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The e-procurement imperative for Pakistan's public sector finances



Procurement Information Systems and Management
PRISM-SNG Pilot Project
Punjab

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Overview

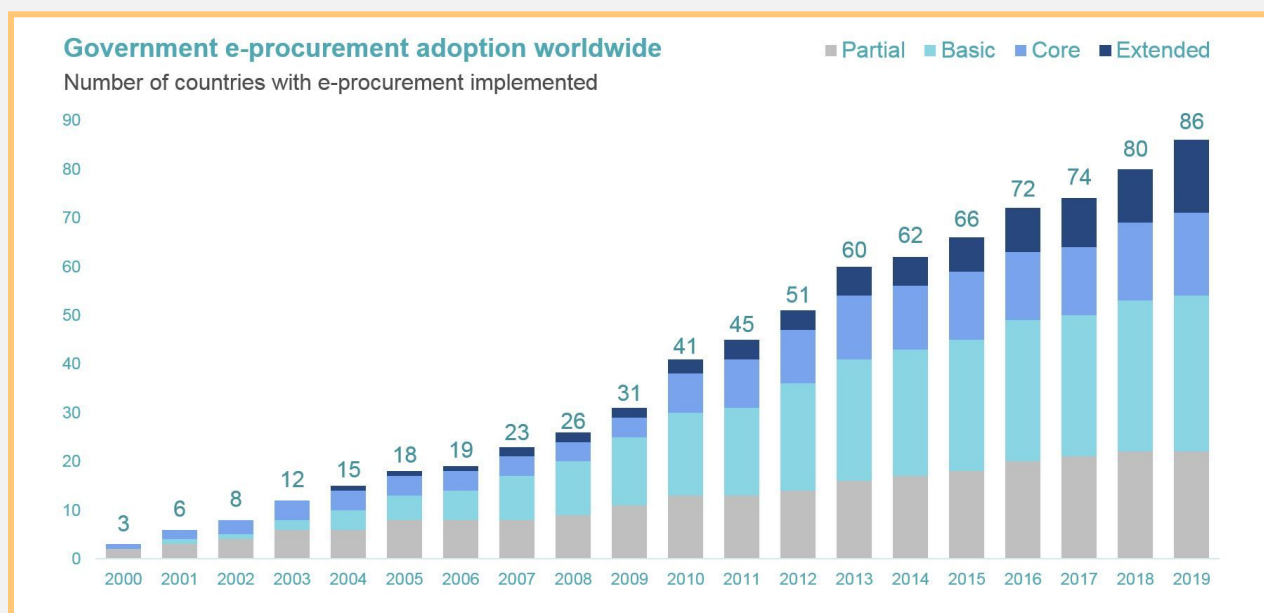
E-procurement is rapidly being adopted, by both the public and private sector, around the world. Financial savings resulting from improved transparency and competition makes e-procurement necessary for modernizing public sector procurement.

Pakistan can greatly benefit by implementing an e-procurement system that can streamline processes and reduce unnecessary complexities. Other South Asian countries with similar governance systems and demographics, including India and Bangladesh, have already moved towards optimizing their procurement processes through digitization.

Pakistan has only recently transitioned towards e-procurement, with the PRISM-SNG project, led by Adam Smith International and Khareed, leading the transformation in this space in Punjab through a pilot project. Successful roll out of the pilot can serve as a blueprint for a universal e-procurement system that caters to all public sector organizations in Pakistan.

E-procurement: Global experience

E-procurement has become an essential feature of e-governance initiatives across the world. As of 2019, 86 countries had adopted e-procurement, with varying levels of functionality.



Source: Global Public Procurement Database, World Bank, ASI-Khareed analysis

In a large number of these countries, this transition from traditional procurement processes has already started delivering results. In Austria for example, e-procurement resulted in improved user satisfaction, increased uptake at the subnational level, and significant savings (over EUR 700 million) over a seven-year period.

In Scotland, between 2008 and 2010 alone, government authorities saved GBP 680,000 per year and increased the number of public suppliers by 2000 every month, with estimated net cost savings for suppliers at over GBP 14 million per year. In South Korea, e-procurement reduced government costs by 10.23%.

