

Sustainable Procurement in Fragile States

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The Business Case

In the nexus of sustainable development, peacebuilding and nation building, the value of sustainable public procurement merits further discussion. The business case begins with the large monetary values associated with public spending, as substantial sums are mobilized to build essential infrastructure and public services, including roads, railroads, hospitals, homes, offices, schools and more.

Within the European Union, this equated to 19 per cent of total GDP in 2010 (€2,046 billion) (European Commission, 2011) and a spend averaging 12 per cent of GDP within the Organisation of Economic Co-operation and Development (2011, p. 148). While in developing countries the proportion of GDP is slightly higher, recent experience suggests that public procurement can account for 60 to 70 per cent of all government expenditure in fragile states, accounting for 65.9 per cent in Swaziland, 70.19 per cent in East Timor, and 70 per cent in both Sierra Leone and Uganda (Blunt, 2010, p. 2).

In immediate stages of emergency and recovery, when development partners deploy funds for relief reconstruction, the values can also be significant. For example, in 2009 the United Nations procured over US\$7.6 billion worth of goods and services from suppliers in developing nations and economies in transition, equating to almost 55 per cent of its total procurement expenditure, up from 38 per cent in 1999 (United Nations Office for Project Services, 2010, p. 2). Can this investment serve as a very preliminary catalyst for not only peacebuilding and nation building, but also to lay the foundation for establishing a stable investment environment to crowd in both foreign and domestic investors to realize sustainable development? If yes, can sustainable public procurement be a useful policy?

The significance of sustainable public procurement—that governments and development partners actively seek to purchase environmentally and socially sustainable goods and services and **use their massive purchasing power to create markets for green industrial development—is, in itself, positive and proactive.** Even though public institutional processes and capacities might be weak and the development of the private sector is still in its infancy, the message alone can be useful to instill hope, morale and, most importantly, increase awareness and appreciation for environmental stewardship and social cohesion.

Sustainable public procurement also provides governments and development agencies with a positive message to take to market. It can be used to demonstrate long-term commitment to domestic industrial development. It serves as an indicator of mature political leadership that is critical for peace and national cohesion. As a policy, it cuts across all spheres of industrial and social development, as all public sector entities need to procure as a part of their operations. As a powerful market mechanism, it presents high volumes of demand, and signals to the market that this demand is long term and here to stay. What better incentive can development partners, stakeholders and investors have to take the risks to commit capital, establish enterprises and begin to produce sustainable goods and services?

Fragile states are risky environments in all contexts. In terms of governance, there is the risk of fiduciary and development failure that could increase poverty, social unrest and even a return to conflict situations. For development partners, there is the risk of program and performance failure. Institutionally, for public agencies that work with development partners, there are the risks associated with security, fiduciary obligations and weak capacity. The value in using procurement as a change agent is that it is a function that all actors have to carry out as a matter of daily operations; and as sustainable public procurement calls for higher levels of dialogue, trust, transparency and accountability across the public and private sectors, it is a viable risk mitigation strategy. Risk management in fragile states requires balancing risk with opportunity or balancing one set of risks against another. **Through sustainable public procurement, risk management can be made an enabling and capacity-building process, as it will open opportunities for equitable, broad-based and sustainable economic growth.** It is only then that long-term social cohesion and peace can be realized.

Sustainable public procurement can also serve as complementary, or even as a **precursor, to more broad-based reforms on public finance** (revenue and expenditure management), which is one of the very first areas of reform in the development trajectory of fragile states. Moreover, sustainable public procurement could be used to achieve effective and efficient public service delivery in that it will provide added scrutiny on the deployment of large public and development partners' funds, thereby combating one of the main issues arising from allegations of bribery and corruption. Here, government contracts can represent more than just an apparatus for public service delivery, but also serve as opportunities for additional income streams within political and bureaucratic circles, whether for individual politicians or in support of political parties and specific election campaigns. The likelihood of procurement-related corruption can be exacerbated within fragile contexts when political cronyism and a degree of autonomy for public officials is presented with a marketplace desperately seeking government contracts (given weak domestic consumption) and defined by high-value transactions. Sustainable public procurement could provide a mechanism to address this challenge, given that it calls for increased disclosure and transparency on tendering processes.

Perhaps the most compelling rationale for fragile states to invest in sustainable public procurement is that it **provides a cost-effective policy for building local industrial capacity: to trigger the growth of domestic industries and entrepreneurs and to crowd in domestic investors.** If thoughtfully designed and implemented, sustainable procurement can provide the required certainty to scale-up and increase the competitiveness of domestic enterprises and infant industries, which in turn will provide employment and make the case for investment in education and skills building. **Many countries, including the United States, China, Brazil, Chile, India and Vietnam, have used local content within public procurement as a catalyst for job creation, skills building and domestic industrial expansion.**

Procurement is an activity that is ongoing across all public and private sector organizations, no matter how large or small, or how well or poorly resourced they are. **Hence, sustainable public procurement does not call for an additional workload, but rather a new way of thinking and working on already existing activities.** Public procurement is essentially trade between the public and private sectors, and, as such, can have a direct impact on not only economic expansion but also on realizing social cohesion and improving environmental stewardship. These are key components of long-term peacebuilding and political stability. What better reason for governments, not just those in fragile states, to consider sustainable public procurement as a strategy for greener and more sustainable growth?

Challenges in Getting Started

The challenges of getting started on sustainable public procurement in fragile states relate to the political economy and the institutional capacity of the public sector at large.

