CASE STUDY 2

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PUBLIC PROCUREMENT

e-Procurement Reform in Bangladesh

Overview

Bangladesh's public procurement system long constrained the nation's economic development and the performance of the public sector. In 2000, approximately 80% of Bangladesh's developmental budget and one-third of public spending occurred through state contracting, using a range of mechanisms stipulated in a variety of laws and regulations. While the public procurement system had the capacity to conduct numerous transactions and spend large sums of money, its ability to deliver value to the citizens of Bangladesh was questionable. Opaque accountability arrangements created a system that favored some at enormous public cost. The economic loss due to inefficient procurement and misappropriation of funds was estimated at over 1.5% GDP growth per year.

In two decades of sustained effort, the government established a modern, well-functioning, and transparent public procurement system. The country developed its own Public Procurement Act and Rules, including tender documents, a nodal agency to regulate procurement, a comprehensive capacity development program, an integrated e-GP system, an on-line procurement performance measurement system, citizen engagement, and social accountability with a strategic communication framework. A corrupt system has been reformed and corrupt practices have become the exception instead of the rule.

This case study examines the steps that Bangladesh has taken to address corruption within the context of its overall reform of its public procurement system. In Bangladesh, corruption was recognized as both

a symptom of failings in the procurement processes, and an impediment to achieving more competitive, transparent, and value-adding procurement. The success that Bangladesh has achieved in marginalizing corruption in the contracting process demonstrates the benefits of confronting corruption as one aspect of a larger systemic reform effort. The Bangladesh experience also highlights the ways that implementing a comprehensive e-GP platform can help drive standardization of practices and increased transparency. At the same time, the indication that some corruption may have shifted towards contract implementation in Bangladesh indicates the tenacity and resilience with which groups fight to maintain their corrupt income.

Introduction

In 2011, Bangladesh was at a crossroads in its efforts to improve public procurement. Procurement reform had started almost a decade earlier with the Public Procurement Reform Project.[42] In 2003, the government introduced a Public Procurement Regulation to start practicing procurement under a single framework, although with limited legal enforcement. To further consolidate the legal framework, the government introduced a Public Procurement Act in 2006 and the Public Procurement Rules in 2008. These laws adopted the principles of the UNCITRAL model in the core procurement functions, introducing modern regulations on eligibility of tenderers, procurement planning, preparation of tenders and evaluations, tender submission and approval procedures, an independent complaint review mechanism, professional misconduct, and sanctions, including anti-corruption measures.

This first wave of reforms produced little in the way of improved outcomes and performance. The highly decentralized paper-based procurement process remained prone to corruption, collusion, and coercion at the local level. Perverse practices, like the physical intimidation of potential bidders and non-competitive processes for awarding contracts continued as the legal changes failed to translate into new processes and behaviors. Bureaucratic resistance to introducing new practices was substantial, especially among those officials who obtained the greatest private benefit from the way the existing system functioned. Procurement staff lacked the capacity and incentives to change practices and processes and there was scant evidence to suggest that new bidders were competing and winning tenders. Procurement volumes and values remained high, but the system continued to be characterized by inefficiencies, incapacity, and wastage.

Starting in 2011, the Government began the roll-out of a comprehensive e-GP system. Through e-GP and related reforms, the government aimed to reduce corruption in the procurement process and shift to a system that delivered better value for money for the country's citizens. The Ministry of Planning's Central Procurement Technical Unit (CPTU) oversaw public procurement and managed the reform process.

The implementation process

The government's second wave of reforms to improve public procurement performance began in 2011. The reforms had three major elements: introducing an electronic procurement system, training people how to use the new system, and strengthening monitoring and oversight.