In general, analysts estimate that e-procurement helps reduce procurement costs by 20%

E-procurement improves value for money and growth in several ways. In the short run, it improves the governance and effectiveness of procurement processes. In the long run, it promotes greater competition, economic inclusion, and equitable participation in the provision of public services. These improvements are especially important for emerging economies, where savings from e-procurement can be channeled to improve availability and quality of public services.

E-procurement explained

The public procurement process has many discrete steps from publishing tender and advertising an invitation to bid to evaluating offers and awarding a contract. E-procurement requires most or all of these process steps to be conducted electronically in a secure, equitable, and transparent manner.

At minimum, a public e-procurement system covers the following steps:



Tender advertisement

The tender document or call for bids, describing the procurement, is publicly advertised on a website or web portal.



Bid submissions

Suppliers interested in bidding against the tender submit their offers electronically, through a web-portal



Bid opening and evaluation

The procuring entity opens the bids simultaneously at a designated date and time, and conducts technical and financial evaluations of the supplier submissions. Evaluation are publicly announced.



Awarding and contracting

The procuring entity awards the contract or purchase order to the successful bidder

Most e-procurement systems will include a number of other digitization modules, enabling the purchasing entity to create the tender documents and requisitions documents electronically within the system, enabling suppliers to create their proposals digitally, and allowing the two parties to contract electronically as well.

Additional functionality may include pre-tendering process steps such as procurement planning and budgeting, as well as post-award processes such as fulfillment tracking, payments, and grievance redressal.

However, the key purpose of e-procurement, with respect to the public sector, is transparency, and for this the most critical elements to be digitized are the ones mentioned above, which involve interaction between the procuring entity and the bidders.

Benefits of e-procurement

The advantages of digitized procurement process management are manifold: simplicity and convenience, transparency and accountability, competition, inclusiveness, and a level playing field for all suppliers. Moreover, digitization helps improve data management, retrieval, and analysis and leads to more informed decision-making.



Benefits for government users

For government users, merits include improved governance and more effective procurement. Improved governance is achieved by greater levels of transparency, accountability and efficiency. Procurement effectiveness improves through increased process efficiency and competitiveness. Given the portion of public funds that go into procurement, savings from e-procurement can yield substantial additional fiscal space.

➤ Improved transparency

- Procurement requirements, decisions and results can be viewed online by vendors and suppliers, government stakeholders, and even the public
- Digital platforms can record the footprint of all those involved in the procurement process
- Opportunities for collusion among bidders are limited and fairer opportunities are created for all suppliers

➤ Reduced process time

- Standardization and routinization of processes leads to a reduction in administrative overhead and transaction costs for both buyers and suppliers

➤ Lower costs

- Easy accessibility of online portals provides opportunities for greater, more equitable participation and the resultant competition drives down costs
- Reduction in transaction cost of doing business with government further brings down prices offered by suppliers

Benefits for suppliers

For many suppliers, e-procurement eliminates barriers to entry and improves ease of doing business with the government. This promotes interaction between the government and private sector and boosts the growth of small and medium enterprises (SMEs). The growth of SMEs contributes to employment rates, local economic growth and the emergence of more small businesses, and eventually, this growth spreads to economically under-represented groups.

➤ Improved access

- E-procurement improves access and levels the playing field for suppliers by reducing informational barriers and asymmetry and lowering physical barriers and collusion among major suppliers
- Smaller private sector players are able to engage with and participate in government bids more easily

➤ Growth of SMEs

- A larger number of firms are able to participate and benefit from better opportunities to be awarded contracts. Greater flow of funds to small businesses fosters growth
- The possibility of accessing government contracts incentivizes SMEs to formalize their operations and become tax contributing entities

➤ Increased investment

- E-procurement by the government fosters an atmosphere of increased transparency, strong governance, and ease of doing business, and results in greater private sector and international investment

Trillions of dollars are spent each year buying goods and services for public projects. This means big budgets and complex plans. It also means opportunities for corruption.

Contracts to suppliers can be awarded without fair competition. This increases the cost of services to the public. Corruption can add as much as 50 per cent to a project's costs.