Perhaps the biggest challenge is to integrate sustainable procurement into ongoing efforts on nation building and, moreover, into existing government systems. Both are critical in sustaining any intervention. **Reform within procurement and public finance management systems can experience significant challenges and opposition due to the fact that it threatens the vested interests of certain sectors within the domestic economy.** Consequently, it is vitally important to assess and appreciate the interface between individual elements of the domestic political economy, as it relates to procurement, if reforms are to be successfully and effectively implemented. Integrating sustainable public procurement into national reconstruction plans is a primary entry point to ensure localized spending priorities, as well as a legitimate platform for ongoing procurement systems development and reform, and the ability to attract donor support for those activities.

It is often suggested that sustainable public procurement might best be introduced as an integrated component of broader public procurement and public finance. In practice, however, public systems may not be sufficiently stable and capacities not sufficiently mature to immediately appreciate the opportunities embedded in sustainable public procurement. **Hence, a dedicated effort on sustainable public procurement might be warranted.**

Procurement in fragile states is likely to often call for “quick fixes” or single sourcing contracts in the interest of “getting things done” and due to the fact that legal and institutional procedures and systems are not well established. While recognizing the need for flexibility, sustainable public procurement would call into question the implications of these quick fixes for the countries’ nation-building processes and the consequences of them becoming established as “normal” business practices. **As the long-term goal is to embed environmental and social safeguards into government procurement systems,** it is important to question: a) what will be required to set up such a system; and b) what are the essential requirements of procurement systems that could be put into place immediately that provide a foundation for longer-term reforms.

Challenges may also arise in reaction to donor-funded and managed procurement and the methods for how sustainable public procurement can be embedded in both. If sustainable public procurement is to deliver on its business case, it needs to be embedded into both donor and government procurement. For example, in the case of the United States, one of the goals of the Agency for International Development (USAID) framework is “to help build and sustain democratic, well-governed states that respond to the needs of their people, reduce widespread poverty

and conduct themselves responsibly in the international system” (U.S. Department of State & USAID, 2007). How do these goals relate to the U.S. Federal Acquisition Regulations (FAR) and the focus on green products and services that USAID is required to follow? And how feasible is it to apply FAR in fragile states? Furthermore, when considering donor procurement in fragile states, what is the role of the host countries’ regulations, and how do these multiple systems interact?

Development partners may also operate centralized or decentralized procurement arrangements, which will also have important implications for the institutional arrangements in fragile states. In terms of sustainable public procurement, it is essential to work with the existing capacities and systems while building more advanced ones.

Sustainable public procurement will be a technical process that requires major changes involving a wide variety of stakeholders with multiple, sometimes conflicting, and changing political incentives that can complement or compete against each other. At the operational level, reforms may bring procedural changes that, in return, require mindset changes at the level of procurement officers and can generate massive resistance from public officials who benefit from the old ways of doing business.

TABLE 1: WHAT DO GOVERNMENTS PROCURE?

AREAS OF FREQUENT EXPENDITURE		
PRODUCTS	SERVICES	WORKS
Air conditioning	Management consultancy services	Commercial buildings
Office information and communication technologies	IT consultancy services	Residential buildings
Vehicles	Software	Airports
Indoor and outdoor lighting	Servers and data centres	Ports
Paper	Electricity	Railway stations
Office supplies	Couriers and postal	Roads
Fuel	Fleet and vehicles	Railroads
Furniture	Waste handling	Schools
Apparel	Catering: food and beverage	Correction facilities
	Landscaping	Power plants
		Power distribution grids
		Water treatment facilities
		Sewage treatment plants
		Hazardous waste management facilities
		Municipals waste management facilities

The Value of Readiness Assessments

To determine if and how sustainable public procurement can be designed and implemented in fragile states, a readiness assessment is required to determine the political economy of the country, including ongoing reforms in public procurement, finance and accounting, procurement processes and procedures, early markets for green goods and services, and much more. Consultation will be required with national, provincial and municipal governments; development partners; the private sector; and civil society organizations.

A part of the sustainable public procurement assessment will also look at opportunities to instill transparency and equality in procurement processes; where transparency contributes to building confidence that tenders are legitimate, and equal treatment assists to ensure whole-life value and cost competitiveness. Included herein would also be recommendations on incentives to increase the implementation of sustainable public procurement, along with strategies to deal with the disincentives, including cronyism and corruption.

While many countries have adopted sustainable public procurement policies and programs, replicating them in fragile states will require dedicated approaches that will suit the development and political economy of individual countries. Additional challenges will arise, given the fact that government decision-making and financial procurements tend to be slow and cumbersome and data on procurement spread will be difficult to come by.

Sustainable public procurement, however, offers fragile states the opportunity to leapfrog the development challenges faced by developing countries and organically grow sustainable domestic markets for green goods and services.

IISD's Work on Procurement and Fragile States

IISD has advised several governments, including Chile; the United States; Canada; Sao Paulo, Brazil; Vietnam; India; Ghana; and South Africa on the design and roll out of sustainable public procurement policies. We are now expanding our focus to fragile states.

In June 2012 IISD began working with stakeholders in Mozambique, assessing the legal, institutional and market preparedness of the domestic economy to design and implement policies on sustainable public procurement and identify what reforms and capacity-building initiatives will be needed in this regard.

IISD is also partnering with the Geneva Peacebuilding Platform and the International Trade Centre to examine how procurement could serve as a mechanism to implement the Economic Foundations pillar of the New Deal for Engagement in Fragile States.

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