Rolling out an electronic procurement system

After completing a readiness assessment for the introduction of e-GP, the CPTU implemented e-GP in four pilot agencies: the Local Government Engineering Department, the Roads and Highways Department, the Water Development Board, and the Rural Electrification Board. The four pilot agencies accounted for approximately 40% of the national procurement budget and included both high-value central procurement transactions as well as smaller value decentralized

contracting for a wide range of goods, works, and services.[43]

The e-GP platform brought every step of the procurement cycle online: registration (public agencies/ bidders/ banks), procurement planning, tendering (invitation, preparation, submission of bids, including bid security), evaluations, award, contracting and payments. Additional features were added over time to further enhance transparency, including the creation of a citizen portal to disclose procurement and contract management data using the Open Contracting Data Standard, as well as procurement performance information.[44]

The introduction of the e-GP system presented various challenges on the ground, mainly related to system security, poor connectivity, inadequate IT infrastructure at rural levels, and a lack of knowledge skills among users. The roll-out of the e-GP system was enabled by the IT infrastructure support created by Bangladesh Telephone Company Limited and Power Grid Company Limited supported by some private network providers. A significant effort was made in ensuring network coverage and providing the pilot agencies with the computers and IT equipment necessary to conduct all procurement operations on the online platform. Recognizing a lack of existing IT and computer knowledge among the procurement staff and the tendering community, CPTU created a help desk for e-GP and made a comprehensive effort to organize technical trainings for procurement officials as well as for suppliers and stakeholders at large.

After the pilot, the CPTU expanded coverage across government. The steady expansion of e-GP reshaped the mechanics of the procurement process. Digital platforms eliminated the need for a range of face-to-face interactions. Adopting e-GP also fostered a high degree of procedural standardization, including in the forms and documents used, the publishing of information on contract opportunities and awards, and the recording and filing of information relating to each transaction. As a result, e-GP led to increased procedural regularity as well as increased ability to identify when and where non-standard processes occurred.

By starting with a pilot, observers inside and outside the government could track the procurement performance of the pilot group versus agencies still operating under the paper-based system. This required an extensive

effort to collect and harmonize transaction-level data from the e-GP system as well as from the paper-based system.

Building procurement capacity in the public and private sectors

The second key element of the procurement reform was an extensive and intensive program of training in basic procurement skills and in navigating the e-GP platform. The emphasis placed on training responded to a need to raise the skill level of officials responsible for procurement and enable new and dynamic private sector firms to participate and win procurement tenders.

The training program was designed to spread expertise widely and to allow training to take place on a continuous basis. The CPTU managed the training of approximately 37,000 people, which included creating a crucial mass of 60 nationally certified trainers. The trainings ranged from procurement awareness and orientation to more in-depth training on different dimensions of planning and executing procurement transactions. That number included at least one procurement officer from each of the procuring entities in the pilot agencies. Over 6,000 private firms interested in participating in future procurements were also provided instruction in how to learn of contract opportunities and submit bids.

Through the training program, a cadre of procurement officials gained the knowledge and expertise needed to procure goods, works, and services efficiently and in accordance with the rules. The procurement officials were distributed within key sectoral agencies. Equally important, the training programs produced a community of informed bidders eager to compete for contracts and armed with knowledge and expectations about how public procurement transactions should be organized and executed.

Strengthening oversight and monitoring

The final reform element was to increase transparency in procurement processes and greatly expand the amount of publicly available information concerning individual transactions and overall system outcomes. In addition, the CPTU undertook a determined effort to increase citizen awareness of public procurement and community participation in monitoring procurement

practices and processes.

The CPTU conducted a comprehensive communication campaign in order to promote public awareness, knowledge sharing, advocacy, stakeholder engagement, and behavior change. This included communication support for and around the CPTU, expansion of e-GP, open contracting efforts and two-way communication among multi-stakeholders, including procuring entities, line ministries, oversight agencies, businesses, media, academia, and beneficiaries. Activities included: social media campaigns, engagement of beneficiary groups, public debates, education programs, awareness campaigns, e-GP orientation for different stakeholder groups, including media and community support organizations, media awards and fellowships, and collaboration with other governmental organizations involved in increasing information flows.[45]

The stakeholder engagement program targeted political leaders, implementers, bidders, bankers, civil societies, academia, journalists, and, most importantly, citizens. The forums at policy level and district levels, combined with numerous workshops and deeper dialogues directly with the field level officials, tendering community, and journalists across the country, created visible momentum. Partnership with a communication firm and the BRAC Institute of Governance and Development[46] effectively moved the reform beyond simplistic technical 'solutions', reflecting an integrated approach that explicitly addressed both supply and demand issues.