But corruption in procurement isn't just about money. It also reduces the quality of work. And it can cost lives. Countless people have paid a terrible personal price for collapsed buildings and counterfeit medicines. The end result? Our trust in our leaders is eroded.

E-Procurement in Punjab

In Punjab, the procurement of goods and services represents nearly a quarter of the Government of Punjab's (GoPb) revenue and development expenditure. During FY 2019–20, the Punjab procurement budget amounted to Rs. 307 billion. Over Rs. 250 billion of this was for complex works and services. 297 different procuring agencies collectively issued more than 16,500 tenders and requisitions over this period.

The government has recognized the potential of e-procurement for more efficient utilization of development

funds. In the Punjab Public Finance Reform Strategy 2025, the GoPb has addressed the need for to strengthen procurement processes in the public sector. Pillar 4 of the strategy calls for efficient and transparent procurement management, actionable through an e-procurement system for procurements under the development budget.

The government is already piloting a few e-procurement initiatives in the health and agriculture sector, with varying levels of functionality and maturity:

Major e-procurement initiatives in Punjab

- **The Punjab Online Procurement System (POPS)** works across the Agriculture, Higher Education, Health, and Communication and Works Departments and its key features include e-advertisement and management information systems. The system has been developed by the Punjab Information Technology Board (PITB).
- The **eproc.punjab portal** managed by the Punjab Procurement Regulatory Authority (PPRA) is a management information system that allows for procuring entities to list their tenders online and conduct e-advertising.
- The **PRISM-SNG** Procurement Information Systems and Management project is being delivered through a grant by UKAid's Sub-National Governance project and covers e-advertising, e-bidding, e-procurement and management information systems.

Recommendations for government



The various digitization initiatives taken by the government demonstrate willingness to move towards public sector e-procurement.

Most of the core components of e-procurement are already being addressed in parts across different initiatives, including e-advertising, e-bidding, e-procurement and management information systems.

As the government scales up e-procurement across more departments and projects, it would be advisable to focus on completing the full chain of the process in one system and avoiding having processes run in silos.

Procurement best practices should be embedded into the system to ensure compliance. This will ensure consistency in process, SOPs and compliance across the board.

While it is not critical for the government to have a single, universal system, there should be a **single set of guidelines** for what functionality and process steps, at minimum, should be in any system being used for e-procurement.

Through its commitment on the World Bank funded Punjab Resource Improvement and Digital Effectiveness (PRIDE) programme, the GoPb is expected to either scale up one of its existing e-procurement programmes or introduce a new e-procurement system for the public sector. The government can scale up and operate an e-procurement solution through the following options:

- **Shared services**
A third-party e-procurement service that is fully managed, owned and operated by the third party and used by one or more governments and their suppliers
- **Public Private Partnership (PPP)**
A government e-procurement solution that is managed, owned and operated by a third-party service provider, often with the intent to transfer the platform back to the government in the future
- **Government owned and operated**
A government developed and operated e-procurement solution that may or may not have been delivered by third-party partners
- **Government managed service**
A government managed e-procurement solution that is operated and owned by a third-party partner

Whichever one of these options the government decides to pursue, two key considerations need to be taken into account.

First, e-procurement is not just about technology. It is the use of technology to achieve efficiency and value for money while spending public funds. The assumption that e-procurement is about deploying a software solution will undermine roll out, no matter how well designed the solution is.

Second, roll-out of e-procurement without any ownership from within the government is another potential pitfall. E-procurement implementation requires effective change management and business process re-engineering.

E-procurement is not just a technology solution. It is a digital transformation of the procurement function.



E-procurement is a means towards more effective budget utilization and better quality of procurement. Monitoring of process improvements, increased competition and participation, and eventually value for money, savings and improvements in quality of procured goods, works and services should be a critical part of the e-procurement strategy.

The GoPb has committed to rolling out e-procurement across its public sector, and its institutions are well poised to transition to it. Thoughtful planning, regimented implementation and continuous monitoring will be essential to its success. E-procurement has succeeded across the world, and, if planned and implemented well in Punjab, can start yielding results from year one.
