to address the shortcomings of the DoC approach, the PoD was developed. The PoD-tool analyses how political decisions are made.

Important elements of the PoD approach

It focuses on four elements of a political decision making process (DFID 2009):

- ❖ **Environment:** historical, socio-economic and cultural issues including legitimacy.
- ❖ **Pressures:** groups and interests who influence but do not make political decisions.
- ❖ **Processes:** formal and informal processes through which decisions are made.
- ❖ **Implementation:** determines implications.

The approach can be used at country and sector level, as well as to investigate specific problems. It has so far only been applied in very few countries. A justice sector study has taken place in Yemen, and work on an education policy has been conducted in Ghana.

(c) The Power Analysis Approach

The Power Analysis Approach was developed by SIDA. It aims at understanding the nature and distribution of power in order to make poverty reduction possible. If poverty is to be reduced, power asymmetries, access to resources and influence over politics must be addressed. Power analysis is used to map the informal political landscape, and how development cooperation and donor activities are influenced and shaped by this landscape (SIDA 2006; Nash et al 2006).

Important elements of the Power Analysis approach

The approach does not have a fixed definition of power. Every power analysis must define its own understanding of power. There is large scope for adapting the approach to a specific context and focus area. The analysis is mainly based on secondary research and desk studies, but is commonly complemented by interviews and surveys. The information produced is largely qualitative, and it does not lend itself to cross-country comparisons. It can be used for comparisons within a country over time.

(d) The Strategic Governance and Corruption Analysis (SGACA) approach

The SCACA approach was developed by the Ministry of Foreign Affairs in the Netherlands. The approach aims at analysing the context for governance and anti-corruption, with the goal of improving the design of donor interventions. It focuses on formal and informal aspects of governance and anti-corruption in a given context (Unsworth and Conflict Research Unit 2007).

Important elements of SGACA

The analysis draws on existing information and provides guidance on how to structure and analyse this information. The SGACA consists of a Power and Change analysis which has many similarities with the Drivers of Change approach. Further, it comprises a workshop with external stakeholders that aim to discuss the Power and Change analysis and to define strategic priorities for governance and anti-corruption.

A2.2.2 Sector Level Analysis

Sector analysis focuses on specific areas of interests, and can facilitate deeper understanding of sector arenas. Procurement often takes place within a particular sector. Political-economy analysis at sector level can potentially generate specific insights about what shapes a given sector. Further, sector analysis may shed light on the incentives and constraints that influence actors in a given sector. Thus, it can potentially provide knowledge on how and why sectors differ both within a national context and internationally through comparative analysis. For instance, it may be useful to explain why reforms in sectors such as education, health and infrastructure have been successful or not. Thus, it might provide insights on how donors may engage to facilitate policy changes, as well as shedding light on the donors' own role in policy processes in developing countries (Nash et al 2006; Moncrieffe & Luttrell, 2005).

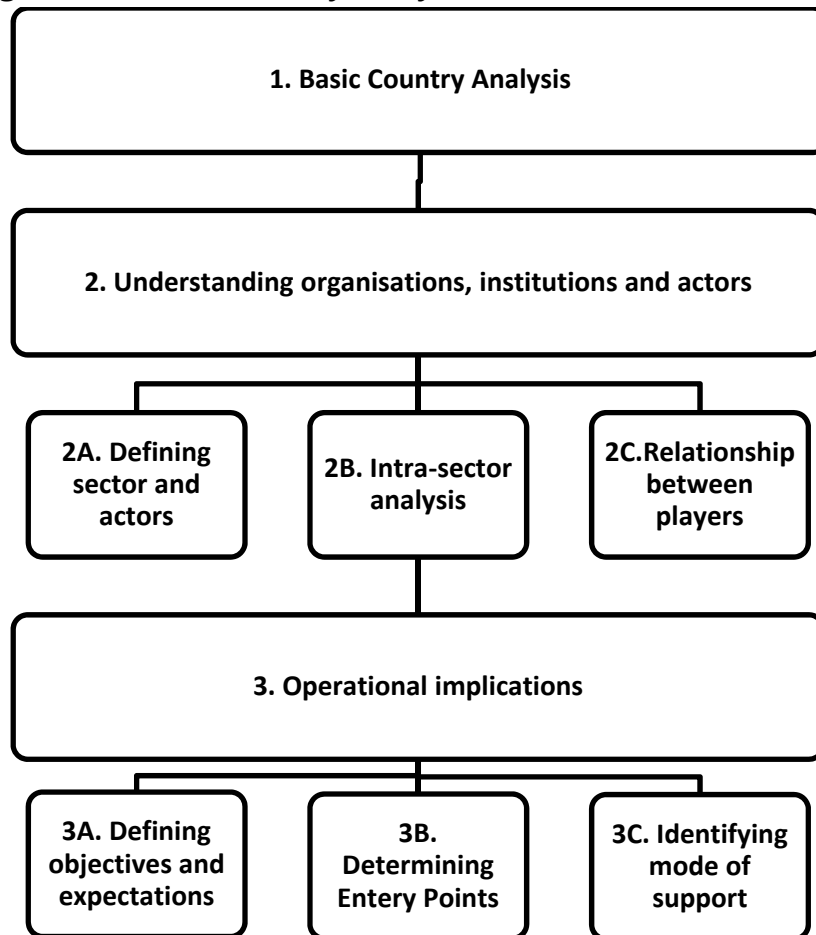
(a) An analytical framework for understanding the political economy of sectors and policy analysis

The approach was developed by ODI, and aims to provide guidance to DFID in using sector political-economy analysis as inputs to designing programmes and strategies.