The CPTU recognized that social accountability could help motivate public sector employees' performance and that citizen engagement could contribute to monitoring the execution of public contracts. In order to institutionalize citizen engagement, encourage dialogue and social accountability, and enable citizens to participate in the procurement cycle, four platforms were formed: (i) Public Private Stakeholders Committee comprising representatives from think-tanks, non-profit organizations, academia, and senior officials/ civil servants from the key ministries/ sector organizations; (ii) Government-Tenderers' Forum with representatives from both the public sector implementing agencies and the tender community;[47] (iii) Site-Specific Citizen Monitoring activities to monitor implementation of procurement contracts at the rural level; and (iv) a citizens' portal for monitoring public spending with appropriate disclosure of procurement information to the public and a feedback portal that

would help promote dialogue to ensure transparency and accountability in public spending vis-à-vis better service delivery.

From the start, the reform effort was designed to build support and momentum over time. The changes to procurement practices faced strong opposition from vested interests in the private sector and the parts of the bureaucracy that benefited from the existing system. Political support for additional reforms to procurement in 2011 was limited, as politicians were hesitant to become too closely associated with a reform viewed as having limited chances of delivering results. The bureaucratic hierarchy and procurement officials were also among the actors opposed to the introduction of the e-GP system, concerned about the transformation of officials' roles, functions, and responsibilities as well as the deep restructuring within their organization necessary to accommodate the e-GP adoption.

After seeing the benefits of e-GP through piloting, a young group of public officials with expertise and interest in IT became champions in carrying forward the e-GP agenda within their respective agencies. As the initial successes of e-GP in curbing collusion, coercion, tender rigging at the local level and improving the economic efficiency of the procurement system started to become apparent, the Bangladesh Prime Minster extended unequivocal support for the total digitization of the procurement process. On October 21, 2015 the Prime Minister announced that all public procurement would be conducted through the e-GP system by 2016, demonstrating the degree of political support for procurement reform that built over time.

Results

The reforms initiated since 2011 transformed the public procurement system in Bangladesh. Bangladesh stands out as a leader in the implementation of procurement reforms and in changing how procurement gets done, especially among countries at a similar level of economic development.[48] As of 2020, the e-GP system had been implemented in more than 900 public sector organizations and local government municipalities, covering about 13,000 procuring entities.

The average length of time from tender invitation to contract signing decreased from 95 days to 59 days between 2011 and 2019. The new system demonstrated improved efficiency in terms of timeliness of award of contracts (award within the initial tender validity period), drastically decreasing the cost of accessing information on tendering opportunities, and enhanced competition through an increase in participating tenderers. The number of registered tenderers and the value of invited tenders also increased (Figure 1.1). Quasi-experimental analysis by Blum et al[49] suggests that improvements in the performance of pilot agencies relative to agencies that remained in the paper-based system were substantial in terms of lowering corruption risks.

The effort to engage stakeholders created ownership of the reform agenda both among the procuring organizations as well as the tendering community. Procurement officials started to feel more comfortable in exercising their functions through the new e-GP portal, and the private sector began to demonstrate increased interest in participating in tenders for state contracts. The e-GP system changed the nature of competition in public procurement and created demand for an army of employees equipped with the newly necessary IT and computer skills among the tendering community. These dynamics opened the door for small and local firms to win public procurement contracts while also providing new job opportunities for well-educated young professionals who could help small firms to bid on contracts using the electronic portal, thus ensuring significant support for the reform even in rural areas and at the community level.

An on-line survey-based evaluation of officials, private sector firms, civil society members, media, and financial institutions conducted by the Nielsen Company in 2017 found that 79.3 percent of respondents were positive about improved transparency in public procurement due to the introduction of e-GP; 76.6 percent viewed procurement reforms as effective; 72.3 percent recognized the e-GP system as efficient; and 81.9 percent mentioned that one of the benefits of reform has been improved accountability.[50]

Data on the impact of the reforms on procurement transactions are very encouraging but should be treated with care given the on-going nature of the reforms.[51] The reform's direct impact on corruption is not possible to measure. However, corruption risk indicators associated with likely corrupt acts, which are particularly well suited for identifying systemic impacts, can be tracked.[52] Three corruption risk indicators were thoroughly evaluated by Blum et al[53], using a quasi-

FIGURE 1.1 Trends of Electronically Administered Tenders and their Value

Number of Registered Tenderers

Growth of Value of Tender Invitations in e-GP (USD million)
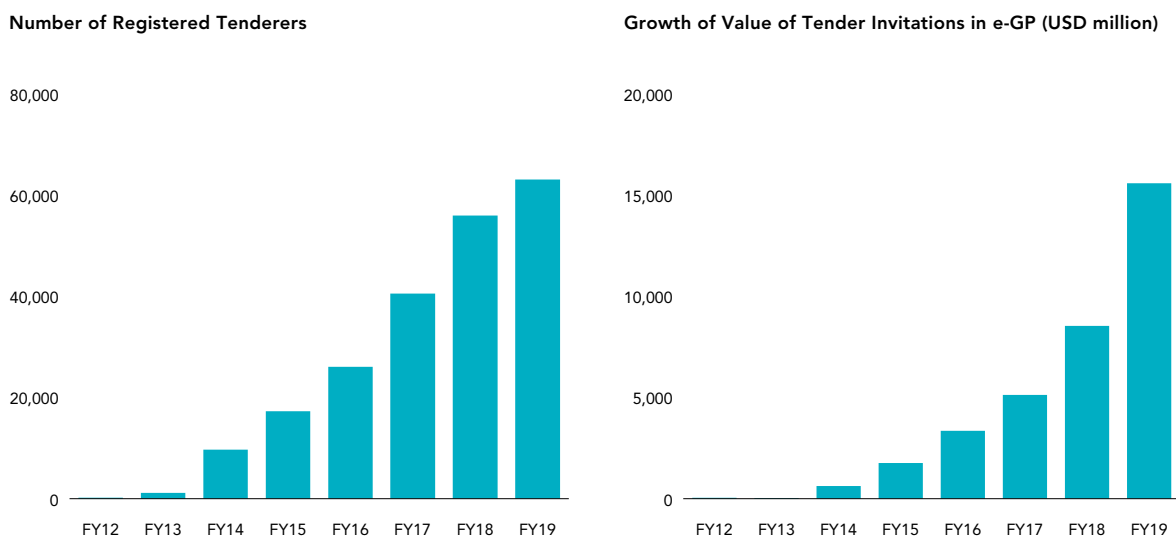
experimental methodology:

- Single bidding,[54]
- Non-local suppliers,[55] and
- Winning rebates.[56]

All of these indicators showed a statistically significant and sizeable improvement due to the switch from manual to electronic tender administration in the impact evaluation (Figure 1.2). Throughout 2011-2016, the rate of contracts awarded on a tender with only one bidder practically halved, dropping from 33% to 17%. Similarly, the rate of suppliers hailing from outside the district of the buyer increased from 13% to 21%. Furthermore, the average winning rebate the successful bidder offered (i.e., discounts) greatly increased, moving from about half a percent of the initial estimate to close to 7%. Taken together, these improvements in corruption proxies indicate that across the board, the likelihood of corruption declined as a result of the e-GP introduction. These quantitative results were also accompanied by anecdotal evidence on the disappearance of physical violence around bid submission as reported in the local media.

At the same time, there is evidence that procurement reforms have not "solved" corruption. While the reforms of the procurement process appear to have made a difference in the integrity of the process of contracting, it is less clear that the reforms have influenced the process of contract implementation. As the study of successful anti-corruption interventions in public procurement indicates, reform of one procurement phase is likely to induce corruption displacement to other phases of the process.[57] Initial analysis of existing data by Blum et al[58] has been unable to identify improvements in the final cost of capital investment projects or in the time it takes to complete such projects. Fully 70% of capital investment contracts are not completed on time, and there is no indication that the quality of contract implementation has improved. While the data is only suggestive, we cannot rule out that there is a considerable amount of corruption remaining in the contract implementation phase, which should be tackled in subsequent reforms.

Reflections

Bangladesh's more than nine-year experience implementing e-GP demonstrates the amount of effort and dedication required to improve procurement practices. Successfully reforming procurement, especially in the face of concerted efforts to maintain the status quo, is a long process. The resilience of the reform effort was a testament to the commitment to reform of officials in the Ministry of Planning and their ability to incrementally build support across government through demonstrating their ability to produce concrete and visible results.