Important elements of the approach

The sector level analysis often starts with a country analysis mapping the country context (Figure 8). The next step is to define the sector in focus, its actors, organisations and institutions, and the dynamics between them. Intra-sector analysis can provide insights on ‘what drives change’, which may vary within sectors as well as across sectors. The insight provided by the analysis should then be used as inputs for donor strategies, actions and modes of support.

Figure 8: Stages in Political Economy Analysis at Sector Level



Source: An analytical framework for understanding the political economy of sectors and policy arenas (Moncrieffe & Luttrell 2005)

(b) Analysing and addressing governance in sector operations

The approach was developed by the European Commission and seeks to offer guidance on how to analyse and address governance in sectors (EC 2008).

Important elements of the approach

The guiding principles for conducting a governance analysis are:

1. Define the purpose of the governance analysis.
2. Work together with other actors.
3. Make public more than you think you can.
4. Consider the analysis as a continuous process, including monitoring and evaluation.
5. Combine sector and governance expertise when managing European Commission sector governance analyses.

Analysis of the sector governance is conducted in 4 steps:

- ❖ First, the context of the sector governance is to be analysed.
- ❖ Second, the actors and their interests, power and incentives are to be mapped.
- ❖ Third, the governance and accountability relations between the key actors are to be analysed.
- ❖ Fourth, a summary showing the key features, the key strengths and weaknesses and the major trends are to be developed. Based on this overview realistic and feasible options for change are developed.

A2.2.3 Problem-Driven Analysis

The problem-driven analysis aims to understand or resolve a particular problem, rather than focusing on a broad overview. It is perceived that this approach may easier generate findings that can have operational implications. In relation to procurement, this tool could be useful in analysing, for example, the effects of a particular reform.

This section is based on the World Bank's 'Problem Driven Governance and Political-Economy Analysis: Good Practice Framework'. The approach takes the view that in order to improve development effectiveness, governance and political-economy analysis should be integrated in the preparation and implementation of strategies and operations (Fritz *et al* 2009). While the ultimate goal is to achieve pro-poor development, the focus is on moving in the right direction.

“The intention of this framework is to present a menu of options rather than to offer or prescribe one particular way of doing things. It seeks to provide guidance that is practical and specific but which can and should be tailored to specific circumstances and specific questions to be addressed.” (Fritz et al 2009:viii)

Important elements of the approach

The approach can be used for analysis at country, sector or project levels. As illustrated in Table 5, the approach is based on a three-layer analysis that comprises:

- (i) Identifying the challenge, problem or vulnerability;
- (ii) Mapping the institutions and governance strengths and weaknesses; and
- (iii) Identifying political drivers and obstacles for a positive change.

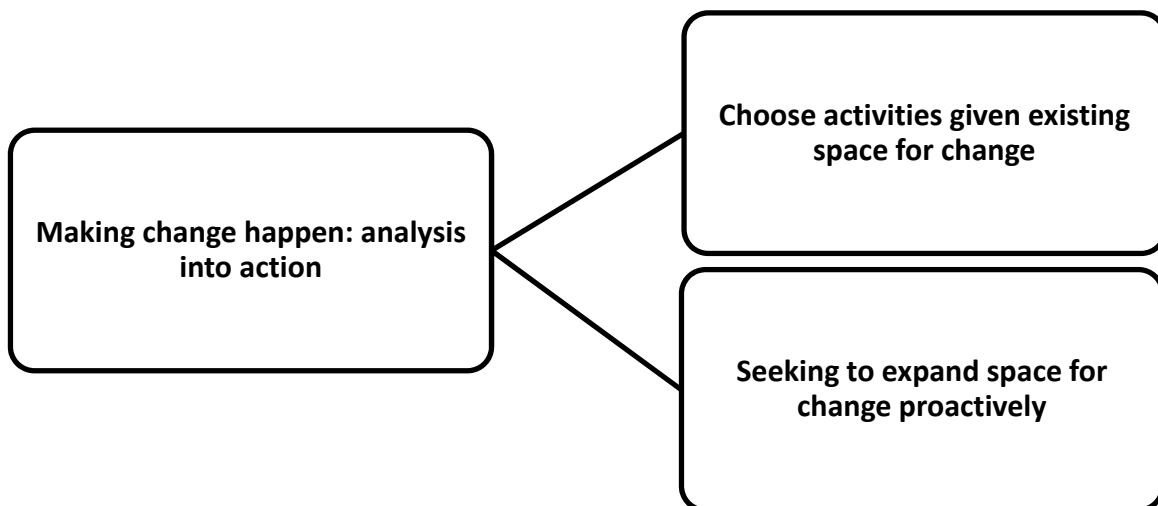
Table 5: Three layers of problem-driven governance and political economy analysis

	Sequence of analysis	Examples
What challenges exist?	Evidence of poor outcomes to which governance and political economy appear to contribute	Repeated failure to adapt to sector reform. Poor sector outcome
Institutional and governance arrangements and capacities	What are the associated institutional and governance arrangements and capacities?	Mapping relevant branches of government and ministries, existing laws and regulations and policy processes
Political economy drivers	Why are things this way?	Analysis of stakeholders, incentives and issues shaping their positions and actions

Source: *Problem-Driven Governance and Political Economy Analysis* (Fritz et al 2009:7)

The tool focuses on different approaches for how analysis can be translated into strategies. The context will influence what would be the right strategy in a given setting. As illustrated by Figure 9, one has to choose between trying to expand the space for change actively, or to choose activities within the existing room of manoeuvre.

Figure 9: Options for translating GPE analysis into action



Source: *Problem-Driven Governance and Political Economy Analysis* (Fritz et al 2009:16)