FIGURE 1.2 Change in Corruption Risk Indicators as a Result of the e-GP Intervention

Panel A. Single bidding and non-local supplier rate

Panel B. Winning rebate (percentage point)
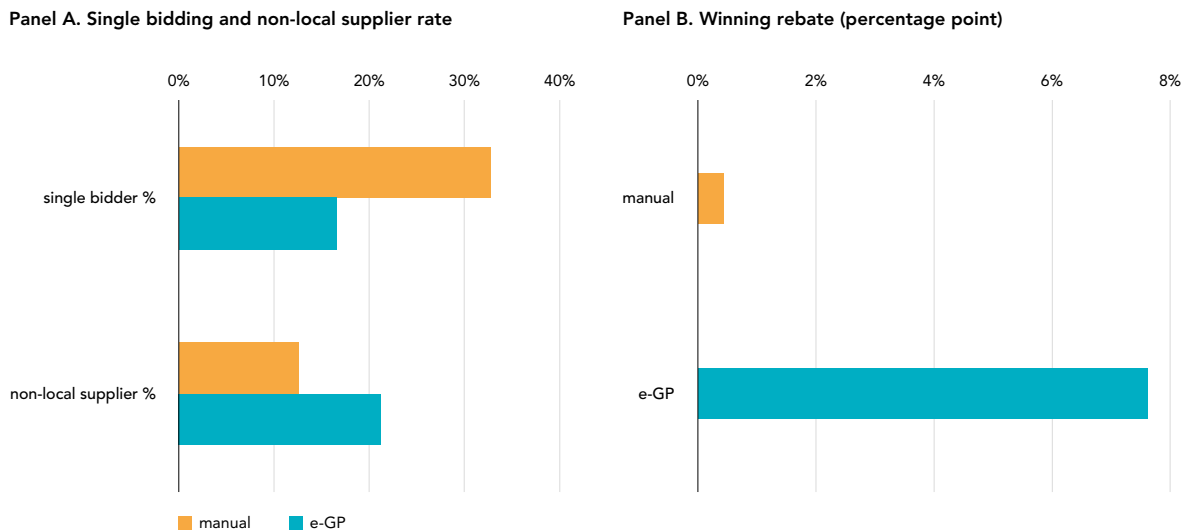
The more procurement performance improved in the select group of first movers, the more support procurement reforms gathered. Effectively addressing corruption was fundamental to achieving early successes, for example by preventing the physical intimidation of bidders by corrupt gangs by enabling the electronic submission of bids. Concrete improvements in procurement created an expanding constituency for continued reform that was strong enough to overcome the initial opposition to reform from the entrenched vested interests in both the public and private sectors. The initial adoption of the e-GP system in only the four pilot agencies also allowed government officials to focus their efforts on implementing change across a limited number of entities. Ownership and support for reforms was built over time thanks to a gradual sequencing of the reform implementation.

Initially, government support for the e-GP reform was weak. Instead, the implementation of the e-GP reform was a bottom-up approach, mainly owned by mid-level public officials of a few key agencies (who wanted to see changes) and a relatively young tendering community. The project implementers, including CPTU and the four pilot agencies, leveraged the support of these enthusiastic officials and the young community of bidders as well as communities. Political will to support procurement reform grew when leaders saw that new procurement practices and systems were gaining popularity by reducing bid rigging, coercion, and collusion. Shortly thereafter, procurement reform

become one of the Prime Minister's most prominent political commitments. Key members of cabinet, like the Minister of Finance and Planning, also supported the roll-out of e-GP.

Beyond technical content for laws, capacity development, and e-GP, the CPTU also undertook a massive stakeholder engagement program that supported a range of activities in engaging and sensitizing key stakeholders across the country on the importance of procurement reform and the benefits of efficient procurement. Increased transparency, combined with increased attention to making information publicly accessible, was essential to generating interest in public procurement reforms inside and outside of government. Equally important, newly established mechanisms for capturing and analyzing information provided stakeholders with the opportunity to examine procurement outcomes across the four agencies, within specific procuring entities, and in specific transactions. This new insight enabled officials, bidders, and communities to understand where progress was taking place, as well as where problems persisted and where additional scrutiny was needed. Transparency, information provision, and active monitoring allowed government officials to manage procurement reform, while at the same time enabling outsiders to monitor and review progress and behavior. This combination proved to be a vital source of energy and dynamism for reform.